

How industrial change can be managed to deliver better jobs

**A TUC report based on research produced
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Executive summary

Moving to a net zero-carbon economy and managing a fair transition to an economy with greater use of technology, whilst maintaining and improving livelihoods, is a major task ahead of the UK government in the coming decades. Whilst the details of an industrial policy to direct this change are important, without a visionary state taking a lead on social dialogue at national and local levels to ensure policies are responsive to the needs, capabilities and cultures of the people and places they will effect, the necessary transformation will fail.

The UK has an appalling track record on managing deep industrial change in a just way. Given the critical juncture we are at, allowing markets to frantically impose change upon industries and communities is irresponsible. Leaving these inevitable changes to the whim of global market forces will only deepen existing political divides and accentuate unsustainable economic imbalances.

It is important now more than ever that policy-makers take steps to understand the nuts and bolts of industrial transformations in practice, and how they can be shaped by the state, employers and unions representing the collective voice of the workers and communities affected.

As a contribution to what is a significant challenge we have looked at three case studies of places in Europe that have experienced a major industrial change in recent years: Bilbao, in the Basque Country, Eindhoven in Holland and Iceland, to learn from their successes and failures and apply to a UK context. We found that:

- In Bilbao, strong public participation and local autonomy over policy and finance were ingredients for an impressive transformation of a city that experienced a devastating flood and intertwined social, economic and political crises.
- In Eindhoven, public investment has fostered a culture of cooperation within the business sector enabling innovations in health and social care among other new technologies to develop in synergy with the city's industrial past.
- In Iceland, a dogged commitment to social provision and democratic accountability, supported by a strong union movement, has seen a country successfully navigate a potentially crippling financial and economic crisis with impressive levels of income and gender equality maintained.

From these examples we identify four critical success factors for industrial change done well:

- People feel secure and have a stake in their local area.
- There is a strong social safety net to foster long-term opportunity in an area.
- There are genuine opportunities for participation in decision-making.
- There is proactive, positive interaction between state, unions and businesses.

We make a number of recommendations for the UK, including:

- setting the development of quality jobs as the test for success of the industrial strategy
- ensuring that plans for industrial strategy or economic development are overseen by a social partnership approach
- allowing unions to bargain with employers to maximise employment standards across sectors
- delivering a national entitlement to skills, to give everyone the confidence to adapt to changing demands
- making an increase in good jobs the clear test for local industrial strategies
- bringing together unions, employers and citizens at local level to develop a clear vision and plan for their area
- using local employment charters to drive the development of good work across regions
- using social value procurement to support high quality employment standards, local labour and supply chains and other community benefits.

Industrial transformation of the kind that must happen over the coming decades must be treated as an opportunity to improve lives and livelihoods – but this will only be realised if a different approach is taken. Without an active state that is willing to set aside market ideology and work with people and places towards a shared goal, the crises that currently beset UK industry and many of the places that depend upon it are only likely to deepen.

Introduction

Since the 2008 financial crash, industrial strategy has become an in-vogue topic among UK politicians, with a shared ambition across parties to boost productive activity and exports. But despite the growing consensus that industrial interventions are needed, economic policy over the same period has remained much the same. We have been locked into a 'market knows best' mind-set and are suffering the consequences, with the decline, flight and collapse of prominent firms making the news month on month (e.g. Interserve, British Steel).

Processes of industrial transformation away from productive activities like manufacturing and towards a service-based economy have marked a huge shift in the makeup of the UK economy, but there has been a glaring lack of involvement by successive governments in managing this change, or cushioning the blow to affected workers and their communities. This abdication of responsibility and commitment to a "hands off" approach to industrial transition is of course an intervention of sorts: and the implications are felt and paid for across the economy. A decade of wage stagnation, work casualisation and personal debt growth are symptoms of a continued lack of any industrial plan.

To meet this gap between rhetoric and action, many have put forward the need for a "mission driven" approach to industrial strategy – centring a plan on the ambition to solve specific and concrete societal, economic or technological challenges.¹ But what is still so often missed out from these discussions is a strategy for addressing the specific challenges that lie underneath a guiding mission.

In every industrial transformation, depending on how it is managed, there can be winners and losers – people and places can often be left behind even in the most well-intentioned approach. This paper hopes to draw out some of these challenges – and generate ideas for addressing them, providing practical examples of industrial transformation at city, regional and national scales that the UK could learn from.

From principles to practice

We lay out three case studies of successful industrial transformations that have taken place within the last two decades and offer valuable learning for the UK. By successful, we mean first and foremost that good quality employment was created and that the transition from one industry to another provided opportunity for sustained economic activity that benefited the local community.

¹ UCL 2017 <https://marianamazucato.com/wp-content/uploads/2017/05/BEIS-INDUSTRIAL-STRATEGY-GREEN-PAPER-CONSULTATION-RESPONSE-15-April-2017.pdf> NEF 2017 <https://neweconomics.org/2017/11/people-places-first> ; IPPR 2017 <https://www.ippr.org/files/publications/pdf/cej-industrial-strategy-steering-change-in-the-uk-economy-november-2017.pdf>

Furthermore, our case studies demonstrate the ability for a defined area to emerge from a crisis – whether industrial, financial or environmental or combinations of these – with a strong economy and low levels of unemployment relative to other areas nationally and internationally experiencing similar change.

Underneath this aim, each example includes a range of other objectives and achievements, such as the need to:

- regenerate areas and rebalance economies to avoid regional and other inequalities
- manage a move away from environmentally damaging activities and towards other sectors such as culture and tourism in line with changing demand
- respond to financial crises and periods of economic recession
- share the gains and opportunities presented by new technologies and services.

Section one provides a snapshot of the UK economy by sector and region and a summary of the specific transition challenges faced. Section two covers the three cases in detail – Bilbao in the Spanish Basque Country; Reykjavik in Iceland; and Eindhoven in Holland – laying out the nuts and bolts of how a transition from one industry to another took place, what worked and what didn't. Section three synthesises the learning from these examples and makes recommendations for UK policy-makers at national, regional and local levels.

We identified four critical success factors for industrial transformation:

1. People feel secure and have a stake in their local area.
2. There are genuine opportunities for participation in decision-making.
3. There is a realistic sense of long-term opportunity and social mobility in the local area.
4. There is a proactive, positive interaction between state, unions and market.

We highlight the importance of nations, regions and localities inputting into industrial strategies, quality jobs, skills, investment to underpin national and local plans, and democratic institutions such as trade unions playing a dual role of socialising gains resulting from change and maintaining worker voice and job quality.

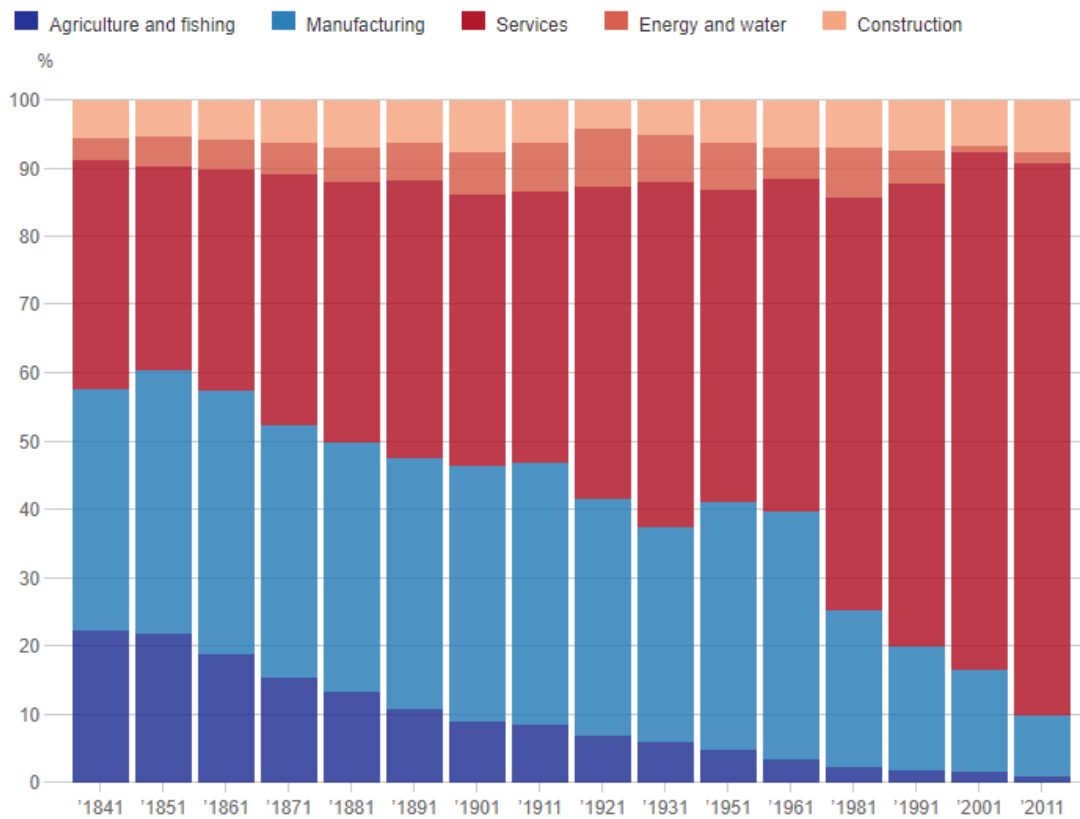
Section One

An economy in deep transition

From making things to delivering services

The story of the UK economy over the last half century is one of a managed decline of manufacturing and productive activity, and a parallel growth of the service sector. The latter includes an explosion in financial services in particular underpinned, albeit precariously, by a boom and bust housing market.²

Fig. 1: Composition of the labour force, England and Wales, 1841 to 2011



Source: 2011 Census Analysis, Office for National Statistics.

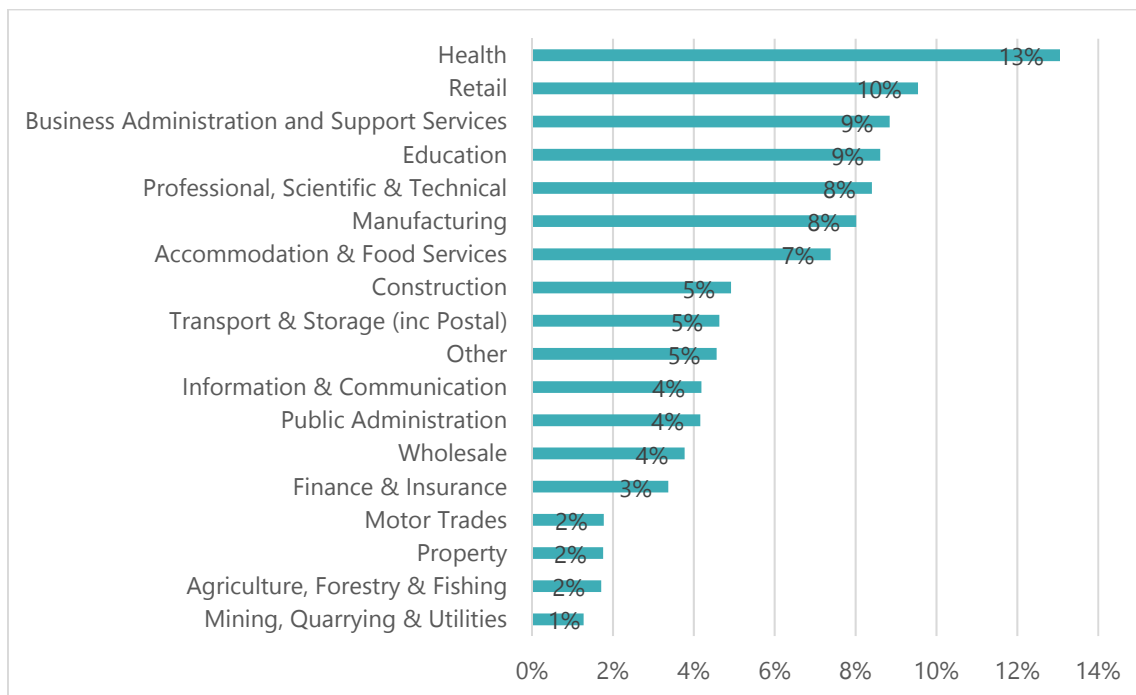
The service sector now accounts for over 80% of the workforce, shifting our economy from an industrial economy to a service-based one.³ The service industries include the retail

² Storm, 2018; Hudson & Bezemer, 2016; Sawyer, 2014

³ Gloria Tyler, "Service Industries: Key Economic Indicators," April 3, 2019, <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02786>.

sector, the financial sector, the public sector, business administration, leisure and cultural activities.

Fig. 2: Percentage of employment in major sectors in 2017



Source: ONS Business register and employment survey (BRES)

The next 20 years – three major drivers of industrial change

In the coming decades, there are three major foreseeable drivers of deep industrial change set to reshape the UK economy – presenting both opportunities for new and changing forms of work alongside posing the risk of significant job losses. These are:

Digitalisation and automation

The past demonstrates that technology, broadly defined, has been one of the most significant drivers of almost all major shifts in our economy and society, responsible for both mass unemployment and the creation of new jobs, although often with a time lag. The World Economic Forum conducted a survey of businesses around the world and found that nearly 50 per cent of companies expect that automation will lead to some reduction in their full-time workforce by 2022.⁴ In tandem 38 per cent of businesses surveyed expect to extend their workforce to new productivity-enhancing roles, and more than a quarter expect automation to lead to the creation of new roles. The ONS estimate that in 2017, out of the 19.9 million jobs analysed in England, 7.4 per cent (1.5 million) people were

⁴ World Economic Forum Future of Jobs Report 2018
http://www3.weforum.org/docs/WEF_Future_of_Jobs_2018.pdf

employed in jobs at high risk of automation.⁵ ⁶Women account for 70.2 per cent of employees in those jobs.⁷

Climate change and environmental pressures

The end of the fossil fuel age is underway, and the industrial impacts are far reaching. Global investment is flowing into clean infrastructure, the electrification of transport, and innovative new business models. The mounting awareness of untenable environmental pressures⁸ alongside innovation and changing patterns of investment in energy and infrastructure, means that there is a real risk the world economy is changing on a faster timescale than those who work in high carbon and energy intensive industries are being prepared for.

In the UK, both the Government and Opposition have locked support for green jobs into the heart of their plans for industrial strategy. Both have accepted the recommendation of the Committee on Climate Change, the Government's statutory advisors, that the UK economy moves to 'net zero' emissions by 2050. Its Chief Executive, has warned that this will mean a step-change in the Government's climate policy actions.⁹

Changes in the global economy and trade relations

In the past 40 years, in industrialised economies, change has tended to be driven as much by market liberalisation on a global scale and the resultant entry of developing and emerging economies into production, as it has by other factors. The global economy is not short of recessionary dangers on the horizon. The risk of housing bubbles at home, oil prices shocks from the Middle East or stock market crashes starting in Silicon Valley or China all represent real and continued threats. But for the UK, the uncertainty surrounding Brexit represents perhaps the most immediate prospect of a serious economic downturn. The long-term effects of Brexit remain unclear: depending more on the choices, values and vision of future governments than on any economic fundamentals.

⁵ "The Probability of Automation in England - Office for National Statistics," accessed March 27, 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/theprobabilityofautomationinengland/2011and2017>.

⁶ "The Probability of Automation in England - Office for National Statistics," accessed March 27, 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/theprobabilityofautomationinengland/2011and2017>.

⁷ "The Probability of Automation in England - Office for National Statistics," accessed March 27, 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/theprobabilityofautomationinengland/2011and2017>.

⁸ "This Is a Crisis: Facing up to the Age of Environmental Breakdown," IPPR, February 12, 2019, <https://www.ippr.org/research/publications/age-of-environmental-breakdown>.

⁹ "'Embrace Low Carbon Transition', CCC Chief Advises Business," <http://www.businessgreen.com>, March 19, 2019, <https://www.businessgreen.com/bg/news/3072815/embrace-low-carbon-transition-ccc-chief-advises-business>.

Parts of the UK economy particularly exposed to industrial change

The continued policy neglect of the productive sectors of the UK economy could have devastating effects when confronting these major economic changes. A poorly managed transition process, whether in the energy and carbon intensity of industry or as a result of a step-change in automation, could severely damage people and places in a variety of sectors across our economy.

A spotlight on manufacturing

Manufacturing is responsible for almost half of UK exports and 70 per cent of business research development, but as a sector has performed below its potential for years.

Manufacturing makes up 10 per cent of the UK economy's output and employs 2.6 million people across the UK, with many more in industrial supply chains.¹⁰ Although the share of manufacturing to GDP has declined in all advanced economies, the UK is the only country where manufacturing has declined in absolute terms.¹¹

Despite this decline, as the map below shows manufacturing jobs today still play a prominent role in many local economies – including Birmingham, South and West Yorkshire, Humberside (North East and West), South Wales and the East of Scotland. The variety of export and trade relationships held in different parts of the UK means the potential economic implications of industrial change can only be fully understood by considering the differential geographical impacts.¹²

¹⁰ Page, T. 2018. "All Tomorrow's Jobs," TUC

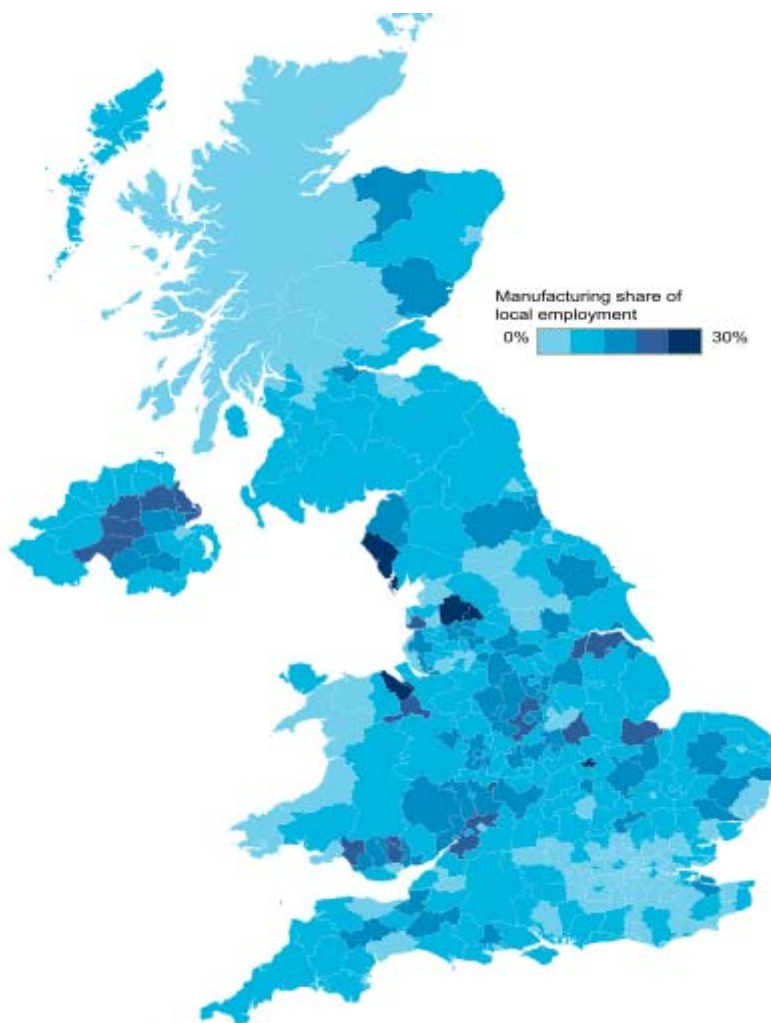
https://www.tuc.org.uk/sites/default/files/All_Tomorrow%27s_Jobs_2018_FINAL%5B2%5D.pdf

¹¹ Ibid.

¹² SPERI Political Economy Brief No.23 'UK regions, the European Union and manufacturing exports'

<http://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/Brief23-UK-regions-the-EU-and-manufacturing-exports.pdf>

Fig. 3: Manufacturing share of employment in UK local authority districts, 2016



Source: BRES and Oxford Economics

A primary cause of the unemployment and wage stagnation across many parts of the UK (e.g. North, Midlands, Scotland and Wales) is industrial job losses over a number of decades.¹³ This form of government-enabled decline in the manufacturing sector is notably different to the deliberate termination of some types of production, such as coal mining in the 1980s, but has comparably damaging consequences for the communities affected.

The persistent neglect of the UK manufacturing sector risks limiting possibilities for modernising those industries to take advantage of new opportunities in electrification and green industries, such as has been seen most recently with the car manufacturing industry.

¹³ Sheffield Hallam University, Christina Beatty, and Steve Fothergill, "The Contemporary Labour Market in Britain's Older Industrial Towns" (Sheffield Hallam University, July 27, 2018), <https://doi.org/10.7190/cresr.2017.6328578848>.

During the drawn-out Brexit negotiations and resultant climate of economic uncertainty, manufacturers such as Nissan and Honda have signalled planned closures in the UK.

Though the Brexit uncertainties and unwillingness of government to rule out a no deal is likely to have had a role in the decisions of the firms to close plants, it is just the most pressing of a constellation of forces – from the imperative to switch to cleaner business models, to automation and changing trade relationships. Recent events involving the Nissan plant in Sunderland show how decades of neglect on industrial policy to confront these long-standing issues results in desperate measures. Earlier this year the Government was prepared to write a £60m cheque to the company to maintain car manufacturing in Sunderland because of local employer importance.¹⁴

Opportunities for new jobs and transformed roles

The radical changes facing the UK economy present opportunities alongside risks.

Economic sectors that are likely to be directly affected by the transition to a low-carbon economy include energy, transport, construction, manufacturing and agriculture. Collectively these sectors cover over 85 per cent of the UK's greenhouse gas emissions yet also provide 6 million jobs.¹⁵

The UK's energy intensive industries (EIs) face particular challenges, with the coalition government having withdrawn planned support for innovation into carbon capture and storage technologies. There is no clear package of support available to help areas with particular concentrations of EIs – such as concrete, ceramics, chemicals and steel – transition rapidly to a low- or zero-carbon economy.¹⁶

At the macro level there is a lot of 'upside' to the transition to a low-carbon economy, with significant economic opportunity, but how this plays out in practice will vary hugely at the level of individual places, firms, communities or sectors.

Energy supply is tightly linked with the transport sectors on land, sea and air, which have combined employment levels much larger than the energy sector and policy changes relating to these impacts face a number of interrelated challenges.

Colliding with the drivers of change in transport and energy policy in response to climate change, automation wields its own threats and opportunities. The ILO's Future of Work Commission is clear that the greatest threat from automation remains to occupations and tasks that are often in low-skill, low-pay sectors: transport and storage, retail and

¹⁴ "£60m Deal for Nissan Plant 'Still Stands,'" February 4, 2019, sec. Tyne & Wear, <https://www.bbc.com/news/uk-england-tyne-47118350>.

¹⁵ NEF calculation based on "EMP13: Employment by Industry - Office for National Statistics," accessed April 12, 2019, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/data/sets/employmentbyindustryemp13>.

¹⁶ TUC "Building Our Low- Carbon Industries: The Benefits of Securing the Energy-Intensive Industries in the UK," September 22, 2014, <https://www.tuc.org.uk/publications/building-our-low-carbon-industries-benefits-securing-energy-intensive-industries-uk>.

administration and support services.¹⁷ The transport sector employs around 1.3 million people directly, with over half of all transport jobs at high risk of automation.¹⁸

A million new manufacturing jobs with green-tech and automation

In response to these often-countervailing forces, the TUC has challenged the government to set a bold target of delivering a million new manufacturing and high-tech jobs by 2030. This target dovetails with the government's ambition to achieve net zero carbon emissions by 2050 and recognises that sustainable industry and green technology are key planks to delivering these new jobs. It also notes that, if managed well, productivity gains delivered by new technology could deliver more advanced manufacturing work.

Opportunities in the foundational economy

There is great potential for economic development and new jobs growth by innovating the delivery of foundational services. Researchers at the Centre for Socio Cultural Change (CRESC) define the 'foundational economy' as the sectors of the economy which supply 'everyday' and essential goods and services such as infrastructures; utilities; food processing, retailing and distribution; and health, education and welfare. They estimate that this sector employs over a third of the working population and yet is increasingly beset by poor conditions, low wages and casualisation.¹⁹

Impacts of improving these jobs alongside improving on service quality and scope would be wide reaching – the most economically developed cities and the most 'left-behind' towns all have a foundational economy.²⁰ Taking care work, health and educational institutions as examples, these are important sectors that could be invested in and leveraged to stimulate local economies and increase good jobs during periods of industrial change. We draw out examples in the case studies in Section 2.

How will the change happen?

Major challenges for managing a transformation process well

Industrial policy decisions do not come in a vacuum: they are both constrained and shaped by external forces (e.g. globalisation or climate change), by the capabilities and institutions of a country or a locality (e.g. local government, trade unions), and by historical specialisation of an economy.

¹⁷ "Review 2018 Concern as British Renewable Energy Sector Growth Begins to Cool - News - REA," accessed March 28, 2019, <https://www.r-e-a.net/news/review-2018-concern-as-british-renewable-energy-sector-growth-begins-to-cool>.

¹⁸ PricewaterhouseCoopers, "How Will Automation Impact Jobs?"

¹⁹ CRESC 2013 "Manifesto for the Foundational Economy" 2013.

<http://hummedia.manchester.ac.uk/institutes/cresc/workingpapers/wp131.pdf>

²⁰ "The Great Divide between Towns and Cities," New Economics Foundation, accessed April 12, 2019, <https://neweconomics.org/2017/10/revealed-great-divide-towns-cities>.

Sitting as steps towards the goal of any industrial policy aimed at transforming and rebalancing the economy to meet contemporary demands are specific national challenges that impact different localities differently. Here we provide an overview of the major challenges facing a managed industrial transformation process in the UK:

1) Balancing a national approach with specific regional and local development needs

The UK is already one of the most divided and regionally unequal countries in the world.²¹ This matters for the challenge of industrial transition because there is an acute lack of economic diversification in a number of low-income areas of the country. Many communities are dependent on a single activity (and its indirect ripple effects across a local area) for their livelihoods.²² Economic fortunes are increasingly divided between a handful of successful agglomerations in poor regions that are often linked to London-based economic activities, and their hinterlands.²³ The poor health of many local economies reflects the weakness of local government – which has been gutted of capacity and initiative by succeeding governments. Centralised oversight and accountability regimes established since the 1980s have led to “a culture of deference to central government” that leaves local communities and residents out of the equation.²⁴

2) Austerity and lack of supportive public policy

Industrial policy is tightly linked with all facets of public policy and harsh austerity has seen local government and public services decimated over a decade. Reduced government spending in pursuit of deficit reduction has served to exacerbate existing economic imbalances by forcing households to increase their own borrowing to sustain GDP growth, the latter taking an estimated annual hit of £100bn²⁵. Given the likelihood of periods of higher unemployment, significant social support is required to ensure a safety net to smooth any process of industrial transformation. This includes a generous social security system and public services to improve for example, access to education and reskilling. For individual workers, the key differentiating factor of whether there is a risk of technological unemployment is education and skills.²⁶

3) Curtailed unions and collective bargaining

²¹ The Equality Trust, ‘The Scale of Economic Inequality in the UK’, at <https://www.equalitytrust.org.uk/scale-economic-inequality-uk>

²² “Turning Back to the Sea | New Economics Foundation,” accessed April 12, 2019, <https://neweconomics.org/2016/11/turning-back-to-the-sea>.

²³ NIESR 2019. ‘Regional Economic Disparities And Development In The UK’ <https://www.niesr.ac.uk/sites/default/files/publications/DP010.pdf>

²⁴ “The Great Divide between Towns and Cities,” New Economics Foundation, accessed April 12, 2019, <https://neweconomics.org/2017/10/revealed-great-divide-towns-cities>.

²⁵ “Austerity Hitting UK Economy by Almost £100bn This Year - More than £3,600 per Household,” New Economics Foundation, accessed April 12, 2019, <https://neweconomics.org/2019/02/austerity-hitting-uk-economy-by-almost-100bn-this-year-more-than-3-600-per-household>.

²⁶ PricewaterhouseCoopers, “How Will Automation Impact Jobs?”

For successive decades trade unions have been legally curtailed and the reach of collective bargaining reduced. The result is union membership has declined from a peak of nearly half the workforce in the early 1980s, to less than a quarter today.²⁷ The slide in union authority and fragmented bargaining system undermines the potential role of social dialogue in industrial strategy. Despite this decline, the UK trade union movement as a whole is still the biggest democratic organisation by an order of magnitude and almost of third of wage and condition setting involves collective bargaining through unions. As such the union movement still plays a major role in shaping sectors of the economy and is well placed to be deeply involved in future industrial transformations at local and national levels.

4) Changing world of work

Both declining trade union influence and technological innovation have played a role in changing the way we work in recent years. Software and machines have become increasingly capable of substituting tasks previously done by some people, while improving the work of others.²⁸ The effects so far have been a hollowing out of employment in the middle of the income distribution as well as the erosion of boundaries between employment and forms of self-employment and sole trading.²⁹ Due to high levels of unionisation and historic collective bargaining gains, manufacturing based and other industrial employers have also tended to provide jobs that are relatively high-paid and high-quality compared to the average. Other sectors are seeing a marked degradation in work quality. For example, outsourcing and privatisation have become common place across public services meaning that previously unionised jobs which were well paid and secure are increasingly low paid and precarious.

5) Breaking out of tenets of financialised economic model and market-led approach

Despite the revival of industrial strategy as a post-crash policy response with support across political parties, to date, the pre-crisis economic model has remained virtually intact. The financial industry still dominates the UK economy, and industrial policy and management of the real economy are still largely shaped by it.³⁰ From this base, a stark culture change involving a concerted and joined up effort among policy makers is required for significant industrial interventions. Where there has been political will, policy making has been largely stuck in a rut in part due to demonisation of notion of “picking winners” as well as fear around state aid law and the perceived and actual costs of changing course in terms of public sector debt. These concerns have been ideologically deployed as part of the neoliberal and pro-privatisation agenda and set the UK apart from its European counterparts in terms of willingness to intervene in markets in line with an industrial policy.

²⁷ “Working for the Economy | New Economics Foundation,” accessed April 12, 2019, <https://neweconomics.org/2014/09/working-for-the-economy>.

²⁸ Autor, David B., ‘Why Are There Still So Many Jobs? The History and Future of Workplace Automation’, (2015) *Journal of Economic Perspectives* 29 (3), Summer 2015.

²⁹ Goos, M. and Manning, M., (2007) “Lousy and Lovely Jobs: The Rising Polarization of Work in Britain”, *The Review of Economics and Statistics*, Vol. 89, No. 1 Feb, 2007.

³⁰ Bezemer & Hudson, 2016

For example, while the UK spent on average €100 per capita on State aid between 2009 and 2015, Belgium spent €181, France €224 and Germany €266 over the same period.³¹

³¹ "House of Lords - Brexit: Competition and State Aid - House of Lords European Union Committee," accessed April 9, 2019, <https://publications.parliament.uk/pa/ld201719/ldselect/ldcom/67/6709.htm>.

Case studies

In selecting the case study areas, we held conversations with trade unionists, academics and other local contacts, in addition to experts in industrial policy and change across Europe. Our research focussed on the transition arrangements and local economic and social context needed to support an industrial transformation well.

We selected case studies based on achievements in terms of 1) carrying out a significant transformation of the local economy in terms of economic activity and employment in response to a driver of industrial change 2) creating new and good quality forms of work and 3) the transformation process resulting in a prosperous local economy.

Specifically, we were interested in the learning the case study areas held for the UK and so focussed on areas in Western Europe with broadly analogous socio-economic traits. Key differences are drawn out in the concluding section of the report where we make recommendations for the UK, as well as reflections on the degree to which each case study achieved against the selection criteria.

Case study 1: Bilbao – culture and cooperation in the Spanish Basque Country

With deep poverty as a result of 40 years of Francoist rule and brought to its knees following the 1973 oil crisis and a catastrophic 1983 flood, Bilbao, the de facto capital of Spain's Basque region, has in the past three decades transformed itself to the extent that it is widely considered an almost unqualified success. Though not immune to the trends of de-industrialisation and work casualisation present across developed economies since the 1980s, strong public participation and local autonomy in the transformation process were ingredients for the emergence of a world-famed culture sector in symbiosis with a reduced but still present industrial base.

The process of transformation is deeply rooted in its regional identity and culture, which, as the post-Franco Spanish Constitution was cemented in 1978, was rewarded with fiscal and political devolution.³² The region was further rewarded after Spain joined the European Union in 1986 and benefitted from significant inflows of EU funding. But the consistency of its politics, strong collaboration between different tiers of government and the development of an industrial strategy and agencies to carry it out are what set Bilbao apart from other cities that have attempted transformation through regeneration.

³² CASE Report – 2016 Bilbao City Story <http://sticerd.lse.ac.uk/dps/case/cr/casereport101.pdf>

While the transformation of Bilbao is often associated with the opening of its metro in 1995 and of the bold and innovative Guggenheim Museum in 1997 and the development of tourism, cultural and service industries, the city and the wider Basque region have also managed to maintain a significant and largely modernised manufacturing base. In 2016, while services generated almost two-thirds of Basque GDP, industry still accounted for almost one-third and manufacturing around one-quarter.³³ The results of this region-wide modernisation and symbiosis between services and manufacturing are impressive. In 2010 the Basque unemployment rate was 10.5 percentage points below the Spanish rate, and the long-term unemployment rate was half the Spanish one.³⁴

Bilbao on the brink: post-industrial decline

With modest beginnings as a fishing village, rapid industrialisation in the nineteenth century saw Bilbao become a hub for shipbuilding and iron and steel production, making a major industrial powerbase in Spain. By the twentieth century, Bilbao's port had become one of the largest in Europe with fleets of ships transporting iron ore, coal and crude oil products.

A decade on from the oil crisis of 1973 and successive economic downturn felt across most industrialised economies, Bilbao faced a crisis of its own. And while its industry had been relatively successful under Franco's dictatorship, this masked poverty and poor conditions for many workers and led to a growing in strength of the union movement and establishment of a strong cooperative movement.

In 1983, the city was heavily polluted and damaged by a major flood that filled streets and spoiled buildings and possessions with a torrent of water. Post Franco poverty, the beginnings of globalised markets for iron and steel and the aftermath of the flood precipitated a major economic crisis, with unemployment peaking at more than one-quarter of the whole working population and half of all young people in 1985.³⁵

The scale of industrial decline was significant: 60,000 manufacturing jobs were lost between 1975 and 1995 which saw the proportion of manufacturing jobs drop from 46% to 27%.³⁶ A notable and traumatic event for Bilbao residents during this period was the closure of the Euskalduna Shipyard which resulted in violent battles between workers and local police in 1984.³⁷

³³ "EURES - Labour Market Information - País Vasco - European Commission," accessed April 12, 2019, <https://ec.europa.eu/eures/main.jsp?catId=453&lmi=Y&acro=lmi&lang=en&recordLang=en&parentId=&countryId=ES®ionId=ES5&nuts2Code=ES53&nuts3Code=null&mode=text®ionName=Pa%C3%ADs%20Vasco>.

³⁴ Martínez-Granado, Maite, Patxi Greño, and Mercedes Oleaga (2012), "The Basque Country, Spain: SelfEvaluation Report", OECD Reviews of Higher Education in Regional and City Development, <http://www.oecd.org/edu/imhe/regionaldevelopment>, p27.

³⁵ CASE Report – 2016, Bilbao City Story <http://sticerd.lse.ac.uk/dps/case/cr/casereport101.pdf>

³⁶ Cerna, C. et al. 2018. Agulhas Applied Knowledge 'Lessons for a successful transition to a low carbon economy: The five case studies' <http://agulhas.co.uk/wp-content/uploads/2018/06/CIFF-Annex-Case-Studies.pdf> p6

³⁷ Ibid.

A generation of young people grew disillusioned by the deficit of opportunity in the city and surrounding areas with many caught up in widespread drug misuse and addiction.³⁸ As a result of industrial decline and the inundation of the old city, by the 1980s land around the port, from which much industry had retrenched, was heavily polluted and the river Nervion was declared 'ecologically dead', with oxygen levels 20% below the norm. This ecological crisis was also linked to very poor sanitation in the city.

A new vision emerging from crisis

At the depth of its crisis, the Autonomous Basque Government and Bilbao's metropolitan authority – both of which have been controlled by the Basque Nationalist Party (PNV) since Spain's transition to democracy – began formulating a strategic plan for the city. Drawing on the region's culture of organisation and traditions of neighbourhood participation and solidarity (though still almost certainly the preserve and vision of the city's leaders) the plan brought together a bold vision for industrial transition along with a transformation of the fabric of the city centre.

The 'Strategic Plan for the Revitalisation of Metropolitan Bilbao' was finally agreed in 1991.³⁹ It promoted an integrated approach to regeneration. A dedicated agency - Bilbao Metr30 - was founded to act as a facilitator for the regeneration process and to promote the objectives set by the strategic plan which included:

- inner-city urban renewal with a focus on the revitalisation of the Old Quarter
- environmental improvement including river cleaning and industrial land recycling
- strengthening of cultural identity through culture-led regeneration
- developing a knowledge-based high-tech sector.⁴⁰

A second development agency – Bilbao Ría 2000 – was created in 1992, with the aim of managing the largescale revitalisation of abandoned land formerly occupied by the harbour quays and industries, or by obsolete transport infrastructure. Set up as a not-for-profit, limited liability company and entirely publicly owned it brings together local and state government; it is chaired by the Mayor of Bilbao and the vice chair is the Madrid government's secretary of state for infrastructure, transport and housing.⁴¹ Ría 2000 has been the centrepiece for the city's regeneration.

Taking ownership of land from the port and railways authorities, Ría 2000 used regional tax revenues (almost all of which the Basque region retains and spends locally), central government and EU funding to clean up land and bring it back into productive use. The rehabilitation of the land next to the river and construction of the Guggenheim and Basque

³⁸ Interview with Jaron Rowan, Lecturer in Culture and Design, Barcelona.

³⁹ "Strategic Plan for the Revitalization of the Metropolitan Bilbao," Bilbao Metr30 (blog), accessed April 12, 2019, <http://www.bm30.eus/en/goals-and-objectives/strategic-planning/strategic-plan-for-the-revitalization-of-the-metropolitan-bilbao/>.

⁴⁰ CASE – Bilbao City Report [http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_\(final\).pdf](http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_(final).pdf)

⁴¹ "Bilbao Ría 2000 | Bilbao International," accessed April 12, 2019, <http://www.bilbaointernational.com/en/i/>.

Convention Centre are its two most famous achievements, but it has also used its financing muscle and political ties to regenerate acres of commercial and residential development.

Lan Ekintza, a third agency, served as an employment and training centre to find solutions for job and skills mismatches that resulted from the local labour market restructuring. Lan Ekintza is reported to have mediated 2,000 jobs and assisted around 100 business creations each year, as part of a wider programme led by the Spanish Government to shape the service industry growth and ensure in insecure forms of work.⁴²

The creation of Lan Ekintza was a clear signal that the City of Bilbao was committed to its objective of improving the skills and opportunities of those finding it difficult to access the local labour market, but accounts of the long-term success in achieving this end are mixed. The growth of the city's new service sector to a large extent has followed the global trend, in that it has been accompanied by a significant precarisation of employment. In a recent exemplar of the continued need for collective action in the region, Guggenheim workers have been out on strike a number of times in recent years in opposition to the insecure nature of their "autonomous worker" status – demonstrating the crucial role for unions in countering increasing work casualisation, despite public provisions.

Transformation across Greater Bilbao

Barakaldo is a city in the Greater Bilbao conglomeration where residents were hit hard by the closure of the Altos Hornos steelworks in 1990 – the largest local employer. The potentially devastating impact of the closure of the state-owned plant on local families was to some extent mitigated by the provision of early-retirement packages provided by the state. Since 1999 the City of Barakaldo has been trying to support economic recovery through a General Urban Plan. Over the past decade, the town has experienced a period of structural change in the productive sector, turning from an industrial economy to tertiary-oriented businesses. Former industrial sites are being redeveloped for housing and retail and the Bilbao Exhibition Centre was opened there in 2004, however poverty levels are still high relative to the more prosperous central areas of Bilbao.

While aspects of the Bilbao story are complex, the aggregate data on economic performance in the wider Basque region has caught the eyes of policy-makers across Europe. In 2016 gross domestic product (GDP) per person in the Basque country ranked second only to Madrid.⁴³ It had the highest productivity rates of any Spanish region and the top sectors representing growth in terms of jobs created (accounting for 38 per cent of new

⁴² CASE – Bilbao City Report [http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_\(final\).pdf](http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_(final).pdf) (M. Baelo, L. Vicario, interviews)

⁴³ OECD Stats. [Regions and Cities > Regional Statistics > Regional Economy > Regional GDP per Capita](#), OECD.Stats. Accessed on 16 November 2018

recruitment in 2016) were food and beverage services; retail; services to buildings and landscape activities; residential care and education.⁴⁴

The metropolitan area of Bilbao experienced a massive increase of overall employment from 267,000 to 380,000 jobs between 1995 and 2005.⁴⁵ This is matched by a falling unemployment rate since its peak of 25 per cent during the mid-1980s, which was in part made up of the early retirement plan for industrial workers aged over 50 across Spain paid for by the government.⁴⁶ The Euskalduna Concert Centre which was built on the grounds of the closed shipyard and opened in 1999 now generates around 1,200 annual jobs, with the Guggenheim responsible for a further 4,500.⁴⁷

In effect, the combined policies of the agencies created to drive forward the vision for Bilbao's transformation have created a holistic industrial strategy, with key elements including reskilling, retraining, R&D, new start-ups, enterprise development, technology transfers and many other forms of know-how. From the devastation of the mid 1980s, Bilbao's leaders have seemingly achieved the impossible; they have created new industries while maintaining a significant manufacturing base.

Financial autonomy

Spain's seventeen regional governments acquired extensive public spending competences in the decades following the Spanish transition to democracy of the late 1970s, but their revenue-raising powers differ substantially.⁴⁸

The Basque region raises almost all of its own taxes under a separate system of substantial fiscal autonomy whereby the three Basque provinces are responsible for collecting almost all taxes, which cover the costs of major public services such as health and education.⁴⁹ This system is based on the Basque "Fuero", a traditional legal system of statutes which, among other things, give it the right to raise and spend its own taxes as well as regional autonomy.⁵⁰

⁴⁴ "EURES - Labour Market Information - País Vasco - European Commission."

⁴⁵ [http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_\(final\).pdf](http://eprints.lse.ac.uk/3624/1/Bilbao_city_report_(final).pdf) p28 from Plaza, B (2007) 'Museums as economic re-activators: challenges and conditions for their effectiveness', paper presented at EURA Conference, Glasgow, 12-14 September.

⁴⁶ Cerna, C. et al. 2018. Agulhas Applied Knowledge 'Lessons for a successful transition to a low carbon economy: The five case studies' <http://agulhas.co.uk/wp-content/uploads/2018/06/CIFF-Annex-Case-Studies.pdf> p6 and Gomez-León M. & Miret-Gamundi 'Working after age 50 in Spain. Is the trend towards early retirement reversing?' in Vienna Yearbook of Population Research 2014 (Vol. 12), pp. 115–140

⁴⁷ http://www.agenda21culture.net/sites/default/files/files/good_practices/bilbao-eng_def.pdf

⁴⁸ Gary, C. 2016. Fiscal Sovereignty and Nationalist Politics in Spain: The Influence of Regional Financing on the Territorial Agendas of Basque and Catalan Nationalist Parties https://livrepository.liverpool.ac.uk/3003434/1/200949602_May2016.pdf

⁴⁹ Gary, C. 2016. Fiscal Sovereignty and Nationalist Politics in Spain: The Influence of Regional Financing on the Territorial Agendas of Basque and Catalan Nationalist Parties https://livrepository.liverpool.ac.uk/3003434/1/200949602_May2016.pdf

⁵⁰ "130 Million for Brainport Eindhoven," accessed April 12, 2019, <https://www.tue.nl/en/news/news-overview/16-03-2018-130-million-for-brainport-eindhoven/>, <https://www.feps-europe.eu/Assets/Publications/PostFiles/445.pdf>

Along with substantial Spanish state and EU support, the region's ability to retain most of the tax revenue it raises and its autonomy over tax policies – while a constant source of tension with the Spanish capital, Madrid – have significantly underpinned the regeneration of Bilbao.

Underpinning transformation: social organisation, trade unions and the cooperative movement

The Basque country has a strong history of social organisation and which very much still exists today and though not explicitly, this culture of collective action and cooperation formed the backbone of the city's transformation.

The model of trade unionism in Spain differs from both the UK model and the northern European corporatist approach. It tends to be low in density but with frequent mobilisation and strike activities, with unions usually aligned to particular political ideological or party.⁵¹ The influential trade union movement in the Basque country is made up predominantly of four unions with a range of political leanings including social democrats and a more radical left. The movement grew and strengthened during the Franco era.

With around 100,000 members the largest union in the Basque region is Eusko Langileen Alkartasuna (ELA) historically associated with the pro-independence movement but adopting a position of autonomy from political parties since the 1970s. The Basque union movement provided a social function during the years of political unrest, including supporting demands for prisoners to be kept in the Basque region, close to their families.

Spanish unions have a significant role in enterprise level and sector-wide decision-making. Worker representation rights are anchored in law meaning that firms with more than 50 employees have an elected works committee that is consulted on company decisions. In firms with more than 250 employees there is also a recognised "trade union section", which sits alongside work committees and, in contrast to the German codetermination model where worker participation in company decision-making precludes some forms of industrial action, in Spain the right to take strike action and collectively bargain is maintained.⁵²

In addition to, and in many ways in a symbiotic relationship with trade unions, there is a strong cooperative sector in Spain and in the Basque region in particular, primarily centred on the large Mondragon cooperative with 70,000 members and which sits just an hour away from Bilbao.

Mondragon is a federation of worker cooperatives founded to produce paraffin heaters in the town of Mondragon in 1956 by graduates of a local technical college. In recent years it has grown to be the tenth-largest Spanish company in terms of asset turnover and the leading business group in the Basque Country with four main areas of activity: finance,

⁵¹ Holm-Detlev Köhler, "Trade Unions in Spain: Organisation, Environment, Challenges," n.d., 20.

⁵² Köhler, "Trade Unions in Spain: Organisation, Environment, Challenges." P6.

industry, retail and knowledge.⁵³ The Corporation consists of over 160 cooperative enterprises, of which 90 are industrial companies, and has over 21,000 worker-owners.⁵⁴

The links between the city of Bilbao and the Mondragon cooperative are strong. The University of Mondragon opened a new training centre in the city offering Bachelors and Masters with a focus on innovation and entrepreneurship with 15 degrees across four schools (Engineering, Humanities, Business Studies, and Gastronomic Sciences).⁵⁵ The centre sought to build on and reinforce the work of Lan Ekintza

The ingredients of transformation

Today Bilbao is a poster child for regeneration - famed internationally for its booming cultural industries and gleaming Guggenheim museum occupying the site where the port had once thrived. Cutting through both the hype and critiques surrounding the Bilbao model there are learning points to be drawn out concerning the process by which it was achieved.

Opinions on the “Bilbao Effect” and its replicability are mixed. The model is focussed on cultural and services sector growth and has established the city on a new global stage (in that respect it is similar to Barcelona), as well as fostering a sense of civic pride among local residents, which undoubtedly played an important role in oiling the wheels of economic transformation. However, in many ways the culture-sector led growth model is a zero-sum game and risks pitting cities against one another. Inspired by first movers such as Bilbao, cities across Europe have raced to install cultural infrastructure such as new museums and galleries to drive successful regeneration, to greatly varying degrees of success.⁵⁶

What is impressive is the extent to which the change fostered local pride - an achievement given that 90% of local inhabitants were originally opposed to the new museum in part due to the disruption it caused to the layout of the city with the port being demoted from the centre of the city to the edge, in order to make room.⁵⁷ Leadership has played a significant role. But such prestige is not easy to replicate and has often led to comparative failure in other cities across Europe.⁵⁸

In Bilbao it seems the varying levels of support, from the grand projects to the more mundane but socially more important services offered by initiatives like Lan Ekintza, have contributed to its turnaround and to the development of resilience. Like all regions of Spain, the Basque region suffered significantly during the Financial Crisis a decade ago, but while

⁵³ Mondragon – Annual Report 2010 <https://www.mondragon-corporation.com/wp-content/themes/mondragon/docs/eng/annual-report-2010.pdf>

⁵⁴ Morris, D. The Mondragon System: Cooperation at Work <https://ilsr.org/wp-content/uploads/files/images/mondragon.pdf> p1

⁵⁵ <https://www.europapress.es/euskadi/noticia-mondragon-unibertsitatea-abrira-centro-formativo-instalaciones-bilbao-lan-ekintza-20130321183715.html>

⁵⁶ Michael Keating and Monika De Frantz, “Culture-Led Strategies for Urban Regeneration: A Comparative Perspective on Bilbao,” *International Journal of Iberian Studies* 16 (December 1, 2004): 187–94, <https://doi.org/10.1386/ijis.16.3.187/1>.

⁵⁷ *The New Social Contract: A Just Transition*, Foundation for European Progressive Studies (FEPS) and Change Partnership, 2016

⁵⁸ Interview with Adrian Bua, references shared

Basque post-crisis unemployment spiked at 17 per cent Spain's was 27 per cent. And while Ria 2000 suffered a housing and construction crisis that led to many properties standing empty and developments unfinished, bank defaults and mass repossessions were largely avoided.⁵⁹

Manufacturing industry has of course declined and insecure work in services has risen, but the efforts of the agencies created out of crisis, the continued role for unions and the collaboration across the different levels of government have almost certainly led to a broader and more resilient economy, retaining more of the city and region's manufacturing and industrial base than in many other European regions. If conceived by collaborating tiers of government of today, this would probably be called industrial policy.

Spatial scale has also undoubtedly played its part. The population of the Basque country is akin to West Yorkshire (2.2 million in 2016)⁶⁰ and Bilbao is a similar population size to Cardiff. Coupled with its autonomy and the close collaboration of the different tiers of government, this is probably a manageable scale at which to envisage and execute bold transformational plans.

Underpinning and reinforcing all of the now nearly three-decades-long process of evolving the new Bilbao is the infrastructure of identity, solidarity and cooperation that emerges from the Basque nationalist movement, the region's autonomy and its trade unions and cooperatives that were spurred by Franco-era adversity and struggle.

Case Study 2: Iceland – adaptability and strength through equality

By the time the finance crisis of 2008 hit, Iceland had left itself dangerously exposed to the financial services industry. The collapse of Iceland's banks, the immediate crisis that followed and the wider economic carnage posed an existential threat to the OECD's smallest nation.

Relative to its size, Iceland's banking crisis is still the worst in history.⁶¹ Its three major banks were put into liquidation as well as smaller investment and savings banks, and Iceland's government even re-imposed capital controls to stop the flight of capital out of the country (a measure only reversed in 2017) and borrowed more than \$5 billion from the IMF and Nordic countries.

However, within four years of the crash, Iceland's unemployment rate, which had peaked at 9% (much lower than in many crisis-hit countries), was down to 6.3% and a recovery was underway. While many factors have played a part in the remarkable turnaround that has followed, the government's decision to maintain its levels of social security, the nation's

⁵⁹ CASE – Bilbao City Story <http://sticerd.lse.ac.uk/dps/case/cr/casereport101.pdf>

⁶⁰ EURES Labour market information -Spain

<https://ec.europa.eu/eures/main.jsp?catId=453&lmi=Y&acro=lmi&lang=en&recordLang=en&parentId=&countryId=ES®ionId=ES2&nuts2Code=ES21&nuts3Code=null&mode=text®ionName=Pa%C3%ADs%20Vasco>

⁶¹ The Economist – Cracks in the crust <https://www.economist.com/briefing/2008/12/11/cracks-in-the-crust>

pre-existing high levels of trade union membership – the highest in the world⁶² – and a successful industrial transformation, have helped socialise the recovery.

Iceland on the brink: the existential threat of crisis

In response to the 2008 Financial Crisis and the rapid contraction of its overly inflated investment banking sector, Iceland suffered a severe shock with the value of its currency, the Krona, halving. This heavily impacted consumer prices and the Icelandic labour market in the form of job losses – especially in the construction sector, which experienced a number of bankruptcies.

Iceland is a nation with a population of less than 350,000 – smaller than many cities in other European countries; and around the same size as Bilbao. It has the smallest economy in the OECD, though one of the highest levels of per capita GDP. Nevertheless, perhaps because of its size and geography, the Icelandic economy has often been prone to boom and bust and has tended to rely on a small number of sectors – fishing, geothermal and tourism in particular.

During the 2000s, financial services grew rapidly and by the time the Financial Crisis began to take hold in 2008, the assets of its three main banks, Kaupthing, Landsbanki and Glitnir, had grown to 11 times the size of the Icelandic economy. But while the sheer enormity and economic dominance of Iceland's banks, the intense drama of their spectacular collapse and the depth of the crisis that followed are in themselves remarkable, it is Iceland's response and its recovery that most worthy of note. New banks were formed out of the remnants of those that collapsed, involving mergers with some of the smaller banks. Despite the dramatic collapse the three major banks still exist as brand names and legal entities, with some still operating as investment companies.

Not swallowing the poison: Iceland's recovery

What is so remarkable about the recovery since this crash is the process of industrial transformation that has played out in tandem, suggesting a focus on this rather than economic recovery measures alone can have positive social effects.

This story of economic shock and recovery did not see unemployment rise to predicted levels nor to those seen in many other crisis-hit countries. The collapse in the currency, while reducing the purchasing power of the population, also boosted sales of Icelandic exported goods and services, including a boost to the growing tourism and culture industry.

Iceland did impose some austerity measures in the wake of the crisis, hiking taxes and cutting public spending. These measures were felt in almost all public sectors, and by most people. One interviewee remarked that Icelandic roads still bare the marks of this period with proper maintenance of infrastructure not having recovered since before the crash. But importantly, Iceland's decisions to liquidate and break up its banks – too big to save rather than too big to fail – impose capital controls and cancel some household debt and bolster

⁶² OECD (2017), OECD Economic Surveys: Iceland 2017, OECD Publishing, Paris.
http://dx.doi.org/10.1787/eco_surveys-isl-2017-en

welfare were far from classical. Alongside these, the influence of the unions and the use of policy to provide business grants and invest in tertiary education have led to a growing and increasingly diverse economy based on renewable energy production, tourism and culture and new sectors such as biotech and pharmaceutical.

Large-scale protests in 2008 – the largest seen in Iceland – also precipitated the collapse of its pre-crisis government and prosecution of the former Prime Minister. A new, left wing government was installed, which ran a series of referenda in which people were asked whether or not the nation should cover the costs of lost savings of foreign investors resulting from the collapse of Landsbank. The new government also pioneered a new approach in which 25 people from a wide range of backgrounds – most of whom had no political affiliation – were elected to assist with the drawing up of a new constitution.

Iceland's nationalised renewable energy company, continuing, strong Nordic-style welfare state and even higher than pre-crisis union density have ensured that the interests of Icelandic workers were always placed at the heart of economic policy. As a consequence, its Gini coefficient – the international measure of inequality – which rose significantly in the years prior to the crisis, has now fallen back; Iceland is one of the most equal countries in the world in terms of income distribution.⁶³

Its remarkable recovery has also coincided with Iceland becoming the most gender-equal⁶⁴, the most unionised, and reportedly one of the happiest nations on earth.⁶⁵ 85.5 per cent of the workforce was unionised in 2016.⁶⁶ Since 2008, the Icelandic labour market has had a participation rate consistently well above 85 per cent, the highest among OECD countries.⁶⁷

It should however be noted that though Iceland has low levels of income and gender inequality, inequality in terms of wealth is significant and is a source of current tensions. Unequal access to wealth inheritance from parents, usually in the form of property, is a key determinant of opportunity and quality of life for young Icelandic people. A similar story to the UK.

Unions leading transformation

The process of industrial transformation in Iceland demonstrates that industrial strategy is about coordinating a wide range of economic policies to achieve particular objectives, which do not necessarily need to be economic. In the teeth of crisis, this approach was unusual, with most governments focussing first on financial sector bailout and then on austerity.

The unifying aspect of Iceland's dramatic economic recovery and continued success has been its unrivalled commitment to strong unions and an equal society. Strong unions not

⁶³ OECD Data (2019). 'Income Inequality'. Found at: <https://data.oecd.org/inequality/income-inequality.htm>.
<https://www.indexmundi.com/facts/iceland/indicator/SI.POV.GINI>

⁶⁴ World Economic Forum (2018), The Global Gender Gap Report.

⁶⁵ OECD (2017), OECD Economic Surveys: Iceland 2017, OECD Publishing, Paris.
http://dx.doi.org/10.1787/eco_surveys-isl-2017-en.

⁶⁶ OECD.Stat (2016), 'Trade union density in OECD countries'. Found at:
<https://stats.oecd.org/Index.aspx?DataSetCode=TUD>.

⁶⁷ OECD (2016).

only represent a countervailing force to the interests of capital that became unstuck during the financial crisis, but also represent a dynamic and reactive series of institutions that protect and build upon the interests of their members.

The process of wage-setting, common in Iceland, is one that is characterised by significant centralisation and coordinated bargaining – usually by national federations. These national union agreements set an effective minimum wage for the country as a whole.⁶⁸

The central role of trade unions in the Icelandic economy has underpinned its low-income inequality. Trade unions also hold an important social position, providing grants to members for personal education, healthcare, holidays, and a basic social security net. Employers are legally obliged to pay a 1 per cent premium into sickness benefit funds and a 0.25 per cent premium into holiday funds operated by trade unions. Collective agreements also provide for the payment by employers of a vocational fund fee of 0.30 per cent.⁶⁹

The impact of the financial crash was mitigated because decisions – influenced by the unions – were made to protect the welfare system, and especially those on low incomes. From the crisis hit in 2008 until 2011 Iceland experienced the greatest income redistribution in Europe.⁷⁰ While expenditure was cut in some areas, it was also increased in others, including some areas important for social investment goals, such as active labour market policies and rehabilitation.⁷¹ High quality, and near universal childcare, as well as long-term care for the elderly and people with disabilities helped to ensure high labour market participation – especially for women.⁷²

Currently, three of Iceland's major trade unions are campaigning to raise the minimum wage by 40 per cent, demonstrating the ambition, power, and egalitarian drive of the union movement.⁷³

⁶⁸ Central Bank of Iceland (2016), 'Economy of Iceland'.

⁶⁹ Icelandic Confederation of Labour, Labour market and trade unions: union funds. Found online at: <https://www.asi.is/vinnurettarvefur/icelandic-labour-law/labour-market-and-trade-unions/union-funds/>.

⁷⁰ Nordic Labour Journal (2016), Why did Iceland do so well? Found online at: <http://www.nordiclabourjournal.org/artikler/insikt-og-analyse/insight-and-analysis-2016/article.2016-11-16.1441329326>.

⁷¹ Ólafsson S. (2015) 'ESPN Thematic Report on Social Investment Iceland 2015', European Commission.

⁷² Ibid.

⁷³ Fontaine, Andie (2018), 'Iceland's Labour Leaders Gearing Up For Class War', in The Reykjavik Grapevine. Found at: <https://grapevine.is/news/2018/11/28/icelands-labour-leaders-gearing-up-for-class-war/>.

Trials to improve work quality in the public sector

In recent years, Icelandic unions have looked to reduce the high working hours in the country in line with other Nordic countries. In negotiations with unions, Reykjavík City Council established an initial trial for shorter hours with 70 people in 2015. Council departments ranging from police stations, to care homes, to swimming pools have knocked on-average four hours off their working week.

The trial has consistently reported on an improved work-life balance, a slight decrease in levels of sickness, improvements in health and wellbeing, and better sleep. It has also been found that people have been able to do their work as previously. The positive results from the early experiment meant that Reykjavík City Council expanded the trial to around 2,000 people within the council. The success of the trial so far, as well as the popularity within the Council, means that the change is likely to be made permanent.

Following the successful and widely publicised trial in Reykjavík City Council, it was decided in 2017 to establish separate trials across four state departments across Iceland, including at an immigration department, and a police station. In 2018 a hospital in Akranes was included as a fifth site in the trial. Across the government departments it was decided to reduce the working week by four hours. All the major trade unions are now looking to incorporate shorter working hours into future negotiations.

Biotech, biomed, and pharmaceutical sectors

Historically, Iceland's economy has been very over reliant on very few industries and is prone to boom and bust cycles. As of 2017, the main exports are tourism (42 per cent of total), aluminium (17 per cent) and seafood (16 per cent).⁷⁴

Post crisis, the Icelandic government also prioritised and supported business start-ups, a process that continues.

Iceland has small but growing biotech and pharmaceutical sectors. These are well-paid sectors with highly skilled workers, often with doctorates. These sectors are enabled by Iceland's tertiary education sector, which is building an increasing number of links with related industries – for example through the placement of masters' and doctorate students in relevant companies. Education is heavily subsidised, with students paying around 70,000 Krona (£444) a year.

⁷⁴ Iceland Chamber of Commerce (2018), 'The Icelandic Economy: Current State, Recent Developments and Future Outlook.

Sandra Jónsdóttir started a biomed company in 2015 named Platome Biotechnology, which aimed to reinvent how stem cells and other human cells are grown in laboratories and turn it into a commercial product. She started the company whilst working on her PhD and wanting to turn her research into a real-world product. Of eight employees in the company, five were masters' students.

There were no start-ups in the biomed sector at the time, and according to Sandra 'It was a huge uphill battle' to start the business because of the difficulties in registering new companies and high registration fees. However, access to a government grant of 20 million Krona (£127,000) enabled the company to have between two- and three-years' worth of funding to develop the product. Businesses have around a 10-12 per cent chance of successfully bidding for a grant. The government also provides subsidies of 20 per cent of the costs of R&D (providing R&D comprises over half of the business).

Sandra summarises the importance of these grants: "Without these grants you wouldn't see these small organisations make these risks. They are much better than the loans from venture capitalists and are closely connected to Icelandic innovation". She says that these grants are much better than venture capital investment, which expect huge returns and represent a significant risk to burgeoning entrepreneurs.

In Sandra's experience, Reykjavik is doing very well with early stage companies. The distance between people and companies is low because the business ecosystem is so small. This closeness between different businesses means ideas get around very quickly. One of the unexpected effects of the 2008 crash was to churn the jobs market, which resulted in lots of skilled workers moving across industries and enabling a degree of cross fertilisation. However, significant challenges do remain in the sector, particularly around the inability to scale.

Sandra also views unions as a benefit for employers, as they provided a basic social net, which guarantees the security of workers, lowering the risks involved in the failure of new start-ups.

Tourism as a part of recovery

While always popular with visitors – and boosted as a destination post-crisis by its deflated currency – Iceland has also prioritised the growth of tourism in the past decade. According to Gylfi Magnússon, an Icelandic economist "Since 2008, resource-based industries and the explosion in tourism have created more jobs."

Antanas Sipavicius came to Iceland from Lithuania 19 years ago for work. He began working in the construction sector, before transitioning towards the greening and forestry industries and subsequently becoming a driver for a large tour-company in Iceland. Five years ago, he quit in order to set up his own travel company; "I began to feel that there were more and more tourists coming. So, I decided to open my own company". Initially beginning with a single mini-bus, Antanas now runs a company of four mini-buses which has grown quickly over the past few years.

Tourism has come to dominate the Icelandic economy, representing 42 per cent of its exports.⁷⁵ The number of tourists grew by a quarter every year between 2010 and 2016, where 1.8million tourists visited the country.⁷⁶ The collapse in value of the Krona in 2008 made Iceland much cheaper for tourists to visit – contributing towards the initial growth in the sector, where 15,000 jobs were created between 2008 and 2017 (of a total workforce of a little over 200,000).

Public concern about the rapid growth of the sector and, in particular, the risk of negative implications for the natural environment has resulted in the Department of Tourism at the Ministry of Industries and Innovation developing an official tourism policy, including the creation of a Tourist Site Protection Fund.⁷⁷ The national Park Rangers Society has called upon the Government to ensure land management personnel at natural sites of interest all year round.

Intriguingly, it was the eruptions of its Eyjafjallajökull volcano in 2010, and the ensuing international publicity campaign by the tourist board that appeared to trigger the surge in tourists. The rapid growth of the tourism industry has stalled in the last couple of years, as the Krona risen in value. Growth has been so rapid that it has been increasingly reliant on immigration from the European Economic Area to meet demand.⁷⁸ For the most part, the jobs created in tourism have been entry level jobs which aren't paid well, creating a split in the labour market between high-paid and low-paid jobs.⁷⁹

There is considerable tension in some sectors, in particular tourism and construction, where employers have tried to circumvent union negotiated wages when people are recruited via employment agencies. In some cases, this practice is resulting in wages below that agreed in the collectively agreed Icelandic wage contracts.

⁷⁵ Iceland Chamber of Commerce (2017), 'The Icelandic Economy: Current State, Recent Developments and Future Outlook.

⁷⁶ *ibid.*

⁷⁷ <https://www.ferdamalastofa.is/en/quality-and-environment/the-tourist-site-protection-fund>

⁷⁸ The Reykjavik Grapevine. (2016) 10% Of Working Icelanders Employed In Tourism Industry. Available online at: <https://grapevine.is/news/2016/05/26/10-of-working-icelanders-employed-in-tourism-industry/>.

⁷⁹ Iceland Monitor (2016). Wages in Iceland tourism rising less than national average. Available online at: https://icelandmonitor.mbl.is/news/nature_and_travel/2016/12/19/wages_in_iceland_tourism_rising_less_than_national/.

Aluminium smelting and renewable energy production

Iceland is the largest producer of renewable energy per capita in the world, which consists almost entirely of a mix of geo-thermal and hydro-electric power. Over 85 per cent of the total energy supply in 2012 was produced by renewables.⁸⁰

The production of renewable energy started in late 60s and always been heavily influenced by government policies – not least because it requires a huge amount of up-front capital investment. Landsvirkjun (the nationalised electricity and energy company of Iceland) sells most of the energy that the aluminium companies use. When companies come to Iceland they negotiate with the Icelandic government, who attract companies to Iceland with some of the lowest energy process anywhere in the world.

Generally, the industry has created good, well paid and local jobs. The economic impact in Eastern Iceland was very favourable, where reasonably large employers are important in small villages. This is especially important because of the increasingly regional inequality in Iceland since the decline of fishing and agriculture and the concentration of growth in the south-western region around Reykjavik.

However, the growth of this sector has not come without problems. While renewable, the broader environmental impacts of hydro-electric energy in Iceland has proved to be highly unpopular, as is found around the world, and is unlikely to be expanded. This is especially so after the building of the 2009 building of the Kárahnjúkar Hydropower Plant in the East of Iceland, which had a majorly detrimental impact on what was the largest area of unspoiled wilderness in Europe, and which sparked environmental activism on a scale never before encountered in the country.⁸¹

The ingredients of transformation

Iceland's remarkable tale of perilous finance-driven boom, dramatic bust and incredible recovery has social institutions and people's actions at its heart. While its government accepted the prescription from the IMF and others in the face of the existential threats posed by the crisis, it did not allow Iceland to swallow all of the medicine.

The involvement of its influential and widely supported trade union movement and its innovative approach to public dialogue meant that Iceland avoided the trappings of post crisis economic policy that have suppressed economic growth and inflicted suffering on populations elsewhere. Instead, Iceland pursued a social recovery in which income inequality, which was on the rise prior to the crisis, decreased significantly and Iceland has become a more resilient and happier place. The spatial scale is once again important. Though a nation in its own right, Iceland's population is around the same size as that of Bilbao, featured here in another case study. This appears to make transformation policy-making more manageable, driven by a sense of shared identity and purpose and brings it

⁸⁰ OECD (2015), 'Iceland: Environmental Performance Reviews'. Found at:

<https://www.oecd.org/environment/country-reviews/Iceland%20Highlights%20web6.pdf>

⁸¹ Newsom, Scott (2010), 'This Changing World: Preserving wilderness versus enabling economic change: Iceland and the Kárahnjúkar Hydropower Project', *Geographical Association*, 95(3), pp.161-164.

closer to people. In the case of Iceland, its trade union density also helps ensure that the outcome favours workers across the board.

However, as a nation state rather than a region or municipality, Iceland had full control over all of the levers of policy, including its currency which it allowed to deflate. This makes it a turbo-charged example among those featured in this report. It also had a post-crisis government that was willing to experiment and to keep its creditors at arm's length.

Finally, as we have seen in the other examples in this paper, its pursuit of industrial policy, rather than only recovery, regeneration or macro-economic policy, has been key in spreading the benefits of transformation and ensuring that what has always been a narrow industrial base in Iceland is broadened.

Case study 3: Eindhoven, Holland – a caring and collaborating knowledge region, with an industrial base

Like many industrial cities and towns, Eindhoven grew and developed around one, large firm: Philips. Its fortunes were intertwined with that of the company's with Philips and DAF, Eindhoven's other big employer, providing over 60 per cent of direct employment.

In the good years, Philips and Eindhoven prospered. But by the end of the 1980s, with the first wave of global offshoring of production underway, Eindhoven looked to be going the way of many other company towns.

Early efforts at a citywide economic stimulus programme were largely unsuccessful because they failed directly to address the Eindhoven's main challenge – the offshoring of jobs as industrial production ramped up in developing countries. A further 'triple helix' approach, with local government, business and universities working together, was devised and has had a remarkable impact in less than two decades. And while Philips moved its HQ away from Eindhoven in 1997, its DNA is still written into the core of the city's success.

Eindhoven has now largely reinvented itself as a major technology node within the Netherlands. By 2007 it had become known as the textbook example of a knowledge-region built upon an existing industrial base.⁸² In 2013 for example, with only 4 per cent of the Netherlands total population, it accounted for 37 per cent of the nation's patents and 24 per cent of its private R&D.⁸³

Eindhoven on the brink

The city-region of Eindhoven, closer to Dusseldorf than to Amsterdam, sits on the fringes of industrial northern Germany. While small by wider European standards, it is the Netherlands fourth largest city with a population of almost 230,000.

⁸² Urban Affairs and VHP (2007) Het geniale landschap. Ruimtelijke scenario's voor Brainport. [Online]. Available at: <http://www.sre.nl/web/show/id=127283/contentid=6126>.

⁸³ Bradley, J. and Katz, B. (2013) 'Leading Lights: Can Europe's cities follow their US counterparts in rebuilding local economies and creating jobs?', RSA Journal 159 (5555).

The origin of Eindhoven's industrial development dates back to the 19th century with the rise of the tobacco and textile industries, before the establishment of Philips as a light bulb manufacturer in 1891. In the beginning of the 20th century, the city went through a period of explosive industrial growth mainly driven by Philips Electronics, which continues to be one of the largest Dutch multinationals.

Eindhoven's history is deeply connected to that of Philips. Even today, Eindhoven is known in the Netherlands as the Philips company town. But by the early 1990s its industry was in steep decline. A second large employer – DAF Trucks – had gone into receivership in 1993 and Philips was moving manufacturing to China and Poland and moved its HQ to Amsterdam in 1997.

Almost half of the city's jobs disappeared over this period, but Philips left behind it a pool of high-skilled engineers and traces of its DNA than ran right through the heart of municipality and region.⁸⁴

In response, leaders in Eindhoven – and across the 21 municipalities in the region – responded with the 'Stimulus' programme, which drew on a combination of EU funds and municipal resources to create jobs and bolster industry. However, the region continued to decline as routine manufacturing jobs were moved offshore. By the early 2000s it was clear that a more robust plan was needed.

The “Triple Helix approach” – strategic planning in an ambitious city

It was out of this continued economic decline that, under the banner of 'Never Again', Eindhoven developed its now famous “triple helix” approach, which aimed to accelerate and strengthen collaboration between the national and regional government, businesses and knowledge institutions in the region. The approach transformed Eindhoven's economy through consistent and collaborative strategic planning.

The area is now at the heart of an ambitious national knowledge policy agenda and has a strategic focus on investing in technology innovation the food industry, the life sciences and healthcare technology, as well as in high technology systems (ICTs, micro-electronics, automotive and mechatronics), new materials (nanotechnology).⁸⁵

In 2001, Eindhoven's Regional Government set up the Regional Opportunities Committee, which was made up of representatives from business, the education sector, and its own staff and political leaders. In June 2002, the Committee came together and presented the “Horizon Programme” to the government's regional board who then approved its principles and aims, as well as committing financial contributions for the programme agency and the catalyst fund.⁸⁶

⁸⁴ The Academy of Urbanism <https://www.academyofurbanism.org.uk/eindhoven/>

⁸⁵ Horlings, L., Collinge, C, and Jibney, J. (2017), 'Relational knowledge leadership and local economic development', *Local Economy* 32(2) 95–109.

⁸⁶ Metaxiotis K., Carillo F., and Yigitcanlar T. (2010), *Knowledge-Based Development for Cities and Societies: Integrated Multi-level approach*.

The Horizon Programme agency was officially launched on 1st October 2002. The publicly funded Programme had a small steering committee and well-defined objectives.⁸⁷ The aims of the Programme were to:

- reduce and solve structural shortages in the labour market
- increase the return on knowledge by strengthening innovation and market competencies
- reduce sensitivity to market fluctuations through diversification
- improve international profile.

These budgets are funded by central government and supplemented by fees and additional taxes that municipal and provincial governments have the discretion to apply.⁸⁸ These funding sources helped to provide Eindhoven's leaders with a significant degree of autonomy when pursuing their policy objectives.

The Committee also developed a marketing plan for the opening and redesign of the High-Tech Campus Eindhoven. There is high synergy between the university and the local firms, which habitually subsidise research and provide internships. The campus currently houses more than 185 companies and institutes, and 12,000 researchers, developers and entrepreneurs developing new and existing technologies and products.⁸⁹

Companies located on the Campus are responsible for nearly 40 per cent of all Dutch patent applications.⁹⁰ The likes of semiconductor manufacturer ASML, which spun out of Philips in the late 1980s and is now headquartered in Veldhoven at the south western edges of Eindhoven municipality, is well established on the Campus. ASML now employs almost 12,000 people in the city and is one of its great success stories.

NXP, another Philips-incubated semiconductor developer and manufacturer still has its HQ on the Campus, but now employs 31,000 employees in 57 locations worldwide and in 2017 had a global revenue of more than \$9 billion. FEI, a US-based microscope technology firm has one of its R&D centres on the Campus.

The triple-helix approach has established itself in the region under the moniker 'Brainport Eindhoven' – the overall brand for the mixture of businesses, research institutes, universities, and campuses which cooperate in a number of ways. The nature of this cooperation in practice varies widely depending on the sector or project. One way to think of it is that Brainport offers the environment for new organisations to develop and market new ideas - one example being the Ioniqa Technologies which is a clean-tech spinoff from the Eindhoven University of Technology.⁹¹

⁸⁷ Bradley, J. and Katz.

⁸⁸ Bradley and Katz.

⁸⁹ High Tech Campus website. [Accessed 15 March 2019]. Available at: <https://www.hightechcampus.com/who-we-are>.

⁹⁰ Ibid.

⁹¹ Found online at: <https://www.brightmove.nl/brightmove> and at: <http://www.ioniqa.com/>.

In 2014 Ioniqa received a €300,000 loan to upscale their plastic recycling process. They received the loan from Bright Move – a consortium of local universities and Eindhoven-based organisations comprised of state and business representatives which provides knowledge, skills and loans to support and establish business start-ups and spin-offs.

Funding the change – national investment with local control

Eindhoven's elected leaders had sufficient powers to fund the Horizon and Brainport projects. In Holland, directly elected local bodies create the budgets of municipalities. Expenditures are funded by the central government and supplemented by fees and additional taxes that municipalities have the autonomy to apply.

Both types of funds – those from the central government and those raised independently – can be spent as the municipality sees fit, so these levels of government have a fair amount of autonomy to pursue policy objectives. Eindhoven also received EU funding for the projects.

In response to the government pledge of 160 million Euros in 2018 to further support Brainport, Eindhoven Mayor John Jorritsma, chairman of the Brainport Foundation stated "it contributes significantly to attracting, training and retaining talent, it strengthens our level of facilities and realizes innovations with social impact, for example on healthcare and mobility. But more importantly, I see it as confirmation that the government wants to enter into a long-term relationship with us."

The Philips legacy: high levels of cooperation and integrated production

Prior to the 1990s, Philips represented a huge internal market within the Eindhoven region. As a result, a very large number of people in the city have worked for Philips in the past; they have all been trained and worked in Philips, and therefore have a common understanding of industrial processes.

A cooperative Silicon Valley.

According to Ron van Baden – a trade unionist in the region – "Everything in Eindhoven is about Philips – the DNA is everywhere. They all speak the same language and have a common base". This common understanding of the industrial process has amplified levels of mutuality and cooperation between new and existing companies setting out in– Ron van Baden, local trade union representative. According to van Baden, whereas in Silicon Valley firms take a cutthroat competitive approach to maximise their profits as individual companies, in Brainport Eindhoven the route to success is seen as collaboration; "They all know they need each other."

Interviews with key people involved in Brainport Eindhoven also revealed a deeply 'social' approach, whereby workers from the local businesses often socialise and drink together, including at the annual Dutch Carnival where social and work barriers are broken down in a shared display of local celebration.

The high degree of collaboration in the region and the sense of a shared lineage with the Philips DNA has enabled the cross fertilisation of ideas and mutual support – fuelling the high levels of innovation in the region.

Dutch economist Ronald Tekker told NEF that this links to the production process itself. 'In German-Dutch style economies workers have more responsibility than Anglo-Saxon workers in terms of autonomy and ability to be versatile'. He says that because the process of design and the process of production is not separated, it means that changes in production happen in parallel with changes in design. Under the compartmentalised Anglo-Saxon industrial model, the process of production is separated from the process of design. This means that those working in the production process are much more vulnerable to any changes to do with the rest of the production process. Brainport Eindhoven has successfully harnessed this integrated approach to R&D, design and production.

Building up the foundational economy with Buurtzorg – Holland’s tech-enabled and growing model of social care

In 2016, Holland’s largest private care provider TSN announced its administration. 170,000 employees faced redundancy, with a third of those jobs saved by a take over from an innovative and growing model of neighbourhood care.

Buurtzorg translates as “neighbourhood care” and is a Dutch home-care organisation which uses a highly innovative model of care which has revolutionised the sector. It began in 2006, using independent nurse teams without managers and who are adept at delivering high-quality, relatively low-cost care. The teams of social-care workers consist of relatively flat hierarchical structures with no management and have a comparatively small amount of “red tape” compared to larger social care organisations. They are small teams made up of a maximum of 12 highly qualified nurses.

Across the Netherlands, Buurtzorg employs a little over 10,000 carers in small teams across the country. Both the quality of care, as well as worker satisfaction is particularly high. In 2015 Buurtzorg was awarded “Best employers of the Netherlands” within its category for the fifth time. The teams work independently, planning and implementing the whole process of care from ascertaining what care is needed when deciding on further training. How much time is needed for a client is autonomously decided by the nurse, there is no monitoring of working hours.

During the TSN collapse, several municipalities moved to switch their care to Buurtzorg, who took the contracts on the condition that municipalities would pay their employees more than 21 euros per hour. Several municipalities took them up on this, and at least 3,350 staff have been transferred from the bankrupt TSN with many seeing their wages rise as a result. Other care suppliers started court proceedings, complaining that Buurtzorg was receiving unfair state support as a result of this wage lift, contravening European Union competition laws.

Like many other countries in Europe, the population of the Netherlands is ageing rapidly mainly as a result of declining fertility rates and higher life expectancy. According to some calculations, care use will increase by an average of 1.6% annually up until 2030. This growing demand for care is being met with an innovate model that is in operation across the country with three branches in Eindhoven: Tongelre, Strijp en Meerhoven and Gestel.

The Netherlands is the 2nd biggest exporter of medical devices and holds the 8th position worldwide for patent applications in the field of life sciences and health. The Brainport Health Innovation cluster links digital and care innovation, proposing open access broadband infrastructure “to give patients greater control and choice in how they organise their care”.

Care nurses working for Buurtzorg use technology to improve the efficiency of the burdensome administrative tasks, allowing them to have more time to focus on ensuring the high quality of the care process. Each staff member uses their own tablet to connect to buurtzorgweb, an online organisational platform. The platform is used to organise every day administrative tasks such as shifts. It also provides access to all the information that is relevant for their work, for example information about the person they are caring for. This information is then instantaneously updated after each visit, so that all nurses are permanently up to speed with the care process for each service user.

Eindhoven: the ingredients of transformation

Like Bilbao, as the structure of economies began to respond to the liberalisation of global markets in 1980s, Eindhoven faced existential threat and post-industrial malaise. Its early attempts to grapple with this were unsuccessful and Philips, its core firm for more than one century, began to shed workers and even moved its HQ.

The eventual response – Eindhoven’s triple helix – positioned the city and region as an early mover in new technology. But it was the holistic approach, the collaboration and the use of its Philips heritage as the foundation stone of change that seems to have been at the core of its success.

Eindhoven has drawn in EU and central government finance to assist with its transformation and has worked across its diverse employment market to plug gaps, drawing in its academic institutions as key partners in transition in the city and region; an approach that would be relatively unusual in the UK.

Three significant factors stand out. First, the vertical collaboration between national, state and municipal tiers of government has, as with other examples in this report, been key. Second, it is again perhaps no coincidence that regional and municipal government in the Netherlands enjoy a high degree of fiscal autonomy, with land and property taxes raised and spent locally. Third, the spinning out of several high-tech firms from the major Philips brand created a new industrial base from which the city could develop and feed in the new skills it was creating.

It was perhaps because Philips underwent a major reorganisation and separated out its functions into various companies including ASML and NXP, that innovation around the Campus to the south of the city was able to flourish.⁹² These companies remained in Eindhoven and helped provide the industrial underpinning for the city’s transformation.

In this way Eindhoven has used its existing industrial DNA and the skills left behind by Philips, to engineer a new future for itself; as a consequence, not only did the city weather the economic crisis of 2008 better than others in the Netherlands, it now enjoys an unemployment rate of 4.4 per cent, which is still above the Dutch average, but a significant improvement, especially on the high numbers without work 20 years ago.⁹³

⁹² Maldonado A. and Romein A. (2009) ‘The Reinvention Of Eindhoven: From Industrial Town In Decline To Capital City Of A Technology And Design Region’ Delft University of Technology, OTB Research Institute.

⁹³ <https://eindhovennews.com/business/2018/11/booming-economic-figures-for-brainport-eindhoven/>

Section 3:

Learning for the UK – empowering local strategies for a well-managed transformation

The case study areas offer a bundle of learnings for the UK. Though each place has faced its own challenges and drawbacks, they feature impressive strategies, approaches and outcomes that are useful in shaping plans for well-managed industrial transformations here.

We have identified four critical success factors that were, to varying degrees, features of all three of the case studies. These are:

1. People feel secure and have a stake in their local area.
2. There are genuine opportunities for participation in decision-making.
3. There is a realistic sense of long-term opportunity and social mobility in the local area.
4. There is a proactive, positive interaction between state, unions and businesses.

1. People feel secure and have a stake in their local area

Creating a sense of place: There is a relationship between regeneration, spatial planning and industrial transformation. Bilbao is a shining example of the role that valuing physical and cultural assets as part of a local industrial strategy can play in helping to rebuild or maintain a cultural identity and a sense of place that fosters local pride. In Iceland, protection of the natural environment has emerged as a key public concern in relation to industrial change. In Eindhoven the prominent and age-old presence of the Philips company provided an important identity that has been maintained even through a significant change to economic activity locally.

Setting out with a vision and accountability: Having a fixed time period to realise a strategy can provide a level of commitment and accountability allowing plans to be reviewed and assessed against progress. In Bilbao a 20-year timeline was enacted, and progress measured against it. Alongside necessarily technical tasks such as mapping the local economy and profiling skills, in Bilbao in particular, ensuring accountability meant establishing human processes that involved local representatives in the co-creation of a strategy. Strategies in Bilbao and Eindhoven were well communicated via a prominent brand and websites to publicise developments and decisions.

2. Genuine opportunities for participation in decision-making

Devolved powers and dedicated institutions: A trend across our case studies was the relative localisation of industrial policy and autonomous budgets. Bilbao and Eindhoven are

examples of industrial policy that started from the specific needs and capabilities of the area and communities, rather than from the national level, fostering a sense of local specificity. The role of regional and local devolved state powers were critical to their success, demonstrating the importance of long-term commitments between national and local governments. They were based on incorporated and representative institutions with clear mission set up to direct and implement the vision. Using central and regional budgets in targeted and strategic investments – committed over the long term.

Central and ongoing role for trade unions: In our case studies areas trade unions played a dual role in ensuring that the gains of a strong economy during periods of growth were fairly shared, as well as ensuring that workers were well protected during economic downturns. This dual role was particularly prevalent in the Icelandic model. In Bilbao, the strong trade union history and culture has provided social infrastructure and a culture of democratic engagement that aided the transition process. In transitions from sectors with high levels of union density like manufacturing to sectors where trade unions are less active, like the service sector, there is a notable challenge for unions in ensuring they are able to reach workers experiencing poor conditions and precarious forms of work. In recent years workers in Bilbao's culture sector have been engaged in industrial action to improve pay and job security within the industry.

3. A realistic sense of long-term opportunity and social mobility in local area

Consider impacts in stages: The redistribution of economic activity and jobs affects different sectors at different points. It is important therefore to consider the impacts in stages, there could be negative feedback loops that occur as transitions unfold. In Bilbao the impact of a particular plant closure on older generations was cushioned with generous early-retirement packages offered by the state-owned company. This meant that the younger generation were the prime group most exposed and in need of new work as the transformation process took hold.

Countering negative labour market and economic trends: None of the case study areas were immune to trends in labour market deregulation and work casualisation. Moreover, the boosts in jobs came primarily from the service sector, where job quality is often poor. To some extent all examples will have been impacted by this, however there were strong counter forces in each. Unions in Iceland have sought to maintain high quality and well-paid work nationally as the service sector expanded, up against an increased use of agency workforces. Local government in both Reykjavik and Eindhoven used reduced working time. In the latter the driver was primarily to navigate a recessionary period but also promoted a better work/life balance.

Think beyond directly impacted sectors: The creation of new jobs in our studies came primarily from the service sector with tourism and culture jobs providing a major boost in both Iceland and Bilbao. However social care and health is a growth area across advanced economies such as those in Western Europe we've looked at, and Eindhoven and Holland more broadly have led on innovation and development in this sector. The success and popularity of the community social care model of Buurtzorg meant it was capable of taking

on dozens of new local government contracts from a collapsed private contractor, offering both good value public spending and higher wages for the care workers.

Role of education and training schemes: In Eindhoven the joined-up approach between the university and businesses ensures there is a well-skilled workforce that meets employers' needs. This is reported to have reduced long-term unemployment for people of all ages, specifically those facing higher barriers to work. The Eindhoven University has a long history in the area a public institution set up in 1956 to contribute research to the automotive sector. However, areas without pre-existing institutions could replicate this model. In Bilbao the Mondragon University was set up recently by the Mondragon Cooperative to train a new generation of engineering workers. This is in addition to the public agency Lan Ekintza set up to support workers retraining for jobs in the service sector economy. In Iceland the university sector works closely with industry, and university education is heavily subsidised by the government making it an affordable option for all. In addition, trade unions offer grants for lifelong learning for members.

4. Proactive, positive interaction between state, unions and market

Cross fertilisation of ideas and production: The focus on research and development and the close links with universities helps lead to high levels of innovation and thus competitiveness in international markets. This is often supplemented by a culture of cooperation between local producers, for example through cross learning, resulting in cross fertilisation of ideas and products.

Fostering a non-extractive and sustainable business sector: In Eindhoven it was found that high levels of cooperation and trust engendered a form of mutuality which boosts innovation. This was compared to Anglo-Saxon style of local competition. A less Taylorist approach to the production process, and particularly linking the process of design and end-production more closely means that economic/production shifts can be adapted to much more easily.

Using state mechanisms to offset effects of economic downturns and provide a real social safety net: public investment and initiatives can mitigate high levels of unemployment occurring and mitigate some impacts when it does. This includes working time reduction combined with in-work benefit schemes and early retirement schemes. Avoiding unnecessary levels of economic inactivity and keeping people in employment where possible also means that companies can respond more quickly when there is an upturn in fortunes. Similar mechanisms were used in all three case studies, with Iceland being a particular exemplar of an ample welfare system with near universal childcare provision.

Finance: Autonomy and availability of finance for investment was crucial for each plan. In all three cases finance from EU played a role, but also in all three cases (obviously with Iceland as the outlier as it's a sovereign government with its own currency) the ability to raise and spend finance locally was key and probably also helped with political feasibility. Central government spending with local control was prominent in both Eindhoven and Bilbao. In

Bilbao this was supplemented with effective use of public assets and land playing an important role in funding the regeneration.

Democratic ownership and municipal investment: There is a role of democratic models of ownership such as large-scale cooperative models as well as public ownership to underpin the economic activity of the surrounding community as well as workers themselves. It allows them to shape the purpose of their organisation to meet these challenges, as well as to determine how to share the wealth created in their businesses. The Mondragon Corporation offers an example of how cooperatives can operate successfully at scale. In Eindhoven and Holland more broadly, local state investment in the Buurtzorg care contracts prevented widespread job losses.

Policy recommendations from the TUC based on the report's findings

The UK remains scarred by the experience of the unmanaged transition away from coal and manufacturing in the 1980s. But this report shows that industrial change doesn't need to mean a downgrading of jobs and working conditions.

Ensuring that industrial change is accompanied by more and better jobs requires clear leadership from politicians at all levels, and strong partnerships with workers, citizens and employers. The TUC's recommendations for governments at national, regional and local level are as follows:

National governments:

- **Set the development of quality jobs as the test for success of industrial strategy.** The Industrial Strategy Council is currently developing a set of metrics for measuring the effectiveness of industrial strategy. Measures of increased productivity and output will be of little use if they fail to deliver an increase in good quality jobs. The ISC, and other national governments setting out an industrial strategy, should therefore make clear that an increase in well paid quality jobs is the key test of success for any industrial strategy. The TUC has suggested that a target to create one million high tech and manufacturing jobs by 2030 should be set.
- **Ensure that any plans for industrial strategy or economic development are overseen by a social partnership approach.** Governments should use the benefits of a social partnership approach to inform and monitor their industrial strategy, ensuring that workers and business have a chance to feed into the design and implementation of policy. There is both bad and good practice around the UK at present; whereas the UK Government's Industrial Strategy Council has only one trade unionist represented; the Welsh Government's Council for Economic Development is organised on a tripartite basis so that the employers' voice is balanced by that of workers. Workers voice is critical, especially at times of industrial change; the TUC has called, for example, for those workers whose jobs will be threatened by a move to a green economy to be front and centre of the debate about change, as part of a comprehensive Just Transition strategy.

- **Ensure businesses cannot compete in a race to the bottom on working standards by allowing unions to bargain with employers to maximize employment standards across sectors.** Regional and local government need to have the confidence that industrial strategy will help develop resilient and sustainable new businesses that provide great jobs. The best way to do this is through collective bargaining across industries, allowing trade unions and employers to set the kind of employment standards that all employers within a sector or occupation must comply with.

“One of the most salient features of successful collective bargaining systems may be their ability to adapt gradually to changing economic conditions within their national industrial-relations tradition. This depends crucially on the quality of industrial relations, but also on a government that provides space for collective bargaining and social dialogue, while setting the boundaries.” OECD Jobs Strategy, 2018

- **Ensure that businesses take greater consideration of long-term success by including workers on boards.** Ensuring that businesses commit to a local area for the long term requires them to have the long-term interest of all stakeholders in mind. The best way to do this is to ensure that workers – who have the greatest interest in the long-term success of a company – have mandatory representation on company boards. Policies such as the inclusive ownership fund, in which workers develop a stake in their company, can also help.
- **Fund public services and local government to enable them to deliver better jobs. Effective public services and local government are essential to enable places to thrive.** But a decade of austerity has left schools, hospitals and social care struggling, and local government constantly fighting to deliver basic services, diminishing its capacity to invest in and develop communities. The next spending review must restore public spending to its pre-2010 level.
- **Deliver a national entitlement to skills, to give everyone the confidence to adapt to changing demands.** While local skills provision needs to be tailored to local demands, everyone needs to know that they will have the support they need to train and develop their skills. Government should establish lifelong learning accounts for all adults so that everyone has a personalised budget for training and introducing a universal right to career reviews and face-to-face guidance on training to help them access it.
- **Ensure a decently funded social security system that supports people in times of industrial change;** decent levels of social security support can ensure that when industrial change does lead to job loss, the financial impact on families is cushioned, and well-funded and supportive employment programmes can help people find new jobs. Government should start by scrapping Universal Credit, uprating benefits in line with at least inflation, scrapping the unfair two child limit on the amount of support families receive within Universal Credit. And government needs to invest high quality employment schemes, including a jobs guarantee that provides paid work for those who have been out of the labour market for some time.
- **National governments should use their purchasing power to help develop strong UK businesses providing decent work.** Government spends £284 billion (bn) a year on

buying goods and services from external suppliers.⁹⁴ Governments have previously tried to use this funding to deliver wider government aims; the Coalition Government for example set a target for 25 per cent of central government procurement spending to reach small and medium enterprises by 2015.⁹⁵ Government should be clear that it expects its procurement spend to deliver wider social benefits including by:

- specifying the proportion of spending that should go to UK suppliers; and
- ensuring that every supplier commits to decent work standards and is encouraged to recognise a trade union.

Devolved and regional government and leaders

- **Make an increase in good jobs the clear test for local industrial strategies;** local industrial strategies should also see the development of good quality jobs within the region as the clear outcome measure for the success of local industrial strategies.
- **Use their convening power to bring together unions, employers and citizens to develop a clear vision and plan for their area.** Metropolitan Mayors and Local Enterprise Partnerships are developing local industrial strategies. The Welsh Government is developing a Social Partnership Act to place these arrangements on a statutory footing. This report shows the value of a clear vision, developed with the support of local stakeholders. Local Industrial Strategies should be developed in partnership with local employers, trade unions, and citizens, using different forms of engagement including for example participatory budgeting where appropriate.
- **Ensure that the development and delivery of strategy is overseen by a strong social partnership approach.** In England, unions should have a permanent place on local enterprise partnerships and skills advisory boards, in order to ensure that the voice of workers is heard throughout the delivery as well as the development of plans to develop local and regional economies.
- **Use local employment charters to drive the development of good work across regions.** Manchester, Liverpool, Birmingham, North of Tyne and London are already developing local employment charters to help businesses understand what they need to do to improve the quality of work. Local political leaders should engage with employers to drive this agenda and embed employment charters within their broader strategy, including through planning, commissioning and procurement powers.
- **Work together with other key public sector bodies to aggregate their purchasing power in support of local economic development.** Building on the experience of the Better Jobs Closer to Home initiative in Wales, Metro Mayors and local authority leaders should collaborate with other anchor institutions such as NHS trusts, government agencies and strategic private enterprises to coordinate purchasing strategies in order to develop local SMEs and supply chains, supporting inclusive growth in local

⁹⁴ Institute for Government (2018) Government procurement The scale and nature of contracting in the UK available at

https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_procurement_WEB_4.pdf

⁹⁵ Ibid

communities, and to ensure decent work standards in every organisation using public money.

Local council leaders

- **Use social value procurement to support high quality employment standards, local labour and supply chains and other community benefits.** Local political leaders and procurement leads should make full use of public procurement to support a range of community benefits, sharing and learning from good practice from different regions and devolved nations in the UK.
- **Consider bringing services back in house in order to provide better services, jobs and value for money that supports inclusive and resilient communities.** In-sourcing should be promoted as a viable alternative to those outsourced services that are failing to provide quality services, pushing down pay and conditions for public service workers or extracting resources through financialised business models that prioritise shareholder value or returns private equity over public interest.