City of Talents?

Berlin's Regional Economy, Socio-Spatial Fabric and "Worst Practice" Urban Governance[1]

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Berlin appears to be one of the most challenging cases of socio-economic restructuring within the contemporary urban system of Germany (Cochrane and Jonas 1999). "City of talents" represents a new urban marketing formula for Berlin, which draws on the debate on knowledge-based regional development (Cooke 2002) and might touch some of the particularly strong points of Berlin. Furthermore, the notion of a city of talents is related to Richard Florida's recent work on "The Rise of the Creative Class" (Florida 2002). As far as current tendencies of innovation-driven economic restructuring in Western Europe and North America lead to a growing importance of knowledge-intensive economic activities and the related creative forces – e.g. "talented" people in science and research, engineering and design, management and organization, cultural production and the media business – creativity and talent might become a central basis of successful urban development in the future. This might particularly apply to those large cities which are currently suffering from a decline of their traditional industrial base in labor- and technology-intensive economic activities. However, as regards Berlin, the city is home of talents in various fields of social activity: it has a concentration of talented creative people in science and research, in media production and the arts, and it has – last not least – strong talents in corruption and financial self-service in the city's political class.

This article is rooted in a regional political economy approach and shall broadly outline the main tendencies of socio-economic development in Berlin: The first point deals with Berlin's regional economy and the ongoing restructuring process towards a prime location of economic activities which rely on

1 | Source: Krätke, S. (2004) City of Talents? Berlin's Regional Economy, Socio-spatial Fabric and "Worst Practice" Urban Governance. *International Journal of Urban and Regional Research* 28.3, 511-529.

the concentration of "creative talent" in the city. The second point highlights some tendencies of socio-spatial polarization in Berlin. The third point focuses on the 1990s' real estate boom in Berlin, and the fourth point deals with the city's financial crisis under the heading "worst practice urban governance in the city of talents." This crisis might be interpreted as the outcome of a particular neoliberal approach of Berlin's political class and its strong creativity in the field of corruption and "financial self-service." In the light of the interrelated developments outlined in the paper's four sections, the Berlin case may offer a place-specific insight into the role of knowledge and creativity resources for urban economic development and the ambiguity of urban "creativity and talent."

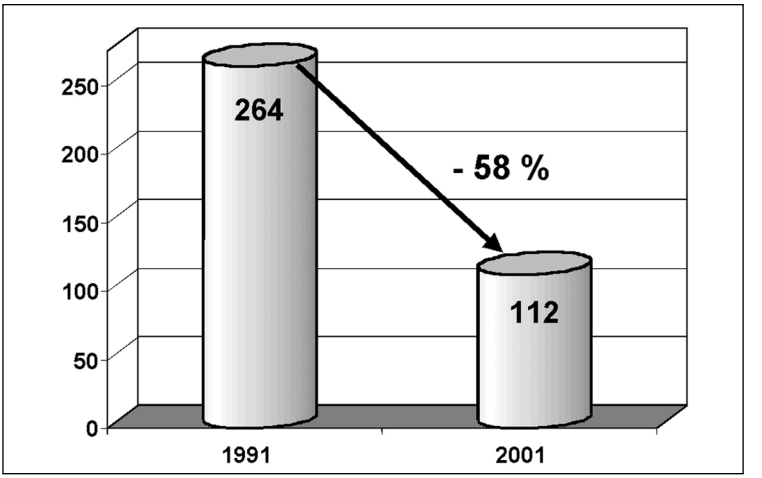
Berlin's Regional Economy and its Position in the German Urban System

Berlin is the largest city in Germany with 3.4 million inhabitants, and it has more than 4.2 million inhabitants if we include the fringe area of the metropolitan region. Urban marketing specialists are keen to present Berlin as a "metropolis at the heart of Europe" and hence as an ideal springboard for business with East Central Europe. However, Berlin's regional economy is mostly oriented towards "the West," and the city is far away from the position of being the central node of new economic relations between the western and the eastern parts of Europe (Krätke 2002c). This might be rooted in the weak points of Berlin's regional economy, particularly the lack of corporate headquarters and the loss of industrial capacities.

Decline of Traditional Industries in Berlin

From 1991 to 2001, Berlin's industry has lost more than 150,000 jobs; the parallel increase in "service sector" jobs could by far not compensate for this loss of manufacturing jobs. Thus we have growing unemployment of industrial workers in the region. The decline of Berlin as an industrial location is due not only to the closure of production sites in the eastern part of the city, but also to a very large extent to the structural weaknesses of the industries in the western part of the city (Krätke 1999), which for decades used the special Berlin subsidies to expand the assembly line production of simple mass products. The termination of these special Berlin subsidies after 1990 led to factory closures and relocations.

Figure 1: Berlin's Loss of Manufacturing Jobs
Employment in manufacturing 1991 and 2001 (thousand employees)



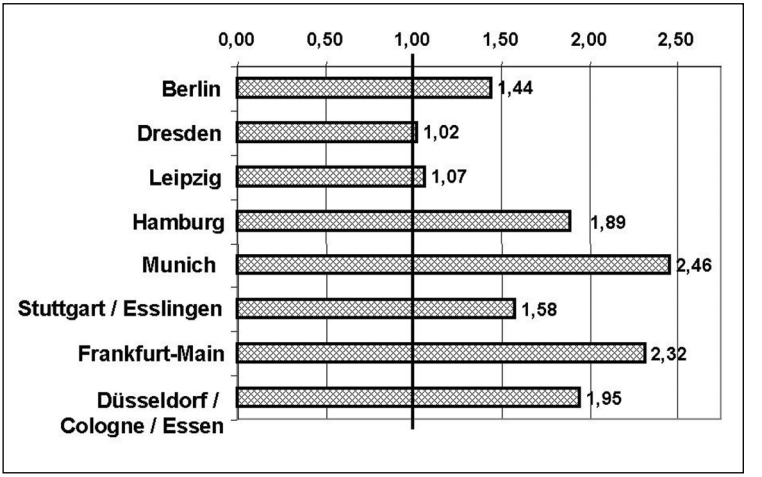
Source: Krätke 2004a

The Big Hope to Become a Major "Service Metropolis" and Headquarter City

A prominent simplistic interpretation of restructuring processes in the Berlin metropolis characterizes the development as a transformation of Berlin's economy to a "service metropolis" (Prognos 1997; Häußermann 1997). This would mean that Berlin experiences a structural adjustment to the "average" economic profile of other large cities/metropolises of the German and European urban system. However, large cities are empirically characterized by major differences in their economic profiles and in the way their regional economies are organized. The different activity profiles determine the development capacities of urban regions. Within the East German economic area and its overall development weakness, Berlin is still a relatively strong "economic island" with good prospects in particular fields of activity, however, the city's function as the new German capital city doesn't lead to the formation of a "service metropolis" with a high grade concentration of advanced producer services. The relative concentration of these functions is much higher in Munich, Frankfurt, Düsseldorf and Hamburg, which are the long established prime centers of advanced producer services in the German regional system.[2]

2 | The quantitative data on Berlin and selected cities of the German urban system included in figure 2, 3 and 4 are based on the author's research on the economic profiles of German cities (Krätke 2004). This research work analyzed the largest German

Figure 2: Regional Economic Centers in Germany: Activity Profiles Relative concentration of advanced producer services (without financial sector) in selected urban regions 2002 by location quotients (Germany = 1,00)

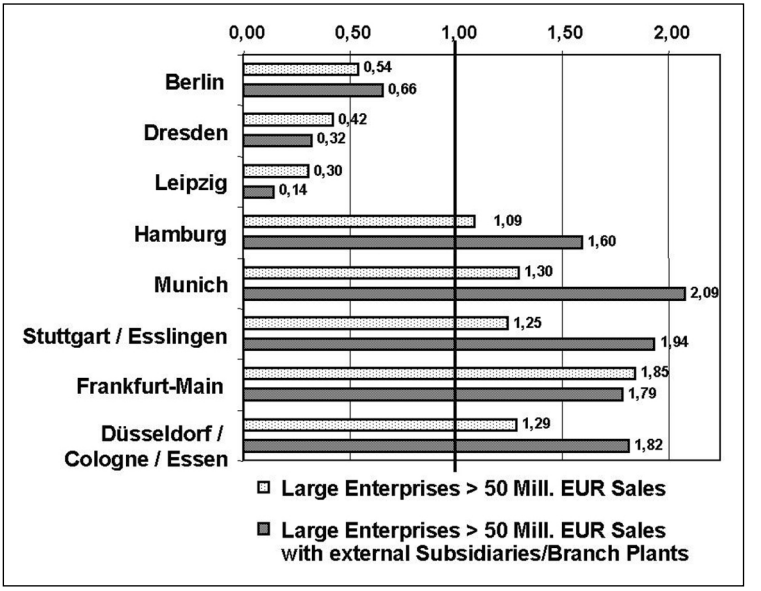


Source: Krätke 2004b

Whether an urban region can be regarded as a strategic economic center is frequently determined by reference to the corporate headquarters it contains. "Headquarter cities" have a high level of centrality in respect of their economic control capacity, which can extend to many other regions (Pred 1977). Berlin suffered an exodus of corporate headquarters in the past following the division of Germany. The city's new role in the German and European urban framework spawned hopes that it would be able to re-establish its position as an economic center with a high level of centrality in economic terms. Sceptics were pointing out that the newly acquired role of capital city might encourage some prominent national and international companies to set up selected corporate divisions and "second-rank directional centers" in Berlin. As it turns out, only a small number of new headquarters have been located in Berlin since 1990 (Krätke and Borst 2000).

commercial firm data base (Hoppenstedt Firmendatenbank) which covers roughly 150,000 firms. The results are given for the year 2002. This firm data base has no regional bias – all administrative districts of the German regional system (in West and East Germany) are represented according to their share of employment. Furthermore, there is no particular sectoral bias in the data. However, the firms included reveal a relatively strong representation of large corporations and of corporations with supra-regional marketing activity.

Figure 3: Regional Economic Centers in Germany: "Headquarter Cities" Relative concentration of large enterprises/external control capacity in selected urban regions 2002 by location quotients (Germany = 1,00)



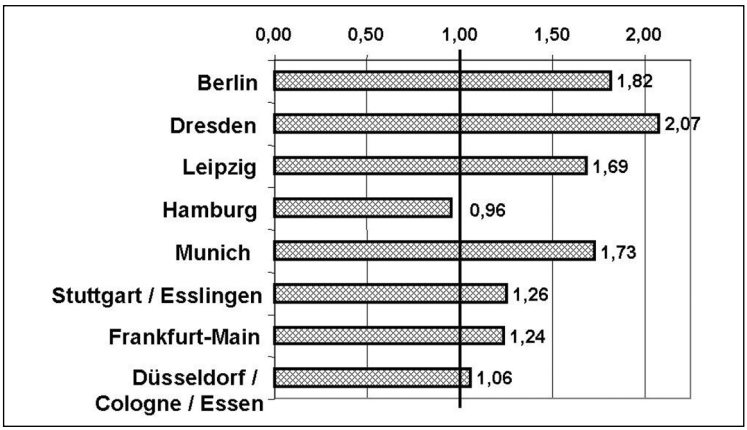
Source: Krätke 2004b

New Islands of Economic Growth: Clustering of Knowledge-intensive Activities in Berlin

The above described problematic trends do not represent the whole story of Berlin's economic restructuring process: New islands of economic growth have been developing in Berlin particularly in so-called "knowledge-intensive" and innovation-driven activities like the software industry, biotechnology, medical engineering, pharmaceutical industry, research and development services; additionally, there has been a strong growth in the Berlin media industry which is based on the particularly strong "socio-cultural capital" of Berlin (Krätke 2002a, 2003). The "knowledge-intensive" economic activities cover a slightly broader range of activities than e.g. Howkins' definition of the core industries of the "creative economy" (Howkins 2001). Besides the culture and media industry, the software industry and the R & D-sector, which are included in Howkins' definition, the knowledge-intensive economy would also include a range of R & D-intensive sub-sectors of the manufacturing and the service sector which are concentrating on the creation of new knowledge to be incorporated in innovative products and services.

Among the regional centers of knowledge-intensive economic activities, which cover certain sub-sectors of manufacturing as well as service activity branches – particularly the manufacturing of information and communication technologies, the pharmaceutical industry, biotechnology, medical engineering, measuring and control technologies, the optical industry, the software industry, research and development services – Berlin reveals a quite strong relative concentration (Krätke 2004). In a regionally comparative perspective, the location quotient for knowledge-intensive activity branches in Berlin today even exceeds the value of Munich.

Figure 4: Regional Economic Centers in Germany: Activity Profiles
Relative concentration of "knowledge-intensive" activity branches in selected urban regions 2002 by location quotients (Germany = 1,00)



Source: Krätke 2004b

Related to the concentration of knowledge-intensive activities, Berlin today really has the potential for playing the role of a "city of talents." However, the region's potential in science, research and development as well as in the sphere of culture and media has to be maintained and extended, if such a development path shall be strengthened. Richard Florida (2002) has put forward the argument that the companies, the technologies and the venture capital of knowledge-intensive economic activities are moving to or forming in places that have the skilled and talented people. Thus the regionally uneven distribution and growth of the knowledge-intensive activities in favour of selected large cities can be interpreted as an outcome of a place-specific concentration of creative people in science and research, in media production and the arts. The socio-cultural properties which make such places particularly attractive for "the creative class" shall be discussed below in the section on Berlin's culture and media industry.

At the overall level of uneven urban and regional economic development, the formation of local and regional "clusters" (Braczyk et al. 1999; Porter 2001; Cooke 2002) in terms of the selective concentration of firms and institutions of a particular value chain in certain regions has attracted much attention in recent times. This phenomenon is particularly relevant with regard to metropolitan regions – these might be characterized as "super-clusters" which contain a variety of different clusters, e.g. a clustering of business services, a media industry cluster, various industrial clusters in high technology branches etc. (Scott 2001; Krätke 2004). The regional integration of firms and supporting institutions resulting from dense transaction and communication networks is one of the constitutive elements of clusters and their economic performance in the creation of new jobs and firms (Krätke 2002b). Berlin is a metropolitan region with strong tendencies of cluster formation in the 1990s, and the city has gained a quite strong position in a number of sub-sectors of the so-called "knowledge-intensive" industries which rely on creative knowledge and innovative capacity.

1) The most important strength of Berlin lies in the culture and media industries, in which it has reached today the position of a first rank "media city" (Krätke 2002a). The culture and media industries include film production, television and radio, the new media, music production and the performing arts, the publishing trade as well as design agencies and the advertising industry. The Berlin media industry cluster is growing rapidly and comprises more than 7,000 firms today.
2) Berlin has a strong position in the software industry, which is defined in German statistics as a "service sector" activity. Berlin is not a production center of micro-electronics and data processing technology (in which Munich holds the leading position) – but in the software industry the Berlin region reveals a high rate of growth and has developed a cluster of more than 1,700 specialized firms.
3) Berlin is (besides Munich) a leading center of the European life sciences sector which comprises biotechnology and medical engineering firms. The knowledge-intensive industries of the life-sciences sector reveal a high concentration in the Berlin region with a cluster of more than 300 specialized firms, and these are backed by the strong presence of the pharmaceutical industry and of high ranking centers of medical services and related research institutions. In Berlin, all the particular branches of the contemporary life sciences sector are strongly concentrated.

Berlin as an Upcoming Media City

The German urban system contains a number of competing "media cities" in terms of large production clusters in the culture and media industries (Krätke 2002a). The leading German media cities are characterized by a concentration of firms and employees in all sub-sectors of the media industry. Among these media cities, Berlin is characterized by a considerable growth in importance during the last ten years, as opposed to its overall weak economic development. Recent reports on Berlin's media industry recorded a particularly pronounced growth in the sub-sector of multimedia firms and in the music industry. On the background of this growth dynamics, which has been accompanied by the move of leading companies of the music industry like Universal Music to Berlin, the city now is frequently being labelled as the "music capital" of Germany.

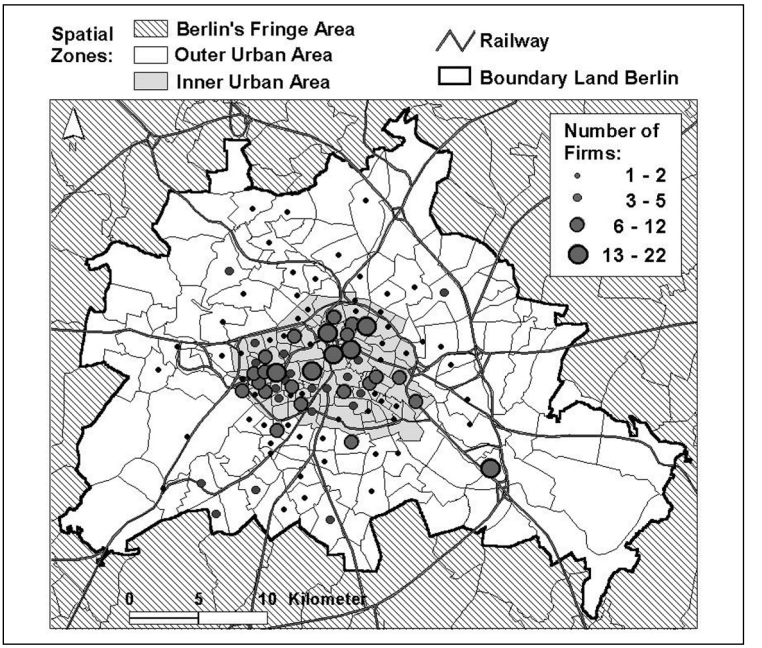
As regards the spatial organization of Berlin's media industry, the most important characteristic is the formation of local clusters within the inner urban area of the metropolis. The multimedia firms e.g. reveal most obvious local concentrations in the East-Berlin city center, which extend to the inner urban district of Prenzlauer Berg. Within the East-City, multimedia firms are particularly clustering in the Chausseestraße, which in Berlin has got the name "Silicon Alley." A similar pattern of spatial organization becomes visible in the inner urban local clusters of the music industry (ibid.).

The strong growth of Berlin's culture and media industry cluster is related to the fact that within the German urban system Berlin has regained its position as a prime location of the "creative class" in terms of Florida's concept (2002). This particular locational factor attracts the music industry as well as other branches of cultural production and the media industry. Furthermore, this attraction power also applies to a whole range of knowledge-intensive industrial activities (like the software industry, the life sciences sector etc.) which rely on creativity in terms of technologically innovative capacity. Florida (2002) emphasizes the socio-cultural properties which make a city like Berlin particularly attractive as a place of living and working for the creative class: "Creative people [...] don't just cluster where the jobs are. They cluster in places that are centers of creativity and also where they like to live" (Florida 2002: 7). Thus lifestyle attributes of the creative class and a supportive socio-cultural milieu are at the center of a city's attractiveness to the creative economy. Florida highlights the role of a

> "social milieu that is open to all forms of creativity – artistic and cultural as well as technological and economic. This milieu provides the underlying eco-system or habitat in which the multidimensional forms of creativity take root and flourish. By supporting lifestyle and cultural institutions like a cutting-edge music scene or vibrant artistic community, for instance, it helps to attract and stimulate those who create in business and technology. It also facilitates cross-fertilization between and among these forms,

as is evident through history in the rise of creative-content industries from publishing and music to film and video games. The social and cultural milieu also provides a mechanism for attracting new and different kinds of people and facilitating the rapid transmission of knowledge and ideas" (ibid.: 55).

Figure 5: Berlin's Media Industry Cluster 2000
Locational distribution of multimedia firms



Source: Krätke 2002a

The place-specific properties of the socio-cultural milieu are being reinforced by the economic and institutional dynamics of cluster building. The development of the Berlin culture and media industry clearly reflects this interplay between specific socio-cultural properties and the forming of clusters within the metropolis' economic space (Krätke 2002a): Most of the newly established media firms prefer to locate in the inner urban districts, because the media industry's creative actors prefer "sexy" inner city locations as the best urban environment for a particular lifestyle which consciously combines working and leisure time activities locally within culturally attractive districts. In Berlin, the creative class seeks out locations in the "sub-culturally" shaped districts that offer the best opportunities and places to meet other creative people; these are also the districts that members of the creative class use as an "extended stage" for self-portrayal in their leisure time. In particular inner urban districts of Berlin there is thus a

direct link between the forming of clusters of creative firms and certain lifestyle forms of the creative class, which leads to a clear overlapping of the creative talents' geographies of production and consumption.

Secondly, the near location of other enterprises active in the same sector is a strong pull factor. The media industry actors are well aware of the potential for cross-fertilization that a local clustering of creative firms can offer. In some local areas of Berlin (e.g. the Spandauer Vorstadt in the Mitte district) the actors might find the whole value chain of a particular media branch being represented by firms within one single building. Additionally, the local clustering can promote communication links between the firms and thus create a "space of opportunities" which is welcomed particularly by the start-up firms that are facing many uncertainties.

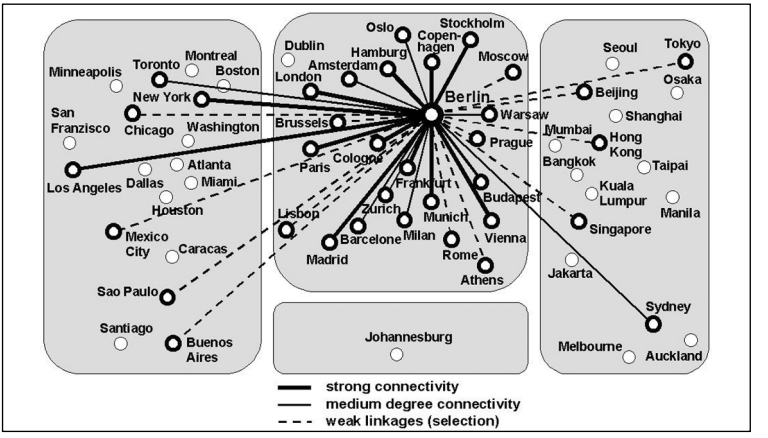
Moreover, the city *as a whole* can become an attraction factor for the media business in that the symbolic quality of the specific location is being incorporated into the products of the culture and media industry (Scott 2000). Hence production locations such as New York, Paris and Berlin are perceived in the sphere of the media as being "brand names" that draw attention to the attractive social and cultural qualities of the cities concerned. This includes, in particular, the perception of the city as a social space in which there is a pronounced variety of different social and cultural milieus. As regards the content and "design" of their products, media firms have to contend with rapidly changing trends (Pratt 2000). For that reason the media firms wish to be near the source of new trends that develop in certain metropolises such as New York, Paris and Berlin.

Cities of this kind are perceived as a living space with a socio-cultural milieu that is marked by great openness and an atmosphere of tolerance. This is turn enhances their attractiveness for creative talents and makes them a source of inspiration for cultural producers etc. A marked social and cultural variety and openness, therefore, represents a specific "cultural capital" of a city, which is highly attractive for the actors of the creative economy. On a local level, this cultural capital of a city might also be characterized as a specific "sub-cultural" capital of particular districts within the city. These thoughts support Florida's thesis that the metropolis' economic growth "is driven by the location choices of creative people – the holders of creative capital – who prefer places that are diverse, tolerant and open to new ideas" (Florida 2002: 223).

Berlin is not only one of the prime media cities of Germany, but also a city which has got a quite strong position as a global media city. The media industry is a prime mover for globalization processes in the urban system, in which media industry clusters act as local nodes in the global networks of the large media groups (Krätke 2002a, 2003). The global media firms have set up globally extending locational networks with "local" anchoring points in different regions and nation-states. An analysis of the location networks of large internationally operating media firms makes it possible to trace the structure of the global

media cities as an interlocking network (Taylor 2004) of media clusters in the same way as global city research has done with regard to advanced producer services (Beaverstock et al. 1999; Taylor and Walker 2001; Taylor et al. 2002). According to the number of global media firms' establishments in the respective city, a rank order of the world cities of the media industry becomes evident (Krätke 2003), which might be divided into three groups ("alpha," "beta" and "gamma" world media cities). Prominent among the top rank group of alpha world media cities are New York, London, Paris and Los Angeles. However, depending on the threshold values' numeric range, the alpha group of global media cities also includes Berlin, Munich and Amsterdam, three cities that in global city research which focuses on advanced producer services are ranked as "third-rate" world cities (Beaverstock et al. 1999). In the system of global media cities, by contrast, Berlin, Munich and Amsterdam might be included in the top group. While Berlin is still not an economic center with global "control capacities," it is a first-rank global media city. Thus we might say that in this particular sub-sector of the economy Berlin can be placed among the leading centers, and its economic development policy can built on this strength.

Figure 6: Global Media City Berlin: Transnational Linkages of Berlin's Media Industry (based on the resident global media firms' organizational networks in 2001)



Source: Krätke 2004a

The strong points of Berlin's regional economy described above highlighted the city's renewed role as a major locational center of the creative class in Germany. Today, Berlin has become again a prime center of knowledge-intensive economic activities and the culture and media industry. On this background the city proves to be an attractive location for global players who wish to make use of

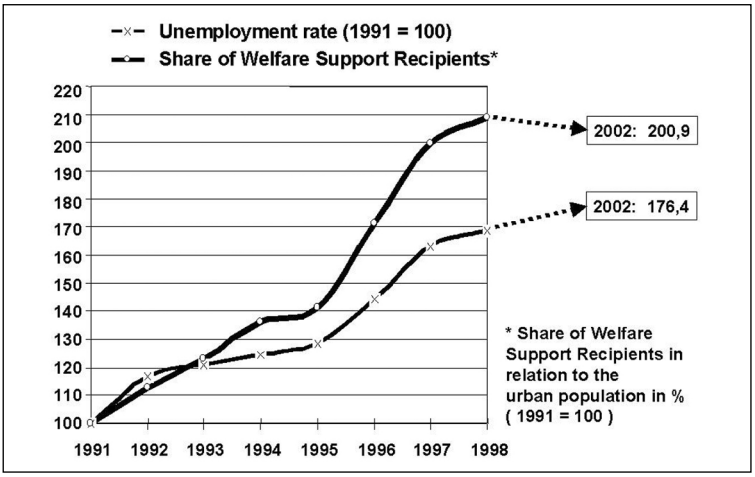
the worldwide selectively concentrated pools of talent in particular sub-sectors of the creative economy. However, the successful development in specific sub-sectors of Berlin's regional economy doesn't compensate for the tremendous loss of jobs in traditional sectors of the regional economy and the related problematic developments in the city's social fabric.

Socio-spatial Polarization in Berlin

Rise of Unemployment and the Spread of Urban Poverty

The decline of Berlin's traditional industries has led to a considerable rise of unemployment and of the number of people dependent on public social assistance. The unemployment rate started from 10 percent in 1991 and reached nearly 19 percent in 2003. The number of people living on public social assistance in Berlin also shows a rapid rise in the 1990s. From 1991 to 2001, the share of welfare recipients in relation to the urban population has doubled. On this background, recent developments of Berlin's socio-spatial structure appear to confirm that Berlin experiences a particularly pronounced development towards a socially polarized city.

Figure 7: Unemployment and Welfare Recipients in Berlin 1991-2002 (1991 = 100)

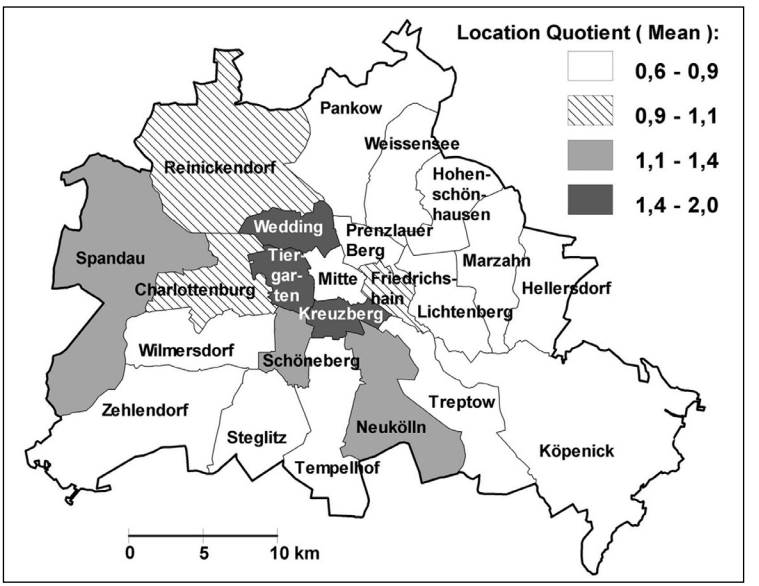


Source: Krätke and Borst 2000

Spatial Distribution of the Urban Poor and the Expansion of "New Urban Scene" Districts

The "loosers" of economic restructuring are unevenly distributed within the urban spatial fabric (Hermann et al. 1998; Krätke and Borst 2000; Farwick 2001; Kapphan 2002). In contrast to the situation e.g. in Paris, it is interesting to note that in Berlin there is a socio-spatial concentration of unemployed people, of low incomes, and of persons dependent on public social assistance in the inner urban districts of the metropolis. Furthermore, the loosers are predominantly concentrated in the inner urban districts of West-Berlin, namely the traditional industrial workers' districts like Wedding, Tiergarten and Kreuzberg. In terms of the socio-spatial fabric, some districts in the city's Western part are facing the most spectacular concentration of social problems. A symbolic policy of "local area management" has been introduced in order to support localities with the most striking socio-spatial decline, but this approach doesn't really touch the city's socio-economic development condition which lies at the heart of the spread of urban poverty (Krätke and Borst 2000).

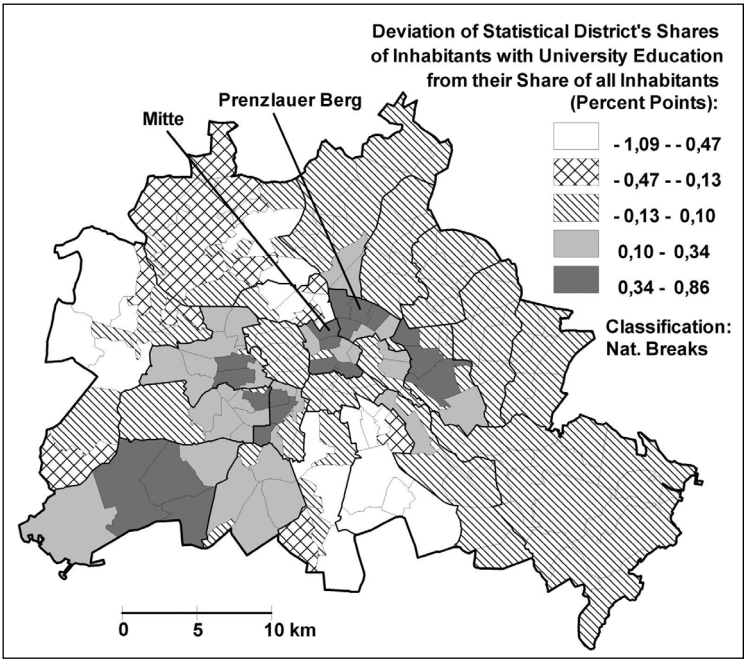
Figure 8: Socio-spatial Polarization in Berlin 1997
Urban districts with a concentration of unemployed, welfare recipients, families with low income, immigrants, and inhabitants without professional training



Source: Krätke and Borst 2000

Whereas the urban poor are mostly concentrating in the inner urban districts of West-Berlin, other inner urban districts are becoming more and more attractive to "new urban scenes" and are subject to a process of gentrification (Smith and Williams 1986; Friedrichs and Kecskes 1996). The most obvious case is the district of Prenzlauer Berg adjacent to the Eastern city center (Rada 1997; Gude et al. 1999; Krätke and Borst 2000). One out of several relevant indicators of the ongoing gentrification process in this area is the relative concentration of people with higher education (see Figure 9). A further candidate district for gentrification is the adjacent inner urban district of Friedrichshain, which today seems to move into the "pioneering phase" of a future gentrification. It is worth to note that the concentration of the creative class in Berlin is contributing to the gentrification processes in the above mentioned districts, since the members of the creative class are keen to live and work in exactly these inner urban districts, which offer the most inspiring socio-cultural milieu for creative work and the lifestyle of new urban scenes.

Figure 9: Socio-spatial Polarization in Berlin 1997
Spatial distribution of inhabitants with university education

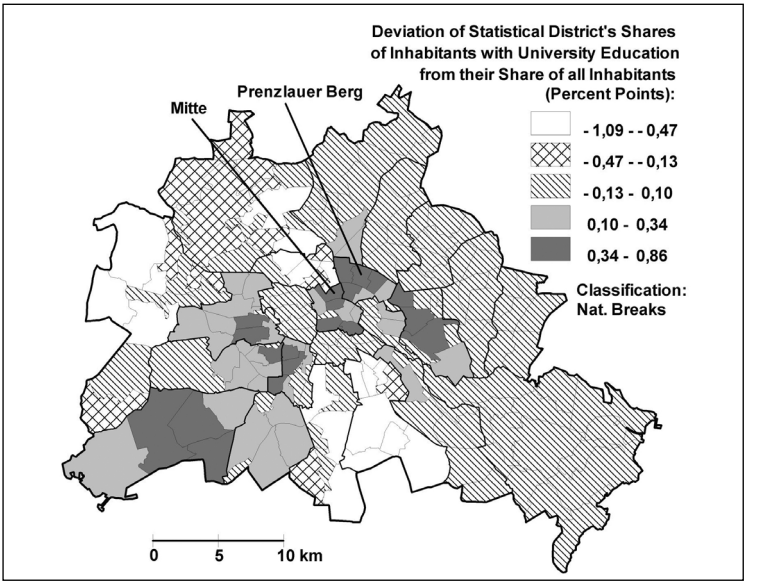


Source: Krätke and Borst 2000

Socio-spatial Segregation: Persistence of a Multiply Divided City

Socio-spatial segregation in Berlin, as measured by the so-called "index of segregation" (Duncan and Duncan 1955; Harth et al. 1998) concerning per capita incomes, education levels, and economic positions, reveals that West-Berlin has a much higher level of segregation than the cities' Eastern part, except the segregation between different nationalities (Krätke and Borst 2000). Thus Berlin is still a divided city with respect to the different socio-spatial fabric of its western and eastern parts. In the future we might expect that East Berlin is developing levels of socio-spatial segregation like the western parts of the city. Even if the actual extent of the social divisions in Berlin cannot readily be compared with the situation in cities like New York and Los Angeles, the Berlin metropolis is on the path towards developing a more pronounced polarization of its social fabric. In terms of the urban social fabric Berlin is a globalizing city (Marcuse and van Kempen 2000) with an internationally mixed population as well as a city with growing socio-spatial divisions. It is quite a problematic challenge to get the socio-spatial divides of a global city without getting the economic power of a global city.

Figure 10: Socio-spatial Segregation in Berlin (West and East) 1997
Index of segregation/dissimilarity: nationality, income, education, professional status



Source: Krätke and Borst 2000

The 1990's Real Estate Boom: The Politically Driven Real Estate Boom in Berlin and East Germany

Since 1990, Berlin has been a prime playground for the creative activities of professional subsidy hunters in the real estate business. In the course of German reunification, large national and international real estate firms expected a continuous growth of demand for new office and commercial space in the metropolitan centers of the German urban system. A wave of real estate acquisition, conversion, and large scale building projects covered particularly the East German cities and regions, since the German state introduced a special subsidy regulation for real estate investments in East Germany which contained a very favourable tax write-off scheme (Krätke and Borst 2000). This incentive combined perfectly with the urban governments' belief that office building sites are a sign of economic progress and a promising future of the respective city. Thus urban governments in East Germany agreed to new office projects of any size and numbers, and – as we came to know recently – in the case of Berlin, the city's own financial corporation actively took part in large scale speculative real estate investments in East Germany. Within four years, that is from 1993 onwards, the speculative real estate boom in East German cities turned into a real estate market crisis with large quantities of unoccupied new office space and a quite strong decrease of rents for new office space.

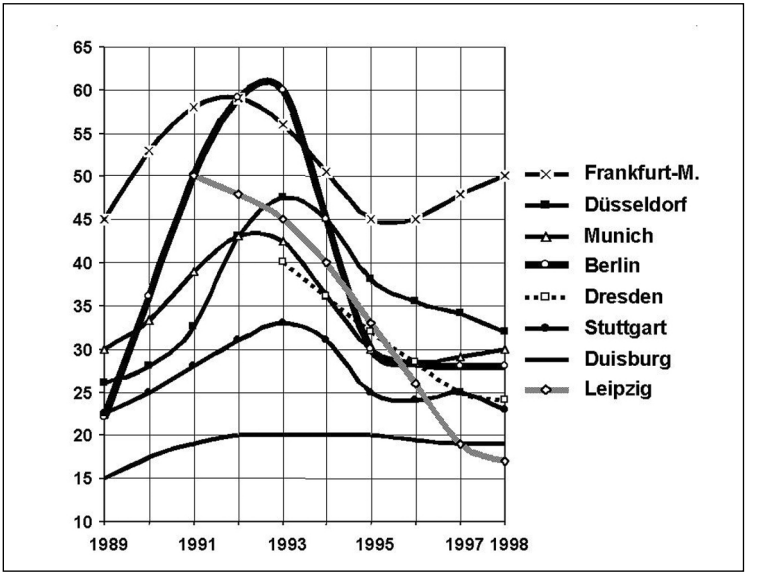
Office Building Boom: The Making of Germany's Largest Pile of Unoccupied Office Space

From 1990 to 1998, nearly 7 million square meters of new office space were built in Berlin, of which the largest share was concentrated in the city's inner urban area (Krätke and Borst 2000). Outstanding concentrations of building activity have been recorded particularly for the East Berlin city center (in the Mitte district) and the well known Potsdamer Platz area (Senat Berlin 1998), where "poor" large corporations like Daimler-Chrysler and Sony could manage to acquire the sites with an extraordinarily high price subsidy from the Berlin government, and where the developers implanted a US-American commercial city complex in the city of Berlin. In the early 1990s, the Berlin government had declared that the city would face a "need" to increase the supply of office space by 11 million square meters up to the year 2010 in order to convert the city into a major "service metropolis." Thus the speculative office building boom got strongest support, and there was an interplay of legal as well as criminal activities to push the projects forward. Besides corruption and murder within the professional real estate scene, the Berlin government proved to be highly talented and creative in developing particular instruments to prevent any

public control of the project developments in central parts of Berlin's City East (Lenhart 2001).

In the upturn phase of the real estate boom, Berlin and Leipzig revealed a price level in office rents that exceeded the rent prices of Munich and Düsseldorf, and on the top of the boom phase in 1993, Berlin even recorded higher office rent prices than Frankfurt-Main, the long established price leader of the German urban system. The following downturn phase was particularly pronounced in the East German cities: in 1998, e.g. the city of Leipzig recorded a 32 percent rate of unoccupied office space and office rent levels fell below the level of Duisburg, a traditional industrial city of the Ruhr region (see Figure 11).

Figure 11: Office Rents in Selected German Cities 1989-1998 (in DM/sq.m./monthly for new office buildings)



Source: Krätke and Borst 2000

In the course of the real estate boom, Berlin built up the largest pile of unoccupied office space in absolute figures, with more than 1.5 million square meters of unoccupied office space in 1998 (Krätke and Borst 2000). This figure only fell slightly in the following years, and today there is still a huge amount of more than 1.2 million square meters of unoccupied office space in the city. On the basis of the above mentioned special tax write-off scheme for real estate investments, the speculative bubble in East Germany has contributed to a considerable degree to a shrinking of public authorities' tax income (DIW 1997).

The public authorities' reactive policy to prevent growing financial deficits is concentrating on cuts in public services and social expenditure.

"Worst Practice" Urban Governance in the City of Talents

We might say that Berlin's economic policy in the 1990s is an outstanding example of "worst practice" urban governance, since it has led to a financial crisis with really catastrophic effects. This crisis has been actively produced in the former urban government's period, where the Christian Democrats and the Social Democrats together had formed a coalition of the two largest political parties. After the outbreak of the financial crisis, a new coalition government has been formed by the Social Democrats and the Party of Democratic Socialism. The Social Democrats managed to hide their share of responsibility for the crisis. Now this new Berlin government tries to consolidate the city's financial situation by severe cuts in social expenditure and public services, particularly in schools, universities and public medical centers. Additionally, the diverse local culture initiatives and scenes which are functioning as a base of the city's cultural creativity outside the commercial sector of cultural production are loosing most of their public financial support. The current financial policy threatens the urban living conditions of broad parts of Berlin's population, and it might also damage the prospects of Berlin's few growth sectors in the field of knowledge-intensive economic activities.

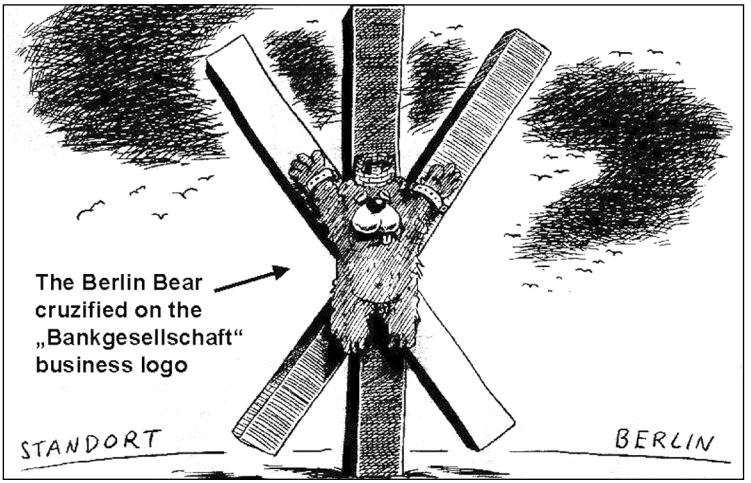
Talents of Self-service: Berlin's Political Class and the Making of a Financial Crisis

The financial crisis has been actively produced by the former urban government in setting up a large public financial corporation (the *Bankgesellschaft Berlin*) which engaged in speculative real estate bonds related to investments in East German housing and commercial estates. This business policy failed, leaving the city with an unexpected financial burden of 30-35 billions of Euro. Thus the major part of the city's total debt burden, which amounts to roughly 50 billions of Euros today, represents the social cost of the real estate and bank business of Berlin's politicians. Note that the *Bankgesellschaft Berlin* created also some real estate bonds that have been offered exclusively to so-called "prominent" citizens, particularly to well-known representatives of Berlin's political class and the urban government. Even today members of the Berlin political class are continuing to make a private profit from these speculative real estate bonds which have got a public guarantee of profits. There was public opposition

against this, but the current urban government decided not to close the rundown Bankgesellschaft. Instead, it released a legal regulation called the *Risiko-Abschirmungs-Gesetz* (in a free translation one might call it the "risk prevention law") which loads the financial risks of the *Bankgesellschaft* and its speculative bonds on the city and the Berlin citizens. Indirectly, this regulation makes sure that income from the speculative real estate bonds continues to flow to the above mentioned prominent citizens and politicians. In 2002, the urban government let the Berlin citizens pay 1.75 billion Euros to prevent the immediate financial breakdown of the *Bankgesellschaft*. Within the next 25 years, Berlin's citizens will have to pay 6.4 billion Euros to cover the financial risks stemming from the real estate bonds of the *Bankgesellschaft*, and this money partly flows to the above mentioned Berlin politicians who own such bonds. Additionally, the Berlin government has fixed 21.6 billion Euros over the next 20 years to cover the "risk prevention" for the former business practice of the *Bankgesellschaft* (including the high cost of corruption in favour of the managers and politicians involved). All in all, the financial loss amounts to a total sum which is twice the yearly public budget of the whole city of Berlin.

In a broader view, the speculative financial activities of the *Bankgesellschaft* and the related policy are resulting from the ideological concept of a metropolitan urban economy which bets on financial investments and deals including real estate business. This kind of metropolitan urban economy has got the strongest support by Berlin's political class which used to confuse regional economic development with finance and real estate business and actively took part in these activities. Furthermore, the concept of a metropolitan economy which bets on financial juggling and real estate business with active participation of public financial corporations whose business policy is consciously being kept free of public democratic control is deeply rooted in a neoliberal approach to urban governance (Brenner and Theodore 2002). The unleashing of market forces and the local state's active participation in (quasi) private business lies at the heart of this approach. In Berlin, this approach has privileged specifically the real estate business and related speculative activities. This kind of "entrepreneurial" local state has led to the city's financial collapse and the threatening of Berlin's future development chances.

Figure 12: Berlin as a Hostage of its Political Class
The impact of the Bankgesellschaft *crisis and the concept of a metropolitan urban economy based on financial juggling and real estate speculation*



It has been established above that Berlin has a comparatively strong position in several sub-sectors of the so-called knowledge-intensive industries (which include the "creative economy"): These are particularly the media industry, the software industry and the life sciences sector. These new islands of growth might become a possible focus of the region's economic development policy. All in all, the creative economy and the broader range of knowledge-intensive economic activities do make a quite high contribution to the region's labor market. Particularly the life sciences sector's impact on Berlin's future economic development could be much higher if all the medical research activities and advanced health services would be included in this cluster. This would mean to concentrate on the development of a "regional center of competence in health services" which comprises not only biotechnology and medical engineering, but also medical research and health services. Besides the overall concentration of public and private R & D institutions and the culture and media industry in Berlin, the life sciences sector is a real strong point of Berlin's regional economy. However, this sector's prospects are being threatened by the new Berlin government's intention to make severe cuts in the funding of the city's large public medical research centers as part of a policy which deals with the city's extreme financial crisis in a very short-sighted manner.

As regards the Berlin media industry, its growth dynamics stems to a large extent from the city's "cultural capital" (Krätke 2002a) and from its locational attractiveness in terms of being a prime center *in all* of the cultural economy's

activities, which can't be reduced to the media industry's technology-intensive activities. Since the Berlin government holds on to a technology-centered vision of urban economic fortunes (Senat Berlin 1999; Krätke and Borst 2000), it only recognizes the technologically innovative sub-sectors of the media industry like multimedia firms as strong points of Berlin's economy. From a broader perspective on the city's cultural economy, other important actors of the region's cultural production cluster such as the large number of creativity boosting cultural establishments are being threatened today by the urban government's policy of sharp financial cuts in order to deal with Berlin's financial crisis. This financial policy also affects the Berlin universities in a quite destructive manner. Today, the financial collapse is directly damaging the city's science base – particularly the public education and research institutions – and indirectly threatening the prospects of Berlin's innovative clusters and the city's most dynamic fields of economic activity: the current urban government's financial policy is undermining the city's real economic capacities in knowledge- and innovation-intensive fields of activity. Thus the notion of a worst practice urban governance does not only apply to the period in which the city's financial collapse has been "produced," but also to the urban government's current approach to "managing" the financial crisis at the expense of the Berlin citizens and the prospects of the city's few islands of growth in the creative economy and other knowledge-intensive activity branches.

Altogether, there are many reasons for a strategic re-orientation of Berlin's economic development policy. Such a re-orientation is being hindered by the catastrophic effects of Berlin's financial crisis. In a nutshell, Berlin's political class represented the "city of talents" with strong talents in corruption and self-service mentality, and the current urban government's financial policy is damaging the city's real economic capacities in knowledge- and innovation-intensive fields of activity. The future prospects of a metropolis like Berlin depend on the *quality* of the city's development strategies. In view of the particular kind of talent and mentality of Berlin's political class, the prospects for high quality urban governance in the fields of economic, social and cultural development are not as good as the citizens of Berlin would like to expect.

Conclusion

In theoretical terms, the case study on Berlin demonstrates that knowledge-intensive activities and the creative economy are a most important resource of urban economic development. However, a flourishing creative and knowledge economy is based on place-specific socio-cultural milieus which positively combine with the dynamics of cluster formation within the urban economic space. Creativity and talent thus depend on the dynamic interplay of

economic, socio-cultural and spatial factors, and might become a central basis of successful urban development in the future. This might particularly apply to those large cities which are currently suffering from a decline of their traditional industrial base in labour- and technology-intensive economic activities. With regard to the specific socio-cultural base of the creative and knowledge economy, the concentration of knowledge-intensive activity and creative forces within the urban and regional system is highly selective, so that only a certain number of particular cities and metropolises (i.e. those with "attractive" socio-cultural properties) can draw on the creative economy as a focus of their development strategy.

At the same time, the Berlin case study demonstrates the ambiguity of the notion of creativity and talent: "Talented people" may also function as developers of weapons of mass destruction, or as creators of economically and financially destructive policies etc. "Creativity" can be directed in socially and economically productive efforts as well as in socially negative and economically destructive activities. Within a particular city or region, both extremes of creative action might be followed at the same time by different social actors. The outcome will depend on the balance of these forces. The Berlin case makes clear that the creative potential of its political class has been concentrated on financial self-service and the creation of instruments for an unleashed real estate business with active participation of public financial corporations. This "worst practice" urban governance not only led to the city's financial breakdown, but turns out to become a threat to the development prospects of the city's strong points which are evident particularly in the concentration of creative talents in diverse sub-sectors of the "creative economy" and further knowledge-intensive activities. Here we might draw the conclusion that a city needs coherence of its creative potential in terms of a socially productive interplay between the economic, social and political actors. This would be a prerequisite for high quality urban governance and a development strategy which bets on the urban economy's strong points and consciously supports the related socio-cultural factors of urban economic development.

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