

Locational policies in secondary capital cities: Constructing a dynamic framework

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Abstract

Capital cities that are not the economic centers of their nations – so-called secondary capital cities (SSCs) – tend to be overlooked in the field of political science. Consequentially, there is a lack of research and resulting theory describing their local economy and their public policies. This paper analyzes how SCCs try to develop and position themselves through the formulation of locational policies. By linking three different theoretical strands – the *Regional Innovation System* (RIS) approach, the concept of locational policies, and the regime perspective – this paper aims for constructing a framework to study the economic and political dynamics in SCCs.

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1 Introduction

SCCs face a multitude of challenges in an intensified urban competition. Globalization scholars argue that capital cities in general, but even more so these SSCs, have lost importance and that global cities are much more critical to the functioning of the global economy because as nodal points they coordinate and control capital flows (e.g. Friedmann, 1986; Sassen, 1991; Taylor, 2004). Similarly, rescaling theories imply that along with the up-scaling and down-scaling of state functions in global capitalism, SCCs disappeared from the central locus and have to arrange themselves in the periphery of global economy (e.g. Brenner, 1999, 2004; Scott, 2001). And yet, the recent economic crisis revealed that capital cities still play an important role because global capital flows are regulated within the context and institutions of nation states (Rodrik, 2011) that are for the most part located in capital cities. Important decisions about rescuing banks or bailing out industrial firms were not taken in New York City, Zürich or Detroit, but in Washington DC or Bern. In short, SCCs are economically inferior but politically superior.

Given the marginalized position of SCCs and their lack of international charisma, SCCs as a category have not been studied yet. Zimmermann (2010, 764) highlights the relevance of in-depth empirical research about SCCs because it should be possible to spate the effects of the capital city function from other factors which make up the political economy of primary capital cities. Furthermore, research about SCCs would shed light on a specific category of cities what would help to bring some order into the heterogenic discipline of urban studies (Brenner & Schmid, 2014, 18). Understanding how SCCs function and what role they play in a global era – particularly as national economies struggle during this time of global crisis – would deepen our knowledge about how global factors shape the local.

Capital cities feature a specific urban economy distinguishable by a profound state presence. Their specialized economy may function as knowledge economies which can constitute a so-called *Regional Innovation System* (RIS) (Asheim et al., 2011; Tödtling & Tripl, 2011). As the RIS in SCCs have specialized, they have been increasingly subject to urban competition like any other metropolitan area. Therefore, policy-makers in SCCs formulate locational policies specifically customized for the needs of their local economy. Locational policies are place-specific and path-dependent development strategies that aim for local innovation, within city-region coordination and towards proactively positioning the city in national urban networks. As a consequence, the traditional view of the capital city as the reliable host city of the nation state, which was mired in a comfortable dependency of the very state it was hosting, may not

hold up anymore. This paper aims to explain how the formulation of such locational policies in SCCs could be theoretically approached what will help us to understand the development potential of SCCs.

With a theory building approach, this paper tries to construct an interdisciplinary framework. The interplay between local development initiatives and positioning strategies is at the core of the framework. Given the dynamics of this interplay, the framework should allow for agency of the local policy-makers and for place-bound responses to global pressures rather than offering a solely functional perspective and/or economic deterministic view. The research questions that the framework should help to assess are the following:

- I What kind of locational policies do SCCs formulate and why are they formulated?
- II How and by which actors are those locational policies formulated in SCCs?
- III How do locational policies of SCCs interact with each other?

This paper is structured by the following outline. First, an illustrative part discusses the economic and population dynamics of Washington DC and Bern. The discussion of these two SCCs should provide us with empirical insights how we can theoretically grasp the formulation of locational policies in SCCs. Section 3 discusses the specificities of a RIS in a SCC alongside its potential development and diversification. The next section introduces the concept of locational policies. In the next step, a simple categorization scheme brings in some order in the concept of locational policies. Section 5 links the RIS approach with locational policies by applying a regime perspective on the policy-making process. The conclusive part tries to merge these three different theoretical strands into a dynamic framework which should help us to understand the formulation of locational policies in SCCs.

2 The dynamics in the political economy of SCCs

The empirical part of this paper is a discussion of the economic and population dynamics in Washington DC and Bern. Since this research project is in its initial phase, the empirical part is a review of secondary literature and documents instead of personally collected data. Thus, the empirical part serves mainly as an illustration of current challenges that SCCs have to face what should help in the theory building process of this paper.

2.1 Washington DC

The metropolitan area of Washington DC spans over three states (Maryland, Virginia and West Virginia) as well as the federal District of Columbia (DoC) as its center. The whole metropolitan area displays an impressive history of economic development based on its capital city status. Constructed in the swamps of the Potomac River it is now the fifth largest regional economy of the United States (Greater Washington Initiative, 2010, 4). It all started with policies which enabled learning and interaction between public units and private firms. Additionally, the DoC has started to engage in endeavors to attract middle and high-income residents into its neighborhoods.

To a large extent, the economy of the metropolitan area Washington DC is characterized by the US federal government and dominated by government employment (Feldman, 2001, 866; Mayer, 2013). In 1970, around two-thirds of the local economy was directly or indirectly dependent on federal expenditures whereas half of the labor force was employed in the government sector (Feldman, 2001, 866). Federal employment is typically described as stabilizing and predictable in economic crises as well as in times of economic boom. Despite this static effect, Feldman (2001) shows in her article how the federal sector was decisive in creating a fully functioning entrepreneurial environment in the metropolitan area of Washington DC. Triggered through public procurement, outsourcing of federal services and knowledge spillovers from the public to the private sector, innovative clusters developed which focused on the Internet and biotechnology (Feldman, 2001; Ceruzzi, 2008). As an example, the early technologies on which the internet is based emerged from research activities of the US Department of Defense (DOD). Researchers who have left the DOD and the military services constitute the early entrepreneurs in the information and communication technologies industry (ICT) whereas universities were absent from these early developments. Similarly, government agencies were the most important sources for human talents in the early Biotech industry (Feldman, 2001, 871).

During the Carter Administration (1977 – 1981), a radical diminishing of the capital city employment size together with federal outsourcing occurred what was both motivated through upcoming *New Public Management* theories. Together with US policy initiatives that favored small and technology-intense start-ups this created a fruitful environment for new firm formations. Feldman (2001, 877 – 879) highlights that several Acts in the 1980s provided the legal foundation of an increased dissemination of technology and knowledge between the public and the private sector. This dissemination was achieved through partnership opportunities for

start-ups with public research agencies and licensing possibilities of intellectual properties produced in federally funded research agencies. Since 9/11 Washington DC experienced the rapid growth of another cluster this time triggered by the Department of Homeland Security. Private expertise is needed in the knowledge intensive counter-terrorism machinery which is mostly based on cyber security and cyber intelligence. Private firms in this sector rely on high-qualified employees and spatial proximity to decision-makers in the departments around Washington DC (Mayer, 2013, 140).

The Economic Value Added (EVA) of Washington DC is until now based on the interaction between the administration and the private sectors (Mayer, 2013). In these industries, this interaction has set an impulse that has become independent in the course. The Greater Washington Initiative (2010) observed between 1980 and 2008 a consisted rise in total overall federal spending from \$32 billion to \$166 billion. "Federal spending on services represented almost three-quarters of the \$75.6 billion in total federal procurement in Greater Washington in 2009" (Greater Washington Initiative, 2010, 24). An older study of Fuller (2002) calculated that every dollar contracted out by the federal administration to firms in the region of Washington DC generates an EVA of \$1.80 for the region. For 2002 the EVA that can be directly linked to public procurement contributed to 21% of the regional GDP. The metropolitan area of Washington DC also profited from the presence of the government during the recent economic crisis: "The District of Columbia benefited, along with the region's suburbs, from a relatively healthy economy in the second half of the decade. While the Washington DC metropolitan area lost jobs along with the rest of the country during the recession, the losses were smaller and the economy rebounded relatively quickly as a result of the federal government presence" (Sturtevant, 2013, 7).

In sum, it seems that several acts together with the availability of high-skilled professionals were initially decisive for the vibrant entrepreneurial environment in the metropolitan area of Washington DC. Additionally, the US self-conception as the global super power, the presence of important institutions like the World Bank and the International Monetary Fund and the huge amount of money spent in public procurement led to the place-bound development of specific clusters in the US capital. Whereas this creation of an entrepreneurial environment has certainly different and complex causes, a more definite causality can be traced in the formulation of the DoC's strategy to cope with its negative population dynamic.

The DoC is comprised out of 588'000 inhabitants whereas the Washington

DC metropolitan area has a population of over 5 million people. Thus, the DoC only accounts for about 10% of the population. The suburbs beyond the limits of the district are to large parts under the jurisdiction of Virginia and to a smaller extend under the jurisdiction of Maryland (Ghandi et al., 2009, 268). Between 1970 and 2000, the DoC lost about a quarter of its population while the suburban population doubled. Population losses were most drastic among middle-class families with children (O’Cleireacain & Rivlin, 2001, 3). Typically for a metropolis, the city is the employment center of the wide metropolitan area. The shrinking center phenomena consequentially increases commuting into DoC. The weekday population roughly doubles as the result of suburban residents commuting to the city for employment. Although these workers contribute to the city’s finance in the form of sales taxes on any retail purchases and chargeable services they make in the city, their income earned in the city escapes the taxation of the DoC and vanishes into their residence states (Ghandi et al., 2009, 286).

By referring to the ”Envisioning a Future Washington” report (O’Cleireacain & Rivlin, 2001), the administration under mayor Anthony Williams made in 2003 ”attracting 100’000 new residents to the District of Columbia over 10 years one of his primary goals” (Sturtevant, 2013, 5). The report stated that the population loss should be stopped and named middle-income and high-income new residents, single as well as families, as the key factor for an economic growth of the DoC. Based on bare figures, this strategy was an enormous success. Although the ambitious goal of 100’000 new residents has been clearly missed, the Mayor Williams administration achieved a remarkable turnaround in the population dynamics of the DoC which lost residents ever since 1950. Between 2000 and 2010, the DoC displayed a population surplus of nearly 30’000 people (5.2% population growth). ”The year 2006 marked the beginning of the domestic migration turnaround, and about 900 more households moved into the District than moved out in that year. (...) The trend accelerated in the final years of the decade so that, between 2009 and 2010, nearly 5’000 more households moved into the city than moved out” (Sturtevant, 2013, 6). The momentum turned against the suburbs and in favor of the DoC. It was now attractive for young, well-educated and mostly federal-employed workforce to reside in the district. The socioeconomic characteristics of new residents suggest that targeting of certain populations may have worked in the case of Washington DC (Sturtevant, 2013, 22).

The original strategy of the DoC was to attract, besides middle- and upper-income singles, families and couples because they display less fluctuation in their residential behavior. However, local action suggested something else: ”While attention was paid to the District of Columbia public school

system through the appointment of a new schools chancellor and other efforts, the city leadership's focus was increasingly directed toward creating an environment that was attractive to young, childless, and relatively wealthy households" (Sturtevant, 2013, 5). The economic vitality of the DoC, however, depends on a relatively sustainable population. At the moment, 44% of the DoC's households are single person households what is a significant gap compared to 26.7% nationally (Tregoning, 2013, 312). This implies that the District's new residents may not be long-term residents (Sturtevant, 2013, 22). When singles become parents, they tend to move out of the DoC. Accordingly, the next challenge for the DoC may be to focus its locational policies on generating an attractive environment for families.

As the first insight of this discussion one can observe that the capital city function has the potential to create a unique entrepreneurial environment through intelligent policy-making. Secondly, to focus solely on luring firms into its region may not be enough. It is important to simultaneously position itself towards potential income taxes what are the other main source of money accumulation. With a 30 year lag, this development was far from simultaneous in the DoC. This may be the second important lesson to learn from the DoC experience.

2.2 Bern

Overall, Bern is profiting from its status as the capital city. The presence of the federal administration generates development effects for the whole city-region (Mayer, 2013, 143). A study of 2004 (Ecoplan, 2004) calculates that the the capital city status accounts for an EVA of CHF 375 million for the city economy and CHF 305 million for the cantonal economy. It furthermore has produced around 4700 jobs in the city and 3900 jobs in the canton of Bern. However, the economic dynamics in Bern are far from entrepreneurial. Quite contrary, the often cited 85-100-120 formula highlights that Bern displays just 85% of the average economic strength of Switzerland, provides for 100% of the average public services and consequently features a tax burden of 120%.

In a comparative study of external city affairs, van der Heiden (2010, 173) highlights that Bern is dependent on the national administration. As a consequence "good relations with the national scale are seen as highly important for the economic well-being of the city region, whereas international contacts are seen as much less important in economic terms". Consequently, Bern aims for a strong position towards the nation state. However, relying on good relationships with the federal level did not suffice

in times of growing economic importance of metropolitan areas and limited public resources. In 2008, the federal government presented its national future land use strategy, in which three metropolitan areas were defined as core areas, namely Zurich, Basel and the Lémanique pole (Geneva/Lausanne), while Bern and vicinity were considered of lower importance as a mere urban network. This represented a downgrade with tangible implications in terms that Bern may be second priority in future infrastructure funding decisions by the federal government. The city-region of Bern reacted to this disadvantageous federal policy shift by labeling itself as the political center of the nation and as such differentiating itself to the economically strong metropolitan areas. End of 2010 and within just one year of planning, the region adopted the label *Capital City Region Switzerland* (CCRS) arguing that the capital should not to be measured by economic success only, but by its function as the place where the political decisions were made and implemented, which in turn helps other metropolitan areas to prosper.

Since the funding of infrastructure project, mainly the expansion of the train station, is of major concern to Bern, a Madisonian line of argument was often pursued.¹ It means that a capital should guarantee equal access to the seat of government for all citizens (Engstrom et al., 2013, 225). Translated to this day and age, this argumentation claims a higher significance of capital city regions by awarding funds for public transport and mobility projects. This kind of argumentation strategy of Bern worked out insofar as in the revised land-use planning strategy, Bern has been placed back in the top tier of metropolitan areas albeit with addendum of its function as the political center. The implemented land-use strategy now consists out of an odd 3 + 1 core areas formula. Whereas Bern profits from the first-tier benefits, it merely functions as an annex to the three metropolitan centers. Bern managed to position itself with a political strategy. However, this was more an act of crisis management than a sustainable development strategy. Bern should avoid to solely rely constantly on the static label of a capital city by starting to establish a functional RIS (Mayer & Sager, 2012). Such a process is now in its initial phase by identifying potential promising sectors. High-tech firms and the Knowledge Intensive Business Sector (KIBS) already display some economic dynamics and cluster building in the region what offers the potential for a specific entrepreneurial environment. However, a cluster strategy is not identifiable yet.

¹ James Madison, co-author of the seminal 'Federalist Papers' (Hamilton, Madison, and Jay 2005) and fourth President of the United States (1809-1817), formulated a theory of representation arguing that the republican principle of 'equal right' should matter when determining the location of the capital.

The population dynamics of Bern are worrisome. Commuting is a major issue for Bern (Ecoplan, 2004; Kübler, 2009; Hermann, 2013). Out of 56 Swiss agglomerations, Bern is the third weakest in respect to population growth (Hermann, 2013). Hermann (2013) argues that instead of treating Bern's economy as the major weak spot, the decision-makers should focus on the population decline based on conservative land-use designation rules. Whereas Bern experience a slow job growth, the absent population growth causes a drain of tax capital. Quite controversially, Hermann (2013) localizes a general skepticism towards growth based on an ecological conservatism. In his eyes, this is a self-delusion since this strategy fosters increased mobility into the agglomeration of Bern what is not ecological at all. If one shares this diagnosis, Bern finds itself in a paradoxical situation in which the city's skepticism towards growth exports tax revenues but imports ecological problems. In the future, commuting into Bern is likely to increase further because there are almost no reserves of building land in the agglomeration of Bern.

In sum, Bern should focus on more positive dynamics in regard of attracting firms and residents. However, it is not as simple as policy-makers in Bern could just draft such attracting money strategies. The entrepreneurial environment and the residential attractiveness of Bern has to be visible to outsiders in order that such strategies are credible. At this current stage, Bern may be well advised if they focus on internal policies that foster the attractiveness for firms and residents while externally still focusing on their functional importance as the capital city.

Comparing Washington DC with Bern obviously bears some risks. The size of the country and the population size of the two metropolitan areas are quite different. Mostly due to Switzerland's small scale, the capital city functions are polycentric distributed over the whole country (Mayer, 2013, 147). Additionally, the peculiarity of the military-technological complex is important in the context of the US. However, the two countries share some important institutional similarities like federalism, fiscal independence and the importance of local autonomy. Due to their belonging to the category of SCCs, they are both secondary economic regions in their countries and missing an industrial tradition. The starting point of this paper – to use its political superiority to get rid of the economic inferiority – is the same for both capital cities. It makes them both dependent on the interaction between the private sector and the federal institutions. Especially the KIBS produce specific services that the political center of a nation creates a market for. Also in regard to the population dynamics both cities are comparable. Capital cities in general are more prone to experience a 'crowding out effect' than other cities are (Kübler, 2009).

High property costs can lead to an intensified commuting into the core city. The commuting tendency into secondary capital cities is furthermore stimulated by the tendency of federalist states to locate its capital between different regions within a country (Slack & Chattopadhyay, 2009). This consequentially facilitates the commuting over fiscal borders. A large scale commuting into SCC's, as analyses of Bern (Ecoplan, 2004; Kübler, 2009; Hermann, 2013) and Washington DC (Ghandi et al., 2009; Sturtevant, 2013) highlight, lead to a loss of substantial tax substrates.

The conclusions of this empirical part are twofold. First, it suggests that a SCC's should employ strategies to attract mobile capital and not solely relying on their political and functional importance as the capital city. Secondly, both cases emphasize that within such attracting money strategies, SCCs should not only concentrate on the regional economy but as well on the residential attractiveness of the city-region. In the theoretical part of this paper, these empirical insights will be processed into a framework of locational policies for SCC's. This framework relies mainly on three theories. First, the RIS literature approaches the local economy by focusing on the exchange of ideas, knowledge and innovation what is fruitful in analyzing the interplay between the federal administration and the KIBS as contractors. Secondly, a categorization of locational policies will help us to distinguish different forms of local development strategies that SCC's potentially adopt. Thirdly, the regime perspective on policy-making links the RIS approach with categories of locational policies by offering an analytical lens on policy formulation in city-region.

3 Regional Innovation Systems

The RIS approach emerged out of economic geography. It helps to describe the development, the diversification and the interdependencies of regional economies. According to Doloreux & Parto (2005, 134), a RIS is "typically understood to be a set of interacting private and public interests, formal institutions, and other organizations that function according to organizational and institutional arrangements and relationships conducive to the generation, use, and dissemination of knowledge". Departing from this definition, capital cities should display a distinctive type of RIS.²

² Although the literature distinguishes between different types of RIS, characteristics of capital cities are not taken into account. The economic geography part of our research project about SCC's tries to fill this scientific gap.

3.1 Development and diversification of a Regional Innovation System

Based on the theory of comparative advantage (Ricardo's theorem), the smart specialization concept argues that regional growth and development is related to the ability of a region to focus on its competitive advantages. McCann & Ortega-Argilés (2011, 2), for example, note "that regions will be required to identify the sectors, the technological domains, or the major arenas of likely competitive advantage, and then focus their regional policies so as to promote innovation in these fields". Applying the smart specialization concept to the specific RIS of a SCC (SCC-RIS), the entrepreneurial development depends on the ability to link the regional economy to the capital city function and further diversify their regional economy. Diversification is a path-dependent process which is based on the preexisting technological portfolio of a region. The extent to what a SCC-RIS has smart specialized and thus have developed as an entrepreneurial environment, differs highly among SCCs. By conceptualizing the interaction between public and private actors as the crucial driver for diversification, between three development stages of a SCC-RIS can be distinguished³.

In an early stage, the CC-RIS is barely linked to federal organizations. The process of sectoral cluster formation starts to take place. However, the development of local clusters and the capital city functions can better be described as running parallel rather than interacting and complementing each other. So, the presence of federal organizations is not seen as a major opportunity to be grasped for cluster development. From the perspective of the administration, the solution of specific problems requires external knowledge and expertise. However, this type of interaction does not create spillovers into the private sector beyond this sparsely contacts. Bern would be an example that is now starting to leave this stage for the next one.

In an advanced stage, the ability to make use of the capital city function for the benefit of economic growth has increased. Spatial proximity between firms and public organizations has been actively used to strengthen strategic advantages. This occurred by connecting technological fields of competences to public organizations within the same field. The advantages are twofold: Firstly, by focusing entrepreneurial activities on government needs, firms increased their ability to attract government contracts. These companies have an excellent understanding of the public sector, meaning

³ However, such a development is by no means linear in nature. Spigel (2011) uses Ottawa as an example to demonstrate how capital regions can be thrown back due to external shocks.

that they understand how to translate between public-administrative and economic rationales. Secondly, firms gain knowledge generated from the procurement process which are then used for customers other than the State. In an advanced stage, such spillovers from public private interaction to a solely private market are likely to increase.

In a mature stage, public procurement has contributed in many ways to establish a knowledge-based economic diversity. On the one hand, the knowledge economy is smart specialized, in the sense that the capital city functions are used to generate competitive advantages in the region. The private-public interaction works as a driver for innovation activities within certain fields of competences. On the other hand, the promoted areas of technological competences are highly diversified. New technological ideas, realized via start-ups or existing firms, have been added to the existing knowledge base. Even though the demand generated by public institutions is distributed across all sectors, one or two sectors that dominate the innovation system have emerged. For instance, in Washington DC, there is a concentration of innovation activities focusing on the Internet, biotechnology as well as security (Feldman, 2001; Ceruzzi, 2008; Mayer, 2013). In these industries, the interaction between the public and private sector has set an impulse that has become independent in the course.

4 Locational policies

The suggested ordering of different stages for a SCC-RIS consequentially rises the question how such a development of a SCC-RIS can be achieved. The RIS literature does not highlight kinds of steering mechanisms that policy-makers could adopt in order to foster an entrepreneurial environment in SCCs. The RIS approach is quite descriptive and it remains surprisingly vague about potential locational policies. Public policies should only be adopted to overcome different kinds of failures (Cooke, 2001; Asheim et al., 2011). Private actors must fail first, in order to legitimate public interventionist actions. In this regard, Tödting & Trippel (2005) argue that systemic failure ought to be the foundation for policy instruments. Since this conservative view on policy interventions is not satisfactory, this paper turns towards public policy concepts which provide us with the more proactive category of locational policies.

The term locational policy is based on the German notion of *Standort*: "it refers to a location for capital investment, and implicitly, to the structural competitiveness of that location relative to other possible locations within and beyond the national territory" (Brenner, 2000, 319). Enhancing eco-

conomic competitiveness is the goal of locational policies. More precisely, "the goal of such [locational] policies is clearly to position the city on the global scale of capital circulation by enhancing and presenting its attributes that are considered to be most competitive" (van der Heiden, 2010, 10; based on Gordon, 1999; Ohmae, 2001; Brenner, 2004). Locational policies try to further develop "locational advantages and productive capacities of cities and regions in their territorial jurisdictions as maximally competitive nodes in the global economy" (Jessop & Sum, 2000, 2294; based on Brenner, 1999).

In an optimistic, neo-classic view on interurban competition, it is assumed that each city-region has the potential to identify its own competitive niche (Porter, 1990, 1995; Leitner & Sheppard, 1999). In this theory of *comparative advantage* (Ricardo's theorem), regions should focus their production on domains in which they are comparatively most competitive (Hall & Soskice, 2001, 36). The creation or identification of a place-specific advantage is stimulated in the interurban competition, because it allows escaping from a fully competitive global market (van der Heiden & Terhorst, 2007, 342). The neo-institutional strand of the *varieties of capitalism* approach emphasizes the political-institutional setting of a city-region to a greater degree than the theory of comparative advantage. "The basic idea of the varieties of capitalism approach proposes a necessary coherence between economic orientation and the political-institutional setting within a given territory" (van der Heiden, 2010, 18 based on Streeck, 1997; Hall & 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 (Boyer, 1996, 30; Jessop, 1997, 67; Scott, 2001, 4; van der Heiden, 2010, 18). The competitive economic pressure will lead to a further development of this comparative advantage through place-bound and path-dependent locational policies. "It can . . . be argued that a diversified response to globalization pressures will occur according to the path-dependent political-economic institutional setting of each city region" (van der Heiden, 2010, 20). Thus, urban governance arrangements and their specific locational policies are the result of a long-term negotiated process of structuring and governance among and between local and central governments and private actors (Parks & Oakerson, 2000; Savitch & Vogel, 2000, 2009).

In sum, locational policies rely on the identification, the development and the promotion of place-specific assets. The comparative advantage is the result of the place-bound and path-dependent interplay of the specific economic sector-mix and the political-institutional setting of a city-region. In the context of SCCs, the national scale of competition is crucial in which

they can transform their singularity as the capital city into their comparative advantage.

However, locational policies are not easy to identify, distinguish and categorize. Locational policies involve far more than just economic development initiatives (Stone, 2012, 19). They appear in complex bundles and they do not occupy a narrow span of policies. Thus, we need a framework that helps us to analyze and disentangle this complex bundle of locational policies. In the following, a theoretical framework of locational policies is proposed which has four distinctive categories namely, *innovation policies*, *coordination* and two types of positioning strategies (*attracting money / asking for money*). Whereas just innovation policies directly aim at the RIS, coordination and positioning strategies are not negligible in the process of developing SCCs.

These policy categories are distinguished by their orientation (inward vs. outward) and their dimension (economic vs. political) what creates an neatly arranged 2x2 cross table. *Innovation policies* are inward oriented and have an economic characteristic because they try to further develop and diversify the SCC-RIS. *Coordination* displays also an inward orientated characteristic but it operate on a political dimension. It aims at strengthening coherent policy-making within city-regions. Positioning strategies cover the outward orientated column. They try to distinguish a city-region in relation to other city-regions by pointing at one's specific comparative advantage. Given the proposed economic/political dichotomy, *attracting money* is concerned with luring mobile capital into the region and with enlarging the local tax pool. *Asking for money*, on the other hand, tries to justify or even increase federal money transfers by highlighting its singularity and its functional role as the political center. This broad framework of locational policies allows us to study how the place-specific comparative advantages are developed (innovation policies), promoted (positioning strategies) and how these endeavors are harmonized within the city-region (coordination). Table 1 illustrates these four different locational policy categories. The next four subsections discuss these different locational policies by referring to SCCs.

4.1 Innovation policies

The economic performance of capital cities can be influenced by regional innovation policies. According to Doloreux (2002, 248) those policies "are intended to improve interactions between the knowledge infrastructures, firms, and institutions". Along the same lines, Tödting & Trippl (2005) emphasize the importance of policies for shaping innovations. More specif-

Table 1: Locational policies categories

Dimension	Orientation	
	Inward	Outward
Economic	<p>Innovation policies</p> <p>Recipient: RIS</p> <p>Aim: Developing and diversification of the RIS</p>	<p>Attracting money</p> <p>Recipient: Firms and residents</p> <p>Aim: Attracting mobile capital and taxes</p>
Political	<p>Coordination</p> <p>Recipient: City-region</p> <p>Aim: Coherent region, increasing the effectiveness of the other locational policies</p>	<p>Asking for money</p> <p>Recipient: Nation state</p> <p>Aim: Justifying and increasing federal payments and money transfers</p>

ically, they consider that innovation policies highly influences the knowledge generation/diffusion and knowledge exploitation of a RIS. Emphasizing the spatial proximity of interactive learning actions, the RIS approach argues that innovation policies are most effective on a regional level (Asheim & Gertler, 2005).

In a SCC-RIS innovation policies are not only derived from system failures. The state takes an active role in innovation processes as the entity that demands products and services from private sector actors through the public procurement process. Lazonick & Mazzucato (2013) assert that the classic image of the state and businesses is reversed by public procurement for innovation: in this case, the state is occupying the leading role in radical innovations, and bears hefty risks. Companies, however, wait until the risk has declined, and only enter the market at a later stage. Lazonick & Mazzucato (2013, 1100) thus coin the term 'entrepreneurial state', which is tasked with 'opportunity creation' for subcontractors. As another example, Feldman (2001, 877 – 879) highlights several Acts in the 1980s as decisive for the diversification and development of Washington DC's RIS. These Acts provided the legal basis of an increased dissemination of technology and knowledge between the public and the private sector. Partnership opportunities of start-ups with public research agencies were created and firms "began working for the government but then realized that they could adapt their products for dual-use commercial markets" (Feldman, 2001, 875).

4.2 Coordination

Urban economies and linkages go far beyond the core city (Cheshire, 1999; Sassen, 2001). The coordination of actors and policies in city-regions is conditioned by the mismatch between the functional and the political spaces in metropolitan areas (van der Heiden, 2010, 28). According to Frederickson (1999, 706), the interdependency of jurisdiction, organizations and institutions is the densest in metropolitan areas what makes coordination necessary and meaningful. Thus, coordination is a major concern of metropolitan governance.

The double-logic of competition implies that a competition between regions as well as a competition within a region can exist. Competition within a city-region is a threat for the economic competitiveness in the competition between regions. Any internal dispute over capital investment at the regional scale consequentially weakens the economic competitiveness of the whole region. The worst case scenario of within competition would be that different localities engaging in beggar-my-neighbor strategies within a city-region (Keating, 1995, 20; Sager, 2002, 64 – 65; van der Heiden, 2010, 28 – 30). However, Kübler & Piliutyte (2007, 365) found in a comparative analysis of international activities of city-regions that a metropolitan-wide commonality of interest regarding its promotion exists. This suggest that locational policies are among a rare numbers of urban policies in which conflicts between core cities and suburban municipalities are mostly absent. Thereby is effective coordination not achieved through institutional consolidation but rather through cooperative arrangements that stabilizes networks of policy-relevant actors (Kübler & Heinelt, 2005, 10; Sager, 2006, 434). Due to its instrumental characteristic, coordination does not ask about the essence of the pursued policies. This implies that a policy can be implemented coherently throughout the city-region while not achieving any welfare gains (Sager, 2002, 47). Only if coordination is combined with innovation policies, potential welfare gains through coordination become an issue because innovation policies are more effective when pursued in a coordinated effort. Coordination should lead to policy coherence. "Policy coherence can be thought of as the consistency of actions in addressing a given set of policy problems" (May & Jochim, 2013, 432).

4.3 Positioning strategies

The external part of cities locational policies can be labeled as positioning strategies. In the context of SCCs, it is important to distinguish between two different types of positioning strategies. This distinction is crucial because positioning strategies differ based on the recipients. Positioning

strategies of SCCs have typically two types of recipients: the nation state and firms/residents. This helps us to further distinguish between two extreme poles of money accumulation strategies: transfer payments and taxes. These differentiations lead to the proposed dualism of *asking for money* and *attracting money*. Towards the nation state, SCCs should play the political card whereas towards firms and/or residents SCCs should have mostly economic arguments in hand. It is important to grasp these two strategies not as a dichotomy that is mutually exclusive. On the contrary, most promising is to combine these two strategies since SCCs should position themselves towards both of the main sources of capital. By combining these two strategies, SCCs try to escape a total dependency of the nation state. However, employing *attracting money* strategies seem to be only promising when you have a developed and therefore credible RIS and/or a distinct and therefore credible residential attractiveness.

4.3.1 Asking for money

A state-orientated positioning strategy stresses its singularity and its functional role as the political center. Intended is the justification or possible increase of federal money transfers and compensation payments for capital city charges. We categorize such kind of strategies as *asking for money* strategies. This *asking for money* strategy guaranties the SCCs a protected status in the national urban competition what makes them less vulnerable to economic pressure. When SCCs employ such a strategy, they completely avoid the international interurban competition and partly avoid the national interurban competition. On the national scale, asking for money strategies argue that the capital city should not be measured by economic success only, but by its function as the place where the political decisions are being made and implemented, which in turn help other metropolitan areas to prosper. The most important consequence is that *asking for money* is not engaging in generating additional revenue. It does not try to convert its place-specific assets into external mobile capital from venture capitalists or firms. *Asking for money* strategies have a preservative rather than a developing focus what leaves a SCC extremely dependent on the nation state, its administration and its employees. Thus, such a positioning is state-dependent and rather static.

4.3.2 Attracting money

The second recipients of positioning strategies are firms and/or mobile capital. Again, the basic idea is using the singularity of capital cities in the national urban system. But *attracting money* strategies try to lure

investments, mobile capital and firms into a SCC-region. From an entrepreneurial perspective, the interaction of the public sector with private sector is interesting since this is a specificity of capital cities. The complex interplay and clustering of firms in political consulting, lobbying, IT and defense and national institutions defines the knowledge-intensive entrepreneurialism in SCCs. *Attracting money* strategies highlight the entrepreneurial potential of linking the regional economy to the capital city function. *Attracting money* strategies are dynamic since they aim at enlarging the local tax revenue pool by inducing firms, workplaces and taxpayers. They play the economic card and accept that a SCC has to enter, at least on the national scale, interurban competition. It emphasizes the innovation potential of its own comparative advantage and the entrepreneurial environment of the city-region. In that regard it is a neo-classical strategy enriched with modern concepts from contemporary economic geography (learning, innovation, spillovers etc.).

It is important to note, that these locational policies are not operating isolated from each other. In the conclusion, the interdependencies of locational policies are highlighted in order to understand the dynamics behind the development SCC-regions.

5 The missing link: Regimes

A regime perspective of urban decision-making is adopted in order to theoretically approach policy-making what enables us to link the RIS approach with locational policies. The RIS-approach remains vague about local decision-making and steering possibilities of the local economy. Locational policies offer a framework that helps us to classify different types of local development strategies but they do not tell us something about its formulation process. Thus, it remains so far theoretically unclear how these two concepts interact with each other. Both concepts are engaged in promoting the economic attractiveness of a city-region. Local decision-making in this area is most likely not following the formal line of authority. Business influence within locational policies is relatively undoubted (Swyngedouw et al., 2002). If city-officials strive for more than just routine service delivery, the incorporation of private actors is crucial (Stone, 1989, 183 – 184, 219). Harvey (1989, 6) depicts the role of the local government in this interplay with business actors as merely facilitative and coordinative. This entanglement of business actors with public institutions characterizes the specific political economy of SCCs. In the context of locational politics in SCCs, it is therefore likely that in addition to a executive circle of politicians, business actors have substantial influence in the policy-making

process. The regime approach particularly allows for such a diversity of actors in the decision-making process.

The urban regime approach has emerged through inductive theory building as one of the most prevalent frameworks for the analysis of decision-making processes in cities. Innovative was the focus on both the economic and political influences while allowing for embedded agency of local decision-makers (Mossberger, 2009, 40). The strength of the urban regime approach is the analysis of how urban decision-makers mediate structural pressures⁴ (Ferman, 1996; DiGaetano & Klemanski, 1999; Mossberger & Stoker, 2001; Davies & Imbroscio, 2009). Stone & Whelan (2011, 859 – 860) emphasize that by stressing the mediating role of regimes "the point is not that cities somehow function independently of external factors, but that translocal forces are mediated through local actors in ways that are far from trivial". Regimes are thereby operating at the crucial point of inquiry between independent variables and policy outcomes (Stone, 1989, 6; Mossberger & Stoker, 2001, 812). Thus, urban regimes are both the products of, and mediating institutions between, economic and political-institutional structuring and represent the local responses to a shifting urban political economy (DiGaetano & Klemanski, 1999).

In an early regime approach, Stone (1989) emphasizes the importance of informal arrangements by which public and private actors function together in order to have the capacity to govern. Urban regimes are informal but relatively stable groups "with access to institutional resources that enables it to have a sustained role in making governing decisions" (Stone, 1989, 4). In regimes, policy-makers are conceptualized as problem-oriented, goal-seeking and purposeful and therefore subscribed by a strong sense of agency (Stone, 1989, 1993; May & Jochim, 2013). In the tradition of Stone's urban regime theory, a recent regime framework presented by May & Jochim (2013) conceptualizes regimes as the governing arrangements for carrying out policies which are addressing a specific set of problems. The authors suggest that "rather starting with a policy, one starts with the particular set of problems (...) and seek to depict the ideas, institutional arrangements, and interest that constitute the governing arrangements for dealing with the problem" (May & Jochim, 2013, 5). This descriptive lens enables a "backward mapping of governing arrangements for a given policy problem" (May & Jochim, 2013, 2). Since SCCs mainly focus on improving their marginalized economic position, locational policies are prone to be formulated from a problem-oriented perspective.

⁴ We are not interested in deterministic predictions of the specific urban regimes types, as Dowding et al. (1999) suggest we rather apply urban regimes as a model in order to extract information.

Table 2: Policy regimes ^a

Components and Relevance	Illustrations	Analytical questions
<p>Ideas: Shared commitments concerning policy purpose</p> <p>Provides the glue of a regime</p>	<p>”Entrepreneurial capital city environment” ”Residential city” ”The one and only capital”</p>	<p>What is the core idea? Is it endorsed by key actors and by those who carry out the policies? Has it been reinforced through statements and actions of policymakers and policy entrepreneurs?</p>
<p>Institutional arrangements: Structures of authority, modes of interaction, and organizational relationships</p> <p>Fosters structure-induced cohesion of actors and policies</p>	<p>Coordination structures between public and private key actors (e.g. Capital City Region) Horizontal coordination within the city-region and policy coordination</p>	<p>What are the institutional arrangements? What are the modes of interaction between the key actors? How does the regime try to ensure policy coherence? How does the regime deal with within competition in the city-region?</p>
<p>Interests: Actors preference to engage in a regime</p> <p>Establishes the governing capacity of a regime</p>	<p>Formal authority in local decision making Promoting and assertion of direct interests General interest in a strong local economy</p>	<p>What are the on-going sources of interest support of the regime? Which actors participate with what kind of motivation? Are there actors that participate to avoid nongovernance?</p>

^a Source: Based on May & Jochim (2013, 434) with own adaptations

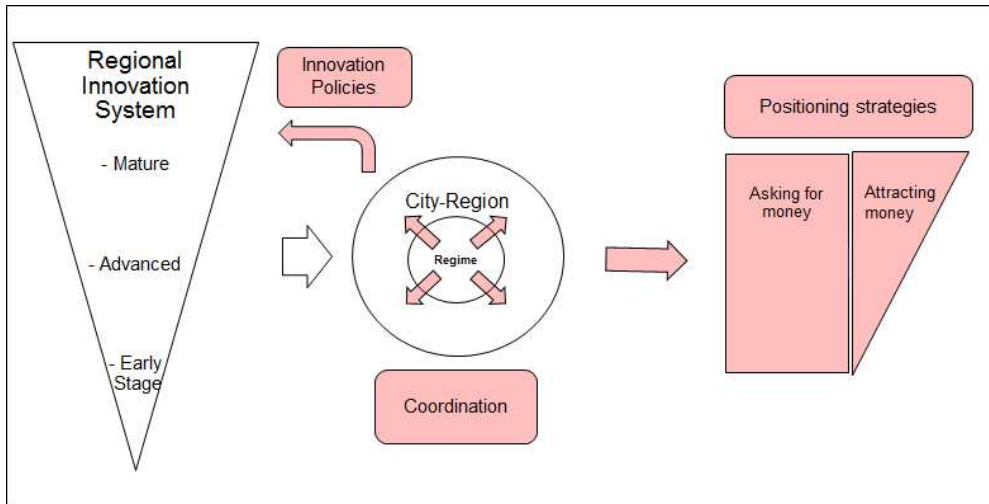
In contrast to Stone who describes different types of urban regimes, the policy regime approach of May & Jochim (2013) suggests a constellation of ”three forces that comprise a regime: ideas, institutional arrangements, and interests” (May & Jochim, 2013, 434). Ideas matter because they create a common understanding of a policy purpose and serve as an integrative force (May & Jochim, 2013, 435). ”Institutional arrangements structure authority, attention, information flows, and relationships in addressing policy problems” (May & Jochim, 2013, 435). It is thereby interesting through what modes of interaction and through what kind of bodies the public private partnership is ensured. Interest helps to explain the governing capacity of a regime (Stone, 1989, 21; Stoker, 1995, 6). ”The bases of support are in principle derived from the affected beneficiaries. But relevant stakeholders may or may not have the same sense of urgency and the same degree of ’buy in’ to the purpose of a policy regime” (May & Jochim, 2013, 436). Stone (1993, 12) stresses that actors can display dynamic policy preferences because actors are purposive in the sense of wanting to be involved in achievable goals. Actors in a regime are drawn by small opportunities which ”encompass the opportunity to be purposeful (even when the purpose is a small one) and the opportunity to accomplish a task (even when the task is a narrow one)” (Stone, 1989, 232). This implies that, beside that mere safeguarding of interests, the motivation to be part of a regime can be to avoid nongovernance since nongovernance is a form of powerlessness (Stone, 1989, 231). Alongside these three forces we can formulate analytical questions that helps us to understand why certain policies have been created. Table 2 is derived from May & Jochim (2013, 434). It illustrates the three forces of a regime and displays a cor-

responding catalog of analytical questions.

6 Conclusion: Constructing a dynamic framework

In the conclusion, the three theoretical parts are merged into a framework that should help to approach the research questions of this paper. Figure 1 illustrates the process of locational policy formulation in SCC.

Figure 1: Framework of SCCs locational policies, own illustration



The three different categories of locational policies are not operating isolated from each other. In order to capture these interdependencies, one should start with the development of the RIS in a SCC. If a RIS is developed and diversified, it offers the potential to enter the interurban competition on the national scale by referring to its entrepreneurial environment (*attracting money*). If the public-private interaction has led to an entrepreneurial environment for firms that search the contact with federal institutions, SCCs can credibly occupy this niche on the national level. The same argument can be made for the residential attractiveness. Counterfactual it means that no city-region can compete with the top-tier cities by referring only to a potential RIS that has not developed yet, because they would be wiped off by the mere economic power of the other cities. Thus, for a less developed SCC-RIS, the only strategy left is to play the political card and to insist on its functional role as the one and only capital city. This strategy guarantees singularity in the national urban system and moves the focus away from its economic inferiority and towards its political superiority. It leaves, however, a SCC in the dependency of the

nation state with hardly any room for an intrinsic economic development. Thus, if we leave for a moment the two other locational policies aside, we end up with two rather static assumptions of how the RIS is influencing positioning strategies of SCCs.

Assumption 1.1: The more a SCC-RIS is developed and diversified, the more its positioning strategy can emphasize its specific entrepreneurial environment (*attracting money*) alongside its capital city function (*asking for money*).

Assumption 1.2: In a weak developed and diversified SCC-RIS, its positioning strategy can only emphasize the capital city function (*asking for money*).

These two static assumptions would imply a deterministic explanation of positioning strategies. In such a setting, policy-makers in the regime would not be equipped with agency nor with capacity to gauge policy options. However, positioning strategies are not the only locational policies which policy-makers can implement. As an option, innovation policies are directly aiming at the needs and problems arising from the SCC-RIS. Different innovation policies can launch, initiate and stimulated the development process of a RIS. Especially through facilitating links to federal institutions, innovation policies can make use of the public sector as a driver for the diversification and development of the SCC-RIS. Successful innovation policies enables policy-makers to adopt both categories of positioning strategies. Similarly, innovation policies that try to improve the residential attractiveness of a SCC-region are enabling the adaption of *attracting money* strategies that are targeted on a certain population of tax payers. Thus, problem-oriented policy-makers that are engaged in drafting innovation policies are enabling the political and economic empowerment of SCC-regions by allowing the adoption of credible *attracting money* strategies. Innovation policies can lay the foundation to move a SCC's economy from a nation state dependency towards partial self-autonomy. Applied on the before stated assumptions (1.1 + 1.2), successful innovation policies have the potential to switch from assumption 1.2 to assumption 1.1.

Assumption 2: Innovation policies that enable the development of a RIS and/or improve the residential attractiveness of a SCC-region can lay the foundation for a process that allows a SCC to adapt *attracting money* positioning strategies alongside *asking for money* positioning strategies.

Coordination tries to increases the effects of innovation policies and positioning strategies. Fragmentation in the policy formulation and or implementation process has the potential to sabotage possible positive effects

of locational policies. Therefore, coordination tries to ensure that innovation policies and positioning strategies have a facilitative effect on the region's economic prosperity. In that combination, coordination may produce welfare gains for a SCC-region. The more a SCC is able to emancipate itself from the dependence of the nation state, the more coordination becomes crucial. Municipalities within a city-region should back the locational strategy and cooperate in the implementation process of locational policies. This is far from easy and needs negotiation skills as well as lobbying because the coordination instruments (e.g. CCRS) are based on the volunteer involvement of its member without any effective way of policy enforcement. The creation of a specific entrepreneurial environment in a RIS needs coordinated innovation policies and *attracting money* strategies supported by the whole city-region whereas *asking for money* strategies are less dependent on coordinated policy implementation.

Assumption 3: The more a SCC adopts *innovation policies* and *attracting money* strategies and thereby emancipates itself from the nation state, the more crucial becomes coordination within the city-region.

In a nutshell, the availability of different locational policies and the agency of the regime (possibility to choose between different locational policies instead of structure-induced policy-making) guarantee for a dynamic framework of policy-making in SCC. This proposed framework constitute the analytical foundation of the whole research project. Based on this framework the data collection in four capital cities (Bern, Ottawa, The Hague, Washington DC) will start in Spring 2014. Following a 'most similar systems'-design, the four cases are selected in order to "maximize the variance of the independent variable[s] and to minimize the variance of the control variables" (Lijphart, 1975, 165). The data will be collected from various sources. Statistical data, the study of different documents and interviews with relevant actors in each city should allow to compare and contrast how different regimes are active in the process of formulating locational policies in SCCs.

By acknowledging the interdisciplinary characteristic of the research arena, by the incorporation of non-state actors into the analysis, by highlighting the simultaneity of structure and agency and by using a comparative case study framework, this research project incorporates several fruitful points that makes it an analysis that is both grounded in and has relevance to contemporary urban politics (e.g. edited debate of Ward et al., 2011). It is expected that this research will find considerable demand among policy-makers and politicians since these regions seek to find their place within a changing global context and need basic knowledge beyond applied research results for their strategic decision-making.

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