1 Preface

“In a way, all of New York City is an arts’ district because it is such a strong part of the economy and the character of the city” (personal interview, director Socrates Sculpture Park, 12/05).

THE COGNITIVE-CULTURAL ORDER

The contemporary capitalism of post-Fordist societies is characterized by the principles of the cognitive-cultural economy (Scott 2007). Such an economy is a system of production and work that is identified in reference to its leading economic sectors, technologies, labor relations, and market structures and represented by the producer and financial service sectors, the high-technology sectors, and the creative industries. Such sectors arise predominantly in large metropolitan areas, where they manifest their presence in a variety of clusters. (ibid.)

Their dominating role in the structure of today’s economy was brought about by several intertwined social, economic, and political transformation processes. Contemporary society is one mainly characterized by the differentiation of lifestyles and individualization processes that follow the logic and result of a desta-
bibilization and declining significance of traditional social structures, which have been partially replaced by information and communication structures in the form of signs (Lash and Urry 1994). Hence what is increasingly consumed and produced are actually signs rather than material objects – “not stuff but information about stuff” (Lanham 2006: 3). The sign component comprises more and more the value of an object while material and labor input decline in their contribution to value. Those signs come in the form of cognitive or aesthetic content with the latter rising in its role as a sign value in material objects and lead to an overall aestheticization of consumption and production (Lash and Urry 1994).

The political rhetoric of this situation is addressed with the idea of the “creative class” and the “creative city” (Florida 2002, 2005). The transformation of urban governance from managerialism to entrepreneurialism (Harvey 1998) has fostered a system of economic competition that pits not only national economies but also, increasingly, cities against cities, which compete in attracting multinational companies and foreign direct investment. To meet such challenges, cities not only pay high subsidies to maintain or attract companies and provide an infrastructure that fosters cluster development, but also invest in lifestyle amenities to magnetize their “talent” elite (Florida 2002, 2005). As industrial agglomerations leads to a specific form of urbanization (Scott 1988) and urban growth coalitions foster the agglomeration of the cognitive-cultural sectors, the circular and cumulative logic of both processes positions the cognitive cultural economy on the forefront of being a leading principle in understanding contemporary capitalism and urbanization. Hence the broad question addressed here is: what form of urbanization is being brought about by the cognitive-cultural dimension of contemporary capitalism and its associated political strategies?

The theorization of the cognitive-cultural order is manifold. It is one that is defined by human capital, knowledge, and creativity as dominating inputs in the production process and characterized by flexibility that manifests itself in three ways. For one, non-standardized and specialized goods depend on flexible production systems that react to an individualized market without high switching costs. Consequently, labor relations are also increasingly constructed by contracting and project work. And thirdly, companies enjoy greater mobility in regard to their location as their inputs and outputs are transmitted with little or no transportation costs. To the contrary, this system of production and work is
marked by “stickiness” (Markusen 1996). The specialization and flexibility of inputs and outputs leads to greater market uncertainties that are met by an externalization and disintegration of value chains and labor markets in order to maximize the benefits of specialization while minimizing the risks of overproduction and technological log-in. As an externalization of value chains increases transaction costs, companies form localized networks of traded and untraded interdependencies (Storper 1997) to overcome detriments. Moreover, such networks are not only exchange mechanisms for products and information but also often foster collective learning and innovation. Their “stickiness” is determined by the trust that any transmission of tacit knowledge requires therefore bound to regular face-to-face interactions (Storper and Venables 2004). The need for spatial proximity creates geographically determined club-like interactions that manifest themselves in clusters located predominantly in large metropolitan areas.

The political discourse on the cognitive-cultural economy focused for a long time mainly on subsidies granted to specific companies and on the provision of an infrastructure that fosters cluster development. Cultural amenities were deemed irrelevant to urban and economic development beside their importance for the tourism industry. However, accelerated city competition spurs investments beyond the hard location factors of research facilities and technology parks and urban growth coalitions came to realize the importance of lifestyle amenities that attract and maintain the “creative class” (Florida 2002). In addition to the competition for businesses and investments, cities today compete for the location of the knowledge and talent elite. As their preferences are described with “bohemian” and “coolness” factors (Florida 2005) the interest in the cognitive-cultural economy becomes twofold: for one, their firms and employees are tax and employment generating entities and second, they are also lifestyle amenities for the knowledge and talent elite. Such firms are producers of traded goods and services, but they also establish, through their visibility and presence, a specific form of urban atmosphere that is seen as a crucial competitive advantage in the entrepreneurial strategies of urban growth coalitions. This development has generated manifold critique as being no more than an expression of urban entrepreneurialism and neoliberal urban politics (Peck 2006). The premise of talent, tolerance, and technology that is fostered by openness and diversity is
accompanied by large numbers of low-wage and low-skilled jobs and an accelerating gentrification as a result of the structural changes brought about by the cognitive-cultural order (Scott 2007).

The flaws with both conceptualizations in understanding contemporary economic and urban developments are following. Whilst economic geography focuses mainly on reasons for and dynamics of agglomeration with little appreciation for the specific urban context, urban studies research concerned with the cognitive-cultural economy disregards the specificities of the its production and consumption mechanisms. Both perspectives aim to identify motors of growth, however, but often fail to do so (Storper and Manville 2005).

Clusters are predominantly analyzed as networks of input and output relationships along a specific value-chain and institutionalized networks of untraded interdependencies that develop due to the benefits of agglomeration economies. Their origins are commonly traced back to windows of locational opportunities and a pioneer firm performing a major innovation, thus attracting other enterprises to its site. Surely, preexisting conditions influence location decisions. However, a detection of incipient locational activities cannot fully explain how and why economic growth starts. The existence and accumulation of specific companies does not necessarily lead to the development of a dynamic cluster. In other words, it is less a question of how the seeds of the agglomeration were originally planted, but about the blooming of the organism as a structured and self-reinforcing process of growth and development that emerges into an organized system of dynamic spatial formation (Scott 2005). Most recent research therefore attempts to clearly distinguish between conditions that support innovation and those supporting entrepreneurship (Braunerhjelm and Feldman 2006).

As clusters are networks of geographically bound club-like social relationships that determine “a specific external ‘image’ and a specific internal ‘representation’ and sense of belonging, which enhance the local innovative capability through synergetic and collective learning processes,” (Camagni 1991: 3) an understanding of cluster development needs to go beyond an agglomeration of economic actors due to traded and untraded interdependencies but take into account associated collective place-based images and identities as additional competitive advantages that allow clusters to pull ahead of competitors and acquire a dominant market position. If the success of a cluster is its recognition
as “the place to be” (Braunerhjelm and Feldman 2006: 4) then cluster analysis needs a stronger appreciation for the development of signature cluster images and identities. All in all, the conceptualization of the cognitive-cultural economy through cluster analysis characterizes well the specificities of those industries and positions them in a geographical space. However, it leaves them without a place.

To the contrary, the academic and political discussions that observe the cognitive-cultural sectors as amenities and motors of urban growth put most emphasis on their effect on place without regard to the unique structures of their markets, technologies or labor relations. The subject of analysis here is a place without the specificities of its defining industries. The focus is primarily on the presence of such companies as place commodities devoid of their internal structures and entrepreneurial strategies. Rarely do critics of the political strategies related to the cognitive-cultural sectors engage with the internal structures of their analyzed industry. For instance, place-branding with the help of creative companies from “Prado to Prada” (Evans 2003) is rightly seen a result of city competition however, a full understanding of place-making needs to take into account the competitive advantages that arise for local companies and how they are involved in such process. Moreover, this ignorance and sole concentration on the presence of the cognitive-cultural economy as place image, amenity, and competitive advantage in city competition hides the underlying social and economic transformations brought about with the rise of the cognitive-cultural order. The “city as an entertainment machine” (Clark 2004) and as the site of the “Warhol economy” (Currid 2007) flourishes on an army of low-paid contractors and freelancers as well as low-paid and low-skilled service personal that cater to the “talented” and secure their bohemian and cool lifestyle. Moreover, as the presence of cognitive-cultural sectors creates place commodities, it often leads to major increases in property values displacing not only its service base but also its pool of contractors and freelancers that builds the large foundation on which this economy rests. Tolerance, openness, and diversity appear more as a revenue-generating economic strategy than as an inspiring place quality.

To overcome the laid out discrepancies between the agglomeration and urbanization of the cognitive-cultural economy, an understanding of those dimensions of contemporary capitalism needs both – an appreciation of the industries as
well as place specificities. It has to include the unique nature of the cognitive-
cultural sectors and set them into a context of place that is a particular constella-
tion of social relationships in a specific space that develop an identity through
the interaction within the network as well as with outsiders and other places
(Massey 1994). It is this complex form of urbanization that is brought about by
the cognitive-cultural economy and its associated political strategies.

A territorial instead of sole industry perspective provides such a broader lens in
that a specific industry can be observed not only as a sector of the economy but
also within its place-based setting. It can trace origins and dynamics of cluster
development from the industrial as well as local context thereby regarding place
history and specific social relationships that interact with the emergence of in-
dustry clusters. Territorial analysis helps to identify outside actors and events
that may not be interior to the development of industry networks of traded and
untraded interdependencies but influence the growth of the industry and its
cluster. This is not to say that territorial analysis should treat its subject as a
closed container and only observe the internal mechanisms. As places are con-
structed by a variety of social relations all woven together at a particular time
and place, the larger proportion of those relations are actually constructed on a
much larger scale than the respective place (Massey 1994). Clusters are not
isolated islands but “communities of practice” embedded in local institutions
while simultaneously enjoying access to “global pipelines” (Gertler 2007).

Above all, cluster formation is a reaction to the overall economic, social, and
political conditions, in that firms are able to pursue their activities more benefi-
cially as part of a cluster than as outsiders. Any territorial examination also
needs to take into account its larger environment to set into context and portrait
the specificity of its subject.

The following research addresses the general question of what form of agglom-
eration hence urbanization (Scott 1988) is being brought about specifically by
creative industries as part of the cognitive-cultural dimensions of contemporary
capitalism. The study focuses on four selected intra-metropolitan clusters whose
formation is seen as a reaction to the overall metropolitan creative economy as
well as to metropolitan and national politics. The research attends precisely to
creative industries, as they are the prime producers and mediators of an aestheti-
cized cognitive-cultural production and consumption system and are also on the
forefront of providing the kind of lifestyle and image amenities of the “creative
city.” Unlike any other sector of the cognitive-cultural economy, creative indus-
tries and their agglomerations are strongest interwoven with their urban envi-
ronment as “place [is] in product” (Molotch 2002, 2003) and product is in place.
Intra-metropolitan cluster development is a special form of agglomeration in
that such formations are not only reactions to the overall dynamics of the re-
spective industry but also related to their metropolitan social, economic, and
political environment. As intra-metropolitan clusters are always embedded and
part of an overall metropolitan cluster they provide unique case study examples
especially for the analysis of why new clusters form and develop identities that
are differentiable from other intra-metropolitan creative industries locations.
Micro-scale formations are in some way intensified cluster developments that
emphasize not only the importance of spatial proximity but also the role of
place-based images and identities as a mechanism of differentiation within the
metropolitan context. An analysis of this very specific form of agglomeration
and urbanization may provide fruitful and fresh insights to the general interac-
tion between creative industries and their spatiality. In this way, the research
does not merely add other case studies (Scott 2005) to the general question of
cluster, or more specifically, of creative industries cluster development, but
instead provides a new way of analyzing the relationship between specific in-
dustries and their form of place making. The particular question addressed in
this research is what reasons and motivations are behind the development of
intra-metropolitan creative industries clusters.

OUTLINE

This manuscript is organized in three consecutive steps. Chapters two and three
trace the development of industry clusters as well as creative industries. A more
extensive second part is devoted to original, empirical research. It describes the
geography and historical developments of creative industries in Berlin and New
York City as well as in the four case study areas and later turns to very specific
examples of place-based network formation. Chapters nine and ten of this dis-
sertation return to the initial question of what form of agglomeration and urbani-
zation is being observed in the four case study areas and relate the presented examples back to the broader context of the cluster and urban development.

The next chapter provides a short overview of the most prominent conceptualizations of regional development concluding that so far, there is no decisive understanding of both the origins of clusters as well as their development stages. The pitfall of cluster theories is seen in their suggestions of a list of location factors that, once in place, result in dynamic cluster development as well as in the overvaluation of “carrying” capacities (Braunerhjelm and Feldman 2006) as the driving force behind cluster growth. Here, cluster development is regarded as an entrepreneurial decision where the associated cluster characteristics like networks of exchange, collaboration, collective learning, and place-based collective identities, are perceived as competitive advantages and help companies to carry out their activities more beneficially and efficiently.

Hereafter the dissertation turns to the characteristics of creative industries. McRobbie claims that given the importance of creative industries in contemporary capitalism, it is “remarkable how under-researched” they are (McRobbie 1999: 5). Although there have been numerous recent studies assessing the creative economy and published scholarly work that engages with creative industries in manifold ways, there are still many crudities. Thus, the chapter turns to a variety of sources in first, defining creative industries and second, assessing the industries’ growth and development. This is traced along the lines of the three conditions necessary for the growth of a specific market namely, the acceptability of the product by the consumer, the availability of the product and its means of production, and the accessibility of a way of promoting the product’s use (Zukin 1989). Following, the chapter provides reasons for the predominant location of creative industries in metropolitan areas. Large urban settings embed sensory foundations that stimulate their inhabitants (Simmel 1903). Moreover, they are sites where the juxtaposing of different industries, trades, and people leads to a diverse network of economic actors within a city that triggers innovation and thereby fosters productivity and growth (Jacobs 1969). Cities offer agglomeration benefits and, once clusters emerge, also the benefits of place-based images and geographic origin branding. Lastly, the chapter also discusses examples of specific support strategies related to creative industries. It attends to direct financial investments into creative industries, political promotion and
branding strategies, infrastructure investments as well as the recent interest of urban growth coalitions to invest and become involved in the formation of creative industries clusters.

Following the general assessment of cluster development and the characteristics of creative industries, is the empirical part of the dissertation. The manuscript provides in chapter four a short overview of the used research method as a combination of case study analysis with participant observation and qualitative, semi-structured interviews, its realization and performance as well as the hurdles implicated in this methodology before it turns to the actual empirical material.

“Creative industries in Berlin and New York City” takes into account the varying quantification of the local creative economy and explores its metropolitan geography by means of tracing back specific historical developments that led to location dynamics and the development of intra-metropolitan creative industries clusters within Berlin and New York City. Clusters develop in relation to, moreover, are reactions to their overall social, economic, and political environment. As they embed differentiation mechanisms any new cluster forms on account to established agglomerations. Eventually the chapter turns to the historical developments of creative industries in the respective case study areas.

Chapter five portrays first three individual creative organizations and their diverse forms of collaboration with other creative organizations. Place-based creative industries networks can take forms of mutual inspiration and feedback, of cooperation in producing a single product as well as marketing and promotion networks. Often, the initiation of networks depends on incubators who bring individual entrepreneurs together or help them to carry out their activities more efficiently thus foster cluster growth through consulting and training. The chapter presents four examples of incubators whose goal is to foster local creative industries, although they have different final aims. Moreover, creative industries networks can also be in-house formations where manifold individual creative entrepreneurs come together as one non-profit and collaborate in the development of collective projects beside their own business endeavours. Therefore, chapter five also introduces three very different organizations that practise such collectivity.
Creative goods are unique in that they are heavily influenced by the characteristics of their environment. As “place [is] in product” (Molotch 2002, 2003) and clusters are defined by outside images and internal representations the question is, what is unique about the goods and services produced in the respective case study neighborhoods? For example, what makes creative entrepreneurs located in the South Bronx a South Bronx creative entrepreneur? Chapter six argues that instead of a particular creative practice, local entrepreneurs use geographic origin branding as a marketing tool to associate their businesses with symbols of success and attributes of cutting-edge as they are removed from established intra-metropolitan creative industries clusters hence in a “new” and “up and coming” area. To publicize this perception they form a variety of networks whose ultimate goal is to re-imagine their location as a creative place in the way that “product is in place” as means of attracting visitors and consumers.

In chapter eight the manuscript turns to role of urban growth coalitions in the formation of intra-metropolitan creative industries cluster. While creative industries have long been unimportant to urban growth coalitions (Scott 2004) the chapter provides examples of the direct involvement of urban growth coalitions in the formation and organization of local creative industries networks. Under the cloak of industry development, arts and cultural councils and urban and economic development organizations alike redirect their resources and introduce intra-metropolitan creative industries cluster development as an urban development model. The presented examples show how creative industries have become more than specific sectors of the economy but urban amenities to attract the “creative class” (Florida 2002). Urban growth coalitions mobilize the visible presence of such industries for the re-imagination, revitalization, and gentrification of city neighborhoods to advance the growth and the metropolitan positioning of their localities.

“Beyond collective production networks” summarizes the findings of the observed local network formation processes. The chapter argues that the formation of neighborhood-based creative industries networks is not driven by direct exchange relationships but rather by marketing schemes geared toward the popularization of the respective site. New creative entrepreneurs often face hurdles in accessing their desired market. To overcome such detriments they first, take on their own marketing and promotion and second, form networks of collective
marketing to advance their visitorship. Within this entrepreneurial strategy place images become a category of distinction and are either directly applied to the marketing of products or created by an exaggerated presentation of creative activities thus re-imagining creative industries locations as attractive places to visit and consume. The cluster as the “place to be” is not defined by a specific local aesthetic, but by the “buzz” of an enhanced visibility of creative activities. Ultimately, intra-metropolitan cluster development in the case study areas enters into a scheme of place making as creative industries visualization and commodification.

Finally, chapter ten takes a closer look at the form or urbanization that is brought about by the agglomeration of creative industries and their associated political strategies. The creative city is presented as an urban entrepreneurial strategy of keeping pace within an inter-city and inter-metropolitan competition for revenues and resources. The proclaimed support to and interest in creative industries by urban growth coalitions is not much more than the positioning of urban sites by means of using the marketing needs of creative entrepreneurs. Here, the “eventification” of creative activities has ushered into an “eventification” of place where the consumption of aesthetic products is superseded by an aestheticized consumption of place. The creative city as an urban development model thrives on SoHo-style collaboration between creative entrepreneurs underwritten by the direct involvement of urban growth coalitions to enforce SoHo-style gentrification.
2 “In the air”

“In the air”

Great are the advantages which people following the same skilled trade get from near neighborhood to one another. The mysteries of the trade become no mystery; but are as it were, in the air …” (Marshall 1890 cited in Glaeser 1999: 254).

Today’s economic geography involves a paradox (Porter 2000). On the one hand modern communication and transportation technologies undermine traditional determinants of location and global forces become more and more dominant. On the other hand some industries are highly concentrated in certain areas and form distinct agglomerations. At the heart of the contemporary economy are human relations, rules, and conventions (Storper 1997) that structure a competition that involves globalized, placeless, and standardized flows of resources as well as place-specific kinds of knowledge and practice, and the specialization of cities, regions, and nations in a global economy.

The reassessment of the value of local and regional development potential (Moulaert and Sekia 2003) and the rediscovery of the region as a fundamental unit of social and economic life in modern capitalism has brought about what
Storper (1997) calls the “principal dilemma of contemporary economic geography – the resurgence of regional economics and of territorial specialization in an age of increasing ease in transportation and communication of inputs and outputs and of increasingly scientific organizational rationalities of managing complex systems of inputs and outputs” (Storper 1997: 21). Amongst others, Piore and Sabel (1984), Porter (1990), Scott (1988), and Scott and Storper (1986) claim that the region is the most advanced form of the coordination of the contemporary economy due to its organizational rationalities and their inducing innovation abilities therefore generating over proportional competitive advantages. Thus at a time when the world supposedly “flattens” (Friedman 2005), what are territorial specializations, moreover, how and why are they emerging? For Storper (1997) an answer to this “principal dilemma” and the questions staked out must address the tension between specialization and destandardization of inputs and outputs with their affiliated greater transaction costs. Further, it must consider the association of organizational and technological learning within agglomerations resulting from localized user–producer relations and untraded interdependencies attached to the processes of economic and organizational learning and coordination. Wherever such conditions are in place, the region becomes the key element for the organization of economic processes, for learning and innovation (Storper 1997).

The general endorsement of the region as a motor process of social and economic life led to a virtual explosion of interest in regional economies and cluster development in the past twenty years. A growing body of academic research has applied the cluster concept both as an analytical tool to analyze the factors that contribute to the relative degree of economic success enjoyed by different regions and localities as well as a framework to guide policy makers in the design of initiatives to promote economic development. The interest in cluster development has been mainly prompted by the economic success stories of well-know industrial agglomerations like Silicon Valley, Hollywood, Route 128, New York City’s and London’s financial districts, the Third Italy, Toulouse, Baden-Würtenberg, Sakaki or recent developments in places like Bollywood or Bangalore. All of these and many others are manifestations that even with an increasing intensity of global trade and investment flows there are local specificities that bring about regionalization and economic growth.
REGIONAL ECONOMICS

Piore and Sabel (1984) were the first scholars to capture regional economic development in a model of flexible specialization that was meant to postulate a retraction from postwar mass production and reembedded Marshall’s 19th century notion of industrial districts into contemporary economy. The Third Italy is held up as an example for the regional specialization of labor and technologies of production not towards greater scale and horizontal integration but towards vertical integration with advanced forms of technological learning supported by localized institutions. Especially the institutionalized networks of flexible and specialized firms were seen as key feature for the successful adaptation of the regional economy in an environment of uncertainty and gave rise to the acknowledgement of the role of networks as best new business practice in contemporary capitalism.

Similarly for the U.S., the so-called California school investigated into the relationship between the division of labor and transaction costs, though not only to understand mere economic restructuring, but also to rationalize industrialization and urbanization (Scott 1988). Their argument was that economic uncertainties are met by the externalization and disintegration of value chains and labor markets in order to maximize the benefits of specialization while minimizing risks of overproduction and technological log-in. However, disintegration entails greater transaction costs of input-output relations that raise the costs of geographical distance. Thus, in industries where tacit knowledge and trust are part of transaction processes, transaction costs are best minimized by face-to-face contacts, shared rules, and conventions that, when outweighed by other geographically dependent production costs, lead to industrial agglomeration. (Storper 1997)

In addition to the institutionally inspired flexible specialization argument that depends on a thick and historical institutional context, the California school was also able to show how new industries form new agglomerations detached from old stocks of external economies. New industries enjoy windows of locational opportunity (Storper and Walker 1989) that enable them to dislocate from existing clusters where, if innovative and generating high profits, they will soon attract new entrants to the site. However, this also means that there is a limit to
the number of major new agglomerations that can form in any given new industry. Moreover, as the potential of new locations is often restricted by the paucity of original available resources, new growth complexes often develop on the edges of already existing industrial agglomerations. (Storper and Walker 1989)

Yet both schools of thought suffer from the inability to distinguish between dynamic and stagnant regional economies as vertical disintegration, high transaction costs, and agglomeration can be found in either (Storper 1997). Thus, most prominent in the work of Markusen (1986) and Saxenian (1994), the analysis of high technology regions was used to focus solely on dynamic regional developments and examine their conditions of growth, with Silicon Valley and Route 128 as the most discussed examples. Their economic prosperity was largely understood as a result of research university spin-offs and politically motivated investments. Nevertheless, there are many research universities as well as many places where politically motivated investments took place, though no dynamic high technology agglomeration ever developed.

Like the California schools’ focus on the region as motor process of economic development, the GREMI innovative milieu (Groupe de Recherche Européen sur les Milieux Innovateurs) approach was also based on the idea that space—or, more precisely the territory—is the matrix of economic development (Crevoisier 2004). Innovative milieus were articulated around three particular important axes: technological dynamics, organizational change, and territories. The technological paradigm stressed the role of innovation, learning, and know-how as the most important competitive advantage while the organizational paradigm emphasized the role of networks, competition, and rules of competition as well as relational capital. All of the above were largely a product of their local context that has territorial boundaries and specificities thus economic development depends fundamentally on the milieu in which local actors are embedded.

In addition to the analysis of high-tech regions GREMI claimed, that innovation cannot be reduced to investment in research and to developing or registering patents but innovation is above all a process of differentiation from the competition that is the differentiation of the company from its competitors, differentiation of the sector from others, differentiation between territories. (Crevoisier 2004)
Contrary to the focus on the region or territory as coordination mechanism of the contemporary economy, Porter (1990, 1998) developed his theory of industry clusters from the point of the firm and its business strategy. For Porter, clusters were manifestations of a “diamond of competitive advantage” consisting of factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. In order to remain competitive firms have to continuously invest and upgrade their production and organization strategies yet not in the form of disintegration and cooperation along value chains but firms are motivated to innovate as a way to differentiate themselves from their rivals in the same cluster. Thus regional competitiveness is not a result of vertical disintegration and collaboration but of horizontal competition between companies of the same industry that co-locate due to the specialized factor condition available at the site.

Beyond urban economics, the economics profession had up until recently mainly neglected the question of where economic activities take place and why. Yet this notable disinterest, so Fujita, Krugman and Venables (2001), should not suggest the unimportance rather the intractability of economic geography. The new “willingness” (ibid.) to consider locations of economic activity as a subject of analysis and formulate a “new economic geography” resulted mainly from the availability of new mathematical models to analyze industrial organization, international trade, and economic growth. The main idea was that geographical concentration results from returns of scale. Scale economies give rise to imperfect competition, an uneven pattern of market dominance, hence increasing returns and specialization (Krugman 1995). Yet modeling the sources of increasing returns to spatial concentration is a self-reinforcing logic and tells little about the characteristics of the locale and how and why industries located there.

As an auditor of a presentation on increasing returns complained: “So you’re telling us that agglomerations form because of agglomeration economies” (quoted in Fujita, Krugman and Venables 2001: 4).

Though this overview of different approaches to understanding industry clustering and regional development is not all-inclusive, it does show that the problem once staked out by the California school still remains. That is, what are the sufficient conditions for the existence of the observed agglomerations of productive activity, moreover, their reasons and effects? As Maskell and Lorenzen put it
bluntly, “no general understanding has yet emerged regarding the paramount reasons why the separate entities became co-located in the first place, what has made them stick together, what the effects may be and – at an even more basic level – why this matters at all” (Maskell and Lorenzen 2004: 991-992). Furthermore, Storper and Manville (2005) observe: “Once the process begins, we have reasonable explanations as to why it continues. But we have done less well in explaining growth’s ignition” (Storper and Manville 2005: 1261). And Scott adds: “there is surprisingly little in the existing literature by way of systematic analysis of the genetics of industrial agglomerations, notwithstanding a wide scattering of empirical observations about individual cases” (Scott 2005: 14). He derives this statement from the observation that most cluster analysis rely on a “post hoc ergo propter hoc” or an “ex post facto” approach, meaning that cluster development is either spelled out as a sequences of events that represent the essential system of causality or ones based on locational factors that, once in place, lead to dynamic industrial agglomeration. Yet, the detection of incipient locational activity, “the planting of the seed” (Scott 2005: 15), cannot explain the emergence of a dynamic region that is, “the blooming of the organism” (ibid.).

This argument is largely echoed in the first-ever book publication on cluster genesis; a volume of essays of case studies edited by Braunerhjelm and Feldman (2006) who also claim that “our understanding of the origins of industrial clusters needs to move beyond suggestions of a list of ingredients that, once in place, result in economic development” (Braunerhjelm and Feldman 2006: 1). In this the authors confess: “It is as if in the current conceptualization clusters emerge full grown, like Athena from the head of Zeus, without passage through defining developmental stages” (ibid.: 1).

Thus the problem was – and remains to this day – that the different schools concerned with regional economics and industrial agglomerations have all been unable to examine the motors of growth and agglomeration beyond certain case study examples and general assumptions. It is as if several scholars thought to overcome the problem of a fragmented cluster theory by adding more and more models and indicators to the initial question. Beyond the different ideas on the types of relations among cluster actors, the role of institutions and culture, the relations with the overall environment or types of innovation dynamics,
Moulaert and Sekia (2003) even suggest to broaden the discussion “in all its dimensions, as a lead theme for the progress of humanity at the local level” (Moulaert and Sekia 2003: 299). They present the “integrated area development” model as an alternative to all territorial development concepts. This approach implicates a multi-dimensional view of innovation, economic dynamics, and community governance in which innovation and growth are not only understood in a market oriented way but also as empowering other parts of social life (ibid.). Beside the fact that a multi-dimensional view of innovation was already expressed in the writings of GREMI (cf. Crevoisier 2004), the “integrated area development” model still fails to solve the riddle of how distinct territories evolve, or moreover, innovation itself, be it economical or social.

Somewhat contrarily, Feldman et al. (Feldman, Francis and Bercovitz 2005, Braunerhjelm and Feldman 2006) approach cluster development from an entrepreneurial perspective. Here, entrepreneurs are the active agents and driving forces behind any emergence and later growth and sustainability of a cluster as they organize resources and continuously experiment with regard to products, markets, and business models. Thus the authors clearly distinguish between the conditions that support innovation and those that support entrepreneurship. While access to research facilities or the support of such may spur innovation, entrepreneurship facilitates the realization of innovation and the advancement and commercialization of ideas, which lead to growth and development. Cluster genesis therefore has to focus on the locus of entrepreneurial opportunity and to revise the conventional wisdom of an accumulation of knowledge resources. Overall, cluster formation is not a deterministic process led by “carrying” capacities (Braunerhjelm and Feldman 2006) but rather is an evolutionary diffusion and exploitation of knowledge through entrepreneurs identifying economic opportunities.

**ENTREPRENEURSHIP**

Generally, firms are established due to personal motivation, yet only grow because of a combination of entrepreneurial skills and a supportive environment. So far, most research suggests a mutually reinforcing relationship among inde-
dependent entrepreneurs, government policy, and the local environment that is, social and commercial institutions and physical and human capital resources, for agglomerations to emerge (Feldman et al. 2005). As vague as this sounds, the most definite criteria for such elements is that they have to be “sticky” (Markusen 1996) and advantageous to other places. Thus the hypothesis of the cluster as the matrix of economic development (cf. Crevoisier 2004) is putting the cart before the horse. In order to trace the origins of industrial agglomerations, cluster analysis needs an appreciation of history and context regarding the conditions that enable and transform economic actors to become entrepreneurs and start up successful companies at a given location.

The decision to start a firm varies. Schumpeter (1911, 1942) notes that the reasons for entrepreneurship are a set of individual preferences, perceptions of opportunities, and access to capital and other complementary resources. Moreover, the final motivation to open up a business is usually a result of some constructive crisis in the environment of the future entrepreneur be it unemployment, dissatisfaction with the current work environment, or the impossibility to carry out new ideas and innovations with the present employer.

Location decisions are often based on access to already formed business contacts and networks as well as to resources constraint by residential preferences or family mobility (Feldman et al. 2005). Such constrains or preferences have been largely ignored by economic geography. Firm location is predominantly analyzed along economic principles. “Economic theory generally has little patience for the idea that people’s internal preferences might conflict, or that preferences cannot be perfectly ranked” (Storper and Manville 2006: 1264). In regard to new entrepreneurs, the analysis of preferences is further complicated as they emerge from a combination of firm location, residential location, and former employee or student location. All are usually dealt with separately or with very different results. For example, Florida’s (2002) reasoning of firms following the workforce thus the dominance of residential preferences has been disproved with manifold examples of employees locating where they can maximize their access to jobs hence a domination of firm location in regional development (Storper and Manville 2006).

According to the general business literature, the economic success of companies largely depends on the firms’ organizational abilities. Here, entrepreneurs with
past business experience or spin-offs from old firms usually stand the highest chance of survival and growth (Braunehjelm and Feldman 2006). Economic actors need to be able to generate the needed resources and to continuously invest in their organizational structure and product output. In order to maximize information about product and process innovations, labor-market trends, and consumer tastes firms may engage into conversation with their collaborators, contractors, suppliers or even rivals. The risks associated with this state of affairs require social networking capabilities, a common language, understanding, and trust. Trust between different economic actors is usually enforced by regular face-to-face contacts, which require spatial proximity (Storper and Venables 2004). Thus transaction costs are minimized through co-location and by forming informal or formal exchange networks.

CLUSTER DEVELOPMENT

The general wisdom of cluster theory is that the birth of a cluster is a result of the formation of pioneer firms due to the availability of specific resources or knowledge that are turned into new productive use which stimulates the growth and spin-off of many others (European Network for SME Research 2002) and that “clusters are simply collection of firms” (Feldman et al. 2005: 131). Both arguments have been widely criticized and refuted (see above). The last mentioned even contradicts Feldman’s et al. (2005) own cluster definition as they later claim that a “cluster is an agglomeration of mutually reinforcing firms and aligned interests” (Feldman et al. 2005: 132). To be sure, in this research clusters are defined as “localized sectoral agglomerations of symbiotic organizations that can achieve superior business performance because of their club-like interaction” (Steinle and Schiele 2002: 850). Furthermore, they are “networks of mainly informal social relationships on a limited geographical area, often determining a specific external ‘image’ and a specific internal ‘representation’ and sense of belonging, which enhance the local innovative capability through synergetic and collective learning processes” (Camagni 1991:3).

While their growth depends on the entrepreneurial abilities of cluster actors, the realization of distinction and innovation, the emergence of clusters is a result of
localized network formation with boundaries and identities that enable members to carry out their business activities more beneficently. Steinle and Schiele (2002) propose several conditions that need to be in place for clustering. First and foremost, the production process needs to be divisible, that is, a specialization into different activities along a value-chain must be possible. Value-chain coordination also calls for the transportability of the specialized and fragmented products as well as for a critical mass of actors at each step of the value-chain allowing for competition, efficiency, and innovation. Collaboration is further fostered by the scale of specialization of an organization and the length of value-chains. The more specialized an organization and fragmented a value-creating system, the more it depends on complementary actors and the organization of their coordination. Yet it is not the presence of very distinct competencies but of complementary, but dissimilar knowledge and activities in one value-chain system that stimulates coordination, exchange, and network formation. Industries that are time-sensitive (i.e., the speed of reaction is crucial to their survival) benefit most from coordination since multi-organizational systems can adopt faster and at lower switching cost to market changes than integrated companies. This imperative of speed is mainly applied to high-tech industries and just-in-time deliveries. Yet any production system whose final product is subject to fashion, cyclicity or heterogeneity of demand, thus requiring individualization of products, honors the flexibility of producers. Therefore, clustering is most prominent for industries operating in volatile markets. (Steinle and Schiele 2002)

Out of all the above-mentioned criteria for clustering, volatility may actually be the most important condition for co-location not only in the form of unstable markets but also in uncertain exchange relations. Beyond the general form of cooperation, firms choose to create and/or participate in different network structures depending on the characteristics of the industry and its degree of expected relational stability. Thus, companies with a relatively stable set of customers, suppliers, and products usually form formalized networks often independently of spatial proximity. Clustering on the other hand, occurs in industries and markets with uncertain and unforeseeable changes in technology, supply, and demand, therefore relying on flexible relations that allow for shifting combinations of partners (Maskell and Lorenzen 2004). Moreover, in industries with dominat-
ing market ambiguity and constant changes in vital aspects of the product due to customization or non-continuous production, project relations are the most common form of interaction. In addition to this model of business coordination, one of the most acknowledged benefits of project relations are the many weak ties and social relationships which make specific information and skills available to all firms involved in the transactions.

Hence cooperation offers benefits in regard to knowledge exchange and the compensation of market fluctuations. Yet these advantages may be offset by transaction costs in forms of search and information costs for potential partners, bargaining and decision costs for potential transactions, and final policing and enforcement costs to ensure the conditions of transaction are adhered to as well as communication costs related to misunderstandings between partners with different mindsets or expectations, including the cost resolving such differences and sharing information. Therefore, in order to maximize cooperation benefits while minimizing transaction costs, companies form institutions – stable or flexible networks – to better organize their market relations. (Maskell and Lorenzen 2004)

Cluster development sets in once entrepreneurs start to form location-based networks of cooperation and exchange, be they horizontal or vertical, which transfer knowledge and products in such a way that they grant cluster actors competitive advantages. Thus the idea of a pioneer firm performing an important innovation that stimulates the growth or location for many others and eventually leading to cluster development only holds if that firm shares its knowledge and production and engages into collaboration with other companies nearby. Any external economies, including the development and access to specialized suppliers, service firms, and labor markets, can only emerge once there is some form of conversation and exchange taking place between different actors.

Despite advancements in information and communication technologies, the transmission of knowledge depends largely on face-to-face contacts (Storper and Venables 2004). Overall, sharing crucial business information relies on trust between the different economic actors. Especially in environments where information is imperfect, rapidly changing, and not easily codified, trust and face-to-face contacts facilitate the transmission of quality rather than quantity informa-
tion. Trustworthy interactions help economic actors to better evaluate and assess the many data and intelligence available. Moreover, face-to-face interactions foster socialization and network formation. They enhance learning through consulting and knowledge exchange and provide mutual psychological motivation. Thus, for Storper and Venables (2004), face-to-face contacts are the most fundamental aspect of proximity as they provide the “buzz” needed for agglomerations to form and advance.

Discerning the benefits of communication, cooperation, and an engagement into multi-organizational systems is not a given but an entrepreneurial quality with entrepreneurs striving for new forms of efficiency and advancements of their businesses and market position. Above all, cluster formation is the realization of collective advantages that have to exceed any costs, risks, and efforts involved in forming and sustaining place-based relationships. Only after informal collaboration and exchange advances, cluster actors transform their interactions into more institutionalized mechanisms and may form business associations, service centers, or research and education organizations. Such organizations not only foster further collaboration, information spillovers and localized forms of knowledge and learning, they also enhance local identification and embeddedness, constitute boundaries as means of distinction, and provide opportunities of entrance for new firms that may not have been part of the rather personal and informal exchange networks.

Nevertheless, it is the crux of many cluster assessments to regard such formal institutions like research and educational organizations as the origins of cluster formation, moreover, business incentives, associations, and service centers as the driving forces of dynamic agglomerations. They are facilitators of quantitative and qualitative growth and advance clusters, yet cluster development relies on the entrepreneurial capabilities of economic actors to successfully use and implement such infrastructure into their activities. To extend Scott’s (2005) metaphor of the planting of the seed: carrying capacities function as fertilizers for seeds to bloom, provided that such seeds possess the abilities to absorb and implement them into their growth activities.

Once the cluster advances and gains intra-industry visibility, prestige, and a perception of being an attractive and advantageous location, it will draw more and more outside firms and skilled employees that are able to participate in the
traded and untraded circulation of information, skills, and products through the established exchange infrastructure of the cluster. Furthermore, established clusters provide an environment for new entrants that curtails the costs and risks associated with setting up a new firm. Co-location is often a result of expectations for suitable labor and capital markets, relevant suppliers and customers, a supportive infrastructure, institutional endowment, cluster-based branding and reputation effects and the sense “If it works for my neighbor, why shouldn’t it work for me, too?” (Maskell and Lorenzen 2004: 1003).

Beyond the quantitative growth of a cluster, its economic performance and growth is a result of continuous investing and experimenting by local entrepreneurs and firms in their products, markets, and business models and their support by venture capitalists and policies that create and maintain a knowledge base. Endogenous development dynamics are based on whether cluster actors are able to create and use agglomeration benefits in such a way that their businesses enjoy unique competitive advantages that grant them superior market positions. A highly successful new business model or invention combined with powerful endogenous growth dynamics based on transactional, labor market, and innovative capabilities will enable clusters to pull “ahead of actual or latent competitors” and subsequently allow for “a dominant position in extended markets” (Scott 2005: 15).

Lastly, many clusters enter a period of decline at some point as a result of technological, institutional, social, or cultural lock-in in business behavior often channeled by the very socio-economic conditions that once made the cluster to a core location of a specific industry. Their former strength may turn into an inflexible obstacle to innovation as they fall into a trap of “rigid specialization” (Grabher 1993), reinforcing old behaviors instead of continuous investment in process and product innovation, or developing barriers of entry that circumvent the inflow of new ideas and businesses. Furthermore, the economic success of a cluster often increases land and property values to a degree that they become entry barriers and eliminate the former local system of open relationships and access.
**Cluster Images**

All in all, clusters result from competition as cluster actor cooperation, boundaries, and identities translate into club-like business benefits and ways to distinguish from competitors. Entrepreneurs form and engage into networks in order to advance their individual market positions and gain competitive advantages from cooperation. Yet once networks are in place, competition between independent entrepreneurs transforms into competition between different networks and different value-chains, whose success or failure will effect all members thus making room for interests beyond the success one’s own firm. Generally, competition in specialized markets is met by differentiation through innovation in products and processes. Thus innovation is seen as the underlying principle of cluster growth.

Despite the centrality of innovation attributed to cluster development and growth, there is no consensus as to what kind of innovation would particularly promote clustering (Steinle and Schiele 2002). Moreover, cluster theories often enter into a form of circularity, claiming that innovation occurs because of the cluster, and a cluster is what exists in regions where there is innovation (Storper 1997). They have so far not been able to either clearly identify the economic logic by which clusters foster innovation nor the innovation that fosters cluster development beyond that there is something “in the air” that permits innovation and involves manifold different actors and their complementary skills, communication, and collaboration.

Often, cluster theory relies on references to local cultural practices that make innovations possible. The territory and all its characterizing elements of nature, history, political, social, and cultural practices provide a specificity and uniqueness that directs the decisions and attitudes of entrepreneurs to judge “what is or is not ‘useful’ and what is or is not a ‘taste’ [that] arises from the complex mixtures of enrollments and intersections always behind everything” (Molotch 2003: 3). Innovation depends on a culturally inherent curiosity that fosters continues investment in new practices and products. What and whether inventions will be introduced to a market results from entrepreneurial judgment, evaluation, and taste. Such decisions are not self-evident but rely on personal experiences and cultural practices. Thus a variety of elements have to come together more or
less at the same time and in a specific geographic place for innovation, and more specifically, the growth of a particular industry, to emerge whereby the territory operates “not just as a container, but as a crucible that yields up one particular product and not another” (Molotch 2003: 2).

However, innovation is usually seen in very technical terms and assessed through patents and new technologies while differentiation by means of reputation, images, and identities is rarely a subject of cluster analysis. Regional economics in general has been slow in acknowledging the role of internal and external images beyond the fact that clusters embed a distinct character. Even the GREMI school who prominently introduced a territorial sense of belonging and outside identification into its cluster analysis as a means of differentiation and growth was not able to sufficiently show how both are established. The distinct milieu embarks into a somewhat reciprocal logic where the territory is the identification and the identification defines the territory.

Club-like interactions between different cluster actors result in a structuring of the market into “them” and “us” (Maskell and Lorenzen 2004). The coordination and exchange mechanism is not only at the heart of the cluster as it expresses its functional aspect but also its boundaries. Local networks develop, maintain, and reproduce the border between the cluster and the exterior in the sense that they define which actors constitute part of the local coordination system and which do not (Crevoisier 2004). In general, network identification can be expressed in different ways. It may be that cluster actors are all part of the same value-chain, thus their embeddedness is defined by developing one final product. They could also be joined together horizontally by being part of the same industry (cf. Porter 1990, 1998) or by a similar philosophy, production, and business practice as well as just their location itself.

Moreover, cluster identities and images are often publicized through specific signs and symbols that not only underline the collective character but also provide signatures of uniqueness and singularity to the associated businesses, marking the distinctiveness of the product within its larger market. As any place implicates identities constructed out of the particular constellation of social relations and their interaction with other places (Massey 1994), cluster images are results of locally produced identifications and their signature reflection on non-local industry actors and consumers. Whether an agglomeration of a spe-
cific industry will define a particular place and formulate a dominating local image depends foremost on its ability to engross superiority over other actors, which is a matter of social negotiation and depends on the specific economic, social, and political interests in place at a given time as well as on its identification in a wider geographical context. Cluster images always reflect a local belonging and an external recognition.

An appreciation of cluster images is crucial in two ways. For one, recognition of a cluster as “the place to be” (Braunerhjelm and Feldman 2006: 4) will critically influence its quantitative growth in that more companies will locate there with the expectation to find a suitable infrastructure for their endeavors. Moreover, a cluster’s reputation stands for a collective success that reflects on all cluster actors thus new entrants acquire competitive advantages by locating there. Successful origin-based images and identifications revalue products and grant them a particular market position beyond their inherent characteristics. Thus, cluster images express a specific quality in that the goods produced there are aligned with symbols and signs that carry specific associations and differentiate products from competitors by means of geographic origin.

In an economic system that is largely driven by product differentiation and images at the forefront of evaluating products (Lash and Urry 1994) it is incredible and intangible that cluster theory has so far not developed any accounts and criteria for assessing and incorporating place-based identities into its understanding of cluster formation and regional growth. Above all, local identities and symbologies play a crucial role in the success of businesses hence the overall region and therefore deserve special attention in the understanding of economic growth and development.
3 Creative industries: the economy, the place, the politics

“Creativity has become the principle driving force in the growth and development of cities, regions, and nations” (Florida 2005: 1).

THE CREATIVE ECONOMY

Creative industries account for one of the fastest growing and most sought after economic sectors in western economies with proportions of national employment and GDP of approximately 5% - 10% (Scott 2004). In New York City they employ 8.1% of all city workers constituting the city’s second largest economic sector after the financial industries. They have added jobs at a considerable faster rate than the overall New York City economy which made the Center for an Urban Future speculate: “It’s probably the second most important part of the city’s economy behind the financial sector – but arguably has more potential for growth than Wall Street” (Center for an Urban Future (CUF) 2002: 3). Similar