

Same same but different: Locational policies in small and medium-sized European cities

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Abstract

Globalized interurban competition is affecting cities of various sizes and locations. Small and medium-sized cities have to find ways to position themselves in global markets by formulating locational policies. This paper outlines an analytical framework of locational policies that cities adopt in order to increase their competitiveness. By comparing two European small and medium-sized cities (Lucerne and Ulm), we examine manifestations of locational policies and compare if these policies are being diverse or resemble each other. We found that strategies of both cities are sharing the intentions to be competitive, but their policy choices differ because the economic and political context is enabling or restricting certain kinds of locational policies. Furthermore, the findings point to the high explanatory power of municipal tax autonomy when studying locational policies.

Introduction

Global cities theory (e.g. Sassen 1991) suggests that a set of well-connected cities are critical for the functioning of the global economy because as nodal points they coordinate and control capital flows. Yet, the simultaneous up-scaling of state functions to multilateral institutions and the down-scaling to the local level (e.g. Brenner 2004) has pushed a variety of cities in a rapidly changing and global economic playing field. Despite being nodal points of the global economy, they are similarly exposed to the twin trends of globalization and neo-liberalism. To cope with this challenge, proactive local officials are searching for ways to arrange and position their cities in an interconnected, competitive and increasingly knowledge-intensive global market. This political-economic restructuring is “associated with the crisis of North Atlantic Fordism, the intensification of ‘globalization’, and the concomitant restructuring of inherited geographies of capital accumulation, state regulation, urbanization, social reproduction, and sociopolitical struggle” (Jessop, Brenner, and Jones 2008, 390). Along with the greater exposition to global pressure, the position of cities has simultaneously been strengthened as places where crucial production factors are concentrated (Kübler, Schenkel, and Leresche 2003).

Cities are trying to proactively position themselves in this globalized competition of localities by formulating and implementing locational policies targeting multiple scales (municipal, regional, national, European, global). Locational policies aim at enhancing the economic competitiveness of the locality by identifying, developing and exploiting its place-specific assets that are considered most competitive. Place-specific advantages become essential in interurban competition, because they allow for escaping from a level, global market. By this vein, local officials of cities of various sizes and strengths are reacting to changing dynamics of economic trends.

The ways in which small and medium-sized cities (SMCs) are positioning themselves in the global interurban competition by formulating locational policies has not yet been studied sufficiently. On the one hand, this results from scholarly enthusiasm for cities of global importance in the last two decades of urban research. On the other hand and more importantly, SMCs have all too often been reduced on their balancing function in urban systems or they have been treated as periphery, regional capitals and/or as an embedded part of a bigger metropolitan context. If researcher are turning towards smaller cities, they all too often use theories that have been developed by studying metropolises (Bell and Jayne 2009). Following from this orthodoxy of urban theories, SMCs have often been seen as victims of interurban competition. While global cities have some ‘command and control’ functions, SMCs are

seen as objects to the changing dynamics of globalization. Thus, the specific challenges of SMCs, its international economic ambitions and their corresponding strategies are particularly downplayed and understudied (Giffinger et al. 2007). This paper is therefore trying to answer two questions:

- (1) What kind of locational policies are SMCs formulating?
- (2) Why do these locational policies differ or resemble each other in SMCs?

This paper tackles the research questions by comparing the locational policies in the two case studies of Lucerne (Switzerland) and Ulm (Germany). The remainder of this article is structured as follows. The next chapter discusses the definition and role of SMCs. Then, two contradicting hypotheses will be derived from the literature on urban entrepreneurialism and varieties of capitalism. Chapter 4 outlines an analytical framework of locational policies that will be applied to test the hypotheses. After a short discussion of the research design, the two case studies of Lucerne and Ulm will be presented. The discussion part compares the pattern of locational policies in both cases. At the end, the conclusion sums up the paper.

European small and medium-sized cities in a global economy

European cities of secondary importance have not receiving much scholarly attention what might be explained by the strong focus on larger metropolitan regions, which is exemplified by research on global or world cities (e.g. Sassen 1991) and, more recently, on metropolitan regions (e.g. Hall and Pain 2006) and, currently, mega regions (Harrison and Hoyler 2015). This megalomania of urban research leads to conceptualizations of broad urban agendas and generalizable model that obscure as much as they illuminate (Bell and Jayne 2009, 683). Given this stiff focus, Brenner and Schmid (2014) call to shed light on varieties of cities and urban manifestations since the ‘the urban’ is far away from being a homogenous category.

Definitions of cities vary across countries and institutions and are therefore context sensitive. Cross country-comparisons are subject to caveats as the various definitions of a city are utilizing characteristics such as population size, density, but as well urban functions and historic city rights. As for some functions territorial boundaries are important (e.g. voting, tax collection, service delivery), these boundaries are not able to reflect urban zones or functional economic areas. Thus, until recently there was no harmonized definition of a ‘city’ in the European context. The European Union (EU) and the Organisation for Economic Cooperation and Development (OECD) presented in 2012 a new OECD-EC definition and categorization of urbanity (see Dijkstra and Poelman 2012). The new

definition is based on a rather complex spatial concept on high-density population grid cells but it is essentially built on population size and density¹. Table 1 lists the six categories of cities, its numbers and its population share in respect to the whole population in Europe, Germany, and Switzerland.

Table 1: OECD-EC categorization of cities

Category	Total Europe	Germany	Switzerland
S 50'000 - 100'000 inhabitants	410 7.5%	63 6.6%	4 (Lucerne) 3.7%
M 100'000 - 250'000 inhabitants	268 9.4%	39 (Ulm) 8.7%	3 7.3%
L 250'000 - 500'000 inhabitants	73 5.0%	12 5.3%	2 8.6%
XL 500'000 – 1'000'000 inhabitants	41 5.8%	7 4.9%	1 7.3%
XLL 1'000'000 – 5'000'000 inhabitants	24 9.3%	4 8.9%	0
Global City More than 5'000'000 inhabitants	2 2.8%	0	0
Total cities	828 40%	125 34%	10 27%

Source: Dijkstra and Peolman (2012), year 2006. Total Europe is defined as EU27 plus Iceland, Croatia, Norway, and Switzerland.

Given this categorization, 40% of the total European population lives in cities. If we include the commuting zones of cities², the share rises to 61% of people living in larger urban zones. SMCs, defined by the categories *S* and *M*, host 17% of the total European population and 42% of the total European city population. The categories of SMCs account for 678 cities (82%) out of total 828 European cities. It is not a surprise that transnational policy regimes (TPRs) are promoting and funding research on coherent categorizations of cities³. TPRs depend on such definitions as they allow for comparing, assessing and benchmarking locations within their sphere of influence.

We can trace an increased attention on different urban types in Europe. The EU is starting to incorporate a wider variety of cities in their economic development strategies. The current Latvian presidency of the EU identifies small and medium-sized cities as one of their key priorities in the

¹ A city is defined as consisting of an urban center with at least 50'000 people and a population density of 1'500 inhabitants per sq km. Furthermore, have to live at least 50% of the city population in the urban center and at least 75% of the urban center has to live within the political city territory.

² See for Dijkstra and Peolman (2012) for the definition and measurement of commuting zones.

³ Dijkstra and Peolman (2012) is funded by the EU and the OECD; Griffinger et al. (2007) is funded by the EU.

regional development agenda. Europe may be at the forefront of the discussion because the presence of SMCs is especially dense in the metropolitan core of Europe, the so-called ‘Blue Banana’, which ranges from southern England, the Benelux countries, Western Germany to Northern Italy.

According to Le Galès (2002) European medium-sized cities are strategically using the metropolitan scale (through contractualization or the creation of cooperation agreements) and even the European scale (through strong coordinated lobbying) to strengthen their capacity to attract jobs and households in a context of increasing international competition. In that sense are SMCs “much more than fillers, not (yet) cities or would-be cities – they are important nodes in the networks between places of different scales, and they are seen to mediate between the rural and the urban, as well as between the local and the global” (Bell and Jayne 2006, 7). Therefore are Bell and Jane (Bell and Jayne 2009, 689) calling for research in order “to understand more fully the ways in which small cities attempt to develop competitive advantage in the global urban hierarchy, the ways in which small cities link with other cities (and non-urban places) and the forms that these linkages take”.

Similarity or variety of locational policies

Locational policies as a concept emerged within the urban entrepreneurialism literature (e.g. Cochrane 1987; Harvey 1989). According to Brenner (2000, 319) cities or regions are increasingly conceptualized as localities for capital investment and compared based on their structural competitiveness relative to other possible locations within and beyond the national territory. Locational policies have been later adapted by the optimistic, neo-classic view on interurban competition. It assumes that each city-region has the potential to identify its own competitive niche (Leitner and Sheppard 1999; Porter 1990). Thus, locational policies should aim at enhancing the economic competitiveness of the targeted locality by identifying, developing and exploiting place-specific assets. Place-specific advantages are essential in interurban competition, because they allow escaping from a fully competitive, and therefore level, global market. “The lower the locational substitutability of these place-bound assets, the harder they can be imitated by others and the stronger the region's position is in the (...) global economy” (van der Heiden and Terhorst 2007, 242). Therefore is the goal of locational policies to position itself in the interurban competition by enhancing and presenting its attributes that are considered to be most competitive (van der Heiden 2010, 10). As locational policies are relying on place-specific assets, they are the result of place-bound and path-dependent interplay of a specific economic sector-mix and the political-institutional setting of a city-region (Hall and Soskice 2001). Such discussion about “strategies

to build regional attractiveness and foster regional competitiveness are currently high on the political agenda” (Andrew and Doloreux 2012, 1289).

Two different rationales can be detected in the discussion about interurban competition: coercion vs. place-based solutions. In this paper, we confront and test functionalistic assumptions of urban entrepreneurialism with the historic-institutionalism assumptions of the varieties of capitalism approach. A functionalist perspective on urban politics is subscribing a coercive force to the twin trends of neoliberalism and globalization that is converging policy response of cities in diverse economic and political-institutional settings. On the other hand, historic institutionalism is highlighting the importance of place-dependent responses to these twin trends. The existing economic sector mix and the political-institutional setting are able to moderate global structural constraints (Hall and Soskice 2001). Bramwell et al. (2008, 25) call for an empirical answer to assess the congruence or divergence of cities’ responses to global capitalism. We are aware that these two positions are occupying the end points of a continuum, with local responses captured by global neoliberalism at one end and place-based responses at the other end of the spectrum (Andrew and Doloreux 2012, 1291).

The two conflicting theories are rather guidelines than expected outcomes. This research is motivated by studies that go beyond that simple dichotomization. An example is the theoretical article on local economic development by Malecki (2007, 641) who points out that “despite motivations being similar from place to place, local conditions and policies vary sufficiently that, despite apparent similarities, there is no convergence on a single urban/regional policy”. Another example is the book by Soederberg, Menz and Cerny (2005) which describes how globalization leads to *diversity within convergence* i.e. different outcomes by similar intentions. The economic dimension of globalization is converging public intuitions into competitive entities, but this happens on the basis of place-based resources. Locational policies are an especially appropriate venue for conducting this kind of research, because these policies are directly exposed and are customized to offer a direct answer to the pressures of globalized capitalism.

Theoretical assumption I: Similarity of locational policies

Urban entrepreneurialism takes a critical perspective on urban competition. It emphasizes its converging and coercive force on urban forms, responses and policies. The economic manifestations of globalization and the European integrations project, on the continental scale, are seen as the driving forces behind the increasing pressure of competition between cities (Pichler-Milanovic 2005). David

Harvey's (1989) examination of the in this time upcoming urban entrepreneurialism was one of the first interpretations of interurban competition effects. He predicts similarities of urban responses and policies:

"We here approach a force that puts clear limitations upon the power of specific projects to transform the lot of particular cities. Indeed, to the degree that interurban competition becomes more potent, it will almost certainly operate as an 'external coercive power' over individual cities to bring them closer into line with the discipline and logic of capitalist development. It may even force repetitive and serial reproduction of certain patterns of development (...). The evidence for serial reproduction of similar forms of urban redevelopment is quite strong (...)" (Harvey 1989, 10).

Harvey's deliberations follow a Marxist logic and terminology in where the circulation of capital is perceived as a hegemonic force. Cities are forced into certain configurations of activities which are constitutive of the capitalist dynamic and/or part of the neoliberal offensive to dismantle redistributive state institutions (Harvey 1989, 15; Lovering 1999, 392).

Critical analyses of TPRs can be linked to the urban entrepreneurialism literature. Transnational policy regimes (TPRs) like the OECD or the EU are fostering policy converge and promote 'structural adjustments' as they are seeking to resolve issues of autonomy and heteronomy among member states. Through practices like benchmarking cities standing vis-a vis other locations and spotlighting best practices from success stories they are able to even out different locational policies in city-regions. This growing use of benchmarking, best practices, evaluations and peer reviews can lay a shadow of coercion over nominally autonomous jurisdiction (Arrowsmith, Sisson, and Marginson 2004; Malecki 2007). Pichler-Milanovic (2005) is highlighting the diminishing effect of disparities in economic, social environmental policies due to the European integration project. TPRs are fostering the idea of transforming the managerial mode of governance which is primarily concerned with redistribution and an effective provision of social welfare services to a pro-growth, entrepreneurialism strategy of cities (Savitch and Vogel 2009, 116).

H1: Locational policies in European small and medium-sized cities are showing similar manifestations in the sense of repetitive and serial reproduction of these locational policies.

Theoretical assumption II: Variety of locational policies

The institutional strand of the varieties of capitalism (VOC) approach emphasizes the political-institutional setting and the pre-existing economic sector mix as crucial explanatory factors for

strategic decisions. It assumes a necessary coherence between the economic and political setting of the locality (Hall and Soskice 2001). This place-specific processes lead to a monopoly of place that are diverse given different cities, which can be conceptualized as place-specific assets that are not easily to imitate elsewhere (van der Heiden 2010, 10). In contrast to the assumption of urban entrepreneurialism, VOC assumes that competitive economic pressure will lead to a further development of this comparative advantage through place-bound and path-dependent locational policies. Thus, “the sort of [entrepreneurial] strategies that are likely to be pursued will clearly depend on state institutional and/or territorial structures as well as on broader economic, political and sociocultural factors” (Jessop and Sum 2000, 2291).

A few comparative policy studies support the assumption of place-specific and path-dependent policy responses to neoliberal and global pressure. Uyarra (2010, 10) discusses economic development policies in regional innovation systems. These policies are not drafted “on a tabula rasa, but in a context of pre-existing policy mixes and institutional frameworks which have been shaped through successive policy changes. Past policy decisions would constrain the range of options available for current decision makers”. Van der Heiden (2010, 10) studies urban external relations of a set of medium-sized European cities. He finds that the concrete forms of these endeavors are dependent on the respective city-regions’ place specific needs and characteristics.

H2: The variability of locational policies in European small medium-sized cities can be explained by the preexisting economic sector-mix and the political-institutional setting of the localities.

Analytical framework of locational policies⁴

In line with the TPSN framework (Jessop, Brenner, and Jones 2008), our take on locational policies avoids one-dimensionality by leaving room for varieties of strategies to couple the city to the global economy. Our unit of observation is the city as a territory (as the area of competence in which locational policies are formulated) as well the city as a place (as the functional area of the city-region in which locational policies should have an impact). Since we are focusing on the characteristic of policies and we are not measuring the outcome of policies on territory and place, our framework accounts for the structuring principle or causal mechanism of territory and place i.e. how is the local

⁴ This locational policies framework draws from and adapts earlier work on economic development strategies of capital cities (Kaufmann 2014).

government and the city-region trying to strategically positioning itself on all four fields of operation (territory, place, scale and networks).

Locational policies are not easy to identify, distinguish and categorize. Such strategies appearing in complex bundles, do not occupy a narrow policy domain and are not operating isolated from each other as they are often mutually dependent (Uyarra 2010, 132). Therefore we need a relative rich catalogue of possible locational policies. In the following, an analytical framework of locational policies (see Table 2) will be presented and discussed. It consists of six distinctive categories namely, *innovation policies*, *business prerequisites*, *coordination*, *image-building*, *acquisition*, *funds and money transfers*. The categories are distinguished by policy orientation (inward vs. outward) and policy domain (economic vs. political). The economic category is furthermore divided into soft vs. hard factors. This framework takes a more rich approach on local development by incorporating and scrutinizing the political dimension of locational promotion.

Innovation policies

Innovation policies are an essential feature of the Regional Innovation Systems (RIS) concept (e.g. Autio 1998). Public policies have the potential to further develop a RIS by addressing specific system failures (Doloreux 2002). Especially the transfer and share of knowledge between relevant industry, academia and public actors are crucial in fostering innovation. Consequentially, innovation policies aim to strengthen linkages within a region and foster knowledge spillovers. According to Doloreux (2002, 248) such policies “are intended to improve interactions between the knowledge infrastructures, firms, and institutions”.

Cluster strategies are a classic example of innovation policies. The aim is to create networks of firms that are practicing Research & Development in similar areas and enhance the interaction and knowledge transfers in these clusters (Porter 1990). When cities or regions have identified their economic sectors, its technological domains, or its major arenas of likely competitive advantage, policies are shaped as to promote innovation in corresponding fields (McCann and Ortega-Argilés 2011, 2). Innovation policies are mainly beneficial in knowledge-intensive and technology-intensive sectors (Asheim, Smith, and Oughton 2011, 881). Further examples of innovation policies are the promotion of start-ups through incubators and general support of entrepreneurship through accelerators. Local governments may also step in with public funds when venture capital is lacking. Local governments are thereby acting as “local brokers to ‘connect and cluster’ researchers, firms and talent” (Bradford and Wolfe 2013, 11).

Business prerequisites

In comparison to ‘soft’ innovational policies, business prerequisites are seen as hard factors as this category is more tangible and measureable. Taxes for legal entities and private individuals, the availability and cost of land and real estate and transportation infrastructure are seen as prerequisites for a vital regional economy.

Not all business prerequisites are in the competence of local governments, however. For example, some local governments are allowed to collect income and property taxes and other political systems allow only to collect latter. Thus, property taxes may constitute an important if not the only tax revenue source of municipal budgets. Therefore, is the availability and cost of land and real estate a major concern of local governments. Local governments are trying to increase the availability of developable land through land-use planning, providing databases of vacant real estate and sometimes developing and managing own business complexes.

Coordination

Coordination is a political locational policy. It tries to ensure policy coherence within a functional region. The coordination of actors and policies in city-regions is conditioned by the mismatch between the functional regions and jurisdictional territories as reforms of the jurisdictional boundaries are not able to keep up the accelerated pace of urban sprawl (Kübler 2012, 431)(Kübler 2012, 431). In a comparative analysis of international activities of city-regions, Kübler and Piliutyte (Kübler and Piliutyte 2007, 365) find that a metropolitan-wide commonality of interest regarding its promotion exists. Based on case studies in Europe and Canada, Morgan (2014, 314) points out that a core motivation of city-regionalism is economic development but the agenda normally includes as well transportation and spatial planning issues.

However, the two step logic of firm-location – first step consisting of a regional choice and the second and later, decision consisting of a specific location within the chosen region (Cohen 2000) – aggravates regional coordination. This reveals the double logic of competition. Competition within a region is a threat for the economic competitiveness in the competition between regions. The worst case scenario of within competition would be that different localities engaging in beggar-my-neighbor policies within a city-region (Keating 1995, 20; Sager 2002, 64–65). Thereby is effective coordination not achieved through institutional consolidation but rather through cooperative arrangements, mostly ad-hoc sometimes institutionalized, what stabilizes networks of policy-relevant actors (Kübler and Heinelt 2005, 10; Sager 2006, 434).

Image building (creating an image)

Image-building strategies “include branding exercises, hosting cultural initiatives, tourism promotion, and even immigration campaigns” (Harvey 2012, 4). Such strategies are not reserved to large cities. Image-building has nowadays become almost a necessity for public authorities in order to ‘sell’ their city in a global market and is linked to the new entrepreneurial style of local economic development now (Harvey 2012, 8). For medium sized cities it is essential to position themselves with singular attributes that are hard to imitate elsewhere in order to avoid a level playing field with economic powerhouses. Image-building should be guided by consideration of ‘locational substitutability’. “The lower the locational substitutability of these place-bound assets, the harder they can be imitated by others and the stronger the region's position is in the (...) global economy” (van der Heiden and Terhorst 2007, 242). Such image-building campaign can have specific targets as the chosen image may be tailored to attract a specific group (tourist or talent).

Academic research about image building and city branding is rather critical. “in general, these studies emphasize the relatively small margin of discretion of municipal policies, positioned between the weight of local private sector interests (and often in collusion with these interests), and weight of global neo-liberal pressure both on the national level of government and on the local level” (Andrew 2012, 45).

Acquisition (attracting money)

Acquisition refers to strategies that should enlarge the tax base not by organic growth but by acquisition of firms, residents and mobile capital. For attracting companies, the existing and successful clusters in the city are promoted. Localities are furthermore promoted as a starting point for foreign companies to tap in a wider market (e.g. in the context of this paper to tap in the European market). Based on such advantages and as well on the image-building strategies, local development agencies and/or brokers in their behalf are actively acquiring around the globe on trade shows and conferences.

As illustrated in table 2 by dashed lines, the distinction between the inward and outward orientation of economic locational policies is not rigid. Cities should base their attracting money strategy on assets they strategically developed through innovation policies (highly interactive clusters) or specific business prerequisites (low taxes or transportation hub). In that way is the ‘market branding the city’.

Funds and transfers payments (asking for money)

These strategies tend to justify or possibly increase vertical money transfers and compensation payments for central-city related costs. Given that this locational policy is targeting public funds, a city has to play its political card and emphasize its importance for the whole political system. Medium sized cities are able to claim national importance in different ways. In peripheral areas, they could highlight their importance as regional center for the whole rural region. As a part of large metropolitan areas, medium-sized cities can position themselves as secondary centers with partly complementary economic orientation that could help to diversify the whole metropolitan area.

Classic funding mechanism are national fiscal equalization schemes and infrastructure funds. European cities have as well access to diverse EU funding possibility. An example is the European Regional Development Fund (ERDF) that supports modernization projects in order to increase regional competitiveness⁵. A newer funding instrument is the Smart Cities and Communities European Innovation Partnership that supports technology-intense projects. Jessop and Sum (2000, 2293) assess such asking for money strategies as being unsustainably in the long term and furthermore are posing “an awkward dilemma over the trade-off between maintaining local autonomy and accepting resources that come with restrictive strings attached.”

⁵Switzerland participates as well in the ERDF fund. Thus, Swiss territorial entities are eligible for funding.

Table 2: Locational policy framework

	Policy orientation		
Policy domain	Inward		Outward
Economic	Soft factors	Innovation policies Recipient: Regional Innovation System Tools: Clusters, start-up promotion, investing in the knowledge infrastructure, venture capital Aim: Developing and diversification of the Regional Innovation System by fostering interaction of all actors	Image building (creating an image) Recipient: wide audience/everybody that listens Tools: City branding, location marketing and promotion Aim: Improving the reputation of the region, attraction of talent and guests
	Hard factors	Business prerequisites (taxes and infrastructure) Recipient: Local/regional economy Tools: Taxes, land and real estate Aim: Creating a favorable business environment	Acquisition (attracting money) Recipient: Firms, investors and residents Tools: Acquisition of investment, firms and residents Aim: Attracting mobile capital, jobs and taxes
	Coordination Recipient: City-region/metropolitan region Tools: Regional coordination bodies, regional interaction platforms Aim: Coherent locational policies in the region, avoiding regional within competition		Funds and transfers payments (asking for money) Recipient: Upper level political entities Tools: Compensation, applying for funds Aim: Justifying and increasing funds and money transfers

Research design

In the following, the analytical framework will be applied on the two cities Lucerne and Ulm. This paper takes a ‘most similar systems’-design as the two cases are selected based on a theoretical sampling in order to “maximize the variance of the independent variable[s] and to minimize the variance of the control variables” (Lijphart 1975, 165). We restrict ourselves to two medium-sized cities in Continental-Western Europe that are located in so-called coordinated market economies in order to control for potential interfering variables.

We selected our cases based on ensuring variance in our independent variables based on the VOC approach: different economic-sector mix and different political-institutional settings. As table 3 demonstrates, the three cases vary considerably in two independent variables. If locational policies show a sufficient degree of similarity in cities that vary in these independent variable, the similarity hypotheses (H1) can be supported. Contrary, if locational policies are vary and these varieties can be explained by the two independent variables than hypotheses 2 can be supported.

Table 3: Comparison of Lucerne and Ulm

Independent Variables	Lucerne	Ulm
Economic sector-mix	- Service sector (especially tourism)	- Metal and machine building - Logistics and utility vehicles - Pharmacy
Political-institutional setting	- Small decentralized federal state - High tax autonomy of municipalities - Direct democracy	- Large unitarian federal state - Restricted tax autonomy of municipalities
Controls		
Population	80'000	120'000
GDP per capita	61'727 CHF (2013, cantonal data)	60'515 Euro (2011)
GDP per capita growth	13.8% (2000-2013, cantonal data)	25.9% (2000-2011)

Sources: Political-institutional setting: (Braun 2003). Population: Federal Statistical Office (as of 31.12.2014); City of Ulm (2013, 30). GDP: LUSTAT Jahrbuch Kanton Luzern (2015, 116); City of Ulm (2013, 97).

The data is collected from two main sources. A review of economic development agendas, policy reports and other secondary literature depict the general locational policies of both cities. The document analysis is triangulated by 7 semi-structured interviews (3 in Lucerne and 4 in Ulm). The interview partners are comparable and occupy different roles in the cities (see Appendix). We employ pattern-matching as and the main analytical device.

Lucerne

The City of Lucerne is the capital of the Canton Lucerne. Lucerne is an ‘underbound city’ where not just the outskirts of the city but the urban center stretches beyond the city-boundaries (Dijkstra and

Poelman 2012, 6–7). The Swiss federal system is characterized by its decentralized structure. The twenty six cantons (federal states) are the key political entities in Switzerland as the legal competences first and foremost resides with the cantons. This is leading to conflicts over urban policy issues between cities and their cantons (Kübler, Schenkel, and Leresche 2003). Not only cantons, but also communities can levy an array of taxes which leads to a distinctive tax competition between local authorities. It stems from this that Switzerland is the most extreme case of fiscal decentralization in the whole OECD (Wasserfallen 2014). The cantonal tax autonomy is even constitutionally protected. Consequentially, only 42 percent of all public revenues are raised by the federal state, the rest is allocated by cantonal and communal authorities (Vatter 2014). Within these settings, the canton of Lucerne is known to be one of the most decentralized cantons, which makes revenues of the communal level even more important (BADAC 2014).

The economic structure of the city is dominated by the service sector as nine out of ten employees are employed within this sector. Of prime importance is the tourism industry. Lucerne ranks highest in Switzerland when it comes down to overnight stays (15 per inhabitant) (LUSTAT 2011, 14). Unfortunately no data on the gross domestic product (GDP) are available on city-level. However, as the canton of Lucerne ranks in the middle of all Swiss cantons and as the city is considered to have a higher economic power, it is plausible to assume that the GDP is above the Swiss average; even though it is still below the levels of the Swiss economic powerhouses like Zurich, Geneva, Basle or Zug (Federal Statistical Office 2013, 20).

Innovation policies: Existing studies and statistics about the innovation activities refer mainly to the whole canton of Lucerne. They come to rather sobering conclusions: The innovative capacity of Lucerne is considered to be a “distinctive weakness”, that is reflected in a low number of patent applications, a below average number of newly established companies and a strong exodus of highly skilled labour (Graf and Wyrsch 2012, 51; Federal Statistical Office 2013). These rather negative findings are relativized when we asked the interviewees about the innovation system of the city alone. With the University of Lucerne⁶ and the Lucerne University of Applied Sciences and Arts, the city possesses a high potential of knowledge generation. On the cantonal level, the ICT cluster GridLucerne is supported. However, in no interview the cluster activities have been mentioned whatsoever. All in all, a clear strategy to exploit this potential and/or build knowledge-intensive

⁶ The University of Lucerne was founded in 2000. It is the youngest and a smallest university in Switzerland

clusters within the economic system is missing. Looking for example at the high tech sector, Lucerne still ranks below the average of other Swiss cities (LUSTAT 2011, 10). Thus, the innovation capacity is rather restricted in Lucerne. And yet, it became clear in the interviews that innovation policies are not on the local economic development agenda.

Business prerequisites: Instead of focusing on innovation, the interviewees emphasized primarily “hard factors”, and within these category primarily the reduction of taxes, as the main strategy to enhance the business conditions in Lucerne. The Canton of Lucerne follows such ‘low tax strategy’ since a referendum in 2009. The cantonal electorate has approved a revision of the tax law which reduced tax rates for companies by half, being now at the lowest level in Switzerland. Even though the city government of Lucerne recommended to vote against the revision, the new regulation found a majority in the townspeople as well. The low tax strategy has to be understood in the context of the tax competition in Central Switzerland. As the surrounding cantons lowered their taxes, the Canton of Lucerne flowed suit what suggests a mechanism called ‘race to the bottom’.

Empirical investigations about the effect of the ‘low tax strategy’ are rare so far. A study of the UBS in 2012 ranked the Canton Lucerne in economic competitiveness newly on place six of 26 cantons in total (Hafner and Holzhey 2013, 36). The competitor bank Credit Suisse (2013) puts Lucerne in their locational quality indicator on the seventh place in the sample of the 26 cantons. In the same ranking in 2012, the Canton of Lucerne was with rank thirteen in the midfield. The agglomeration Lucerne is newly ranked twelfth out of total 110 regions. The bank explains the rapid rise of Lucerne to the top league of Swiss locations by its increase in tax competitiveness (Credit Suisse 2013, 4). As it comes with no surprise that banks are cheerleaders of the low tax strategy, media articles are more critical as they refer to substantial “break-ins” of tax income (e.g. Rickenbach 2013). The interviewees are cautious in assessing the success of the tax reform because it is yet too early for an evaluation of the effects. One interviewee, however, criticizes the local authorities for not coordinating the low tax policy with a straightforward strategy of land-use management. In his view, Lucerne first would have to look for the provision of new space which then can be captured by newly settled firms. Otherwise, the success of the low-tax-strategy will be seriously endangered (Interview 2).

Coordination: As in most agglomerations, the functional economic region does not reflect the jurisdictional territories. While the city hall advocates for amalgamations in the agglomeration Lucerne, the surrounding municipalities have opposed plans of fusions in several referenda. As a reaction of

these failed amalgamations, two institutional coordination bodies are trying to ensure regional cooperation.

First and foremost, is the City of Lucerne member of the association of local authorities *LuzernPlus* which comprises total 25 municipalities in the region. The association is dealing with different policy issues (land-use planning, mobility and energy) relevant for strengthening the position of the agglomeration of Lucerne in the national competition among regions. Of prime importance are the so-called ‘area managers’ (*Gebietsmanager*) who coordinate supraregional areas for the attraction of investment. The interviewees all emphasize the importance of the association and confirm the positive outcomes of its activities so far. However, the (tax) competition within the municipalities is still considered too intense and the ‘area managers’ often seem to think in local rather than in regional dimensions (Interview 2) Second, there is a smaller and less formalized coordination platform, the so-called ‘K5’. It comprises the city plus the four surrounding municipalities (Ebikon, Emmen, Horw and Kriens). Its establishment can be seen as a direct consequence of the failed amalgamation plans (Interview 2). Due to the large perimeter of the bigger *LuzernPlus*, *K5* will, according to the interviewees, gain even more importance in future. At the moment, however, the collaboration within *K5* is considered to be too informal in order to substantially coordinate locational policies between the political entities (Interview 2).

Further institutional arrangements for supra-regional coordination are the Metropolitan Conference Zurich (MCZ, *Metropolitankonferenz Zürich*) and the association of the municipalities in the Canton of Lucerne (VLG, *Verband Luzerner Gemeinden*). Both associations are of minor importance for Lucerne. While the MCZ has only restricted resources and is too diverse as it is huge in scope (124 cities and municipalities, 8 cantons), the VLG is dominated by rural municipalities with other priorities than enhancing the national and international position of the cantonal capital. By the end of 2014, Lucerne even resigned from the latter.

Image building: An image-study of the foundation Business Development Lucerne concludes that the city of Lucerne is primary associated with its landscape and its cultural supply (Business Development Lucerne 2013, 8). According to the authors, there is still a lot of work to do for the locational promoters to guarantee that Lucerne is not only associated with holidays but also with its economic activity. This is considered to be a prerequisite for that the tax strategy will pay dividends in

a long term (*ibid.*, 8-9). On an international scale, Lucerne is engaged in several city partnerships.⁷ These partnerships are mainly used for the promotion of Lucerne as a tourist destination, which is reflected by the strong involvement of the tourist office in these partnerships (van der Heiden 2010).

Acquisition: The significant tax reduction in 2009 had not only the goal to improve the business environments for local firms, but also to attract external firms and taxpayers. Business Development Lucerne, the private foundation responsible for the economic promotion of the whole canton, was already successful in acquiring some new firms from China and the US. While the interviewee from these development agency got enthusiastic about the tax strategy (“this century belongs to us”, Interview 3), the observer interviewee raised concerns about the lack of coordination between the tax policy and the policy of spatial development: Due to limited space, the settlement of new enterprises is limited correspondingly (Interview 2). Again, it is yet not possible to seriously assess the success of the tax reform but it is clear that the city officials and their partners are heavily relying on the low tax strategy.

Funds and transfers payments: The Swiss state provides different funding programs in the policy fields of infrastructure, transport, culture, regional development and agricultural policy. There is not only a fiscal equalization scheme between cantons in Switzerland, but between the municipalities within the Canton of Lucerne.

The interviewees simultaneously consider the strategy to tap in to funds and transfer payments as of minor importance for the local authorities in Lucerne. However, they all mention the rather unsatisfactory situation for the city today as it carries a lot of specific central city costs. The financing of infrastructures of regional importance such as the renovated Culture and Convention Centre Lucerne (KKL, Kultur- und Kongresszentrum Luzern) or the new indoor public swimming pools are mostly financed by the city alone. In the view of the city authorities, the burdens of being the cantonal capital and as well the central city of the agglomeration is not enough compensated (Interview 1). The exit from the association of the municipalities has to be understood by the dissatisfaction of the city hall with the transfer payments within the cantonal political system.

Synthesis: Locational policies in Lucerne are dominated by the superordinated cantonal authorities. Due to the small sizes and underbound characteristics, the policies for promoting and developing the

⁷ Lucerne has partnerships with the following cities: Bournemouth (England), Chicago (USA), Cieszyn (Czech Republic), Murbach/Guebwiler (France), Olomouc (Poland), Potsdam (Germany) (van der Heiden 2010).

economy are mainly formulated on the cantonal level. The ‘room to maneuver’ of the city hall to formulate and implement locational polices is limited as four example suggest. First, the economic development and promotional activities for Lucerne are exercised by Business Development Lucerne which covers the whole canton. Second, the low tax strategy that accounts for the lowest taxes for enterprises in Switzerland has been initiated by the canton and was not supported by the local authorities. Third, the current organization of the fiscal equalization system does, in the view of the city, not enough compensate the costs of being the capital and the center of the canton. Fourth, are the blocked amalgamation projects a missed opportunity for the city authorities to gain more political leverage in the canton. This strong position of the canton is not an idiosyncratic feature of Lucerne, but a general characteristic of the Swiss political-institutional setting.

This lack of ‘room to maneuver’ might be the reason for the striking absence of concrete strategies to strengthen the innovation capacity of the city. This is in particularly a missed opportunity as Lucerne has two knowledge generation institutions that is a special assets for a city of its size. The interviewees emphasize that the city mainly tires to account for favorable economic conditions which in turn should indirectly enhance the innovation capacity of local firms and simultaneously attract the relocation of new firms. In that sense, the city hall takes a passive take on economic development and relies solely on the ‘market’ to improve the economic dynamic of the region. The interviews are rather optimistic about the economic future that is dependent on the success of the ‘low tax strategy’. But as the observer describes, it is doubtful that tax reductions without accompanying strategies will be enough (Interview 2). The narrow and sticky image of Lucerne being only a tourist destination could also partly explain the lack of innovation policies in Lucerne. What becomes clear is that the city officials see no need to foster innovation or create an economic narrative of the city that goes beyond low taxes.

Ulm

Ulm is located in the German *Bundesland* Baden-Württemberg immediately at the border to the *Bundesland* Bavaria. Today, the city is strongly intertwined with the city of Neu-Ulm, which belongs to neighboring Bavaria. Even though Germany is a federal country, the tax autonomy of municipalities is restricted. Municipalities are only allowed to levy transfer taxes from property and property taxes from real estate. The main share (95%) of tax revenues, however, is allotted to the federal state which then distributes it to its states and the municipalities (Lehmbruch 2001, Braun 2003). Beyond that, every *Bundesland* has an own system of fiscal equalization system. The system of Baden-Württemberg

differs between horizontal and vertical fiscal equalization: The vertical transfers are considered to enable the communities to fulfil their public services; the horizontal transfers aim to balance the different financial powers of the communities (Wiedmann and Pfeiffer 2013).

Together with the surrounding administrative districts (*Landkreise*) Neu-Ulm, Alb-Donau and Günzburg, the agglomeration Ulm is known to be one of the most competitive regions in the branches of metal and machine building, pharmacy, logistics and utility vehicles (Beschorner et al. 2010, 17-22). Furthermore, is Ulm possessing a high amount of talent as a high share of engineers and other highly qualified labor work in the region (INSM 2009: 2). A recent study of the research institute Prognos on innovation capacities and the competitiveness of German cities, rank Ulm at position 39 from totally 402 analyzed cities and attests the city “very high future chances” for further economic prosperity (Prognos 2013, 1). This promising assessment is backed by other indicators like the GDP or the unemployment rate: In both statistics Ulm ranks high above German averages (IW Köln 2013, Federal Employment Agency 2014). By the turn of the millennium, the economic development agency City Development Association Ulm/Neu-Ulm (*Stadtentwicklungsverband Ulm/Neu-Ulm*) has been founded as a project of both cities in order to overcome the negative competition of the past.

Innovation policies: Ulm features a longstanding strategy to position itself as an excellent research location. In 1986 the so-called *Wissenschaftsstadt Ulm* (City of Science Ulm) was founded in the north-east of the city. The campus first encompassed a University, a technical orientated university of applied sciences and two hospitals (*Universitätsklinikum* and the *Bundeswehrkrankenhaus*). In 1993, the research center of the ‘Daimler’ company was added to the research campus as a major private partner. Today, the campus has constantly been developed, embracing now the expanse of the whole city enter of Ulm. Of prime importance are the so-called science parks aiming at settling new high-tech firms, dynamic clusters and promising start-ups. This spatial proximity between academic research and application-oriented development in industry and medium-sized enterprises is praised as the basis for the constant development of the regional innovation system in Ulm. One interviewee (Interview 4) mentioned that the interaction between the different actors of the science campus has been too punctual so far; a more institutionalized interaction is needed to even better exploit the potential of the innovation ecosystem in Ulm.

The City of Science strategy reflects the understanding of the local authorities as being a globally competitive city. The formulation and implementation of these economic development agenda has been on top of the agenda and has been actively pursued by the local administration for years

(Interview 4). The local authorities took a proactive role as they are engaging themselves heavily in the local economy. Based on the economic master plan in 2009, the city hall tries to continue its active involvement strategy in the next years (City of Ulm, 2009).

Business prerequisites: Compared to Switzerland, the tax system in Germany is far more centralized. The only tax sources that are levied by municipalities are the trading tax and the property tax. Around 90 percent of these locally raised tax revenues can be retained by the communities, the rest flows into the tax revenue sharing systems of Baden-Württemberg. In interviews, the taxes were considered as of minor important for the acquisition of new firms and mobile capital, even though, one interviewee was highlighting the importance of taxes in the location decision of companies (Interview 7).

In their real estate investments, local authorities are especially focusing on the City of Science campus. The city hall and the City Development Association are actively engaged in the management and development of the campus by purchasing big areas of brown fields and transform it into research facilities. One interviewee slightly exaggerated by saying that the “main emphasize” of local authorities is on outstanding active land-use management (Interview 4).

Coordination: The city of Ulm looks back to a history of 15 years of coordination with the neighboring city Neu-Ulm. Even though the two cities are divided by a state border, the coordination has to date gone so far that Ulm and Neu-Ulm even share the same internet starting page.⁸ All the interviewees consider the coordination between the two cities as highly successful. Both cities are partner of the City Development Association. The equal composition in the assembly of the association assures that no city falls outvoted by the other (Interview 4). Hence, the formerly harmful competitive situation between the two neighboring cities in different *Länder* is now replaced by a promising culture of collaboration and coordination.

The collaboration with further municipalities beyond the perimeter of Ulm and Neu-Ulm is less institutionalized. Together with the rural districts (*Landkreise*) Neu-Ulm, Alb-Donau and Günzburg, the two cities build the Innovation Region Ulm (*Innovationsregion Ulm*); an association mainly dedicated to the marketing of the region. Yet, this collaboration has never been as intense as in the City Development Association. The research institute Prognos in collaboration with the University of Ulm advise a better coordination of promotional policies and a successful marketing of the larger region as

⁸ See www.ulm.de.

the future center of a *Regiopol Donau-Iller* for the sake of a greater international visibility (Beschorner et al. 2010, 144-151). In the interviews the local authorities expressed their support for cooperating on regional dimensions and to strengthen the collaboration with municipalities beyond Neu-Ulm. It seems that this will be the strategy for the next decades, even though the expert interviewee did not attach the same importance to it (Interview 6).

Image Building: The main instruments to attract mobile capital and increasing the tax base are as well integrated within the overall concept of the City of Science. Nevertheless, Ulm's attracting-money-strategies goes beyond the positioning as an innovative research site. The two interviewees of the city administration emphasized their intension to market Ulm as a “dynamic, open-minded, young, and at the same time old ‘micropolis’ in the sandwich of the two big metropolis Stuttgart and Munich” (Interviews 4 and 7). A key project is the high-speed train-connection Stuttgart-Ulm as well as the reconstruction of the train station. In the north of the train station the city is planning a new modern, ‘urban’ and mixed-used quarter with housing space, workplace, gastronomy and retail sale and public sites (Interview 4). One interviewee explains: “This image strategy is not decided by a political program, it follows from the discourse which we ‘live’ everyday” (Interview 4). Follow from that statement it seems that the urban micropolis strategy should not be based on a concrete branding plan, but should be done by modernizing parts of the city.

Acquisition: The basis of attracting companies to Ulm are its innovative and interactive clusters of the City of Science. The urban micropolis strategy is rather targeting residents and it seems that it should simultaneously fuel the real estate market. The Innovation Region Ulm is trying to attract talent as their activities are orientated towards students and recently graduates. Different indicators show a growing pattern of Ulm. Between 2000 and 2010 the population size of Ulm has constantly grown by 4.7 percent from 117'000 to almost 123'000 persons. Compared to this, the *Bundesland Baden-Württemberg* has ‘only’ grown by 2.2 percent and the whole Federal Republic of Germany even recorded a decline by 0.6 percent (*Innovationsregion Ulm*, undated). Similarly the city is successful in enlarging its tax pool. The revenues of the trading tax – one of the few import tax sources for

municipalities in Germany⁹ – have risen from 56 million Euros in 2004 to around 125 million Euros in 2007; since then they remained on average at a level of 115 million Euros (City of Ulm 2013, 209).¹⁰

Funds and transfer payments: Subsidies for public funds in areas such as infrastructure, transport, and education are an important revenue for Ulm. Recently, Ulm was successfully acquiring financial support for the new train connection to Stuttgart as well as for the further development of the ‘City of Science’ campus. One interviewee even questioned whether this amount of subsidized infrastructure projects makes sense from an economic point of view (Interview 6). Occasionally, Ulm benefits from financial contributions by the European Union. However, as one interviewee states, these subsidies are of minor importance for the city and “do not play a big role in the overall volume” (Interview 7).

In regard to the fiscal equalization system in Baden-Württemberg, Ulm is belonging for long time to the group of net payers. However, the local authorities do not perceive these high transfer payments as unsatisfactory. In the interview one person stated that “there were times when we [Ulm] have benefited [from these transfer payments], some decades ago; (...) the rationale is entirely right and that’s why we absolutely do not suffer from this” (Interview 4). Thus, the local authorities are not advocating for a change in the fiscal equalization system in near future.

Synthesis: Over decades, Ulm is pursuing a coherent and apparently successful strategy of locational policies under the label of ‘City of Science’. By an active land-use planning and management, the city hall substantially contributed to the evolution of the science campus in the north-east of the city center where nowadays an intensive knowledge transfer between research institutions and innovative enterprises takes place. By combining innovation policies that should ‘connect and cluster’ knowledge-intensive public and private activities and land-use planning to ensure spatial proximity, the city hall interprets its role proactively. The interviews revealed for the future that Ulm is aiming for a more comprehensive image as a dynamic “micropolis” between the two metropolises Stuttgart and Munich. Investments in the transport system and in new urban quarters are part of this wider approach that should complement the ‘City of Science’.

⁹ Besides the trading tax, municipalities can raise property taxes. However, property tax account for only 10 to 15 percent of all tax revenues in Ulm in the last decade (Statistical data is available until 2013).

¹⁰ So far, statistical data is available until 2013.

Looking ahead there is one challenge that the city is likely to face. So far, the coordination with surrounding communities has been mainly restricted to the city of Neu-Ulm, which might be insufficient for two reasons: First, commuter statistics reveal that Ulm is the center of a bigger functional economic region stretching way beyond the borders of the two cities. Second, a globalized competition of regions is likely to be increased which makes it even more essential to strengthen the profile but as well the economic weight and the size of the whole region (Beschorner et al. 2010).

Discussion

Table 4 sums up the different locational policies strategies. The locational policies of the two cities are dominated by two very different but omnipresent agendas: In Lucerne the low taxes strategy is prevalent and in Ulm the City of Science agenda is pursued for decades. The low tax strategy clearly dominates all other locational policies in Lucerne. Low taxes are the main argument in company acquisitions. It furthermore suppresses attention and/or resources towards innovation policies and other tools within the business prerequisites category (e.g. real estate management). The City of Science agenda of Ulm is similarly ubiquitous. It accounts for innovation policies, business perquisites and partly for image-building. It shows that locational policy agendas should balance two conflicting goals: They should be coherent but not too rigid as they may suppress complementary locational policies.

Worth to mention is that the political locational policies (coordination and funds & transfer payments) are not dominated by the main economic development agendas. It highlights that political locational policies have to be explained by different factors. Straightforwardly, regional coordination is fostered by a systems of tax collection that may hinder or at least not foster tax competition of localities. As the cooperation over federal states border in the case of Ulm reveals, is geography not playing a significant role in explaining coordination .Funds and transfer payments are not given too much attention in both cities.

Table 4: Comprehension of locational policies in Lucerne and Ulm

Locational policy	Lucerne	Ulm	Results
Dominant locational policy agenda	Low tax strategy	City of Science	Different by content, similar by motivation
Innovation policies	No real focus	City of Science	Different, because of economic sector mix
Buisness prerequisites	Low tax strategy	Land-use management for City of Science	Different, because of political-institutional setting
Coordination	Failed amalgamations LuzernPlus K5	Positive coordination Ulm/Neu-Ulm Desired regional coordination <i>Regiopol Donau-Iller</i>	Different, not able to explain by discussed theories
Image-building	Tourism: Culture and Nature	City of Science, Dynamic, open, young, urban micropolis	Different, because of economic sector-mix
Acquisition	Low tax strategy	City of Science to attract companies Urban micropolis to attract residents	Different, because of economic sector mix and political-institutional setting
Funds and transfer payments	Not much attention, (Better compensation for center costs)	Not much attention	Similar

Given the diversity of locational policies in the two cities, we did not find similarity of locational policies in the sense of “repetitive and serial reproduction of certain patterns” (Harvey 1989, 10). Although the low tax strategy and the City of Science strategy are contradicting, city officials are sharing the logic and basic narrative of being an innovative city that operates in a global, knowledge-intensive and high-tech economy. In that sense Harvey got a point as interurban competition is a similar challenge that leads to a *congruence of motivations* in different cities. However, as we were hypothesizing the similarity of manifestations of locational policies, we cannot support hypothesis 1.

Differing locational policies are not sufficient to corroborate hypothesis 2. The variety of locational policies should be explained by the economic-sector mix and political-institutional setting. The economic-sector mix of Ulm was a prerequisite for Ulm’s policy choice to create an innovative and scientific local economy. Without the presence of the Daimler Industry this shift towards innovation would not be, at least to that extent, possible. This favorable path-dependent conditions where proactively exploited by the City of Science strategy. The strong service and tourism industry can explain Lucerne’s image-building around nature and culture, but there is at best an indirect connection to the low tax strategy. The ubiquity of the tourism sector may account for the few resources that are attached towards strengthening the innovation capacity of Lucerne.

With regard to the political-institutional setting, especially the higher tax autonomy of Swiss municipalities compared to its German counterparts has great explanatory power. Especially, Central

Switzerland is preoccupied with tax competition and Lucerne could not restrain from engaging in it. Although regional economic development initiatives should be one of the rare policies in which conflicts between core cities and suburban municipalities are mostly absent (Kübler and Piliutyte 2007, 365), the case of Lucerne is not supporting this thesis as tax competition clearly trumps over regional economic coordination. The tax collection rules also explain the strong focus of Ulm on land-use and real estate management in the City of Science campus. This is not just a part of the City of Science agenda, but of general importance to the city hall because taxes on property are an important independent revenue source. Another political-institutional setting of Switzerland should be highlighted: The strong role of the cantons is reflected in the City of Lucerne restricted ‘room to maneuver’: the decisive police choice has been made on the cantonal level. This may be surprising as the municipalities in Switzerland are generally seen as substantially autonomous. However, this can be explained by increasing clashes between important cities and ‘their’ cantons. These conflicts are mostly about social policy issues (e.g. drug prevention policies, social assistance). In the case of Lucerne, however, it is rather a conflict due to Lucerne’s low political influence as a territorially ‘underbound’ city. The comparison in this paper suggests that Lucerne would be well advised to deepen the cooperation within the *K5* to enhance its ‘room to maneuver’.

The VOC-approach is not able to explain the astonishing cooperation over federal states borders between Ulm and Neu-Ulm. Different approaches such as policy-window or policy entrepreneurs may account for these stable cooperation between the two cities. It seems that when a city completely realigns its locational agenda, as Ulm did with the City of Science, new opportunities in various locational policy categories are able. Lucerne, on the other hand, is holding tight on their successful tourism image and is engaging in regional tax competition. Allocating resources to reorientate towards fostering the innovation capacity is under such circumstance difficult.

In general, the assumptions of the VOC are good predictors for the economic part of the locational policy framework but not for the political part. Thus, hypothesis 2 is more accurate than hypothesis 1 but it cannot cover the whole diversity of locational policies. This finding is no big surprise as both hypotheses mark the end-point of a continuum. However, the analysis and awareness of the challenges that the city has to face, the motivation to position the city and the rational to be competitive on a global level are shared by both cities. At the end, both cities are trying to strengthen their innovation capacity in order to be better prepared for a knowledge-intensive economy. But both cities have not been equally equipped with a favorable context to pursue innovation agendas. Whilst Ulm has

favorable and enabling conditions by the presence of the Daimler Industry, the political-institutional setting (tax competition, important role of the canton) of Lucerne is rather restricting the agency of the city administration to pursue a direct innovation agenda.

Conclusion

This paper is asking how SMCs in Europe are positioning themselves in a globalized interurban competition by the formulation of locational policies. It draws on an innovative framework of locational policies that enables us to assess manifestations of locational policies. In an analytical second step, we compared if these policies are different or resemble each other. By comparing two similar cities, but ensuring variety in the economic sector-mix and the political-institutional setting, the research design allows to test the similarity assumption and the variety assumption of locational policies. By focusing on locational polices, we found an ideal area of research as they are direct responses to an intensified, interurban competition.

It comes with no surprise that the findings are not totally corroborating the discussed hypotheses, as both are end points of a spectrum. However, three findings should be mentioned at these conclusive point. First, we find that the awareness of the challenges, the motivation to (re-)position the city and the rational to be globally competitive are shared by both cities. The actual policy response, on the other hand, are different as they are dependent on place-based assets and/or constrained by the local political setting. These findings are strengthening and carrying forward the findings of Malecki (2007) who highlights the similarity of motivations to engage in economic development whereas the concrete policy choices are shaped by place-based resources and constraints. By taking a broader view, the empirical evidence is as well supporting the *diversity within convergence* argument i.e. different outcomes by similar intentions (Cerny, Menz, and Soederberg 2005). Local economic development officials seek to capture potential gains of globalization. They try to manage global economic pressure as they adjust their local economy to the requirements of an increasingly knowledge-intensive economy. They are still embedded in their local context, but they try to further embed their own institutions and practices in a globalized market and in these ways local policy makers are *internalizing globalization* (Cerny, Menz, and Soederberg 2005). Second, the tax autonomy of municipalities has a surprisingly strong explanatory power in the context of locational policies. In Lucerne it explains the stiff focus on lowering taxes, as the city is trapped in a regional tax competition within Central Switzerland. Ulm, as having only limited tax autonomy, is investing in land-use planning and real estate management, because property taxes constitute an important independent revenue source. Third, it became clear

that inward and outward locational policies are linked together. This makes sense empirically: The low tax acquisition strategy of Lucerne is only credible if the business prerequisites are also focusing on low taxes. Accordingly, the City of Science image-building requires innovation policies that are focusing on improving knowledge generation and application in Ulm. Hence, outward orientated locational policies are only credible if they are coupled with corresponding inward orientated policies.

The case selection was driven by concerns about the internal validity in order to guarantee a rigid comparative case study. It is unclear, however, if the results hold true for other European SMCs. The main locational policy agendas of the two cities vary massively and it cannot be ruled out that we hit an outlier in our case selection. We only focused on manifestations of policies and did not assess their outcome. So we might have analyzed temporary locational policies agendas. If the low tax strategy of Lucerne is unsuccessful, it might be subject to change despite the regional tax competition in Central Switzerland. The agenda of Ulm, on the other hand, is successful and thus stable over decades.

We are very confident that the locational policies framework provides an analytical added value and an innovation in the discussion of cities' strategies to cope with and arrange themselves in interurban competition. The empirical findings in this study seem to be significant for theoretical contributions to the literature of interurban competition as well as for policy makers that are faced with such kind of challenges. Some interesting starting points for further research have been raised. A most different design would allow comparing locational polices with bigger cities and/or with cities in different global locations. Furthermore did this paper only slightly touch governance questions. It is unclear how the pressure of interurban competition is mediated by local regimes (DiGaetano and Klemanski 1999) that are likely to be compromised of public and private actors (e.g. Molotch 1976; Stone 1989). It would be worth to assess the degree of agency and structure in which local regimes are operating. And finally, this analysis of locational policies should not only be descriptive and comparative. In order to increase its weight, the concrete locational policy choice should be evaluated and measured with regard to their effects.

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Appendix

Table 5: Interview partners

Label	City	Type	Description
Interview 1	Lucerne	Senior public servant	City of Lucerne, Department of Economics
Interview 2	Lucerne	Expert	Professor at University of Applied Sciences Lucerne, Economics Department
Interview 3	Lucerne	Economic development agent	Business Development Lucerne
Interview 4	Ulm	Senior public servant	City of Ulm, Department Urban Development
Interview 5	Ulm	Economic development agent	City Development Association Ulm/Neu-Ulm
Interview 6	Ulm	Expert	Professor at University of Ulm, Department of Economics (written answers)
Interview 7	Ulm	Senior public servant	City of Ulm, Department of Finance and Organization (written answers)