

The Socio-Economic Development of Small and Medium-Sized Towns (SMSTs): Factors, Dominant Profiles and Evolution Patterns

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Abstract

Based on a literature review on territorial development and urban and regional growth, this paper argues that, among the many factors that may influence the development of small and medium-sized towns (SMSTs), geography and institutions count. Following an introduction, section 2 shows that geographic factors exert an influence on the economic development of SMSTs, by the importance of connectivity, or of the position in urban hierarchy. In section 3, we argue that the institutional settings, public policies and regulations impact the socio-economic development profiles of SMSTs. Regarding the local economic dynamics, we propose to explore three main perspectives (section 4). The ‘residential economy’ comprises the activities addressing mainly a local demand of the population. The productive economy is about manufacturing and tertiary productions that can be exported. This economy is strongly affected by international economic change. We emphasize the possibilities of finding SMSTs which are specialised, while others have a diversified profile. Finally, we underline the importance of placing the socio-economic dynamics of SMSTs in relation to knowledge and innovation processes that can become a lever for creation and development of new local potentials.

1. Introduction

The relationship between economy and cities has been the source for diverse theoretical explorations, especially in recent years (Friedmann, 1986; Sassen, 1991, 2009; Klaesson et al., 2011). Within the scope of the new transnational, post-industrial and information economy, cities and towns are seen as catalysts and nodal points for global processes to land locally and to facilitate the globalization of countries and regions (Sassen, 1991; Huriot and Bourdeau-Lepage, 2009). Likewise, sociologists, geographers or planners have argued that cities provide opportunities for complex economic activities that can be brought to global scale and that can enable participation of localized actors in global interactions (Castells, 1996; Scott, 2001; Graham, 2001). Across Europe, the socio-economic importance of cities, including opportunities and threats to further development, has been more and more acknowledged by policy-makers. For instance, on the occasion of the Informal Ministerial Meeting on Urban Development and Territorial Cohesion of EU member states, in 2007, a charter was adopted, which emphasized that:

“Our cities possess unique cultural and architectural qualities, strong forces of social inclusion and exceptional possibilities for economic development. They are centres of knowledge and sources of growth and innovation. At the same time, however, they face demographic problems, social inequality, social exclusion of specific population groups, a lack of affordable and suitable housing, and environmental problems”.

(Leipzig Charter on Sustainable European Cities, 2007)

While large cities are generally considered to be the type of spatial organisation the most capable to confront global economic changes (Johnson, 2008), small and medium-sized towns (SMSTs)

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seem to be left aside and far less a subject of scientific discussion (Bell and Jayne, 2006; Léo and Philippe, 2011; Carrier et Demazière, 2012b). However, according to a study of the European Observation Network, Territorial Development and Cohesion (ESPON) in 2006 on the territory of the European Union Member States, Iceland, Lichtenstein, Norway and Switzerland, there were 15,757 small municipalities (from 5,000 to 20,000 inhabitants), 3,100 medium-sized municipalities (from 20,000 to 100,000 inhabitants), and 407 large municipalities (with more than 100,000 inhabitants). The shares in total population in ESPON-countries are 72% for small and medium-sized municipalities, and 28% for large municipalities (OIR, 2006: 30)¹. Therefore, SMSTs deserve to be studied in a more systematic way, especially their diverse roles in spatial, institutional and socio-economic systems within the European context.

According to the geographer Roger Brunet (1997: 188), the medium-sized town is “*an unidentified real object*”. It is “*real*”, because in every country, beside the capital city and large cities there are other urban centres that have an important role within regions. However, it is also “*unidentified*”, as the limits of size and functions of the category are not unanimous within the research community. In addition, the national contexts are different (Santamaria, 2000). The ESPON 1.4.1 (SMESTO) project highlighted the differences in national interpretations, i.e. the different population thresholds used in classifying the size of towns and cities².

If the population thresholds are highly variable, the functions performed by the SMSTs are also diverse. For instance, in the English context Hildreth (2006) distinguished manufacturing towns, SMSTs that enhance a communication node, local economies based on tourism and heritage, university towns, and SMSTs embedded in a larger metropolitan area. In their study of intermediate cities in Latin America, Bolay and Rabinovitch (2004) distinguished several possible functions of a medium-sized town: regional market, service centre, regional capital, economic location, tourist centre, communication hub, metropolitan periphery, national/international interface, association of a group of towns, etc.

As any typology is open to question, it is perhaps better to identify the main variables that, according to the literature, best explain the performance of SMSTs across Europe.

Even if sparse, the available scientific literature suggests that SMSTs have specific potentials but also specific weaknesses for the development. Traffic congestions, high property prices, social segregation, crime and pollution are some of disadvantages of larger cities that might make SMSTs more attractive to population and investments. Foremost, in their analysis of 51 medium-sized French towns, Léo, Philippe and Monnoyer (2012) show that population size is not the crucial factor for success and growth. The economic growth of SMSTs seems to be related to innovative and network strategies and building on local comparative advantages, resources and distinctiveness (Knox and Mayer, 2009). Many studies conducted within the European programme promoting sustainable urban development (URBACT) show that a socio-economic analysis of

¹ For the statistical analysis, the population shares were based on calculations on the basis of the two databases: the EUROSTAT GISCO STEUGG database (using an approach to present cities and towns concerning the national delineation), and the ESPON NUTS 5 database (using the administrative division of the European municipalities – LAU 2, previously called NUTS 5). However, the study mentions the methodological insufficiencies of both sources since the database for cities and towns is not complete, and since in some cases NUTS 5 do not correspond to the delineation of cities and towns (OIR, 2006).

² However, in the European context, general population thresholds range from 5,000 to 20,000 inhabitants for small towns, and from 20,000 to 100,000 for medium-sized towns (OIR, 2006).

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SMSTs should include their potential for innovation and the competitive positioning through provision of lively and attractive environments for knowledge creation and exchange. By a matter of fact, some SMSTs have witnessed the development of urban knowledge clusters and the upgrading of skills and qualifications that are necessary to firms (URBACT, 2010). As other SMSTs experience a steady decline, a key analytical challenge is to be able to account for the relationship between SMSTs and current change in the economic and social environment. Put it another way, what are the effects of economic globalization, but also of demographic or social dynamics (like ageing - a major phenomenon in Europe - or the rise of the leisure society) on SMSTs? Why does the local economy of some SMSTs' thrive, while others experience disinvestment and joblessness?

Building on the key insights provided in the literature on urban and regional growth, this paper explores three main intertwined perspectives of the development and performance profiles of SMSTs. First, we argue that geographical factors, institutional settings and socio-economic dynamics play a structural role in the development of towns, and as such need to be included in a relevant approach to SMSTs. Geographic factors exert an influence on economic development by highlighting the importance of connectivity, or of the position in urban hierarchy. Second, we consider that the institutional settings, through public policies and regulations, impact the socio-economic development profiles of SMSTs. They make SMSTs more or less attractive to investments and population. Third, we will plead for an extensive definition of economic activities, adding to the conventional firm other organisations whose objective may be less profit than welfare. More than in large cities, the socio-economic dynamics of SMSTs are characterized by the coexistence of a productive economy and of a 'residential economy' (Davezies, 2008; Demazière, Hamdouch and Banovac, 2012). Looking at the productive system, we will emphasize the possibilities of finding SMSTs which are specialised, while others have a diversified profile. Finally, we will underline the importance of placing socio-economic dynamics of towns in relation to knowledge and innovation processes that can become a lever for creation and development of new local potentials.

Before we detail the factors and dominant logics of the socio-economic development of SMSTs, it is important to highlight the inter-connectedness (positive and/or negative) of these perspectives, on the one hand, and the importance of taking into consideration their historical co-evolution, on the other. SMSTs should be observed within the scope of complex relationships of mutual influences of geographic factors, institutional framework and socio-economic performance dynamics. Likewise, the analysis of SMSTs should not neglect the evolution of these dimensions over the medium and long range. As the past determines the present and the future, and as decisions (past or present) are made based on the possibilities of future evolution: "any economic phenomenon has a fulcrum in the past and a time-landing point in the future" (Hamdouch, 1999: 365).

Indeed, SMSTs are the product of the interaction of geographical context, institutional framework and socio-economic characteristics that once created, have co-evolved in the course of time and shape, at least partly, the present profile and future possible trajectories for change. Unlike the static approach to development that refers to status *before* and *after* without explaining the process that leads from one state to another, the dynamic analysis studies movement in its duration. Thus, an interest in economic dynamics means studying economic phenomena in the process of change over time (Bosselle, 2010).

The remainder of the paper is divided into four sections. Sections 2, 3 and 4 analyse respectively the geographic factors, the institutional dimensions and the socio-economic dynamics

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characterizing the development and performance profiles of SMSTs and point out the key issues to be addressed for the empirical study of SMSTs. The final section offers a brief conclusion, including a summary of the main findings and suggestions for further research.

2. Geographic factors and the performance of SMSTs

The authors who place geographic context at the centre of their explanations of successful economic performance of territories can be roughly divided into two main groups. On the one hand, historians or anthropologists such as McNeill (1963), Jones (1981), Braudel (1985), and Crosby (1986) explore geographic factors that determined the economic development in the past. On the other hand, others such as Amin and Thrift (1994), Castells (1996), Nunn (2009) and Sassen (2009) concentrate more on the geography of globalization, so as to analyse the on going processes and their unequal impacts on local territories and their performance.

When coming more precisely to the case of SMSTs, it appears that the explanation of their socio-economic performance is closely related to the analysis of spatial proximity and concentration of economic activities (Venables, 2006). A first geographical factor, the **relation of transport and cost savings to spatial proximity**, has been illustrated through Hotelling's model (1929): if transport costs are greater and a provider gets far away, consumers do not follow, so provider is no longer in the same geographical area (Hotelling, 1929). However, more recent authors (Adelman, 1990; Venables, 2006) argue that this view is limited in respect of two issues. Firstly, product market and labour market differently appreciate spatial proximity. Indeed, the product market is usually scale-open, so reductions in transport costs will increase market access for firms. By contrast, the labour market operates within a narrower area, so if transportation lasts too long, the access is lower. Secondly, some sectors of economic activities demand closer proximity of firms to consumers, while others less so. Venables (2006) illustrates how some skill-intensive parts of the sector are prone to clustering, networking and thicker labour markets, while others such as production can be outsourced and moved to low-cost locations.

On their part, Huriot and Bourdeau-Lepage (2009) outline the close relation between proximity and transport costs building on von Thünen's model of the movement of population: if revenue is considered to be the only condition of choosing a location, then the richer population would be settled away from city centres in suburbs and surrounding towns (benefiting from more space, regardless increased transport costs) than the poorer population (saving on transport costs). On the other hand, if richer population favours transport savings and benefits of proximity, their location will be closer to the centre of the city. However, the authors argue that this model should be considered in relation to the fact that amenities and quality of life of places may influence the decision to locate in the particular place.

A second geographic factor was illustrated long time ago through Christaller's theory of Central Places that highlighted a relation between demographic size of a city and functions gathered in it. Each city/town supplies particular type of goods and services (basic ones in smaller towns and specialised goods and services in larger cities), thus forming levels of functional spatial hierarchy. That particular degree of centrality ranks a city/town to be medium-sized or small in urban hierarchy by considering **proximity to urban functions** (Christaller, 1933). In fact, some authors (Henderson, 1997; Bellet and Llop, 2004; Taulelle, 2010; Santamaria, 2012) argue that urban functions are the most important parameters since they relate to size and proximity. Cities bigger in size have more enlarged urban functions compared to smaller towns.

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On the other hand, functions of smaller towns depend on proximity to other more important cities that might limit their influence on the territory (Taulelle, 2010). Therefore, SMSTs are defined as “intermediate functional centres” (OIR, 2006: 59). Some SMSTs, which used to be functions providers for their surrounding areas, have suffered from the effects of a lower residential attractiveness in the last decades. As services tend to follow population, these SMSTs sometimes have to compete with their hinterland to maintain their centrality. Sometimes, it is through networks that some SMSTs can maintain their social and economic capacities.

Some time ago, Berry (1964) showed that cities evolve in relationship with other cities which form together an urban system. Pushing the argument further, Sassen (2000) argues that even though the combination of spatial dispersal and global integration contribute to a strategic role for certain major cities, towns fulfil equivalent functions to those of world cities but at trans- and sub-national levels. Thus, they are part of networks of cities (Sassen, 2000). From this perspective, some SMSTs may benefit from **the proximity to larger cities**, through land availability or complementing economic activities. Due to increasing traffic speed and expanding communication networks, other SMSTs may be taken over by metropolises in a process of urban sprawl, thus making the SMST a sub-urban town (De Roo, 2007). Therefore, “proximity to metropolis may indeed be an asset for medium-sized towns to attract businesses that benefit from good access to services and infrastructure of the metropolis by avoiding costs of land, tax, congestion, etc. that are associated with the implementation within a metropolis” (Léo et al., 2012: 157). Nevertheless, Léo et al. (2012) argue the existence of the opposite negative logic where the metropolis may block the development of the SMST by the effect of spatial competition for the provision of commercial activities and services: “The competition will be less felt if SMST is situated far enough from the metropolis, so that the distance becomes a protective shield behind which SMST can offer local and more diverse services” (Léo et al., 2012: 158).

The third geographic factor reveals that the economic fate of SMSTs is often **linked to how the region they belong to performs** in terms of production and demography. In the case of France, Béhar (2005) argued that the health of medium-sized towns follows a macro regional geography. Within the “*diagonale du vide*” (from Limousin and Auvergne to Champagne-Ardenne, including rural parts of the Paris Basin), we find the towns whose demographic and economic dynamics are the lowest, if not in decline. In contrast, the medium-sized towns of the “fertile crescent” (the western and south-eastern regions) perform generally far better. They may experience a restart of manufacturing activities in parallel to the development of household services, driven by population growth. On this basis, we expect to find SMSTs with different economic situations, in European regions with different economic profiles.

Finally, economists have stressed two opposing forces that push and pull consumers and firms: agglomeration and dispersion (Marshall, 1920; Jacobs, 1969). **Economies of agglomeration** refer to the benefits that firms obtain when they locate in close proximity to other firms, people, capital, goods and services. Economies of agglomeration are often subdivided into economies of location and economies of urbanization. Economies of location deal with the agglomeration of firms within the same production sector that benefit from their specialisation. These agglomerations (“districts”) produce a variety of the same product in order to attract customers by a wider range of choices, and they increase the productivity of firms producing similar goods and services (Marshall, 1920). Economies of urbanization come from agglomeration of different sectors within a city, which enforces diversity of economic activities (Jacobs, 1969). Hildreth (2006: 16) argues that “larger cities benefit from urbanisation economies, while medium-sized cities are unlikely to do so. Instead, they [SMSTs] are cheaper locations to live, work and run a business if compared

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with large cities, because they have shorter commuting and lower land and wage costs”. Thisse (2010) presents the behaviour of firms and their strategy of (de)localization to larger cities or SMSTs by combining communication and trade costs. In case of low trade and communication costs, firms move their production plants to the periphery [SMSTs], away from headquarters that stay in larger cities. However, in case of high communication costs, plants and headquarters locate side-by-side (Thisse, 2010).

Geographic factors: key findings and open questions for the analysis of SMSTs

To sum up the foregoing, the literature highlights several main geographic factors related to socio-economic development of SMSTs. Following the logic of reduction of transport costs, low-cost locations and demand for closer proximity and clustering, the economic vitality of SMSTs is determined by their geo-strategic position within these geo-economic dynamics. Also, SMSTs belong to a broader urban hierarchy consisting of metropolitan areas, other SMSTs and rural areas, and as such fulfil diverse functions at diverse levels. Their socio-economic development depends on the usage of comparative advantages within urban hierarchy and the nature of their relations with other human settlements. Finally, the development of SMSTs in most cases is based on economies of location that are based on the attraction of customers/firms that choose their locations strategically, depending on time and cost savings. But other factors play as well.

Given these views, a socio-economic analysis of SMSTs should address the following questions:

- *How does the urban hierarchy affect the development of SMSTs?*
- *What is the nature of relation between SMSTs and their hinterland?*
- *How do the functions performed by a SMST change over time?*
- *What is the performance, in economic and demographic term, of macro-regions hosting SMSTs?*
- *Do the tendencies observed in a given SMST confirm this orientation, or do they contradict it?*
- *Do the economies of location give an advantage to some SMSTs?*

3. The role of institutional settings

International competition, technological progress facilitating transfer of information, goods and people, changes of production system in favour of more flexibility and increasing number of new markets involve “new expectations and norms, new ways of organizing and governing work, in some cases new laws, and new government programs, more generally new institutions” (Nelson, 2007: 319). Freeman and Perez (1988) argue that different economic stages in different eras require different sets of supporting institutions. If we follow them, we may argue that the “successful territories” [SMSTs] are those with institutions already in place when they are needed, or which manage to build new institutions quickly and well. “Institutional structures play fundamental roles in the performance of economic systems, while history teaches that firms, industries and economic systems change continually through time” (Chen and Galbraith, 2012: 419).

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Although the term of institution has been understood differently, most economists and sociologists agree on two approaches to the definition (Hamdouch, 2005). The first approach, proposed by Ménard (1995), uses notions such as rules, models and mechanisms to describe the term, thus giving the definition: “An institution is manifested in a long-standing historically set of stable, abstract and impersonal rules, crystallized in traditions, customs or laws, so as to implement and enforce patterns of behaviour governing the relationship between separate social constituencies” (Ménard, 1995: 167). The second approach, introduced by Hodgson (1998), is based on the notion of habit as “a form of self-sustaining, non-reflective behaviour that arises in repetitive situations” (Hodgson, 1998: 178). Thus, “all institutions involve the interaction of agents, with crucial information feedbacks. They have a number of characteristics and common conceptions and routines; they sustain and are sustained by shared conceptions and expectations. Although they are neither immutable nor immortal, institutions have relatively durable, self-reinforcing and persistent qualities. Institutions incorporate values and processes of normative evaluation” (Hodgson, 1998: 179).

In the European context, there has been a trend over the past four decades towards an adjustment of institutional structures and policies. Considering the EU 15 member states, Hamdouch and Moulaert (2006: 44) argued that most of them “have engaged in large **decentralization processes** of their political and administrative structures, and by so [gave] much more power to regional and local authorities for various economic and social issues such as employment, industrial restructuring, higher education, R&D” (Hamdouch and Moulaert, 2006: 44). Nevertheless, the level of decentralization has been uneven among countries (Sorens, 2009). A recent study for DG REGIO on the distribution of competences in relation to regional development policies in the Member States (Ismeri Applica, 2010) distinguishes between federal and unitary Member States with the latter divided into three giving the following typology:

- Federalized states (Austria, Belgium and Germany) have a central government and regional authorities both with own legislative and administrative competences that are exercised independently and recognized by the Constitution.
- Unitary ‘regionalized’ states (Italy and Spain) established an intermediate level of government with important competences.
- Unitary ‘Northern’ states (Denmark, Finland and Sweden) are countries where local governments have a wide range of responsibilities in relation to territorial development.
- Unitary States (in both the EU15 - France, Portugal, the UK, Greece, Ireland, The Netherlands and Luxembourg and the EU12 - Czech Republic, Hungary, Poland, Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovakia and Slovenia) have a predominant central government, although there is considerable variation between them. The degree of decentralization is relatively high in some countries such as the Netherlands, Slovenia and Lithuania and very limited in others like Ireland, Greece, Bulgaria and Romania.

The institutional situation in each country is not only a context variable, but also an important explanation of why and **how cities – and specifically SMSTs – are debated and promoted**. The ESPON research devoted to secondary tier cities and territorial development in Europe shows that reforms concerning the public sphere of cities (competencies, accountability, capacities to develop projects with private partners, etc.) have some common tendencies across Europe, but national situation may differ, regarding, especially the number of levels of government and the degree of devolution (ESPON SGPTD, 2012). This study defines second tier cities as those cities outside the capital city whose economic and social characteristics are sufficiently important to affect the performance of the national economy. So the concept has more to do with large cities than with SMSTs. However, three results of this study are relevant in our discussion of the influence of

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institutions on the performance of SMSTs. First, de-concentration of investment and decentralization of decision-making and resources leads to higher performing second tier cities. Second, the performance of non-capital cities is significantly affected by national government policies - implicit or explicit, direct and indirect. And it is argued that countries whose governments pay more attention to the territorial and urban impacts of those policies will have higher performing cities than those who do not. Thirdly, local factors - especially leadership - matter. The study argues that economic performance of cities will increasingly depend upon their strategic capacity to manage their constraints and maximize their local assets to be successful.

Regarding **local policies**, authors such as Pecqueur (1989), Stöhr (1990) and Magnaghi (2003) have shown their significance for the socio-economic development of territories, especially those that are far from (and not easily connected to) large cities. Healey (1997) - and Knox and Mayer (2009) specifically for SMSTs - pointed out that strategic planning is an important tool to enable local actors to identify the advantages of their town in comparison to the external environment at regional, national and international levels. The importance of the local mobilisation of a broad array of actors is also a lesson to be learnt from the many local policy initiatives which were launched across European countries, to try to overcome the disadvantage of SMSTs in terms of their accessibility, life quality and job creation (Stöhr, 1990; Demazière and Wilson, 1996). Actually, many policies were limited to grant support, relaxations of regulation, tax exemptions, business allowances and strategic allocation of funding (Roberts and Sykes, 2000). Pecqueur (1989) emphasizes that public policies better support the socio-economic development by embracing a more integrated approach and by addressing real needs of local communities and local businesses (see also Demazière, Serrano and Vye, 2012).

The horizontal integration of local initiatives across administrative boundaries also matters. In recent years, more and more policies in the European context attempt to target economic efficiency and competitiveness through stronger networking and cooperation between towns and cities belonging to the same region (ESPON FOCI, 2010). Nevertheless, there are hindering factors at the micro-level of many European countries such as heterogeneity of competences, limits of competencies, inadequacy of administrative boundaries in relation to the issues on the ground, limitations in financial resources of the respective administrative levels of the partnership, competitions and mistrust between partners, absence of mechanisms and instruments to set aside local interests for the greater regional good, lack of coherence, etc. Thus, there is a common challenge of coordination between policy implementation coming from higher levels of governance, and horizontal coherence between organizations at the local level (ESPON FOCI, 2010).

Institutional dynamics, as related to territorial development, need to be observed in terms of **the innovation and knowledge processes** as well. Hamdouch and Moulaert (2006) analyse the interplay of three main components that are structuring institutional-spatial dynamics within a multiscale framework (i.e. a framework in which various spatial scales combine dynamically in shaping the institutional and strategic space in which the actors act and interact). The first component is the institutional framework that characterizes the socio-economic system of a territory (patterns of behaviour, legal framework, power structures, etc.). The second component is the agents with their strategies and modes of interaction (coordination, cooperation, rivalry, etc.). The last component is the nature and orientation of policies and regulations (fields of application, spatial levels of implementation, etc.). All three components are closely inter-connected. Institutions shape the orientation and the content of public policies and regulations which, in turn, influence strategies and coordination modes within innovation and knowledge processes. Furthermore, “through their concrete decisions, actions and interactions”, economic actors and

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“public authorities modify the existing institutional framework” or even contribute to the building of a new one (Hamdouch and Moulaert, 2006: 42). This means that innovation and knowledge processes offer a continuous flow of opportunities to influence the system and to initiate new forms of coordination.

Pushing the argument towards the local level, Hamdouch and Depret (2009) point out that governments (either national, regional or local) are multiplying policies aimed at putting entrepreneurship and innovation at the heart of economic development strategies. Those policies differ across territories depending on the way public authorities conceive innovation and knowledge processes they want to promote and develop. Nevertheless, “public policies appear to be capable of influencing the shape and evolution of innovation systems they can influence, under the condition, however, that these policies are dynamically aligned with the strategies and networks deployed by local innovation and entrepreneurship actors” (Hamdouch and Depret, 2009: 9).

Another institutional factor of socio-economic development is the impact of **higher education and research** (more precisely universities) on the territories. In that respect, the Regional network for exchange on territorial development and planning within the Region Centre in France (PREDAT Centre, 2011) outlines two major roles of university. On the one hand, the presence of the university generates a large flow of information, people and goods, and by this it has an impact on local economy, whereby the university system becomes an institutional tool for attractiveness, competitiveness and strategic development of the territory. On the other hand, the university is a local actor that actively participates in the local economy by creating and consuming local potentials. Likewise, there are several impacts of the university system on the local economy that need to be considered. Firstly, the university creates jobs as an employer to teachers and administrative staff. Secondly, it creates jobs indirectly as well through subcontracts, services provision and students (already active in labour market). Thirdly, the university initiates local economy as a direct consumer of services, housing, land, and investments, as well as indirectly through employees, students and subcontractors. Finally, the university contributes to the dynamism and competitiveness of the territory, especially in terms of research and development, knowledge creation and dissemination, innovation and technology, for the reason that it generates valuable human capital (i.e. young researchers and professionals) and physical capital (i.e. laboratories and research centres) (PREDAT Centre, 2011).

Institutional factors: key findings and open questions for the analysis of SMSTs

The literature points out that economic progress requires corresponding and flexible institutional settings that can create encouraging environment and quickly respond to global changes. In other words, patterns of behaviour, legal framework, power structures, local agents and their modes of interaction, and policies and regulations orientations structure institutional dynamics that have an influence on the socio-economic development of territories. The literature highlights the importance of decentralization processes and the power given to local authorities, local development policies and their correspondence to the regional and national ones, as well as the institutional dynamics that shape systems of innovation and systems of education and research.

Given these views, a socio-economic analysis of SMSTs should address the following questions:

- *How do European, national and regional policies influence the development of SMSTs?*
- *Is the situation of SMSTs debated at the European, national and regional level?*

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- *What local policies are best suited and how do they encourage or discourage local development?*
 - *What institutions are crucial for the economic development of SMSTs?*
 - *Regarding local economic policies taking place in SMSTs, what is their rationale?*
 - *Under which circumstances do local actors get involved in innovation and knowledge systems?*
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4. The combined nature of SMSTs and the shape of their trajectories of socio-economic development and change

Drawing on the analysis by Hamdouch (1999) of evolutionary change of business companies and industrial structures, and transposing it to territorial development analysis, one can argue that the present development of SMSTs should not only be observed as a result of their response to global socio-economic dynamics such as international competition, technological progress, changes in production system, but also within the context of historical evolutions of institutional structures, relations of local actors and strategic choices made in the past. In that regard, we wish to distinguish three possible socio-economic profiles that determine the possibilities for development of SMSTs. The first profile is a town with a dominant 'residential economy'. The second profile corresponds to a town with dominant productive economy. The third profile of SMSTs is the one with a significant development of activities linked to the 'knowledge economy'. Our aim is not to treat residential, productive and knowledge economies separately, but to highlight a combined and complex nature of the local socio-economic dynamics.

4.1. Between production and consumption: which dynamics within SMSTs?

The economic situation of SMSTs is quite diverse across regions and nations. In the metropolitan regions, a university branch, or the participation of local firms in an innovative cluster may have a significant impact on segments of manufacturing and tertiary production systems of SMSTs (Carrier and Demazière, 2012b). However, it is also possible to argue that **SMSTs without any manufacturing tradition may benefit from the geographical diffusion of income**, in particular through the localized growth of services. In Western Europe, the mobility of people increases and it is less motivated by job, and more by the search for a better quality of life. SMSTs that are well connected to large cities and that offer beautiful natural environment may attract significantly a population of commuters. After decades of demographic decline other small towns that have kept a rural character will be looked for by second-home owners, tourists or people who want to move to a quieter living environment.

Davezies (2008) coined the term of "residential economy" to describe the town economy that mostly relies on local activities that meet the need of people in an area, both residents and tourists, and he has shown that in several parts of France this economy is growing. Residential economy is based on the geographic circulation of income, which according to the author is different from the geography of production and can be observed through three mechanisms. Firstly, there is a growing trend in developed countries of separating living place from working place, which means that the sources of income and its actual spending (consuming) can differ in space. Secondly, the growing number of pensioners is in favour of places that attract that particular population, thus again the income can move from the places where it was at first created to the places where it finally is consumed. Thirdly, the growth of tourism also points at the spatial diffusion of income, where in case of some SMSTs tourists represent an important source of income.

Due to these mechanisms, residential economy favours activities in domains such as: retail trade, hotels and catering, construction, financial services, domestic and passenger transport, education, health, welfare, government services. Its weight on overall local economy is determined by the attractiveness of the city/town to residents and tourists, by good living environment, heritage, and

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quality of provision of services of general interest. Likewise, it can be tracked directly and indirectly by analysing: 1) the sources of income (direct indicator); and 2) the characteristics of population, i.e. demographic growth, age and professions income (direct and indirect indicators of economic power) (Demazière, Banovac and Hamdouch, 2012).

Across Europe, we can find SMSTs whose economic performance benefits mostly from residential economy (De Roo, 2007). In some SMSTs, there is an intention to target wealthy pensioners and/or young professionals, and to encourage the development of facilities and services such as sport, tourism, transport, real estate, healthcare in order to better respond to the demand of their residents as well as to attract newcomers. Those services contribute indirectly to the development of the territory (Demazière, 2011: 147). Thus, **residential SMSTs differ in profile**. There are towns where the tourism is the dominant activity in terms of production and jobs such as York in the United Kingdom, Sitges in Spain, Avignon in France or Sienna in Italy. But one may also find SMSTs with dominant elder population and where personal services and services related to healthcare have an important role for local economy. Other SMSTs, located at a short distance from one or several major cities, specialize in attracting commuters and their families. Vendôme in France, a small town (23,000 inhabitants) connected to Paris by high-speed train (in only 42 minutes) is a combination of the two latter categories. Between 1990 and 2008, the number of professionals has increased by 30% (a growth of 300 people in absolute terms) and the number of pensioners has increased by 50% (a growth of 2,500 inhabitants), which is far more than in other SMSTs in the same region (Demazière, 2012).

In countries with generous remains of the welfare state (Belgium, France, Germany, The Netherlands, the United Kingdom...) or in regions benefitting from transnational migrations to their coastal settings (South of Portugal, Costa Brava and Costa Daurada in Spain...), the residential economy may be considered to be the key driver of the future economic development. **In times of world economic crisis, the residential economy is a stabilizing factor for SMSTs** since it allows the capture of income and the jobs it generates are not directly exposed to global competition (Davezies, 2010). But the residential economy has the disadvantage of providing jobs that are often paid less and that are not as “fixed” as in those in productive economy, mainly due to seasonality of tourism and lower skill levels (Béhar, 2009). Also, the competition between towns for attracting tourists is intense.

The second foundation of SMSTs development is the productive economy, based on production of goods and services to be mainly consumed out of the area. Such economy is oriented towards activities in agriculture, wholesale trade, manufacturing, research, energy sector, etc. Dominant productive economy in the overall economy of SMSTs in developed countries has its origins in period of industrialization, especially during the Post-War boom (Lipietz, 1977; Minguet, 1985, Biret, 1983). Saint-Julien (2003) describes how during that particular period, SMSTs experienced growth of population coming from rural areas, industrial development and social and economic modernization. It was also the period when SMSTs were often selected by companies whose rapid expansion was based on the production of standardized goods and services that required low-skill workforce (Massey, 1984). With a population having no or little experience of manufacturing jobs, SMSTs were a privileged place for the Fordist spatial division of labour (Saint-Julien, 2011).

But the foundations of such manufacturing concentrations in SMSTs proved to be fragile. In her typology of local productive systems, Markusen (1996) uses the term “manufacturing satellite platform” to describe a spatial concentration of branches of large companies that have little or no

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local connections or networks within the region, but are oriented towards an outside market³. Such concentrations generally appear at distance of large cities in order to lower the production costs of firms. Satellites platforms may be formed of Fordist manufacturing branch-plants or of research centres, each unit being able to “manage on its own”, i.e. to operate at distance from other productive phases within the same firm, or from places where providers or customers are located. This means that the major cooperative relationships take place with firms that are located outside the district, rather than with local subcontractors, and also that the key decisions regarding investment or strategy are not in local hands. Clearly, **territories which host such industrial concentration of activities are at risk of entering in crisis** when the technical or economic conditions change, provoking a spatial reorganization of firms (Cooke, 1989; Demazière and Wilson, 1996). For many SMSTs in Western Europe, this happened when the bases of the Fordist industrial system were threatened by increased foreign competition, lowering borders and rise of services sector. By contrast, SMSTs that hosted Marshallian industrial districts thrived, at least throughout the 1970s and 1980s (Becattini, 1978; Brusco, 1986). Speaking more generally of manufacturing SMSTs, Hildreth (2006: 26) argues: “a challenge for many of these towns at the beginning of the 21st century is that the historic competitive advantage that enabled these industries to prosper no longer exists. Nearby raw materials may have been exploited, the industry may have been obsolete or other centres in the world may be able to produce the same goods at considerably cheaper prices due to lower labour costs. As a consequence, these cities may display characteristics that make their economies particularly vulnerable”.

In that context, the economy of SMSTs is a result of response to external demand, it has a market range that is wider and that can become a driver of economy at a national scale due to its potential to create exportable added value. In most European countries productive economy based on mostly manufacturing and tertiary production systems is connected to larger cities and metropolises (i.e. Ile-de-France, London, München, or Milano). The development of SMSTs is determined by their attractiveness to business, competitiveness and employment skills. Likewise, the dominance of productive economy can be identified using the indicators such as weight of agriculture, manufacturing and business services in the local economy (i.e. number of employment, creation rate of new firms), income coming from selling goods and services out of the territory where they were initially produced, or existence of local production systems and clusters.

However, **there are cases of SMSTs where new industrial specializations were built on existing experience** and practices in the town. This is the case of many Italian industrial districts (Brusco, 1986; Becattini, 1987) or of industrial towns in Canada (Carrier and Gingras, 1984; Carrier, Thériault and Véronneau, 2012). Such places offer a particular industrial knowledge and skills that local firms or firms relocating to the town can draw upon. Therefore, in the next sub-section, we analyse the dynamics of specialisation within the economy of SMSTs.

4.2. Analysing the local productive systems of SMSTs: is specialisation an asset or a risk?

³ The three other types are: (i) Marshallian industrial districts; (ii) ‘hub and spokes’ districts where branch-plants of big firms are strongly connected to subcontractors; and (iii) public-led industrial districts, where the defence (public) industry and research centres are leaders. This typology is based on a research on industrial districts in Brazil, Japan, South Korea and the United States.

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The productive economy of SMSTs is characterized by activities that are more or less specialised and as such contribute to the overall local economy. In fact, the degree of specialisation of SMSTs is relating to pushing and pulling forces of agglomerations: firms from different sectors would locate in different towns rather than in the same town, except in the case of clusters. Likewise, the intensity of their localization in one town varies greatly from one sector to another. For example, in the metalworking sector, due to the economies of scale, there might be little interest to develop many plants of a small size. The nature of economic specialization is also related to the size of a town. Cities smaller in size will be more specialized (Huriot and Bourdeau-Lepage, 2009). In addition, firms operating in different sectors and at different stages of the production process will choose to locate in different-sized towns (Duranton and Puga, 2005).

Decision of location is strategic and depends on characteristics of the market size (access to markets and suppliers of goods and services), labour markets (access to range of specialised skills and workforce) and knowledge spillovers (dissemination and valorisation of new ideas), concentration of resources and equipment, costs and competition (Zuliani, 2004). Therefore, towns of similar characteristics (particularly in terms of size) tend to develop similar functions (Polèse and Shearmur, 2005).

A town is specialised when a significant share of its workforce is involved in specific economic activities. It is the process by which a town is dedicated to production of a narrower range of goods and services (Demazière, Hamdouch and Banovac, 2012). Attractiveness of SMSTs for investments and population depends on “capacity of the production system to generate specific resources, production niches and new activities to establish an exchange with its exterior surroundings” (OIR, 2006: 114). SMSTs can benefit from their specialisation through a wider scale of specialized labour and a local accumulation of skills that can increase productivity of goods and services (Becattini, 1987). For some authors, a specialisation based on specific resources has the capacity to attract investment and become a driver of local development (Pecqueur, 1989).

Some studies show that **specialisation** based on supporting already existing local knowledge and infrastructure, as well as networks within their respective areas **can strengthen the economic development of towns**, increase competitiveness, create national and international reputation and assure some visibility to the territory (Knox and Mayer, 2009). On the other hand, “specialisation of a limited number of production branches could create an obstacle concerning the adaptation to the new economic environment” (OIR, 2006: 116). Thus, specialisation in one specific sector makes town vulnerable for the reason that it becomes exposed to shocks and drastic changes that might negatively impact that particular sector, and thus the majority of town’s economy (Floch and Morel, 2007; Demazière, 2012).

By contrast, Krugman (1991) argues that **the diversity of local activities** attracts consumers wishing to have a wide range of choices; it **provides access to labour pooling, knowledge spillovers and links between producers of goods and services**. Through diversifying economic activities, the local economy can benefit from new markets by adding new businesses and activities to already existing ones without necessarily having any connection between them. The aims of diversifying are attraction of investment in order to reduce risks for development, renewal of mature products and competitive position at broader scale (Demazière, 2011).

The literature on local economic development suggests that instead of specialisation on selected industries, successful cases of SMSTs rather built networks and economic cooperation between local actors (Léo et al; 2011; Bouba-Olga et al, 2012; Carrier and Demazière; 2012a,b). Therefore,

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the best chances of economic growth have towns that develop economic activities that are independent, but that are also likely to support each other to create an effect of critical mass (Léo and Philippe, 2011). However, the local economy of SMSTs may face difficulties if the diversification of activities is unreasonably forced by the local actors (Demazière, 2011).

Moreover, Glaeser (2010) points at the importance of networking between local actors, as a way to diversify or to specialise economic development. In effect, in some SMSTs, networking of economic actors can be observed in clusters and local production systems (Carrier, Thériault and Véronneau, 2012; Bouba-Olga et al., 2012; Demazière, 2012)⁴. Clusters build on a specific combination of networks involving an ensemble of varied organizations and institutions (Hamdouch, 2010). Likewise, local production systems place network between companies in the centre; and they affirm the necessary dialogue between companies and territory (Pecqueur, 1989).

Table 1: The main characteristics of clusters and local production systems

CLUSTERS	LOCAL PRODUCTION SYSTEM
Are defined by geographic localization	Are specialised around a product of the area
Actors interact through diversified relationships and networks	Are compatible with small size production units
Actors contribute to all kind of tasks and innovations within a specific domain of activity	Consist of small and medium sized enterprises (SMEs)
	Build on the interdependence among SMEs
	Are conditioned by the density of co-located actors
	Achieve production volumes large enough to cover significant share of national production and export

Source: Authors, synthesized from Pecqueur (1989) and Hamdouch (2010)

The structuring industries and their massive investments were for a rather long time seen as alone capable of shaping the production system and leading to a long-term economic development (Perroux, 1961; Nelson, 1993). However, the decline of manufacturing jobs and **the growth of service activities** seem to challenge that perception (Stanback and Noyelle, 1984; Léo and Philippe, 2011). This leads to take into account the producer services that are necessary to the manufacturing system, and to analyse the possibilities for SMSTs to benefit from the growth of these activities (Zuliani, 2004; Moyart, 2006). Léo and Philippe (2011) show that most of French medium-sized towns have deficit of business services, research activities and highly qualified population. However, they argue that some of them will be, sooner or later, in advantageous position in developing services due to concentration limits of metropolises. To become alternative solutions for both location of services and knowledge creation, SMSTs have to be considered in social, not only economic terms. Different aspects of community life are stronger in SMSTs than in larger cities (Putman, 2000). Knox and Mayer (2009) highlight the advantage of smallness, as smaller towns typically may have leaner municipal bureaucracies that make working across administrative departments involving economic, social and environmental considerations easier.

⁴ Clusters are characterised as networks of production of strongly interdependent firms (including specialised suppliers), knowledge producing agents (universities, research institutes, engineering companies), bridging institutions (brokers, consultants) and customers, linked to each other in a value-adding production chain (OECD, 1999: 1).

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Furthermore, they argue that towns are also advantaged because they are able to develop a culture of sustainability through their social networks and civic capacities.

Anyhow, SMSTs are specific and heterogeneous, as are their levels of specialisation or diversity of activities within productive or residential economies: “Each town can assume different roles in terms of functionality: administration, residential services, tourism, research and development or production” (Demazière, Hamdouch and Banovac, 2012: 25). Therefore, “city types are shifting and SMSTs are searching for new roles and identities. In order to remain competitive, they [SMSTs] are making places more attractive [...] to local inhabitants and potential foreign investors [...] by promoting local special resources, cultural values, and local know-how” (OIR, 2006: 118).

4.3. The role of knowledge and innovation: towards a third profile of SMSTs?

The creation and development of a knowledge based society⁵ and a knowledge economy are perceived as one of the most important priorities of modern society and its lifestyle development, as well as of social, economic and political development, and of science and technological progress (OECD, 1996; Melnikas, 2010). In line with this conviction, it seems to us that **knowledge and innovation constitute a long-term opportunity for SMSTs** with the potential to become a new foundation of their economy. The main aim of this section is to reflect on the conditions that may turn this opportunity into reality. While analysing the characteristics of innovation and knowledge creation processes, we shall also go back to the influence of geographical factors (especially economies of agglomeration) and of institutional systems (especially local and national policies of innovation) on the socio-economic development of SMSTs.

Nowadays, knowledge, innovation, learning and competences are considered to be the key factors that determine economic growth and competitiveness at all territorial levels (Hamdouch and Depret, 2001; Hamdouch and Moulaert, 2006). Hence, it gives an opportunity to local actors to position themselves in the middle of on going innovation and knowledge processes so as to benefit from them and develop their own potentials. Innovation processes often depend upon a critical mass of knowledge, competences and resources, which requires considerable efforts for the mobilization and training of manpower, acquisition of new knowledge and informing about new technologies and services. Above all, it requires a close coordination among heterogeneous and geographically dispersed actors (Hamdouch and Depret, 2001; Hamdouch and Depret, 2012). As Hamdouch and Moulaert (2006: 44) put it: “The innovative capabilities and competitive positioning of the various actors is based on their ability to collaborate with a variety of partners – those endowed with close complementary competencies and specific resources, and/or benefiting from location advantages. These collaborations are increasingly structured through various forms of scientific, technological and industrial coalitions and networks, which require the implementation of new modes of cooperation and coordination at different spatial and cross-spatial levels”.

The knowledge economy is often contrasted with industrial modes of production in which land, physical resources and manual labour are crucial for growth (Bastalich, 2010). Many authors prove a positive correlation between economic growth and knowledge (Castells, 1996; Cooke,

⁵ “Knowledge based society is the one characterized by values of predominance of creativity and creative activity, as well as values, which express generation, spread and use of new knowledge” (Melnikas, 2010: 524).

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2002; Kostiainen and Sotarauta, 2003). Cooke (2002) shows that reasons of that lie in the main characteristics of knowledge: 1) it is continuously self-updating; 2) it pushes forward economic development phases; and 3) it creates more new knowledge. Knowledge-based activities favour spatial proximity, so they generally cluster in areas that are vibrant and creative so as to benefit from the agglomeration of other knowledge-based industries and knowledge workers (Yigitcanlar, 2010). Florida (2002) uses the term creative class to present how innovative firms attracted by the location of creative class people (needed for development of their technologies) can become a source of economic innovations. Léo et al. (2012) state that several SMSTs in France have engaged in the development of services in order to improve the image of the city and ultimately attract the creative class.

Several URBACT studies state that some SMSTs have witnessed the development of urban knowledge clusters and the upgrading of skills and qualifications that are necessary to firms (URBACT, 2010). Carrier, Thériault and Véronneau (2012) highlight their main benefits such as modernisation of existing industries through technology adoption, diversification of existing industries into new economic sectors, transplantation of industry and creation of new indigenous industries. Universities (as well as other institutions) play a major driving role (Arhweiler et al., 2011). Nevertheless, it is not obvious that the overall growth of the knowledge economy is in favour of SMSTs. It may well favour the large metropolitan areas.

According to Depret and Hamdouch (2012: 1), “only the geographical concentration of activities (spatial proximity) combined with the belonging to the same community and the adoption of a shared “cognitive space” (cognitive proximity, either scientific or technological), allow entrepreneurs [and by this SMSTs] to amortize the high R&D, production and commercialization costs, as well as to pre-empt and control the knowledge, competences and strategic resources”. This means that the **economies of agglomeration play an important role in the spatial presence of knowledge-based activities**. They are in favour of large cities and the question to be examined is to what extent, and under which conditions, SMSTs can benefit from such a growth.

In the abundant literature on innovation and space, there has been a certain tendency to valorise smallness and localism. The Territorial Innovation Models – “*milieux innovateurs*” (Aydalot, 1986), industrial districts (Becattini, 1978), regional systems of innovation (Edquist, 1997) – are seen as models of regional innovation in which local institutional dynamics play a significant role as catalysts in innovative development strategies (Moulaert and Mehmood, 2010). Likewise, Hamdouch and Depret (2012) use the term Territorial innovation and entrepreneurial system (TIES) to describe a spatial mode for the organisation of entrepreneurship, innovation and related activities⁶.

In their analysis of innovation and knowledge creation/accumulation/diffusion processes (IKP), Hamdouch and Moulaert (2006: 36-37) insist on the diversity of the organizational and spatial forms, thus indicating that **there is room for manoeuvre for SMSTs**, as compared to large metropolitan areas: “Whatever the industry, field of knowledge, or territory, there is no unique behavioural and organization model, nor are there universal dynamics and trajectories leading efficient IKP. [...In fact], all actors involved in IKP are at the same time drivers, contributors and

⁶ The TIES has five major characteristics: 1) a geographical proximity and clustering dynamics play fundamental role; 2) actors are multiple and diverse (large companies, small and medium-sized enterprises, entrepreneurs, business angels, venture capital, and private equity firms, layers, etc.); 3) complex articulations between multiple institutional, spatial, temporal, and cognitive frameworks; 4) historical, social, cultural, and geographical dynamics are crucial in structuring these frameworks; and 5) a diversity of forms (Hamdouch and Depret, 2012).

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beneficiaries of the innovative systems” (p. 36). “Their [...] nature and [...] strategies matter, and [...] interconnections of all agents in innovation and knowledge dynamics are the rule” (p. 37). Hamdouch and Moulaert (2006: 39) also argue that “regulations and policies matter at all levels (European, national, regional and local)” (p. 39).

Studying innovation processes in four SMSTs in Western and Southern France, Tallec (2012) contradicts the common view that medium-sized towns are too small to influence the broader economic environment. He studied the social interactions between firms, public research centres and local authorities in Albi, Alès, Fougères and Quimper, and shows that these actors were able, partly due to the smallness of the place, to carry out innovation projects in the long term. **Segments of the productive system of these SMSTs have proved to be able to reach the standards of post-Fordism, based on a constant innovation process.** As the towns he studied were able to adapt to the requirements of a knowledge-based economy, he argues that concentrating public R&D investments in metropolitan areas is not the best way to ensure and reinforce overall economic growth.

The three socio-economic profiles of SMSTs: key insights and open questions

The literature review we undertook leads to the idea that the economic development of SMSTs may be linked to different macroeconomic orientations, the residential, the productive or the knowledge economy. The orientation of local economies may be linked to external markets (in case of productive economy or knowledge based economy), or in a larger part to internal (local) demand (in case of residential economy). We can also point out place-based resources as the potential key drivers of development. In case of residential economy, it is natural and built heritage, and quality of life, whereas in case of productive economy specialized skills, knowledge and practices are strong assets for export on markets. In both cases, social networks may counterbalance the geographical factors which favour large cities. This point is also significant when knowledge-based activities grow in SMSTs. Finally the qualification of the local economy provides information on the type of performance sources and of target groups (firms, new entrepreneurs, residents, commuters, tourists, etc.) who contribute to the economic development within a SMST context. In the case of productive economy, the competitiveness is based on human and/or physical capital in relation to external market demand; in the case of residential economy, the advantage of the SMST is in quality of life and amenities; whereas in knowledge economy it is the vibrant and creative environment, and the connectivity of the SMST to metropolitan areas, and also the quality of life, which may attract the creative class and innovative firms.

We propose further a three-level analysis of the dominant economic basis of SMSTs. The first level is the macro-level of local economy, which lists three possible profiles of SMSTs: productive local economy, residential local economy and knowledge local economy. Listed profiles do not exclude one another (SMSTs can build their development pattern through varied combinations of “ingredients” pertaining to more than one single profile) and their contents and delineations are subject to evolution over time (a SMST is susceptible to change more or less progressively its dominant profile through specific investments and policies). The second level of the analysis is the meso-level of local economy that looks at the internal logics among all three profiles of local economy in terms of their nature and the degree of specialisation. Finally, the third level is the micro-level of local economy, where the research analyzes local structural forms, such as networks of the actors, clusters, innovation systems or local production systems.

Given these views, a socio-economic analysis of SMSTs should address following questions:

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- *How attractive is a given SMST in demographic terms?*
 - *Which types of population (and which levels of income) does it attract?*
 - *How was the local productive system built (Marshallian district, satellite platform, 'hub and spokes' district public-led district)?*
 - *How does the international economic change impact the current development of SMSTs?*
 - *Are there sectors that are more prone to adapt/resist to external change?*
 - *Under which conditions, a SMST chooses its orientation?*
 - *What is the future of SMSTs development?*
 - *Can there be a balance between residential, productive and knowledge economies?*
-

5. Conclusion

This paper focused on the main aspects of socio-economic development of SMSTs. The lack of applied research on SMSTs at the European scale has initiated this ESPON Project, TOWN, with the aim to identify the main aspects of European towns, bearing in mind the differences in national interpretations. The perception of SMSTs is polarized: such towns “are conceived on the one hand as immature, less-developed or declining cities, in need of policy action from outside and from within in order to cope with present day economic dynamics. (...) On the other hand, SMSTs are frequently celebrated as last resorts of true urban ambience and idealised as the most appropriate linkage between the urban and the rural, a potentially sustainable form of urban structure” (OIR, 2006: 27). Arguably we need to move beyond this ‘simple’ duality and to investigate the more varied and complex nature of SMSTs in their context and then only begin the process of generalisation.

In terms of socio-economic development, we have provided evidence that SMSTs’ economy may be distinct and can draw its economic performance from different resources. The paper has presented several important socio-economic aspects that need further theoretical and empirical investigation.

Firstly, geographical factors influence the possibilities for the socio-economic development of SMSTs. The position of SMSTs within the urban hierarchy, their multiple relations between them or to metropolises (horizontal and vertical), the nature of their relation (cooperation-complementarity and/or competition), as well as economies of agglomeration should be analysed in a more accurate way.

Secondly, the position of economic activities of SMSTs within a wider spatial division of labour, as well as their response to challenges of foreign competition in performance, continuous search for gains in productivity, outsourcing of some production processes and growth of service sector, should be addressed in more specific research. We have also showed that the growth of the residential economy is more significant in the case of SMSTs than in large cities. Its origin is the disconnection between the geography of production and that of consumption. And its local effects are differentiated: growth of hotel and restaurant activities, versus need to develop health and social services. There is a need for further research on the links between socio-economic development of SMSTs and innovation and knowledge processes.

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Finally, we think that public policies, strategies and regulations (at local, regional, national or international levels) can have a significant effect on fostering the socio-economic situation of SMSTs. Hence they should be an important component of the analysis of the TOWN project, especially regarding connectivity, knowledge and innovation, and economic development.

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Annex

Table 2: The influence of geography and institutions on the possibilities of socio-economic development of SMSTs: key issues and questions to be addressed

FACTORS	KEY ISSUES	QUESTIONS TO BE ADDRESSED
Geography	<p>Relation of transport and costs savings and spatial proximity</p> <p>Relation of proximity and urban functions</p> <p>Relation of proximity and other towns and larger cities</p> <p>Impact of belonging to a specific region</p> <p>Economies of agglomeration</p>	<ul style="list-style-type: none"> • How does the urban hierarchy affect the development of SMSTs? What is the nature of relation between SMSTs and their hinterland? • How do the functions performed by a SMST change over time? • What is the performance, in economic and demographic term, of macro-regions hosting SMSTs? • Do the tendencies observed in a given SMST confirm this orientation, or do they contradict it? • Do the economies of location give an advantage to some SMSTs?
Institutions	<p>Decentralization processes</p> <p>Local policies</p> <p>System of innovation, high education and research</p>	<ul style="list-style-type: none"> • How do European, national and regional policies influence the development of SMSTs? • Is the situation of SMSTs debated at the European, national and regional level? • What local policies are best suited and how do they encourage or discourage local development? • What institutions are crucial for the economic development of SMSTs? • Regarding local economic policies taking place in SMSTs, what is their rationale? • Under which circumstances do local actors get involved in innovation and knowledge systems?

Source: authors

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Table 3: Three socio-economic development profiles of SMSTs: key issues and questions to be addressed

SOCIO-ECONOMIC PROFILES	KEY ISSUES	QUESTIONS TO BE ADDRESSED
Residential economy	<p>Orientation to local (including imported) demand</p> <p>Quality of life, amenities and heritage as drivers</p> <p>Residents and tourists as target</p>	<ul style="list-style-type: none"> • How attractive is a given SMST in demographic terms? • Which types of population (and which levels of income) does it attract?
Productive economy	<p>Orientation to external markets</p> <p>Specialized skills and know-how for export as drivers</p> <p>Competitiveness based on local potentials related to market demand</p> <p>Human and/or physical capital as target</p>	<ul style="list-style-type: none"> • How was the local productive system built (Marshallian district, satellite platform, 'hub and spokes' district public-led district)? • How does the international economic change impact the current development of SMSTs? • Are there sectors that are more prone to adapt/resist to external change?
Knowledge economy	<p>Orientation mainly to external markets</p> <p>Creative environment, innovation systems and knowledge-based activities as drivers</p> <p>Creative class and innovative firms as targets</p>	<ul style="list-style-type: none"> • Under which conditions, a SMST chooses its orientation? • What is the future of SMSTs development? • Can there be a balance between residential, productive and knowledge economies?

Source: Authors