



## The ESPON 2013 Programme

### 3.

## HOW DO NATIONAL & LOCAL POLICIES AFFECT SECOND TIER CITIES?



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### 3.1

## CASE STUDY SELECTION, METHODOLOGY, DATA



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### Purpose of case studies

- 1.1 The case studies provide the opportunity to explore in a detailed, coherent way the impact of wider factors – political, economic, and institutional - upon the performance of a series of major cities and to assess their current and potential role and contribution to territorial development at European, national, regional and local level. Cities are the places where a wide range of external factors and policies interact and where they have to be integrated and managed in a coherent way. In particular they are a test bed for the content, clarity and coherence of national policies and a test bed of local capacity to shape and implement those policies. The city case studies have been carefully chosen to illustrate the range of contexts, experiences, policies and prospects of different second tier cities across the ESPON territory. Each is intended to provide answers and to throw light in a different way on the wider questions underlying our study. The case studies identify policy messages rather than simply describing the detailed history of places. They focus on understanding places and the dynamics, relationships and processes which initiate and sustain their development at different territorial levels. The significance of the case study ‘stories’ and analysis is less within the cities themselves and more on their role in and relationships with their respective regional, national and European territorial systems.

#### *What are our key arguments?*

- 1.2 The case studies test five key arguments that we think influence the performance and prospects of cities and urban policy across Europe. *National policies and governance matter.* First, we argue that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. National policies matter to city performance and explicit urban policies and mainstream policies for infrastructure, skills, investment, research and development all affect the ways in which cities perform. We argue that countries where national governments pay more attention to the territorial and urban impacts of those policies will have higher performing cities and hence national economies as opposed to those who do not. In addition, second tier cities will perform better where national and regional policy making systems are horizontally and vertically aligned to focus upon place making.
- 1.3 *Deconcentration of investment and decentralisation to places matter.* Our second argument is that decentralization of decision-making and resources and deconcentration of investment will lead to more high performing second tier cities. It implies that institutional and financial decentralisation from national to regional and local levels of government where these have significant roles, responsibilities and resources will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. This essentially argues that the benefits of an urban system where public and private investment and resources are concentrated upon the capital city are smaller than those of a more deconcentrated, territorially balanced urban system where growth and resources are spread across a range of different sized cities in a wider territory. It implies that: national economies will be more successful when the gap in economic, social and environmental performance between the capital and second tier cities is smaller and more successful national economies have more second tier cities performing well.
- 1.4 *Local factors – and leadership - matter.* Second tier cities are path dependent and are constrained by external factors - historical, cultural, structural, political and institutional. But those factors are not determinant. The economic performance of cities will depend upon their strategic capacity to manage those constraints. Local partners and leaders can use their resources and powers to maximise their city assets and advantages to be successful.
- 1.5 *The key drivers of territorial performance are innovation, investment, diversity, human capital, connectivity, place quality, and strategic governance capacity.* Policies on those dimensions are crucial and again should be explored and assessed. Multi-level governance is crucial for shaping the context in which the multitude of market-driven locational choices and investment decisions of firms and households are made. The drivers most directly amenable to influence by city-regional governance are place quality and strategic capacity. The others – innovation, major infrastructure investment, human capital, economic diversity and connectivity – are more directly influenced by public policy at regional, national and international levels. Influencing these drivers thus requires

multi-level governance. The multi-levels of governance ensure that place-based policy making is not localist.

- 1.6 *Territory and places matter.* This argues that globalisation makes the governance capacity of place more important. It means that governance will be increasingly multi scalar. Economic governance in second tier cities should be located at the highest achievable spatial level. Second tier cities need strategies to shape the different territorial roles they play regionally, nationally and in Europe.

**Selecting the Case Studies**

- 1.7 We chose these cities to illustrate the diversity of experience of second tier cities. They are very different in institutional arrangements, structure, scale, and economic and social performance. Table 1.2 summarises key characteristics of the case studies. They cover the whole range of national urban structures. Cork is the only second tier city in Ireland and Tampere is one of only two second tier cities in Finland. At the other extreme are the case studies from large countries with extended urban structures. This includes: Katowice and Turin, each one of eleven second tier cities in Poland and Italy; Leeds, one of thirteen second tier cities in the UK; Munich one of fourteen in Germany; and Lyon, one of fifteen in France. They range in size from Tampere, with a population of just 474,000 to Barcelona, with its metropolitan region population of 5.3 million. The cities’ share of national population ranges from 2.6 to 14.6% and their share of national employment from 3.1 to 14.3%. Five have shares of national GDP greater than their shares of national employment - Barcelona, Cork, Lyon, Munich and Timisoara - and four lower - Leeds, Katowice, Tampere and Turin.

**Table 1.2: The case studies – key characteristics**

Country	Geographical grouping	State System	Urban structure: metropolitan regions/ second tier cities(no.)	Case study second tier city/ metropolitan region	Population ('000s): 2007 number	Population: share national (%): 2007	GDP PPS per person employed: 2007	Total GDP: share of national (%): 2007	Employment ('000s): 2007	Employment share of national (%): 2007
Finland	North	Nordic	2	Tampere	474	9.0	61,259	8.6	218	8.7
France	West	Unitary – decentralised	15	Lyon	1,681	2.6	72,458	3.3	796	3.1
Germany	Central	Federal	14	Munich	2,728	3.3	78,170	5.4	1,635	4.1
Ireland	West	Unitary – centralised	1	Cork	635	14.6	97,907	18.4	303	14.3
Italy	South	Regionalised	11	Turin	2,263	3.8	60,693	4.2	1,063	4.2
Poland	Central East	Unitary former socialist	11	Katowice/ Katowice-Zory	3,478	9.1	39,454	10.1	1,329	8.8
Romania	South East	Unitary former socialist	5	Timisoara	669	3.1	30,056	4.5	336	3.6
Spain	South	Regionalised	8	Barcelona	5,304	11.8	59,967	13.9	2,724	13.2
United Kingdom	West	Unitary – centralised	13	Leeds/ Bradford-Leeds	2,181	3.6	55,510	3.2	1,012	3.81

<sup>1</sup> Bradford-Leeds share of employment is of Great Britain

- 1.8 The case studies also reflect the range of second tier city performance. All but Timisoara had population growth between 2000 and 2007, from 4% in Turin to 23% in Barcelona. All experienced GDP increases, from just 2% in Turin to nearly 87% in Timisoara. They performed differently in relation to their national average and their capital city. In terms of population change, six performed better than nationally - Barcelona, Leeds, Lyon, Munich, Tampere and Timisoara - but only two better than their capital cities - Lyon and Munich. In terms of employment change, six performed better than the national average (Katowice, Leeds, Lyon, Munich, Tampere and Timisoara) and two better than their respective capitals (Lyon and Munich). In terms of GDP change, five bettered national and capital city performance: Cork, Lyon, Munich, Tampere and Timisoara.

**Table1.3: The case studies –performance on population, employment and total GDP**

Case study second tier city/ metropolitan region	Population			Employment			Total GDP		
	Change: 2000-2007 (%)	Better than national	Better than capital	Change: 2000-2007 (%)	Better than national	Better than capital	Change: 2000-2007 (%)	Better than national	Better than capital
Barcelona	11.7	✓	x	22.9	x	x	23.4	x	x
Cork	13.3	x	x	21.2	x	x	56.7	✓	✓

## CASE STUDY SELECTION METHODOLOGY DATA

Katowice/Katowice-Zory	-3.1	x	x	5.5	✓	x	28.6	x	x
Leeds/Bradford-Leeds	4.9	✓	x	4.2	✓	x	11.1	x	x
Lyon	5.4	✓	✓	7.0	✓	✓	14.1	✓	✓
Munich	7.3	✓	✓	5.5	✓	✓	10.8	✓	✓
Tampere	5.6	✓	x	15.1	✓	x	34.4	✓	✓
Timisoara	-2.9	✓	x	-9.2	✓	x	86.6	✓	✓
Turin	4.2	x	x	4.1	x	x	2.1	x	x

### **A range of performance**

- 1.9 The case studies also provide a range of performance in relation to our key drivers of performance. On skills, four score better than the national average – Barcelona, Lyon, Munich and Turin. But only Munich did better than its capital. Three score better than their capital cities on the innovation measure – Barcelona, Munich and Tampere. Eight have better than national scores in relation to connectivity. But only Barcelona and Munich did better than its capital city.

**Table1.4: The case studies – performance against key drivers**

Case study second tier city/ metropolitan region	Human capital/skills: educated to tertiary level (2008)		Innovation: patents (2006-7)		Accessibility: by air (2006)	
	Better than national	Better than capital	Better than national	Better than capital	Better than national	Better than capital
Barcelona	✓	x	✓	✓	✓	✓
Cork	x	x	x	x	x	x
Katowice/Katowice-Zory	x	x	x	x	✓	x
Leeds/Bradford-Leeds	x	x	x	x	✓	x
Lyon	✓	x	✓	x	✓	x
Munich	✓	✓	✓	✓	✓	✓
Tampere	x	x	✓	✓	✓	x
Timisoara	n/a	n/a	✓	x	✓	x
Turin	✓	x	✓	x	✓	x

### **Shared challenges**

- 1.10 These cities are different but share some common challenges. For example, all are attempting to increase or protect their economic competitiveness at national and sometimes European level. Many of them have been through processes of economic restructuring and are trying to find new economic functions and niches. They all face the challenge of balancing economic, social and environmental goals. All the cities wrestle with social and economic inequalities spread across different parts of their territory. They are all attempting to find ways of working in partnership with the private sector and to work successfully with national governments. All the places are attempting to develop territorial governance at scale so that decision making arrangements work for the whole economic area not just the administrative boundary. Their degree of success varies.

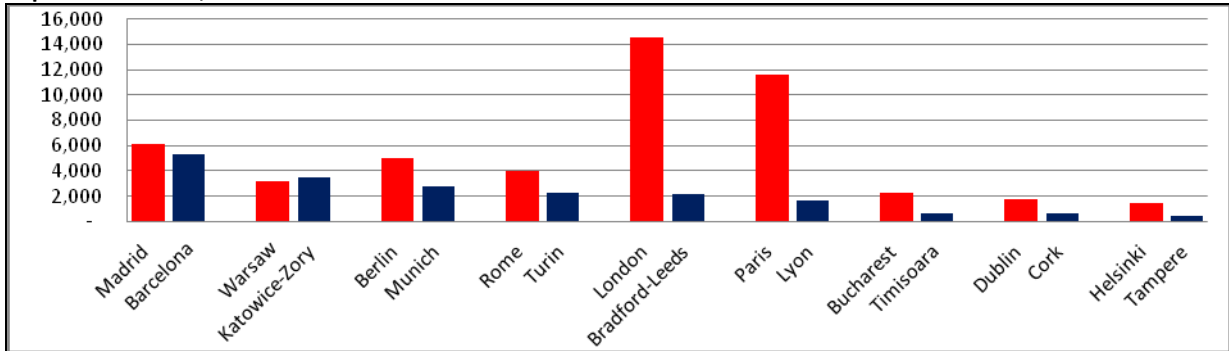
### **But different stories**

- 1.11 Each city also tells a slightly different story about second tier cities' performance, policies and prospects. Munich is one of the most successful cities in Europe based on long term investment in innovation and education, powerful regional government and public private partnership working. Barcelona is an important example of a city which through strategic local leadership has restructured successfully in the past decades and makes a major contribution to the regional and national economy. Tampere is an excellent example of local elites using national programmes to turn classic manufacturing city into a successful information based city. Turin tells us of the ability of local leadership to reposition a city through expansive regeneration strategies. Leeds tells us the virtues of pragmatic city leadership and good governance, combining national and local policies and promoting place making. Cork tells us how a second tier city can use its quality of life assets and foreign direct investment to help temper the dominance of the capital in a highly centralised country. Lyon illustrates the impact of the decentralisation process upon a diversified economy as well as ways of working at city regional level. Katowice also throws much light on the challenges of creating governance at scale in the former socialist countries. Timisoara shows how it is possible to be dynamic and improve economic performance even in a centralised post-socialist country.
- 1.12 Since each city is different we do not discuss the same issues in the same terms in every city. Rather we present the key features of each place and their wider policy messages. Each profile selects from a series of key issues: their contribution to regional, national and European economies; their performance on the key drivers of competitiveness; their relationship with the capital city and other key parts of the urban

system; the impact of explicit and implicit national, regional and local policies; the city's prospects; and policy messages for local, regional, national and European partners on territorial balance. Figure 1.1 provides comparative quantitative data about the 9 case study cities.

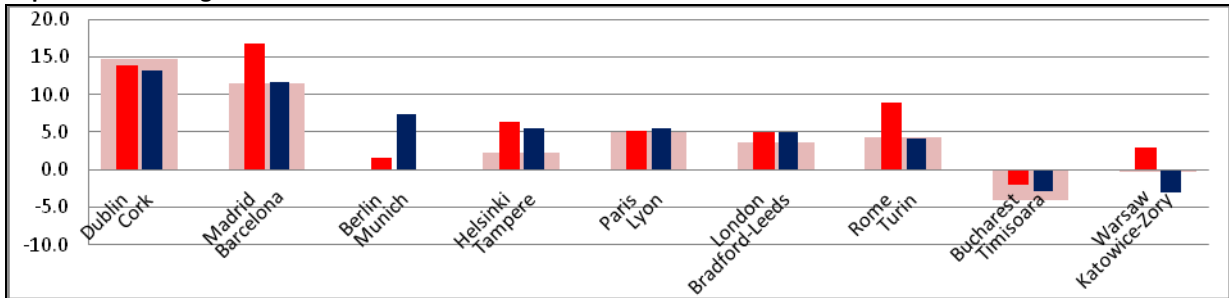
Figure 1.1 THE CASE STUDY CITIES COMPARED

Population in 000s, 2007



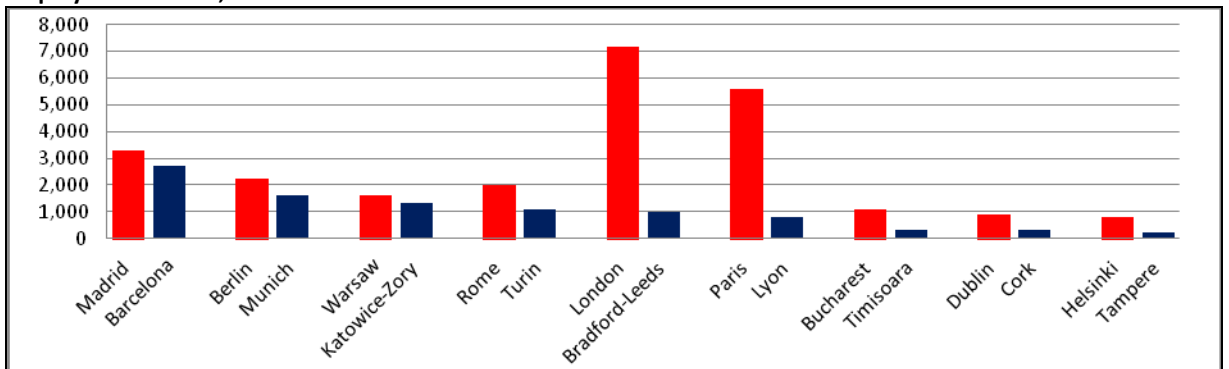
Source: DG-Regio

Population % change 2000-7



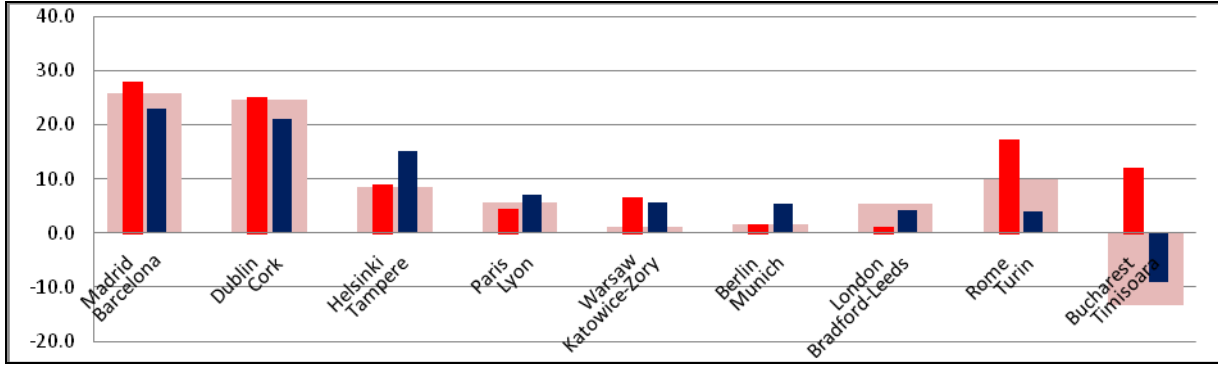
Source: DG-Regio

Employment in 000s, 2007



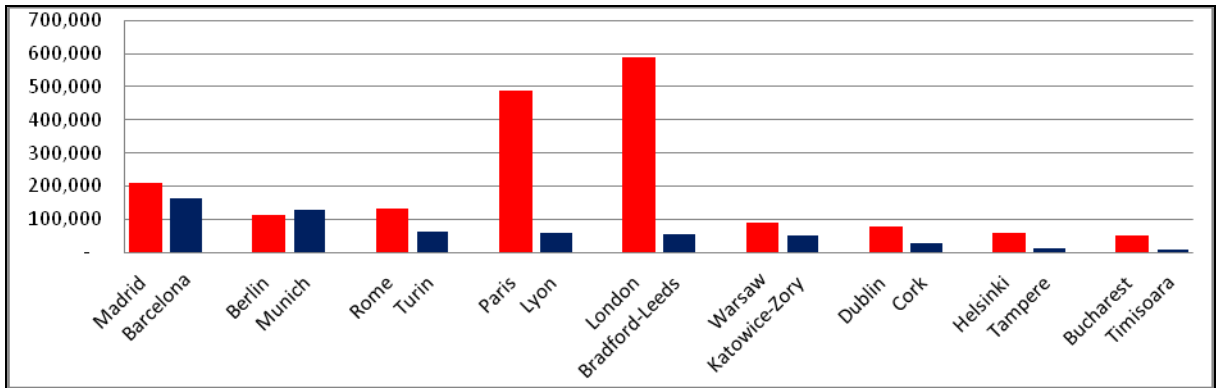
Source: Eurostat

Employment % Change 2000-7



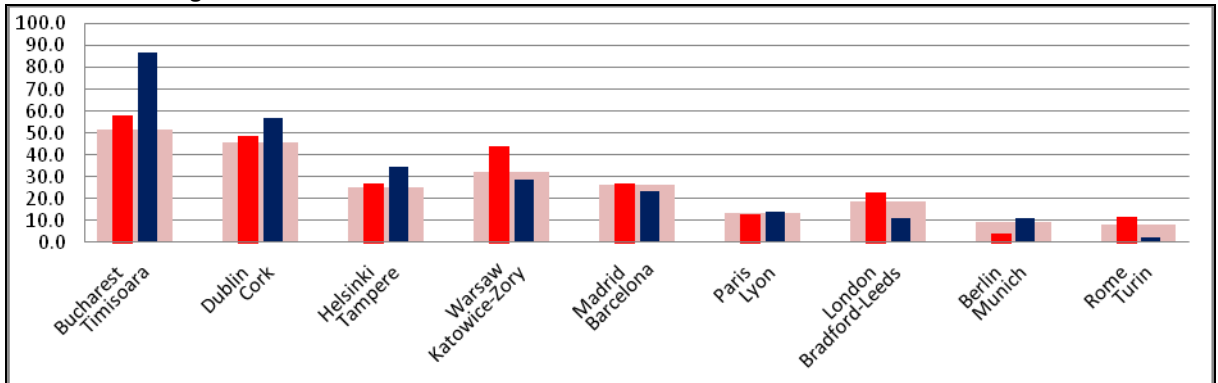
Source: Eurostat

Total GDP in PPS in millions 2007



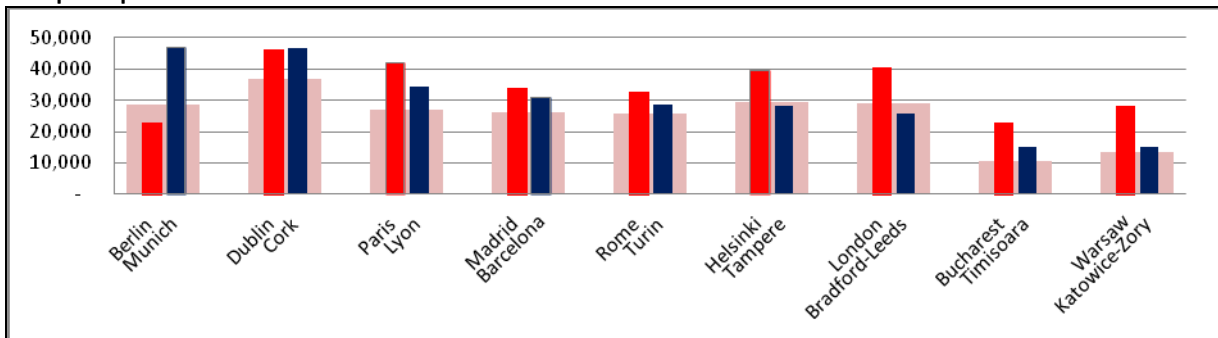
Source: Eurostat

Total GDP % change 2000-7



Source: Eurostat

GDP per capita in PPS 2007

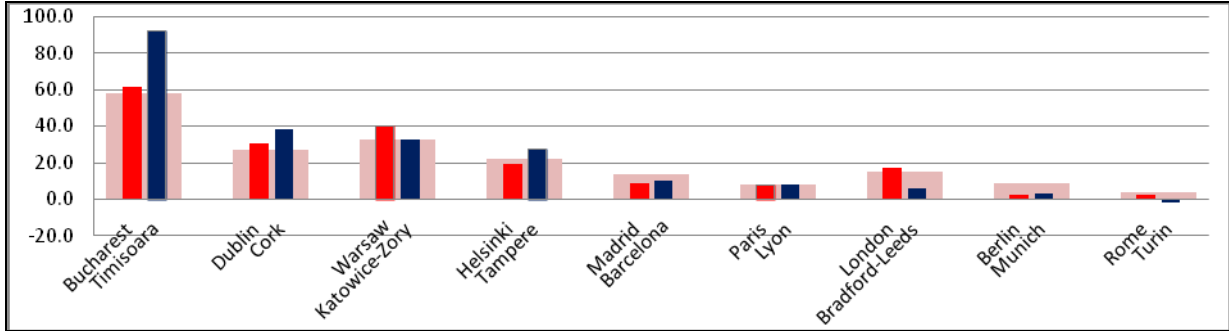


Source: Eurostat



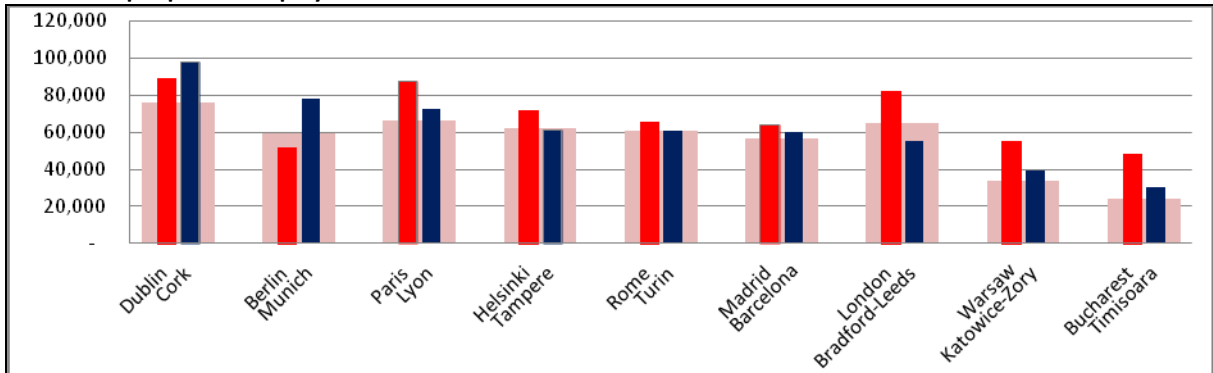
CASE STUDY SELECTION METHODOLOGY DATA

GDP per capita % change 2000-7



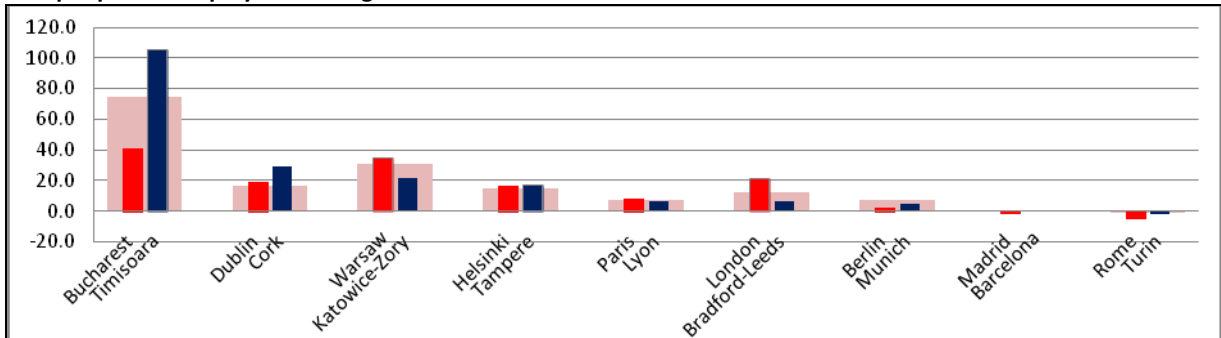
Source: Eurostat

GDP in PPS per person employed 2007



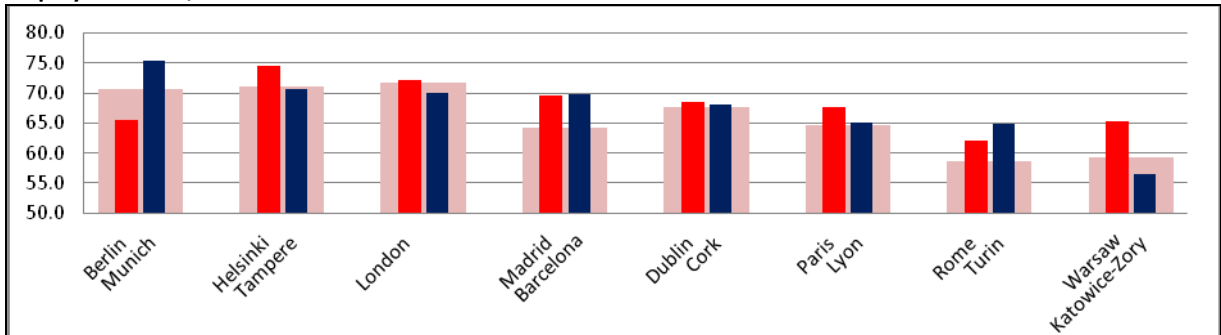
Source: Eurostat; national data for Bradford-Leeds and London are for Great Britain

GDP per person employed % change 2000-7



Source: Eurostat

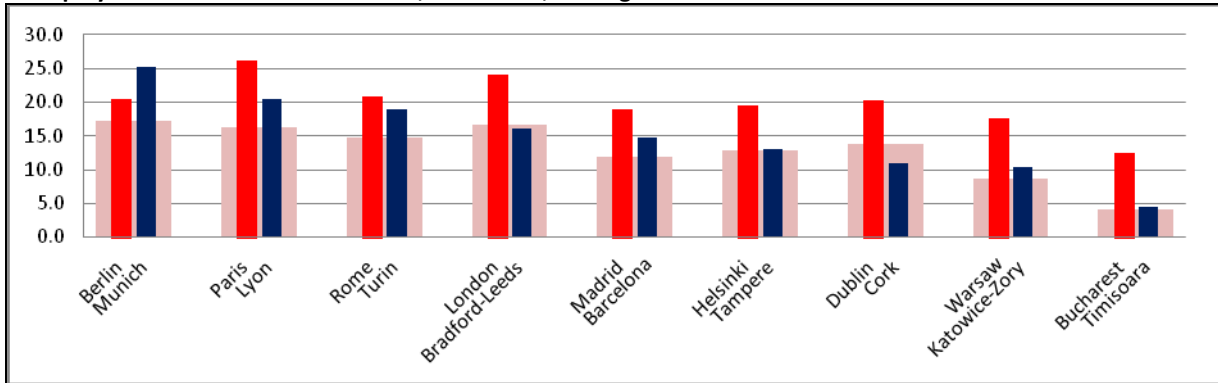
Employment rate, 2008



Source: DG-Regio

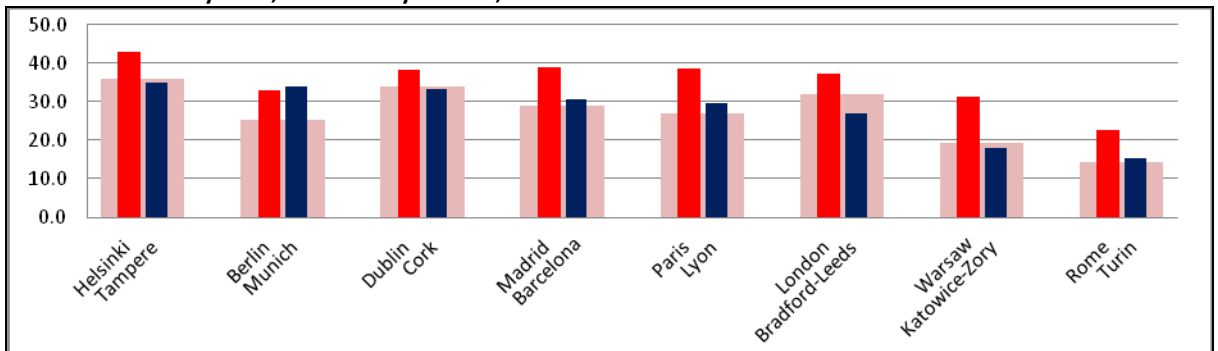
CASE STUDY SELECTION METHODOLOGY DATA

% employed in financial intermediation, real estate, renting & business activities 2007



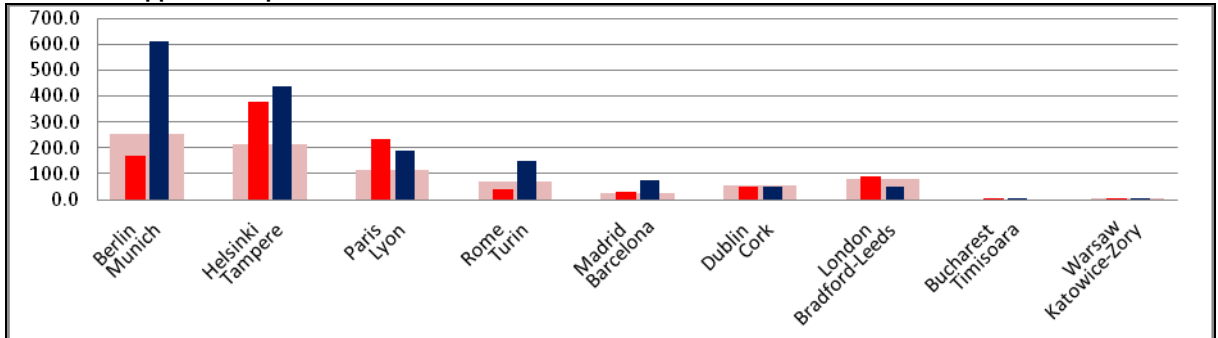
Source: Eurostat

Educated to tertiary level, % of 25-64 year olds, 2008



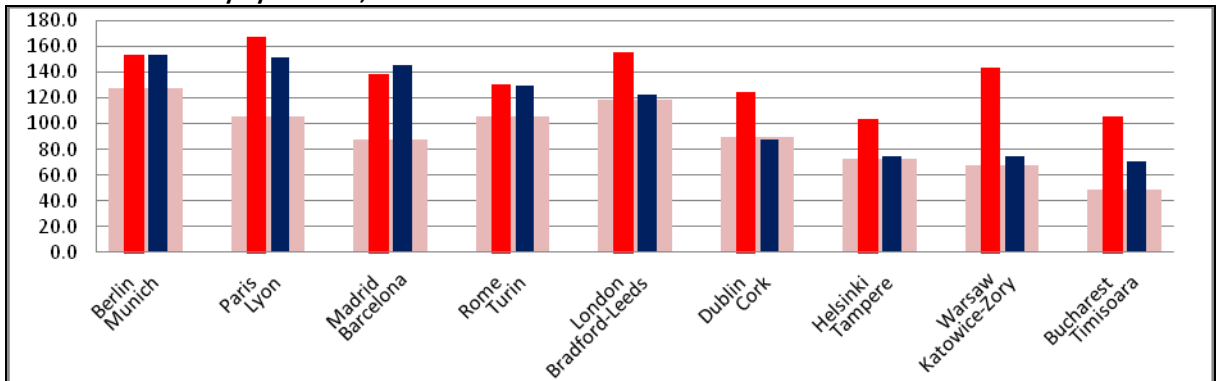
Source: DG-Regio

EPO Patent Applications per million inhabitants 2006-7 where EU27=100



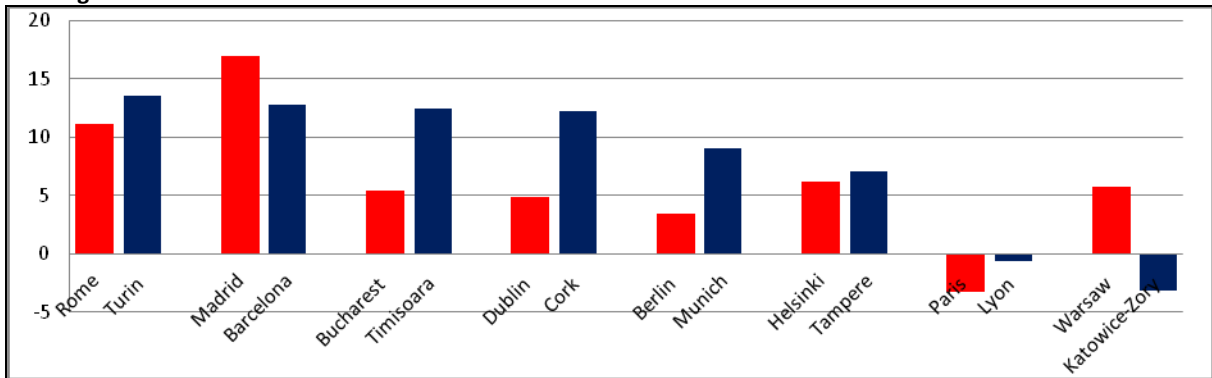
Source: DG-Regio

Potential Accessibility by Air 2006, EU27=100



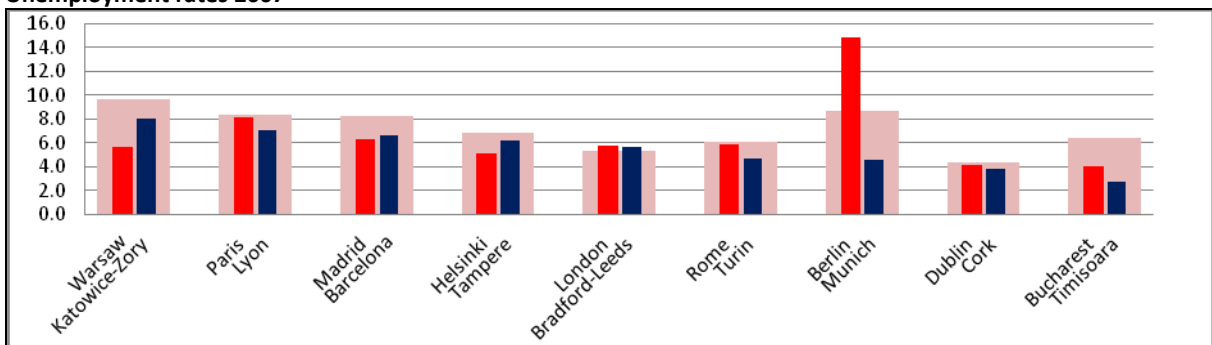
Source: ESPON Database

Net Migration Rates 2007



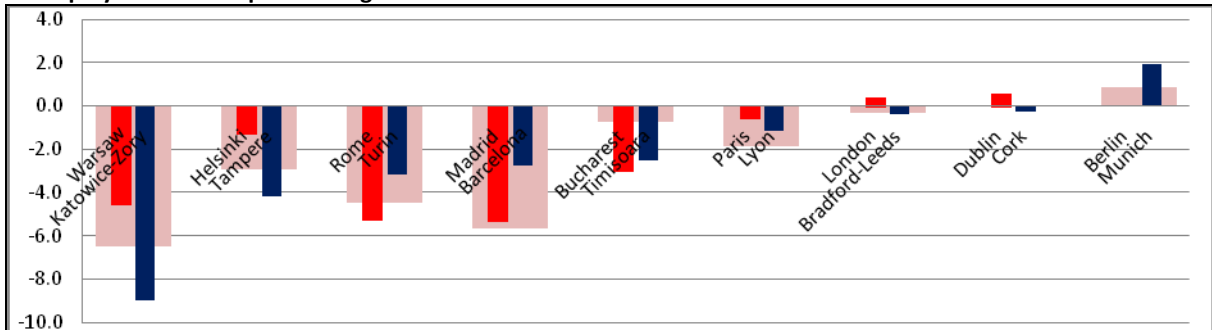
Source: DG-Regio

Unemployment rates 2007



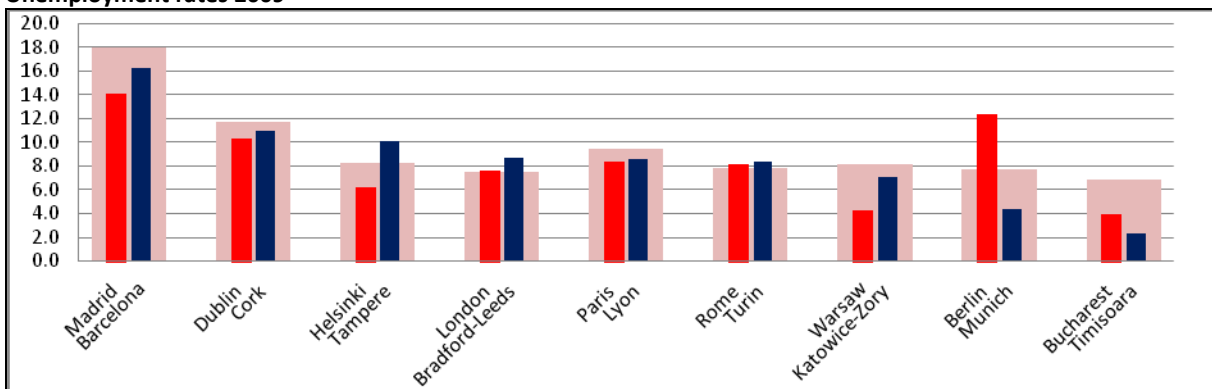
Source: DG-Regio

Unemployment rate % point change 2000-7



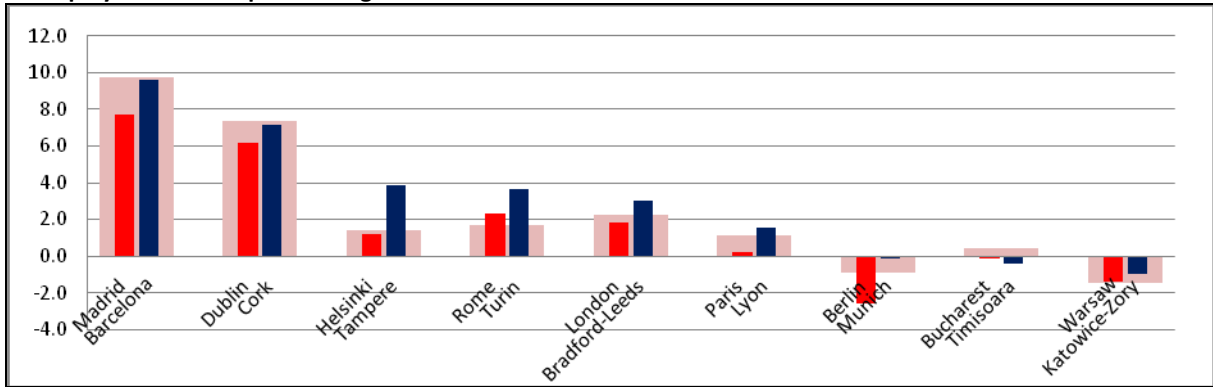
Source: DG-Regio; Irish data are for 2000-6; German data are for 2001-7; Berlin 2001 data not available

Unemployment rates 2009



Source: DG-Regio

Unemployment rate % point change 2007-9



Source: DG-Regio



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**3.2**

**MUNICH**

**Richard Evans**



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## CONTENTS

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4. Performance
5. Policy Context
6. Overall Impact of Policy
7. Prospects
8. Main Findings and Policy Implications

Appendix: Key data on Munich

## 1. INTRODUCTION

- 1.1 Germany has one of the most balanced urban systems in Europe. Neither its capital Berlin nor any of its state capitals and major metropolitan regions dominate in terms of population size or economic performance. Each has developed niche strengths besides their command and administrative functions, a phenomenon that some commentators have described as 'functional specialisation' (Grove, 2010). Germany's relatively flat urban hierarchy in theory offers the prospect of spreading both economic risks and wealth and promoting territorial cohesion. Major cities have often been described as motors of regional economic development. The German economy is the strongest in Europe and the most resilient. The conventional economic wisdom is that this is primarily because of its strong manufacturing industries and export base, increased overseas demand, recent restructuring of its national finances, national economic stimulus programmes, low wage inflation, and avoidance of the real estate bubble owing to its decentralised and separate land markets and preference for rented housing rather than owner occupation and consequent lack of speculation. However, Germany's economic resilience could also - to continue the motor engine analogy - be because it is firing on more cylinders and because the relevant state and city actors have put in place the necessary infrastructure and investment to ensure that key urban economies continue to flourish. This report is a case study of Munich, one of the most highly performing and successful of the state capitals, which has rapidly become a growth pole of European as well as Bavarian and German significance since the end of the Second World War (BBSR,2010).

## 2. CASE STUDY CONTENT

- 2.1 This case study broadly follows the same format as the other case studies. Section 3 sets the scene by briefly discussing Munich's significance in regional, national and international terms, the major issues it faces, the reasons for selecting it as a case study, the key research hypotheses and the sources we have drawn upon in preparing this report. Section 4 discusses Munich's recent economic, social and environmental performance, its main strengths and weaknesses and relationships with other cities nationally and then briefly charts the city's development path. Section 5 discusses the governmental system in Germany, the degree of autonomy of the public bodies which have had the most critical bearing on Munich's performance and development trajectory, forms of urban and territorial governance and delineation of responsibility for those policies critical to Munich's performance and prospects. It then investigates key policies in greater depth, describing their respective objectives and how they have been implemented. Section 6 assesses their overall effects on Munich's economic, social and environmental performance. Section 7 assesses the city's future strengths, opportunities, risks and threats and overall prospects and likely scenarios. Section 8 summarises the case study findings about performance, policy and prospects, assesses whether or not the Munich story supports our key hypotheses and draws out implications for supporting second tier cities generally in terms of policy and resources.

## 3. WHY MUNICH?

- 3.1 Munich is one of Germany's and indeed Europe's most successful non-capital cities. It accounts for almost a third of Bavaria's GDP which is one of Europe's most prosperous regions. Germany is Europe's strongest economy and it has recovered more rapidly from the recent recession than any other member state, experiencing almost 4% growth in 2010. The economic performance of Germany and its leading cities such as Munich therefore matters and will have a significant bearing on Europe's future prospects. Understanding the dynamics of Munich's success is therefore important. Recent research has shown that there

is a relationship between the degree of decentralisation within European member states and the economic prosperity and innovation capacity of both countries and their constituent regions (Assembly of European Regions, 2009). This case study presents an opportunity to explore the relationship between performance, territorial governance and policy in a particular place. Germany's balanced urban system and federal system of government makes Munich an ideal place in which to explore and test our core research themes and hypotheses. We will seek to establish the relative importance to Munich's economic, social and environmental performance of urban deconcentration, political decentralisation and urban autonomy, territorial governance and other factors such as economics, history, geography and culture.

- 3.2 Despite its economic success, Munich's civic leaders face a number of challenges. There is the continuing challenge of maintaining a comparative advantage in the face of competition from other German cities, particularly Berlin which has received major Federal Government support and witnessed considerable new investment since unification, and also major cities elsewhere in Europe and further afield. While Germany is relatively decentralised in governmental terms, its cities tend to be under-represented politically within Federal or state governments and often face fiscal pressures because responsibilities are not always matched with the necessary resources. They therefore face the challenge of how to cater for development and other needs. This is true of Munich, though perhaps to a lesser extent than some other German cities, since both the city and Bavaria as a whole are relatively prosperous. Munich is a relatively expensive place to live and operate a business. Land is more plentiful and cheaper, housing more affordable and business tax rates lower in surrounding municipalities and improvements in transportation systems have made these areas more accessible. All this has prompted decentralisation of economic activity and residential development in peri-urban fringes but given that Munich remains the key economic centre of Bavaria this outward movement of population is generating a substantial amount of in-commuting. Although planning strategies are devised by the state government, responsibility for planning and land use regulation rests with the municipalities and the tax advantages of securing development has tended to result in development in interstitial areas poorly served by public transport. This has led to serious congestion and related transportation issues. As Munich has prospered and grown, the need to secure a coherent sub-regional approach to economic development, planning, and governance and policymaking generally given the number of municipalities in Munich's hinterland has become ever more pressing.
- 3.3 It could be argued that Munich and indeed other German state capitals should not be classified as second tier cities given that for a prolonged period after the Second World War the traditional capital Berlin was partitioned and effectively stagnated once Bonn became the capital of West Germany until unification in 1990. Another possible objection to looking at Munich might be that it has succeeded not because of policy but rather its many inherent advantages. It is true that applying the concept of 'second tier growth pole' to any of Germany's leading non-capital cities is problematic given that Germany has a non-primate capital. However, to omit a German case study city would in our view rule out investigation of the impact of one of Europe's strongest forms of decentralised governance on the performance of its cities. Some maintain that Germany's state capitals have thrived within Europe's most decentralised governmental system because policymaking has been more attuned to supporting their development and growth than would have been the case in more centralised regimes. Munich is situated at the south eastern tip of the Pentagon area of most powerful European cities (formed by joining London, Paris, Hamburg, Munich and Milan) which raises the question of whether it partially owes its success to being in such a central, pivotal location. Munich's success probably stems from many factors and the interplay of place, policy and politics. It presents the challenge of disentangling their relative



significance and also testing the veracity of different theories of urban economic development such as agglomeration, path dependency and 'new economic geography' theory. Focusing on flourishing non-capital cities like Munich should also cast light on the mechanics of success and ways of maintaining competitive advantage, provided the analysis is properly contextualised and appropriate caveats are made about the applicability of policies to less propitious circumstances.

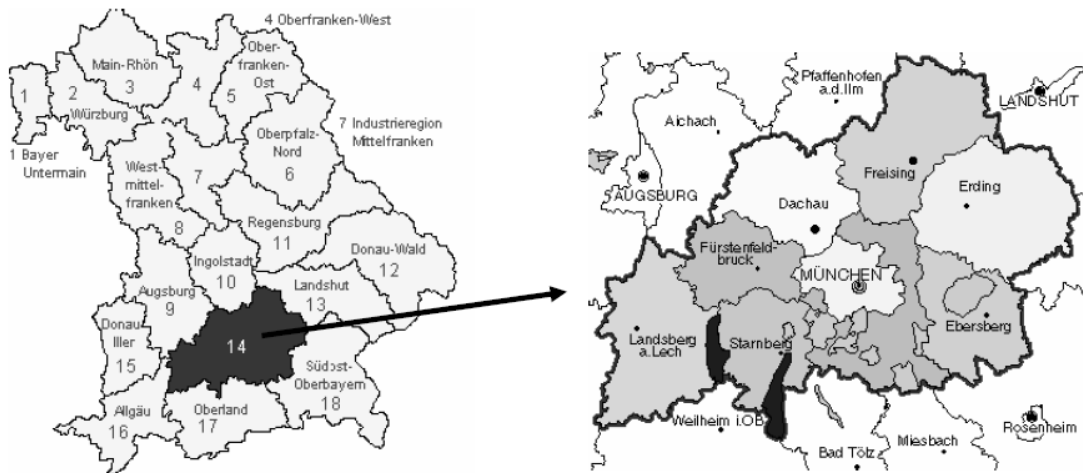
- 3.4 This case study has drawn primarily upon a range of second tier literature (academic articles, official publications), the views of governmental officials and key partner organisations and statistical information.

#### **4. PERFORMANCE: SUSTAINING AN INNOVATIVE MILIEU**

- 4.1 Munich is the capital of Bavaria and its main economic and cultural centre. Metropolitan Munich produces about one third of Bavaria's GDP. Although there are other urban centres in the region, notably Nuremberg, Ingolstadt, Augsburg and Regensburg, none approaches Munich's size or significance. Munich is one of Germany's wealthiest and most successful cities. It is the second largest centre for employment after Berlin. About 940k worked there in 2009 and the city is home to about 85,000 companies. Munich has a diverse economic structure. It contains major companies in a number of key sectors - BMW, Audi, Knorr Bremse, MAN, Zulieferer (automotive) Siemens, Linde, Apple, Microsoft IBM and Infineon (Information and Communications Technology), Allianz, Münchner Rück-Munich Re (banking and insurance). It is also the base for major companies in print, media and television, armaments, brewing and biotechnology sectors. It has a very buoyant small and medium sized sector. There were 23,356 new business registrations during 2009 and its business start up rate is higher than any other German city. Munich vies with Stuttgart and Rhein-Main urban regions in terms of its share of national patenting (12.82%, 2007 - best fit Spatial Planning Region). Although the city is predominantly a centre for service industries which employ 72% of employees, it retains a significant manufacturing sector which employs 20% of workers. Since Munich is capital of Bavaria, it is an important administrative centre. It is also a major education and research centre as it contains two of Germany's leading universities (Ludwig Maximilian University, Technical University of Munich), many public research organisations are based there (e.g. Max Planck Society and Fraunhofer Society headquarters and numerous research institutes). Both the European and German Patent Office and a number of many related organisations (e.g. the Garching Innovation) are also based there. In 2003, 4.1% of GDP generated in the Munich region was ploughed back into research and development, a higher proportion than any other German metropolitan region save Stuttgart (Stifterverband Essen, 2003). Worker productivity is higher than in other urban regions and earnings are much higher too, about 30% more than the German average and much higher than in Berlin where earnings are about 30% less than the national average. Munich's residents have greater purchasing power than those of any other German city (25,237 Euros per capita, 2009) and also Bavaria (20,735) and Germany (19,166). Munich also has a lower unemployment rate than any major German city. In December 2009, it was 4.9%, not much higher than the Bavarian average of 4.6% and much lower than national average of 7.8%.

**Figure 1: The 18 Planning Regions of Bavaria and the Regional Planning Association of the Munich Region.**

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Source: Hafner et al, 2007

4.2 Munich lies at the heart of Oberbayern (Upper Bavaria), one of seven administrative districts that comprise the Free State of Bavaria (Figure 1). About a third of Bavaria’s population live in Upper Bavaria which has about 4.15m inhabitants. The metropolitan area of Munich consists of the city of Munich and the surrounding counties of Munich, Ebersberg, Erding, Freising, Dachau, Fürstenfeldbruck, Landsberg am Lech and Starnberg. (The metropolitan area is only slightly larger than corresponds roughly to the area covered by the Regional Planning Authority). The city of Munich has a population of about 1.3m and the metropolitan region’s is twice that. Other important urban centres in Oberbayern include Ingolstadt (124k), Rosenheim (61k) and Freising (46k). If one combines the Munich metropolitan region with the sphere of influence of these other towns and cities, this produces what is known as the Munich European Metropolitan Region, an area containing a population of 5.5m (Figure 2). For many decades the City of Munich’s population has remained static, but that of the metropolitan region has grown rapidly. Forty years ago, one third of the metropolitan region’s population lived outside the city boundary whereas now more than half do so (Saller, ). Within the city, immigration has over a prolonged period offset the flight of population to the outlying villages surrounding the city. In 2005, about 23% of the city’s residents were foreigners and dual nationality holders (von Loeffelholz, 2010). The city has a higher population density than any other German city at 4,313 inhabitants per km2 (Heins and Bucher, 2010).

Figure 2: Munich European Metropolitan Region



Quelle / Source: Europäische Metropolregion München e.V.

Source : LH Munchen (2007)

- 4.3 Numerous studies and ranking exercises have confirmed Munich's status as a premier European as well as German city. 1.3m people reside within the city boundary (NUTS 3) and 2.6m in the wider metropolitan region (NUTS 2). Although Munich was only the 22<sup>nd</sup> largest European metropolitan region in population terms in 2007, a comparative study ranked Munich the third most important centre in terms of scientific research and innovation, sixth in terms of arts and sports events, seventh in terms of its economic weight and tenth in terms of its overall importance (BBSR, 2010). The overall index also includes measures of metropolitan areas' political and transport importance. German cities feature prominently in the list of leading European metropolitan regions. Munich (10<sup>th</sup>) and Frankfurt (5<sup>th</sup>) are the only non-capital cities to feature in the top 10 which also includes Berlin (7<sup>th</sup>). Europe's 125 metropolitan areas produce 65% of Europe's GDP and Germany contains more of these (17) than any other member state. A recent study of German metropolitan areas' importance in terms of advanced producer services and high-tech company representation ranked Munich as the leading German metropolis in terms of involvement in global and national high tech company networks and only behind Frankfurt and Hamburg in terms of global advanced producer services networks (Luthi, Thierstein and Bentlage, 2010). A study by IW Consult commissioned by the economic journal 'Wirtschaftswoche' ranked Munich as the highest scoring of about 50 major German cities in 2010 in terms of its wealth, labour market, economic structure and locational appeal. These findings have been corroborated by a

number of other studies. The Urban Land Institute rated Munich as the best of 27 major European Cities in 2010 in terms of revenue from property investment. Prognos placed Munich in third position out of 413 cities and districts in a study of European growth sectors and clusters in 2009. Munich was ranked third in terms of leading companies' satisfaction with their location in a European Cities Entrepreneurship study of 37 cities in 19 EU countries carried out by EU, Eurocities and OECD. Munich has the second largest airport in Germany, after Frankfurt and the seventh largest in Europe in terms of passenger volumes (34.8m, 2008).

- 4.4 The city has a relatively highly qualified labour force. Out of a total of 1.07m employees in the Munich region who paid compulsory social insurance contributions in 2006, 310,000 were classified as highly qualified knowledge workers (Federal Job Agency, 2006). About 35,000 employees work in research and development (City of Munich, 2007) and this number swells to around 55,000 if one takes the metropolitan region as a whole (NUTS 3, 2008). Notable research institutes based in Munich include Max Planck Society Institutes in Biochemistry, Neurobiology, Psychiatry, Plasma Physics; the Helmholtz Zentrum Muenchen (German Research Centre for Environmental Health), a branch of the German Aerospace Centre Oberpfaffenhofen, Society for Radiology, Leibniz Computer Centre. In total, 11 Max Planck Institutes, 4 Fraunhofer Institutes, 3 Leibnitz Centres, 1 Helmholtz Centre, 4 AiF Institutes and 3 applied research centres are based in the Munich city region. Furthermore, Munich contains a very large student population. 91,500 students enrolled in the 13 Higher Educational establishments based within the Munich metropolitan region for the winter semester 2009/10. A large proportion of graduates are recruited by local businesses.
- 4.5 Approximately 70% of the city's housing is rented and the remainder is in owner occupation. Housing is relatively expensive. Although many residents find the housing affordable because they are in relatively well paid jobs or belong to households with more than one income earner, blue collar employees tend to commute into the city from areas further afield where house prices are lower.
- 4.6 In environmental terms, the city performs quite well. Munich has a strong environmental technology sector which has supplied solar panels, wind turbines and other types of green energy to local businesses and homes. The city is regarded as an exemplar in terms of energy conservation, owing to investment in infrastructure such as district heating and combined heat and power and its extensive and efficient public transport system. The main environmental problem is air pollution, particularly along the city's heavily used main transport arteries.
- 4.7 Most Munich residents enjoy a good quality of life. It has already been noted that its residents have the highest purchasing power in Germany. It has a superb educational system, one of the highest ranked in the world, three internationally renowned orchestras, and also an opera house, many museums, art galleries and theatres, good sports and leisure facilities, a range of tourism attractions and events such as Oktoberfest. Alpine ski resorts can be reached in an hour. Besides having a major airport, Munich is served by a comprehensive, efficient, well-integrated transport system which includes an interconnected regional rail system, metro system, tram and bus network. Munich is also an integral part of the motorway network linking major centres in South Germany and allowing access to the rest of Germany and Italy and Austria. The city is also well served in terms of ICT infrastructure and it is currently being upgraded. Broadband coverage of the city is currently over 60%. Stadtwerke München, the city's municipal utility company is currently investing about 150m Euros in creating a new, ultramodern fibre-optic network.

- 4.8 Despite Munich's prosperity, there are pockets of poverty in the city and the number of residents classified as poor has increased over the last decade or so from 158,500 in 1986 to 177,700 in 2004 (see Figure 3). The main causes are unemployment, inadequate earnings, illness, family problems and homelessness. Selective outmigration of the more prosperous over a prolonged period and also substantial immigration has led to increasing concentrations of poorer, more vulnerable residents in the city of Munich, especially in its northern and southern parts. Migrants, those lacking qualifications and single parents are more likely to experience poverty and one of its principle causes is the mismatch between the type of jobs available - which tend to be in advanced manufacturing or higher value services and suited to those with good qualifications - and many jobseekers' skills. Poverty among the elderly due to low wages and patchy occupational histories is also an increasing problem. Income inequality between the richest and poorest has grown, which has led to resentment in some quarters.
- 4.9 Munich has many assets and strengths. It has a strong diversified economy with a range of modern sectors. Munich is a supreme example of Germany's triple helix system of innovation, involving close networking and interplay between top ranked Universities, a host of public research organisations and leading multi-national companies and rapidly growing SMEs. The city is also well served in terms of regional transportation networks and international flight connections. The rural nature of its surroundings has meant that there has been ample room for development and urban expansion. Quality of life is such that those companies and their workers who have moved to the city usually want to stay. As we shall more fully explore later, since the Second World War key public and private sector bodies have shown a collective determination to ensure that Munich continues to be competitive and to put in place the necessary support structures to promote further innovation and economic development. As well as being a comparatively wealthy city, Munich appears to be a reasonably social cohesive and open and welcoming city. Crime rates are very low and lower than in any major German city and most parts of the city are considered safe by all sections of the community. Though there are some problems of unemployment and poverty, these are much less extensive and serious than in most other German cities. Wider research has shown that Germany's most entrepreneurial and successful cities tend to have lower unemployment, less welfare recipients and lower crime (Panebianco, 2008). Much of the city is comparatively modern and has not had to face social problems associated with extensive economic restructuring. The city contains a relatively high proportion of foreign nationals for historic and economic reasons. However, many immigrants are relatively well qualified and educated and able to afford to live there. The city authorities make major efforts to integrate immigrants and unlike in some countries, entitlement to a full range of rights is not conditional upon gaining citizenship. Also, the conscious policy of providing a social housing element of larger mixed use development schemes means that the stock of such housing is spatially dispersed and consequently poorer residents and immigrants are not as physically segregated as in some cities (Fassmann and Reeger, 2001). Some of the native population do, however, have negative feelings about immigrants.
- 4.10 Munich has very few inherent weaknesses. While German cities and their respective state government enjoy a substantial degree of functional responsibility, this is not always matched with the necessary fiscal resources and this especially applies to city authorities and municipalities. For this reason, Munich struggles for example - despite creative use of 'planning gain' - to provide sufficient kindergarten places for the children of parents who both work. There is a lack of affordable housing in the city which has led to in-commuting and relatively high levels of congestion and pollution along arterial routes, despite the city's relatively good public transport system. Some researchers have argued that relatively high property prices and overheads have discouraged creative individuals on a comparatively low

income from living and working in the city (Hafner,2007). Conceivably, this could favour cities with comparable strengths but with a lower cost base such as Berlin. More subjectively, some argue that Munich lacks the 'edge' and excitement of some cities and is in some respects staid and traditional because it is an amalgam of a comparatively small Bavarian city surrounded by rural communities and a dynamic modern city region which has grown exponentially post-war. For example, shops tend to close early in many parts of the city centre.

- 4.11 The main problems and challenges confronting Munich are mainly at the metropolitan region level. Although the municipalities and districts which make up the metropolitan region subscribe to the principles of the Bavarian Government's Territorial Development Plan (LEP) and also the terms of the Regional Plan drawn up by the Regional Planning Association (a voluntaristic body on which city of Munich and its surrounding 185 municipalities are represented) in conjunction with constituent authorities, this does not always happen in practice. Land and transportation planning, policymaking and implementation is very patchy and uneven as responsibility is so fragmented. Local autonomy of decision making in respect of land use planning and competition for jobs and housing in view of the fiscal benefits such development brings means that development (e.g. retail stores, housing) often takes place in locations poorly served by public transport. This adds to already considerable congestion problems. Lack of integrated land and transportation policies could harm the city's longer term growth prospects and result in environmentally unsustainable development.

#### *Critical events in the development of Munich*

- 4.12 Munich's rise to prominence has been due to a mixture of history, geography, luck, vision, leadership, entrepreneurialism and well designed policy interventions (see box). In recounting the Munich story, it is important to distinguish between the pre- and post-Second World War eras. Munich has been the capital of Bavaria since the start of the C19<sup>th</sup> and hence an important administrative centre. However, it was not heavily industrialised although it contained brewing and other industries. Farsightedly however, Bavarian kings in the early C19th lured two universities to the city which meant that it became a centre for science and invention. In the early C20th, it also became an important cultural centre and many well-known artists and writers lived there. However, its 'time' did not come until after the Second World War. A conjunction of relocation of key firms from Berlin, federalism, ample supply of land and labour, location of HQs of important public research organisations in the city, good local services and an attractive hinterland provided the springboard for growth and inward investment, initially from the US. Investment in infrastructure – airport, road and rail, leisure and business parks, higher education, research and development and technology transfer subsequently played an important part in sustaining the post-war miracle. The city has become renowned for its wide range of economic sectors – the so called 'Munich Mix'.

#### **Key events in Munich's rise to prominence**

1506: Munich was made capital of Bavaria and became its administrative centre and salt-trading helped lay the foundations for a wealthy trading city.

1806: Bavaria was granted the status of a kingdom and key administrative functions were increasingly centralised in Munich.

1826: King Ludwig I of Bavaria took the far-sighted decision to move (Ludwig Maximilian) University from Landshut to Munich – LMU has since become one of Europe's most prestigious universities.

1835: The arrival of the railway made the city a transshipment centre and transportation junction which encouraged the rapid growth of the brewing industry.

1868: King Maximilian II founded the Technical University, continuing his father's policy of attracting scientists and inventors to city. TUM later became a leading university on a par with LMU.

1800-1900: Royal patronage also helped make the city a cultural and artistic centre and left a legacy of fine neoclassical buildings.

1850-1900: Late industrialisation resulted in the quadrupling in the size of the city to 0.5m residents during this period – the city had traditionally been a centre for crafts but was witnessing growth of food, brewing, engineering and textiles industries.

1900-1914: The city became the home of many famous artists and writers.

1918-45: The city became the base of the Nazi party and also opposition groups and sustained extensive damage during World War II, but was less badly damaged than its northern counterparts as it was in the United States Zone.

1945-55: Relocation of major firms from Berlin (especially Siemens) attracted other manufacturing companies and the city later benefited from inward investment, especially from US, which was designed to promote recovery but well away from traditional industrial heartlands in the north.

1945-6: Immigration of 150,000 ethnic German repatriates and refugees post war, some of whom were highly qualified, provided a pool of labour for new industries.

1948: The Max Planck Society was founded by the Federal Government to promote basic research in science, arts and humanities and its administrative headquarters was based in the city - MPS has since spawned 80 specialist research institutes, 13 of which are based in and around Munich, owing to a combination of federal, state and third party funding.

1949: The Fraunhofer Society was founded in the city by industrialists, scientists, state and federal government in order to support applied scientific research in engineering disciplines – it has subsequently spawned 59 separate institutes specialising in particular areas of research, 5 of which are based in Munich.

1950s: The City Council took the progressive decision to restore traditional buildings and layout and opt against constructing inner city motorways while promoting modern industrial and residential development in fringe areas ('Munich Way'), an approach which it later applied comprehensively in the 1963 Master Plan.

1955-70: Rapid growth of automobile, aerospace and armaments, precision engineering, publishing and printing industries occurred. Regional politicians contributed to this by supporting key companies in the aerospace, armaments and automobile industries and successfully persuading the Federal Government to provide them with procurement opportunities.

1972: The City was pioneering in the way it used successful bids to host Olympics and World Cup to promote and market the city and lobby federal and state Governments for funding for the construction of the Metro and the Middle Ring Road.

1980s-90s: Munich's combination of prestigious Universities and research institutes and abundant land and well qualified labour made the city a favoured location for a wide range of high tech industries, with many leading US and Japanese companies establishing plants there. A sustained boom led to the city being dubbed 'Municon Valley'. Munich grew to contain a mix of headquarters of major companies and vibrant small and medium sized firms and became strong in a range of sectors, principally automobiles, mechatronics, aerospace, media, film production, ICT, microelectronics, biotechnology, pharmaceuticals, medical technology, environmental technology, insurance and banking – often termed the 'Munich Mix'.

1980s: The Bavarian government introduced a variety of programmes which supported innovation and technology, especially the commercialisation of such products.

1990: A new airport located to the north east of the city opened which subsequently grew rapidly and became a hub for Lufthansa and Star Alliance and provided a further impetus for inward investment, especially in the corridor between it and the city centre.

1993: Bavarian government invested heavily in universities, business-science co-operation, technology transfer and support for new enterprises (Future Bavaria Initiative, 1994-99) using proceeds of sale of public shares, partly in response to the threat posed by the recession, the ending of the Cold War and reunification.

1998: Relocation of the Munich Trade Fair from a cramped site to the former airport site allowed the fair to expand rapidly and enabled the former site to be re-developed for much needed housing. Munich Trade Fair has since become one of the world's top ten venues.

1999: The State Government succeeded the Future Bavaria Initiative with the High Tech Initiative (2000-6) which concentrated support on leading technologies, innovation networks and research facilities, start up companies and related infrastructural investment and then followed it up with the Cluster Campaign (2006-present) which has focused support and promoted networking and collaboration in clusters in which Munich has a competitive advantage.

## 5. POLICY CONTEXT

### *Governmental system*

- 5.1 Governance arrangements in Germany are distinctive since it comprises a Federal Republic of 16 federal states in which the Federal Government and regional authorities (the Länder) both have their own legislative and administrative competences, which are exercised independently and recognised by the Constitution. There are four main tiers of administration. The Federal Government has responsibility for immigration, foreign policy, defence, criminal law and telecommunications. The Länder have their own constitutions, administrations and parliaments and are responsible for municipal law, culture, education, the media, schools and most of tertiary education, internal security and policing and the organisation of local self-government. Local Government districts are responsible for all community tasks and must discharge obligatory functions such as waste collection, disposal, energy supply, construction and management of second tiers schools and nurseries, hospitals but have discretion in other areas such as buses, tourism, libraries, theatres, museums, swimming pools. Municipalities (cities and towns) deal with urban planning, municipal roads, social security, leisure facilities, construction and management of primary schools and have discretionary competencies which include business support, housing, culture, management

of energy power plants and transport infrastructure. This political and administrative system requires the different levels to work together. Of late, however, state governments have curtailed local self-administration through a mixture of financial subsidies, standards and legal provisions (Hafner & Miosga, 2001). Within some policy areas, such as spatial planning, the Federal Government only provides the framework and the Länder and local government districts (including cities and municipalities) have legal responsibility for implementation. Urban policy can only be agreed if proposals put forward by the directly elected first chamber at the federal level, that is the federal parliament (Bundestag), are agreed by the second chamber (Bundesrat) on which the Länder governments are represented. Even if agreed, there can be a gap between intention and reality since responsibility for land use regulation rests with local government districts. Some policy areas are shared responsibilities, such as the 'Common Task' which covers Structural policy, the restructuring of agriculture and coastal protection. The system also offers considerable scope for policy variation at the state and local levels given the historical lack of self-contained competencies between administrative levels. Financial equalisation is another key element of the German model in recognition of state's different stages of development, extent of challenges and tax raising capacities. It involves both Federal Government funding for local and state governments and also transfers between richer and financially weaker states. The main sources of income for local authorities are business rates, income tax, retail and land use taxes and various local taxes (leisure, parks management, dogs) which municipalities have introduced to boost their revenues.

#### *Urban System*

- 5.2 Germany is an urbanised country (Heinelt, 2010). More than 70% of its population live in 11 'European Metropolitan Regions.' There are 82 German cities with populations of more than 100,000, of which 12 have more than 500,000 inhabitants and 8 more than 550,000. Berlin, the capital has a population of 3.4m. The four largest second tier cities with more than 600,000 inhabitants are Hamburg (1.7 million), Munich (1.3 million), Cologne (1 million) and Frankfurt am Main (0.7 Million). These four second tier cities are relatively evenly spread: with Hamburg in Hamburg state in the North of the country, Munich in Bavaria in the South, Cologne in Northrhine-Westfalia and Frankfurt in Hesse to the West. Four other cities have populations around 600,000: Stuttgart, Dortmund, Essen and Dusseldorf. Stuttgart is in Baden-Württemberg in the South West of the country and Dortmund, Essen and Dusseldorf are all in Northrhine-Westfalia in the West. Cities with population sizes between 200,000 and 600,000 are prevalent creating a rank-size distribution which is relatively convex in shape. Large parts of Germany remain rural and this is true of some areas in the South such as Northern Bavaria.
- 5.3 Germany has a highly polycentric urban system and its urban hierarchy is relatively flat. No single urban centre dominates for two principal reasons. One is to do with the history of the German state. Until 1871, it comprised a multitude of mini-states, principalities and free Imperial cities. The other reason is that its capital, Berlin, is not primate. Its growth and development was checked as a result of post-war German separation and the partition of the city, itself located in East German territory, into West and East Berlin, physically and symbolically separated by the Berlin Wall. The Federal Republic of Germany (FRG), set up in 1949, opted to make Bonn its capital. Following reunification of the two Germanys in autumn 1990, the Bundestag voted to move the capital back to Berlin. However, it was not until 1999 that the German parliament and government started working there. Effectively Berlin's development was arrested for almost the entire latter half of the 20th century. In the mean time, important economic functions and major companies had relocated to Germany's second tier cities. Besides Bonn becoming the political capital, the new Bank Durtcher Länder (Bank of German States), the predecessor of the Deutsche Bundesbank, was established in Frankfurt following the closure of the Reichsbankl in Berlin which led to it



becoming a major financial centre. Frankfurt airport also became the central base for the US Airforce in Germany making the city a global gateway. Hamburg took over Berlin's news and media activities helping it to promote the development of a media cluster. Munich gained from the relocation of Siemens' headquarters which helped it to develop its advanced production and technology specialism and also became the base of other major companies like Allianz, a major insurance company. One motivation for such moves was that the companies expected that they would not have to pay as much in war reparations in the American sector (Rode, 2010). The German model is now characterised by a division of labour between Germany's leading cities, with each specialising in different clusters of high quality services. The major urban regions feature 'a strongly interactive dynamic of developing knowledge-intensive industries and company-friendly services' (Läpple, 2006) and are connected with each other and to European and global networks of cities. Berlin lags behind Germany's leading second tier cities in terms of its range of urban functions and overall economic performance but is now receiving considerable Federal Government investment and it is a matter of debate how it and Germany's urban system as a whole will evolve and change in future.

### *Administrative context*

- 5.4 Munich is capital of the Free State of Bavaria (Freistaat Bayern), the southernmost German state, which borders Switzerland, Austria and the Czech Republic. Bavaria contains seven administrative districts, one of which is Upper Bavaria (Oberbayern) which has Munich at its centre. The districts are autonomous bodies with their own parliament (Bezirkstag) and the district of Upper Bavaria is responsible for social issues, health issues, culture and heritage, education, waterworks and some economic matters. Bavaria was divided in 1970 into 18 planning regions in order to work towards achieving balanced living and economic conditions.
- 5.5 It has long been recognised that there are important functional connections between Munich and its surrounding area and neighbouring towns and cities. In 1950, a Regional Planning Association comprising Munich, 38 communities and towns and four counties was formed to discuss strategic planning. The regional planning association of the Munich region comprises the city and seven surrounding counties (Dachau, Ebersberg, Erding, Freising, Furstenfeldbruck, Landsberg am Lech, München and Starnberg). The planning region has a population of 2.4m, one half of whom live in the city of Munich, and it is one of the most densely populated regions of southern Germany. Other associations and alliances have since been formed to protect recreational areas, carry out joint marketing, economic development and tourism initiatives. There is no systematic land and transportation planning at city regional level but a regional public transportation company comprising the state, the city and eight counties was set up in 1996, its boundary almost matching that of the regional planning district.
- 5.6 Economic activity within the region is focused on the city of Munich. About 60% of the region's workforce work within the city. The remainder commute from further afield. The city has other important economic ties with the rest of the region and beyond. Some Universities in other urban centres in Bavaria such as Ingolstadt, Passau, Bayreuth and Augsburg have affiliations with the two main Universities in Munich. Some manufacturers based in the Munich region such as BMW have established production plants in Eastern Europe but have retained key functions such as research and development and administrative headquarters within Munich. The airport is a major hub for not just Eastern Europe but many other international centres. Many multi-national companies have chosen to locate in the city because the airport serves about 250 destinations and offers good access to their other branches, international markets and trading partners.

### *Key policy interventions*

- 5.7 I now turn to questions of policy. I have taken a selective approach and focused on the most salient policies and initiatives which stakeholders felt have had most bearing upon Munich's economic, social and environmental performance in order to capture the essentials of what is a long and complex story and for the sake of brevity.
- 5.8 Within Germany's decentralised system, the most significant public interventions have been made by the state government with the city playing a complementary, if lesser, role as it has not been able to commit the same level of resources as the Land. A range of other actors have also played an important part. Munich has many strengths but perhaps the most critical to its competitiveness is that it is a major centre for research, innovation, high technology and advanced producer services industries. Responsibility for research and development and education rests with the Bavarian state government. It has consistently prioritised support for innovation and technology and entrepreneurship generally for most of the post Second World War period. State economic development policy has especially impacted on Munich because it contains a high concentration of firms in leading technology sectors.
- 5.9 In the 1950s, the Bavarian Ministry of Trade played a key role in the establishment and subsequent growth of the Fraunhofer Institute (Gesellschaft) and at the behest of the state government the Bavarian state bank established an arm (Landesanstalt für Aufbaufinanzierung) for investing in expanding businesses, especially medium-sized enterprises (Mittelstand). The state Government also funded the establishment of a new Technology University of Munich campus at Garching, a suburb to the north east of the city. Construction there of the country's first nuclear research reactor in 1957 helped attract leading physicists (such as Werner Heisenberg), many of whom were being lured to the United States, and laid the foundation for widely recognised neutron research and further improvements in facilities. In the 1960s and 70s, the state government continued to invest heavily in a number of public research agencies and universities, many of which were based in Munich. The successful 1972 Munich Games bid and extensive associated infrastructural investment in sports facilities and the urban and regional transport system was a collective effort involving city, state and federal government funding, planning and implementation.
- 5.10 The 1980s saw the introduction by the state government of dedicated programmes which targeted support for innovation and technology (Bavarian Innovation Programme (BayIP). This approach was stepped up in the 1990s, partly in response to fears that the city might lose ground as a result of the effect of the end of the Cold War on its defence and aerospace industries and a concern that the re-establishment of Berlin as capital following re-unification could shift economic activity away from Bavaria in favour of the Berlin to Ruhr axis and also the underdeveloped East where land and labour costs were much lower. Using the proceeds from the sale of public shares in a range of enterprises in 1993 which netted about 2.9bn Euros, the Bavarian Government launched the Future Bavaria Initiative ('Offensive Zukunft Bayern' OZB) which aimed to maintain the region's competitive advantage in terms of innovation in five principal ways. It provided funds for investment in technological infrastructure such as university facilities and broadband connections, promoting co-operation between business and science, stimulating technology transfer networks, supporting business start-ups and encouraging the internationalisation of the economy. OZB led to a number of initiatives: Bayern Innovativ was set up at a cost of 50bn Euros to spearhead the promotion of technology transfer for both businesses and researchers and was run jointly by public, private and intermediary research agencies. Bayern Kapital was founded at a cost of 75bn Euros in order to encourage business start ups by supplying venture capital, especially in more risky high tech sectors, and by providing patenting advice, running business plan competitions and promoting university spin offs. Three agencies were established to promote internationalisation: Bayern International

supplied advice on exports and international business opportunities to SMEs. The International Technology Forum Bavaria promoted exchange between science and industry. Invest in Bavaria sought to attract inward investment to the region by creating a network of 22 overseas representatives in key target markets and helping SMEs to take part in international trade fairs. Munich benefited considerably from this 2.9bn Euro programme which ran from 1994-99 since it contains leading universities, many other research institutions and high technology businesses.

- 5.11 The OZB was succeeded by the High-Tech Initiative (HTI) which similarly sought to maintain Bavaria's technological prowess. It concentrated support on the further development of Bavaria's key technologies such as life sciences, ICT, environmental technology and mechatronics. It comprised four 'pillars' (main elements): expansion of world-class high-tech centres; general support for regional technology; promoting start ups, technological infrastructure and qualifications; internationalisation of high-tech industries. HTI was complemented by a transport infrastructure programme. The HTI programme was similarly financed by the sale of public shares which realised 1.3bn Euros and ran from 1999-2006. Again, many of the funded projects were based in Munich. It funded the relocation of Technical University of Munich departments (mechanical engineering, IT and mathematics) to the new campus in Garching and also funded the construction there of a new research reactor and one of the world's most powerful neutron accelerators to the tune of 225m Euros. HTI also funded a new biotechnology cluster and new Ludwig-Maximilian University of Munich chemistry and pharmacy departments in Martinsreid, on the south west fringes of the city. HTI financed three start up centres in the city which included GATE (Garching Technologie und Transfer Zentrum) in Garching which is oriented to supporting ICT businesses, IZB Freising which concentrates on green biotechnology and IZB Martinsreid which specialises in biotechnology. These centres helped locate co-operation partners and relevant expertise, provided patenting and financial advice and promoted technology transfer. The first pillar also funded initiatives aiming to make more of the region's knowledge base and to build co-operation between businesses and universities. A Munich-based example was BIOM AG a financing, service and consulting company seeking to develop Munich as an internationally renowned centre of excellence through drawing together scientists, venture capitalists and biotech companies. The regional capital also gained from the funding of the Software Initiative Bayern which supported research, development and training in the ICT sector and sought to stimulate high-growth start ups in the software industry. The third pillar promoting start ups financed the FLÜGGE programme which has sought to boost the number of university spinoff companies and supports a technology transfer centre based within Ludwig-Maximilian University. It also funded, jointly with the City of Munich, the Munich Business Plan Competition which has awarded prizes to excellent business plans since 1995 and a Munich Business Angel Network supporting innovative and technological service companies in their early stages.
- 5.12 The latest phase of Bavarian state policy – the Cluster Initiative launched in 2006 - has sought to build state-wide networking and collaboration between businesses, scientists and venture capitalists in 19 key clusters of industry which have already demonstrated competence in terms of creating value, user involvement, applying research and highly qualified personnel. Cluster managers are tasked with promoting dialogue and networking between science and industry through staging events, highlighting new fields of application and projects. Although cluster managers are mostly based either in Munich or Nuremberg, the most important clusters and their leading protagonists tend to be located in and around Munich. State funding of the Bavarian Cluster Initiative has been more modest than its predecessors since privatisation revenues had been exhausted. Funding is tapered so as to encourage the private sector to contribute and take ownership of the clusters.

- 5.13 In many cases, new initiatives have built upon and complemented the results of their predecessors. This can best be illustrated by exploring their collective impact upon one of Munich's leading sectors, biotechnology (see box).

**The biotechnology cluster at Martinsried/Groshadern campus**

Martinsried campus on the south western fringes of Munich contains the second highest concentration of biotechnology companies in Europe after London. 190 biotechnology companies and several university departments and research institutes, employing over 13,000 staff are based there. The campus was first established in 1973 when the then new Max Planck Institute of Biochemistry decided to locate there owing to an abundance of space and the proximity of Ludwig Maximilian University's Clinical Centre. LMU later based its Gene Centre there in 1984. These research facilities soon began to spawn spinoff companies. Pivotal to the campus's subsequent expansion was the Federal Government's selection of Martinsried as a winner of its BioRegio Competition in 1995. Universities and research institutes, regional government, the private sector and venture capital firms were invited to bid and submit business plans in areas of major potential where there was a concentration of research facilities. Martinsried was awarded 12.5m Euros which resulted in two main initiatives. An Innovation and Start-up Centre for Biotechnology (IZB) was set up in 1995 on the campus to provide affordable office and laboratory space for start up companies in response to requests for such facilities from scientists and students wishing to form their own business. Secondly, an organisation called BioM AG was established to build links between entrepreneurs and venture capitalists, provide business advice and promote and manage the cluster by encouraging networking and knowledge transfer and also run the incubator. The Bavarian state government also assisted by supplying funding via the Offensive Zukunft Bayern programme. These projects encouraged LMU to relocate its Chemistry, Pharmacy and Biology Departments to Martinsried in order to create a life-sciences campus. Max Planck Institutes of Biochemistry, Neurobiology and Psychiatry have worked closely with both main universities in developing an outstanding international PhD programme in life sciences covering areas such as biochemistry, cell biology, molecular biology, neurobiology and structural biology. Nearby the National Research Centre for Environment and Health has established a department and the Munich Hospital in Grosharding which supplies opportunities for scientists and biotechnology start ups.

Martinsried has continued to be a focus for Federal and State Government support. The state government identified biotechnology as one of 19 key clusters in its Bavaria Clusters Campaign which was launched in 2006 and handed BioM AG the task of managing the Martinsried and other similar clusters in Bavaria and promoting networking and collaboration between businesses, scientists and venture capitalists. The Federal Government has also recently selected BioM AG as one of its 'Spitzenclusters'. The programme focuses on bringing products to market, in this case in the field of personalised medicine. 5m Euros has recently been secured from the German Ministry of Education and Research in order to create industrial applications for biotechnological processes.

Over the last 14 years, public investment amounting to 50m Euros has levered about 2bn Euros of private investment on the Martinsried campus. In the period 1996-2003 alone, more than 1.1bn of venture capital flowed into the Munich biotechnology cluster, 50% of total cash flow in Germany during that period (Häussler and Zademach, 2006). The IZB has been extended owing to its success and popularity and now extends to 15,000 sq metres. Developments at Martinsried have played a key part in the Munich Metropolitan Region becoming one of Germany's leading centres for 'red biotechnology' - the production of genomic and post-genomic drugs. The growth of the sector has been underpinned by close co-operation between biotech companies and research and teaching institutions, availability of capital, specialist service providers, extensive support and technology transfer. The Martinsried cluster is an exemplar in all these respects.

- 5.14 The City of Munich's economic development policies have complemented those of the Bavarian Government in many respects but they have also sought to address social cohesion and environmental issues. Their essence is captured in the Department of Labour and Economic Development concept plan which was the economic element of the city's development strategy which was called Perspective Munich (City of Munich, 1999). It advocated the promotion of future oriented sectors through provision of land and premises and other infrastructure such as transport and ICT, appropriately skilled labour and business friendly services. It sought to respond to growing external competition by strengthening marketing and also regional and international co-operation concerning key infrastructural projects. But the document also stressed the importance of providing suitable jobs and vocational training opportunities for the socially excluded and promoting environmentally sustainable development. Although the city does not have the financial resources of the state government, its budget understates its power and influence. The City is able to act

through holding shares (in some cases a majority stake) in a large number of private companies such as Munich Airport company (Flughafen München GmbH), public utilities (Stadtwerke München), Munich Trade Fair Company (Messe München), Skilled Trade and Business Centre and Technology Centre Company (MGH-Münchner Gewerbehofund Technologie- zentrumgesellschaft mbH), tourism and leisure facilities such as Olympiapark München GmbH and their many subsidiaries. These companies are run on a commercial basis and many are highly profitable. For example, Stadtwerke München contributes about 400m Euros to the City's coffers each year in share dividends, local trade tax, commission fees and revenue from its public transport system and swimming pools. The Chamber of Commerce also has a major stake in some of the companies, notably the airport and trade fair. The City also has an extensive land portfolio, partly because it purchased a number of ex-military establishments in the early 1990s, which it has subsequently used to develop new mixed use commercial and residential areas. Since the city is prosperous and competition for land from high value businesses intense owing to its scarcity, the city's real estate is extremely valuable. The City is also able to utilise betterment payments and planning gain to fund infrastructure and social facilities such as kindergartens and nurseries .

- 5.15 The City of Munich's policies have had a bearing on the city's economic performance in four respects. First, it offers support to business start ups and small and medium sized enterprises, working closely with the Munich Chamber of Industry and Commerce. For example, in partnership with the Chamber of Commerce, it has developed the Munich Technology Centre (MTZ, Münchner Technologiezentrum) to supply office space and administrative and office management services together with advice about marketing and access to finance to new technology companies. Again with the Chamber of Commerce it has opened MEB (Münchner Existenzgründungsberatung), a consultancy office for start up businesses. (The Chamber champions and supports SMEs in many other ways, by supporting various incubators and technology centres in the city such as the highly successful Application Centre for Satellite Navigation Oberpfaffenhofen and by supplying coaching programmes and a wide range of vocational training courses). Secondly, the City of Munich has developed new commercial zones as already mentioned. In some instances, it or its arm's length companies have provided land and premises for new sectors such as life sciences (Freiham) and new media (Kuntpark Ost). In Riem Trade Fair City (Messestadt Riem), the City has developed a park for new technology companies linked to the nearby Trade Fair Centre and International Congress Centre and also provided space for more traditional commercial uses and live-work accommodation. It has done so in order to avoid creating monofunctional areas and preserve existing activities. Thirdly, it has commissioned research on the city's leading industrial sectors and competitive strengths which it uses to produce trade information and market the city. Fourthly, the City of Munich is the only German municipality to run its schools and attainment is very high. 40% of students qualify for university, almost double the Bavarian average (Rode et al, 2010). Since Munich also has highly regarded universities and a good vocational training system, employers are able to draw on a large pool of skilled labour. Good schools also help to attract and retain talented workers and their families from elsewhere.
- 5.16 The city has worked hard to reconcile economic competitiveness, environmental sustainability and social cohesion. For much of the post-war period, it has pursued an integrated approach to development planning and its most recent manifestation has been the Perspective Munich integrated development strategy. This document is underpinned by five main principles: economic prosperity, regional co-operation, social balance and equity, development and redevelopment of the city to reduce sprawl and sustainable mobility for all citizens. In essence its approach to spatial development can be summed up as 'compact, urban, green'. The city has protected and enhanced existing greenspace and also extended its quantity by insisting on generous open space standards in new residential areas. It has

promoted mixed-use developments in order to minimise travel and promote environmentally friendly transport modes. Land surplus to requirements (such as the former airport, trade fair and land released by federal railway and post and telecommunications services as a result of privatisation and by the military following the ending of the Cold War) has been re-used and developed for a mixture of purposes including housing, open space and commercial uses. In each case a substantial proportion of the sites has been designated for social housing for low and middle income groups. More generally the city prioritises additional housing construction not just by redevelopment but also infilling, addition of further floors, development of peripheral sites accessible by public transport. The city's public utility company Stadtwerke Muenchen (and its various subsidiaries) which is responsible for the city's gas, electricity and water supply, public transport and swimming pools has played an important role in stimulating green industries.

- 5.17 Federal Government policies have also assisted Munich, if in less direct ways. In the 1950s and 1960s, considerable Federal defence expenditure was incurred in the Munich metropolitan region which not only fuelled the growth of its aviation and armaments industries but also helped to establish its microelectronics industry. The government has also injected substantial funding into Munich's universities and research institutions. This was partly owing to the influence and lobbying of Franz Joseph Strauss, who was at various times a Federal Government Minister, leader of the Conservative CSU party and later Prime Minister of Bavaria.
- 5.18 During the 1990s, the Government took the innovative step of launching competitions to promote collaboration between research institutions, private enterprises, regional governmental organisations and venture capital companies in areas with most potential. The BioRegio competition exemplified this approach.
- 5.19 More recently, the Federal Government has produced the High-Tech-Strategy, the first national innovation strategy, and voted 14.6bn Euros for the period 2006-9 most of which is being targeted at supporting research and development in key high tech areas, with some of the funding being used to promote research-industry links, support SMEs and cluster development. The Munich Biotech Cluster is one of five selected excellence clusters and will receive 100m Euros for the period 2011-16 for pharmaceutical development. Another related priority is to boost the number of highly skilled workers through additional education and research expenditure and easing access restrictions for those based in other EU member countries and elsewhere.
- 5.20 Munich has also benefited significantly from three related Federal Government measures to modernise Germany's science system. In a break with its traditional approach of supporting a wide range of disciplines in each region, the Federal Government has introduced the Excellence Initiative which not only supports individual clusters of excellence and important graduate centres but also targets funding at the very best 'elite' universities to help them compete internationally. Two of the nine selected universities are in Munich and they stand to receive 110m Euros of R&D funding over the period 2006-11. Secondly, the Higher Education Pact 2020 is designed to increase the proportion of people entering university and will result in additional places and funding for Munich universities. Thirdly, the Federal Government and the Länder have recently agreed to increase funding to the main public research institutes by 3% to provide them with funding certainty (Joint Initiative for Research and Innovation). The Federal Government has also increased the proportion of GDP allocated to research and development from 2.5% in 2004 to 3% in 2010, and exempted research and education expenditure from budget cuts. This has undoubtedly benefited cities like Munich which have a concentration of research and development institutions.

- 5.21 The Renewable Energy Law of 2000 has proved another significant federal government policy for Munich as it has allowed homeowners and businesses to sell renewable energy back to the national grid at a guaranteed fixed price. This has created additional business for the city's environmental technology sector and also led to innovation and new product development (Triebswetter and Wackenbauer, 2008).
- 5.22 European Union policy has also affected Munich though to a lesser extent. EU measures designed to improve the competitiveness of European industry and promote innovation in various spheres have benefited the city, given its economic strengths and strong academic and research and development institutions. The Chamber of Industry and Trade and Chamber of Small Industries and Crafts jointly operate Munich's Euro Info Centre which provides SMEs information about support programmes, EU trading opportunities, regulations and laws and work with Bayern International to promote start ups and SMEs at many international trade fairs. Various EU funds promoting knowledge exchange have assisted university scientists and research departments and public research organisations. Since Munich is prosperous, it has not been entitled to receive regional and structural funds. The city has sought to ensure its voice is heard in EU urban policy debates and to exchange good practice with other major European cities by participating in organisations like EURO CITIES and also the URBACT programme on metropolitan governance.

*Governance and organisational capacity*

- 5.23 We now investigate what form urban and territorial governance has taken and the degree of both vertical policy integration between different tiers of government and horizontal policy integration which requires public, private and voluntary sectors to work together well. Munich's performance on these counts has generally been impressive for a number of reasons. The nature of the German constitution and also city and state politics has meant there are checks and balances to governance and policy making. Policy making requires co-operation and negotiation between the tiers and although the formulation process can be long and arduous, it does tend to produce workable solutions. There have also been instances where leading Bavarian state politicians have become members of the Federal Government or prominent figures within their political parties which has meant that they have been able to champion the region and seek to protect its interests within the Bundestag and Bundesrat. For example, Franz Josef Strauss lobbied successfully for the Bavaria's aerospace and defence armaments industries to receive sizeable defence contracts in the 1980s and also persuaded the Federal Government to sanction and help fund the construction of a new airport to the north east of the city. In Munich, the state and city governments have principally shaped policy on the ground. The conservative CSU party has held power in Bavaria for many decades, while Munich has for much of the post-war period been governed by the centre-left SPD but over the last two decades has been led by a SPD-Green coalition. Such continuity has brought stability. Even though the CSU and the SPD/Greens have a rather different philosophy, there are important areas of consensus. They agree that it is imperative to maintain the state capital's competitive advantage and actively respond to business needs. Some commentators have also been argued that the state government's 'neo-liberal, technology oriented policies have been tempered and complemented by those of a social-democrat, public-service oriented city government (Rode,2010). The City of Munich has consistently sought to maintain social cohesion and caring attitude towards its citizens through its education, social housing and social care programmes and Munich is often described as a 'Millionendorf', which literally means a village of a million people owing to its outlook and the mentality of many of its residents. It has also been argued that the city's arm's length companies, especially Stadtwerke Muenchen, the public utility company, are in a position to make long term strategic investments which provide certainty and confidence to the private sector which has to operate over shorter time horizons.

- 5.24 Munich contains a strong nexus of prestigious universities, powerful public research organisations, mix of successful small, medium and large businesses in dynamic sectors and a public sector which is interventionist, technical and entrepreneurial. All these bodies network and exchange knowledge extensively and some policies have positively encouraged this (e.g. Cluster Initiative). For example, entrepreneurs sit on University governing bodies and the Technical University of Munich in particular illustrates this. Academics sometimes lead the research institutes. Some public officials have a scientific or technical background and have made politicians and fellow officers more fully aware the latest technological developments and where public support might assist innovation (Rode, 2010).
- 5.25 The effectiveness of sub-regional governance has been more mixed. On the one hand, Munich's success has acted as an incentive for the city and other towns and cities and municipalities in the wider urban region to work together on such matters as marketing, improving infrastructure such as regional transportation systems and making the case for events of potentially regional significance such as the Winter Olympics bid. On the other hand, the fact that Munich planning (city) region contains 185 municipalities has made concerted action difficult to achieve. Responsibility for land use regulation rests with the municipalities since the German planning system is based on principles of local autonomy and subsidiarity. Regional planning documents produced by the Land and the Regional Planning Association do allude to environmental sustainability and balancing economic, social demands and ecological concerns. The Regional Plan defines in general terms greenbelts and areas where development is preferred which are mostly in the corridors of the regional rail system. In practice, however, there are powerful forces at work fostering urban decentralisation and sprawl. Many manufacturing plants have relocated on the periphery owing to lack of space for expansion within central Munich. Many wealthier families aspire to living in low density developments containing detached or semi-detached properties with large gardens. Outlying municipalities tend to compete with one another in attracting retail stores and housing because they receive 15% of income tax generated in each Land dependent on their population size and also receive transfer payments depending on the extent of their service responsibilities, and property taxes and fees for communal services. Municipalities are able to acquire land at near to existing use (ie. agricultural) value and then pass it to development corporations who re-zone, parcel and service the land for say housing and pass on surpluses to the municipalities who use it to fund local services (Heitkamp and Kreibich, 2009). There is therefore a powerful incentive for cash-strapped municipalities to develop land and in many cases development sites are located in interstitial areas poorly served by public transport.
- 5.26 The Regional Planning Association has taken steps to address the fact that some functions such as knowledge and producer services are concentrating within Munich while manufacturing, housing and leisure functions are becoming more dispersed by setting up the European Metropolitan Region initiative in 2007 in order to promote a more regional approach to knowledge, economy, mobility, environment and health issues (Lüthi, Goebel and Thierstein, 2007). Regional co-operative efforts have tended to centre upon identifying voluntary 'win-win solutions.' One recent example is the Settlement Development and Mobility in the Munich Region study jointly financed by the RPA, the Land and the Munich Public Transport Association which has sought to model the mobility and infrastructural costs of different settlement configurations using data about land reserves and existing and planned public transportation infrastructure. Attempts have also been made to extend the regional rail network but this has proved difficult to achieve given municipality demands for mitigation measures and stations to be sited within their boundaries to offset the disbenefits such as noise and severance and the state government's insistence that municipalities contribute to infrastructure costs.



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## 6. OVERALL IMPACT OF POLICY

- 6.1 Given the broad scope of this case study, it is not feasible to investigate the impact of each policy initiative in depth. Rather we have drawn on the views of stakeholders on the general contribution of different policies to Munich's economic, social and environmental performance and checked these using relevant trend data. In this section and section 8, we look at the extent to which different policies are vertically and horizontally integrated and either complementary or in some respects in conflict with one another (ie. policy collision).
- 6.2 The general view is that Munich has achieved a remarkable degree of success since the end of the Second World War when over two thirds of the city was badly damaged. Furthermore, it has maintained its performance in the face of increasing competition in recent decades (Rode,2010). During the 1980s, Rode shows that Munich's share of national patents declined while some other German metropolitan regions such as Stuttgart improved theirs and in the early 1990s, the city was starting to lose ground in terms of productivity and number of jobs. During the 1990s, however, Munich dramatically improved its patent share and overtook its leading metropolitan rivals and its productivity and employment rates dramatically rose and diverged from the German average and it has broadly maintained its percentage points lead since the millennium. More detailed information on patent share in sectors where Munich has excelled in recent decades such as biotech, ICT and cleantech show that the city has performed more strongly than other leading metropolitan regions and Germany as a whole. Munich metropolitan region's research and development spending as a share of GDP has remained much higher than state and national average since the 1990s. The same has been true of its business start up rate. Over the period 2003-2008, the gap between the city region and Bavaria or Germany in terms of the percentage of skilled science and technology workers gradually widened in the former's favour, but it has experienced a sharper decline in employment in those sectors as a result of the recession. Despite this recent blip, all the key indicators show that the city remains in rude economic health.
- 6.3 Gauging the role that policy has played in Munich's performance is not an easy task as there are so many contributory factors. We have concentrated on the critical post war period. As already discussed, the city was well-placed to grow post war. It had two good universities and was a vibrant cultural and arts centre, it possessed some viable local industries, an ample supply of land and labour, an attractive hinterland and major firms were opting to move there from Berlin and elsewhere. However, city, regional and national politicians and scientists stimulated the post war boom in a number of ways. They were responsible for headquartering the Max Planck Society and the Fraunhofer Society in the city, which promoted basic and applied research in disciplines which were later to play an important part in Munich's innovation system and the success of key knowledge industries. Lobbying by local and state politicians meant that key aerospace projects such as airbus were based in the Munich region and that defence contracts fuelled the growth of the city's defence industries. Visionary city politicians also brought major events to the city, such as the 1972 Olympics and 1974 (and later the 2006) World Cups, securing investment in transport and leisure infrastructure such as the Olympic Park and Stadium in the process. They also helped to pave the way for the relocation of the airport in 1990. City planners and politicians also boosted city performance by providing land to enable expansion of key activities such as the trade fair and zones for new industries while respecting and conserving the urban fabric and historic buildings in the core areas of the city which enhanced its liveability and popularity as a tourist destination. Both stakeholders and the statistical data suggest that the most crucial area of policy intervention has, however, been in supporting new technology and innovation and business development. Heavy, sustained state and to a lesser extent federal and city government investment in new research facilities, technology transfer bodies,

commercialisation of innovations and business support coincided with a reversal in the slight fall off in economic performance in the late 1980s and early 1990s and an acceleration in growth and prosperity since. Such programmes also encouraged networking and joint working between entrepreneurs, academics and researchers and facilitatory groupings such as the cluster protagonists. Powerful synergies exist in many sectors between the universities which supply bright graduates to leading firms and in some cases the presence of leading research departments has persuaded multi-national companies to open their own research centres in the city. For example, General Electric opted to base their European Research Centre in Munich because of the excellence of TUM's mechanical engineering and computer science departments. Pfizer have also based a major research and development facility in the city for similar reasons. Major businesses also contribute funding to new university facilities and sponsor students on certain courses which helps the universities to continue to thrive. Also university departments, research organisations and firms and various intermediaries work closely together in many fields in discovering innovative products and processes and realising their commercial potential. Municipal enterprise in the shape of city run companies has also played a part in fostering economic growth and the rapid growth of Munich airport and Munich trade fair are proof of this.

## 7. PROSPECTS

- 7.1 We now turn to assessing what the future might hold for Munich. We speculate on whether Munich will continue to be successful and also discuss whether the city's mix of strengths, weaknesses, opportunities and threats could change and the most likely scenarios in regional, national and international terms. We especially discuss possible changes in Munich's relationship with the capital and the rest of the urban system in Germany.
- 7.2 Munich continues to face the challenge of maintaining its comparative advantage in the face of stiff competition from the many rapidly developing as well as the developed nations and other European cities. However, neither interviewees nor trend data suggest that the city is resting on its laurels or that there are danger signs of deteriorating economic performance. There is evidence to suggest that the recession has affected the order books and balance sheets of many of its export oriented companies (e.g. in the automobile sector) but Munich's strengths in a range of sectors has enabled it to fare better than many of its competitors. Also, the city's strong innovation system and good governance have contributed to such resilience and should help it to continue to thrive in the short to medium term (ie. next decade). There are plans to construct a second airport runway. Lufthansa's takeover of Swiss International Airlines in 2005 and Austrian Airlines in 2009 should favour Munich as a hub and enable it to gain at the expense of the former bases of those airlines, Zurich and Vienna. Lufthansa has recently been pressing the airport company for a dedicated terminal. Stadtwerke Muenchen has about to invest 200m Euros in installing an ultra-fast fibre optic network for businesses and households in the core part of the city which will give the city a clear competitive advantage over many of its peers. Stadtwerke is also aiming to deliver a 100% renewable electricity supply by 2025. City leaders and top business figures are seeking to draw upon indigenous strengths to develop a cluster in the field of 'e-mobility' which would encompass low carbon and electric vehicles, electric car grids and next generation high speed rail (Rode,2010). While Munich is a relatively expensive city in terms of property costs and overheads, as long as it maintains its strong export base it should continue to thrive. Past experience suggests that Munich's strategy of focusing on high-value added manufacturing and advanced service industries has made the economy more resilient to shocks and external pressures. Post the Cold War, some of its major manufacturers relocated assembly operations to cheaper locations in Eastern Europe but later switched emphasis back to Munich because they could not obtain the necessary skilled labour and maintain product quality. It must also be remembered that labour mobility in Germany is a

lot lower than in many EU member countries, given regionalisation and the emergence of a division of labour of specialist functions in different federal capitals, the embeddedness of regional innovation systems and the close connections between educational and research establishments and leading firms in the different states. The quality of Munich's schools and universities further enhances labour retention and the 'stickiness' of the city region in terms of business representation.

- 7.3 So what are the principal threats facing Munich? It is clear that state and city resources for supporting innovation and other projects will not be as extensive in future as they have been in the past. The state government has sold the majority of its public shares and its finances have been put under additional strain because it has helped bail out the state bank (Bayerische Landesbank). Due to the ending of the practice of state guarantees in 2005 by the EU and political pressure to increase returns, the bank succumbed to the temptation to make what turned out to be imprudent investments in foreign commercial property, sub-prime debt and other structured securities and had also opted to take over what proved to be an underperforming Austrian bank. The city government has investigated whether to boost its income by selling some of its public assets but decided against this. For example, it decided not to sell its housing stock because it discovered that tenancy rights lessened the stock's capital value and would have led to complications if it had pursued that course of action.
- 7.4 We now consider whether the balance of power is likely to shift between Munich and Berlin and also other state capitals in future. Since unification, Berlin has benefited from considerable federal and city state investment in new economic zones and housing and social infrastructure and also a new airport which is due to open in mid-2012. It has also witnessed a property boom and has an abundance of new offices and apartments. On the other hand, it has experienced rapid deindustrialisation since 1989, which has led to high unemployment and poverty and the city is heavily in debt which has restricted the scale of public spending. While there is an understandable fear that Berlin will once again become a powerhouse and gain at the expense of Germany's state capitals, Munich included, so far evidence suggests that this has happened only to a limited extent. Berlin has struggled to reassert itself because there is a well established division of labour in terms of sectoral specialisms in the different state capitals and the capital has neither the necessary infrastructure notably skill sets nor the risk capital to compete. Major German and multi-national companies based in Munich and other federal capitals have not relocated their headquarters or key functions to Berlin as some city leaders there were hoping but have tended to open small sub-offices in the capital for lobbying purposes. Berlin's main areas of comparative advantage appear to be in media, fashion and design. ICT, life sciences, advertising and design, environmental services, medical engineering and transport sectors are rapidly growing though from a comparatively low base in some cases. Berlin has a thriving night time economy and a low cost base and its cheaper business accommodation and lower house prices could appeal to young creative artists and entrepreneurs starting their careers who have limited disposable income. There is tentative evidence to suggest that Berlin is becoming a favoured location for film production which could affect Munich's film industry. There is also the worry that Berlin could become attractive for media industries generally which could have implications for Munich, since media has traditionally been one of its strong sectors. There are also signs that Berlin may become a major base for the fashion industry. Most maintain that Berlin poses a threat more in the medium to long term as it will take considerable time for it to catch up with the state capitals. Others argue that it will never regain its dominance given the state capitals' advanced stage of development, their interdependent clusters of specialist functions and support services and infrastructure. We did not encounter much hard evidence to suggest that the distribution of specialist functions amongst the state capitals or

indeed the balance of power between them is about to change markedly in the foreseeable future.

- 7.5 Turning to risks and threats, the main problems highlighted were congestion and gaps in the industrial structure .
- 7.6 Munich's economic success could come at a heavy price of increasing congestion and pollution which will not be environmentally or physically sustainable in the longer term. A combination of its economic importance, fragmented sub-regional governance, lack of integrated land use and transportation planning is increasing car dependency at a dramatic rate despite the fact that the city itself has a good public transport system. Less than half of the 300k job commuters use public transport. Every day 500k vehicles cross the city boundary and despite efforts to divert through traffic this figure is projected to increase by up to 30% by 2015 (Thierstein and Reiss-Schmidt, 2008).
- 7.7 Munich is without doubt a shining example of the German 'triple helix system' in which close co-operation and networking between universities and research institutes, the public and the private sectors has stimulated innovation and new product development and hence competitiveness and economic prosperity. However, the process is often risky and success cannot be guaranteed. For example, in the biomedical sector, public support is crucial since venture capitalists are reluctant to invest in small enterprises which take time to prove the marketability of a particular product. The shortage of major suitors within the city region, that is large pharmaceutical companies with research and development functions may affect the sector's prospects. That said, Munich's great strength is its diverse economy and many economically competitive sectors and is therefore able to spread such risks. It should therefore prove more resilient than most of its peers.

## **8. MAIN FINDINGS AND POLICY IMPLICATIONS**

- 8.1 This study has shown that Munich not only makes an important contribution at all spatial levels to the Bavarian economy, the competitiveness of Europe's most successful economy but also plays a crucial role in Germany's economic performance. The Munich city region accounts for 29% of Bavaria's GDP and 5.2% of Germany's GDP. When one considers that it contains 21% of the state's population and 3.2% of Germany's population, it is clearly punching well above its weight. It is of even greater significance and importance in terms of its economic potential since it is a leading centre of innovation, the single factor that will have most bearing upon its prospects for increasing productivity and living standards in future and of course those of Europe as a whole (Lent and Lockwood, 2010).
- 8.2 So what explains Munich's success? Disentangling the many different contributory factors is a difficult and a somewhat subjective exercise. However, there appears to be a consensus about what has mattered if different shades of opinion about the relative importance of these key factors. These include history, geography, good fortune, visionary and proactive civic leadership, decentralised governance, policy integration, continuity of policymaking, institutional thickness and partnership working. Analysis of Munich's past performance clearly refutes the argument that it has been destined to succeed. Although it has benefited from being the longstanding regional capital and trade centre, natural advantages such as proximity to the Alps, the lack of an industrial legacy, the good fortune of being in the American Zone during and post World War 2, it has also thrived because of policy. Bavarian royalty in the C19th and regional and city politicians and officials in the C20th have played a crucial role in making the city a centre for learning and the arts and later research and innovation, providing vital new infrastructure such as the airport and metro and regional rail system and key sites which allowed for expansion of the trade centre, creation of new

economic zones and also additional housing. In the 1950s, the city council opted to retain the traditional street pattern and reconstruct war torn parts of the city, which not only proved popular with residents but also enhanced the city's touristic appeal.

- 8.3 National policy has also been crucially important. Munich together with other Federal Capitals grew rapidly during the forty year period when Bonn replaced Berlin as capital and gained key firms. Germany's decentralised system of governance has provided state and city governments with the scope and financial means to strengthen the city's asset base and develop its competitive edge, especially after the Second World War and to later maintain it when it faced various external threats in the early 1990s. The Federal Government like the state has made heavy countercyclical investments to maintain the competitiveness of key sectors of the economy and places like Munich. Munich has also long benefited from German technology policy which has prioritised long term investment in research and education, related skills programmes, diffusion of technology in key economic sectors, co-operation between academic institutions and businesses of all sizes, promotion of technology start ups and research and technology based clusters given its concentration of HEIs and public research organisations and its dynamic and diverse economy. Policymaking is generally well integrated, both vertically and horizontally. The German system is based on negotiation and compromise. The policy of backing winners in the face of mounting internal and international competition has pervaded all levels of government and very much suited Munich given its range of new rapidly growing industries. Persistent focus on catering for private sector needs has also promoted close dialogue and joint working between business, research organisations and governmental elites. Even when state and city governments have adopted a different stance, say on public ownership, outcomes still seem to have benefited Munich. The Land realised the value of public assets in order to invest heavily in research and development and technology transfer in emerging economic sectors while the City established and retained arms' length companies to run key infrastructure such as the airport, public utilities, trade fairs and leisure facilities. Such municipal enterprise has enabled strategic investment in key infrastructure and encouraged the growth of new industries, for example in the environmental technology sector. City government policies have also prioritised inclusiveness which has helped produce a reasonably cohesive as well as successful city, significant pockets of poverty notwithstanding.
- 8.4 In common with many German cities, Munich's innovation system has grown incrementally and is characterised by continuity, institutional thickness, trust, co-operation, a complex web of relationships and supply of high level skills and is therefore strongly embedded within the city (Soskice,1997). Germany's science and innovation system is complicated and multi-level and involves political institutions, scientific bodies, advisory and co-ordinating bodies, funders, private industry associations and a host of local implementation agencies such as HEIs, public research organisations, public private partnerships. However, the fact that two of the key scientific societies nationally (Max Planck Society and Fraunhofer Society) are headquartered in Munich has tended to narrow the gap between policy and execution.
- 8.5 The most problematic issue facing Munich is city regional governance. Although the city of Munich is Germany's largest local authority, it is surrounded by a multitude of small municipalities. Rapid urban expansion has meant that many key businesses are located outwith the city boundary and that planning and transportation and related matters need to be handled on a city regional basis. The task of devising a coherent development strategy for the wider metropolitan region currently falls to the Munich Regional Planning Association, which relies on voluntary consensus. Coherent solutions have not always been found given the number of authorities and different interests involved. At present there is no institutional means of ensuring that an integrated development strategy is adopted at metropolitan region level which can ensure that Munich expands in both an efficient and environmentally

sustainable way. Success has therefore come at a heavy environmental price. The extent of large-scale low density development in areas lacking access to rapid transit is both environmentally and physically unsustainable.

- 8.6 We conclude by discussing whether the case study findings support or refute the key study hypotheses concerning decentralisation, national policy, local capacity and territorial governance. Germany is Europe's most powerful economy and its state capitals constitute a set of strong second tier cities, and this is particularly true of Munich. Unfortunately Germany's history is unique and it is impossible to say how its non-capital cities would have fared if the Second World War had never taken place and Berlin's development had not been arrested. What can be said is that Germany's decentralised governmental system has successfully fostered and sustained a balanced, successful urban system comprising a number of high performing second tier cities. Munich has acted as a motor for Bavaria and helped it to be successful and along with various metropolitan region initiatives promoted territorial cohesion at that spatial level. Whether the Federal Government and State Governments' policy of building upon its most competitive industries, institutions and places has reduced inter-regional inequalities is more a matter of debate. The German approach has probably expanded the size of the overall cake and its commitment to financial equalisation has ensured that less prosperous regions have also indirectly benefited. On the other hand, it could be argued that struggling areas have received less direct support.
- 8.7 Study findings have also supported the hypothesis that national policies matter as does the extent of vertical and horizontal policy integration. The Federal Government has assisted the development of Munich in numerous ways. It has supported key sectors in various ways (procurement, feed-in tariffs), key projects such as the Olympics, its most prestigious university departments and industrial clusters of national significance. It has promoted vertical alignment by providing the broad policy framework and then leaving the Bavarian state and City administrations and surrounding municipalities to hammer out the details and join up the policies on the ground. However, there are other reasons why policies are horizontally integrated. There is a strong tradition of networking between public and private sectors which has come about because of mutual interest, personnel with knowledge of partners' perspectives as well as because of policy initiatives.
- 8.8 Munich has a very effective innovation system which is in part due to the state and the city authorities having considerable fiscal and decision making capacity and other resources (e.g. land). Effective multi-level governance ensures that the clout of the Federal Government and Land innovation programmes are brought to bear but also tailored and embedded because many of key Munich's key research and business support organisations play a pivotal role in implementing these programmes (Hassink,2002). High levels of autonomy have enabled both the state and city to implement far reaching policies relating to physical infrastructure and business support. Such capacity also enabled both state and city governments to respond proactively to the threat that the city might be overtaken by its rivals in the 1990s.
- 8.9 Finally, the Munich case shows that territory matters. It has received strong support from the Bavarian state because its crucial regional significance is recognised. For reasons of territorial politics, the Land has had to support Munich in subtle, implicit ways by supporting sectors and activity which are well represented in the city rather than explicitly targeting the capital. However, there is a governance problem at city regional level given the number of municipalities involved. Historic attempts by the City to extend its influence and boundaries have always been resisted by the municipalities which surround it. Possibly the Land and Federal Government could do more to incentivise the city and the municipalities to co-operate since it has not always been possible to pursue a coherent approach to land and

transportation planning and environmental policy at that level by voluntaristic means. Subsidiarity and local autonomy does not allow environmentally sustainable policy approaches to take hold. Weak city regional governance could damage Munich's prospects in the longer term since the present rate of land consumption and growth in traffic cannot continue indefinitely without causing severe congestion, environmental degradation, associated diseconomies such as delays in journeys to work and supply of goods, deterioration of quality of life and ultimately strangulation!

- 8.10 Munich offers a wealth of good practice in terms of policymaking. Its key actors have consistently pursued a set of coherent policies for supporting wealth creation, but never lost sight of social cohesion and environmental sustainability goals. They have invested heavily in new technology industries, technology transfer and innovation, physical infrastructure such as ICT and transport facilities, developed an excellent education system and also promoted research and development organisations working at the interface between academia and industry. Conscious policy decisions concerning urban form, conservation, tourism, arts and cultural facilities have also helped ensure that Munich residents enjoy a good quality of life. Co-operation and partnership working are intrinsic to Munich and Germany's governmental system and also the city's civic culture. Summing up, good governance and networking, policy stability and continuity, interventions rooted in a good understanding of the key drivers of competitiveness and adoption of a balanced approach to competitiveness, cohesion and environmental sustainability and combining a respect for the past with a forward looking mentality have all played an important part in pursuing the 'Munich Way' and maintaining and sustaining the city's much vaunted 'Munich Mix.'

**APPENDIX: KEY DATA ON MUNICH**

Figures are for the city of Munich unless specified otherwise.

**Table 1: Basic facts and figures about the City of Munich**

Surface area	310.40 km <sup>2</sup>
Population (2009)	1,364,194
Net resident inflow	100,072
Net resident outflow	100,205
Companies (1)	Approx. 80,000
Gross Domestic Product (2008)	€ 25.1 billion
Per-capita purchasing power (2009)	25,24 €
Per-capita public debt (2009)	1,689 €
Per-capita local govt. investment (2010)	461,00 €
New businesses registered (2009)	23,356
No. of private households (2009)	711,23
Visitors (2009)	Approx. 105 million
Overnight stays (2009)	Approx. 9.9 million

Note: 1) Estimate

Source: Federal Statistical Office, City of Munich

**Table 2: Key facts about Metropolitan Region of Munich (NUTS 2 region) - 2006/7**

Population (in m.)	2.59
GDP/inhabitant* (EU 27 = 100)	169.3
Airport (passengers in m.)	34
Working population (in m.)	1.59
Percentage of population in work*	74.5
Unemployment rate	4.3

Note: \* figure is for NUTS 2 region

Source: Eurostat

**Table 3: Population and GDP for City of Munich, Munich Region and state**

	Population	GDP in m (€)	GDP per capita (€)
City of Munich	1,326,807	75,170	56,655
Region of Munich	2,644,807	130,770	49,444
Periphery	1,318,000	55,600	4,18
Bavaria	11,519,728	444,806	35,528

Source: LH München 2006b; 2010

**Table 4: Munich's economic performance: headlines for 2007**

	Munich City	Munich Metro*	Germany
GVA per worker (€)	70,030	64,875	51,530
Employment rate (%)	-	83.9	74.0
Unemployment rate (%)	6.2	4.3	8.6
% with tertiary education	23.60	30.8	24.3
Population ('000s)	1,312	4,313	82,218

Sources: Cambridge Econometrics, Eurostat, Statistisches Bundesamt, Bayerisches Landesamt fuer Statistik. \*Note: Munich Metro is approximated by Oberbayern NUTS2 area



**Table 5: Munich metro economic performance in the early 1990s**

		1991	1992	1993	1994
GVA per capita	Metro	57,444	56,179	53,545	54,290
"	Germany	49,020	48,949	47,155	48,529
Employment rate	Metro	74.1	75.8	73.0	71.5
"	Germany	64.0	64.3	62.8	62.0
Unemployment rate	Metro	4.8	4.5	4.7	5.0
"	Germany	8.8	9.5	9.7	9.6

Sources: Cambridge Econometrics, Eurostat, Statistisches Bundesamt.  
Note: Munich Metro is approximated by Oberbayern NUTS2 area

**Table 6: Key performance measures for Munich metropolitan region, 1991-2008**

		1991	1995	2000	2005	2008
GVA per worker	Munich metro	32,078	55,043	58,976	61,944	64,625
"	Germany	30,436	48,191	47,421	49,823	51,522
Employment rate	Munich metro	74.1	71.3	81.6	81.5	83.9
"	Germany	64.0	62.1	70.0	70.4	74.0
% unemployed	Munich metro	4.8	5.0	3.0	5.8	3.3
"	Germany	8.8	9.4	8.0	11.1	7.5
Population ('000s)	Munich metro	3,801	3,959	4,034	4,211	4,313
"	Germany	79,753	81,539	82,163	82,501	82,218

Source: Cambridge Econometrics, Eurostat. \*Note: Munich Metropolitan Region is approximated by Oberbayern NUTS2 area

**Table 7: Gross Domestic Product of Munich**

	2000	2002	2004	2006	2008
GDP in m (€)	62,077	64,764	66,564	69,731	75,710

Source: LH München 2010

**Table 8: Munich's economic power compared with other West German urban regions in 2003**

	Munich region	Hanover region	Nuremberg region	Stuttgart region	Hamburg region	Berlin region
GDP (GDP/employee in 1,000 €)	74,8	54,1	60,9	65,0	67,8	48,6
Productivity (gross value added in 1,000 €/employee)	69,6	50,3	56,6	60,4	63,0	45,2
Development of productivity (changes in gross value added between 1995-2003 in %)	29.5	8.2	20.8	24.8	18.6	4.4
Gross value added in tertiary sector (gross value added per 1,000 employees in the service sector in €)	71,4	48,0	57,0	56,9	63,2	45,3
Tax receipts (in € per inhabitant)	762	470	575	666	657	375
Level of employment (proportion, in %, of inhabitants aged 15-65 subject to social insurance contributions)	61.6	52.5	58.9	58.8	51.3	42.5
Rate of unemployment in %	6.3	11.0	9.8	6.2	9.7	19.1

Source: PV, 2006

**Table 9: Purchasing power in € per capita in 2004 and 2009: City of Munich and Bavaria compared with other German cities**

	Munich	Stuttgart	Frankfurt/Main	Hamburg	Bavaria	Germany
2004	20,014	17,422	19,232	19,195	18,809	24,262
2009	25,237	21,429	22,340	20,016	20,735	19,166

Source: LH München 2006b; 2010

**Table 10: Employment in Munich 2008-9**

Sector	No. of employees paying compulsory social insurance contributions <sup>1</sup> in 2009 (2008 figure)	Percentage in 2009 (2008 figure)
Agriculture, forestry, mining	487 (1,278)	0.07 (0.2)
Manufacturing industry	109,401 (128,653)	15.9 (18.7)
Construction and power/water utilities	29,243 (25,133)	4.2 (3.7)
Commerce	83,697 (81,519)	12.1 (11.9)
Hospitality	28,808 (27,105)	4.2 (4)
Transport and communication	66,466 (26,914)	9.6 (4)
Credit and insurance	59,184 (55,810)	8.6 (8.1)
Real estate, letting, corporate services	137,045 (158,804)	19.9 (23.1)
Public administration	36,569 (36,910)	5.3 (5.4)
Healthcare, veterinary medicine and social services	70,624 (67,816)	10.2 (9.9)
Public and private services <sup>2</sup>	68,514 (51,395)	10 (7.5)
Total	690,111 (686,395)	

Notes:

- 1) at June 30, 2008 and June 30, 2009. Employees paying social insurance contributions comprise around about 75% of total workforce.
- 2) incl. Education

Source: Federal Employment Agency, City of Munich financial report 2010

**Table 11: Employees (subject to social insurance contributions) in major German cities in 2005 and 2007 (absolute figures; in each case agency districts at 30.06.2005 and 30.6.2007)**

	Munich	Cologne	Dusseldorf	Stuttgart	Frankfurt/Main	Hamburg	Berlin
2005	954,038	435,199	453,508	496,077	687,907	738,493	1,013,758
2007	975,886	443,668	464,420	491,258	705,280	772,007	1,047,812

Source: LH München 2005a

**Table 12: Leading sectors/clusters in Munich European Metropolitan Region(1), 2007/8**

	Staff ('000)	Total turnover (€ m)
Automotive (2008)	185.8	65,000
ICT (2007)	178.855	5,323
Media (2007)	61,929	2,106
Life Sciences (biotech., pharmaceuticals, research etc. (2008)	30,200	10,500

Source: LH München 2010

Munich European Metropolitan Region covers the entire city region of Munich and also surrounding town/city regions of Ingolstadt, Augsburg, Kaufbeuren, Rosenheim and Landshut.

**Table 13: Quota of highly-qualified employees in German urban regions in 2005 in percent (quota of employees subject to social insurance contributions with a university degree or diploma from a higher education institution)**

Munich	Dresden	Stuttgart	Frankfurt /Main	Leipzig	Cologne	Berlin	Hamburg	Nuremberg	Hanover
20.1%	20.0%	19.9%	17.0%	16.8%	13.5%	13.4%	12.1%	11.5%	10.5%

Source: INSM, 2006

**Table 14: Metro shares of national patenting, 1980-2007**

	Munich	Stuttgart	Rhein-Main	Hamburg
1980	11.60	7.42	20.21	2.52
1985	11.52	9.11	17.27	2.86

1990	10.90	12.20	17.25	2.76
1995	12.32	12.44	17.53	3.25
2000	13.92	13.68	13.69	3.30
2005	12.04	13.54	13.39	3.60
2007	12.82	13.17	12.88	3.25

Source: OECD.Stat. Notes: 1) Patents to EPO, by inventor region of residence. 2) Patents by priority year. 3) Spatial units are German Metropolitan Regions, proxied using best-fit Spatial Planning Regions. 4) Table gives a sample of the 11 Regions, so shares will not sum to 100.

**Table 15: Metros' share of national ICT, biotech and clean-tech patenting, 2007 (%)**

	Munich	Stuttgart	Rhein-Main	Hamburg
ICT	18.5	12.9	10.8	2.6
Biotech	20.4	2.3	19	3.7
Cleantech	15.4	12.8	7.2	6

Source: OECD.Stat.

Notes:

- 1) Patents to EPO, by inventor region of residence.
- 2) Patents by priority year.
- 3) Spatial units are German Metropolitan Regions, proxied using best-fit Spatial Planning Regions.
- 4) Table gives a sample of the 11 Regions, so shares will not sum to 100
- 5) 'Cleantech' is defined as renewable energy, electric and hybrid vehicles, energy efficiency in buildings and lighting

**Table 16: Research and Development spending of leading German cities (percentage of GDP, 2003)**

Munich	Stuttgart	Frankfurt /Main	Nuremberg/ Fürth/Erlangen	Dresden	Berlin	Cologne /Bonn	Hanover	Hamburg	Leipzig /Halle
4.1	5.2	2.8	2.2	1.9	1.6	1.6	1.2	0.9	0.5

Source: Stifterband Essen, 2003

**Table 17: Recent unemployment trends in Munich**

	2006	2007	2008	2009
Unemployment rate in percentage (annual average)	6.4	5.2	4.4	5.0
Jobless persons (annual average)	75,603	61,703	52,400	59,362

Source: Federal Employment Agency

**Table 18: Unemployment in German cities (annual average in %)**

	1996	1997	1998	1999	2000	2005	2009
Berlin	15.70	17.30	17.90	15.9	15.8	19.0	14.1
Düsseldorf	11.50	12.20	11.40	9.7	8.5	13.6	8.6
Frankfurt	8.50	9.40	9.10	7.2	6.1	10.4	6.6
Hamburg	11.70	13.00	12.70	10.4	8.9	11.3	8.6
Cologne	13.50	14.40	14.40	12.3	11.0	13.5	n/a
Munich	6.50	7.30	6.80	5.3	4.5	8.3	5.0
Stuttgart	8.90	9.70	8.70	7.0	5.8	9.4	5.7

(since 1997 whole Berlin). Source: LH München, 2000b, LH München 2005a

**Table 19: Unemployment rates in Munich, Bavaria and Germany (annual average in %)**

	2007	2008	2009
Munich	5.2	4.4	5.0
Bavaria	5.3	4.2	4.8
Germany	9.0	7.8	8.2

Source: LH München, 2010

**Table 20: Foreign nationals as a percentage of urban population in 2006**

Munich	Stuttgart	Frankfurt/Main	Nuremberg	Cologne	Hamburg	Berlin	Hanover	Leipzig	Dresden
24.0	23.7	21.9	17.8	17.0	14.2	13.7	10.5	6.3	5.2

Source: Federal Job Agency

**Table 21: Munich airport passenger numbers (million)**

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
12.02	12.73	13.5	14.87	15.69	17.89	19.32	21.28	23.13	23.65

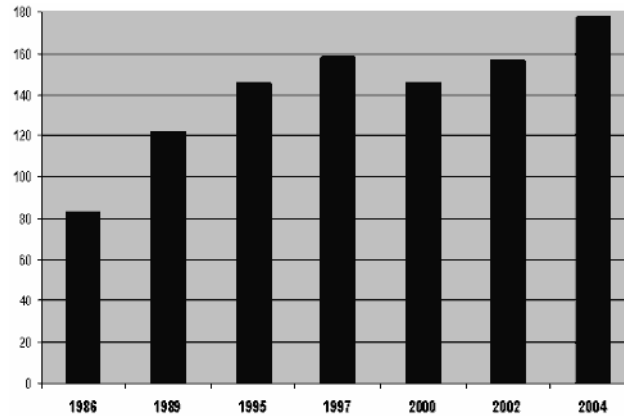
2002	2003	2004	2005	2006	2007	2008	2009	2010
23.16	24.19	26.81	28.5	30.8	34.0	34.5	32.7	34.51

Source: Munich Airport Company

Notes: 1. Estimate

**Figure : Poor People in the City of Munich 1986-2004 (thousands)**

Source: Hafner et al, 2007; LH Munchen, 2006



Note : Poverty is defined here as those receiving less than 50% of the population's average national net income per head.



**The ESPON 2013 Programme**

## **3.3**

### **NATIONAL POLICY GERMANY**

**Michael Parkinson & Richard Meegan**



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## CONTENTS

1. URBAN STRUCTURE & PERFORMANCE
2. GOVERNANCE ARRANGEMENTS
3. POLICIES FOR URBAN DEVELOPMENT
4. FUTURE CHALLENGES

## 1. URBAN STRUCTURE & PERFORMANCE

- 1.1 Germany is an urbanised country (Heinelt, 2010). More than 70% of its population live in 11 'European Metropolitan Regions' Urbanisation is concentrated in the West and South (including the South-East, the Southern parts of the former German Democratic Republic). Big areas of the country in the East (especially North of Berlin), the North and some areas in the South (especially in Northern Bavaria) remain rural.

### **Highly polycentric and Berlin is not a primate city**

- 1.2 Berlin is not primate, not least given the restrictions on its growth as a result of post-war German separation and the partition of the city, itself located in East German territory, into West and East Berlin; physically and symbolically separated by the Berlin Wall. East Berlin, about half the size in population terms of its western counterpart, was proclaimed the capital of the German Democratic Republic (GDR) and referred to as 'Berlin'. The Federal Republic of Germany (FRG), set up in 1949, established Bonn as its capital. Reunification of the two Germanys in autumn 1990 into the single FRG saw Berlin, East and West, reinstated as the capital in the unification treaty. The German Parliament (Bundestag) voted to move the West German capital back from Bonn to Berlin in the summer 1991. The German parliament and government started work in Berlin eight years later. This shift, as part of the broader unification process, involved compensatory payments to Bonn for its loss of capital-city functions.
- 1.3 Berlin has a population of about 3.4 million: only twice the size of the next largest city (Hamburg); just over two and a half times the size of the third (Munich) and just under three and a half times the size of the fourth (Cologne). It is not as dominant in terms of size or economic importance in the urban system as are other European capital cities, notably Paris and London.
- 1.4 There is a debate about whether Berlin, following reunification, is developing towards a global city, a vision expressed in the city's current policy for innovation and technology development. Krätke (2001) argues that Berlin can still not be seen as a 'true' global city in terms of its regional economic control, capacity and economic structure. Its economy is still relatively weak compared to other West German metropolitan regions and it is still not yet a strategic economic centre with control capacities extending supraregionally and internationally. Where it does perhaps qualify as a 'globalised city' is in relation to its mixed population and, on the negative side, growing socio-spatial divisions within it.
- 1.5 For example, Krätke, raises the question whether the divergence of European metropolitan economic structures and performance are expressions of different stages of development along a single path or rather of the variety of development paths. If it is the former, then Berlin, given its history, could be seen simply as lagging behind in the development path eventually leading to urban structures like those in London or Paris. If, however, Europe's metropolitan regions are moving along different development paths then there could be continuing structural variation across them, allowing more freedom of choice in terms of politics and policy in shaping economic change across them. Krätke argues that this would mean that the future of metropolises like Berlin would then "depend on the quality of the city's economic development policy, on the quality of the city's institutional resources and on the economic *and* social coherence of the metropolitan region" (p. 1798).

### **Polycentricity – what are Second tier cities in Germany?**

- 1.6 Excluding Berlin, there are some 81 German cities with populations of more than 100,000. There are 12 with more than 500,000 inhabitants and 8 with more than 550,000. The 4 largest Second tier cities, each with more than 600,000 inhabitants are: Hamburg (1.7 million), Munich (1.3 million), Cologne (1 million) and Frankfurt am Main (0.7 Million). The four Second tier cities are relatively evenly spread: with Hamburg in Hamburg state in the North of the country; Munich in Bavaria in the South; and Cologne in Northrhine-Westfalia and Frankfurt in Hesse to the west..

- 1.7 Four other cities have populations around 600,000: Stuttgart, Dortmund, Essen and Düsseldorf. Stuttgart is in Baden-Württemberg in the South West of the country and Dortmund, Essen and Düsseldorf are all in Northrhine-Westphalia in the West. Cities with population sizes between 200,000 and 600,000 are prevalent creating a rank-size distribution relatively convex in shape. Small and medium sized cities (with less than 20,000 inhabitants) are concentrated in the East and South West of the country. This means that Germany's urban hierarchy is relatively flat in size terms with a less dominant capital or main city. The size distribution of cities reflects the fragmented statelets from which Germany was constructed, in historical terms, relatively recently (Blotevogel and Schmitt, 2006; Cheshire, 2006).<sup>1</sup> It also reflects the historical constraints on Berlin's development as a result of the post World War II partition of the country and city.
- 1.8 *"In contrast to Great Britain or France, there is no single metropolitan area dominating in Germany. Germany is rather characterised by several internationally important cities which are dispersely located and show different functional specialisations. Above all, this is reflected by the economic profiles of various city regions (e.g. media, trading, finances). They furthermore complement each other in terms of their collaboration and integration in networks."* (BBSR, 2009; p. 3)
- 1.9 Blotevogel and Schmitt (2006) show how, until recently, Germany has not developed a tradition of metropolitan regions and argue that, in the second half of the last century, in the years up to German reunification, the decentralised federal system in Western Germany 'froze' the polycentric urban system. Consequently, a distinct division of labour developed in relation to metropolitan functions *"among a handful of urban regions such as Hamburg, Munich, Berlin (West), Frankfurt/Rhine-Main and to some extent even the cities along the Rhine in North Rhine-Westphalia, namely Düsseldorf, Cologne and Bonn, as well as Stuttgart in Baden-Württemberg and Hanover in Lower-Saxony"* (p.56).
- A distinctive urban network and urban model**
- 1.10 Läßle (2006) argues that Germany's urban network – its multi-polar nature and absence of a true global city - presents a special case in the hierarchy of the global urban system. *"The 'belated' industrial nation of Germany had already developed an alternative to the liberal production system at the end of the nineteenth century, which can be characterised as a form of regulated, corporate market economy. This model of 'Rheinian Capitalism' combined with strong federal structures, formed the basis for the economical and social system of West Germany. It is very likely that Germany has not only created an alternative model of production, but also an alternative and effective model of urbanisation."* (p. 2).
- 1.11 Läßle underlines how the history of the German state and its capital city is central to understanding the evolution of the country's urban system. Until 1871, Germany comprised a multitude of mini-states, principalities and free Imperial cities. 1871 saw the foundation of the Prussian democratic empire and Berlin became its seat of government. Its growth thereafter was dramatically interrupted by World War II and the subsequent split of the city into the four occupation zones. This prompted the relocation of various companies and economic functions from the city – contributing quite significantly to the 'development paths' of West German cities, notably:
- ❖ The founding of the new Bank of German States (Bank of German States – and predecessor of the Deutsche Bundesbank) in Frankfurt following the closure of the Reichsbank in Berlin) – setting Frankfurt up as a major financial centre;
  - ❖ The development of Frankfurt airport as the central base for the US Airforce in Germany - making Frankfurt a key global gateway;

<sup>1</sup> Cheshire also argues very strongly in this paper against policy for encouraging a more polycentric urban system in Europe on the basis of the agglomeration economies that underpin the existing urban hierarchy - let the main cities grow and don't redistribute growth from them to smaller ones. On the basis of 'know thine enemy' we need to take these arguments on board.



- ❖ The relocation of Siemens HQ to Munich – implanting an advanced manufacturing company in the city and helping to develop its advanced production and technology specialism;
  - ❖ Berlin’s news and media activities being taken over by Hamburg – helping to promote the development of a media cluster;
  - ❖ Bonn acting as the political capital for Western Germany and as a consequence, as already noted, limiting Berlin’s development.
- 1.12 This model, he argues, could offer a valid future alternative to the highly centralised model of the global city. What characterises the German model is:
- ❖ the poly-centrality of the urban system with its distinct complementary division of labour between individual cities, each of them specialising in a particular cluster of high quality services;
  - ❖ the phenomenon of regional ‘manufacturing service districts’ with urban regions in Germany having ‘a strongly interactive dynamic of developing knowledge-intensive industries and company-friendly services’ as opposed to the global dispersion of industrial functions in Anglo-Saxon countries in the 1980s and 1990s); and
  - ❖ the German urban system is also connected to the European and global networks of cities with its multi-tiered networks of a regional, national, European and global nature.
- Variable performance cities - especially between east and west – but recent ‘reurbanisation’**
- 1.13 Kunzmann (2007) uses population forecasts up to 2020 to show:
- ❖ growing population in most city regions in west Germany, although at the cost of core cities and more remote rural areas;
  - ❖ declining population in eastern cities;
  - ❖ growth of proportion of population living in cities of more than 10,000 inhabitants;
  - ❖ loss of population in most core cities in German conurbations up to 2010 with suburban belts still attracting households with the exception of Berlin, Hamburg and Cologne (Munich’s population is forecast to be relatively stable);
  - ❖ the polycentric system will not change and larger metropolitan city regions will gain even more population.
- 1.14 Heinelt (2010) argues that most urban centres in the Northern part of Western Germany (especially the Ruhr area) as well as the few urban centres in the East (Berlin and in the triangle between Dresden, Leipzig and Halle) continue to experience ‘deindustrialisation’. The exceptions are the urban areas in the South and the South-West (i.e. in the federal states of Bavaria, Baden-Württemberg and Hesse), which have managed to be economically competitive with highly developed service and manufacturing sectors at both European and global level. This pattern of urbanisation has different implications:
- ❖ it implies high GDP per capita, high tax revenues (also for local government) and a relatively low unemployment rate in the South and the South-West of Germany;
  - ❖ it leads to the migration of people from more and more depopulated rural areas and shrinking cities in the North and East to the South and the South-West (creating problems in the urban centres of the latter like the shortage of affordable housing).
- 1.15 All cities have problems with social segregation and the concentration of a social problems in particular neighbourhoods. ‘Shrinking’ is not only a problem for cities in the North and the East it can also happen in some parts of ‘dynamic’ metropolitan regions.
- 1.16 Läßle (2006), nevertheless, argues that there has been a ‘rediscovery’ of the city in Germany, with the start of the 21<sup>st</sup> century ushering in a profound change in urban development patterns as a result of globalisation and technological change. He sees the change from an industrial to a service-led economy, based on science and culture, has seen the development of a “new urban dynamic” particularly in the large West-German urban regions of Munich, Frankfurt, Cologne and Hamburg. And even some East-German cities, after decades of significant population loss, have shown signs of ‘reurbanisation’ since the late 1990s, including Dresden and, notably Leipzig (for

Leipzig's recent growth, see also Kabisch et al, 2010). The big urban agglomerations, especially the top 5, continue to strengthen their economic position in relation to the capital and the urban system as a whole.

- 1.17 The debate has been dominated until the mid-1990s by the acceptance and promotion of Germany's polycentric structure – with the particular historical trajectory of Berlin central to the debate. There are attempts to promote the development of Berlin (itself a city-state) as a global city, but most commentators argue that this is not feasible, not least because of the existence and strength of the polycentric urban system in which global city functions are shared out amongst the leading European Metropolitan Regions. Berlin is not dominant and, consequently, does not weaken the rest of the urban system. Germany is very much a special case in this regard.

## 2. GOVERNANCE ARRANGEMENTS

- 2.1 Federalism in Germany dates back to the middle ages and was only halted during the national-socialist period in the 1930s and 1940s. The second half of the 20th century saw the power of Länder and municipalities strengthened and, after the 1990 unification, the establishment of new Länder in the Eastern part of the unified country. As a Federal State, Germany has a central government and regional authorities both with their own legislative and administrative competences, which are exercised independently and recognised by the Constitution.

### **The Länder are decentralised unitary political entities**

- 2.2 The Länder are the main regional entities. While they are not local authorities in a legal sense they do have internal sovereignty with their own constitution and institutions and they share state sovereignty with the federal state. The right of local self-government is defended in the constitution and in the basic law. As a result of this, though the municipalities enjoy all the same legal standing and administrative autonomy, there is a great diversity in their status depending on the Länder. (Ismeri Europa and Applica, 2010)
- 2.3 In legal terms local government, i.e. the municipalities as well as the counties, is part of the Länder as political entities. This means that – although Germany has a federal structure regarding the relation between the federal level and the Länder – the Länder are decentralised unitary political entities. In fact, the role of the local level within the political system is not clearly described in the constitution. The only article referring to the local level says that 'in states, counties and municipalities, there must be a representation for the people created by [...] elections' (art. 28, 1) and 'it must be guaranteed that municipalities [themselves] can decide upon all affairs within their jurisdiction within the general frame of law [...]' (art 28, 2).

### **Two-tier administration**

- 2.4 The German state administration is generally constructed as a two-tier system, where the national administration is the upper tier and the administration on the federal state level is the lower tier (articles 83-86 of the German constitution). Administration is mainly a task of the Länder, which leads to the fact that the national administration has been kept lean and most of the administrative tasks are carried out by the Länder. However, most of the administrative tasks (beside the educational sector and the police) have been shifted by the federal states to the local level. Thus, the local level plays a vital role in administering and implementing national and/or state programmes in the thirteen 'territorial' states (i.e. not considering the three German 'city states' Berlin, Bremen and Hamburg).

### **The federal structure shapes the national urban policy agenda**

- 2.5 Due to the federal structure of the political system in Germany and the distribution of tasks and competencies between the federal level and the federal states the national agenda for urban policies differ significantly from those of other political systems. The core point is that the federal

government and the directly elected first chamber at the federal level, the federal parliament (Bundestag) can only decide by consent of the second chamber (Bundesrat), in which the governments of the Länder are represented, whether and to what extent political actions for cities are carried out and what actions are performed and how. The constitutionally defined distribution of competencies between federal and federal state levels means that urban issues are mainly dealt with at the federal states level.

### **16 Lander**

2.6 Germany is a federal parliamentary democracy, made up of 16 federal states (Länder), this having increased following the 1990 unification of East and West Germany with the demise of the former German Democratic Republic (DDR) in 1989. The Länder are responsible for areas such as culture, education, environment and policing, with a number of shared responsibilities with the federal government over legal and penal issues. The federal states have their own constitutions; own administrations and parliaments as well as their own responsibilities and are responsible for areas such as municipal law, culture, education and the media. There are three pan-state functions that the individual federal states also exercise on their own: schooling (including to a large extent tertiary education), internal security (including policing) as well as the organization of local self-government.

2.7 In general, administration in most cases is the responsibility of the Länder, which implement Länder laws at Länder level. They also implement federal laws as an administration on behalf of the Federation or in their own responsibility. In the fields of public order and security, science and culture, education, professional training the Länder are responsible for creating legislation and for administration another important duty of the Länder is regional governmental planning to create equal living conditions for the citizens in the Länder. Another important objective of regional governmental planning is the protection and conservation of the environment.

### **330 Cities**

2.8 Cities represent the lowest level within the three administrative levels (federal, state, city) in Germany. The Federation and the Länder give certain tasks to the municipalities and they are also supposed to allocate the corresponding funding. In reality, however, this is not always the case. Within the framework of self-administration, the cities also organise and administrate their own voluntary activities (e.g. theatre, museums, buses, swimming pools etc.), which they have to pay for from their own budgets.

2.9 The cities' own activities are part of the city's so-called 'own circle of responsibility'. These may be voluntary or they may be prescribed by the state as obligatory. In such cases, the state does not interfere in the implementation of the activities nor does it issue instructions. Also the cities have to take care of additional tasks which have been allocated to them by the state. These tasks are part of the so called 'circle of allocated responsibilities' in which the state uses municipal institutions and organises the implementation of allocated responsibilities by instructions.

2.10 Voluntary activities are fulfilled by the municipality and the municipality itself decides how these are handled. Another field of activity are the obligatory areas which are not directed from above, like water, waste disposal, energy supply and such. The municipality is free to handle activities in these fields on their own or elect to outsource them to private businesses, which has become a common practice during recent years. Activities commissioned by the Land are carried out the municipal administration in its area, as the lowest official body in the federal system and include the organisation of elections, registration for the military and others.

2.11 Self-administration by local government districts has its limits. In a growing number of areas within local government policies, the state government is becoming involved in municipal affairs on the basis of legal provisions, standards and financial subsidies. The relationship between the State and the local government districts thus relies on a complex, intertwined system of responsibilities, controlling authorities and financing systems.

**Decentralisation**

2.12 Germany ranks second after Switzerland with a score of 66 in Basel Economics’ (2009) Decentralisation Index. Except for Vertical Decentralisation Germany is among the top four of the 20 countries studied and above the European average in each sub-index. The high value in decentralisation stems mainly from Functional Decentralisation (58) where Germany ranks first.

**The distribution of responsibilities for development policies**

2.13 The distribution of responsibilities for development polices can be summarised, using the Ismeri Europa and Applica (2010) report, as follows:

Central	Regional/State	Local
The federal government holds general legislative power in relation to public services, environmental protection and territorial organisation and secondary education.	The federal states, or Länder, have legislative powers over culture, the school system and public safety.  There are also areas of responsibility shared with the federal government such as universities, agriculture and coastal protection.	Districts manage secondary roads and local transport, district territorial planning, natural reserves, social security, waste collection, build and manage secondary schools and hospitals.  Apart from these they also have optional competences (depending on local autonomy) in the fields of cultural activities, public libraries, student exchange programmes, promotion of tourism etc.  Municipalities (cities and towns) deal with urban planning and municipal roads, sewage, social security, leisure, build and manage primary schools. They also have optional competences in relation to aid to local business, housing and local infrastructure, culture, twinning, management of energy power plants and the transport infrastructure.

The report underlines the complexity of the German system and the way in which it is characterised by an historical lack of self-contained competences which leads to unclear divisions between administrative levels; for instance in relation to infrastructures and aid schemes.

**Cooperative federalism**

2.14 The Ismeri Europa and Applica (2010) report also points out the tendency, since the 1960s, for different administrative levels (Federal Government, Federal States and Municipalities) to cooperate in undertaking their public duties and responsibilities. This process is often called cooperative federalism (kooperativer Föderalismus) and political interdependence (Politikverflechtung). It has been criticised, however, for the to conflicts of responsibility it involves, the low efficiency of public activities and the lack of arrangements to enforce cooperation.

2.15 Consultation and co-operation between the different administrative levels is especially strong in relation to the pursuit of the “Common task” (Gemeinschaftsaufgabe) and particularly to the co-operation between the Federal Government and the Federal States. The Federal Government is involved in cases which normally fall under the responsibility of the Federal States in cases where the project is socially important and is intended to improve living conditions. The ‘Common task’ covers the following policy areas:

- ❖ Structural policy: the Federal Government covers half of expenditure
- ❖ Restructuring of agriculture and of coastal protection: the Federal Government covers at least half the costs
- ❖ scientific research outside universities, scientific projects and research in universities, construction of university buildings: the Federal Government and the Federal States may cooperate if the project is of national importance.

**Financial equalization**

2.16 A key feature of Germany's federal system is its financial equalisation scheme, which provides funding to local government (municipal financial equalisation) and state government (financial equalisation scheme between the Federal Government and the Länder). The scheme is divided into a "vertical" and an "horizontal" part defined by the Maßstäbengesetz ("Benchmark-law") and the Finanzausgleichgesetz (financial equalisation law). The former describes the requirements under constitutional law and the latter specifies the method of calculation of the financial equalisation. Both laws have been in operation since 2005.

***Financial equalisation between the Federal Government and the Federal States***

2.17 This involves:

- ❖ Taxes which are due to the Federal States and to the Federal Government ("Steuerverbund") are allocated between the administrative levels according to the tax revenue and partially redistributed.
- ❖ Additional payments from the Federal Government to financially weak Federal States are granted to those Federal States whose financial power is still weaker than the average despite the financial equalisation scheme. Special additional payments are granted in the case of a distressed budget or to Federal States with a special burden Bremen and Saarland get money as a consequence of a decision of the Federal Constitutional Court.
- ❖ The financial participation of the Federal Government in common tasks takes place in forms of a mixed financing. Article 91a of the constitutional law ascertains the principles of joint tasks and their financing. Provided that the following responsibilities are important to society as a whole and that federal participation is necessary for the improvement of living conditions, the Federation participates in the discharge of responsibilities of the Länder:
  1. improvement of regional economic structures;
  2. improvement of the agrarian structure and of coastal preservation.

2.18 In cases of clause (1) the Federation finances one half of the expenditure in each Land. In cases of clause (2) the Federation finances at least one half of the expenditure, with the proportion the same for all Länder. In cases of superregional importance in the promotion of:

- ❖ research facilities and projects apart from institutions of higher education;
- ❖ scientific projects and research at institutions of higher education;
- ❖ construction of facilities at institutions of higher education, including large scientific installations the Federation and the Länder may mutually agree to cooperate. (Art. 91b Constitutional Law).

2.19 The eastern Federal States receive additional payments from the Federal Government, receiving, in the second batch of the solidarity agreement, EUR 105 billion. But these transfers are progressively declining. Planned transfers to the new Länder are currently (2010) just under EUR 9 billion. In 2019, when the scheme ends, the equivalent figure is just over EUR 2 billion. Under the investment incentive law "Aufbau Ost", non-earmarked additional payments have been given to the eastern Federal States since 2002 to foster growth and to equalise the diverging economic power within Germany. Additionally, the Federal Government has promised about EUR 50 billion extra payments.

***Financial equalisation between the Federal States***

2.20 The diverging financial power of different are adjusted under Art. 107,1 of the Basic Law in which rich Federal States are obliged to remit funds to financially weaker States. The actual total revenue of each Federal State is compared to its hypothetical revenue based mainly on the national average financial power. The Land share of revenue from the turnover tax accrues to individual Länder on a per capita basis. A federal law, requiring the consent of the Bundesrat, provides for the grant of supplementary shares not exceeding one quarter of a Land share to Länder whose per capita revenue from Land taxes and from income and corporation taxes is below the average of all the Länder combined. The law aims to secure a reasonable equalisation

of the disparate financial capacities of the Länder, taking into account the financial capacities and needs of municipalities. It specifies the conditions governing the claims of Länder entitled to equalisation payments and the liabilities of Länder required to make them as well as the criteria for determining the payment amounts. It also provides for grants to be made by the Federation to financially weak Länder from its own funds, to assist them in meeting their financial needs through supplementary grants.

- 2.21 The two city states of Hamburg and Bremen receive “special” treatment in the equalization scheme with each inhabitant weighted by a factor of 1.35. This special treatment is justified because City States are seen as:
- ❖ important central points for industry, distributive trades and services;
  - ❖ regional centres of commerce and areas of growth;
  - ❖ offering business activities that can be compared to other large cities;
  - ❖ having to fulfil the tasks of a capital of a Federal State as well as of a large city.

- 2.22 The Ismeri Europa and Applica (2010) report gives the figures for financial transfers between Federal States. Currently five donor states support the other 11 states with transfers. There is a crude north-south divide with Federal States located in the south (Bavaria, Baden-Wuerttemberg, Hesse, Nordrhein-Westfalen and – the only exception– the city state of Hamburg) being donor states and the states receiving transfers mostly located in the north or in the east.

***The planning system is integrated, flexible, decentralised and based around consensus***

- 2.23 Hafner et al (2007) note how subsidiarity is built into development planning in Germany, with a system of clearly graded responsibilities. The Länder and the local government districts have legal competence for spatial planning while the Federal Government only provides the framework. The different levels of government work together. There is no fixed and determined development plan for Germany as a whole, only models and guidelines developed by the Federal Government and the Länder. These models and concepts are ratified by the Länder and they are ultimately implemented by local government districts in legal plans.

- 2.24 In their comparison of planning in Germany and the US, Schmidt and Buehler (2007) underline the essential and distinctive features of Germany’s planning system:

- ❖ It is mediated through an integrated yet flexible institutional setting that emphasizes cooperation between all levels of government - as a result, local planning decisions often do not flow from the immediate jurisdiction but need to function within a regional, state and national framework.
- ❖ It operates in a decentralized decision-making structure and a strong legal framework, dating back to the Basic Law (Grundgesetz) of 1949.
- ❖ Its main actors are the federal government (Bund), the 16 state governments (Länder), the 114 planning regions and the approximately 14,000 municipalities and, in recent years, the European Union (EU) has also increasingly played an increasing (albeit non-binding) role.
- ❖ Although a shared task among all levels of government, the federal government does not create or implement plans, but rather sets the overall framework and policy structure to ensure basic consistency for state, regional and local planning, while states, regions and municipalities are the actual planning bodies.
- ❖ It is organized as a process of reciprocal influence by federal, state and municipal authorities on each other’s proposals, commonly referred to as the ‘counter-current principle’ (Gegenstromprinzip) – see Figure x.
- ❖ It is organised around mediation and consensus building, and allows for input and participation from lower levels, as long as the plans are consistent with higher-level goals and objectives, once these goals are (often collaboratively) established.
- ❖ Municipalities are represented at the regional level, while regional representatives provide input into state plans, and state ministries are involved in setting federal planning guidelines and visions. The level of responsibility and degree of plan detail increases with lower levels of

government. Specialized sectors (i.e. ministries for transportation, water, energy) provide input through Fachpläne (sector plans), which are formulated independently from spatial plans and then integrated by planning authorities.

- ❖ In addition, the federal government publishes an informal, non-binding federal spatial planning review, which influences all planning levels through the use of information, statistics and projections, and defines key issues and goals (e.g. sustainable development) to be addressed.

2.25 Schmidt and Buehler argue that there are a number of reasons for the degree of planning consensus in Germany:

- ❖ It has a long tradition of state intervention at both the national and regional level, dating back to the nineteenth century;
- ❖ It is a proportional democracy with a multiplicity of parties, in which coalition-building is not only paramount to maintaining power, but also fosters a spirit of cooperation;
- ❖ It is demographically, economically, and politically relatively homogeneous and at least in recent decades has experienced little in the way of population growth;
- ❖ Its recognized private interests (economic, industrial, agrarian and professional groups) have non-competitive governmental access and play a role in the decision-making process.

***Regional planning has become more important***

2.26 Schmidt and Buehler argue that the roles of the various levels of government in the planning system have shifted and that regions have become more important and have become areas for policy and innovation and experimentation. State intervention continues to play a role in shaping the planning process, but there has been a shift to decentralization in response to the political, social and economic changes wrought by pressures on the existing system, such as unification, economic restructuring and European integration and regulation.

2.27 The existence of a regional planning level is a key feature of the planning framework and can be traced to the early twentieth century when municipalities in both the Ruhr and Berlin metropolitan areas began to organize themselves voluntarily. Although federal law requires regional planning, the exact organization of the regional association varies from state to state. As administrative boundaries often do not align with planning issues, regional associations have traditionally been the most flexible and experimental level of planning, and can either be driven from below, by municipalities, or from above, by the Länder. As such, there exists a diversity of metropolitan governance structures and forms, including voluntary cooperation (Berlin-Brandenburg) and democratically elected parliaments (Stuttgart).

2.28 Shifting patterns of state intervention have probably been most pronounced at the regional level, which has traditionally focused on mediation and negotiation and is ideal for administrative and policy experimentation. Cities and municipalities began experimenting with new regional associations during the 1990s. This experimentation was due to changing structural and institutional landscape of Europe and Germany after the fall of the Berlin Wall. The metropolitan region was increasingly seen as a means to remain globally competitive.

2.29 Both Germany and the European Union placed increased emphasis on regions, as opposed to individual cities or the national economy, as the appropriate scale through which to encourage development. Consequently, the organization of regional government has undergone significant changes and modifications. Regional planning institutions of the 1960s and 70s focused on administrative efficiency, redistribution, and service provision, while more recent efforts tend to be geared specifically toward promoting economic development, attracting capital investment, and enhancing regional competition, often with the support of local business interests. (2004). This often comes at the expense of the more traditional goals of economic redistribution or alleviating regional inequalities. In fact, Brenner (2003) notes that newer regional associations tend to exacerbate inequalities and development patterns by promoting recentralization of growth within specific metropolitan areas.

2.30 These new regional associations influence planning decisions made at the state level, and increasingly certain responsibilities have been decentralized to them (Newman & Thornley, 1996). For example, city- and state-led efforts to combat neighbourhood decline and other consequences of de-industrialization (particularly in North Rhine-Westphalia) have focused on organizing neighbourhood groups, encouraging public participation and the inclusion of largely foreign-born population (Friedrichs, 2003). In this case, it was the federal government that followed the lead of the cities and states, organizing a 'Social City' programme in 2000 to address inner-city decline.

***Local planning is firmly set in a regional and national framework***

2.31 The German constitution guarantees municipalities the right to independent self-government (Article 28) but they operate within a strong economic, political and administrative planning system, requiring the cooperation of all levels of government. As such, decisions concerning land use, taxation and economic development often do not flow from the immediate jurisdiction, but often must function within a regional or national framework. Property tax provides for only 9 per cent of local revenue to German Gemeinde (municipalities) and Kreisfreie Gemeinde (municipalities not belonging to a county). German municipalities are in general more dependent on intergovernmental transfers, which account for 41.1 per cent of local revenue, these transfers are partially contingent on local city planners and administrators, executing and fulfilling tasks for the federal and state governments, such as issuing passports or building permits. Several public services, such as school administration, are left to the Lander. In Germany, the Federal Building Code requires municipalities to devise local land-use plans that are both vertically and horizontally consistent. Locally, there has been an increasing reliance on public private partnership in urban development. This is exemplified by the introduction of the Vorhaben und Erschließungsplan, which gives planning permission without a local Flächenutzungsplan in place, as long as the developer promises to prepare one and agrees to finance and implement the servicing of the development. This has speeded up the planning process and allowed greater flexibility and interpretation at the local level.

***Challenges to Planning – from unification and further EU integration***

2.32 West Germany was politically, economically and demographically relatively stable in the period since the 1960s. However, since the 1990s, the German planning framework has had to face new challenges, including:

- ❖ increased spatial disparities in income, employment and growth due to economic restructuring and the unification of East and West Germany;
- ❖ a changed policy environment due to further European Union integration.

2.33 The introduction and influence of EU policies and leveraging of EU structural funds have been instrumental in instituting environmental impact analyses and placing renewed emphasis on regional planning. In response to these new challenges, German planning has undergone a certain amount of transformation, with a particular emphasis placed on decentralization:

- ❖ in the face of increasing regional disparities, the constitutional guarantee of equality of access and opportunity has been weakened at both the federal and Land level. Article 72(2) of the German constitution was revised, so instead of advocating 'equal living conditions' for all citizens, it now reads 'similar living conditions'. In fact, regional inequalities have been exacerbated by a state policy of encouraging strong regional governance associations to increase international competitiveness (see below).
- ❖ the focus has shifted from the substantive outcome of plan-making to more procedural concerns over equity and representation.

2.34 Changes instituted by the federal government during the 1990s have placed a greater emphasis on decentralized control, local initiatives, public participation and increased competition among



German states as a means to acknowledge this new globalized post-socialist reality. For example, in 1996 and 1997, the Federal Planning Law was reauthorized, and focused more on management and less on direct federal intervention. The influence of European Union standards has also ensured a certain amount of public participation in the formulation of local, regional and state plan making

### 3. POLICIES FOR URBAN DEVELOPMENT

3.1 In this section we review the major features of urban development and policy. We begin with a description of policies based on series of government documents. WE follow that with a review of the significance and impact of those policies by a range of researchers.

3.2 EUKN (2010) identifies a number of phases of urban development and urban policy following the ending of World War II and underlines the unique challenge to German politics and society presented by German unification at the start of the 1990s:

- ❖ **Reconstruction in the 1950s:** reconstruction of cities and extensive stimulation of house-building projects;
- ❖ **Urban expansion in the 1960s:** urban expansion against the background of economic growth and population dynamics, suburbanisation in the previous Federal Republic of Germany (FRG) and industrial housing in the former German Democratic Republic (GDR);
- ❖ **Urban renewal in the 1970s:** re-orientation of urban policy against the background of the economic crisis, a more intensive orientation towards existing housing, revitalisation of inner-city neighbourhoods in the FRG, permanent construction of new housing and neglect of neighbourhoods with old buildings in the GDR;
- ❖ **Urban reconstruction in the 1980s:** stagnation of demographic development, shift of focus in West German housing policy towards home ownership assistance, orientation towards inner-city development in urban policy;
- ❖ **Integrated urban development since the 1990s:** new urban challenges because of increasing globalisation and German unification, integrated urban development and urban reconstruction as a response to social, economic and demographic challenges.

3.3 EUKN argues that current developments are determined by the continuation of demographic and climate change and by the financial and economic crisis with German cities attempting to cling to the idea of sustainable urban development and accommodating a re-orientation towards urban spaces and lifestyles.

#### *Urban Development Programmes*

3.4 The Federal government supports the creation of sustainable urban development structures with urban development assistance programmes, granting subsidies to the Federal States . The objectives of promoting urban development are:

- ❖ Strengthening inner cities and town centres in their urban function, including the protection of historic buildings;
- ❖ Creating sustainable urban structures in areas affected by a loss of significant urban functions
- ❖ Urban development measures to eradicate social deprivation

3.5 The following programmes were developed by the Federal Government to achieve these objectives:

- ❖ Protection of the urban architectural heritage
- ❖ "Social City" programme aimed at addressing social and spatial polarisation in cities, the Federal Government and the Federal States jointly launched a national programme in 1999. The programme is based on an integrative and cooperative approach with urban development assistance combined with other departmental programmes and resources.

- ❖ *Urban restructuring in the new Federal States* Interlinking urban and housing policy to tackle the high number of vacant dwellings and to stabilise and vitalise town and city centres and neighbourhoods worthy of being preserved.
- ❖ *Urban restructuring in the old Federal States designed* To support towns and cities in the old Federal States to help them adjust to changing demographic and economic structures and to develop sustainable urban development structures.
- ❖ *Active city, district and neighbourhood centres* is designed to preserve and develop “central supply areas” in districts and neighbourhoods and in small municipalities as sites for business and culture and as places where people live and work.

***The Federal government as facilitator and initiator of urban development policy***

- 3.6 During its Presidency of the EU in the first half of 2007, Germany actively promoted the idea of sustainable urban development. This promotional exercise resulted in the adoption, by EU ministers, of the Leipzig Charter on Sustainable European Cities. The **Leipzig Charter** focuses on:
- ❖ better coordination between sectoral policies that normally have strong “spatial” impacts but lack an approach that takes these impacts or any of the interactions with other sectoral policies into account.
  - ❖ the preservation of the “European city” as a blueprint for urban structures. The central feature of this European city are vibrant city centres.
  - ❖ increased energy efficiency. Cities are both, the biggest consumers of primary energy and the places where, as a result of their compact structure and close mixture of different uses, the biggest potentials for a significant reduction lie. The energy efficiency of buildings has to be enhanced. The renovation of the building stock decisively contributes to the energy efficiency and to the improvement of the quality of life for the inhabitants.
  - ❖ special attention has to be paid to closing, not widening the social gap in urban societies. Cities are historically places where social advancement was easiest to be achieved. (Weigel, 2010)
- 3.7 Implementation of the Leipzig Charter in Germany was marked in the summer of 2007 by a national conference on urban development. The Federal Minister, Wolfgang Tiefensee, subsequently published a document setting out a **National Urban Development Policy**, which focuses on six areas of action:
- ❖ Getting citizens involved in their city – civil society
  - ❖ Creating opportunities and preserving cohesion – the social city
  - ❖ The innovative city – a driver of economic development
  - ❖ Building the city of tomorrow – combating climate change, assuming global responsibility
  - ❖ Improving urban design – Baukultur
  - ❖ The future of the city is the region – regionalisation
- 3.8 Implementation of the National Urban Development Policy is seen as a joint responsibility of all levels of government based around 2 pillars.
- 3.9 *Pillar 1: Enabling cities to better cope with their new tasks and challenges: The Federal Government supports the creation of sustainable urban structures with a series of urban development promotion programmes. The objectives of promoting urban development are:*
- ❖ Strengthening inner cities and town centres in their urban function, also under consideration of protection of historic buildings
  - ❖ Creating sustainable urban structures in areas affected by significant urban function losses; the principle indication of such function losses is permanent oversupply of structural works, such as, vacant dwellings or derelict sites in inner cities, particularly industrial sites, former military sites converted for appropriate re-use and railway sites
  - ❖ Urban development measures for eradicating social deprivation.
- 3.10 *Pillar 2: Promoting and testing new ideas for the city of the future and publicizing best practice initiatives, projects and strategies. These will be launched and implemented within the framework of “Project Series for Cities and Urbanity”. The projects and initiatives are designed to*

trial new kinds of options for action and to involve various stakeholders in urban development issues.

- 3.11 The key objective of the National Urban Development Policy is “*a return to an active life, i.e. working and living in an attractive city.*” Its early focus has been on:
- ❖ maintaining social peace in cities;
  - ❖ promoting innovation and economic development;
  - ❖ combating climate change;
  - ❖ designing the physical environment (“Baukultur” and heritage conservation);
  - ❖ incorporating urban development in a city-regional context; and
  - ❖ harnessing civic engagement.
- 3.12 Two strands of action are pursued by the Federal Ministry of Transport, Building and Urban Affairs (BMVBS):
- ❖ Developing and spreading good practice in the context of urban development support
  - ❖ Launching a series of projects to promote new ideas and civil commitment to city and urbanity
- 3.13 Existing programmes have been strengthened and the programme for active Urban or Municipal District Centres was started at the start of 2008. The BMVBS made two calls for project proposals in 2007 and 2008. The calls together attracted more than 500 proposals. Around 40 projects were funded from the first call in 2007 and 30 projects from the second call in 2008. The findings of these projects should be emerging fairly soon. The Urban Development Policy inevitably has had to be built on cooperation between of Federal and State Governments:
- 3.14 Weigel argues that the National Urban Policy, after three years of implementation, is now a widely accepted and established approach and provides the basis for inserting new approaches and initiatives into the mainstream of urban policy in Germany. The major initiatives introduced or “reinforced” are:
- ❖ Focussing on inner city development: Strengthening city and town centres in their urban function. A “White Paper” on inner city development was issued in the summer 2010. Within the framework of the Promotion of Urban Development Programme, a new focal point “**Active Central and Regional Business Districts**” has been set up with an initial funding of 86 Mio. € federal money, complemented by twice that amount from state and local funds.
  - ❖ A new programme “**Small Towns and Cities**” is focussing on ensuring the services for the public in scarcely populated rural regions, especially those, who suffer from shrinkage. The question is, how these regions can be stabilized in a situation of increasing competition?
  - ❖ **E-mobility and urban development.** In order to maintain its competitiveness, first class infrastructure must be available to maintain cities as major hubs of productivity. The conflict between traffic and the quality of living in the neighbourhoods must be solved also using new technologies in car production. The national emobility initiative is also focussing on the interrelationship between “urban” and “technology”
  - ❖ **Energy conservation in the buildings sector** is one of the Federal Government's housing and building policy priorities in this parliamentary term. There are three main reason why it is so important:
    - ❖ Measures to improve the energy efficiency of buildings reduce individual energy consumption while significantly improving the quality of housing.
    - ❖ These measures reduce CO2 emissions and thus help to tackle climate change.
    - ❖ Energy conservation measures promote economic growth and jobs in the local construction industry, in the related trades and in other sectors.
- What assessments of urban policy**
- 3.15 Albergo (2010 forthcoming) make number of points about urban policy in Germany:
- ❖ The new East/West cleavage gave rise to an orientation of the Federal Economic Policy, legitimated by the Constitution, in which the rebalancing between competitive and non-

competitive areas is a primary objective. As such, the role of the nation state counterbalances a growing competitiveness among cities and urban regions but this creates tension as far as the overall policy frame of territorial development is concerned.

- ❖ Since the '90s, territorial and urban issues have taken on a growing importance in the political agenda. This importance results from the need to manage the spatial and social effects of the national reunification in the Länder of the former DDR (a great number of abandoned houses, a consequent drop in house prices and unplanned suburbanisation), as well as the deindustrialization affecting the Western cities.
- ❖ Explicit urban national policies can be found, an initial condition for speaking about a national strategy.
- ❖ There are area-based programmes largely addressing social problems in neighbourhoods or zones within cities.
- ❖ In relation to initiatives aimed to foster economic development, urban competitiveness is a local and regional concern rather than a national one.
- ❖ The presence (or not) of governmental units dedicated to urban issues is an indicator of the political importance of urban issues and is also a necessary condition for the existence of a government's urban strategy. Two departments within the Bundesministerium für Verkehr, Bau und Stadtentwicklung (the Federal Ministry of Transport Building and Urban Affairs) provide this role. [Note the inclusion in one Department of responsibilities for housing, transport and urban policies – very different from the more siloised Departmental structure in the UK.]
- ❖ Opinions on the impacts of socially-focused programs are polarized into conflicting positions. Assessments provided by central agencies are quite positive - thanks in part to the resilience provided by their flexible governance, negotiated (between the Länder and the Bund) and regulated since 1971 by the Städtebauförderungsgesetzes Act. Independent analyses are generally more critical with arguments that flexibility in implementation makes policy goals too vague and subject policies to tensions between public and private interests (Aehnelt 2007).
- ❖ Urban policies carried out at the national level are weaker than in some countries but are more balanced. A better test of the overall coherence and specific balance should include Länder policies and their role in the making of the national policy. As a federal state, urban policies mainly 'belong' to the 'meso' and lower political levels. Area-based programs have been developed with a strong level of participation of the Länder, who are also involved in the setting of the national agenda.
- ❖ The area-based programs have faced less alarming phenomena of 'urban social and economic disease' than in, say, the UK or France. Together with Germany's particular constitution, this explains why explicit and direct urban policies are emphasised less in Germany than in France and the UK.
- ❖ Explicit but indirect urban policies promoting the re-spatialisation of governance and local public policies are carried out when problems identified as specifically urban enter the agenda because local policies aimed at urban and/or regional development are seen to be underperforming. But these measures can only be carried out by national authorities that have constitutional authority to take direct action, as is the case in France and the UK but not in Spain and Germany.
- ❖ In Germany, explicit urban policy is not only less important than in France and the UK, but is also less frequently the subject of debate and is also arguably bipartisan.

3.16 Kunzmann (2007) identifies four things that one needs to understand about urban policies in Germany at the beginning of the 21<sup>st</sup> century:

- The problems of Länder in the West are very different from those in the East – latter facing population decline and 'shrinking' although some commentators have seen more recent signs of some renaissance in, for example, Leipzig. and even in the West there are growing inequalities between prospering city regions in the south (e.g. Munich or Stuttgart) and stagnating cities in the west and north (e.g. Essen or Bremerhaven).
- Changing federal policies have meant dwindling local budgets.

- The impact of fundamental reforms of the welfare state and immigration policies plus differences between Federal Government and Deutsche Staedtage (association of larger German cities) in local taxation reform.
- Compared to other major West European countries, a relatively weak national urban policy given the constitutional framework in which the federal tier has little urban policy power over the Länder and lower levels of local government. Local governments have considerable local autonomy though this independence is constrained by the country’s regulatory financial system:

Level	Role in urban policy
<b>Federal Government</b>	<ul style="list-style-type: none"> <li>• Setting legal rules for urban development mainly through Bundesamt für Bauwesen und Raumordnung (Federal Office for Building and Planning through:</li> <li>• Bundesbaugesetz (Federal Building Code), which includes the Bundesraumordnungsgesetz (Federal Spatial Planning Act) and the Federal Baunutzungsverordnung (Land Use Ordinance).</li> <li>• Monitoring urban and spatial development.</li> <li>• Launching pilot urban programmes (known as ExWoSt programmes).</li> <li>• Representing nation and Länder at EU level.</li> </ul>
<b>Länder</b> (especially large ones like Bavaria or North Rhine Westphalia)	Own urban policies and programmes: <ul style="list-style-type: none"> <li>• complementing federal policies; or</li> <li>• promoting innovative approaches to region-specific problems.</li> </ul>

3.17 Kunzmann argues that the political environment in Germany prior to the mid-1990s was characterised by a mood of economic optimism and normative policies and urban development was still a public sector domain despite the fact that the slimming down of the public sector had been initiated. Urban policies in Germany (at Federal, Länder and local tiers) up to the mid-1990s were focused on:

- ❖ reunification and all the necessary transfer payment, introduction of markets etc. in east;
- ❖ reinstating Berlin as capital with compensation for Bonn on loss of capital-city functions;
- ❖ launching of two national spatial development documents – the Raumordnungs-politische Orientierungsrahmen (Principles for Federal Spatial Development) and the Raumordnungspolitische Handlungsrahmen (Federal Action Plan for National Spatial Development) – providing general guidelines for planners in federal and Länder institutions;
- ❖ late 1980s and early 1990s high profile for environmental dimensions of urban development; belated focus on social problems of unemployment and in-migration and development of integrated approaches to tackle these (federal, Länder and EU URBAN programmes);
- ❖ Länder focusing on brownfield development, industrial heritage, affordable housing etc.

**Policy as persuasion**

3.18 Kunzmann emphasises that there is “no articulated single comprehensive urban policy of the Federal Government” because of the country’s constitutional structure. He, nevertheless, argues that there have been various elements of such a policy with the most significant including:

Dates	Main programmes
1999- 2003	Die Soziale Stadt ( <b>The Socially Integrative City</b> ) Community-based and targeted at socially disadvantaged communities
2004-	249 urban districts in 184 municipalities Each Land identified one model district for scheme 2 <sup>nd</sup> phase under implementation when Kunzmann was writing
2002-2010	Umbau Ost ( <b>Urban Renewal East</b> )
2002-2010	Umbau West ( <b>Urban Renewal West</b> ) 11 cities (to 2007)
	<b>ExWoSt Forschungsfelder (pilot, exploratory projects):</b>
1997-2000	Städtenetze ( <b>City Networks</b> ) – important for founding concept of city networks Note: of 12 supported one was MAI (München, Augsburg and Ingolstadt)
1997- 2003	Regionone der Zukunft ( <b>Regions of the Future</b> )
1996-2003	Städte der Zukunft ( <b>Cities of the Future</b> )
2001	3stadt2 ( <b>cooperation between public, private and community sectors</b> )

2002-2005	Öffentlicher Raum ( <b>public space</b> )
2002-2003	Stadtentwicklung und Verkehr ( <b>urban development and transport</b> )
2004-	Gender Mainstreaming und Städtebau ( <b>gender mainstreaming and urban development</b> )
2001-2003	Stadt 2030 ( <b>City 2030</b> ) – envisioning future city development (largest post-war urban policy research initiative)

3.19 Kunzmann argues that, given the federal system and the “suspicious monitoring of the Länder governments”, all these policy arenas are predominantly persuasive “policies”. City governments take part enthusiastically, however, not least for the financial support for experimentation. In addition to programmes launched at national scale, most states in Germany have their own urban policy agenda. Kunzmann gives examples of these but none from Bavaria.

**‘European Metropolitan Regions’ - a paradigm shift in spatial planning policies**

3.20 Germany responded relatively early to the emerging phenomenon of polycentric metropolitan or ‘mega-city’ regions with the identification, by the Standing Conference of State Ministries Responsible for Spatial Planning (Ministerkonferenz für Raumordnung, MKRO), of ‘European Metropolitan Regions’ (EMRs) - high-performance urban regions with economic functions that transcend national boundaries:

- ❖ Berlin, Hamburg, **Munich**, Rhine-Main, Rhine-Ruhr, and Stuttgart) were the first to be identified as ‘engines of economic, social and cultural development’ in 1995;
- ❖ the urban agglomeration around Halle, Leipzig and Dresden (‘Saxon Triangle’) was added in 1997;
- ❖ Rhine-Neckar, Bremen/Oldenburg, Nuremberg, and the city-triangle Hanover-Braunschweig-Göttingen were added in 2005.

3.21 This is a very important policy development according to Blotevogel and Schmitt (2006) that marks a historic cornerstone for what is a gradual but paradigmatic shift in German spatial planning and policies. It represents a marked shift in the perceived role of spatial planning, which in post-war Germany had hitherto been:

*“...focused chiefly on balancing economic development – rather than on supporting further concentrated accumulation – in order to ensure equivalent living circumstances throughout the country. Here, the central-place concept, based on Christaller’s neo-classical theory, was developed into a directive instrument for spatial planning at the state and regional levels in order, in times of prosperity, to implement social-welfare policies throughout the country capable of securing the provision of amenities to the population and their access to social infrastructure. As a consequence, the economic role of cities was restricted to their functions at the regional level. In other words, until the end of the 1980s there was no political will or even motivation on the part of the Standing Conference of 16 State Ministries Responsible for Spatial Planning (MKRO, Ministerkonferenz für Raumordnung), which has solely an advisory function, such as setting out the legal as well as strategic framework for the lower spatial levels, to think about the strategically superior role of some of these cities or urban regions in a national or even international context due to the fact that such policies, it was felt, might aggravate regional disparities and spatial injustice.” (p.56)*

**Metropolitan regions as motors of development**

3.22 But, since the beginning of the 1990s, urban agglomerations have been seen not only as congested areas to be protected from further aggregation, but also as constituting a critical mass for economic competitiveness in both national and international contexts. The EMRs are characterised as “driving forces” or “motors of spatial development”. For Blotevogel and Schmitt (2006) metropolitan governance is thus increasingly being viewed “...as a key instrument for enhancing regional economic competitiveness as well as for co-ordination and co-operation within an urban agglomeration” (p. 58). It chimes in with the ideas of ‘new growth theory’

emphasising the endogenous potential of knowledge and innovation and their interconnectedness and the emergence of creative milieux – and the notion that ‘geography matters for economic performance’. *With regard to metropolitan regions, the overarching goal is the establishment and consolidation of what might be termed a “metropolitan growth machine” through which to channel both public and private resources into coordinated regional development strategies...Thus, the success – or “competitive performance” – of such urban agglomerations which consist of a number of different political-administrative territories is not dependent only on the locational “competitive assets” but also of the “governance” of social interactions within metropolitan regions.*” (p. 58).

**Strengthening – or undermining - balanced development?**

- 3.23 In their view MKRO’s EMR concept does not aim at a monocentric urban hierarchy. Instead it *tires to strengthen the balanced system of several more or less equivalent and almost evenly distributed metropolitan regions by enhancing the existing division of labour between them. From the perspective of the level of the state or metropolitan region, this means that the corresponding stakeholders should pave the way in order to support their complementary functions within this network of German metropolitan regions, as well as neighbouring metropolitan regions abroad...To put it in other terms, in our view, regional metropolitan policies should rather aim at establishing distinct profiles, i.e. at cultivating specific niches in order to strengthen comparative competitive assets.*” (p. 63)
- 3.24 Blotvogel and Schmitt conclude that the EMR concept shows the growing recognition of the strategic role of metropolitan regions for economic growth and global competitiveness and that *“...the current efforts in spatial planning and policies in general will lead to an adjustment in favour of more political interventions in respect of well-performing metropolitan regions in order to strengthen further their function as centres of decision-making, control and innovation, as nodes of communication and transport, as places of cultural diversity and of social integration.”* (pp. 70-71) They also emphasise that, as a side effect, the EMR debate *“...increasingly questions the original central objective of equivalent living conditions throughout the country as laid down in the Spatial Planning Law (Raumordnungsgesetz, ROG) in consultation with the basic law, should not cut off other closely related spatial issues.”* (p. 71).
- 3.25 Concerns over the threat to the objective of securing equivalent living conditions across the country underpin Knapp and Schmitt’s (2008) criticism of the favouring of Metropolitan Regions. Which they see as a spatial outcome of the retreat from a post-war ‘Fordist-Keynesian ’model of capitalism to ‘neo-liberal regionalization strategies’ in which the spatial and scalar reorganisation of the state has shifted from “the city to the cooperative metropolitan region and further to the ‘large area of communities of shared responsibility’...- merely districts attention away from the state’s inability to manage the capitalist tendency for uneven development” (p. 1201). It reflects a shift in economic policy to concentrate on ‘picking winners’ rather than ‘helping losers’. For Knapp and Schmitt such regionalisation strategies, however, are internally contradictory because they intensify uneven development at the national scale and undermine social cohesion.

**4. FUTURE CHALLENGES**

- 4.1 Kunzmann (2007) identifies the following key challenges:
- ❖ Budget consolidation and public management – budget deficits from an eroding tax base;
  - ❖ Structural change and employment – especially where industrial base is linked to traditional technologies;
  - ❖ Suburbanisation and population decline;
  - ❖ Inner city decline – loss of retailing to out-of-town locations;
  - ❖ Local transport management – public transport and budget constraints;
  - ❖ Affordable housing and social segregation – especially in Eastern cities;

- ❖ City region cooperation and governance – tensions between larger core cities and suburban communities over cost-sharing for public facilities; new forms of cooperation but hindered by lack of a politically legitimised tier of planning and decision-making between local governments and the Land although sub-regional planning has a long tradition and has been quite successful;
- ❖ Urban development and marketing – image and place marketing;
- ❖ Social polarisation and spatial fragmentation – demise of welfare state and social-spatial polarisation within cities;
- ❖ Ageing population – emerging ‘four generation society’ posing new challenges for cities;
- ❖ Brownfield redevelopment in old industrial regions;
- ❖ Railway stations – need for redevelopment, some successful but some too costly and problematic;
- ❖ Airport extension – meeting opposition (although Kunzmann argues Munich’s new airport, now the country’s second largest appeared to have been less controversial).
- ❖ East German cities main concerns are dealing with oversized and unattractive housing stock. West German cities are more interested in urban governance.

4.2 EUKN (2010 also sets out what it sees as current issues facing German urban development policy, arguing that attention is currently being focused on:

- ❖ City co-operation at regional level;
- ❖ Using declining land use as an opportunity – making neighbourhoods more attractive for families with children;
- ❖ Creating socially stable urban neighbourhoods – regarding migration as an opportunity;
- ❖ Adapting the infrastructure to the needs of the elderly;
- ❖ Making mobility compatible with cities and the environment;
- ❖ Strengthening cities as business and innovation locations;
- ❖ Maintaining the diversity of retail trade – strengthening central supply areas;
- ❖ Improving co-operation of municipal planning and private investors;
- ❖ Putting a different complexion on cities – culture shapes cities;
- ❖ Maintaining old historic cities and using them as an economic factor;
- ❖ Intensifying modernisation of the existing building stock – reducing CO2 emissions.





**The ESPON 2013 Programme**

## **3.4**

# **BARCELONA**

**Michael Parkinson**



EUROPEAN UNION  
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INVESTING IN YOUR FUTURE

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## 1. BARCELONA - THE STORY AND THE SIGNIFICANCE

- 1.1 Barcelona is an important case for this study. It is a major European city which has undergone massive economic transformation during the past three decades after the advent of democracy in Spain. It makes a substantial contribution to the regional Catalan, Spanish national and European economy. It operates in a decentralised policy making system with powerful regional government being more important than either national or local government. It also operates in a complex multi-level territorial governance system. Barcelona is a good test of the challenges of developing policy for successful cities and a good model for non-capital cities across Europe.
- 1.2 This study is based upon original data collected in our field work with extended interviews with key figures in the public and private sectors in Barcelona and Catalunya. But it also draws heavily and freely upon existing research and consultancy studies which analyse the development of Barcelona, its history, economy, governance arrangements, social structure and territorial significance. The key studies we draw upon include *Barcelona: Global Repositioning of an Emerging Metro*, Burdet et al, LSE CITIES 2010; *Promoting entrepreneurship, employment and business competitiveness: The Experience of Barcelona*, OECD 2010; *Review of Regional Innovation: Catalunya*, OECD 2010; *Competitiveness in Catalunya*, IESE Ghemawat and Vives 2009, *Agglomeration Economies in the Barcelona City Region*, Burns et al, ESPON 2010; *The Repositioning of the Spanish Metropolitan System within the European Urban System*, Burns, UPC 2005; *Promoting Creativity and Knowledge in Barcelona Metropolitan region: How to Increase the City's Competitiveness*, Pareja-Eastwya, et al, ACRE 2010. This chapter in addition to our own primary research reflects many of their findings and analyses. We are glad to have had access to it. The experience of Barcelona will be used to test the key hypotheses of our study. They were the following.
- 1.3 *Deconcentration matters*. This hypothesis essentially argues that the benefits of an urban system where public and private investment and resources are concentrated upon the capital city are smaller than those of a more deconcentrated, territorially balanced urban system where growth and resources are spread across a range of different sized cities in a wider territory. It implies that: national economies will be more successful when the gap in economic, social and environmental performance between the capital and second tier cities is smaller; more successful national economies have more second tier cities performing well.
- 1.4 *National policies - and levels of centralisation - matter*. This argues that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. It implies that institutional and financial decentralisation from national to sub-national (regional and local) levels of government where these have significant roles, responsibilities and resources will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. In addition, second tier cities will perform better where national and regional policy making systems are horizontally and vertically aligned to focus upon place making.
- 1.5 *Local factors matter*. Second tier cities are path dependent and are constrained by external factors - historical, cultural, structural, political and institutional. But those factors are not determinant. The economic performance of cities will depend upon their strategic capacity to manage those constraints.
- 1.6 *The key drivers of territorial performance are innovation, human capital, connectivity, place quality, and governance capacity*. Policies on those dimensions are crucial and again should be explored and assessed.

- 1.7 *Territory matters.* This argues that globalisation makes the governance capacity of place more important. It will be increasingly multi scalar. Economic governance in second tier cities should be located at the highest achievable spatial level. Second tier cities need strategies to shape the different territorial roles they play regionally, nationally and in Europe.

***An initial overview - How did it get to here?***

- 1.8 As Burdett's study underlined, Barcelona has achieved an extraordinary transformation in its economy since the 1980s. The capital of Catalonia, the largest economic region in Spain, Barcelona successfully reinvented itself following nearly 40 years of General Franco's dictatorship, strengthening its position in Europe and attracting foreign investment, international entrepreneurs and tourists. Although Barcelona is not immune to the current global financial crisis and recession, it is an important example of urban economic transformation in a country that is Europe's fifth largest economy and the eleventh largest economy in the world. And despite the crisis, Barcelona is also better placed than most other Spanish cities to emerge intact because of its diversified economy, robust governance models, increasingly innovative economy, long term infrastructure investment, sound financial management, and lack of over dependence upon the finance and housing markets which have recently collapsed in many countries including Spain. As the CITIES report argued the essential story is one of 'Barcelona's emergence from the neglect and isolation of the Franco dictatorship, led by visionary and capable Mayors and a powerful city municipality, by flexible and collaborative institutions, and by its dynamic and cohesive private sector.' They used strategic planning and project-led development to successfully deliver an ambitious modernising and repositioning strategy over several decades.

- 1.9 Since the 1970s Barcelona has encountered huge transitional forces - democratisation, deindustrialisation, tertiarisation, economic and demographic deconcentration, Europeanisation and globalisation. It has responded to those forces in three broad ways at different periods.

*Barcelona's first act 1979-92 Stop the rot and build confidence with prestige projects*

- 1.10 Barcelona's strategy from the mid 1980s to the 1990s was to stop economic decline and restore confidence in the city. It concentrated upon creating visible signs of change and iconic projects to build internal confidence and external interest. This began the physical redevelopment of the city from the exhausted industrial model to a new urban model. The 1992 Olympic Games were the symbol of that strategy. But the Olympics were used intelligently to mobilise support and resources to achieve structural changes the city had wanted to make any way for many years.

*The second act 1992-2007. Beyond physical regeneration to a high value added, European economy*

- 1.11 After the success of the Olympics which was not guaranteed and required huge delivery capacity, Barcelona's ambitions widened beyond physical regeneration to high value, economic development to become a major European city. The city pursued economic diversification through increased Foreign Direct Investment, entrepreneurship, competitiveness and new jobs. It made major efforts to attract international talent as well as retain and expand its existing population. It developed strategies for a new knowledge economy. Economic growth and expansion required the city to improve physical connectivity as well as working relationships with partners in the metropolitan area. The private sector became a more important player in the city's economy.

*The Third act. Barcelona towards 2020 – aiming to become a world class city*

- 1.12 In recent years Barcelona has again raised its ambitions to become a globally important as well as European and regionally important city, serving as both the Mediterranean Capital

and the Gateway to Latin America. This has led to new priorities and focus for the city. There is increased concern to have more careful growth. There has been an increased focus on high value-added knowledge economy but also on place quality and the development of the creative economy. Private sector leadership has become more critical including efforts to attract and retain leading firms that provide competitive business services. There is a greater focus upon better coordination between a wider range of players for example universities, banks, and infrastructure providers and between different tiers of government and neighbouring municipalities. There is an increased concern to make the city government itself more effective, integrated, flexible and accountable to its citizens.

*What are the secrets of Barcelona's success?*

- 1.13 We anticipate our analysis briefly here. In our view, there are several reasons for Barcelona's success. First it has shown consistent entrepreneurial and visionary leadership. Second it has developed a model of public private partnership and citizen involvement which constantly evolves but whose essential principles remain the same. Third it has made strategic planning not an add-on but a standard way of doing business in the city. Fourth it has focussed upon quality which increasingly differentiates cities from each other. Fifth it has internationalised its ambitions and its reach. Sixth, it has systematically worked on the fundamentals of the economy as well as some of the more sexy sectors of the economy like tourism, biomedics, culture, and ICT. The seventh secret is its constant self assessment and willingness to compare its performance with the best places within Europe and globally. The city has never rested on its laurels but is always willing to learn from competitors about how to improve.
- 1.14 There is another message from Barcelona which is crucial for our study - city government matters and city governance matters even more. The city council has recognised that being well run and efficient is important - especially in a period of scarce resources. It has made substantial efforts to modernise improve its performance especially with e-government. But Barcelona's leaders have understood something bigger about city government. Providing well run local services are a necessary but not a sufficient condition of success for a city. They have recognised that the city council should not be a provider of services alone. It has to be a leader and a shaper of place. The idea of place shaping is now very fashionable. But Barcelona virtually invented the idea. It has demonstrated leadership in creating the kind of place that people globally and locally want to live, work and invest in. That is the key to its success.

## 2. THE ECONOMIC CONTEXT

- 2.1 Barcelona is the capital city of Catalonia, in north east Spain on the Mediterranean coast. It is an example of rapid transformation from a classical industrial city in decline to one that has now a reputation on international markets. The City of Barcelona has about 1.6 million inhabitants in an area of 100 square kilometres. But the metropolitan region extends to almost 200 municipalities and has 4.7 million inhabitants. Barcelona is the second largest city in Spain, just after Madrid, and one of the major metropolitan regions in Europe.
- 2.2 Barcelona is the economic engine of Catalonia, which itself is responsible for nearly one fifth of Spain's total GVA, and 26.9% of total Spanish exports in 2007. It has an international reputation and brand, capable of attracting foreign investors, entrepreneurs and tourists. It also has a strong tradition of entrepreneurialism, and a flexible and diversified industrial base of small and medium sized exporting enterprises. 8.4% of the working age population in Catalonia engaged in some form of business creation in 2007, compared to average of 5.4% across the EU (Global Entrepreneurship Monitor, 2007).
- 2.3 The economic crisis in 1993 had a major impact on the manufacturing industry, so between 1993 and 1995 there was a large growth in unemployment in Spain and the Barcelona

Metropolitan Region (BMR). However, the subsequent economic expansion generated a period of economic growth that lasted until 2007, in which the BMR and the Spanish economy experienced significant employment creation, with average growth rates of more than 3%.

- 2.4 In keeping with this economic growth, employment in the province of Barcelona increased 56.5 per cent between 1995 and 2008, creating more than 900,000 jobs, an average yearly rate of around 3%, similar to that of economic growth. More than 70% of the jobs were generated in the services sector, where employment increased almost 60%, and in construction, where employment doubled. Employment in the manufacturing industry, on the other hand, only grew 25%. In 2008 there was a sharp drop in the construction sector. So only the services sector experienced sustained stable growth.
- 2.5 Barcelona has a longstanding manufacturing and industrial tradition that has been adapting to the challenges posed by the knowledge-based economy. While Barcelona was traditionally known for automotive, chemical, textile, food processing, publishing and consumer electronics industries, these activities have almost entirely moved to the city suburbs. The industrial structure of the city-region is polycentric, with a diversified economy but with specialized centres in the medium and small-sized cities around Barcelona. The economic structure of the City of Barcelona has been changing in the last decade, where knowledge-based industries are replacing the old industrial areas. The City of Barcelona has concentrated on services, which employ 83.1% of its workers. 78.1% of businesses with employees in the province of Barcelona in January 2007 were in the services sector, 14.2% in industry and 7.3% in construction.
- 2.6 In the City of Barcelona, the service sector is even more important not only because of the important number of enterprises in the tourism and other business-oriented sectors, but also because the industrial activity has gradually moved to the outskirts of the city mainly because of increased land prices in the inner city. Despite the deindustrialisation process, industrial activity in Catalonia remains above the national average, although in Barcelona itself it is below the national average.
- 2.7 Tourism, especially business tourism, and conference activities have grown in the city particularly. Barcelona has a huge business in international congresses and conventions - seventh in the world rankings for the number of congresses in 2008. Business tourists represent 51% of all of the city's tourists. Its logistics sectors have increased because of the development of the Port. Container traffic has increased by 100% in seven years. The Airport handled 30,000,000 passengers in 2007. It has the capacity to accommodate 70 million in future. Barcelona has created a particularly entrepreneurial environment, reflected in the number of people starting new businesses. The Global Entrepreneurship Monitor shows, the rate of entrepreneurial activities in the province of Barcelona measures 8.9%, similar to Catalonia but higher than the national average (7.3%). This figure is also higher than many nations across Europe. Barcelona is also fifth in a list of the best European cities for business, according to the European Cities Monitor 2008. It is an important centre of foreign direct investment as Catalonia attracts 26% of the total Foreign Investment in Spain.

### **3. GOVERNANCE AND POLICY MAKING IN THE BARCELONA METROPOLITAN REGION**

#### *The national story*

- 3.1 A recent OECD recent review outlined the following essential institutional features of urban policy and decision making in Spain. It is a unitary country with a highly decentralised

political system with two tiers of sub-national governments: the regional and the local governments, the latter being composed of provinces and municipalities. Spanish Regions (called Autonomous Communities) have very similar powers than the regional authorities in other Federal countries (e.g. Lander in Germany, Cantons in Switzerland). First they have legislative powers within the framework of national legislation. Second they have exclusive responsibilities in many policy fields including tourism, urban planning, housing, social services. Third they share responsibility with the State in the administration and organization of their territory can establish, abolish, modify or amalgamate municipalities or decide on methods of cooperation between them, the environment, education, research, health, economic development, public works and infrastructure. Fourth, they have significant resources, largely derived from their own fiscal revenues and revenues they share with the national government.

3.2 In this context, the national government has less capacity to develop urban policies since urban issues are essentially a regional responsibility. However, national government still plays a significant role. First it has an influence over the distribution of responsibilities through legislation. Second it plays a key role in the funding of a wide range of economic development activities at local, metropolitan and regional level. Also it has responsibility for creating and managing transport communications and infrastructures. So national government:

- ❖ establishes the legal framework in which regional and local governments must act. This is for instance the case regarding the 'Pacto Local', i.e. the decentralization process concerning the transfer of responsibilities from the regions to local governments. It is also the case for policy sectors in which the State shares responsibilities with regional authorities.
- ❖ is still responsible for many policy domains, including strategic sectors such as air transport, national railways and notably the high speed train network and energy and also culture which has been important in the development of many cities.
- ❖ has enormous resources that it can devote to urban areas if it chooses to. One good example of this is the various national programs National Government has set up to fight the recent economic crisis.

*The regional story*

3.3 OECD assessment is that in comparison with other unitary countries in the OECD, regional governments in Spain are stronger than local governments. Over the last decade the regional government level in Spain has become increasingly important, with more responsibilities and expenditures delegated to this level. As a result of the increasing regionalisation process, Spain's governance structure is based on a decentralised model of decision-making with 17 regions or *Comunidades Autonomas* with different responsibilities. Autonomous communities now represent more than 50% of general government employment. Regional governments have complete autonomy in some fields, but share responsibilities with the central government in other fields. Local government responsibilities and budgets, however, have remained relatively constant. Autonomous Communities have many freedoms in fields such as regional public works, infrastructure and transport, but share responsibilities in education and health with the central government. Autonomous Communities are responsible for delivery of these services, but the central government typically provides minimum standards when it comes to service provision and access. Local governments are responsible for services such as water and sewerage, parks and street lightning. Larger municipalities have more responsibilities.

3.4 The result of this model is the increasing leadership of the regional level without institutional mechanisms for coordination between national and regional governments. For that reason

Spain has a low level of integration between tiers of government which affects the model of economic development.

- 3.5 Local government is the Cinderella of Spain's recent political development. Decentralisation over the last 30 years has focused on the regional level (the Autonomous Communities). In Catalonia, this process has been especially important for cultural reasons. Acquiring more legal and financial autonomy has been a key Catalan governmental strategy. At the expense of other issues. As a result, there has been little attention paid to local issues. This has been minor, with occasional reforms, as in 1987 (creation of counties) and maybe in 2010 (via the creation of the Metropolitan Authority of Barcelona). Relations between the Catalan government and the municipalities belonging to the city-region have been influenced both by the Spanish-Catalan debate and the differences in political majorities of regional and local governments. The political struggle between the Generalitat and the City of Barcelona has been particularly significant.
- 3.6 The ACRE study noted that the fragmentation of Catalan – and Spanish - local government is not exceptional but a general feature of the Napoleonic model of local government. The model – which includes Spain, France, Italy, Portugal and Greece - is characterised by high local identity at the expense of high local autonomy. In other words, the essence of local government is political rather than functional. Local governments represent territorial communities and office holders are expected to represent the interests of this community with higher levels of government – especially regional in the Spanish case.
- 3.7 This helps explain local fragmentation and the policy of retaining small units of local government. Several proposals from the Catalan government to merge municipalities have failed. In fact, the number of municipalities has been increasing, to almost 950. By contrast, in North European countries there have been large territorial reforms imposed by central or regional governments to reduce the number of municipalities, and improve service delivery. As the ACRE study notes, the extensive number of different instruments of collaboration between Catalan municipalities illustrates the limits of small governments. The capacity of local governments is also affected by their lack of economic powers and resources.
- 3.8 For almost three decades of democratic rule in Spain, there have been few incentives to promote and encourage the consolidation of metropolitan areas to deal with urban issues. Instead the priority has been the consolidation of Autonomous Communities. In fact, the development of other forms of local autonomy which could challenge the power of existing political actors has been systematically postponed.

*Fiscal capacity of cities*

- 3.9 OECD noted that Spain's highly decentralised approach to territorial administration is also reflected in the concentration of sub-national expenditures managed by the regional governments. Although a unitary country, Spain has a high share of sub-national expenditure even when compared to federal countries like Germany, Austria and Belgium. This has been the result of two decades of decentralisation, mainly benefiting regional governments (Figure 3.2). Autonomous Communities were responsible for 36.4% of total government spending in 2005 while the local governments were only allocated 13%. Most of the decentralised functions have been delegated to the Autonomous Communities while local government expenditures have remained relatively stable over recent years. The most important expenditure items for Autonomous Communities are health and education, with 91% of all government expenditures on health and 89% of the education expenditures in 2004 made by regional governments.



3.10 The central government controls major infrastructure spending for the main road and motorway network, long distance and high speed trains and most local trains. The central government also allocates the majority of public funds and retains control over the Port of Barcelona and the city's Airport. There are also number of frameworks, plans, initiatives and funding streams which specifically target business development, many of which are relevant to Barcelona. Other indirect policies have been crucial to the development of Barcelona's knowledge based industries and contributed to the competitiveness of the city-region, especially the High Speed Train or broad band connectivity. During the past decade, the Barcelona has had huge public investments in these infrastructures. Central government and in many cases the EU have been the main providers of funds. As ACRE noted, although local government strategy were fundamental for the design and implementation of policies, national government played a key role in providing parallel measures and policies to those adopted by the local government.

3.11 Local government expenditure is marginal compared to the regional and central levels of government. The creation of the Autonomous Communities after the dictatorship transformed the fiscal distribution from central government to regional government, while the fiscal capacity of local government has not been improved. Many municipalities and provinces – Barcelona included - want reform of local finances so as to increase their financial resources. Provinces depend on national government transfers, while municipalities depend on property taxes. In practice, local governments assume more tasks than those assigned to them, but without additional resources. This situation specially applies to big cities, which attract more diverse populations with specific needs. In the metropolitan area, Barcelona benefits from a particular charter that provides the city with greater economic resources. In fact, the City of Barcelona is wealthier in terms of gross product and family income per capita than the average municipality in the BMR. Also as a result of the economic crisis especially in construction, in recent years the financial resources of local authorities have declined, while the demands for social services have increased. Central government has implemented temporary measures - plans of direct local investments – but which do not address the question of a reform of local finances

*Governance in the Barcelona Metropolitan Region (BMR)*

3.12 As the ACRE report noted in the BMR, there is a complex overlap of institutions and policies. Three main tiers of government develop policies at metropolitan scale: local with 164 municipalities, regional (the government of Catalonia) and national (the government of Spain). The three levels play different roles in the BMR, the local government is essentially responsible for improving the municipality's position in the urban hierarchy. The progressive decentralisation of responsibilities and policies towards lower levels of government that have taken place in Spain since the end of the dictatorship has encouraged the proliferation of agreements between them (*Consorts*) and also the development of joint programmes .

3.13 The metropolitan region is obviously affected by the general national features, like local fragmentation and lack of economic resources or the lack of incentives to promote and encourage the consolidation of metropolitan areas. In Catalonia this structure is overlapped with the Catalan structure of government. Between the provincial and the local level there is an extra level of government with its own non-elected body and with similar attributes to the provinces. As a result, the Barcelona metropolitan region has different bodies, operating at different territorial levels:

- ❖ Generalitat de Catalunya (regional government): with its own budget, has exclusive competences in many fields and shared competences with the central government in others. As the 'national government' of Catalonia, the Generalitat plays a key role as a funding body and as a leader in the development of consensus-building around economic development.

- ❖ Diputació de Barcelona: depends on funding from the national government and has no competences in policy-making. The Diputació has more than 60 programmes to support municipalities in different fields such as welfare, trade, tourism, economic development, education or environment amongst others (Diputació de Barcelona, 2009)
  - ❖ 7 County councils or *Consells Comarcals*: they have a weak role in the definition and implementation of policies. The regional government funds them and their function is to give advice and funds to the municipalities and the coordination of the policies in their county.
  - ❖ 164 City Councils: they play a major role in the definition and implementation of different policies, including economic development. The high number of municipalities hides the real structure of the region with a small number of cities led by Barcelona that are relevant economic centres, a second group of cities that concentrate population but are not very relevant in economic terms and a third group of municipalities formed by villages and small towns.
- 3.14 Although Barcelona extends beyond the municipal boundaries of the City of Barcelona, governance of the immediate urbanised area and the broader metropolitan region has been fragmented since 1987, when the Corporación Metropolitana de Barcelona (Barcelona Metropolitan Corporation; CMB) was abolished by the Government of Catalonia. This decision resulted from tensions between an increasingly powerful socialist Barcelona and Catalan nationalist Catalonia, which escalated in 1986 when the 1992 Olympic Games were awarded to Barcelona. Although subsequently new metropolitan bodies were created for transport, the environment and urban services, each had different boundaries and did not extend beyond the urbanised area of Barcelona into the wider metropolitan region. And responsibility for metropolitan planning was retained by the Government of Catalonia.
- 3.15 It was not until 2010 that agreement was finally reached to bring these various responsibilities and powers back together into one metropolitan governance body, the Àrea Metropolitana de Barcelona (Metropolitan Area of Barcelona; AMB). This new body will integrate the formerly fragmented metropolitan bodies for the environment, transport and other urban services and will also be responsible for promoting a metropolitan strategic plan. Its area of jurisdiction will be the Barcelona Metropolitan Area, the immediate urban area surrounding the City of Barcelona within the broader metropolitan region. It is hoped that these new arrangements will provide a more effective platform from which to realise metropolitan planning and initiatives.
- 3.16 The difficulties in establishing a territorial equilibrium, not only in the BMR but also in Catalonia, are reflected in differences in the distribution of resources and the difficulties in agreeing the weight which each area should have in the overall development of the region. There are conflicting views on the role that the central city should play. On the one hand, the local government thinks that it should be the nerve and strategic centre of the region, and demands greater recognition of Barcelona as a motor of this development. On the other hand, the regional government has a broader view of the region and has to create different nodes of attraction across the whole territory.
- 3.17 In the absence of coherent metropolitan governance, the Government of Catalonia has played an important role in the transformation of the Barcelona metropolitan area. As well as developing territorial plans for the metropolitan region, the Government of Catalonia's land development institute, Incasòl, has been a key actor in the transformation of land for new high-tech and knowledge intensive clusters. The economic policies of the regional government have also been influential in Barcelona, especially in relation to internationalisation and innovation. The *Generalitat* has played an essential role in policies such as health, education, social services. As in most metropolitan areas, local authorities have responsibilities for urban planning, public transport and environment.

*Governance – a summary*

- 3.18 The governance framework is a complex multi-tiered scheme in which public administrations play a key role at different levels. Barcelona City Council plays a leadership role in the development of policies for the metropolitan region, setting the policy agenda for the whole region and symbolically representing it with higher levels of government. In spite of that, small and medium-sized cities with long local traditions of economic growth try to develop their own projects and initiatives, sometimes without a clear coordination with Barcelona. The role of regional government in the coordination of these efforts is key. From this tier of government, the Generalitat promotes policies for the clustering of knowledge and creative sectors at a regional level, which means the creation of a regional strategy for these sectors. One of the main aims of these policies is to avoid competitiveness between municipalities in the attraction of talent and capital, and to avoid the duplication of projects.
- 3.19 A key feature of the institutional structure of the BMR is the crucial role of local authorities in policy development for economic growth but also the lack of a coherent coordination mechanism of the different local authorities. Despite that, Barcelona has led the process of economic development and pushed for a major coordination of efforts between municipalities. ACRE underlines another key feature another major feature of the governance system of the BMR is the powerful role of public authorities in providing infrastructures and services to attract private investors to the region.
- 3.20 ACRE notes that the coordination between municipalities and projects is influenced by politics. Most of the main municipalities of the metropolitan region are partially or totally controlled by the socialist party, which ensures a better coordination and transfer of experiences between municipalities. Here Barcelona often leads in policies that are later implemented by other municipalities of the region. Although private actors play a key role in economic development through their direct involvement in implementation and through the role of entrepreneurs associations in decision-making, public administrations at different levels play take a leading role in economic development, not only through investments but also through the creation of an institutional environment of trust for innovative and creative companies.

**Key players in Barcelona**

*The City Council of Barcelona*

- 3.21 The OECD review of Barcelona has identified the key players in the economic development system of the city. Its clear judgement is that the City Council has played a major role and provided the clear leadership required to take Barcelona successfully through rapid change. It has sustained energy and drive from key personnel and reflecting its capacity to attract talented employees. These characteristics have enabled it to gain credibility and to play to the strengths of a local authority in bringing together the key players and mobilising and facilitating investment. The City Council also convenes a strategic committee of economic promotion for the city, which brings together politicians, trade unions and business and voluntary organisations from across the region. This exemplifies its ability to get people round the table, reach consensus and develop strategy. The Economic Promotion Department of the City Council has played a major role in setting the conditions for business and facilitating financial capacity.

*Barcelona Activa*

- 3.22 Barcelona Activa is the local development agency of the City of Barcelona. It was created in 1986 to promote quality employment and innovative businesses and started as a business incubator coaching 14 business projects. Some 20 years later, OECD noted its role and reputation has grown and it is the primary instigator of employment and innovation in the

city. It has a modest budget but plays a central role in economic development in the city as the agent which designs and executes municipal policy in the field. One of Barcelona Activa's strengths is its capacity to be close to the City Council – President of Barcelona Activa is also the Deputy Mayor and has led on economic promotion– whilst also able to operate at arm's length.

- 3.23 The City Council of Barcelona is not the only player in the development of policies. Regional government and agencies are very important actors in the development of policies and their coordination, especially for the economic sub-centres of the BMR, where there is less funding than in Barcelona. Universities, trade unions, chambers of commerce and entrepreneurs associations also play a role in strategic planning and they participate at different levels of decision-making. Nevertheless, the Barcelona City Council initiatives lead the whole process and are transferred to other municipalities.

*Universities*

- 3.24 Barcelona benefits from the presence of internationally recognised institutions of higher education where almost 200,000 students study. Barcelona plays host to eight universities that belong to the Catalan university system, five are public (Universitat de Barcelona – the biggest in Spain with 85,000 students, Universitat Autònoma de Barcelona, Universitat Politècnica de Catalunya, Universitat Pompeu Fabra and Universitat Oberta de Catalunya, the latter an e-learning university), and three are private (Universitat Ramon Llull, Universitat Internacional de Catalunya and Universitat Abat Oliba). The education attainment of the population in Barcelona has improved considerably over the past few years (Annex Figure 2.4). The number of students enrolled in basic, secondary and undergraduate studies has increased, while those without studies have decreased. Barcelona is also home to two highly reputable business schools: IESE and ESADE. Barcelona benefits not only from a better educated local population but also from an important number of foreign students that come to Barcelona to study. In 2006, 10% of the students enrolled in the eight universities in Barcelona were foreigners.

- 3.25 In 2006 across there were in 400 degree subjects 240,000 students– 16% of the Spanish total. The three internationally renowned business schools raise Barcelona's profile and help to attract foreign students. They have become more international in last ten years and developed more courses in English to compete with United States market and in economics and management. The universities are increasingly being seen as potentially playing a bigger role in local economic development, especially through special instruments devoted to high tech research such as the supercomputer in the UPC, the Science Park at the University of Barcelona, the Research Park at the Autonomus University, and the Spring Boards of the different universities aimed at connecting research and entrepreneurship.

#### 4. BARCELONA'S DEVELOPMENT PATH 1975-2011

- 4.1 There is considerable consensus upon the development trajectory of Barcelona during the past three decades. As Burdett has underlined, Barcelona's success today can be traced back to its geographical advantages and historic strength in industry, as well as more recent the policies. Barcelona emerged as a major Mediterranean port and centre of commerce because of its coastal location and natural harbour over a thousand years ago. Barcelona was also one of the first cities to industrialise during the Industrial Revolution and rapidly became known as the 'Manchester of the South'. Industry drove its economic development and population expansion throughout the 19th century. In the early 20th century, Barcelona hosted a series of major trade fairs, including most significantly the World Exhibition in 1929. These activities attracted manufacturers and wholesalers to Barcelona, and promoted a further burst of growth.

- 4.2 Barcelona's growth was limited under the Franco regime and was economically isolated and suffered from under-investment. In the 1970s, these problems were compounded by the oil crisis and political uncertainty during the democratic transition. The city deindustrialised rapidly, pushing unemployment into double figures. Spain's entry to the EU in 1986 and the creation of the European Single Market in 1993 presented Barcelona with an opportunity to secure the city's economic renaissance and to capitalise on its strategic geographical position in Europe, and in particular in the Mediterranean region.
- 4.3 As Burdett notes, Barcelona seized this opportunity. Along with the wider region of Catalonia, it achieved 104% real growth between 1986 and 2007, compared to a European Union 27 average of 83.4%. It has been rated the top European city for quality of life since 1998 (European Cities Monitor), the third best-known city in Europe and 19th in the world (European Cities Monitor, 2009; Global Attractiveness Survey, 2008), and the fourth European destination for business and international investment (European Investment Monitor, 2008). It has attracted substantial foreign direct investment and tourism. For example tourists rose from 700,000 visitors in 1981 to over 6.7 million visitors in 2008. And Catalonia hosts 34% of all foreign companies operating in Spain in 2008.
- 4.4 By hosting the 1992 Olympic Games, Barcelona was able to address its infrastructure deficiencies and to rebuild its international reputation. City branding and promotion were used to attract foreign investment, foreign entrepreneurs and tourism, and later to promote high-growth sectors, such as design, media, logistics and biotechnology. Major improvements were made to Barcelona's port, airport, rail and road infrastructure over a twenty year period, delivering significant increases in the city's strategic importance in Europe and in the competitiveness of its firms. Investments in transport infrastructure were linked with the re-configuration of urban and metropolitan space for new knowledge-based and high-tech industries, creating an attractive environment for the new economy. New agencies and programmes were put in place to drive innovation and entrepreneurialism, and to help firms reposition themselves and develop their export capacities in rapidly changing international markets, building on the energy, ambition and confidence of Barcelona and Catalonia's small and medium enterprises (SMEs).
- 4.5 What key strategies did Barcelona's leaders adopt? Burdett has identified the following:
- ❖ A series of strategic plans were developed during the 1990s and 2000s to establish economic development goals for Barcelona, involving a wide range of actors. This provided a common vision around which individual initiatives could be pursued by different actors and institutions in the public and private sectors, including an effective public-private consortium model.
  - ❖ Barcelona's infrastructure inadequacies were addressed through sustained investment in the port, airport, rail and road networks. These strengthened Barcelona's international competitiveness and connectivity, repositioning it in Europe and the rest of the world.
  - ❖ The city's international reputation has been rebuilt, initially through the successful hosting of the Olympics and the urban transformations which accompanied them. This reputation has been effectively leveraged by new agencies to attract international investment, entrepreneurs and tourists, and more recently to promote priority growth sectors such as logistics, biomedicine and design.
  - ❖ In addition, the urban and metropolitan fabric of Barcelona has been re-developed to attract new high-tech and knowledge-intensive industries. The new land developments have been promoted through the Barcelona brand in an increasingly strategic and metropolitan way via the Barcelona Economic Triangle.
  - ❖ New agencies, such as the city development agency Barcelona Activa and the Catalan internationalisation agency COPCA as well as the Barcelona Chamber of Commerce, have

developed programmes to support firms and entrepreneurs in setting up and growing their businesses and in increasing their operations internationally.

4.6 Although the financial crisis has hit Barcelona hard, it has continued to invest in connectivity infrastructure, including a new high-speed rail station, a new metro line and a new airport terminal, boosting confidence and providing jobs. There are hopes that new metropolitan governance arrangements that are currently being put in place may potentially provide Barcelona with a stronger framework through which to secure the next phase in its transformation. It has, too, a new strategic metropolitan plan, Barcelona Visió 2020, to guide its future development, including through increasing orientation toward emerging economies.

4.7 This development trajectory outlined by Burdett has been underlined and detailed by the OECD review of economic development in Barcelona. It argued that for Barcelona, since the 1970s, two phases can be identified.: *Act 1 (1970s-1992): addressing the fundamentals; A second act (1992 – 2007): Barcelona’s shift*

*Act 1 (1970s-1992): addressing the fundamentals*

4.8 OECD note that competitive pressure in the late 1970s and 1980s led to acute deindustrialisation in the city and a significant contraction of the local economy. By 1986, the unemployment rate in the city was over 20% and many parts of the city became derelict. Barcelona suffered from ‘low international visibility and a lack of civic pride. The goal in this phase was to arrest decline and begin to restore confidence. This required visible signs of change and physical redevelopment of the city. As a result the City Council initiated a redevelopment strategy to achieve physical and infrastructure regeneration. Winning the Olympics the 1992 Olympic Games 1986 was the pivotal point in the transformation process for the city. Barcelona used the Olympics to consolidate, reorganise and improve the city’s infrastructure with extensive work investment and regeneration of in telecommunications, road and rail networks, thoroughfares and town squares, cultural heritage, old industrial areas and the waterfront including reclamation of the beach. OECD notes that the process substantially improved its international status, its economy and its image of Barcelona from one of decline to prosperity, confidence and cultural vitality which was crucial to attracting investors and tourists. Delivering the games ‘led to important changes in the way Barcelona’s authorities did business with a focus a consensus based approach.

*Act 2 (1992 – 20010) towards high value added in a global perspective:*

4.9 OECD underlined that the 1990s was a period of profound changes in the economic pattern of the BMR. Also, the social transformation that had been initiated in the previous decade continued and intensified. After the Olympic Games, urban restructuring of the city continued and the “Barcelona Model” began to emerge. The Olympics provided a springboard for the development of a strong brand for Barcelona based on an entrepreneurial spirit and its high quality of life. The aim for the city during this period was to become world-class by attracting, growing and retaining talent and creative businesses in the services/knowledge-based industries. The development model during this phase was built heavily on knowledge, entrepreneurship and value-added services. An intensive effort to reengineer the city’s physical space also took place. La Diagonal was linked to the seafront, the waterfront was regenerated and Forum 2004 with its conference and hotel facilities was constructed. Notably, the 22@ project, which saw the upgrading and demarcation of the south east quadrant of the city for the incubation of SMEs, was also planned and implemented. Ambitious projects such as the new high speed station in the north of the city, a new airport and the expansion of the city’s port were also made.

4.10 OECD argues that this recent success means that Barcelona is particularly well-positioned to respond to the current global financial crisis relative to other cities across the world. Indeed,

the city's investment near future plans are scheduled to proceed as planned and will not significantly strain the city's budget.

**OECD Interpretation of Barcelona's Development Path**

Development Phase	Period	Key Ingredients
1	1970s to 1992	<ul style="list-style-type: none"> <li>• Goal was to arrest decline and begin to restore confidence. Required visible signs of change and iconic projects. Key idea is to build some confidence internally and attract external interest.</li> <li>• Requires the beginnings of physical redevelopment of the city from the derelict industrial mode to a new mode of urbanism.</li> <li>• Physical and Infrastructure led regeneration.</li> <li>• Requires detailed mast/planning and a new urbanism.</li> <li>• Requires an urban development agency or similar capability.</li> <li>• Focused on larger sites and urban infrastructure.</li> <li>• Iconic projects at local scale with international visibility.</li> </ul>
2	1992 to 2004/2007	<ul style="list-style-type: none"> <li>• Goal was to become a significant European city.</li> <li>• Increasing economic diversification through FDI, entrepreneurship, building competitiveness and building a new supply of jobs.</li> <li>• Attracting internal talent and reversing population decline.</li> <li>• The beginning of sectoral and knowledge economy strategies.</li> <li>• Required a balanced focus between urban development and economic development with a special need to complement physical development with entrepreneurship, incubation and attraction of foreign investment.</li> <li>• Continuity of large sites but also market-led development of smaller sites.</li> <li>• Need for additional and modernised infrastructures emerges. Connectivity become very important.</li> <li>• Success begins to trigger wider metropolitan growth and gives rise to initial metropolitan coordination needs.</li> <li>• Private sector becomes more important partner/actor in development and begins to share some elements of leadership with City Government.</li> </ul>
3	2005/2008 to 2020	<ul style="list-style-type: none"> <li>• Goal is to become globally important city with leading continental and sub-continental roles (Mediterranean Capital, Gateway to Latin America etc.) and to sustain growth through high quality urban environment and connectivity/ infrastructure.</li> <li>• Growth management challenges emerge. Need for continuous flow of new sites and development opportunities. Need to contain/control negative externalities, e.g. congestion, inflation, conflict over land uses and conflict between diverse populations.</li> <li>• Increased focus on high valued-added knowledge economy but also on quality of place and creative economy. Greater embedding of local and international businesses.</li> <li>• Requires proactive image and identity building to highly segmented markets/audiences.</li> <li>• Requires economic development agencies which are able to work with complex international businesses, foster business to business collaboration, provide advanced technologies and attract and retain human capital.</li> <li>• Private sector co-leadership becomes more critical to attract and retain leading firms in clusters and provide competitive business to business services.</li> <li>• Strategic coordination of wider range of players requires (e.g. universities, banks, infrastructure providers) and between tiers of government and neighbouring municipalities.</li> <li>• Metropolitan growth strategy becomes more critical and coordination is essential to reinforce strategic goals.</li> <li>• Connectivity is a major pre-occupation to ensure hub and gateway status.</li> </ul>
4	2020 onwards	<ul style="list-style-type: none"> <li>• Is about maintaining 'world class' international success.</li> <li>• Requires continuous reinvention and reinvestment and very active problem solving, including ongoing growth management.</li> <li>• Major companies and institutions are active and smart and very demanding clients of the city.</li> <li>• Requires continuous proactive marketing and customer care with major investors.</li> <li>• Metropolitan governance must be very effective. Vertical and horizontal coordination is the norm and organisation are highly flexible and adaptive.</li> <li>• Presence of world class development organisation/s, which are jointly owned and governed by major stakeholders as partners.</li> </ul>

## 5. WHAT POLICIES HAVE WORKED, HOW AND WHY?

### *Economic success*

- 5.1 Burdett has provided a very positive overall assessment of Barcelona's achievements. The following section draws heavily upon that analysis. Barcelona and its region have experienced extraordinary growth over the last 25 years, emerging from Franco's dictatorship with great dynamism. Catalonia has grown faster than the European averages (104% real growth between 1986 and 2007, from €65.6bn to €133.8bn, in Catalonia, compared to 83.4% and 89.5% in the European Union 27 and the Eurozone respectively (Eurostat)). Catalonia has been a key driver of Spanish growth, especially during the late 1980s and mid 1990s. Barcelona, in turn, has been a major driver of Catalan growth: Barcelona Province (which includes the metropolitan region) accounted for three quarters of the total growth in Catalan GVA over this period (Eurostat). Spain is now the ninth largest economy in the world and the fifth largest economy in Europe, according to the International Monetary Fund.
- 5.2 The strong growth of Catalonia reflects a major increase in employment in the region during this time: between 1986 and 2007 employment in Catalonia increased by 82.3%, compared to an increase of 67.8% for Spain as a whole. This has resulted from improvements in the employment rate and rapid population increases especially during the last decade. Catalonia's population expansion demonstrates its ability to attract migrants from within Spain and internationally: the percentage of foreigners in the Barcelona metropolitan region rose from 2.6% in 2000 to 14.9% in 2009 (Idescat). The investment made in Barcelona's strategic infrastructure has already resulted in significant improvements in capacity and competitiveness. This has enabled Barcelona to secure an increasing share of European markets as they integrated through the 1990s, and of new economies as they have emerged. The Port of Barcelona is now the largest port in Catalonia and Spain, both in terms of value and volume of traffic, and is one of the fastest growing ports in Europe (Port de Barcelona, 2007).

### *International reputation and attractiveness*

- 5.3 Barcelona now enjoys a strong international brand, being the third best-known city in Europe (European Cities Monitor, 2009) and the 19th best-known city in the world (Global Cities Attractiveness Survey, 2008). It ranks especially highly in relation to quality of life, being the highest ranking European city since 1998 (European Cities Monitor), but is also high ranking in business (fourth in Europe (European Cities Monitor, 2009)), international investment (fourth in Europe (Ernst and Young Investment Monitor, 2008)) and international meetings (in the top five internationally (ICCA World Country and City Rankings, 2008; International Meeting Statistics, 2009)). The city and wider region's attractiveness to foreign investors, businesses and visitors has been a key source of growth in the economy over the past 25 years. By 1997, Catalonia was receiving some 25.6% of the €5.8 billion of foreign direct investment (FDI) entering Spain, well above its population share of 15.5%.
- 5.4 The factors that make Barcelona an attractive city to foreign investors and workers also make it attractive as a tourist destination, both for business visitors and holiday-makers. Attracting fewer than 700,000 tourists in 1981 and 1.8 million in 1992, in 2008 Barcelona attracted over 6.7 million visitors. Between 1990 and 2001, the number of tourists in Barcelona grew by more than 100%, making Barcelona the European city with the highest tourism growth rate (Turisme de Barcelona). Barcelona has also become a significant destination for business visitors. The number of visitors participating in conferences, conventions and courses in Barcelona has grown from 95,300 in 1989, to 218,000 in 1997, and 630,000 in 2007 (Idescat). Much of this growth has been driven by increasing numbers of international visitors and by increasing numbers of trade shows hosted by the city, supported by the new conference facilities that have been created including the Centre



Convensions International Barcelona (the Barcelona International Convention Centre; CCIB), a 100,000 square metre conference centre developed initially for the Universal Forum of Cultures 2004.

- 5.5 Barcelona was effective not only in its governance configurations and approach, but also in the specific policies it pursued. By investing in its urban core and natural and cultural assets, Barcelona turned its advantageous location, climate and quality of life into a real source of economic dynamism. The Barcelona brand has been effectively leveraged to attract not only tourists, but also international investors and entrepreneurs, and to develop priority growth sectors, such as design, logistics and biotechnology. Barcelona has been able to expand its international influence and secure its position as the capital of the Mediterranean by strategically developing its port, airport and rail infrastructure. Old industrial land has been transformed into spaces capable of attracting and supporting a productive knowledge economy. The Barcelona Economic Triangle, which includes projects such as the 22@Barcelona Innovation District, represents a significant change in the urban and metropolitan landscape.

### *What Policies?*

- 5.6 An overarching vision for the future of Barcelona was developed through the strategic planning processes of the 1990s. Although the objectives changed slightly over the years, they continued to emphasise the need for Barcelona to occupy a strong strategic role in the Mediterranean region of Europe and in the globalising economy. From the late 1990s, the idea of Barcelona as a 'City of Knowledge' emerged, and efforts were increasingly targeted at developing Barcelona's strength in knowledge-intensive industries such as media, design, logistics, biotechnology, aerospace and energy. These ideas are key the new 2010 strategic plan, Barcelona Visió 2020, alongside an increasing emphasis on orientation towards the emerging economies that are likely to provide sources of growth in the future, especially those with which Barcelona has a geographic or cultural connection, including within North Africa and Latin America.
- 5.7 The most significant policies adopted were:
- ❖ Sustained and strategic investment in connectivity infrastructure;
  - ❖ International promotion and branding to attract foreign investors, entrepreneurs and tourists;
  - ❖ Re-development of metropolitan and urban fabric for the knowledge economy; and
  - ❖ Developing entrepreneurialism and exports through targeted programmes.
- 5.8 The development of connectivity infrastructure has been a fundamental part of Barcelona's transformation since the late 1980s. Successive strategic plans have emphasised the importance of investing in the metro-region's port, airport, roads and rail network to increase the capacity of its firms to compete in international markets, and to secure Barcelona's international position. This investment has been increasingly linked to the development of advanced economic services and industries in the metropolitan region, such as logistics and biomedicine.
- 5.9 The investment made in Barcelona's strategic infrastructure has already resulted in significant improvements in capacity and competitiveness. This has enabled Barcelona to secure an increasing share of European markets as they integrated through the 1990s, and of new economies as they have emerged. It hopes that additional investments and further expansions of the Port and the new high-speed rail link to France will improve its position, further.
- 5.10 Many of the most significant investments date back to the Llobregat Delta Plan, developed in 1994. The aim of the Plan was to develop Llobregat as the principal port and logistics hub of

southern Europe, by expanding capacity, creating a logistical platform, and strengthening intermodal connections. Today, the transformations that followed are part of a broader set of urban re-developments in the Llobregat area (west of the city of Barcelona), including aerospace, biotech, mobility, food sciences and optics business parks, in one of the three areas making up the Barcelona Economic Triangle. Further investments in infrastructure have also been pursued, notably in high-speed rail connections to Madrid and France, and in a new metro line, which when complete will be the largest subterranean line in Europe.

### *The expansion of the Airport*

- 5.11 Just 3km from the port, Barcelona El Prat airport plays an important role in connecting with the area's distribution and logistics operations as well as boosting Barcelona's attractiveness to tourists and businesses. In addition to the two new passenger terminals that had been delivered alongside the 1992 Olympics, a new air freight facility began operations in 1996. In 1999 the new El Prat master plan was approved by the Spanish government, which proposed a new runway and further terminal expansions and were delivered throughout the 2000s. Most recently, a new terminal opened in 2009 with a capacity of 30 million passengers annually – broadly equivalent to the total number of passengers travelling through the other three airport terminals in the previous year. Together, these improvements have already increased the area of the airport from 8.45km<sup>2</sup> to 15.33km<sup>2</sup> and, when complete, will increase Barcelona's annual capacity to 70 million passengers. In 2009, Barcelona El Prat airport was the tenth busiest airport in Europe, with 27.3 million passengers .
- 5.12 High speed rail is critical in establishing Barcelona's position as the capital of the Mediterranean and an internationally competitive player. The high-speed rail link to Madrid has been in operation since 2008, with travel time down to 2 hours and 38 minutes. The forthcoming link to the French high-speed rail network will bring several south-western European cities within four hours of Barcelona, such as Lyon Marseille and Bordeaux in France, Genova in Italy and Geneva in Switzerland.
- 5.13 The new multi-modal station, La Sagrera, is being built in the east of Barcelona to support annual traffic of over 100 million passengers. There the high-speed rail will connect with upgraded local train network, metro and bus services and new road infrastructure. These new connections are one of the major attractions of the new 22@Barcelona innovation district under development close to La Sagrera. By linking investment in high-speed rail to investment in metropolitan transport infrastructure, it is anticipated that the benefits of high-speed rail will be delivered throughout the metro region, as well as in the immediate area of the high-speed rail stations themselves.
- 5.14 Barcelona is now the largest port in Catalonia and Spain, both in terms of value and volume of traffic, and is one of the fastest growing ports in Europe. A key strength is its proximity to the Llobregat logistics cluster, now the largest in the South of Europe and the Mediterranean, with over 800 logistics and transport companies and 86,500 workers . Barcelona is well positioned to increase its market share of traffic from emerging economies, and become the gateway into Southern Europe for Asian traffic. It has 38% of traffic between China and Spain. It is now Europe's top cruise destination, with passenger traffic increasing from 1 million in 1998 to 3.2 million in 2009 (Port de Barcelona).

### *Transforming the physical environment*

- 5.15 The transformation of Barcelona's public spaces and the reclamation of its waterfront were particularly important in rebuilding its international reputation by visibly transforming the city. The urban development programme, in the early 1980s was small-scale but effective in demonstrating change and building confidence. Larger urban reconfigurations pursued alongside the Olympic Games then enabled Barcelona's architectural, historical and cultural assets to be reconnected with its natural assets, creating a more attractive city for residents

and visitors. The regeneration of the waterfront and reclamation of 4.5km of beach transformed Barcelona's international profile. Public resources were targeted towards legacy projects that would benefit the city in the long-term, minimizing the short-term costs associated with hosting the Olympic Games themselves. 68% of Olympic funding went to long-term construction projects, compared to the 9.1% that went to the construction of sports facilities. As only 38.5% of the total investment went to the City of Barcelona, the benefit of the Games was felt throughout the wider metropolitan area and region. Public investment was used to attract further private investment, and was particularly successful in delivering housing, hotels and business centres. Overall, 36.8% of the Olympic construction was funded by the private sector, one third of which was funded by foreign capital. This investment was not only enabled by the international promotional effect of the Olympic Games, but also magnified the longer-term promotional impact of the Games.

- 5.16 A joint-venture was set up between the Spanish Government and the City of Barcelona municipal authority called Barcelona Holding Olímpic S.A, which delivered the Olympic facilities, the Olympic village and the majority of the new road infrastructure . This consortia model was used throughout the 1990s and 2000s to bring different levels of government together with the private sector. A variety of consortia were created to promote Barcelona in different economic spheres. Each of these bodies developed their own strategies and delivered specific programmes of initiatives, linked to the objectives of internationalisation and the development of a knowledge economy.

*Physical transformation for the knowledge economy*

- 5.17 As Burdett again outlines, the re-development of Barcelona's urban fabric has played a fundamental role in developing a knowledge-intensive economy. Building on small-scale projects to improve public space in the 1980s, the Barcelona city council and the Government of Catalonia increased the scale and ambition of redevelopment projects throughout the 1990s and 2000s. Today, some of the city's most significant projects are explicitly linked together through the 'Barcelona Economic Triangle: the Mediterranean innovation hub'. Together, these projects represent Barcelona's ambitions to become an international centre for innovation, the leading Mediterranean logistics hub, and a European centre of excellence for science and technology. This bringing municipal and regional authorities together under the common umbrella of the Barcelona Economic Triangle has however underlined the increasing recognition of the need for effective metropolitan governance in Barcelona. It also underlines the potential value of the MBA.

- 5.18 The the Barcelona Economic Triangle encompasses 7 million square meters of land for knowledge-intensive activities, with the potential to generate more than 200,000 new jobs. It is formed of three sets of clusters, each specialising in different aspects of the knowledge-economy In addition, the Government of Catalonia's land development institute, Incasòl, has been a key actor in industrial land development since its creation in 1980, increasingly focussing over the last 10-15 years on high-tech and knowledge-intensive clusters. As Burdett notes, Incasòl is also able to promote quicker land re-classifications, whose profits it is then able to reinvest in public goods, such as public housing. This is a particularly powerful mechanism because Spanish law does not recognise the speculative value of land, just the current market value, in relation to land development projects linked to public interest requiring compulsory purchases of land. Incasòl, therefore, as any other public administration with land development powers, only has to reimburse the landholder for the actual value, not its expected change in value. This is important because it means that Incasòl can then use the full increase in land value to fund public goods such as infrastructure improvements and public housing.

*What are the secrets of success?*

- 5.19 There is consensus that a series of key principles and processes underlined Barcelona's successful transformation. We discuss each in turn.

*The Barcelona model of governance and its transformation*

- 5.20 The ACRE study noted that the early 1990s were a turning point for Barcelona in terms of governance when public-private partnership started to spread. During the 1980s Barcelona's governance system was based on a strong participation of citizens in the decision-making processes through the involvement of civic and neighbourhood groups. This collaboration 'between participative and representative democracy' allowed for a major urban renewal of the city and the preparation of the Olympic Games in 1992. For many authors this governance approach lay behind the success of the Games and explains the emergence of a 'Barcelona Model' of governance. In this model there was not only a consensus between citizens and the private sector at local level about the future of the city but also good coordination between the different levels of government, with collaboration between the local, the regional and the national levels. Thus, the 'Barcelona Model' allowed for a virtuous circle able to provide economic growth and social cohesion.

*Strategic planning as a key policy mechanism*

- 5.21 In the late 1980s the City Council of Barcelona adopted an approach based on "strategic planning" to involve all economic and social actors in key decisions about the city's future. The City Council created a consortium that included the chamber of commerce, the main trade unions and entrepreneurs associations, the trade fair association, representatives of the port authority, and the University of Barcelona. The plan was developed by a private non-profit organisation, the 'Strategic Metropolitan Plan'. From the beginning, the agreed strategy was to consolidate the service economy through the tourism industry and the creation of new motors for growth based on added-value activities.
- 5.22 The Barcelona Strategic Plan Association was created in 1988 to strengthen strategic approach to investment for the Olympic Games in 1992. It unites the strategy for the city and provides a platform for agreement and cooperation among the socio-economic institutions and the 36 municipalities of the metropolitan area. Although it has no formal governance/institutional framework, it is accountable to the Mayor of Barcelona. Transformed from the Barcelona Strategic Plan, the first Metropolitan Plan was published in 2003 and revised in 2007. The organisation works through sponsoring projects across the Barcelona metropolitan area rather than coordinating economic development although it has specific responsibility for transport and environment bodies operating across the Barcelona metropolitan area. In the past it promoted projects including housing, provision of services, planning, transport and the promotion of the quinary sectors. The focus for 2006 to 2010 is on knowledge, innovation, new ways of doing business – including the quinary sectors – and developing infrastructure and housing – including accommodation for migrants.
- 5.23 Strategic planning has been the key method of creating a common vision and guidelines for the city's development over decade. During the 1990s, three Strategic Plans were approved (1990, 1994, 1999) for the City of Barcelona. After Mayor Maragall, mayor Clos went one step further and started working on the first Strategic Metropolitan Plan which approved in 2003. The first Strategic Metropolitan Plan was different from the other plans because it includes representatives from 36 municipalities of the metropolitan area of Barcelona. The leadership came from the mayor of Barcelona who is the president of the general council of the plan, which includes 300 representatives from different sectors and also from members of his team who lead different commissions. This plan also allowed the participation of other local leaders and mayors from other political parties for the first time. One of the collective demands supported by the majority is the need to simplify the institutions of the metropolitan area and create a new body to coordinate the 36 municipalities.

5.24 Now, as in its past, Barcelona's leaders are thinking ahead. The return of metropolitan governance to Barcelona after two decades of fragmentation is crucial. The law creating a statutory body for the economic and social development of the Barcelona Metropolitan Area - the urban area surrounding the City of Barcelona within the broader metropolitan region - was approved in July 2010, reflecting the increasing acceptance at regional level of the importance of Barcelona to Catalonia. This new body will integrate the formerly fragmented bodies for the environment, transport and other services within the Barcelona metropolitan area and will also be responsible for promoting a metropolitan strategic plan. Although the reforms do not provide statutory status to the plans developed by the Metropolitan Strategic Plan Association (PEMB) they provide a firmer metropolitan basis for action than has existed since the abolition of the Barcelona Metropolitan Corporation in 1987.

5.25 Barcelona Vision 2020 was developed by the existing Metropolitan Strategic Plan Association and was approved in November 2010. The plan emphasises the need to build relationships and presence in the emerging economies that are likely to be future drivers of growth. The strategic plan not only targets Brazil, India and China, but also growing North African economies such as Egypt and Morocco and Latin America, where Barcelona retains strong cultural and economic ties. Barcelona Vision 2020 is likely to be the first metropolitan strategic plan to be received by a statutory metropolitan body, the Barcelona Metropolitan Area, rather than an informal partnership, as has been the case in the past. It is hoped that these new governance arrangements will enable key actors in the public and private sector better to realise the competitive potential of the metropolitan region within the Mediterranean and in emerging markets.

*Leadership*

5.26 Burdett has argued that the story of Barcelona's transformation has been written by its mayors and the city council. Its first democratically elected Mayor of Barcelona, Narcís Serra, took the decision to run for the 1992 Olympic Games, kick-starting Barcelona's transformation. Serra was a Minister of the Spanish government from where he played an important role in securing support for the Barcelona Olympic Games. His successor, Pasqual Maragall, developed a vision of Barcelona as the capital of the Mediterranean. He recognised the need for long-term planning as well as individual projects, and began the first strategic planning process to ensure the Olympic projects were linked to longer-term initiatives and goals. These processes were continued by the next Mayor, Joan Clos, who continued the earlier vision, as well as developing it further through the idea of Barcelona as a 'City of Knowledge.'

*Collaboration and partnership*

5.27 Burdett argues that Barcelona's transformation was achieved through a mixture of careful and strategic planning, and multiple individual projects and initiatives. This mixture was successful because Barcelona and Catalonia's public actors were able to develop a joint vision and work in a flexible way with the private sector to deliver the elements of that vision. Burdett underlines that Barcelona and Catalonia have developed a delivery model which combines the strengths of both public and private sectors in municipal companies and consortia, making for agile and effective institutions. In his assessment the energy and entrepreneurialism of Catalonia's private sector has been a key mobilising force, working with political leaders and public institutions.

*Extending the consortium model*

5.28 The consortium model has been used frequently in Barcelona, to bring public but also private actors together. The involvement of the private sector in Barcelona's transformation was a critical achievement of the Olympic Games and the strategic planning process first initiated

in the late 1980s. A joint-venture was set up between the Spanish Government and the City of Barcelona municipal authority called Barcelona Holding Olímpic S.A, which delivered the Olympic facilities, the Olympic village and the majority of the new road infrastructure (Brunet, 2005). This consortia model was effectively used throughout the 1990s and 2000s to bring different levels of government together with private sector actors.

5.29 As the LSE CITIES report made clear, new consortia were created to promote Barcelona in different economic spheres. Each developed their own strategies and delivered specific programmes of initiatives, linked to the overarching objectives of internationalisation and the development of a knowledge economy. Burdett argues that these organisations have successfully married international promotion and branding with concrete actions to support the development of their target sectors. Some notable examples include the following:

- ❖ The consortium Barcelona Tourism was created in 1993, bringing together the City of Barcelona municipal authority and the Chamber of Commerce, to develop a promotional programme for the city.
- ❖ Fira de Barcelona, a publicly-owned trade fair body with autonomous management, boosted Barcelona's profile as a business destination by expanding its activities and developing the city's conference facilities and infrastructure.
- ❖ Strategic platforms have been created to attract foreign entrepreneurs, researchers and investors, notably 'Invest in Catalonia', the international promotion body of the Government of Catalonia and 'Do it in Barcelona', the promotional platform of Barcelona Activa
- ❖ Public-private consortia have been set up to use the Barcelona brand to promote strategic sectors within the knowledge economy internationally, as well as undertaking a range of other activities to support the development of the various sectors.

5.30 The OECD review of economic development in Barcelona identified 5 key features which have underpinned its success which reinforce many of Burdett's arguments outlined above. These include:

*An active and pragmatic consensus*

5.31 There is a strong partnership culture operating at many levels between the City Council and the many other players and organisations. Over time this has built up into credible and trusted relationships. A consequence of this is that it has allowed the focus to be on delivery. The key players understand their role and the need to drive progress in the same direction.

*Strong leadership from the City Council*

5.32 The city council has created the right environment in which this collaborative culture has developed. It has actively encouraged increased collaboration between the universities, the council and business.

*A business-led growth model*

5.33 There is a consensus that Barcelona's transformation and future development has been based on a business-led growth model. This has driven the focus of effort into attracting companies and the innovative and enterprise culture that now dominates in the city. The public sector has actively acknowledged this and ensured that it plays a role that supports and facilitates this rather than competes with it.

*Development of a strong universal brand*

5.34 Since the mid-1990s Barcelona has developed a strong brand about what it can offer businesses and the quality of life for their employees. This is accepted and promoted by all the key organisations and is clearly a unifying message.

*Location for creativity and innovation*

- 5.35 The city has managed to transform its traditional industrial base into a diversified economy where high value added services and innovative products have gained importance. In 2007 the Barcelona province is the location of most of the companies in high technology and knowledge services of Catalonia,

*Local economic development model - Barcelona Activa's Achievements*

- 5.36 The OECD's evaluation of the impact and success the key economic development agency for Barcelona, Barcelona Activa is also worth considering in this context, since it is one of the most significant institutions in the city region.

*Local value added*

- 5.37 The OECD underlined that the transformation of the economic structure of the city of Barcelona, from an industrial area into a knowledge-intensive hub has been very successful. The number of employees in high-tech and knowledge-intensive service sectors account for almost a quarter of the total employees in the service sectors. Barcelona Activa had made some important contributions to the transformation of the city. It had promoted the adaptation of the capacities and skills of the population to meet the new demands of employees, tackling unemployment. The agency had encouraged entrepreneurship and business growth in knowledge-intensive and high value-added sectors in the city. It had encouraged a culture of innovation by providing spaces to innovate, by stimulating networks and collaborations, and by providing high-quality services to potential entrepreneurs regardless of their kind of idea. All these helped attract new talents from abroad seeking to innovate.

*Good political leadership and support*

- 5.38 OECD judged that Barcelona Activa worked well with and under the Economic Development Council. There was good coordination between the Barcelona City Council, its public bodies and the Barcelona Activa team. The agency had established close partnerships with other public agencies to contribute to the overall strategy of the city.

## 6. WHAT ARE THE FUTURE PROSPECTS AND CHALLENGES FOR BARCELONA?

*New narrative needed?*

- 6.1 Barcelona leaders constantly challenge themselves about their current and future performance in relation to their competitors. The recent OECD assessment of the future challenges is instructive. We rehearse its assessment at some length in this next section. It argued that Barcelona might need a new story to meet its new circumstances. Barcelona had successfully redeveloped its physical attributes and local economy to a point where a fresh approach was needed. It had a world class reputation in the promotion of local development and urban regeneration. The benefits of 1992 Olympics had been absorbed. It needed new catalysts and a new narrative about Barcelona. Growth constraints and citizen uncertainty meant a fresh 'mandate and agenda' had to be developed and explained for local development. Other improvements were also needed, for example in terms of starting a business, employing workers, levels of regulation and taxation, on which Catalonia still performs comparatively poorly.

*More institutional collaboration to meet new challenges*

- 6.2 A network of capable and talented organisations had emerged to promote local development but there was a lack of clarity over the agenda that they are pursuing. There were some inefficiency in having so many different bodies taking disparate initiatives. Ensuring that organisations joined up and integrate their strategies was a key future challenge.

6.3 A new approach was required because conditions had changed. For example, a wider range of actors involved meant better coordination and alignment of budgets was necessary. Growth would need to be managed at a wider metropolitan level. There would be a shift from grand projects and large scale urban development projects to a more diversified programme of projects. There would be a need for a clearer identity and strategy more widely within and outside the city. It would require even more public private partnership working.

6.4 One particular issue OECD underlined was the need to integrate the business activities being undertaken by Barcelona Activa and the more physical orientated activities of the 22@ Innovation district. A second was the link between economic development in the city and metropolitan level. OECD argued that the Strategic Plan gave few specific clues on detailed arrangements and more work was needed.

*More infrastructure required*

6.5 Barcelona had done a huge amount on the cultural side- shopping, night life, hotels and physical and recreational facilities is excellent. Much had been done to enhance air, road, rail and sea communication. However much more was needed. The capacity of the electricity grid is a factor. The city needed more affordable housing to retain young workers since inflation had squeezed lower income people out of the city centre market. Also the costs of growth in terms of sprawl, congestion and pollution also would have to be addressed if Barcelona was to retain its attractive quality of life and hence attract mobile talent.

*Diversify economically and demographically - but retain authenticity*

6.6 OECD also argued that Barcelona had to continue diversify its economy to remain a global economic player but not at the same time limit the risk the loss of local identity that might follow. In fact, OECD argued the place would be best served by confidently asserting Barcelona's personality and identity, but also allowing that personality to express itself to highly diversified markets and people.

*Greater coordination of economic promotion.*

6.7 OECD also argued that so far proliferation of agencies in economic development had not been a real problem. But it argued that the continued lack of systematic coordination might undermine efforts on future. It would be important to coordinate more actively the actors in economic promotion in Barcelona and recruit a wider group of supporters and participants.

*Improve connectivity within the city, metropolitan area and external markets*

6.8 As growth has spread, metropolitan and regional connectivity had become more important. At the same time, growth and development in the Spanish economy and other Spanish cities in particular, raised the importance of a well networked web of economies in Spain. The wider Mediterranean basin is a fast growing zone of European and North African economies in which Barcelona could play a leading role as a gateway and hub centre. In addition, Barcelona's emerging strengths in globally networked industries required continued connectivity and accessibility of Barcelona to other major centres.

6.9 OECD underlined connectivity and accessibility will be critical to Barcelona's success in long term economic development. Barcelona was already a well-connected city, but a substantial portion of its connectedness is linked to lower value tourism or well established routes with established markets. In the next phase of its development, Barcelona will need both to consolidate and deepen existing connections (e.g. with European and North and South American centres) and it will also need to develop enhanced connectivity with emerging markets and growing economies. Therefore enhancing connectivity with the BRICS countries



(Brazil, Russia India, China and South Africa) should be prioritised along with enhanced connectivity with Eastern Europe and the wider Mediterranean basin.

*Managing growth across the wider metropolitan area.*

- 6.10 The process of deindustrialisation, deconcentration, and tertiarisation had led to a very large, complex and internally divided metropolitan area. Managing those processes was critical. Metropolitan approaches to manage growth well and to avoid the problems of inflation, congestion and environmental degradation would be critical. One danger highlighted by OECD was that different municipalities might start to pursue different growth agendas with elements of competition or lowering of standards emerging which undermine the ability of other municipal actors to achieve the best outcomes. Barcelona Activa should therefore distinguish between being 'in competition' and being 'competitive.' There was also substantial scope for Barcelona based organisations such as Barcelona Activa and 22@ to provide services more widely across the metropolitan area.

*Building regional alliances with Catalonia*

- 6.11 Barcelona is the driver of the Catalonia region. Catalonia cannot succeed without Barcelona's success. However, OECD argued there should be increased synergy between the economic promotion of the region and the city with a single shared agenda and programme of co-investment. There is a need to better strategise and communicate how these two powerful tiers of government are working together on their economic agenda.

*Greater strategic coordination and alliance*

- 6.12 OECD argued greater strategic coordination was needed in three areas. First, there should be a greater level of public-private partnership, particularly with the Barcelona Chamber of Commerce given the city's 12 public-private collaboration platforms. Second Barcelona Activa's role in the stimulation and growth of Barcelona's knowledge economy and the role of 22@Barcelona as an area-based economic development agency, trying to attract and provide services to knowledge economy companies, needs to be more clearly defined to minimise possible overlap and unproductive inter-agency competition, and to maximise synergies. Third there should be a more active partnership between Barcelona Activa and universities, R&D and technology centres and the science park network.

*Employment and unemployment needs managing*

- 6.13 There will be greater demand for employment services in Barcelona. There would be slowing of investment and more people seeking work. Immigration into Barcelona is not likely to be slowed directly in proportion to current economic conditions and employment opportunities. Labour supply growth in the wider metropolitan area will continue as factor so both of the above factors and continued domestic migration. All would need to be managed.

*More innovation required*

- 6.14 OECD's assessment was that despite the strength of Barcelona's further education institutions, ICT and media clusters as well as the city's thriving bio-technology sector, the knowledge base was not being sufficiently translated into commercial application. The commercialisation of technology should be enhanced. The level of entrepreneurial activity has to be lifted. There is not enough knowledge based companies being created from universities. Barcelona needed a clear city wide innovation system with a wider range of existing organisations operationalising a common agenda.

*Attracting talent*

- 6.15 In the next phase of growth, OECD stressed that Barcelona will need to continue to attract international talent and the investment that they bring or can attract. IT needed a programme linked to growth sectors where there is international talent such as creative and digital industries, higher education/research, bioscience, technology and advanced services.

*Business growth and survival*

6.16 OECD identified a series of potentially important issues in this field. There was a need to help companies survive in the new difficult market conditions. The availability of good premises in a tighter commercial property market would be crucial. Other places might try to tempt firms from Barcelona. Barcelona would need a ‘business retention strategy’ for strategically important firms. The current range of business growth activities will require enhanced coordination and well orchestrated public and private joint ventures and liaison. Finally the local development agency and Chamber of Commerce needed greater coordination and sharing of services.

**OECD SWOT Analysis of Economic Development in Barcelona**

Strengths	Opportunities
<ul style="list-style-type: none"> <li>Barcelona Activa has proven to be successful in creating an entrepreneurial and innovative environment in the city.</li> <li>Barcelona Activa is well-known locally and credible in relation to the community.</li> <li>Barcelona Activa provides state-of-the-art technology and e-services.</li> <li>Barcelona Activa has top-quality infrastructures and well-trained service providers.</li> <li>Barcelona Activa is a leading local economic development agency also in Latin America.</li> <li>Barcelona Activa has a great pivotal position between the public vision and the private priorities.</li> <li>The businesses created by Barcelona Activa’s incubator and programmes remain actively involved in the network of enterprises.</li> <li>The innovation culture among the companies of Barcelona Activa is well developed.</li> </ul>	<ul style="list-style-type: none"> <li>Barcelona Activa benefits of the strong support from the public authorities and good will across the city.</li> <li>Barcelona’s tourism development is a window for Barcelona Activa to the international sphere.</li> <li>Quality employment and entrepreneurship tools and services are demanded internationally and there are few providers of such services.</li> <li>Barcelona Activa is highly collaborative with other public and private organisation and could do more.</li> <li>Barcelona Activa is well placed to join networks and expand the reach of partnerships with cities abroad to attract human and financial capital.</li> <li>Barcelona Activa could make use of the international community in Barcelona as a bridge to other innovative cities to explore new collaborations.</li> <li>Barcelona Activa could actively seek to attract and coach talented entrepreneurs from abroad.</li> <li>Barcelona Activa could develop specific training programmes to support business creation among the immigrant community.</li> </ul>
Weaknesses	Threats
<ul style="list-style-type: none"> <li>Barcelona Activa has created various but mainly small enterprises.</li> <li>Barcelona Activa has not been able to raise enough awareness among businesses of the importance of the technology transfer.</li> <li>Businesses created by Barcelona Activa have disconnection with academic researchers.</li> <li>The ‘Barcelona Activa brand’ is not exploited enough internationally.</li> <li>The communication strategy of Barcelona Activa lacks to reach minority groups.</li> <li>Barcelona Activa is lacking commercial products, tools and infrastructures to reach out to new markets nationally and internationally.</li> </ul>	<ul style="list-style-type: none"> <li>International competition from emerging cities which toughens the attraction and retention of talents in the city.</li> <li>Barcelona Activa should give some activities priority, notably supporting entrepreneurship and training in strategic areas for the future of the city.</li> <li>Barcelona Activa should make sure that the demographic diversity of the city is taken into account in the programmes and tools offered to avoid social disruptions.</li> <li>The innovative culture among companies outside Barcelona Activa and in universities is low.</li> </ul>

*The impact of the crisis and future implications*

6.17 What are the prospects for Barcelona? There are a range of views. All emphasise the scale of the challenge in the current crisis. Spain, Catalonia and Barcelona have each been hit hard by the recent financial crisis. Between 2007 and 2009, the GVA growth rate declined from 3.3% to -5.4% in Barcelona Province, and from 3.5% to -4.3% in Catalonia. Unemployment also increased dramatically over the same period, from 6.6% to 16.2% in Barcelona Province. Exports and FDI have also declined sharply, from €49.7 billion to €41.2 billion and from €2.61 billion to €1.35 billion in Catalonia between 2007 and 2009 respectively. But most agree that despite the scale of the challenge, because of the strategic investments and advances it has made in the recent past, Barcelona is relatively well placed to meet it.

6.18 Spain as a whole faces a large fiscal deficit and its credit ratings have been downgraded. Its dependence on internal demand and the construction industry in particular, as the source of recent growth is crucial. Despite Catalonia having been less reliant on construction as a

source of growth than Spain more generally, its recent performance suggests it is being particularly badly affected by the crisis. Barcelona Province appears also to be experiencing a more negative impact than Catalonia as a whole. It is possible that Catalonia and Barcelona's greater openness to international markets, including their comparatively high rates of inward FDI, exports and tourism, have made the city and its region more vulnerable to the crisis.

- 6.19 The ACRE study notes that the current economic crisis has caused a sharp drop in employment, investment and consumption, especially in the construction and manufacturing sectors. The financial difficulties caused by the crisis have spread to all sectors and more companies have reduced their activities or have gone bankrupt. The credit crunch particularly affects companies that are financed by venture capital, like many innovative companies. Moreover, the drop in demand has affected all sectors, especially activities such as advertising and other consumer goods sectors. But perhaps the activities that could be more affected by the crisis are the cultural and creative activities. Indeed, the extent of government deficit will impose restrictions on their expenditure, which will affect social needs first.
- 6.20 As economic and political concerns intensify, OECD notes the risk that Barcelona might become more inward-looking, focussing on local issues at the expense of the international outlook that has been so important to its development. The emphasis in the new metropolitan strategic plan, Barcelona Visio 2020, on the importance of building relationships with emerging economies was seen as important as was the move towards more coherent statutory metropolitan governance. However, it underlined strong political leadership and building innovative institutions and coalitions for change would be crucial to the city's future.
- 6.21 Burdett argued that Barcelona, and to a lesser extent the whole metropolitan region, is better positioned to face the crisis because of long term strategies adopted in the 1990s. For example, Barcelona's strengths included its adaptable and entrepreneurial SME sector, its geographical location, attractive quality of life, openness, strength in logistics and trade, and diverse industrial base. However, some significant weaknesses include levels of innovation, R&D and education, which remain below EU averages despite considerable improvements over the past decades (see, for example, Ghemawat and Vives, 2009). In particular, the low levels of productivity seriously threaten the capacity of the region to compete in the European arena. Connected to this, salaries are not a competitive advantage any more in Spain and in particular in the BMR, but there has been no substitution in terms of better quality labour.
- 6.22 ACRE argued that the BMR is better positioned than other Spanish regions because of its historic efforts in promoting capital-intensive activities creative and knowledge rather than labour-intensive ones. Most of the infrastructures and projects, such as the 22@ project or the creation of science parks, are in a final stage or have already started to generate economic growth and the modernisation of transport infrastructures is producing an impact as well. However, the remains of a highly industrialised past based on low salaries slows down the recovery. Also the crisis and loss of employment losses had shifted the focus on competitiveness and promotion of the creative and knowledge economy. Instead, social issues and social cohesion are appearing in the policy agenda and are transforming strategic aims. Developing and implementing coherent and effective policies to address these issues will be important if Barcelona is to secure a sustainable future growth path.

## 7. WHAT KEY FINDINGS AND POLICY MESSAGES FOR WHOM?

- 7.1 What does the Barcelona experience tell us about the key hypotheses of this study? We believe it confirms both their relevance and significance.

*National and regional policies for cities do matter*

- 7.2 The report has again underlined the significance of national and more importantly regional policy for success. Democratisation and decentralisation of government and decision-making since 1979 has arguably strengthened the capacity of Cataluña and Barcelona metropolitan area as its key dynamo to flourish. The report has also underlined however that many in Barcelona feel that their success has been again almost despite rather than because of national government policy. There is a widely held view that the primary focus of national policy is to support the capital Madrid rather than other second tier cities in Spain. It is clear that there is not a coherent urban strategy for Spain. Transport policy it has been argued is primarily designed to strengthen Madrid rather than second tier cities. The cities themselves have limited financial powers because so much of reform has been focussed upon creating successful regional institutions rather than sub regional and urban institutions. In the case of Barcelona there is a strongly held view that it is still challenged by Madrid economic dominance and that many decision making powers and the headquarters of key firms have moved to the capital in recent years at the expense of Barcelona. There is pride in Barcelona's achievement against the odds but a great desire for a national strategy that would encourage their continued success.

*'The national system needs to clarify the role of second tier cities and give further support to them as well as Madrid'.*

*'There is no urban agenda in Spain. There is no lobbying for cities.'*

*'Barcelona is a second tier city in Europe but a tertiary city globally'*

*'Barcelona also needs to develop the contribution it can make to Mediterranean Europe and Europe itself. The high speed Mediterranean train is needed.'*

*Second tier cities can contribute significantly to national performance,*

- 7.3 It is clear from this narrative that Barcelona has indeed contributed to the improved performance of the Spanish economy during the past three decades. In many ways it has outperformed the Spanish economy and in terms of FDI and exports it is crucial to the future so the Spanish economy. Many in the city argue that the nature of its regeneration and its more balanced economic structure with less investment in the property boom and financial services means that it will be better placed than some other Spanish cities in the future to contribute to national economic performance.

*'Barcelona did its homework during the boom. It did not go crazy. It was responsible'*

*Cities are path dependent but can shape their stories*

- 7.4 This report has also underlined the importance of indigenous policies and strategic to Barcelona development. It has been dramatically affected by a series of forces and pressures upon Spain during the past two decades democratisation, deindustrialisation, Europeanisation globalisation. But it is clear that Barcelona leaders in the public and private sector have responded to and exploited those challenges and opportunities to the city's advantage. Barcelona has demonstrated clear leadership and this needs to continue more deeply with the private sector and more widely across the territory. Nevertheless, there is some feeling that the longevity of the political system which thus far has been an advantage may be becoming a liability as the new generation feels it cannot enter the political elite or

the old model form development appropriate to an earlier period may be no longer as relevant to the next period

*'Partnership came from the ground. Nothing came from above. Madrid was so far away we had to invent our own solutions.'*

*'The Barcelona model of trust between public, private and community partners was built up during the golden years. The crisis, the greater complexity, the divergent interests of the private sector has placed that model under stress. It needs reviving.'*

*'Trust has been reduced. We have to do things differently. The model is not broken. The triangle still works. But we need a new social contract.'*

*'The positive things that will happen in the future will be the small things not the grands projets. The prestige project model is exhausted.'*

- 7.5 *Territorial economic governance matters,*  
This report has also underlined the importance of territorial governance. It is commonly accepted that Barcelona's economic achievement in recent decades has almost been despite rather than because of the governance arrangements for the metropolitan area. Fragmentation and conflicts within the metropolitan area has led to a pattern of unbalanced economic and social growth across the metropolitan area and arguably to economic underperformance of the metropolis. This story of Barcelona is an effort to recreate informal working relationships at different spatial levels within the metropolitan area to compensate for the abolition of formal metropolitan government in 1987. In 2010 a new governance arrangement for the metropolitan areas was approved and the powers and resources of that organisation are currently being determined. But the essential thrust of our work has been that local government structures have become increasingly inadequate to the challenge of creating a successful second city in a fiercely competitive global economy. All are agreed that scale matters and that Barcelona will need to find a way of pooling the economic assets of the second tier cities around it if it is to flourish further in future.

*'The secret of success for Barcelona was scale. The new dilemma is how to govern at scale.'*

*'The metropolitan area needs to grow up and get an agreed story and machinery to build a stronger Barcelona city region. '*

*'We need a polycentric system where we all recognise the value of Barcelona city but we do not have a Madrid style centralised metropolitan system.'*

*'People outside feel Barcelona gets the value added but they pay the price of the investment.'*

*'The arrangements are still weak- all second tier cities are in the back yard of Barcelona'*

*'There are increasing disparities between places within the metropolitan area with the physical concentration of economic and social problems in the more deprived areas growing despite their lack of financial and institutional resources. The challenge of the metropolitan area is to address the related problems of dispersion, specialisation and segregation.'*

*'We still have not got balanced infrastructure development across the metropolitan area - it still lacks some basic resources like public transportation, housing, the environment.'*

*'Spatial policy is now at the heart of the debate. How can we capture the potential and minimise the challenges though governance is the key question.'*

*'We recognise the need to work together. There is now a degree of political maturity.'*

*'The old tensions and animosities are over. The romantic nationalist period is over. We are all integrated into the same economy.'*

*'We have not had a new project for some time. The metropolitan thing is the next big project'.*

*Innovation, human capital and skills, connectivity, place quality and strategic decision-making capacity are the key drivers of competitiveness.*

7.6 This report has underlined that these indeed are the key drivers of a successful second tier city. Barcelona has significantly improved its performance on all of them in recent years. It has a large traditional manufacturing economy which is dominated by small firms but is also encouraging innovation through its universities and in key sectors of the economy like biomedicine, logistics, and design. The Barcelona economy is a mixed one with strengths in traditional as well as modern sectors. It does not keep all its eggs in one basket. The city has made significant efforts to improve its skill base. It has also significantly upgraded its connectivity in recent years. Its airport, port, rail and metro systems are expanded and modernised massively. It is now better connected but it still must have better links along the Mediterranean axis from North Africa to northern Europe. The place quality of the city is extraordinarily good. From the Olympics onwards, it has made great efforts to improve the urban fabric, creating a place which is both modern but authentic with deep roots in its traditional culture and identity. And it has made huge efforts to develop and promote its image nationally, in Europe and globally. Barcelona has significant strategic decision making capacity. The city government has played a major role in the political economy of the region. That leadership has been high quality, often charismatic, and consistent. It has encouraged public private partnerships through its strategic planning processes but also through the myriad of economic development initiatives it has undertaken, perhaps most notably in 22@Barcelona and within the Barcelona Economic triangle. It has a powerful and successful economic development agency - Barcelona Activa. But social challenges are growing. And the global economic challenge is also greater.

*'The social challenges will grow in the future. The welfare state is still new to Spain and this is a time bomb'*

*'The boom helped to raise standards and close the gap between social groups. Local authorities have done lots of good things for deprived groups. But the crisis will put stress on that system.'*

*'Skills, innovation, the commercialisation of knowledge remain the outstanding challenges'*

*'Aligning the decision making for sectoral and territorial development still needs sorting out.'*

*'We can attract employees to Barcelona. Our big challenge is to attract the key employers.'*

*'We can attract some through international marketing. But we can't get the big boys.'*

*'We need to be more business friendly. We need to be more international. We need to have more English speaking. Openness is the key to our future.'*

*'Barcelona needs to become more internationalised and recognise its global role.'*

*Multi level governance is the key challenge for Barcelona. To be successful it needs five things: political leadership and capacity; the ability to cross cutting politics; the ability to involve citizens; the ability to create consensus; the ability to assess value and to achieve accountability for action.'*

*'We must be optimistic but realistic'*

*The balance sheet*

- 7.7 There are challenges ahead for Barcelona metropolitan region – economic, social and political. Unemployment has risen recently because of the global recession. The collapse of the housing market has left some with negative equity and the increased pressure upon existing has very high rentals to pay. The pressure upon public expenditure, given the need to expand its infrastructure, is a challenge. The city has become much more ethnically diverse during the past decade with an increased number of city residents born outside Spain. This has brought many assets and benefits to the city. But increased social and economic challenges for all groups in a recession, but especially recent immigrants, means Barcelona will have to pay particular attention to sustaining social cohesion in the next decade.
- 7.8 Barcelona City Council has demonstrated leadership and strategic decision making capacity and has delivered many substantial projects. But since the abolition of the metropolitan agency in 1987, the governance of the wider Barcelona area remains a challenge. The fragmentation of local government has been a constraint upon the wider metropolitan area's economic development, even allowing for the success of a series of voluntary Metropolitan Strategic Plans which encouraged wider working. It is very significant that a new Barcelona Metropolitan Agency was approved in 2010. But it is crucial that it has the powers and resources to help Barcelona to operate at a greater economic and geographic scale than it currently does. Working together at the increased scale of the real Barcelona urban economy – not artificial local government boundaries – is the key to the metropolitan area's future economic performance and social development. To play on the world stage it needs the advantages that scale brings. That could be Barcelona's next 'grand projet'.
- 7.9 Also global competition will be fiercer. The city and the city government must continue to become more international, more multi lingual, and more business friendly. Despite the improvements it has made in recent years, the city region needs to improve its skills and innovation levels even further. Also Barcelona must strive for its international ambitions without losing its authenticity and identity which makes it so different and hence attractive to residents, visitors and investors.
- 7.10 But Barcelona has recognised - and is therefore well positioned to meet - those challenges. Its economy is fundamentally sound. The investment it has made in both image and infrastructure endures. There is significant public private sector consensus on what needs to be done. The city council is well managed with debt levels below some other Spanish cities. The city invested less in financial services and the property boom and has experienced less of a collapse. So it has a huge amount to work with. The challenge for Barcelona city government and its partners is to make sure that its third act remains as successful as its first two.



**The ESPON 2013 Programme**

**3.5**

## **NATIONAL POLICY SPAIN**

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## 1. THE SPANISH POLITICAL AND INSTITUTIONAL CONTEXT

### *Institutional framework and allocation of responsibilities in Spain*

- 1.1 The OECD recent review of Madrid outlined the essential institutional features of urban policy and decision making in Spain. Spain is a unitary country with a highly decentralised political system with two tiers of sub-national governments: the regional and the local governments, the latter being composed of provinces and municipalities. Although often referred as a federal system, Article Two of the Spanish Constitution of 1978 declares the sovereignty and the unity of the Spanish state, and “recognises and guarantees the right to self-government of the nationalities and regions of which it is composed”. Moreover, the structure of government is too hierarchical: the central government deals directly with the regional level and local governments. Yet, the distribution of functions and the system of governance come very close to those of a federal state (Moreno, 2001). Regional governments, called “Communities” have their own legislature and executives, and possess state-like competences. While the Constitution recognises the “territories” right to become autonomous communities, effective implementation requires regions to take the initiative, they must first draft a statement of autonomy, which must subsequently be passed by the national parliament.
- 1.2 In this context of institutional flexibility, in 1992 the two major political parties (the Spanish Workers' Socialist Party [PSOE] and the Democratic Centre Union [UCD]) agreed to select a coherent model of decentralisation called the *Pactos autonómicos de 1981*. The autonomous system was fostered in a second phase through the autonomous agreements of 1992. Originally responsibilities in health and education were assigned only to a few Autonomous Communities, the so-called “high speed communities”. The other Autonomous Communities, the “low speed communities” continued to have a low level of devolved responsibilities. After the first implementation of the Spanish constitution and the establishment of a more “asymmetric federalism” than currently exists (based on differentiated power among the autonomous communities), a second step was realised in the 1990s. In 1992 the national implementation of the above mentioned political agreement allowed for the decision to give the 13 existing autonomous communities the same powers as the previously “privileged” four (Cataluña, Galicia, País Vasco and Andalucía). This process ended in 1999 when Spain passed from an asymmetric to the current symmetric federalism (Rodríguez Alvarez, 2002).
- 1.3 In comparison with other unitary countries in the OECD, regional governments in Spain are stronger than local level governments. Over the last decade the regional government level in Spain has become increasingly more important, with more responsibilities and expenditures delegated to this level. Autonomous communities now represent more than 50% of general government employment. Regional governments have complete autonomy in some fields, but share responsibilities with the central government in other fields. Local government responsibilities and budgets, however, have remained relatively constant (Figure 3.1). Autonomous Communities have many freedoms in fields such as regional public works, infrastructure and transport, but share responsibilities in education and health with the central government. Autonomous Communities are responsible for delivery of these services, but the central government typically provides minimum standards when it comes to service provision and access. Local governments are responsible for services such as water and sewerage, parks and street lightning. Larger municipalities have more responsibilities. Small local governments form co-operative arrangements known as “*mancomunidades*”; they operate as special districts across several local governments in the provision of water services, garbage collection, tourism and social services. Provinces also take over functions that small municipalities are not able to deliver.
- 1.4 OECD noted that Spain’s highly decentralised approach to territorial administration is also reflected in the concentration of sub-national expenditures managed by the regional governments. Although a unitary country, Spain has a high share of sub-national expenditure even when compared to federal

countries like Germany, Austria and Belgium. This has been the result of two decades of decentralisation, mainly benefiting regional governments (Figure 3.2). As mentioned earlier, Autonomous Communities were responsible for 36.4% of total government spending in 2005 while the local governments were only allocated 13%. Most of the decentralised functions have been delegated to the Autonomous Communities while local government expenditures have remained relatively stable over recent years. The most important expenditure items for Autonomous Communities are health and education, with 91% of all government expenditures on health and 89% of the education expenditures in 2004 made by regional governments (López-Laborda and Monasterio, 2006).

- 1.5 ACRE underlined that the Spanish institutional system is strongly decentralized at the regional level. Spanish Regions (called Autonomous Communities) have very similar powers to the regional authorities in other Federal countries (e.g. Lander in Germany, Cantons in Switzerland). First they have legislative powers within the framework of national legislation. Second they have exclusive competencies in many policy fields such as tourism, urban planning, housing, social services. Third they share competences with the State in the administration and organization of their territory (as such they have for instance the authority over local governments and they may establish, abolish, modify or amalgamate municipalities or decide over modalities of cooperation between them), the environment, education, research, health, economic development, public works and infrastructure, etc. Fourth, they have significant resources, largely derived from their own fiscal revenues and revenues they de jure share with the State.
- 1.6 In this context, the National State has definitely less legitimacy and less capacity to elaborate and implement urban policies at the national level since the “urban question” depends first and foremost on the regional level. However, the State can nevertheless play a significant role regarding the development of urban areas. This role is based on several elements.
  - ❖ The State establishes the legal framework in which regional and local governments must act. This is for instance the case regarding the ‘Pacto Local’, i.e. the decentralization process concerning the transfer of responsibilities from the regions to local governments. It is also the case for policy sectors in which the State shares competencies with regional authorities.
  - ❖ The State is still responsible for many policy domains, notably those which require National intervention. This is the case of many strategic sectors such as public transport (air transport, national railways and notably the development of the high speed train network) and energy. It is also the case of culture, a domain which has been important in the development of many cities.
  - ❖ The State has enormous resources that it can devote to urban areas if it chooses to. One good example of this is the various national programs National Government has set up to fight the recent economic crisis.
- 1.7 As there are no national urban policies in explicit terms but as we shall see only a few programs and generally sector-oriented, it is no surprise that there are no administrative and/or technical structures or bodies within the State apparatus which are responsible for urban areas. In that respect, Spain strongly differs from countries like the UK, France, the Netherlands or even Italy. In the last decade, the major ministries which have played a role in “urban policies” are the following: Ministry of Public Works (Fomento), Ministry of Housing (Vivienda), Ministry of Territorial Policy (Politica Territorial) and Ministry of Economy and Finance (Hacienda).
- 1.8 The ACRE study identifies the historical roots of the current system. Since its creation in the 19<sup>th</sup> century, the modern Spanish State has been based on three main levels of government: the national government, the province and the municipalities. This model was based on the French system of *departements* and represented a strong role for the national government in decision-making and the

development of policies. Provinces and municipalities depended on the national government and played the role of zones for the implementation of the national policies. This model prevailed throughout the nineteenth century and most of the twentieth, until the return of the democracy in Spain in 1977. In the new system provinces were able to confederate between them to create autonomous regions with a regional government with an elected body. Although the system was created initially to accommodate the historic communities of the country in the statehood (that is, to give autonomy to Galicia, the Basque Country and Catalonia), all of the territory became organised into autonomous communities.

- 1.9 As a result of the increasing regionalisation process that took place during the 1980s and the 1990s, Spain’s governance structure is based on a decentralised model of decision-making with 17 regions or *Comunidades Autonomas* with different competences. The so-called historic Autonomous Communities (Catalonia, the Basque Country, Galicia and Andalucia) have a special status and are able to obtain more competences from the national government whereas there are two different ways for the rest of the autonomous communities. Thus, the transfer of competences is negotiated region by region. The result of this model is the increasing leadership of the regional level without institutional mechanisms or institutions for the coordination between national and regional governments<sup>1</sup>. For that reason Spain has a low level of integration between tiers of government (Garcia et. al., 2009), which determines the model of economic development. The role and the influence of the national level in the development of economic development policies is twofold. On the one hand it has an influence over competences through legislation. On the other hand, the central government plays a key role in the funding of a wide range of projects for economic development at local, metropolitan and regional level. In addition to that, until 2010 the national government has had exclusive competences on transport communications and infrastructures, both for its creation and management. Table 4.1 summarises the main tiers of government in Spain and its functions in terms of economic development.

**Table 1: Levels of Government in Spain**

Level	Form of election	Functions /influence	Name
National	General elections	Funding projects at regional and local level. Creation and management of infrastructures and public transport	Gobierno de España
Regional (Autonomous Communities)	Regional elections and formation of a regional government	Development of economic development policies; Funding of projects	Generalitats, Consells, Juntas, Lehendakartzas,
Provincial	Non-elected body formed by the city councils of the provincial municipalities	Advice and funding for city councils through different programmes	Diputaciones provinciales
Local	Local elections and formation of local governments	Economic development policies; Policies for social cohesion	Ayuntamientos

## 2. NATIONAL URBAN POLICIES IN SPAIN: RECENT, INDIRECT, IMPLICIT AND SECTORAL AT BEST

- 2.1 Lefevre has argued there are no explicit national urban policies in Spain. Policies which have an impact on urban areas are very many of course but there are generally piecemeal. The major explanation of this situation is to be found in the political and institutional framework of the Spanish democracy. After the fall of the Franco dictatorship, it was essential - in order to preserve the country’s territorial integrity - to decentralize at the regional level. Autonomous Communities have

thus been established and have been given strong powers and resources. In that process, urban issues have largely been devolved to the regional level.

- 2.2 If we consider urban policies regarding second tier cities from the 5 elements of success generally acknowledged to support urban development (improving strategic capacity, development of innovation, diversification of the economy, enhancement of the quality of the city and connectivity), Spain offer little. Nevertheless one can find some “national urban policies” or “national programs” related to 3 of these elements: strategic capacity, quality of the city, connectivity.

***Improving the strategic capacity of cities: local government reforms***

- 2.3 Following an intense political debate, a significant reform regarding “cities with a large population” was enacted in 2003. Considering that these cities (more or less the 12 second tier cities plus Madrid and the Provincial capitals of over 175,000 inhabitants) required changes in their political system because of their specific needs and constraints, the 2003 Local Government Act introduced changes aiming at the political strengthening of municipal executives. The first change deals with the autonomy of the executive power (namely the Mayor) which has become separated from the municipal council. In addition, the Mayor can appoint his/her own team. The consequence is the strengthening of political leadership with the executive being able to concentrate on matters of strategic dimension because it is also relieved from the day to day management of urban affairs.
- 2.4 The second change has to do with citizen participation. The 2003 Act gives civil society a more important say in municipal affairs, notably through the establishment of a “Social Council for the City” while establishing neighbourhood councils at a lower level. These Social councils follow more or less the French model of the Councils of Development. Although their membership depends on the municipal authority, it should include trade unions, the chamber of commerce, economic, social and cultural associations, etc. The functions of the Social Council also depend on the city but generally concern local economic development, strategic planning and large urban projects. As of 2010, several second tier cities (Barcelona, Las Palmas, Alicante) have established such councils.
- 2.5 Following the 2002 Act on Local Finances, the largest cities have gained in financial capacity since 2004. For the same reasons as the motives exposed in the 2003 Act, the State decided to increase the financial capacity of “large” cities (the capital cities of the regions and provinces plus the municipalities over 75,000 inhabitants) by a transfer of State taxes (part of the income tax, the VAT and other minor specific taxes. In these recent transformations, specific mention must be made of Barcelona. Although the 2003 Act apply to all largest cities, another Act was passed in 2006 which is specific to the Catalan capital<sup>1</sup>. The 2006 Act “on the special system for the Municipality of Barcelona” creates a “specific regime” which allocates more autonomy to the municipality (more competences and more financial resources) and sets up a “commission for collaboration” whose members are the State, the region (Generalitat) and the city of Barcelona.
- 2.6 Lefevre has argued these reforms which affect the “strategic capacity” of the largest Spanish cities are modest. First because they only deal with the political system and in a very minor way, although these changes can be considered important in the Spanish context. However, in comparative terms, a big change would have been the direct election of the Mayor for instance, as introduced in largest Italian cities in the mid 1990s. Second because the urban area in functional terms is not considered. The White paper on Local Government prepared before the vote of the 2003 Act was much more innovative on that aspect, considering that the metropolitan area was the relevant territory to address major urban issues and as such should be strengthened. It seems that for political reasons, the metropolitan dimension has been largely forgotten in the 2003 Act.

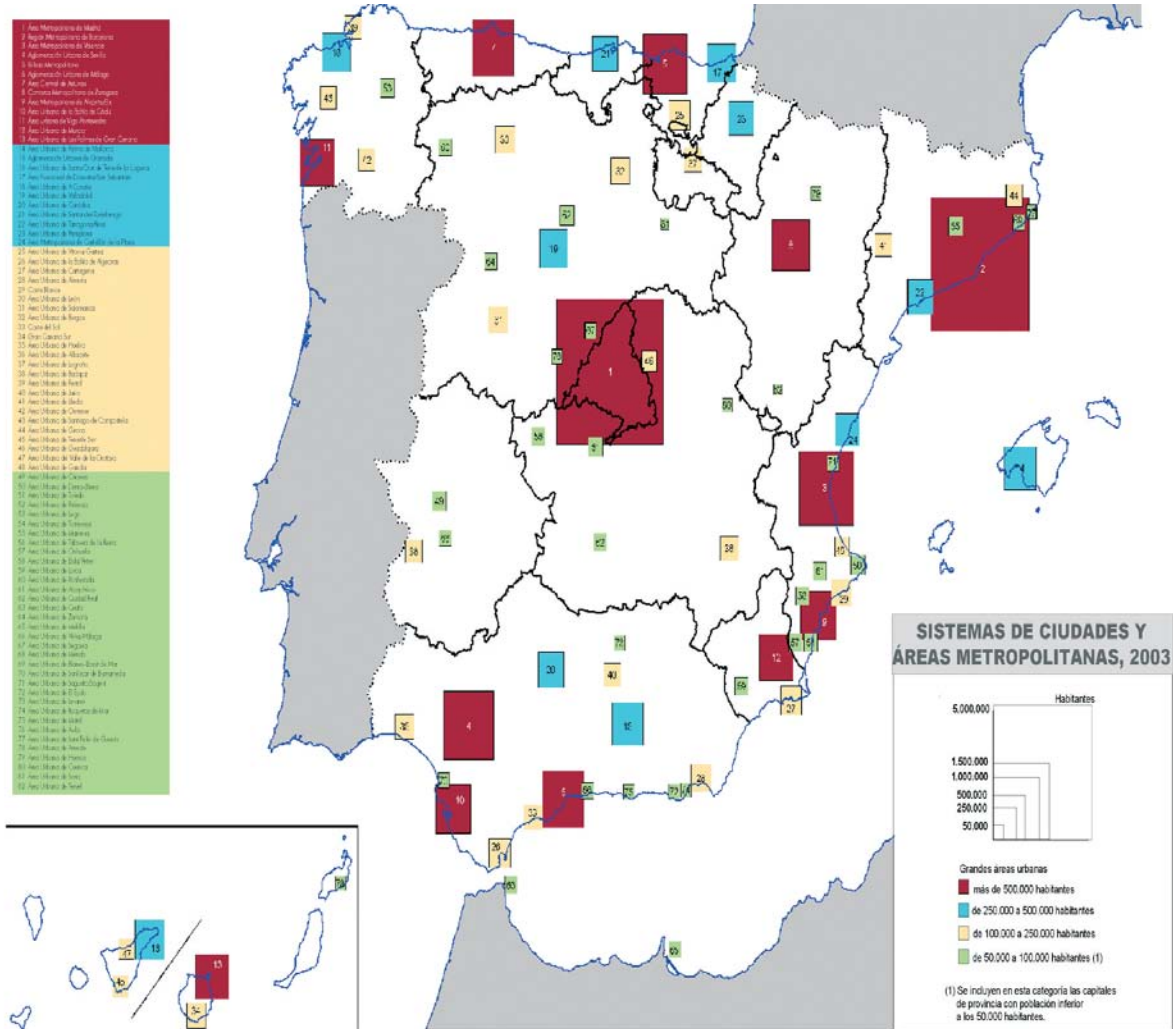
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<sup>1</sup> At the same time, another very similar Act was passed regarding the « specific system for the Municipality and Capital City of Madrid ».

***Enhancing the connectivity of cities: the PEIT***

- 2.7 This issue is clearly taken into account in the Strategic Plan of Infrastructure and Transport (PEIT) of the Ministry of Public Works. This Plan was approved in 2004 and covers the 2005-2020 period. It is a National program which concern all transport modes (car, train, air, freight, passengers) and all networks (urban, local, national and international). Its total amount is about € 241 billions over the period.
- 2.8 One objective of the PEIT is to increase economic development and competitiveness of the Spanish territory. In order to do so, one sub-objectives of the Plan is “to strengthen the role of urban and metropolitan areas”. As a consequence one important action of the Plan is to improve the connectivity of cities and it is presented as a way to “better integrate urban areas into the European system”. In an interesting way, it clearly states that “to help the insertion of the Spanish urban areas in the European system, it is necessary to improve air connections of metropolitan areas: the indicator of accessibility (services, transfers, prices and travel times) must gradually bring these conditions closer to those already existing in the metropolitan areas of Madrid and Barcelona (PEIT, p 41). This statement unmistakably indicates that in Spain there are two kinds of big cities: Madrid and Barcelona on one side and the other ones on the other side.

Map 1: Spanish Metropolitan areas in the PEIT



In dark red, urban areas over 500,000 inhbts  
In blue, urban areas between 250,000 and 500,000 inhbts

**Enhancing the quality of the city: Sustainable Mobility, Housing and local investment**

- 2.9 Urban sustainable mobility. As a very “general” and comprehensive plan, the PEIT has also a “quality of city” dimension. This is more clearly established in the “Sustainable Mobility” area of the Plan. Indeed, the PEIT introduces the idea of a “Sustainability Mobility Plan” (*Plan de movilidad sostenible* or PMS) as a tool to coordinate the various actions of public authorities (the State, the regions and municipalities). It is expected that most urban areas, and notably metropolitan areas, will produce such a plan. In the PEIT the State very clearly indicates that its funding will depend on the establishment of such PMS.
- 2.10 The PMS should help to reduce pollutant emissions, increase the quality of service of public transport in order to facilitate the changing of transport modes, develop soft modes, etc. Once a PMS is set up, it will serve as a basis for funding agreements and contracts between all levels of concerned public

authorities. The PEIT has set aside about €32.5 billions (i.e. 13% of the total budget) for urban areas. As of April 2010, several big cities are in the process of elaborating a PMUS (Urban Sustainable Mobility Plan) but so far the implementation of the PEIT in that domain has been piecemeal (many actions on the promotion of electric cars, the development of bike use, the automation of public transport services, etc.).

- 2.11 In 2009, the Spanish Government launched a State Plan for Housing and Refurbishment for a 4 year period, until 2012. This Plan which has a bit more than a €10 billions funding plus 34 billions for loans and mortgage was established to save the building industry through an intense assistance to facilitate the purchasing or the renting of housing, to improve the existing housing stock. It is not urban based although obviously it concerns mainly housing in cities.
- 2.12 In 2009, the Ministry of Territorial Policy set up a new Fund to encourage local investment. This Fund is part of the so called “Plan E” elaborated to stimulate the Spanish Economy and Employment. Officially, the purpose of the Fund is to encourage local councils to undertake public works and investment that create employment. As of its launching in 2009, the Fund amounted to €8 billions. The Fund is not a competitive one and is spread over all Spanish municipalities, whatever their size. As of 2010, almost all municipalities have received some money from that fund. In 2010, Central Government launched a second phase of this Program, called “State Fund for Local Employment and Sustainability”. This new Fund has been allocated 5€ Billions. Besides a rhetoric about sustainability, the content of the actions funded is pretty much the same as in the previous fund, that is mostly investments in Public Works and almost nothing in education and social services. Lefevre concludes that most of these programs and actions are very recent and should be interpreted more as a State response to address the economic crisis on a piecemeal, urgent and sectoral basis than as a coherent set of policies regarding urban areas.

***The non existence of an explicit urban strategy in Spain***

- 2.13 Garcia has argued that the starting point in order to analyze the framework of the real possibilities of a national urban strategy in Spain is the distribution of responsibilities and powers between the different tiers of government in a very quasi-federal model. The Autonomic State (established by the Constitution of 1978) is based on the distribution of competences between the Central Government, the Autonomous Communities and the Local Administrations. In this institutional context the State has kept few exclusive competences<sup>2</sup>, sharing with the Autonomous Communities most of the competences that previously were centralised (education, energy and mines, social security, employment, water, science, commerce and consumer affairs, credit banking and insurance, culture and leisure, economy and finance, industry, law and order, environment, media, public works and transport, fishery and health). In all these shared fields the Autonomous Communities develop their own laws according to the State basic laws. Also, as a result of the new distribution, in 1978 the Autonomous Communities received exclusive competences regarding town planning and housing, social services, tourism and other policy areas<sup>3</sup>.
- 2.14 The local level received responsibilities that have to be developed in due accordance with the provisions laid down by the Central Government and the Autonomous Communities in the following fields: law and order, traffic regulation, civil protection and fire fighting, town planning, historical-artistic heritage, environment, markets and consumer affairs, public health, social assistance, water and public lighting and waste, public transport, culture and sport, teaching.

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<sup>2</sup> Customs and foreign trade, foreign policy, defence, monetary system and telecommunications.

<sup>3</sup> and agriculture, hunting and coarse fishing and livestock raising.



- 2.15 Due to the high number of areas where the State and the Autonomous Communities share competences the voluntary coordination between them is an essential instrument of the Autonomic State. Coordination is recognized as necessary to achieve consistency and effectiveness in an important number of policy areas and takes place through a number of instruments aimed to make possible the cooperation. These instruments can be multilateral (if they involve the State and all the Autonomous Communities in fields of related competences and areas of general interests) or bilateral (if they involve the State and only one Autonomous Community). These instruments requires explicit and detailed mechanisms of cooperation and participation between the Autonomous Communities and the State but, even if there is a growing awareness regarding the importance of this matter, the necessary level of coordination in the design of public policies has not been achieved after more than 30 years of democracy.
- 2.16 Many authors explain this circumstance pointing out that the policy culture of the old central state has been transferred now to the regional level, reproducing in every Autonomous Community many of the inertias, attitudes and organization and political culture of central administrations, which have resulted in a high level of institutional fragmentation that explains why the decentralization of the decision-making processes has not delivered all the positive effects that were expected. This fragmentation is present in the relationship between the Central Government, the Autonomous Communities and the Municipalities and has introduced in the system a high level of complexity, slowness and weakness (Romero et al., 2004).
- 2.17 As a result the Spanish State of the Autonomous Communities is characterized by a problem of institutional coordination, underlined by the lack of enough institutional mechanisms and arenas of decision to develop common public policies. Regarding this Romero and Farinós Dasí observed in 2004: *“the central government refuses to facilitate the participation of the regional and local governments (that are an essential part of the State) in the decision-making processes that affect all of them. Besides it shows a great interest to keep monopolizing the relationships (both top-bottom and bottom-up) with the European Union”* and added *“the culture based in the achievement of agreements (between the different levels of government) faces a lot of difficulties to be introduced in the country”* (Romero et al., 2004). Many have pointed out that a reform to improve the cooperation between the national government and the Autonomous Communities is needed involving all the instruments and institutions where this cooperation has to take place (Sevilla, 2010).
- 2.18 As a result of this distribution of responsibilities, the State doesn't have any competences on spatial and urban planning and housing. On these matters each Autonomous Community develops its own laws based on its Statute of Autonomy. This fact has resulted in a complex national scenario dominated by a high level of heterogeneity which is the result of 17 different legislative regional contexts. Particularly regarding spatial planning the distribution of competences between the three levels of government is not clear, resulting in conflicts that have even arrived to the Constitutional Court (*Tribunal Constitucional*) for a revision of the use that each level was doing of the competences (OSE, 2008).
- 2.19 Responsibilities for urban planning are shared by the Autonomous Communities and the municipalities, but at the end of the day the responsibility of the local level is almost total. Indeed, the urban planning developed by the local level is “controlled” by the Autonomous Communities which develop a “tutelary” role on it, but this role is strictly regulated and complex to undertake in a direct way regarding most of the contents of the urban plans (Ministry of Housing, 2010). On the other hand in Spain, the second territorial level, can assume the exclusive competence on the local map (establishment, modification and amalgamation of municipalities). Actually, all the Autonomous Communities have included these competences in their Statutes of Autonomy.

- 2.20 The basic law on Local legal Framework from 1985 recognized the competence of the Autonomous Communities to establish and abolish institutional metropolitan areas and other associative local governments. The Autonomous Communities of Catalonia, Basque Country, Community of Valencia and Community of Madrid have used their power in this arena to abolish the pre-existing metropolitan areas (Barcelona Metropolitan Corporation, Gran Bilbao, Administrative Corporation Gran Valencia, Madrid Metropolitan Area Planning and Coordination Commission), envisaged as political competitor by the newly established regional governments<sup>4</sup>.
- 2.21 This legal framework makes it difficult for the State to draft a kind of explicit urban strategy in Spain, either in the arena of the policies for re-spatialisation of urban (local) governments, or in the field of area-based programs in the policies of the welfare State. It seems that the State lacks competences in key politics to do so and particularly cannot act on the metropolitan structures. But the central State in Spain still keeps very important competences with regard to local government, in some aspects closer to a unitary State than to a politically decentralized one.
- 2.22 The central State has responsibility for the establishment of the basic legislation of the local legal framework to be developed by the regional legislation. It includes: basic regulation of local bodies and structures; local powers, services and activities; citizen participation at the local level and intergovernmental relations. Furthermore, the central State possesses the exclusive competence for the regulation of local finances and the electoral system of the basic local entities (municipalities, provinces and islands). These powers allow the central State to establish implicit national policies for institutional innovation through reforms of local government –as actually has been done by the government of the People’s party in 2003-, introducing specialities for urban areas. Within this framework, the central State also implements mainstream policies addressed to all local governments, but concerning particularly urban areas or even including specialities for them.
- 2.23 But the problems drafting and implementing explicit urban policies at the national level can be exaggerated, and at the end of the day the lack of initiatives in this field is overall a lack of engagement of the central State in urban issues accepting a radical restrictive position on the State competences promoted by nationalistic parties and also for some nationalistic factions of the Socialist Party, particularly by the Socialist Party of Catalonia. In a country that has been called “an urban society in a rural country”, to underline the particular concentration of most of the population in very small areas with evident patterns of metropolitanisation, and in a context of globalization in which one of the main trends is the competition among the main urban areas, it is difficult to sustain that the national level should abandon any intervention in the urban areas, even through the cooperation with the other tiers of government.
- 2.24 In this context the central State has propelled some mainstream policies in many fields in which the main (or even the exclusive) competence is up to the Autonomous Communities, using some state competences to look for the equality, or to establish the bases and the coordination of the general planning of the economy. In these cases, the State has looked for and, finally, has reached the cooperation of the Autonomous Communities and the local governments by putting on the table an extra allocation of funds. This is the case of the “Arranged Planning of Social Services” – particularly significant in urban areas - and housing policy, both negotiated in the framework of Sectoral Conferences where the central State and all the Autonomous Communities participate (with

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<sup>4</sup> As an interesting exception in the national context, it has to be mentioned that in July 2010 the Parliament of Catalonia approved the *Act for the Metropolitan Area of Barcelona* which entails the creation of a metropolitan government that unifies the three preexisting metropolitan entities and represents 36 municipalities (the first metropolitan belt) with a population of about 3.5 millions. The new government have competences on public transport, housing, public space, infrastructures and water and waste.

participation of the Spanish Federation of Municipalities and Provinces). In any case, there is not in Spain at the national level a specific organ or authority for urban policies or for some sectoral urban policy – even if some years ago the Secretariat of Local Policy of the Socialist Party moderately promoted the establishment of a Secretary of State for Urban Policies – nor an explicit urban policy, and the main outputs of the national level in the urban area has been implicit policies, including mainstream policies as well as policies for institutional innovation through reforms of local government.

- 2.25 At present the more explicit urban policy that is being developed by the State in cooperation with the local levels of government can be found in the context of the Strategic National Framework of Reference for Spain for the Period 2007-2013, where objectives of urban and local development are defined to be achieved through the implementation of integrated actions, which put into practice the “URBAN method”. Two modalities of action has been established: the *Iniciativa Urbana (Urban Initiative)* for cities with a population over 50.000 inhabitants (46 projects are being implemented), and an action on medium and small cities (20.000-50.000 inhabitants) (112 projects are being developed).

### Fields of action and programmes

#### *Implicit Urban Policies*

##### ***The reforms on local government***

- 2.26 The most important field for urban policies at the national level in Spain has been, without doubt, the reform of local government implemented by the Law 57/2003, taking into account the needs of large cities, that for the first time are the subject of a special organization model in this law. Later, in 2006, the Spanish parliament passed two new special laws for the Cities of Barcelona and Madrid, which were regulated by old special laws from the earliest 1960’s, during the Franco’s Regime. This implicit urban policy furnishes to largest cities with specific mechanisms of government and governance, including the citizen participation at the local level.
- 2.27 The Spanish local government system has traditionally been characterised by a marked uniformity and by a fear of organic-functional and competence-related diversity, generally establishing the same regimen for all municipalities, regardless of their populations. The only exceptions were the Special Laws of Madrid and Barcelona, promulgated during the regime of General Franco. This model had proved to be antiquated and needed a significant, in-depth reform to improve government and governance mechanisms in the major Spanish cities in the context of a globalised and competitive world. This uniformist inertia was broken for the first time in a clear manner and for a significant group of major cities with the Law of measures for the modernisation of local government of 2003, which essentially establishes a new organic-functional model for those municipalities, with a clear separation between the Board and the local executive, as well as a new level of professional public managers. Additionally, it strengthens participation by citizens and socio-economic agents, and establishes mechanisms for citizen defence, as well as generally promoting a more modern, efficient and effective management, setting out various modernising provisions integrated within the criteria of New Public Management.

##### ***Mainstream policies***

- 2.28 There are diverse mainstream policies concerning particularly the urban areas. They include Arranged Plan of Basic Social Services, the National Infrastructure Planning 2005-2020, the State Plan of Housing and Refurbishment 2009-2012, and the State Funds for Local Investments 2009 and 2010.

**National Infrastructure Planning**

2.29 Regarding infrastructures and transport the central government has maintained an important range of competences. It has developed them through the plans of infrastructures, approved by the Congress through the years. They have had a direct impact in the territorial development of the country and the consolidation of the existing network of cities. From the beginning of the democratic period different plans have been into force, adopting different visions on the territorial model of Spain and the strategies to achieve economic competitiveness. The Ministry of Public Works passed in 2004 the *Strategic Planning of Infrastructures and Transport 2005-2020* (PEIT) which is nowadays in force.

2.28 The PEIT establishes the framework for the transport system in Spain for the medium and long term. This instrument was created to pursuit the targets that had been set by the Council of Ministers in 2004, they were:

- ❖ To enhance the transport system's efficiency.
- ❖ To enhance social and territorial cohesion (by ensuring accessibility throughout the country):
- ❖ To achieve a higher level of social cohesion the Plan had to guaranteed universal minimum access to public service (education, healthcare, social assistance, etc.) for all citizens, with particular attention to vulnerable groups (children, the elderly, impaired people). In order to do this it was foreseen that a set of "key spaces" had to be defined (priority spaces of action) in cooperation with the Autonomous Communities, focusing on transport nodes and areas of high concentration of mobility for reasons pertaining work, leisure and others.
- ❖ To achieve a higher level of territorial cohesion the Plan had to strengthen the networks of cities by promoting specific interurban public transport services and coordinating their management.
- ❖ To contribute to the transport system's general sustainability
- ❖ To promote economic development and competitiveness with objectives in three areas: territorial, optimization of the macroeconomic impact of investment in the sector, and innovation. Regarding the former, the Plan had to facilitate the inclusion of the Spanish urban systems in Europe, improving air services between Spanish metropolitan areas and their main destinations in Europe, allowing all of them to achieve progressively the conditions of accessibility of the metropolitan areas of Madrid and Barcelona.

**Improving urban Mobility**

2.29 In addition to the PEIT, the Ministry of Environment and the Ministry of Industry have developed in recent years a contribution to the improvement of urban mobility. The Ministry of Industry through the IDAE (*Instituto para la diversificación y ahorro de la energía –Institute for diversification and save of energy*) have funded actions through the approval of the *Action Plan E4* (2008-2012), following and enhancing those contained in the first Action Plan 2005-2007 developed in the Spanish context to pursuit energetic efficiency and the fulfilment of the Kyoto Objectives. The E4 identifies transport as the most energy-consuming sector and one of the most contaminating (32% of the emissions of glasshouse gas). On the basis of these statements, it develops a number of measures to be implemented in the Spanish transport system, setting the horizon of 2012. Particularly one is to be implemented in the domain of urban mobility: Development of Plans of Urban Mobility in the cities with a population over 50.000 (which are the municipalities bound to have a public transport system), in cooperation with the Autonomous Communities and the cities. Other measures affect transport in general, but have an important impact in the urban environment:

- ❖ Plans of transport for companies and centres of activity.
- ❖ Management of transport infrastructures.
- ❖ Private cars, trucks and buses being driving efficiently.
- ❖ Renovation of private cars (IDAE, 2007).

- 2.30 Urban mobility has also received attention from the Autonomous Communities too, which in many cases have co-financed the development of the Plans of Sustainable Urban Mobility developed by the cities and provided to the local administrations with guidelines of action. Especially the Basque Country and Catalonia have been very proactive in this field of policy. The second has even developed a regional Law of Mobility (*Ley de Movilidad de Cataluña*) approved in 2003, which establishes objectives and guidelines for the whole regional territory in coordination with the other sectoral plans (urban development, economic development, etc.) foreseen by the General Territorial Plan. In this context during the last decade all the big cities and the majority of the medium cities have developed Plans of Sustainable Urban Mobility, which have entailed a remarkable improvement of the urban environment and the public transport systems. Nevertheless these plans adopt generally a sectoral approach and are not coordinated with other urban policies, such as land use, social issues, economical policies, etc. In few cases do these plans include the required levels of participation of the citizens and local actors and or reach high level of consensus.

***Environmental improvement of cities***

- 2.31 The development of environmental policies by the national government has had a limited impact in the cities. The most important plans regarding urban environment were undertaken by the Ministry of Environment to recover contaminated industrial grounds and brownfields (which in a high percentage were placed in cities, sometimes in locations very close to the centres) and to establish the treatment of 100% of sewage (which in 1996 was only 59%). The plans implemented in both fields have resulted in an environmental improvement of urban areas. Besides, the Ministry of Environment have developed a range of documents containing guidelines of action for the Autonomous Communities and the cities in order to improve the urban areas. Some of them are addressed explicitly to the urban environment while others approach it from a more general perspective, or integrate it with other contents. *Libro Verde del Medio Ambiente Urban (Green Book of Urban Environment)*, for example was published in 2007. This document aimed to provide a guide "to built and rebuilt" the Spanish cities based on sustainable criteria (MAMRM, 2007). The rapid destructive urbanization process that has taken place in the country during the last decades which have supposed to double, and in some cases even to triple, the urbanized land occupied by the urban areas, leading to the adoption of an extensive urban model characterized by low densities and lack of mix use and complexity in the cities, had resulted on the one hand in social exclusion, difficulties to access to basic services and land speculation and on the other hand in an unsustainable urban model.

- 2.31 On the basis of a diagnosis of the Spanish urban environment the Green Book provides recommendations to recover the Mediterranean urban model, adapting it to the new dynamics and necessities with the objective to make possible to build a more sustainable urban environment with a knowledge city model. The recommendations address the next domains:

- ❖ Urban Planning
- ❖ Mobility
- ❖ Construction
- ❖ Biodiversity
- ❖ Urban Management

***Mainstream policies of the Ministry of Housing during the period 2004-2010***

- 2.32 The Ministry of Housing was created by the socialist government in 2004 to address the increase of prices in the residential market (a major society's concern that was affecting especially young people at that moment in the country). Its creation was controversial, with some arguing it was an invasion of the regional competences and a waste of public money, while others considered it necessary to tackle the set of dynamics in the real estate sector as a result of the liberal approach of the previous government. During the period 2004-2010 the Ministry of Housing has developed different lines of

action, being one of the most important the development and approval of the new *Land Act (Ley del Suelo)* that is in force from 2007. It replaced the former Land Act of 1998 that had been developed by the Popular Party in the government at the moment.

- 2.33 One of the main objectives of the new Act was to abolish the liberal measures, that were present in the 1998 Act, and to establish that the Urban Laws and planning (that have to be developed by the Autonomous Communities and municipalities) have to classify as “urbanizable” (suitable to be urbanized) strictly the land that is necessary in realistic terms of urban growth. This orientation was based on criteria of sustainability and tried to avoid the unprecedented growth of the urban areas, that supposed during the period 2000-2005 the abandonment of the model of compact city to adopt a model based on the consumption of natural grounds, dominated by the creation of new residential areas of low density, and the construction of transport infrastructures and new facilities (especially commercial and leisure centers) in suburban locations.
- 2.34 When the Ministry of Housing was created in 2004 it received as well the competence of developing the plans of the mainstream housing policy of the central government (that so far had been a competence of the Ministry of Public Works). Through the housing policy the State has been able to act from the early 80’s in order to improve the Spanish cities from a physical point of view. The problem of the lack of competences of the central government regarding this matter was overcome involving the Communities Autonomies deeply in the design of the housing plans and providing those economic resources to improve their cities. This policy has been used by the Estate to improve the Spanish cities that at the beginning of the 80’s were facing physical decline as a result of the lack of urban policies that characterized the dictatorship period.
- 2.35 During the period 2004-2010 the former Ministry of Housing has developed and implemented two Housing Plans. The second (Plan Estatal de Vivienda y Rehabilitación 2009-2012) is in force currently and it includes 996,000 actions during its 4 years’ horizon, to facilitate the access to housing (purchase or renting), promote the development of areas for housing and improve the existing housing/flats and urban areas. 470,000 of the previewed actions are refurbishments of existing homes. The budget of this Plan is 10,118 billion €, plus 34 billion € in loans and mortgages. This Plan is implemented through conventions with the Autonomous Communities and Banks and Saving Banks. The Plan has been designed in close cooperation between the Ministry of Housing and the Autonomous Communities with the aim to create an instrument that considers the differences of the territories of the State and provides a flexible management approach in order to reach the objectives set by the different Autonomous Communities regarding housing matters. All the Autonomous Communities have developed regional legislative frameworks to implement this national plan in their territories.
- 2.36 Beyond the housing policy, the plan includes specific instruments to address the regeneration of urban areas. These are the Area de Rehabilitación Integral (ARI)<sup>5</sup> and Area de Renovación Urbana (ARU)<sup>6</sup>. It has to be underlined that the Plan has supposed an important transformation of the central government’s attitude towards urban regeneration, as it introduces the integrate approach of the projects of renewal and the participation of the residents as compulsory conditions to access to the funds provided by the plan. So, as a result can be said that this Plan has entailed a important step

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<sup>5</sup> Through this instrument the Plan finances actions in villages and cities, addressing the improvement of residential buildings and actions in public spaces. It is aimed to recover urban centers, deprived neighborhoods, historical and monumental environments and rural municipalities which need physical renovation of their residential buildings. The eligible actions have to be aimed to promote the improvement of security, accessibility, energetic efficiency and the introduction of renewable energies.

<sup>6</sup> This instrument allocates financial resources to act in areas through demolition and construction of new residential buildings, along with creation of new facilities, improvement or creation of public spaces and improvement of accessibility in public buildings. They include the relocation of residents.

towards the definition of holistic projects to tackle urban decline, overcoming the traditional physical approach that have dominated the practice of the central government's urban regeneration practice in Spain from the beginning of the Democracy.

- 2.37 Besides, the Plan also tries to integrate the almost one million houses and flats paralyzed or not sold within the context of the crisis and the boom of the building sector. Regarding this the Plan has as one of its most important objectives to contribute to tackle the decreased activity of the real state sector. The objective is to promote the renovation of residential buildings and the regeneration of deprived urban areas, considering that the companies and the labour force<sup>7</sup> that have been operating in the construction of new buildings in the recent past can easily find a important niche of activity in this sector. In order to do this it promotes the introduction of measures to improve the energy efficiency of the residential buildings. In October 2010, president Zapatero undertook a relevant reorganization of the Government which resulted in the elimination of the Ministry of Housing, which in that moment was integrated in the Ministry of Public Works and Transport as *Dirección General de Suelo y Políticas Urbanas*<sup>8</sup> (D G of Land and Urban Policy). So far this institution is continuing to develop the lines of police it was trying to consolidate, but there is a lot of uncertainty about it in the medium term.

***The Interterritorial Compensation Fund***

- 2.38 The article 158.2 of the Spanish Constitution establishes that in order to correct the economic and interterritorial unbalances, and based on the principle of solidarity, a Fund of Compensation had to be created, aimed to allocate financial resources that are distributed by the General Courts to the regional government. As a result the Financing Law of the Autonomous Communities of 1980 created the *Interterritorial Compensation Fund (Fondo de Compensación Interterritorial)*. The Autonomous Communities beneficiaries of the Fund are selected in base to their lower level of development. It is aimed specially to the territories that have a per capita income lower than 75% of the EU average. This instrument has played an important role to reduce the regional differences that existed at the beginning of the democratic period in the country. In 2009 the eligible Autonomous Communities were Andalucía, Galicia, Castilla y León, Extremadura, Castilla-La Mancha, Comunidad Valenciana, Canarias, Principado de Asturias, Region de Murcia, Cantabria and the Autonomous Cities (Ceuta and Melilla). As a result 7 Autonomous Communities have not resulted eligible (Aragon, the Vasque Country, Navarra, Cataluña, Baleares, Madrid, and La Rioja). The criteria to select the amount of the allocation for each Autonomous Community is based on their population and their per capital income compared to the national average.

***A quasi-explicit or germ of explicit urban policy?: the Urban Initiative***

- 2.39 The so called *Iniciativa Urbana* (Urban Initiative) has been launched by the national government within the *Strategic National Framework of Reference* for the period 2007-2013 for Spain. In this Framework are set the objectives of local and urban development to be achieved through a number of integrated actions of urban regeneration. Besides, the so called *Red de Iniciativas Urbanas (Network of Urban Initiatives)* has been created as a forum that guarantees cooperation between the different administrations (central government, regions and cities) involved in the development of the projects of the *Iniciativa Urbana*. The approach of the *Iniciativa Urbana* is to reinforce the strategies of local and urban development, through the development of actions that are able to face the specific challenges of the Spanish cities. The cities eligible to take part of it must have a population over 50.000 or be a capital of province with less population. Under this instrument 46 projects of integrated urban regeneration are being developed. Moreover, there is another line of policy for the medium and small cities, which is aimed to achieve a sustainable local development which results in a

<sup>7</sup> The country has to face the high unemployment rate of unskilled people who used to work in the construction sector.

<sup>8</sup> The reform involved as well the elimination of the Ministry of Equity that was integrated into the Ministry of Welfare.

higher economic, territorial and social cohesion. The cities eligible must have a population between 20.000 and 50.000. The provinces are eligible as well. Under this instrument 112 small cities are implementing projects in the present.

### 3. NATIONAL URBAN POLICIES: CONSTRAINTS AND OPPORTUNITIES

#### *Institutional context and constraints*

- 3.1 Although from a formal constitutional approach Spain is not a federal country, but a politically decentralized one, most of scholars share that from a political approach Spain works very closely to a federal model (Pérez Royo, 1999). Some authors call Spain a “quasi-federal model” or a “Asymmetrical federalism”. There are four levels of government: State, Autonomous Communities, provinces and municipalities. The Constitution guarantees the autonomy of the last three levels “for the management of their own interests”. But their autonomy is not of the same nature. In the case of provinces and municipalities, both are local tiers of government having just an administrative autonomy, which basically means secondary legislation, management of some public services and facilities and self-organization power in the framework of laws. In the case of the Autonomous Communities, they have real political autonomy, with legislative power on a very large set of issues guaranteed by the Constitution, which distribute the competences between the State and them.
- 3.2 The Autonomous communities have competences on very important sectoral subjects that directly concerns the urban areas, what at first sight imply a real difficulty for the State to act on these fields (housing, social services, city planning, economic development, environment, etc.). Nevertheless, the State has two ways (and in most of cases a combination of both) to have some capacity to intervene in this policies: first, the use of some very large and transversal constitutional competences, such as the bases and coordination of the economy, and the regulation of basic conditions to guarantee the equal position of all citizens in the exercise of their right and the carrying out of their duties; second, to put State money on some policies if the Autonomous Communities accept to coordinate them (social services, housing).
- 3.3 But the State also has some important competences that, in an indirect way, concern the cities, such as the big interregional infrastructures (trains, specially TGVs, highways, international airports and ports). From an institutional approach, the position of the central State is stronger, because it has competences for the bases of the local legal framework, and exclusive competences for the electoral system of municipalities, provinces and islands, as well as for local finances. It allows the State to establish special regimes for cities. Nevertheless, the Autonomous Communities have exclusive competence on the establishment and regulation of metropolitan areas, which is a key tool to intervene in urban areas.
- 3.4 In this context the State has developed most of the actions resulting in a bigger convergence of the economy at a national scale, or at least avoiding the increase of the gap between the economies of the different Autonomous Communities. This has been done directly through investment (construction of new infrastructures) or in base to economic instruments designed to tackle the gap between the Autonomous Communities through the *Fondo de Compensacion Interterritorial* (Interterritorial Compensation Fund). Moreover the State, through its capacity of decision regarding the economic policies at national scale has undertaken an important role in the redistribution of financial resources (Uriel, 2002). This has resulted in bigger integration of the economy and the market at national level (Serrano Martinez, 2005).



- 3.5 In terms of responsibilities, the Autonomous Communities are the key actors of welfare policies, especially on education and health, where local governments have a minor role. Municipalities concentrate mostly in local infrastructures (roads, lighting, sidewalks, gardens, parks, sewerage), some basic services (garbage collection, water supply, libraries, sport facilities, cemeteries, firefighters, public transport, local police) and urban planning. A strong neo-centralistic trend can be found in the Autonomous Communities policies towards municipalities, especially in regulations and controls, which implies a constraint for the local authorities.
- 3.6 In terms of the urban system, many point out that the reproduction of the old institutional central model in every regional context is resulting in the Autonomous Communities promoting their capitals as their economic and social centre, not considering the effects that this decision can deliver at national scale (Serrano Martinez, 2005).
- 3.7 Concerning local finances, the system is very balanced: there are important local taxes (on estates, on business, on cars, on works, construction and buildings, on property transfers), as well as fees and taxes for using public services and utilities. But also there is a very important participation in the State taxes, distributed according to objective criteria established every four years and guaranteed by the law, which at the end of the day means a no “clientelist” model.

### ***The political system***

- 3.8 Spanish democracy was built on consensus of the main political forces, and even after the transition period there has been a path of continuity in most of the main public policies independently of the government’s wing. Particularly in relation to state welfare policies this consensus and continuity has been quite evident. In this sense, Spain is a country strongly oriented towards the centre of the political spectrum. On the other hand, in Spain nationalistic parties have more power than their number of voters. They have played a key role in ensuring the stability of governments in many cases (for both, the centre-right and the centre-left parties). Finally, it is important to take into account that PP is stronger than PSOE in larger cities and particularly in the middle urban classes (professionals, small and medium size entrepreneurs). These facts can help to explain some characteristics of the Spanish urban policies at the national level.
- 3.9 The first is that PP has been more sensible to the needs of large cities in terms of institutional, governance and financial tools. The most advanced regulations of the local government in Spain, and particularly the establishment of a special institutional and financial regime for larger cities have been propelled by PP governments in 1999 and 2003. Later the PSOE has passed in 2006 the special laws of Madrid and Barcelona, but they are very close to the reform propelled by PP in 2003, therefore the first boost towards a special urban regime came from the centre-right. The same can be said concerning the special participation in State taxes of cities, established by PP in 2004.
- 3.10 The second feature is the consensus. All the main reforms have been the output of agreements between PP and PSOE, and in most of cases including other parliamentary forces.
- 3.11 A third feature is the existence of political limits for the establishment of explicit urban policies, even for the Socialist Party. Clearly there are constitutional limits because of the distribution of powers between State and Autonomous Communities, but the role of nationalist parties, and their concerns to keep the hands of the State out of their territories, are important factors for understanding the limits of the State urban policies in trying to impose their vision about this institutional and legal distribution of competences.

#### 4. THE ECONOMIC PERFORMANCE OF SPANISH CITIES

- 4.1 A 2008 survey by The *Observatory of Sustainability in Spain* assessed the economic performance of the urban areas, using an indicator that measured the index of economic activity per capita based on the Anuario Estadístico de La Caixa). The study conclusions were the following.
- 4.2 The cities with the best results were Pamplona, Castellón, Barcelona, Bilbao and Madrid, followed by Burgos, Tarragona, Vitoria and Girona. The bigger cities had the best average result (2.84), but it is remarkable the result obtained by cities with a population between 100.000 and 200.000 inhabitants (2.7). These cities achieve a better result than those with a population between 200.000 and 500.000 inhabitants (2.58). This fact reveals a high economic efficiency of medium-small cities in Spain.
- 4.3 The cities located on the coast had average of economic activity higher than the inland cities. Castellon and Barcelona the two coastal cities obtained better results - the first founded in its industrial (ceramic) and real estate sectors and the second founded on a complex and diversified metropolitan economy depending principally on an advanced tertiary sector and logistics and transport). In the interior of the country the results showed strength the extended vision of Spain like a coastal economy with some islands of economic activity in the interior, particularly Madrid. Pamplona was the interior city with a higher index of economic activity per capita, explained by the integration of Pamplona one of the more dynamic integrated economic areas of the interior around Navarra, La Rioja, the Basque Country and the province of Zaragoza. In this area other cities also achieved good results including Vitoria, Zaragoza, Logrono and Burgos. The other important pole in the interior is located in the centre of the peninsula. It is based on a metropolitan dynamic totally integrated in the global economic flows that goes beyond the national dimension to develop a node of attraction of investment (OSE, 2008).

**Figure 4.1: Index of Economic Activity per capita (Source: OSE, 2008)**

Ciudades de menos de 100.000 habitantes		Ciudades de 100.000 a 200.000 habitantes		Ciudades de 200.000 a 500.000 habitantes		Ciudades de más de 500.000 habitantes	
Girona	3,11	Pamplona	5,22	Bilbao	3,66	Barcelona	4,00
Ávila	2,82	Castellón	4,11	Vitoria Gasteiz	3,16	Madrid	3,51
Toledo	2,28	Burgos	3,36	A Coruña	3,08	Zaragoza	2,55
Lugo	2,22	Lleida	2,98	Alicante	2,83	Valencia	2,50
Pontevedra	2,18	S. Sebastián	2,88	P. Mallorca	2,74	Sevilla	2,42
Soria	2,18	León	2,87	Tenerife	2,47	Málaga	2,10
Huesca	2,15	Logroño	2,74	Valladolid	2,46	<b>Media</b>	<b>2,84</b>
Palencia	2,14	Cádiz	2,57	Granada	2,27		
Zamora	2,00	Albacete	2,28	Oviedo	2,27		
Cuenca	1,97	Ourense	2,26	Murcia	2,22		
Segovia	1,96	Salamanca	2,17	Las Palmas	2,16		
Cáceres	1,71	Santander	2,15	Córdoba	1,68		
Ciudad Real	1,77	Almería	2,13	<b>Media</b>	<b>2,58</b>		
Guadalajara	1,71	Huelva	2,11				
<b>Media</b>	<b>2,01</b>	Badajoz	1,96				
		Jaen	2,02				
		TARRAGONA	3,30				
		<b>Media</b>	<b>2,7</b>				

***Territorial effects of the transport and infrastructure policy of the national government***

- 4.4 The transport system which has developed as a result of the policies developed by the national government through the different national plans of infrastructures and transport is an important factor in the improvement of the economic competitiveness of Spain, which has assisted in economic progress and integration into the EU, alleviating the peripheral location of the country. To achieve this stage European Funds have played a pivotal role as they have contributed an average of 20%-30% to the Ministry of Public Works and Transport infrastructure expenditure. As a result of this policy the Spanish network has converged with Europe in terms of transport infrastructures.
- 4.5 As a result, on the one hand, the transport system has resulted in the reinforcement of certain corridors and city systems (the Mediterranean corridor and the Atlantic Axis). But, on the other hand, the construction of radial structures organized in an extremely hierarchical form have resulted in a further centralization of the transport system, which has increased the differences between the territories and promoted the concentration and centralization of economic activity in a reduced number of important nodes. This has resulted in increased regional disparities (PEIT, 2005).
- 4.6 In 2005 the construction of high-performance infrastructures coexisted in the country with a centralised network structure, causing problems of access to the territories out of the main nodes, aggravating the difference between those who were or who were not served by the new networks, and preventing the system's efficient organization (PEIT, 2005). The territorial impact of the model of the airports network was clearly to differentiate, on the one hand, Madrid and the large coastal cities (headed by Barcelona) and, on the other hand, the rest of the peripheral cities, leaving a significant "void" in the internal areas of the peninsula. These effects were even stronger in the cross border regions. The PEIT was designed with the aim of overcoming this situation. But many of the sectoral plans and actions foreseen by the PEIT to achieve an adequate level of accessibility of all the territories of the country have been delayed because of the economic downturn.

***The role of the European Union***

- 4.7 During the last 24 years the contribution of the EU to the Spanish cities has been relevant even if it has not taken place through the development of an explicit urban policy but through the financial support of the European Funds allocated to mainstreaming policies. It has taken place through the Structural Funds (specially ERDF and ESF) from 1986, when Spain joined the EU, and through the Cohesion Fund from 1994 (when this instrument was created to support the countries that had a gross national product per capita below 90% of the EU average). All these instruments have financed a multiplicity of actions that have entailed to improve the accessibility and the connectivity of cities, to construct new urban facilities and services, to improve the environmental quality of the neighborhoods or to improve the professional skills and the level of education of the population of the urban areas in order to reduce unemployment rates and promote social integration. Spain has widely benefited from the EU funds. For example during the period 2000-2006 Spain received more financial support from the Cohesion Fund (more than 60% of the total amount).
- 4.8 Beyond the economic and social achievements that the EU funds had made possible in Spain, the intangible achievements have to be mentioned: in fact, regarding urban policies the role of the EU institutions, specially the DG REGIO, has been remarkable, as it has produced during the years a number of key documents and guidelines of action that have introduced in Spain knowledge about different visions and ways to address urban decline and to enhance a sustainable urban development.
- 4.9 In 1990, as the European Commission launched the first explicit instrument of urban policy designed and implemented within the EU context and called Urban Pilot Projects (UPPs), Spain benefited from

four projects (out of 33) located in Bilbao, Madrid, Población de Lillo and Valladolid. When the second round of the Urban Pilot Projects was launched in 1996 four Spanish projects were selected (out of 26): Bilbao, Gran Canaria, Granada and León. In the meantime, in 1994 the URBAN Community Initiative was launched by the European Commission. It was the first instrument implemented at national scale and addressed explicitly at tackling urban decline, adopting a holistic approach which considered the city as a whole.

- 4.10 Spain has particularly benefited from the EU URBAN initiative. It is the fifth largest country in the EU in terms of population, and has been able to finance most projects in the framework of this initiative. No less than 41 Spanish cities have seen their projects mature, 31 in the context of URBAN I, over the 1994-1999 period (two of them were located in the Canary Islands and really secured funding through the REGIS program for the outermost regions of the EU), and another 10 within URBAN II, for the 2000-2006 period (Table 3). Spanish authorities prepared two operational programs within URBAN I, focused on the economic and social regeneration of challenged quarters with the aim of fostering sustainable urban development. The first program, which lasted five years (1994-1999), affected 17 cities. The second (1997-1999) benefited another 12 municipalities over a three-year period, to which we must add the two cities in the Canary Islands as part of the REGIS initiative.

**TABLE 2. DISTRIBUTION OF URBAN PROJECTS BY EU MEMBER STATES**

MEMBER STATES	NO. OF CITIES IN URBAN I (1994-1999)	NO. OF CITIES IN URBAN II (2000-2006)	TOTAL
Belgium	4	3	7
Denmark	1	1	2
Germany	12	12	24
Greece	6	3	9
Spain	31	10	41(1)
France	13	9	22
Ireland	2	1	3
Italy	16	10	26
Luxembourg	1	-	1
Netherlands	4	3	7
Austria	2	2	4
Portugal	3	6	9
Finland	2	1	3
Sweden	1	1	2
United Kingdom	15	11	26
<b>TOTAL</b>	<b>113</b>	<b>73</b>	<b>186</b>

- 4.11 URBAN was transformed into a “different policy” in order to allow its implementation in the Spanish context. The long tradition of urban rehabilitation focusing in environmental improvements, the sectoral approach towards urban decline, the high level of institutional fragmentation, the difficulties to launch real process of participation (not only information and consultation), the difficulties of involving the economic and social actors in the process of regeneration, and many other aspects that characterize the Spanish practice of urban regeneration undermined the performance of the URBAN projects in the country (De Gregorio, S. and Kocewicz, R, 2007).
- 4.12 However, analysis of the URBAN II programs implemented in the Spanish cities shows that an “evolution” took place between the first and the second rounds of the Initiative concerning the strategy assumed by the projects and its contents, where the integrated approach and the collaborative aspects were included more successfully. The main explanation of this transformation can be found in the possibility that officials and politicians had to study and to analyze the projects that had been development during the period 1994-1999 in the country and the changes introduced

in the Initiative in order to simplify it and to improve some weakness that have been detected by the implementation of the projects and the evaluations during the first round.

- 4.13 In the case of the URBAN II programmes, as in the general development of the urban regeneration practice in the country, the strategies adopted and the results achieved by the cities were very varied. In some cities the collaborative and integrated approaches were deeply rooted in the strategy from the beginning but in others the citizens and local actors were not consulted and had little capacity to interact with the local government.
- 4.14 The contribution of URBAN to changing Spanish practice is clear when we see that the URBAN methodology has been adopted in a range of regional instruments of urban regeneration as the *Ley de Barrios (Law of Quarters)* of Catalonia, the *Ley de Barrios* of the Balearic Islands and the IZARTU Programme in the Basque Country. Also, the national government is putting into practice the URBAN methodology through the *Iniciativa Urbana* (Urban Initiative) that was launched within the Strategic National Framework of Reference for the period 2007-2013 for Spain. In this Framework the objectives of local and urban development to be achieved through a integrated actions of urban regeneration. Also the influence of the “URBAN method” can be seen as well in the Housing Plan, particularly in the instruments defined to tackle urban decline (ARU and ARI).

### ***Spatial Planning***

- 4.15 the responsibility for territorial planning was in 1979 transferred from the Central Government to the Autonomous Communities. The Ministry of Environment is responsible to follow the international trends regarding this matter and represents Spain in the organs of the European Union involved in the definition of environmental policies. It undertakes as well a role of support to the Autonomous Communities in the development of their territorial responsibilities. In the previous institutional architecture the territorial plan for the whole country had to be developed by the State through the *Plan Nacional* (National Plan). But this was never accomplished and in the new institutional model established by the Constitution of 1978 it was replaced by the *Plan Territorial* (Territorial Plan) of the Autonomous Communities. This means that there is not a plan at national scale. Instead there is a range of 17 plans developed at regional scale through an instrument called in most Autonomous Communities *Directrices Regionales de Ordenacion del Territorio* (Regional Territorial Guidelines) established by the Territorial Laws of the Autonomous Communities.
- 4.16 However, only a small number of Autonomous Communities have developed this instrument, perhaps because Spain does not have a tradition of territorial planning. Also, there is a lack of relationship between the objectives of the legislation for spatial planning and the instruments that are finally developed, because of the rigidity of the legislation and the complex requirements necessary to get the instrument approved.
- 4.17 The Observatory of the Sustainability in Spain notes that nine Autonomous Communities have approved their instrument of spatial planning: Asturias (1991), Catalonia (1995), Pais Vasco (1997), Aragon (1998), Baleares (1999), Andalucia (1999 y 2006), Canarias 2003, Navarra (2005) y Cantabria (2006). Others have formulated the instrument but have never approved it (Comunidad de Madrid), and finally others are developing it at the moment (OSE, 2009). However the Ministry of Housing in its *Libro Blanco of Urban Planning in Spain- Libro Blanco de la Sostenibilidad en el Planeamiento Urbanistico Español-* of 2010 says that only seven Autonomous Communities have approved their territorial instruments (Ministerio de Vivienda, 2010)). In any case this means that some of the more dynamic areas of Spain, as the Comunidad de Madrid, Comunidad Valenciana and Region of Murcia, have not approved an instrument of spatial planning at regional scale, which means that the sectoral policies are being designed without being integrated in an overall strategy for the whole region.

- 4.18 Through the territorial plan each Autonomous Community establishes its territorial model and therefore the role that its cities have to play in the regional, national and European scenarios and, consequently, lays out a “strategy” to achieve its vision. These are some examples of territorial plans developed so far, with a mention to the role that the network of cities play in the regional modal established:
- 4.19 The DOT of Aragon promoted Zaragoza as a nerve point of the “future transnational Pirenaic region”. To achieve this objective which is considered beyond the capacity of the Municipality of Zaragoza and the Autonomous Community this instrument considered necessary the development of the Strategic Plan of Zaragoza, which content was to be undertaken in cooperation between the central, regional and local government (Directrices Generales de Ordenacion del Territorio para Aragon, 1998).
- 4.20 The DOT of the Basque Country established a number of strategies to integrate its territory in Europe aiming to set the Basque Country as a strategic node in the integration of the Atlantic Area with other more dynamic territories of Europe. The document considers that the three most important cities of the region (Metropolitan Area of Bilbao, Donostia-San Sebastian and Vitoria-Gasteiz) play key structural in their respective territories and establishes that their facilities and urban activities must be planned according to a complementary approach.
- 4.21 The General Territorial Plan for Catalonia defines the objectives of territorial balance for the region and is intended to attract economic activity to suitable spaces and to provide a similar quality of life to all the citizens of Catalonia wherever they live. It has three goals: a) Promoting the importance of the urban system of Barcelona as capital of Catalonia; b) Fostering the polycentric character of the metropolitan scale, consolidating the urban systems of the medium cities; c) Promoting the global territorial balance in Catalonia. Regarding the European scenario to establish the overall strategy for the territory of Catalonia, the Mediterranean arch is considered as the main area in which relationships between Catalonia and the neighbor countries takes place (Ley 1/1995 de 16 de marzo).
- 4.22 The Spatial Plan of Andalucía (POTA) was approved in 2006. It established the territorial model for this region setting four strategies of territorial development: a) System of cities; b) Systems of regional articulation; c) System of environmental protection; d) External integration. Regarding the former, the plan establishes guidelines for the urban system and the policies that have to be developed to consolidate it. The metropolitan areas of the Andalusian big cities are considered the keystones to achieve that vision and the decisive elements to integrate Andalusia in an exterior and broader context. In terms external integration the Plan establishes four areas in which the integration of Andalusia has to take place: the European Community (specially the Mediterranean Arch and the Atlantic Arch), Mediterranean countries and North Africa, Portugal (specially the Southern regions Algarve and Alentejo) and Spain (cooperating specially with the neighboring regions Extremadura, Castilla-La Mancha and Murcia).
- 4.23 The comparison of the different documents of spatial planning developed by these four Autonomous Communities, shows that regional governments are developing very different strategies to achieve territorial cohesion and to make their regions more competitive and sustainable. In terms of the urban system, they promote two general different approaches. On the one hand are the Autonomous Communities which focus on a metropolitan area as driver of development, as Catalonia and Aragon. On the other hand are those that enhance all the provincial capitals as drivers of territorial development, as the Basque Country and Andalucía to avoid political disagreements, in despite of the huge differences existing between these cities and the different roles that they play territorially. This

fact reveals one more time the existence of tensions between the levels of government (Autonomous Communities, provinces and municipalities) that limit the development of the territorial policies.

- 4.24 One of the main problems in which the distribution of responsibilities has resulted in Spain the variety of regulations in some areas that are the responsibility of the Autonomous Communities. This is the case of territorial development, where the Communities that have developed their instruments of spatial planning have adopted different aims, visions and contents. Also, the position is even more complex because some Communities don't intend to develop them. For example, Madrid has avoided the development of regulations in this field in order to promote economic over social and sustainable development). Also, these plans are designed without coordination between the different Autonomous Communities. They do not consider the impact that the regional strategy adopted can deliver in other regional context or at national scale. It There are also different commitment to the regional spatial plans of the Communities Autonomies, with some undertaking the needed actions to implement them, while others are doing it though slower and weaker processes.

### ***Urban regeneration practice in Spain***

- 4.25 Urban regeneration is a new field of policy and practice in Spain. During the first decades of the 20<sup>th</sup> century international trends rehabilitation led to n the development of progressive laws by the government of the Spanish Republic, but the outbreak of the Civil War brought an end to that. The approach could not be recovered after the war, as the dictatorship limited "intellectual exchange" with neighbouring countries and prevented the arrival of new experiences that were taking place in Europe and the USA to tackle urban decline. So during that period the government did not develop policies to addressed the problems of urban areas. Its main efforts were designed to facilitate the construction of the huge number of houses required in the main cities for the rapidly growing urban population. As a result of this "emergency" a number of new urban areas were developed that often did not have the necessary facilities, were poorly constructed and connected with the existing cities. These areas were born with a high level of potential vulnerability, due to the low physical quality of the urban environment, the inadequate accessibility and the social homogeneity of the population. Also, the last years of the dictatorships were characterized by land speculation in the main cities, resulting sometimes in the demolition of the traditional residential buildings in the centers that were substituted by new buildings. These policies had negative social and physical impacts and far from leading to regeneration added a new problem to the poor physical conditions of the urban central areas.
- 4.26 With the arrival of the Democracy a deep reform of the State took place in the country, which turned from a high level of centralization into a quasi-federal model, where the newly created Autonomous Communities (the regions) and the municipalities assumed lots of the former responsibilities of the central government. The competences to act in the urban domain were transferred to the Autonomous Communities and the new democratic municipalities which had to face the multiplicity of problems that were present in the urban areas in the early 80's, after decades of lack of action.
- 4.27 Even though neither levels of government (municipalities and Autonomous Communities) had experience developing urban policies and implementing them, they have had to tackle the physical decline of the city centers and the lack of urban quality of the new peripheral areas. The Autonomous Communities did not begin work on these issues immediately, as they had to be formed and then develop the legal frameworks for the competences that they had received. As a result these tasks were undertaken by the municipalities through the development of the Urban Plans of the cities (*Planes Generales de Ordenacion Urbana*). From that moment the inclusion of the policy of urban regeneration in the planning policies for the city has been a constant factor that has limited the development of urban regeneration policies. They have been understood as actions for physical

improvement and in most cases have been undertaken through the planning system. This second fact has supposed a high degree of rigidity that has made it difficult for the cities to develop strategies of regeneration to face complex urban problems.

- 4.28 During that period the economic situation was not favorable, social movements that had emerged at the end of the dictatorship and had been consolidated during the first years of the Democracy demanded from the new democratic municipalities the introduction of the improvement of their neighborhoods in the policy agenda. So, especially the cities where the left wing parties were elected to local government, integrated the demands of the social urban movements, which resulted mainly in the creation of new public spaces and facilities where they were needed.
- 4.29 Also, during the 80's some municipalities started to implement the first plans to protect and rehabilitate the city centers, resisting the trend of destruction that had been adopted during the last years of the dictatorship. These plans were dominated by an explicit physical approach and an implicit economic approach and characterized by the lack of introduction of social measures. Also The peripheral areas did not receive much attention during that period, as the concept of urban rehabilitation was strongly related focused upon the improvement of the central areas of the cities. This approach resulted in the majority of the actions of renovation being focusing on the economically and environmentally strongest urban areas while the more deprived ones received little attention (MOPU, 1990). The sectoral actions undertaken in the city centers led to the improvement of those areas, as the physical renovation attracted economic activity and new population, while the physical actions undertaken in the peripheries produced little transformation, as the main challenges - social exclusion, unemployment, poor training, poor entrepreneurial capacity - were not part of the actions.
- 4.30 Meanwhile the big cities where the industrial decline had had deepest negative effects in terms of social decline and increase of neglected industrial facilities in urban locations started to look for solutions to face the magnitude of the problem, that could not be resolved using conventional approaches (urban plans) and local funds. Their efforts led to some of them to start the process of design of their strategic plans (Barcelona in 1988, Bilbao in 1989, Malaga in 1992, Valencia in 1993, Gijon in 1993, Zaragoza in 1994, etc.).
- 4.31 In order to help the cities and the Autonomous Communities in that context the central government launched in its mainstreaming infrastructures policy in 1993 the *Plan Director de Infraestructuras* (PDI), in which for the first time a *Policy for the Cities* was included trying to overcome the sectoral understatement of the infrastructures policy assuming a collaborative approach that involved the three levels of government and other stakeholders. To do so the PDI developed instruments to achieve consensus in the planned processes of urban regeneration. The PDI included four lines of action that entailed the development of strategic operations to foster the restructuring of the cities dealing with the renovation of the city centers and the peripheries, the integration of big infrastructures of transport in the cities, the recuperation of derelict industrial areas, etc. Some of the actions undertaken supposed the regeneration of the Delta del Llobregat in Barcelona, the *Proyecto Ria* in Bilbao, *Cinturon Verde de Oviedo*, *Pasillo Verde Ferroviario* in Madrid, etc.
- 4.32 Some of the actions of the PDI were integrated with other projects of regeneration, as the URBAN projects (1994-1999), the projects of urban regeneration of Granada and Toledo, actions to integrate the coast line and the cities (as the Port Vell in Barcelona), regeneration of the coast lines (as in Gijon), etc. Unfortunately the change of party in the central government after the elections of 1996 supposed the design of a new infrastructures plan based on a totally different approach, where the



cities and the urban problems were approached once again from a sectoral vision, resulting in the abandonment of the Policy for the Cities.

- 4.33 The steps taken by the PDI for the consolidation of a change in the urban policy of the central government did not have the necessary continuity. This underlines one of the main problems of implementing medium and long term urban policies at national, regional and local scale. These policies rarely achieve their objectives and or get their approaches consolidated, because the change of parties in the government entails almost always the change of principles and visions.
- 4.34 From that period on, the lack of action by central government and most of the Autonomous Communities in tackling urban decline has led the cities to carry out the vast majority of the initiatives to face the problems of their neighbourhoods. In this task they have had to face a number of obstacles as the lack of funds, the technical limitations of the local administrations to implement innovative processes and the lack of a suitable legal framework to undertake urban regeneration. The result of the lack of national or regional frameworks has been that every municipality has experienced urban decline in a different way. As a result there is a high variety where one can find cities where the strategies of urban development are regarded as best practice at EU level (Barcelona, Vitoria, Santiago de Compostela. But there are also cities where the sectoral approach towards urban problems and land speculation has led to the worsening of the urban environment in the last decade.
- 4.35 As already mentioned most cities have used urban plans to design and implement the actions of urban regeneration both in the city centres and the peripheries. This has focused actions on the physical improvement of the neighbourhoods, reinforced sometimes by the implementation of sectoral social policies developed by local governments (with the support of the regional and the national levels). Both streams of policy were not coordinated. When a more integrated approach has been needed to tackle the complexities of urban decline the cities have used innovative methods, creating specific agencies that coordinate social programmes with the housing plans developed by the national, regional or local governments or with European Initiatives or Funds. Some of those processes include different levels of urban participation and in the more innovative cases have introduced systems to monitor the results of the actions and the development of work of research about urban regeneration.

***Indirect actions by Central Government to tackle urban physical decline***

- 4.36 As already identified, the Central Government transferred urban responsibilities to the local governments, meaning that it could not develop an explicit policy to tackle physical urban decline. The main governmental action was housing policy, established from the early 80's as a mainstream policy of the Spanish central government. This was designed to provide adequate residential buildings to the whole population through the development of new constructions or the improvement of the existing buildings. The second line of action was proposed for the improvement of the urban environment.
- 4.37 This national policy was implemented at the beginning of the 80's and from 1984 it has been based on the successive Housing Plans, developed by the different parties in the government, including always a line of action which comprises the rehabilitation of the urban residential buildings, which have evolved through the years. The Plan 2005-2008, and specially the Plan 2009-2012 have involved a remarkable evolution of the approach of the central government towards urban regeneration. The last have included the redefinition of instruments (ARI and ARU, see above), to introduce an integrated approach and citizens and local actors' participation in regeneration projects. The transformation of the urban regeneration programmes funded by the central government has been a result of the influence of the URBAN Community Initiative that was developed in Spain after 1994.

This renewed attitude towards urban decline was extended by the former Ministry of Housing through the development of instruments to provide knowledge and research about urban dynamics. At the same time it increased its involvement in networks of knowledge and exchange of urban good practices in Europe.

### ***Indirect national actions to tackle social decline in the cities***

- 4.38 In 1988 the socialist government launched the *Arranged Plan of Basic Social Services* aimed at increasing the economic and technical cooperation between the three levels of government to provide funds and consensus about developing a network of local social services to guarantee basic benefits and assistance to citizens, and specially to the most vulnerable population. The central government provided funds to help the municipalities to face one of their new responsibilities (the municipalities with a population over 20.000 are responsible for the provision of social services). Four years after, the Plan had been extended to almost 6.000 Spanish municipalities (79% of the total) and provided services to the 83% of the population (Gutierrez, 2001). Since then successive parties at the central government have developed national plans for the development of basic services, that have aimed to to achieve an adequate level of facilities and services in the Spanish cities.

### ***The results of the mainstream policies of the central government on the cities***

- 4.39 These mainstream national government policies, developed and launched through collaborative policies agreed with the Autonomous Communities from the early 80's to the present, have resulted in the physical, economical and social improvement of the cities in the country. Both policies have tackled urban deprivation based on a sectoral approach, aimed at the improvement of the urban environment in the case of the housing policy, and to the elimination of marginality and social exclusion in the case of social policy, although with little with no coordination between them or with other lines of policy. However, the change undertaken by the urban areas from the early 80's shows that these sectoral policies have had positive effects.
- 4.40 The explanation of the improvement of the urban areas, even if the government have never been able to implement a specific urban policy, can be found in the different nature of the urban problems in Spain, where the social deprivation of the neighborhoods wasn't as serious as in the French or English cases. For example Spain did not have the riots at the beginning of the 80's which led to the development of specific urban policies in France and Britain). In addition, the growth of the Spanish economy during the first part of this decade led to a reduction in unemployment and social deprivation, which in urban terms permitted the consolidation of the positive effects of the sectoral streams of policy. These have made it possible to tackle urban deprivation in the country without developing comprehensive policies based on an integrated approach.
- 4.41 In cases where urban problems overcame the capacity of the cities, the latter have developed strategies that have allowed them to receive funds from the EU, the central government and their respective Autonomous Community. The need for funds to undertake regeneration programmes has led to lots of cities developing offices with a deeper knowledge of the European Funds and Initiatives, in order to be ready to bid when the Commission or the Spanish Government launch calls. However, not all the cities have shown the same capacity and commitment in the development of regeneration actions, and the results achieved by them are very different in terms of success.

### ***The action of the Autonomous Communities to tackle urban deprivation***

- 4.42 Some Autonomous Communities have developed spatial strategies that include guidelines for urban policy, developing policies for the cities at regional level. In terms of urban regeneration the level of development of this practice in the Autonomous Communities is very varied. Some of them (like Catalonia, Balearic Island and the Basque Country) have developed specific instruments and allocated

funds to implement projects of urban regeneration that include area-based projects based on an integrated approach and local participation. For example, the *Ley de Barrios* of Catalonia has been singled out by the EU as a pioneering instrument in the EU context. Other Autonomous Communities have developed specific instruments to tackle urban decline, but they are dominated by traditionally strong physical approach, lacking social or economic measures. Andalusia and the Community of Madrid are in this group. The rest of the Autonomous Communities implement the actions of urban regeneration integrated in their regional plans of housing and land that are coordinated with the national housing plan. On the other hand the action of the Autonomous Communities regarding social exclusion in the cities has been developed in the framework of the arranged national plans of basic social services through the years.

- 4.43 Moreover, the Autonomous Communities (and the Provinces) have fostered the development of the Agenda 21Local in the cities of their territories by funding the development of this instrument . This has resulted in Spain as the European country with a wider implementation of the Agenda 21Local. But the analysis of the Agenda 21L that have been implemented in the Spanish cities shows that it hasn't been understood as a holistic instrument to pursue sustainable development. Instead it has been developed in the majority of the municipalities as a plan of environmental development. The other problem is that it has not been coordinated with the regional or territorial axis of development. This demonstrates again that the traditional approach that favours physical development over the economic and social dimension is very difficult to overcome in Spain, and few municipalities have the technical capacity and the political will to do so. But also the institutional fragmentation of the system results again in the different levels of government working on their own, leading to lack of coordination of the strategies at local, provincial or regional scale.



**The ESPON 2013 Programme**

**3.6**

**TURIN**

**Christian Lefèvre**



EUROPEAN UNION  
Part-financed by the European Regional Development Fund  
INVESTING IN YOUR FUTURE

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**Statistical Appendix**

« Con la FIAT, oltre la FIAT »

“With FIAT, but beyond FIAT”, Sergio Chiamparino, current mayor of Turin

## I. WHAT'S THE STORY: SETTING THE SCENE

- 1.1 Turin represents the emblematic example of a success story, that once was a Fordist one-company town transformed into an innovative and international city with a diversified new economy based on innovation, creativity and tourism. This is how Turin's recent history and experience has been constantly presented in newspapers, magazines and most international “expert” reports and this is the major reason why this city and its surrounding region has been selected as a case study for the ESPON project “Secondary Growth Poles and Territorial Development in Europe”. We will see however that this picture is only the bright side of the coin and that if Turin has a lot to offer in terms of lessons it is because of this ‘economic success’ as well as its failures and insufficiencies.
- 1.2 Among the five hypotheses put forward in this ESPON project, the Turin case study can help us to substantiate several of them. The first hypothesis is that deconcentration matters. The Italian case and Turin in that context will allow to test this hypothesis in comparison with other cases. Italy, indeed, is the example of a country where national policies as well as the urban system are territorially balanced since growth and resources are not concentrated on the national capital, Rome, but are more spread out among a number of metropolitan areas, namely Milan, Naples, Turin, Genoa, Florence, etc.
- 1.3 The second hypothesis relates to national policies and the level of centralization. In that regard, Italy offers an ambiguous situation and the Turin case will reflect this. As we will see, Italy may be regarded as strongly decentralized because of the many responsibilities given to local governments and their significant political autonomy. However, the State remains central because of its control over major resources and its legal powers, but contrary to other countries such as France or the U.K. national policies towards cities are not that significant and unreliable.
- 1.4 A third hypothesis concerns the key drivers of territorial performance. In that matter, the Turin case study will strongly emphasize the relevance of connectivity, place quality and governance capacity.
- 1.5 The Turin's case study will allow to positively substantiate the two remaining hypotheses; i.e. that local factors matter and territory matters. Local factors remain important and in the Turin's case they have played an essential role in the making of strategies and in enhancing the governance capacity of the area. However, if they have played a positive role in the elaboration and development of a strategic capacity at the city level, the situation is very different at the metropolitan scale. In that regard, if the Turin case study shows that territory matters, it does so in a negative way, that is by demonstrating that the lack of cooperation at a larger scale significantly hinders the performance of the metropolitan area.
- 1.6 With about 2.3 million people, Turin is the fourth largest metropolitan province in Italy, behind Milan, Rome and Naples. Economically speaking, with a GDP of more than €56 billions in 2006, Turin is the third metropolitan province of Italy. Once one of the three cities of the Italian industrial triangle, with Milan and Genoa, it is still one of the major manufacturing regions with about ¼ of its GVA based on that sector, largely above the national average. In addition of being an important economic place for the country as a whole, it has also been a political and social emblematic city. Politically, Turin was the capital of the Kingdom of Savoy and the first capital of Italy from 1861 to 1866, a royal and national status which has significantly influenced the city's spirit until now and which is very much present in its

architecture and urban fabric. It is also the capital of the Region of Piedmont which hosts about 4.4 million people. Socially, the city represents an important part of the history of Italy, notably because of the presence of FIAT and of its consequent masses of workers (the Citta Fabbricca, fordist city). Turin is also the city of the “hot autumn” of 1969 which saw the first and strongest students and workers demonstrations. As such the city is the symbol of strong social movements with a very active civil society very much politically linked with the left. No wonder that in 2007 it was chosen as the place for the inaugural speech for the creation of the new party of the left, the *Partito Democratico*, in the Lingotto<sup>1</sup>, symbol of the FIAT ancient empire.

- 1.7 For the ESPON project, Turin offers almost all ingredients for an interesting case study. As we have already put it, it represents in many ways a success story and as such has attracted much interest at the European but also international level, notably from US scholars and US practitioners. In that regard, Turin has almost reached the status of a “model city” which other urban areas in the same situation should get inspired by. As we will see in the next section, Turin has gone from a devastating industrial decline to a renaissance based upon a total new development path which has significantly transformed the city. It is this transformation which is worth describing and analyzing because it has been realized through a process which has gone far beyond the economic dimension. The renaissance of Turin is indeed due to the invention of a new model of development which has integrated the social, cultural, economic, historical and political dimensions. This has required institutional and organizational innovations in public policy making such as new ways of thinking, new instruments, new governance arrangements, etc. It is therefore this model which is worth analyzing and assessing. For such a task, we are lucky because the transformation process has been now on for quite a long time (more or less 15 years) and we are therefore able to test the ‘sustainability’ or the capacity of this model to last, the validity of its successes and failures.
- 1.8 This is why, contrary to most international reports on the Turin case (see for instance, Burdett, 2010; Huxley, 2010; Winkler, 2007), our analysis of the Turin’s experience is not so much the analysis of a success story than of ‘the end of a success story’ or ‘of a provisory success’ because today, Turin is at cross-roads. In that sense, this report will put some distance with the somewhat “marketing” and promotional approach that can be found in the general literature about Turin. Indeed, we believe we have to learn as much from the achievements of the period 1995-2010 as from the failures of the same period. In addition, we believe we should be as thoughtful and interrogative as most local stakeholders and local players are about what they call “the crisis of the model” which emphasizes the key challenges that the metropolitan area of Turin has to face in the coming years.
- 1.9 This report was written using various sources of information. First, the literature. The literature on Turin has been very abundant. At the international level, most of the documents, including the most recent ones, tend to follow and support the positive image carefully conveyed by most players, notably by the city of Turin. This positive image is also clearly presented in the strategic plans and all reports published by Torino Internazionale, the agency in charge of managing the strategic planning process, at least until recently. At the local and regional levels, documents are also very many but are more pluralistic in their views. We have used several research pieces on the economic and governance aspects of the Turin’s transformation over the last 15 years and notably the 11 very well documented reports published annually by the l’Eau Vive and the Giorgio Rota committee since 2000. These thick reports, financed by the Compagnia San Paolo, a bank foundation, cover all aspects of the economic and social life of the metropolitan area.

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<sup>1</sup> The Lingotto, built in 1922 by FIAT, was at that time the largest factory in Europe and became the symbol of Turin’s industrial might. It closed down in 1982.

- 1.10 This literature was supplemented by a series of interviews carried out with the most significant players and observers, notably local and regional administrations, development agencies and structures, bank foundations, business associations, experts. They are all listed in the appendix.
- 1.11 Turin is located at the north-western periphery of the Italian peninsula (map 1). In terms of physical environment, its location is an asset with beautiful mountains and lakes close by. In geo-political terms, disadvantages are important. Turin is far from Rome and rather isolated at the end of the Po Valley, close to the French border.

**Map 1: Turin and Piedmont in the Italian geographical context**



- 1.12 Political capital of the Kingdom of Savoy, with the Italian unification in 1861 Turin became the first capital of Italy. It lost this status 5 years later in 1866 with a consequent brutal loss of population and jobs and this has since become a trauma reactivated from time to time such as today with the perspective of the 150<sup>th</sup> anniversary of the Italian Unity whose major celebrations should take place in Turin in 2011. In the 1880s, the major banks were founded soon followed at the turn of the century by the creation of economic giants such as FIAT (in 1899) and Olivetti (in 1908) and by the establishment of the city as the national capital of cinema. In 1906, the already famous school of engineering transformed itself into a polytechnic institute, the *Politecnico* of Turin, of national and international reputation and is today an asset and a jewel for the city.



- 1.13 The rapid and irresistible growth of FIAT during most of the 20<sup>th</sup> century and its dominant role in the economic as well as in the social and political domains marked the history of the city during that long period and as we shall see has also imprinted the development path of Turin in the recent years. Fiat soon became the most important employer of the area with 1/3 of the manufacturing force in 1911 in the automotive industry. Gradually FIAT has considered the city as its own, controlling the most important political positions, buying its largest newspaper, La Stampa and developing a private social welfare system best exemplified in the nickname given by Turin's population: Mamma FIAT.
- 1.14 Turin experienced an economic and demographic boom during the years of the Italian miracle (1950-1970), reaching a peak population of 1.2 million in 1975 for a metropolitan area of about 1.8 million. Most of the increase came from migrants from Southern Italy. In addition of the automotive industry, sectors like banks and insurance and aerospace activities were booming. FIAT alone went from about 50,000 employees in 1951 to about 145,000 20 years later. In the early 1970s, 80% of the Turin industrial activities were in the automotive sector.
- 1.15 The over-domination of the auto industry largely concentrated in Mamma FIAT and its hundreds of suppliers explains why the collapse of this giant could have meant the collapse of the city itself. The Crisis of FIAT started in the early 1980s with the first massive layoffs in Turin and the move of part of the Piedmont production to Southern Italy. In the mid 2000, Fiat employed only 30,000 people in its Turin factories.
- 1.16 The collapse of FIAT changed dramatically the political situation of the city. Until that time, the political power was either controlled by FIAT or belonged to leftist parties without much control because of lack of resources. This changed in the mid 1990s with the election of a new mayor, V. Castellani, supported by a large civic alliance where FIAT belonged but was not dominant. This civic alliance was successful in launching the first strategic plan in 2000 and in winning the battle to host the winter Olympic Games which took place in 2006. The 1995-2006 period may be considered the golden age of the new Turin. During that period, the city embarked in a significant transformation of its economy based upon the development of new sectors linked with the knowledge economy and undertook an important urban regeneration program and a modernization of its infrastructure. It was significantly helped in that regard by the regional government of Piedmont.
- 1.17 In 2010, R. Cota, a sub secretary of the Lega Nord, a chauvinist and populist party, led a conservative coalition and won the regional election. It is very likely that this political change will have a dramatic impact on the future development of the metropolitan area.

## II. THE PERFORMANCE OF THE TURIN METROPOLIS

- 2.1 Turin's performance is to be analyzed from a 'recovery' point of view, i.e. its capacity of recovering from an economic and social trauma, the collapse of FIAT namely. It is in that respect that it is a 'success' not in terms of its performance in absolute terms. Indeed, as we shall see, Turin has not performed that well in many sectors and in some areas has evolved in counter-tendency with the national economy. In addition, the current crisis has put into question the scenarios and programs on which the metropolitan area has founded its economic growth and development in the last 15 years (L'Eau Vive, 2010).
- 2.2 Otherwise stated, data provided in this section come from ISTAT, the Italian National Statistical Institute and concern the province which is the NUTS 3 level in Italy. The province of Turin represents more or less the metropolitan area.

### *The decline of Turin's importance in the national economy and its comparative situation*

- 2.3 One of the most significant trends of the last decade regarding the Turin's economy is its gradual loss of importance in the national economy (L'Eau Vive, 2009). Between 1996 and 2006, the province GDP increased by about 34%, which is less than all the other metropolitan provinces to the exception of Cagliari (Sardinia). As a consequence, during that period, the Turin's economy national weight went down from 4.7% of the national GDP to 4.3%. In 2006, Turin was the 3<sup>rd</sup> province for its GDP (€56.6 billion) but it was about half of that of Rome and Milan. Between 1996 and 2006, in a per capita basis, its GDP (€25,198 in 2006) put Turin down from the 4<sup>th</sup> to the 6<sup>th</sup> rank at the national level, behind Milan (€34,087), Rome, Venice, Florence and Bologna, just above the 2006 national average (€22.387) (see table in appendix).
- 2.4 This declining trend seems to have continued as the last comparative data (2007) confirm this gradual fall. Indeed, although the population of the metropolitan area has slowly increased over the last decade as shown in table 1 below, Turin's economic share has constantly declined at all territorial levels (table 2). For instance, while the metropolitan area accounted for about 54.6% of the regional GDP in 1997, in 2007 its contribution has been reduced to 51.8% only.

**Table 1: Population Turin, Province of Turin, Piedmont region, Italy: 1991-2008**

	TURIN	PROVINCE	REGION	ITALY
1991	961512	2 235826	4 299912	56 757236
2001	864671	2 165299	4 213294	56 993742
2008	908825	2 290090	4 432000	60 340328

Source: Istat

**Table 2: Turin in comparative regional national and European perspective (in %)**

	2001	2008
Pop Turin./pop Piedmont	51.4	51.7
Pop Turin/pop Italy	3.8	3.8
Pop Turin/pop UE 27	4.5	4.6
GDP Turin/GDP Piedmont (in PPS)	53.4	51.8 (2007)
GDP Turin/GDP Italy (in PPS)	4.4	4.2 (2007)
GDP Turin/GDP UE 27 (in PPS)	0.54	0.52 (2007)

Source: Eurostat, OECD

- 2.5 In many other domains Turin shows a relatively bad picture.
- 2.6 In terms of employment, the province of Turin represents about 57% of the total regional employment and this percentage is declining. The city of Turin itself represents about half of the province employment and the province employment shows a declining proportion of the national tota, with respectively 4.4% in 1995 and 4.2% in 2007 (see table in appendix)
- 2.7 Regarding the employment rate, Turin has gone from the 6<sup>th</sup> rank in 2004 (with 61.9%) to the 5<sup>th</sup> position in 2009 (62.6%) behind Bologna, Milan, Florence and Genoa which ranks it among the worst of the cities of Centre-North<sup>2</sup>, slightly above Rome (61.8%) but much over Naples (38.1%).

<sup>2</sup> Centre-North. Regions including all centre-North, the Latium (Rome) being generally excluded. It is a territorial comparison used to compensate for the North-South divide in terms of performance.

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- 2.8 With respect to skills and educational level, the situation is not good either. Indeed, in spite of significant investment, the level of skills has remained low. The Turin metropolitan area is last before last regarding the number of degrees per habitant in the whole centre-north. Only Venice is lowest. In 2008, only one third of the 25-34 regional population had an educational level of the end of high school (*licenza media*) which places the Piedmont as the last region of the centre north, only before Tuscany. In Piedmont, only 24.5% of the 19-25 year population goes to the university against 26.8% in Emilia-Romagna, 30.3% in Tuscany, 32.8% in Latium, which ranks it at the lowest level of Centre-North regions. At the provincial level, only 7% of the 25-30 population had the equivalent of a B.A. (*laurea*), which ranked Turin at the lowest position in the centre-north but also lower than Bari and Cagliari in the South. In 2007, 66% of people owning a degree (*diplomati*) were engaged in undergraduate courses, the lowest rate of Italy.
- 2.9 In terms of professional training (continuing education), the situation is not good either. With less than 6% of the work force engaged in continuing education, the Piedmont region occupies the lowest position in the centre-north (L'Eau Vive, 2008).
- 2.10 In the domain of connectivity, the situation is not much better. The geographical location of Turin, relatively isolated in the North-West part of Italy, very close to the Swiss and French borders, makes it accessibility essential. Once again, in comparative terms, the Turin metropolitan area ranks low at the national and European level.
- 2.11 The level of connectivity of the Turin's metropolitan area is not very good compared to the other cities of the central and Northern regions and in some specific transport connections (such as air connections) with southern cities as well. Indeed, Turin has several problems of accessibility.
- 2.12 In terms of air passenger connection, for normal flights Turin has an indicator of 24.8 (London being 100) which ranks it at the 7<sup>th</sup> position in Italy, far behind Milano (71.8), Rome, Venice and Naples and just behind Catania (26) (L'Eau Vive, 2009). For low cost connection, Turin is last before last just before Genoa. This is largely due to the declining role of the Turin airport, Caselle. Indeed, if the number of Caselle passengers increased by 35% between 1998 and 2008, it is far below the EU average (+ 45%) and the worst increase of all Italian airports. Regarding international passengers, it has even decreased by 4.5% during that period. The same is true regarding goods. Although the average increase of all Italian airports has been about the same as the EU average (+ 37%), Turin airport has declined by 25% during that period.
- 2.13 In terms of train and road connection, the situation is better. In 2006, Turin is ranked 4th behind Milano (139), Genoa (121.6) and Bologna (120.7) for train connectivity and 3rd for road connectivity (behind Milan and Bologna).
- 2.14 However, the metropolitan area shows better comparative performance in other fields. In Research and Development, Piedmont is the Italian region which invests the most (1.83% of GDP in 2007). Most of it (75%) comes from the private sector. In 1999, Turin ranked 3<sup>rd</sup> after Bologna and Milan for the number of patents per million of inhabitants. In 2008, with an indicator of 130.5 patents, it ranks 3<sup>rd</sup> behind the same metropolitan areas (Bologna 321.3 and Milan 220.2) (see table in appendix). This ranking is confirmed at the regional level with Piedmont having 138 patents in 2005 against 180 for Emilia-Romagna, 147 for Lombardy and 131 for Veneto. Indeed, with a Regional Innovation Scoreboard of more than 0.7, Piedmont occupies the second rank in Italy behind Latium (Roma) and is at the same level as the Lombardy region (Milan). At the European level, Piedmont is ranked 73 out of 208 regions (Hollanders, quoted in L'Eau Vive, 2007).
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- 2.15 As a result, employment in innovative R&D sectors have been high, one of the highest in Italy. In 2001, Turin had 180 such jobs per 100,000 inhabitants before Milano (130/100,000) and Genoa (160/100,000) (L'Eau Vive, 2008).
- 2.16 Regarding universities, investment has also had some positive effects. For instance, the number of students in the Piedmont universities increased by 20.6% between 1998 and 2008 which ranks this region at the 4<sup>th</sup> national position against a 7<sup>th</sup> rank 10 years before. Most of the universities have succeeded in attracting an increasing number of international students (see below).
- 2.17 On the internationalization side, the economic situation has been rather good, at least before 2008. Before the crisis, the commercial balance of Turin was positive, which was not the case of all major Italian metropolitan areas. Only Bologna showed better performance. Sectors which were responsible for such a situation were transport (autos and trucks) responsible for 40% of exports, mechanics (21%), electric supplies and electronics (10%) (L'Eau Vive, 2009).

**The changing nature of Turin's economy: tertiarization, diversification and the difficulties to develop adequate skills in the population**

- 2.18 In the last 15 to 20 years, the metropolitan economy of Turin has deeply changed in its nature. The development of the service sector has been the highest of all Italian metropolitan areas except Milan. Between 1996 and 2006, it went up from 64.2% of the metropolitan GDP to 71.2% while the part of the industry fell from 34.9% to 28.6%. The trend is the same in terms of employment. Between 1996 and 2007, the service sector increased its share going from 56.9% of total employment to 64% while the industrial sector went down from 41.5% to 34.9% (L'Eau Vive, 2009). But the productivity of the tertiary sector has been low. Indeed, Turin represents the metropolitan province where the added value per labour unit has increased the least, just before Bologna (see table in appendix). This low productivity of the service sector is considered the main reason of the declining share of the Turin's economy in the national total.
- 2.19 The province is slightly more 'tertiarized' than the region with a percentage of employment in that sector higher (66% in 2009) than in the region (62.8%) (L'Eau Vive, 2010).
- 2.20 In the service sector, for the city of Turin, about 25% of the work force is employed in the FIRE activities, which represents the largest share, followed by health and commerce. As a whole, the FIRE sector represents a bit less than 19% of the total employment of the city, which is far above the national average of 14.4%.
- 2.21 Beside the FIRE sector, Turin's economic strengths are in telecommunication, electronics, computer science and, in the industrial domain, automotive and aerospace.
- 2.22 Once largely dominated by FIAT with over one thousand of suppliers, the economic panorama of the metropolitan area has diversified. Today, Turin's enterprises are essentially SMEs. A bit more than 97% of firms have less than 10 employees which makes the area in tune with the national average. FIAT suppliers have seriously decreased (from over 1,300 to about 300 today) and have diversified their market, notably abroad.
- 2.23 However, those activities have been the most hit by the 2008 crisis. As an example, 2008 has been the "annus horribilis" for the car design branch, once the jewel of the automotive sector, and some car designers have gone bankrupt in 2009.
- 2.24 The economic transformation of Turin's economy has had to face a critical situation regarding skills in the population. In general terms, the level of skills in the Piedmont and

Turin's population has been low, lower than most centre-north regions and metropolitan areas and although some measures have been recently taken to improve the situation, results are mixed and fragile.

- 2.25 The rather bleak picture in that matter as expressed above may however be altered by more positive elements. First, a lot of investment have been put into the educational system and the city of Turin has indeed been the area with the highest investment in education in Italy in the last years (L'Eau Vive, 2010). As we have already said, Turin possesses very good schools of national and international fame, such as the '*Politecnico*' or the European School of Management (one of the 5 schools of that system) and 2 new universities have been added, the university of Eastern Piedmont (*Università del Piemonte Orientale*) and the university of Gastronomy (*l'università della Gastronomia*). These structures are dynamic and have been quite successful. They are responsible for the increasing attractiveness of Turin for students from other regions and outside of Italy. Indeed, between 1998 and 2008, the universities and graduate schools of the metropolitan area have experienced one of the highest increase in their number of students in Italy (+ 20.6%) which has moved Turin from the 7<sup>th</sup> rank to the 4<sup>th</sup> rank at the national level for the total number of students. The '*Politecnico*' has played a significant part in this increase with a 37.5% growth.
- 2.26 This increase has partly been the result of an augmentation in the number of foreign students. In 2003, the '*Politecnico*' only had 2.2% of foreign students. In 2008, it had 5.6% which ranked it at the 1<sup>st</sup> position in Italy, ahead of the famous University of Bologna. Figures are about the same for the university of Turin (2.5% in 2002 but 6% in 2009). However, the trend is fragile since in 2009, the Piedmont universities have shown a decrease of about 12%, against a national decrease of "only" 2.4% (L'Eau Vive, 2010).

#### **A relatively bad performance in terms of quality of place and social environment**

- 2.27 As we have seen, Turin holds assets (the mountains, culture, gastronomy, etc.) which could make it a good place to live in. However, considering the social conditions of the city (see below), these assets are mostly enjoyed by tourists and/or a rather wealthy population. For the average inhabitant of Turin (*Torinese*) or of Piedmont (*Piemontese*), life has been difficult and the crisis has rendered it even more so. There is in a way some paradox to the Turin's situation regarding performance. Much investment has been made to improve the quality of life of the city and the quality of life has really improved in some domains. But as a whole, the general situation – all the more if we compare it with other cities of the northern part of Italy – is not significantly better than a decade or so ago. Regarding the quality of place, there is definitely a gap between the image that the city now holds at the national and international level and the local reality.
- 2.28 On the positive side, one can obviously cite the general upgrading of the central city (see section IV below). In the last 15 years, Turin has completely improved its historical centre and regenerated part of the brown fields and other distressed areas located within the city limits. Some transport infrastructures (railway stations, public transport network) has been modernized and expanded. A new metro line has been built. Bike lanes have been developed. Regarding general pollution, some improvements have been made regarding air and water. Parks have been cleaned and upgraded and new parks have been created. Waste collection has been improved and Turin can claim to be the first Italian city for recycling and selected collection.
- 2.29 However, despite these positive elements, the situation remains difficult. For instance, transport conditions have not really improved in the last decade or so in Turin and in many aspects the situation is worse than 10 years ago, in spite of investments. In terms of road traffic, no significant change can be seen. The average bus speed has gradually declined over

the years (from 19.3 km/h to 16.8km/h between 2000 and 2006, L'Eau Vive, 2009) in spite of investment and policy measures in favour of public transport.

- 2.30 Regarding environment, the situation is not good either. True, in terms of green spaces, Turin is one of the most favoured cities of Italy. Although comparative data on that aspect are not many and very much disputed, Turin evolves between the second and the fourth rank among the 12 largest Italian cities, depending on the indicator chosen (e.g. 4<sup>th</sup> rank for the enjoyable green (*verde fruibile*)).
- 2.31 But the pollution of air and water remains a real problem. Regarding air pollution, although there has been much improvement in the last years about air quality, Turin remains one of the most polluted cities and metropolitan areas of Italy. This is in great part due to its geographical position. It nevertheless remains that for two major air pollutants (NO<sub>2</sub> and PM<sub>10</sub>), the city of Turin has shown the highest annual proportion of all Italian major cities (Eau Vive, 2009) in the last 3 years (see table in appendix). In 2008, it was considered the highest polluted city of Europe just behind Plovdiv in Bulgaria. Pollution by PM<sub>10</sub> is supposed to entail about 300,000 days off work per year.
- 2.32 Regarding water pollution, the situation is not better. Turin is one of the most polluted city of Centre-North (Eau Vive, 2008) and the quality is considered low (*scarsa*) for drinkable water.
- 2.33 Regarding safety, Turin is in the low average of European metropolises and in the average of the central and Northern Italian cities. However, if we exclude major crimes, Turin stands as one of the most unsafe cities of the country with the highest rate of pick pocketing per capita (after Genoa), highest rate of home robberies (after Bologna) and the highest rate of theft (*rapine*) (after Naples and Catania) (L'Eau Vive, 2009).
- 2.34 In general terms, the quality of life in Turin is the worst of Italian metropolitan areas of the Central and Northern parts. This can be approached through two comprehensive indicators (sustainability indicator and well being indicator) established by Ambiente Italia<sup>3</sup>. According to Ambiente Italia mentioned in l'Eau Vive (2009), Turin has the lowest sustainability indicator of all metropolitan areas of the central and north regions. Compared to Milan and Genoa, its social well being indicator is much lower.
- 2.35 Data regarding the social situation corroborate this. Indeed, many indicators show a social situation which is bad or worsening. In 2007, Turin was the city where the % of population paying taxes (*contribuenti*) living under the poverty threshold was the highest (19.3%) followed by Milan (16.2%) for a national average of 11% (see table in appendix). Compared to this, the so-called poor cities of the South performed better with "only" 11.4% for Palermo or 8.3% in Bari for instance (source: Centro Studi Sintesi, 2007). At the regional level, the situation was similar with almost 8% of the regional population belonging to a poor household, the highest rate higher of the central and north region after Latium (Rome) and Liguria (Genoa).
- 2.36 On the same line, in 2009 Turin had the lowest average disposable income per capita (€20,781) after Venice (€20,512) of the North and Central metropolitan areas (see table in appendix). Milan with €24,184, Florence (€22,351) or even Genoa (€21,561) performed better. The situation was exactly the same in 2007 before the crisis.

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<sup>3</sup> The sustainability indicator is a complex integrated indicator grouping 26 elements ranging from pressure on land to the quality of natural element such as air and water or the degree of sustainability of the behaviour of agents. The well being indicator includes data on unemployment, crime, educational level, divorce, etc.

- 2.37 Regarding unemployment, the situation is not good either. While in 2004, Turin had an unemployment rate of 6.1% which made it the second province of the Central and Northern regions behind Rome (7%) and lower than the national average (8%), in 2009 it has become the first metropolis of the Central and Northern regions with a rate of 8.3%, before Rome (8.1%) and higher than the national rate (7.8%) (see table in appendix).
- 2.38 As a result, life has become more difficult for an increasing part of the population and the crisis has significantly deteriorated the social situation and reduced the existing advantages of living in Turin. Housing is a good example. In general terms, housing costs (buying and renting) have been less high in Turin than in most Italian cities (all the central and Northern cities + Naples). Only Palermo, Bari and Cagliari have been less expensive. However, due to reduced income, the part of housing in the average budget of a *Torinese* household has significantly increased over the years (28% in 2003 but 33% in 2009).
- 2.39 One data plainly illustrates the deterioration of Turin's social situation. In a span of 7 years (2001-2008), the two major banking foundations of the city, CRT and San Paolo have almost tripled (for San Paolo) or doubled (for CRT) their financial contribution for social assistance.
- 2.40 The social situation of the Turin's population has also evolved because of a tremendous increase of immigrants who generally belong to the less affluent social groups. Indeed, while the city of Turin counted 2.7% of legal immigrants in its population in 1997, this percentage has increased more than fourth fold in 2008 with almost 13%. Today, Turin is the second Italian city for its percentage of immigrants. The situation is about the same at the metropolitan level, with a percentage of 4.1% (the city of Turin excluded) while it was almost null 10 years ago.
- 2.41 Most of these immigrants are young (while in 2007 they represented 11.4% of the city's population, they represented 25% of the 25-29 year old group). About 55% of them work in blue collar jobs (*l'Eau Vive*, 2009) and 33% are self employed. Their unemployment rate (in 2006) was about 5 times higher than the Italian's one (9.8% against 2.2%).
- 2.42 Immigration represents an opportunity and an asset for Turin. In a way, the importance of Turin as a place of attraction for immigrants is the ransom of its "success". It seems however difficult to pursue a development without integrating them, socially in order to prevent a negative image of the city, but also economically as a source of economic wealth and a new asset for the future of the city. Indeed, immigrants are today the major source of demographic dynamism of the metropolitan area. They are also becoming an important potential economic resource because they are increasingly part of the educational system and will soon represent a growing number and percentage of a qualified work force. Indeed, in the primary and secondary schools, children of immigrants represent a larger and larger number and percentage. In the primary schools they were 2% in 1997. 10 years later they counted for a bit more than 15% of the pupils. Same is true for the secondary (high school) level where they were 0.6% in 1997 and have reached about 10% today.

### III. POLICY CONTEXT

#### **The institutional framework: institutional and financial uncertainties: Conflicting federalism in Piedmont**

- 3.1 Italy is organized in 3 governmental tiers: Regions (20), Provinces (100) and municipalities (8,100).

- 3.2 In the last two decades, in fact since the 1990 Act on the organisation of the Local Government system, Italy has been in a period of institutional and financial uncertainties. Uncertainties regarding the respective responsibilities of each governmental level (municipalities, provinces, regions), uncertainties regarding the financial resources of each governmental level and its fiscal revenues. Gradually, a succession of national laws (Bassanini laws) at the end of the 1990s, have tried - without much success - to clarify the situation, specifying sectoral competences which the State and the regions could 'delegate' to lower tiers. Although some clarifying has been done, the general picture of the Italian government system is one of conflicts, mistrusts and difficult cooperation. It is thus in this unfavourable uncertain context and framework that policies regarding territorial development have been initiated and implemented.
- 3.3 Although the uncertainties are a definite feature of the system, some structural rules can nevertheless be presented. First, Italy has embarked in a Federalist path which gave the Regions a hierarchical status within the local government system. As such, regions can enact laws and were given some powers over the lower governmental tiers. Indeed, as in a true Federal State, Italian regions can in many ways be regarded as Federated States. For instance, they have powers over spatial and territorial planning of municipalities and provinces, they have powers to organize the cooperation between local governments. In terms of financial resources, Italian regions are very strong. In addition of significant fiscal revenues of their own, they receive important transfers from the State and directly administer European Structural Funds.
- 3.4 The region of Piedmont has a 2010 budget of about €11 billions split in 4 parts: 55% comes from the region own taxes, 24% comes from "special accounts", 12% from the State and the EU and about 10% from other sources. The bulk of its operational budget (about €8 billion) goes to health care.
- 3.5 The Province of Turin has a 2011 budget of €520 millions. As such, it is a very weak governmental tier. In addition, about half of the total budget comes from Regional transfers, which means that the Provincial government has a very low financial autonomy. The most important responsibilities of the Province are professional training, transport, employment and social services.
- 3.6 The city of Turin has a 2010 budget of about €1.4 billion, almost equally split up in 3 parts: 1/3 comes from the municipal taxes, 1/3 from transfers (76% from the State, 15% from the regional level) and 1/3 from services. Municipal competences are many: public transport, social services, housing, culture, etc.
- 3.7 Last but not least, the State keeps playing a significant role, notably because it has maintained control over the purse money and because it is very present and active with its ministries and agencies in several sectors such as transport and infrastructure. Fiscal federalism has been a lot in the discussion in the last decade, but so far nothing has been done to implement it. Today, all local governments, the regional level included, depend in some part on State resources. But the Italian State has never been a trustful partner and State money has never been a reliable source of revenues for local governments. This has increased the 'level of uncertainty' of the system. Indeed, local governments are never sure of what they will get from national government and more than often central government's promises have not been kept. This has also compelled local governments to look out for other sources of revenues, such as European monies. In that respect, Turin and Piemonte have been relatively successful.



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**Turin's specific players : The banking Foundations and FIAT**

- 3.8 Turin has always been an important banking place in Italy. This situation resulted in the existence of two banking foundations which have played and continue to play a key role in the economic and social development of the city. As such, they have been part of the major actors involved in the transformation of Turin in the last 15 years or so because they have significantly contributed to the financing of the strategic plans in specific policy sectors such as culture or technological research and innovation. These two foundations are i) the Compagnia San Paolo and ii) the Fondazione CRT (Cassa di Risparmio Torino).
- 3.9 The Compagnia San Paolo was created in the 16<sup>th</sup> century and is the 4th banking foundation in Europe. It is very much involved in domains like education, culture, arts, scientific research. Its assets are close to €8 billions and San Paolo is able to spend on its activities about €120 millions per year. Between 2001 and 2004, San Paolo spent about €450 millions in Turin. The CRT foundation was created in 1991 with the privatization of the Saving Banks of Turin (CRT). Its domains of intervention are the same as for San Paolo.
- 3.10 Both the Compagnia San Paolo and CRT have been very active, notably in the fields of culture and technological innovation. Overall, they have been reliable supporters of the public authorities, notably because they hold safe resources, guaranteed by their status and missions. For instance, regarding the sector of culture only, they invested about €440 millions between 1998 and 2007, that is as much as the region, much more than the State and 10 times more than the Province but 3 times less than the city (L'Eau Vive, 2009).
- 3.11 As we will see, the question is whether these foundations will remain reliable financial players in the years to come for Turin. Indeed, structural changes in the banking sector might affect their behaviour in the near future. In 2003, CRT merged with 6 other banks to constitute a new banking group, UniCredit. In 2007, San Paolo merged with Banca Intesa, a bank from Milan. These movements seem to worry the Turin's major players i) because they shift the decision making powers away from Turin because the new managers are from Milan and ii) because "with these changes, the vision of the banks will be more to serve the financial system than the territory." (quoted in L'Eau Vive, 2009, p 24).
- 3.12 The other powerful private player is FIAT. Mama FIAT has not disappeared from the Turin's stage. The decline of FIAT in the economy and society of the capital of Piedmont has been enormous but gradual. True, between 1990 and 2002, the Turin's part of the total production of the firm went down from 60% to 30% and is even less today. True again, FIAT now employs only a very small part of the Province work force. True also that its over dominance on the metropolitan economy and the economic tissue is over. As an illustration, between 1990 and 2002 the number of FIAT suppliers went down from about 1,200 to 350 (Burdett et al, 2010).
- 3.13 But it is also true that FIAT remains a powerful actor at least in the economic domain. For the time being, the firm's headquarters are still in Turin, in its prestigious Lingotto building, in the middle of a new modern neighbourhood. It is also true that without the support of FIAT, many projects linked with the strategic plans would not have been implemented, one simple reason being FIAT owning important areas in the city. Today, one living example of the still significant role played by FIAT is the Mirafiori project, a giant plant in the south of Turin where it is expected to create a new R&D district with a car design center, and where FIAT is supposed to invest about €1 billion in the next years. The Mirafiori project will be developed by a newly established public private joint venture, Torino Nova Economia (TNE) in which FIAT holds 10% of shares.

- 3.14 S. Marchionne, the current FIAT CEO, expressed plainly the new situation of the firm in Turin when he stated in 2007 « FIAT in Turin does not want to be the boss nor a guest. We want to have a direct relation, informal and open, the kind of relation which exists between people who know each other well and think highly of each other” (quoted in Belligni et al, 2009, p 10).
- 3.15 However, if FIAT is still a significant player in the metropolitan area, it remains to be seen whether it will keep this role in the medium term. Indeed, FIAT has now become a global player and its strategies will depend more and more on its international alliances in which Turin is likely to have less and less importance.

#### IV. WHICH POLICIES HAVE WORKED? HOW AND WHY? THE CRUCIAL ROLE OF TERRITORIAL GOVERNANCE

- 4.1 In Turin, the issue of governance is a major one and as such has been in many ways directly responsible for the successes and failures in various policy sectors. On the positive side, Turin has been able to build a strong governance capacity at the city level and this has led to significant and encouraging changes. On the negative side, this governance capacity has been limited to the central city and the various attempts to change the territorial scale of governance as well as to improve multi-level governance have generally failed, a situation which has had significant impacts on the performance of several policy sectors such as connectivity and research and innovation.

##### **The building of a governance capacity and its policy impacts**

###### *Building a strategic governance capacity in Turin*

- 4.2 The building of a governance capacity in Turin would have been impossible without a strong political leadership capable of mobilizing the whole civil society through strategic plans. This political leadership has been concentrated in the mayor of Turin who by controlling the city’s administration has been able to successfully launch a process of strategic planning. Strategic planning has thus become an essential tool to manage change.

###### *The successful building of political leadership*

- 4.3 In 1993, a new mayor was elected in Turin. This was the first time in Italian history that mayors were directly elected by the voters, which gave them a strong legitimacy. Valentino Castellani, the new mayor, was the candidate of a coalition composed of the Green party (Verdi), the PDS (the largest social-democrat party in Italy) and a civic alliance grouping various catholic and laic organizations.
- 4.4 V. Castellani was not a politician. He was a university professor in the famous Polytecnic School of Turin. As such, he represented civil society and enjoyed a much larger support than a classical politician, in a period when the Italian political party system was in shambles. V. Castellani was a representative of a new urban political elite who came to power in many other cities such as Venice or Rome. This new political elite based its legitimacy on its “capacity to act”, that is its capacity to produce public policies in order to better address urban problems.
- 4.5 The new 1993 Act on the direct election of mayors not only gave these mayors a stronger political legitimacy but also gave them the administrative and political capacity to act as leaders. Indeed, the 1993 Act established a new institutional organization in which the mayor and his board were politically separated from the municipal council. The mayor could appoint his own deputy mayors and they could not be members of the municipal council. At the same

time, he and his board were fairly independent from the council. Thus, they could enjoy a larger autonomy in decision making.

- 4.6 The board chosen by the new mayor was composed of persons coming both from political parties and civil society. The executive of the city had thus a stronger legitimacy, a stronger “capacity to act” and a larger support. The mayor and his board could then use the city’s administration and resources as a political instrument for change, which they did. Indeed, the central city has been – and still is – one of the key players in the governance of Turin and an essential pivot around which urban change was made. As such, the city and its mayor have been the pilot of the new development of Turin, notably through the establishment of strategic plans.
- 4.7 V. Castellani left power in 2001. he was succeeded by S. Chiamparino, a career politician but who has been supported by the same broad coalition. S. Chiamparino was successfully re-elected in 2006 by a large majority of votes (67%) in the first round. It is thus the same coalition which has governed the city over the last 18 years. This longevity and political stability also explain the success of Turin.

*Strategic planning and mobilization of Turin’s society*

- 4.8 Turin was the first Italian city to approve and implement a strategic plan. A first one was launched in 1998 and a second one in 2006. The first plan was part of a more general process to mobilize the whole of Turin’s society and was set up as a framework for the many actions and policies aiming at the re-development of the city’s economy. It clearly established that Turin should transform its economy basing its development on its internationalization through the development of the knowledge economy, culture and the upgrading of its urban fabric. It also stated that in order to do so, it was necessary to change the scale of its governance through a process of building a metropolitan government. The first strategic plan was unmistakably a territorial development scheme through an integration of various policy sectors within a strategic framework.
- 4.9 The first plan saw the mobilization of almost all players of the city. More than 1,000 people were very active in its preparation through many forums, working groups and platforms. It was officially approved in 1998 by a “pact for the strategic plan of Turin” signed by 57 actors and institutions among which the city of Turin, the province, the Region of Piedmont, FIAT, the banking foundations, universities, etc. It was managed and implemented with the help of various new structures and agencies gathering various players, public as well as private.
- 4.10 The most important of these agencies is Torino Internazionale (TI), the agency in charge of managing the strategic plan. TI is the organizational instrument of the General Assembly of the Plan, composed of about 100 players representing the major stakeholders of the metropolitan area (local governments, universities, major firms, business associations, trade unions, etc). TI is a very small structure (12 people), very flexible in order to be very reactive. It is co-chaired by the mayor of Turin and the President of the Province.
- 4.11 In 2005, led by the mayor of Turin with the support of Torino Internazionale, a second strategic plan looking a decade ahead (2005-2015) was approved. Although maintaining the major priorities and orientations of the first plan, the second plan significantly has brought back the industry, and notably the automotive industry, in the economic development of the city, linking it with the knowledge economy. It has also put forward the social dimension of development through the question of employment and immigration.
- 4.12 Both strategic plans have been strongly endorsed by key political, economic and social players such as the major local governments (central city, province, region), the banking foundations, FIAT and business associations (the Torino chamber of commerce, the Industrial

Union, the Association of SMEs, etc.), universities and cultural organizations. With this endorsement, strategic planning has been able to give legitimacy to the various policies and actions undertaken to change Turin. Without this legitimacy which guarantees policy priorities and resources allocated to these priorities, several policies would not have succeeded.

*Policy impacts*

- 4.13 Two policy areas concerning the key drivers of performance are of specific relevance to show the impacts of the political leadership of the city and of strategic planning: quality of place and national and international promotion.

*The policy to enhance the quality of place*

- 4.14 Although this policy was conceived in a somewhat integrated way in the first strategic plan, for the sake of presentation it will be divided in two parts: improvement of the physical infrastructure and culture and tourism.

- 4.15 In 1995, the city of Turin published a new Master Plan (*Piano Regolatore*) which proposed a complete transformation of the urban area. This plan had several guiding lines among which the physical and social improvement of the suburbs (*Programma Periferie*) and the redevelopment of many brownfields, notably along the major north-south rail line close to the historical center (the central backbone – *Spina Centrale*). Soon this plan was implemented (an already achievement in the Italian context!). Several private redevelopment projects were launched after the re-zoning of vast pieces of industrial land, the rail road was buried, thus offering new opportunities, the first Turin metro line was built and several regeneration projects, some of rather large dimension such as the Porta Palazzo project in which stands the largest out-door market in Europe, were developed. In 15 years, a large part of the city has been completely transformed. The physical upgrading of Turin was considered a success not only because of the real, concrete changes that have been visible to everybody but also because it demonstrated the city's capacity to undertake and produce collective action.

- 4.16 The city of Turin was leader in this policy. Not only because it directly concerned the municipal territory but because the city was able to mobilize resources from other players such as the banking foundations, the State and the European Union. For instance, the Porta Palazzo project which concerned the area of the outdoor market cost €7 million and was essentially funded by the City and the EU, but additional resources came from the State (€1 million) and banking foundations (about €0.7 million).

- 4.17 The same can be said regarding the domains of culture and tourism. Considering and for many re-discovering that Turin had significant cultural assets (a beautiful Baroque architecture, royal palaces and squares, etc.) it was decided to put culture as a priority in order to develop tourism. Soon the central city was cleaned up, buildings were restored in order to present a shop window of arts. The old Egyptian museum whose collections are considered the most important in the world after the Museum of Cairo was hosted in a new location, in an old palace in the core of the city. A new museum, the museum of Cinema, based upon various but dispersed and abandoned collections, was settled in the emblematic but empty building of the city, the Mole Antonelli. Several other museums were upgraded and extended.

- 4.18 Once again, the city was at the core of this policy. First because the orientations of the cultural policy were largely decided by the mayor and his board, second because it succeeded in putting culture as a priority in the strategic plan, which required a capacity to convince other players, such as the banking foundations and the region, without which such

a policy could not be developed. As a result, for culture only, the banking foundations alone invested about €440 million between 1998 and 2007.

- 4.19 The cultural policy of Turin can be considered a success for several reasons. First, it proved that local actors were able to get together and produce collective goods which showed that Turin was a city where things could happen. Second, there has been a relative success in terms of touristic attendance. According to the Regional Cultural Observatory, while the Turin's museums attracted 1.8 millions people in 2000, the number of visitors reached 2.9 million in 2006 and a peak of 3.7 million in 2008, while 2009 shown a slight decline (3.4 million).

*National and International promotion: Hosting big events*

- 4.20 To put Turin back on the world map was been an important objective of the first strategic plan. For this, the changing of the city (the quality of place) was essential. It definitely played a crucial role in changing the image of the city, not only in Italy or abroad but also for the *Torinesi*. As the ex mayor of Turin put it: "The city was in the dark hole of FIAT: *la città era nel buio della FIAT*", meaning that the city was culturally rather inexistent and completely buried in the culture of a Fordist city. This is no longer true and Turin has emerged with a new image, a city of culture no longer considered as a city to avoid but as a place worth going to.

- 4.21 To supplement and strengthen this image, Turin needed to be promoted at the national and international levels. Culture limited to museums was not sufficient for that. This is why, the city developed other cultural assets such as gastronomy or literature and used them to promote Turin as a city of arts and culture. This was made through the multiplying of special events of international dimensions (in design, taste, literature, automobile, sports, etc.) and, considering its geographical location, it appeared obvious for the city to become a candidate to host the Winter Olympic Games in 2006. Turin was indeed successful in this application and in 1999 the city received the approval by the International Olympic Committee.

- 4.22 The successful application of Turin to host the Winter Olympic Games did not come by chance. It was indeed the result of a good governance capacity under the leadership of the central city and its mayor, proven by the physical and cognitive transformation of the city.

**The failure to change the scale of governance and the difficulties of multi-level governance**

- 4.23 In the last 15 years, the development of Turin has been considered in a much wider geographical context than the central city itself or even than the metropolitan area. As such it has made necessary the coordination and cooperation among local and non local actors, among public and private players. This coordination and cooperation have not been and are still not easy to carry out. On one hand, upscaling the governance of the urban area has failed; on the other hand, multi-level governance has been tedious with hectic success or failure depending on the policy sector considered.

*The failure of the upscaling of governance and its policy impacts*

- 4.24 Local governments, notably municipalities, have been able to cooperate but they have done so on a sector policy basis (public transport, water treatment, etc.) and generally without any real strategic dimension. They have used consortiums to do so, i.e. ad hoc joint authorities. As a result, the metropolitan area of Turin has been populated by many joint authorities with responsibilities and perimeters which significantly vary and have made the area difficult to govern.

- 4.25 To solve this problem, the first strategic plan gave high priority to the upscaling of governance at the metropolitan level and had the objective to set up a metropolitan wide authority. However, the various attempts to establish stronger, more integrated, forms of

government all failed. The best and most emblematic example of such failure is the unsuccessful experience of the metropolitan conference.

- 4.26 The Metropolitan conference was established in 2000 within the framework of the first strategic plan one important element of which was the creation of a Metropolitan Government Structure in Turin. At that time, the Metropolitan conference gathered 39 municipalities (i.e. the whole metropolitan area) and the Province. It was led by the mayor of Turin and the President of the Province. It was a political structure whose aim was to launch a process towards the constitution of a Metropolitan City (Citta Metropolitana - CM) as it had been made possible by recent National laws. Soon, it became obvious that the project of building a Metropolitan City would need more time because of strong political conflicts around the competences, resources and leadership of that metropolitan authority. The conference met several times but gradually the CM project lost momentum. In 2008, the Metropolitan Conference left the floor to a Metropolitan Table (Tavolo Metropolitan) with only 17 remaining cities as members. With the Metropolitan Table, the idea of establishing a Metropolitan Authority (CM) disappeared and the focus has shifted towards ad-hoc actions limited to some policy sectors.
- 4.27 What partially explains this move backwards is the deterioration of the relations in that domain between the Province and the city of Turin. Indeed, the Province has gradually considered itself as a de facto Citta Metropolitana (Provincia, 2008) and has seen the creation of a new metropolitan authority as a rival, challenging its own existence.
- 4.28 The failure of building a metropolitan government has entailed significant problems, all the more because no substitute, even imperfect, has been proposed. The consequences have been a lack of planning at this territorial level and a lack of coordination in many policy sectors such as transport and housing.

**The difficulties of building multi-level governance and its policy impacts**

*The necessity of multi-governance*

- 4.29 The territorial development of a metropolitan area like Turin cannot be the result of one actor only, whatever its powers. Policy areas like education and skills, connectivity, research and innovation require competences and resources which go far beyond those of local governments. Multi-level governance has become a necessity. But although the city of Turin has been able to produce and strengthen its governance capacity, the establishment and development of a multi-level governance have been far more difficult and have met with mixed success, depending on the policy sector and on the period considered.
- 4.30 Beside the city of Turin, three major players controlling major sources of funding have been significant for the development of the metropolitan area: The State, the Region and the European Union.
- 4.31 As we have seen in section 2 above, the State remains a powerful player at the local level. Policy domains crucial for the development of a city, such as education at all levels, rail and road transport, research and innovation, are still very much in its hands. To launch and implement actions and projects in those domains cannot be done without State's support.
- 4.32 In many respects, this is also true regarding the region. As we have also seen previously, the region is by far the most powerful local government because of its resources, the control it has over European structural funds, its many competences and its legislative capacity.
- 4.33 The European Union has also played a crucial role for the development of Piedmont and the area of Turin. In the 1990s, the metropolitan area was declared objective 2 zone and as such

received significant funding from the E.U. The city itself also received some funding from the Urban I and 2 programs.

- 4.34 Until 2009, the various local governments have been able to work together and cooperate in a relatively positive way but this joint working has been done on a policy sector basis or on specific actions and programs only. Nothing strategic has been attempted. Since 2010, with the election of a Regional council dominated by the Lega Nord, this cooperative attitude ceased.
- 4.35 From 1995 to 2009, the 3 major local government tiers, namely the city of Turin, the province of Turin and the region Piedmont, had been ruled by different political majorities or coalitions, sometimes from opposite parties. In that period, Turin was always controlled by a political coalition whose dominant party was the *Partito Democratico*, the major party of the left. The same was true regarding the Province which had always been ruled by a centre-left coalition since the mid 1990s. However, the situation was different at the regional level. Between 1995 and 2005, the region of Piedmont was ruled by a center-right coalition; between 2005 and 2010 it was administered by a centre-left coalition.
- 4.36 Considering the importance of the region in terms of resources and competences, one could have thought that the relations between the region and other local governments of a different political leaning would have been difficult. This was not the case however, since the coalition at the regional level was considered moderate. As a consequence, the major governmental tiers got along relatively well and were able to agree on substantial policies. This is no longer the case since the 2010 regional elections, the regional executive being accused by other local governments of ‘dismantling what has been done’.
- 4.37 If the relations among local government tiers have been relatively positive until 2009, the situation has been more hectic with the State. Turin has never had a strong national political weight in the last decades. If the Agnelli family, the owners of FIAT, had close relationships with almost all central government leaders and have used them to strengthen their firm all along the 20<sup>th</sup> century, the same is not true with Piemontese political leaders, notably the most recent mayors of Turin. As a consequence, relations with the State have varied and have depended on the policy sector considered. However, as a whole, the State has been accused of being largely absent, in terms of its policies although relatively less in terms of financial resources. Indeed, if in some policies, such as in the ICT sector, relations with the State can be judged as OK with some help of the ministry of research and technology, in many other policy domains such as transport, urban regeneration or culture, they have been rather inexistent or even bad, which also explains the difficulties and the delay of several essential infrastructures and projects.

#### **Inadequate multi-level governance and its policy impacts**

- 4.38 The multi-level governance system of the Turin metropolitan area has not operated well in the last 15 years. In spite of many attempts and the setting up of ad-hoc bodies, it has suffered of two major flaws: the lack of regional leadership in areas where the region ought to play a key role and the unreliability of the State and its incapacity/unwillingness to play a leading/mediating role in policy domains where Central Government is crucial. Two areas, critical for the development of Turin, will be used to illustrate this: Research and Innovation and Connectivity.
- 4.39 *Research and Innovation: the lack of regional leadership.* From the very beginning, it has always been acknowledged that Research and Innovation policies to revitalize the Turin economy would have to be elaborated and implemented in a regional framework. In order to do so, the region was to be given a role of promotion, coordination and steering in the field

of Research and Development. The second strategic plan (2006) reiterated this orientation. This was all the more essential since the system of actors in that policy domain was very much fragmented (the universities, the 'Politecnico', private firms, etc.) and that the region was considered legitimate to play such a role. In 2006, a regional law explicitly gave the region this mission.

- 4.40 The region is indeed the central public player in that domain because it controls directly or indirectly European as well as national funds. Its major instrument in this domain is FinPiemonte, a regional agency created in 1977 and in charge of funding innovation projects. However, it has proved difficult for the region to play such a role because most of the R&D funding is private (75%) and policies depends highly on decision made by big firms such as FIAT, Motorola or General Motors. Regional leading or coordination is also difficult because some other important players like the Politecnico or the Universities depend on Central Government and they can use the degree of autonomy they have to launch their own policies or projects.
- 4.41 As a consequence, the field of Research and Innovation has been the locus of many projects but they have very often been thought separately and have not been well coordinated. The region indeed has lacked of strategy and has rather supported ad-hoc and local initiatives rather than developing long term programs (Adit, 2007; L'Eau Vive, 2007). According to L'Eau Vive (2007), relations between players have been scarce which explains the relatively bad results considering the amount of funding put in that domain. For instance, the region invested €270 millions between 2006 and 2008 but this was spread out over 14 "priority" sectors such as design, ICT, nano-technologies, automotive, aerospace, etc.
- 4.42 Policies regarding research and innovation have had mixed results. Initiatives and projects have been very many. In the last decade, the Regional government has launched several scientific and technological parks, 6 being in the province of Turin. According to L'Eau Vive (2007), these parks have not worked well. They have been unable to offer the basic services to firms, they have lacked of specialization, their structures are obsolete. In the sector of Information and Communication Technology (ICT), several initiatives were launched in the early 2000s. The most important one has been conducted by Torino Wireless a public-private agency set up in 2003 to develop the ICT sector. This body is composed of the State (Ministry of Universities and Research – MIUR), the major local governments, the Turin chamber of commerce, the San Paolo Foundation, and large firms like FIAT, Motorola or Alenia. The results have not met the expectations. Torino Wireless expected to increase the weight of the ICT sector from 6% of the regional GDP in 2004 to 10% in 2012. This has not been achieved. Torino Wireless hoped to create about 50 firms in the ICT sector but once again this has not proved possible. Finally, Torino Wireless envisaged the tripling of researchers (6,000) working in that field but less have been created.
- 4.43 However, other, more local or more specific initiatives have met with some success. Two examples can be presented: The *Citadella Politecnica* and the Motorola Research Centre. The *Citadella Politecnica* is a big incubator where training schools, research centers and various activities linked with innovation are being concentrated. So far, the *Citadella* is being successful with many firms having competed to get spaces, among them Microsoft and Jac Automotive, the second largest Chinese car manufacturer. It will also be the new headquarter of the *Politecnico* and following an agreement between the *Politecnico* and General Motors in 2006, it is also the research centre of GM in diesel engine and electronic control with more than 500 researchers. Regarding the automotive sector, it is now a recognized centre of research and expertise in automotive design and production.
- 4.44 The Motorola research centre was set up in 1999, following an agreement between the *Politecnico*, the city of Turin and Motorola. Although it was closed in 2008 due to massive job



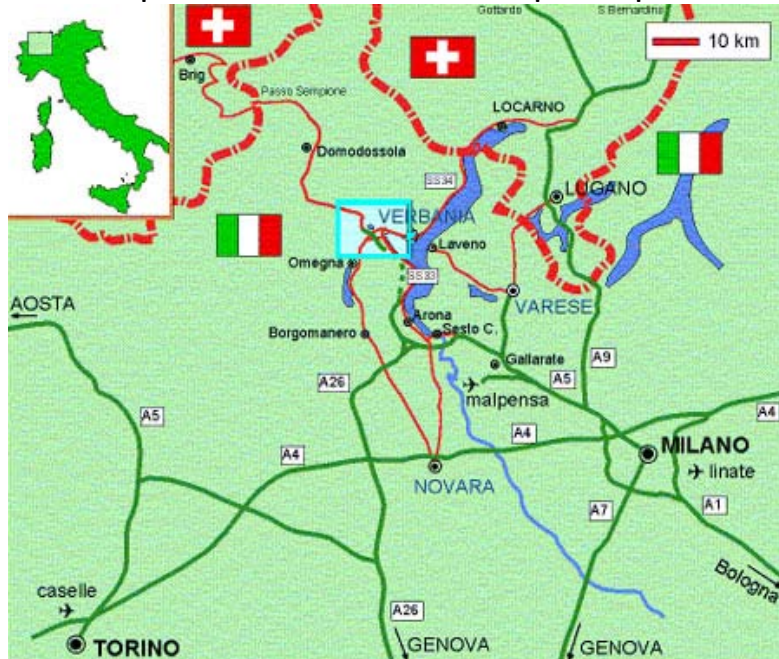
losses of this international firm, it remains a success for the Torinese because it has been the symbol of the capacity of the city to attract an important research centre of international weight with Motorola having invested about €90 million and creating 500 jobs, most of them having being maintained in the Turin area after the departure of the firm (Burdett, 2010).

- 4.45 *Connectivity: the unreliability of the State.* The development priorities of Turin are largely dependent on the good connections the city is able to have with the world outside the Piedmont and Italy. In order to attract tourists, foreign students and researchers, international investments and firms, the city must be easily accessible. As we have seen in section 2 above, this is not the case.
- 4.46 Two connections have been of critical importance for the city as a whole but so far they have not been improved in spite of significant efforts by local players: the high speed link between France and Milan (Lyon-Turin-Milan) and the link between the city and an international airport (see maps 2 and 3).

**Map 2: The high speed line project between Lyon and Turin**



**Map 3: The location of Caselle and Malpensa airports**



- 4.47 The first studies regarding the building of a high speed link between France and Italy took place in 1986. In 1987, the specific link between Lyon and Turin was included in the regional plan of Piedmont. In 1994, the European Union included this link in the 14 European priorities for infrastructure projects. 2000 was the year of expected opening of the line. The period between 1995 and 2005 was a time of active discussion and disputes regarding the actual implementation of the project with many questions such as: should the line be reserved for passengers or be mixed with goods? should the line entered into the metropolitan area of Turin or stop at its limits? what would be the cost?, etc. With difficulties and conflicts, these issues were solved with the decision to have a mixed-used line and to have it served the city of Turin with a new station. In the meantime, the total cost which was estimated to about €6 billion at the beginning reached the peak of €15 billion.
- 4.48 In 2005, several municipalities of the Susa Valley, close to the French border, challenged the proposed itinerary and demanded an international station at Susa. After many negotiations, in 2009 an agreement was reached between the major players but it left aside the question of detailed funding. The opening of the line is now envisaged for 2025. However, as of 2011, no significant progress can be shown in spite of the opening in September 2010 of part of the new station in Turin (Porta Susa). High speed trains do arrive in Turin but at slow speed. In the meantime, some progress for the section between Turin and Milan has been made with a reduced journey of one our between both cities.
- 4.49 The high speed line is very much a conflicting project between the local, regional and national players. Among the many problems, there is the conflict carried out by the municipalities in the mountains (Val de Susa) who are stressing the environmental and social problems caused by the construction of this infrastructure in their area. Second, there is the problem of the specific location of the line within the metropolitan area of Turin, third there is the problem of the financing of the project and notably the amount of funding the State will put in it. After about 30 years of debates and discussions, while the amount of funding necessary for the project to be implemented has increased yearly, nobody is able to say when the line will be built since these major issues have not been dealt with. This is the result of the absence of a player able or willing to play an “enabling” role in that matter. Considering the international and national importance of the project, only the State, directly or through the national railways (Ferrovie dello Stato), could play such a role but it apparently is unable or unwilling to do so.
- 4.50 The situation is about the same for international air connections. The closest airport of Turin is Caselle located about 15 km from the city centre with a very poor service. The first strategic plan considered Caselle as the “natural” international airport of Turin and proposed to strengthen its international role and to better connect it with the city centre. To do so, the plan decided to create an express rail service which would link the city centre with the airport in about 15 minutes and which would arrive in Porta Susa, the new high speed station. Since then, nothing significant has happened. True, a new modern station was built in Caselle but there is no express line between this station and the city center. In addition, passengers from Caselle do not arrive in Porta Susa but in a still degraded station, Dora, located at the north of the city. In terms of strengthening the international role of the airport, the only action has been the funding of 1 Ryan air flight (from Madrid) by the region in 2010 and a second one in 2011.
- 4.51 The absence of significant progress in the connection between Turin and Caselle could be understandable if the existing alternative which is to link the city to the international airport of Milan, Malpensa, had been seriously considered, Malpensa being “only” 130 km from Turin. However, although the connection with the Milan international airport has been in

discussion for ages no progress have been made on that issue, notably because the issue regarding this connection is related with the high speed train line problem between Turin and Milan. Should this line serve Malpensa or be direct between Turin and Milan?

- 4.52 Once again, decisions regarding international air connections and the role of the Caselle airport in that respect depend on national players. But the State has no policy in that domain and without an actor able to lead the debate and to decide, the uncertainty will go on for ages.

## V. CITY PROSPECTS

- 5.1 Although Turin has significantly changed in the last 15 years, it is difficult today to speak of success. One needs to be cautious indeed in that respect because if on one hand, the transformation of the metropolitan economy seems irreversible, on the other hand success is fragile because many factors which have played a significant role in that success are now disappearing. As a result, Turin's future does not look so bright and much depends on the capacity of the city to re-invent a model of territorial development and to supersede/solve the elements which have hindered its development in key policy sectors such as research and development and connectivity.

### **The transformation of Turin's economy seems irreversible**

- 5.2 Although the industry remains important in Turin since it still represents a significant part of its GVA and of its total employment, the metropolitan area has now moved towards a service oriented economy. This move has been accompanied by a gradual diversifying of the economy and markets. Indeed, the collapse of FIAT has been gradual and this has allowed FIAT suppliers to look for other clients and markets and to modernize their productive apparatus. As a result, the economy of Turin has shown positive signs of internationalization and much less dependence on the domestic automotive sector, well represented by FIAT.
- 5.3 The transformation of the economy cannot be separated from the transformation of the image of the city. If Turin remains in many ways an industrial city, in its culture and in its urban fabric, its national and international image has changed. Turin is no longer a grey city that tourist guides advise to avoid but to the contrary a city of culture and quality of life which is now well positioned as a place worth visiting in Italy. Although this positive image may not well be reflected in the daily life of its population, it is nevertheless an asset that will remain in the years to come and on which the city is basing its current development.

### **Factors and elements which have been at the core of Turin's success but which are more and more uncertain in the future**

- 5.4 The transformation of Turin has been the outcome of an "urban regime", that is a coalition of players led by the city. The city has indeed played a leadership role but it has also been able to rely on specific actors, namely the banking foundations and FIAT. City leadership and the support of those actors have been the most favourable factors which largely explain the evolution of the metropolitan area in all domains since the mid 1990s. However, this situation has significantly evolved in the recent years to the point that the permanence of those factors is now questionable.
- 5.5 City leadership has been at the same time political and financial. On the political side, we have seen that the new mayor of Turin and his board have been key players in the initiating and developing of the transformation of the city, notably through strategic plans and their implementation. This political leadership was also a cognitive leadership in the sense that the

mayor and his team have been at the centre of a civic group whose members were able to “invent” what was at that time a new model of territorial development based upon local factors such as the re-activating of cultural and patrimonial heritage and the role of innovation in traditional sectors (such as car design). In so doing, they have changed the image of the city.

- 5.6 But today, this political leadership is running out of steam. The present mayor, S. Chiamparino, who has been in many ways the heir of his predecessor, cannot run for a third mandate because this is forbidden by the Italian constitution. The present coalition has difficulties in finding a new candidate, not to say a candidate capable to be a political leader. To make things worse, this “crisis of leadership” is also a crisis of the Turin’s model in the sense that the ideas and the vision embedded in the strategic plans can no longer serve as orientations or guidelines to mobilize the city’s society. Something else must be invented but ideas are lacking.
- 5.7 On top of all this, the city of Turin does not have the financial means to embark in a new development adventure. As we have seen, the city of Turin has been very much active, notably in terms of funding, in many policy sectors such as the regeneration and physical embellishment of its centre, the upgrading and expansion of public transport, the development of culture and arts and the international promotion of the area through big events, notably the Olympic Games. This strong municipal involvement has seriously damaged the financial balance of the municipal budget to the extent that today Turin is the most indebted city per capita in Italy. With a municipal debt of about €6 billion in 2009, Turin is indeed the second indebted city after Rome (€8.5 billion) but per capita it is by far the first one (€5,781) before Milan (€3,997).
- 5.8 This financial situation clearly means that from now on, Turin has no longer the financial capacity to maintain (nor to develop) its social and cultural infrastructure. In order to do so, the city will need help that no other government tier can give or is willing to give. The budget of the Province is in very bad shape, the Provincial council having no money at all in 2011 to spend on its de jure competences such as the road network. Senior Governments (namely the Region and the State) have not the means and currently the city is not in good terms with these players.
- 5.9 In the years to come, Turin will also have difficulties in finding reliable help from the two most important supporters of its development. As we have seen, the two banking foundations, CRT and San Paolo, have been in a process of distancing themselves from the city. This does not mean that they will stop pouring their financial resources in the city. But it does mean that it will be much more difficult for the city to mobilize those foundations on new development paths or on new projects. Very likely, CRT and San Paolo will continue supporting on going projects in the fields of culture and research but they will not be as active as before.
- 5.10 The same can be said about FIAT. As we have seen, FIAT remains an important and still powerful player in Turin. However, it does not play anymore the active and supporting role it used to perform. FIAT was behind the city in the first strategic plan. It was also behind the city for the hosting of the Olympic Games. It was also a big supporter of sports through its control over the famous football team, Juventus and its agency Sisport. This is no longer true and Sisport is no longer as active as before. As a result, the city cannot rely on FIAT anymore but at the same time FIAT cannot be replaced. This is why the slogan “With FIAT, Beyond FIAT” expressed by the current mayor of Turin may well be a good diagnosis of the present situation but not a solution because so far no other big firm or any other substitutes to FIAT are in sight.

- 5.11 S. Belligni and his team (2009) have analyzed the transformation of Turin as the outcome of an urban regime composed of 3 sub-alliances pursuing 3 different political agendas. A first alliance has focussed its agenda on the physical regeneration and transformation of the city and was composed of the city, the chamber of commerce, the construction industry and land owners. It is very close to a “growth coalition” identified in the 1980s by authors like H. Molotch or J. Logan (1987). A second alliance has concentrated its agenda on the transformation of the Turin’s economy into a knowledge economy. It has been led by the region and the city, the banking foundations, a few enterprises and the universities. A third alliance has focussed on the making of Turin into a “culture and leisure cluster”. It was composed of the city, the banking foundations and cultural associations.
- 5.12 These 3 agendas and coalitions have co-existed in a more or less harmonious way thanks to a “meta-coalition”, an urban regime led by the city of Turin which has been able to mobilize the various sub-alliances when necessary. This urban regime does not seem to function anymore for the two major reasons mentioned above: the end of the political leadership of the central city and the uncertainties of the mobilization of the key players of the urban regime.

### **New threats**

- 5.13 Two major changes have recently occurred which further question the capacity of the metropolitan area to maintain its development and face future challenges: the economic crisis and the election of a populist/chauvinist executive at the regional level.
- 5.14 On the economic side, the crisis has seriously hit the Turin’s economy and has worsened the social situation. In many domains, Turin’s success or performance is fragile and provisory. Many problems remain unsolved and need to be remedied in order to consolidate areas of present success or promise. This is the case of the internationalization of the economy. True, many Turin’s firms have been successful in diversifying their markets but those markets have been the most seriously hit by the crisis. This situation must be addressed by local authorities but it remains to be seen whether they will be able to produce adequate policies in that respect.
- 5.15 On the political side, the good relations with the region are over. Since the election at the regional executive of members of the Lega Nord, this governmental tier cannot be the same partner as before. It is not so much a question of political partisanship since the region and the other local governments (Province and the central city) have not always been on the same political leaning over the last 15 years and this has not prevented them from working together. But the Lega Nord has definitely a vision of the “Piemonte in the world” which significantly departs from the vision of the major players, public or private, of the metropolitan area. One single example will suffice to illustrate this divergence of vision. In early 2011, the Piedmont region has decided to limit the funding for university scholarships to students of Piemontese origin, a decision in direct contrast to the internationalization policies of the previous regional administration and current municipal and provincial governments.

### **Future challenges**

- 5.16 As the 2010 decade unfolds, the metropolitan area of Turin faces serious challenges. The first one is social and economical. It has to do with the capacity of the area to become a global city, that is to pursue its internationalization: internationalization of its universities through the increasing participation of foreign students and foreign researchers, internationalization of its population through a better social and economic integration of immigrants.

- 5.17 In order to do so, Turin needs to become more attractive. Beyond the challenge of connectivity which we have largely addressed in this report and that Turin must solve to better attract tourists and researchers, there is also the challenge to propose a realistic development path which will help in finding new resources and new supporters because the city cannot rely anymore on the mobilization of “old” or classical players. The previous city’s administrations and key players understood that a city without a vision and a strategy to make it happen could not successfully transform itself after the collapse of FIAT. They were able to invent both but today this vision and strategy are running out of steam. New ideas, a new vision, a new strategy with new supporters are needed and this is surely the most paramount challenge Turin’s actors are facing today.
- 5.18 The final challenge is a political one and concerns the territorial governance of the metropolitan area. By and large, this is not a new challenge but it is definitely a challenge which has not been addressed. As of now, the idea of upscaling governance and policies to the metropolitan level have met with poor results. It is nevertheless urgent to change the scale of governance at that level if Turin wants to be able to address its major and still unsolved problems.

## VI. POLICY MESSAGES

- 6.1 As we have seen, the Turin’s contribution to the economy of the region, Italy and Europe has constantly declined over the last decades. This is so because the tertiarization of Turin’s economy has not been able to compensate for the tremendous decline of the traditional automotive industry, at least in the last decade or so. Turin has been successful in changing its national and international image and to do so it has chosen a courageous but risky new development path. For the optimists, Turin is now at a cross road but holds the necessary assets and resources to strengthen its new economy because the changes are irreversible. For others, more pessimistic, the battle is not won yet and there is a danger for the metropolitan area to decline even more because it will not have the capacity to face the current economic crisis and address its major challenges such as the economic and social integration of an increasing immigrant population and the necessary augmentation of its national and international attractiveness.
- 6.2 As we have emphasized in the introduction of this report, the Turin case - and what is presented as the Turin model – is rich of lessons and policy messages because it is a story of a recovery, not only economic, but also social and political. It is therefore in this recovery **process** more than in its performance (i.e. its success and completeness) that the analysis of Turin is interesting and relevant for this Espon project. It is therefore in this context that the following policy messages and comments must be understood.

### Policy messages regarding our key hypotheses

- 6.3 **National policies matter.** This is clearly the case in Turin because State resources are important for many sectors. We have emphasized the case of large infrastructure but this is also true for all matters in which the State has competences, resources and instruments such as Education, Research and Governance. However, in a positive sense (i.e. to help cities to perform better), national policies are important as long as they respect two main conditions.
- i) the State must have clear, real policies (i.e. relatively stable and with clear priorities and choices)
  - ii) the State must be a reliable actor for local governments. This means for instance that State funding must be reliable and State support must be ascertained.

- 6.4 If these two conditions are not fulfilled, national policies could be at best neutral, at worst an obstacle for the performance of second tier cities. In the case of Turin, both conditions are not fulfilled and this is one reason for the declining role of Turin in the National and European economy.
- 6.5 **Regional policies matter:** In Italy, regions are powerful institutional and political players as we have seen. In that respect, regional policies are important for metropolitan areas and this is also true for Turin. However, contrary to Federal States or quasi-federal states such as Spain, Italian regions are still very much dependent upon State resources and the State attitude regarding decentralization. In that context, regional policies do matter as long as they fulfil the same two conditions required for national policies above.
- 6.6 **Decentralization matters.** There is a somewhat contradiction between this hypothesis and the one regarding national policies. Indeed, if decentralization is significant, this means that the role of national government is less important for metropolitan areas, at least in terms of competences and financial resources. In the case of Turin, with an unreliable State, decentralization does matter because any increase in decentralization will augment the degree of control local governments will have on resources as well as on the volume of financial resources.
- 6.7 However, this is not a zero sum game. **It is not so much that “decentralization matters” than “Intergovernmental relations” matter.** The Turin’s experience shows that the lack of relations and coordination/cooperation between various level of governments have been detrimental to the development of the metropolitan area, largely because funding has been spread out rather than concentrated on specific sectors and actions. In addition, it has also been detrimental because since the allocation of responsibilities among players has not been clear, it has been more difficult to solve or regulate dysfunctions and conflicts.
- 6.8 The issue of intergovernmental relations is crucial for all metropolitan areas. In Italy and in the Piedmont region in particular there are institutional instruments to facilitate those relations. At the national level there is the State-Regions-Cities Conference (*Conferenza Stato-Regioni-Città*) whose role is to exchange information and discussed common matters of interest. At the regional level, in Piedmont, there is the Permanent Conference Region-Local Governments (*Conferenza Permanente Regione-Autonomie Locali*) with a similar role. However, this conference does not concern the Turin metropolitan area per se and has not been very active. In particular it has not function to solve conflicts or to facilitate the integration of regional policies with local ones.
- 6.9 In this domain, one policy message may be put forward. In order to improve intergovernmental relations regarding metropolitan areas, the State – and/or the Regional level – should create the conditions and adequate instruments to do so. There are several experiences of interest in Europe. If Turin is not a good illustration of this, it however shows the importance of that type of relations for the performance of the city.
- 6.10 **Local factors matter:** Turin is indeed path dependent as any other city and metropolitan area. Local factors do matter because cities are “places crystallized in time”. In Turin, local factors include the historical dependence on FIAT and the automotive industry and the fordist urban fabric and urban culture. But the policy message that can be derived from the Turin case study is not so much that “local factors matter” than “the use of local factors matters”. In that respect, local factors are a resource which can either be used or not used. What the Turin case shows is that the capacity of using local factors matters for the development of the city.

- 6.11 Indeed, it is by using local factors that Turin has been able to change the path of its development. The city has used them to “feed” or to substantiate some key drivers of performance. For instance, regarding the quality of place, Turin has used its historical culture (its Baroco architecture, its royal buildings and squares) and historical assets (its gastronomy and ‘culinary’ products such as chocolate, coffee, wines and mushrooms<sup>4</sup>) as new elements to improve its quality. Regarding innovation, it has used its historical economic jewel, the automotive industry, to develop innovative clusters.
- 6.12 In summary, it is more the capacity of local players to use, re-activate and instrumentalize local factors than local factors per se which counts for the performance of a city.
- 6.13 **Territory matters:** Globalization indeed puts a lot of pressure on cities a) to establish a governance capacity (mobilization of players of various status: public, private etc.) and b) to upscale their governance. In that sense, territory matters and Turin is a good example of success with respect to a) and failure with respect to b).
- 6.14 The success regarding the governance capacity of the city may largely be explained by two elements: i) political leadership and ii) the nature of this leadership. The Turin case study shows how political leadership is important to produce a vision for the future and to make it legitimate. But to transform this vision and legitimacy into a strategy with concrete policies and actions to implement it, a political leadership must hold other characteristics which the Turin’s case reveals and illustrates and which have to do with the capacity to mobilize local society as a whole and stakeholders relevant for the strategy. In that respect, the Turin political leadership has been open (i.e. not confined to the political field and not partisan) and has known how to integrate new players (in the cultural sector for instance, but also the bank foundations). In short, it has shown its capacity to act, i.e. its capacity to produce policies and change and its longevity has been based on this capacity. It is because this capacity may be lacking in the very near future that the longevity of this leadership may be put into question.
- 6.15 The failure regarding the upscaling of governance has obviously much to do with the bad quality of intergovernmental relations, notably between local governments and the State. In that respect, the policy message is two-folds. First it is to recognize that in order to facilitate cooperation between local players and institutions, political partisanship is less important than territorial interest (i.e. interests based on a specific territory such as the region, the province of the city), except in some extreme ideological situations as it seems to be the case since 2010 in Piedmont; **in that respect, the management of conflicts between territorial interests is the major issue to address.** Second, that in order to address this issue, it is important to create mediating structures and instruments between players. It is the incapacity to do so on general terms (on ad-hoc economic sectors or issues, this has been done with some successes) which largely explains the failure of the upscaling of governance.

### Additional comments

- 6.16 The analysis of the Turin experience has also brought information and pieces of evidence about elements which seem significant in explaining the performance of a second tier city but which had not been either envisaged or insufficiently acknowledged. We believe three such elements can be put forward.
- 6.17 **Geography matters:** The geographical location of Turin puts it in the vicinity of another large metropolitan area, Milan, in many ways the economic capital of Italy. This geographical

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<sup>4</sup> For the amateurs and professionals, Piedmont is worldwide famous for its white truffle, the most expensive mushroom in the world.



context seems to play a negative role for the performance of Turin because it places the capital of Piedmont in an unfair rivalry with the capital of Lombardy. Two examples illustrate this remark.

- 6.18 Milan is just about 140 km from Turin. It is a much larger and powerful metropolitan area than Turin and since 2000 has hosted the largest international airport of the country, Malpensa. Although Malpensa is no longer the hub of Alitalia and has lost its supremacy to Fiumicino, the Rome airport, it nevertheless remains a much more attractive airport than Caselle. Its relative proximity from Turin makes it a de facto airport of the capital of Piedmont, a situation Turin has no control over.
- 6.19 The same can be said regarding the universities. True, Turin has a very famous engineering school, its *politecnico*, which remains relatively successful. But Milan enjoys among the most prestigious schools and universities of Italy and its size and cultural richness makes it more attractive for foreign students and researchers than Turin. In many ways, Milan overshadows Turin and this has a significant negative impact on the performance of the city.
- 6.20 In our selection of case studies, we find a similar situation at least in one city, Lyon (in some ways overshadowed by Geneva in Switzerland).
- 6.21 **Second and second tier cities** : In our panel of case studies, one needs to make a distinction between second tier and second cities. All our selected cities are not alike. Turin is definitely a second tier city because it has several rivals in the north part of Italy (Genoa, Venice) and does not dominate any of them. In addition it is definitely outranked by the nearby Milan. To the contrary, a second city has no rival on its national territory and is only dominated by the national capital. This is the case of Barcelona and Lyon.
- 6.22 We believe it is important to make the difference between second tier cities and second cities in our study because they differ by their attractiveness at the national and international level and they do not have similar assets and resources in the national and international competition. As a consequence, these differences significantly affect their performance.
- 6.23 **The importance to be a regional capital**: Turin is the capital of the Piedmont region. In our panel of case studies, several cities enjoy the same status: Barcelona, Lyon, Munich. By having such a status, those cities differentiate themselves from others because they hold a political and administrative role which has some effects upon their economy (e.g. the importance of employment, public and private, due to this status) and their attractiveness (they often host regional equipments and infrastructure such as museums, universities, etc.).
- 6.24 Of course, the significance of this regional status depends on the political importance of the region. There is no comparison between Munich, capital of the land of Baviera, or Barcelona, capital of Catalunya, and Lyon, capital of the Rhone-Alpes region, but all of them nevertheless gain economically from their status of regional capital and this must be acknowledged in any comparison regarding their respective performance.

## STATISTICAL APPENDIX

**Table 1: Population Turin, Province of Turin, region Piedmont, Italy: 1991-2008**

	TURIN	PROVINCE	REGION	ITALY
1991	961512	2 235826	4 299912	56 757236
2001	864671	2 165299	4 213294	56 993742
2008	908825	2 290090	4 432000	60 340328

Source: ISTAT

**Table 2: GDP in PPS (million) and per capita, Province of Turin and Italy, 1995-2007**

Year	Turin MR	Italy	Turin MR	Italy
			Per capita	Per capita
1995	46,040.5	1,008,200	20,900	17,700
1996	47,662.7	1,051,907	21,700	18,500
1997	50,237.8	1,098,480	22,900	19,300
1998	52,217.8	1,156,389	23,900	20,300
1999	54,190.9	1,191,617	24,900	20,900
2000	56,664	1,267,797	26,100	22,300
2001	57,997.3	1,327,671	26,800	23,300
2002	57,112.8	1,309,556	26,300	22,900
2003	57,197.4	1,322,013	26,200	22,900
2004	58,369.2	1,343,577	26,400	23,100
2005	59,690.9	1,381,565	26,600	23,600
2006	62,106.7	1,451,768	27,700	24,600
2007	64,528.9	1,529,790	28,500	25,800

Source: Eurostat

**Table 3: Total Employment, Turin and Italy: 1995-2007**

Year	Turin MR	Italy
1995	960,700	21,841,200
1996	983,000	21,966,000
1997	991,300	22,034,700
1998	988,400	22,252,600
1999	1,009,800	22,493,900
2000	1,021,700	22,930,100
2001	1,017,000	23,393,100
2002	1,015,700	23,793,100
2003	1,021,500	24,149,600
2004	1,026,000	24,256,100
2005	1,042,300	24,395,800
2006	1,056,200	24,874,100
2007	1,063,200	25,183,500

Source: Eurostat

**Table 4 : Employment by sector (% , Province of Turin: 1991-2009**

	1991	2001	2009
<b>Industry</b>	45.1	38.2	24.0
<b>Services</b>	54.9	58.1	66.0

Source: CCIAA Turin, Istat

**Table 5: Employment in some segments of the service sector (%), Province of Turin: 1991-2008**

	1991	2001	2008
<b>Commerce</b>	14.5	14.0	13.6
<b>Financial intermediation</b>	3.8	5.2	4.2
<b>Business services</b>	8.2	15.7	12.9

Source: CCIAA Turin, Istat

**Table 6: Productivity in Metropolitan provinces by sector: 1996-2006**

	Industry		Services		Total	
	GVA per labour unit	Evol 1996-2006 (%)	GVA per labour unit	Evol 1996-2006 (%)	GVA per labour unit	Evol 1996-2006 (%)
<b>Turin</b>	54,393	+ 26	56,581	+ 30	55,067	+ 28
<b>Milan</b>	61,315	+ 22	65,003	+ 39	63,800	+ 34
<b>Genoa</b>	49,167	+ 22	59,925	+ 39	57,361	+ 35
<b>Venice</b>	55,157	+ 33	57,718	+ 41	56,176	+ 40
<b>Bologna</b>	55,940	+ 26	56,251	+ 25	55,214	+ 26
<b>Florence</b>	48,596	+ 31	56,908	+ 38	54,123	+ 37
<b>Rome</b>	58,267	+ 28	62,623	+ 40	61,532	+ 38
<b>Naples</b>	40,996	+ 23	49,053	+ 32	46,960	+ 32
<b>Bari</b>	38,816	+ 25	51,000	+ 39	45,465	+ 35
<b>Palermo</b>	44,738	+ 14	52,291	+ 34	49,591	+ 32
<b>Catania</b>	41,903	+ 13	50,913	+ 32	46,984	+ 32
<b>Cagliari</b>	51,213	+ 20	50,474	+ 31	49,332	+ 34
<b>Italy</b>	50,936	+ 27	56,773	+ 36	53,150	+ 34

Source: Eursotat, Istat

**Table 7: Employment rate Turin and other Metropolitan provinces: 2004-2009**

	2004	2005	2006	2007	2008	2009
Turin	61,4	62,9	63,8	64,0	64,7	62,6
Milano	66,0	66,7	68,1	68,3	68,7	66,9
Genoa	61,6	61,2	61,2	63,1	63,8	64,9
Venice	61,4	62,4	62,8	62,7	63,3	62,0
Bologna	69,4	69,4	72,4	71,5	72,4	70,1
Florence	65,5	66,5	67,7	67,6	69,0	67,8
Rome	60,4	60,5	61,4	61,9	62,6	61,8
Naples	42,8	41,7	41,5	41,1	39,8	38,1
Bari	46,8	46,1	47,3	49,2	49,7	47,2
Palermo	42,5	42,9	43,0	43,9	43,1	42,8
Catania	42,4	43,9	43,7	42,8	43,0	42,3
Cagliari	49,8	50,4	51,8	53,3	55,5	53,5
Italy	57,4	57,5	58,4	58,7	58,7	57,5

Source: ISTAT

**Table 8: % of employment in 'financial intermediation; real estate, renting and business activities'**

Year	Turin MR	Italy
1995	12.5	10.4
1996	13.1	10.8
1997	13.8	11.3
1998	14.0	11.8
1999	14.9	12.3
2000	16.0	12.9
2001	16.8	13.3
2002	17.3	13.7
2003	17.4	13.9
2004	18.0	14.1
2005	18.4	14.3
2006	18.4	14.4
2007	19.0	14.7

Source: Eurostat

**Table 9: Environment indicators: Turin and other municipalities: Azote Bioxyde, Lead and Urban Green**

	Azote Bi-oxyde	Lead PM10	Urban Green
	Mg/m3	Mg/m3	M2 per capita
<b>Turin</b>	60.9	56.8	11.4
<b>Milan</b>	54.9	52.5	14.7
<b>Venice</b>	40.7	48.8	11.5
<b>Genoa</b>	51.1	36.2	2.9
<b>Bologna</b>	51.7	33.7	9.5
<b>Florence</b>	47.7	33.3	3.8
<b>Rome</b>	63.9	39.9	22.9
<b>Naples</b>	41.0	28.1	2.5
<b>Bari</b>	25.3	31.8	1.9
<b>Palermo</b>	49.7	32.9	1.8
<b>Catania</b>	57.3	28.0	3.4
<b>Cagliari</b>	41.4	37.5	6.9

Source: Ecosistema Urbano 2007

**Table 10: Average disposable income, Metropolitan areas, 2007-2009**

	2007	2008	2009
<b>Turin</b>	20 435	20 914	20 781
<b>Milano</b>	23 682	24 254	24 184
<b>Genoa</b>	20 960	21 439	21 561
<b>Venice</b>	20 105	20 610	20 512
<b>Bologna</b>	23 175	23 632	23 405
<b>Florence</b>	21 962	22 521	22 351
<b>Rome</b>	19 586	19 649	19 523
<b>Naples</b>	12 723	13 034	12 965
<b>Bari</b>	13 228	13 696	13 658
<b>Palermo</b>	12 902	13 327	13 322
<b>Catania</b>	12 495	12 917	12 940
<b>Cagliari</b>	14 199	14 538	14 457

Source: Osservatorio Findomestic

**Table 11 : Unemployment rate in Metropolitan provinces: 2004-2009**

	2004	2005	2006	2007	2008	2009
<b>Turin</b>	6,1	4,8	4,1	4,7	5,6	8,3
<b>Milano</b>	4,6	4,2	3,9	3,8	3,9	5,7
<b>Genoa</b>	5,2	5,5	5,1	4,4	5,4	5,5
<b>Venice</b>	4,9	4,5	5,1	2,9	3,6	5,6
<b>Bologna</b>	3,1	2,7	2,9	2,5	2,2	3,4
<b>Florence</b>	5,0	4,5	4,4	3,5	4,4	5,0
<b>Rome</b>	7,5	7,3	7,2	5,8	7,0	8,1
<b>Naples</b>	18,9	17,1	14,8	12,4	14,0	14,6
<b>Bari</b>	14,7	13,5	13,3	9,7	10,3	11,1
<b>Palermo</b>	20,3	19,2	18,6	15,5	17,1	17,9
<b>Catania</b>	15,0	15,3	12,3	11,6	12,0	11,3
<b>Cagliari</b>	15,8	12,9	11,1	9,4	11,3	11,0
<b>Italy</b>	8,0	7,7	6,8	6,1	6,7	7,8

Source: ISTAT

**Table 12 : Number of patents, province of Turin and other metropolitan provinces (per million inhbts): 1999-2008**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Turin</b>	104,6	131,2	112,0	113,2	122,5	126,4	155,5	149,4	142,6	130,5
<b>Milano</b>	195,8	208,5	206,0	220,7	213,4	270,4	243,2	245,3	227,2	220,2
<b>Venice</b>	27,2	19,6	23,5	18,8	41,2	29,4	31,0	23,0	35,3	39,4
<b>Genoa</b>	46,9	26,7	60,3	47,4	40,1	68,1	68,9	62,9	61,0	82,0
<b>Bologna</b>	209,0	245,5	196,6	278,0	269,2	272,6	297,0	302,0	315,1	321,3
<b>Florence</b>	73,0	73,4	60,1	92,8	101,7	107,9	86,1	82,7	75,9	85,5
<b>Rome</b>	30,1	33,2	37,5	38,0	35,7	44,2	28,8	61,3	62,1	63,0
<b>Naples</b>	7,0	4,2	7,3	4,4	6,1	3,4	6,8	3,5	11,0	13,0
<b>Bari</b>	6,1	7,7	4,1	7,4	5,1	3,8	7,7	8,5	11,9	6,6
<b>Palermo</b>	2,8	2,4	2,3	1,6	0,0	1,9	1,6	3,2	3,2	2,1
<b>Catania</b>	0,9	7,1	10,7	6,0	4,3	2,7	5,2	4,5	9,3	6,5
<b>Cagliari</b>	3,9	7,2	2,6	6,6	9,2	5,9	15,8	10,8	5,0	9,0
<b>ITALY</b>	49,4	54,1	54,9	58,2	59,6	68,4	67,1	68,8	71,2	73,0

Source: Union Camere, EPO

**Table 13: Tax payers (*contribuenti*) under the poverty threshold in 2007 (in %)**

	2007
Turin	19.3
Milano	16.2
Genoa	13.8
Venice	14.5
Bologna	13.7
Florence	12.4
Rome	10.2
Naples	16.1
Bari	8.3
Palermo	11.4
Catania	12.9
Cagliari	10.1

Source: Centro Studi Sintesi, ISTAT



**The ESPON 2013 Programme**

## **3.7 NATIONAL POLICY ITALY**

**Christian Lefèvre**



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## 1. INTRODUCTION

- 1.1 For geographic and historical reasons, Italy is a nation of cities. Many very large cities, by European standards, populate the Italian territory but the geographical coverage is well balanced and unlike France or the United Kingdom no urban area dominates.
- 1.2 The Italian Community Support Framework distinguishes 3 types of large urban areas grouping 16 cities:
- ❖ 3 conurbations (Milan, 5.5 millions inhabitants, Rome, 3.6 millions and Naples, 3.3 millions),
  - ❖ 4 ‘potential metropolitan systems’ (urban areas between 1 and 2 millions people): Bologna, Florence, Turin and Venice;
  - ❖ 9 ‘metropolitan areas’ of over 400,000 people including, Bari, Cagliari, Catania, Genoa, Messina, Palermo, Reggio Calabria, Taranto and Trieste.
- 1.3 As we shall see, all these 16 urban areas have not been the target of any specific policies. However, from 1990, 9 cities, identified as the ‘metropolitan areas’ of the country, have been the object of specific national attention, namely Bari, Bologna, Florence, Genoa, Milan, Naples, Rome, Turin and Venice. All of them are Regional capitals and they constitute the main cities within a larger group of Italian second tier urban areas.

**Table 1: The 16 major Italian ‘Second tier Cities’**

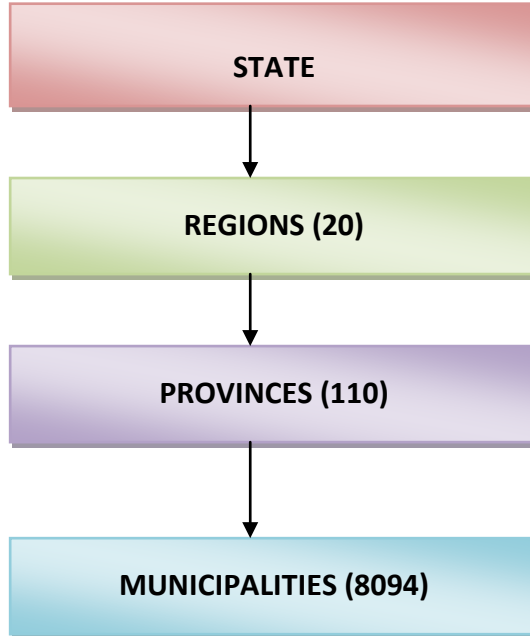
Metropolitan area	Population (in million inhbts)*
BARI	1,0
BOLOGNA	1,0
CAGLIARI	0,5
CATANIA	0,8
FLORENCE	1,5
GENOA	0,7
MESSINA	0,5
MILANO	4,9
NAPLES	4,4
PALERMO	1,0
REGGIO CALABRIA	0,4
ROMA	3,7
TARANTO	0,6
TRIESTE	0,2
TURIN	1,7
VENICE	0,4

\* There are no official figures for the population of metropolitan areas in Italy because it depends on the definition used. For example, the metropolitan areas of Bologna, Catania, Florence, Genoa, Messina, Palermo and Venice have been defined by Regional Laws, each law using its own criteria. Other metropolitan areas have not been defined by Regional laws and their population data vary according to sources.

- 1.4 Two urban areas stand out of those large cities, Milan and Rome. Milan because of its size (the urban area is about 5 million people) and its economic weight. It is considered the economic capital of the country and it is the capital of the economic locomotive of Italy, the Lombardy region). Rome because it is the national capital and the second city in population size. However, for political reasons, as we shall see, neither Rome nor Milan have been treated differently from the other major Italian cities by the State or if they have, they have not been the only ones (see below). This makes Italy a specific case where the national capital is considered as any other large city of the country, that is as a ‘second tier city’ because there is no ‘primary’ city.

## 2. THE ITALIAN POLITICAL AND INSTITUTIONAL CONTEXT

2.1 Italy is institutionally composed of the State, regions, provinces and municipalities.



2.2 The Italian political and national context in which national urban policies take place is complex. For several decades, the political and institutional situation has been instable and uncertain. This means that local and national actors, public and private, play in a structurally unstable system. The major consequence of this is the development of instruments, mechanisms and arrangements introduced to produce and implement public policies to compensate for the instability of the system. Many of these instruments have been elaborated by the State and therefore are part of the national policies towards urban areas. Complex Programmes (Programmi Complessi) and Negotiated Programming (Programmazione Negoziata) are illustrative examples of such instruments (see below section 2).

2.3 The instability of the political and institutional context may be seen in various important elements. Institutionally, the situation is instable and uncertain regarding i) the general Decentralization/ Federalization of the country and ii) the distribution of responsibilities and resources between governmental tiers. Politically, the situation is instable and uncertain regarding iii) the role and behaviour of the State.

### ***Turbulent Decentralization/Federalization process***

2.4 After decades of non-decisions and missed reforms, the Decentralization process gained speed in the 1980s and 1990s and the debate soon moved towards the nature of the Italian State. For political reasons (with the support of both the Communist Party and the Autonomist parties like the Lega Nord), a Federalization process took place with the empowerment of the regional level which in a first place got the chunk of the transfer of State responsibilities. In addition, regions received some legislative powers to the extent that the Italian political and institutional system was considered as “regional-federalist”.

- 2.5 However, this Federalization process has been turbulent. Soon, local governments (municipalities and provinces) claimed more responsibilities and asked the regions to transfer them while at the same time the State showed some reluctance to transfer more powers downward. In the 1990s and 2000s, local autonomist parties gained strength and entered several conservative governments at the local but also at the national level. Taking advantage of their political importance, they put a lot of pressure to speed up the Federalization of the country. They got some success but at the same time their willingness to decentralize ‘up to separatism’ was seriously contested by the National Alliance (Alleanza Nazionale) which entered the National Government in the early 2000. The political position of the various Berlusconi Governments in that matter has always been ambiguous because they have been trapped between a demand for Federalism from the Lega Nord and the rejection of that demand by the National Alliance, both parties belonging to the Conservative coalition in power and still in power as of today.
- 2.6 As a result, Italy is still a Unitary State but with a specific role and power allocated to the regional level. Indeed, with the devolution of many responsibilities to the regional level, Italy can be considered a very decentralized country but remains relatively centralized in financial terms. In addition, the decentralization process from the regional level to local governments (municipalities and provinces) has largely depended upon the willingness of the Regions to implement the transfer of responsibilities. In that process, some regions have proved more ‘Decentralist’ than others (for instance Lombardy is very much Centralist while Emilia-Romagna is much more Decentralist). This has entailed “à la carte” regional situations, meaning that in some regions local governments have more responsibilities and powers than in others, a situation one finds in many Federal States but which is rather confusing in a country where the National State keeps having a significant place as we will see in the Urban field. The situation regarding the practical distribution of powers and resources between sub-national levels is a good illustration.
- A complex and conflicting distribution of powers and resources***
- 2.7 At the sub-national level, 2 governmental tiers are important: the municipality and the region. Municipalities are powerful because they enjoy a strong political autonomy, have many responsibilities and for the largest ones control strong public utility and service companies. Generally speaking, municipalities are responsible for local affairs such as public transport, housing, culture, urban planning, water treatment, sewage, etc.
- 2.8 Regions are theoretically speaking the most important institutional player. They have legislative powers (in the limits of national laws) and are hierarchically superior to other local governments. They are for instance responsible for the territorial organization of their area (as such they may decide on the forms taken by municipal cooperation, merge municipalities or abolish them), must approve municipal plans. They have competencies in health, professional training, culture, tourism, environment, education, territorial planning, public transport, etc. According to the ‘subsidiarity’ principle, they must transfer some of these competences to other local government tiers (municipalities and provinces) which most of them have done with reluctance and only partially. In many instances, the distribution of responsibilities among local governments (municipalities, provinces and regions) has been conflicting and ‘solved’ by the courts. At the end of the 1990s, National Government enacted specific laws aiming at clarifying the distribution of powers between governments (the so-called Bassanini Laws) but their local implementation has also been a source of conflicts.
- 2.9 Provinces are weak institutions. Squeezed between the municipalities and the regions, they have few powers (provincial roads, building of high schools, some cultural and health sectors) but it all depends on the powers transferred to them by the regions. In addition, with the debate about metropolitan areas (see section 2), they may become more powerful in the near future.

2.10 In summary, the distribution of powers among local government tiers is complex and instable. All players have been waiting for a clarification of the situation from the State. The situation is no better on the financial front. As a trend, Italy is slowly evolving toward Fiscal Federalism, with more financial resources given to the regions and municipalities by a transfer of State taxes (part of the VAT, property taxes). However, this process is not linear and is also very controversial. In addition, State subsidies remain important which makes local governments still very much dependent on National Government for a significant part of their budget. As the State is not reliable (see 1.3. below) and is slow in its financial help, local governments, regions included, face difficult situations in which they are not sure of their resources and must act in uncertain financial frameworks.

***The State remains a key player but is hardly reliable***

2.11 Despite the Decentralization/Federalization process, the State remains a significant and powerful player as we shall see regarding urban policies. It is strong because Italy is still a unitary country and as such the State plays a central role as the unique source of national legislation and an important financial actor. In addition, the State has kept a key role as a policy initiator and of course is responsible for many policy sectors of national interest - infrastructure, energy, etc.).

2.12 However, from the local governments' point of view, the Italian State is not a reliable player. First and foremost, the State is not reliable because it does not hold its positions and usually changes according to the economic and political situations. Although this statement may be true for most of National States, in Italy it has led to a loss of trust. This has entailed a climate of instability and uncertainties in the implementation of national policies and national funding. Thus, many policy initiatives have been launched but without the necessary administrative and financial resources to implement them, or if they had such, they have been reduced or even cancelled without notice.

2.13 Because of well documented and well analyzed situation of 'government failures' (Dente, 1985; Crosta et al, 1990) the State has attempted to 'solve' issues with 'exceptional and special laws'. In order to avoid an absence of decision, the State has always preferred to act 'out of the ordinary process' and has chosen to enact specific laws to deal with specific problems or specific areas. This is particularly the case regarding large cities. Thus there is a 'special law' for Rome because it is the national capital, but also a 'special law' for Venice because it has specific problems that the State regards as of national interest. There were special laws for Genoa when this city had to celebrate the 500th anniversary of the discovery of America in 1992 (the 'Colombiadi') or was chosen as the European capital of culture in 2004, special laws again for the World cup in 1990 and for the Roma Jubilee in 2000, etc.

2.14 Some of these laws have a permanent duration. This is for instance the case for the Special laws for Rome or Venice which establish permanent State funding to address the specific problems of these cities. However, the State has often proved to be unreliable even in these legal frameworks. For instance, the municipality of Rome has always had difficulties in securing State funding and regularly the State has indicated that there was no money available for Rome in the specific fund established by the law.

### **3. NATIONAL URBAN POLICIES IN ITALY**

3.1 Dealing with the problems of urban areas is definitely a responsibility of the State in Italy. Although the regions have been transferred many competences and some resources, they are not in a position to develop and implement adequate measures to cope with urban issues. However, as we shall see, they do participate in the funding of some policies and because of their specific institutional status, they play a legislative role in the implementation of some National measures.

- 3.2 There have been a variety actions developed at the national level to deal with urban problems in recent decades. However, many observers and experts regard them more as a set of separated programmes than as a coherent policy response, in the sense that most of these programmes are not coordinated among themselves but on the contrary are administered by distinct ministries and directions within ministries.
- 3.3 Although National Government established a Ministry for Urban Areas (Ministero per le aree urbane) in 1987, this ministry never had resources to pursue policies of its own. It was a ministry without portfolio whose mission was “to promote and coordinate” interventions of other administrations. This ministry was abolished in 1993 in the political turmoil of the mid 1990s and none has been created since. Measures concerning urban areas involve 4 main Public administrations and Ministries (Presidency of Council of Ministers, Ministry of Public Works, Ministry of Finance, Ministry of Economic Development) through the following actors:
- ❖ DICOTER (General Direction for Territorial Development and Public Works) is a direction of the Ministry of Public Works which intervenes in the administration of so-called “complex programmes” focused on urban areas (see below).
  - ❖ The Department for the Development of Territorial Economies, by the Presidency of Council of Ministers, administers mainstream urban policies such as “Negotiated Programming” (see below).
  - ❖ The Department for Economic Development and Cohesion (DPS) within the Ministry of Economic Development which administers specific area-based programmes such as the Urban Free Zones (see below).
  - ❖ CIPE (Inter-ministerial Committee for Economic Programming) which gives orientations and manages mainstream urban policies and the development of national infrastructure (airports, railways, etc.) (see below).
- 3.4 In addition, other national administrations intervene such as the Ministry of Social Affairs for Social Housing, the Ministry of Internal Affairs for urban safety programmes and a specific player, the State-Cities Conference. The State-Cities Conference (Conferenza Stato-Città) is where national administrations discuss the conception and implementation of urban policies with local authorities. It was established in 1996 and is composed of the various ministries involved with urban issues and the President of ANCI (the National Association of Municipalities), the President of UPI (the National Association of Provinces), the President of UNCEM (the National Association of inter-municipal authorities), 14 mayors designated by ANCI, among which 5 must represent the central cities of metropolitan areas and 6 presidents of Provinces appointed by UPI. In the present Conference, central cities of metropolitan areas are represented by Genoa, Milan, Naples, Rome and Turin but Bologna and Cagliari are also members of the Conference.
- 3.5 There are many national urban programmes and they involve concern a great variety of policy domains. For our purpose, we will focus on those concerned with the enhancement of strategic capacity (2.1.), economic development and competitiveness (2.2.), Place Quality (2.3) and Connectivity (2.4).

### **Enhancing the strategic capacity of major urban areas: Institutional reforms and Negotiated Programming**

#### ***Institutional reforms***

- 3.6 In the last two decades, Italy has embarked on several institutional reforms aiming at strengthening the political and strategic capacity of its large urban areas. One reform, established with success, has been the enhancing of the powers of political executives in municipalities grouping more than 15,000 people. This reform was enacted in 1993 and its major feature was

the direct election of mayors. In addition, the law gave mayors the power to appoint their own deputy mayors and separated the executive from the municipal assembly. This was done to stabilize the executives (previously, the effective duration of a mayor was counted in months) and to give them more autonomy from municipal councils controlled by unstable party coalitions in order to give them more capacity to produce and implement policies. As a whole, this reform has been a success and strong mayors have emerged in almost all large cities, except Milan. In most large cities, these mayors have played a significant role in setting up new political agenda and in launching many political initiatives to change the image of their city and to develop the economy, the most famous ones being in Turin, Naples and Palermo.

- 3.7 However, the most controversial and important institutional reform has concerned the metropolitan areas. In 1990, the Italian National assembly approved the 142 Act which, among other things, established Metropolitan Cities (Città Metropolitane - CM). Citta Metropolitane are metropolitan authorities possessing significant area-wide responsibilities (strategic planning, territorial planning, public transport, economic development, housing, etc.). Their territory covers the metropolitan area and they are run by direct elected executives with adequate resources. Central cities are to be split up in metropolitan municipalities in order to avoid a political conflict between them and the new authorities and in many cases, provinces would be substituted by the CM or would lose most of their territory. These CM were to be created in 9 metropolitan areas, namely Bari, Bologna, Florence, Genoa, Milan, Naples, Rome, Turin and Venice (to which 3 others could be added: Catania, Palermo and Cagliari). The regions were to be in charge of enacting regional laws to implement the National Act and in case of inaction, the State is to impose CM.
- 3.8 By 1999, no CM had been created. Most of the regions had not enacted the requested regional laws due to strong opposition from various interests (political parties, municipalities, central cities, provinces, etc.). The State had not imposed them for lack of political willingness and agreement among political parties. In 1999, a new Act, Law 265, was passed. Considering that CM should still be created, the 265 Act changed the process. The 142 Act was definitely a top-down process and this was regarded as a technical and political mistake in a country undertaking a Federalist/Decentralized move at that time. Therefore, the 265 Act established a bottom up process in order to facilitate the creation of those metropolitan authorities, giving the initiative to central cities and provinces.
- 3.9 Few cities took advantage of the new law (Turin, Florence and Venice were about the only ones) but in 2001, a constitutional change introduced the CM in the Italian constitution (The Italian republic is made of Regions, Provinces, Metropolitan Cities and Municipalities), thus giving a constitutional existence to governmental tiers which however did not exist. Nevertheless, in spite of these changes, as of 2009, no CM had been created. The initiatives launched by the few mentioned cities had not been fruitful and were almost abandoned.
- 3.10 In 2009, a new law was approved (42 Act). This new law specified the conditions under which a bottom up process could be initiated and who could be the initiators (the central city and the province together, the central city and 20% of the municipalities representing at least 60% of the population of the province, the province and 20% of the municipalities representing at least 60% of the population of the province). As of 2010, no CM has been constituted.

***Negotiated Programming (Programmazione Negoziata)***

- 3.11 The Negotiated Programming (PN) is a set of institutional and governance arrangements and mechanisms created by the State to facilitate decision making and implementation of policies and infrastructure building in a context of a very fragmented system of actors, public and private. The PN is in fact a name given to a whole of very formal modalities or instruments of cooperation and coordination which have been gradually introduced in public policies since the mid 1990s and

more specifically established by the 662 Act of 1996. It is the role of the CIPE to specify the various modalities and to allocate resources between them.

3.12 At least 5 instruments of the PN have been established in the last 15 years. Their description is complex because some of these instruments look very similar, are very sophisticated and/or are identified by very specific legal and administrative procedures which require the skills of an expert to differentiate them.

- ❖ The Institutional Agreement for Programming (Intesa Istituzionale di Programma): Agreement between the State and the regional administration in order to cooperate for the achievement of a pluri-annual planning of operation of a common interest.
- ❖ The Framework Agreement for Programming (Accordo di Programma Quadro): it is the operative instrument of the Institutional Agreement for Programming.
- ❖ Territorial Pacts (Patti Territoriali): Agreement between local governments, public and private agencies and firms to implement a set of operations regarding local development.
- ❖ Programming Agreements (Contratti di Programma): Agreement between a State administration and private agencies or firms to implement activities
- ❖ Area Agreements (Contratti d'area): Agreements between the State, local governments and social actors (unions) to implement specific measures regarding employment in areas of economic crisis.

3.13 Most of these instruments do not concern urban areas specifically. But obviously they have been heavily used to address common problems of decision making and public policy implementation in cities. It would be impossible to list all of them but as examples we can name the Framework Agreements for Programming regarding the redevelopment of the huge area of Porto Marghera in Venice or the location and building of the new Fair in Milan or the Territorial Pact regarding the redevelopment of the Varese area, close to the International airport of Milan.

3.14 To explain how such instruments can enhance the strategic capacity of an area, we here discuss the Agreement for Programming (AP) or Territorial Pacts (PT) as examples. AP and PT are procedures through which the participants agree to do something in common (a development project for instance) and to obey specific rules to achieve it. The general rules are usually stated in a Law and the local specificities are described in a regional law. In order to get State funding for a project, local governments must send a proposal to the CIPE which will verify if the project fits. Normally most of modalities are already specified by the law (for instance, an AP will specify who is the leader of the project, what each actor must do (for instance to change a local plan if necessary for the implementation of a project) and finance, the duration of the project, which are the sanctions against those who will not respect the AP, etc. It is thus expected that with that kind of instrument, a project will be elaborated and implemented more quickly and with more efficiency.

***Fostering economic development and competitiveness***

3.15 Some of the Negotiated Programming instruments, notably Territorial Pacts and Area agreements, have economic development and competitiveness as their main objectives since they fund some infrastructure and industrial activities. However, such instruments do not target urban areas but much larger territories with social and economic disadvantages, whether they urban or not. There are 228 Territorial Pacts and 18 Area agreements on the national territory and the bulk of them are in the South. The total amount devolved to PT by the State has been about 5 billions Euros since 1996. Although generally speaking, these policy instruments have not concerned large urban areas, in some examples the considered territories have included or touched some of them (Siracusa and Venice for instance). In the economic development area, only one measure or policy do target urban areas: the Urban Free Zone Policy. On a more ad-hoc



basis, Governmental support to cities hosting big events can also be included in this policy domain.

**The Urban Free Zone Policy**

- 3.16 The Urban Free Zone policy (Zone Franche Urbane, ZFU) was established in 2007, using the French program of the “Zones Franches Urbaines” as a model. Although launched in 2007, the ZFU policy was preceded by several measures or programmes such as the specific assistance given to Reggio Calabria in 1989 or the program initiated in 1997 by the law 226 called Law Bersani which focused on the development of SMEs in depressed urban areas. In any case the amount of funding given to these measures was small and spread out over many urban areas: as an example, the total funding authorized by the Bersani Law from 1997 to 2002 was about €450 millions for about 16,000 projects.
- 3.17 The same logic applies to the ZFU policy. The main objective of this policy is the development of specific areas in cities, areas characterized by social and economic deprivation (e.g. an unemployment rate of over 7.7%). These areas must be under 25,000 people. The focus of the ZFU policy is the creation and/or the maintaining of SMEs in those areas, using fiscal incentives and tax exemptions as tools to attract firms. The ZFU policy is administered by the Ministry of Economic Development with the assistance of the CIPE and the list of urban areas was decided in the State-Cities Conference. As of 2010, there are 22 Urban Free Zones (see map 1) in Italy and the amount of funding set up was €50 millions for 2008 and €50 millions for 2009 (see table in appendix). As the map shows, Urban Free Zones are generally not found in second tier cities but in much smaller ones. Only Cagliari, Catania, Naples and Taranto, which we have considered second tier cities, have Urban Free Zones.

**Map 1: The 22 “Zone Franche Urbane” in 2010**



Source : DPS

**Supporting Big Events**

- 3.18 This is not an urban policy per se but this activity deserves some attention because it is a regular way of intervening in urban areas and notably in big cities for the State. We have already seen that the State regularly intervenes with special or exceptional laws. This has particularly been the case for big events in big cities. Without being exhaustive, we can name: the 1992 ‘Colombiadi’ in Genoa, the 2000 Jubilee in Rome, the 2006 Olympic Games in Turin and soon the 2015 World Exhibition in Milan.
- 3.19 Usually, Central Government intervenes through the funding of specific infrastructure aiming at securing the good functioning of the event, but of course the infrastructure funded is not only concerned with the big event with the medium or long term organization of the city. Thus the 1992 ‘Colombiadi’ was the opportunity to open a new subway line, to re-develop the harbour and regenerate the nearby neighbourhoods, to upgrade the city centre. The 2000 Jubilee in Rome (estimated State intervention of about €2 billions) was used to upgrade the urban transport system, embellish the city and increase its touristic hosting capacity to make it more attractive and regenerate specific areas.
- 3.20 The Milano 2015 World Exhibition is of the same vain but much more ambitious. As in other cases, the State intervenes through its significant participation (40% of shares) in a public company (Milano 2015 S.p.a) with the city, the Province of Milan, the Lombardy region and the Milan chamber of commerce. The total planned budget for the expo is €4 billions to which €11 billions must be added for specific infrastructure. Indeed, the 2015 Expo will be the opportunity to double the present metro network, to build a new express rail between the Exhibition site and the Malpensa International airport, to improve road access of the north-west part of the metropolitan area.

**Enhancing Place Quality**

- 3.21 The enhancement of the quality of places has been mainly done through area-based policies. While the first programmes have focused on the social and physical dimension, more recently the issue of safety has become a priority. Most of the measures taken to improve the social quality of cities have used what in Italy are called “Complex Programmes” (Programmi Complessi). They were introduced at the end of the 1980s by the first Urban European programmes (Urban Pilot Programmes) to encourage innovations in regeneration policies and planning in order to promote social cohesion. With the European Urban Initiative, the Italian Government launched a set of complex programmes from the mid 1990s. Complex programmes are multi-actor, public and private, integrating European, national, local, public and private funding. They are administered by the DICOTER with the help of the CIPE. The main programmes are:
- ❖ The Urban Reparation Programmes (Programmi di Recupero Urbano - PRU), established in 1993 to upgrade public housing and build primary infrastructure,
  - ❖ The Neighbourhood Contracts (Contratti di Quartiere - CDQ), introduced in 1997 to reduce social disparities within cities through the improvement of urban services and urban employment,
  - ❖ The Programmes for Urban Requalification and Sustainable Development of the Territory (Programmi di Riqualificazione Urbane e di Sviluppo Sostenibile del Territorio – PRUSST), set up in 1998 to improve public and private infrastructure, transform the economic and social fabric of the city as well as to better its social and physical environment.
- 3.22 In contrast with the PRU and CDQ, the PRUSST concern larger areas in the cities. While the PRU and CDQ aim at the improvement of neighbourhoods, PRUSST consider larger areas such as urban corridors and big infrastructure and facilities. The amount of National funding allocated to these programmes is difficult to assess but it is not very large. For instance, according to the 2007-2008

National Transport report of the Ministry of Public Works, the State has funded 78 PRUSST for a total of about €340 millions, that is about €4 million per project. Concerning the CDQ, the specific national contribution is about €263 millions for the second phase (from 2002 onward) but the total amount of authorized funding for the State and the regions has been around €1.4 billion for 192 projects.

- 3.23 More recently, a new issue has emerged, safety, and has been the object of specific measures and agreements between the State and cities. Several policy instruments have been established since 1998 to improve urban safety like the local safety agreements (contratti locali di sicurezza) or more recently, following the French policy, the Local Safety Pacts (Patti Locali per la Sicurezza). Many of these agreements have been signed between the State and municipalities but also at the national level between the State and the ANCI (the National Association of Italian Municipalities). They focus on a better coordination between municipal and national police forces and a so called “participated safety” with the introduction of non-armed groups of citizens as assistants.

***Improving urban connectivity***

- 3.24 Urban connectivity (linking cities with the national and international territory but also facilitating travel within urban areas) has long been a public policy problem in Italy. Indeed, Italy has experienced big difficulties in building public transport networks like metro or high speed rail as well as developing its major airports. The situation has not significantly improved over the years even if specific measures have been taken. In 2001, the National Parliament approved the law 443, the so-called “Objective Act” (Legge Obiettivo). It is a law which specifies the big strategic infrastructures of the country and their funding. These strategic infrastructures include high speed rail, international airports and metros in the major cities. The budget is administered by the CIPE. It is difficult to exactly know the list of all strategic infrastructures because their number varies in the different documents depending on their priority status. As in 2009, 137 infrastructure projects have been included in the law for a total cost of about €174 billions.
- 3.25 Projects of urban interest make more than the half of the total. The most important is the project MOS.E. in Venice which amounts to 21% of the total. The MO.S.E project concerns the protection of Venice and its laguna from the “high water” (acqua alta). The construction of metro lines in major urban areas (Brescia, Catania, Genoa, Milano, Monza, Naples, Perugia, Salerno and Turin) takes more than 15% of the whole funding. The rest should go to the bridge between Reggio Calabria and Messina in Sicily, the major train corridors, including high speed rail networks, improvement of airport connections with urban areas. Almost 10 years after the approval of the Legge Obiettivo, critics are many. First and foremost, the law has set aside only one third of the total necessary funding. Second, many infrastructures are still waiting for legal approval. The process is indeed very slow and the law has been called the “snail objective law” with insufficient funding.

## 4. CONCLUSIONS

- 4.1 First, it is important to point out that no assessment of National measures and programmes has been made, either because some of those measures and programmes are too recent (this is the case of the ZFU) and/or because it is not in the Italian or State culture to “assess” its policies (the situation is very similar to the French one in that domain).
- 4.2 That said, four major points and conclusions can be drawn from the presentation of the urban programmes/policies of the Italian State. i) the absence of real urban policies behind a proliferation of programmes, ii) the over-determining of urban policies by the Federalist issue and the still vivid “South question”, iii) a relative focus on urban areas but the absence of target on

second tier cities and iv) contents of programmes are more on social issues and strategic capacity than on economic competitiveness.

***The absence of real urban policies behind a proliferation of programmes***

- 4.3 In recent decades, there has been a proliferation of measures and programmes for urban areas or “territories” but it is difficult to consider these programmes as real policies because they are fragmented, lack coherence and are not supported by sufficient, stable funding. For example, the proliferation of measures and programmes are to be seen mostly in the “Complex Programmes” and the instruments of “Negotiated Programming” of which we have only presented the most significant ones but far from all of them. These programmes not only are very numerous but they concern various policy domains (social cohesion, housing, public space, employment, economic development, environment, etc.) and affect different scales (neighbourhoods, municipalities, larger areas).
- 4.4 These programmes are elaborated, funded and managed by various ministries and within them by various agencies. These bodies do not cooperate and thus cannot coordinate the different programmes, not to say give coherence to them. This could have been the role of the Ministry for urban areas, created in 1987 but this Ministry did not last long. Even if we find the same structures dealing with various programmes such as the CIPE and the State-Cities Conference, these structures do not play a coordinating role between programmes.
- 4.5 These programmes are not supported by sufficient funding according to the needs established by national ministries and agencies and the State itself. In addition, programmes and funding are not secured. Not only their “security” depends on the political coalition in power (a situation fairly common in most countries) but even during the same administration, programmes can be cancelled and funding can be discontinued, which impedes the efficiency of them and diminishes the credibility of the State.

***The dominance of urban policies by the Federalist issue and the “South question”***

- 4.6 Urban programmes are “trapped” by a double political and territorial conflict. On one hand there is a classical ideological conflict at the national level between the center-right and the center-left coalitions and on the other hand there is a territorial conflict between the North and the South, Rome being part of the South. In many circumstances, the territorial conflict is more important than the ideological divergence, a situation well illustrated by a famous statement by A. Bassolino, a national political figure of the left, previously mayor of Naples and now President of the Campania Region (where Naples is located) saying that for a representative of the regions at the State-Region Conference, he would prefer a conservative from the South than a progressist (his own party) from the North.
- 4.7 Regions and local governments cannot substitute for the State and compensate for its failures and lack of involvement because they do not have the financial means to do so. They still depend heavily on State subsidies in many sectors. And State transfers due to decentralization are not fully enacted such as in the health sector. They also cannot substitute the State and act as territorial institutional leaders because they are not constitutionally and institutionally capable of doing so because of the complex distribution of powers and competences.
- 4.8 The result of this situation is the domination of a logic of spreading out of resources rather than their concentration on specific portions of territories, regions or urban areas because choosing to concentrate is politically too risky for a National Government. This is for instance the case for metropolitan areas. Originally, the Law 142 on Metropolitan Cities (CM) was to be applied to the largest urban areas but most of them are located in the North. It was therefore decided to lower the population threshold in order to include Southern cities and thus achieve an accepted

territorial balance. This is also why funding is never allocated on a competition basis but to the contrary spread out over the whole national territory because “everyone must be served”.

***A focus on urban areas but not very much second tier cities***

4.9 As this report has shown, the Italian Government has produced a relatively significant number of measures and programmes on urban areas. Many “complex programmes”, a large part of Negotiated Programming, the Urban Free Zones, several projects of the “Legge obiettivo” do concern urban areas. But since urban areas are never defined and as in most cases programmes focus on small scales (neighbourhoods and part of municipalities), they end up by being located in tens or hundreds of places, some large like the big cities some small like small towns. Second tier cities are never targeted as such to the relative exception of some measures regarding the enhancement of strategic capacity (regarding ‘Metropolitan cities’ for instance).

4.10 However, some programmes or actions do target specific urban areas but this is because these areas are very specific by their political status (Rome) or their distinguished problems (Venice). It is also because they host specific events of national interest which justifies a specific treatment and an involvement of the State (Rome, Milan, Genoa). In this context, Rome is not treated differently from any other big city. This is also for political reasons because for Autonomist parties (e.g. Lega Nord) Rome is not the only capital, Milan being the capital of the North and as such must be treated equally. But this situation is not limited to Rome and Milan, Naples being the capital of the South (debatable with Palermo). The result is that in terms of national urban policies, it is impossible to distinguish between the political capital (Rome), the economic capital (Milan) and other big cities.

***Programmes focus more on social issues and strategic capacity than on economic competitiveness***

4.11 Overall, the content of urban programmes is primarily focused on social issues. In the various ‘Complex Programmes’, social issues are indirectly treated through housing improvement, the upgrading of public spaces, the development of urban services (better connections of neighbourhoods for instance) and so on. The question of strategic capacity is addressed through the improvement of territorial governance. It can be argued that this is the most innovative aspect of urban programmes. Without assessing them in terms of success or failure, complex programmes and instruments of Negotiated Programming have shown the capacity of the Italian society to invent modalities and tools to achieve collective action. In a way it is because institutional reforms have proved so difficult, that the search for organizational and institutional alternatives has been so fierce. It is because local governments know that they cannot rely politically and financially on the state that they have developed instruments and mechanisms to produce collective action with a fragmented, unstable and very often conflicting system of actors. Indeed, most of the organizational and institutional innovations one finds in Complex Programmes and Negotiated Programming have been elaborated by local actors before going national.



**The ESPON 2013 Programme**

**3.8**

**TAMPERE &  
NATIONAL POLICY FINLAND**

**MARKKU SOTARAUTA & OLLI RUOKOLAINEN (Eds.)**



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**EXECUTIVE SUMMARY - TAMPERE STORY IN A NUTSHELL**

- 1.1 The city-region of Tampere consists of eight independent municipalities. Being the second city-region in Finland its population is approximately 360,000 (the City of Tampere itself has a population of 211,000).

***Transformations***

- 1.2 In Tampere, three major economic transformation processes have taken place. *First*, the textile industry declined. The restructuration of Tampere industry can be characterized as a recession of the textile industry in particular, because it was the textile industry that once was so massive and which, ultimately, lost most of the jobs.
- 1.3 *Second*, of the traditional Tampere industries, only the engineering industry has managed to retain its significant role. Against a background of industrial recessions, it has succeeded in renewing and developing technology of an increasingly high level. The engineering industry has been able to exploit the possibilities that the technical university and other research centres have offered in its development work. Today several of the engineering companies operating in Tampere are global market leaders in narrow business segments.
- 1.4 However, several mergers and rearrangements of ownership have taken place that has resulted in ownerships being shifted to international corporations that are among the largest in the world. The economic recession of 2008/9 has once again challenged industries in Tampere and again, being dominantly export oriented in nature machinery and engineering industry have been hit hard.
- 1.5 *Third*, new and rapidly growing business sectors have emerged; particularly in the 1990's the information and telecommunications technology clusters grew rapidly, in less than five years, the ICT sector more than doubled in size in Tampere. In 1996 there were a total of 170 firms, employing 5,200 people, by 2000, the ICT sector employed approximately 10,000 people. If the media and new media sub-sectors and the related service and commerce sub-sectors are also included, employment rose to 15,500 people in 2000 and to 19,900 in 2008.
- 1.6 Whether there will be the fourth major transformation process remains to be seen. Economic recessions of early and late 00's have challenged Tampere's industries again but so far Tampere has been able to cope with continuous changes.

***The origins of industry and seeds of knowledge era***

- 1.7 Tampere is an example of a city that has been able to 'switch the trajectory'. In the 19<sup>th</sup> century Tampere, due to its abundant hydropower resources and economic privileges emerged as one of Finland's leading industrial centres and the birthplace of its heavy industry. In the turn of the century Tampere was socially and economically closer to industrial regions in Britain and Germany than the rest of Finland. So prolific was its textiles industry that Tampere became known as the 'Manchester of Finland', and hence, Tampere is one of those former European textiles cities whose leading industry (textiles) began to decline from the 1950s onwards.
- 1.8 In the 50's and 60's local politicians and town managers realized that new seeds for change are needed. They went for higher education that Tampere did not have in the 50's. Helsinki and Turku dominated the Finnish academia at that time. Tampere's post-war revitalization and hunt for higher education institutions benefited from having a group of city leaders who had considerable experience working together during the Second World War when Finland was fighting the Soviet Army. So called 'brothers-in-arms axis' took positions of power during the 1950's and 1960's and were able to work across the contemporary political divides.
-



- 1.9 In the post-war period, the Finnish government decided to expand higher education nationally and establish number of universities in different regions of Finland. Many of the Tampere's 'rival' cities, most notably Oulu, were granted a university. The town fathers of Tampere did not seek state to grant a university but they set about attracting a private College for Social Sciences that was based in Helsinki to move to Tampere.
- 1.10 After succeeding in this endeavour they set out to attract Helsinki University of Technology to establish a branch unit in Tampere. By the early 1970s, Tampere had two universities, one general multi-disciplinary one, University of Tampere (UTA), former Social Science College, and Tampere University of Technology (TUT), former branch unit of HUT.
- 1.11 These two universities became the core of Tampere's further development; TUT has maintained close connections with companies throughout its history, even during the 1970s when the national policy aimed to block formal university/business linkages. In the early 1980s, Oulu established a technology park first in the Nordic countries, and once again, Tampere responded quickly by establishing its own technology park in 1986. In 2006 the technology park was sold to a private company, Oulu-based Technopolis Ltd that has become a major national and international player in high-tech infrastructures and services provision.

***Nokia and high-tech***

- 1.12 In the early 1990s, Finland experienced a deep economic crisis as a result of combined effect of the collapse of the neighbouring Russian market and economic recession in its main Western export countries. The prospects of the country as well as Tampere seemed gloomy indeed. Industrial production shrank by over 10% and real GDP dropped by over 10 percent in just three years. Unemployment rose nationally to nearly 20 percent by 1994 having been appr 4 % few years earlier. In Tampere unemployment rate was as high as 24,4 %.
- 1.13 During and after the recession Finland and its core cities began to transform themselves into knowledge economy. In international comparisons Finnish economy steadily emerges as innovative and highly competitive and Tampere being the second R&D hub in Finland has been among the core cities in Finland's transformation processes.
- 1.14 Of course, as so often happens, in retrospect it is possible to see that economic crisis proved to be quite helpful in shifting trajectories. Deep crises melted down some of the obsolete structures (e.g. through bankruptcies and the falling apart of strong coalitions of vested interests), and made local agents aware that time is rife to do new things.
- 1.15 All in all, Tampere faced the problem of developing and sustaining knowledge-intensive activities in the city-region. In retrospect, three factors proved as important: a) the extensive research and education capacity developed earlier, b) Nokia's growth and presence in Tampere, c) renewal of mechanical engineering industry and d) the proactive local economic development policy.
- 1.16 High-technology businesses grew rapidly in the 1990s helping Tampere to become a successful high-technology city. The city-region has undoubtedly benefited from the strong growth and presence of the Nokia Corporation, a global giant in cellular phones that reinvented itself in the 1990s from a very broad range goods producer to a specialized mobile telephony player. Nokia participated also in creating a science park in co-operation with the local university of technology and the city of Tampere. In the 90's Tampere became the leading Nokia R&D hub globally, the position it lost in the 00's. And at all events, Nokia began to expand its activities in Tampere due to extensive research and education at two universities in the fields important for it.
- 1.17 Mechanical engineering firms, for example, were forced to reinterpret their core competencies, and to integrate new technology into traditional engineering domains. Tampere's engineering industry was not selected out by global forces for three reasons: (a) there was a long tradition and very good pool of engineering capabilities in the city, i.e. a good basis for variations to

emerge to be selected by the market forces, and yet retained locally, (b) institutions created by the City and other major players were the foundation where new individual strategies had a possibility to grow, i.e. a good local selection environment that was responsive in times of change, and (c) intense collaboration among firms, the city government and educational institutes made it possible to launch many important processes to enhance adaptation, and thus to affect also the evolutionary processes.

**Local policy approach**

- 1.18 The policy approach adopted by the City of Tampere can be labelled as an ‘enabling development model’ in which specialised agencies aim to help a regional partnership to develop the overall strategy. Local and regional partners then commit to a high-level strategy, which helps to update their mental models and capabilities. This means that new ideas come into the region in an applied form and they are fairly quickly reinterpreted to fit into the local circumstances, on the basis of trying to do something better rather than in an abstract and potentially unworkable form.
  
- 1.19 If there is a secret of successful economic transformation, it is the pragmatism deeply rooted in the local culture and development programmes used mainly as co-ordination devices and for launching and enabling new activities instead of keeping the responsibility of them within the city government only. This is the core of the ‘enabling model’. It is important to stress that the enabling development model emerged implicitly within the city’s practices from the late 1990s, and was formally recognised somewhat later.
  
- 1.20 The specialization of specialized development agencies is diverse including sectoral agencies for healthcare technology, business services, culture, new media, and facilities provision centres (conference tourism, business parks), as well as services for businesses (seed capital, venture capital, technology transfer, business advice).
  
- 1.21 In 1994, the government launched the Centre for Expertise programme that focused on strengthening interaction between universities and firms, regional technologies and innovation capacity. At the outset, Tampere’s programme was based on three strands – mechanical engineering/ automation, ICT and healthcare technology. Later, knowledge intensive business services and media were added into the local innovation policy portfolio.
  
- 1.22 In the turn of the millennium, the significance of knowledge and innovations had been internalised in different quarters of Tampere, but at the same time there was the insight that further steps must be taken and the target level ought to be raised. In order to take the next step, the preparation of a new, broad development programme for information society development was begun in 2000. The programme was named eTampere.
  
- 1.23 The objective of the eTampere programme was to develop Tampere into the world’s leading researcher, developer and applicator of the information society. The strengthening of the knowledge base of the region, the creation of new business activities and the development of a new public web based service were set as the new principal lines of operation. The sum total of the budget of the five-year programme was €135 milj. In addition to the City of Tampere, TUT, UTA, VTT and the local companies participated in the programme. After eTampere –programme Tampere continued using local development programmes as vehicles for co-ordination and targeting development efforts of wide networks by launching BioneXt Tampere and Creative Tampere programmes.
  
- 1.24 Bionext Tampere is an investment and development programme that focuses on biotechnological education, top-level research, product development, clinical application and possibilities in international commercialization. The main focus has been on health-care technology. More or less simultaneously with BioneXt programme City of Tampere launched also Creative Tampere programme that focuses on business development aim being to create profitable business and

jobs stemming out of culture. As the other local development programmes the Creative Tampere programme offers a framework and funding for kicking off projects that create new business. The programme acts as an accelerator and as a creator of networks.

- 1.25 For its part, all this helped to create a local consensus that Tampere could establish itself as an innovative region with global competencies focusing especially on manufacturing and ICT industries without neglecting emerging mini-clusters with future prospects. The centre of expertise programme helped to fund some co-ordination activities within the three sectors, and to demonstrate the potential economic benefits of co-operation. In recent year, the focus of local development efforts has shifted towards open innovation and creation of open innovation environments.

***Local capacity translates into action***

- 1.26 In Tampere, at some points of time the local policy-making has clearly had a proactive and calculated effect on local development, while at other times it has clearly been reactionary. During the industrial recession in particular, heavily influenced by the restructuring of the most important industrial sectors, policy-making appeared relatively powerless. Nevertheless, it would be a crude simplification to state that Tampere has only been at the mercy of external triggers and simply adapted to changes in its selection environments.
- 1.27 The main external factors having had a strong influence on the development trajectories of Tampere has been related one way or another to global economic changes (oil crisis, WW II, collapse of Soviet Union, etc.).
- 1.28 Consequently, the case of Tampere illustrates well the importance of both local capacity in decision-making and local economic development policy delivery and external investments and expertise. This has been the case throughout Tampere's history. In every major turning point it has been able to reinvent itself through a combination of adaptation to global and national developments, attracting resources and expertise elsewhere and making all those decisions and investments that locally can be made. Tampere has never been among the major targets of the national and/or European regional policy. Of course, it has participated in the Centre of Expertise programme and one of its suburbs has been an Objective 2 area but still, the continuous reinvention of the city is more a story of local development policies, activity of the business sector and forward-looking and relatively young universities.
- 1.29 Based on his case study on Tampere, Paul Benneworth concludes that 'feeling spurned by central government, Tampere decided to do its own thing'. According to Benneworth's analysis, Tampere has undergone several regional innovation journeys with a high degree of success, and this positions the region extremely favourably for the future. Tampere's assets have been (a) long-term coevolution with global and national developments, in which (b) good local adaptive capacity has been the core. For its part, the adaptive capacity has consciously been improved by (c) proactive local economic (and later also innovation) development policy. All these factors gave greatly benefitted from (d) a good geographical location in Finland (as is shown in the Section I of this report). Additionally, (e) universities have had a central position in local efforts to boost development both as targets of policy and core assets of it. Eventually, (f) all these factors combined have improved Tampere's reputation.

(Sources: Kostiainen & Sotarauta 2003; Benneworth 2007; Kautonen et al. 2004; Stimson et al 2009; Martinez-Vela & Viljamaa 2004; Martinez-Vela 2006; Kostiainen 2002; Sotarauta & Srinivas 2006; Sotarauta & Kautonen 2007; Schienstock et al 2004; Kautonen 2006; Hietala & Kaarinen 2005; Haapala 1986;)

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## POLICY REVIEW OF THE ROLE OF SECOND TIER CITIES IN THE NORDIC COUNTRIES

Olli Ruokolainen

### 1. INTRODUCTION

#### Research question and outline of the review

- 1.1 The Nordic countries are known for their welfare model, which also has an effect on economic and regional development efforts. The situation with Second tier cities is therefore twofold in the Nordic countries. They have to struggle for national level recognition with capital regions in national development as in other European countries. In addition to this they have to struggle with the remote regions for the policy support, which is located to other parts of the country than the capital region. In this respect the situation of Second tier cities is very interesting.
- 1.2 The main question is:
- What is the role of Second tier cities in national level policy documents / strategies in the Nordic countries?
- Sub-questions are:
- What are the overall national development objectives?
  - What are the objectives for the Second tier cities or large urban regions?
  - What are the justifications of development efforts concerning city regions?
- 1.3 The focus of the review is on national economic development and the role of Second tier cities in this context. Therefore this review concentrates on regional development and innovation policies and national level spatial policies. Other forms of policies are excluded because of their non-spatial nature or because they are located mainly on municipal level.
- 1.4 Review is divided into five sections, which deal with the situation of Second tier cities in each of the Nordic countries: Denmark, Finland, Norway, Sweden and Iceland. However the significance of Second tier cities in Iceland is almost non-existent and therefore the situation of Iceland is reported only briefly.
- 1.5 Each section begins with an overview of the governance system on national and regional level. Some of the most central innovation and regional policy institutions are also described. After this the most essential national level policy documents are introduced. Then the overall development objectives as well as the possible objectives concerning Second tier cities are introduced. Lastly the basic principles and justifications of development activities concerning national level and Second tier cities are analyzed.
- Data**
- 1.6 Main data of this review are strategy and policy documents. This means that the findings of this report are primarily based on explicit policies and strategies. The implicit policy objectives cannot be therefore fully reached and understood in this report. However the main policy principles concerning the development of Second tier cities can be reached to some extent.
- Nordic Second tier cities**
- 1.7 Nordic countries are very monocentric; the influence of capital regions is great in spatial, demographic and economic development. However each country has two or three major cities outside of the capital region (Figure 1). To give an overall view of the situation, the capital regions and the most potential Second tier cities of Nordic countries are introduced briefly.
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**Finland**

- *Capital Region of Helsinki*, population 583 000 / 1.3 million.
- *Tampere* is the second largest city in Finland outside the capital region. It has 211 000 inhabitants. City has a history of manufacturing industries, and it could be called the “Manchester of Finland”. Nowadays Tampere has a large variety of knowledge intensive activities and two universities.
- *Turku* has 176 000 inhabitants. Until the beginning of 19<sup>th</sup> century it was the capital of Finland. Turku is a city of three universities, and it has developed for example biotechnology initiatives. It is also one of the European capitals of culture in 2011.
- *Oulu* is an important centre for the northern Finland. It has 139 000 inhabitants. Oulu also has university with strong technological emphasis. Oulu is known for the rapid development of a strong high-tech cluster during the 1990’s.

**Sweden**

- *Capital Region of Stockholm*, population 843 000 / 2 million.
- *Gothenburg* (or Göteborg) is the second largest city in Sweden. It has 513 000 inhabitants. Gothenburg hosts a wide variety of industrial and economic activities, and it is a major logistic center in Scandinavia. It also has two universities.
- *Malmo* (or Malmö) has 294 000 inhabitants. The manufacturing industry in Malmo has been steadily declining, but the city is trying to renew itself by developing cultural and educational activities. Malmo is closely linked to Copenhagen through the Oresund Bridge between them.

**Norway**

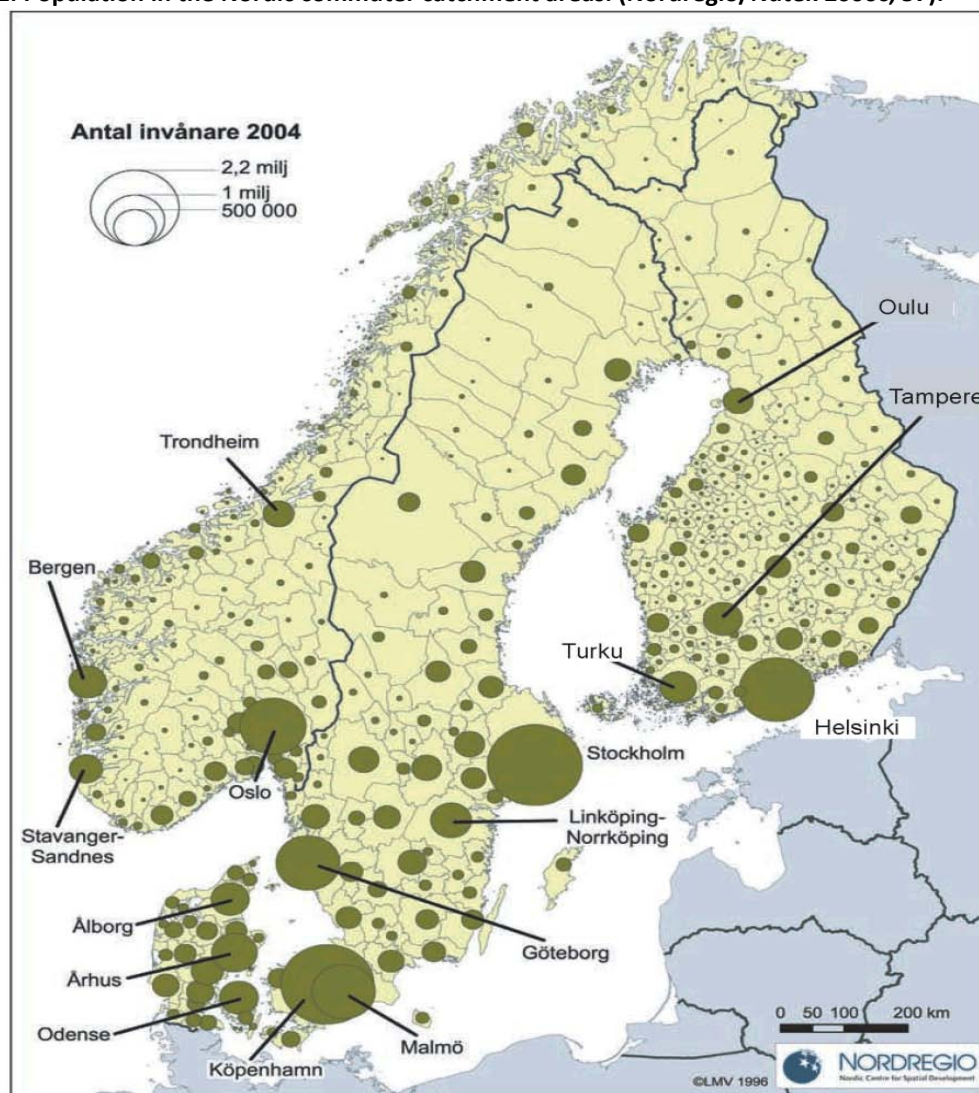
- *Capital Region of Oslo*, population 876 000 / 1.2 million.
- *Bergen* is the second largest city in Norway with 253 000 inhabitants. The city and the surrounding region have strong maritime, energy and seafood sectors. The city has several higher education institutes. Bergen was also the European capital of culture in the year 2000.
- *Stavanger* has a population of 124 000. The economy of Stavanger has been heavily influenced by the petroleum industry. The city has two universities and it also has been a European capital of culture in 2008.

**Denmark**

- *Greater Copenhagen*, population 530 000 / 1.7 million.
- *Aarhus* (or Århus) has a population of 300 000, but the Greater Aarhus has 1.2 million inhabitants. Greater Aarhus is the second largest conurbation in Denmark. The city has a world class university and it is also a major logistic hub in the Baltic Sea Region.
- *Odense* is has a population of 188 000. Maritime industry is one of the main elements of economy around Odense. University of Southern Denmark is partly located in the city.
- *Aalborg* has a population of 190 000 after some recent municipal mergers. The city has moved from manufacturing industry to more knowledge intensive economy and hosts one university.

(Sources: Aalborg kommune 2010; Aarhus commune 2010; Bergen commune 2010; Göteborgs stad 2010; Københavns Kommune 2010; Malmö 2010; Odense commune 2010; Statistics Finland 2010; Stavanger-statistikken 2010; Stockholms stad 2010.)

FIGURE 1. Population in the Nordic commuter catchment areas. (Nordregio/Nutek 2006c, 57).



## 2. DENMARK

### Governance

#### *Institutional structure*

- 1.8 There are several ministries involved in regional and economic development. Ministry of Economic and Business Affairs is one of the most central ministries in innovation policy and regional development. (Ministry of Economic and Business Affairs 2010). Ministry of Interior and Health was established in the beginning of 2010 and now it also has a position in coordinating regional level government but it also serves as a coordinator of health care service administration. (Indenrigs- og Sundhedsministeriet 2010). Some other ministries also have relatively small influence on sectoral policies which involve regional development or innovation policy. However Ministry of the Environment has a central role in spatial planning coordination on national level (Ministry of the Environment 2010).
- 1.9 In addition to ministries there are national level committees, councils and governmental bodies coordinating the development efforts.
- ❖ Regional policy ministerial committee is a national level coordination body. It coordinates the regional implementation of national level strategies concerning regional and economic

development. It consists of representatives of several different ministries. (Erhvervs- og byggestyrelsen 2010.)

- ❖ The Danish Growth Council is appointed by the Minister for Economic and Business Affairs. It advises the government on growth policy related issues. Members of the council are for example representatives of private firms, knowledge institutions, local authorities, regional growth forums, labor unions and so on. (Danmarks Vaekstraad 2010.)
- ❖ Danish Enterprise and Construction Authority is a general government authority which is a national level counterpart for the regions in matters which concern regional development and spatial planning (Erhvervs- og byggestyrelsen 2010).

1.10 On the local and regional level Denmark has a two-tier government system. Local government reform took place in the year 2007 and the number of municipalities dropped from 271 to 98. In addition to this 13 counties were abolished and replaced by five new administrative regions which have representative bodies called county councils. The minimum population for single municipality is 20 000 inhabitants. The reform did not have great effects on city regions which in most cases remained their municipal boundaries. However many municipalities in remote regions merged into new municipalities with large areas and low population density. (Local Government Denmark 2010, 1–14; Ministry of the Environment 2006, 21–22.)

1.11 The five regions are primarily responsible for health care but they are also draw up regional development plans and give secretarial service to regional growth foras (or regional growth forums). Municipalities have a wide variety of tasks and responsibilities concerning almost every aspect of society. When concerning only the development activities municipalities are responsible of business services, launching and operating business development activities, enhancing cross-municipal business co-operation and co-operating with the growth foras. (Local Government Denmark 2010, 1–14; Erhvervs- og byggestyrelsen 2010.)

1.12 Regional Growth Foras are forums which consist of public and private actors of a region: representatives of business community, knowledge and educational establishments, labour market parties and local and regional authorities. Foras come up with development strategies for the regions and monitor the local and regional conditions for growth. (Erhvervs- og byggestyrelsen 2010.)

1.13 Regional development and spatial planning is at least to some extent interaction between national level organization, regions, municipalities and the growth foras. The reform process of governance may seem to have increased the regional and local level influence on development efforts. However it can be stated that for example the capital region’s strategic capacities are smaller after the renewal than they were before. This is because the number of administrative duties has risen and some strategic control has been lost on the regional level. (Andersen 2008, 14–15.)

***Special initiatives and institutions***

1.14 Some institutions or agencies related to innovation and business support have an effect on some sectoral policies and support mechanisms, which in turn have an effect on Second tier cities.

1.15 There are state investment funds such as Vaekstfonden which funds growing companies and their innovation activities. There is also Fornyelsesfonden that promotes “green economy” and renewal in small and middle-sized companies. Højteknologifonden supports the development of technologies, which create growth and new possibilities in Denmark. (Økonomi- og Erhvervsministeriet 2010c.)

1.16 The Danish Agency for Science, Technology and Innovation performs tasks relating to research and innovation policy and supervises the allocations of funds for research and innovation activities and advises the political system on these matters. It is also responsible for interaction

between knowledge institutions and business and industry as well as for international research and innovation partnerships. (Danish Agency for Science Technology and Innovation 2010.)

### Second tier cities in policy documents

#### **Documents**

1.17 There are several documents, which are relevant when discussing the role of Second tier cities in Denmark. The New Map of Denmark (2006) sets the principles for spatial planning. Documents called "Landsplanredegørelse" are annual reports and strategy documents about the spatial planning and related trends both on the national and regional level (2010). "Regionalpolitisk vækstredøgørelse" are annual reports on regional policy and regional development (2010). One of the most central documents is "Danmark I balance I en global verden" (2010b) which is a long term strategy on (regional) development in Denmark. In addition there are innovation policy documents such as "Styrket innovation I virksomhederne" (2010) by the government.

1.18 Very few of these documents besides "The New Map of Denmark" mentions large city regions directly or states clearly about the urban development issues. However some mentions and overall principles can be found and these give some indications about the role of Second tier cities or large cities in general.

#### **Recognition of second tier cities**

1.19 Denmark is categorized into five types of settlement regions:

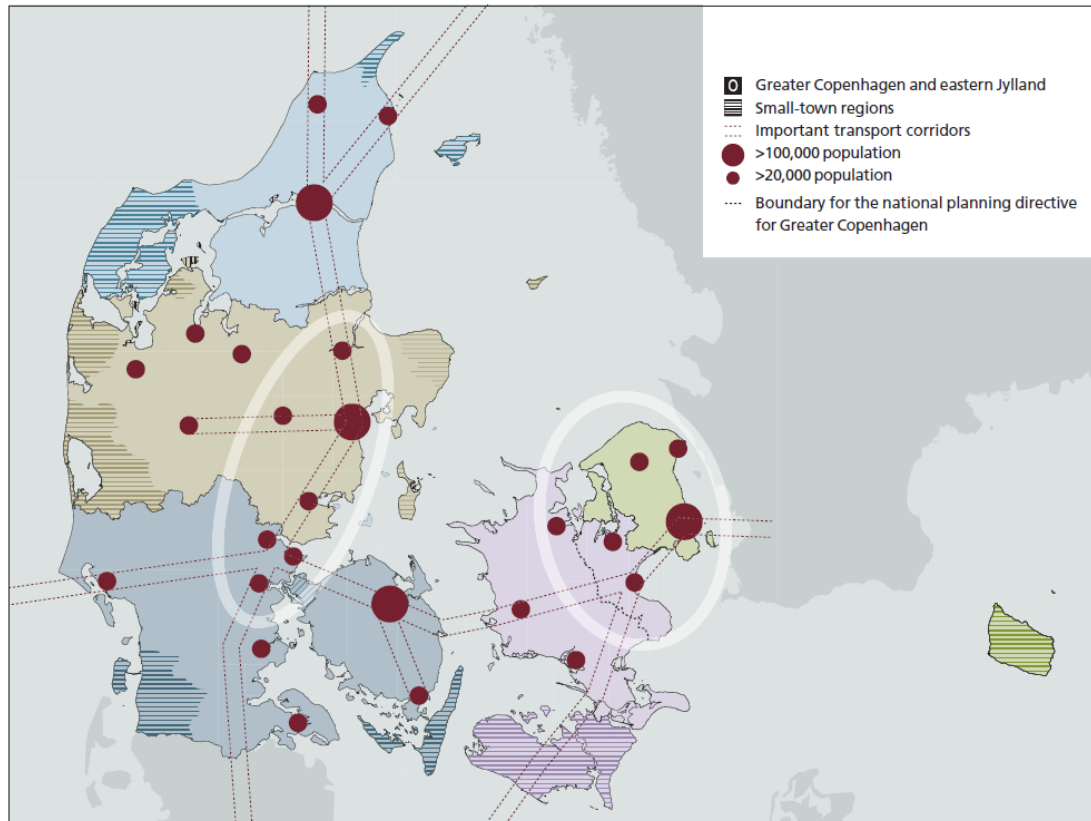
- Greater Copenhagen and the Øresund region
- the rest of Sjælland,
- eastern Jylland
- town regions
- and small-town regions

(Ministry of the Environment 2006, 15).

1.20 Greater Copenhagen and the Øresund region form the strongest urban region in Denmark while eastern Jylland is the other major urban concentration. Capital region of Copenhagen dominates the spatial structure with 34 percent share of national population, and in fact Denmark is the most monocentric of the Nordic countries if Iceland is excluded (Johansson et al. 2009, 20).



FIGURE 2. Settlement and geographical features of Denmark's five administrative regions (Ministry of the Environment 2006, 15)



- 1.21 Eastern Jylland region's urban concentration consists of Aarhus and the "the triangle region" of Fredericia, Kolding and Vejle. This urban concentration is being developed into a single development corridor with good overall urban structure (Ministry of the Environment 2006, 18). Aarhus is on the northern part of the corridor and the triangle region forms the southern end of the corridor.
- 1.22 If we look at the actual statistics of individual municipalities we can find that there are four major cities outside of the capital region of Copenhagen. All of these cities have more than 100 000 inhabitants. These potential Second tier cities are Aarhus (240 000 inhabitants), Odense (159 000 inhabitants ) and Aalborg (122 000 inhabitants). (Danmarks statistik 2010, 5.) These actual cities are not usually mentioned in the policy documents. Instead there are mentions about the five different types of settlement regions and administrative regions in which these cities are located.

*Goals and objectives*

- 1.23 The government's objective is that Denmark will be amongst the 10 wealthiest countries in the year 2020. (Økonomi- og Erhvervsministeriet 2010b, 2.) In addition to this the Danish government emphasizes a balanced Denmark. There should be good conditions to live throughout the country. (Indenrigs- og Sundhedsministeriet 2010, 4.) . The support of economic growth and entrepreneurship should be equally good in the whole country, especially in the peripheral regions (Økonomi- og Erhvervsministeriet 2010, 8). This is the current underlying principle of Danish development activities. However it is acknowledged that the establishing and growth of new enterprises and growth of employment rates is said to concentrate increasingly in the largest cities (Økonomi- og Erhvervsministeriet 2010b, 4).

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- 1.24 The role of the largest city regions is acknowledged in the long term regional development strategy but the overall objective of the strategy is perhaps not on these cities. The strategy puts emphasis on the support of peripheral regions and balancing of the national development between different parts of the country. In addition to the overall objective of balancing the development of different regions there are several special targets which serve to boost the development of remote areas of Denmark. In fact most of the specific objectives in the long term regional policy strategy are focused on peripheral regions and not on city regions. (Økonomi- og Erhvervsministeriet 2010b, 2–4.) These remote or peripheral areas belong to the type of least developed administrative regions: small-town regions (Miljøministeriet 2010, 5; Ministry of the Environment 2006, 15).
- 1.25 Innovation policy documents do not seem to give any special or explicit attention to spatial aspects of development. The emphasis is on education, science and programs which support the innovativeness in companies. (Forskning- og Innovationstyrelsen 2010; Økonomi- og Erhvervsministeriet 2010c.) The geographical point of view is not on the forefront in these documents. Perhaps the role of cities is so relevant in innovation activities that it does not need any explicit mentions. In fact this kind of non-spatial view on economic development has been a relevant part of Danish development during the recent decade, and the emphasis has been more on clusters and branches than regions and spatiality. (Johansson et al. 2009, 34.)
- 1.26 Spatial planning policy emphasizes the role of cities quite clearly, although it also addresses the issues concerning other types of regions. However it is said quite clearly that Denmark must have a capital which can attract different economic activities and actors, such as companies, jobs and employees in global competition. The role of the other city regions is also said to be important in this aspect. It is said that the strengths of these cities should be utilized and developed. (Ministry of the Environment 2006, 11.) Denmark should have a network of cities and towns which can serve as vibrant centres of their hinterlands. (Ministry of the Environment 2006, 13).
- 1.27 Two of the most important urban areas, Greater Copenhagen region and Eastern Jylland receive some attention in the spatial planning policy. The objectives related to these areas are mainly about the coherent urban structure and forming and maintaining of functional commuter catchment areas. For example it is a national priority to establish an overall urban structure of the emerging city region (or development corridor) in Eastern Jylland. (Ministry of the Environment 2006, 16–18.)
- Reasons and justifications**
- 1.28 The balancing of regional development is said to be on the forefront of policy measures in Denmark. This objective is partly justified with the idea that every possible resource in the country must be utilized. This in addition means that conditions to live, work and to run companies should be good in all parts of the country. Every region is seen as a resource in the global competition; all resources should be utilized no matter where they are located. (Økonomi og Erhvervsministeriet 2010b, 2.) It can be seen that the Danish government emphasizes a balanced Denmark not only in social policy respect but also in economic respect.
- 1.29 The significance of cities is great despite of the overall idea of balance between regions. Development efforts have focused on nationally important clusters and branches and not on regions (Johansson 2009, 34). This has been perhaps advantageous to the largest city regions. In addition globalization puts the largest cities in favourable position compared to the remote regions (Økonomi og Erhvervsministeriet 2010b, 3–4). Cities and towns have major role in the knowledge society. Globalization challenges Danish spatial planning to develop stronger urban regions, which can then benefit the whole country. (The 2006 National Planning Report in brief, 9.) Most of the Danish people live in large urban areas and these areas are concentrations of jobs, education, culture and so on. (Miljøministeriet 2010, 17).
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- 1.30 Although it is said that the development should benefit all of Denmark, there are many explicit mentions which point out the significance of certain city regions. Competitive and strong capital region is said to be an important prerequisite for the spatial development of Denmark. In addition to this the role of Second tier cities is recognized quite clearly. It is said that there are also other city regions, such as the development corridor in Eastern Jylland, with strong international positions in the knowledge society. The strength of these city regions is very important to the economic growth potential in all of Denmark. (Ministry of the Environment 2006, 9–11.)
- 1.31 Metropolitan regions, and other economic growth hubs, are starting points for the development and dynamics within the new administrative regions of Denmark. Towns and cities of each administrative region should be linked to national network of cities and to the hinterlands of an administrative region. The network of cities is said to enable the administrative regions to be more competitive and to balance the national urban system. (Ministry of the Environment 2006, 16.) This can be interpreted that cities of all sizes have at least some kind of a role in radiating development throughout the country and within administrative regions. However all regions and cities do not have the same prerequisites for growth.
- 1.32 The 2006 national planning report (Ministry of the Environment 2006, 5) acknowledges that it is important to note that the nature of economic growth differs in different parts of the country: city regions, town regions, small-town regions and peripheral areas. In addition the report recommends differentiated spatial planning in the five different types of settlement regions in Denmark (Ministry of the Environment 2006, 10). Different regions have different types of settlement i.e. mainly rural and remote or urban and concentrated. This can be interpreted that better development prerequisites of urban regions gives them a greater role in national development but also requires special policy measures.

### Conclusion

- 1.33 The most recent Danish regional development efforts and policies put a great emphasis on the balancing of regional development and supporting the remote regions. Although the actual economic importance of certain city regions in national development is very clear, their explicit presence in policies and support measures is not strong. Cities are perhaps seen as naturally strong growth environments. The Danish development efforts have been to some extent non-spatial or non-regional and they have focused on cluster and branch based development during the last decade which has probably implicitly supported the role of large cities.
- 1.34 There are some mentions of economic development and innovativeness of cities in different sectoral policies, but there are not any comprehensive urban policies. Large urban concentrations are usually mentioned in national policy documents when there is talk on spatial and land-use aspects. When the role of actual Second tier cities is recognized in policy documents it is not usually separated from the role of the capital region of Greater Copenhagen. However the growing importance of the Eastern Jylland urban area or development corridor is recognized in the national spatial planning documents.

## 3 FINLAND

### Changed thinking

- 1.35 The creation of the Finnish welfare state after the mid 60's was primarily based on national economic growth. The goals for the national economy merged with regional policy goals, and the justification for regional policy was partly connected to the creation of the welfare state. The aim was to guarantee a steadily increasing economic growth whose benefits could be redistributed according to the principles of the Nordic model of welfare state. A coherent nation-wide network

of basic social services was to be created. Everybody, regardless of domicile or wealth, was to be provided with certain services. Equality and justice were believed to depend essentially on uniform availability of services. It was seen as important that every region had a foundation that ensured a reasonable supply of services. Regional policy goals have also had a considerable influence on the public development of infrastructure.

- 1.36 A distinct north-south/east-west dichotomy has existed in Finland. Perhaps for this reason Finnish regional policy was for long more periphery oriented than regional policy in the European context in general (the same goes for the other Nordic Countries). The focus has been on the periphery as such, and not only due to the existing structural problems in those regions. It has been major goal for regional policy has been to reduce economic handicaps created by long distances to markets and to counteract the effects of low population densities which lead to an inadequate supply of skilled labour. Regional policy schemes were designed to give priority to regions, which were in a disadvantaged position because of their location. To justify this policy, however, it was stated that it would benefit the country as a whole. Since the 90's official thinking has been changing rapidly and policy contexts, contents, and processes has been under review. The new thinking is emphasising cities, competitiveness and innovation instead of peripherality as such.

### **Governance and the role of Second tier cities**

#### ***Institutional structure***

- 1.37 The common targets of regional development in Finland are based on the Regional Development Act and the Government's decision on national regional development targets. (Act on Regional development No 1651; Sisäasiainministeriö 2007, 5; TEM 2010b). Finnish government sets the overall objectives of regional development on national level and every ministry has their own (regional) strategies which should take into account the overall objectives. However the actual or main elements in Finnish regional development efforts are very much centred in and coordinated on the national level by two ministries. Ministry of Employment and the Economy is the centre of national development activities and the co-ordination of regional development efforts. In addition the Ministry of Environment is responsible of the development of spatial structure and land use planning. (TEM 2010a, 137–138; TEM 2010b; ME 2010.)
- 1.38 There are three levels of governance: national, regional and local. However the legitimacy of the regional level is still uncertain to some degree. The regional level is a mix of state-led institutions and local, municipal based co-operation institutions. Different ministries have their own responsibilities and coordination mechanisms on the regional level. (OECD 2005, 152–153.) The municipal level is represented on the regional level by Regional Councils, which have power over issues of strategic and economic importance in regional development. They fund plans and projects, form and implement strategies in co-operation with sectoral national bodies. (Act on Regional Development No 1651; Johansson 2009, 43). Municipalities have a wide variety of tasks on the local level, and the local level has perhaps more influence on development measures than the regional level. The structure of Finnish governance is in fact quite bi-polar (Johansson et al. 2009, 43).
- 1.39 Two types of reform processes have been implemented in the recent years. There has been major changes in regional level institutions of national government in 2010 (Act on Regional Development No 1651). For example the government-led regional representations, provincial governments, were abolished (Johansson et al. 2009, 43). However these changes are not perhaps as important as the ongoing local government reform. This reform aims to reduce the number of municipalities and to rearrange and strengthen the structures of basic services and municipalities (Ministry of Finance 2010).

#### ***Special programs and committees***

- 1.40 There are several special government programs to attain the regional development targets. Ministry of Employment and Economy coordinates these programs on national level. Three

programs which are especially relevant to larger, Second tier cities are COCO (Regional Cohesion and Competitiveness Programme), SHOK (The Center for Expertise Programme) and OSKE. (TEM 2010b.)

- COCO or Regional Cohesion and Competitiveness Programme is a government's special programme for regional policy. It supports strategic development efforts at local level, serves as a proactive tool for improving the development prerequisites of a region and for launching strategically significant projects. It also improves inter-regional cooperation, creates networks of regions and enhances exchange of information and experiences between regions. COCO includes six thematic networks and a nationwide network of different types of regions. (TEM 2009a, 1–4; TEM 2010b.)
- OSKE or Centre for Expertise Programme is a special government programme, which aims to create new innovations, products, services, enterprises and jobs, and it also aims to boost the attractiveness of regional innovation environments from the point of view of international actors (TEM 2010b). It lays ground for innovation activities which combine research, business, technological and design competences and it promotes the utilization of the highest international standard of knowledge and expertise. It is organized in key clusters: 13 national clusters of expertise and 21 regional centers of expertise. (Oske 2010b.) OSKE is a mix of regional development and innovation policy (TEM 2010c, 40.)
- Strategic Centres for Science, Technology and Innovation form the SHOK –project, which is coordinated by the Science and Technology Policy Council of Finland and the Ministry of Employment and the Economy. It aims to promote the cooperation between research institutions and companies in order to create radical innovations and renew clusters. (Tekes 2010; TEM 2010.)
- Urban policy committee is an institution which coordinates the Policy Mix for Large Urban Regions. The policy mix consists of measures and research which are implemented under the special government programmes, but these measures are coordinated as a whole and tailored to develop the larger city regions. (Sisäasiainministeriö 2006, 50; TEM 2010.) There is also a separate policy concerning the development of the Helsinki City Region (TEM 2010).

- 1.41 The special government programmes have an operating logic which to some extent empowers regions, municipalities and the local level in general. For example COCO programme is based on the principle that regions recognize and develop their own strengths and the programme only supports this endogenous activity. Therefore the composition of the programme is at least to some extent formed by the regions themselves. Regions have had the opportunity to create proposals for different kind of activities and networks and the COCO programme is more or less based on these proposals. (COCO 2010; TEM 2010.)

### Second tier cities in regional development and innovation policy documents

#### *Documents*

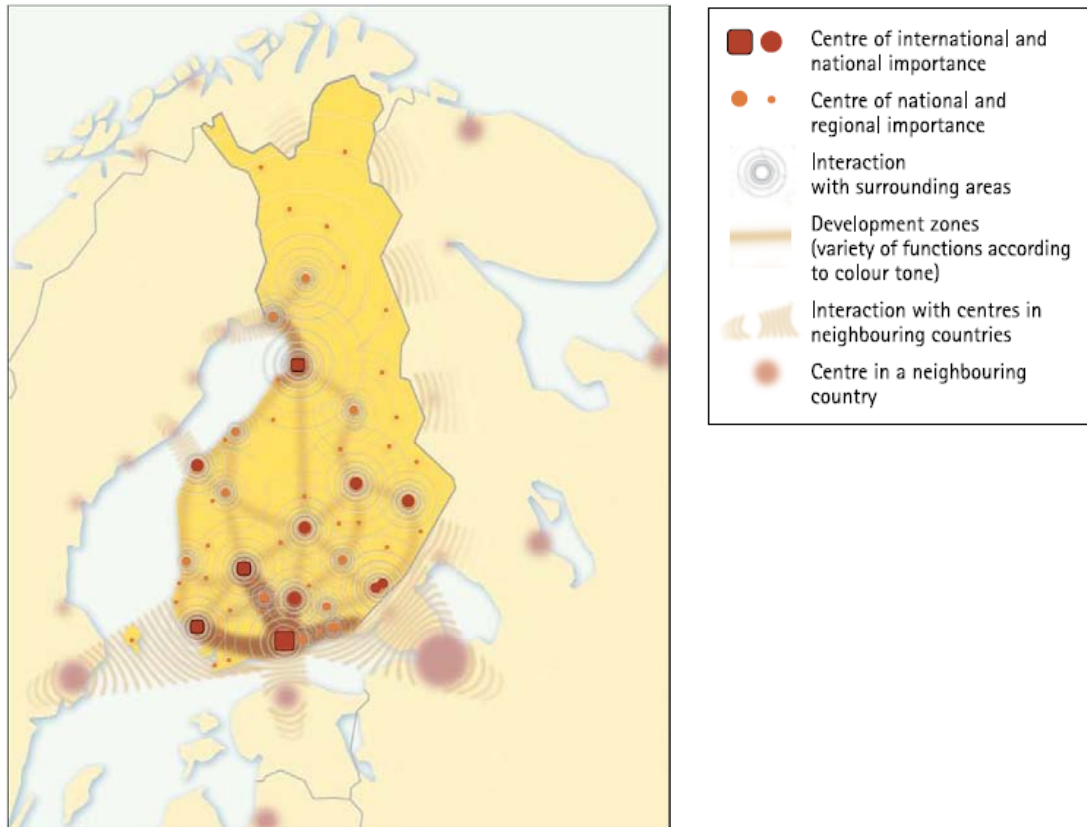
- 1.42 The most relevant strategies concerning regional development and innovation policy are Finnish Regional Development Strategy 2020 and National Innovation Strategy. In addition there are other relevant policy documents and strategies such as Decision in Principle for Urban Policy for 2009–2011, Perspectives for spatial structure and land use in Finland by the Ministry of Environment, COCO programme's policy documents, and the OSKE and SHOK programme's policy documents. These documents give insights about the role of Second tier cities in Finnish development measures on national level.

#### *Recognition of Second tier cities*

- 1.43 There are some clear indications about the most potential Second tier cities in Finland due to the characteristics of built environment and geography. A report by Ministry of the Environment (ME 2006) describes these characteristics and the possible future directions of spatial structure and land use. Picture no 1. Shows quite clearly how Helsinki metropolitan region is the international hub which links the rest of Finland to other European metropolis. Tampere, Turku and Oulu can

be seen as the most potential Second tier cities. However there are several other city regions that play important roles in polycentric development.

**FIGURE 3. Spatial structure of Finland (Ministry of the Environment 2006, 25)**



- 1.44 The spatial structure of Finland is said to be networked and polycentric. Major cities are seen as hubs or concentrations of development. These hubs are connected by development zones or corridors. (ME 2006, 22–25.)
- 1.45 Turku and Tampere regions are shown in the map but they are not explicitly mentioned in the actual report probably because their relevance for national development is almost self-evident. Turku and Tampere are implicitly mentioned as a part of tense network in southern Finland which may offer great opportunities for development and co-operation between Helsinki metropolitan region, Tampere, Turku and other smaller cities (ME 2006, 23). However the Oulu region is explicitly mentioned as an important center in the North of Finland. Oulu “should be developed as the main center for high-level know-how and industry in northern Europe”. Oulu is also recognized as a part of the Bothnian Arch and co-operation with Swedish cities across the border. (ME 2006, 24–25.)
- 1.46 The map divides cities into “centres of international and national importance” and “centres of national and regional importance”. The first category, which is relevant when analyzing the role of Second tier cities and other large urban regions, includes:
- (Helsinki), Tampere, Turku, Oulu, Lahti, Jyväskylä, Vaasa, Kuopio and Joensuu. (ME 2006, 25.)
- 1.47 There is also another very clear recognition of possible Second tier cities and large urban regions in Finnish scale. In the Policy mix for Large Urban Regions –document there is a statement about the large urban centers and their importance to national development efforts. According to the document in addition to Helsinki Region the large urban centers in Finland are:

- Tampere, Turku, Oulu, Jyväskylä, Kuopio, Lahti, Lappeenranta-Imatra and Vaasa.
- 1.48 These cities and city regions have a special role in national development in a globalizing world as drivers of success, wealth and welfare of Finland. (Sisäasiainministeriö 2006, 5–6.)
- 1.49 More recent document called Decision in Principle for Urban Policy (2009, 2) separates cities into three categories: Helsinki metropolitan region, largest urban regions and other city regions. Largest urban regions have the following criteria: over 100 000 inhabitants, university and/or major influence to the surrounding regions. The largest urban regions outside Helsinki in southern Finland are Tampere, Turku and Lahti. In eastern and northern Finland Oulu, Kuopio and Jyväskylä are also seen as major urban areas. These cities are also planning to set up a network of largest cities. (TEM 2009b, 20–22.)
- 1.50 There are very few other specific definitions or recognitions of large city regions, let alone Second tier cities, in national level strategy documents. In many cases there are mentions for example of internationally important major cities or places which possess enough prerequisites for effective innovation activities, but names of actual cities are not usually mentioned in strategy documents. For example, Government’s communication on Finland’s national innovation strategy to the parliament argues that “Finland can only host a few diversified competitive centers of innovation” (Government’s... 2008; 27–28). In the national innovation strategy there is also mentions of regional innovation centres, which have world class innovation environments (TEM 2008, 9). Regional development strategy of Finland 2020 states that the role of the largest city regions is emphasized in innovation policy and that they are seen as “breeding ground for innovations” or ecosystems of innovation activities (TEM 2010a, 22).
- 1.51 OSKE and COCO –programmes and their policy documents give some information of the cities and regions which are involved. There are 52 regions involved in the COCO –programme and the programme covers almost every part of Finland (TEM 2009a, 1). Therefore we can say that COCO –programme does not name or recognize any specific regions or cities as potential Second tier cities. In spite of this cohesion aspect of the Cohesion and Competitiveness programme, in the programme’s policy documents there are some statements of the importance of university cities, large urban areas and their immediate surrounding areas as the drivers of regional development (TEM 2009a, 2).
- 1.52 OSKE –programme includes 21 areas, or centres of expertise. Programme started out in 1994 with only 8 centres of expertise that were clearly the larger urban centers (Johansson et al. 2009), but now there is not such a clear focus on possible Second tier cities. OSKE documents mention Helsinki Region, Hyvinkää-Riihimäki Region, Häme Region, Jyväskylä Region, Kainuu, Kokkola Region, Kouvola Region, Kuopio Region, Lahti Region, Lapland, Mikkeli Region, North Karelia, Oulu Region, Raasepori Region, Satakunta, Savonlinna, Seinäjoki Region, Southeast Finland, South-West Finland, Tampere Region and Western Finland as parts of the program. (OSKE 2010.) Based on this we can say that there is not a clear focus on any particular city-regions in OSKE. Or at least the focus is so widely dispersed that it cannot be considered as a highly strategic selection of Second tier cities.

***Goals and objectives: largest city regions as innovative and international centres and drivers of regional development***

- 1.53 The Act on Regional Development (2009) lays the general regional development objectives that are:
1. to strengthen the national and international competitiveness of regions
  2. to promote an economic balance and the development of industrial and commercial activity
  3. to promote sustainable development
  4. to reduce differences between regions in terms of their level of development and enhance their own strengths and specialization

5. to promote the wellbeing and competence of the population and to support the regional culture
  6. to enhance the quality of the living environment and a sustainable regional and community structure
- 1.54 These objectives can be condensed to three main objectives: to strengthen the national and international competitiveness of regions, to strengthen the vitality of regions and to solve the special challenges of regions (Sisäasiainministeriö 2007, 5). If we generalize the message of these different objectives the main goals of Finnish development activities are competitiveness and on the other hand sustainable and balanced development. Overall guidelines and themes in strategy documents do not give any specific information about the role of Second tier cities or other large city regions but analysis of more specific strategies show that the largest cities are implicitly responsible especially for the competitiveness related tasks and objectives.
- 1.55 The Finnish Regional Development strategy sets goals to different regions and for their roles in the national economy. It is stated that Helsinki Metropolitan region is, and should continue to be, vital for the development of the whole nation. However it is also stated that other major city regions, which have significant concentrations of competence and innovation, should also be internationally competitive innovation environments, operational environments for companies and diversified residential environments. (TEM 2010a, 9–14.)
- 1.56 Large city regions are seen as possible innovation hubs, centers or environments. It is said that diversified and strong innovation environments should be located especially in the larger city regions (TEM 2010a, 12). The National Innovation Strategy states that there should be a formation of regional and content-based centers or clusters of competence, which are capable of renewing themselves (TEM 2008, 14). In other words the objective is to create a number of strong regional innovation hubs with world class operating environments based on the national strategic content choices and the local strengths of regions (Government's... 2008, 28). This can be interpreted as a clear objective or role for the Second tier cities concerning national innovation policy.
- 1.57 The Policy Mix for urban regions also aims to develop large urban regions as innovative environments. The focal point of the policy mix is to improve the international competitiveness of the cities. This is done by strengthening the competence base and international connections of the cities. (Sisäasiainministeriö 2006, 10.) Regional Development strategy also states that the strength of the largest city regions should be diversified, creative and innovative environments (TEM 2010a, 13). Decision in Principle for Urban Policy states focal points of urban development. The foremost point is strengthening the competitiveness of cities but the internal cohesion of urban areas and the controlling of climate change are also mentioned as focal points. (TEM 2009b, 3.)
- 1.58 The large city regions have a dual role to some extent. They serve as engines of the national economy but also as drivers of the surrounding regional and local economy (TEM 2010a, 24). The city regions should form a functional network of cities, which are connected by development corridors or development zones. These zones or corridors bind the city regions and the surrounding regions to a closer interaction and enlarge the functional economic areas. (TEM 2010a, 13; ME 22–23.) However it has to be said that the size of the city regions is not explicitly stated in this case, and this dual role could concern also the smaller centers. In this way it would not be a special role for the actual Second tier cities. After all the Urban policy principal decision states that there should be different kinds of roles or distribution of activities even between the largest city regions from the perspective of national development (TEM 2009b, 22).
- 1.59 Perhaps the foremost objective with the largest cities is competitiveness. After all it is stated that the largest city regions development efforts are more or less aimed at being internationally competitive (Sisäasiainministeriö 2006, 11). In addition the Urban policy principal decision (TEM



2009b, 2) states that in addition to the actual metropolitan policy and the cohesion policy the development of the largest city regions and their international competitiveness should be emphasized with special policy measures. The largest city regions have a special role in national development efforts, for example in innovation policy measures (TEM 2009b, 20–21).

***Reasons and justifications of the development of large cities: cohesion and competitiveness***

- 1.60 In the general view of the Finnish regional development there is an overall idea in which every type of region, metropolitan area, large city regions, smaller cities and the rural areas should be developed and this development should happen by utilizing and developing the endogenous strengths and strategic decisions of regions. Different kinds of regions have different kinds of roles in the national economy, and this distribution of work should be recognized in the development efforts. (TEM 2010a, 13; ME 2006, 22.)
- 1.61 There are various reasons for the development of large urban regions. Large urban regions are seen as major generators of innovation, knowledge and skills. They have an important influence to the overall success, welfare and economy of the country. They are concentrations of the necessary competence and know-how which is needed to function in the international competition and interaction. (Sisäasianministeriö 2006, 5; TEM 2010.)
- 1.62 However the role of large city regions in national development effort is somehow twofold: they should develop their own strengths and serve as internationally competitive centers but also radiate economic effects to surrounding regions. For example the Regional Development Strategy states about regional innovation activities: diversified and powerful innovation environments are especially located in the largest urban regions, which have creative competence and creative workforce. In addition the positive radiating effects of the centers to the surrounding areas and regions are taken care of (TEM 2010a, 12). One manifestation of positive radiating effects could be the development corridors between cities. In the long run the development of zones or corridors could support a polycentric spatial structure in the whole country (ME 2006, 23).
- 1.63 In the innovation strategy there is represented a way to combine two almost contradictory issues: the equal development of dispersed Finnish spatial structure and the demand for stronger concentrations of innovation environments. It is claimed that the different competences, which are scattered around Finland in city regions, should be gathered together by stronger networking. This way knowledge can be distributed to the regions, and in addition the dispersed competence base can be seen as a national resource, which also benefits the centres. (TEM 2010d, 7.) Competitiveness and innovativeness might be achieved by a geographically dispersed but networked system. This view emphasizes the equality of diversified and specialized regions.
- 1.64 One justification of the development of Second tier cities in addition to Helsinki metropolitan region is that the wider development activities gather and cumulate knowledge from the networks back to Helsinki region. Polycentric structure is said to fortify the economic advantages of scale all over the country, but it is also said that polycentricism may, in turn, help the Helsinki region to grow into a strong European metropolitan area. (ME 2006, 22.)
- 1.65 In this background it can be interpreted that the role of second tier city, or cities, in Finland is probably to strengthen the network of cities and development corridors outside the Helsinki metropolitan region by being internationally competitive hubs of development.

**Conclusion**

- 1.66 The role of Second tier cities in Finnish regional development, urban and innovation policy is not clear cut or explicit, at least according to the strategy and policy documents. There are not any clear statements that would name only a couple of the largest cities outside the Helsinki region as the most important subjects of development efforts. Some policy documents do give indications

that there can be only few major innovation environments and internationally competitive city regions in Finland.

- 1.67 In the policy documents the network of city regions as a whole is given a major role in sustaining and renewing the competence base and international competitiveness of Finnish national economy, in addition to the metropolitan region of Helsinki. The role of the larger cities in this network is quite multifaceted. They have a role in balancing the spatial structure and distributing their economic effects and innovation capacity between Helsinki and other parts of the country, and they are also seen as engines of national competitiveness.

#### 4. NORWAY

##### Governance

###### *Institutional structure*

- 1.68 Ministry of Local Government and Regional Development is the most essential actor in regional development and innovation policy coordination at the national level. However several other ministries have responsibilities relating to different development efforts. (OECD 2007, 199.) For example Ministry of Trade and Industry is responsible for innovation and cluster policies and Ministry of Education and research is responsible for R&D policies (OECD 2007, 122).
- 1.69 On the sub-national level Norwegian governance structure is a classical two-tier system with representative bodies: municipality and county councils. There are 19 counties and 430 municipalities. The capital of Norway, Oslo, is considered to be both municipality and county. (Norwegian Ministry of Local Government and Regional Development 2008, 7–13.) In addition to municipalities and counties Norway is divided into seven regions (lansdel) (Kommunal- og regional departementet 2010a, 15). On the regional level central government is represented by several agencies working under different ministries. In addition the county governors act as representatives of central government. Norwegian Association of Local and Regional Authorities (KS) is a consultative actor between local level and central government that consist of municipalities, counties and public enterprises under municipal or county ownership. (Norwegian Ministry of Local Government and Regional Development 2008b, 21–30.)
- 1.70 A reform of the governance system came into effect on January of 2010. One of the main goals of this reform has been stronger local government and democracy. This reform does not change the actual composition of governance system but it puts more emphasis on the county level for example by decentralizing tasks and responsibilities from the national level. Counties now have more responsibilities and abilities for example in regional development activities. (Kommunal- og regional departementet 2010b & 2006, 5–6; Norwegian Ministry of Local Government and Regional Development 2008b, 9–11.)
- 1.71 The regional development and innovation policy system might be considered quite complex, especially on the regional level. There are at least two reasons for this. Some of the tasks and responsibilities of different organizations may be overlapping between organizations and agencies. In addition the regional level representation of central governance agencies does not necessarily follow the borders of counties. Therefore the match between local level bodies and government agencies has been imperfect to some extent. (OECD 2007, 233–235.) One of the aims of the governance reform process is to reduce this complexity (Kommunal- og Regional Departementet 2006, 6).

###### *Special agencies and programmes*

- 1.72 Innovation and regional development policies are implemented by agencies or public corporations that work under the supervision of several ministries.

- Research Council of Norway is under the responsibility of Ministry of Education and Research but it also receives funding from other ministries. It advises the government on research policy and is an important source of publicly funded research.
  - SIVA (Industrial Development Corporation of Norway) is a public corporation, which invests in and coordinates innovation infrastructure and business incubation services throughout the country.
  - Innovation Norway is a state-owned company working primarily under Ministry of Industry and Trade and Ministry of Local Government and Regional Development. It supports and coordinates a wide range of innovation policy measures and programmes throughout the country. (Kommunal og regional departementet 2010d; OECD 2007, 123–125.)
- 1.73 There are several policy tools, programmes and projects concerning innovation policy and regional development. Most essential policy tool to the Second tier cities is probably The Large Cities Project (Storbyprosjektet), which brings together various national and regional level actors. It supports the innovation activities in largest cities and strengthens the role of these cities as engines of national and regional innovation activities. The project supports the endogenous strategic development efforts of regional actors in selected urban regions. (Innovasjon Norge 2010a; Innovasjon Norge 2005, 4–5.) In addition to Storbyprosjektet there is also “Storbyforum” which is an arena for strategic and administrative dialogue between representatives from the 6 major cities (Nordregio 2006, 45).
- 1.74 Variety programmes influences the large city regions indirectly. There are branch specific programmes for example in maritime industries, but also a great number of programmes based on branch neutral support strategy. For example Arena Programme supports regional cluster processes, Norwegian Centres of Expertise enhances co-operative processes in clusters and VRI or “Policy Instruments for regional R&D and innovation” develops regional policy instruments in a decentralized way. (Arena 2010; Norwegian Centers of Expertise 2010; OECD 2007, 130–136.) The number of policy measures is in fact so great that it might even blur some of the policy messages (OECD 2007, 130).

### Second tier cities in policy documents

#### *Documents*

- 1.75 The most relevant policy documents in Norwegian development activities are government’s white papers on different topics. “Local Growth and Hope for the Future – Rural and regional policy of the Norwegian government”, White Paper No. 25 (2008–2009) by the Ministry of Local Government and Regional Development is the most central strategy document in regional policy (Kommunal- og regional departementet 2008). When innovation policy is concerned White Paper No. 7 (2008–2009) called “An Innovative and Sustainable Norway” by the Ministry of Trade and Industry is the most essential policy document (Norwegian Ministry of Trade and Industry 2008). There are also the annual reports called “Utveklingsstrekk” on development trends and statistics of Norwegian regions. Although these annual reports are not strategy documents they give some indications of the relevant topics in Norwegian regional development.
- 1.76 Norway does not have comprehensive and general urban policies outside the capital region (OECD 2007, 162). There are policies and policy documents that are clearly related to the role of large city regions, but they are sub-elements of different policy tools such as innovation policy. “Storbyprosjektet”, or the Large Cities Project, which promotes the innovative aspects of the largest cities in Norway is the most central policy tool and source of relevant documents in this aspect (Innovasjon Norge 2005; Innovasjon Norge 2006). In addition there are some targeted measures in social politics and spatial planning for the urban regions. Government’s white paper for the development of the capital region of Oslo was the first step in concentrating on the competitiveness issues of urban regions (Norwegian Ministry of Local Government and Regional Development 2006, 4; OECD 2007, 139). However the strategy documents of Oslo region are out of scope of this report.

**Recognition of Second tier cities**

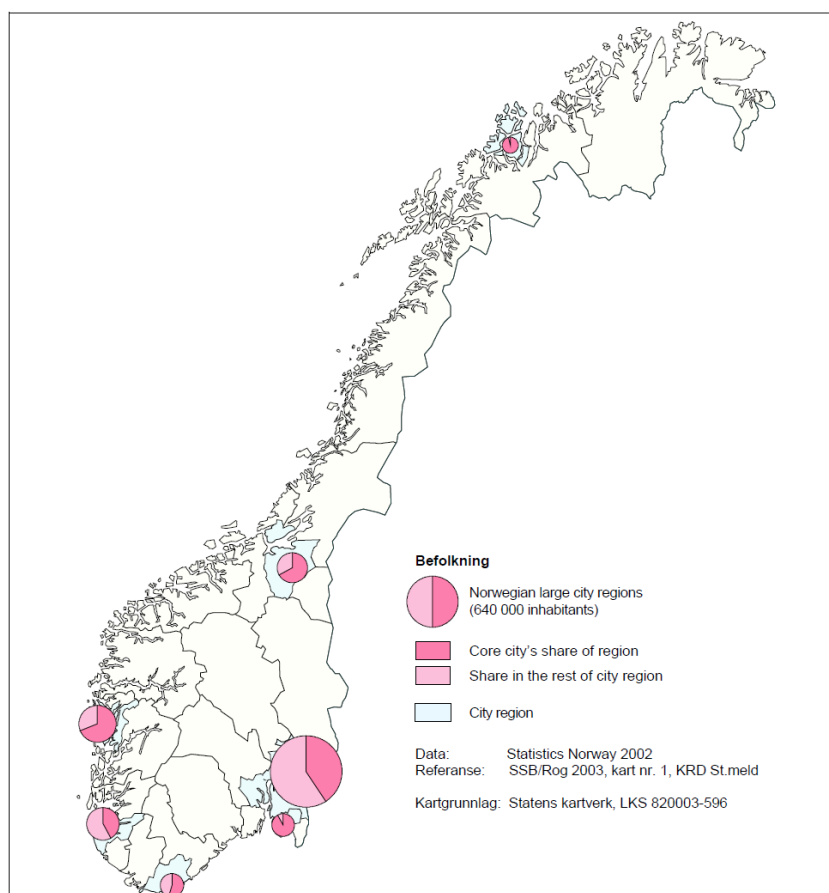
- 1.77 The largest city regions, or commuter catchment areas, in Norway are Oslo, Bergen, Stavanger/Sandnes and Trondheim (Table 1). The capital region of Oslo dominates the settlement pattern with over 1.1 million inhabitants. Bergen, Stavanger/Sandnes and Trondheim regions all have a population between 250 000 and 370 000 inhabitants. Other city regions have less than 200 000 inhabitants. Four of the largest city regions dominate for example the population growth statistics with over 10 percent increase in population in every city region during the recent ten years. (Kommunal- og regional departementet 2010a, 76.) Generally speaking the Norwegian settlement pattern is quite small scale as in other Nordic countries. For example the Ministry of Local government's report defines large commuter catchment areas as regions, which have a center city of more than 50 000 inhabitants. (Kommunal- og regional departementet 2010a, 14).

**TABLE 1. Population of the largest urban regions (Kommunal- og regional departementet 2010a, 76)**

Region	Largest city in the region	Population of the largest city	Population of the region	Population growth 1999–2009
Oslo	Oslo	876 391	1 163 098	13,6 %
Bergen	Bergen	227 752	370 096	11,9 %
Stavanger/Sandnes	Stavanger/Sandnes	189 828	294 487	15,1 %
Trondheim	Trondheim	160 072	248 260	12,4 %
Fredrikstad/Sarpsborg	Fredrikstad/Sarpsborg	101 698	135 977	8,3 %
Drammen	Drammen	96 563	154 039	9,6 %
Grenland	Porsgrunn/Skien	86 923	123 552	3,0 %
Kristiansand	Kristiansand	67 547	126 600	10,7 %
Tromsø	Tromsø	55 057	68 896	12,9 %

- 1.78 Five of the largest separate urban regions outside the capital region of Oslo are recognized in the national level urban policy as potential Second tier cities (Innovasjon Norge 2010a). Fredrikstad, Drammen and Porsgrunn/Skien regions are located near to the Oslo region (Norwegian Ministry of Local Government and Regional Development 2006, 4), and probably therefore they are not recognized as separate city regions in national policy initiatives.

FIGURE 4. Population of Norwegian large city regions ranked by the size of the region: Oslo, Bergen, Stavanger, Trondheim, Kristiansand, Fredrikstad and Tromsø (Norwegian Ministry of Local Government and Regional Development 2006, 8).



- 1.79 The Large Cities Project recognizes Oslo, Kristiansand, Stavanger, Bergen, Trondheim and Tromsø as large city regions and drivers of national innovation. The regions in the project are not clear cut, i.e. the cities have had the opportunity to define the extent of their regions by themselves. (Innovasjon Norge 2010a.) Besides the Large Cities Project explicit mentions of potential Second tier cities, or large urban regions, are not on the forefront in the most central strategy documents of national innovation or regional development policies.

#### **Goals and objectives**

- 1.80 The main principle of the Norwegian regional development is to establish and maintain the conditions, which secure inhabitants a real freedom to live in the place of their choice. Main objective the of development measures is to maintain the overall features of the current settlement pattern and to further develop the diversity of the cultural and historical resources which derive from this pattern. (Norwegian Ministry of Local Government and Regional Development 2008a, 5; 2008b, 5.) This objective does not seem to give any special attention to the large cities.
- 1.81 It is said that “business in all parts of the country needs innovation and restructuring capabilities”, and that the government wishes to facilitate the innovation capabilities between different parts of the country (Norwegian Ministry of Local Government and Regional Development 2008a, 9–10). This emphasizes the equity principles of Norwegian development efforts. However related to this there is a small mention about the division of labour between different parts of the country or different types of regions. It is perhaps more of a comment on the current situation than a goal, but the role of the major cities is said to be more in the service

production while the production of goods commonly takes place in smaller communities and cities. (Norwegian Ministry of Local Government and Regional Development 2008a, 9–10.) This could be interpreted that different regions need innovation policies, which take into account the different prerequisites of regions, and large cities are seen as a distinct type of regions also.

- 1.82 National Innovation Policy seems to emphasize equity. It is said that the government will establish favourable conditions for competitive enterprises throughout the country (Norwegian Ministry of Trade and Industry 2008, 5). Innovation policy is mainly coordinated by Innovation Norway organization under the supervision of Ministry of Industry and Trade (OECD 2007, 123). The main objective of Innovation Norway is to promote the economic growth of enterprises and regions throughout the country by supporting their abilities to innovate, internationalize and profile themselves. (Innovasjon Norge 2008, 6–7).
- 1.83 Norwegian innovation policy aims do not seem to make clear geographical exclusions or inclusions. There are two sub-objectives that emphasize this equity of regions: innovation activities in companies and the internationalization of companies are both promoted and supported throughout the country. (Innovasjon Norge 2008, 7.) The chosen sectors, or clusters, for innovation policies also show the large scale of activities and regions involved. The sectors include energy and environment, health, IT, culture and experience economy, agriculture, shipping, oil and gas, tourism (Innovasjon Norge 2008, 13). Many of the activities of these sectors or clusters are located in remote areas and in the northern parts of Norway. This partly resembles the underlying “all-regions” principle of Norwegian development measures (see for example Norwegian Ministry of Local Government and Regional Development 2008a, 5; OECD 2007, 115–116).
- 1.84 Overall objectives of regional development or innovation policy do not give explicit attention to the urban regions, but the “Storbyprosjektet”, or the Large Cities Project, does. It has a main goal of supporting the innovation activities in large cities and strengthening the role of these cities as engines of national and regional innovation activities. The mission of the project is to reveal the innovation capabilities of the capital region and regional centers, to analyze the challenges of cities concerning innovation activities and to see how cities can act as engines of innovation activities. In addition the project is about implementing projects that tackle the challenges of the cities and deepen their innovation strategies. (Innovasjon Norge 2010a, Innovasjon Norge 2010b; Innovasjon Norge 2005, 5.) However the project does not give Second tier cities any special objectives distinct from the capital region of Oslo, and it does not recognize Second tier cities as a distinct type of regions/cities.

***Reasons and justifications***

- 1.85 The most prominent feature in Norwegian regional development approach is that majority of the funding flows to the areas which experience the most severe problems (OECD 2007, 116). The underlying principle even in the most recent policy documents is that Norwegian government will retain its commitment to rural and regional policy (Norwegian Ministry of Local Government and Regional Development 2008a, 5). However there are some indications of a slight turn in this overall policy principle.
- 1.86 In general largest city regions are not on the forefront of Norwegian development efforts. In fact North Norway with its remote and geographically dispersed areas receives a great deal of special attention and development measures in terms of budget and expenditure (OECD 2007, 113). The particular challenges of the north are recognized by the government with dedicated regional and rural policy initiatives (Norwegian Ministry of Local Government and Regional Development 2008a, 10). Emphasis in development measures is therefore in the north, not on south and the largest city regions.
- 1.87 It is stated that the distinct division of labour in Norway is that large proportion of the production of goods takes place in small and medium sized cities, while service production for the national

market is mainly carried out in the major cities. This division of labour is said to ensure some level of interdependence between various parts of the country. (Norwegian Ministry of Local Government and Regional Development 2008a, 9–10.) In this regard even this variety of economic and innovation activities could be seen as an asset in the “Norwegian model” of maintaining equity between regions, but it also defines a role to the largest cities in national economy.

- 1.88 There are not any central and explicit mentions of the geographical or regional implications of innovation activities and development of innovation environments in the main innovation policy documents (Norwegian Ministry of Trade and Industry 2008). In this regard innovation policy seems to be to some extent in consensus with the overall policy principles of Norwegian development efforts, i.e. the whole country is seen as worth developing.
- 1.89 Although the equity of regions is seen as a primary goal, the important role of large cities as international hubs and drivers of national economy is also recognized. (Kommunal- og regional departementet 2008, 16). The Large Cities Project (Storbyprosjektet) has been an explicit statement for the development of the innovativeness of largest city regions since it was established in 2004 (Innovasjon Norge 2009, 7), although it can be seen as a sub-element of innovation policy and not a comprehensive urban policy.
- 1.90 The all-regions principle can be interpreted as the promotion of equity. However it can also be interpreted as recognition of unique capabilities and conditions in development efforts. It is said that different parts of the country have different abilities and this should be taken into consideration in the development efforts. Already strong innovation environments should be promoted also (Kommunal- og regional departementet 2008, 100–101.) It is also said that the largest city regions can, and in fact should, define their roles more independently. (Innovasjon Norge 2005, 4). We could interpret that Norwegian Second tier cities have at least an implicit position in the policy document rhetoric.
- 1.91 The Report on the capital region of Oslo (Norwegian Ministry of Local Government and Regional Development 2006) was a major step towards comprehensive urban and metropolitan policy in Norway (OECD 2007, 162). Although it does not involve other major cities in Norway, it has roughly the same logic in its objectives as overall metropolitan or urban development policies in other Nordic countries: it is said that the success of Oslo contributes to the development of the whole nation. Norway can take advantage of a more attractive and internationally competitive capital region (Norwegian Ministry of Local Government and Regional Development 2006, 4–5). This in turn may clarify the role of large cities in general in Norwegian development activities, and bring some attention to the development of Second tier cities also.

### Conclusion

- 1.92 The role of Second tier cities, let alone large city regions in general, is not clear cut. The overall policy principles seem to promote the equity of regions and maintain the current settlement pattern. Major part of the government funding related to regional development is allocated to remote areas and especially to the northern parts of the country. In recent years there has also been a growing tendency to develop stronger regions and innovation environments. The main policy principles have not changed but there is perhaps more “space” for the development activities and roles concerning city regions. However Second tier cities are not seen as a distinct type of regions. They are mainly bundled together with the capital region of Oslo as the drivers of national economy.

## 5. SWEDEN

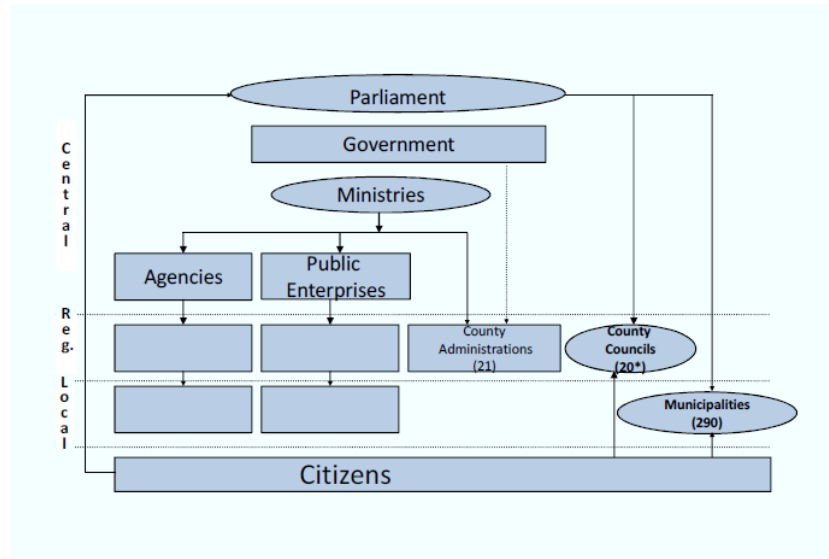
### Governance

#### *Institutional structure*

- 1.93 Most of the regional and innovation policy activities in Sweden are coordinated by the Ministry of Enterprise, Energy and Communications and the several agencies, such as Tillväxtverket and Vinnova, working under its supervision. (Regeringskansliet 2010).

**FIGURE 5. The Swedish Governance system (OECD 2010a, 142)**

1.94



Governance in Sweden is practically a two-tier system. Formally there are three, or even four, levels of governance: national, county (multi-county) and municipal level. However the local level of 290 municipalities and the central governance are more influential in terms of strategic tools and finance than the 21 counties on regional level. (OECD 2007, 299; OECD 2010, 6.) Municipalities are represented on regional level by county councils. In addition there are new governance initiatives and pilots: regional co-ordination bodies in several regions and regional self-governance bodies in Västra Götalands Region and in the Skåne Region (OECD 2010a, 138; Regeringskansliet 2010.)

- 1.95 The Swedish governance system has been quite decentralized when distributing the welfare services but centralized when governing regional development efforts. However the experiments with regional co-ordination bodies and improved co-ordination of governance at the national level have been a gradual development towards decentralization in regional development. Despite this change there are still gaps on the regional level of governance, and the governance model of Sweden has a shape of an hourglass. (OECD 2010a, 138.)

#### ***Special programmes, commissions and forums***

- 1.96 There are two especially relevant agencies in regional and innovation policy in Sweden. Tillväxtverket (former Nutek) is a Swedish Agency for Economic and Regional Growth. It operates under the supervision of Ministry of Enterprise, Energy and Communications. The aim of Tillväxtverket is to work to achieve more enterprises, growing enterprises and sustainable, competitive business and industry throughout Sweden. It also coordinates the structural fund programmes in Sweden. (Tillväxtverket 2010.) Vinnova (Swedish Agency for Innovation systems) is responsible for most parts of the Swedish innovation policy (OECD 2007, 296).



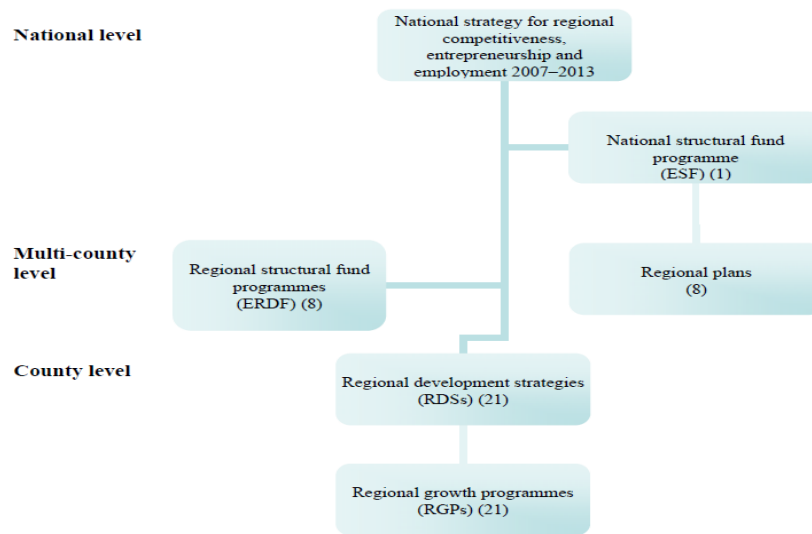
- 1.97 There are several special programmes and other governing bodies which concern regional development efforts and innovation or metropolitan policy: VINNVÄXT, Regional Cluster Programme, Regional Development Programmes, various Regional Structural Fund Programs, Cross-border and transnational programmes, Program for the largest city regions (Storstadsprogrammet), Commission on metropolitan areas (Storstadsdelegationen) and National forum for regional competitiveness, entrepreneurship and employment. (Regeringskansliet 2010; Regeringskansliet 2007.)

**Second tier cities in policy documents**

**Documents**

- 1.98 The most relevant national strategy is the National Strategy for regional competitiveness, entrepreneurship and employment 2007–2013. In addition there are some other documents and analyses and policy documents. There is also a rather out-of-date Innovative Sweden national strategy document from the year 2004 (Innovative Sweden 2004). However there have been initiatives and discussion about forming a new national innovation policy or strategy (see for example Vinnova 2010), but this still underway. National Strategy for regional competitiveness, entrepreneurship and employment 2007–2013 has been updated in the year 2009 with a follow up and implementation document.

**FIGURE 6. Regional development strategies in Sweden**

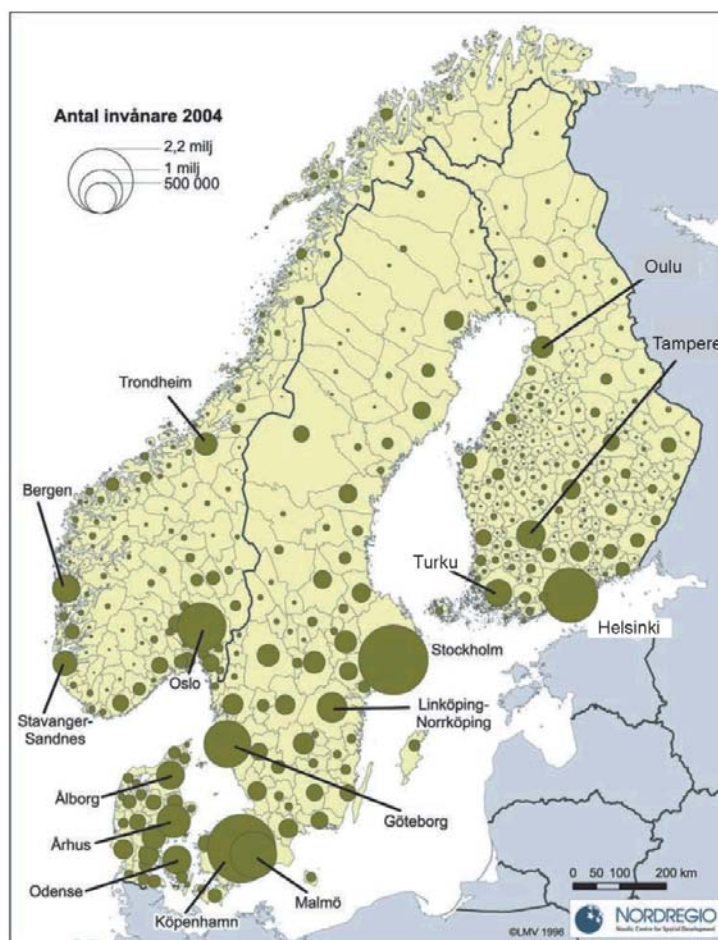


- 1.99 There are very few policy documents or strategies on national level that concern regional development, innovation and metropolitan policy. At the moment there are not any specific national level policy documents, strategies or programmes concerning especially the development of large city regions from the point of view of national development. There has been a research project on urban policy, which has ended in the year 2009. There are also local-national development collaborations in metropolitan regions but they have more a social political nature (Regeringskansliet 2010). In addition there are some initiations of regional level strategies of large urban regions, for example in the Stockholm region, which are apparently continuations of the mentioned national research program on urban regions.

**Recognition of Second tier cities**

- 1.100 There are three major concentrations of population and economic activity in Sweden which resemble typical characteristics of large cities. Besides Stockholm these cities are Gothenburg (Göteborg) and Malmo (Malmö). Norrköping-Linköping area can also be seen as the fourth large urban concentration in Sweden. (Nutek 2006a, 5.) If we are talking about possible Second tier cities, the most likely candidates in Sweden are Gothenburg and Malmo. However when we talk about the large urban regions in general, we can count in the Linköping-Norrköping region.

**FIGURE 7. Population in the Nordic commuter catchment areas. (Nordregio/Nutek 2006c, 57).**



- 1.102 Storstadsprogrammet –program has recognized quite obviously the largest metropolitan areas of Sweden, which are shown in picture 1. Their contribution to the national development is recognized explicitly in the reports of the program (Nutek 2006c, 99; Tillväxtverket 2009, 5). However the three (or four) main metropolitan regions are not in especially central role in the National Strategy for regional competitiveness, entrepreneurship and employment 2007–2013. However their role as leading regions and their contribution to the Swedish economy in international competition and innovation activities is recognized. The importance of these cities in the Baltic Sea and cross-border co-operation is also mentioned. (Regeringskansliet 2007, 62–65.)

**Goals and objectives**

- 1.103 The most central strategy document in Swedish development activities at the moment is the National Strategy for regional competitiveness, entrepreneurship and employment 2007–2013. It

states that the main goal in regional development is “effective, sustainable local labor market regions which offer high levels of service through-out the country”. (Regeringskansliet 2007, 6).

- 1.104 A national strategy for regional competitiveness, entrepreneurship and employment 2007–2013 has two sections, which are especially essential when discussing about the role of Second tier cities in Sweden. These sections are “strategic cross-border co-operation” and “city conditions”. In addition there are some mentions of city regions as strong innovation environments etc. for example in the “innovation and renewal section”. (Regeringskansliet 2007, 11–29.)
- 1.105 Under the topic “City conditions” it is stated that cities and metropolitan regions play an important part in growth in their surrounding regions and also in the whole country. It is also important that Sweden’s metropolitan areas use their opportunities to compete with other metropolitan regions globally. In addition of these main objectives there are several guidelines for initiatives in metropolitan regions in the structural fund programmes for Sydsverige, Stockholm and Västsverige. These regions include the city regions of Gothenburg and Malmo, although the cities are not explicitly mentioned in the document. The guidelines are: reinforce competitive innovation system clusters, promote local development initiatives in areas which experience isolation, promote increased integration, encourage co-operation with other cities in Sweden and internationally. (Regeringskansliet 2007, 28–29.)
- 1.106 Cross-border co-operation is another theme, which involves Swedish metropolitan regions, and especially the Malmo region. It is stated that development efforts “should contribute towards improving communications between the Nordic metropolitan regions”. In addition it is said that “government would like to encourage sharing experiences and knowledge between metropolitan regions and regions in other countries”. The cooperation between Skåne and Greater Copenhagen and Western Sweden and Norway is emphasized in this context. (Regeringskansliet 2007, 26–29.) These mentions can be interpreted as putting emphasis on Malmo and Gothenburg and their role in cross-border cooperation.
- 1.107 Follow up to the National Strategy for regional competitiveness, entrepreneurship and employment 2007 – 2013 does not bring any substantial changes to the development efforts concerning metropolitan regions. However it mentions “the significance of cities to the sustainable regional development” as one of the 15 themes that should be further developed. Among these themes there are also “international view on development” and “work on innovation and renewal”. (Regeringskansliet 2009, 12.) These themes can be interpreted at least partly as putting more emphasis on the development of the largest urban regions, but they are no means explicit on the development especially on Second tier cities.

***Reasons and justifications***

- 1.108 In Swedish development efforts the cohesion aspect of development efforts is emphasized in many occasions and equity between regions is an underlying or perhaps even main theme in most of the strategies and policy documents. However this welfare point-of-view on regional development has been gradually complemented by demand for stronger competitiveness and innovativeness of regions. This in turn emphasizes the role of large cities.
- 1.109 It is said that regional development policy in Sweden focuses on creating growth, sustainable development and a high level of service for women and men in all parts of the country. Every part of the country should contribute towards Sweden’s development. (Regeringskansliet 2007, 6.) This could be interpreted as putting emphasis on the Nordic welfare model. This model seems to be rather contradictory with urban policy initiatives (Jørgensen & Ärö 2010, 25), and also in conflict with the strong role of possible Second tier cities in national development efforts. However the development of all regions can also be interpreted as focusing also on successful regions, not just the lagging regions. In practice the equity objectives are still strong in Swedish regional development, but they may give some room to the development of city regions also. (OECD 2010a, 138.)

- 1.110 There are clear arguments for the development of largest city regions, which deviate to some extent from the previous equity and welfare thinking. In the “Storstadsprogrammet” –national program the role of the largest city regions was seen quite clearly: they are engines of economical growth and as self-reinforcing growth environments. Although the main goal of the program was growth of the whole national economy, it was stated that large cities need special development measures and attention as drivers of development. (Nutek 2006a, 4.)
- 1.111 In the final report of the “Urban policy for national growth” –program it is said that the large city regions are essential to the national growth because over half of the production activities are located in these cities and because most of the national economic growth happens in them (Tillväxtverket 2010, 15). It is also stated that the importance of the largest cities grows in globalized, knowledge intensive and innovation-driven economy (Nutek 2006a, 4; Nutek 2006b, 6). The economic importance of large urban regions was justified with four themes. Economies of scale are larger in large urban regions than in other regions. Urban regions are also more likely to attract workforce, investments and competence in general. City regions are connected to international networks and they are nodes in global markets. The environment for companies to develop and grow is better in large cities than in smaller regions. (Nutek 2006b, 10–14.)
- 1.112 Balancing of the national economy and regional disparities is on the forefront of regional development in Sweden despite some of the special measures for large city regions. National strategy for regional competitiveness, entrepreneurship and employment 2007–2013 states that competitive regions and individuals are necessary in order for the whole country to be competitive. It is also said that the more regions have a growing economy the better for the whole economy. Economically strong regions are said to encourage growth in weaker regions. (Regeringskansliet 2007, 4.) It is also stated that the boundaries between large urban regions and other regions are not clear cut and that different types of regions can benefit from each other (Tillväxtverket 2009, 15–16).
- 1.113 There are not any specific mentions that would emphasize Malmö and Göteborg as Second tier cities outside Stockholm region. Of course their role can be seen as balancing forces of the capital city region and in this way they could promote the equity goal of Swedish regional development.

### Conclusion

- 1.114 The focus on metropolitan policies and regional development in general is not on Second tier cities outside Stockholm. The role of Gothenburg and Malmö is recognized but there are not any special measures on national level for these cities as Second tier cities. They are developed as parts of metropolitan areas, and all the development initiatives concerning large urban regions concern also Stockholm. On regional level these regions may have their own metropolitan strategies but they concern more the challenges inside the cities than for example national development issues. Overall the Swedish development strategies and documents have a strong emphasis on cohesion and the development of the whole country.

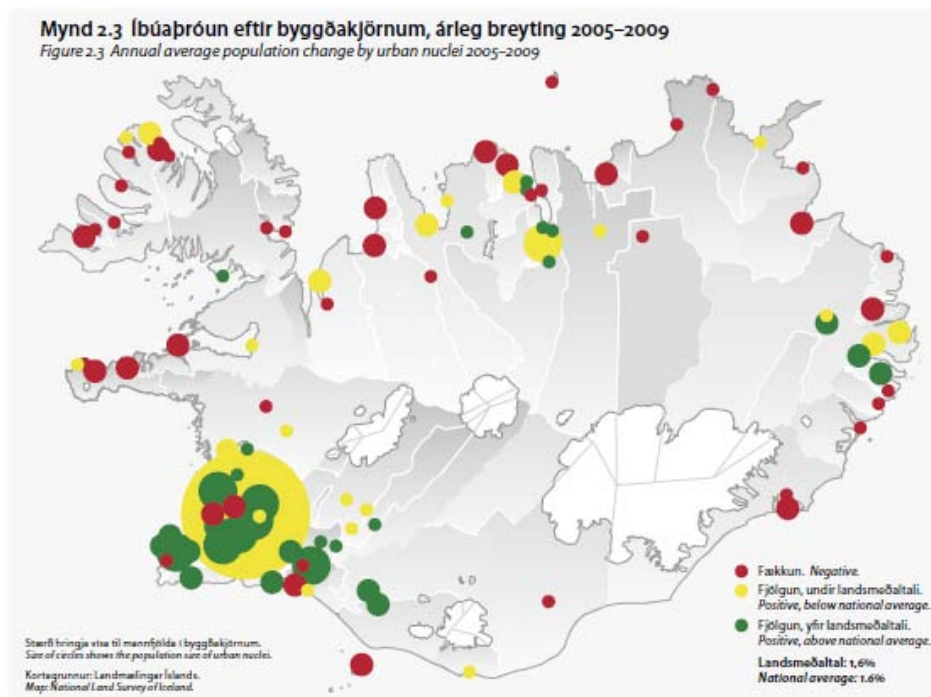
## 6. ICELAND

### Cities, municipalities and spatial structure

- 1.115 The capital region of Reykjavik dominates the geography and spatial structure of Iceland. The municipality of Reykjavik alone has 118 000 inhabitants. The whole capital region of Reykjavik has over 200 000 inhabitants. The second largest municipality, Akureyri, has only 16 000 inhabitants and the second largest region has 29 000 inhabitants. The country as a whole has about 318 000

inhabitants. (Statistical yearbook of Iceland 2010, 48.) Capital region of Reykjavik clearly dominates the spatial structure of Iceland.

**FIGURE 8. Annual average population change and size of the largest municipalities in Iceland (Statistical yearbook of Iceland 2010, 69).**



1.116 Monocentric spatial structure of Iceland, which is very clear even when compared to other Nordic countries, diminishes the role of Second tier cities in Iceland to such extent that it is not fruitful to examine their role in development activities and in related policy documents any further. In fact one could say that there are not any actual Second tier cities in Iceland. Of course there are cities outside the capital region of Reykjavik but they can hardly be seen as large urban concentrations with national economic significance.

## 7. MAIN FINDINGS

1.117 All of the Nordic countries still have a strong emphasis on regional balance, which shows in the national development objectives (see table x.). There are mentions of balanced regional development, maintaining the current settlement pattern, high levels of service throughout the country and so on. However international competitiveness and competitive regions is also a theme that is repeated in almost every policy document in each of the Nordic countries.

1.118 Largest cities outside the capital region are, at least implicitly, drawn into the process of developing the national economy. Their role is more or less bundled together with the activities of capital region or cities as a whole. There are mentions of “network of cities” or “urban network” which do not explicitly recognize Second tier cities as a distinct type of regions. In most cases cities as a whole are seen as the drivers of innovation and economic development.

1.119 The development of large city regions could be seen as contradictory to the underlying balancing principle of Nordic regional development, but the development of cities is often justified by saying that they in fact balance the economic development. It is said that cities connected to urban networks should radiate development to their hinterlands, competitive regions are

necessary for the competitiveness of the whole country, urban network balances the development between remote and central regions etc. The possible role that is implicitly given to Second tier cities is therefore quite dualistic; to be internationally competitive centers and to balance regional development.

- 1.119 There are some slight variations in the positions of Second tier cities in different Nordic countries, but most of the findings are the same in each country:
- Second tier cities are often bundled with capital regions as “large cities” or “urban regions” or “urban network” etc.
  - Their explicit and distinct roles as Second tier cities in policy documents are relatively weak.
  - City regions in general are seen as internationally competitive concentrations of economic activities, which radiate development to surrounding regions and contribute to national development.
  - The emerging role of Second tier cities could be the balancing of development between capital regions and other parts of country.

TABLE 2. Nordic countries, Second tier cities and national level policies

	Denmark	Finland	Norway	Sweden	(Iceland)
<b>Second tier cities (and large urban regions)</b>	Greater Copenhagen Region +Eastern Jylland = Aarhus +Odense, Aalborg	Helsinki metropolitan Region +Tampere, Turku, Oulu	Capital Region of Oslo + Bergen, Stavanger	Capital Region of Stockholm + Gothenburg, Malmo	Reykjavik
<b>Cities in policy documents</b>	Greater Copenhagen and Eastern Jylland	Metropolitan region and cities/towns as a network +development corridors in Southern Finland	Capital region and 5 others: Bergen, Stavanger, Trondheim, Kristiansand, Tromso	Capital region + Gothenburg, Malmo +regions with cross-border co-operation	-
<b>National (regional) development objectives</b>	Denmark among the 10 most wealthiest countries in 2020 +Regionally balanced Denmark	Competitiveness with sustainable and balanced development	To maintain current settlement pattern	Growth, sustainable development and high levels of service throughout the country	-
<b>Justification of national objectives / principles of national development</b>	Every part of the country is a resource = even remote regions should be developed	Every region should develop their endogenous strengths	Citizens have the right to move wherever they want and have good conditions of living = "all regions" principle	Cohesion and well-being +every region should contribute to national development	-
<b>Role of Second tier cities (or large cities)</b>	Important in global competition (bundled with capital region)	Network of cities ensures international competitiveness, Large cities = competitive innovation environments	Improve national competitiveness (bundled with capital region) +Emerging roles as "independent" actors	Cities improve international competitiveness (bundled with capital region)	-
<b>Justification of urban development</b>	Cities connected to urban network radiate development to their regions/hinterlands	Urban network (+development corridors) balances development of central and remote regions	Cities are part of division of labour between different types of regions	Competitive regions are necessary for the competitiveness of the whole country	-
<b>Special measures concerning city regions</b>	Implicit measures in sectoral development (for example innovation policy)	Metropolitan policy + measures in several policy contexts are coordinated (COCO, OSKE etc.)	Storbyprosjektet +implicit measures in various sectoral policies	Storstadsprogram +implicit measures in various policies	-
<b>Governance reform processes</b>	2007 local government reform process, less regions and municipalities, decentralization	2005- local government reform, 2010 regional level government reform	2010 reform, decentralization, emphasis on regional level	Gradual changes and pilots in regional level governance	-
<b>Documents</b>	The New Map of Denmark, Danmark i balance i den globala världen, Regionalpolitisk Vaekstredogorelse, Styrket innovation i virksomhederne	Finnish Regional Development Strategy 2020, Perspectives for spatial structure and land use in Finland, National Innovation Strategy	An innovative and sustainable Norway, Local Growth and hope for the future, Storbyprosjektet documents	National Strategy for regional competitiveness, entrepreneurship and employment 2007–2013, Storstadsprogram documents	-

## TAMPERE – REINVENTED CITY-REGION IN FINLAND

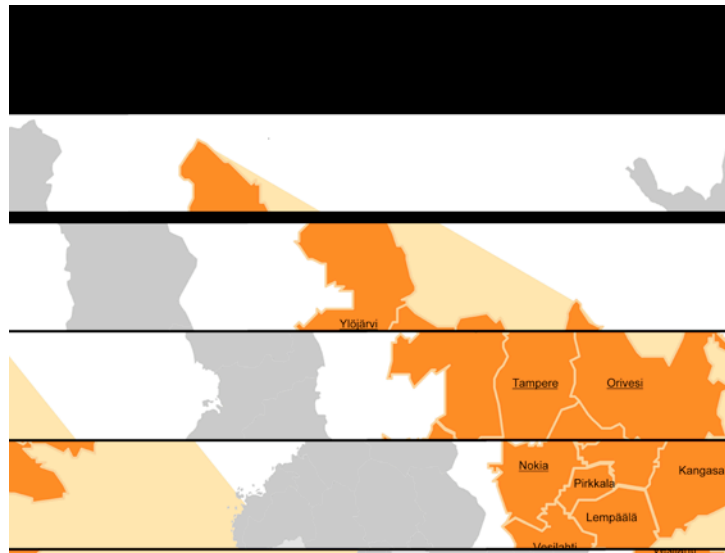
Markku Sotarauta & Mika Kautonen & Jari Kolehmainen

### 1. INTRODUCTION

*“In 1960, there were approximately 33,000 industrial jobs in Tampere, which made up over 50% of all working places. That same year the first university students began their studies in Tampere. Correspondingly, in the year 2000, there were approximately 22,000 industrial jobs, which accounted for 21% of all working places in Tampere. The number of university students was about 25,000. In the span of 40 years, Tampere has transformed from the leading town of industrialised Finland into one of the foremost Finnish cities of the knowledge economy.”* (Kostiainen & Sotarauta 2003, 1)

- 1.1 In this Chapter we examine the development of Tampere, Finland for wider case portfolio of the ‘Second tier cities in Europe: Performance, Policies and Prospects’ –project. The main aim here is to provide the comparative analysis of European Second tier cities with relevant political, economic, and institutional data and insights from one specific case. The research task of the case study is to identify the main policy messages rather than simply describe the detailed history of places but, of course, detailed history accompanied with some statistical data is needed to flesh out the policy message. Additionally, the objective is to analyse out the role of Tampere in Finland and its relationships with the respective regional, national and European territorial systems. This report focuses on understanding one specific place and the dynamics, relationships and processes, which initiate and sustain its development. (Parkinson 2010.)

**FIGURE 9. Finland, Tampere region and Tampere city-region (Source: SeutuNet)**



- 1.2 In this report, we use mainly statistics describing development of Tampere city-region, but since some of the statistics are only available at a regional level, we operate at three different levels that are City of Tampere, City-Region of Tampere and Tampere region (Table 1).



**TABLE 3. Number of municipalities and population in Tampere region, City-region of Tampere and City of Tampere, 2009 (Statistics Finland, Altika)**

	Number of municipalities	Population
Tampere region	23	484,436
Southern Tampere region	4	42,851
South-East Tampere region	2	8,068
South-West Tampere region	2	27,809
North-West Tampere region	3	16,750
Upper Tampere region	4	26,325
<b>City-region of Tampere</b>	<b>8</b>	<b>362,644</b>
- City of Tampere		211,507
- Hämeenkyrö		10,436
- Kangasala		28,466
- Lempäälä		20,178
- Nokia		31,357
- Orivesi		9,634
- Pirkkala		16,515
- Vesilahti		4,365
- Ylöjärvi		30,175

## 2. BRIEF HISTORY OF TAMPERE<sup>1</sup>

- 1.3 Tampere city-region is Finland's second largest with its appr 362,000 (in 2009) inhabitants. The core of the city-region, city of Tampere, was founded in 1779. The city-region has a long industrial history, and it was among the first cities in the country where the industrialization got under way. Established in the banks of the rapids, the main industrial forces of Tampere were the cotton mills and paper factories. Later on this industrial base expanded to include the textile industry, mechanical engineering, food-processing and chemical industries. Despite the deterioration of many of these traditional industries, the smokestack industries formed the basis of the economic development until the 1990s, when Finland was hit by a very deep recession. This recession was a turning point in the development of the industrial structure.
- 1.4 The phases of Tampere's development can be grouped as follows: 1) Founding of the town and the first steps of industry 1775-1820; 2) the birth of large-scale industry and the stabilisation of industry 1820-1920; 3) the expansion of industry and the beginning of recession 1920-1960; 4) the recession in heavy industry and the birth of the knowledge economy 1960-1990; and 5) the systematic institutionalization of the knowledge economy (1990-).

### Founding of the town and the first steps of industry 1775-1820

- 1.5 The King Gustav III of Sweden founded the town of Tampere. When the King was deliberating the appropriate location of the new town, he realised the power production prospects of the rapids that cut through the isthmus between the two lakes Näsijärvi and Pyhäjärvi. (Rasila 1988, 379-398.) For some time, the town remained fairly small (Appendix 1: Figure 1); 15 years after its founding the population was approximately 400 people, since then the town has grown rapidly.

<sup>1</sup> Brief history of Tampere is based on Kostiainen & Sotarauta (2003)

- 1.6 All Finnish towns founded before Tampere in Finland were bound by the regulations of the legislation, even though they did have their own internal autonomy and self-governmental rights. Tampere, however, was founded as a free town, where trade and industrial enterprising was unrestricted and in whose founding documents lists factories and craftsmen's establishments in addition to trade. By giving Tampere the free town rights, King Gustav III laid the foundation stone for the birth of Finnish industry. All in all, at first, enterprises from other regions of Finland, as well as Stockholm, came to town. Tampere was founded expressly as an industrial town. In Sweden, at that time only Eskilstuna enjoyed a similar full autonomy of industries that promoted industrial activity (Seppälä 1998, 10). A new notion that also emerged was that agricultural activities of the townspeople, which were a common phenomenon in old towns, were completely forbidden. Industrial activities were started rather soon after the town was founded, and a rag paper mill, dyeing house, brick factory, gun barrel factory and leather fulling house were established at a relatively rapid pace. (Björklund 1993, 10; Seppälä 1998, 11.) The industrial development planned for Tampere by the King and the tsar remained rather modest at the turn of the century (Björklund 1993, 10-11; Rasila 1988, 418).
- 1.7 In 1809, Finland was passed on from the Swedish monarchs to the rule of Russian tsars. Finland became an autonomous grand duchy of Russia. The founding of the town well illustrates the renewal of perceptions characteristic to the time even in a more general sense: in a word, the freedom of enterprise (Rasila 1988, 384-387). The one institution that had an essential impact on the nature of the town was freedom of trade that created the preconditions for the birth of industry. In the beginning of the development of Tampere, national decisions provided an opening to the new times. The rapids were the primary resource on which industry began to develop. The rapids and the new freedom were the attracting forces that attracted new actors: the enterprisers. The new enterprisers who came to exploit the power resources provided by the rapids as well as the new freedom took a central position in the creation of industrial Tampere.

### **The birth of large-scale industry and the stabilisation of industry 1820-1920**

- 1.8 The Scotsman James Finlayson can be considered the first real industrialist of Tampere. In 1819, Finlayson submitted a petition to the tsar to implement his plans for industrialisation in Tampere. Finlayson applied for freedom from customs duty for the import of necessary materials, ownership of the Tammerkoski falls and help in purchasing pig iron and coal, as well as for other privileges. His petition was granted. In the beginning, Finlayson's areas of activity were machinery, the spinning and weaving of cotton, as well as industrial manufacturing of cotton thread. This marked the birth of large-scale industry both in Tampere and throughout Finland. Finlayson however faced difficulties of many kinds. As his health was failing, Finlayson sold the factories to businessmen of German origin who had earlier operated in Russia. (Rasila 1988, 562-581.)
- 1.9 By 1870, industrial activities in Tampere were significantly expanded and diversified. The most significant enterprisers and know-how came from abroad. Only gradually, inspired by the example of larger companies, did Tampere's own craftsmen take up private enterprising. However, many of these enterprises were short-lived. (Björklund 1993, 136-137.) Industry had been created largely through external influences due to the lack of markets, capital or skilled workforce regionally or nationally, which was required by large-scale industry. At all events, in 1870, 40.5 % of the entire industrial workforce of the country worked in Tampere (Rasila 1984, 27). Tampere was an island in an agrarian society, where activities were directed not by industrial logics but by pre-industrial organisations and lifestyles. Indeed, the structure of industries in Tampere was closer to that of England's Lancashire or German's Ruhr than that of the rest of Finland. Tampere was in a sense prematurely industrialised. (Haapala 1986.)

- 1.10 The period of 1870-1900 was an era of an unusually strong economic and population growth. If earlier growth had long relied on export markets, now the time emerged for the growth of domestic markets. Within a few years, in the 1890's, several textile factories were born, and by 1900 the textile industry dominated the industrial structure. In the Finlayson cotton mill alone there were over 3,000 workers. The proportion of Tampere's industrial workers among the total Finnish industrial workforce during that time was 30.8 %. (Rasila 1984, 22-27.)
- 1.11 The validity of the privileges that the Tampere industrial life enjoyed – Privilegium Tammerfors – expired in the end of 1895, but the water power from the rapids and the town's central geographical position were resources which institutional changes could not remove. The advantage of the location had reached its full capacity when Tampere got rail traffic connections to Helsinki, Vaasa and Pori. The developed industrial centre attracted new industries; it was known that Tampere had a skilled workforce and enthusiastic enterprisers. (Haapala 1986, 15, 102.) At the beginning of the period of independence of Finland (1917), all of the core fields of heavy industry were established in Tampere.
- 1.12 During the period of 1900-1920, the industrial workforce of Tampere was integrated as a part of Finnish society to such an extent that Tampere ceased to be an exceptional phenomenon in Finland: the rest of the country was also developing industry. (Haapala 1986, 15, 211.) However, in 1920 over one-half of all working people in Tampere were employed in industry, whereas the proportion in the rest of the country was approximately 10 % (Statistics Finland). During the approximately 100-year era spanning the birth and establishment of large-scale industry, Tampere transformed from the structures of an agrarian society to the structures of an industrialised society, the society of estates became a class society, and waged work became common (Haapala 1986, 321-322).
- 1.13 The 100-year period described above consists of several critical incidents, of which the clarification and expansion of the free town rights in 1821 and their continuation in 1856 had an impact on the development of the town in the form of institutions. As the preconditions for industrialisation were institutionalised, industrial Tampere was able to develop in the originally intended direction. In regard to the whole history of the town's industrial development, the activities of Finlayson were a crucial factor in the creation of an actual large-scale industry. Following Finlayson, the town found its direction. In addition to Finlayson, the central actors who significantly influenced the development of the town were the tsars of Russia (who granted the privileges of Tampere) and the families who controlled the industrial institutions, such as the Nottbecks and Frenckells. Their influence was based not only on their role as employers, but also as participants in the administration of the town.

### **The expansion of industry and the beginning of recession (1920-1960)**

- 1.14 The years that followed the independence of Finland (1917) compose a strong era of the founding new companies in Tampere. Independence made it possible for Finland to practise its own economic policies and thus to decide itself, for example, about the level of industrial tariffs. The large corporations of Tampere were still primarily in the textile industry, but as the society developed, an increasingly varied number of machinery and devices were in demand to meet the needs of both industry and other lines of business, as well as households. This meant growth in the metal and mechanical engineering industries. In 1936, the proportion of metal and mechanical engineering industry as a part of the total workforce had risen to more than 12 %. (Jutikkala 1979.)
- 1.15 Before World War II, the metal and mechanical engineering industries grew significantly, while the textile industry that had been in a dominant position for over 100 years began to decline. Finally, in 1943, the metal industry rose to be the biggest industrial sector and its proportion of total workers reached nearly 27 %. Industry still provided over a half of all jobs

in the town. (Jutikkala 1979.) The preconditions for industrial activities were significantly improved when the Government in 1931 decided to transfer the State Airplane Factory to Tampere. Along with the airplane factory, Tampere received its own airport, and air traffic between Helsinki and Tampere was initiated in 1937. (Seppälä 1998, 73-94.)

- 1.16 After World War II, Tampere was still an industrial town and over one-half of its population relied on industry for its subsistence. The amount of industrial workers continued growing until 1956, after which it began to decline. The growth of industry in Tampere, and metal industry in particular, can partially be explained by the war reparations to Soviet Union. Of all the Tampere enterprisers, Tampella Corp. made the largest contribution. Its share of all machinery and devices that were manufactured in Finland as part of war reparations was 14%. After 1950, the relative proportion of industrial jobs began to shift due to industrial decline and job opportunities in the service sector grew considerably. The number of personnel in the educational system, social administration and health care increased in particular. (Rasila 1992, 36, 185-189.)
- 1.17 After World War II the decrease of the working force was replaced by machine power (through the means of rationalisation and automation), industrial production grew until the 1980s. The total amount of both industrial workers and clerical staff was at its height in 1962 when it was 36,890. The focus of Tampere industry even after the war was on the entity formed by the textile, clothing, footwear and leather industries, which in 1956 employed 18,000 people. By 1988, the number was only 3,900. During the war, the metal industry had reached the extent that it managed to maintain its production rates even with slight growth until the end of the 1970s. (Rasila 1992, 190-194.)
- 1.18 All and all, the above-described era was in many ways a time of social restlessness. The period between the World Wars was characterised by independence, civil war, intense activities by both the far right and communists, the great depression of the 1930s and finally, the Second World War. After World War II, Finland lived the so-called “years of danger” in its domestic politics, which referred to the sensitive relationship between Finland and the Soviet Union. However, local politics in Tampere stabilised, and the town managed to cross the traditional gap between the political right and left in decision-making. In the 1950s, a “brothers-in-arms axis” was born that was based on cooperation between the National Coalition Party and the Social Democrats and had its roots on the members’ comradeship during the war. The question with regard to the development of the town was not only of political cooperation, but also of active cooperation between certain individual people in these groups (Rasila 1992, 351). The cooperation made it possible to create predictability and long-range planning in development, and the same basic set-up continued to prevail in the local politics of Tampere in the early 00’s. Strong individual actors and the coalition they formed were indeed characteristic to the development of the town.

### **The decline of heavy industry and birth of knowledge economy (1960-1990)**

- 1.19 In the beginning of the 1960s, the relative proportion of industrial jobs had already begun to decline, but industry still provided over one-half of all working places in Tampere. By the turn of the millennium the relative proportion had dropped to almost 20 %, which also was the average level in all of Finland. The absolute number of industrial jobs was at its zenith in 1962, and rapid decrease only started in the mid-1970s. The amount of jobs decreased until 1995 when it began to increase for the first time in decades and stabilised on the level of approximately 20,000 working places by the end of the 20<sup>th</sup> century. (Statistics Finland.)
- 1.20 There were several reasons for industrial recession that reflected the interlinking of local, national and global factors. In the 1950s, the industry in Tampere was labour-intensive, and the machine power used per worker was only one-half of the national average. The production value per worker was 2/3 of the national level. Moreover, from 1945 to 1975 the

real value of industrial hourly wages rose fivefold. These factors forced the industry to automate and rationalise production, and these measures indeed increased the gross value of production per worker. The oil crisis of 1974 caused problems in Finland as well as Tampere, because the country used a great deal of imported energy. The major upheavals in the Eastern Europe in the end of the 1980s, and especially at the beginning of 1990s, also caused trouble because exports particularly to the Soviet Union had been considerable. The recession of Tampere industry can be characterised as a recession of the textile industry in particular, because it was expressly the textile industry that had been so massive and which, ultimately, lost many jobs. In addition to the aforementioned factors, the development in the textile industry was affected by the post-war development when new countries began their industrialisation in the textile industry, similar to Tampere, and managed to gain ground in the market. Moreover, the organic raw materials the Tampere textile industry used were imported.

### **Sowing the seeds for the knowledge economy by creating new educational and research institutes**

- 1.21 Getting a university in Tampere was one of the most crucial and long-term factors in terms of its future. Helsinki had a private School of Social Sciences, the basic idea of which was to offer educational possibilities for people with limited means who had not graduated from high school. Its transfer to Tampere was influenced both by thrusting forces in Helsinki and attracting factors in Tampere. The role of the institute in the Helsinki of “real” universities was not particularly strong. On the other hand, in Tampere there was a fierce will to get its own university, and the transfer was finally realised in 1960 as a result of the active efforts of the Tampere town management. The interest of Tampere was to offer educational opportunities for young people and simultaneously prevent a brain drain. Particularly in the beginning, the town provided strong financial support to the university. In 1966, the name of the institute was changed to the University of Tampere (UTA), and in 1974 it became a state university like all the other universities in the country. All and all, the achievement of getting a university in Tampere was a display of the unanimous and strong-willed character of Tampere, but also of its ability to influence matters through Helsinki. Without the active efforts of Tampere’s own people, it is highly unlikely that YKK would ever have been transferred to Tampere. (Kaarninen 2000, 13-40, see also Rasila 1992, 456-461; Seppälä 1998, 126-127.)
- 1.22 After the university was obtained for Tampere, the town began to aspire to also found a technical university in town. In order to achieve this aim, local persistence and cunning were again required. The matter was approached so that at first, a branch of the Helsinki University of Technology was to be opened in Tampere which could later on become an independent institution. After various adventurous developments, a Tampere branch was indeed opened in 1965 that was subordinate to the professors and administration of the Helsinki University of Technology. (Seppälä 1998, 143-145, see also Rasila 1992, 461-464) Rather soon Tampere began to make arrangements to separate from the mother university, but it took a few years before the independent Tampere University of Technology (TUT) began its activities in 1972 (Ahonen 1993a, 377). In addition to teaching and research, the new university emphasised cooperation with industry. Especially the role of the Tampere University of Technology in transferring expertise to companies was strong from the very beginning, and in fact the legislation concerning TUT required investing also in product development (Wacklin 1995, 73). The obstinacy of the TUT was crucial for its role as a “university of industry”, when cooperation with companies was not favoured by the Ministry of Education. TUT’s cooperation with industry has indeed been close. It can even be said that without the industrious and extroverted activities of TUT, the metal and mechanical engineering industries could not have renewed themselves to rise to the international top of their fields in the 1990s through the means of new technological expertise. This view is strongly supported by interview research that was conducted in 1998 among the

management of the core engineering companies in the region. (Sjöholm 1998; Martinez-Vela 2006.)

- 1.23 In addition to the universities, the foundation for the knowledge economy was laid by the renewal of legislation concerning the Technical Research Centre of Finland (VTT) in the early 1970s which gave the institute the opportunity to found branches also outside of Helsinki. Along with the TUT, Tampere expertise was growing and from the viewpoint of the VTT it was becoming an interesting place for research. Hence, in 1974, laboratories of medical and occupational safety and health were established in Tampere, and later in the 1970s also the textile laboratory was transferred to Tampere (Ahonen 1993b, 387). By the mid-1970s a basic structure of solid and versatile academic teaching and research was created in Tampere as if from nowhere. It was complemented with intermediate-level educational institutes, of which particularly the Technical Institute received high regard also in wider circles.

### **3. CITY-REGION OF TAMPERE AND ITS GOVERNANCE SYSTEM OF TODAY IN A NUTSHELL**

- 1.24 It might be difficult to understand how the service delivery and governance system functions in Tampere without some understanding on the basic tenets of the Nordic welfare and governance model. As Haveri et al (2009) summarizes, ‘the Nordic countries often form a distinct cluster in European comparisons when it comes to welfare systems, legal and political frameworks for public policy, as well as recent public sector reforms, and although the corporative system is becoming increasingly pluralistic in the Nordic countries, this is still a shared tradition. In the Nordic model, where local governments are responsible for a broad range of welfare services and local development in general, and free also to engage in most kinds of issues affecting their locality.’ (Haveri et al 2009)
- 1.25 In Finland, local government enjoys special status in the core of the public service delivery systems. Local government is responsible for most of the public sector services. The Finnish Constitution safeguards the central features of local self-government that is based on self-government by the people: a) Residents elect the supreme decision-making body, the municipal council; b) The council has the general decision-making authority in local affairs. In addition, local authorities have certain specified responsibilities; c) Local authorities have the power to make financial decisions, based on the right to levy taxes<sup>2</sup>; d) Local government is separate from central government, and the municipal bodies are partly independent of the state; e) Municipal administration is based on the Local Government Act, which governs how municipalities may organise their administration. The Local Government Act recognises the diversity of municipalities. It secures the residents’ welfare in a democratic manner. According to the Local Government Act, local authorities may assume non-statutory responsibilities. New responsibilities or duties cannot be assigned to local authorities, nor can they be deprived of existing responsibilities or rights, except by passing legislation to this effect. (source: kunnat.net/Local Self-Government 2011)

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<sup>2</sup> Local authorities finance their annual expenditure out of taxes, central government transfers, various fees and charges, and sales revenues. Local income tax paid by residents, real estate tax and a share of corporate tax account for almost half of all municipal revenues. Each local authority decides independently on its income tax rate. The average local tax rate is 18.6 per cent of taxable income. Municipalities are strong players in Finland.

1.26 Tampere City Council describes its political leadership as follows:

**Political Leadership in Tampere**

In the operational model used in Tampere, the role of political leadership is strong. With the mayoral model, the political aspect guides the preparation of issues, for its part increasing residents' opportunities to influence decision-making.

The city council, elected by the residents every four years, has the primary decisive power in the city. The city council of Tampere has 67 councillors and as many deputy councillors.

The city board, which has 11 members and is appointed by the council, is responsible for city's administration and financial management and executes the decisions of the city council. The city board has two sections: the human resources section and the planning section.

Tampere is the first municipality in Finland to have a politically elected mayor. The mayor is a full-time elected official elected by the city council from among the councillors. He or she is the chair of the city board and the manager of the city.

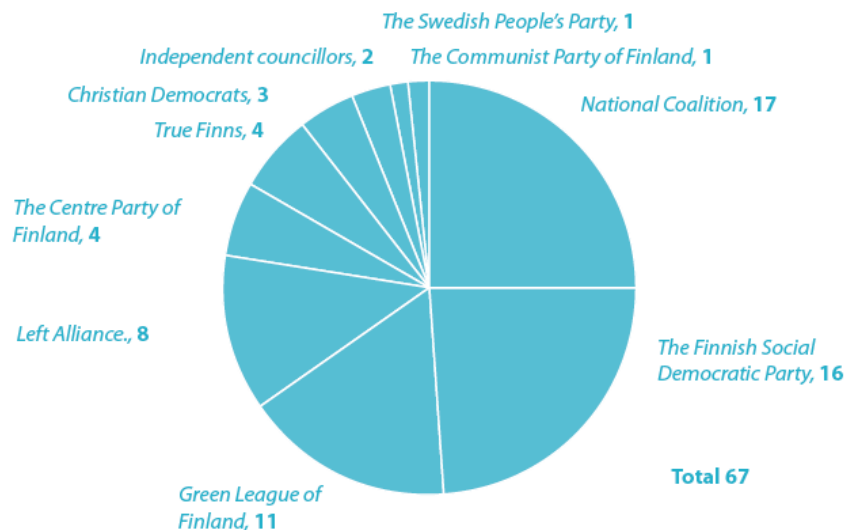
Four deputy mayors are also elected from among the councillors. They are full-time chairs of the purchasing committees that arrange services for the residents. The deputy mayors outline the preparation of issues for decision-making in the committees, and they are responsible for supervising the interests of their field of activities and maintaining contact with different interest groups.

The mayor and deputy mayors are elected for a four-year term at a time. The city council may dismiss the mayor and deputy mayors with a simple majority of votes.

The members (11) of purchasing committees, elected by the city council, are councillors or deputy councillors. The management of the city's own service production is taken care of by boards of directors with 7 members elected by the council.

(Source: City of Tampere: The operational model and organisation)

**FIGURE 10. Seats per party in Tampere City Council (Statistics 2010)**

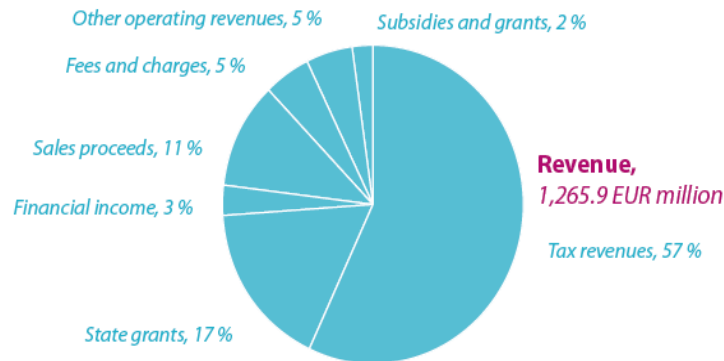


1.27 In its service delivery City of Tampere utilizes a multiple provider model. This means that external companies and communities provide services alongside the city's own service provision. The city ensures the availability and quality of services for which it is responsible, regardless of the manner in which they are produced. The operational model used by Tampere separates the service purchaser from the provider. The purchaser evaluates service needs and selects an appropriate means of production for each scenario. The service

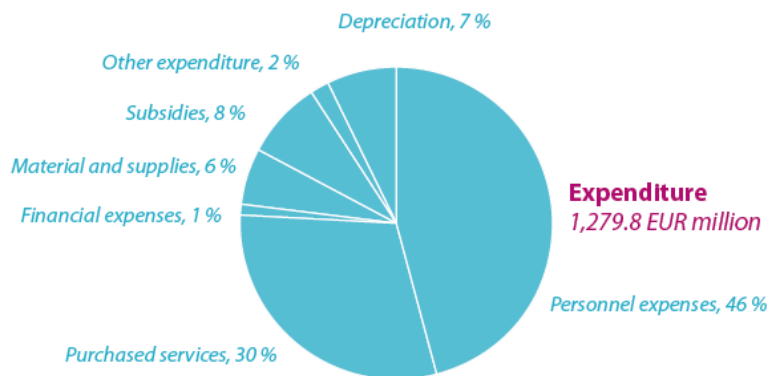
contract between the purchaser and the provider is the key instrument for steering and cooperation in the purchaser-provider model. The contracts define the contents, scope and price of the services purchased. (City of Tampere: The operational model and organisation)

- 1.28 In 2009, the local income tax was 18 % in 2009 and total revenue € 1,265.9 million the main source of income being tax revenues (see Figure 11). The main targets of expenditure are social services and health (45 %) and education (25 %). Total number of staff was 15,046.

**FIGURE 11. Revenue in 2009, City of Tampere (Statistics 2010, City of Tampere)**



**FIGURE 12. Expenditure in 2009, City of Tampere (Statistics 2010, City of Tampere)**



- 1.29 City-region of Tampere consists the city of Tampere and the 7 other municipalities around it. Tampere is also the heart of the Tampere Region. In Finland, the significance of co-operation between municipalities began to increase in the 90's. Municipalities have sought models and strategies to better organise their co-operation and also the Government has pushed municipalities to scale up their activities in collaboration with each other. All the municipalities are independent decision making bodies and, in practice, municipalities can organise their service provision in many different ways. There are several forms of co-delivery of services and local economic development policy with other local authorities, communities and enterprises. Altogether, there are 250 joint authorities in Finland.



- 1.30 The seven municipalities of the city-region of Tampere has established a Joint Authority of Tampere Central Region. The joint authority co-ordinates municipal activities in land-use, welfare services, technical issues, information systems and promotion of local economic development. For local economic development policy the municipalities founded in 2008 Tampere Region Economic Development Agency Tredea that is responsible for all the matters related to the local economic development issues. In addition, there are several other organisations focusing on some specific aspects of economic development locally. The model is discussed below (see for more detail about the Finnish governance structure for spatial policy and regional development Section I of this report).

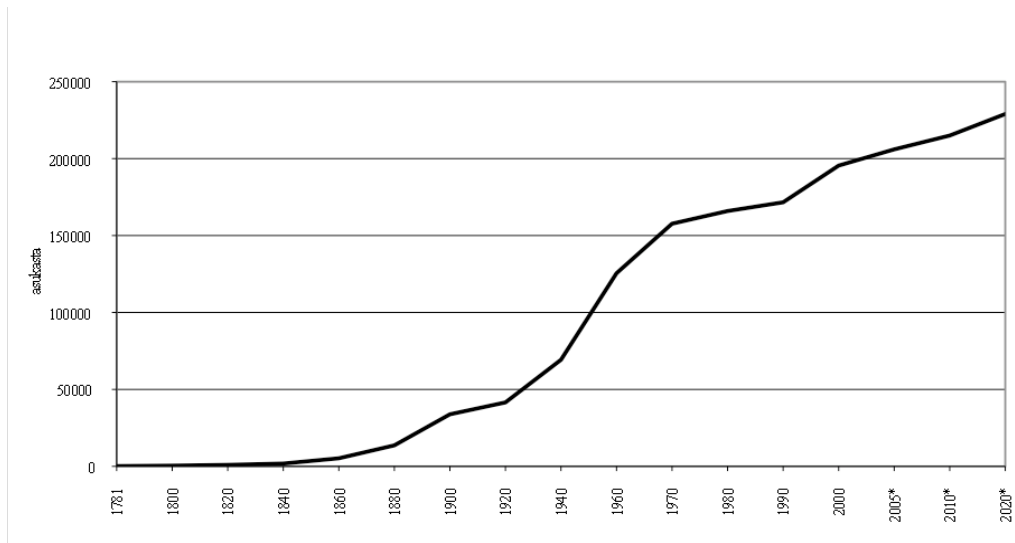
#### 4. OVERALL PERFORMANCE OF TAMPERE CITY-REGION

- 1.31 Among Finns, Tampere has a very favourable image. For example, several nation-wide polls measuring image of the main Finnish cities have consistently indicated that as a city to live in, Tampere is the most popular choice among Finns. The only exception is the latest survey result from 2009, in which Jyväskylä narrowly left Tampere second (in 2009, 850 respondents from the public sector, media, bank and financial firms; in 2002, for example, there were 4500 respondents). In 2009, the top five cities were Jyväskylä (8,16), Tampere (8,08), Oulu (7,99), Lappeenranta (7,85) and Helsinki (7,79) [scale is the same as used at Finnish schools, 4-10]. It is not worth elaborating the results more in detail but Tampere usually scores well in location, leisure and free-time opportunities, municipal services, job opportunities and educational opportunities. Tampere does not score specifically well in co-operation between municipalities within the city-region, land-use and spatial planning. (sources: Aamulehti 11 Dec 2009; Aamulehti 19 Jan 2008; Aamulehti 12 Apr 2008; Aamulehti 28 Apr 2006; Aamulehti 19 Feb 2003; Aamulehti 30 May 2002; Aamulehti 12 Apr 2000). One might conclude that Finns see Tampere as a large town that has a cosy atmosphere of a small town.
- 1.32 According to Kautonen et al (2003), the favourable image is based on, among other things, increase of jobs, central location and good connections, and the cultural amenities of the city (e.g. theatres, festivals, congresses, sports, lively rock scene et cetera). The favourable image has turned into positive net migration (see for more below). Higher education institutions and other educational institutes have played a key role in migration too. The overall view of Tampere's performance and position among the Finnish cities generated by the non-scientific public opinion polls is confirmed by a quick descriptive statistical analysis below.
- 1.33 Next, Tampere's performance in comparison to the other Finnish sub-regions (city-region = sub-region but there are also rural sub-regions) is scrutinized by often-used variables.

##### **Population**

- 1.34 Population of Tampere has been in steady growth since the birth of the city (see figure 1). In recent years Tampere city-region has been among the fastest growing sub-regions in Finland. In period ranging from 2003 to 2008, Tampere city-region was the second fastest growing Finnish sub-region following Oulu city-region (see Appendix 1; Figure 2). In Oulu, in addition to migration the growth is affected by exceptionally high birth rates. Even though the birth/death rate is favourable in Tampere too, the growth of Tampere is more a result of migration (see Appendix 1; Figure 3 and 5). However, it has not been able to attract immigrants as extensively as city-regions of Helsinki and Turku. Traditionally, Finland has been a fairly closed society with a homogenous population and this applies also to Tampere city-region. In 1990 the share of foreigners in Finland was only 1,3 %, in 2000 it was 2,6 % and in 2009 4,4%. In 2009, the share of foreigners was 3,3 % in Tampere. The largest foreign populations were Russians (1037), Estonians (644), Indians (355), Iraqi (335) and Chinese (330). Finland's access to the EU increased in- and out-migration to a great deal, but still the country and also Tampere city-region are fairly homogenous by their population in Western European terms. The share of foreign-born residents started to grow in mid 00's and especially in the Helsinki Metropolitan area the growth is rapid. (see Appendix 1; Figure 7).

**FIGURE 13. Population growth of City of Tampere 1781-2020\* (Forecast by Statistics Finland; Kostiainen & Sotarauta 2003)**



**TABLE 4. Population change in the main Finnish city-regions (Source: Statistics Finland/ sub-regions as they were in 2009)**

	1980	1990	2000	2005	2009	80-09 (%)	00-09 (%)
Helsinki	988835	1102427	1261242	1315617	1379426	39,5	18,6
<b>Tampere</b>	<b>272149</b>	<b>293127</b>	<b>323442</b>	<b>344236</b>	<b>362633</b>	<b>33,2</b>	<b>24,1</b>
Turku	252409	267081	291030	300168	307168	21,7	11,0
Oulu	143888	162644	192263	209908	223051	55,0	31,9
Jyväskylä	130446	141566	156186	164851	172083	31,9	20,3

***Economy and employment***

1.35 As stated already above, Tampere has gone through a major economic restructuring. First signs of restructuring of the industrial base of the region emerged along with the oil crisis in 1970s. In the early 1980s, reorganizations, spin-offs and specialization of the large-scale industries began as a prelude what would come a decade later. During those days, unemployment was still a fairly marginal problem wiped off by upward economic cycles. In 1991, unavoidable industrial restructuring clashed with a domestic bank crisis and the collapse of the Soviet trade plunged Finland into a deep recession lasting until 1994. In the Tampere city-region, the recession caused unemployment of more than ten per cent with a peak of about two years in as high as in 20 %. In Tampere, the employment fell from 136,079 jobs in 1990 to only 118,997 jobs in 1995 – a decrease of about 17,000 jobs in few years. However, the recovery was rapid from 2000 onwards resulting in 155,133 jobs in 2005 and 166,989 in 2007. In 2003 GDP per capita in Tampere was € 35,000.

1.36 At all events, Tampere city-region has been able to regain and even enhance its position during the post-recession period in the 90’s and 00’s. Yet, the industrial structure changed profoundly; in 2009, once so important textile, clothing, leather and shoe industries employed only 4 per cent, metal products and machine building together 26 per cent (9,800 employees), fairly stable pulp and paper industry 11 per cent, and electronics industry 9 per cent of industrial employees out of the total manufacturing employment of approximately 33,000 in the city-region.

- 1.37 Table 5 shows how the employment structure has changed in Tampere city-region since the year 1975. The importance of services, both public and private, has increased all the time reflecting the general trend in the Western economies. However, the manufacturing industries are doing still quite well being still the second largest sector of the city-region by employment. The recovery of manufacturing has been possible partly due to the emergence of knowledge-intensive industries like ICT and partly due to the renewal of more traditional industries like engineering. The share of public services is relatively high in international comparison being the largest sector of the economy by employment. This is quite typical in Finnish city-regions. In the case of Tampere city-region, many of the public sector jobs are quite knowledge-intensive due to two universities, University Hospital and other educational and research institutes located in the city-region.
- 1.38 Of the traditional Tampere industries, only the engineering industry managed to retain its significant role despite the industrial recession. It succeeded in renewing and developing technology of an increasingly high level. However, several mergers and rearrangements of ownership took place that resulted in ownerships being shifted to certain international corporations that are among the largest in the world. The engineering industry also knew how to exploit the possibilities that the technical university offered in their development work. Nowadays a dozen of the companies operating in Tampere are global market leaders in narrow business segments. Textile, clothing, leather and footwear industries were not able to renovate in a similar fashion, and because the fields are less complex in terms of technology, countries with lower production costs succeeded better in international competition.
- 1.39 New and rapidly growing business sectors have also been developed in Tampere, and especially information and telecommunications technology clusters grew rapidly. In the 90's, in less than five years, the ICT sector more than doubled its size in Tampere. In 1996 there were a total of 170 firms, employing 5,200 people, with the total output of 4,590 million FIM (772 million euro). Employment increased in private firms from 3,000 in 1994 to 6,750 in 1997; an increase of 125.2 per cent. By 2000, the ICT sector employed approximately 10,000 people. If the media and new media sub-sector and the related service and commerce sub-sectors are included, according to Statistics Finland employment rises to 15,500 people in 2000 and 19,900 in 2008. The ICT sector in Tampere is highly diversified and consists of six main areas, which are increasingly converging into a digital media cluster. (e.g. Statistics Finland, the Tampere Region Centre of Expertise Programme 1999-2006, Kautonen et al. 2002 and Kostainen 2000) Nokia Group alone employed in 2008 approx. 3,800 persons (incl. Nokia-Siemens 1,000) in mostly R&D related activities.
- 1.40 In 2008, the main employers in city of Tampere were:
- |                                    |        |
|------------------------------------|--------|
| ❖ City of Tampere                  | 15,947 |
| ❖ Tampere University Hospital      | 3,954  |
| ❖ Nokia Corporation                | 2,893  |
| ❖ University of Tampere            | 2,550  |
| ❖ Tampere University of Technology | 2,137  |
| ❖ Defense administration           | 1,319  |
| ❖ Pirkanmaa co-op                  | 1,148  |
| ❖ Metso Minerals                   | 1,128  |
| ❖ Nokia Siemens Networks           | 1,044  |
| ❖ Sandvik Mining And Construction  | 1,010  |
- 1.41 In the late 2000's, due to its industrial structure Tampere has again faced an economic recession and was one of the regions facing most difficulties in manufacturing. From 2008 to 2009 gross value of production in manufacturing decreased by 31 % in Tampere region that was the third lowest figure in Finland. In metal industry the respective figure was as low as - 40,5 % (Appendix 1; Table 2 and 3). Fortunately, the founding of new firms remained at a

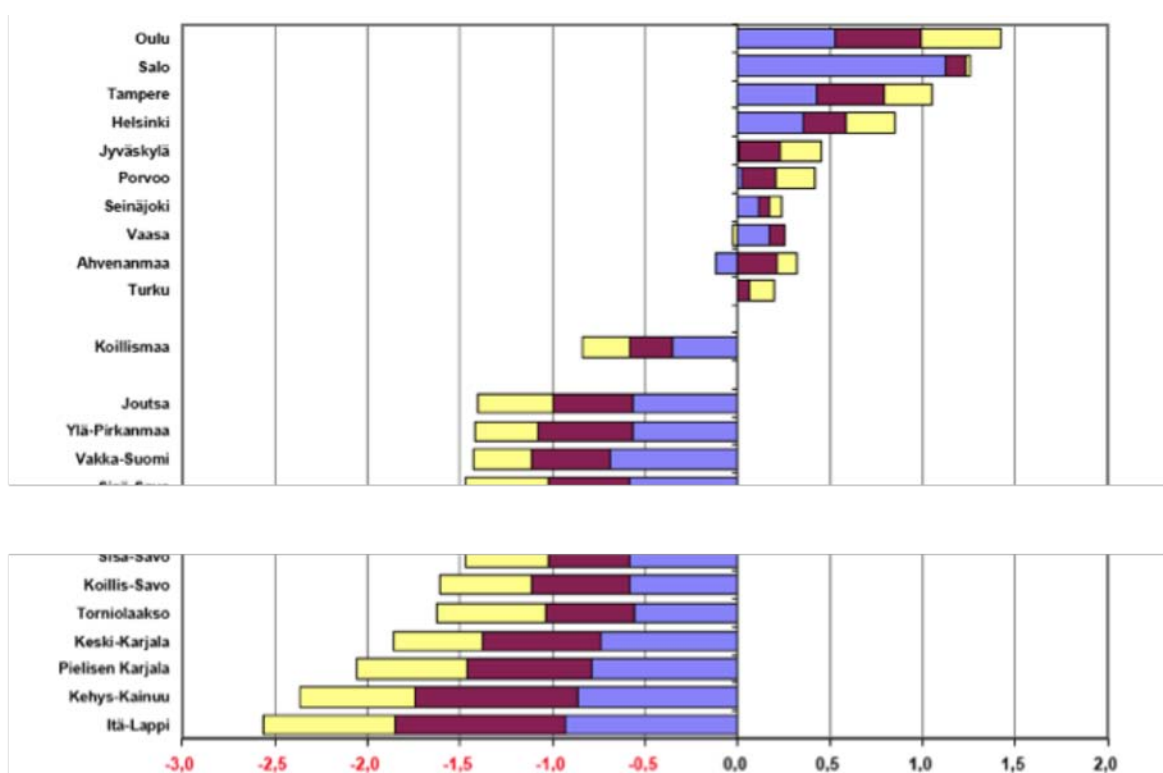
relatively good level (see Appendix 1; Table 4). All in all, the city-region survived the recession of early 1990's as well as those of the early 2000's; more than that it gained a new foothold by the new industries and the enhanced qualifications of the existing ones. Nevertheless, as a heritage of the recessions the unemployment has remained on a relatively high level being consistently above 10 % (Figure 15). The skills sought by the new industries are different to those of the unemployed persons in the traditional industries.

**TABLE 5. Employment (workplaces) by industry in Tampere city-region (city-region as it is in 2010), selected years in 1975-2007 (Source: Statistics Finland: Altika database)**

	1970	%	1975	%	1980	%	1985	%	1990	%
Agriculture, Forestry & Fishing	9761	7,8	7594	5,9	6308	4,8	5436	4,1	4642	3,4
Mining and quarrying	85	0,1	99	0,1	131	0,1	103	0,1	73	0,1
Manufacturing	50761	40,8	49374	38,7	46707	35,9	40668	30,7	36508	26,8
Electricity, gas, steam and air cond. supply	848	0,7	1156	0,9	1116	0,9	1109	0,8	1304	1,0
Building & Construction	9935	8,0	9842	7,7	8806	6,8	9724	7,3	10700	7,9
Wholesale & Retail Trade, Hotels & Restaurants	19388	15,6	18516	14,5	17551	13,5	19661	14,8	21977	16,2
Transport, Communication & Storage	7338	5,9	8732	6,8	9326	7,2	9225	7,0	5524	4,1
Finance & Insurance, Business Services	3461	2,8	5613	4,4	6753	5,2	9572	7,2	4194	3,1
Public Services + and other societal services	21934	17,6	25480	20,0	30160	23,2	36612	27,6	48074	35,3
Other	956	0,8	1257	1,0	3360	2,6	306	0,2	3083	2,3
<b>Total</b>	<b>124467</b>	<b>100</b>	<b>127663</b>	<b>100</b>	<b>130218</b>	<b>100</b>	<b>132416</b>	<b>100</b>	<b>136079</b>	<b>100</b>
	1995	%	2000	%	2005	%	2007	%		
Agriculture, Forestry & Fishing	2973	2,5	1928	1,5	1952	1,3	2290	1,4		
Mining and quarrying	143	0,1	175	0,1	77	0,0	117	0,1		
Manufacturing	30591	25,7	33146	25,3	34784	22,4	36326	21,8		
Electricity, gas, steam and air cond. supply	1135	1,0	915	0,7	818	0,5	750	0,4		
Building & Construction	6538	5,5	920	0,7	9812	6,3	11251	6,7		
Wholesale & Retail Trade, Hotels & Restaurants	16948	14,2	20545	15,7	22800	14,7	25323	15,2		
Transport, Communication & Storage	7908	6,6	9466	7,2	9870	6,4	9499	5,7		
Finance & Insurance, Business Services	2467	2,1	19141	14,6	23615	15,2	28631	17,1		
Public Services + and other societal services	47137	39,6	42714	32,6	49787	32,1	51137	30,6		
Other	3157	2,7	2079	1,6	1618	1,0	1665	1,0		
<b>Total</b>	<b>118997</b>	<b>100,0</b>	<b>131034</b>	<b>100,0</b>	<b>155133</b>	<b>100,0</b>	<b>166989</b>	<b>100,0</b>		

1.42 When comparing the overall performance of Tampere to that of the other Finnish city-regions by using the combined regional GDB, employment and population indicator, fairly popular in Finland to compare overall development of sub-regions, it is possible to see that during the last twenty years Tampere city-region ranks third after two very ICT and electronics specialized sub-regions (Oulu and Salo) (Figure 14). Similarly, when looking at the sub-regional GDB growth Tampere ranks third again after Oulu and Salo and ahead of Helsinki (Appendix 1; Figure 9). It is possible to conclude that Tampere has constantly been among the best developing city-regions in Finland. In many ways, being highly specialized in electronics Oulu and Salo represent fairly different Nokia dominated story from Tampere that also has a strong ICT cluster but that's economic base is more versatile (see Antikainen & Vartiainen 2002).

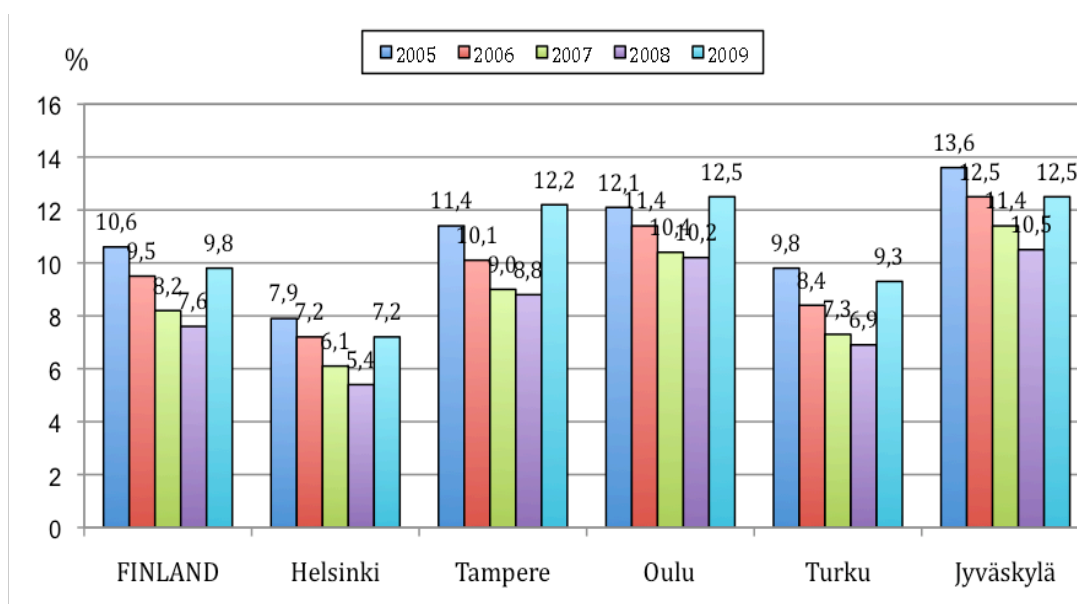
**FIGURE 14. Combined regional GDP, employment and population indicator (BTV-indicator) with 10 best and worst Finnish sub-regions 1988-2007 (source: Rakennemuutoskatsaus 2010)**



1.43 Even if the economy and population have developed well in Tampere, its unemployment rate has remained high. Economic crisis of the early 1990s had serious social consequences for Tampere city-region as the unemployment rate skyrocketed to 24,2 % in 1993. The years 1993-1996 were the most difficult ones. Since then, unemployment rate has gradually decreased but remained rather high partly due to prolonged long-term unemployment and an increased migration of job-seekers to the city-region. The rapid transformation in the local economy has produced a problem of 'skills mismatches' that have proved to be rather permanent and difficult to pull down. It seems that, as 60 per cent of the long-term unemployed are 50 years old or older, this problem will only solve itself by time. The risk of unemployment is especially high in the manufacturing sectors whereas many of the service sub-sectors are increasing their employment year after year.

- 1.44 Moreover, history, again, plays an important part in this story. Tampere has distinctively been a city of labour with a limited upper and bourgeois class. It played a considerable role in the rise of awareness of the labour class in the late 19<sup>th</sup> and early 20<sup>th</sup> century, and it was the strongest fortress of the red and thus also a scene of the biggest battle of the Civil War in 1918 that ended up in the surrender of the Reds to Whites. However, already before the II World War and even more so after it, the tensions melted down and the Finnish welfare state has levelled the inequalities between different social groups to a relative minimum. Nevertheless, there are several significant social problems in Tampere including essentially the unemployment. Of many social divisions, nowadays the unemployment maybe the most remarkably split people into the two groups – those that have job and those that do not. Unemployment has also become a trouble of all social groups working age in a sense that recently there have been many layoffs that have hit both the blue and white-collar workers.

**FIGURE 15. Unemployment rates in the main Finnish cities 2005-2009 (Source: Ministry of Employment and the Economy)**



#### **Research, development and higher education**

- 1.45 Tampere city-region is the second R&D centre in Finland. Concerning the R&D intensity and the strong R&D infrastructure of the city-region, the total R&D investments were 15,7 % of national spending which in absolute terms was € 1,065 million in 2009. Helsinki City-region strongly dominates R&D expenditures with its share of 40,6%. Tampere city-region has steadily enhanced its already strong position in Finland. During the rapid growth period of the Finnish R&D (1995-2009) the growth of R&D expenditure in Tampere has been 564% compared to the national average of 219,0%. In Tampere, the growth has been particularly strong in the business sector that represents about 80,2 % of all R&D expenditure in the city-region. (see also Appendix 1; Figures 11 and 12).
- 1.46 At all events, Tampere city-region is one of the largest concentrations of higher and other education institutes in Finland and has also had an increasing supply of jobs since the recession in the early 1990s. These have both attracted young people to the city-region to study and after graduation have also facilitated their stay.

**TABLE 6. Research and development expenditure by the main Finnish city-regions (source: Statistics Finland)**

	2005		2007		2009	
	Milj. €	Share in Finland (%)	Milj. €	Share in Finland (%)	Milj. €	Share in Finland (%)
Helsinki	2 274,5	41,6	2472,6	39,6	2758	40,6
<b>Tampere</b>	<b>834,6</b>	<b>15,2</b>	<b>967,2</b>	<b>15,5</b>	<b>1065,8</b>	<b>15,7</b>
Oulu	688,1	12,6	922,1	14,6	1007,6	14,8
Turku	316,7	5,8	320,5	5,6	360,4	5,3
Salo	235,2	4,3	264,3	4,2	294,1	4,3
Jyväskylä	191,5	3,5	211,4	3,4	198,2	2,9
Vaasa	75,7	1,4	107,6	1,7	148,3	2,2
<i>Finland</i>	<i>5 473,7</i>	<i>100,0</i>	<i>6242,7</i>	<i>100,0</i>	<i>6786,5</i>	<i>100,0</i>

**TABLE 7. Research and development expenditure per capita and share of private enterprises by the Finnish main city-regions in 2009 (source: Statistics Finland)**

	Share of private enterprises (%)	Per capita
Helsinki	67,4	2010,7
<b>Tampere</b>	<b>80,2</b>	<b>3129,3</b>
Oulu	83,4	4554,0
Turku	50,9	1176,7
Salo	99,8	4576,2
Jyväskylä	42,8	1158,8
Vaasa	87,5	1619,3
<i>Finland</i>	<i>71,4</i>	<i>1271,1</i>

***A closer look at the higher education and research institutions***

- 1.47 *The University of Tampere (UTA)* has its roots in social sciences and still today it is the most social science specialized of the Finnish universities in spite of being today a diversified university with approximately 15,500 first-degree students and 2,000 post-graduate students (doctoral students). UTA schools are Institute of Biomedical Technology; School of Information Sciences; School of Management; School of Education; School of Languages, Translation Studies and Literary Studies; School of Medicine; School of Communication, Media and Theatre; School of Health Sciences and; School of Humanities and Social Sciences. UTA is among the most popular Finnish universities among young people seeking a place to study. It takes annually only 13-15 % of the applicants. The graduates usually find their first job either in the Helsinki Metropolitan Area (Appr. 20 %) or in the Tampere region (45 %) (source: statistics of the University of Tampere).
- 1.48 *Tampere University of Technology (TUT)* has traditionally had very close relationships with local commercial and especially industrial enterprises as well as with institutions financing technological research. At TUT, there are approximately 11,600 students (10,000 first degree students and 1,600 post-graduate students). TUT focuses especially on technology and takes pride in being the most technology specialized of the Finnish universities.



1.49 *Tampere Polytechnic* (also known as Tampere University of Applied Sciences) with its 10,000 students augments well the operations of the two universities in Tampere. It has a total of seven schools: the Business School, the School of Technology and Forestry, the School of Art and Media, School of Health Care, School of Laboratory Technology, School of Business and Agriculture, School of Music, School of Social Services, School of Food Studies and Facility Management and School of Hospitality Management. Tampere Polytechnic also has a Teacher Education Center.

1.50 *VTT Technical Research Centre of Finland* is a national research centre that has research activities located several locations in Finland, including Tampere. VTT provides technology and applied research services for private companies and other organisations. The headquarters of VTT Industrial Systems is located in Tampere and this unit focuses on the following issues: life cycle management, intelligent systems and services, industrial management, human - technology interaction, future machines and transport media, factory of the future and safety and reliability. There are also parts of other VTT's units in Tampere. For example, VTT Information Technology is quite significant actor in the ICT cluster in Tampere.

***Social services and ageing of people***

1.51 The welfare system in Finland is aimed to ensure that the welfare services are provided to citizens in need according to their family-situation and condition, age and capacity. Income transfers and many welfare services are paid through taxes. However, the discussion has begun concerning the future of the Finnish welfare state due to its financing problems and priorities. The private sector has already begun to replace the public sector in providing many of those services traditionally in provision of the public sector.

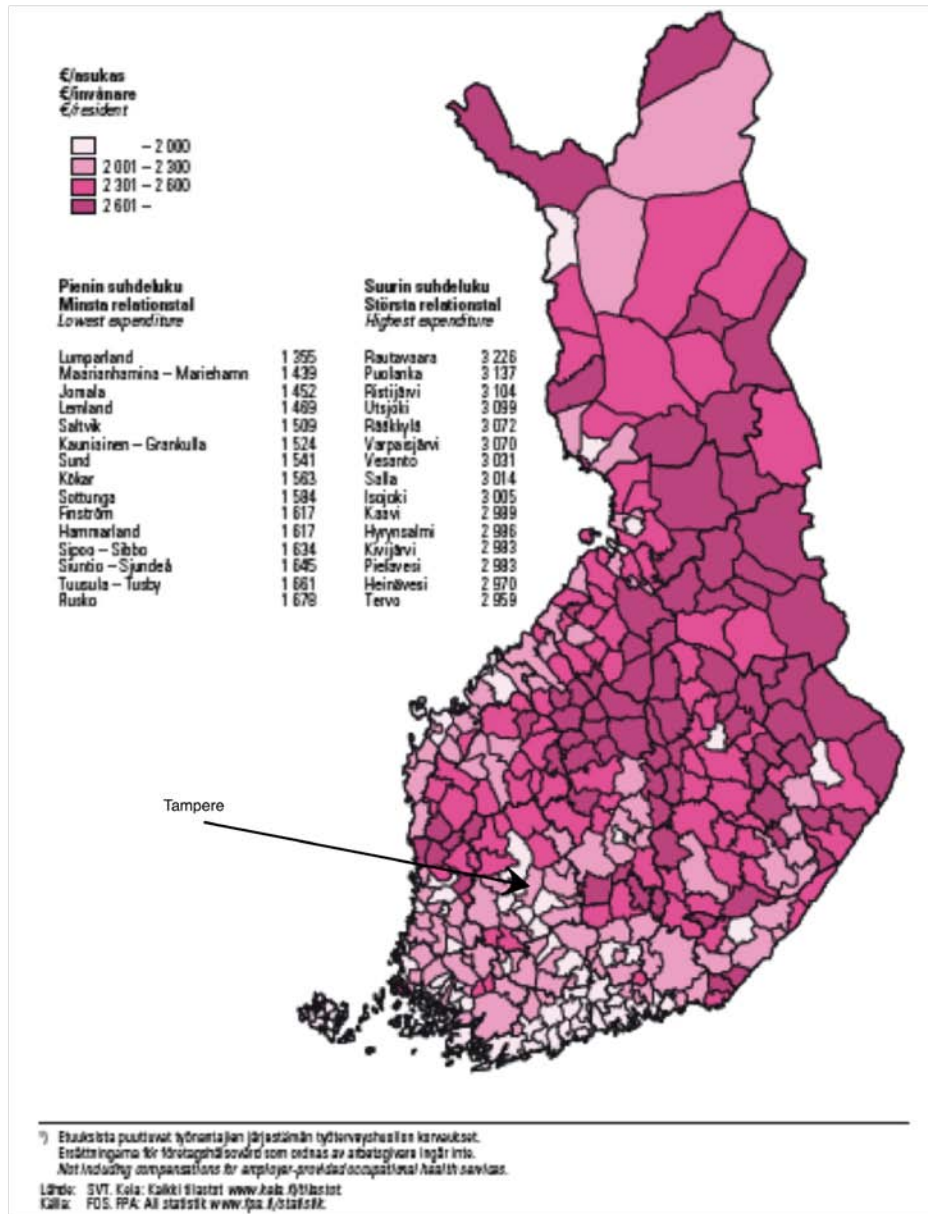
1.52 Among the main cities in Finland, Tampere city-region is socially balanced in most dimensions or in some cases it goes hand in hand with the national average, usually a little bit above it as is case with most of the main cities. Generalizing crudely, one might argue that there are no major regional differences in citizens' health in Finland, although it can be seen in some less-favoured regions of the country that social conditions and poorer income goes together with the poorer health. Tampere city-region belongs to the area of mainly average or higher than average health conditions.

**TABLE 8. Income transfers: income support and housing allowance receivers in 2009**

	Income support receivers, %	Housing allowance receivers, %
City of Tampere	9,3	5,3
Finland	7,1	3,0

(Sources: the Social Insurance Institution of Finland; City of Tampere)

FIGURE 16. Expenditure of the Finnish Social Insurance Institution benefits per resident of Finnish municipalities, 2009 (Statistical Yearbook... 2010)



1.53 The ageing of people is a common problem everywhere in Western Europe (life expectancy in Finland is 79,8). That is the case also in Finland and in Tampere city-region. The ageing is a challenge especially from the point of view of welfare service production: There will be an increasing demand for the services and decreasing number of payers. In 2003 there were approximately 22 persons over 65 years old per 100 people at a working age (15-64 years old). Statistics Finland has estimated that by the year 2030 the same ratio will be 42/100 and in Eastern Lapland even appr. 100/100. In Tampere, the situation is estimated to be somewhat more balanced (38/100) (Appendix 1; Figure 2).

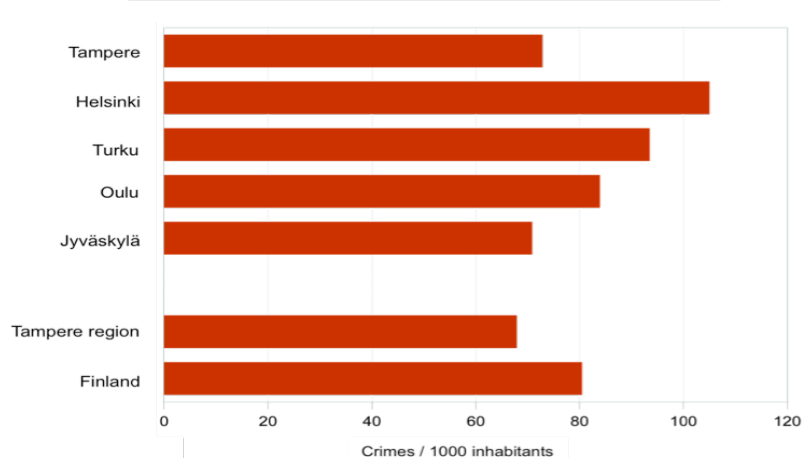
1.54 Concerning family cohesion, according to the western tendency the nuclear families easily fall apart. Similar to the other large cities, Tampere city-region hosts slightly more families with no children than most of the other regions (Table 10).

**TABLE 9. Family types in the main Finnish city-regions (%)**

	Finland	Helsinki	Turku	Tampere	Jyväskylä	Oulu
Married couple, no children	37,6	33,2	37,9	<b>36,0</b>	35,0	31,7
Married couple with children	33,0	34,1	31,5	<b>32,6</b>	32,7	37,8
Cohabiting couple, no children	14,2	16,8	16,1	<b>16,8</b>	17,1	16,0
Cohabiting couple with children	8,6	8,4	8,0	<b>8,2</b>	9,1	8,5
Mother or father with children	6,6	7,6	6,5	<b>6,4</b>	6,0	6,0
<i>Total</i>	<i>100</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>	<i>100,0</i>
In absolute figures, total	2721388	676322	155342	<b>185047</b>	87561	110592

1.55 Tampere is a safe city-region (Table 11). The crime is below the national average and it has still decreased in the last years, although the amount has always been fairly low. The city centre of Tampere and the other municipalities in Tampere city-region are vivid without any significant urban abandonment. Many of the old industrial buildings have been transformed into business offices and places for free time activities if not demolished.

**FIGURE 17. Registered crimes (police)/1000 inhabitants in main cities of Finland in 2009 (Statistics Finland)**



**Social segregation within city-region**

1.56 Concerning the multiple dimensions of social welfare and cohesion – education, employment, housing, health, family cohesion and crimes – it seems fair to assess that Tampere city-region has, so far, succeeded in avoiding the problems that are usually connected to the rapid growth of population. This is partly thanks to the Finnish welfare system in general and partly due to many elements of the local social fabric that are very challenging to put into any order here but are only to speculate. Among these are obviously those values that are the heritage of the ‘labour town’ such as equalitarianism and a certain collective mentality.

1.57 However, some signs of social segregation can be seen in Tampere city-region. Especially certain neighbourhoods have more social problems accumulated, but these are usually quite small “pockets of poverty”. Segregation is usually seen in the amount of the untrained, unemployed, alcoholics or otherwise socially excluded people. Also these areas are significantly polarized, like the neighbourhood of Hervanta with its rental apartment houses with people with low income and the high-tech agglomeration on the other side of the suburb. The social polarization has become more balanced compared to 1970’s, when many of the large suburbs were built, and again after the recession in the beginning of 1990’s there have been tendencies that the polarization is increasing largely due to the unemployment. Nevertheless, the housing districts are for decades aimed to balance by zoning, i.e. heterogeneously inhabited to avoid the development of social polarisation.

**Tourism and the cultural supply**

1.58 The cultural supply in Tampere city-region is truly versatile. For example, there are approximately 10 professional theatres, a full-scale symphonic orchestra and a combined large concert and congress hall in the city. Additionally, there is a Department of Acting at UTA. There are also different kind of festivals around the year, for example Tampere International Short Film Festival, Tampere Theatre Festival, Pispala Schottische, Tampere Biennale, Tampere Jazz Happening and MindTrek Multimedia Week. There are also plenty of museums and other sights in Tampere (Museum Centre Vapriikki, Tampere Art Museum, Sara Hildén Art Museum, Moomin Valley and so forth). Tampere is also an active city of sports. It has teams playing at the highest level in all major sports in Finland.

**TABLE 10. Number of visitors in culture and sports events in Tampere (2009)**  
(Source: City of Tampere, statistics)

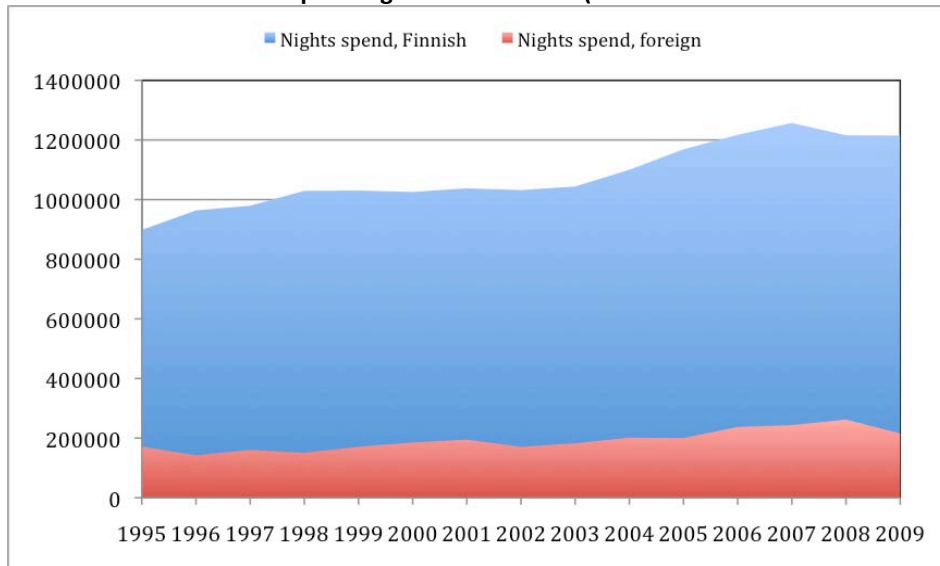
	Total number of performance	Visitors
TTT Theatre	448	159,273
Tampere Theatre	413	110,139
Tampere Theatre Festival	374	86,006
Tampere Comedy Theatre	290	71,093
Pyynikki Summer Theatre	56	46,663
Other theatres	21	186,094
Tampere Opera	6	10,400
Tampere Hall events	584	242,265
Tampere Philharmonic	82	59,036
Municipal library	20 branches	2,545,000
Indoor Sports		890,000
Ice arenas		722,223
Särkänniemi Adventure Park		673,744

1.59 The most visited tourist attraction in Tampere city-region is an amusement park Särkänniemi with appr 670,000 visitors every year (see Table 11). The number of travellers coming to Tampere seems to be growing quite steadily. However, a majority of the growth is explained by the growing number of domestic travellers (Figure 18). However, the number of international air passengers at the Tampere-Pirkkala Airport has increased very strongly during the recent years (Figure 18.) Presumably this is due to the arrival of the international budget flight companies to Tampere.

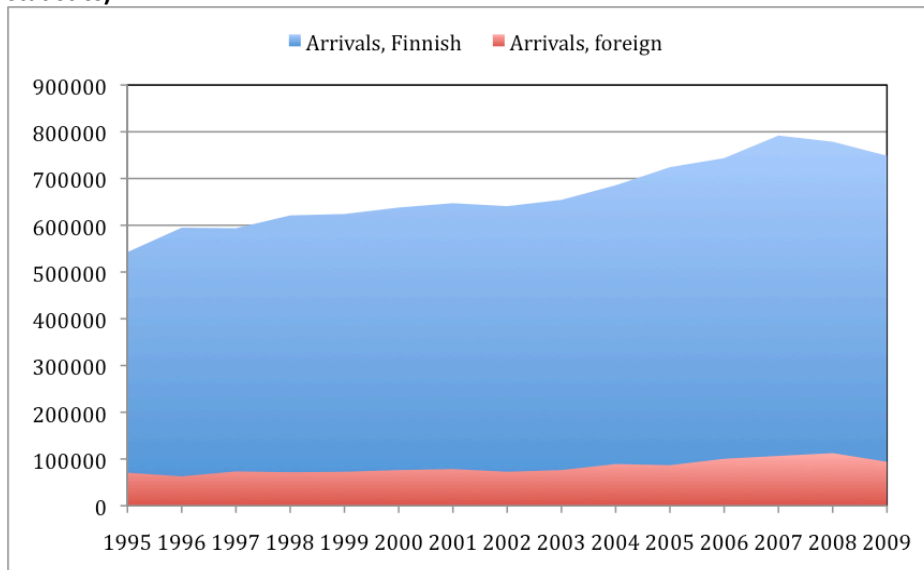
1.60 Tampere has also become an important congress city in Finland that feeds into the overall development of the city-region. The universities locating in Tampere – University of Tampere

and Tampere University of Technology – have played key roles also in this respect: the members of the scientific community in Tampere are active members in international scientific communities and they also organise congresses regularly. Tampere is able to host big international conferences also because versatile venues are available. For example, Tampere Hall is the largest congress and concert centre in Nordic Countries. Accordingly, a lot of attention is paid on the congress tourism in Tampere. For example, Tampere Convention Bureau (TCB) was established to promote Tampere as a congress destination. TCB offers free assistance to national or international congress organisers, which are planning an international meeting in Tampere.

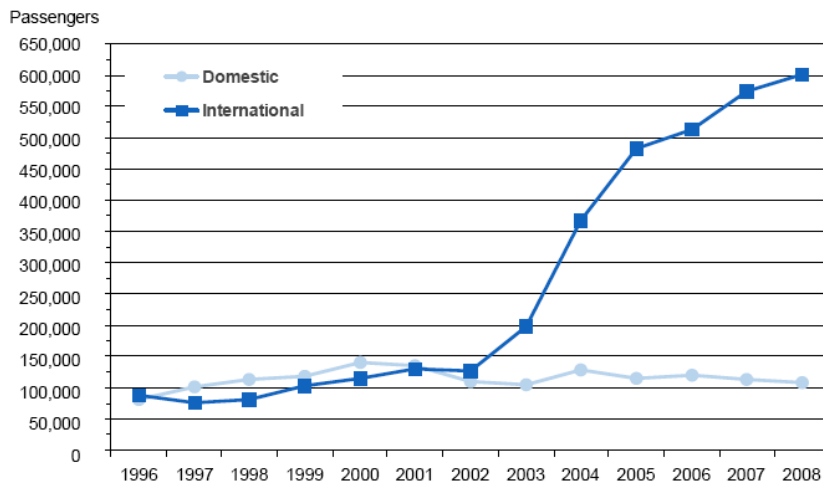
**FIGURE 18. Arrivals in Tampere region in 1995-2009 (Statistics Finland: Tourism statistics)**



**FIGURE 19. Nights spend in Tampere region in 1995-2009 (Statistics Finland: Tourism statistics)**



**FIGURE 20. Passangers at Tampere-Pirkkala Airport (Sources: Statistics Finland and Finavia, compiled by City of Tampere, Information Services and Quality Assessment Group)**



### Environmental sustainability

- 1.61 In Tampere city-region, 1990s saw a rise of ‘environmental awakening’. Tampere’s environmental policy thinking, sustainable development programme and environmental strategy have their origins in Agenda 21, which is an action plan on long-term sustainable development drawn up at the United Nations Conference on Environment and Development in 1992 (Working together...2002). Local environmental movements played key roles in the awakening process by challenging the local decision-making tradition labelled earlier as the “brothers-in-arms axis” to put more emphasis on the environmental issues.
- 1.62 The state of the environment has been followed in Tampere persistently since the year 1987 and the environmental strategy designed in 2002 concludes that ‘despite new problems, the state of the environment in Tampere has improved significantly during the last 20 years’ (Working together... 2002). Of course, many environmental issues are constantly a focus of a heated debate especially between the city and the other municipalities and local environmental movements. For the continuous development of environmental awareness the City of Tampere has established the Centre for Urban Environment to provide citizens with environmental information and education.
- 1.63 In Tampere the principal air pollutant sources are energy production, industry and motor vehicles. Suburbanisation and urban sprawl in Finland and Tampere are visible, but not to that extent than in other Western European cities. There is still a lot of green space reserved to not to be built. However, at the same time, huge hypermarkets are built around Tampere, and this tendency has expanded recently to exceed the estimated need for shopping areas. More traffic is unsustainable and thus the new spatial development plans supports suburban projects where the services and shopping centres inside the suburbs are supported but big auto-markets and retail parks close to the highways or outside the population centres would be not accepted.
- 1.64 In Tampere city-region, directing the growth is aimed to take care on with a precise planning of housing and industrial areas. The plan is to build ribbon-like city towards south, east and west. The north side of the city will be kept as countryside-like village. The strategy of the city against the urban sprawl is to make more complementing planning filling the “gaps” (CITE). The strategy lists following as the main weakness of the environmental policy in

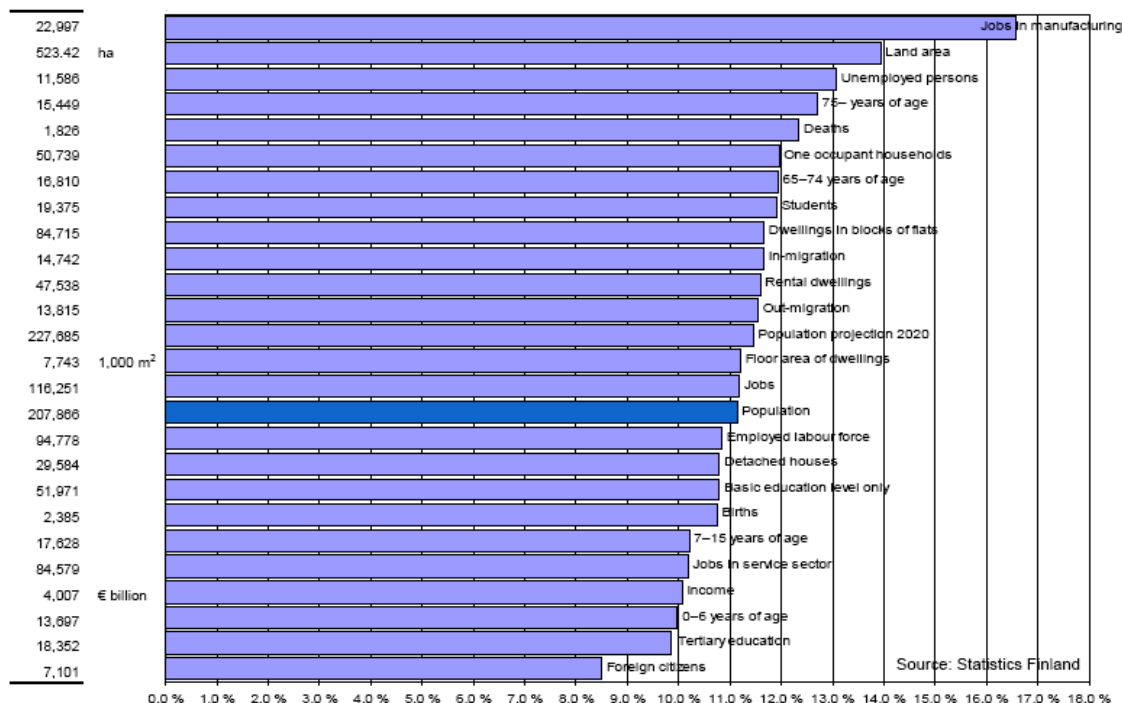
Tampere: Poor commitment to environmental affairs; the financing of environmental investments; the lack of pedestrian and bicycle routes in the city centre. On the positive side, the strategy finds that the environmental awareness is growing and becoming part of the administrative culture of the City Council. (Working together...2002.) As shown above, Tampere city-region has been growing constantly. In the report 'The state of Environment in Tampere' the challenges for the City of Tampere has been listed as follows: continuous population growth, an increase in energy use and the growth of traffic that challenge the maintenance of good air quality and the emissions of green house gases. The quality of lakes and the green space areas are also important for the city-region.

1.65 The most important source of sulphur dioxide emissions in the city-region is the industry, although these emissions have decreased to a great extent and is not considered anymore a problem. In Tampere city-region the most important sources of green house gases are district heating and consumption of electricity. Other issues concerning traffic in Tampere are the continuing debates of inadequate bicycle paths and a car free centre. There are also plans to build a tramway to Tampere in the near future. Main reason for the tram plans is the growth of Tampere. The city is situated in a narrow isthmus between the two lakes and the traffic bottleneck especially in the west side of the city centre start to be worrying. Also more and more people live outside the city centre that makes a good traffic system vital for the further development of the city.

Summary

1.66 In Table 21 Tampere's position in Finland is compared to other major cities in Finland.

FIGURE 21. City of Tampere compared to major cities in Finland, 2007 (Helsinki, Vantaa, Espoo, Turku, Oulu, Lahti, Kuopio, Jyväskylä and Pori)



**5. RELATIONSHIP WITH CAPITAL CITY AND REST OF URBAN SYSTEM**

- 1.67 Tampere city-region is centrally located in Finland, having very good traffic connections. It has its own international airport with direct connections to several foreign airports in Europe (see Figure 22). There is a railroad and a four-lane highway from Tampere to the capital city Helsinki. Tampere is one of the most central hubs of the Finnish railroad network (Figure 23). It has from two to three services every hour to and from Helsinki. The distance between these two cities is about 175 kilometres. Tampere is a part of the (relatively) densely populated Southern Finland (see Appendix 1; Figure 4).
- 1.68 See for more about the spatial structure of Finland and Tampere’s position in the urban system Section I of this report.

**Figure 22: Airline routes from/to Tampere (source: Tredea)**

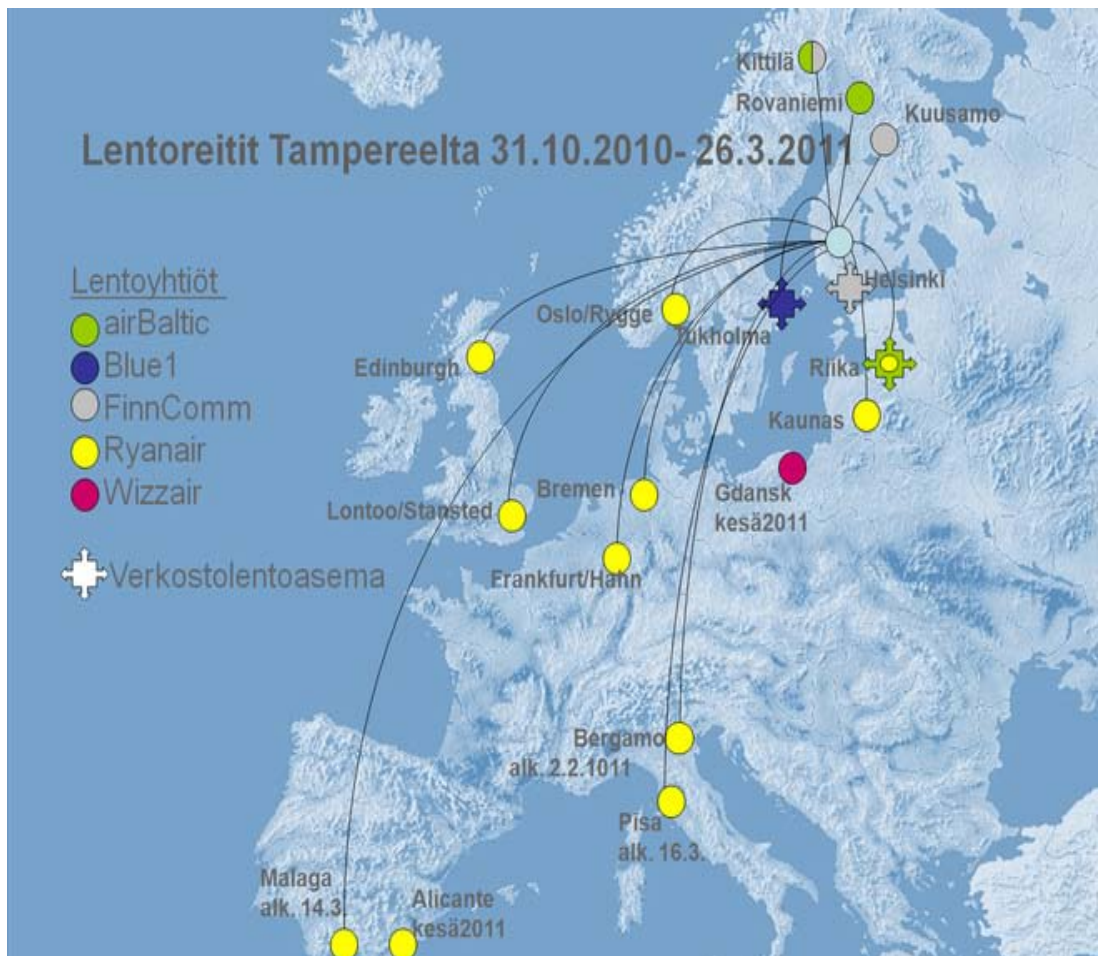




FIGURE 22. Finnish railroad network (adopted from Wikipedia Dec. 28, 2010)



## 6. THE ROLE AND IMPACT OF POLICY MAKING

1.69 The case of Tampere illustrates well the importance of both local capacity in decision-making and local economic development policy delivery and external investments and expertise. In the practice of the Finnish policy-making, national, regional and local often blur and it is not possible to fully understand economic transformation in Finland and in its cities, and the role of policy-making in transformation processes focusing only on multi-level governance issues; in Finland the question is more about co-evolution of national and local (Sotarauta & Kautonen 2007). Many national policies have been reinterpreted at the local level to make them better fit the needs of a specific locality; in this case that of Tampere. The case of Tampere shows that path dependency can be broken, but it also shows that the promotion of economic development itself is path dependent. In Tampere the views of the new development focus has crystallised step-by-step from the visions of a few brave individuals into official thinking, the subsequent development measures would not have been possible without the seeds planted much earlier. Thus path dependency can also be seen from policy-making point of view; path dependent policy-making is a way of understanding activities pursuing economic change, consciously and unconsciously, as a process of cumulative causation where the dominant feedback loops are self-correcting and futures seeking, as they at the same time they contain self-reinforcing features.

- 1.70 Tampere has never been among the major targets of the national and/or European regional policy. Of course, it has participated in the Centre of Expertise programme and one of the suburbs has been an Objective 2 area but still, the continuous reinvention of the city is more a story of local development policies, activity of the business sector and forward-looking and relatively young universities. Even though the policy impact are not always direct, it is evident that dominant policy thinking on a national level has helped to lay the foundation for new policy thinking in Tampere too. At the turn of the 1980s and 1990s, the national level began to invest in a national innovation system, the development of technology and the raising the level of education. Tampere also quickly adopted knowledge economy and theme of the information society into its own policy portfolio. Institutional thickness was systematically increased and in addition to the technology centre, special network of specialised development companies were created to boost development. The success of Nokia, which was linked with Tampere through its strong R&D activity, increased faith in the future.
- 1.71 The local economic development strategy of Tampere has been to modernise traditional industries and to develop new high-tech and other knowledge intensive industries. Today, the city promotes a diverse and controlled cluster-based specialisation, especially in the fields of ICT, health and biotechnology, mechanical engineering and automation, media and communication, culture, and knowledge intensive business services. Companies belonging to these clusters are locally supported by the two universities and the two polytechnics, several research institutes, technology centres, and other public and semi-public support organisations. (Schienstock et al., 2004; see also Kostiainen & Sotarauta 2003).
- 1.72 In the 90's, knowledge intensity became the spearhead in the development strategies of the City of Tampere and the whole city-region. In the economic development strategy drawn up in 2002 the vision of the city is to become one of the most attractive environments for knowledge-intensive companies and living environments for skilled people. (Kyä lähtee... 2002). In its core lies the idea that Tampere should be able to maintain and create as high-quality innovation environments as possible in selected fields of business and research. However, it is also worth noting that the emergence of a knowledge base and the development of structures and thought models supporting it have been long processes. They have not been born in one strategic plan or development programme but as a consequence of several plans and especially as a consequence of individual perseverance and years of work (see Kostiainen & Sotarauta 2003).
- 1.73 The birth of the knowledge-based economy in the City of Tampere could be construed as follows: from the 1950s to the 1980s its structures were reinforced on the basis of the development view of individual people and small active groups and accelerated by their active co-operation. By the end of the 1980s the city had progressed towards developing both the knowledge-based economy and information society, even if not using these concepts, but in the mid-1990s certain formalisation and systemisation of new thinking were still missing. The general spirit of the time as well as the strong perceptions and interaction relationships shaped by industrial culture and tradition slowed down the transition from emphasising the traditional industry into a sharper focus on innovation and expertise. In the 1990s, along with the national economic depression and the change in the spirit of the time in Finland as a whole, the significance of the knowledge-based economy began to be more broadly understood in the city. Supported by earlier structures and institutions technology and innovation activities were more focused on; in other words, the innovation system was consciously strengthened.
- 1.74 After the mid-1990s the knowledge-based economy was institutionalised to become a part

of the development thinking and development activities of Tampere through strategic planning. The aim of the earlier strategies had mainly been to create new jobs, whereas new strategy, published in 1998, placed emphasis on the dynamic interaction between jobs and a skilled workforce, in other words on the fact that particularly in sectors requiring high-quality expertise a skilled workforce attracts companies and new jobs, and not only vice versa as believed earlier. In a certain sense, at that time, the City of Tampere started to take its first steps towards building a creative city in the Floridian spirit (see Florida 2002). What was felt to be particularly important was that the strategy included a clear definition of the clusters whose development should be focused on. The Centre of Expertise Programme prepared earlier laid the foundation for choices made in the strategy process, and mechanical engineering and automation<sup>3</sup>, healthcare technology, information technology and tourism (Tampereen kaupungin ...) were selected as focal points. The Centre of Expertise Programme and the economic development strategy were the central forums in selecting the clusters considered to be important from the viewpoint of future development.

- 1.75 Making knowledge intensity the base of development activities and raising the aim level can be illustrated by comparing the 1998 economic development strategy to the 1987 and 1990 economic development policy programmes. The central differences in the perceptions behind the strategies are that the 1998 strategy shifted to cluster-based development and identified those strategic clusters that needed to be developed. The earlier programmes talked about sectors, but no choices in regard to the focal points in the development had been made. In addition, there is a clear difference in how the city sees its own regional role; in the 1987 programme the City of Tampere is seen as a “regional centre” and as a “location of some state functions”. In addition, the strategy talks about the “label and right of an industrial city”. In 1990 the emphasis was already on “know-how”, which in the year 1998 was changed into a more clearly defined “knowledge intensity” and into developing the city into an “exemplary European city of lifelong learning”. (Tampereen elinkeino-ohjelma 1987–2000, Tampereen elinkeinotoimintojen kehittämissuunnitelma 1990–1995, Tampereen tulevaisuus...; Kostianen & Sotarauta 2003.)
- 1.76 The areas of expertise selected in the Centre of Expertise Programme received a certain local “strategic status”. In addition, the programme boosted the co-operation of key actors in the selected areas of expertise; the Centre of Expertise Programme has thus become one of the most central interaction forums. (see e.g. Kautonen et al. 2002; Martinez-Vela & Viljamaa 2004; Sotarauta et al. 2003). The choices made in the Centre of Expertise Programme were also suitably complementary; in Tampere mechanical engineering represented the traditional area of expertise in which internationally significant companies were already operating. Information technology in turn was in the 1990s starting to grow fast alongside Nokia, and in regard to healthcare technology, Finn-Medi Research Ltd for support of firms in the field was about to be completed. In addition, there already was a strong belief in the prospects of healthcare technology both in Tampere and in the whole country. The Centre of Expertise Programme gave a good development impetus also to the transition into cluster-based thinking accentuating horizontal co-operation.
- 1.77 Tampere has a strong position in the renewed national Centre of Expertise programme. It coordinates two national competence clusters (intelligent machines and ubiquitous computing) and participates in five of them (Digital content, HealthBio, Health and well-being, nanotechnology and energy technology). There are altogether 13 national

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<sup>3</sup> During the first programme period automation was removed from the focal point of information technology and linked to mechanical engineering.

competence clusters and, only those city-regions that can demonstrate adequate research and business capacity in the field are accepted to participate.

- 1.78 After the rise of the information society thematic into the core of both Finnish and European rhetoric at the turn of the year 2000, the City of Tampere started to look for a new approach to accelerate the information society development. In Tampere, the information society was not seen only from the viewpoint of economic development; the aim was to develop the information society comprehensively as a driving force that would renew the entire local community. Thus, at the end of the year 2000, the eTampere Programme saw the light of day. It consists of seven different sub-programmes and its budget amounts to EUR 132 million (Kostiainen 2001, [www.etampere.fi](http://www.etampere.fi)). This large development programme has attracted broad national and international attention.
- 1.79 After eTampere –programme based on the same line of thinking a seven-year development programme in biotechnology, BioneXt Tampere, was launched in 2003 with a budget of EUR 100 million (see more in detail [www.bionext.org](http://www.bionext.org)). Consequently, Tampere has continued using local development programmes as vehicles for co-ordination and in targeting development efforts of wide networks. Bionext Tampere is an investment and development programme that focuses on biotechnological education, top-level research, product development, clinical application and possibilities in international commercialization. The main focus has been on health-care technology. More or less simultaneously with BioneXt programme City of Tampere launched Creative Tampere programme that focuses on business development aim being to create profitable business and jobs stemming out of culture. As the other local development programmes the Creative Tampere programme offers a framework and funding for kicking off projects that create new business. The programme acts as an accelerator and as a creator of networks. Creative Tampere will end in 2011 and with initial € 7,2 milj seed funding the programme has by the end of 2010 generated a total project portfolio of estimated € 40 milj.
- 1.80 In recent year, the focus of local development efforts has shifted towards open innovation and creation of open innovation environments. A flagship initiative is a so-called New Factory that integrates Demola, Suuntaamo and Protomo under a same innovation philosophy. In Demola students of the two local universities and one polytechnic develop demo products and services together with companies and create new solutions to authentic problems. For its part, Protomo is a professional innovation apparatus that collects spin-off teams and gives birth to companies that attract investors and creates new job positions by combining various experts and Suuntaamo is a civic community that is open to everybody and through which it is possible to contribute to and participate in the development of our living environment, products and services (adopted from <http://www.uusitehdas.fi/en/>, 28 Dec, 2010).
- 1.81 In Tampere, the new institutions and actors reinforced the newly born perception that emphasised technology, expertise and education, and through their own activities began to deepen it. As the perceptions strengthened, the new actors gradually gained more space, but only when the surrounding society started to change on a broader level was Tampere able to utilise the new institutions systematically and extensively. At the same time, the universities had become the core resources of Tampere. In a way, the question is not of Tampere (i.e. its local elite) trying to control global resources or creating something unique, but rather that by mobilising local actors and expertise it has been attempted to develop institutions, structures and processes so that the adaptive capacity constantly improves. Hence, the objective always is to better root important activities in the city in order for global flows not to drain them away; and on the other hand, attract new activities to it.

- 1.82 Based on his case study on Tampere, Paul Benneworth concludes that ‘feeling spurned by central government, Tampere decided to do its own thing’. He pushes his conclusion further by stating that ‘Tampere has undergone at least three regional innovation journeys with a high degree of success, and this positions the region extremely favourably for the future. The three involved: (1) the attraction and embedding of the universities as a source of high-technology outputs; (2) developing a science park to house a new technological community; and (3) persuading local partners to think in a sophisticated way about how they could learn about their innovation system, and how to incorporate local and external experts in decision-making in Tampere’s regional innovation system.’
- 1.83 In summary, Tampere’s assets have been (a) long-term co-evolution with global and national developments, in which (b) good local adaptive capacity has been the core. For its part, the adaptive capacity has consciously been improved by (c) proactive local economic (and later also innovation) development policy. All these factors gave greatly benefitted from (d) a good geographical location in Finland (as is shown in the Section I of this report). Additionally, (e) universities have had a central position in local efforts to boost development both as targets of policy and core assets of it. Eventually, (f) all these factors combined have improved Tampere’s reputation.

## **7. TAMPERE’S PROSPECTS**

- 1.84 In the policy interviews and reanalysis of the workshop data from a parallel project, the most critical factors of success, as well as weaknesses and challenges of the city-region and needs for new development processes were focused on. Additionally, the prospects and a vision for Tampere city-reign for 2030 were discussed. As do statistics, these interviews tell a story of a relatively successful second tier city-region with an impressive history of economic renewals. However, it is beyond any doubt that Tampere city-region is about to experience very tough challenges in the near future. As the data suggests, to meet these challenges active policy measures and co-operation between both public and private actors within the region is again required.
- 1.85 Our data suggests that the future success of the city-region of Tampere is based on relatively few, but fundamental, key elements. It stresses that the city-region should have high level of know-how and competence in the major economic fields of the city-region. So, the main players of the city-region strongly believe in knowledge-based economic development and innovation system enhancing it. However, as the interviewees point out, there is an urgent need to transform the main knowledge assets of the city-region into novel applications and practical solutions for the renewal of existing clusters as well as creating platforms for new ones to emerge. There is a fairly shared understanding in Tampere that competitiveness of the city-region should be based on a continuous renewal that is supported by adaptive governance structures and functional public-private partnerships. This is where the relatively small scale of Tampere region presents itself in a positive way. Tampere may be a small city-region in global scale, but this again allows it to construct agile procedures and governance structure.
- 1.86 Despite the policy recognition that is given to the machinery industry and ICT the interviewees believe that eventually the success of Tampere will not be based on any given substance or branch of industry. Instead it will be based on the proactive way in which developers and actors within the region see the environment in which they have to compete and evolve; one might conclude that the interviewees believe in enhanced adaptive capacity and abilities in finding continuously new products and processes for global markets. These beliefs are challenging indeed as they rely on understanding that to be truly competitive a

city-region needs to create platforms for something totally new and surprising to emerge instead of copying the latest development trends and fads from elsewhere. In addition, the success of Tampere is based on developing and maintaining adequate knowledge and competence base in the city-region. This mindset makes it easier to adapt to changes or even be the cause of change.

- 1.87 Drawing on our interview data, it can be said that there are two types of main weaknesses and threats in Tampere city-region. First, there are some structural and long-term weaknesses that derive from geography, development culture and long-term development trajectories of Tampere, and perhaps Finland as a whole. Second, there are more immediate threats due to some abrupt changes in the economic and industrial base in the Tampere region.
- 1.88 The geographical weakness *and* opportunity of Tampere is the location close to the capital region of Helsinki. The influence of Helsinki metropolitan area can undermine the development of Tampere as an independent second tier city. However, this weakness can also be seen as strength as Tampere is located in the intersection of the main transportation routes in Southern Finland, and due to very good communication and transportation systems, it actually can be seen as an elementary part of the fast evolving metropolitan region. Perhaps more serious long-term weakness is the scale of development in many ways. The scale ;problem presents itself, for example, in the development culture. It is said that the small or 'village scale' development thinking sometimes hinders the development of Tampere. Objectives are perhaps not set to reach global level but they rather reflect national, regional or even local ambitions. In addition, the municipalities within Tampere city-region are still, to some extent, caught up in a competition with each other. These issues are, according to the interviewees, reflected in short-sightedness and sectoral thinking.
- 1.89 Small-scale can also be seen as a concrete problem concerning relatively small competence and knowledge base on a global level, which makes it harder to compete with larger regions. In addition the relatively small scale means that some of the companies operating in the Tampere city-region are not strongly attached to the region, their headquarters being located in larger concentrations of financial capital and economic activities.
- 1.90 The immediate threat in the Tampere city-region is the very strong likelihood of vast structural changes in the economic and industrial base of the city-region. At the moment Nokia Corporation is restructuring its research and development activities. The challenge is formidable though, the so dominant and strong mechanical automation and engineering cluster has been struggling, with some signs of recovery, with global economic recession and thus decreasing export markets. Simultaneously, Nokia lead ICT sector has faced its most difficult times since the rapid growth of it in the 1990s. For example, Nokia has introduced a new strategy based on a new alliance with Microsoft. Consequently, Nokia is dismissing 1,400 employees and outsourcing another 2,800. Tampere being one of the most important R&D hubs of Nokia these measures will have an effect on it too. However, even this kind of dramatic event can be interpreted as a possibility. The structural changes may, for example, increase human capital and other resources available for smaller and more adaptive firms operating in the region or attracting major multinational companies to locate in Tampere (e.g. Intel and Microsoft). In sum, two of the key economic concentrations of Tampere are under transformation and hence the self-renewal capacity of Tampere is challenged again.
- 1.91 The interviewees believe that, in spite of the success of Tampere, several improvements and development steps need to be taken in order to maintain the competitiveness. Again, the

clearest message from the local and regional development officers concerns more the development and innovation processes than actual substance matters. According to them, there should be ways to enhance cross-sectoral co-operation and innovation activities between clusters, which may be too separate at the moment. They also stress the need to enhance co-operation between municipalities in the region and public-private partnerships should be further improved. Our interviewees seem to believe that the selected development model of Tampere as they stress for the need of having at least one major development project going on in the city-region all the time with a national level visibility and high profile.

- 1.92 Most of the improvements concerning actual substance matters are about the development of infrastructure. The improvement of transportation infrastructure and especially airport routes and connections on a global scale rises to the fore. In addition matters related to the spatial planning and infrastructure of the core city are seen as important. The attractiveness of the city is said to be dependent upon the sustainable planning of physical infrastructure. In addition high profile construction projects may have a significant effect on the image and competitiveness of Tampere. Apart from the infrastructure matters, further development and utilization of EU-level and national development apparatuses, such as the Centre of Expertise Programme, on a regional level are seen as important.
- 1.93 According to the interviewees and the two workshops we organized, the vision of Tampere in the year 2030 concerns both substance matters and improvements in the governance models as well as development processes and practices. The vision might include the following elements: (a) the region has gone through major municipal mergers or the region forms a coherent and efficient governance unit in some other way, for example, through stronger cross-municipal co-operation. (b) Tampere is one of the most attractive city-regions in Europe, and it is clearly the second largest and second most important city-region in Finland, and it is an active part in the development corridor/network in Southern Finland. (c) In addition, Tampere is a nationally leading city-region in selected areas of economic and production activities, and it has several headquarters of international companies. Tampere is capable of renewing itself and it genuinely competes on a global scale with endogenous strengths.

## 8. MAJOR FINDINGS

- 1.94 The development trajectory of the city-region of Tampere raises a few rather intriguing messages for policy-making at different levels. Here we should keep in mind that Tampere has never been a major receiver of the European and/or national regional policy measures and funds. Thus, its story is relatively different from many other Finnish city-regions that have been more dependent on the national policies. We do not repeat everything said above but rather raise a few messages that review something about the development dynamics instead of over-stressing structural issues.
- ❖ Local economic policy-making has clearly had a proactive and calculated effect on local development. At some points of time it has been more reactionary but, at all events, the City Government led policy-network have been in a key role in many important matters.
  - ❖ Paradoxically enough, even though the local economic development policy has been strategic and proactive, most of all it is adaptive by nature. Thus, Tampere is a case of strategic adaptation where strategic and reactive measures are intertwined in time. This

requires well-developed strategic thinking capacity at a local level.

- ❖ To support strategically adaptive policy-making Tampere has constructed its own way of organising local economic and innovation policy, specialised development agencies and flagship development programmes being the core.
- ❖ It is fairly typical for local economic policies in Tampere that various European and national development programmes are rather seen as sources of resource to implement local strategy than something providing strategic guidance from above.
- ❖ Regional level is well integrated to the development efforts of the city-region representing though more local government at a regional level or state at a regional level, than forming a spatial scale for development efforts.
- ❖ National policies and development agencies form an institutional, financial and cognitive frame for local policy making. Even though the policy-making of Tampere has shown many proactive and self-reliant features, there also is a strong co-evolution between national and local levels. This is seen most notably in ways how specific development views become share across the country in a fairly short period of time. And here, a whole series of conferences, workshops, formulation of strategic plans, etc. is a platform for collective policy learning at all levels of policy-making.





**The ESPON 2013 Programme**

**3.9**

**CORK & NATIONAL POLICY**

**IRELAND**

**Gerwyn Jones**



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INVESTING IN YOUR FUTURE

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2. **PERFORMANCE**
3. **POLICY CONTEXT AND IMPACT**
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## 1. SETTING THE SCENE

- 1.1 Ireland is a centralised state with a monocentric urban structure. Dublin produces two-fifths of the country’s total GDP and contains approximately a third of the national population dwarfing the country’s other second tier cities, namely Cork, Limerick, Galway and Waterford. Despite this, all of Ireland’s cities have witnessed impressive growth rates during the past two decades as the Celtic Tiger’s economy grew at three times the rate of the European average during large parts of the 1990s.
- 1.2 During this period Cork became a dynamic second city to Dublin. Out of the 146 cities analysed as part of the performance data for this study, Cork was the third best performing city in relation to GDP per capita during 2007, higher than its capital Dublin, which lay in fourth position.
- 1.3 For the past ten years the Irish government has had a specific territorial strategy to re-balance the states urban structure and to enhance the competitiveness and performance of cities outside of the capital. Cork is therefore a good example of a second tier city which has been on the receiving end of an explicit territorial policy aimed at developing a more polycentric urban structure.
- 1.4 Using a range of performance indicators, and backed by a review of policy and academic literature, together with evidence from interviews with key stakeholders from within the city-region, this case study seeks to unpack Cork and explores the reasons behind its performance and growth. To what extent have national policies influenced its development path and what local and territorial factors have played a role?

## 2. PERFORMANCE

### *Population & Historic Legacy*

- 2.1 Cork City is located in Ireland’s south west region. The latter composed of three local authorities, namely: Cork City Council, Cork County and Kerry County.
- 2.2 The Cork City Region’s population stands at around 480,000, just over a tenth of the national population, and while it is less than half that of Dublin’s, it is more than double that of Ireland’s other second tier city-regions (Table 1).

**Table 1: Irish Capital and Second tier City-Region Population (& % of national total population)**

<b>Irish City</b>	<b>Population 2006</b>
Dublin City-Region	1,187,176 (28%)
<b>Cork City-Region</b>	<b>481,295 (11%)</b>
Limerick City-Region	184,055 (4%)
Galway City-Region	231,670 (5%)
Waterford City-Region	107,961 (3%)

Source: 2006 census data

- 2.3 Cork has a strong industrial and commercial past. This can be traced back to the seventeenth and eighteenth centuries when much of its development was influenced by the cities port and its Merchant families, or ‘Merchant Princess’ as they were known. These individuals and their families were influential within local government and were the catalyst for much of the development and business and enterprise growth within Cork. Cork’s natural and safe deep water harbour, together with its location in Southern Ireland, led to the city becoming a key trading hub between Britain, Europe and North America.
- 2.4 The lack of coal and other raw materials in Cork, as in elsewhere in Ireland, meant that heavy manufacturing did not play such a central role in the cities early development. Rather the presence of raw materials such as barley, water, flax and various animal products led to industries such as brewing, distilling, textiles and food processing becoming established in the region during the eighteenth and

nineteenth centuries. Cork’s geographic location and close family ties with the Ford family also led to Henry Ford opening the first Ford tractor and car building factories, outside of the USA, in the city during the early 1920s, which were closely followed by the opening of the Dunlop tyre factory in the mid 1930s. These became key employers for the city-region during a large part of the twentieth century.

- 2.5 However de-industrialisation of the 1970s and 1980s impacted heavily on the city-region. These industries which had provided such an important economic lifeline for city for 50-60 years closed down and left Cork. As Linehan (2005) reports: ‘Cork was hit hard by deindustrialisation during the 1980s, which resulted in large scale unemployment and major disinvestment.’
- 2.6 Since then the city-region has sought to reinvent itself, and during the past two decades new industries have appeared, along with numerous infrastructure, residential and commercial developments. The Cork city-region has become the European home for numerous global pharmaceutical, technological and service based industries. Over the past decade the city-region has discovered a new found confidence, with Cork City becoming the European Capital of Culture in 2005.
- 2.7 But to what extent is Cork punching its weight in terms of contribution to the national economy? And how does it compare to the capital and Ireland’s other second tier cities in its ability to do so? The city-regions recent performance and competitiveness is now unpacked and analysed in more depth.

*Economic Diversity & Innovation*

- 2.8 Cork’s total GDP stands at nearly a fifth of the national total, half that of Dublin’s contribution, but more than double that of the next best performing Irish second tier city-region.

**Table 2: Irish total GDP by NUTS III region 2007**

Irish NUTS III Region	Total GDP (million euro) & % share of national
Dublin	76,759 (40.5%)
<b>South West (incl. Cork)</b>	<b>35,003 (18.4%)</b>
South East (incl. Waterford)	14,716 (7.8%)
Mid West (incl. Limerick)	12,906 (6.8%)
West (incl. Galway)	12,451 (6.6%)
Mid East	16,360 (8.6%)
Border	14,281 (7.5%)
Midland	7,274 (3.8%)

Source: Eurostat

- 2.9 Prior to the global recession, the number of people employed in the city-region reached a peak of 312,000 during 2007, with unemployment at 4.6% and a participation rate of 64.6%. More recently total employment has dropped to 272,000 and unemployment has risen to 13.9%, with participation rates decreasing slightly to 61.2%. But the city-region is not alone in feeling the cold recessionary winds, and has closely matched the state average in terms of unemployment levels and participation rates (Table 3).

**Table 3: Employment**

Region	Total Employed (000s)		Unemployment Rate (%)		Participation Rate (%)	
	2007 (July-Sept)	2010 (July-Sept)	2007 (July-Sept)	2010 (July-Sept)	2007 (July-Sept)	2010 (July-Sept)
<b>South West</b>	<b>312.6</b>	<b>272.2</b>	<b>3.8</b>	<b>13.4</b>	<b>63.8</b>	<b>61.3</b>
Dublin	626.9	531.5	4.5	11.8	66.1	62.6
South East	225.1	194.0	5.1	17.6	62.8	59.8
Mid East	257.2	234.1	3.9	11.9	68.8	65.2
Mid West	172.4	151.1	5.5	16.4	62.5	61.2
West	205.8	179.3	4.7	15.5	63.8	62.2

Midland	127.0	101.2	3.7	17.3	64.3	58.5
Border	222.8	188.1	5.8	13.5	61.6	55.6
State	2,149.0	1,851.5	4.6	13.9	64.6	61.2

Source: CSO Quarterly National Household Survey

2.10 In terms of industry mix, the public sector is the largest employer (22%), followed by manufacturing (15.1%), construction (14.4%), and wholesale/retail (13.7%). When compared to Dublin and other European cities, Moloney (2005) showed that Cork’s share of manufacturing employment represented a relatively strong percentage of total employment share, and reflected the high proportion of foreign owned companies in the Cork City Region (Table 4).

**Table 4: Percentage Share of Employment by Sector (2001\*)**

	1	2	3	4	5	6	7	8
Copenhagen	0.2	7.2	2.7	66.9	9.0	---	5.3	8.7
Dublin	0.1	10.7	6.4	57.9	4.5	7.4	6.5	6.5
Rotterdam	0.2	10.4	5.3	54.8	2.9	6.2	6.7	13.5
Newcastle	0.0	7.0	3.9	53.9	6.1	3.9	10.2	15.0
Manchester	0.0	7.4	2.7	53.6	6.3	7.2	11.6	11.2
Nottingham	0.2	12.1	3.1	52.1	5.8	2.9	9.8	14.0
Bristol	0.1	11.6	4.8	51.3	4.6	8.4	10.1	9.1
Leeds	0.2	14.5	4.8	51.2	4.6	5.4	8.6	10.7
Liverpool	0.0	8.7	2.9	50.4	6.9	6.3	9.7	15.1
Dortmund	0.8	17.7	7.3	49.2	2.6	6.1	4.2	12.1
Birmingham	0.0	17.5	3.6	47.6	4.8	5.4	9.7	11.4
Sheffield	0.0	15.8	4.6	45.0	6.1	5.1	9.6	13.8
<b>Metropolitan Cork</b>	<b>0.5</b>	<b>17.8</b>	<b>12.9</b>	<b>41.9</b>	<b>3.8</b>	<b>3.2</b>	<b>8.6</b>	<b>11.3</b>
Stockholm	0.2	7.7	3.7	37.7	--	28.2	7.9	14.6
Sectors 1. Agriculture, Forestry, Fishing, Mining 2. Manufacturing 3. Building/Construction 4. Public and Private Services 5. Hotel and Catering 6. Banking and Insurance 7. Education 8. Health and welfare								
* Cork and Dublin for year 2002 Sources: Competitive European Cities, Office the Deputy Prime Minister, 2004. Census of Ireland, 2002, CSO. County Income and Regional Accounts, 2004, CSO. National Household Survey, 2004, CSO .								

Source: reproduced from Maloney 2005, p.18

2.11 Cork is the European headquarters for a number of international pharmaceutical and software companies, including: GlaxoSmithKlein, Pfizer, Johnson and Johnson, Amazon, Apple, Siemens and Motorola. Four of these sectors employed more than 5,000 each in the South-West during 2007. These were the food, chemicals (including pharma-chem), ICT and electronics sectors.

2.12 According to the 2009 national Annual Employment Survey by Forfás, the Cork city-region housed nearly a fifth of the total national employment for foreign owned agency assisted companies. While this was half those employed in Dublin, it was clearly higher than those employed in foreign owned companies in the other Irish second tier city-regions, with both Galway/West and Limerick/Mid-West and Waterford containing around a tenth of the national total (Table 5).

2.13 A similar pattern emerges with Irish owned agency assisted companies. Here Dublin clearly outperforms the other major Irish city-regions with nearly a third of the national total, which is twice

that of the Cork city-region. Again, a gap exists between Cork and the other second tier city-regions, with the others all housing around a tenth or less of the national total (Table 5).

**Table 5: All Employment Foreign Owned & Irish Owned Agency Assisted Companies**

City-Region	Total Employment Foreign Owned Companies (000s & %)	Total Employment Irish Owned Companies (000s & %)
Dublin	55,015 (36%)	45,185 (30%)
Cork & South-West	25,619 (17%)	21,593 (15%)
Galway & West	14,862 (10%)	14,033 (9%)
Limerick & Mid-West	14,759 (10%)	10,314 (7%)
Waterford & South East	13,960 (9%)	15,553 (10%)
All Irish Regions	151,903	148,909

Source: Forfás Employment Survey 2009

2.14 Cork and its surrounding region also appears to possess a more balanced economy than many of its Irish counterparts. The city-region is unique in an Irish context in that the value of output from the manufacturing/industrial sector has consistently matched, and even exceeded, the value of output from the service (including public) sector, during the past decade (Table 5). The latest available figures for 2007, showed manufacturing/industrial sector accounting for 48.9% of the south west region’s GVA, and services 49.0%. This compared to Dublin’s 21.7% for manufacturing and 78.1% for services, and the state average of 33.4% for the former and 65% for the latter. Such figures point towards a more equally balanced and diverse economic profile for Cork and its surrounding region.

**Table 5: GVA contributions by sector for the South West (Cork), Dublin and State**

	% share of GVA as basic prices produced by each branch								
	Manufacturing, Building Construction			Market & Non Market Services			Agriculture, Forestry & Fishing		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
South-West (Cork)	51.6%	50.7%	48.9%	46.1%	47.6%	49.0%	2.4%	1.7%	2%
Dublin	23%	22.2%	21.7%	76.8%	77.7%	78.1%	0.2%	0.1%	0.1%
State	35%	34.5%	33.4%	63.1%	64.0%	65.0%	1.9%	1.5%	1.5%

Source: CSO County & Regional GDP

2.15 Table 6 demonstrates the contribution each sector of the regional economy makes to the national economy. The Cork City-Regions agriculture, forestry and fishing and manufacturing, building and construction sectors make the largest contribution to the national total out of all the Irish regions. Market and Non Marker services came second to Dublin, with this sector making a significantly lower contribution to the national total when compared to that of the capital city-regions (Table 6)

**Table 6: Percentage Share of national GVA of each branch produced by each region 2007**

Region	Agriculture/Forestry & Fishing	Manufacturing, Building Construction	Market & Non Market Services
Border	15.1	8.3	7.3
Midland	6.4	3.8	3.9
West	9.5	6.9	6.7
Dublin	3.3	25.6	47.3
Mid East	10.0	11.5	7.6
Mid West	11.3	8.4	6.4
South East	20.5	9.1	7.2
South West	23.8	26.4	13.6
State GVA	100	100	100

2.16 This high value added economic activity created by the city-region’s manufacturing sector is reflected in the areas GDP per capita figures, with the Cork city-region consistently comparing favourably with Dublin over recent years, and outperforming its bigger brother in 2002, 2003 and 2007. In terms of total GDP per capita change, between 1995 and 2007, Cork outperformed both Dublin and the national average, with a 272% increase compared to 208% for Dublin and 207% nationally (Table 7). Such figures demonstrate the valuable contribution made by Cork to the overall national economic performance.

**Table 7: Dublin & Cork Metro Region GDP per capita 1995-2007 (& total % change)**

Metro Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1995-2007 % change
Dublin	17,664	20,098	24,413	25,931	29,976	33,620	36,965	40,048	42,743	45,477	49,165	51,663	54,458	208.3
Cork	14,800	15,900	21,000	24,400	26,900	32,000	36,000	43,100	43,300	42,500	46,200	51,300	55,100	272.3
National Average	14,200	16,100	19,600	21,200	24,100	27,600	30,300	33,200	35,000	36,700	39,100	41,600	43,600	207.0

Source: Eurostat

2.17 Cork also competes strongly at a European level. Moloney (2005) compared the productivity of Cork to a selection of the UK and European metropolitan cities analysed as part of the Competitive European Cities report (2004). In terms of GVA per employee, Cork came second out of the 13 comparators, behind Rotterdam, and was third when it came to GVA per capita, behind Rotterdam and Copenhagen. See Table 8.

**Table 8: GVA per capita & employee: an international comparison**

	Population	Employment	GVA per capita 2001*	GVA per employee 2001*
	000s	000s	€/capita	€/capita
Rotterdam	598	310	61,360	118,365
<b>Metropolitan Cork</b>	<b>257</b>	<b>119</b>	<b>49,112</b>	<b>106,067</b>
Dublin	1,123	546	42,105	86,601
Copenhagen	501	375	50,775	67,752
Dortmund	587	285	26,548	54,679
Leeds	716	390	25,619	47,034
Bristol	384	250	29,374	45,118
Birmingham	986	495	22,069	43,960
Stockholm	758	520	35,733	41,092
Liverpool	442	225	16,466	32,347
Newcastle	261	180	20,499	29,724
Manchester	419	300	21,099	29,468
Nottingham	269	200	n/a	n/a
Sheffield	513	248	n/a	n/a

\* Dublin and Cork 2002

Sources: Competitive European Cities, Office the Deputy Prime Minister, 2004

Census of Ireland 2002, CSO

County Incomes and Regional Accounts, CSO 2004

Source: reproduced from Maloney 2005, p.18

2.18 Despite the Cork city-region being very competitive and way above the national average in relation to GVA and GDP per capita figures, these are not translated into higher disposable income rates. Here, Cork remains in line with the national average, and a more evident gap appears when set against Dublin (Table 9). In 2007, Dublin’s disposable income per person was 10% above the national average, while Cork was 1.3% below. In fact, Cork was second amongst Ireland’s second tier cities, with Limerick having a disposable income per person that was 1.3% above the national average. However, over the past decade all of Ireland’s second tier cities have closed the gap on Dublin (Table 7). For instance, Cork’s disposable income per person was 97.2% of the state average in 2000 and, at its peak, grew to 99.5% in 2005, and stood at 98.7% in 2007. This compared to Dublin which saw its disposable

income per person decrease from a high of 117.7% of the state average in 2001 down to 110.8% in 2007.

**Table 9: Indices of Disposable Income per person 2000-2007**

City	2000	2001	2002	2003	2004	2005	2006	2007
Dublin	116.6	117.7	115.8	115.5	113.0	112.5	111.7	110.8
Cork	97.2	97.0	97.5	97.6	98.4	99.5	98.4	98.7
Limerick	100.3	100.3	100.0	99.7	101.9	101.9	101.1	101.3
Galway	96.1	94.7	95.8	95.5	97.5	95.8	96.8	96.6
Waterford	96.5	94.0	95.7	95.0	97.1	96.3	96.3	97.7
State	100	100	100	100	100	100	100	100

Source: CSO County Incomes & Regional GDP

*Human Capital (education & skills)*

2.19 Education levels are relatively high in the Cork city-region, and it performs strongly, both nationally and at a European level. Cork has the highest proportion of school leavers in the country with leaving certificates at the highest graded A and B levels (Table 10).

**Table 10: Proportion of Leaving Certificates of higher level grades A & B**

City/County Council	% with grade A & B leaving certificates
Cork	50.2
Dublin	38.2
Galway	45.5
Limerick	46.5
Waterford	42.6
National Average	42.8

Source: reproduced from CSO 2008; State Examination Commission

2.20 The south-west also contains the second highest ratio of 15-24 year olds in full time education, and in 2006 over 28 per cent of the city-region's population had a third level qualification, second to Dublin and the Mid-East regions (Table 11).

**Table 11: Percentage in full time Education & Percentage with Third Level Qualification**

Region	% of 15-24 year olds in full time education	% of those whose education has ceased with third level qualification
South West	60.2	28.6
Border	56.4	23.4
Midland	54.3	22.7
West	61.7	27.5
Dublin	57.4	35.9
Mid East	55.7	30.8
Mid West	59.4	26.5
South East	54.9	23.0

Source: CSO Census Population

2.21 The city-region also competes well at European level, with Moloney (2005) revealing that the proportion of Cork's working age population with a third level qualification was second only to Bristol in his comparison of 13 European cities (Table 12)



**Table 12: Percentage Work Age Population with Third Level Qualifications - 1996 and 2001\***

Metropolitan City	1996	2001
Bristol	28.4	31.9
<b>Metropolitan Cork</b>	<b>21.2</b>	<b>30.5</b>
Dublin	20.6	29.7
Newcastle	19.6	25.1
Manchester	21.3	24.4
Leeds	21.2	23.9
Copenhagen	11.5	23.7
Sheffield	23.2	22.1
Stockholm	13.1	22.0
Nottingham	18.8	19.8
Liverpool	14.9	18.9
Birmingham	16.3	16.7
Dortmund	n/a	n/a
Rotterdam	5.1	n/a
Sources: Competitive European Cities, Office the Deputy Prime Minister, 2004 Census of Ireland 1996 and 2002, CSO		

Source: reproduced from Maloney 2005, p.22

- 2.22 The Cork city-region, after Dublin, is the second most popular employment destination for Irish University bachelor degree and honours bachelor degree graduates, containing 16.7% and 14.6% of the total cohort, respectively. Dublin’s share was somewhat higher with 39.5% and 41.0, respectively (HEA 2008, p.40). Cork and the South West is also second to Dublin when it comes to employment destinations for post graduate diploma students, PhD and Master’s degree students (ibid, p.43).
- 2.23 Cork’s ability to retain a skilled workforce is also reflected in the number of graduates, who originate from the county, and are able to secure employment there upon graduation. This figure stands at 67% for Cork, which is much lower than Dublin’s rate of 94%, but is double that of the national average and 10% higher than the next best performing second tier city (Table 13).

**Table 13: Retention Rates of Graduates Originating from the County 2008**

County of Origin	Retention Rate (%)
<b>Cork</b>	<b>67%</b>
Dublin	94%
Galway	57%
Limerick	53%
Waterford	39%
County Average	34%

Source: HEA What Graduates Do? The Class of 2008

*Connectivity & Physical Infrastructure*

- 2.24 In terms of physical access, Cork is serviced by road, air, rail and freight. Independent studies of Cork have reported travel within and around the City and Metropolitan Cork to be relatively easy and less congested than Dublin (DTZ Pieda 2006). In fact, the South West contains the second lowest proportion of workers taking over an hour to travel into work. With only 6% of its working population facing such long journeys, this figure is less than half that of Dublin’s, which has 13% of its working population facing journeys of over an hour into work (Table 14)

Table 14: Time taken to travel to work by region

Region	Proportion of persons living in the region taking over 60 minutes to travel to work (%)
South West	6.1
Border	7.5
Midland	11.7
West	6.9
Dublin	12.9
Mid East	21.3
Mid West	5.7
South East	7.4
National	10.4

Source: CSO Regional Quality of Life in Ireland 2008

2.25 Cork International Airport has undergone a number of expansion phases over the past twenty years, and in 2006 a new terminal was opened capable of handling 5 million passengers per annum. Currently Cork’s airport services over 40 European destinations and has direct flights to international hub airports, including Dublin, London Heathrow, Paris and Amsterdam.

In 2008 Cork received the second highest annual volume of airport passengers in Ireland, behind Dublin, with a total of nearly 3,300,000 passengers. Dublin by far exceeded this with a total of around 23,500,000 (CSO 2008). Cork also lags behind other European Cities (*JK data here...*). Although Cork airport continues to improve in terms of its international air connectivity, with 20 new routes and services added during 2010.

2.26 Cork’s Port is serviced by commercial freight, ferry services and cruise liners. Up to 10 million tonnes of commercial freight passes through Cork’s port annually. The latest figures for 2009 reveal that Cork recorded the second highest total tonnage of goods nationally, having handled nearly 8 million tonnes. Although this was exceeded by the capital which saw more than double this figure with 18,600 tonnes handled.

2.27 Rail infrastructure has received a great deal of investment over the past decade or so, with an hourly train service to and from Dublin being introduced during 2008, together with developments such as new suburban commuter rail service connections across the city-region.

2.28 One of the Cork city-regions main weaknesses is that of its broadband services. This is reported to be both more expensive and inferior in terms of its quality, particularly when compared to the capital and other European cities. As a recent Forfás report noted *‘international backhaul from Cork City and other large urban centres in the region...is at least 25% more expensive than from Dublin or comparable UK cities, putting the region as a disadvantage when competing for data intensive service activities’* (2010, p.8). This problem was also recognised in the regional authorities’ latest planning guidelines: *‘Standards of [broadband] service quality and the cost of broadband services remains a serious issue [for Cork]’* (2009, p.20).

*Place Quality*

2.29 Place quality is one of Cork’s main strengths as a city-region. A recent national Forfás publication recognised these assets as an important factor in attracting and retaining foreign investment and a skilled workforce in the city-region: *‘The south west benefits from a balance between its urban gateway in Cork and an attractive and distinctive natural landscape that offers a range of attractions...such attractions are a value in attracting global talent for enterprise...and significant assets for the tourism sector...[with] a range of strong natural, cultural and recreational amenities’* (2010, p.8).

- 2.30 The natural environmental strength of Cork is reflected in the fact that it is the leading major Irish city when it comes to blue flag beaches, containing ten in total, and more than double that of Dublin’s, with four. The south-west, with 23 blue flag beaches in total, has around a quarter of the country’s total (CSO 2008).
- 2.31 Cork city itself has an extensive network of social and cultural facilities, such as the Cork Opera House, Cork School of Music, and various museums. Cork also hosts annual events, such as an international choral and jazz festivals, and the Port of Cork is regularly used during international sailing events.
- 2.32 These strong place quality assets are reflected in the fact that the south-west region has been the top performing Irish region for domestic tourism over the past decade, consistently registering the highest number of vacation trips and nights stayed amongst domestic tourists (Tables 15).

**Table 15: Domestic Holiday Travel by Irish Residents: Total Domestic Trips & Total Domestic Nights by region visited 2000-2005**

Region	Total Domestic Trips	Total Domestic Nights
Border	1,750	7,845
Midland	413	1,212
West	3,695	15,156
Dublin	997	2,863
Mid-East	664	2,467
Mid-West	1,818	8,232
South-East	3,548	15,835
<b>South-West</b>	<b>4,771</b>	<b>23,367</b>

Source: CSO Tourism Trends 2008

- 2.33 Overseas and domestic tourism was estimated to have contributed €389m to the Cork City economy during 2005, employing some 2,456 people (Moloney 2005b). At a national level, out of all of the country’s county and city councils, Cork registers the highest number of nights stayed by domestic tourists, and the third highest in terms of total expenditure, behind Dublin and Galaway. The strength of the South West region’s appeal is highlighted by the fact Kerry registers the second highest of all the Irish councils when it comes to total expenditure and total number of nights stayed (Table 16).

**Table 16: Domestic Holiday Travel by Irish Residents: Total number of nights & Total Expenditure 2000-2005**

County & City Council	Total Number of Nights	Total Expenditure (€million)
Dublin	14,821	721.9
Cork	17,633	664.4
Galaway	16,046	792.3
Limerick	3,371	138.6
Waterford	6,398	229.7
Kerry	17,039	750.7

Source: CSO Tourism Trends 2008

- 2.34 Crime is also less of an issue in Cork when compared to Dublin. For example, recent crime statistics reveal that per 100,000 of population, incidents of recorded burglary; the theft/taking of a vehicle; controlled drug offences; and incidents recorded of criminal damage were all lower in Cork than the capital (Garda Recorded Crime Statistics 2004-2008).
- 2.35 Environmental deprivation has also been shown to be lower in Cork, when compared to Dublin, as well as some of Ireland’s other second tier cities. Watson et al (2005) revealed that environmental problems, relating to graffiti, vandalism and litter, were three times higher in Dublin than Cork. The

former was the worst performing of all of Ireland’s major cities when it comes to environmental deprivation, while Cork was the second best performing, behind Galway City (ibid, p.107).

- 2.36 Levels of satisfaction with dwellings and housing facility space are also higher in the South West region when compared to the majority of other Irish regions (Table 17). For example, in 2007 12 per cent of households reported a shortage of housing space in the South West, almost half that of Dublin’s, which stood at 21 per cent, and the lowest of all the Irish regions. The South West also reported the second lowest percentage of households that were dissatisfied with their dwelling, behind the Mid East.

**Table 17: Satisfaction with Housing Conditions 2007**

Region	Households Dissatisfied with Dwelling (%)	Households Satisfied with Dwelling (%)	Households reporting Shortage of Space (%)
South West	13	87	12
Border	20	80	19
Midland	27	73	19
West	22	78	14
Dublin	15	85	21
Mid East	9	91	15
Mid West	15	85	22
South East	18	82	19

Source: CSO Survey of Income & Living Conditions, Housing Module 2

*Social Cohesion*

- 2.37 The overall growth in the Cork city-region’s economy over the past two decades does however mask the existence of significant socio-economic disparities between parts of Cork City and Cork County and the wider region. For example, according to national deprivation indexes, the south-west is the third most affluent region in Ireland, while Cork County is ranked as the fourth most affluent of Ireland’s 34 counties. Cork City, however, is ranked as the fifth most disadvantaged county in the country (Gamma 2006). These figures point towards large differences in relative affluence between parts of the city-region, with the city itself housing some of the most deprived areas in the region, and indeed the country as a whole.

- 2.38 But Cork City is not alone. Its performance mirrors those of the capital and most of the other Irish second tier cities, which all appear amongst the poorest performing counties within their respective regions in relation to levels of deprivation. For example, both Limerick City and Waterford City rank below Cork in the county deprivation index, appearing as the second and fourth most disadvantaged Irish counties, respectively. Dublin City also appears amongst the ten most disadvantaged Irish counties. Galway City is the only major Irish city to register as the top performing county in their respective region, and is also the fifth most affluent county in Ireland. Levels of deprivation in the remaining major Irish cities have changed little over the past two decades, despite the significant overall economic growth experienced by the country as a whole:

*The worst affected areas [in Ireland] in 1991 were generally in the same position in 2006, despite the unprecedented economic growth that has been experienced by practically all parts of the country...It is disturbing that the most disadvantaged urban areas, particularly in Limerick, Cork and Waterford, have failed to participate in the generalised improvement in living standards...” [Gamma 2006]*

- 2.39 These levels of affluence are reflected in key demographic and socio-economic trends. For example, figures from the 2006 Irish census revealed that while nearly two thirds of Cork County’s population were economically active (63%), the figure was almost 10 per cent lower for Cork City, with only 55% of the population classed as being economically active. Figures from the 2006 census also revealed that the major Irish cities of Dublin, Cork, Limerick and Waterford housed the majority of the nation’s

unemployment black-spots (electoral divisions where average unemployment rates were above 24 per cent.) These four cities contained over half the country's 62 unemployment black-spots, with Dublin City registering the highest proportion, with 13; followed by Limerick City with 11; Waterford City with 6; and Cork with 5.

- 2.40 While nearly a third of the south-west population has a third level qualification (Table 11), in some areas of Cork City the percentage of the adult population with such a qualification is below 10 per cent (Gamma 2006). Moreover, while the percentage of lone parent families in Ireland doubled between 1991 and 2006, from 10.7% to 21.3%, the proportion of lone parent families in Cork City had reached 33.4% by 2006, with some parts of the city experiencing lone parent rates above 50%. It should be pointed out that Cork City's average for lone parent families remained lower than that for both Dublin City (35.8%) and Limerick City (39.1%) (Cork City Development Board 2009, p.9).
- 2.41 A similar pattern emerges in terms of social class composition. Nationally, the proportion of professionals in all classes was 32.9% in 2006, an increase from 25.2% in 1991, while semi or unskilled manual workers stood at 18.6% of the population, which had decreased from 28.2% in 1991. While Cork County outperformed the national average, with 36.3% professionally classed and 17.3% in the lower skilled professions; only a quarter of Cork City's population (25.1%) is classed as professional, while almost the same amount are also classed as semi and unskilled (23.8%). In terms of overall performance, Cork County is the eighth best performing Irish county in terms of most advantageous class composition; Cork City on the other hand, records the third lowest, with only Limerick and Waterford Cities performing worse (Gamma 2006).
- 2.42 Cork City is the only Irish county that experienced population decline in the years between 1991 and 2006, seeing its population decrease by 6% over this period. In contrast the national population grew by a fifth (+20%) and the South West region's population by a similar amount (+17%). The population of Cork County saw the largest increase during this during this fifteen year period, up by 28% (Gamma 2006).

### 3. POLICY CONTEXT & IMPACT

#### *A centralised state*

- 3.1 Ireland has a strongly centralised system of government. The model is unique in Europe and is complex, with the foundation of the current system dating back to the 1898 Local Government Act.
- 3.2 Although changes have occurred during the 1990s, with new forms of governance being established at the sub-national tier, the country remains highly centralised, with such changes being instigated on a 'top down' basis. Commentators argue that these reforms have resulted in tighter national integration and management rather than decentralisation of control to the sub-national tier. Funding allocation is linked to evaluation of performance, where success is based on conformity with centrally determined strategic guidelines and associated principles of accountability and efficiency (Larragy and Bartley 2007, p.205). As Bannon notes: *'Ireland is characterised by its very high level of centralised administrative control, with limited institutional development at the regional level, and an extensive network of local authorities which have limited range of functions, lack adequate resources and are strictly controlled by central government'* (2007, p.224).
- 3.3 National government is the locus of policy development and financial control in Ireland (Bannon 2007, p.223). The governments various departments administer funds according to their respective roles and responsibilities. For example, the Departments of the Environment, Heritage and Local Government (DOEHLG) has overall responsibility for spatial planning and urban policies, although there is no over-arching urban policy unit or dedicated urban policy focus.

- 3.4 Ireland is a unitary state composed of two sub-national tiers of government, the regional and the local level. At the *regional level*, two types of structures co-exist: 8 regional authorities (*Údarás Réigiúnach*) with nominated members from local government and 2 regional assemblies (*Tionól réigiúnach*) with nominated members from the regional authorities. Regional assemblies are not sub-national self-government bodies but were created to manage the EU Cohesion Policy. The Regional Authorities have responsibility for coordinating public services and promoting cooperation and joint action and supervising the implementation of EU Structural Fund programmes.
- 3.5 Local sub-national governments have limited administrative powers and autonomy. Responsibilities are often executed within a policy framework determined by the central government. As such, local spending is subject to tight control by central Government in Ireland (Loughlin 2011). While the regions have general responsibility for the coordination of public services and development programmes, municipal councils have limited powers, covering road construction and maintenance, housing, social welfare, public health, leisure facilities and urban planning (Ismeri & Applica 2010, p.218).
- 3.6 Ireland's low levels of decentralisation are reflected in the small share of sub-national government expenditure in relation to both GDP (6.7%) and total general government spending (19.5%). These figures are said to be less than half the EU average and have declined significantly over the past decade (Ismeri & Applica 2010, p.219; Loughlin 2011, p.55).
- 3.7 The *local level* is composed of 114 local councils (*Comhairlí*) with a two tier structure: The first tier consists of 29 county councils (*Comhairlí Contae*) and 5 city councils (*Comhairlí Cathrach*). The latter covering the country's capital, Dublin, and four main second tier cities, namely: Cork, Limerick, Galway and Waterford. The second tier consists of 80 town authorities, including 5 borough councils (*Comhairlí Buirge*) and 75 town councils (*Comhairlí Baile*).
- 3.8 Ireland's cities are part of the national local authority structure, and as such they rely on funding from central government to cover their expenditure. So while their roles and profile may be different to other local authorities, for instance competing internationally for investment and jobs, they do so with less autonomy than many cities across Europe (Bannon 2007, p.227).
- The Irish Urban Context*
- 3.9 The centralist nature of the Irish state is reflected in the country's urban system, with the vast majority of Government bodies and large company headquarters located in and around the capital city, Dublin. According to Davoudi & Wishardt Dublin is 'home to 80 per cent of government agencies and 70 per cent of the headquarters of major companies' (2005, p.123).
- 3.10 Bannon (2007) also reports that a key reason for the dominance of Dublin and the rapid growth of the capital city region has been the centralised nature of the Irish administrative system. In essence, 'commercial, financial, political and administrative power are vested in a large number of Dublin-located or Dublin-controlled institutions' (p.223).
- 3.11 As such, Ireland is a monocentric state. With a population of over one million, and containing nearly a third of the national demographic, Dublin is the primate city within Ireland. Cork's population is less than half that of Dublin's (Table 1) and the three remaining large second tier city-regions all contain populations which are significantly smaller again, being no more than a twentieth of the national populace. As shown, Dublin's dominance is reflected in the total GDP figures for Ireland's eight NUTS III regions, contributing 40 per cent of the national total.
- Irish cities as benefactors of the Celtic Tiger's Growth*
- 3.12 The demographic and economic growth of Dublin over the past twenty years has been closely linked to the fortunes of the national economy during this period, and several commentators point to the fact that the country's main cities, but particularly Dublin, have benefited disproportionately from this

huge economic growth. As Bannon notes: *'While growth has been widespread across the [Irish] urban system, Dublin has been the principal beneficiary of the 'Celtic Tiger' growth (2007, p.227).*

3.13 Between 1995 and 2000 the Irish economy grew at a rate three times greater than the European average (Lynas 2004; Matthews & Alden 2006; cited in Davoudi 2005) and continued to grow until the global recession of 2008. A key stimulus for this impressive economic growth was Ireland's increasing ability to attract good quality foreign direct investment, particularly in the pharmaceutical and technology industries. FDI accounted for almost half of Ireland's GDP by the end of the 1990s (OECD 2001; cited in Kitchen & Bartley). This was fuelled by a number of policy factors, the most frequently cited being:

- ❖ Ireland's low corporation tax rates, at 12.5% one of the lowest in Europe;
- ❖ Strong historical connections with the USA, a key attraction for US based FDI;
- ❖ Good educational levels, accompanied by the English language, amongst the Irish workforce. The result of a national policy to increase the numbers receiving third level education within the country;
- ❖ Low personal income tax rates - attractive in recruiting & retaining skilled labour.

3.14 Other commonly cited factors which contributed strongly to this economic growth included:

- ❖ The impact of the European Union. Kitchen & Bartley (2006) highlight a number of benefits to the Irish economy as a result of its membership with the EU (which dates back to 1973). In particular: substantial & diversified trade linkages with other EU countries; Ireland's position as the key gateway into Europe for US trade, made even more prominent as a result of the UK's reluctance to fully commit to the EU project; and thirdly, substantial EU investment via Objective 1 money during the 1990s.
- ❖ The huge construction and housing boom within many of the country's city-regions which accompanied the country's growing affluence.

*The evolving Irish national policy context*

3.15 Although Ireland, its main cities, and in particular Dublin, experienced strong economic growth during the 1990s, by the end of the decade the unevenness and sustainability of this growth was a concern for national policy makers. The rapid growth of the 1990s had accelerated monocentrism at national level; there were signs of an over-heating Greater Dublin Area; and deepening and widening regional disparities. While national GDP per capita figures were increasing at an astonishing rate, they hid ever increasing regional disparities both within, and between, regions in Ireland. For example, by 2001, Dublin and the south east region had a GVA per head of 109 per cent of the state average, while the Border, Midlands and West region had a GVA per head that was 75 per cent of the state average (Davoudi 2005).

3.16 By the late 1990s Dublin faced a number of challenges:

- ❖ Urban sprawl in the Greater Dublin Area (GDA), with the commuter belt becoming ever wider, placing massive pressures of infrastructure and leading to congestions problems around the capital and a deteriorating quality of life as infrastructure struggled to keep pace with the housing and population growth.
- ❖ Urban sprawl of the GDA into rural areas was having environmental consequences, including problems relating to pollution and sewerage;
- ❖ A massive increase in house prices, rising by 200 per cent in Dublin between 1994 and 2001 (Davoudi 2005, p.124);
- ❖ Critics point to the swathes of poorly designed new housing littering the surrounding countryside around Dublin, commonly referred to as 'bungalow blight' (Haughton, 2010, p.56);
- ❖ Greater social divides and community fragmentation within the capital, despite its growing wealth (Bannon 2007)

- 3.17 Commentators highlight two key policy areas which strongly contributed to this uneven and unregulated growth. The first was Ireland's traditionally localised planning system, and the lack of any coherent national spatial planning structure, with little vertical or horizontal coordination between governance structures and policy. The second was an urban policy which had consistently, since the late 1980s, prioritised tax incentives for physical development, over social and environmental concerns:

*'The rapid growth took place in the context of a lack of appropriate infrastructure, an absence of a national strategic framework and a limited institutional and governance capacity to guide and coordinate the development'* (Davoudi 2005, p. 126)

*'After years of economic stagnation the planning system struggled to cope with the scale of new development....the system did not have the experience and structure in place to cope with rapid growth, with canny investors quick to exploit.'* (Haughton, 2010, p.55)

*'A tax driven and property-led renewal programme can be expected to generate 'place prosperity' rather than 'people prosperity'. There is a good deal of evidence that some renewal initiatives have led to social displacement and community fragmentation.'* (Bannon 2007, p.227)

- 3.18 *A time for policy change: a move towards more balanced territorial development*  
 Official policy recognition that change was needed emerged in 1999, with the publication of the 2000-2006 National Development Plan. This was closely followed by the 2002-2020 National Spatial Strategy. Both these documents emphasised the need for more balanced development and the need for growth in key urban areas outside of Dublin. In particular, they drew attention to the need to invest and to encourage growth in the larger second tier cities outside of Dublin, in particular Cork. These were termed the national 'Gateways' and would constitute a national network of strong centres to act as a counterbalance to Dublin. In addition, eight national hubs were designated around the country to help bring growth to the surrounding rural areas.

- 3.19 While the problems experienced by Dublin were a strong influence on this change in policy direction, the European Commission was also a key influence, which was evident in the language and tone of the NDP and NSS (Davoudi 2005). Moreover, the potential financial incentives associated with developing these new national spatial planning strategies was also key:

*'Various forces appear combined to prompt the development of the NSS for Ireland...the political agenda for improved policy integration, the development of EU regional policy...the financial imperative of attracting Structural Funds...and pressure from within the country to address the growing problems of congestion in Greater Dublin'* (Haughton 2010, p.62).

- 3.20 Both the 2000-2006 and 2007-2013 NDPs and the NSS called for more horizontal and vertical policy integration between Government departments and the different tiers of Government. As the following extract from the NSS illustrates:

*'To support and develop the approach set out in the NSS...Government departments and agencies will establish mechanisms to ensure and demonstrate that their policies and plans are consistent with the NSS. Regional authorities will immediately commence the preparation of regional planning guidelines...to give effect to the NSS at regional level. These guidelines will draw on relevant local plans and strategies such as city and county development board strategies....Implementation of the NSS will be an important factor in the prioritisation by Government of capital investment, and in allocations by Ministers of the sectoral levels of investment decided on by the Government.'* (NSS 2002, p.119)

As Kitchin and Bartley note, this move towards more integrated and coordinated integration of policy, stood in stark contrast to what had previously occurred during the 1980s and 1990s:



*'Following a protracted period of focused but ad hoc project-based development policies that began in the 1980s, concerted efforts are under way to move from this piecemeal approach to a more coherent approach based on an integrated planning approach that seeks to unify and coordinate activities vertically (i.e. between scales/levels) and horizontally (at the same scale/level) across all spaces and sectors. The NSS and the subordinate Regional Planning Guidelines are a clear first attempt to achieve such integration (Kitchin & Bartley 2007, p.302)*

*But a problem of implementation*

3.21 Despite the National Spatial Strategy being drafted almost a decade ago, numerous criticisms have been levelled at its lack of implementation on the ground. Indeed, over the past few years these critical voices have grown louder, and update documents from central government on the progress of the national spatial strategy (2010 Update and Outlook) have only served to largely confirm and further fuel these opinions. The most commonly cited factors resulting in the lack of implementation on the ground, include:

- ❖ An overly centralised state apparatus which has failed to strengthen and address regional and local governance structures as a means of implementing the NSS on the ground. As Breathnach points out:

*'The kind of gateway development envisaged by the NSS requires forms of governance capable not just of coordinating a wide range of economic, social and infrastructural activities and facilities at regional level, but of driving such coordination...There is no effective tier if regional government [and] local government has a minimal range of functions, where most elements of gateway development (enterprise promotion, health and education, transport, communication, energy) are centrally controlled and where structures for managing and coordinating the implementation of public policy at territorial level are extremely weak' (2010).*

*'Major recasting of the state's governance structures is required if [the NSSs] objectives are to have any chance of being realised. Governance structures at regional level need very substantial strengthening and a major devolution of powers to both regional and local level is essential in order to facilitate effective coordinated planning.'* (Breathnach 2010b)

- ❖ Beyond the Department for Environment, Heritage and Local Government a general lack of coordination and consideration, amongst central government departments, given to the National Spatial Strategy when drafting and implementing new policy programmes:

*'Most government programmes have behaved as if the NSS did not exist.'* (Breathnach 2010b, p.1195)

Others also emphasise the need for all government department to address this issue and consider the NSS seriously when forming new policies and programmes: *'Now is the right time for the NSS to be rolled out comprehensively and utilised...That means it has to inform and guide policy thinking across departments and agencies.'* [Kitchin 2010]

- ❖ The timing of the National Spatial Strategy's implementation. Being published too late to be part of the 2000-2006 NDP, and in coinciding with the current economic downturn, a major proposed investment for the Gateway towns and cities, the €300 million Gateway Innovation Fund outlined in the 2007-2013 NDP, has now been put on hold.

3.22 The result has been a number of developments taking place over the past decade which have actually run counter to the aspirations of the National Spatial Strategy. These were contained in the latest Government update to the NSS, and included:

- Many of the country's major town and cities witnessing a population growth below that of the national average, and even population decline for some;

- Greater population growth in smaller towns and rural areas, with the commuter catchment areas of Dublin, Galway and Cork experiencing the strongest population growth. Such trends are said to have been caused by ‘inappropriately located zonings that do not adequately reflect national and regional priorities and have worked against implementation of the NSS principles and priorities.’ (2010, p.21)
- A pattern of development which has resulted in a ‘more dispersed and less sustainable settlement pattern, involving both longer journeys to work or school/college and greater use of the car as opposed to more sustainable modes of transport’ (ibid, p.21). This was also said to run counter to the objectives of the NSS.

*What Impact upon Cork?*

- 3.23 National policies relating to low corporation tax rates; the country’s success in attracting good quality manufacturing investment have been major influences on Cork’s performance to date. Ireland’s involvement in the EU and significant European Structural Fund investment has also undoubtedly left their mark on the Cork city-regions overall growth and competitiveness over the past couple of decades.
- 3.24 European Structural Funding has played an integral part in the development of Cork, particularly in relation to local infrastructure and urban regeneration projects. European money has contributed towards major investments in the non-national roads network across the city-region. These funds have also gone towards the development of new deepwater and container ship terminals, and cruise births at the Port of Cork. Major investments have also included a regional Metropolitan Area Network (MAN) broadband programme; together with various water and sewerage improvement projects. European Structural Funding has also been used towards investment in the rail infrastructure, in the form of new inner-city train carriages between Cork and Dublin. Cork City received significant ERDF funding during the 1990s as a participant in the Urban Pilot Projects. This programme kick started economic and social regeneration in the historic centre of Cork. Several tourist attractions in the city-region have also benefited from European funding.
- 3.25 While all of Ireland’s second tier cities have benefited from national policies to attract foreign investment, Cork has clearly outperformed Ireland’s other second tier city-regions in relation to its share of the high value added manufacturing sector. In terms of GDP per capita it has registered the strongest growth in Ireland over the past 15 years, and has been equal to, and has even outperformed the national capital, over some years. Cork is also unique in an Irish context, in relation to the sectoral balance of its economy, with a more equal economic contribution existing between manufacturing, building and construction on the one hand and market and non-market services on the other.
- 3.26 Such patterns suggest that other factors, unique to Cork, have also played a part in city-regions overall performance. These are explored next.

*A young, well educated workforce & good quality of life*

- 3.27 When asked why FDI came to Cork, the country’s national corporation tax policy was identified as a central factor. However, other attributes, unique to Cork, were also identified, and serve to illustrate perhaps why Cork has been more successful than Ireland’s other second tier cities in attracting good quality foreign investment. This was a common response from those interviewed:

*‘FDI [investment] in Cork has been influenced by low tax. But young people, a skilled workforce, atmosphere and the quality of life are all important assets in drawing investment to Cork.’*

- 3.28 Cork is home to three higher education establishments offering degree and post graduate degree level qualifications. These include the University College Cork (UCC), Cork Institute of Technology (CIT) and the Institute of Technology Trelee. Together they contain nearly 40,000 students, and each year they produce approximately 10,000 graduates.

3.29 Cork is also home to the Tyndall National Institute (TNI), established in 2004 as joint venture between the Department of Enterprise, Trade and Employment and the UCC. This institute has brought together complementary activities in photonics, electronics and networking research of the National Microelectronics Research Centre (NMRC), several UCC academic departments and Cork Institute of Technology (CIT), all under one roof, and has made strong linkages with industry, both regionally and nationally. The objective of this institute 'is to create a research institute, which would become a focal point of Information and Communications Technology (ICT) in Ireland, to support industry and academia nationally and to increase the number of qualified graduate students for the knowledge economy.' TNI currently houses over 300 research scientists, engineers and students. The latter including 120 PhD and 12 Masters degree students.

3.30 The presence of these educational and research establishments, together with the demand for higher skilled workers within many of the industries located in the city-region are reflected in the relatively high educational attainment levels within the city-regions population; and its ability to retain skilled graduates who originate from the city. All these factors, together with the city-region's natural and environmental assets and good quality of life, combine to give Cork a fairly unique niche within the Irish urban fabric.

*Encouraging Enterprise, Networks and Clusters*

3.31 The Cork city-region has also been at the forefront of Irish efforts to encourage more active clustering and networking activities between the higher education research community, indigenous and foreign firms and the public sector.

3.32 A recent South West Regional Authority benchmarking report identified a number of cluster type activities in the south west region (2009). The three leading clusters were identified as the food sector (with 174 companies in the region); engineering (with 140 companies in the region); and information ad communication (with 221 companies). The pharmaceutical cluster is recognised as the most advanced cluster in the Cork city-region. Eight of the world's top ten pharmaceutical companies are based in the Cork City Region. According to the Department for Enterprise, Trade and Employment (2008) and the South West Regional Authority (2009) this cluster is supported by a sophisticated infrastructure of serviced sites, public utilities and specialist support companies, with a number of sub-sector incorporated as part of it, including pharmaceuticals, pharma, biotechnology and medical devices. Significant linkages are also said to have been established with two of the regions main higher education institutions, the UCC and ITC. These large companies (which include Pfizer and GlaxoSmithKline) are also supported by a number of business services in the area too, including plant design, construction, supply-chain and recruitment services.

3.33 The Cork city-region's efforts to develop an active cluster policy over recent years, are evident through its involvement in numerous work programmes and European funded initiatives aimed at researching and developing city-region networks and clusters. These have included an INTERREG IIIB North West Europe area programme, called the Drive project, which explored the connections between third level research institutions and indigenous companies, across five European city-regions; an INTERREG IVB programme, called ATClusters, which explored the potential for transnational cooperation among clusters in the Atlantic Area; and an DG Education and Culture funded programme, named ComplexEIT, which saw Cork City Council taking part in a research programme exploring the linkages between industry, education and research across a small selection of European city-regions.

3.34 A key output from this work has been the establishment of a Regional Innovation Cluster in 2008, which was led by the South West Regional Authority as a mechanism to develop stronger and more active linkages between research, industry, the state and regional and local development agencies. It is the first of its kind in the country **\*\* (need to confirm this with interviews) \*\***.

3.35 There is room for improvement here though. As noted in a SWRA report, a significant proportion of this cluster activity operating in the city-region is 'more network and support type activity; or

emergent and in its infancy’ (2009). When benchmarking Cork against other European cities, one of the aforementioned European funded research projects (ComplexEIT), found that Cork remained some distance away from claiming to have true clusters, when compared to cities such as Grenoble in France and Dresden in Germany. Despite this, it also recognised that ‘the potential for Cork to build on its successful profile was strong’ (ibid, p.22). In order to achieve this, the report highlighted the need for more integrated networking between regional and local government, development agencies, third level institutions and industry, with the public sector taking a more integrated response (between national, regional and local levels) and a lead role in initiating the process. The establishment of the Regional Innovation Cluster by SWRA in 2008 can be seen as part of a major effort by the city-region to address this.

*Effective strategic partnership working*

- 3.36 One of the relatively few areas of best practice contained within the National Government’s latest update to the NSS refers to the high levels of integrated planning in Cork and the development of the Cork Area Strategic Plan (CASP). The Cork Area Strategic Plan (CASP), published in 2001, and which predates the NSS, provides a vision and strategy for the city-region up until 2020, and was jointly commissioned by Cork City and County Councils. The ability of the plan to link up national, regional and local strategic planning documents and the cooperation between local and regional governance actors has been highly commended by both national government departments and has been identified as a national exemplar:

*‘The Cork Area Strategic Plan is an excellent demonstration of collaboration across local governance structures...’ (Forfás 2008a); and*

*‘CASP is the driving document for regional development in the Cork area and represents good practice in long-term strategic planning....there are resources dedicated to its implementation, including an implementation team and project officer...There is significant cooperation between the City and County Councils’ (Forfás 2006).*

- 3.37 Cork has also been recognised by leading commentators as being at the forefront of metropolitan planning in Ireland, with a coherent system of spatial planning operating at the city-regional level:

*‘Cork provides a good model of how to technically plan for spatial development in a city region.’ (Haughton 2010, p.75)*

- 3.38 A reading of both national policy documents and leading academic literatures, together with interviews with key players within the city-region, all point to the fact that Cork possesses a strong element of strategic capacity, with a tradition of governance actors endeavouring to work together for the good of the city region.

- 3.39 It was the Cork Land Use and Transportation Study (LUTS), produced in 1978, that proved to be the catalyst for efforts to enhance strategic partnership working at the sub-regional level. This guided the development of Cork from 1978 to 2000. In 2001, LUTS was followed by the Cork Area Strategic Plan (CASP). CASP builds upon LUTS and represents a framework for the integration of land use, transportation, social, economic and environmental elements of Cork area through to 2020, and builds upon LUTS its predecessor. CASP has been strongly influenced by the European Spatial Development Perspective (ESDP):

*The ESDP provides the highest level policy guidance towards the development of a spatial strategy for [Cork]...’ [CASP, p.18]*

- 3.40 Both LUTS and CASP have placed great emphasis on infrastructure led development, and the result has been the availability of high quality local premises and infrastructure, which have undoubtedly helped in attracting and retaining foreign investors to the city-region (*\*need to confirm with interviews\**).

- 3.41 The aforementioned Urban Pilot Project, which ran in Cork City between 1994-1999, was also hailed as a success in relation to the innovative approach taken towards strategic partnership working between local government actors, community groups and the private sector, and in 1999 received an RTPPI Planning award for its efforts.

#### 4. PROSPECTS

- 4.1 In terms of overall competitiveness, Cork has been the best performing second tier city-region in Ireland over the past fifteen years. Much of this can be attributed to a combination of national policy, European funding and unique local assets. These include:

- ❖ Organised city-regional strategic land use planning in place, and good strategic working relationships existing between city-regional governance actors;
- ❖ Success in attracting high value added FDI investment;
- ❖ A more balanced economic profile between services and the industrial/manufacturing sectors when compared to the other Irish city-regions, including the capital;
- ❖ A young, well educated population and workforce;
- ❖ Presence of strong third sector Universities and research community;
- ❖ Active networking and cluster activities operating at the city-regional level
- ❖ Strong place quality assets and good quality of life.

- 4.2 However, the Cork city-region does possess some weaknesses, which may present themselves as significant risks and provide more uncertainty to the city-region in the current economic climate. In particular:

- ❖ Limited powers and resources at the disposal of local and regional governance actors.
- ❖ The presence of a dual economy and large differences in disposable income across the city-region. This, combined with a continued population decline in Cork city, has the potential to create further imbalances to the Cork city-region.
- ❖ A relative high dependence on FDI to maintain the city-region competitiveness.
- ❖ Although clusters and networks between industry and third level research institutes exist, many of these are currently in their infancy and are less well developed than those present in other European city-regions.
- ❖ Key connectivity deficits which lag behind the capital and other European cities.
- ❖ The impact of the national deficit and current economic climate upon proposed developments that form a central part of the CASP and other local plans, for example developing the Cork Docklands. The deferment of the Gateway Innovation Fund is just one example of a major national funding initiative which will no longer be used to invest in the city-region.

#### 5. MAIN FINDINGS AND POLICY MESSAGES

- 5.1 The Cork city-region is an example of a small European city which has undoubtedly been able to punch above its weight over the past two decades.
- 5.2 With a total GDP contribution standing at nearly a fifth of the national total, and more than double that of the next best performing second tier city-region in Ireland, Cork contribution to Ireland's overall economic performance, while much smaller than that of Dublin's, remains significant. Moreover, Cork City and its surrounding metropolitan area, with its concentration of FDI manufacturing firms and Universities, is the economic driver for the South West region of Ireland.

5.3 In relation to the ESPON study as a whole this case study does shed light on some of the key hypothesis. In particular it shows that:

- ❖ *National Policies do matter:* Undoubtedly, it is the swathe of FDI and high end manufacturing firms located in and around the Cork metropolitan area that has driven the city-region's performance over the past two decades. National policies such as low corporation tax rates and a focus upon increasing the population's educational levels, particularly in relation to third level educational attainment, have influenced Cork's success. Moreover the country's membership to the EU and significant European Structural Fund investment has also played a central part, particularly in relation to infrastructure developments and major regeneration schemes within the city-region.
- ❖ *But the local also matters:* Factors, more unique to Cork, have played their part in the city-regions growth and performance. Cork possesses strong place quality assets, which have helped to embed foreign firms and attract and retain the young and well qualified within the city-region. Overall quality of life is arguably superior to that of the capitals, with lower living costs, less environmental deprivation, and less congestion than Dublin. Moreover, the city-region possesses a very attractive natural landscape and environment.
- ❖ Despite local governance actors in Ireland having limited powers and resources to engineer their own destiny, the Cork City Region has made the most of a limited hand. Since the late 1970s there have been coordinated efforts to strategically plan and coordinate development within the city-region. The latest strategic planning guidance for the city-region (namely CASP) has been hailed from many quarters as a success in terms of its ability to spatially plan for a city-region. Significant European funding, as opposed to central Government investment, has been seen as a key contributor towards the implementation of many of the plans contained within these strategies.
- ❖ *The Drivers of Development are important assets:* The drivers of competitiveness are important in explaining the reasons for Cork's success compared to the other Irish second tier cities. Arguably it has a better mix of economic diversity & competitiveness; place quality assets; connectivity & Infrastructure and human capital, than Ireland's other second tier cities.
- ❖ *Decentralisation Matters:* This has not been the case for Cork. And it could be argued that Cork has performed well despite, not because of this. The failure to date of national policies to fully integrate policymaking, both vertically and horizontally, and the lack of financial and legislative powers given to Local and Regional Government actors, is seen as a key restraint for the Cork city-region, and undoubtedly the other Irish second tier cities. Both are viewed as a prerequisite if the central Government is to see its NSS being more effectively implemented and other city-regions been able to make a more significant contribution towards the overall national economic competitiveness. An anticipated Local Government White Paper may provide some progress here.



## **ESPON Project SGPTDE**

**3.10**

**LYON**

**Christian Lefèvre**



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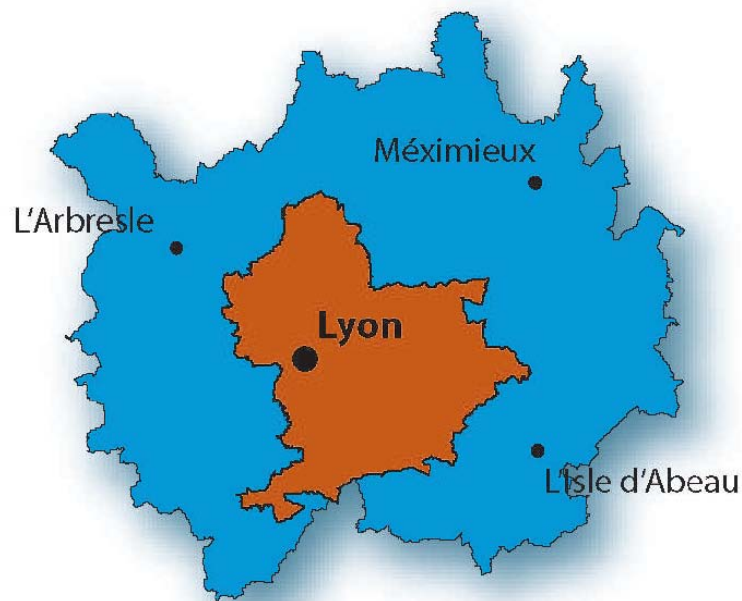


## 1. WHAT'S THE STORY: SETTING THE SCENE

- 1.1 Lyon is France's second city. With about 2 million people in the urban area, it is only superseded by Paris, the national capital, which groups about 12 million inhabitants. Lyon is known to be a quiet, bourgeois, hard working place. Although this picture is only part of Lyon's reality, it is often claimed as such by most of its political and economic elite.
- 1.2 But this peaceful and industrious city is also innovative in many respects and has shown this innovativeness in many sectors in the last decades, from planning and governance (Lyon was the first urban area to produce a strategic plan in the 1980s) to urban services (Lyon was the first city to introduce a bike renting scheme, named Vélov', before Paris with Vélib, a scheme which can now be seen in many European cities such as London, Milan, Rome, etc.).
- 1.3 The Lyon's case study will help us to address several of our project hypotheses. First and foremost the over dominance of Paris and the Ile de France area on the rest of the French territory in almost all aspects of societal life will directly concern the issues of de-concentration and decentralization. In many regards, France is the perfect example of a very centralized and concentrated society, with a national capital absorbing (but also producing) the largest part of collective resources. What problems has such a situation posed to the development of a metropolis like Lyon and what have been its 'margins of manoeuvre' and how the city has used them can be of particular relevance for other countries and cities in Europe. In that regard, the case of Lyon directly questions the role of the State and its policies in the territorial development of second tier cities.
- 1.4 Regarding the hypothesis about the importance of local factors, Lyon demonstrates that these local factors are indeed significant, notably because it shows success cannot come against them and that in many respects it would be a mistake not to take them into account and take advantage of them. As in many other cities of our panel, the analysis of Lyon will show that many local factors (history, geography, economic sectors, etc.) are indeed resources which must be used for development. Failure to do so will significantly affect the success of policies.

- 1.5 The Lyon case study will also help to investigate the hypothesis that territory matters. In that domain, the recent history of Lyon shows that this urban area has a long experience of up-scaling policy formulation and implementation. From the Grand Lyon *Communauté Urbaine*<sup>1</sup> designed in the 1960s to the current attempt to create a ‘metropolitan pole’ with other large urban areas such as Saint-Etienne, Lyon has been able to show a constant research, albeit not necessarily successful, for the best territory to fit the constraints and advantages of global competition and competitiveness.
- 1.6 But what is Lyon? Which area and perimeter are we referring to when speaking of Lyon? It is essential to clarify this from the outset because in Lyon, more than in other French urban areas, the confusion can be damaging for the analysis because several administrative, political and spatial perimeters are used by players and they vary significantly.
- 1.7 On one hand, one can speak of the ‘Lyon metropolis’ which more or less refers to the ‘central’ part of the urban area. It is better approached by the territory of the Grand Lyon (1.3 million inhabitants), the *Communauté Urbaine*, created in 1968 or by the territory of the master plan (Schéma de COhérence Territoriale – SCOT) which is a bit larger and groups about 1.4 million people. (brown area in the map below)

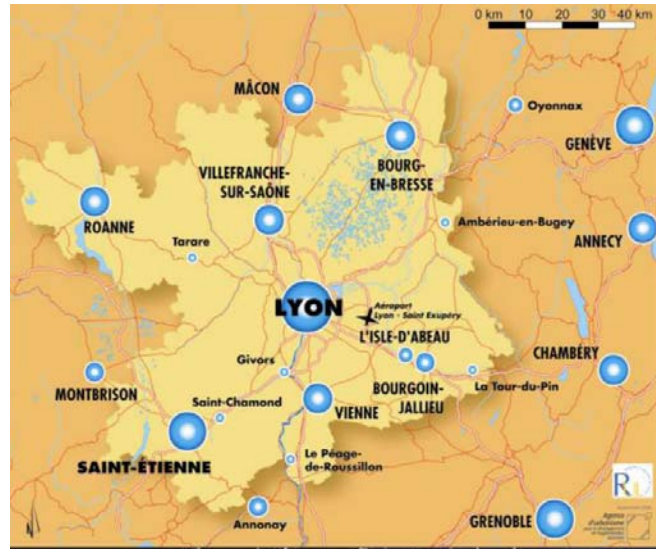
**Map 1: The territory of the SCOT and the Urban Area of Lyon (AUL)**



- 1.8 On the other hand, one can speak of the multi-polar metropolis, which includes cities like Saint-Etienne, L'Isle d'Abeau, Bourgoin-Jallieu or Vienne. This territory can be better approached by the Urban Region of Lyon (*Région Urbaine de Lyon* – RUL) (map 2 below), a light political structure established in 1989 which gathers about 3 million people or by the Inter-Scot perimeter which represents the larger planning area with about 2.7 million inhabitants or even by the future ‘metropolitan pole’ of about 2 million people (see section 4 of this report for a presentation of these various structures and processes).

<sup>1</sup> Communauté Urbaine is a joint authority grouping several municipalities and owning significant competences and fiscal resources. Grand Lyon is the name given to the Lyon Communauté Urbaine (see section II). The translation with the English expression ‘Urban Community’ would be confusing. This is why the French expression will be used in this report.

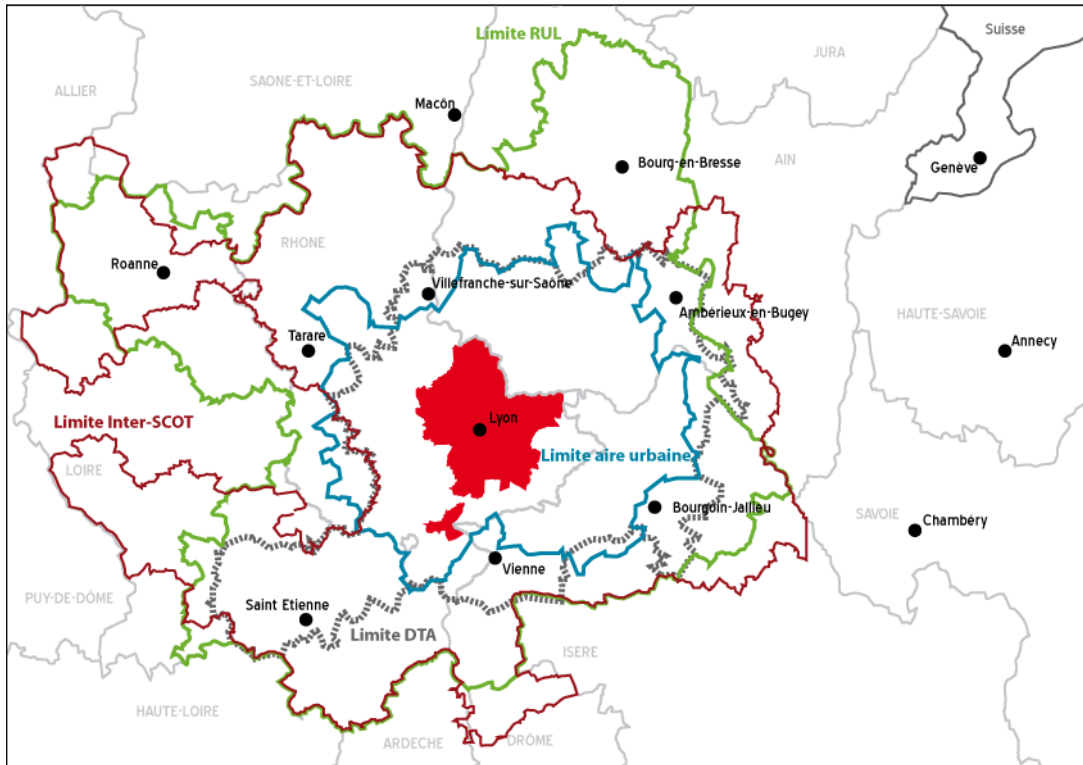
Map 2: The RUL area and its major cities



- 1.9 In addition, there is the Rhône *Département* (county or provincial level) which encompasses about 1.7 million people but on a slightly different perimeter.
- 1.10 All these administrative, technical or political structures produce data and analyses but they obviously focus on their own territory which makes comparisons difficult. NUTS 3 level corresponds to the French *département*, which in the Lyon case would be the Rhône *département*. However the territory of the Rhône *Département* does not match the functional urban area at all and therefore cannot be used here as a basis for our analysis.
- 1.11 In a very recent document on European metropolitan comparisons produced in November 2010, the OMPREL<sup>2</sup> proposes to use the statistical unit of the 'Urban Area of Lyon' (*Aire Urbaine de Lyon - AUL*) as the most relevant perimeter for comparative purposes, all the more because it is a national statistical unit used by the INSEE (the French National Statistical Institute) to produce most data. We will therefore use the AUL (see map 1) as a substitute for NUTS 3 when possible for data purposes in section I of this report. However, for the analytical part regarding policies other perimeters will be preferred.
- 1.12 The 'Urban Area of Lyon' (AUL) groups 1.750.000 people. It covers 3,356 km<sup>2</sup> over 4 *départements* and 296 municipalities. 169 are located in the Rhône *département*, 65 in Ain, 60 in Isère and 2 in Loire.
- 1.13 The map below shows the various existing perimeters, administrative and statistical, used by players. In brown at the center, the Grand Lyon, in blue the UAL, in green the RUL, in gray the various *départements*.

<sup>2</sup> OMPREL : *Observation Métropolitaine Partenariale de la Région Economique Lyonnaise* (Metropolitan Partnership for the Observation of the Lyon Economic Region), constituted in 2009, is an instrument of production of data at the RUL level. It is managed by the Metropolitan Planning Agency.

Map 3: The various perimeters of the Lyon area

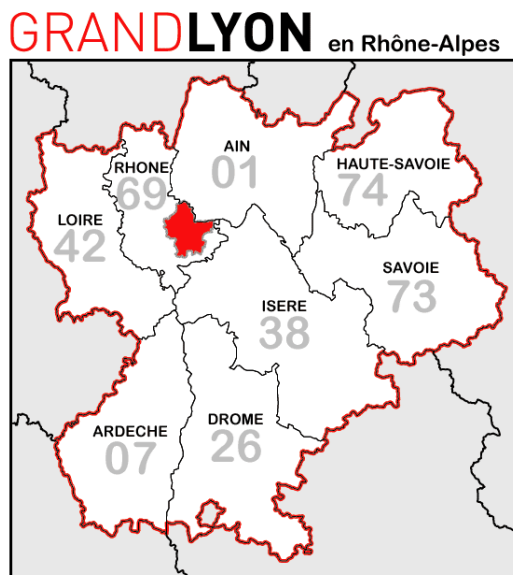


- 1.14 For the Espon project, the Lyon case study offers many interesting points. In an almost paradoxical way, it is the **ordinariness** of the city which is appealing. In many respects, Lyon is indeed an ordinary place in the sense that its cultural, economical and political features are not sensational. Lyon cannot claim to be a model city like Barcelona or Turin, or even Munich in the high tech domain. Lyon cannot claim to have deeply changed its image like Barcelona or succeeded in changing its development path like Leeds or Turin. But Lyon can claim to be a rather successful metropolis in many policy domains very much significant for territorial development. Lyon has been able to produce several big urban projects (Part Dieu, Cité Internationale), has been successful in Research and Development policies and relatively successful in its international promotion. Lyon is indeed a metropolis of ‘ordinary success’ and it is this capacity of producing ‘ordinary success’ in a globalized world which is worth analyzing and explaining.
- 1.15 Contrary to several cities of our panel (Barcelona, Leeds, Munich, Turin), international, national and local literature on Lyon is very limited and this is partly the reflection of the ‘ordinariness’ of the city. Very few academic reports and articles on Lyon’s territorial development have been written in the last decade or so (Jouve, Boino, 2010) and consequently the essential of the literature used in this report comes from official documents produced by national and local governments and agencies (DATAR, Grand Lyon, SEPAL, Chamber of Commerce, etc.). This literature was supplemented by a series of interviews carried out with the most significant players and observers, notably local and regional administrations, development agencies and structures. They are all listed in the appendix.

**Presentation of the Lyon area**

- 1.16 The city of Lyon is located in the central eastern part of France at the confluence of the Rhône and Saône rivers. Surrounded by hills and mountains (Jura and Alpes), it has beautiful natural assets. It is also at the cross roads of several regions famous for their agricultural products (wine, cheese, meat) which has made it the capital of French gastronomy as it is known today.
- 1.17 Lyon is the capital of the Rhône *department* and of the Rhône-Alpes region. It is the second urban area of France, the largest of Rhone-Alpes and relatively close to other important urban poles such as Saint Etienne (60 km), Grenoble (100 km), Valence (100 km), Chambéry (100 km), Annecy (140), all capitals of other *départements*. It is also only 150 km from Geneva in Switzerland.

**Maps 4 The Grand Lyon and the 8 départements of Rhône-Alpes and Map 5: the main urban areas in Rhône-Alpes.**



- 1.18 Lyon got its first political status with the Roman empire when it was declared “Capital of the Gaules” which made it one of the most important cities of what was to become France a few centuries later.
- 1.19 In the 16<sup>th</sup> century, Lyon was France major financial centre, a status it lost a few decades later due to the religion wars which saw the flee of major banks and other economic activities. In the 17<sup>th</sup> century, Lyon gradually became an important centre of textile industry with silk and technical inventions like the Jacquart weaving loom, a sector which is still significant today. In the 19<sup>th</sup> century, the city diversified its economy with the production of chemicals in the so called Valley of Chemistry located at the south along the Rhône river and in the 20<sup>th</sup> century with the development of new sectors such as pharmacy and health science with global firms like Sanofi and Mérieux.
- 1.20 Lyon has always had a flourishing industrial economy but this economic importance was not paralleled at the political level. The political decline of Lyon started during the French

revolution when Lyon chose the Federalist side against the Parisian Jacobins. To punish this choice, the French State severely repressed the city and to weaken its political power split in two parts the then *département* of Rhône-Loire, a political and administrative decision which has made the political management of the urban area more difficult until today.

- 1.21 Since the early 20<sup>th</sup> century, the city of Lyon has been governed at the center of the political scene. However, some important municipalities located at the center of the urban area like Villeurbanne, have been important political bastions of the left. In 1968, the Grand Lyon *Communauté Urbaine* was established by the State and imposed over local governments. Since its origin, it has always been chaired by the mayor of Lyon. Today, Lyon and Grand Lyon are chaired by G. Collomb, firstly elected in 2001 and re-elected in 2008 at the first round. G. Collomb is a member of the Socialist Party.

## 2. THE PERFORMANCE OF THE LYON METROPOLIS

### *The French second city in a European context*

- 2.1 Although the national territory has always been over dominated by Paris, three main second tier cities, namely Lille, Lyon and Marseille, could claim to come second after the capital. In the last decade, it has become clear that Lyon was the “winner”. This can be partially substantiated by recent comparative data showing that Lyon has indeed become the second metropolitan area of France after the Ile de France. However, this enviable position at the national level has not provided Lyon with a similar situation at the European level, where Lyon occupies a relatively ‘average’ rank.
- 2.2 The urban area of Lyon (AUL) shows a relative population dynamism as it can be seen from table 1 below. Indeed, between 1999 and 2007, it has grown on an annual rate of 0.8%, similar at the Marseille area but definitely more than Lille (+ 0.2%). Only Toulouse has increased annually more (+ 1.9%) but it is a much smaller area (0.9 million inhabitants).

**Table 1: Population AUL, région Rhône-Alpes et France (1982-2007) (in millions)**

	LYON	REGION	FRANCE
1982	1.449	5.015	54.492
1990	1.551	5.346	56.709
1999	1.648	5.640	58.623
2007	1.757	6.121	62.200

Source: INSEE

**Table 2: Lyon (AUL) in comparative regional national and European perspective (in %)**

	2007
Pop Lyon./pop Rhône-Alpes	28.7
Pop Lyon/pop France	2.8
Pop Lyon/pop UE 27	3.5
GDP Lyon/GDP Rhone-Alpes	34
GDP Lyon/GDP France	3.3
GDP Lyon/GDP UE 27*	0.4

\* Lyon Nuts 3 in PPS

Source: Eurostat, OECD

2.3 In terms of GDP, Lyon (Nuts 3) had in 2005 (the last available data) a total GDP of about €57 billion compared to €60.4 billion for Lille and €53.7 billion for Marseille. However in terms of GDP per capita, Lyon had the highest (€ 34,257) by far above Marseille (27,818) and Lille (23,567). Comparison is the same if one takes GDP per person employed (see table 3).

**Table 3: Total GDP, GDP per capita and GDP per person employed, Lyon, Lille , Marseille (NUTS 3) in 2005**

	Total GDP € billions	GDP per capita €	GDP per person employed €
Lyon	56,9	34,257	74,613
Lille	60,4	23,567	63,831
Marseille	53,7	27,818	71,803

Source: INSEE

- 2.4 If we consider the AUL, its 2007 GDP was €62 billion that is about one third of the regional GDP and its 2007 GDP per capita was €35,700 compared to €30,601 at the regional level.
- 2.5 The second position of the Lyon area is confirmed by many other indicators. In the 2003 European comparison made by DATAR and using a complex set of 15 indicators of metropolization, Lyon was ranked 17 out of 62 cities in Europe but Marseille was ranked 23 and Lille 39. Regarding French cities, only Paris performed better.
- 2.6 In terms of general connectivity, using ESPON and OPALE<sup>3</sup> sources, in 2004 Lyon had a score of 126 (European average being 100) against Lille (120) and Marseille (107). Its airport (Lyon Saint Exupéry) is the third in France after Paris and Nice, Nice enjoying a specific status by being the airport of the French and Italian Riviera. In passenger traffic, Lyon Saint-Exupéry is before Lille and Marseille. It has grown from about 4 million passengers in 1993 to 6 million in 2001 and 7.7 million in 2009, while Marseille was 7.3 and Lille only 1.1.
- 2.7 The supremacy of Lyon is also significant in the hosting of international congresses. In 2009, while Lyon had hosted 39 events, Lille had only hosted 18 and Marseille 14.
- 2.8 Regarding employment, the AUL represents 32.2% of the regional total and about 3.2% of the national total which indicates a slight increase since 1999 (respectively 31.5% and 3.1 %). The AUL has an employment rate (64.8%) slightly lower than the regional one (65.7%) but slightly higher than the national average (63.7%).
- 2.9 However, if Lyon is the second city of France, its position at the European level is less favourable. In a recent comparative report (November 2010), the OMPREL presents a somewhat 'intermediate' situation.

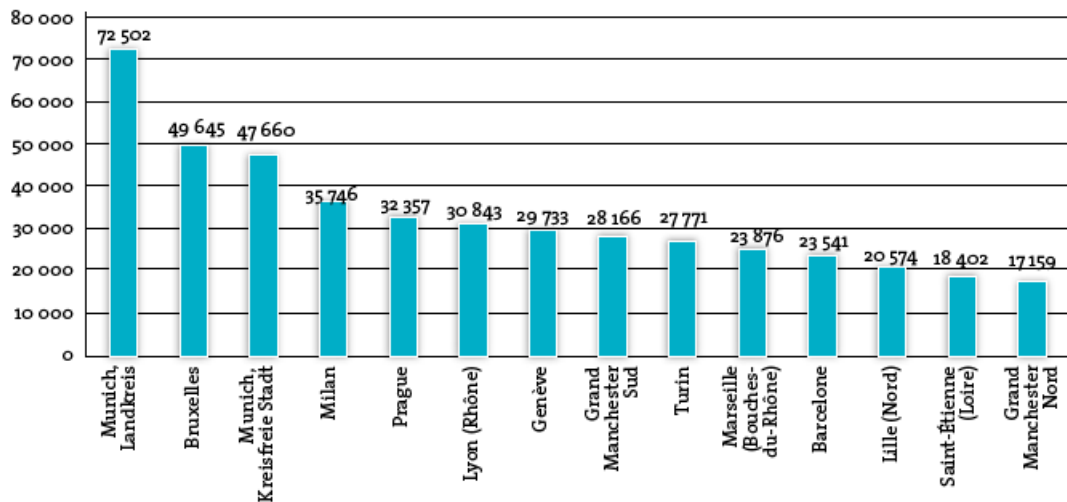
<sup>3</sup> OPALE : *Observatoire PArtenarial Lyonnais en Economie* (Partnership for the observation of the Lyon economy), created in 2000 by the major local authorities, chambers of commerce, development agencies and business organizations of the metropolitan area.

Map 6: The cities to which Lyon compares itself (OMPREL, 2010)



2.10 In terms of GDP per capita, the Lyon are (Nuts 3) is lower than Munich, Milan and Prague but higher than Barcelona, Geneva, Turin and Manchester (see table 4 below ).

Table 4: GDP per capita in PPS

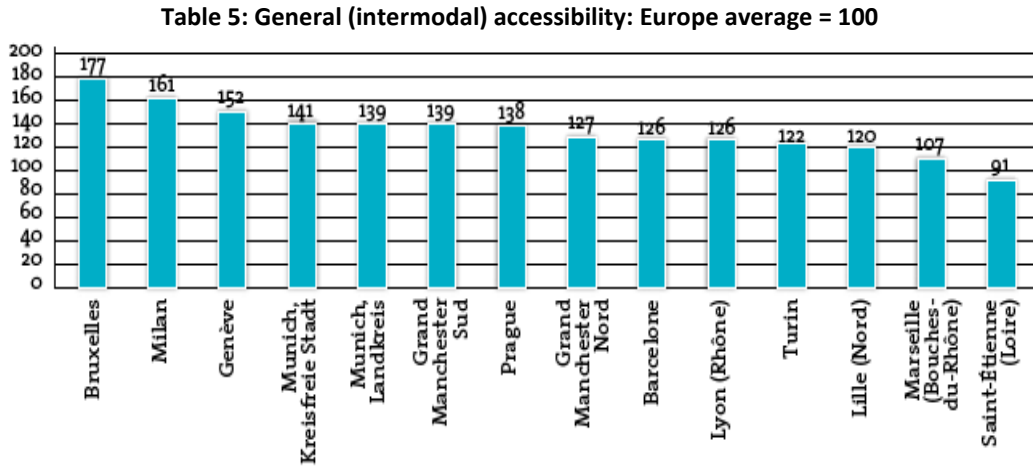


2.11 In the same ranking mentioned above by DATAR (2003), Lyon is lower than Milan (5), Barcelona (6) and Munich (11) but higher than Geneva (26), Turin (33) and Manchester (36). One significant difference between Lyon and some of its major ‘rivals’ is the absence of headquarters of Fortune 500 firms in the city. While Munich stands with 6 such headquarters, Barcelona with 2 and Turin with 1 (FIAT), Lyon has none. Worst, Lyon lost some of these headquarters in the last decade to the benefit of Paris or other European cities.

2.12 In terms of hosting international meetings (Source: Union of International Associations), Lyon is by far over passed by Geneva (181) and Barcelona (115) while it is at about the same level as Munich (41) and definitely higher than Turin (14).



2.13 Finally, in terms of connectivity with the outside world, the situation of Lyon is considered relatively good. Indeed, Lyon’s score is 126 which ranks it at the same level as Barcelona, lower than Milan (161), Geneva (152) or Munich (141) but higher than Turin (122) (see table 5). However, as we shall see, the general score hides significant modal disparities.



Source : Opale à partir de Espon, 2004

2.14 For instance, if air connectivity is limited because of the poor development of the Lyon airport (with a score of 124, Lyon is only higher than Turin; although Lyon airport is the third in France, it is only 49<sup>th</sup> in Europe), rail connectivity is much higher (with a score of 162, Lyon is higher than Milan, Geneva, Turin, Barcelona, equals Munich and is only outranked by Lille and Brussels), this largely being explained by the good services offered by the high speed train lines. (OMPREL, 2010).

***A still solid economy but subjected to heavier competition carried out by closer cities: tertiarization, strong industrial base, good population skills***

2.15 Contrary to metropolitan areas like Turin, Lyon has not been affected by strong changes in the last 15 years. The tertiarization of the economy has been gradual and much less significant than in cities like Lille, heavily hit by the industrial crisis or like Toulouse which represents the emblematic service sector oriented area in France. Detailed data regarding the evolution of the Lyon’s economy are many but their nature vary according to the area covered (the Grand Lyon, the SCOT, the AUL or the RUL) and the time period, so that it is not easy to clearly substantiate the tertiarization process in details. However, they all converge to show that i) the Lyon’s economy is becoming more service oriented and ii) the industrial share remains significant.

2.16 The two tables below clearly show a relatively slow process of tertiarization as a whole although it has been more marked in specific sectors such as in FIRE and personal services.

**Table 6: Employment by major sectors, Aire Urbaine de Lyon (AUL): 1999-2007**

	1999	2007
Agriculture	1,2	1.0
Industry	19,8	16,6
Construction	5,3	6,4
Commerce	13,4	14,0
Tertiary non commercial	60,3	62,0

Source: INSEE

**Table 7: Employment and employment evolution (2002-2007) by sectors (AUL)**

	% 2007	Evolution 2002-2007 (%)
Agriculture	1	
Industry	17	- 6
Construction	6	+ 17
Commerce	14	+ 5
Transport	6	+ 7
FIRE	21	+ 14
Personal services	35	+ 11

Source: Agence d'Urbanisme de Lyon

- 2.17 The de-industrialization has been significant. Between 1992 and 2007, the AUL lost 18,200 industrial jobs. At the RUL level, the loss was even stronger with a decline of about 12% between 2000 and 2006. At the same time, the sector of business services increased by more than 28,000 jobs between 1993 and 2009 in the SCOT area. Between 2000 and 2006, the service sector grew by 10% in the RUL area.
- 2.18 However, in spite of this tertiarization process, the industrial sector remains strong. With about 17% of jobs in 2007, the AUL's economy is the most industrial of French big cities (CCIL, 2009). This is all the more so if one includes services linked with industrial activities which today represent about 23% of employment, more than the France and the regional rates (respectively 21.1% and 18.3 %). If in 2007, the Lyon area accounts for about 3% of the national total employment, it represents 7% of France industrial total (CCIL, 2009).
- 2.19 Not only industry is still significant, but it is considered a sector which must be strengthened. It is not anymore thought as a problem but as an asset in the development of the metropolitan area. The 2009 white paper of the Chamber of Commerce of Lyon (CCIL) strongly called for a new industrial policy at the RUL level which the policy of Poles of competitiveness (see section 4 of this report) started to implement.
- 2.20 In the last decade, the level of skills of Lyon's population has significantly increased as it is shown in table 8 below.

**Table 8: % population over 15 by degree level: AUL, 1999 and 2007**

	1999	2007
No degree	18.3	17.7
High school level	45.1	36.2
BAC <sup>4</sup> level	13.2	15.9
BAC + 2	11.0	13.6
Over BAC + 2	12.4	16.6

Source: INSEE, 1999 and 2007 census

- 2.21 Lyon has a very good reputation for its professional training schools, engineering schools and universities and as such has attracted many people in the last decades. This attraction has also been the result of recent development in the Higher educational system (PRES and RTRA).
- 2.22 As a result, Lyon (RUL area) is well positioned at the national level for innovation. It comes third after Paris and Grenoble for European patents (2192 patents for the 3 year period 2003-2005), Marseille being far below with only 866 patents and Lille 718 (OMPREL, 2010). The region Rhône-Alpes, with Lyon and Grenoble, is indeed the second region in France for

<sup>4</sup> BAC which stands for Baccalauréat is the final exam of high school which permits to enter the university.

R&D investment. In 2005, it ranks 4<sup>th</sup> in Europe in the number of jobs in the R&D sector (80,000), 5<sup>th</sup> for spending (about 4 billion Euros), 27<sup>th</sup> for the number of patents per habitant and spends 2.7% of its GDP in the R&D sector (Roux, 2008).

- 2.23 All these elements have produced a rather solid economy with its strong points in specific sectors such as bio-techs, medical sciences, logistics, textiles and chemical industry. The Lyon's economy is still dynamic and has shown a significant resilience to the present crisis, notably because of its diversity and the growth potential of several economic sectors, notably those involved in the major poles of competitiveness (see section 4).
- 2.24 But at the same time, Lyon has been submitted to heavy competition, notably from Eastern Europe. Indeed, the fall of the Berlin Wall in 1989 has opened a new era for the metropolis because "competition has thus become closer". New competitors have emerged and new investments, notably in industrial sectors, have been made in Eastern European cities to the detriment of the Rhône-Alpes metropolis. Today Lyon has difficulties in maintaining command centers of firms. When they get bigger, they usually prefer to move to Paris or other European capitals (Geneva, Randstad).

***An average performance in terms of quality of place and social environment***

- 2.25 As in many metropolitan areas, the quality of life and of social environment much depends on where people live. For certain elements, to live in the core area offers amenities which are not present in the suburbs and the reverse is true for other elements. Lyon does not differ from that rule but the lack of data on these aspects does not help in picturing an adequate image. Most of the quantitative and qualitative information on these aspects are derived from the SCOT diagnosis, a document approved in 2010 and these information come from various and heterogeneous sources (SEPAL, 2010).
- 2.26 On the positive side, one can stress the significant change in the physical aspect of the central city. With the upgrading of the historical center, and its subsequent recognition as a Unesco world heritage in 1998, the cleaning and transformation of the banks of the rivers, the development of big urban projects (see section 4), the development of festivals and fairs of national and European fame in the domains of culture and technology (Biennale de la Danse, Fêtes des Lumières, etc.), Lyon has slowly but surely changed its image. It is no longer perceived as a traditional, somewhat obscure and bourgeois city. Modernity and innovation as well as quality of life (the French capital of gastronomy) can now be associated with the name of Lyon. True, this change of image cannot be compared with the success of Barcelona or even Turin, but it is there.
- 2.27 Second, the conditions of mobility have significantly improved in the central part of the urban area. Today, Lyon has the better public transport system in France after Paris. Metro and street-car lines have been created and extended. With over 300 trips per capita in public transport, Lyon is the first city outside Paris for public transport use. On the territory of Grand Lyon, car use significantly declined over the last decade (from 52% to 47% of total trips between 1995 and 2006). Regarding rail services, Lyon has a very good coverage with 56% of the Grand Lyon population being at less than 5 km from a railway station and 23% at less than 1 km. More, Lyon was pioneer in France (and likely in the world!) to propose a bike renting scheme, Velo'v in 2005, later imitated in Paris with Vélib.
- 2.28 Cost of living in Lyon is not very high by European standards. Indeed, housing costs are even attractive, Lyon being significantly less expensive than Milan, Geneva, Barcelona, Munich and even Prague (source: UBS, 2009). Purchasing power remains high compared to city like Milan or Barcelona and is even almost the same as in Munich (UBS, 2009).

- 2.29 If in addition one mentions that the average household disposable income increased by 9% over the 1989-2005 period, and that the unemployment rate of the Lyon area has almost always been lower than the regional and national rates (see table 9 below), one could think that life in the Lyon area is not so bad.

**Table 9: Unemployment rate (%): AUL, region and national: 1999, 2007, 2010**

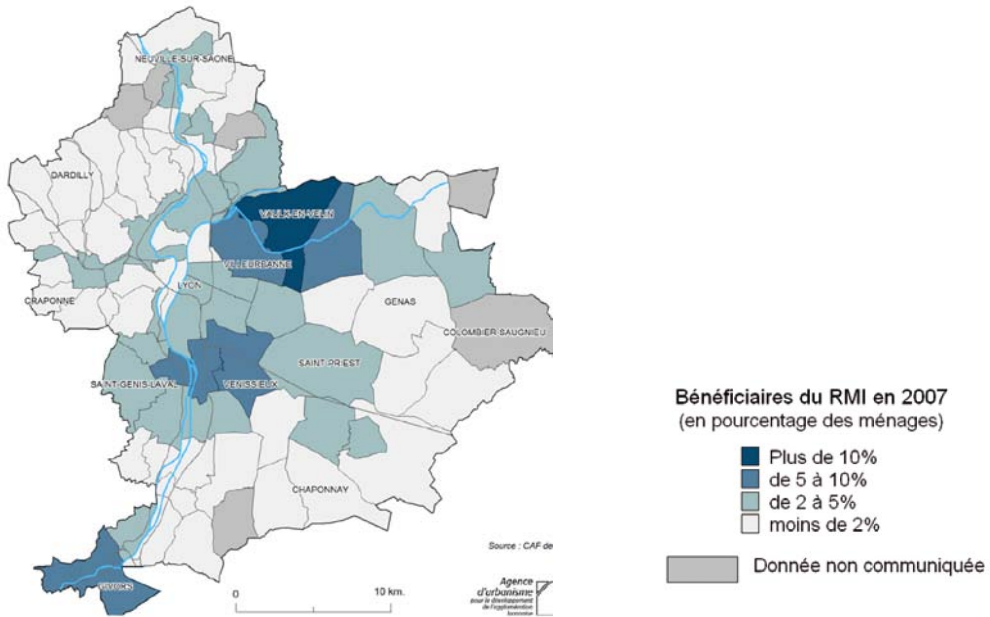
	1999	2007	2010
<b>AUL</b>	7.9	7.2	n.a
<b>Region</b>	10.0	7.0	8.4
<b>France</b>	12.4	8.0	9.3

Source: Insee

- 2.30 This is only the bright side of the coin however. First because as mentioned earlier many of these positive elements can mostly be enjoyed if one lives in the center of the metropolitan area. Indeed, if transport conditions have improved, they have improved in the Grand Lyon area. Outside, the situation has worsened. Traffic congestion has increased, notably because the ring road has not been completed and the western section of the by pass which would permit to avoid the central part of the Lyon area is still under discussion. On the environment side, air quality due to traffic pollutants has also worsened.
- 2.31 If the cost of living in Lyon is not high by European standards, this does not concern the 'natives'. Indeed, by French standards, housing costs in Lyon are high. Lyon is the fourth most expensive urban area in France for renting prices (after Aix, Grenoble and Rennes). In the last 15 years, housing costs have significantly increased to the extent that middle class and working class households had to live further and further from the city center and from their work. This has obviously a strong negative impact on their daily commuting distance and time.
- 2.32 Regarding social conditions, the situation is difficult. The Lyon area presents a picture of a strengthening of social and territorial disparities. For many, Lyon is known for the first important urban riots which occurred in the eastern suburbs (Venissieux in 1981, Vaulx en Velin in 1990). Since then, in spite of the 'Policy for Cities' initiated in the early 1980s by national Governments, the situation has not significantly changed.
- 2.33 In Lyon the East-West divide is still very much present (see maps below). In a caricature way, the west is rich and the east is poor and the poorest parts remain those where the riots started a few decades ago.
- 2.34 But if social and territorial disparities are significant, they are also increasing. Low income households benefitting from the Minimum Income Scheme (RMI) have doubled between 1993 and 2007. Unemployment is increasing and is not evenly distributed over the Grand Lyon area. For instance, while the Lyon employment zone had an unemployment rate of about 10% in 2006, the rate was almost 18% in Venissieux and 8% in Lyon.

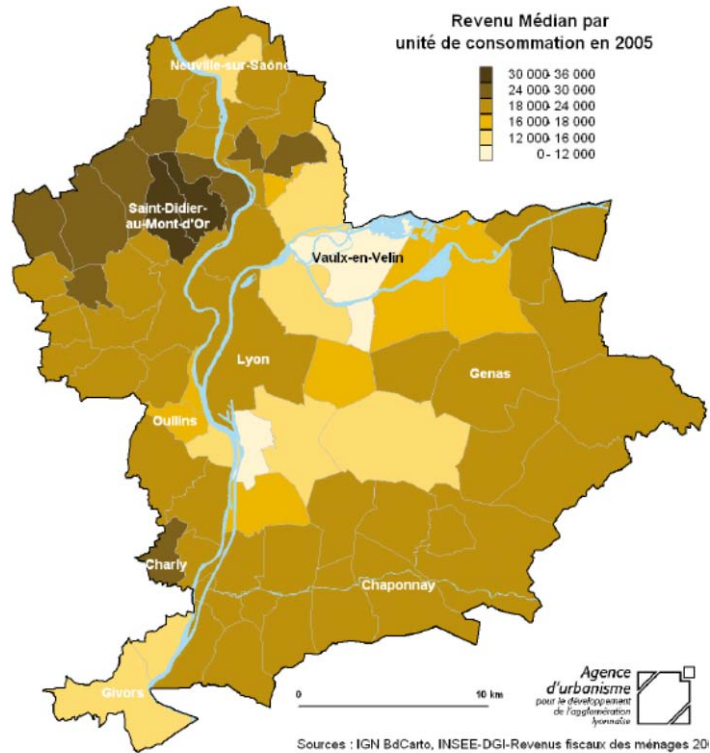
**Map 7: Number of households (in %) benefitting from the Minimum Income Scheme in 2007**  
(the darker, the higher)

Nombre de ménages bénéficiaires du RMI en 2007



**Map 8 : Median income per household in 2005**  
(the darker, the higher)

Evolution des revenus des ménages



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### 3. POLICY CONTEXT

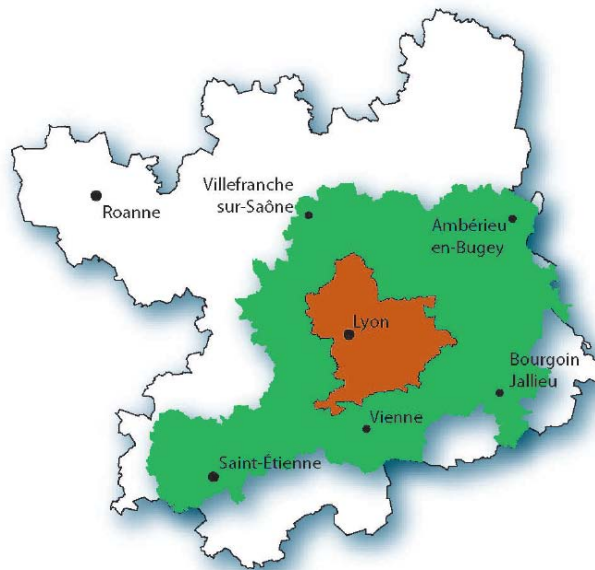
#### *The institutional framework: Metropolitan cooperation within an unfinished decentralizing process*

##### *The national institutional context*

- 3.1 France is territorially organized in 3 local government levels: the municipality (*commune*), the *département* (county or province) and the region. It is a unitary State which means that there is only one power, the national State. As a consequence, there is no hierarchy among local governments, the region is not above the *département* and the *département* is not above the municipalities.
- 3.2 The decentralization process initiated in the early 1980s has distributed powers and resources on a 'package' basis (*blocs de compétences*). Theoretically, municipalities are responsible for local planning, social housing, economic development, public transport; *départements* are responsible for social affairs and the regional level (regional council) is responsible for professional training, regional planning and regional public transport. To fulfil all these tasks, each governmental tier shares part of local taxes (business tax, property tax, etc.) and receives subsidies from the national State. On the average, local governments hold substantial financing autonomy. About 50% of their budget comes from local taxes and State subsidies come generally on a block grant basis.
- 3.3 In practice, the specific allocation of responsibilities among local governments has not worked well and the 'package' system has given place to a somewhat mix of responsibilities and consequent financing. This has been so because each local government has de jure responsibility over all policy domains (general competence) on its own territory. It is therefore common place that all local government levels intervene in some ways in the same domain. However, in terms of financing capacity, *départements* and municipalities are richer than regions. It is therefore true to say that decentralization has given more powers and resources to municipalities and *départements* than to the regions which remain weak governments.
- 3.4 In addition to the three governmental tiers mentioned above, one must include the various joint authorities established by local governments to manage many various tasks. These joint authorities are not local governments per se because they are not administered by directly elected officials and because they can only take responsibilities for specific competences delegated to them either by local governments or by law. Generally speaking, these joint authorities are ruled by councils composed of representatives of municipalities based on their population weight. Executives of these joint authorities are then elected among these representatives. This system allows – very often but not always – the mayor of the central city to become the president of the joint authority.
- 3.5 Although not benefitting from a directly elected executive, these joint authorities are becoming stronger and stronger, notably the most 'integrated' ones like the *communautés urbaines*, that is those which are responsible for many policy sectors with the subsequent budget assigned to them. Because France is very much fragmented by its 36,500 municipalities and because any metropolitan area is covered by tens or hundreds of municipalities, joint authorities have multiplied and have been in charge of an increasing number of policy sectors. In the largest urban areas they are de facto the most important institutional player at the local level. This is the case in Lyon.
- 3.6 Although Decentralization has been on since about 30 years now, the State remains a very powerful actor at the local level. For one thing, it stills controls many policy sectors such as health, education, research and development, transport. Second, the French State is a
-

Napoleonic State which means it possesses a powerful local administration in charge of implementing these very policies. This administration is significant at the *département* and regional levels. Third, the State intervenes in the funding of many projects and participates to the financing of local policies through the Region-State Project Agreement (*Contrat de projet Etat-Région – CPER*), a financial instrument which sets up the responsibilities of funding for projects and policies declared of a common interest between the State and local governments. In the Lyon area, it also intervenes through a special planning instrument, the Territorial Planning Guidance (*Directive Territoriale d'Aménagement – DTA*) which sets up the planning priorities of national government regarding infrastructures declared of national interest (map 9 below). Finally the State is important because of its legislative capacity. As such it has been crucial in the establishment of institutional innovative instruments which have played a significant role in the governance of the Lyon area, such as the creation of *communautés urbaines* in the 1960s, the new planning instruments at the urban area level such as the *Schéma de Cohérence Territoriale – SCOT* at the end of the 1990s and early 2000s and the 'Metropolitan poles' today.

**Map 9 : The SCOT area (brown), the DTA area (green) and the RUL area (white)**



*The institutional organization of the Lyon metropolis*

- 3.7 Three major local governments are concerned by the urban area of Lyon: the municipalities, the Rhône *département* and the region Rhône-Alpes. Among the 100 municipalities which cover the urban area, Lyon is the most important one. It gathers about 460,000 inhabitants. However, several other municipalities are significant such as Villeurbanne (140,000), Venissieux (60,000) or Vaulx en Velin (40,000). In that context, the municipality of Lyon does not over-dominate its urban area and, although being the largest *commune*, needs to accommodate with other municipalities of its periphery, notably Villeurbanne which has always been a bastion of the left, while Lyon was controlled by conservative parties until 2001.
- 3.8 Lyon has a budget of about €855 million in 2011. and a staff of about 8,000 persons.
- 3.9 The Rhône *département* has a total population of 1,689,000 inhabitants and covers 3,249 km<sup>2</sup>, grouping 293 municipalities. Its 2011 budget amounts to about €1.7 billion., the bulk of it being used for social affairs (51%) and economic development (21%). It is politically led by

the conservative party but by a very small and decreasing margin since the last election of march 2011.

- 3.10 The region Rhône-Alpes has a population of 5.9 million people. It is composed of 8 *départements*. It has a budget of €2.4 billion. The regional council is politically controlled by the Socialist party which leads a center-left coalition with the Greens and the far left (Leftist Front). It has a staff of about 6,400 persons.
- 3.11 The urban area is also administered by several joint authorities. The Grand Lyon *communauté urbaine* is by far the most important one. Other joint authorities covering a larger territory than the Grand Lyon can be found. The most important ones are concerned with public transport (SYTRAL, whose members are the Grand Lyon and the Rhône *Département* and which covers 65 municipalities) and planning (SEPAL, whose members are the Grand Lyon and two other joint authorities, all covering 72 municipalities). The budget of the SYTRAL is about € 670 million.
- 3.12 The Grand Lyon covers 58 municipalities including the central city, Lyon. It groups about 1.3 million people. It is responsible for many tasks: public transport, planning, water treatment, waste management, environment, economic development, culture, all competences delegated by law by the municipalities (i.e. they have to delegate those competences). It is administered by a council composed of the representatives of the 58 municipalities. It is chaired by a president elected among the municipal representatives. G. Collomb, the mayor of Lyon, is also the president of the Grand Lyon.
- 3.13 The Grand Lyon has a budget of about €1.8 billion which is the largest budget controlled by a local government in the metropolitan area. It has a staff of about 5,000 employees.

***Lyon's specific players: Chamber of commerce, big firms and the Metropolitan Planning Agency.***

*The Chamber of Commerce (CCIL).*

- 3.14 In France as in many other European countries (Spain, Germany, Netherlands), chambers of commerce are public corporations and are considered exclusive representatives of the business sector by public authorities. As such, they are financed by local taxes and their membership is mandatory. In exchange for their status, they must produce public services (registration of firms, participation in various courts, etc.). Chambers of commerce are thus important players.
- 3.15 The Chamber of Commerce and Industry of Lyon (CCIL) is one of the oldest CCI in France. It was created in 1705 by Louis XIV. Its members are the 67,500 enterprises of the Rhône *department*.
- 3.16 The CCIL is an important economic player of the Lyon area. It participates in the management of the two main airports (Saint Exupéry and Bron), it manages the largest exhibition park (Eurexpo) and administrates several business schools. It takes part in many public-private structures and is de jure present in many councils, committees, working groups having to do with economic development and territorial planning.
- 3.17 Its total 211 budget is about €50 millions and it employs about 400 persons. These figures concern the CCIL itself and not the many structures and agencies it controls or is involved in (business schools, Eurexpo, etc.).



*Big business*

- 3.18 Although most of national or international headquarters of big firms have moved from Lyon to Paris or other capital cities in the last decade, Lyon still holds important business people, notably in sectors like industry (Chemicals and Trucks) or pharmacy and bio-technology. Firms like Total, GDF-Suez, Sanofi Aventis, Rhodia, Bio-Merieux, Boiron are still major players in the economic development of Lyon. They are very active in the Medef, the CCIL and the Aderly but they also play an influential role in policy making through various think tanks or business clubs such as the Club de l'OURS (OURS standing for Ouvrages, Urbanisme, Reflexion, Societé – Works, Urbanism, Thinking, Society).
- 3.19 The Medef (which stands for *Mouvement des Entreprises de France*) is the largest business association and represents the biggest firms. It has a membership of 10,000 enterprises in all business sectors.

*The Metropolitan planning agency*

- 3.20 Like in all French urban areas, Lyon has a planning agency (*agence d'urbanisme*). Created in the 1960s like almost all planning agencies of large urban areas, the Lyon planning agency is in charge of elaborating the master plan (SCOT), helping small municipalities to produce their local plans, making studies concerning the various topics related to territorial development.
- 3.21 The planning agency of Lyon is controlled by local authorities of the metropolitan area. It plays a significant role in the various initiatives regarding territorial governance (see section 4) since it is the technical structure of the Grand Lyon.

***The role of the State: the example of R/D policies***

- 3.22 If the State remains an important player in the territorial development of the Lyon metropolis as we have mentioned previously, in the last 5 years it has intervened in specific policy sectors crucial for economic development, such as R&D and innovation policies. Although these policies will be developed in the next section, it is important here to present the national framework through which they are being implemented in Lyon.
- 3.23 In the very recent years, the French Government has launched several initiatives to develop the economic competitiveness of the national territory. 2 initiatives are worth mentioning here: the poles of competitiveness policy and the policy of concentration and regrouping in the university and research sectors.

*Poles of competitiveness*

- 3.24 The policy of “poles of competitiveness” was launched in 2004 as an essential element of the French industrial policy. “Poles of competitiveness” can be largely associated with high tech clusters in the sense that they are defined as areas combining firms, education and training centers and research units. The idea was to favour the partnership between those players in order to produce R & D projects of a national or international “visibility”.
- 3.25 In order to do so, in 2005, central Government launched a bid asking local players to get together and propose a partnership structure along with a development project. 105 applications were received and the State selected 67 of them. 15 of them were declared clusters of global status or global potential, the rest of national or European interest. The Lyon area has got 5 of them out of 13 for the Rhône-Alpes region.
- 3.26 For the whole policy, central Government gave €1.5 billion for the first 3 years (2005-2008). This amount is mostly for funding the projects presented by the various players located in R&D areas but the State intervenes also with tax abatements and bonus rate loans for SMEs

in the same areas. In 2009, the State decided to pursue the policy of “poles of competitiveness” by extending the funding for an extra 3 years (until 2011).

*PRES, RTRA, etc.*

- 3.27 In 2006 the State initiated a profound reform of the national university and research system. In order to enhance the attractiveness of existing ‘big university areas’, the idea was to constitute big research centers by the grouping of existing research labs, university departments and graduate schools. To do so, a law was approved in 2006 to establish Higher Education and Research Poles (*Pôles de Recherche et d’Enseignement Supérieur* – PRES) and Advanced Research Thematic Networks (RTRA) over the national territory. The State set aside about €3 billions for the 2007-2013 period. As of 2011 there are about 10 PRES and 13 RTRA. Lyon has got 1 PRES and 1 RTRA.
- 3.28 In theory, the PRES and RTRA can be considered the academic instruments for the advancement of fundamental science, while poles of competitiveness are more directed to applied science and industrial innovation.

#### 4. WHICH POLICIES HAVE WORKED? HOW AND WHY?

- 4.1 In Lyon, two major elements have been in many ways directly responsible for the successes and failures in various policy sectors and both refer to the question of governance. Many local players are keen to emphasize the ability of local actors to “work together” as a key asset for the development of their metropolis. They also emphasize the Lyon’s culture of consensus and pragmatism and the good relations between the public and the private sector, what it is captured in the expression “the Lyon’s spirit”.
- 4.2 On the positive side, Lyon has been able to build a strong governance capacity at the level of the Grand Lyon and this has led to successful policies in several domains. However, the “Lyon’s spirit” has shown its limits because it has been confined to the territory of the Grand Lyon which is becoming too small for many actions and policies regarding territorial development.

***The “Lyon’s spirit”: Good public-private relations and pragmatic/consensual “leadership”***

*The good relations between the public and the private sector*

- 4.3 It is one thing to claim to have good relations between the public and the private sectors and another thing to demonstrate it. Although many cities have engaged into this rhetoric without being able to prove it, Lyon is indeed different. Not only this can be shown by the many structures, bodies and initiatives of partnership developed in the last decades but more so by the significant place given to the private sector in these structures.
- 4.4 The first of these initiatives has been the creation of the ADERLY (*Association pour le Développement Economique de la Région de Lyon* - Agency for the Economic Development of the Lyon region), the Lyon’s development agency. ADERLY is likely the oldest urban development agency in France since it was formed in 1974. Its major partners are on one hand local authorities (Grand Lyon and the Rhône *département*) and on the other hand representatives of business (Chamber of Commerce and Medef). The participation of the Medef as a true partner and the importance of representatives of business who play a significant role in the governance of the ADERLY and are major contributors to its budget are somehow exceptional in France where usually local development agencies are controlled by local authorities. It is also highly symbolic that the ADERLY is physically hosted in the building of the chamber of commerce.

- 4.5 The ADERLY has always been very active in the international promotion of Lyon and has acted as an inward agency for the Lyon metropolis from the very beginning. It was one of the first development agencies to open representations abroad (such as in New York and Tokyo). It represents Lyon in development salons and congresses, manages the Lyon World Trade Center. It has been very dynamic in the production of economic policies and reflexions since its creation.
- 4.6 Its total 2011 budget is about € 5 million, 2 millions being financed by the CCIL, 1.5 by the Grand Lyon, 1.2 by the Rhône *department* and 0.3 by the Medef. It employs about 40 persons.
- 4.7 A second initiative is more recent but more comprehensive. It is called “*Grand Lyon, l’Esprit d’Entreprise* (GLEE) which stands for “Greater Lyon, the Business Spirit”. GLEE can be presented as a strategic platform for the territorial development of the Lyon area.
- 4.8 It started in 1997 with meetings of about 100 business leaders, local authorities and agencies (CCIL, ADERLY) getting together to produce a diagnosis of the Lyon’s economy. Following this activity, the GLEE was formed in 2000 by Grand Lyon, the university of Lyon, the CCIL, the Rhône Chamber of trade<sup>5</sup>, the Medef and the CGPME<sup>6</sup>. It is a “process” of economic governance aiming at anticipating and reacting to the challenges of globalization and of the development of the knowledge economy.
- 4.9 GLEE works through a slogan “What brings us closer is what distinguishes us” (*Ce qui nous rapproche nous distingue*) through 6 objectives: i) to create and develop business, ii) to bring closer and innovate, iii) to strengthen poles of excellence, iv) to promote the metropolitan territory, v) to plan and manage the territory and vi) to produce a sustainable development.
- 4.10 GLEE is a process of economic governance showing a good pragmatic balance between formal and informal attitude. Its managing structure is composed of the presidents of each partner institution. They meet twice or 3 times per year. At the technical and administrative level, the heads of the various structures concerned by territorial development (e.g. the General Delegate for Economic and International Development of the Grand Lyon) meet on a regular basis at least 6 times per year. These meetings not only bring together the various partners but also related bodies such as the ADERLY, the Metropolitan Planning Agency, etc.
- 4.11 As we shall see, GLEE has had significant positive results in terms of policies. An assessment of its performance was made in 2007 by a private consulting firm. To sum up, it was said that the “bringing together” was successful but it was not good enough to make Lyon “distinguishable”. It was acknowledged that the GLEE has had a good and consensual political steering, a good practice of governance, had been successful in solving some of Lyon’s serious economic problems such as the deficit in business creation but that a strategy was needed in terms of economic development (see section 5).
- Pragmatic/consensual political leadership*
- 4.12 Lyon is a city which has always been governed at the center. This statement reflect the political leaning of the last leaders of the city and consequently of the Grand Lyon. Whatever the political affiliation of the mayor, his political behaviour has always been to look for consensus. Indeed, Lyon and the Grand Lyon are politically led by the constant search for consensus. “Preference is given to negotiated arrangements” (Boino, 2010).

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<sup>5</sup> Chamber of trade (*Chambre des métiers* in French) : a public corporation representing the self employed or very small enterprises.

<sup>6</sup> CGPME (*Confédération Générale des Petites et Moyennes Entreprises*) : General confederation of SMEs

4.13 Although the mayor of Lyon is considered the ‘natural leader’ of the metropolis, this is an abstract concept in the sense that no mayor, except M. Noir (1989-1995) but without success, has acted as such. In practice, the mayor of Lyon has always recognized that he depended too much on the voluntary involvement of other public and private institutions to play the role of leader. This means that cooperation is in general not hierarchical (the mayor of Lyon and President of Grand Lyon does not consider himself over the others), and that cooperative arrangements have tended to reinforce the capacity of action of partners without questioning their autonomy. Although this has proved useful to produce collective action at certain territorial levels and in some policy sectors, it has also shown its drawbacks as we will see in the second part of this section and in section 5 of this report.

4.14 Until 2001, Lyon had largely been in the hands of the conservative parties but with a usually moderate and open attitude towards the opposition, within the municipality of Lyon as well as with adjacent local authorities. The present mayor, G. Collomb, is socialist. He was elected in 2001 and successfully re-elected in 2008. At the same time, he won the presidency of the Grand Lyon. However, like his predecessors, he has developed a consensual type behaviour well illustrated by the political role of the Grand Lyon vis a vis the 58 member municipalities in the elaboration of the master plan (SCOT).

4.15 The SCOT is a legal document which has a de jure power over local plans (*Plan Local d’Urbanisme* – PLU) which must be consistent with it. However, the SCOT was produced in such a way that local plans have a de facto autonomy. This was done by the setting of 9 geographical conferences of mayors in the Grand Lyon territory through which negotiations were carried out between municipalities and the Grand Lyon and where the decisions of municipalities generally prevail. This process was managed by the Lyon planning agency.

*Policy impacts*

4.16 The strengthening and structuring of the relations between the public and the private sectors have had significant impacts on several policy sectors. We will take three examples of specific policy sectors where this impact seems to have been important in the recent years: i) economic development and promotion; ii) R&D and innovation and iii) big urban projects

*Economic development and international promotion*

4.17 The economic diagnosis of Lyon, produced in 1997 was the basis for the Economic Development Scheme, a document stating the major difficulties and policy directions of Grand Lyon in the economic domain. In 2003, the first General Conference of the Lyon’s Economy (*Etats Généraux de l’Economie Lyonnaise*) was launched. These activities gave birth to two major actions: the launching of the Lyon, *Ville de l’Entrepreneuriat* (Lyon, City of entrepreneurship) project in 2001 and the ONLY LYON promotion campaign in 2007.

4.18 Lyon, *Ville de l’Entrepreneuriat* is a network principally funded by the Grand Lyon whose purpose is to encourage entrepreneurship. The first meetings of the GLEE emphasized the deficit of Lyon in business creation compared to the national level. GLEE decided to mobilize the business sector and notably SMEs to find ways to facilitate the creation of firms. Among many actions, it launched the Entrepreneurship Fair in 2004 which has since become the second in France after Paris. As a result, between 2001 and 2006, the Lyon area increased its business creation rate up to 20%, largely above the national rate of 15.6% (GLEE, 2008).

4.19 In 2007, the ONLYLYON campaign was launched. ONLYLYON is the new city brand not only of the city of Lyon but also of the whole urban area. Its aim is to promote Lyon’s assets and “to present Lyon as a model of economic development for other cities in Europe”. ONLYLYON is managed by the ADERLY for the GLEE, the Tourist office of Lyon and Eurexpo, the exhibition centre managed by the CCIL. To reach its objective ONLYLYON works with ‘ambassadors’ who are business leaders, researchers, artists. AS of 2011, they are 700.



- 4.20 From 2007, ONLYLYON has been the banner under which local authorities, the chamber of commerce and other business representatives have promoted the Lyon area in European and international fairs and congresses and have organized specific ones dedicated to the promotion of Lyon such as in Brussels, as well as a European advertising campaign in several important European airports. As such it represents a success in achieving a common promotion when this activity was very much fragmented among local authorities and players before.
- 4.21 Other products/results of the partnership between the public and private sectors were the creation of OPALE in 2000, the launching of the website, [www.lyonbusiness.org](http://www.lyonbusiness.org), or in a more sectoral dimension, the development of Pollutec. Pollutec is an international fair of new technologies and services linked with the environment issues for industries and local authorities. Created in 1986, its development was considered important by the GLEE in its 6<sup>th</sup> objective (to produce a sustainable development). It has since become the first world fair about solutions for environmental pollution with 51,000 visitors and about 2,500 exhibitors representing 42 countries in 2010.
- R&D and Innovation*
- 4.22 Lyon has been very successful in the various projects it proposed to the new R&D policies of the State. This is no wonder considering that one of the objectives of GLEE (to bring closer and innovate) was to bring firms and research centers closer. Regarding the poles of competitiveness, the urban area of Lyon was successful in getting 5 poles. It also got 1 RTRA and 1 PRES.
- 4.23 Having 5 poles of competitiveness is considered a big achievement for the Lyon metropolitan area and the reason advanced for this are the good relations between the public and private sectors which have permitted to produce excellent applications. The 5 poles of competitiveness of the Lyon area concern principally its traditional economic sectors: biology (Lyon Biopole), chemicals (AXELERA), transport (Lyon Bus and Trucks - LUBT) and textiles (TECHTERA). The 5<sup>th</sup> one regards the multimedia industry (IMAGINOVE).
- 4.24 Among the 5 poles, 1 (Lyon Biopole) was declared of a world status, another one (TECHTERA) was declared of a world potential and the 3 other ones were considered of a national status. In 2008 following a positive assessment of the policy of Poles of competitiveness, this policy was extended until 2012 when a new assessment will be made. Regarding Lyon, the 2008 assessment was very positive. The 5 poles were among the 39 (out of 66) to have reached their objective and beyond (BCG and CMI, 2008). Axelera first envisaged as a pole of a world potential was even proposed to receive the world status. Since 2008, data regarding poles of competitiveness have been partial. Nevertheless, the 5 Lyon's poles can be considered successful.
- 4.25 Lyon Biopole is a cluster whose concern is infectiology. It gathers on one hand national research centers based in Lyon and depending on the National Research Scientific Council (CNRS), on the National Atomic Center (CEA), the National Institute for Health and Medical Research (INSERM) and the university of Lyon; on the other hand, big firms and SMEs in that sector (Bio Merieux, Sanofi-Pasteur, Merial). In addition, the region Rhône-Alpes, the Rhône *département* and the Grand Lyon are the main local public funders. With more than 2,500 researchers in the domain of infectiology (50% of them being in the private sector) the

objective of Lyon Biopole is to become one of the three world clusters in the domain of infectiology. In 2010, this meant over 7,300 jobs.

- 4.26 With and increase from 50 in 2008 to 85 members in 2011, Lyon Biopole is presented as a success. Since its establishment, many companies have been created (notably 14 in 2007 which was the highest number), 63 research projects are being implemented. In 2009, over 100 million Euros were invested (1/3 coming from the private sector).
- 4.27 AXELERA is a cluster whose concern is the link between the chemical industry and environment. It groups on one hand National research centers (CNRS and French Institute of Petrol – IFP), big firms such as Total, Rhodia and GDF-Suez, the ministry of Industry, Grand Lyon, the Rhône-Alpes region and the Rhône *département*. It gathers about 3,000 researchers and 1,350 Ph.D students. It produces about 1,300 engineers every year and 470 patents. Its ambition is to become one of the 5<sup>th</sup> more important clusters in that domain in Europe.
- 4.28 This sector was significantly affected by the 2008 crisis (it went from 21,000 jobs in 2008 to 16,400 in 2009) but has been able to create several new companies. In 2011 it has over 200 members (40% of which are SMEs).
- 4.29 The 3 remaining poles have worked rather well. For instance, LUBT which gathers the Lyon Chamber of commerce, Grand Lyon, the National Research Center on Transport (INRETS) and Renault Trucks had 79 members in 2008, 85 in 2009 and over 110 in 2011. 3 new companies were created in 2009 and 66 million Euros were invested in research projects. TECHTERA whose purpose is to innovate in the production of technical textiles, groups an increasing membership among which 82% are firms. IMAGINOVE was created in 2007. Today it gathers over 200 members of the multimedia industry, essentially small firms but also local authorities, 18 public and private professional schools and 6 public research labs.
- 4.30 The Lyon area has also 1 PRES and 1 RTRA. The PRES, created in 2007, gathers 18 graduate and post graduate schools and universities from Lyon and Saint-Etienne, all grouped under the banner of the “University of Lyon”. Although most of these schools and universities are public, some like the Lyon Business School are semi private because they belong to or are linked with chambers of commerce. As such the new “University of Lyon” brings together 120,000 students, 11,500 researchers, 5,000 Ph.D students, 230 research labs. It is the largest university pole outside the Paris-Ile de France region.
- 4.31 The Lyon RTRA, constituted in 2006, focuses on infectiology and therapy. It was thought as a research pole upstream to Lyon Bio-pole. It works through a foundation which groups the pole of competitiveness Lyon Bio-Pole with other research centers and labs (like the National Research Institute of Agronomy). Its main activities are in the funding of academic chairs, new teams of young and promising researchers, international promotion, etc.
- 4.32 One successful example of these various initiatives was the creation in 2006 of Lyon Science Transfert (LST) whose slogan “From innovation to market” clearly states its objective. The roles of LST are to make researchers aware of the necessity of valorisation of their work, to detect inventions in research partners, to transfer innovations towards social and economic actors and to manage intellectual property.
- Big urban projects*
- 4.33 Lyon’s economic and political elites have always been keen to state that they are able to work together and that this has had tangible results, emphasizing for instance the production of big urban projects. Indeed, today, about 10 big urban projects are being built in the Lyon

area and they will significantly change the physical aspect of the city as well as comfort its image of an active metropolis.

- 4.34 The construction and implementation of the Part Dieu project in the 1970s was the emblematic example of the capacity of Lyon “to plan and build big urban projects”. Part Dieu is today the second business center in France, just after La Défense in Paris. It hosts about 2,200 firms and 40,000 jobs. The aim of the Grand Lyon is to make Part Dieu the “hot spot” territory of its economic strategic, which means a significant extension of the existing project (Agence d’Urbanisme de Lyon, 2010). While this is just a starting project at the time of writing, several other important urban projects are being implemented and are presented as the shop window of Lyon’s capacity to produce them.
- 4.35 The mayor has always been at the forefront of these projects. For him, they represent a good way to promote Lyon internationally and he has personally defended them (Le Point, 2011). Almost all of them have been planned and implemented in strong dialogue with the private sector, developers as well as investors. For instance, the Cité Internationale, a major urban support for the international strategy of Lyon, built by Renzo Piano, launched in 1989 and achieved in 2006, saw the active involvement of business leaders (Boiron, Mérieux) through a ‘council of competence’ transformed into an ‘international council of Lyon’ years later (Linossier, 2010).
- 4.36 Generally speaking, the private sector is considered the operational and economic engine of these projects, the public sector being in charge of public spaces, amenities and accessibility (e.g. public transport). However, there is a ‘pragmatic strategy’ labelled “business implantation scheme” (*Schéma d’implantation des entreprises*) through which the Grand Lyon has established guidelines for the location of new firms. This ‘pragmatic strategy’ is not to be seen in any written documents but it proposes to allocate firms to specific urban areas and projects depending on their economic sector of activity in order to produce clusters. It has been established in close dialogue with business.

***The limits of the “Lyon’s spirit”***

- 4.37 As we have seen, the “Lyon’s spirit” has allowed some successes in certain policy sectors. However, it seems to have reached its limits or to have proved inadequate in producing actions and policies to deal with important issues. Two elements of the “key drivers of the economy” are of particular relevance here: territorial governance and connectivity.

*The attempts to upscale Territorial strategic governance and their disappointing policy results*

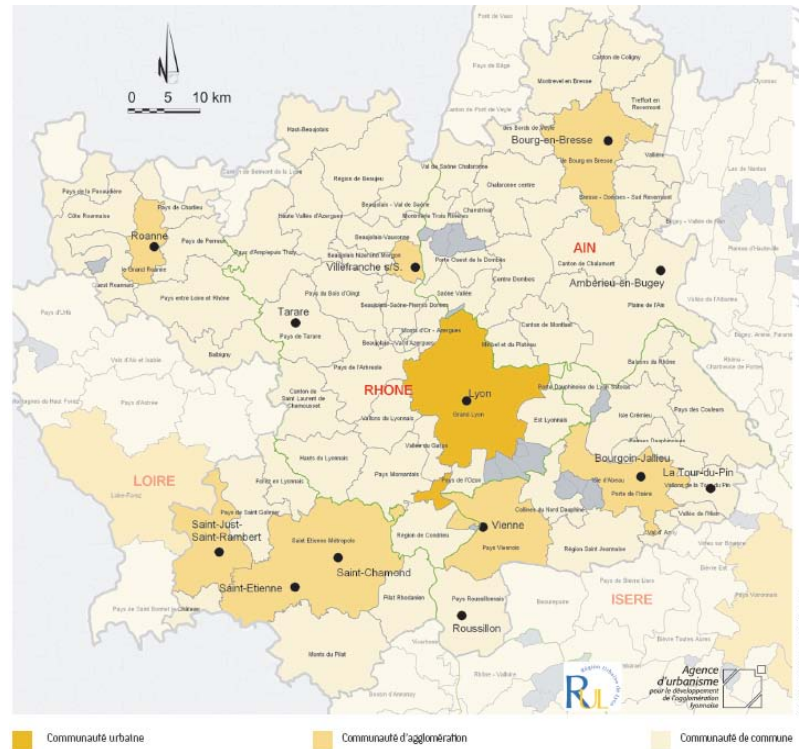
- 4.37 The Lyon area is famous in France for its innovation in territorial governance as we have already mentioned in the introduction of this report. In the last three decades, several initiatives have been made in that domain. Although they seem to have been successful in the sense that structures and processes up-scaling governance have been set up, it remains to be seen whether these structures have been able to produce adequate policies or to address issues for which they have been considered appropriate.

*The various attempts: 1989-2011*

- 4.38 Three major initiatives have been tried in the last decade: i) the creation of the RUL (Région Urbaine de Lyon); ii) the Inter-Scot process and iii) the construction of a Pole Métropolitain (Metropolitan Pole).

4.39 The RUL was created in 1989 by the then mayor of Lyon, M. Noir. It is an association of local governments whose purpose is to develop a dialogue between local governments, elaborate strategies and initiate projects at the metropolitan scale. At the beginning its institutional members were the Grand Lyon and the 3 *départements* of Ain, Isère and Rhône. In 1992, the Loire *département* joined the RUL. It was followed by the region in 1996. In 2002, several joint authorities ((Saint-Etienne Métropole, Vienne, etc.) were added and in 2005 new ones (Roanne) became members. Today the RUL covered 810 municipalities and groups about 3 million people.

**Map 10: The territory of the RUL and the various local governments**



4.40 The RUL is a light body. Its status as an “association” means that it is not a local government but a mere structure of dialogue with no political status. It is co-chaired by the President of Grand Lyon and the President of the Regional council. Its budget is small, about €0.7 million in 2010. Its staff is 4 people.

4.41 The Inter-Scot process started in 2002. Following the Planning Act of 2000 which instituted new planning documents for urban areas, the Grand Lyon launched a process to elaborate its new master plan, the SCOT (*Schéma de cohérence territoriale* – Territorial Coherence Plan). The SCOT is a planning document covering 72 municipalities (58 of the Grand Lyon and 14 adjacent *communes*) It is an ‘umbrella document’ because it must give a territorial coherence to all existing sectoral plans (public transport, housing, environment, economic development, etc.). However, it was acknowledged, from the very beginning, that the territory covered by the SEPAL, the joint authority in charge of the SCOT, was too small to address the planning challenges of the metropolitan area. To compensate for this situation, it was decided to initiate a process of cooperation regarding a much larger territory, the Inter-Scot process.



Map 11: The 11 Scot of the Lyon metropolitan area

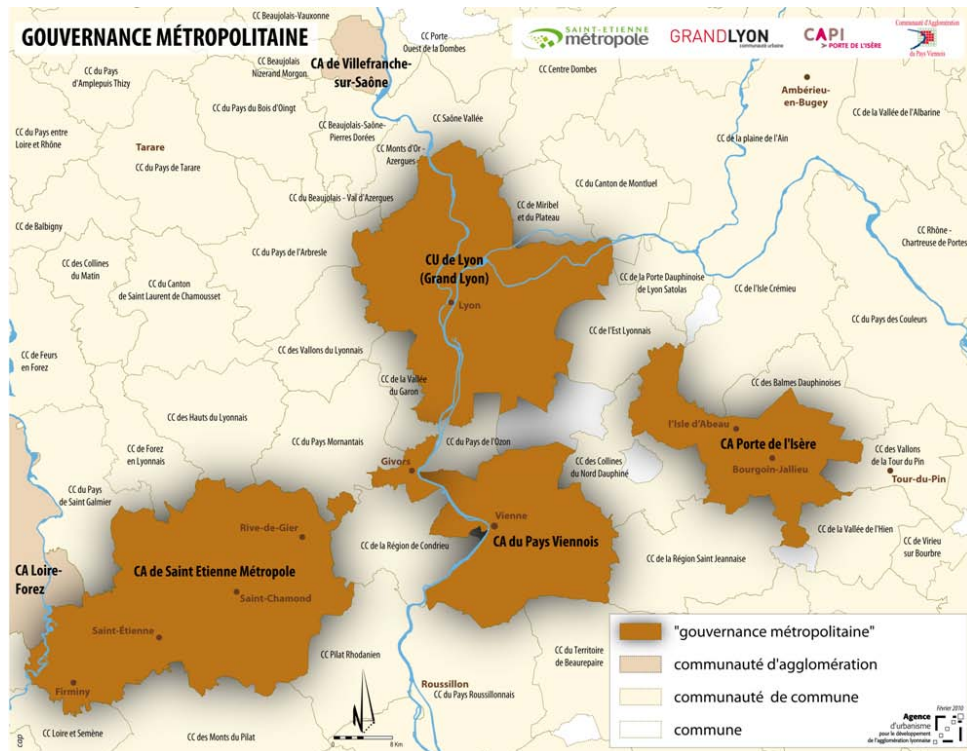


- 4.42 Following a convention signed by the 11 planning authorities of the metropolitan area in 2004, several meetings were organized to work on a diagnosis of territorial challenges. This process has been monitored by the Metropolitan planning agency of Lyon and politically controlled by the presidents of the 11 joint authorities. In 2010, the SEPAL and some other joint authorities of the metropolitan area approved their own SCOT in the framework of the Inter-Scott process. The Inter-Scot area covers 795 municipalities (of which Lyon and Saint-Etienne) and groups 2.9 million people.

*The “Pole Métropolitain” is the new initiative to upscale the governance of Lyon.*

- 4.43 In 2009, the President of Grand Lyon approached the presidents of two major joint authorities, Saint-Etienne Métropole and CAPI (Communauté d’Agglomération des Portes de l’Isère) to launch a new cooperation process in the domains of economic development, culture, transport, planning and the future of the Saint-Exupéry airport (see below). The 3 joint authorities signed a cooperation agreement in early 2010.
- 4.44 Following the December 2010 Local Government Act, the mayor of Lyon decided to create a Metropolitan pole with the major joint authorities of the metropolitan area and it was agreed to open the cooperative agreement to a fourth partner, the agglomeration of Vienne, south of Lyon (see map 12). A metropole pole is a new type of joint authority established by the 2010 local government Act. It will have responsibility over economic development, culture, planning, transport, research and development and higher education. It should group more than 300,000 inhabitants.
- 4.45 Today, the process is on. The future metropolitan pole should group about 2 million people and 139 municipalities belonging to 4 joint authorities. Its present starting budget is about 150,000 Euros.

Map 12: The metropolitan pole in 2011



*Poor or disappointing results*

- 4.46 By and large, the results in terms of policy making of these various attempts to upscale the governance of Lyon have been poor or disappointing.
- 4.47 The experience of the Urban Region of Lyon (RUL) in the domain of policy making is a story of strong political involvement by the then mayor of Lyon, M. Noir, in the early 1990s followed by a lack of political support up to now. M. Noir wanted the RUL to become a decision making body for metropolitan wide policies. He founded it and took the leadership. In 1995, the Charter of Territorial planning and development of the RUL, RUL 2010, was produced and it was a policy making project. After the disappearance of M. Noir from the Lyon's political scene in 1995, the RUL has become a 'non decision making structure'. It is a space for dialogue, exchange of ideas. It is also a structure which helps to produce metropolitan wide data and information (as such it is part of OMPREL). However, the RUL produced detailed reflexions and proposals dealing with significant issues in specific sectors such as in public transport coordination, in logistics, in tourism or sustainable development but these reflexions have not been transformed into policies due to a lack of political support by the mayor of Lyon.
- 4.48 The result is rather similar with the Inter-Scot process. Presented as an organisational innovation in public policies, this process has been rather limited after almost 10 years of efforts. The only tangible result is a common chapter written in the introduction of each 11 SCOT documents. One could say it is a big achievement considering the diversity of opinions and positions regarding planning stakes over this territory of 795 municipalities and 11 joint authorities. Others would say it is almost nothing because it has not put any collective constraints on the development of areas covered by each SCOT. The fact remains that the

Inter-Scot process has been essentially a technical or administrative process. Political leadership, notably that of the mayor of Lyon, has lacked.

- 4.49 For the 'Pole Métropolitain' it is obviously too soon to tell. However the modalities of its future creation are already posing problems. First because it will not gather all local authorities relevant to elaborate and implement metropolitan policies. To give just an example, the Saint-Exupéry airport is not located in its territory but in another joint authority, the *Communauté de Communes de l'Est Lyonnais* which is not part of the future pole (see map 13). Second, the region Rhône-Alpes and the concerned *départements* (Rhône and Isère) cannot be part of the metropolitan pole because its membership is limited by law to joint authorities only. In that context, it seems difficult for the future pole to implement adequate metropolitan policies or actions without the support of the 'missing' local governments.

*The failures of multi-level governance and its policy impacts: Connectivity*

- 4.50 The question of connectivity is crucial for the territorial development of any metropolitan area. In the Lyon's case, many problems still persist and many important infrastructures of transport are still lacking or are still uncompleted, the rail by pass for goods, the west section of the ring-road, not to mention the Lyon-Turin link among others. All of these projects have proved difficult to realize because of multi-level governance problems. In that regard, two projects are particularly relevant to show the impact of the failure or difficulties to build an efficient multi-level governance: the development of the major airport and the implementation of a multi-modal public transport network at the RUL level.

*The difficult development of the Saint Exupery airport: the no airport policy of the various players.*

- 4.51 The major airport of Lyon, Lyon-Saint Exupéry, is located 25 km of Lyon, outside the territory of Grand Lyon, in an area controlled by the *Communauté de Communes de l'Est Lyonnais* (CCEL) a joint authority within the Rhône *département*. As the airport is a strategic infrastructure, it also concerns the Grand Lyon.

**Map 13: The Saint-Exupéry airport in the Lyon metropolitan area**



- 4.52 Two main issues regarding the airport have not been dealt with or have been badly addressed in the last decade: the connection between the airport and the city of Lyon and the development strategy of the airport.
- 4.53 The Saint-Exupéry airport is well connected nationally and internationally by rail thanks to the high speed train line since 1994. However, it is badly connected with the regional and

local public transport network. This has been partly solved with the introduction of a direct express rail line between the airport and the Part Dieu center in 2010, the so called Rhône-Express, which serves the airport in about 30 minutes. However, this rail link, exclusively financed by the Rhône *département*, was not planned in cooperation with Grand Lyon and is not integrated in the public transport network of the area (poor connection with the tramway and bus networks).

- 4.54 More important are the difficulties around the development of the airport and the airport area. The general objective of various local players (Grand Lyon, regional council, etc.) is to develop the airport. However, the airport is controlled by the State. It is indeed managed by a public corporation, *Aéroports de Lyon*, with the following distribution of shares: 60% for the State, 25% for the CCIL, 15% for local authorities (Grand Lyon, Region and Rhône *département*) evenly divided. In 2013, it is very likely that the airport will be privatized, the State selling all its shares.
- 4.55 In that context, local players emphasize the fact that the State, along with Air France, the national company, does not really want to develop the Lyon airport or at least not to the detriment of Roissy Charles de Gaulle, the Air France and national hub in the Paris region. In short, the development of Saint-Exupéry is largely dependent on the strategy of Air France which is an international and national strategy where the Lyon airport does not play a significant part. So far, no real discussion has ever taken place between the various players, national and local, about the development of this important infrastructure. However the airport has nevertheless been modernized and extended in the recent years because of the necessity to accommodate its slow but gradual traffic growth.
- 4.56 Problems are also major regarding the development of the airport area. Here again, positions are various and no discussions are seriously taking place to achieve a common policy, nor to say a shared strategy.
- 4.57 On one hand, the DTA (Territorial Planning Guidance) which is one of the State instruments to indicate State's planning priorities, clearly established the necessity to develop the airport area but in a somewhat 'conservative', not 'pushy' perspective. The Grand Lyon also expressed the same objective as well as other local authorities. However, in practice the situation is different. For the Grand Lyon, the development of the airport area is necessary but it must not be done to the detriment of the development of other urban projects such as Part Dieu. The airport not being on the Grand Lyon territory, it is clear that the mayor of Lyon is giving priority to Part Dieu. However this priority is decided without discussion with other local players and without a policy framework, on an ad-hoc basis.

*Public transport: The difficulties of upscaling: the case of REAL*

- 4.58 REAL which stands for *Réseau Express de l'Aire métropolitaine Lyonnaise* (Express network of the Lyon metropolitan area) is a project which was launched in 2005. It is a complex project aiming at the development of public transport over the whole metropolitan area that is the RUL more or less. Development of public transport meant a few specific things such as fare integration between rail, metro, streetcars and buses, upgrading of stations, improvement of headways on many services, etc.
- 4.59 It is a complex project because not less than 12 public transport authorities are concerned with several local governments involved such as the region, the *départements*, the Grand Lyon, Saint-Etienne Métropole and other joint authorities. To add to this complexity, one must count with the national companies such as the SNCF and RFF (*Réseaux Ferrés de France*).

- 4.60 REAL was launched with a somewhat light coordination institutional arrangement (Arab et al, 2008) which has allowed some actions and progress of the project but today progress is slow, notably on significant points such as fare integration.
- 4.61 The reasons for this situation are many but a major one is the inadequacy between a light ‘governance type’ arrangement, working on an ad-hoc basis and issues which require more solid political and institutional instruments in order to be tackled. This is the case with fare integration because it involves significant and durable financial contribution of each concerned local government. In that respect, the Lyon’s spirit and its policy modalities does not seem to be sufficient to further the project.

**5. CITY PROSPECTS**

5.1 As a whole Lyon has many assets and has known how to retain and develop them. However, in spite of these assets, its position in the international and European competition – which it clearly acknowledges by stating that its general objective is to enter into the top 15 of European cities – is still fragile. In many ways Lyon is at a crossroad and to strengthen its position the metropolis needs to make progress in at least two areas: the production of strategies and the up scaling of its governance.

*A relatively solid economy but becoming more fragile because of an increasing competitive market*

5.2 The objective of entering the top 15 of European cities has not been achieved yet. Although there is no such thing as a general and approved European ranking of cities, we can use the OMPREL ‘treatment’ (below) to substantiate the fact that Lyon has not significantly improved its position in the last years and remains more or less at around the 20<sup>th</sup> place in Europe.

**Table 10: Lyon in some European rankings**

	Classement													Variation 2009/ 2008	Variation 1990/ 2009	Variation 2000/ 2009
	2010	2009	2008	2007	2006	2005	2004	Datar 2003	2003	2002	2001	2000	1990			
Barcelone	5	4	5	4	4	5	6	6	6	6	6	6	11	+1	+7	+2
Murich	9	7	9	9	9	9	8	11	10	11	10	10	12	+2	+5	+3
Milan	11	10	13	10	12	11	11	5	9	8	11	8	9	+3	-1	-2
Genève	14	11	11	12	20	18	17	26	14	15	12	16	8	0	-3	+5
Manchester	12	16	14	18	21	15	14	35	13	19	14	13	13	-2	-3	-3
<b>Lyon</b>	<b>19</b>	<b>19</b>	<b>18</b>	<b>17</b>	<b>24</b>	<b>24</b>	<b>21</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>20</b>	<b>18</b>	<b>18</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
Prague	21	21	19	14	13	13	13		17	16	21	21	23	-2	+2	0
Lille	Nd	Nd	Nd	Nd	Nd	Nd	Nd	39	Nd	Nd	Nd	Nd	Nd	Nd	Nd	Nd
Marseille	Nd	Nd	Nd	Nd	Nd	Nd	Nd	23	Nd	Nd	Nd	Nd	Nd	Nd	Nd	Nd
Turin	Nd	Nd	Nd	Nd	Nd	Nd	Nd	33	Nd	Nd	Nd	Nd	Nd	Nd	Nd	Nd
Valence	Nd	Nd	Nd	Nd	Nd	Nd	Nd	35	Nd	Nd	Nd	Nd	Nd	Nd	Nd	Nd

Sources : Rapports european cities monitor ; Datar, les villes européennes 2002 ; repris, complété et traité par l’OPALE

5.3 Lyon enjoys a relatively diversified economy but it is still hesitating between keeping a generalist productive structure and embarking into specialization. In the last decade, it has tried, with some success, to be more specialized and can now offer a specialization in 4 or 5 sectors. It possesses a high qualified labour force and enjoys excellent universities and

graduate schools. The city has also slowly but gradually succeeded in changing its image and is not anymore considered solely as a bourgeois, industrial and industrious city but also as a more dynamic, modern and creative one. The Lyon's spirit has been successful in providing Lyon with a physical change of its urban fabric, notably throughout big projects, and in the building of a strong governance at the Grand Lyon level. The urban area holds also another asset which it may not recognize enough: by European standards, Lyon is relatively not expensive in many domains and its land and property market, notably for business, is attractive.

- 5.4 But Lyon has also some important weaknesses. Economically speaking, it lost all its headquarters of its largest firms in the last decade. Although these firms remain present in Lyon, their command posts are no longer there but have moved to Paris or other European major cities. This inability to keep these global players makes many economic actors afraid that the city may become a back office of Paris or of other major European urban areas. Other important weaknesses concern the still incomplete infrastructure network, notably regarding the airport and highways, that does not seem on the verge of being completed or significantly improved.

***A questionable capacity to produce the necessary strategies at the appropriate territorial level***

- 5.5 Lyon is now facing two major challenges that it must address if it wants to improve its territorial development. First, it has to produce strategies, second these strategies must be made at the adequate territorial level. In both domains, the capacity of Lyon to address these two challenges seems questionable.
- 5.6 The Lyon area is 'full' of 'strategic documents like the SCOT or the various schemes (Schéma d'accueil des entreprises, Schéma de développement économique, etc.). However, most of them are of a very light strategic dimension, that is not strategic enough to direct economic investment on sector or territorial priorities. In a way, this light strategic dimension is the result of the Lyon's spirit because it is the consequence of the fact that "Preference is given to negotiated arrangements". Having a clear economic development strategy embedded in territorial priorities would mean to have to choose, to select. It would mean, for instance, to select economic sectors or sub-sectors that should receive priority, to choose territories that should be more economically specialized. This would signify taking risks, defining priorities, accepting possible conflicts due to disagreement with the choices made. This would also signify to have a true political leader, assuming the policy option taken. This is not the case in Lyon because this would be contrary to the Lyon's spirit.
- 5.7 However, we believe this is what should be done. Although it is true that such strategic capacity is seldom to be found in European cities, the Lyon's case provides a rather opposite situation where the lack of a strategy seems to be sought when elsewhere it is often the result of the incapacity of a system of actors to produce it.
- 5.8 An important challenge for Lyon is its capacity to produce strategies because it is no longer possible – as long as globalization and international territorial competition are considered the general framework and context of territorial development – to maintain its economic position without them. As resources have been more and more limited, notably in terms of space (land availability for development) and money, priorities must be given. For instance, what kind of development should be made around the airport and in the Part Dieu area in order to avoid competition between both areas? This is a question which should be addressed and answered and this is what a strategy would do.

- 5.9 To be visible at the international level and to be viable, specialization must be decided and accompanied in order for some economic sectors to achieve the necessary size and prosper. In that context, strategies are necessary because they legitimize priorities and give sense to policies and actions. Because it is no longer possible for Lyon to maintain a generalist economy or to develop too many economic sectors, because it is no longer possible to finance too many urban projects and equipments, strategies are necessary. But in Lyon, they seem unlikely in the near future.
- 5.10 The “Lyon’s spirit” seems also unable to address the second big challenge regarding territorial governance.
- 5.11 It is true that by international standards, Lyon benefits from an already ‘metropolitan’ authority, the Grand Lyon *Communauté Urbaine* and that this can be considered an asset in comparative terms at the international level. But at the same time we have shown first that even in this old institution, municipalities have remained in control and that political leadership is weak, second that Grand Lyon is not anymore the appropriate scale of governance of the metropolitan area, with respect to economic development at least.
- 5.12 As we have seen, in Lyon we find many arenas of dialogue and debate occupying the political scene whose aim is to go beyond the Grand Lyon area. On one hand, the existence of these arenas could be considered a sign of a capacity to up-scale the governance of the metropolitan area. But on the other hand, when one looks at the policy results of these various initiatives, they have not proved adequate to produce actions and policies able to tackle the major stakes and challenges that the urban area has to face.
- 5.13 One major reason for this is that there are some political conflicts or mistrust between local governments and that these governance arrangements are in a way ‘trapped’ into these conflicts: conflict between Lyon and suburban municipalities, conflicts between Grand Lyon and the regional council, conflicts between Grand Lyon and the Rhône *département*, mistrust between Grand Lyon and Saint-Etienne Métropole, etc. In that political context, it seems only possible to create ad-hoc, low profile governance arrangements. A second reason for this is the fact that these arenas are rivals and that none of them has been able to become legitimate enough as a decision making instrument. Another reason is that political leadership has not been invested in them on a durable period. As a result, all these arenas seat there, waiting for a political leader to use one of them. The story of Lyon shows that the only political leader who tried to use one of them, M. Noir, mayor of Lyon at the beginning of the 1990s, did that because “he was at odds with the culture and history of Lyon” and he failed.
- 5.14 In the Lyon metropolitan area, the mayor of Lyon and President of Grand Lyon is the “natural” political leader. His leadership is not contested as long as it remains respectful of the autonomy of other local governments. The result is a weak political leadership which does not seem able to up-scale the governance of the metropolitan area with adequate political instruments to successfully produce the necessary policies. It goes without saying that this is also true for strategies.

## 6. POLICY MESSAGES

- 6.1 The economic history of Lyon is relatively “flat” compared with many other metropolitan area of our panel. No trauma, no big changes. Lyon seems to keep on its traditional development path based on its traditional sectors. Nothing much risky but a somewhat solid economy, very much resilient to the current economic crisis, a trajectory well captured and produced by the “Lyon’s spirit”. However, it remains to be seen whether this specific

behaviour which has conducted the city to its present relative prosperity will be sufficient to maintain the development of Lyon in the future. It is in this context and in the framework of this question that the following policy messages and comments must be understood.

***National policies matter***

- 6.2 In a way, French second tier cities have been the locus of national policies for quite a long time. France had a strong national planning policy until the mid 1980s and throughout this policy it has equipped its major metropolitan areas in order to better balance its national territory against the development of Paris. Lyon has benefitted from these policies which have contributed to the improvement of public transport (the construction of the metro in the 1970s and the LGV connection in 1982) and of governance (the establishment of Grand Lyon *Communauté Urbaine* at the end of the 1960s). More recently, the national R&D policies and the planning intervention of the State (the DTA) have maintained the presence of the State at the metropolitan level.
- 6.3 However, State intervention does not mean State policies. This is particularly true in the last decade where national government programs have proved to be either unreliable, unstable and less significant than expected or promised. In addition, in some sectors like connectivity, the State has no national policy (this is the case regarding the Lyon airport as we have seen). Finally, since the last 5-6 years, the focus of national government on the Greater Paris area with explicit discourses and actions aiming at the development of the “only French global city” has produced some worries about the commitment of the State to develop a national system of competitive metropolitan areas<sup>7</sup>.
- 6.4 The Lyon’s political and economic elites have always been mistrustful regarding the State because they have been badly treated by the “Jacobinist and Parisian” State in their history. As a result, Lyon has always tried to rely on its own strengths and resources as much as possible and this remains so today. So, national policies do matter of course but as long as the State remains a significant and trustful partner, which is less and less the case in France today.

***Decentralization matters***

- 6.5 The territorial and institutional organization of France at the local level is often compared to a one thousand leave cake (*mille feuilles*), a cake made with many thin layers without links between them. As we have seen in this report, Lyon is a good illustration of this metaphor with municipalities, *départements*, the region, the State and many joint authorities acting on a same space. In addition, contrary to many countries in Europe, there is no hierarchy between local governments in France. The result has been a decentralization process, still unfinished and confusing in its allocation of responsibilities, resources and leadership.
- 6.6 In such a system, it is not so much that decentralization matters but that intergovernmental relations matter, not only between the State and local governments, but also between local governments themselves. The Lyon’s case study is thus interesting because it sheds some light about the importance of good intergovernmental relations for the development of a territory.
- 6.7 One could indeed say that the Lyon metropolitan area offers a good picture of good intergovernmental relations in a very complex political and institutional context. In a way, this is true. Many institutional partnerships have been established, many relevant actions and measures have been implemented to address important issues facing the city. However,

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<sup>7</sup> For a more detailed presentation of these programs, please refer to the national urban policies report about France.



it is clear that such institutional partnerships or arrangements have not proved sufficient to deal with many other matters because they have largely functioned on an ad-hoc, non decisional, basis. In that regards, the Lyon's experience emphasizes the importance of building decision making intergovernmental arrangements, a matter we will return to in section 4 below.

***Local factors matter***

- 6.8 In our problematic, we have defined the 'local factors matter' hypothesis as the importance of having a strategic capacity to manage external constraints. The Lyon's case study stresses two major external constraints that the metropolitan players are having difficulties to manage but which they have nevertheless tried to take into consideration.
  
- 6.9 The first one is the issue of the choice between maintaining a generalist economy or developing a specialized one. Lyon has always had a generalist economy but with strong industrial sectors. Today, most players acknowledge the fact that in a globalized competitive economy, Lyon does not have the means to maintain a generalist economy and consequently must move towards a multi-specialized one. In that context, managing external constraints means to address the issue of the selection of these specialized sectors. The current answer was to develop clusters related to the traditional economic sectors of the metropolitan area and to use the national policy of poles of competitiveness to strengthen them. However, many observers question the relevance of this 'strategy', emphasizing that Lyon has chosen the less risky option and worrying about the fact that a close by metropolitan area, Geneva, has also focussed on economic sectors very much similar to Lyon' (e.g. health) but with more resources and assets due to its location in Switzerland.
  
- 6.10 The second issue relates to the status and economic weight of Lyon in France and in Europe. As we have seen, the over domination of Paris over the other urban areas has not given place to important French metropolis by international or European standards. If Lyon is France second city, it is an average city at the European level.
  
- 6.11 In fact, Lyon has difficulties in positioning itself in the European scene and this has consequences on the strategies the metropolis must adopt to compete. On one hand, Lyon compares itself with Barcelona, Munich or Milan which by far are demographically and economically more important. In that respect, one can be sceptical about the relevance of this comparison and the strategies and policies that the metropolitan are must elaborate and implement to succeed in that arena. On the other hand, Lyon is an average European city which could use the assets of such a position to develop. In that respect, Lyon could play on factors such as the quality of life (not too expensive, close to natural assets) and its attractiveness due to its status as French second city (good universities and schools, good accessibility, etc.).
  
- 6.12 Regarding both issues, Lyon does not seem to be able to decide which path to take because local players do not have a clear and shared vision of the direction to follow. In that regard, the Lyon's case study tells us of the importance to have such a shared vision in order to manage external constraints by using local factors (traditional economic sectors, its position as the second French city, etc.). It also tells us that without such a shared vision, no strategic capacity can be build and that this is the result of the so called "Lyon's spirit".

***Territory matters***

- 6.13 Lyon is a very good illustration that territory matters. In Lyon, indeed, the necessity to upscale, that is to produce a strong governance system on a much larger space than the Grand Lyon area, has been recognized by many political and economic players. If Lyon wants

to enter the European top 15 urban areas, Grand Lyon is far too small. Lyon, as a polycentric metropolis, must join with other cities such as Saint Etienne in order to reach a size important enough to compete with other large European cities.

- 6.14 We have seen that many attempts (RUL in early 1990s, Inter-Scot in the 2000s, Metropolitan pole today) to reach such a political size have been tried in the last decades and that they have more or less failed. The Lyon's case study helps us to understand why and what are the main issues to address in that respect.
- 6.15 We believe that 3 major reasons explain the relative failures of the various attempts to upscale the governance of Lyon. First, these various attempts have become rivals in the sense that the Lyon area has been gradually over populated by political arenas which compete to become the legitimate arrangement through which policies and strategies could be decided. Such a rivalry precludes the capacity of each one to reach such a legitimacy. Second, these arrangements have been either established or politically invested in order to eliminate institutional players who are nevertheless necessary because they possess much needed resources. This is for instance the case with the metropolitan pole which de jure prevents the region and *départements* to be part of it. Third, all these arrangements have lacked political leadership; as we have seen, the mayor of Lyon and President of Grand Lyon has not played such a role.
- 6.16 Some policy lessons can be put forward. First, strategic territorial governance cannot be established without political leadership at the relevant territorial level (territorial leadership) and this political leadership is all the more difficult to establish when there is no hierarchy between local governments. Second, territorial leadership must be supported by senior governments (the State in the French case, regions or lander in other countries) if it is to succeed because it is a conflicting process which needs support from strong players. Third, territorial leadership needs also to be supported by other economic and social players. This has been the case with the Grand Lyon *communauté urbaine* which has built a successful alliance with business in the last decades. However, this has not been done at a larger level such as the urban region of Lyon (RUL).

***Additional comments***

- 6.17 Lyon seems to be prisoner of a geo-political situation which the city does not completely dominate. This context largely explains the difficulties and unsolved dilemmas of its development and allows us to stress two major elements when comparing Lyon with other metropolitan areas in Europe: i) the relevance of territorial configuration and ii) the difference between regional capitals.

*The relevance of territorial configuration: mono versus polycentric metropolis*

- 6.18 Lyon is located in a multi-polar urban system where it seats at the centre but which it is unable to control, politically and economically. In such a situation, the development of Lyon must be considered in a much larger context because Lyon is very much dependent on other urban areas, Saint Etienne of course but also Grenoble located about 100 km east.
- 6.19 First, although the city of Lyon is the largest of the Grand Lyon area, it only represents about 1/3 of its population and as such does not completely dominate the *Communauté Urbaine*. Second, at a larger level, it faces other important urban poles such as Saint Etienne at the RUL level and Grenoble at the regional scale.
- 6.20 These two urban poles are economically completely different and Lyon must take them in consideration when thinking of its development. For instance, Saint Etienne is an industrial city, still in crisis (it is considered a weak market city), but possesses a good university in

technical and industrial domains. Grenoble is one of the most “high tech” French agglomeration with important research centers (it registers more patents than the Lyon urban area) and universities of national, European and international reputation in several fields. As a consequence, the future development strategies/policies of the Lyon metropolitan area must also be thought in terms of complementarity with that of Saint Etienne but also Grenoble. This is definitely less the case with Barcelona, Munich or Turin which are more mono centric metropolitan areas.

- 5.30 In short, the territorial configuration of a metropolitan area (mono or poly centric) has a significant impact regarding policies to implement for its economic development. In a poly-centric configuration like in Lyon, the metropolitan area must ally with other urban poles in order to produce ‘shared’ policies which will supplement each other. However it is a much more difficult task than in a mono-centric area because it involves many more actors and a more socially economically and politically diversified territory.

*The difference between regional capitals*

- 6.31 Lyon is the capital of the Rhône-Alpes region. As such it hosts the regional council and many regional administrative bodies and agencies. However, Rhône-Alpes is a very large region and possesses other significant urban poles as we have seen. The Rhône-Alpes regional council is also very keen to balance the development of its territory by strengthening these urban poles.
- 6.32 As a consequent, we can define Lyon as a weak regional capital. Weak because regions are politically and financially weak in France. Weak also because Lyon does not politically nor economically dominate its region. This weakness must be acknowledged when comparing the development and the performance of the Lyon area with that of other regional capitals of our panel like Barcelona, Munich or Turin because as a weak regional capital, Lyon has less resources than strong regional ones and therefore has more the need to enter into cooperation with external players.



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## 1. INTRODUCTION

- 1.1 France has had a “national urban policy” since the early 1980s, illustrated by the so-called “*Politique de la Ville*” which can be loosely translated by “Policy for the City”. However, this well known policy is only a small part of the French urban policy whose major component concerns more re-spatialization measures. To understand the origins, contents and modalities of the French national urban policies, it is essential to appreciate the specific institutional and political context in which this policy is embedded.

### **Key administrative features**

- 1.2 The key administrative features of the French system have been well outlined in the ACRE report on urban issues in France. . It identified a series of key features.

### **Local government and decentralisation policies**

- 1.3 France, a unitary state, is one of the few countries in the European Union with *four tiers* of government - the State or central government, *Région* (22), *Département* (96) and *Commune*(about 36,000). There is a strong legacy of highly centralised political power, but *decentralisation policies* have been implemented in France since the early 1980s (under the Mitterrand presidency). Local government bodies progressively gained responsibilities in fields such as land settlement, economic development, urban policies or social care. Decentralisation policies gave the *Départements* and *Régions* far greater autonomy in decision-making by sharing administrative and budgetary tasks between central and local authorities. The 1982 law also made several changes concerning financing. Any transfer of State competence to a local authority must be accompanied by a transfer of resources (chiefly fiscal). In practice, local taxes have tended to rise.

- 1.4 There are *three main tiers of local government* (also referred to as local authorities) : the *Commune*, *Département* and *Région*. Legally speaking, a local authority is a public law corporation with its own name, territory, budget and employees, and has specific powers and a certain degree of autonomy vis-à-vis central government and its local representatives (the *Prefect* being the main one). Each tier of local government enjoys full autonomy vis-à-vis other local administrative levels. In other words, the *Département* or *Région* administration can hardly mix in the tasks and decisions of a commune. Each tier is managed by an assembly elected by the population (Commune: *Conseil municipal*; Département: *Conseil général*; Région: *Conseil régional*). The assembly then elects a chief executive and his/her deputies

### **The communes**

- 1.5 The commune is the lowest tier of the administrative structure. There are many more communes in France than in the other EU countries. The term ‘*commune*’ applies to *all municipalities* whatever their size – 80 per cent of them have fewer than 1,000 residents. Mergers are extremely rare, as both residents and local councillors often retain a strong sense of identity with their communes. This situation has led the government to encourage communes to group together in various forms of associations (*Communautés urbaines* or *Communautés d’agglomération*, *Syndicats intercommunaux*, *pays*, etc.), through several laws (1992, 1999, 2000). Like the department and region, the commune has a deliberative or decision-making body (*Conseil municipal*, the municipal council) and an executive (the Mayor), elected by the municipal council. The Mayor is both the commune's elected authority and the State's representative in it. The number of municipal councillors is proportional to the population. Municipal councillors are elected for six years by direct universal suffrage. The commune's powers cover activities that affect its inhabitants' daily lives. Its economic and social duties were limited for a long time to granting aid for job creation and helping needy families but have been broadened to enable it to play an important economic and social role.

**Intercommunal structures**

- 1.6 The complex pattern of local administration, with a high level of fragmentation, gave birth to an intense process of local cooperation. There are two types of intercommunal structures:
- 1.7 Those without fiscal power (traditional syndicates of communes). Communes gather and contribute financially to the syndicate, but the syndicate cannot levy its own taxes. Communes can leave the syndicate at any time. Syndicates can be set up for a particular purpose (typically: waste management) or to deal with several matters. These structures without fiscal power are on a declining trend.
- 1.8 Structures with fiscal power. The law voted under the Minister Chevènement (1999) distinguishes three such structures: the Community of Communes (*Communauté de communes*), primarily targeted at rural communes; the Community of Agglomeration (*Communauté d'agglomération*), targeted at towns and middle-sized cities and their suburbs; and the Urban Community (*Communauté urbaine*), targeted at larger cities and their suburbs. These three structures are given varying levels of fiscal power. The Community of Agglomeration and the Urban Community have most fiscal power as they levy the local tax on corporations (business tax or *taxe professionnelle*) in their own name instead of those of the communes. The communities also manage some services previously performed by the communes. Communities of Communes have a more limited set of competences and the communes are more autonomous. The Urban Communities perform more tasks on behalf of the communes. Government allocates money to the communities based on their population, thus providing an incentive for the communes to team up and form communities. Urban Communities receive the largest amount of money per inhabitant.

**The Départements**

- 1.9 There are 100 departments in France, 96 in metropolitan France and four overseas (Martinique, Guadeloupe, Réunion and French Guyana). Established in 1789, the *Département* has played a prominent role in the country's administrative and geographical organisation. The *Département* in its present form has essentially competence in health and social services, rural capital works, departmental roads, and the capital expenditure and running costs of colleges (1st level high schools). The law of 2 March 1982 conferred executive authority for the department on the chairman of the general council. The *Conseil général* (general council) is the department's decision-making organ. It is made up of general councillors elected for a six-year term, who elect a *Président* (chairman) also for a six-year term. The last wave of decentralisation (2004-2007) launched by Prime Minister Raffarin led to the rise of the competences of *Départements*, who are now in particular in charge of a considerable share of local, regional and transregional roads. A significant number of former State civil servants have lately become part of the *Départements'* staff. The *Préfets*: For almost 200 years (1800 to 1982), Prefects held the executive power in the departments, but the law of March 1982 modified their powers. Appointed by the government, the Prefect is still the sole person empowered to act on the State's behalf in the department. Prefects represents the Prime Minister and all the members of the government, has authority over the State's external services in the *Département* and ensures the administrative supervision of all local authorities.

**The Régions**

- 1.10 France has 26 regions, 22 in metropolitan France and four overseas. Created in 1955 to provide a framework for regional and town planning, the region became a local authority in 1982. Its main spheres of competence are planning, regional town and country planning, economic development, vocational training, and the building, equipment and running costs of 2nd level high schools (*lycées*). The decision-making organ is the *Conseil régional* (regional council) whose members are elected for six years. They are assisted by an economic and social committee, which is a consultative assembly. The *Président de Région* (regional council chairman), elected by the *Conseillers régionaux* councillors, is the region's executive

authority. His/hers responsibilities are identical with those of the general council chairman in the areas within the region's sphere of competence.

- 1.11 The resources of local government bodies come from direct rates and taxes (29.4 per cent), State funding (29.3 per cent), indirect rates and taxes (22.2 per cent), loans (10.5 per cent), and other resources (8.6 per cent) (Marconis, 2006). After 20 years of decentralisation 60 per cent of public spending comes from the State and 40 per cent from the local authorities. The share of the communes and their groupings is greatest (56 per cent), followed by departments (33 per cent) and the regions (11 per cent). The process of decentralisation has profoundly altered local government in France. The current system is indisputably more costly for the public purse than the old one and has led to some fragmentation of tasks and objectives. However, decentralisation is supposed to ensure that tasks are carried out at the most appropriate level of responsibility in all sectors of public life.

**Key features of governance arrangements**

- 1.12 In terms of the institutional context, four features are worth mentioning: i) the strong presence of the State in local affairs, ii) an unfinished decentralization process, iii) the system of accumulation of political mandates (*cumul des mandats*) and iv) a very fragmented local government system.

- 1.13 France is a unitary State and well known for its centralist political regime which the term “Jacobin” illustrates well. However, as we shall see, it has embarked in a significant decentralization process in the last three decades. Nevertheless, the State remains a very strong actor with significant powers and resources which makes it a central protagonist in urban affairs. First and foremost, the State remains the first initiator of legal reforms and changes. Every year, it produces hundred of legal acts which have an impact on cities and by which it may impose measures and actions. Second, the State remains a significant financing contributor of urban areas in sectors as diverse as social affairs, infrastructure building, housing and economic development. Third, in contrast to the UK for example, the French State is a direct player in sub-national affairs through various structures and instruments. To start with, the State possesses a powerful technico-administrative apparatus at the sub-national level, following the Napoleonic organizational model. At almost each territorial level - provincial and regional - there is a prefect who controls the State administration and that of many ministries. In addition, Central Government operates through various agencies and quangos, notably development corporations (*Etablissements Publics d’Aménagement* – EPA) and the *Caisse des Dépôts*, a powerful national bank which is very active in the financing of urban regeneration programs, social housing and urban development schemes. Finally, the State acts at the sub-national level through the control over national operators, notably in the fields of transport and energy.

- 1.14 The 1982-1983 Acts launched a strong movement of decentralization which is still unfinished. First and foremost, the decentralization process was launched without any significant changes in the local government system to the relative exception of the establishment of regions as new governmental tiers. Decentralization has substantially strengthened the existing local authorities (municipalities and provinces) through a vast transfer of competences (in urban planning, public transport, economic development, social affairs) and since the early 1980s, several laws have pursued this trend, although the regional level remains weak, notably in comparative terms with the Spanish, German and Italian regions. However, the decentralization process has become chaotic and conflicting in the recent years for two major reasons. First because the State has continued the transfer of responsibilities to all governmental tiers but without giving them the corresponding financial resources. Second because it has gradually but surely intervened to change the frame of the decentralization process, for instance in abolishing the business tax (the most important fiscal resource of local authorities) or in strengthening its control over the implementation of national policies, for instance regarding the Policy for the City (see below). As a result, the



State has been accused by local government, rather unanimously, to leave by the door but to come back by the window. This accusation has been all the strongest regarding the Ile de France through the Grand Paris project (see below).

- 1.15 Although the system of the accumulation of political mandates – i.e. the simultaneous holding of various electoral mandates (European, National, regional, local) by a single person - may be found in other European political systems, in France, it is common and legitimately used as a modality to accumulate political resources and to establish leadership. Thus, it is not uncommon for a politician to be representative in the National Assembly and at the same time mayor but also member of the regional or provincial council. Also, most ministers have also a local political mandate including the mayoralty of some important cities. The system of the accumulation of political mandates have thus contributed to the strong interweaving between the local and the national levels, blurring in some instance the frontiers between the State and local governments. This has had important consequences regarding the decentralization process, for example in seriously limiting the capacity of Central government to enact institutional reforms because politicians holding at the same time a national and a local mandate are not willing – as national representatives – to impose a law on local governments, which they also belong to.
- 1.16 France is well known to have a very fragmented institutional system and it has been common to say that France alone had as many municipalities as the other 14 countries of western Europe. Indeed, with about 36,500 municipalities (called *communes*), France has the lowest average population by municipality in all European countries (1,600 against 4,800 for Spain, 5,500 for Germany, 7,100 for Italy and 136,500 for the UK). This institutional fragmentation is all the more significant in urban areas which are normally composed of tens or hundreds of municipalities<sup>1</sup>. Thus, the Lyon urban area is covered by between 72 to 296 *communes*, depending on the way you define the urban area, Bordeaux by between 93 to 192 municipalities, Nantes by between 57 to 82 and Toulouse by between 117 to 392. The Ile de France region, which can in a way be assimilated as the metropolitan area of Paris is composed of 1,281 municipalities. This feature of the French institutional system has been considered by many a strong obstacle to the implementation of policies at the area-wide level.
- 1.17 In terms of the political context, three elements affect the elaboration and the implementation of national urban policies: i) the domination of rural interests in several political organizations at the national level; ii) the many changes of political leadership in Central Government and iii) the political urgency due to ad-hoc situations.
- 1.18 France is with Spain one of the most rural countries. For historical reasons, rural interests have been dominant in many national structures which are important in policy making for cities. This is for instance the case of the most important national association of mayors, the *Association des Maires de France*, a powerful organization which commonly lobbies with success. This is also the case for the Senate. In France, the Senate is the national chamber which represents all local governments. Senators are indirectly elected by about 150,000 representatives of local governments, among which 140,000 represent the municipalities, most of them being rural *communes*. As a result, the Senate is dominated by rural interests who show little concern for urban issues and are not inclined to support bills focusing on cities.
- 1.19 In the last three decades, political discontinuity at the national level has been the rule. While national governments had been controlled by conservative forces from 1958 to 1981, this has changed with the first election of a Socialist president in 1981. Since then, the majority in

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<sup>1</sup> One can nevertheless see similar situations but less ‘excessive’ in urban areas like Stuttgart (about 200 municipalities), Milan (about 200 municipalities, Madrid (about 400) and obviously in the major US metropolitan areas.

the national government has constantly shifted and not less than 6 changes have occurred, without taking into consideration the 3 periods of so-called *cohabitation*, i.e. periods when the President was from a political coalition but the Prime Minister from another. As the French political system is highly ideological and conflicting, each change has brought a specific set of policies, including those regarding cities, which has resulted in a policy instability or discontinuity, although problems and issues had remained more or less the same.

- 1.20 Since the 1980s, French cities have been recurrently hit by social troubles which culminated in October 2005 by riots in almost all urban areas. These events and notably the most severe ones have often been the trigger for national government to launch new programs or new measures without necessary consistency with already existing urban policies.

## 2. FRENCH NATIONAL URBAN POLICIES: A HISTORY OF THREE DECADES

- 2.1 The urban problems and issues which have precipitated the launching of policy measures at the national level are very similar in many ways to what is to be found in other urban areas of a number of European countries. Social issues have dominated the political agenda from the very beginning. In the 1980s, the problems of urban poverty and distressed neighborhoods were very much mediated and were soon called the “*malaise des banlieues*” (suburban uneasiness), a catchword to mean any social and urban problems such as the difficulties to have access to jobs, urban violence, social exclusion, physical degradation of spaces, etc.
- 2.2 All this was very much co-related with the issue of immigration. As in many other European countries, France has seen an important arrival of immigrants, mostly from Africa and in particular northern Africa, in the 1960s and 1970s. Most of these people have concentrated in urban areas and principally in their suburbs and soon the amalgamation between social problems in the suburbs and the presence of immigrants in these parts of the city was made.
- 2.3 Other issues, such as economic competitiveness and development or environment degradation and preservation have arrived much later, in the 1990s, and have been taken in the political agenda even more recently. By and large national urban policies have been very much explicit in France. For that reason, we will focus on these ones, developing first those which have been area-based to turn in a second part to re-spatialization policies.

### Area based policies: From social integration to competitiveness programmes

- 2.4 Three area-based policies may be regarded as the most important which have been carried out in the last decades. The oldest one – and the more emblematic and mediated – is the *Politique de la Ville*, but more recently two others have been launched: the policy of ‘poles of competitiveness’ (*Pôles de compétitivité*) and the policy of ‘metropolitan cooperation’ (*coopération métropolitaine*).

#### **The *Politique de la Ville***

- 2.5 The *Politique de la Ville*, is a set of actions and measures undertaken to solve the social problems of the French suburbs in the last decades. The main objective has been to solve the problems of the most distressed areas, which means that the Policy for the City is territorially based since it is focussed on selected portions of the urban territory. The first measures were taken in the early 1980s during the first Socialist Government. The long story of the *Politique de la Ville* is very hectic since it has been full of programs, laws, experimentations and changes, largely depending on the political leaning of central government. In addition the literature on this policy, either in France or abroad, is abundant and diverse.

- 2.6 After the explosion of the first urban riots in the early 1980s in Lyon, the Socialist government and most experts thought that the problems faced by the suburbs had to be dealt with at the neighbourhood level and should be focused on the social and urban aspects. In order to address these questions, it was considered necessary to innovate in public policy making by the production of new programs which would be area-based and would try to integrate the multiple dimensions of those problems. The government launched the 'Développement Social des Quartiers – DSQ (Neighbourhood Social Development) program and chose a few selected neighbourhoods as laboratories to implement the new policy. Very quickly, the State decided to generalize the experimentation and soon a few hundreds of neighbourhoods were included in what was to be known as the *Politique de la Ville*. In 1988, the first *Contrats de Ville*, i.e. agreements between the State and municipalities, were signed as pluri-annual instruments to implement the DSQ programs which then took the name of "Développement Social Urbain – DSU" (Urban Social Development) because their scale was supposed to be the municipality rather than the neighbourhood level.
- 2.7 The *contrats de Ville* were the first sign of the institutionalization of the *Politique de la Ville* in the State techno-administrative apparatus. Indeed, they came as a concrete administrative and financial instrument of newly created public bodies such as the *Conseil National de la Ville* (National Council of Cities) and the *Direction Interministérielle de la Ville – DIV* (cross-ministerial Direction for Cities). This institutionalization was completed with the establishment of the first Ministry for Cities in 1990 by the Socialist government, the same year of the second important riots in the suburbs of Lyon.
- 2.8 The 1990s saw a generalization of the *contrats de ville* and more focus given to the issue of social mixity but the scale was still the neighbourhood level despite political calls to address the problems at the agglomeration level. In 1991, the *Loi d'orientation à la Ville- LOV* (Guidance Law for Cities) was voted and urged the municipalities to work together to improve social mixity. In addition, the LOV established the *Grands Projets Urbains – GPU* (Large Urban Projects), new programs for substantial regeneration of particularly distressed areas. In 1996, the new conservative government approved a new program called *Pacte de Relance pour la Ville* (Boosting Pact for Cities) which created a new zoning system with *Zones Franches Urbaines – ZFU* (free trade urban areas), *Zones Urbaines Sensibles – ZSU* (Urban sensitive areas) and *Zones de Ré dynamisation Urbaine- ZRU* (Urban Redevelopment Areas). ZFU, ZUS and ZRU are specific neighbourhood areas which possess distinctive features in term of deprivation and which would thus benefit from various governmental fiscal and financial assistance.
- 2.9 In 1998, with the Socialist government back in office, a set of new legislation – most of which are still in place – were enacted, whose main feature is a shift from the neighbourhood level to the agglomeration scale. Using re-spatialization policies as we will see in the next section, the *Politique de la Ville* became more focused on a larger scale and a new instrument, the *contrat d'agglomération* was introduced and social mixity was at its center.
- 2.10 In 2002, with the return of the Conservative government, the *Politique de la Ville* changed path once again. In 2003, the State enacted a new law, the *Loi d'Orientation et de Programmation pour la Ville* (Guidance and Programming Act for Cities) which proved to be a significant shift on at least two aspects. The first one is the re-centralization for the Policy for Cities which had so far been elaborated with local authorities as partners. The 2003 Act created the *Agence Nationale de la Renovation Urbaine – ANRU* (National Agency for Urban Renewal) in charge of selecting and funding the projects of urban renewal produced by municipalities. Its focus is on massive operations of destruction-reconstruction in the 751 ZUS. For that purpose, the State provided a budget of about € 12 billions until 2013. The second one is the nature of the measures more focused on physical improvement and safety.

2.11 In 2005, following the most serious urban riots of the period, Central Government reacted by increasing the funding for the ANRU (by 25%). In 2007, it created a new agency, the *Agence Nationale pour l'Égalité des Chances – ACSE*, (National Agency for Equal Opportunities) in charge of alleviating poverty in the ZUS with a small budget of about €500 millions in 2009. In 2008, a new program, *Espoirs Banlieues* (Hope for Suburbs) was launched. It focuses on skills, safety, access and housing but its funding has been uncertain and unclear.

***The policy of “poles of competitiveness”***

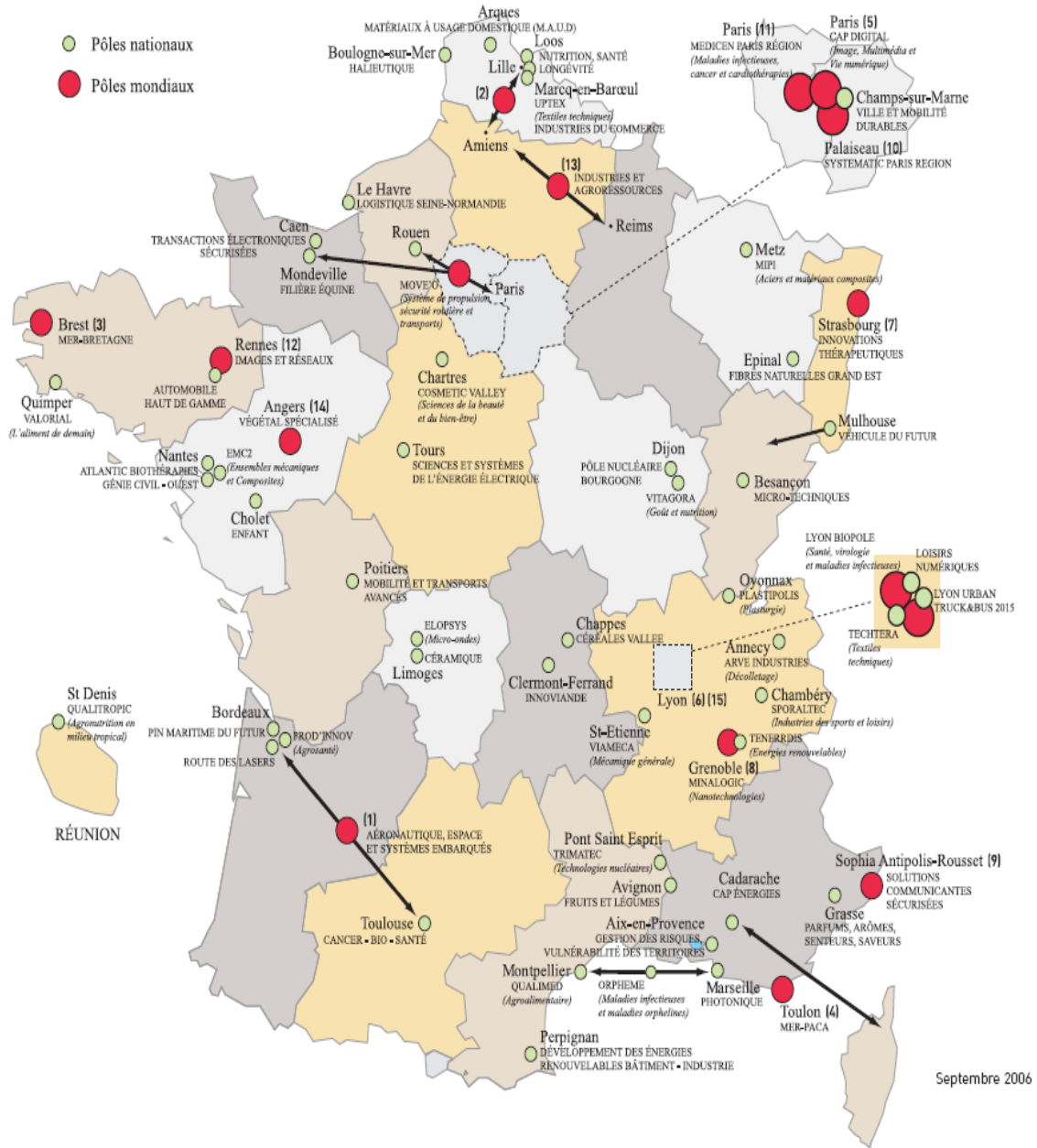
2.12 The second significant area-based policy, the so-called policy of “poles of competitiveness” was launched in 2004 as an essential element of the French industrial policy. “Poles of competitiveness” can be largely associated with high tech clusters in the sense that they are defined as an area combining firms, education and training centers and research units. The idea was to favour the partnership between those players in order to produce R & D projects of a national or international “visibility”.

2.13 In order to do so, in 2005, central Government launched a bid asking local players to get together and propose a partnership structure along with a development project. 105 applications were received and the State selected 67 of them (see map 1). 15 of them were declared clusters of global status or global potential, the rest of national or European interest.

2.14 The content of R&D projects have been in the fields of nano-technologies, bio-technologies, micro-electronics but also in more traditional industrial sectors such as aeronautics and automobile. Once selected, the projects have to be managed by local partnerships. The territory of each project has to be clearly identified. Once this is done, the national government will sign a contract with the partnership structure.

2.15 At the end of 2005, most projects had confirmed their partnership structure and the State had approved their geographic perimeters which have been named “R&D areas”. For the whole policy, central Government gave €1.5 billion for the first 3 years (2005-2008). This amount is mostly for funding the projects presented by the various players located in R&D areas but the State intervenes also with tax abatements and bonus rate loans for SMEs in the same areas. In 2009, the State decided to pursue the policy of “poles of competitiveness” by extending the funding for an extra 3 years (until 2011) and by focusing more on the “search for more private financing” and “strategic steering”.

Map 1: The “poles of competitiveness” in 2010



Septembre 2006

*The policy of “metropolitan cooperation”*

- 2.16 The third area-based policy, focused on “metropolitan cooperation”, was decided in 2003 and launched by the DIACT, the previous-next DATAR<sup>2</sup> in 2004. Considering that metropolitan areas are the drivers of national economy but that French urban areas were demographically and economically weak in comparison with their European sisters, Central Government decided to elaborate a “national strategy aiming at the strengthening of the Metropolitan capacity of France in Europe”. Considering also that governance was the key for metropolitan success, that French urban areas needed stronger cooperation between local actors because they were very much fragmented and lacked a metropolitan pilot, the State proposed a new program and launch a “call for metropolitan cooperation”.
- 2.17 The logic and method of the program was very much similar to the ones used for the policy of “poles of competitiveness”. First a bid to activate local players to force them to initiate area-wide cooperation; second the elaboration of a common “territorial project” which would serve as a basis for a contract (third step) between local players and the State. The major difference between the other territorial projects which will be talked about later in this section and the “metropolitan projects” is their scale. For the State, metropolitan area here means city-region. In the bid Central Government made it clear that only urban areas over 500,000 people with an agglomeration center of more than 200,000 inhabitants and involving medium sized cities could apply. The Ile de France region was not to be concerned by the bid.
- 2.18 For the call, State money was little (about 3,5 million Euro for 2005 and 2006) and limited to “immaterial actions” (conferences, workshops, web sites, promotion) but more significant funding would come later with the signature of the contracts with the State and this is why many urban areas decided to take part. In 2005, 15 city-regions were selected (see map 2) and most of them started to elaborate their “metropolitan project”. In 2006, it became clear that the State was no longer willing to pursue the experience and local authorities angrily realized that there would be no metropolitan contracts. In 2007, with a new President and a new administration in power, the program was discontinued.

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<sup>2</sup> The change of name from DATAR (Délégation à l’Aménagement du Territoire et à l’Action Régionale) to DIACT (Délégation Interministérielle à l’Aménagement et à la **Compétitivité** des Territoires) is significant in the Government rethoric for a focus on competitiveness. For symbolic reasons, the DIACT has become again the DATAR in early 2010, DATAR meaning then: Délégation Interministérielle à l’Aménagement du Territoire et à l’**Attractivité** Régionale.

Map 2: The “metropolitan cooperation” areas



**Re-spatialization policies: the search for the “relevant” territory**

**Box 1: Urban areas, urban poles, suburban rings and urban units**

In 1997, the National Institute of Statistics (INSEE) established new statistical units to better measure the evolution of French cities. Four new concepts were created: urban area (*aire urbaine*), urban pole (*pole urbain*), suburban ring (*couronne péri-urbaine*) and urban unit (*unité urbaine*).

An **urban unit** is a community of 2,000 living units or more based on urban continuity (no more than 200 meters between buildings). An **urban pole** is an urban unit which groups 5,000 jobs or more. Municipalities sending 40% or more of their work force to the urban pole compose the **suburban ring**. An **urban area** is the combination of an urban pole and a suburban ring.

2.19 Traditionally, area-wide management has been addressed through *intercommunal* structures, that is joint authorities gathering several municipalities and sometimes *départements*. At the end of the nineties, there were about 20,000 of them which made them significant government bodies at the urban area level. Such structures are public bodies, a form of *quangos*, having gained the responsibility of more and more policy sectors. In the largest urban areas, they take care of public transport, planning, environment, waste management, sewer systems, economic development, culture and so on. They are today completely controlled by local governments. Although they are grouped under the same expression, *Etablissements Publics de Coopération Intercommunale* (EPCI), they are of various sorts and various names: *communautés urbaines*, *communautés d'agglomération*, *communautés de communes*, *districts*, *syndicats de communes*, etc, depending on their statutory responsibilities and the population size of their jurisdictions. In the last decade, the nature of these structures has significantly evolved. While their responsibilities were mainly focused on the management of infrastructures and public services (directly, through mixed economy bodies, or by contracting out to private firms), today they are more and more involved in strategic issues such as strategic planning, economic development, social issues such as social cohesion and environment.

**Table 1: Evolution of the number of main intercommunal structures: 1972-2000**

	1972	1988	1992	1996	2000
Communautés urbaines	9	9	9	9	12
Communautés d'agglomération					50
Communautés de communes				894	1493
Districts	95	153	214	318	281
SIVU	9 289	11 967	14 596	14 614	14 885*
SIVOM	1 243	2 076	2 478	2 221	2 165*
Syndicats mixtes				1 216	1 454*
Total	10 636	14 205	17 297	19 272	20 340

\* in 1999. Source: DGCL

2.20 Considering that urban areas were not administered by relevant joint authorities (territorial discrepancies between the functional and the administrative territories, financial and fiscal inadequacies, responsibilities inconsistency of the existing inter-municipal structures, etc.) and that the present institutional system was far too complex to be understood by citizens, the new government elected in 1997 decided to significantly transform this system. To do that, it enacted 3 laws which addressed the institutional and fiscal organization of the urban areas and their governance and planning systems.



**Re-spatialization through institutional reform: the 1999 Chevènement Act<sup>3</sup>**

- 2.21 The Chevènement Act introduced several significant changes to address these issues. First it has established 3 new types of joint-authorities which have gradually replaced the existing complex system: the *communautés de communes* for areas under 50,000 inhabitants, the *communautés d'agglomération* for urban areas of over 50,000 people and the *communautés urbaines* for urban areas of more than 500,000 inhabitants. As indicated in box 1 above, urban areas refer to the new statistical functional definition of the National Institute for Statistics (INSEE), which makes that France is composed of about 140 urban areas of more than 50,000 inhabitants. These new joint authorities whose territories should match the functional urban areas have statutory powers in the following fields: economic, cultural and social development, territorial planning, social housing, Policy for the City, environment preservation, public networks like public transport, etc. The *communauté urbaine* has more statutory powers than the *communauté d'agglomération*. These newly established joint authorities are governed by a board which comprises the representatives of all member municipalities, generally on a population basis.
- 2.22 Second, the Act has established an area-wide business tax in order to eliminate the competition between municipalities to attract firms. The business tax was until its abolition in 2010 the most important local tax. It was levied on firms located in the municipal territory. The lower the tax, the more attractive the municipality for enterprises. As a consequence, municipalities which were rich enough (because of their residents' wealth or because they can already levy significant revenues) could offer low business tax rates and attract more firms, while the poorest ones might have to maintain higher business tax rates to levy enough revenues and thus might lose firms. In the last decade, this situation has constantly been denounced by some national associations of municipalities like the AMGVF and central government bodies like the DATAR. To reduce this phenomenon, i.e. to favor territorial solidarity, the Chevènement Act established an area-wide business tax (*Taxe Professionnelle Unique* or TPU) which was to be levied by the new joint authorities. This area wide business tax represented the whole of the municipal business taxes (i.e. it replaced all municipal business taxes) and was to be used for area-wide purposes or for projects jointly decided by the joint authorities.
- 2.23 In addition, in order to facilitate or to speed up the establishment of joint authorities, the State has increased the amount of the block grant (DGF) it allocates to the newly created joint authorities which agree to set up an area-wide business tax.

**Table 2 : The new institutional structures established by the Chevènement Act**

Type of intermunicipal structure	Population threshold	Mandatory responsibilities	Area-wide tax
Communauté Urbaine	500.000	.economic, cultural and social development . spatial planning . social housing . Policy for Cities . public utilities and public services . Environnement	statutory  TPU
Communauté d'agglomération	50.000 with a center grouping more than 15.000 people	.Economic, cultural and social development . spatial planning . social housing . Policy for Cities	statutory  TPU
Communauté de communes	3.500	. Economic development . Spatial planning	TPU on a voluntary basis

<sup>3</sup> The exact appellation of the Chevènement Act is 'Enhancement and simplification of inter-municipal cooperation' (*loi sur le renforcement et la simplification de la coopération intercommunale*), Chevènement being the name of the Minister of Internal Affairs at that time.

***The Voynet Act: Re-spatialization through governance***

- 2.24 The Chevènement Act has been supplemented by the Voynet Act<sup>4</sup> (Ministry of Environment and Regional Planning) which also replaced the 1995 LOADDT. The new Act addressed the question of the process of policy making and the content of policies at the area-wide level. The interpretative slogan of the Voynet Act was 'a territory, a project, a contract'. For cities, the territory was the statistical urban area, the project was an agglomeration project and the contract was an agglomeration contract. The Voynet Act aimed at giving the joint authorities established by the Chevènement Act the capacity to achieve the balanced development of their area by setting up the modalities for such an achievement.
- 2.25 The State was willing to help the joint authorities but under certain conditions. In order to receive subsidies from the State, the Voynet Act established several conditions. First, the joint authority must produce an 'agglomeration project', that is a jointly elaborated document whose aim is 'to define the orientations of the urban area in the fields of economic development, social cohesion, territorial planning, transport, housing, Policy for the City, environmental policy according to Agenda 21'. Once the urban areas have established *communautés d'agglomération* or *communautés urbaines* and when these joint authorities will have approved an 'agglomeration project', they will be able to receive specific State grants.
- 2.26 Central Government subsidies have not been piecemeal but on the contrary they have come in a package to fund the various actions approved in the 'agglomeration project'. This package was to be given through an 'agglomeration contract' signed between the State and the joint authority. In order to give consistency to the whole of public funding and to increase its efficiency, the 'agglomeration contract' was inserted in the *Contrat de Plan Etat-region*<sup>5</sup> (CPER) (Planning Agreement between the State and the Region) and was consequently to be signed by the regional council.
- 2.27 Another important innovation of the Voynet Act has been the establishment of so-called 'development councils'. These councils are consultative bodies, gathering the major social and economic actors of the urban area. Their establishment was a requirement of the Voynet Act and one of their main activities was the approval of the 'agglomeration project'. They have been introduced as a tool to develop the involvement of civil society (economic actors, unions and the voluntary sector) in policy making at the area-wide level and are thus becoming a body in the same vein as the Economic and Social Councils established in the regions by the decentralisation Acts of 1982 and 1983.

***Re-spatialization through planning: The SRU Act***

- 2.28 The SRU Act which stands for '*Solidarité et Renouveau Urbain*' (Solidarity and Urban Regeneration) was enacted in december 2000. It is the last of a long series of actions and laws enacted in the last decade (such as the 1991 Act on cities (LOV), the 1996 Urban Pact (*Pacte de Relance pour la Ville*). It had two main objectives : i) to enhance social mixity in housing and to reduce social exclusion and ii) to create a new more consistent system of territorial planning from the municipal to the area-wide level. The first objective was to be achieved by putting financial penalties onto municipalities not reaching a 20% social housing proportion in their housing stock. In order to create high density considered to be a better context for social mixity than urban sprawl, the SRU act has sought to promote a model of a more compact city by developing collective housing through fiscal penalties on single housing. In addition, priority was to be given to public transport on the ground that a better

<sup>4</sup> The juridical name of the Voynet Act is "General Act on Regional Planning and the Sustainable Development of the National Territory" (*Loi d'Orientation sur l'Aménagement et le Développement Durable du Territoire*), Voynet being the name of the Minister for Environment at that time.

<sup>5</sup> Contrat de Plan Etat Region are agreements through which the State and the Region decide to jointly fund actions and Projects for a 6 year duration period. The State has thus such an agreement with all the 26 regions.

accessibility within the urban area by cheap modes of transport would enhance social inclusion.

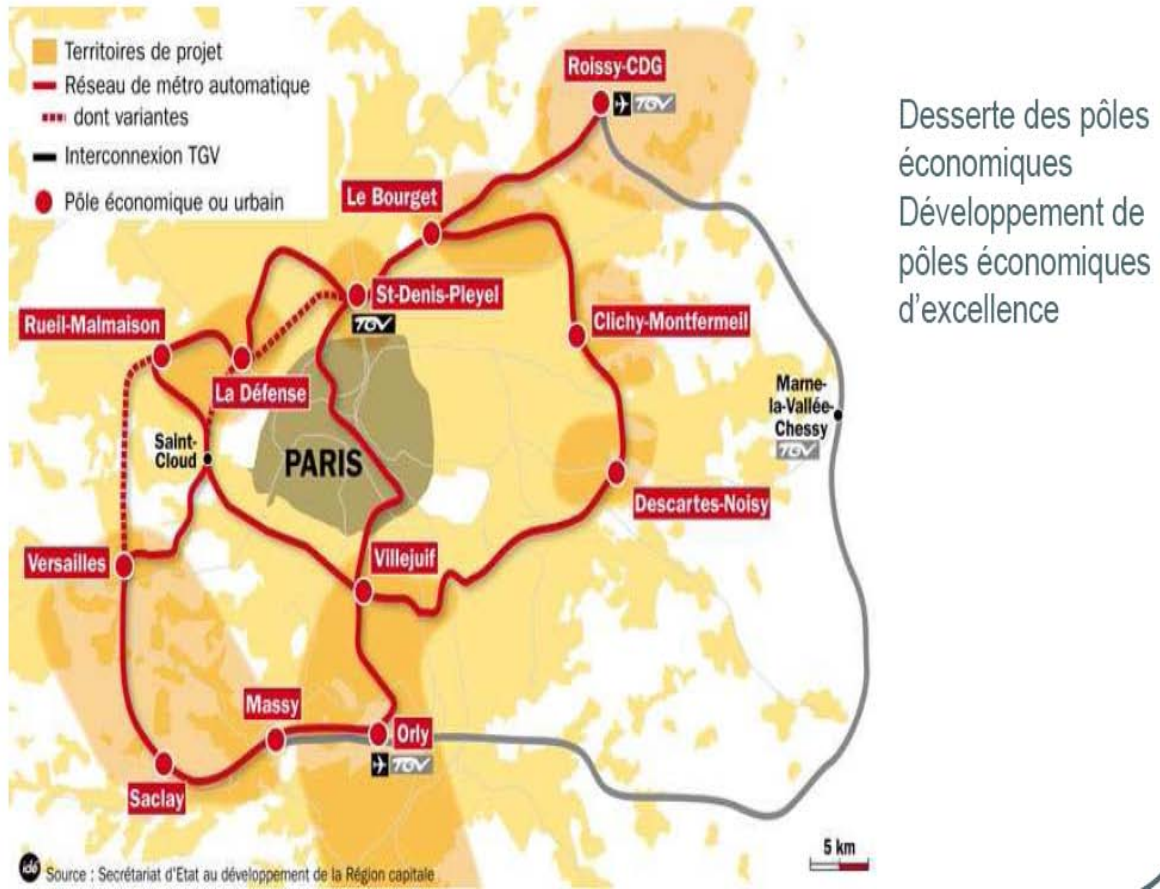
- 2.29 The second objective was to be fulfilled by transforming the whole urban planning system. First, Master Plans (*Schémas Directeurs*) were to be replaced by Territorial Consistency Plans (*Schéma de COhérence Territoriale - SCOT*), that is strategic documents, area-wide based, which aggregate previous sectoral plans such as urban travel plan, master plan, environmental plan, housing plan, etc. At the municipal level, a new planning document, the Urban Local Plan (*Plan Local d'Urbanisme*) replaced the land-use plan (*Plan d'Occupation des Sols – POS*) and must be consistent with the SCOT.

**The “Grand Paris” Project**

- 2.30 The term ‘Grand Paris project’ has been used in the last two years to refer to several actions and measures decided by the State in order to make Paris a global city. These actions and measures are composite but all of them focus on the idea of making the Ile de France a more competitive and more internationally visible metropolis. By some aspects, the Grand Paris project is an area-based “policy” because it targets a unique territory, i.e. the Parisian urban area. By other aspects, it is also a re-spatialization “policy” because it involves reforms of the governance of the metropolis, including territorial and organizational reforms. If both aspects are intertwined, by and large the ‘Grand Paris Project’ is simply an intellectual reconstruction of several actions undertaken by the State without much a priori coherence.
- 2.31 Three main dimensions can be observed in the ‘Grand Paris project’. The first dimension relates to infrastructure and urban development. It can be seen in the decision of Central Government to significantly expand La Défense, a decision which has been unsuccessfully opposed by the newly revised regional Master Plan. In addition to this extension of the largest European business centre, there has been the decision to build a direct public transport connection (the so called “Charles De Gaulle Express”) between the Roissy airport (the international hub of the Ile de France) and the city centre. Finally in 2009, there has been the proposal which to construct a 130 new automatic subway network (the “Grand 8”, cf. map 3) to connect the most important economic poles of the metropolitan area. This scheme was publicly approved by the French President in 2009.
- 2.32 The second dimension is more intellectual and aims at developing new ideas and new projects for Paris in the decades to come. In order to achieve this, the State launched an international consultation (le “Grand Pari<sup>6</sup>”) on the future of the Ile de France with 10 teams led by some of the most famous architects in the world. The purpose of the consultation was to come up with visions of what Paris-Ile de France should become in 2050 and how to make it happen. In April 2009, the President presented the results of this consultation and endorsed some of the ideas expressed.
- 2.33 The third dimension is more political and relates to the governance of the Ile de France. Convinced that local governments could not and would not develop competitiveness policies at the metropolitan level, the State decided to take over. In march 2008, it established a “Minister for the development of the Capital-Region” right after the municipal election which saw the victory of the political opposition. The new minister was given a very clear and specific mandate: According to the letter of mission which created this new ministry, the mandate is “To enable France to keep its place in the world competition by making its capital a “world city”, open, dynamic, attractive, producer of wealth and employment, which will be a decisive national asset in the competition of the 21<sup>st</sup> century.” After having proposed the construction of the “Grand 8”, Central Government put a bill in parliament in October 2009.

<sup>6</sup> Which is a significant pun, “Pari” meaning « bet » in French.

Map 3: The public transport scheme of the 'Grand Paris project'



- 2.34 The bill, approved by the National Assembly in November 2009 and to be discussed in the Senate in 2010, proposed the building of the “Grand 8” by a new entity called the ‘*Société du Grand Paris*’, a public company whose shareholders will be the State, the region and the *départements*, but which will be controlled by the State. This public company will also be in charge of the development of all the stations and their adjacent areas. There will be a new scientific and technological cluster of world importance around Saclay (South-west) and this cluster will be developed and managed by a public development corporation composed of local authorities, the State, the universities and the private sector.

### 3. WHAT IMPACT HAS POLICY HAD?

- 3.1 French national urban policies have been developed in a period of profound changes at the national and local level. They have been launched during the first socialist government of the post-war which started a period of political alternation at the national level. They have also been initiated at the same time as the decentralization process. It is therefore no wonder that they have been trapped in the instability produced by these two elements. There has been a gap in understanding explained by rapid assessment of most urban policies, the use of obsolete policy concepts and lack of vision and finally by the ambiguity of the unfinished decentralization process.

### National urban policies, a taste of governing failure

3.2 By and large, it can be said that, to the relative exception of the policy of “poles of competitiveness”, national urban policies have failed or have not been able to significantly tackle the existing problems. This is true of the *Politique de la Ville*. After about 30 years of this policy, problems have not significantly been reduced and in many instances have worsened. Already in 1998, the Sueur report “Demain la ville”<sup>7</sup> stated that “In spite of all these measures, today there is more segregation, less social mixity, the situation has worsened in many neighborhoods... We must do more and the supplementary effort must become a State priority as well as a local government priority” (p 3).

3.3 Many reasons explain this outcome. First, measures have been prolific but piecemeal, without much coherence. P. Estèbe (2006) has argued that the *politique de la ville* has been a symbolic policy in the sense that it had been presented as an important innovation in State policies (a sort of good practice of a governance model) but in fact “procedure has superseded its substance”. Indeed, it seems difficult to refer to something consistent and stable when one speaks of this policy. Second, major issues have been eluded, discarded although they have proved to be essential such as housing or unemployment. The *politique de la ville* instead has concentrated its efforts on the “Republican public services” such as the school, the police and the post office. Finally the reality of the so-called “territorial affirmative action” (Discrimination territoriale positive) through which the State would “give more to those territories which have less” have been very much questioned by studies (Davezies, 1999) showing that this was not necessary true. This is also acknowledged in the introduction of the Sueur report:

*“This report shows that as a whole, affirmative action does not exist. This means that, very concretely, when policies have been implemented in the concerned sectors, there have always been less resources – in terms of public service notably – put in the considered areas than in the national territory. This is why... we simply propose the true implementation of the principal of Republican equality. To ask that in suburbs and in the deprived areas there should be, in proportion of their population, as many teachers, policemen, postmen as in the rest of France is a fair proposal and easily verified. We are far from this point as yet.”*

3.4 On the territorial reform side, the situation have not been as successful as Central Government has hoped. A few years after the enactment of the 1999 Chevènement Act, the Ministry of Interior intended that almost all urban areas would be soon covered by ‘Communautés urbaines and communautés d’agglomération’. If one looks at the map of joint authorities in urban areas in 2010, one would tend to agree with the State. Indeed, in 2010, all urban areas over 30,000 people are administered by joint authorities composed of 16 *communautés urbaines* and 181 *communautés d’agglomération*. *Communautés urbaines* group 413 municipalities and 7.6 millions inhabitants while *communautés d’agglomération* gather 3,107 municipalities and 22.5 million people. Other forms of EPCI (districts, communautés de villes, etc.) have disappeared (DGCL, 2010).

3.5 However it remains to be seen if the areas covered by the existing EPCI match the perimeters of the functional urban areas (*aires urbaines*) and if these joint authorities have been able to produce area-wide policies and which ones. On the spatial aspects, the answer is generally negative, all the more for the largest cities. Regarding the “old” *communautés urbaines*, they have not shown any changes in their perimeters since their establishment at the end of the 1960s as it is clear from table 3 below. This is all the more damaging in terms of adequacy

<sup>7</sup> The Sueur report was one of the most important assessment of the Politique de la Ville. Published in 1998, it was the result of a national commission conducted by J.P. Sueur, President of the Association of the Largest Cities (AMGVF), for the Ministry of Social Affairs. Its official title is “Demain la Ville”.

between the urban area and the EPCI since the urbanization process was being full-fledged in the 1960S and 1970s, that is after the establishment of the *communautés urbaines*.

**Table 3: number of municipalities by “old” *Communautés urbaines*, 1968-2010**

<b>Communauté Urbaine</b>	<b>1968</b>	<b>2010</b>
Bordeaux	27	27
Lille	89	85
Lyon	55	57
Strasbourg	28	28

Source : elaboration by the author

- 3.6 The situation is not better for most other large metropolitan areas. The Dallier report on ‘Intercommunalité’ published in 2006 for the Senate commented upon the failure of the 1999 Chevènement Act on the ground that the newly created joint authorities have not constituted on relevant territories and to elaborate and implement area-wide policies or projects but simply to benefit from Government grants which were given to these new structures. The Dallier report argued that the Chevenement Act has produced “an atomisation of the intercommunal system, not to say a new intercommunal disorder which follows the previous one but in another form” (p 28). Indeed when one looks at the most important metropolitan areas and compares the various territorial perimeters, the discrepancy between institutional and functional territories are clear and significant (cf. table 4 and map 4).
- 3.7 The new planning documents established by the SRU Act are still in the process of elaboration but as table 4 shows their perimeters - although generally larger that those covered by the joint authorities – still fall short of matching the whole urban area. In some instances, not that many but significant because they represent very large cities (Lyon, Marseille, Toulouse for example), one finds several SCOT in the same urban area (7 in Marseille, 9 in Lyon, 4 in Toulouse) with all the coordination and cooperation problems this situation entails.

Map 4: comparison between the perimeter of the *Communauté Urbaine de Bordeaux* and the perimeter of its Master Plan (SCOT)



Périmètre de l'Aire Métropolitaine Bordelaise



Aire du SCOT: 900.000 habitants (within the orange bold line). Bordeaux Métropole: 27 communes, 700.000 habitants (in orange)

Table 4: Comparison between the perimeters of various territorial areas in 2010

METROPOLE		Communaute Urbaine	Aire du SCOT	Aire Urbaine
BORDEAUX	Population (millions)	0,7	0,9	1
	Communes (nombre)	27	93	192
LILLE	Population (millions)	1,1	1,2	1,2
	Communes (nombre)	87	126	130
LYON	Population (millions)	1,2	1,3	1,7
	Communes (nombre)	57	72	296
MARSEILLE	Population (millions)	1	1	1,5
	Communes (nombre)	18	18	82
NANTES	Population (millions)	0,6	0,8	0,7
	Communes (nombre)	24	57	82
STRASBOURG	Population (millions)	0,5	0,6	0,6
	Communes (nombre)	28	139	182
TOULOUSE	Population (millions)	0,7	0,9	1
	Communes (nombre)	25	117	342

Source: Elaboration by the author

- 3.8 As for the existence and quality of area-wide policies, it is possible to assess them taking ‘agglomeration projects’ and ‘agglomération contracts’ as proxies. In that respect, the most recent assessment (Acadie, 2006) has shown that ‘agglomération projects’ have been many thus indicating a quantitative success but have been vague and without real substance to the extent that they have not been seriously taken into consideration in the “agglomeration contracts”. In addition, these last instruments have not benefitted from adequate funding by the State and have been much less significant than expected.
- 3.9 As for the ‘poles of competitiveness policy’, assessment has been more positive. According to the BCG and CMI international report made in 2008 for the French Government, as a whole the ‘poles of competitiveness’ have shown a ‘promising dynamism’. In 2008, 39 of them had completely reached their objectives, 19 only partially and 13 were considered to ‘deserve a re-organization’. Following this report, the State decided to launch a second phase for the period 2009-2011 with the same amount of funding (€ 1.5 billion).

### Limits to national policy

- 3.10 What have been the limits of national urban policy. There are a series of challenges. They include: the persisting albeit unsuccessful institutional imperative through which the State has envisaged to address urban issues; ii) the persisting use of the “zoning” system as a policy instrument and iii) the absence of vision regarding the future of French metropolitan areas, clearly visible in its policy and ‘strategic’ documents.
- 3.11 There has always been the strong belief that the creation of new institutions was necessary to address issues which could not be dealt with by existing ones. This explains why there has been a continuing search for the ‘relevant institution’ matching the ‘relevant territory’. The continuous failure of such a path of thought as can be seen from the failure or the very relative success of the many territorial and functional reforms undertaken in the last decades does not seem to have produced an awareness that other ways of thinking would be worth trying. The most evident proof of this is the on going territorial and functional reform Central Government is trying to impose on urban authorities and which has much chance to follow the same path as the preceding ones.
- 3.12 In 2008, the President of the Republic asked the former Prime Minister, E. Balladur, to lead a commission to propose significant changes in the existing functional, financial and territorial organization of the country. In 2009, the Balladur commission came up with a report with a strong title (It is time to decide) and with a set of 20 propositions, 3 of them directly concerning urban areas and 1 the Ile de France. Regarding urban areas, the commission proposed to directly elect the executives of the EPCI with their own fiscal revenues (all *communautés urbaines* and most of *communautés d’agglomération*), to change the juridical status of those EPCI in order to give them the same status as municipalities and finally to create new institutions, called *Métropoles*, in the 11 largest urban areas. Those *Métropoles* would be fully fledged local governments with directly elected executives, their own tax revenues and additional responsibilities transferred by the *départements* and the regions. Regarding the Ile de France, the Commission proposed to merge the 4 provinces of the core area into one single province, which meant the abolition of the city of Paris.
- 3.13 The National Government did not endorse the proposition regarding the Ile de France but it strongly supported the ones regarding other urban areas. In October 2009, it put a bill in Parliament to implement the reform, including the creation of *Métropoles*. Although the bill has not been approved yet, it is very likely that it will not significantly change the present institutional organization. Indeed, after having passed by the various Parliamentary commissions, the specific status of the *Metropoles* has waned: Creation of *Métropoles* on a voluntary basis only while the Government wanted to establish 11 of them, no more direct



elections of the executives, no change of status, no de jure additional responsibilities but through bargaining with other tiers, etc. In short, a very limited, minor change.

- 3.14 The institutional imperative has also played a major part in the weak use of ‘governance’ tools provided by the Voynet Act. In France, the role played by civil society (economic actors included) is still very minor by international standards (Lefèvre, 2009). If most of the largest urban areas have created the development councils required by the Voynet Act, these councils have remained weak in their powers and resources. Indeed, the elaboration of agglomeration projects has not given great importance to these councils and these projects as well as the decision making system regarding local policies have been very much controlled by the political sphere.
- 3.15 The proliferation of policies and measures emphasizing specific areas of the city as a locus to concentrate juridical and financial resources has been the rule in the last decades. As we have seen, the Policy for the city may be the most symbolic of this attitude but by no means the only one as the policy of ‘poles of competitiveness’ shows. Already the Sueur report had denounced this proliferation of zoned areas stating in its introduction that “in a way, the urban project is the opposite of zoning”. The Sueur report has not been implemented and since its publication in 1998, the zoning imperative has continued and has become the sign of what is called the *géographie prioritaire* (the geography of priority areas). As strongly denounced by P. Estèbe (2006), this geography has failed because it has increased the feeling of discrimination of the people living in these areas through a stigmatization process of those very areas. Conceived at the beginning as laboratories of innovative policies, the various zones have gradually be integrated in a policy routine whose outcome has been not to solve the problems of these areas but to prevent them to pose more social problems (e.g. to prevent urban riots).
- 3.16 The institutional and zoning imperatives may be considered elements of the French political tradition of public policies which now appear to be obstacles to new solutions to urban problems. But there is also a lack of vision of public authorities about the future of French cities. In fact, contrary to the United Kingdom where several national reports have been published in that domain, no such situation is to be encountered in France and the last report on that matter, the Perben report, falls short to present a vision, in spite of its title: *Imaginer les métropoles d’avenir*. The report was asked by President Sarkhozy. It was as a reflection to structure national urban policies in the largest urban areas, it ended with 19 propositions of action. But it has never been implemented.

### Unfinished decentralization and inadequate resources

- 3.17 France has had difficulties in opening up the governance process to new players. Civil society in that process is not very much engaged in urban areas. Although Decentralization has opened up the system of actors to local governments, after about 3 decades this decentralization process remains unfinished and ambiguous to the extent that many observers and players speak of a return of the State.
- 3.18 First the State has not clearly specified the nature of decentralization and its degree. As a consequence, most of the decentralization laws have spread responsibilities among governmental tiers without defining who is in charge with enough precision. It has been a way to satisfy all levels of government but has also produced confusion and lack of leadership. Additionally, the State has transferred several responsibilities to local governments without their consent. This is notably the case with the transfer of national roads to the *départements* and minimum welfare to municipalities, those governments

arguing that these transfers of responsibilities were not matched by adequate funding and that they were not ready for them.

- 3.19 Second, it has been argued that the State still wants to be at the centre of the decision making process and therefore questions the capacity of local governments to address many significant issues such as transport, housing or social problems. Central Government does not consider much the various experiences carried out by local authorities in many policy fields. The State is the one who knows and this has entailed a recentralization of power in urban areas. Two recent examples can be used to illustrate this: the evolution of the Policy for the City and the Grand Paris project.
- 3.20 Epstein (2005 and 2008), has argued that the Policy for the City is a perfect example of '*gouvernement à distance*' (Government from afar). He has argued that the *Politique de la Ville* remained a good example of a negotiated government (*gouvernement négocié*) until 2002 with management instruments like territorial projects and contracts. In this period of negotiated government, there was indeed a negotiation on the substance of the policy and on the location of actions between the local State (i.e. the de-concentrated administration of the State at the local level, such as the Prefectures and sub-national directions of ministries) and local authorities. From 2002, with the new government, this has significantly changed. First, the State has established a centralized policy of fiscal exemption using a national classification of neighborhoods based upon a synthetical deprivation index. This has left local governments out of the game. Second, the State has reformulated the targets and the objectives of the *Politique de la Ville* and has created a new agency, the National Agency for Urban Renewal (ANRU) which has centralized the funding. ANRU functions in a discretionary way. Local authorities send the projects they want to be funded to ANRU which selects them on a competitive basis according to its own criteria. In that context, there is no more a negotiation between local authorities and the State as in the previous period but to the contrary a necessary conforming process of local authorities to fit within the criteria imposed by the State, a governing method which is thus called 'government from afar' and which is a strong way to recentralize power in the hands of National Government.
- 3.21 The same attitude is to be seen regarding the Ile de France with the Grand Paris project. After many years of negotiation about the decentralization process in the Ile de France region, in 2004 and 2005 the Regional council finally received the full or partial responsibility in two policy domains: public transport and planning. In Public transport it was given the chairmanship and the control over the regional transit authority (Syndicat des Transports d'Ile de France – STIF) and in planning it was given the responsibility to revise the old 1994 Master Plan imposed by the State on local authorities at that time. In 2005 the Regional Council started to revise the Master Plan and produced a new one in 2008. Regarding Public Transport, it took over the STIF and has developed the transport policy since then.
- 3.22 In 2008, the State decided to oppose the new Master Plan produced and approved by the regional council on the ground that it was not focused enough on the issues of competitiveness and put too much emphasis on the alleviation of social and territorial disparities and environmental concerns. As the Master Plan needs the government's approval in order to be legal, the State opposition was a way to prevent it to be implemented, a movement that most local authorities considered a way to recentralize powers over the Ile de France in the hands of the State. Following the same line, as we have seen, the State established a ministry for the development of the Capital Region and in 2009 put a bill in Parliament to create the *Société du Grand Paris*, a public company in charge of building a new public transport infrastructure and controlled by the State. The argument for the building of this new infrastructure is that the Ile de France needs such a network in order to maintain and develop its competitiveness and that the regional council has not proved to be sensitive enough to this issue in its master Plan and its transport policy. This is a clear blow against the STIF and consequently against the regional council since the STIF being the

regional transit authority it would have been normal to put the building of the 'Grand 8' under its responsibility. This move was logically considered as a way to recentralize public transport policy after it had just been given to local authorities.

#### 4. CONCLUSION

- 3.23 The Policy for the City has been symbolic of the French national urban policies. However, there is a large consensus it is more as a set of actions and measures lacking consistency and coherence than as a policy per se. The same can be said about other urban policies, be they area-based or actions of re-spatialisation.
- 3.24 Although assessment of these policies is always difficult, it can be said that they have generally not had much impact on the major issues cities are facing. This is true for social mix, for urban development and for metropolitan institutional building. In addition to a national political context which is not favourable to urban areas, the failures of most urban policies can be attributed to a limited understanding of national authorities, whatever their political leaning. The persistence of using wrong or limited approaches (the institutional imperative), inadequate conceptual tools (zoning) and the absence of a national vision about cities may well condemn national urban policies to failure. This is all the more likely with the perspective of a return of the State, challenging the pursuit of the decentralization process initiated thirty years ago. The failure is all the more likely again since the State has not anymore the necessary political, financial and intellectual resources that it used to have in its glorious period.



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**LEEDS & NATIONAL POLICY UK**

**Richard Meegan**



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- 7. Key findings and policy messages**

## 1. INTRODUCTION

### *Second tier cities in Europe*

1.1 This report forms part of a study funded by the European Spatial Observatory (ESPO). This study, *Secondary Growth Poles in Territorial Development in Europe; Performance, Policies and Prospects*, is trying to identify the contribution that second tier cities are making to their national economies and to the European economy overall and the role that policies have played in this contribution. This project is being carried out by a partnership of international researchers from the European Institute for Urban Affairs at Liverpool John Moores University, the Metropolitan Research Institute in Budapest, the University of Tampere and the University of Paris Est.

1.2 The research involves case studies of cities in 9 European countries. The case studies, including this one on Leeds in the UK, are used to test the key hypotheses of the study, namely:

- ❖ *Deconcentration matters.* This hypothesis essentially argues that the benefits of an urban system where public and private investment and resources are concentrated upon the capital city are smaller than those of a more deconcentrated, territorially balanced urban system where growth and resources are spread across a range of different sized cities in a wider territory. It implies that: national economies will be more successful when the gap in economic, social and environmental performance between the capital and second tier cities is smaller; more successful national economies have more second tier cities performing well.
- ❖ *National policies - and levels of centralisation - matter.* This argues that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. It implies that institutional and financial decentralisation from national to sub-national (regional and local) levels of government where these have significant roles, responsibilities and resources will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. In addition, second tier cities will perform better where national and regional policy making systems are horizontally and vertically aligned to focus upon place making.
- ❖ *Local factors matter.* Second tier cities are path dependent and are constrained by external factors - historical, cultural, structural, political and institutional. But those factors are not determinant. The economic performance of cities will depend upon their strategic capacity to manage those constraints.
- ❖ *The key drivers of territorial performance are innovation, human capital, connectivity, place quality, and governance capacity.* Policies on those dimensions are crucial and again should be explored and assessed.
- ❖ *Territory matters.* This argues that globalisation makes the governance capacity of place more important. It will be increasingly multi scalar. Economic governance in second tier cities should be located at the highest achievable spatial level. Second tier cities need strategies to shape the different territorial roles they play regionally, nationally and in Europe.

### *Second tier cities in the UK*

1.3 In both economic and political terms, the UK urban hierarchy remains dominated by the capital, London. This dominance is challenged, however, by a group of second tier cities that have seen some signs of 'renaissance' in recent years a renaissance that, in part at least, was recognised and encouraged by central government policy. This report is a case study of one of those cities, Leeds, which has consolidated its role as a significant secondary growth pole in both the north of England and the national economy.

### *Structure of the report*

1.4 The report is structured as follows:

- ❖ Section 2 sets the scene by discussing the reasons for selecting Leeds as a case study, emphasising the city's significance in regional, national and international terms and outlining the major issues that it faces.

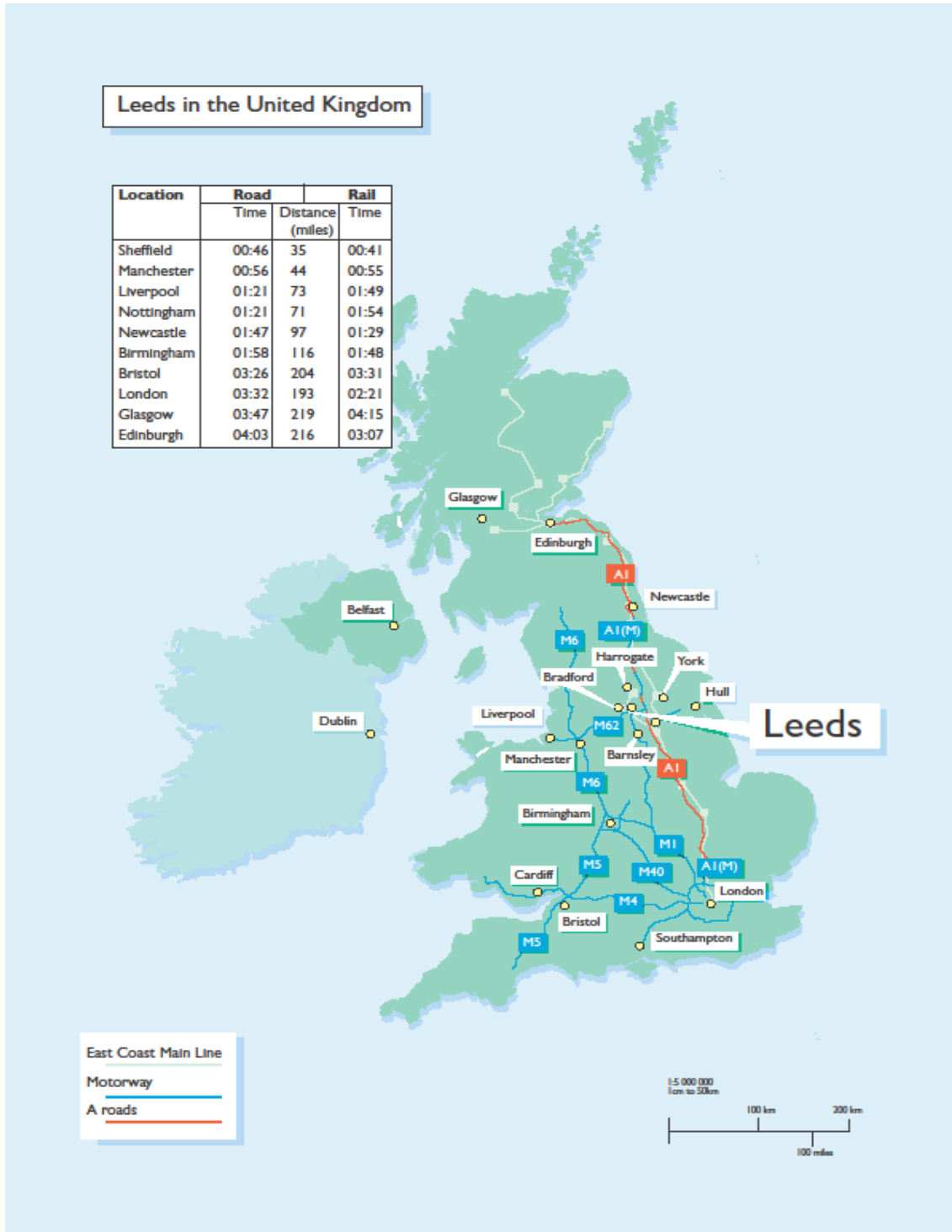
- ❖ Section 3 briefly discusses the city's historical development path emphasising its most recent economic performance.
- ❖ Section 4 describes the policy context in which the city operates, emphasising the balance between central and local government in the UK's unitary state system.
- ❖ Section 5 attempts to identify the policies, national and local, that have helped to shape the city's development path.
- ❖ Section 6 assesses the city's future challenges and overall development prospects.
- ❖ Section 7 discusses the key case study findings, relating them to the study's key hypotheses and drawing out key policy messages for second tier cities more generally.

## 2. WHY LEEDS?

### *A major second tier city in the north of England*

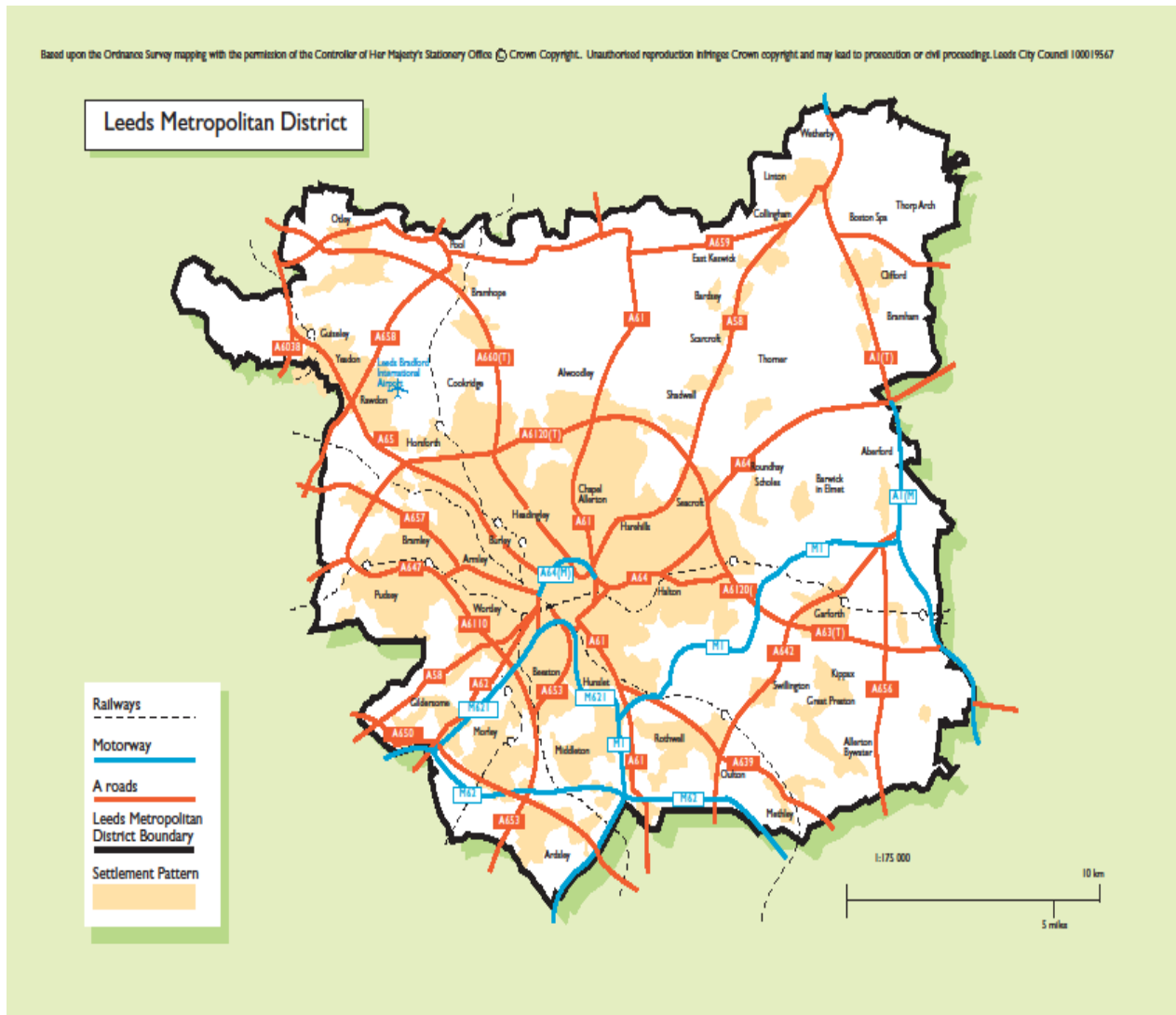
- 2.1 Leeds was chosen as a case study, first, because it is a second tier city in a classic unitary centralised state, the United Kingdom. It was also chosen because of its relative importance in the UK urban system and for its recent relative economic performance.
- 2.2 Leeds was formally recognised as a city in 1893. It is a major second tier city in the UK urban system and one of the founding members of the city lobbying group, the English Core Cities. It is the administrative and employment centre of the Yorkshire and Humberside region in the north of England, forming part of a belt of urban conurbations stretching from Liverpool and Manchester in the west to Hull and Humberside in the east and centrally located at the intersection between major north-south and east-west communication routes (Map 2.1).
- 2.3 It is the country's second largest Metropolitan District with a population of around 799,000 people. Its boundaries, drawn in the 1974 national reform of local government and substantially unchanged ever since, cover some 552 square kilometres with a built-up area to the centre and south of the district surrounded by a number of separate small towns and villages in a polycentric pattern (Map 2.2). The city's size and mix of urban and rural characteristics together distinguish it from many other Metropolitan Districts. Indeed, local policymakers often point to the 'over bounded' nature of the city in relation to other leading second tier cities when attempting to characterise it in social and economic terms.
- 2.4 The city is widely regarded as a Northern England success story for its recent growth. Between 2001 and 2010, its population increased by 12 percent, double the national increase. And between 1998 and 2008 there was a 14% increase in jobs, a faster increase than the nation and region. In the last two decades, the city has consolidated its role in commercial and financial services with significant growth in public sector jobs in higher education, administration and medical services. And the urban landscape has been dramatically transformed, with record levels of commercial property development and residential development in the city centre in these years.

Map 2.1: Leeds in the United Kingdom (Leeds City Council)





Map 2.2: Leeds Metropolitan District (Leeds City Council)



### *Up-scaling of governance*

- 2.7 In recent years the city has also sought increasingly to position itself in a city-region – the Leeds City Region – which forms a relatively self-contained functional economic sub-region that is also polycentric in structure taking in towns and villages in ten other local authority administrations: Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Selby, Wakefield, York and North Yorkshire County Council (Map 2.3). Along with Manchester, it was recognised by national government as a pilot or ‘forerunner’ for city-regional governance. Leeds, therefore, provides a good example of the ‘up-scaling’ of municipal governance in relation to economic development.

**Map 2.3: Leeds City Region** (Leeds City Council, 2010)

### 3. LEEDS HISTORICAL ECONOMIC DEVELOPMENT

#### *Introduction – the transformation of a Northern city*

- 3.1 Leeds has seen its economy evolve over time in a historical layering of investment, first in textiles, then in engineering and, most recently, in service sectors and notably financial and business services. It has been transformed in the process and has become a major employment centre in, and driver of the regional economy. This transformation can be tracked through major periods of structural change in the national economy. The city has experienced periods of rapid growth but, like other cities, is currently having to cope with the contraction produced by the current global recession. Leeds' policymakers have expressed concerns over the city's economic performance relative to other European cities and this Section concludes with a brief comparison of Leeds' economic performance in relation to other European second tier cities in our study.

#### *Leeds: a classic creature of northern England industrialisation in the nineteenth century*

- 3.2 Leeds is a classic example of urbanisation related to the period of industrialisation in Britain in the eighteenth and nineteenth centuries. From being the tenth largest town in Britain in the middle of the eighteenth century, industrialisation saw dramatic population growth and the town rising up the urban hierarchy as a result. Housing just 16,000 people in 1750, this number increased 23 fold to 368,000 in 1891, two years before it was officially granted city status. It has gone on to consolidate its place as the third largest city in the country.<sup>1</sup>

<sup>1</sup> See Statistical Appendix

*Population growth – a recent resurgence in growth*

- 3.3 After a slowing down of population growth in the three decades after the Second World War and an actual decline (of 1.5 percent) in the 1980s when natural growth was offset by out migration largely to the wider city region, the city has subsequently seen a resurgence in the last two decades. Between 1991 and 2001, the city’s population grew by just over 1 percent. But it is the last decade that has seen growth really pick up – with a 12 percent increase between 2001 and 2010.
- 3.4 As Table 3.1 shows, all but two of the eight English core cities – Birmingham and Liverpool - experienced population growth at a higher rate than that for both the capital, London, and England as a whole. This pattern also held true for the core cities as a group. Across the core cities, Leeds had the largest absolute increase with an additional 83,000 inhabitants. It also had a growth rate above that for the core cities as a group, in which it was ranked fourth in terms of proportionate growth behind Manchester, Nottingham and Bristol.

**Table 3.1: Population change London, English core cities and England, 2001-2010**

Population change core cities 2001-2010				
	2001	2010	Change	
	Total ('000)	Total ('000)	('000)	%
London	7,322.40	7,825.20	502.80	6.87
<b>Core Cities</b>				
Birmingham	984.6	1036.9	52.30	5.31
Leeds	715.6	798.8	83.20	11.63
Sheffield	513.1	555.5	42.40	8.26
Manchester	422.9	498.8	75.90	17.95
Liverpool	441.9	445.2	3.30	0.75
Bristol	390	441.3	51.30	13.15
Nottingham	268.9	306.7	37.80	14.06
Newcastle	266.2	292.2	26.00	9.77
<b>Core Cities Total</b>	4003.2	4375.4	372.20	9.30
England	49,449.70	52,234.00	2,784.30	5.63

Source: Mid Year Population Estimates, ONS

- 3.5 This pattern was replicated at sub-regional and regional levels, as Table 3.2 shows. Between 2001 and 2010, the city’s population growth rate was above that for the West Yorkshire Metropolitan County, the Leeds City Region and the region. Its growth rate was only matched by York. In 2001, the city accounted for 34 percent of the population in the Metropolitan County but 50 percent of the population growth in the latter over the next nine years. The corresponding comparisons for the City Region are 26 and 39 percent and 14 and 26 percent for the region. Leeds has clearly reinforced its commanding position in both the region and sub-region.

Table 3.2: Population change Leeds City Region and Yorkshire &amp; Humberside, 2001-2010

Leeds, Leeds City Region and Yorkshire and Humberside	2001	2010	Change	
	Total ('000)	Total ('000)	('000)	%
<b>West Yorks (Met County)</b>				
<b>Leeds</b>	715.6	798.8	83.20	11.63
Bradford	470.8	512.6	41.80	8.88
Kirklees	389	409.8	20.80	5.35
Wakefield	315.4	325.6	10.20	3.23
Calderdale	192.4	202.7	10.30	5.35
<b>Total West Yorks Met County</b>	2083.2	2249.5	166.30	7.98
<b>South Yorks (Met County)</b>				
Barnsley	218.1	227.6	9.50	4.36
<b>North Yorks</b>				
Harrogate	151.5	158.7	7.20	4.75
Selby	76.6	82.9	6.30	8.22
Craven	53.7	55.4	1.70	3.17
<b>Total North Yorks</b>	281.8	297	15.20	5.39
<b>York Unitary Authority</b>	181.3	202.4	21.10	11.64
<b>Total City Region</b>	<b>2764.4</b>	<b>2976.5</b>	<b>212.10</b>	<b>7.67</b>
<b>Yorks &amp; Humberside</b>	4,976.60	5301.3	324.70	6.52

Source: Mid Year Population Estimates, ONS

- 3.6 Urban historians are agreed that the city's historic development path is based on the diversity and innovativeness of its economic base and its evolution as a regional administrative and commercial centre.<sup>2</sup> And this particular economic base and role have seen it ride the economic cycle and structural turning points in the economy with a degree of resilience not shared by other cities.

*Leeds in the old international division of labour*

- 3.7 The city is the product of a historical layering of waves of investment starting with textiles - wool, flax and, for a period from the 1790s to 1810, cotton manufacture, which formed the motor of industrialisation in the nineteenth century. Investment in raw material production (coal mining) and connectivity through waterways (notably the Calder and Aire navigation, 1699 and the Leeds-Liverpool canal, 1770) and roads and rail (from 1834) strengthened the economic base. Innovative production methods in textile production and machinery drove the development of a local engineering industry. These waves of investment all combined to locate the city firmly in the northern industrial segment of the national spatial division of labour – with industrialised cities and regions linked east and west to the global economy and Empire in the 1880s and 1890s.

- 3.8 Following the 1835 Municipal Reform Act the city embarked on its municipal heyday in which it operated its own utility companies - water supply in 1842; gas in 1870; and electricity in 1895 – taking over the existing private company operating trams in 1894, schools and colleges in 1870.<sup>3</sup>

*Leeds in the new international division of labour*

- 3.9 Two periods of major structural change can be identified in the British economy in the twentieth century alongside the current twenty-first century change shaped by the global recession of the late 2000s (Table 3.3). All of these periods have involved systemic shifts in global economic relationships, changing state roles and changing economic geographies. Leeds came through the 1930s and 1940s shift relatively unscathed but was more affected by the economic downturn of the late 1970s. It has

<sup>2</sup> See, for example, Fraser (1980), Counce and Honeyman (1993) and Reeder and Rodger (2000),

<sup>3</sup> Burt and Grady (2002)

also seen the employment growth it experienced in the late 1990s and the best part of the 2000s halted by the 2008 crisis.

**Table 3.3: Major periods of structural change in the British economy**

<p><b>1930s-1940s</b></p>	<ul style="list-style-type: none"> <li>• Decline of the cotton, textile, shipbuilding and other large-scale industries especially in Scotland and North of England. Mass unemployment</li> <li>• Development of new industries during 1930s mainly in the Midlands and South East: radio engineering, motor vehicles, domestic appliances, aircraft, plastics, rayon and others</li> <li>• State rationalisation, funding and provision of welfare services in founding the welfare state in second half of 1940s</li> <li>• Nationalisation and state planning of coal production, rail transport and other industries</li> <li>• Large scale assembly-line production – ‘Fordism’ - fully established as the most productive method of production</li> <li>• Sterling ceases to be at the centre of the world’s financial system. In the mid-1940s the US dollar became the dominant international currency and new institutions (the Bretton Woods institutions) were established to supervise international finance, trade and investment</li> <li>• The economic ties of the old British Empire were tightened during this period and Britain remained at the centre of that group of countries’ trade and finance</li> </ul>
<p><b>1970s-1980s</b></p>	<ul style="list-style-type: none"> <li>• Decline of industries manufacturing motor vehicles, vehicle components, other engineering, steel and others. Mass unemployment.</li> <li>• Growth of industries based on information technology, growth of employment in consumer services, growth of financial sector</li> <li>• New production methods based on fragmented labour force and flexible labour established in leading industries</li> <li>• Partial dismantling of state ownership of major industries and state provision of services</li> <li>• Consolidation of the strength of manufacturing industry in newly industrialised countries such as North Korea. Increased trade between the UK, Western Europe, North America and new industrialised countries</li> <li>• Historic expansion in volume of international finance and financial dealing coinciding with instability in financial markets and collapse of the Bretton Woods system based on the dollar’s pre-eminence</li> </ul>
<p><b>2000s-2010s</b></p>	<ul style="list-style-type: none"> <li>• Global credit crunch and economic crisis</li> <li>• Austerity measures to tackle structural deficit in public finances</li> <li>• Extensive globalisation with ongoing incorporation of former USSR and former socialist states of Central and Eastern Europe into global economic system (“transition”) and emergence of BRIC countries as global economic players (BRIC states / ‘emerging markets’ accounting for over 40 percent of the world’s population). Beginnings of shift in epicentre of international trade eastwards with China and India heading towards being leading producers of manufactured goods and Russia and Brazil leading suppliers of raw materials</li> <li>• Emergence of major cities in East, particularly China, as economic powerhouses</li> </ul>

Source; Based on Harris (1988) updated

3.10 Leeds experienced some industrial restructuring in the years leading up to the First World War and the inter-war period with the loss of shoe production and decline in the woollen and worsted industries and pottery and dyestuffs. But it still retained a broad diversity of economic activity that saw it less adversely affected by the 1930s recession than other northern industrial cities and regions. It did not see the development of the new propulsive industries like electrical engineering and motor vehicles that largely emerged in the Midlands and South East of the country. But this was compensated for by a combination of developments that maintained some growth. Its engineering companies restructured around new and more specialised products. Crucially, the clothing industry was able to ride the recession benefiting from an increase in sales of cheaper clothing and its cheap and available supplies of local, largely female labour. In fact the industry was held back to some degree by local labour shortages in the early 1930s. The major employer, Burtons, in fact had to resort to bussing in employees from what is now seen as the wider city–region to its Leeds factory. Leeds became the largest tailoring centre in Europe in this period. The city also saw continued growth in its distribution and service trades, acting as a regional centre for wholesalers and developing its regional retail centre role. There was also some growth in public sector jobs in the local authority and in transport and entertainment and printing. And the construction industry also benefited from some

civic building. Rearmament leading up to the Second World War also benefited the engineering and clothing industries which went on to play an important role during the War.<sup>4</sup>

*Leeds in the post-war 'Golden Years' 1945-1973*

- 3.11 Employment in the 1950s and early 1960s continued to grow moderately - by around 2% between 1951 and 1966 - and recorded unemployment averaged less than 1% in the boom years of 1955, 1961 and 1965 when job vacancies actually exceeded the registered numbers of unemployed persons. The loss of jobs in manufacturing between 1951 and 1973 – 37,000 – was compensated in part by the growth of 32,000 jobs in business and other service industries.<sup>5</sup>

*Leeds in the late 1970s and early 1980s - downturn*

- 3.12 Leeds was not immune from the 'de-industrialisation' of the 1970s and 1980s that disproportionately affected the northern industrial segment of the national division of labour. This was when the 'jobs gap' started to appear in British cities.<sup>6</sup> The growth of the 1950s and 1960s was reversed with employment falling - by nearly 7% between 1971 and 1981 – more than twice the national rate. And manufacturing employment fell by nearly a third compared with a national decline of just under a quarter.<sup>7</sup> Unemployment rose in the mid-1970s, restrained in part by a fall in population as outmigration outweighed natural growth. And spatial disparities in income and wealth became increasingly marked, notably in the inner city areas that had been the destination of waves of immigration from industrialisation onwards - Jews from Continental Europe, Irish in the nineteenth centuries, Afro-Caribbean from the 1950s and the Indian sub-continent from the 1970s. The difficult years of the 1970s were punctuated in 1981, as in Bristol, Liverpool and London, by riots as result of a complex combination of economic disadvantage and social conflict over policing.

*Leeds from the 1980s to the late 2000s – recovery and boom*

- 3.13 The 1980s saw a continuation of the restructuring of the local economy.<sup>8</sup> While some sectors declined – notably manufacturing and mining - there were some growth sectors that compensated for the decline and reinforced the diversity of the economy. Manufacturing employment continued to shrink in employment as a result of both increasing productivity and rationalisation and firm closure. It also saw some relocation of manufacturing firms from the city centre to the wider city region and, in some cases, further afield. The five coal mining pits operating in south east Leeds were all closed by the early 1990s. Countering this, public utilities and financial institutions established regional headquarters in the city.
- 3.14 The 1980s also saw the city's economy integrated into the global economy in a new way in the shape of increasing foreign ownership. Foreign multinationals were notable by their absence before the 1980s. But this changed in the 1980s with a number of long established companies, notably in manufacturing being taken over by foreign companies. Particularly symbolic were, the acquisitions, in manufacturing, of Tetley's brewing company by the Danish company Carlsberg in 1998; in banking, of the Yorkshire Bank by National Australia Bank in 1990; and, in retail, of ASDA by the US Wal Mart Corporation in 1999. By the end of the 1990s there were 55 major companies operating in Leeds that had foreign ownership with the largest number of these, 24 (44%) with parent companies from the USA.<sup>9</sup> Germany, Switzerland, Japan and France were other important sources of foreign direct investment.<sup>10</sup>
- 3.15 The influence of national policy can be seen in the nature of this foreign direct investment in manufacturing. As Leeds was not eligible for regional policy, the investment was not driven by

<sup>4</sup> <http://www.leodis.org>, Thornton (2002)

<sup>5</sup> Leeds City Council (1998)

<sup>6</sup> Turok and Edge (1999)

<sup>7</sup> Champion et al (1987)

<sup>8</sup> Sawyer (1993)

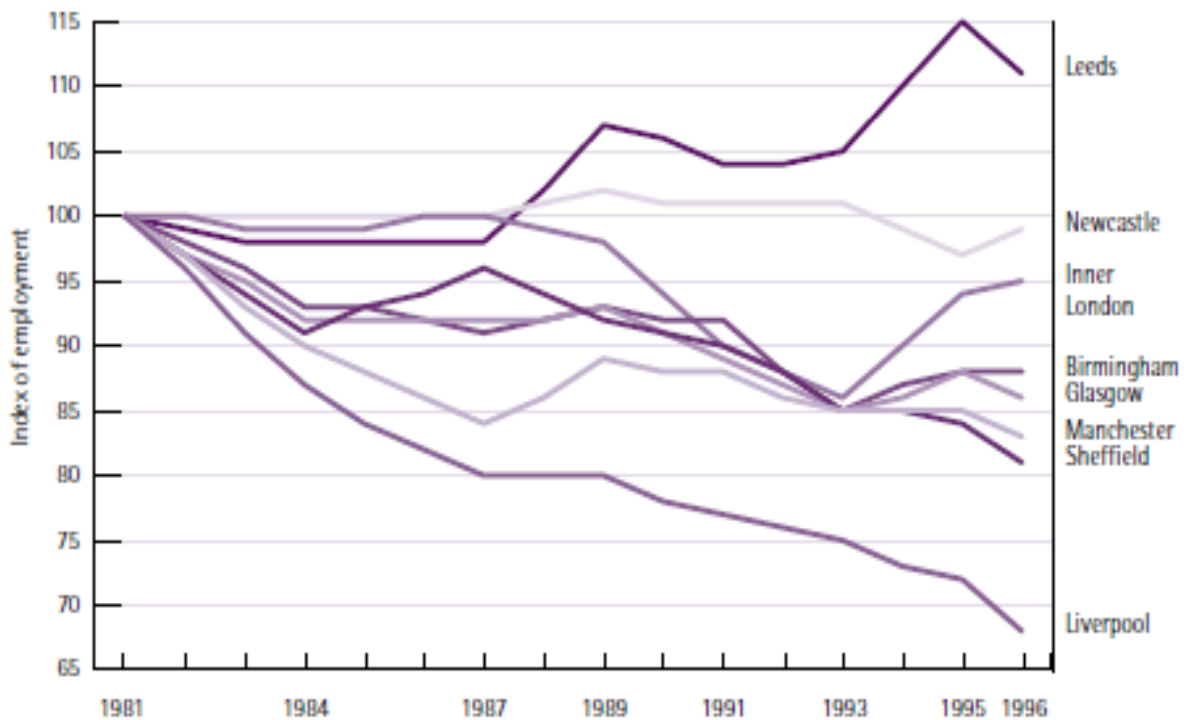
<sup>9</sup> Leeds City Council (1998)

<sup>10</sup> Stillwell and Unsworth (2004)

regional development grants and thus did not take the form of greenfield investments that these grants tended to encourage. Investment was confined to the takeover of companies and their existing brownfield sites.

- 3.16 The composition of employment continued to change with tourism, for example, accounting for the same number of employees as the once dominant clothing industry and, most notably, the financial and business services sector growing by over two-thirds during the 1980s. Legal services and banking were both important in this growth with the latter more focused around retail and commercial banking than the trading of financial assets and investment banking, found predominantly in the capital. Legal and financial services had expanded alongside industry and commerce in the mid nineteenth century when Leeds, for a time, was the only provincial city to have a Stock Exchange. Legal services firms are still to be found in the Georgian houses that housed their predecessors.<sup>11</sup>
- 3.17 In the public sector, the city was also on the receiving end in the early 1990s of a significant transfer of jobs from the Departments of Health and Work and Pensions in London to add to the city’s growing importance as a regional administrative centre. The Post Office, British Gas, British Telecom and Yorkshire Electricity (the last three of these subsequently privatised) all had regional headquarters in the city and were major employers. So too were the University of Leeds and Leeds Metropolitan University.
- 3.18 Leeds was performing relatively well in relation to other cities. Figure 3.1 shows employment change for seven cities and Inner London between 1981 and 1996. Leeds stands out as the only one that saw its employment actually grow over the period as a whole.

**Figure 3.1: Indexed total employment change 1981-1996, by principal cities (1981=100)**

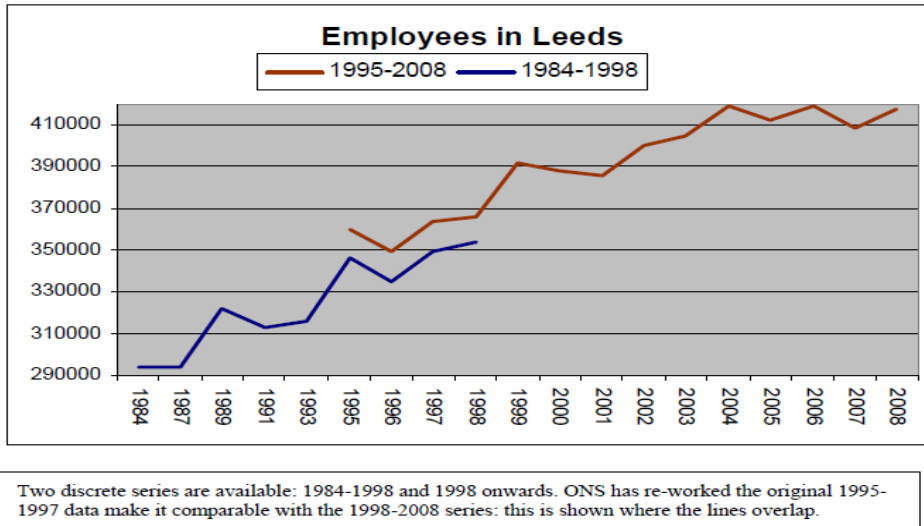


Source: Turok and Edge (1999)

<sup>11</sup> Barker (20100)

3.19 But what really sets the city part is the burst of employment growth from the late 1990s. The downturn in employment in 1995-1996, was followed by a decade of rapid and relatively uninterrupted growth. Between 1998 and 2008, jobs in Leeds grew by 51,800 a 14% increase above the national (10%), West Yorkshire (8%) the City Region (9%), the region (9%) and the English Core Cities (9%) as a whole. The city accounted for 28% and 48%, respectively, of the net jobs created in the region and City Region over this period.

Figure 3.2: Employees in Leeds, 1994-2008 (Source: Leeds City Council, 2009)



3.20 Outside London, 15 centres in Great Britain had more than 150,000 employees in 2008 and Leeds was the second largest of these, after Birmingham.<sup>12</sup> As Figure 3.3 shows only Glasgow created more jobs than Leeds over the preceding ten years. Glasgow saw employment increase by 66,300 followed by Leeds with 51,800 and Cardiff with 40,500 new jobs. In proportionate terms, Leeds had the fifth highest increase at 14% (Table 3.4).

Table 3.4: Employment change 1998-2008, Leeds and comparator cities

Employees in employment : change 1998 – 2008		
Comparison of Leeds with other major local authorities		
LA	Change in number of jobs, '000s	% Change
Glasgow	66.3	+19
<b>Leeds</b>	<b>51.8</b>	<b>+14</b>
Cardiff	40.5	+27
Manchester	38.8	+14
Newcastle	26.7	+18
Edinburgh	26.5	+10
Liverpool	25.1	+12
Sheffield	24.0	+11
Aberdeen	19.8	+13
Birmingham	15.2	+3
Bristol	11.0	+5
Kirklees	1.5	+1
Bradford	-0.7	0
Nottingham	-4.1	-2
Leicester	-5.0	-3
West Yorkshire	75.7	+8
Leeds City Region	108.6	+9
Y & H	185.9	+9
Core Cities	188.5	+9
G B	2,349.3	+10

Source :ABI and its predecessors excludes the self employed and MAFF agriculture data – SIC0100

(Source: Leeds Economy Handbook, Leeds City Council Accessed July 2011)

<sup>12</sup> Leeds City Council (2011a)



- 3.21 Table 3.5 shows how the period reinforced the remaking of the city's economy. The number of jobs in manufacturing and utilities continued to decline while private sector jobs in financial and business services, particularly in real estate and business activities and hotels and restaurants and public sector jobs in education and health grew. By 2008, manufacturing accounted for just 9% of city jobs while financial and business services provided 29%. And jobs in these services grew faster than national in the city, city region and region.

**Table 3.5: Employment change by sector, 1998-2008 - Leeds, Leeds City Region, Yorkshire and Humberside and England**

Industry	Employment change 1998-2008			
	Leeds	Leeds City Region	Yorkshire and Humberside	England
A/B/C : Agriculture, hunting and forestry/ fishing/ Mining and quarrying	+200	-3,000	-5,800	-27,500
D : Manufacturing	-16,300	-64,300	-118,700	-1,167,600
E : Electricity, gas and water supply	-2,500	-3,200	-2,800	-18,5000
F : Construction	+5,800	+5,500	+19,100	+147,500
G : Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	-1,400	+8,100	+10,300	+55,500
H : Hotels and restaurants	+6,900	+12,687	+7,100	+207,800
I : Transport, storage and communication	+1,200	+5,700	+9,600	+114,600
J : Financial intermediation	+9,700	+10,800	+10,500	+14,000
K : Real estate, renting and business activities	+25,600	+66,600	+104,000	+1,148,500
L : Public administration and defence; compulsory social security	+3,100	+12,600	+20,200	+74,400
M : Education	+12,800	+30,400	+60100	+533,900
N : Health and social work	+4,200	+20,197	+59,100	+595,000
O : Other community, social and personal service activities	+2,700	+6,100	+10,000	+241,000
Column Total	+51,800	+108,000	+182,600	+1,918,700
Percent				
A/B/C : Agriculture, hunting and forestry/ fishing/ Mining and quarrying	-8.5	-31.0	-21.4	-10.4
D : Manufacturing	-31.2	-28.4	-29.0	-33.3
E : Electricity, gas and water supply	-68.8	-36.5	-23.9	-17.3
F : Construction	+36.9	+9.6	+19.7	+16.1
G : Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	-2.1	+3.8	+2.7	+1.5
H : Hotels and restaurants	+37.3	+18.9	+5.4	+15.5
I : Transport, storage and communication	+5.7	+9.7	+8.4	+9.1
J : Financial intermediation	+42.6	+19.4	+13.7	+1.5
K : Real estate, renting and business activities	+40.0	+48.0	+47.2	+36.4
L : Public administration and defence; compulsory social security	+18.8	+23.8	+20.3	+6.6
M : Education	+43.7	+29.2	+34.4	+32.7
N : Health and social work	+10.7	+15.6	+26.4	+27.9
O : Other community, social and personal service activities	+14.6	+11.9	+11.4	+24.6
Total	+14.2	+9.2	+8.9	+9.1

Source: Annual Business Inquiry Employee Analysis

\* numbers are rounded so may not total

\* % changes are based on unrounded figures

- 3.22 The growth overall consolidated the diversity of the city's economy and its place in the national spatial division of labour. In terms of number of employees, Leeds in 2008 was the largest centre for printing, construction, financial and business services and knowledge-based industries outside London;

the second largest centre for manufacturing, distribution hotels and restaurants and personal services, and the third largest for legal service, creative & digital industries and transport and communications.

- 3.23 This growth in employment to some extent sets Leeds apart from what has been described as the current 'UK business model in which publically supported employment in the form of both state employment and state supported or 'para state' employment in the private sector has been used by government to compensate for the failure of the private sector to create sufficient employment, particularly in the old industrial regions.<sup>13</sup> Leeds has seen growth in state supported employment in education and health. But it has also seen significant growth in private sector employment and notably in financial and business services.

*A transformed city centre*

- 3.24 The boom has left its mark on the city centre's built environment, which has been transformed in the past two decades.<sup>14</sup> Commercial property has been refurbished, notably in the shopping area and new office and mixed use developments have intruded on the landscape. The city centre has extended southwards and the derelict waterfront has been redeveloped. City centre living, in the shape of new apartment complexes has, controversially, been implanted.<sup>15</sup> Counting only individual property schemes valued at £1m or over, in the period 2001 to 2010 £4.3bn worth of major developments had been completed, £638million worth were under construction and £10.9bn were proposed, making £10.9bn in total.<sup>16</sup>

*Output – Leeds is a key driver of the regional economy and a significant core city*

- 3.25 Leeds' GVA was £17.8bn in 2008, about 44%, 20% and 1.4%, respectively of the total GVA of West Yorkshire, Yorkshire and Humberside and Great Britain (Table 3.6). It is ranked third in the 9 core city regions (with Manchester broken into two), below Greater Manchester South and Birmingham. Its growth rate between 1998 and 2008, however, was below that of all the core cities with the exception of Greater Manchester North.

**Table 3.6: GVA and GVA growth in the boom period, 1998-2008**

	GVA (£bn)		GVA growth (%)
	1998	2008	1998-2008
GB	764.5	1,266.8	66
London	147.5	269.2	82
Yorkshire and Humberside	57.6	89.5	55
West Yorkshire	26.2	40.2	53
<b>Leeds</b>	<b>11.0</b>	<b>17.8</b>	<b>62</b>
<b>Other English core cities</b>			
Birmingham	13.5	20.2	50
Bristol	7.3	11.6	59
Greater Manchester North	11.2	15.5	38
Greater Manchester South	19.6	32.2	64
Liverpool	5.2	8.7	66
Nottingham	4.9	7.7	57
Sheffield	5.9	9.7	63
Tyneside (inc. Newcastle)	9.3	15.4	66

Source: Leeds Economy Handbook, Leeds City Council Updated Spring 2011)

<sup>13</sup> Buchanan et al (2009) Ertürk et al (2011)

<sup>14</sup> Unsworth (2005), Stillwell and Unsworth (2008)

<sup>15</sup> Unsworth et al (2007), Knight Frank et al (2010), Unsworth and Smales (2010)

<sup>16</sup> Leeds City Council (2011b)

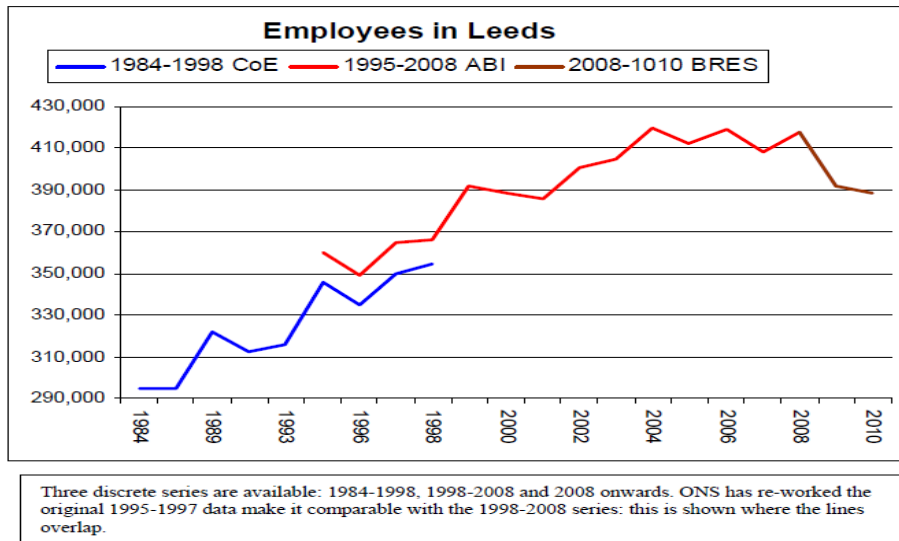
- The capital continues to dominate*
- 3.26 Table 3.7 compares the economic performance of UK second tier cities with London in terms of GDP per capita over the growth period of the 2000s. It shows the gaps in 2000 and 2007 and the percentage point change between the two years. The figures are for metropolitan regions with the Leeds figure relating to West Yorkshire ('Bradford-Leeds'). The gaps widened over the period in eight of them, and notably so for Leeds. It growth over the period did not see a narrowing of the gap with London. Indeed, only five cities saw the gap narrow. This was notably the case in Edinburgh, the 'capital' of one of the devolved administrations.

Table 3.7 GDP per capita - UK Cities as a Percentage of London

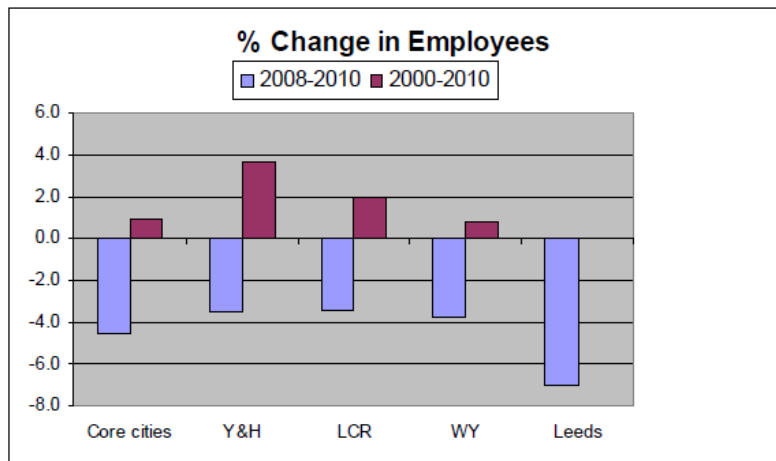
GDP per capita - UK Cities as a Percentage of London			
	2000	2007	Change
Edinburgh	89.4	94.5	5.1
Sheffield	52.9	54.7	1.8
Belfast	70.2	72.0	1.8
Glasgow	67.2	68.1	0.9
Newcastle upon Tyne	59.4	60.1	0.7
Leicester	70.1	69.1	-1.0
Bristol	85.0	83.8	-1.2
Liverpool	53.2	51.3	-1.9
Nottingham	64.5	62.4	-2.1
Cardiff	58.8	56.6	-2.2
Manchester	69.4	65.0	-4.4
Birmingham	70.5	64.7	-5.7
<b>Leeds</b>	<b>70.6</b>	<b>63.8</b>	<b>-6.7</b>

- Growth interrupted - the onset of recession*
- 3.27 The city clearly benefited from and was part of the global and national growth of the 2000s. It has not been immune to the global and national economic crisis of the late 2000s. The Economic Policy Team at Leeds City Council has measured the impact of the recession on employment in the city using data from the new Business Register Employment Survey and linking these data with those produced by the earlier Annual Business inquiry and Census of Employment to give a time series from 1984 to 2010 (Figure 3.3). It shows the dramatic reversal of growth from the late eighties to the onset of recession in 2008. Between 2008 and 2010 employment in the city fell by 7% (some 29,300 jobs) to just below the level reached twelve years earlier. The net employment growth of the previous decade has been wiped out. And the fall has been proportionately greater than that recorded in West Yorkshire, the city region, region and the English core cities as a whole (Figure 3.4).

**Figure 3.3: Employees in Leeds, 1984-2010** Source: Leeds City Council (2011c)



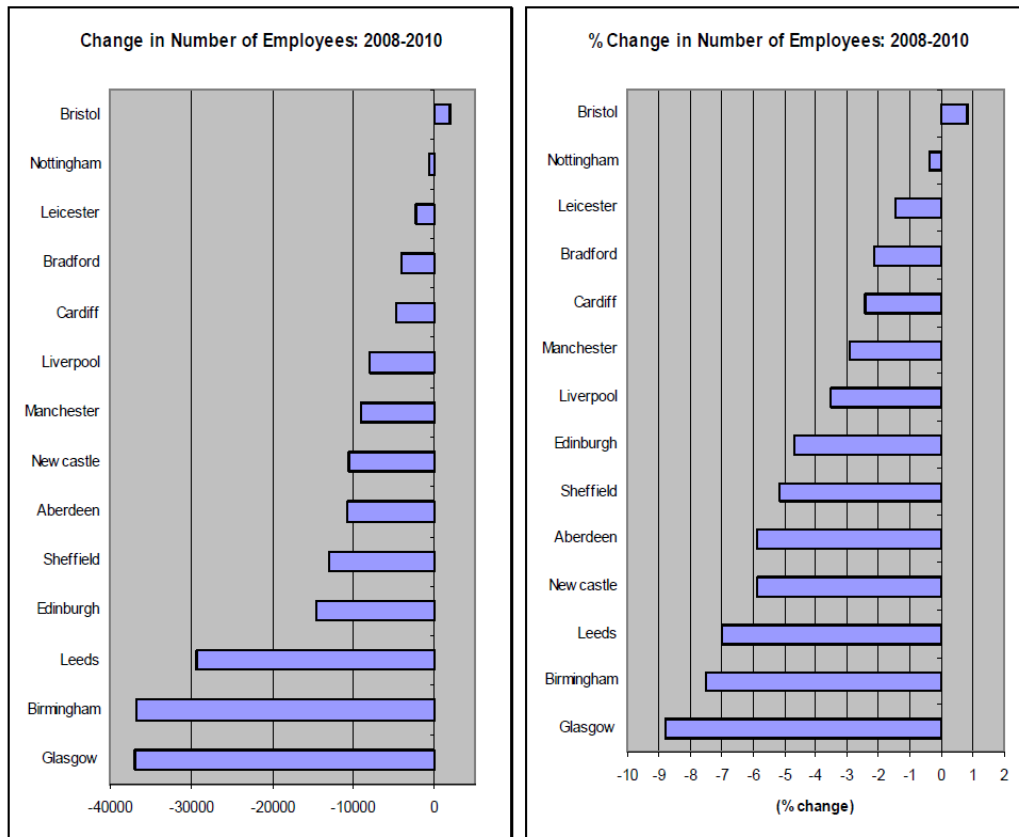
**Figure 3.4: Percentage change in employees, 2000-2010 and 2009-2010**



Source: Leeds City Council (2011c)

3.28 Leeds has had the third largest absolute and percentage loss of employment since the onset of the recession in comparison with thirteen other second tier cities (Figure 3.5).

Figure 3.5: Changing number of employees 2008-2010, in 14 UK second tier cities



Source: Leeds City Council (2011c)

3.29 The sector that dominated job growth and that was responsible globally for the financial crisis that triggered the global economic recession, financial and business services, has also led the job loss, shedding some 15,000 jobs in just two years (Table 3.8). The impact of the credit crunch and subsequent collapse in the property market can also be seen in the 7,000 job losses in construction. And retail has also seen a significant contraction. Job losses in all these sectors have been proportionately greater than national rates. Financial and business services have slipped back to accounting for around 26 percent of employment in Leeds. Retail and wholesale come next at 15 percent and manufacturing at 8 percent. In contrast, energy and water utilities have increased jobs and so too have public services, which currently account for around 28 percent of jobs in the city, although this predates the bulk of the public sector job cuts that are built into central government's post-crisis austerity measures.

**Table 3.8: Employment change 2008-2010 by broad sector, Leeds**

Sector	Change in employees in Leeds	% change 2008-2010					
		Leeds	WY	City Region	Y&H	GB	Core Cities
Agriculture, mining, quarrying	-	-	-	-	-	-	-
Energy/water	3,600	...	...	...	+39	+16	-1
Manufacturing	-1,700	-5	-5	-6	-7	-9	-11
Construction	-6,700	-29	-22	-21	-20	-16	-19
Wholesale & retail	-5,300	-8	-10	-9	-7	-4	-5
Transport & storage	-1,350	-9	+1	0	-1	-5	-4
Accomm & food services	-4,950	-18	-14	-11	-10	-5	-11
Info & communications	-900	-6	+1	+6	+3	-4	-5
Finance & Business Services	-15,050	-13	-9	-9	-9	-6	-8
Public services	4,100	+4	+7	+6	+5	+4	+2
Other services	-1,050	-5	0	+2	+8	-3	-1
<b>Total</b>	<b>-29,250</b>	<b>-7</b>	<b>-4</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-5</b>

Source: Leeds City Council (2011c)

#### *Rising unemployment*

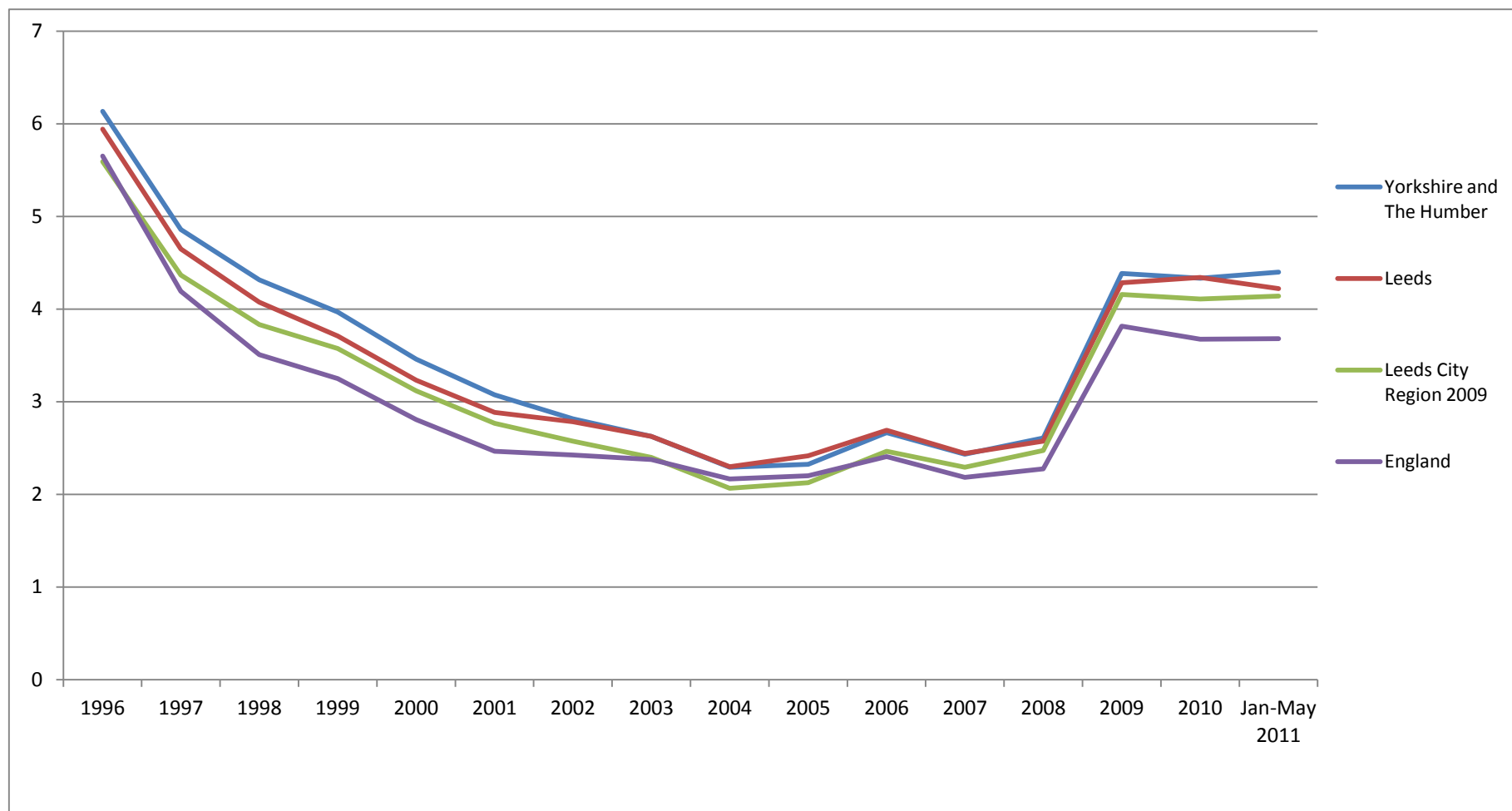
- 3.30 The job loss in the past two years has been mirrored in a sharp rise in unemployment. Figure 3.6 shows the average annual unemployed claimant counts as a percentage of the city's working age population between 1996 and 2010 and the average of the first five months of this year. Between 1998 and 2008, the average claimant count averaged 2.9 percent. For 2009 and 2010 it averaged 4.3 percent and for the first five months of this year, 4.2 percent. The recession has so far seen an increase in claimant counts of just under one half. A similar pattern can be seen for the city region, region and nationally.
- 3.31 Table 3.9 shows levels and rates of worklessness across UK second tier cities between 2006 and 2011. Leeds had the biggest increase (14 percent) over the five years, although it still had a relatively low rate. At 11 percent, it had the equal lowest rate in 2006 (with Edinburgh) and slipped to second lowest (with Bristol and behind Edinburgh) five years later.

**Table 3.9: Worklessness numbers and rates, UK second tier cities, 2006 and 2011**

	May 2006		May 2010		May 2011		2006-11 % change	2010-11 % change
	No	Rate	No	Rate	No	Rate		
Birmingham	116,900	18	123,570	18	121,950	18	+4	-1
Glasgow	90,980	23	89,320	22	87,370	21	-4	-2
Liverpool	68,720	23	66,730	22	66,850	22	-3	0
<b>Leeds</b>	<b>55,630</b>	<b>11</b>	<b>64,290</b>	<b>12</b>	<b>63,510</b>	<b>12</b>	<b>+14</b>	<b>-1</b>
Manchester	61,450	19	63,380	18	62,650	17	+2	-1
Bradford	43,740	14	48,130	15	48,760	15	+11	+1
Sheffield	44,050	13	47,820	13	47,950	13	+9	0
Bristol	34,400	12	38,850	12	38,910	12	+13	0
Nottingham	32,860	16	35,480	16	36,140	16	+10	+2
Edinburgh	34,740	11	36,430	11	36,130	11	+4	-1
Leicester	31,700	16	35,000	17	34,310	17	+8	-2
Kirklees	30,090	12	34,270	13	33,930	13	+13	-1
Cardiff	29,020	13	32,080	14	32,070	14	+11	0
Newcastle	28,560	15	28,790	14	28,310	14	-1	-2

Source: Leeds City Council (2011a)

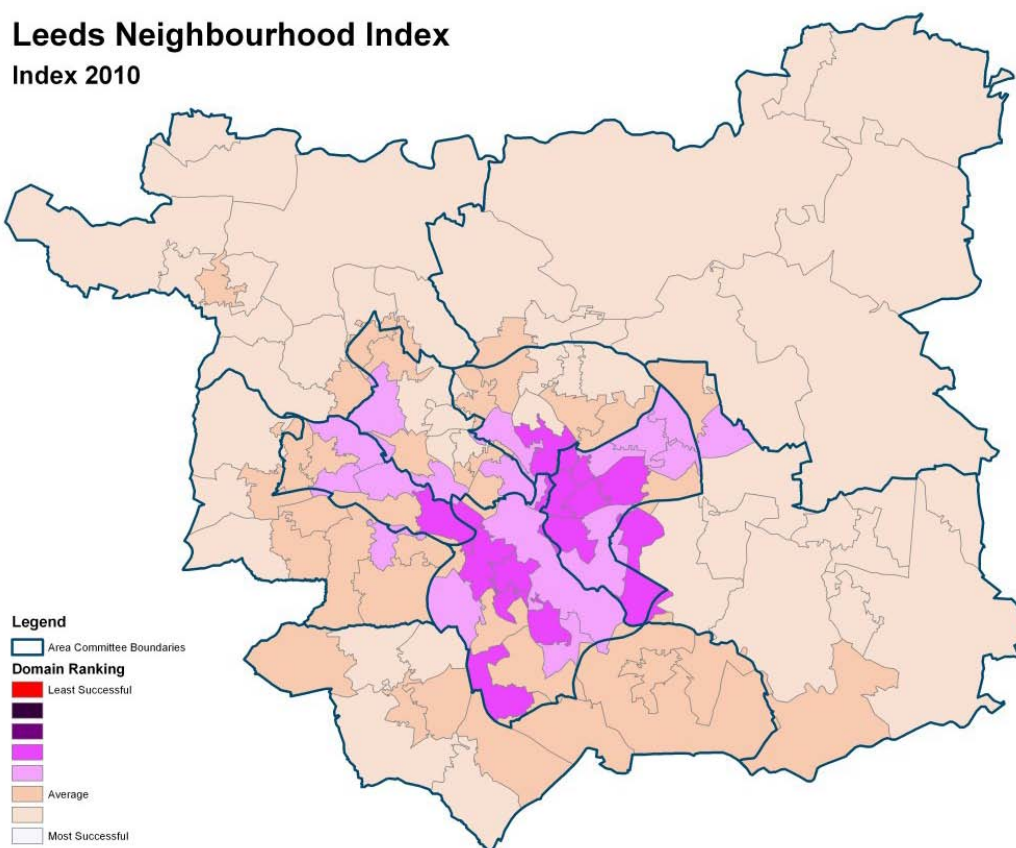
Figure 3.4: Claimant Count, % of working age population, 1996-2011



Source: Nomis Claimant Count with Rates and Proportions

- 3.32 *Growth has not been equally shared*  
Growth has not been distributed evenly across the city. In the early 1990s, as growth picked up pace, the 'corporate city' was also increasingly characterised as a 'divided city'.<sup>17</sup> And city development policy has recognised the existence of a 'two-speed city' and the need for action to 'narrow the gap' – social and spatial - between advantaged and disadvantaged. The City Council has mapped the geography of this gap using a *Neighbourhood Index*, which forensically measures the performance of neighbourhoods in seven domains: community safety, economic activity, education, environment, health, housing and low income.
- 3.33 Figure 3.5 shows the overall index, which is made up of a combination of all seven domain scores. The worst performing areas have the lowest combined scores – displayed in shades of purple - and the best performing areas have the highest combined scores - shown in shades of beige.

**Figure 3.5 Leeds Neighbourhood Index**



**Source:** Leeds City Council (2010)

- 3.34 The most disadvantaged neighbourhoods are located in the Inner East and Inner South of the city and experience, in addition to high levels of worklessness and low income levels, high levels of crime, low educational attainment and poor health and low income levels. Housing and environmental measures are more varied but these are outweighed by the neighbourhoods' performance on the other domains. The most successful areas, in contrast, are generally located in the Outer North West and Outer North East of the city.
- 3.35 The map underlines how many inner – city residents were unable to access the new jobs created in the growth period. Many of these were taken by residents of the wider city-region and, unsurprisingly, the uneven geography at city level is replicated at this broader spatial scale, as shown

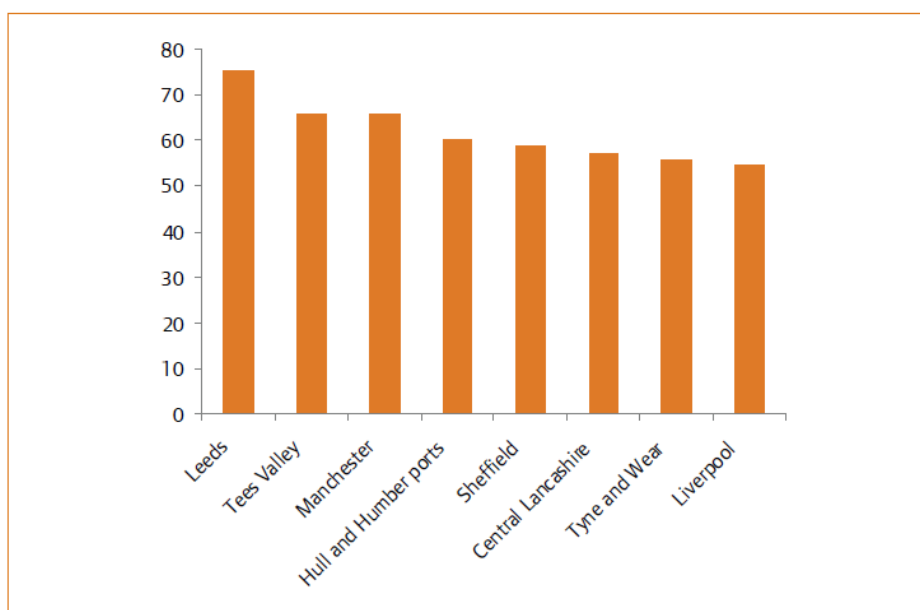
<sup>17</sup> Haughton and While (1996), Stillwell and Shepherd (2004)



by a recent study looking at how the growth of 1998-2008 was shared across Northern city regions.<sup>18</sup> The study uses two spatial measures of inequality: the spatial segregation of economically inactive residents, with benefit claimants as a proxy, and the degree of polarisation between neighbourhoods based on average household incomes. These variations, it argued, are most likely to result from the process of residential sorting where differences in income and wealth are filtered through the housing market.

- 3.36 While the level of segregation varied between benefit claimant groups and city-regions, overall, benefit claimants became more segregated and increasingly concentrated in certain neighbourhoods during the growth years. On this measure, Leeds had a growing but middle ranking level of segregation across the eight Northern city regions, with Sheffield the least and Hull and Humber Ports and Central Lancashire the most segregated. On the second measure of income polarisation – the extent to which people with high and low household incomes are concentrated in different areas - Leeds was the most polarised of the Northern city-regions. It had the highest mean household income - of £382 per week - but also the highest standard deviation of mean household income at the sub-local authority level, plus/minus £75 (Figure 3.6). This indicates a large variation between neighbourhoods and this can be seen in the concentration of low average income households in inner urban areas across the city region and the spread of much higher average incomes across the wider more rural hinterland and commuter belt (Figure 3.7).

**Figure 3.6: Level of polarisation by city region (standard deviation from the mean, £ per week), 2007/08**

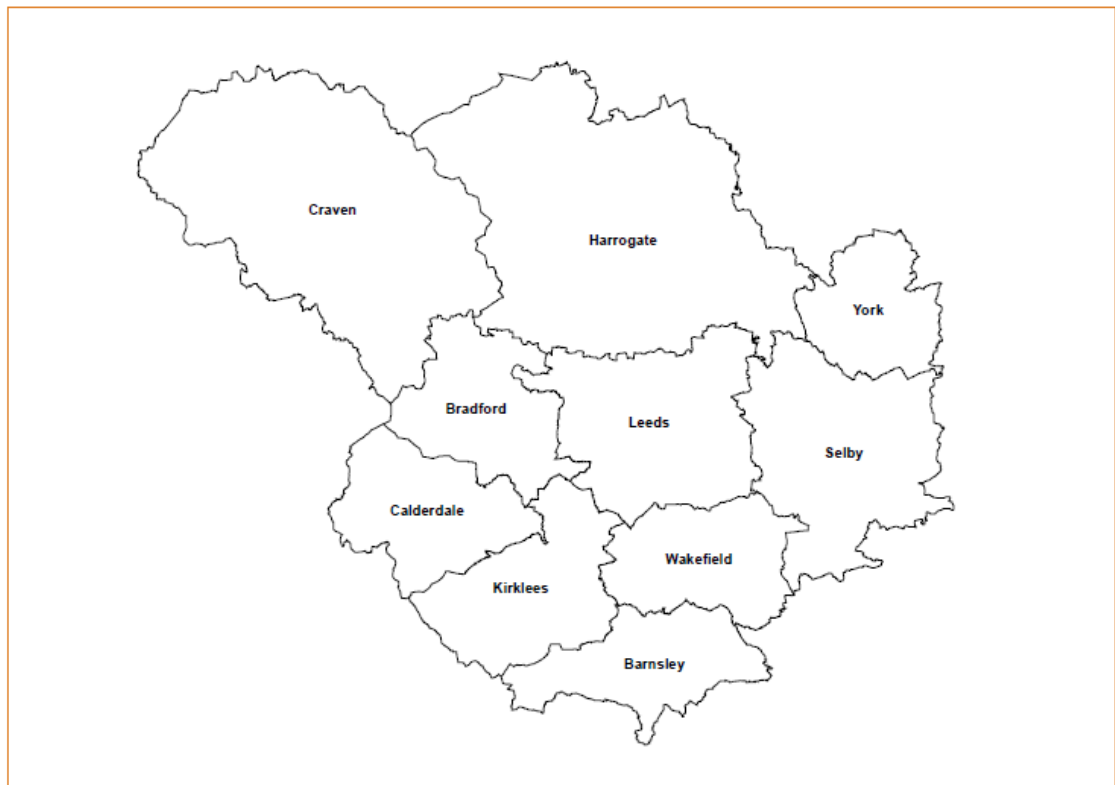
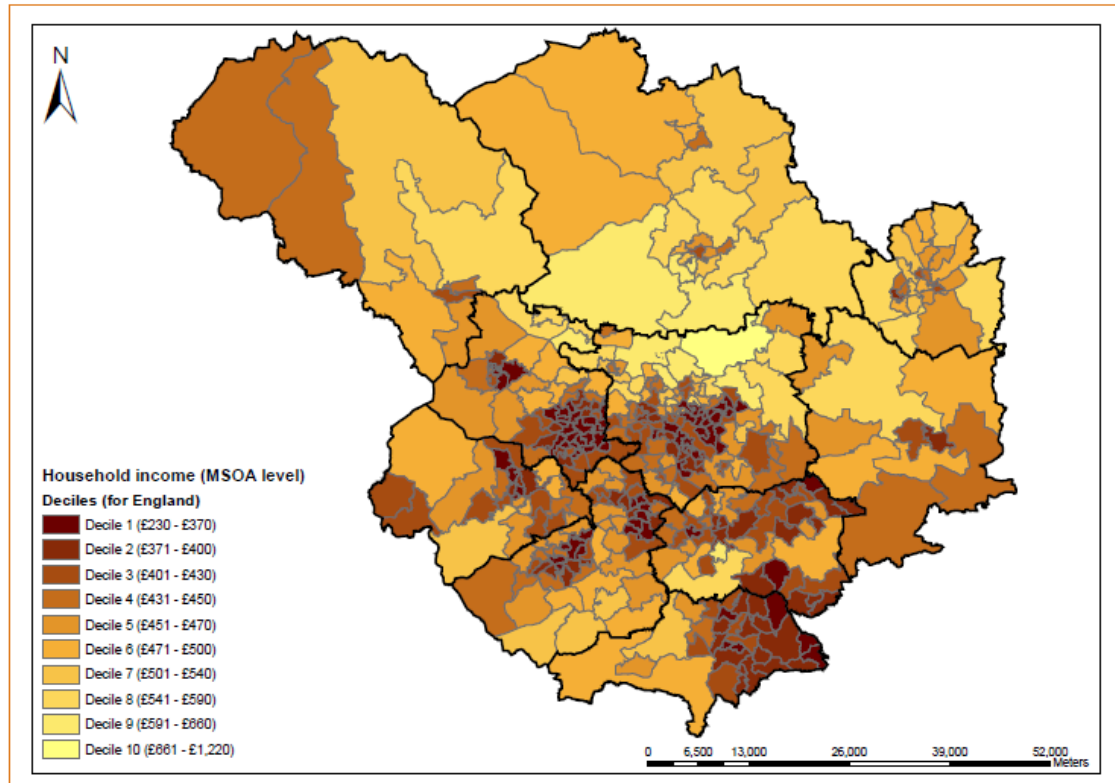


Source: ippr calculations based on ONS data

Source: Schmueker and Viitanen (2010)

<sup>18</sup> Schmueker and Viitanen (2010)

**Figure 3.7: Variation in average household income in Leeds city-region** Source: Schmuecker and Viitanen (2010)

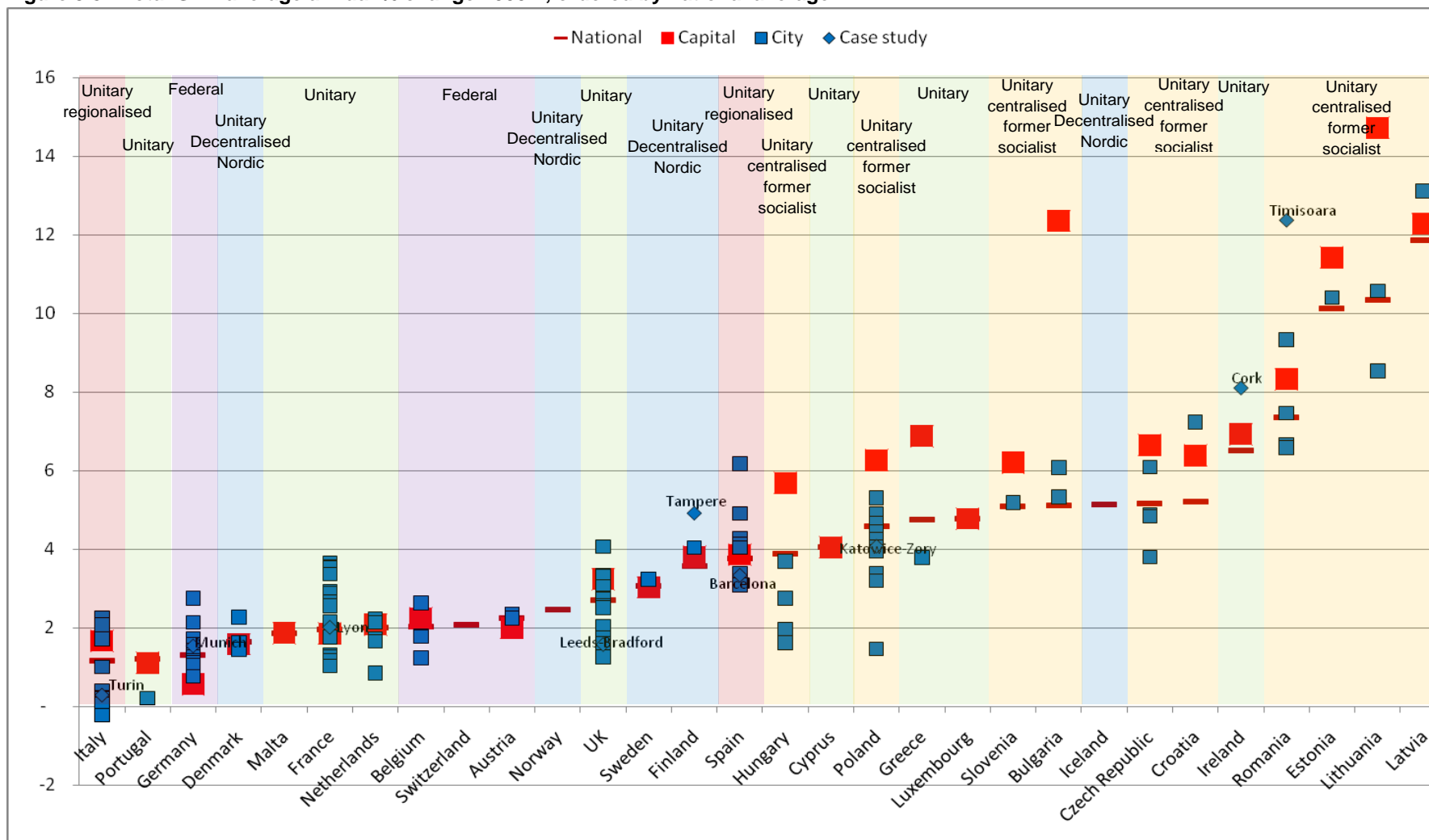


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*Leeds economic performance – in European context*

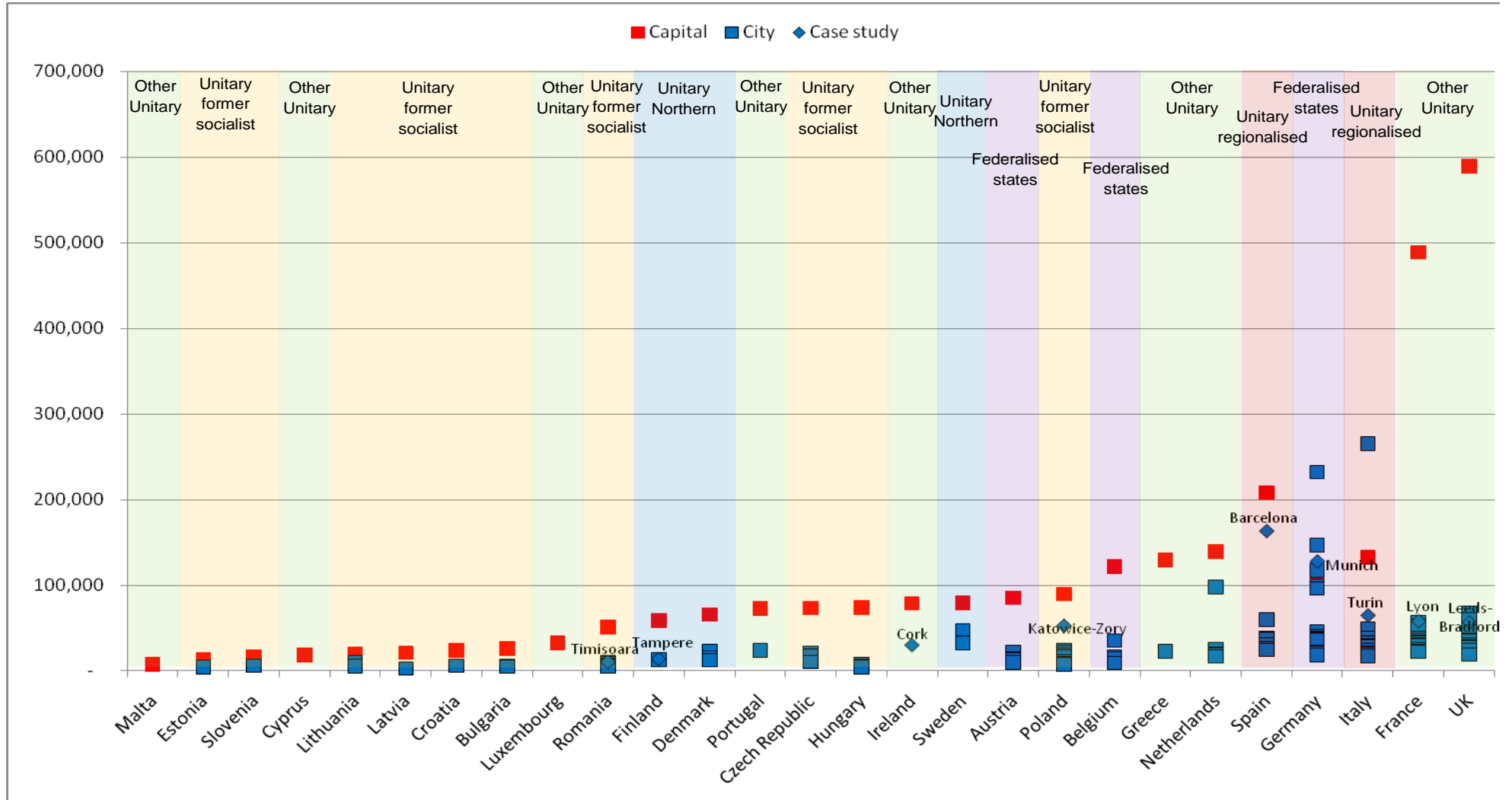
- 3.37 The city has identified its performance in European context as a cause for concern with ‘going up a league’ identified as one of its priorities. alongside ‘narrowing the gap’ in terms of the spatial disparities illustrated above. Figure 3.8 provides one indicator of relative performance. It shows average annual change in total GDP between 2000 and 2007 for ‘Bradford Leeds alongside other European capital and second tier cities. It grew at around 1.6% cent annually over the period, putting it 110<sup>th</sup> out of the 141 European cities for which comparisons were possible. Its growth rate was actually lower than those for cities in some of the former socialist ‘transition economies’ of East and Central Europe, although these were growing from a much smaller base.
- 3.38 In terms of total GDP in purchasing power standards, Leeds-Bradford had a figure of c. 56.2 billion in 2007 putting it, in terms of ranking, in the top quartile of capitals and second tier cities (Figure 3.9). It was ranked 33<sup>rd</sup> out of 146 cities for which we have data. Figure 3.9 also provides a fairly graphic reminder of just how wide the gap is between London, the leading European world city, and second tier cities in the UK. London dominates the UK national economy far more than do other capital cities in other European countries as the gap in the figure clearly demonstrates.

Figure 3.8: Total GDP average annual % change 2000-7, ordered by national average



Source: Eurostat & EIU; Total GDP data have been deflated; Bulgaria data 2000-5 & 2006-7; Dutch data 2007 are provisional

Figure 3.6: Total GDP in PPS, 2007, countries ordered by size of largest city (in economic terms)



Source: Eurostat & EIU  
 Dutch 2007 data are provisional

*Global connectivity*

- 3.39 Leeds is important in a national context. Its Financial and Business Service sector is the second largest after London. But the global connectivity of this sector is relatively weak in relation to other European cities, as research by the 'Globalization and World Cities' group at Loughborough University shows. It has measured global connectivity for Advance Producer Services in 74 European cities by five sub-sectors – Financial Services, Accountancy, Advertising, Legal Services and Management consultancy – and an overall 'global' measure. Leeds ranks 46<sup>th</sup> on the latter. Its highest performance is in Legal Services where it is ranked 31<sup>st</sup> equal. Its lowest ranking is in Advertising where it is ranked 53<sup>rd</sup>. The research also showed that connectivity is particularly weak in relation to both New York and London and to the Chinese triad of Beijing, Hong Kong and Shanghai.
- 3.40 Another indication of the extent of global connectivity has been provided by a recent survey of businesses in the city-region. The survey showed that only 8 percent of firms in the city-region export outside the UK and only 6 percent outside the EU.

*Leeds - the perceptions of international business*

- 3.41 Leeds has not featured, until recently, in the various world and European city rankings of city performance. The exception is the *European Cities Monitor* produced by Cushman and Wakefield. The Monitor asks business executives to rate cities on a number of themes, which include, for example, qualified staff, ease of access to markets, internal and external transport links, availability and value for money of office space, staff costs, quality of life, pollution and telecommunications. Each area receives an individual ranking and an overall ranking is constructed combining the individual rankings into an average score. Leeds first featured in 2007 when it was ranked 30<sup>th</sup>. In the next survey, three years later, it had moved up seven places to 23<sup>rd</sup>. In terms of individual theme rankings, the city performs particularly strongly in 2010 in relation to value for money of its office space, ranking first place overall. It also ranks in the top ten cities in terms of its staff costs and availability of office space. It is weakest in terms of quality of life for employees; and languages spoken, both appearing in the bottom third of the rankings. It appears in the middle order for most other categories.

## 4. GOVERNMENT AND GOVERNANCE: POLICY CONTEXT

### Introduction - a city in a centralised unitary state

- 4.1 It is important to understand the balance of powers between central and local government and the policy context in which the city operates in its place-making and local economic development activities. The city's powers are relatively limited in the UK's centralised unitary state system. Like other cities in England, it finds itself on the receiving end of an often rapidly changing array of policies from central government departments and national agencies that need to be joined together at local level. A distinctive local response to that political and policy context has been the development of a partnership-based approach to place-making in the shape of the 'Leeds Initiative', which has co-evolved with policy developments at national level.

### Balance of powers: central and local

*A city in a centralised unitary state*

- 4.2 Apart from some relatively recent devolutionary moves in sub-national government towards Scotland, Wales, Northern Ireland and to the capital city, the UK remains a relatively highly centralised unitary state. Local government, from its heyday in the late nineteenth and early twentieth centuries - when national legislation in the shape of the Municipal Corporations Act (1835) set the conditions for the growth of powerful city-based local administrations - has seen its powers and autonomy relative to the central state diminished.

*“Today...England is one of the developed world’s most centralised democracies. The centre controls virtually all taxation, and power has followed money. Over the period since 1945 power and authority have moved upwards within the English political system, as expectations of government responsibilities for improving individual lives have risen with the advent of the welfare state, and as parliamentary and governmental attention has turned from governing overseas territories to directing domestic policy.*

*“Across a whole swathe of issues with a strong local dimension, including health, education, housing, planning, and regeneration, post-war governments of whatever political hue have wholly or partly taken responsibility away from local government. Appointed bodies (“quangos”) have proliferated and they, schools, non-governmental agencies and private companies have all come to have a part in the delivery of public services. There has been an increase in oversight and regulation. Schools’ funding has been ring-fenced. The non-domestic rate has been nationalised. Local domestic taxation has been capped. In many areas housing associations and arm’s-length management organisations, rather than councils, have assumed responsibility for social housing.*

*“In sum, local government powers and responsibilities have been pushed both upwards to central government, and sideways and downwards to the regional arms of central government and to other local bodies. There has been less emphasis on local government having a unique local role.”*

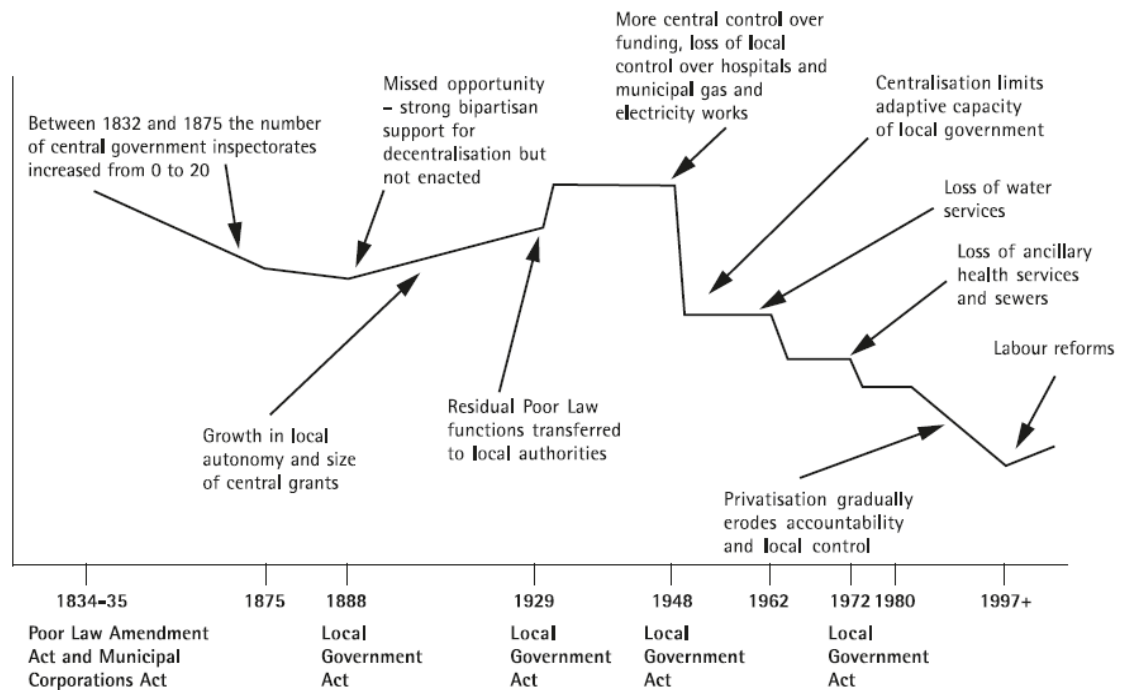
(House of Commons Communities and Local Government Committee, 2009; p. 7)

*“...since 1945 English local authorities have seen their dependence on central grants increased: the property tax was not able to sustain the wider range of services, particularly welfare provision, demanded of councils during the twentieth century. Grants have been reformed in order to equalise variations in expenditure needs and taxable capacity – thus achieving widely desired social-democratic goals. The increasing sophistication of the grant system, coupled with growing use of specific-purpose grants, has meant that Whitehall departments have assumed ever-greater responsibility for local authority funding, but at a price for local autonomy” (Travers, 2006; pp. vii-viii)*

- 4.3 The shift in power between central and local government and the relative decline in the latter’s autonomy - Figure 4.1 – permeates Leeds’ history. There has been an incremental diminution of its powers since its municipal heyday in the late nineteenth century. The corporation buses that had gradually replaced the trams have been privatised with regulation devolved to what is now the Integrated Transport Authority for West Yorkshire (Metro). Water provision has been privatised under national regulation. Gas and electricity likewise. Its hospitals were nationalised with the creation of the National Health Service in the late 1940s. And college funding has been transferred to various nationally controlled non-departmental public bodies.
- 4.4 Parliamentary sovereignty has reinforced the subordination of sub national to national government with local government only able to act within bounds set by Parliament (‘ultra vires’) effectively with no power of general competence and no legal protection of its autonomy. While Leeds, with other cities, remains an important deliverer of statutory services it does so under strong central government control and direction.<sup>19</sup>

<sup>19</sup> . John and Copus (2010); Daunton (2000); Hunt (2004)

Figure 4.1: The decline of local government autonomy



Source: Mulgan and Bury (2006)

#### *The balance of funding*

4.5 In 2008-9 around 60 percent of the total gross income of English local authorities came from central government (including redistributed non-domestic rates, revenue and capital grants), and the remaining 40% from local sources, including council tax, charges, rents and capital receipts. The collection and distribution of non-domestic – or business rates illustrates the controlling role of central government and the political attempt to provide a degree of redistributive equity across local government. The rates are set nationally by central government, collected locally by local authorities and then pooled by central government for redistribution through the overall local government financial settlement. The Council Tax is currently the only form of local taxation, which sets English local authorities apart from most other European countries. The fact that it forms only a quarter of total revenue also introduces a high gearing factor into play in terms of raising revenue. To secure an increase in revenue of 1% requires a 4% increase in Council Tax. But, even if this is desired, central government retains the power to introduce ‘capping’ to limit any increases. A major change to the system has been proposed by the current government which wants to legislate to allow councils to retain the business rates they collect and also to borrow against future income from the taxation to promote growth. The government has said that it will ensure that no local authority is financially worse off from the change but clearly those with strong ratable bases and growth will benefit. Leeds appears to fall in the latter group.

4.6 The reliance of local government on central government funding has been underlined by the cuts to local government funding introduced by the current government as part of its austerity measures in response to the global economic recession and structural deficit in government spending. In the current financial year, centrally controlled business rates, government grants and revenue support grant accounts for 64% of total funding of just over 2 billion. The Council is facing a £90m shortfall in its budget as a result of a £50m reduction in central government grants and £40m from rising cost pressures. Over the next four years, it will have to adjust to a 28% cut in its budget.



*Local government reorganisation – creation of metropolitan districts and councils and abolition of the latter*

- 4.7 Local government reorganisation in 1974 saw Leeds set up as one of 36 Metropolitan Districts in one of six Metropolitan Counties (West Yorkshire). The latter were abolished in 1986 along with the Greater London Council (GLC) that had been set up in 1965. Ostensibly in the name of streamlining local government, it was widely felt that these embryonic city regions had been culled for political reasons to enable the abolition of the GLC that had been in political opposition to the Conservative government of the time. The experience further demonstrates the powers of the central state where, for these short-lived Metropolitan Regions it was a case of ‘now you see them now you don’t’. The functions carried out by the metropolitan counties passed to the metropolitan districts and various joint authorities. The functions of West Yorkshire County Council were devolved to: the five local authority districts, which became unitary authorities; joint-boards covering fire, police and public transport; and to other special joint arrangements on activities like archaeology. Policing remains the responsibility of the West Yorkshire Police Authority and transport the West Yorkshire Integrated (formerly Passenger) Transport Authority (METRO). These sub-regional arrangements add another layer to the national, regional and local scales at which policy in Leeds operates.

*Devolution to the capital- but not to the metropolitan areas*

- 4.8 In 2000 the Labour government created the Greater London Authority (GLA) with a directly elected Mayor and separately elected Assembly. It oversees policing (through the Metropolitan Police) and fire and rescue services and civil defence (through the London Fire and Emergency Planning Authority). It also has strategic responsibility for transport in London and responsibility for London buses and, since 2003, the London Underground (through Transport for London and acts as highway and traffic authority for a number of major roads. For economic development and regeneration, it also had its own Development Agency, the London Development Agency. This Agency is now being wound down along with the English Regional Development Agencies and its functions, assets and liabilities are being taken over by the Authority. This devolutionary shift does mean that the capital has much greater strategic capacity than the English core cities, Leeds included.

*Second tier cities - developing strategic governance capacity in a centralised state*

*“Britain is one of the most centralised nations in the developed world. Cities in particular are relatively powerless – they do not have at their disposal the spending or revenue raising powers necessary for them to drive their economies forward. And it is cities and city regions that power should be devolved to.” (Marshall and Finch, 2006, p. 200)*

- 4.9 The tilting of the balance of powers and funding towards central government means that Leeds, in common with other English municipal authorities lacks some of the powers that its counterparts in federal and Nordic state systems enjoy. And it does not function in a regionalised state system like in Italy or Spain. Its approach to economic development has thus had to evolve in what has been an ongoing process of negotiation with central – and for a period from the mid 1990s to recently, regional – tiers of government over development powers and access to national policies. It has had to join up a changing array of policies and funding streams emanating from separate central government departments and associated unelected agencies - like the Regional Development Agencies, Training and Enterprise and Learning and Skills Councils and Homes and Communities Agency (recently formed out of the merger of the national regeneration agency, English Partnerships and the Housing Corporation).
- 4.10 At the same time the city’s political administration has taken the lead in developing partnership-based institutional structures – in the shape of the ‘Leeds Initiative’, for the city and the Leeds City Region and Local Enterprise Partnership for the city region – to help facilitate the bringing together of nationally controlled spending programmes and local development initiatives in an integrated place-based approach. The history of Leeds over the post-war period and particularly in the last two decades can thus partly be seen as an attempt by the city to develop strategic capacity. And this has

involved changes in governance in the shape of both partnership working between public, private and voluntary sectors and an up-scaling of governance to city-regional level.

### Policy Context

#### *Explicit and implicit development policies*

- 4.11 Leeds has had to engage with explicitly spatial policies and also implicit policies that impact on economic development and competitiveness. Multi-level governance is necessary for shaping the context in which the multitude of market-driven locational choices and investment decisions of firms and households are made. As the recent ESPON Projects '*Future Orientations of Cities*' and '*The Case for Agglomeration Economies*' both underlined, the scope for governance at city and metropolitan-region level to influence directly the drivers of competitiveness is variously constrained.<sup>20</sup> The drivers most directly amenable to influence by city-regional governance are place quality and strategic capacity while the others – innovation, major infrastructure investment, human capital, economic diversity and connectivity – are more directly influenced by public policy at regional, national and international levels. Influencing these drivers thus requires multi-level governance but one in which city(-regional) administrations are key – for provide the local intelligence and the crucial coordinating and integrating role for policies - both vertically and horizontally - that place-based policy making requires.

### Explicit spatial policies

#### *European policy*

- 4.12 The European Commission does not have a remit for urban policy but it is possible to trace historically an urban dimension in EU regional and cohesion policy.<sup>21</sup> The URBAN Community Initiative and its URBACT successor are the most explicit expressions of this but broader regional and cohesion policy also inevitably had an urban dimension given the nature of the objectives of successive programming periods. Thus, for example, the objective to 'promote the development and structural adjustment of regions whose development is lagging behind' (Objective 1 of the 1994-1999 and 2000-2006 programmes) targeted Merseyside in the UK, the first 'old industrial area' in the EU to receive such funding. The programme not only provided very significant resources but also helped set up a city-region governance structure and surrogate plan that filled the gap created by the abolition of the Merseyside County Council by national government – and helped to shape the recently created Liverpool City Region governance structure.
- 4.13 The UK also provides examples of second tier cities benefiting from other regional policy programming objectives, notably Objective 2 of the first programmes 'converting regions or parts of regions seriously affected by industrial decline'. Manchester, for example, received significant support under Objective 2 for development of its airport and Sheffield, for development of its city centre.

#### *Leeds and European regional policy*

- 4.14 Leeds has had a mixed involvement in EU regional policy. It did not qualify for the significant levels of funding that Objective One status would have provided, as in Liverpool and, more recently, Sheffield. And in the 1994-1999 Programming Period it was not eligible for Objective 2 funding. Support came from Objective 3 for training and Community Initiatives including RECHAR (for the Leeds coalfield area), KONVER (for defence related industrial restructuring) and, principally URBAN for the regeneration of two inner-city districts (Chapelton and Harehills). The city also received funding for training under Objective 3. In the 2000-2006 programming period, six inner-city wards were eligible for Objective 2 funding and Objective 3 funding continued. Together these provided around £10

<sup>20</sup> ESPON FOCI (2010) and ESPON CAEE (2011).

<sup>21</sup> Parkinson (2005). Meegan (2011).

million annually for economic development.<sup>22</sup> In the 2007-13 programming period, Leeds has accessed funding under the Regional Competitiveness and Employment Objective of the region's Operational Programme with the Council, Leeds University and Leeds City College receiving around £13 million for regeneration projects. The Council, Leeds City College and Leeds College of Building have all received direct ESF funding and the city has also had some indirect funding for cross regional projects.<sup>23</sup>

*National regional policy*

- 4.15 Regional policy nationally was initially concerned with industrial relocation and development but has had an implicit but increasingly explicit urban dimension. Its early use of development certificates and grants saw the development of assisted areas and the urban cores within them favoured against that of non-assisted areas and effectively their urban cores, London and Birmingham. Liverpool, for example, benefited greatly from the industrial (re)location encouraged by regional policy in the 1950s and 1960s. And subsequent developments in regional policy have raised the profile of cities. The change has been experienced, with some variations, across Europe in what the OECD sees as a 'paradigmatic shift'.<sup>24</sup>
- 4.16 This shift has seen focus move from redistributive transfers to targeted regions to recognition of the need to encourage development potential in all regions. Emphasis has shifted from short-term subsidies to longer-term development policies addressing all aspects of regional competitiveness encompassing competition, enterprise, innovation, skills and investment and also wider environmental issues. There has also been growing concern with sub-regional disparities, which has moved policy towards the sub-regional level. Together with the greater emphasis on opportunity rather than disadvantage and on endogenous assets the focus on sub-regional development has inevitably raised the profile of cities in broader regional development policy.
- 4.17 A more devolved and decentralised approach has also evolved. Regional policy was built into the last government's Regional Economic Performance Public Service Agreement and delivered through the devolved administrations and, in England, the Government Offices (GOs) set up in 1994 and the Regional Development Agencies (RDAs) set up five years later. The RDAs became important agencies for regionalising innovation policy in England as part of their wider regional economic development remit. Cities were initially addressed through the RDAs' sub-regional investment programmes but increasingly through specific city-region development programmes although these were barely developed by the time that the current government announced the abolition of RDAs and GOs.

*Leeds and national regional policy*

- 4.18 Leeds' relatively strong economic performance in the inter-war years and the post-war period stretching into the late 1960s and early 1970s meant that it was never designated as an assisted area and, as a result, did not benefit from regional development grants in the heyday of regional policy. As policy extended to all-region coverage and the RDAs began to take on a more active role with greater sub-regional and explicit city-region emphasis, Leeds did see a degree of support albeit for what has proved to be a relatively limited time period.
- 4.19 Yorkshire Forward, the RDA, for example, did provide significant funding for a number of the city's key regeneration projects, notably the redevelopment of Holbeck Urban Village and the concert venue (the 'Arena') that is currently being built. It funded a number of 'Centres of Industrial Collaboration' in the City Region. It also actively participated in the partnership structures in the Leeds Initiative and Leeds City Region and funded partnership bodies like Marketing Leeds and the Financial Services Initiative.

<sup>22</sup> Leeds Economy Partnership (2003)

<sup>23</sup> Leeds City Council (2011a)

<sup>24</sup> OECD (2009, 2010). Yuill et al (2008, 2010).

*National urban policy*

- 4.20 Until relatively recently, at least, it could be argued that the UK has an urban policy but no policy for cities. While there has been an explicit urban policy for over 40 years, this has largely been concerned with addressing welfare issues and the social, economic and environmental issues of economic restructuring in cities – initially in their inner areas but extended to take in outer areas often dominated by large social housing estates experiencing high levels of unemployment and deteriorating social conditions. Urban policy has experienced shifts in underlying philosophy, institutional structures and institutional relationships.<sup>25</sup> In the 1980s, under a Conservative government, the focus was on market-led redevelopment, sometimes steered through departmental agencies and quasi-autonomous development corporations and with the role of local government downgraded.<sup>26</sup> From the late 1990s policy shifted towards the coordination of initiatives and spending programmes and an emphasis on multi-agency partnership working in which local government resumed a leading role and the voluntary and community sector was variously engaged.
- 4.21 It was not until the end of the 1990s that what could be described as a cities policy began to take shape. The Labour government, elected in 1997, had two strands to its urban policy. The first continued and strengthened the policy focus on social inclusion and the neighbourhood dimension of urban regeneration through the work of its newly created Social Exclusion and Urban Renewal Units and new funding initiatives, like the Neighbourhood Renewal Fund and New Deal for Communities, targeted at the most disadvantaged local authority areas.<sup>27</sup>
- 4.22 The second policy strand was captured in the White Paper, *“Our Towns, Our Cities: The Future – Delivering an Urban Renaissance”* (2000), which emphasised the contribution of urban design and physical regeneration to urban renaissance. It instituted an “Urban Summit” and commissioned a “State of the Cities Report” to pursue this renaissance agenda.<sup>28</sup>
- 4.23 In England, Urban Regeneration Companies (URCs) were established to take responsibility for the physical regeneration of designated areas in selected cities. These URCs themselves showed how levels of governance were merging in urban regeneration, being based on partnership between national (English Partnerships), regional (Regional Development Agencies) and urban (City Council) agencies. URCs were later to be joined, and in some cases replaced by, Economic Development Companies (EDCs) with broader geographical coverage (sometimes covering whole city areas) and powers.
- 4.24 The government instigated a review of sub national economic development and regeneration, which reinforced the shift in government policy toward cities – from cities being perceived as victims of economic decline and places of social breakdown and environmental decay to being seen as centres of economic dynamism able to contribute to both regional and national economic growth.<sup>29</sup> Cities also featured in the sub-regional development strategies of the Regional Development Agencies and this chimed in with a growing emphasis on cities in their wider functional economic areas. A *Framework for City Regions* was proposed which emphasised the potential economic contribution of city-regions to regional and national growth:

*“There are three ‘in-principle’ logics for taking city-regional geographies more seriously within the policy process. These are based on arguments for: the devolution or decentralisation of democratic decision-making to a more localised scale; the improvement of service delivery; and the enhancement of economic performance. All three have their attractions but the latter is the most compelling.”*  
<sup>1</sup>(Harding et al, 2006; p. 5)

<sup>25</sup> Hill (2000)

<sup>26</sup> Imrie and Thomas (1999)

<sup>27</sup> Department for Communities and Local Government (2008a, 2008b, 2009a, 2009b), Lawless (2007), Neighbourhood Renewal Unit (2002), Social Exclusion Unit (2004), Office of the Deputy Prime Minister (2005)

<sup>28</sup> Office of the Deputy Prime Minister (2000, 2003A, 2003B, 2005), Parkinson et al (2006)

<sup>29</sup> HM Treasury (2006, 2007), Turok (2008)

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- 4.25 Reinforcing this central government shift was the initiative of cities themselves in promoting their development potential and importance to the national economy as reflected in England by the formation of the 'Core Cities Group' in 1997. This group brings together the local authorities of the eight largest second tier cities - Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle-upon-Tyne and Nottingham - to pursue their shared interest in urban renaissance.<sup>30</sup>
- 4.26 Urban regeneration was also heavily influenced by government attempts to modernize local government and particularly by the Local Government Act of 2000, which gave local authorities the power 'to do anything' to promote or improve the economic, social and environmental well-being of their areas. While the Act recognised the central role of local authorities in regeneration activity and gave them new powers to intervene, it also imposed on them the duty to work in partnership with other agencies and local communities – through 'Local Strategic Partnerships' (LSPs) - to exercise those powers. LSPs were another addition to the complex institutional landscape and further demonstrate the degree to which urban regeneration has increasingly been delivered through evolving forms of collaborative governance.
- 4.27 This partnership approach was further encouraged by the introduction of Local Area Agreements (LAAs) where public sector partners were encouraged to combine spending programmes to meet targets agreed with government. Introduced in 2004 and made a statutory responsibility in 2007, LAAs were 3-year agreements between central government - through Regional Government Offices - and councils with their partners to improve outcomes across broad themes - children's services, health, crime and community safety and economic development - against an agreed set of priorities and targets. Some targets were nationally set, others locally set. LAAs also allowed the negotiation of 'freedoms and flexibilities' from central government on things like funding arrangements, data sharing across partner organisations and monitoring requirements. Successful achievement of targets brought a reward grant. LAAs were still nationally controlled – with a set of mandatory targets alongside the locally selected ones – but they did represent recognition on the part of central government of the need for the aligning and pooling of different national, regional and local funding streams emanating from government departments and delivery agencies at local level. The Leeds LAA, for example, identified 41 different funding streams from 8 government departments and the Regional Development Agency.
- 4.28 LAAs were followed by Multi-area Agreements, which operated on a similar model to the LAAs but aimed at encouraging cross-boundary partnership working at regional and sub-regional levels. Unlike LAAs these were not statutory requirements but voluntary agreements between groups of local authorities and partners to work together to meet agreed economic outcomes. 15 were agreed in England, including one put together by Leeds City Region. Again, like their LAA predecessors, they represented recognition by central government of the need for some, albeit tightly regulated, devolution of powers to local level.
- 4.29 The election in 2010 of a Conservative Liberal Democrat coalition government has set another major shift in policy in train. The Regional Development Agencies (set up by the previous Labour Government) and the Integrated Regional Offices (set up by the last Conservative government) have been abolished, removing in the process key elements of the intermediate regional tier of policy. An avowedly 'localism' approach is now being pursued in which Local Enterprise Partnerships (LEPs) at sub-regional level (with many of those that have formed operating at city-regional level) have been encouraged to apply for support from a newly created Regional Growth Fund. This fund, however, represents a dramatic cut in funding compared to the previous levels of support for the RDAs – reflecting the emphasis placed by government on public sector expenditure cuts in its overarching strategy for tackling the country's economic crisis-driven 'structural deficit'. LAAs have been abolished as part of the government's localism agenda while MAAs are being incorporated into city-regional arrangements and the activities of Local Enterprise Partnerships.

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<sup>30</sup> Core Cities Working Group (2004)

- 4.30 The government has claimed to be committed to balanced economic development - regional and sectoral - and has created the post of Minister for Cities in a renewed focus on cities. Elected mayors for cities have also come back onto the political agenda. A Parliamentary Select Committee was critical of the government's initial policy statement on urban regeneration, emphasising its perceived lack of strategic direction, the reduction in funding, the absence of any strategy for attracting private sector investment, the failure to acknowledge the benefits of effective planning and the failure to consider how policy will be evaluated.<sup>31</sup>
- 4.31 The government's response, however, has been to announce what is potentially the first explicit policy for second tier cities. Under the banner of 'Unlocking Growth in Cities', the government has set out plans for negotiating the devolution of powers to city administrations.<sup>32</sup> Powers over regeneration, housing, transport and broadband infrastructure, skills, rates and local revenue raising are to be devolved through negotiated "city deals", initially with the eight English core cities and their wider Local Enterprise Partnerships, but eventually extending to other cities. Second tier cities are on the political and policy agenda.

*Leeds and national urban policy*

- 4.32 Table 4.1 lists the key urban policies that have been introduced since the mid-1960s and the ones that have been implemented in Leeds and the Leeds City Region. The most high profile initiative was the Urban Development Corporation, which initially was not welcomed by the Labour controlled city council or the city's Chamber of Commerce. Leeds has also had funding from the neighbourhood-based Single Regeneration Budget, Neighbourhood Renewal Fund and, most recently, the Local Enterprise Growth Initiative (LEGI). It put in an unsuccessful bid for City Challenge in the early 1990s. The bid was rejected, it was felt at the time, for its weak partnership arrangements, which is somewhat ironic given the city going on to win Beacon status for its Local Strategic Partnership. Admittedly this partnership had only been formally established two years earlier and in its early days it did have a private public sector focus. The voluntary and community sector involvement that might have helped secure City Challenge funding came later. The council was also excluded, controversially at the time, from accessing the Working Neighbourhoods Fund that replaced the Neighbourhood Renewal Fund in 2007. And it has not been involved in two of the most recent significantly funded programmes - New Deal for Communities and Housing Market Renewal - although Bradford in the city region did secure one of the former initiatives. The Housing Market Renewal initiative in the city region came from the belated extension of the programme, three years before its end. The South Yorkshire Housing Market Renewal area was extended to include an adjacent 'Green Corridor' in a former mining area in the Leeds City Region stretching southeastwards from Wakefield.

<sup>31</sup> Communities and Local Government (2011), House of Commons Communities and Local Government Committee (2011)

<sup>32</sup> HM Government (2011)

Table 4.1: Urban Policy in Leeds

Urban policy: 1968 on					
Periods	Government: national	Government: Leeds city	Policies	Implemented in Leeds	Implemented in rest of Leeds City Region
Late 1960s-1970s					
1968-1970	Labour	Conservative (1967-70)	➤ Community Development Projects (1969-1978)	x	• <sup>1</sup>
1970-1974	Conservative	Conservative (1970-72) Labour (1972-74)	➤ Comprehensive Community Programmes ➤ Inner Area Studies (1972) ➤ Making Towns Better ➤ Housing (Private sector) Renewal : Housing Improvement Grants (late 1960s on)	x x x •	x x x •
Late 1970s					
1974-1979	Labour	Labour (1974-76) Conservative (1976-79)	➤ Urban White Paper: 'A Policy for the Inner Cities' (1977) ➤ Urban Programme (1978 - 1994) ➤ Priority Estates Project (1979)	• <sup>2</sup> x	• x
1980s			1979-1987		
1979-1997	Conservative	No overall control (1979) Labour (1980-2004)	➤ Local Government Planning and Land Act (1980): ➤ Enterprise Zones (I and II: 1981 and 1982) ➤ Urban Development Corporations (I and II: 1981 and 1987) ➤ Merseyside Task force (1981) ➤ Urban Development Grant Programme (1981) ➤ Inner City Enterprise (1981) ➤ Derelict Land Grant (1983) ➤ Free Port Zones (1984) ➤ City Action Teams (1985) ➤ Estate Action (Urban Renewal Unit) (1985) ➤ Housing Action Trusts (1987) ➤ Urban Regeneration Grants (1987) ➤ Action For Cities (1988)	x • <sup>3</sup> - x x x x x x • •	x x - x x x x x • •
1990s			1991-1997		
1979-1997	Conservative	Labour (1980-2004)	➤ City Challenge (I and II: 1991 and 1992) ➤ Single Regeneration Budget (1993/4) ➤ Government Offices for the Regions (1993) ➤ City Pride (1993) ➤ English Partnerships (1993-2009) ➤ Enterprise Zones (1995-2005)	x <sup>4</sup> • • <sup>5</sup> x • x	x • • x • x
Late 1990s – 2000s					
1997-2010	Labour	Labour (1980-	➤ Social Exclusion Unit (1997)		

		2004) Conservative/ Lib Dem/ Morley Borough Independents (2004-10)	<ul style="list-style-type: none"> <li>➤ Urban Task Force (1998)</li> <li>➤ Single Regeneration Budget (continued until 2002 when subsumed into RDAs' Single Programmes and ended 2007)</li> <li>➤ RDAs</li> <li>➤ Urban Regeneration Companies (1999 - )</li> <li>➤ "Our Towns, Our Cities: The Future – Delivering an Urban Renaissance" (2000)</li> <li>➤ Urban Development Corporations (2003 -)</li> <li>➤ New Deal for Communities (2000-2011)</li> <li>➤ Neighbourhood Renewal Fund (2001-2007)</li> <li>➤ Housing Market Renewal Pathfinder (2003-2011; extended 2008)</li> <li>➤ Bus. Improvement Districts (2004 - )</li> <li>➤ Working Neighbourhoods Fund (2007-2010)</li> <li>➤ Local Strategic Partnerships</li> <li>➤ Local Area Agreements (2004 - )</li> <li>➤ Local Enterprise Growth Initiative (LEGI)</li> <li>➤ Coalfield Regeneration Programmes</li> <li>➤ Homes and Communities Agency (2009 with merger of English Partnerships and Housing Corporation)</li> <li>➤ City Region Forerunner</li> <li>➤ Multi-Area Agreements</li> <li>➤ Sure Start</li> <li>➤ Education Action Zones</li> <li>➤ Employment Action Zones</li> <li>➤ Health Action Zones</li> <li>➤ Integrated Regional Strategies – combining Regional Spatial and Regional Economic Strategies (not implemented; abolished by Conservative-Liberal Democrat Coalition government)</li> </ul>	<ul style="list-style-type: none"> <li>•<sup>6</sup></li> <li>•<sup>7</sup></li> <li>x</li> <li>x</li> <li>x</li> <li>x</li> <li>•</li> <li>x</li> <li>•</li> <li>•</li> <li>x<sup>12</sup></li> <li>•</li> <li>•</li> <li>•</li> <li>x</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>x</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•<sup>8</sup></li> <li>x</li> <li>•<sup>9</sup></li> <li>•</li> <li>•<sup>10</sup></li> <li>•<sup>11</sup></li> <li>•</li> <li>•</li> <li>•</li> <li>•<sup>13</sup></li> <li>•<sup>14</sup></li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>x</li> </ul>
2010s					
2010-	Conservative-Liberal Democrat Coalition	Labour Minority with Green Party support (2010-11) Labour (2011 - )	<ul style="list-style-type: none"> <li>➤ LEP (Leeds City Region)</li> <li>➤ Regional Growth Fund</li> <li>➤ Mayors</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•<sup>15</sup></li> <li>x</li> </ul>	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>x</li> </ul>

**Notes:** 1: West Yorkshire (Bradford);2:Leeds Urban Priority Area;3: Round Two: 1988-1995; 4: Rejected bid for Round 2 (1992);5: GOYH Leeds based;6: SRB5 & SRB6;7: Yorkshire Forward HQ in Leeds;8: Bradford Centre (2002);9: Bradford – Little Horton (2000-2010);10: West Yorks 'Green Corridor' added to Transform South Yorks (2008);11: Langthwaite Business Park near Wakefield (April 2011) Skipton Town Centre (Calderdale, February 2009);12:: Leeds Initiative (established 1990, took on role); 13: Bradford; West Yorkshire; 15: Enterprise Zone to be set up in Aire Valley

**Implicit policies for urban and regional competitiveness**

*Innovation*

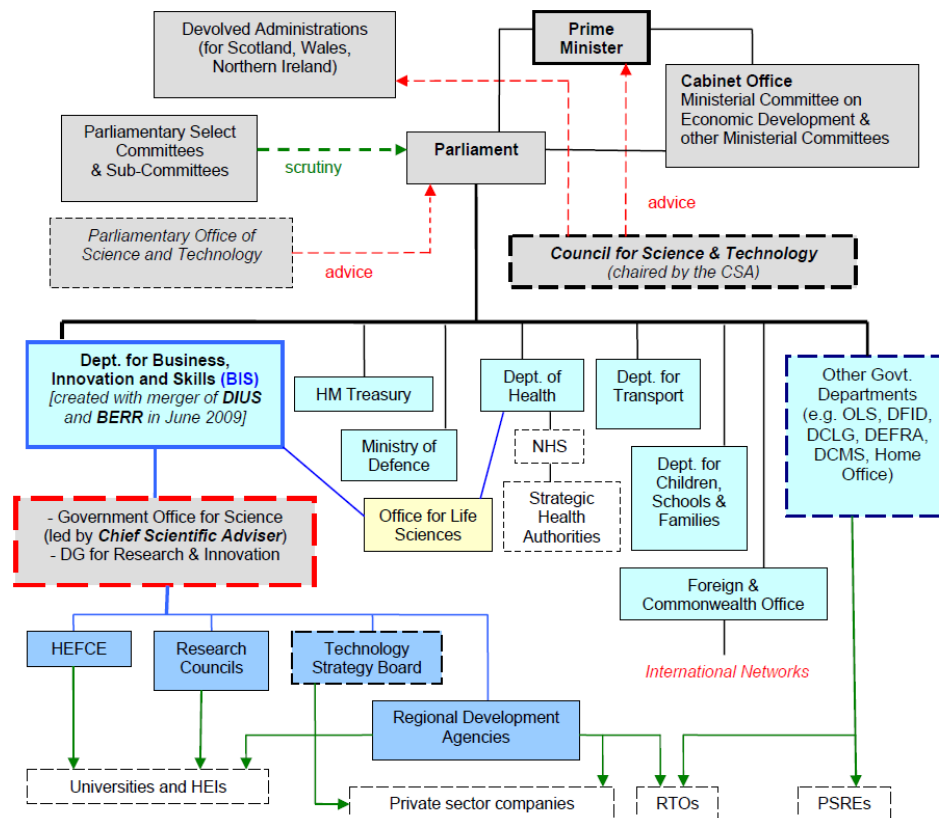
4.33 It is only in the last two decades that UK innovation policy has lost its 'spatial blindness' and regions and cities have come to be recognised in policy as sources of innovative growth.<sup>33</sup> Devolution passed

<sup>33</sup> NESTA (2007a and 2007b)



power over funding of higher education institutions and innovation policy to the three devolved administrations of Wales, Scotland, Wales and Northern Ireland with each of these developing their own innovation strategies. In England, the RDAs provided a mediating link between national and local innovation strategies. Central government required them to develop regional innovation action plans. And they incorporated central government innovation measures such as selective financial investment for improving productivity and skills or research and technical development and policies aimed at enterprises (R&D grants, university-business links and knowledge transfer) in their regional economic strategies. Figure 4.2 shows how the RDAs fitted in to the complex structure of national innovation policy before the election of the current coalition government in 2010. They are now being replaced by the less well funded Local Enterprise Partnerships, although the role of these partnerships in relation to innovation remains unclear. Some of the innovation funding previously disbursed by the RDAs is to be transferred to the Technology Strategy Board, which has been given responsibility for regional innovation support. And it is not yet clear how the new coalition government’s intention to devolve decision making and powers to the local level will apply to science, technology and innovation policy.<sup>34</sup> At the moment, cities have to tap into the range of national and regional innovation measures and instruments listed in Table 4.2.

Figure 4.2: UK national governance system for innovation, 2009



Source: European Commission (2010)

*Leeds and innovation policy*

4.34 Innovation funding for Leeds thus currently comes from a variety of national funding instruments accessed by individual firms, the Higher Education Funding Council for England (HEFCE) for its universities’ research programmes and, potentially from national funding to be accessed steered through the Local Enterprise Partnership. For a period in the 2000s, it also received funding channeled through the Regional Development Agency, Yorkshire Forward, for both universities and individual

<sup>34</sup> European Commission (2011)

businesses. An OECD review of innovation in the North of England argued the need for better alignment between national and regional policies for innovation and more devolved approaches and the northern RDA were attempting to do this at the time of their abolition.<sup>35</sup> Whether LEPs can fill the gap remains to be seen.

**Table 4.2: Innovation instruments by level of government, England**  
N=national, R=regional; X=most or all; S=some

	N	R
<b>Human capital investment</b>		
Scholarships for post-graduate studies	X	
Targeted human resource training (directly, subsidies)	X	
<b>Strategy and foresight</b>		
High-level strategic advisory body	X	X
Technology foresight exercises (assessing future needs)	X	X
<b>R&amp;D investment (including large infrastructure)</b>		
On-going institutional R&D funding in PRCs or HEIs	X	X
Seed funding/projects to start PRCs or HEIs	X	S
Competitive R&D funding by PRCs or HEIs	X	
Public subsidies for private R&D	X	
Tax credits for private R&D	X	
<b>Technology transfer and innovation services to firms</b>		
Quality control and metrology services	X	X
Innovation advisory or support services (publicly provided, vouchers, subsidies, student placements)	X	X
Advisory to spin-off and knowledge-intensive start-up firms		X
Other technology transfer centres and extension programmes		X
<b>Innovation collaboration</b>		
Cluster initiatives (often sectoral and mainly firm-based)	X	X
Branded excellence poles or hubs (label and multiple actors)	X	X
Multi-disciplinary technology platforms	X	X
Science and technology parks	X	X
Incubators for new firms		X
<b>Financing for innovative firms</b>		
Public development banks		
Public venture capital funds or stakes in private funds	X	S
Guarantees	X	
<b>International collaboration</b>		
Scientific co-operation for HEIs and PRCs	X	X
Foreign firms eligible for public innovation-related funds		
International trips to develop innovation networks	X	S
<b>Other programmes</b>		
Public procurement policy with innovation focus	X	S
Innovation awards	X	S

Notes: PRC=public research centre; HEI=higher education institution.

Source: OECD (2011)

#### *Education and Skills*

- 4.35 As with innovation policy, each of the three devolved administrations of Scotland, Wales and Northern Ireland has education and skills strategies. In England, overall responsibility lies with central government and what are now the Departments for Education and Business Innovation and Skills (BIS). There has been a succession of skls strategies: most recently and notably the Leitch report on *Prosperity for all in the global economy – world class skills* (2006) and *Skills for Growth: The National Skills Strategy* (2009) produced by the last government and the current coalition government's *Skills for Sustainable Growth* (2010). The UK Commission for Employment and Skills was established in

<sup>35</sup> OECD (2008)

2008 to advise government on skills policies, which are centrally governed and delivered through a constantly changing line up of quangos, advisory bodies and agencies.<sup>36</sup>

4.36 Policy for education and skills has proved to be one of the policy areas most subject to changing direction and responsibility for delivery. Cities are education authorities but subject to tight central government control and regulation. And in skills and training, they have had to contend with an institutional infrastructure both nationally controlled and constantly changing. The last three decades, for example, have seen the Manpower Services Commission (MSC) coordinating employment and training services in the UK from 1973 to the late 1980s. Its replacement, a network of Training and Enterprise Councils (TECs) lasted until 2001. Funding of further education was removed from Local Education Authority control in 1992 with the establishment of Further Education Funding Councils. In England, the functions of the Further Education Funding Council, along with those of the TECs, were taken over in 2000 by the Learning and Skills Council (LSC), which took over responsibility for planning and funding further education (post-16 education and training other than higher education) in England. The LSC was closed in 2010 to be replaced by the Skills Funding Agency and the Young People's Learning Agency. The Skills Funding Agency funds and regulates adult Further Education (FE) and skills training in England. The Young People's Learning Agency (YPLA) funds Academies (formerly City Academies introduced in 2000) and supports local authorities in commissioning education and training opportunities for all 16-19 year olds. If current legislation goes through, the Education Funding Agency will take over responsibility from the YPLA.

4.37 The Higher Education Funding Council for England (HEFCE) funds universities and colleges that provide higher education.

*Leeds and education and skills policy*

4.38 Leeds Council is a Local Education Authority and currently maintains 262 primary, second tier and specialist schools. The city is home to seven Colleges of Further Education and three higher education institutions, the University of Leeds, Leeds Metropolitan University and Leeds Trinity University College.

4.39 Leeds has engaged over time with all the national skills agencies in developing its own skills and children and young people strategies and its Local Area Agreement. Its most recent initiatives include the establishment, using ERDF funding, of 'Employment Leeds', which provides employment and training support to Leeds businesses, 'Leeds Apprenticeship Challenge' to promote apprenticeships and the 'Young People's Employability Initiative', a partnership with Leeds City College and other training providers to improve the employability of young people. Skills has been a key theme in the Leeds Initiative and, at city-region level, an Employment and Skills Board has been set up to take on skills strategy-setting powers that are to be devolved from government.

*Connectivity*

4.40 Central government retains overall responsibility for regulating all aspects of transport – road, rail, sea and air. What distinguishes the last three decades is the changing balance between public and private provision and the reshaping of governance between national, regional and sub-regional levels. Cities have had to position themselves in a complicated and evolving governance structure for transport provision.

4.41 In the mid-twentieth century the railways were publicly owned and run centrally first by the British Transport Commission (BTC) and then British Rail. Buses were regulated by regional traffic commissioners and generally operated locally by publicly-owned companies. Roads and rail transport management was centralised with the then Ministry of Transport taking control of both road and rail infrastructure and rolling stock. Regional and local involvement mainly took the form of the licensing of bus companies through traffic commissioners.

<sup>36</sup> Hamilton and Richmond (2010), Payne and Keep (2011).

- 4.42 Roads have remained largely in central government control with the Highways Agency, part of the Department of Transport, responsible for the strategic road network. Big changes were introduced in public transport, however, by conservative central governments. Following deregulation in the 1980s, buses are now privately owned. British Rail was privatised in the mid 1990s with over 100 companies taking over its services. The Department for Transport took control of the rail network following the collapse of the private rail track operator Railtrack in 2002 and the disbanding of the Strategic Rail Authority in 2005. The Department does not own the rolling stock but specifies through franchises the services private companies provide. The railway infrastructure is thus publicly owned and the rolling stock and passenger services privately owned under central regulation. This sets the UK apart from European countries like France, Germany, Italy and Spain where government-owned railroads still exist, although in these countries the tracks have been separated from traction and rail service operations and have been opened up to new service providers.<sup>37</sup>
- 4.43 In terms of air transport, responsibility for municipal airports – with the exception of Manchester - was first transferred to public airport companies in 1987 and then privatised. The Leeds and Bradford airport, for example, had been set up by the two city councils in 1931 and became a limited company jointly owned by the five West Yorkshire Councils, Leeds, Bradford, Wakefield, Calderdale and Kirklees in 1987. It was eventually privatised in 2007.
- 4.44 The Department of Transport makes transport policy for the whole of the UK but in some policy areas this policymaking role is directly influenced by EU legislation and the transport powers of devolved administrations. As already noted, In the case of England, London is a special case with responsibility for buses, trains, the underground system, traffic lighting, taxis and river transport devolved to Transport for London and overseen by its elected Mayor.
- 4.45 This devolution of transport powers and responsibilities sets the capital apart from other English metropolitan regions, where unitary councils and, in the case of the former metropolitan county councils, Integrated (formerly Passenger) Transport Authorities and Executives are responsible for producing local transport plans, transport strategy and passenger transport. Local authorities are responsible for local highways, parking and other forms of revenue collection with local authorities generally remaining responsible for implementing transport schemes with the exception of motorway and trunk road schemes and rail which are the responsibility of the Highways Agency and Network Rail.<sup>38</sup>
- Leeds and transport*
- 4.46 In the last two decades, transport policy has also had an important regional strand – now being dismantled - with Regional Government Offices (1993-2012), Regional Assemblies (1998-2010) and Regional Development Agencies (1998 -2012) together responsible for the development of transport strategies and the prioritisation of regional transport policies. These regional bodies were responsible for developing Regional Transport Strategies as part of broader Regional Spatial Strategies. From the mid-2000s, large local authority transport schemes (above £5 million) with regional and local significance were put into the regional transport strategies and graded by importance for national funding ('regional funding allocation').<sup>39</sup>
- 4.47 There are a group of non-departmental public bodies that also feed into national policy development (like the executive British Transport Police Authority or the advisory Commission for Integrated Transport). And privatisation of public transport and ports and airports has also introduced into the policy mix an array of private sector operators responsible for delivering transport services with varying degrees of national and local regulation.

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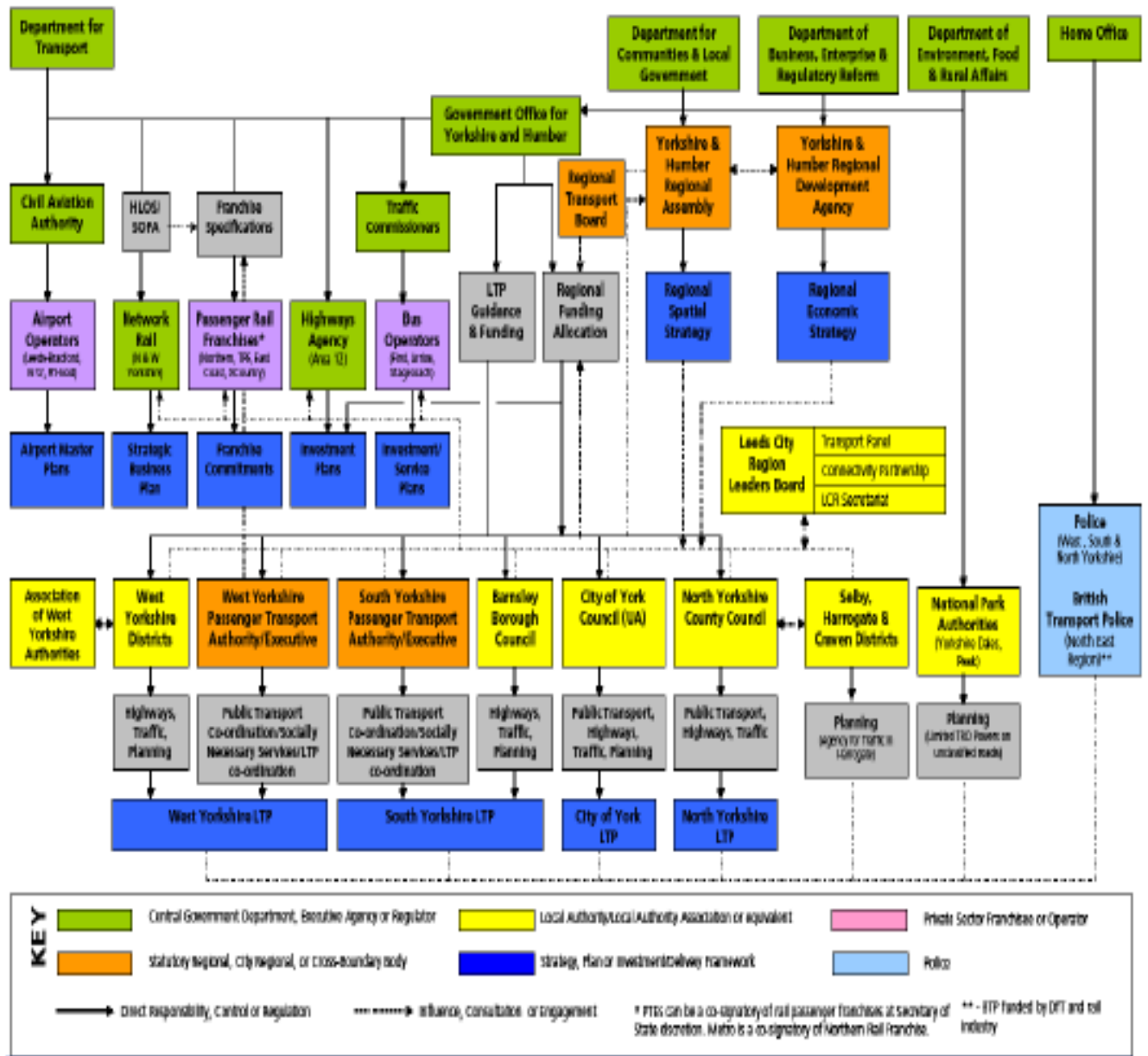
<sup>37</sup> Rodrigue et al (2009)

<sup>38</sup> Butcher (2010, 2011), Butcher et al (2010) and Butcher and Keep (2011),

<sup>39</sup> ibid

- 4.48 Transport policy in Leeds then is currently delivered by a mix of central government policy and funding and orchestrated and implemented locally by the City Council, West Yorkshire Integrated Transport Authority (Metro) and the Leeds City Region. In the last decade the Regional Government Office, the Regional Assembly and the Regional Development Agency, Yorkshire Forward, also played a key role.
- 4.49 Figure 4.3 shows just how complex the governance structure was at the end of the 2000s with the policies of four national government departments filtered through regional and city regional structures to city level. At city-regional level, there are two PTAS/ITAs, a metropolitan Borough Council (Barnsley), York Unitary Council and North Yorkshire County Council and Selby, Harrogate and Craven District Councils. There are four Local Transport Plans. A review of transport governance in the city region was instigated in 2007 and while there was considerable support for a city-region wide integrated transport authority, it needed the agreement of North Yorkshire County Council and the City of York – each responsible for its own Local Transport Plan - to proceed and this was not forthcoming. It was, therefore decided in the short-term to set up a formal governance scheme for West Yorkshire and strengthen partnership arrangements for the wider city-region.
- 4.50 The current coalition government is dismantling the regional architecture in Figure 4.3. As part of its reform of local and regional government, transport governance is to devolve to local authorities and wider Local Enterprise Partnerships (LEPs). Major transport schemes are to be financed by a combination of direct revenue and capital funding and new funding mechanisms like Tax Increment Financing and the new Regional Growth Fund.

Figure 4.3: Transport Governance Structures in Leeds City Region, 2009 (Source: Preston (2009))



Quality of place

“There are many different ways of understanding quality of place, but as it is defined in this strategy, it is ‘the physical characteristics of a community – the way it is planned, designed, developed and maintained – that affect the quality of life of people living and working in it, and those visiting it, both now and into the future....’The places where people live have a profound effect on their quality of life and life chances. Places exercise this effect in a range of ways – through, for instance, crime levels, pollution levels, employment opportunities, social ties and opportunities for community engagement, and the range and quality of local services, transport links and green space. Quality of place can then be understood as that subset of factors that affect people’s quality of life and life chances through the way the environment is

*planned, designed, developed and maintained.” (World Class Places HM Government, 2009; p. 11)*

- 4.51 Quality of place was an important element of the Labour government’s urban renaissance agenda. The government’s 2009 strategy document, *World Class Places*, set out its approach, which emphasised the economic, social and environmental benefits of investment in improving quality of place and the interlocking roles of spatial planning, urban design and well-designed building and spaces in place making.<sup>40</sup> Considerations of quality of place, it argued, had largely been absent in the planning of the post-1945 decades to the detriment of national urban development.
- 4.52 In the decade leading up to the publication of *World Class Places*, the Labour government had introduced a mix of institutional initiatives and planning reforms to promote quality of place, notably the establishment of the Commission for Architecture and the Built Environment (CABE) with a remit to promote good architectural standards and better civic design and public space. It also set up a Better Public Buildings programme including ministerial and public service design champions and promoted the protection of heritage buildings and environments and sustainable building standards for new housing developments. And it reformed the planning framework to make it more strategic and inclusive and more sensitive to quality of place issues. *World Class Places* recognised, however, that, apart from its role of leadership and persuasion and shaping national planning policy frameworks, central government only has limited powers and capacity directly to influence quality of place, which remains largely shaped at local level. Local leadership and planning are key to the promotion of quality of place.
- 4.53 The new coalition government’s shift to localism further reinforces the local dimension, which is reflected in its proposed National Planning Policy Framework. The latter is to have a ‘presumption in favour of sustainable development’, which will be heavily dependent on local interpretation of quality of place issues. Time will tell whether quality of place remains central. Moreover, central government’s drive to promote quality of place appears to be weakening as symbolised by the closure of CABE in the government’s cull of quangos (‘non departmental public bodies’) as part of its programme of public expenditure cuts. CABE has merged with the Design Council, itself another victim of the quango cull, to form Design Council CabE. In the process, its resources have been drastically reduced and, with this, arguably, its profile and influence. Central government’s commitment to improving urban quality of place, thus, also remains to be tested.

*Leeds and place quality*

- 4.54 Leeds has put great emphasis on civic design and ‘place shaping’. It was one of the last city authorities to employ a Civic Architect and has had a number of initiatives and strategies to help steer development of its built environment such as the Leeds Architecture and Design Initiative and a City Centre Urban Design Strategy alongside a set of local strategies (for example, for the waterfront). Renaissance Leeds, a partnership between the Homes and Communities Agency (formerly English Partnerships), Leeds City Council, the Leeds Initiative and the Regional Development Agency, Yorkshire Forward, has played an important role in overseeing large scale physical regeneration projects in the city.

*Strategic capacity – partnership at city level*

- 4.55 Leeds has responded to the political and policy context in which it found itself by developing a partnership-based approach to place-making at city level in the shape of the ‘Leeds Initiative’. The latter was set up in 1990 by the City Council and local Chamber of Commerce in recognition of the need to engage, initially private and public sector and, later, third sector partners in economic development. It prefigured the Local Strategic Partnerships promoted later by national government.

<sup>40</sup> HM Government (2009), Cabinet Office (2009)

*Strategic capacity – upscaling of governance to city-region level*

- 4.56 Just as the Leeds Initiative can be seen as a model for Local Strategic Partnerships, the city's early research into economic linkages at sub-regional level in 1999 also informed developing central government policy on city-regions.<sup>41</sup> Local work on city-regional governance was encouraged by central government policy thereafter. The Leeds City Region partnership was formally set up in 2004 and a City Regional Development Programme (CRDP) agreed with central government in 2006. A City Region Leaders Board was established a year later and a city-regional Multi Area Agreement the following year. Leeds – along with Manchester – became one of the 'forerunners' or pilot statutory city regions with a formal Agreement signed with central government in late 2009.
- 4.57 A further illustration of the way in which the city's economic development policy has co-evolved with central government policy is the creation of its Local Enterprise Partnership (LEP) for the city region, set up to work alongside the City Region Leaders Board following the shift in policy emphasis with the change in national government in 2010. The LEP is a natural progression from the earlier City Region development work, although its powers and levels of funding are still being determined.

## 5. POLICY AND PERFORMANCE - WHAT POLICIES HAVE WORKED, HOW AND WHY IN LEEDS?

*The makings of 'Corporate city' – first attempts at economic development*

- 5.1 It was not until the early 1980s, with the election of a Labour Council, that an interventionist approach to economic development took root in the city, largely through the use of land sales to encourage business development. In 1988, the approach was extended with the creation of the Leeds City Development Company (LCDC), a public-private venture that was designed to forestall the imposition of a Development Corporation by central government. LCDC used council owned land for industrial property development. It was soon overshadowed, however, by the Leeds Development Corporation that was eventually set up by central government in 1998.<sup>42</sup>

*The Leeds Development Corporation – a catalyst for urban governance*

- 5.2 The Development Corporation had been opposed by both the Labour Council and Chamber of Commerce but this stance changed once it began operating. Councillors joined the Board and the Council went on to complete some of the projects started by the Development Corporation after the latter's closure in 1995, notably the transfer from London of the Royal Armouries to the Leeds waterfront. This transfer was recognition of the importance of cultural facilities for developing tourism and marketing the city and tied in with the more proactive approach to city development pursued by the local politician, Jon Trickett, who took over as Leader of the Council a year after the Development Corporation was set up. Under his regime, the emphasis was on the physical regeneration of the city centre and the emulation of Continental European cities like Barcelona in terms of civic design and the provision of the cultural and leisure facilities of a '24-hour city'.<sup>43</sup>
- 5.3 The Council set up the Leeds Development Agency to lead on economic development, working alongside the Development Corporation and overseeing the property development role of the LCDC. The most significant development came two years after the arrival of the UDC when the City Council and local Chamber of Commerce together set up the 'Leeds Initiative', a partnership that has gone on to produce a series of 'visions' for the city's development. Part and parcel of the City Council adopting a more proactive approach to development, the Leeds Initiative has provided a vehicle for coordinating the complex mix of national, regional and local policies and funding streams and agencies operating in the city.

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<sup>41</sup> CURDS (1999)

<sup>42</sup> Haughton (1996)

<sup>43</sup> Haughton (1996) and Wainwright (2009)



5.4 In its first incarnation the Leeds Initiative was very much focused on economic development and engagement with the private sector through a range of sectoral partnerships, including the Leeds Financial Services Initiative and Leeds Manufacturing Initiative.<sup>44</sup> The Leeds Property Forum, organised by the Chamber of Commerce, also played a key role; advising, for example, the Council’s Planning Department on development applications and its Cultural Facilities Working Group involved in the early planning of the city’s new ‘Arena’.<sup>45</sup> The initial economic development focus and the leading role of the private sector that earned Leeds the label of ‘Corporate City’.<sup>46</sup>

*From corporate to civic city – Leeds Initiative Mark II*

5.5 Criticised in its early days in some quarters for being exclusive and narrowly focused, the Leeds Initiative has gradually extended its membership to take in a wider range of public and private sector partners and to involve more widely voluntary, community and faith sector representatives. The evolution of the partnership can be seen in the growing list of signatories to the three Visions for Leeds that it has produced (Figure 5.1). The first Vision was produced following a public consultation exercise that was recognised by the Urban Exchange Initiative Council of Ministers as an example of good practice in urban governance. And the latest Vision was based on a more extensive process of consultation including the innovative use of new social media and outreach activity.<sup>47</sup>

**Figure 5.1: Leeds Initiative – founding members and signatories to the three Leeds Visions**

Founding members (1990)	Leeds Vision I <i>Vision for Leeds - A Strategy for Sustainable Development (1999)</i>	Leeds Vision II <i>Vision for Leeds 2004 to 2020 (2004)</i>	Leeds Vision III <i>Leeds 2030...our vision to the best city in the UK – Vision for Leeds 2011 to 2030 (2011)</i>
Leeds City Council Leeds Chamber of Commerce & Industry Leeds Health Authority Leeds Metropolitan University Regional Trades Union Congress University of Leeds West Yorkshire Passenger Transport Executive Yorkshire Post Newspapers	Leeds City Council Leeds Chamber of Commerce and Industry <b>Leeds Civic Trust</b> <b>Leeds Colleges of Further Education</b> Leeds Health Authority Leeds Metropolitan University <b>Leeds Voice</b> <b>Government Office for Yorkshire and the Humber</b> Regional Trades Union Congress University of Leeds <b>West Yorkshire Learning and Skills Council</b> West Yorkshire Passenger Transport Executive <b>West Yorkshire Playhouse</b> <b>West Yorkshire Police</b> <b>Yorkshire Post Newspapers</b> <b>Yorkshire Television</b>	Leeds City Council Leeds Chamber of Commerce and Industry Leeds Civic Trust Leeds Voice <b>Black and Minority Ethnic Strategy Group</b> <b>Leeds Faith Communities Liaison Forum</b> <b>Education Leeds</b> Government Office for Yorkshire and the Humber <b>Jobcentre Plus</b> <b>Learning and Skills Council, West Yorkshire</b> Leeds Federation of Colleges Leeds Metropolitan University Leeds Primary Care Trusts Regional Trades Union Congress University of Leeds West Yorkshire Passenger Transport Executive West Yorkshire Police <b>West Yorkshire Small Business Service</b> Yorkshire Forward <b>BBC</b> Yorkshire Post Newspapers Yorkshire Television	Leeds City Council Leeds, York and North Yorkshire Chamber of Commerce <b>Third Sector Leeds</b> <b>Arts Council</b> <b>Education Leeds</b> <b>English Heritage</b> <b>Environment Agency</b> Government Office Yorkshire and The Humber <b>Highways Agency</b> Jobcentre Plus Leeds City College Leeds Civic Trust Leeds Faiths Forum Leeds Metropolitan University Leeds Partnership Foundation Trust Leeds Teaching Hospitals Trust Leeds Voice Museums Libraries Archives Yorkshire NHS Leeds Natural England Skills Funding Agency Sport England University of Leeds West Yorkshire Fire and Rescue Service West Yorkshire Metro West Yorkshire Police West Yorkshire Police Authority West Yorkshire Probation

<sup>44</sup> Dean (2001)

<sup>45</sup> Williamson and Mansell (2007)

<sup>46</sup> Haughton and While (1996)

<sup>47</sup> Leeds Initiative (2011)

			Service <b>Yorkshire Forward</b> Youth Offending Service (July 2010)
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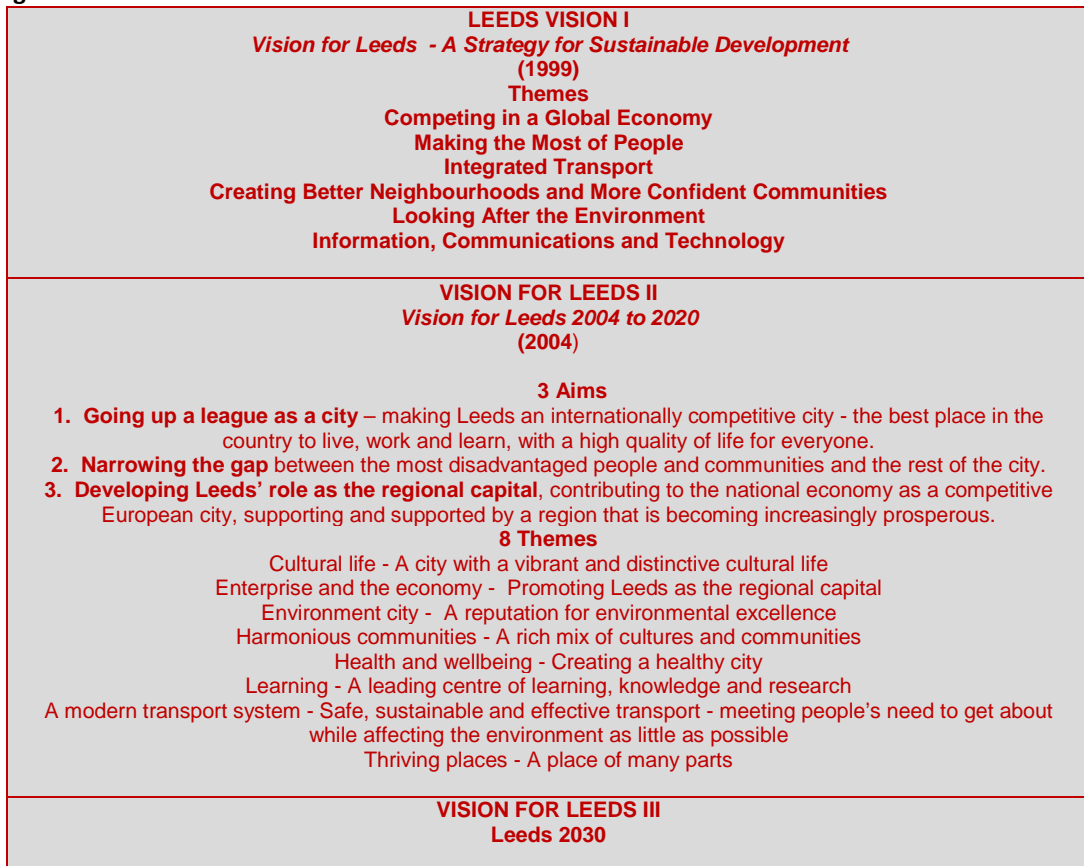
Source: Source: Leeds Initiative (1999, 2004 and 2011b)

5.6 It was a pioneering initiative in urban governance when it as set up and, as already noted, arguably set the model for the Local Strategic Partnerships introduced by central government twelve years later. The Leeds Initiative duly became the city’s LSP and took responsibility for producing a Sustainable Community Strategy – for which it already had a blueprint in the shape of its first Vision for Leeds - and for overseeing delivery of the government’s Neighbourhood Renewal Strategy. It was also a platform for negotiating the city’s Local Area Agreement (LAA).

*Competitiveness tempered by, social and economic inclusion and cohesion*

5.7 Taking on the role of Local Strategic Partnership strengthened the shift already underway towards widening participation. It also reinforced the extension of the partnership’s remit - from the initial emphasis on economic development and private sector engagement to wider issues including transport, regeneration, neighbourhoods and communities, community safety, learning and skills, technology and innovation, arts and culture and sectoral development.<sup>48</sup> In this way, its initial focus on competitiveness has been extended to address wider issues of inclusion, well-being and sustainable development. This evolution can be traced in the three strategic plans that the partnership has produced at different points in the city’s recent growth trajectory: one when growth was picking up pace, in 1999; one in the middle of the growth period, in 2004; and the latest in the recession, 2011 (Figure 5.2).

**Figure 5.2: The Three Leeds Visions – aims and themes**



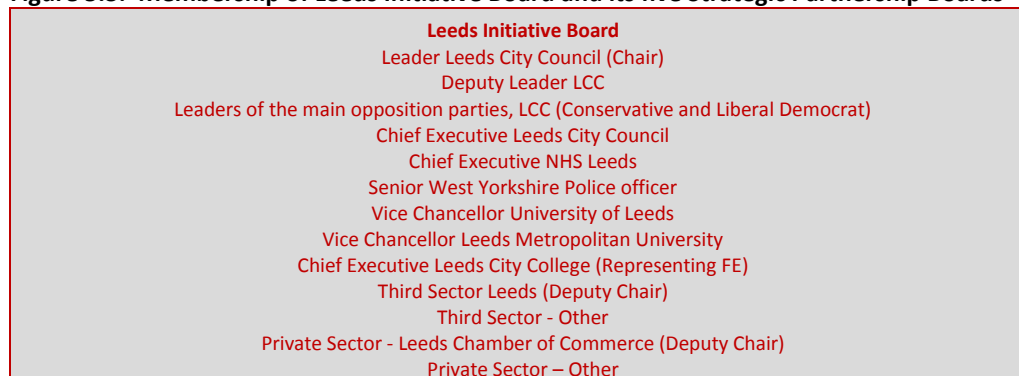
<sup>48</sup> Kudelmitzky (2006)



Source: Leeds Initiative (1999, 2004, 2011b)

- 5.8 Competitiveness is a theme running through all of the Visions. But the second Vision, produced in the middle of the latest growth period, recognised the fact that this growth was not being shared across the city and communities. 'Narrowing the gap' between disadvantaged communities was added to the two predominantly competitiveness aims - 'going up a league as a city' and 'developing Leeds' role as the regional capital'. Competitiveness themes, including for example, connectivity and skills), thus sit alongside inclusion (neighbourhood regeneration and 'thriving places'), health and wellbeing and quality of place (with a focus on cultural factors). The Plan also includes cohesion in the shape of harmonious communities, a theme that was given added urgency by the fact that a number of the men involved in the bomb attacks in London ('7/7') were from Leeds. A Harmonious Communities Partnership was set up specifically to address concerns over the social and spatial segregation of ethnic minority and faith communities.
- 5.9 The latest plan has the ambitious overarching aim for Leeds to be "the best city in the UK - *not the richest or the biggest, but the best for all who live and work in Leeds*". The emphasis on issues of inclusion, well-being and sustainable development alongside competitiveness is continued.
- 5.10 Figure 5.3 shows the current breadth of partner representation on the Leeds Initiative Board that oversees the work of the partnership and the five strategic boards that work to it. They bring together representatives from the Council, a wider range of public agencies and the private and third sectors. Beneath these Boards is a network of 29 thematic partnerships that variously inform the different strategic partnership boards. These thematic partnerships also include a range of representatives from the public, private and third sectors. What also distinguishes the approach is the way in which the Council structures its Priorities and Corporate Plans around the Visions' main themes and monitors performance against them accordingly. There are now 5 Council Priority Plans that map on to the Vision's 5 strategy groups.

**Figure 5.3: Membership of Leeds Initiative Board and its five Strategic Partnership Boards**



<p style="text-align: center;"><b>Children’s Trust Board</b></p> <p style="text-align: center;">Executive Member for Children Leeds City Council (Chair) Democratic Opposition parties Leeds City Council (Conservative and Liberal Democrat) Director Children Services NHS Leeds and other local health organisations Youth Offending Service West Yorkshire Police West Yorkshire Probation Schools –three representatives Further Education Colleges Jobcentre Plus Third sector Sure Start Children’s Centres Lead GP Environment and Neighbourhoods representative, Leeds City Council Specialist Inclusive Learning Centres Academy representative Independent Chair of the Leeds Safeguarding Children Board</p>
<p style="text-align: center;"><b>Health and Wellbeing Board</b></p> <p style="text-align: center;">Executive Member for Adult Health and Social Care Leeds City Council (Chair) Democratic Opposition parties Leeds City Council (Conservative and Liberal Democrat) Director of Adult Social Care Director of Public Health Director of Children’s Services Practice Based Commissioning Consortia NHS Commissioning Board HealthWatch - Public and service users and carers Third Sector Leeds</p>
<p style="text-align: center;"><b>Housing and Regeneration Board</b></p> <p style="text-align: center;">Executive Member for Neighbourhood, Housing and Regeneration, Leeds City Council (Chair) Executive Member for Development and Economy, Leeds City Council Opposition parties Leeds City Council (Conservative and Liberal Democrat) Director Neighbourhoods and Environment Director City Development Area based Regeneration and Housing Programme board (3) Registered Social Housing Provider (Housing Partnership) Homes and Communities Agency Third Sector – Third Sector Leeds Private Sector Landlords representative Leeds Chamber of Commerce Team Leeds Leeds Chamber of Commerce Property Forum Private Sector House Builders Federation</p>
<p style="text-align: center;"><b>Safer and Stronger Communities Board</b></p> <p style="text-align: center;">West Yorkshire Police (Chair) Executive Member Neighbourhoods, Housing and Regeneration Democratic Opposition parties Leeds City Council (Conservative and Liberal Democrat) Senior Officer – LCC Environment and Neighbourhoods Directorate LCC Children’s Services Leeds University/Leeds Met/FE College West Yorkshire Probation Service ALMO/BITMO City Centre Business Chairs or Co-chairs of working groups – Harmonious Communities Chairs or Co-chairs of working groups – Safer Leeds Chairs or Co-chairs of working groups – Cleaner Greener Partnership Third Sector - community sector Third Sector - faith sector (Deputy Chair) Third Sector - community relations/ intelligence</p>
<p style="text-align: center;"><b>Sustainable Economy and Culture Board</b></p> <p style="text-align: center;">Chair – private sector</p>

Executive Member for Development and Economy Leeds City Council  
 Executive Member for Leisure, Leeds City Council  
 Member for Neighbourhood, Housing and Regeneration, Leeds City Council  
 Opposition parties Leeds City Council (Conservative and Liberal Democrat)  
 Director City Development  
 University of Leeds  
 Leeds Met University  
 Leeds City College  
 Metro  
 Third Sector Leeds  
 Private Sector (x 3)  
 Cultural / Sport  
 Tourism /attraction  
 Environment partners  
 Civic Trust

Source: Leeds Initiative (2011c)

- 5.11 For the last two decades, then, place making in Leeds has been the shared responsibility of the Council and the Leeds Initiative.

*Performance - what policies have worked and which still need work?*

*Measuring progress*

- 5.12 The Leeds Initiative has produced a number of discussion papers on progress in the city as part of the debate over the current Vision for Leeds. *'Where are we now?' and 'Understanding our city'* attempt to take stock of progress. Performance against strategic outcomes are also monitored using theme-specific 'trackers' and the city council has measured the performance of its last Strategic Plan, which was organised around the second Vision's themes and targeted outcomes. The Council also carries out annual audits of city centre developments. And, for the first time, the Council and Leeds Initiative have produced a 'State of the City' report, which accompanies the latest Vision and new City Growth Strategy. The City Region secretariat monitors progress across the city region and Yorkshire Futures, until recently, collates economic, social and environmental data across the region, including those for the city region and the city.<sup>49</sup> The discussion below draws on these reports and looks at progress against the three overarching aims of the second Vision – 'going up a league', 'narrowing the gap' and 'developing Leeds' role as the regional capital.

*Going up a league*

*Competitiveness*

- 5.13 The aim of going up a league was about both raising the relative economic performance of the city and securing a higher quality of place and city life. In terms of competitiveness and international comparisons, it was a challenging aim and performance is mixed. As noted in Section 3, the last decade has seen the city appear in the European Cities Monitor rankings. The city first appeared in 2007 when it was ranked 30<sup>th</sup> and has moved up seven places since then. But, as also noted in Section 3, while Leeds economic output (GDP) over the 2000-2007 growth period puts it in the top quartile of the 141 other cities in the study, its growth rate drops it into the fourth quartile. In terms of economic performance, therefore, it has still some way to go to reach the competitiveness levels of many other second tier cities in Continental Europe.

*Innovation*

- 5.14 Historically, the city was a centre for innovation in the propulsive industries of the industrial revolution. But there are concerns that this lead has slipped and the city is not providing an adequate support environment for innovative activity. There has been relatively low levels of R&D

<sup>49</sup> Leeds Initiative (2009, 2011d, 2011e); Leeds City Council and Leeds Initiative (2011); Leeds City Council (2011d); Leeds City Region Partnership (2010); Yorkshire Futures (2011). See statistical appendix for some of the figures.

spending in both private and public sectors and the potential synergy between university and private sector still needs to be fully captured.<sup>50</sup> The City Region commissioned the Work Foundation to look at innovation in the city region and the report concluded that it had lower levels of knowledge intensity and a skills profile less likely to create and transfer knowledge than its size would suggest.<sup>51</sup> Taking patents as an indicator, Leeds was ranked 75<sup>th</sup> out of the 141 European second tier cities in our study. Nationally, the city is ranked 10<sup>th</sup> out of 11 UK second tier cities.<sup>52</sup> Within the UK, the city has been recently categorised as a service sector innovator but not a high performing or high technology innovator.<sup>53</sup>

- 5.15 The RDA, Yorkshire Forward, funded a number of innovation projects involving Leeds University in collaboration with other regional universities including, for example, the Institute of Product and Process Development (with the University of Huddersfield) and a nanomanufacturing technology centre (with Bradford and Sheffield Universities). It also supported the establishment of a Centre for Industrial Collaboration on Biomaterials and Tissue Engineering led by a consortium of Leeds, Sheffield and York Universities. The 'State of the City' Report also notes the 28 knowledge transfer partnerships that Leeds University has developed with local companies and the 45 companies that it has 'spun out' in the last five years. It is also the case, however, that a major science park proposed by the University and partners – 'Innovation City Leeds' – and one that the Work Foundation identified as one of the cornerstones of the development of an innovation eco-system in the city region did not go ahead in the end as a result of a funding shortfall caused by the recession and issues surrounding EU funding. The City Region's prospectus for developing innovation in the city region, the *Innovation Capital Programme*, which the Local Enterprise Partnership now has responsibility for taking forward, is pretty clear on the need for more effort in local innovation.<sup>54</sup> The challenge for the city region is to develop the fully functioning 'triple helix' of university, industry and national and local government collaboration that constitutes innovation policy in, for example, one of our other case study cities, Munich in Federal Germany.

#### *Education and skills*

- 5.16 There have been positive improvements in education and skills attainment levels in both the city and city region. In response to criticism of its schools system by the national regulatory body, Ofsted, in 2001, the city set up an arms-length body to supply educational support services. 'Education Leeds' ran for 10 years and has helped to raise educational standards. And the Council, through its Public Private Partnerships Unit also set up in 2001, has taken maximum advantage of the last government's 'Building Schools for the Future' initiative virtually to overhaul its school premises and build new primary and secondary schools. Educational attainment has improved. The percentage of 16 year olds achieving five or more GCSEs with good grades and including English and Maths has increased faster than nationally and the gap with national attainment narrowed.
- 5.17 In terms of skill levels, there have also been improvements at all three recognised vocational qualification levels, albeit with differences between the city and city region. Leeds now has more of its working age population qualified at the three levels than national. At city region level, the position is reversed, however, with skill attainment slightly below the national average at all three levels. The proportion of the working age population with no qualifications has also fallen in both the city and city region, although again there are differences between them. The proportion in the city is below the national average, while the city region figure remains above it. In national context, of 11 UK second tier cities, Leeds has the ninth lowest proportion of the working population with no formal qualification, behind Edinburgh and Bristol.<sup>55</sup>

<sup>50</sup> Stilwell and Unsworth (2004) and Leeds City Region (2010)

<sup>51</sup> Morris and Jones (2009)

<sup>52</sup> Centre for Cities City Outlook Data - Statistical Appendix

<sup>53</sup> Crowley (2011)

<sup>54</sup> Leeds City Region (2010)

<sup>55</sup> Centre for Cities City Outlook Data - Statistical Appendix

- 5.18 Of some concern, however, is the fall, accelerated by the recession, in the proportion of the working age population receiving job-related training. Here both the city and city-region have levels just below the national average.<sup>56</sup>

*Connectivity*

- 5.19 Leeds has a good track record in working with government to develop its road network. It was early to start work on an inner ring road to take traffic around the city centre and its motorway links prompted it to claim to be the country's 'Motorway City of the Seventies'. The Inner Ring Road, started in the 1970s, has recently been completed along with the East Leeds Link Road that is particularly important for increasing access to one of the city's regeneration priorities, Aire Valley. On balance, the city has been relatively successful in developing its road infrastructure.
- 5.20 Leeds is also well connected by rail with its station handling the second highest number of passengers of any English station outside central London. The station has been refurbished in recent years and central government has recently approved the development of new stations on commuter routes into Leeds and a new entrance to the city station that will importantly connect to another of the city's key regeneration areas, Holbeck Urban Village.
- 5.21 Air connectivity is also relatively strong. The now privatised local Leeds Bradford International Airport is one of the fastest growing regional airports, although accessibility by public transport remains an issue. And the city also has good public transport access to Manchester Airport. For environmentalists, however, there remains a continuing tension between the city's environmental aspirations and the policy for expanding the local airport.<sup>57</sup>
- 5.22 Where the city has struggled, however, has been with its public transport infrastructure, which has become a key issue as road congestion has increased. This issue was crystallised by the recent failure to secure funding for a light rail transit system, the so-called 'Supertram'. After giving initial approval to the Supertram in 2001, central government withdrew its support four years later ostensibly over cost concerns. The city was encouraged to come up with an alternative, 'New Generation Transport', scheme based on trolleybuses. But even this less expensive alternative still awaits government approval after receiving initial support two years ago.
- 5.23 The city's experience with Supertram serves only to underline the large and growing gap between public transport infrastructure spending in the capital and the regions and second tier cities within them. While the capital accounts for 15 per cent of the population in England, it receives something like 34 per cent of transport spending and is the only region where the proportion of transport spending is greater than that of population – and by a large margin and by much more than in other areas of public spending.<sup>58</sup> The problem for Leeds, of course, is compounded by the limits on its revenue raising powers and its political opposition to road pricing, which constrains the potential local contribution to schemes like the ill-fated Supertram. It is instructive, in this context, to compare Leeds' experience with that of one of our other case study cities, Lyons. It took three and a half years for Lyons to go from a proposal for a light rail system to its actual introduction. Leeds has so far spent something like twenty years trying to develop and secure government support for a light rail or trolleybus system. It justifiably claims to be the only major European city without a light rail transit system. Working with the sub-regional transport authority, METRO, it has been forced instead, relatively successfully in the circumstances, to concentrate on improvements to bus services through 'quality bus arrangements' and segregated bus lanes on main routes into the city centre and, for a time, a free city centre bus. The failure to secure a step-change in public transport infrastructure, however, remains a significant constraint on the city's development.

<sup>56</sup> See Statistical Appendix for figures.

<sup>57</sup> Also noted by Audit Commission (2009)

<sup>58</sup> pteg (2011)

*Place quality*

- 5.24 The city has recognised the importance of place quality with pedestrianisation of the city centre, started in the 1960s/1970s and extended in the 1990s, particularly important in this. This was linked to the refurbishment of shops and notably the Victorian shopping arcades that are distinctive to the city.

*Civic design*

- 5.25 The city has also attempted to promote quality design through the civic architect's overall vision of the city's layout and relationships and his notion of 'urban dentistry', refurbishing existing buildings and filling in gaps as they appear to blend in with their surroundings.<sup>59</sup> A tall buildings policy came late in the process but the recession has seen off some of the more controversial proposals. The Leeds Architecture and Design Initiative in the early 1990s brought civic design into the public arena, as did the City Centre Urban Design Strategy in the early 2000s. The city centre has been transformed, not without some controversy. Critics argue that some of the developments have been too developer-led and that the Council has struggled to control the nature, location and style of development given the sheer pace of development activity in the last decade.<sup>60</sup> The absence of iconic public art is also seen by some as a reflection of the relatively unambitious nature of civic design. Other more sympathetic commentators point to good examples of development control and the successful regeneration of some of the city's Victorian buildings, acknowledging the coherence if not iconoclasm of the so-called 1980s' 'Leeds Look' in civic architecture. The new Millennium Square has also been an important addition to the city's public space.

*Cultural facilities*

- 5.26 A key element in improving place quality has been investment in what are seen as flagship cultural and sporting facilities. A new concert venue (the 'Arena') is being built to strengthen this cultural infrastructure, albeit after protracted negotiations with government over the allowable investment in the project initially agreed by the Regional Development Agency – and further evidence of the balance of power between national and local government. The city now envisages a shift away from investment in from 'building-based' culture to licensed 'street culture', building on the city's various street festivals that have grown up in the past decade, and the development of a public arts programme.

*A 24-hour city?*

- 5.27 The city has also seen a massive transformation in the number and range of bars and restaurants and '24 hour' leisure and entertainment facilities. This has had mixed results with café society sometimes being overwhelmed by an excessive alcohol consuming society that brings with it crime and anti-social behaviour. The Council also recognises that the segregation of shopping from bars and restaurants have contributed to the creation in the evenings of empty spaces in the city centre.
- 5.28 The creation of an inner city park is also now being planned that would greatly increase place quality and enhance the regeneration currently taking place south of the city centre.
- 5.29 There has been a number of crime and community safety initiatives in the city, some focused on the city centre, and crime overall has fallen. Between 2003/4 and 2009/2010 recorded crime in the city fell by 46% and by 45% in the city region. While recorded crime rates are still above the national figure there has been a significant narrowing of the gap. In the city centre, recorded crime fell by nearly a quarter. The incidence of violent crime has also fallen – by 28% in the city and 32% in the city region – and gone from being above to below the national rate over the same period. While some

<sup>59</sup> Unsworth and Smales (2004)

<sup>60</sup> Hebbert (2007), Leeds Civic Trust (2009, )Unsworth and Smales (2010)



types of crime remain a concern - notably burglary, which remains above average - the city and city centre have become safer places.

- 5.30 One indicator of place quality is visitor numbers. The numbers have increased consistently over the last decade and the latest figures do not suggest that this trend has been affected by the recession. Hotel occupancy has also continued to increase and attendance figures at the city's theatres and art galleries have held up.

*Place making - physical regeneration*

- 5.31 Leeds has not had major amounts of funding from urban policy but what it has managed to secure it has used effectively in terms of physical regeneration and place-making. Three initiatives stand out: the Development Corporation's intervention, which the Council and Leeds Initiative and City Council built upon and two strategic regeneration initiatives – the Aire Valley and Holbeck Urban Village – which together take forward the physical regeneration begun south of the city centre under the Development Corporation.

*The Leeds Development Corporation*

- 5.32 The UDC had mixed success. Where it was most successful was in working with the grain of development pressures on Leeds waterfront, building on some of the speculative developments in refurbishment already underway and some of the Council's own plans for the area. It was less successful in the development of its other area of operation - Kirkstall Valley - where its development proposals ran up against City Council plans and the opposition of the resident population, which was not a factor in the largely derelict and unpopulated waterfront area.<sup>61</sup> Urban policy funding has also been used, to some success, in neighbourhood renewal and notably the recent Local Enterprise Growth Initiative targeted at disadvantaged communities.

- 5.33 It is now generally accepted that the UDC brought a needed impetus to waterfront development, speeding up what was potentially likely to happen but over a more protracted period. For a city that had largely turned its back on the waterfront this has proved to be a massive transformation, bringing in a mix of uses and jobs and creating an environment for city-centre living that did not exist before. The number of people estimated to be living in the city centre, including student housing, is nearly 21,000, nearly six times the figure of 15 years ago and the waterfront developments have made a significant contribution to that increase. The property crash has put a halt to the building and there are some concerns over the quality of some of the housing schemes – but, as in other Northern cities, the waterfront has been brought back into use and a contribution has been made to the creation of a more 'compact city'. And amenities like local shops that were missing from the developments are now appearing making the waterfront more 'liveable'.

*Physical regeneration – extending waterfront development*

- 5.34 Given the scale of resources at its disposal, the transformation that the UDC set in motion is not surprising. But one of Leeds' successes has been the way it has maintained momentum, cobbling together packages of funding from central government and the Regional Development Agency to regenerate strategic sites in the city. The Aire Valley regeneration programme and development of Holbeck Urban Village are good examples of this approach.

- 5.35 The Aire Valley area extends south eastwards from the Royal Armouries and Clarence Dock in Leeds City Centre to the main north-south motorway. Mainly industrial but with nearby residential areas experiencing multiple deprivation, the aim of the regeneration programme is to bring in new investment and employment. The council secured a 7-year SRB funding programme in 2001 and has gone on to develop the site, meeting its targets in infrastructure development, including, as already noted the building of the East Leeds Links Road to improve access to the area, environmental and

<sup>61</sup> Deas et al (2000)

waterfront improvements and support for residents and local business. It is the site of an Eco Settlement and the momentum of the regeneration programme appears to have been secured with the recent designation of the area as an Enterprise Zone to be overseen by the Local Economic Partnership.

5.36 Holbeck is also immediately south of Leeds city centre, close to the City Station. An old industrial area with buildings of significant historical importance, it had become run down. Using funding from the Regional Development Agency's urban renaissance programme, an Urban Village has been created in the area – a mix of residential, business and leisure uses that has retained key industrial heritage buildings and added energy efficient modern ones. It has become a centre for digital and media technology businesses and is justifiably seen as a good example of how sensitively to regenerate inner city areas of this kind. It is also a good example of an attempt to help create a milieu for the development of indigenous enterprise in creative growth sectors. In terms of place quality, it is also a good example of the sensitive use of historic buildings in urban redevelopment.

5.37 While improving place quality, then, is still work in progress, it would be reasonable to argue that the city has seen some significant improvements in place quality in the last two decades..

#### *Narrowing the gap*

5.38 The city's Neighbourhood Index and the Strategic Plan review show that the city is struggling to narrow the gap between the most disadvantaged neighbourhoods and communities and the rest of the city. The Index, conducted for 2009 and 2010, in fact shows a slight increase in the overall gap between the best and worst performing areas (of 2.8 percent). The gap narrowed slightly in terms of community safety, economic activity, environment and housing but slightly widened for the education, health and housing and low income measures. It is not for want of trying and the Council, working with the voluntary and community sector, has delivered a number of neighbourhood-based initiatives, using both European and national funding, that have been evaluated as successful in meeting their aims. The latest, the nationally-funded Local Enterprise Growth Initiative, *Sharing the Success*, which promoted enterprise development in disadvantaged communities exceeded all of its community engagement, business development and employment targets. The voluntary and community sector is well established and closely involved in a number of key regeneration projects. The city has nationally recognised initiatives in community engagement. The third sector initiative, Leeds Ahead, for example, links business with community projects in disadvantaged neighbourhoods. It was awarded a green flag for its work in the Audit Commission's Comprehensive Area Assessment for the city. What all this effort underlines, of course, is the intransigent nature of the problem. While market economies raise the base level of wealth, they also see social and economic disparities widen in the absence of intervention. And that intervention has to be of the right scale and shared between national and local government. Leeds is still trying to find that critical mass.

#### *Developing Leeds' role as the regional capital*

5.39 Leeds' role as the regional capital has strengthened. It remains the dominant employment, administrative centre and retail and leisure centre for the region. In terms of public sector administration it is losing the headquarters of the Regional Government Office and the Regional Development Agency following government cuts but it still has a strong regional presence in terms of health and other public administration. In the private sector, there are at the last count some 90 plcs with headquarters based in the region and 36 of these, 40 percent, are located in Leeds - compared with the city's 19 percent share of regional employment (2008) and 15 percents share of active enterprises (2010).

#### *Strategic capacity*

5.40 Strategic capacity has been consolidated at both city and city regional level. The Leeds Initiative continues as the vehicle for partnership working in the city and has been restructured around its latest Vision for Leeds. And the City Region arrangements have moved on with the creation of the Local Enterprise Partnership. There remain issues about resources and capacity but it has produced a

Development Plan and begun negotiations with government over the freedoms and flexibilities that it feels are needed to deliver it.

## 6. WHAT FUTURE CHALLENGES FOR LEEDS?

### What's next – future prospects?

#### *A relatively resilient local economy?*

- 6.1 Leeds has been hit hard by the recession with the jobs growth of the 2000s overturned. Unemployment has risen and especially amongst young people. The last three years have been difficult times. The latest City Centre Audit shows decreases in the take-up of office space, a fall in pedestrian flows and the number of people coming into the city, a sharp contraction in housing developments and falling retail rents and hotel yields.<sup>62</sup> Pre-recession growth forecasts have been scaled back. The city's *State of the City* report cautiously cites the latest forecast of employment returning to its 2006 level by 2017.<sup>63</sup> Time will tell, but the city does have a number of factors working in its favour.
- 6.2 First, are the size and agglomeration advantages of the city region economy and second is the city's economy diversity that has proved to be so resilient in the past. Leeds still has the second highest employment rate amongst British cities and its lower than average share of employment in the public sector has been predicted to lessen the impact of public expenditure cuts.<sup>64</sup> Much is currently being made about the need for rebalancing the economy – nationally and spatially – and the important role that manufacturing could play in this. Leeds has retained manufacturing capacity with particular strengths in food, medical-related and specialist engineering. It remains strong in health provision, with the largest teaching hospital in Europe, a growing medical technology cluster and NHS administrative headquarters functions. The breadth of the financial and business services sector is also forecast to help it recover relatively strongly from the sharp contraction it experienced in the immediate aftermath of the financial crisis, with retail banking and home insurance, for example, proving relatively resilient.
- 6.3 Higher and further education are also key assets. In Leeds University, the city has the second largest university in the UK with over 30,000 students and world leading scientific research. Leeds Metropolitan University has similar numbers of students and is a major regional university with a very strong applied research in technology and business. The two universities are, respectively, the third and fourth largest employers in the city. The Further Education sector is another key asset and, following recent merger, includes the third largest further education college in the country, Leeds City College. The city's retail sector is also proving resilient with a recent reduction in vacancy rates in the city centre and two major city centre developments, stalled for a time by the recession, now underway. It is hoped that these developments will re-connect parts of the city that have been disconnected and provide greater legibility and cohesion to the city centre. Added to the investments that the latter has seen in cultural and leisure facilities, place quality should be strengthened. In terms of connectivity, the city remains well connected externally by roads – with some important recent additions – and rail and by both Leeds Bradford International Airport and the relatively accessible international airport at Manchester.<sup>65</sup>

### Future challenges

#### *The need for a second act – partnership in times of austerity*

- 6.4 The Council and Leeds Initiative have recognised the need for a second act in the city's development given the combination of the changed economic climate and the changing policy context. There is

<sup>62</sup> Leeds City Council (2011d)

<sup>63</sup> Leeds City Council and Leeds Initiative (2011)

<sup>64</sup> Centre for Cities (2011)

<sup>65</sup> EkoSgen and EDAW (2009), EkoSgen (2010), Leeds Initiative (2009, 2011c, 2011e).

less public sector grant funding around for economic development and the new national coalition government is dismantling the existing regional institutional and policy architecture in its shift to a localism agenda. Funding for city development is now much reduced but there appear to be opportunities in the localism agenda for some transfer of powers to cities and city-regions, although what form this might take is still to be determined. The local retention of business rates appears to be on offer along with some funding, albeit dramatically reduced from the previous spending budgets of the Regional Development Agencies, through the Regional Growth Fund.

6.5 The consultation around the third Visions for Leeds showed continuing support for the partnership approach but the latest Vision has given the opportunity for some streamlining of the structures with five new strategy boards linked directly to five City Priority Plans. A State of the City Report has been produced that sets the baseline for monitoring delivery of the Vision.

*A search for a new growth model*

6.6 It is clear that the financial crisis and economic recession, combined with overarching climate change and environmental issues, have raised fundamental questions about the model for growth globally, nationally and locally. EU2020 recognises the need for a new growth model to supplant the pre-crisis version. It has to be smart, sustainable and socially more inclusive. It will involve a rebalancing of national economies both sectorally and spatially. It will also require a shift to greener, more environmentally friendly economic activity. Cities are clearly central to this shift as recent reports from the United Nations Environment Programme, UN-Habitat and the Hungarian Presidency of the EU very forcefully argue.<sup>66</sup> Compact cities are more resource-efficient than other settlement patterns with similar levels of economic output. Climate friendly cities combine high productivity levels and innovation capacity with lower infrastructure costs and reduced environmental impact. Given their agglomeration advantages, they are also important locations for the development of the green economy. Leeds has produced a new sector-based growth strategy, with opportunities identified in: the health and medical sector; financial and business services; low carbon manufacturing; creative, cultural and digital; retail; housing and construction; social enterprise and the voluntary and community sector. Specific policies for each of these are identified (Table 6.1). While not a completely radical break with previous growth models, it does have more of a sustainable development emphasis. Leeds was one of the first English cities to have a Climate Change Strategy and elements of this can be seen in the new city growth strategy. It seeks to build, for example, on the diversity of the financial and business services sector by identifying new opportunities such as low carbon finance and environmental investment. And it has a strong focus on low carbon growth identifying opportunities in Leeds’ manufacturing sector and in housing and construction with, for example, the retrofitting of social housing. The health and medical sector and the city’s growing creative and digital industries are targeted for growth. And, responding to criticisms of the dominance of large retail chains, it identifies the potential for growth of independent retailers. Finally, it recognises the need to support social enterprise and the third sector, especially in a time when funding for the sector is under threat from public spending cuts.

**Table 6.1: Leeds New Growth Strategy – ‘Getting Leeds Working’**

Growth sectors	Actions
Health and Medical	<ul style="list-style-type: none"> <li>• Create a health hub partnership and network where businesses, universities, the NHS and the council collaborate to create and implement the Health Hub vision</li> <li>• Create an advanced medical park, providing space for inward investors and expanding health and medical companies, and connecting them to health expertise and R&amp;D</li> <li>• Devise and deliver innovation support services that assist medical technology companies to invest in and expand R&amp;D and new product development</li> <li>• Expand Leeds’ role and reputation as a home for health organisations and top class health services, expanding employment and improving cost effective service delivery which significantly improves the overall health of the city’s residents</li> </ul>

<sup>66</sup> UNEP (2011), UN-Habitat (2011) and Böhme et al (2011), Swianiewicz et al (2011)

Financial and Business Services	<ul style="list-style-type: none"> <li>• Promote and raise the profile of the sector and its strengths in Leeds to a national and global audience</li> <li>• Further enhance the City and its centre as a great location for the sector, including its housing, environmental, lifestyle and skills offers</li> <li>• Improve transport links within Leeds and the city region, to Manchester and to London, with continued work to ensure plans for high speed rail in Leeds are implemented</li> <li>• Build a specialism within low carbon finance and environmental investment, linked to supporting functions or outposts of the new Green Investment Bank.</li> </ul>
Low Carbon Manufacturing	<ul style="list-style-type: none"> <li>• Encourage the growth of the manufacturing sector by better linking it into available support, for instance on innovation, investment, exports and skills development.</li> <li>• Support manufacturers to reduce waste, energy, water and transport costs through resource efficiency and, specifically, through support to the 'waste to energy' initiative.</li> <li>• Build low carbon and environmental attributes into key opportunities – notably in the health and medical sector, housing, construction and the Aire Valley development.</li> <li>• Put Leeds at the heart of low carbon manufacturing by becoming a centre that links and serves low carbon industry and attracts major investments within it as a priority.</li> </ul>
Creative, Cultural and Digital	<ul style="list-style-type: none"> <li>• Use a detailed assessment of the sector to clarify its nature, niches, needs and opportunities, how it complements and competes and how firms can grow.</li> <li>• Establish a design institute similar to Barcelona and Stockholm and based around our existing areas of Holbeck Urban Village.</li> <li>• Build on existing and ongoing developments to offer a network of infrastructure that enables CDI businesses to start up, operate, interact and reach their customers</li> <li>• Work with the sector and ICT providers to enhance asymmetric broadband provision, so that upload speeds, which are crucial to many businesses, match business needs.</li> <li>• Promote and expand the city's strengths in computer gaming and software.</li> <li>• Continue to enhance the profile of Leeds and its quality of life, and to recognise its cultural and creative strengths more prominently in promotion of the city.</li> </ul>
Retail	<ul style="list-style-type: none"> <li>• See the Trinity Leeds and Eastgate Quarters developments through to completion.</li> <li>• Work with the big firms – developers and large retailers to understand their needs, help them grow, attract new outlets to the city such as the John Lewis Partnership and enhance the city centre environment.</li> <li>• Through Employment Leeds and the Retail Academy, bring together retailers, training providers and communities to build a skilled workforce that can access retail jobs.</li> <li>• Create a distinctive retail offer, with opportunities for independent and small traders to open shops and succeed. Building on the existence of the country's largest indoor market, we will marry the need for independent shops to our natural entrepreneurial flair.</li> </ul>
Housing and Construction	<ul style="list-style-type: none"> <li>• Produce a Leeds City Prospectus and clear plans for housing growth to set out our offer and approach and to catalyse development through the judicious use of the city's land holdings where it is profitable, needed and can most enhance the city.</li> <li>• Support the continuation of major development schemes such as the Leeds Arena, attract new ones, and seek to unlock those that are currently blocked.</li> <li>• Utilise Construction Leeds to link construction activity to local employment, training and business opportunities.</li> <li>• Catalyse key development in targeted areas across the city, including realising its ambitions for transformational development in the Aire Valley Leeds and making this a priority in proposals to attract business and investment.</li> <li>• We will retrofit old social housing and support businesses to do the same, which will both help meet our low carbon targets but also stimulate demand for products and services in the economy, creating new jobs in a growth sector.</li> <li>• Produce a Planning Core Strategy for the city that will assist in providing certainty and confidence to investors wishing to bring forward developments supporting sustainable growth.</li> </ul>
Social Enterprise and the 3rd sector	<ul style="list-style-type: none"> <li>• Assess its scale and role, and ensure that it is properly represented and monitored as a fundamental part of the economy.</li> <li>• Help people make full use of support that can assist them to set up a social enterprise.</li> <li>• Look at how procurement and service provision within public sector agencies, led by Leeds City Council, can fully take advantage of all that the sector provides.</li> <li>• Tap into the sector as a source of distinctiveness and innovative ideas and use it to test and potentially roll out new approaches.</li> <li>• Ensure the sector's voice is heard and influences how the city and its economy develop.</li> </ul>

Source: Leeds City Council and Leeds Initiative (2011)

6.7 *Connectivity - addressing congestion and improving public transport remain key challenges*  
 One of the biggest challenges for the city and city region remains transport. At peak times, the road network is now operating at pretty much full capacity and the growth in rail commuting has resulted in overcrowding on many services. The failure of the Supertram project was a major setback. Its proposed 'New Generation Transport' successor has still to be given the go-ahead for government funding. Yet in the absence of any step change in public transport provision it seems almost certain

that car use and congestion will increase with all the associated deleterious economic and environmental consequences. Peak oil and rising fuel prices might have some rationing effect but without a major improvement in public transport, policies like workplace-based car park charging and road pricing - that so far have been opposed by local politicians – will remain politically difficult to introduce. If central government funding is not forthcoming, it brings added pressure on the city to explore new avenues for raising revenue locally. And this will require some negotiation with central government over devolved powers.

- 6.8 Transport governance at city-region level remains fragmented and the challenge at this level is to overcome the political constraints and secure a single Integrated Transport Authority on the London and Manchester models.

*Housing - threats to the green belt and the compact city?*

- 6.9 House building in the city peaked as the recession struck and has fallen significantly in the past three years with the number of new homes built last below half the number at the peak and well below annual house building targets. Population in the city and city-region is still forecast to grow and this will place increasing pressure on the housing market and the green belt, the green spaces around cities and towns that have hitherto been safeguarded from development by the planning system. Almost two thirds of the Leeds metropolitan area is made up of green belt and this is widely recognised as a major contributor to the city's quality of life. The abolition of the Regional Spatial Strategy and shift to local planning could well expose local authorities across the city-region to more pressure from homebuilders to allow housing development on green belt sites. The City Council is already losing legal appeals by developers over its preference for brown field housing developments and opposition to the development of green field sites. The green belt could be next and might prove difficult to oppose. It could also lead to conflict between local authorities adopting different stances to green field and green belt development, which in turn could have the effect of undermining City Region partnership working.

- 6.10 For Leeds, house building on green field – and particularly on green belt – sites will also threaten attempts at developing a more compact city and sustaining the areas of city centre living developed in the growth of the last decade. These developments have been criticised for their concentration on apartments targeted at single young people and the lack of supporting amenities and services. Some have also been criticised for the quality of the build. The recession has put paid to further developments of this kind but a recent survey has show that the majority of apartments that were built are still let.<sup>67</sup> And the introduction of local shops has also made them more liveable. City centre living was described by a number of people interviewed for the research as one of the city's genuine success stories. The Leeds Sustainable Design Group, a group of planning and urban design professionals, argues that Leeds offers real potential for developing city living and securing the environmental benefits of compact city development.<sup>68</sup> The challenge is how is how to broaden the housing mix to include family houses alongside high quality green space and public realm.

*Housing - affordability*

- 6.11 Linked to the challenges over the location of new housing developments is the issue of affordability and mitigating the development of what has been identified as the development of a two-speed housing market, in which inner city housing is progressively becoming more and outer area housing less affordable.

*Narrowing the gap*

- 6.12 Unemployment has increased over the recessionary period and proposed welfare benefit changes – as part of public sector expenditure cuts – threaten already vulnerable families and individuals in disadvantaged communities. Unemployment and multiple deprivation continue to be highly localised within the city and across the city region and there is a risk that income polarisation in the city and

<sup>67</sup> Knight Frank et al (2010)

<sup>68</sup> Unsworth (2011)

city-region could increase. The groups and neighbourhoods on the margins of growth are facing increasing pressures. A particular concern are the so-called NEETs, young people ‘not in education, employment or training’, who are concentrated in the most deprived communities. Addressing this social and economic gap remains a fundamental challenge. Leeds, like other cities, has shown that growth is not automatically shared; it doesn’t trickle down to all groups and neighbourhoods. Leeds has also shown – in some of its neighbourhood-based regeneration projects and its Local Enterprise Growth Initiative - how addressing the challenge of social and economic exclusion needs the direct intervention of public, private and third sectors. And this intervention needs to be locally grounded building on the potential that disadvantaged neighbourhoods offer in terms of embedded social capital and underused land and buildings.<sup>69</sup> This makes the emphasis in the city’s growth strategy on supporting the third sector and social enterprise particularly important.

*Sustaining city-regional working*

6.13 A critical governance challenge is to maintain the momentum of city-regional working. The Local Enterprise Partnership model has its weaknesses – its voluntarism and lack of resources – but it is an attempt to provide some form of governance at the functional economic area of the city region. Like the city, the partnership has also produced a city region development plan, which also has a sustainable development focus (Table 6.2). A ‘Mini-Stern’ review of the challenges and options that the city region faces in achieving low carbon development has also been produced.<sup>70</sup>

**Table 6.2: Leeds City Region Local Enterprise Partnership Plan Proposed activity**

<b>Leeds City Region Local Enterprise Partnership Plan ‘Realising the Potential’</b>
<b>Immediate actions (2012)</b>
<ul style="list-style-type: none"> <li>• A partnership between UKTI Investment Service and the LEP in promoting and attracting inward investment to the city region economy</li> <li>• A clear coordinated offer for supporting incoming and existing investors</li> <li>• A web portal and streamlined signposting to business support, sector networks and related services</li> <li>• A <i>Skills Partnership Agreement</i> in place between the LEP and the LCR Skills Network of FE and HE institutions, skills and work programme providers.</li> <li>• Sector initiatives to encourage more involvement of businesses in shaping skills provision and promoting career prospects for their industry</li> <li>• Business-to-business campaign to increase the number of apprenticeships, provide opportunities to unemployed people and invest in the skills of the workforce.</li> <li>• Established links with 14-19 education to promote awareness of economic opportunity to young people.</li> <li>• Lobby for a devolved, joined-up <i>Community Budget</i> approach to reducing worklessness and deprivation, including high levels of youth unemployment</li> <li>• The establishment of a Green Economy Panel, bringing in specialist support to advise the LEP Board on the low carbon transition</li> <li>• A bid to Government for the location of the Green Investment Bank in the city region</li> <li>• An analysis of the economic challenges and opportunities of the transition to low carbon within the LCR</li> <li>• A delivery plan for ‘Fresh Aire’, one of the city region’s investment priorities for green infrastructure</li> <li>• An interim broadband plan as part of a wider approach to infrastructure</li> <li>• An integrated strategic and investment framework for the LCR Partnership with refreshed transport, housing, regeneration and planning priorities</li> <li>• A business case for our key asks/investment needs of Government and partners</li> <li>• Early engagement of over 700 businesses and partners in the LEP’s work through delivery of a major summit’</li> </ul>
<b>Short-Term actions (by 2016)</b>
<ul style="list-style-type: none"> <li>• Local delivery of Business Coaching for Growth, a new Government programme for supporting potential high growth business (in partnership with selected contractor)</li> <li>• A proactive sales capacity in the city region to generate investment leads</li> <li>• Effective alignment of skills provision and guidance for young people to meet the current and future needs of LCR employers, particularly in key growth sectors.</li> <li>• Reduction in unemployment arising from strong community and business partnerships to prepare local unemployment people with the skills and attitudes needed by local employers to take up new jobs growth.</li> <li>• Increase in the number of employers offering apprenticeships from 11% to over 20%.</li> </ul>

<sup>69</sup> Unsworth et al (2011)

<sup>70</sup> Gouldson et al (2011)

- A formal LEP role in commissioning and endorsing government investment in LCR skills priorities supported by dedicated resources for the identification of employer skill needs.
- Secure a LCR Skills Investment Fund to foster innovation and course development in response to the emerging skills needs of businesses in key growth sectors.
- A Green Investment Bank in the Leeds City Region
- An investment programme to be delivered with funding generated by the LCR Enterprise Zone
- Completed development of the lower Aire Valley Enterprise zone
- Delivered support to facilitate development in the other 'candidate' enterprise zones across the city region

Source: Leeds City Region (2011)

*A genuine policy for cities and genuine devolution of power*

- 6.14 To be effective, the Local Enterprise Partnership and the Local Authority Leaders Board to which it is accountable will need to have some genuine devolution of powers from central government. The new Minister of Cities has asked Local Enterprise Partnerships to come up with a set of 'asks' of central government that will allow them to achieve improvements in identified local economic outcomes. Leeds LEP's 'asks' so far include:
- the establishment of a joint Trade and Investment Board, bringing together the City Region LEP, UKTI and Customs and Excise, for enterprise support;
  - the piloting of an Apprentice Training Agency with local authority and FE partners to promote apprenticeships in small and micro businesses;
  - pilot finance incentives for low carbon development;
  - support for the location of the government's proposed Green Investment Bank in the city to build on its financial and business services sector; and
  - a 10 year region transport funding allocation.
- 6.15 How the government responds to these 'asks' will be a good test of its avowed aim to devolve more powers to cities.

## 7. KEY FINDINGS AND POLICY MESSAGES

- 7.1 The Leeds experience provides evidence that support the relevance and significance of the study's key hypotheses.

*Deconcentration matters*

- 7.2 Leeds is a second tier city that makes a significant contribution to the national – and European - economy. Ranked against the capital, it is second for printing, construction, financial and business services and knowledge-based industries; second for manufacturing, distribution hotels and restaurants and personal services, and third for legal, creative and digital and transport and communications industries. The City Region has the second largest functional sub-national economy after the capital with a GVA of £51bn at the onset of the recession. In 2008, it accounted for around 5% of the national economy, more than three times its (1.3 percent) share of national population. It is 'punching above its weight' and still not exhibiting the agglomeration diseconomies of the capital – congestion charging, 'London weighting', soaring house prices - although traffic congestion at peak times means it might be coming close. And it has potential to grow further.

*Decentralisation matters*

- 7.3 Would Leeds have been more successful if there had been more decentralisation of powers? The officers and politicians interviewed for this study certainly felt strongly that more devolved powers would have helped economic development. But perhaps the answer lies in all the effort that Leeds has had to devote to establishing its partnership approach - through both the Leeds Initiative and in developing City Region governance. It has constantly had to balance the search for funding from government with efforts to join up the policies and spending of national government departments and agencies in a 'Leeds-based' approach. This effort surely demonstrates the importance of local strategic capacity. The city has had to simulate its own form of decentralisation – because it matters.



And the fact that the city has managed to grow in a centralised context raises the question whether it could have grown even more with decentralised powers?

*'In my mind, there's a city hierarchy. There are those in principalities with greater devolution –Belfast, Cardiff and Edinburgh. There are cities that attract [EU] Objective One funding – Newcastle, Sheffield, Liverpool. And there are the others – Manchester, Leeds, Birmingham, Nottingham – that have to find their own money.'*

*National and regional policies matter for cities*

7.4 The city's relative economic strength has meant it has not been eligible for major European or national regional policy funding. Yet those policies that it has accessed have had significant impact. The Urban Development Corporation did act as a catalyst for waterfront regeneration that the Council and Leeds Initiative was able to build on. And regeneration of areas like the Aire Valley and Holbeck Urban Village has been assisted by national urban policy steered in the case of the latter principally through the Regional Development Agency, Yorkshire Forward. Neighbourhood Renewal Funding – and to an extent - European URBAN funding - helped the city in neighbourhood renewal and developing an approach to tackling social-spatial segregation. And this approach – based on public, private and voluntary sector partnership working – was developed by funding from the government's Local Enterprise Growth Initiative. The latter clearly demonstrated, for example, the significant potential that disadvantaged areas and communities have for enterprise development and also the crucial importance of local institutional capacity in delivering national policies for social inclusion.<sup>71</sup> The issue has been the funding has been sporadic and time-limited so, for schemes like the Aire Valley, there has had to be a continual juggling of funding streams - SRB, ERDF and now Regional Growth Fund – to maintain momentum.

7.5 The city also provides a good example of the benefits of the dispersal of public sector jobs from the capital. As already noted, the attraction of the Royal Armouries helped in the redevelopment of the city's waterfront. The city also benefited, around the same time, from the transfer of jobs from the capital in the Departments of Health and Work and Pensions, moves which unquestionably strengthened the city's regional administrative role, as well as making a small contribution to addressing the overheating of London and the South East.

*Cities are path dependent but can shape their trajectories*

7.6 Leeds is an example of how historical paths can change. From being dominated by textiles, it has seen the development of engineering and the rise of services to produce the still diverse economy of today. It has been transformed from an industrial to a service dominated city but one retaining important elements of its manufacturing past. It has been transformed in an evolutionary process. It can be seen as a layering of investments over time as capital searches for labour and markets. Some rounds of investment are overlain on previous rounds. Some leave behind physical and social legacies that deter further rounds and peter out. Cities are not the drivers of these rounds of investment but they can, in concert with national and regional public policy, seek to shape the environment in which private, public and third sector investment decisions are made. The waterfront in Leeds provides a classic example of this. As the investment in textile and related waterfront-based industries petered out, the warehousing and industrialised spaces on the waterfront became progressively derelict. The city, as a consequence, 'turned its back' on the river. It took public sector intervention in the shape of the Development Corporation literally to prepare the ground for the latest round of investment in the Royal Armouries, offices and apartments.

7.7 Leadership is crucial in influencing investment and economic development and this was seen in proactive approach taken by the city's leader in the 1990s.

<sup>71</sup> hallaitken (2011)

*'In the early 90s we managed to get a formula. Bring the Armouries up to act as a catalyst. Jon Trickett made a conscious political decision – pedestrianisation, the Armouries and partnership. The city was suddenly transformed. It's been a 20 year project. It took us all by surprise how fast it happened.*

*'Trickett was a very 'external leader'. The emphasis was on growing the city. He persuaded the world that we needed a 24-hour city. What Jon did was to get people involved.'*

*'Economic opportunism and strong leadership. Very good officers and above all strong leadership'.*

*Territorial governance for the wider economy matters*

- 7.8 The need to look beyond the city boundaries for development was recognised relatively early in Leeds. It began exploring city-region links and relationships in 1999, a number of years before central government actively promoted the idea. It has subsequently successfully developed city-regional institutions and policies in concert with central government, starting with the formal establishment of the City Region Partnership in 2004 and followed up with the City Region Development Plan (2006), the Multiple Area Agreement (2008), the City Region Forerunner Agreement (2009) and, most recently, the City Region Local Enterprise Partnership. A missing piece in the institutional jigsaw appears to be a single integrated transport authority for the city region as a whole. While plans for this have been put forward, it still requires some difficult institutional restructuring.

*'Some development activities are better dealt with at city-region level – innovation, skills and transport. The challenge for us is how do you get there? How do you work with some of the complexities of the boundaries. For example, Selby, York, Harrogate are part of North Yorkshire. Should we operate transport across this? North Yorkshire has got its own transport infrastructure across the county. Should you break up existing arrangements?'*

- 7.9 The functional economic rationale of the city-region and the appropriateness of its scale for infrastructure development and key policies like innovation and skills appear to have political support. It offers the potential for balancing polycentric development to foster complementarities and to maintain political commitment across the city-region.

*Innovation, human capital and skills, connectivity, place quality and strategic decision-making capacity are the key drivers of competitiveness*

- 7.10 The Leeds initiative and the City Region have put in a major effort in the last few years in developing innovation strategies, emphasising industrial collaboration and the transfer of university expertise to industry. The Regional Development Agency made a number of investments in university-based projects and there is a concern that this spatial dimension to innovation policy will be weakened by the Agency's demise. The importance of innovation has been emphasised in the new growth strategies of both the city and city-region, e.g. around medical strengths and the strengths of city region universities.
- 7.11 The city and city-region have also emphasised skills development with some success. There have been significant improvements in educational attainment in recent years and the educational infrastructure is strong. The city successfully restructured educational support for schools following concerns over attainment and the city houses three universities and the UK's third largest Further Education college alongside the nationally recognised College of Music and Northern School of Contemporary Dance. The wider city-region adds another five universities to the mix.
- 7.12 Leeds certainly shows the importance of connectivity. Its road infrastructure has been improved and its national road links are good. Air connectivity is also relatively strong. Leeds Bradford International Airport is one of the fastest growing regional airports, although accessibility by public transport needs to be improved, And the city also has good public transport access to Manchester

Airport. It continues to struggle, however, with its public transport infrastructure. The battles with central government over its Supertram and New Generation Transport proposals only serve to underline the constraints that English cities face in developing large infrastructure projects.

*'It's the thorny issue of devolution... Take a big piece of infrastructure. With a bit of devolved power the city would be able to identify the need and deliver it. Culturally we've nor been able to address the issue. It's not just looking at the relationship between central government and local government but also within central government. We all know that there are government departments and government departments. DCLG and BIS are key influences but the real action is with the Prime Minister's Office, the Treasury, the Home Office and the Foreign Office – the 'big four'. Culturally the Treasury has never been convinced of the argument for greater power to cities.'*

*'Take for example the Leeds Arena. A multi-billion pound local authority wanted to deliver - with all party support. Yorkshire Forward [the Regional Development Agency] agreed funding. Every local authority in West Yorkshire supports it. All 8 MPs support it. Because the RDA funding was more than £10 million, central government needed to sign it off. We ended up in a situation where we were in a row with central government over £8 million [the difference between the RDA's offer and the £10 million threshold]. The issue is only about the extent of control. Central government does have to control.'*

*'What we need is guaranteed levels of funding –you have x million for 15 years for transport infrastructure improvements. Just tell us what they are'. At the moment where we are is a merry dance of gestation and uncertainty. We need certainty. If it [the New Generation Transport proposal] is not approved we will have done maybe 15 years of work and still be no further forward on integrated transport. Leeds should be able to say we prioritise £250 million for integrated transport with these KPIs [Key Performance Indicators] - and that's it.'*

*'Leeds is forecast to grow. It will be one of the fastest growing cities in England over the next 25 years. It's an economically driven city. The barrier to that – the inability to deliver - is infrastructure development.'*

*'The cost of [London's new east-west rail link] Cross rail would have paid for most of what we want.'*

- 7.13 A key factor in Leeds' transformation has been its attempts to improve place quality with investments in pedestrianisation linked to refurbishment of shopping areas and investment in cultural and leisure facilities.

*Developing strategic decision-making capacity in a centralised state*

- 7.14 Leeds' approach to economic development has had to evolve in what has been an ongoing process of negotiation with central – and for a period from the mid 1990s to recently, regional – tiers of government over development powers and access to national policies. At the same time the city's political administration has taken the lead in developing partnership-based institutional structures – in the shape of the 'Leeds Initiative', for the city and the Leeds City Region and Local Enterprise Partnership for the city region – to help facilitate the bringing together of nationally controlled spending programmes and local development initiatives in an integrated place-based approach. The history of Leeds over the post-war period and particularly in the last two decades can thus partly be seen as an attempt by the city to develop the strategic capacity needed to intervene effectively. And this has involved changes in governance in the shape of both partnership working between public, private and voluntary sectors and an up-scaling of governance to city-regional level.

- 7.15 Writing in 2007, the then joint Leaders of the Council and Chief Executive of the Leeds Chamber of Commerce stressed the importance of the partnership approach to civic leadership in answering the question ‘why has Leeds been such a success?’

*“There is no single factor or single body responsible, but the city’s approach to civic leadership and its tradition of close collaboration with the private sector have played a fundamental part in creating the conditions in which the city has thrived. We have recognised that we cannot act alone and that real wealth generation and growth can be achieved only by working with the private-sector. This collaborative leadership style has paid significant dividends to the city, laying down the foundations for our continued growth in the future and our response to the “place shaping” role set out by Sir Michael Lyons [in the Lyons report on local government funding] (Carter et al, 2007; p. 26).*

*Consistent leadership*

- 7.16 The joint Leaders headed up the Conservative-Liberal Democrat coalition then in power and it was revealing that they were strongly supportive of the two City Visions produced under their Labour Party predecessors, the second in the year that they took office. They also pressed ahead with the Leeds City Region arrangements, also begun before they took office. There has been a political consistency in approach to governance that has now lasted over two decades.
- 7.17 The importance of the partnership approach embodied in the Leeds Initiative was repeatedly stressed by the politicians and officers interviewed for this case study. Polices need to be joined up at city-level and that needs partnership working of the kind developed by the Leeds Initiative. The challenge is to ensure that it is transparent and inclusive and open to learning and adaptation

*‘Leeds’ approach is based on its commercial strengths. We have to work in partnership c with the private sector because Leeds’ private sector is one of the strengths of the city. So projects tend to be private sector focussed because that’s practically the only response available.’*

*‘The partnership approach is very important. That’s how we get things done. The leveraging power of partnerships. That’s how you’ve go to do it.’*

*‘Re-balancing’ - a policy for cities and genuine devolution of power needed*

- 7.18 The government claims to be committed to re-balancing the economy - both sectorally, in terms of the imbalance between services, especially financial services and manufacturing; and spatially, in terms of the imbalance in economic activity between London and the South East and the rest of the country. Policy for this has still to be spelled out but it clearly requires some form of state intervention. Sectorally, it will require a combination of the regulation of financial services and the introduction of inter-related industrial, innovation and skills strategies that directly address the weaknesses of UK manufacturing. These strategies will need a spatial dimension to encourage the sustainable place-based growth that will be necessary for rebalancing the economy spatially. They will also need to be based on local experimentation.<sup>72</sup> The city’s Growth Strategy and the Local Enterprise Partnership’s Development Plan together offer the potential for such experimentation.
- 7.19 Leeds and the UK’s other second tier cities can play an important role in the spatial and sectoral rebalancing of the economy and government needs to recognise this. ‘Localism’ needs to bring with it devolved powers. The last decade has seen a number of initiatives in relation to city development but these have not constituted a coherent policy for second tier cities. Whether the current government’s proposals for devolving powers to cities through its “city deals” amount to such a policy remains to be seen.

<sup>72</sup> Froud et al (2011), nef (2011a and 2011b), UKCES (2011), Ward (2011)

## STATISTICAL APPENDIX

## Population: Leeds' rise up the national urban hierarchy, 1750-2010

Towns by population (000s) in year									
	1750	1801	1831	1891	1951	1981	1991	2001	2010
1.	London (675)	London (959)	London (1,778)	London (4,266)	London (5,353)	London (6,805)	London (6,829)	London (7,322)	London (7,825)
2.	Edinburgh (57)	Manchester (89)	Manchester (223)	Manchester (773)	Birmingham (1,113)	Birmingham (1,029)	Birmingham (1,005)	Birmingham (985)	Birmingham (1,037)
3.	Bristol (50)	Liverpool (83)	Glasgow (202)	Glasgow (766)	Glasgow (1,090)	<b>LEEDS (718)</b>	<b>LEEDS (707)</b>	<b>LEEDS (716)</b>	<b>LEEDS (799)</b>
4.	Norwich (36)	Edinburgh (83)	Liverpool (202)	Birmingham (634)	Manchester (881)	Glasgow (712)	Glasgow (629)	Glasgow (579)	Glasgow (593)
5.	Glasgow (32)	Glasgow (72)	Edinburgh (162)	Liverpool(632)	Liverpool (789)	Sheffield (548)	Sheffield (520)	Sheffield (513)	Sheffield (556)
6.	Newcastle (29)	Birmingham (74)	Birmingham (144)	<b>LEEDS (368)</b>	Sheffield (513)	Liverpool (517)	Liverpool (476)	Bradford (471)	Bradford (513)
7.	Birmingham (24)	Bristol (61)	<b>LEEDS (123)</b>	Edinburgh (342)	<b>LEEDS (505)</b>	Bradford (464)	Bradford (469)	Edinburgh (449)	Manchester (499)
8.	Liverpool (22)	<b>LEEDS (53)</b>	Bristol (104)	Sheffield (324)	Edinburgh (467)	Manchester (459)	Edinburgh (436)	Liverpool (442)	Edinburgh (486)
9.	Manchester (18)	Sheffield (46)	Sheffield (92)	Bristol (289)	Bristol (443)	Edinburgh (446)	Manchester (433)	Manchester (423)	Liverpool (445)
10.	<b>LEEDS (16)</b>	Plymouth (43)	Plymouth (66)	Bradford (266)	Nottingham (306)	Bristol (401)	Bristol (392)	Bristol (390)	Bristol (441)
11.	Exeter (16)	Norwich (36)	Norwich (61)	Nottingham (214)	Hull (299)	Kirklees (377)	Kirklees (379)	Kirklees (389)	Cardiff (341)
12.	Aberdeen (16)	Newcastle (33)	Aberdeen (57)	Hull (200)	Newcastle (292)	Coventry (319)	Wakefield (314)	Wakefield (315)	Wakefield (326)
13.	Plymouth (15)	Bath (33)	Newcastle (54)	Stoke (193)	Bradford (292)	Wakefield (315)	Dudley (308)	Cardiff (310)	Coventry (316)
14.	Chester (13)	Hull (30)	Hull (52)	Newcastle (186)	Leicester (285)	Sandwell (310)	Wigan (306)	Dudley (305)	Wigan (308)
15.	Coventry (13)	Nottinghamé (29)	Bath (51)	Leicester (175)	Stoke (275)	Wigan (307)	Coventry (304)	Coventry (303)	Dudley (307)
16.	Nottingham (12)	Aberdeen (27)	Nottingham (50)	Portsmouth (159)	Coventry (258)	Dudley (301)	Cardiff (297)	Wigan (302)	Leicester (307)
17.	Sheffield (12)	Sunderland (26)	Dundee (45)	Bolton (156)	Cardiff (244)	Sunderland (298)	Sunderland (296)	Doncaster (287)	Nottingham (307)
18.	Dundee (12)	Dundee (26)	Bradford (44)	Dundee (154)	Portsmouth (234)	Stockport (289)	Sandwell (293)	Sunderland (285)	Sandwell (293)
19.	York (11)	Stoke (23)	Bolton (42)	Plymouth (145)	Plymouth (208)	Doncaster(291)	Doncaster(292)	Stockport (285)	Newcastle-upon-Tyne (292)
20.	Great Yarmouth Portsmouth Sunderland Worcester (all 10)	Wolverhampton (21)	Brighton (41)	Sunderland (132)	Aberdeen (183)	Cardiff (287)	Stockport (289)	Sandwell (285)	Doncaster (291)

**Notes:** Data for 1750 to 1951 from Lawton and Pooley (1992) and for 1981-2010, Mid Year Population Estimates (ONS, NOMIS) Creation of Leeds Metropolitan District in 1974 saw the boundaries of the city significantly increased

**Key statistics for Leeds and Leeds City Region with Sub-Regional, Regional and National Comparisons**  
 Calculated from *Yorkshire Futures Data Overview March 2011*

**EMPLOYMENT RATE**

Employment rate 1999/00 and 2009	1999/00	2009	Change
Craven	82.8	67.8	-15.0
Selby	75.0	66.1	-8.9
Kirklees	76.2	69.2	-7.0
Barnsley	71.3	64.5	-6.8
Calderdale	75.3	69.6	-5.7
Leeds	75.2	69.6	-5.6
Leeds City Region	74.8	69.4	-5.4
York and North Yorkshire	78.6	73.9	-4.8
West Yorkshire	73.7	69.1	-4.6
Yorkshire & Humber	72.6	68.8	-3.8
England	74.5	70.9	-3.6
York	76.0	72.8	-3.2
Bradford	69.0	67.0	-2.0
Wakefield	72.6	70.6	-2.0
Harrogate	80.0	78.4	-1.6

**SKILLS AND TRAINING**

Working Age Population with No Qualifications (%)	1999/00	2008	2009	Change 1999/00 - 2009
Leeds	15.1	11.8	11.4	-3.7
Leeds City Region	16.3	14.1	12.9	-3.4
West Yorkshire	17.7	14.7	13.3	-4.4
Yorkshire & Humber	18.0	14.6	12.8	-5.2
England	16.5	13.3	12.1	-4.4

Working Age Population with NVQ2+ (%)	1999/00	2008	2009	Change 1999/00 - 2009
Leeds	61.4	63.1	65.9	4.5
Leeds City Region	57.8	62.2	63.7	5.9
West Yorkshire	56.8	60.4	62.4	5.6
Yorkshire & Humber	56.0	61.7	63.5	7.5
England	56.0	63.5	65.0	9.0

Working Age Population with NVQ3+ (%)	1999/00	2008	2009	Change 1999/00 - 2009
Leeds	43.3	50.0	52.2	8.9
Leeds City Region	39.8	46.8	48.4	8.6
West Yorkshire	39.6	45.3	47.6	8.0
Yorkshire & Humber	37.3	45.6	47.0	9.7
England	39.1	47.6	48.9	9.8

Working Age Population with NVQ4+ (%)	1999/00	2008	2009	Change 1999/00 -2009
Leeds	25.0	27.6	30.9	5.9
Leeds City Region	21.3	25.9	25.3	4.0
West Yorkshire	21.1	24.4	26.6	5.5
Yorkshire & Humber	19.5	24.8	26.6	7.1
England	22.4	28.2	29.6	7.2

Working Age Population Receiving Job-related Training (%)	2001/02	2008	2009	Change 2001/02 - 2009
Leeds	27.0	22.3	17.8	-9.2
Leeds City Region	23.6	18.8	17.7	-5.9
West Yorkshire	23.4	19.4	16.9	-6.5
Yorkshire & Humber	23.0	18.7	18.5	-4.5
England	23.0	19.4	18.6	-4.4

**EDUCATIONAL ATTAINMENT**

Percentage of 16 Year Olds with 5+ GCSEs incl. English and Maths at Grades A*-C	2003/04	2008/09	2009/10	Change 2003/04 - 2009/10
Leeds	36.4	45.9	50.3	13.9
Leeds City Region	n/a	n/a	n/a	n/a
West Yorkshire	n/a	n/a	n/a	n/a
Yorkshire & Humber	35.8	47.3	51.7	15.9
England	42.60	50.9	54.9	12.3

**INFRASTRUCTURE**

Housing Affordability	1998	2008	2009	2010	Change 1998-2009
Leeds	3.38	6.45	5.19	5.69	2.31
Leeds City Region	n/a	n/a	n/a	n/a	n/a
West Yorkshire	3.01	5.99	5.12	5.33	2.32
Yorkshire & Humber	3.05	6.05	5.17	5.43	2.38
England	3.65	6.98	6.28	6.69	3.04

Housing Affordability 1998=100	1998	2008	2009	2010
Leeds	100	191	154	168
Leeds City Region				
West Yorkshire	100	199	170	177
Yorkshire & Humber	100	198	170	178
England	100	191	172	183

This is the ratio of lower quartile house prices to lower quartile incomes. Sub and city region figures are averages of the districts within them.

Housing Completions	1998/99	2007/08	2008/09	2009/10	Change 1998/99-2009/10
Leeds	1,744	3,052	3,828	1,290	-454
Leeds City Region	7,979	9,726	10,132	4,850	-3,129
West Yorkshire	5,705	7,750	8,107	2,120	-3,585
Yorkshire & Humber	13,083	15,670	11,480	8,180	-4,903
England	140,708	166,990	133,800	113,420	-27,288

Housing Completions 1998/99=100	1998/99	2007/08	2008/09	2009/10
Leeds	100	175	219	74
Leeds City Region	100	122	127	61
West Yorkshire	100	136	142	37
Yorkshire & Humber	100	120	88	63
England	100	119	95	81

This is the number of new permanent dwellings completed during the calendar year. Sub and city region figures are totals not averages.

Homes Built on Previously Developed Land	1994-1997	1998-2001	2002-2005	2006-2009	Change 1994-2006/09
Leeds	68.0	70.0	81.0	81.0	13.0
Leeds City Region	49.4	55.8	72.6	76.4	27.0
West Yorkshire	53.4	60.2	73.8	80.2	26.8
Yorkshire & Humber	46.3	48.9	62.1	70.2	23.9
England	53.0	58.0	69.0	76.0	23.0
<b>1994-97=100</b>					
Leeds	100	103	119	119	
Leeds City Region	100	113	147	155	
West Yorkshire	100	113	138	150	
Yorkshire & Humber	100	105	134	151	
England	100	109	130	143	

Sub and city region figures are averages of the districts within them.

Percentage of Properties at Risk from River and Sea Flooding	Low	Moderate	Significant	Mod+Sig	Total
Leeds	1.1	0.9	1.7	2.6	3.7
Leeds City Region	3.0	2.1	2.5	4.6	7.6
West Yorkshire	0.7	1.0	2.6	3.6	4.3
Yorkshire & Humber	5.5	5.8	2.5	8.3	13.8
England	4.3	2.2	1.9	4.2	8.4

This is the percentage of properties at risk from sea and river flooding only - it does not include surface water flooding. The risk categories (low, moderate and significant) are those used by insurance companies. Significant = 1.3%, moderate = more than 0.5% but less than 1.3%, low = 0.5% annual estimated probability of flooding. Sub and city region figures are averages of the districts within them.

## ENVIRONMENT

Carbon Emissions per Person (tonnes)	2005	2006	2007	2008
Leeds	7.6	7.5	7.2	7.0
Leeds City Region	8.0	7.8	7.6	7.3
West Yorkshire	7.5	7.4	7.2	7.0



Yorkshire & Humber	10.3	10.2	10.0	9.6
England	8.6	8.5	8.3	8.0
2005=100				
Leeds	100	99	95	92
Leeds City Region	100	98	95	92
West Yorkshire	100	98	95	92
Yorkshire & Humber	100	99	97	93
England	100	99	97	93

Ecological Footprint	2006
Leeds	4.59
Leeds City Region	4.54
West Yorkshire	4.45
Yorkshire & Humber	4.54
England	4.64

Percentage of Municipal Waste Sent to Landfill	2005/06	2006/07	2007/08	2008/09	2009/10	Change 2005/06-2009/10
Leeds	73.30	77.09	73.73	67.16	70.22	- 3.08
Leeds City Region	71.58	67.29	63.85	61.07	54.78	- 16.80
West Yorkshire	70.16	69.08	65.99	63.37	53.80	- 16.36
Yorkshire & Humber	67.04	62.72	59.65	55.67	49.51	- 17.54
England	62.22	57.87	54.42	50.32	46.89	- 15.33

Recycling Rate	1998/99	2007/08	2008/09	2009/10	Change 1998/9-2009/10
Leeds	7.0	25.9	30.4	31.2	25.2
Leeds City Region		29.1	34.5	36.7	36.7
West Yorkshire	5.6	25.3	29.1	34.6	34.6
Yorkshire & Humber	6.1	30.5	33.4	36.3	36.3
England	9.1	34.4	36.8	38.6	38.6

#### QUALITY OF LIFE

Recorded Crime (BCS Comparator) per 1000 Population	2003/04	2007/08	2008/09	2009/10	Change 2003/04
Leeds	110.0	71.2	67.2	59.2	-50.8
Leeds City Region	89.2	60.6	56.2	49.2	-40.0
West Yorkshire	97.3	65.9	61.9	54.2	-43.1
Yorkshire & Humber	84.6	61.7	56.7	48.8	-35.8
England	69.0	54.0	49.5	44.6	-24.4
2003/4=100					
Leeds	100	65	61	54	
Leeds City Region	100	68	63	55	
West Yorkshire	100	68	64	56	
Yorkshire & Humber	100	73	67	58	
England	100	78	72	65	

Recorded Violent Crime per 1000 Population	2003/04	2007/08	2008/09	2009/10	Change 2003/04
Leeds	20.0	17.7	16.4	14.3	-5.7
Leeds City Region	19.6	17.0	14.6	13.2	-6.4
West Yorkshire	21.9	18.1	15.9	14.2	-7.7
Yorkshire & Humber	18.8	18.0	15.7	14.1	-4.7
England	18.1	17.6	16.4	15.7	-2.4
2003/4=100					
Leeds	100	89	82	72	
Leeds City Region	100	87	74	68	
West Yorkshire	100	83	72	65	
Yorkshire & Humber	100	96	84	75	
England	100	97	91	87	

Percentage of Working Age People on Benefits	2001	2008	2009	2010
Leeds	14.2	11.9	13.6	14.2
Yorkshire & Humber	15.7	13.8	15.6	16.0
England	13.8	12.8	14.4	14.7

Percentage of Working Age People on Benefits	2001	2008	2009	2010	Change - 2001-2010
Leeds	14.2	11.9	13.6	14.2	0.0
Yorkshire & Humber	15.7	13.8	15.6	16.0	0.3
England	13.8	12.8	14.4	14.7	0.9

Percentage of Working Age People on Benefits 2001=100	2001	2008	2009	2010
Leeds	100	84	96	100
Yorkshire & Humber	100	88	99	102
England	100	93	104	107

**Key data: London and UK second tier city comparisons**

GVA (£bn) and GVA growth (%)					
City	GVA (£bn)		GVA Index London = 100		GVA growth (%)
	1999	2009	1999	2009	1999-2009
London	158.5	269.7	100	100	70
Greater Manchester South	21.1	30.9	13.3	11.5	47
Birmingham	14.1	19.6	8.9	7.3	39
Leeds	12.1	17.9	7.6	6.6	49
Glasgow	11.1	17.3	7.0	6.4	57
Edinburgh	9.5	16.7	6.0	6.2	75
Greater Manchester North	11.3	14.8	7.1	5.5	31
Tyneside	9.6	14.6	6.1	5.4	52
Bristol	7.5	10.9	4.7	4.0	46
Cardiff & Vale of Glamorgan	6.2	9.6	3.9	3.6	55
Sheffield	6.5	9.6	4.1	3.6	48
Liverpool	5.7	8.8	3.6	3.3	53
Nottingham	5.2	7.6	3.3	2.8	48

Source: Leeds Economy Handbook (Leeds City Council, 2011)

Main employment centres: Active enterprises			
City	2005	2010	%change 2005-2010
London	359,765	403,080	12
Inner London	186,420	212,885	14
Birmingham	29,265	29,975	2
Leeds	22,985	24,130	5
Leeds City Region	90,455	94,220	4
Glasgow	15,740	17,445	11
Sheffield	15,135	15,005	-1
Edinburgh	14,785	16,590	12
Manchester	14,180	15,445	9
Bristol	14,110	15,370	9
Liverpool	10,965	11,645	6
Cardiff	10,080	10,060	-
Nottingham	7,885	8,120	3
Newcastle	6,840	7,365	8
GB	2,129,255	2,241,375	5

Source: Centre for Cities City Outlook Data

Patents per 100,000 population			Growth in patents per 100,000 population (%)2009-2010	
City	2009	2010	+	-
Edinburgh	20.3	11.5		43.3
London	10.1	10.9	7.9	
Bristol	13.2	10.1		24.0
Cardiff	10.4	8.5		18.3
Sheffield	8.9	8.1		8.1
Glasgow	5.4	7.0	29.8	
Manchester	8.3	6.9		17.1
Nottingham	5.2	6.8	31.9	
Birmingham	8.4	5.4		35.2
Liverpool	4.4	5.3	20.1	
Leeds	5.7	4.8		16.7
Newcastle	5.5	3.8		29.9

Source: Centre for Cities City Outlook Data

Employment rate (%)			%age point change 2009/10-2010-/11	
City	April2009-March 2010	April 2010 March 2011	+	-
Bristol	73.5	76.7	3.2	
Edinburgh	70.5	71.5	1.0	
Leeds	68.7	69.0	0.3	
London	68.9	69.0	0.1	
Newcastle	65.1	67.0	1.9	
Sheffield	66.2	66.8	0.6	
Manchester	65.8	66.3	0.5	
Glasgow	65.8	65.3		0.5
Cardiff	67.7	64.3		3.4
Nottingham	65.3	64.3		1.0
Birmingham	61.9	62.1	0.2	
Liverpool	62.1	62.1	-	-

Source: Centre for Cities City Outlook Data

Qualifications City	Working age population	
	With no formal qualification (%)	With qualification at NVQ4 and above (%)
Edinburgh	7.5	47.4
London	9.7	40.9
Cardiff	10.7	39.8
Glasgow	17.3	34.9
Bristol	9.1	33.9
Manchester	12.6	29.7
Sheffield	13.3	29.6
Leeds	10.6	28.5
Nottingham	12.4	27.8
Newcastle	12.8	26.2
Birmingham	18.2	23.0
Liverpool	16.4	22.1

Source: Centre for Cities City Outlook Data

City	Private sector employment 2010	Public sector employment 2010	Ratio of private to public sector employment 2010
London	3,485,100	1,089,400	3.5
Bristol	291,800	105,900	2.8
Leeds	296,000	110,300	2.7
Manchester	657,500	245,800	2.7
Birmingham	719,300	311,100	2.3
Glasgow	381,100	166,700	2.3
Edinburgh	211,700	95,800	2.2
Sheffield	235,100	111,400	2.1
Cardiff	134,500	62,800	2.1
Nottingham	201,600	96,400	2.1
Newcastle	254,300	130,000	2.0
Liverpool	221,700	126,700	1.7

Source: Centre for Cities City Outlook Data

%age point difference between highest and lowest JSA rate November 2011			
City	Lowest	Highest	Difference
London	0.0	28.9	28.9
Glasgow	0.0	24.6	24.6
Birmingham	0.6	25.0	24.4
Leeds	0.1	24.3	24.2
Edinburgh	0.0	23.7	23.7
Liverpool	0.8	20.9	20.1
Manchester	0.1	19.1	19.0
Newcastle	0.5	17.0	16.5
Sheffield	0.3	16.6	16.3
Bristol	0.8	15.4	14.7
Nottingham	0.5	14.8	14.3
Cardiff	0.6	12.9	12.3

Source: Centre for Cities City Outlook Data



**The ESPON 2013 Programme**

**3.13**  
**NATIONAL POLICY EASTERN EUROPE**

**Iván Tosics**

**with**

**József Hegedüs, Iván Illés, Andrea Tönkö and Antal Gertheis**



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## I. INTRODUCTION

- 1.1 In the ESPON Second tier cities project the eastern-central European countries deserve special attention, from at least two aspects. First, these countries show a distinctive development pattern as the difference between the capitals and the second tier cities is huge and it has been even further growing in the last years, as opposed to the general tendencies in the western European countries. Second, these are the countries, to where the most significant amounts of the Structural Funds money flows.
- 1.2 A further speciality of the new member states is that these countries went through (within a relatively short time period) major changes, from centrally planned socialism into free-market capitalism, followed by gradual approach to a more regulated market model. All of these stages meant very different circumstances for second tier city development.
- 1.3 The market dominated development in the 1990s and the first half of the 2000s resulted in increasing the gap between the capital and the second tier cities in each of the east central European countries. In fact the capitals were the main engines of development in the post-socialist countries, leading to the increase of territorial differentiation in these countries.
- 1.4 The European integration from the middle of the 2000s brought around large amounts of EU Structural Funds money. One of the aims of this money was reducing territorial differences, through targeting on the poorer regions. In the new member states, however, almost all regions were eligible for the highest subsidies as convergence regions (only the Prague and Bratislava urban regions were totally, and the Budapest region was partially excluded from this most subsidized category). The territorial and sectoral planning for the allocation of the EU funds was national responsibility, all countries designed themselves their territorial development priorities. Second tier cities could be treated very differently across countries.
- 1.5 The paper aims to give an overview on the changes in the position of second tier cities in the different east-central European countries, according to the subsequent periods of development. From that basis the aim is to explore the reasons, background factors which explain the specific development path of second tier cities. High attention is paid to the public policies shaping second tier cities. From the analysis of the efficiency and outcomes of these policies some recommendations are formulated for local, national and EU level interventions aiming at the improvement of the position of second tier cities.
- 1.6 The structure of the study is as follows. Chapter I is an introduction with general description of the position of second tier cities in the east central European countries. Chapter II summarizes the historical background of the development of these cities until the transition into capitalism. Chapter III focuses on the last two decades, i.e. on the period of free market development and on the consequences of EU accession and Cohesion Policy. Chapter IV deals with recent development trends, highlighting demographic and economic issues. Chapter V describes the main development dilemmas, the territorial development choices, the functional geographies, the agglomerational economies. Chapter VI concentrates on the public policies affecting directly or indirectly second tier cities: regionalization, territorial development policies, the changing conditions for urban development, the factors shaping the development of the economy, with special regard on the territorial links across municipal borders (metropolitanization). Finally, Chapter VII arrives to the conclusions of the study.

## 2. GENERAL FEATURES OF SECOND TIER CITIES IN THE NEW MEMBER STATES

### *The Centralisation of the East-Central European Urban Systems*

- 2.1 One of the striking features of the urban system of Central and Eastern European countries is the high level of centralization, measured on the primacy of capital cities. Capital cities are much larger than other cities, they concentrate and exert much more functions and their economic development is usually much more dynamic.
- 2.2 As the next chapter describes, these characteristics have historical roots. In the 19<sup>th</sup> century most of these countries were overwhelmingly agrarian rural countries and they were provinces of large empires. After achieving independence, all of them wanted to establish and build a capital city, as a symbol of the new strong independent state. The first main driving force of urban development was not industry, trade and economy, as in the case of Western European countries, but the state and its administration. Even in the development of industry, trade and infrastructure the state played a determining role therefore entrepreneurs wanted to live close to the place of governmental decision-making<sup>1</sup>.
- 2.3 In the interwar period the new independent states were rather poor. They had not enough means to develop the other cities. Therefore the gap between the capital city and the other cities of the new states increased from decade to decade.
- 2.4 The era of communism and central economic planning did not change this trend fundamentally. It was again an overcentralised system where it was again important to be close to the centre where state subsidies were distributed.
- 2.5 The centralization tendency, i.e. the dynamic growth of the capital cities continued, even speeded up in the new market economy, which developed since 1990. This process was enhanced by the centralization of economic development, dominated by foreign investments (partly based on privatization of state property). All the new institutions of the market economy (the stock exchange, the new commercial banks, the new insurance companies, financial and other services) were established in the capital cities. Disparities between the capital region and the other regions of the countries increased substantially.
- 2.6 Though the large gap between the capital city and all other cities is one of the main features of the urban network of east central European countries, this feature is not equally relevant to all countries of the region. The following categories can be distinguished:
- ❖ Extreme gap: countries where the population of the primary capital city is more than half of the population of the next 10 largest cities together: Estonia, Latvia, Hungary
  - ❖ Large gap: countries where the population of the capital city is more than one third of the population of the next 10 largest cities: Bulgaria, Romania, Czech Republic, Slovenia
  - ❖ Moderate gap: the rest of countries: Lithuania, Poland, Slovakia
- The detailed data and graphs on the urban network of east central European countries can be found in the Appendix.

### *The Polycentricity of the Urban System*

- 2.7 In a broader sense the topic of second tier cities is part of the polycentricity debate. One of the main objectives – and conditions – of regional development is the polycentricity of the urban system.

<sup>1</sup> Poland and the Czech Republic were – to a certain extent but not fully – exceptions from this trend. Industrialisation in the Czech Republic started earlier and it was the main driving force of urbanisation. Poland was divided for more than a century.



Polycentricity was the main topic of the ESPON programme of the European Commission. The first project of the ESPON1 programme was devoted to polycentricity (ESPON 1.1.1).

2.8 The approach of the ESPON 1.1.1 project was to identify and measure polycentricity by investigating three dimensions, namely size, location and connectivity of an urban area. The three dimension of polycentricity were measured by the following indices: Size Index, Location Index and Connectivity Index. The three indices were defined as follows:

- ❖ The Size Index was measured by the rank-and-size distribution of cities. According to the rank-and-size rule the second largest city should have the half population and GDP of the largest one, the third largest city should have the third, and so on. This is the natural process of the development of settlement networks if they could develop without any strong political intervention. If the regression line of the rank-and-size distribution is steeper than 45° than the city network is less polycentric, if the slope is less steep than it is more polycentric.
- ❖ The Location Index is measuring how the centres are spaced in the territory. A uniform distribution of cities across a territory is more appropriate for a polycentric urban system than a highly polarised one. The uniformity of distribution was measured by the so called Thiessen polygons and their Gini coefficient of inequality.
- ❖ The Connectivity Index was measured by the potential of interactions and multimodal accessibility between all European cities with all others.

**Table 1. Component indices and Polycentricity Index of the Central and Eastern European countries**

Country	Size Index	Location Index	Connectivity Index	Polycentricity Index
Estonia	64.7	94.8	26.4	54.3
Latvia	35.5	97.0	52.4	56.3
Lithuania	76.5	83.5	18.5	48.9
Poland	84.1	83.1	58.7	74.0
Czech Republic	79.2	51.7	63.5	63.6
Slovakia	83.5	77.0	41.6	64.2
Hungary	61.6	57.7	50.4	56.1
Slovenia	76.0	91.6	72.0	79.1
Romania	78.3	80.9	46.6	66.3
Bulgaria	77.1	80.2	52.6	68.5
ESPON space average	88.5	35.0	57.9	56.2

- 2.9 The higher the values of the indices are the more polycentric the city network of the country is. The ESPON space covers all EU member states + Switzerland and Norway
- 2.10 Concerning the size distribution, the east central European countries have very disproportionate urban systems with a large gap between the population and GDP of the primary (capital) city and the second tier cities. The largest disproportion can be found in Latvia, but the city-network of Estonia and Hungary is also rather disproportionate.
- 2.11 In contrast, the Location Index is much more favourable in all Central and Eastern European member states than the EU average. It means that the territorial distribution of cities with different service functions is more equally distributed than in the “old” member states. The reason for this is in the geographic position. New member states have no arctic regions (Sweden, Norway, Finland, Britain) where population density is very low. Many of them are land-locked countries without maritime regions which have a much denser urban network (Italy, Spain, Portugal, France, Greece). Furthermore, the development of city networks was determined much more by administrative requirements than by economic and market conditions.

- 2.12 The Connectivity index is generally less favourable than in the old member states. The cause for this is obviously the less developed infrastructure, the lack of airports, motorways and high-speed railway lines, or their concentration to the capital city. The only exceptions are the two most developed countries in the region: Slovenia and the Czech Republic.
- 2.13 On the basis of the ESPON analysis we can conclude that the east-central European countries have in general a more polycentric urban structure, except for the difference between the capital and the second tier cities.

### 3. HISTORICAL BACKGROUND: THE CHANGING GEOGRAPHY OF EAST-CENTRAL EUROPEAN COUNTRIES IN THE LAST HUNDRED YEARS

- 3.1 The peculiarities of the east-central European urban systems in general and of the second tier cities in particular can only be understood and explained on the basis of historical development which was especially difficult in the 20<sup>th</sup> century in that part of Europe. Although our analysis concentrates on the last decades, it is necessary to give a short overview about the earlier periods.

#### *Frequent Changes in Territories and Borders in the 20<sup>TH</sup> Century*

- 3.2 One of the important factors influencing the growth and functions of primary and second tier cities in Central and Eastern European cities is their history and changing borders in the twentieth century. Borders changed after the First World War, after the Second World War and after the dismemberment of Czechoslovakia, Yugoslavia and the Soviet Union in 1991-1993. Some countries became smaller, others became substantially larger. Some capital cities became too large compared to the new smaller countries, some others proved to be too small compared to the enlarged country where they have to perform the functions of a capital city.
- 3.3 The other effect was that of the new changing borders. New borders have divided formerly unified market, administrative and service providing regions. Cities at the new borders have lost a large part of their market area. Others became important centres. These political changes have changed the status, functions, administrative role, transport situation and economic possibilities of cities radically.

**Table 2. Changes in the capital cities of independent countries in East-Central Europe in the course of the 20<sup>th</sup> century**

Capital cities of independent countries in East-Central Europe				
Before 1914	After 1920	After 1945	After 1992	
Vienna	Vienna	Vienna	Vienna	/contd.
Belgrade	Belgrade	Belgrade	Belgrade	Bratislava
Bucharest	Bucharest	Bucharest	Bucharest	Ljubljana
Sofia	Sofia	Sofia	Sofia	Zagreb
Cetinje (Montenegro)	Budapest	Budapest	Budapest	Sarajevo
	Warsaw	Warsaw	Warsaw	Podgorica
	Prague	Prague	Prague	Pristina
	Tirana	Tirana	Tirana	Skopje
	Tallinn		Tallinn	Minsk
	Riga		Riga	Kiev
	Vilnius		Vilnius	Chisinau

- 3.4 Considering that many of the former second tier cities became primary, capital cities, the “new second tier cities” were less prepared for the second tier city role. They are in a less favourable situation to perform these functions.

***The problem of border location deserves special discussion***

3.5 Most of the Eastern- Central European countries are small landlocked countries, with a dense network of state borders. Out of the 19 countries of the region 10 are landlocked. In addition, the national aspirations of the small nations made this network of state borders ever denser and denser during the 20th century. At present, about half of the European land borders is in the relatively small territory of the Central and Southeast new EU member and candidate states. It means that ever more cities became border cities. They have lost a part of their market area as the economic and other regulations are different on the two sides of the border. Borders represent an obstacle of the movement of people, goods, services and ideas even in the most favourable case, if not otherwise, than psychologically.

3.6 The following table represents the length of land borders of the countries and how they increased during the 20<sup>th</sup> century.

**Table 3. Changes in the length of land borders of the countries in the course of the 20<sup>th</sup> century**

Country	Present length of land state borders in km.	State borders established between 1920 and 1990	State borders established ore reestablished after 1990
Albania	717	-	-
Austria	2562	1379	-
Bosnia-Herzegovina	1538	932	606
Bulgaria	1808	-	-
Croatia	1982	1716	-
Czech Republic	1989	362	197
Estonia	633	633	-
Hungary	2185	2185	-
Kosovo	702	-	590
Latvia	1382	1382	-
Lithuania	1574	1574	-
Macedonia	766	-	221
Moldova	1390	940	-
Montenegro	625	-	329
Poland	3047	-	3047
Romania	2508	1254	-
Serbia	2026	1081	-
Slovakia	1534	1474	197
Slovenia	1086	631	455
Total	30054	13349	5908

3.7 65% of the present borders in the region did not exist before World War I. Most of the countries were part of large empires (Russian, Habsburg and Ottoman). 45% of the present borders emerged as a result of the First and Second World War, 20% emerged as the result of the more recent changes in the years 1990-1994.

3.8 A large part of the considered primary and second tier cities are border cities: Krakow and Katowice in Poland, Bratislava and Kosice in Slovakia, Győr, Szeged and Debrecen (in some sense also Budapest) in Hungary, Timisoara, Oradea, Iasi, Galati (and also Bucharest) in Romania, Maribor in Slovenia, Daugavpils in Latvia and Vilnius in Lithuania. All of these cities had lost a smaller or larger part of their gravitation area. Today, in the single market area of the European Union the situation is much better, but there is still a lot to do for enforcing these achievements in border areas.

***The Period of State Socialism (1948 – 1990)***

3.9 The analysis of the socialist territorial development planning systems can also contribute to the understanding of the post-socialist development trajectory of these countries. The recent

development of the new east-central European member states of the EU is obviously influenced to a given extent by past-dependent factors.

- 3.10 In the socialist period first (in the fifties) new cities of heavy industry and mining were developed. From the 1960s mainly the centres of the middle-tier of the national administrative hierarchy – cities below the second tier city category – were developed (Hungary: 19 cities, Poland 49, Romania 41, Bulgaria: 27) with the aim to spread out development Illés, 2002:76.
- 3.11 As it had been demonstrated, regional development policies had so far 2 foci in the Central European countries: capital cities and underdeveloped rural areas. Second tier cities were sometimes declared as development priorities but these actions mostly failed. The causes of the failure may be:
- ❖ Insufficient support and lobby: the population of the 10 east central European member states is 92 million of which only 2,8 million, 3,1 % live in the second largest cities, who are directly interested in the development of these cities.
  - ❖ It was never clearly defined what functions should be performed by the second tier cities.
  - ❖ The relationship between the cities and the surrounding regions was also not properly defined. In many cases the main city is administratively not part of the region (cities with regional rights) while most institutions, such as roads, stations, schools, hospitals, museums, theatres of the region are located in the city. There may be overlapping between the responsibilities of the city and the region.
  - ❖ There are conflicts also in the field of finance. If the city is part of the administrative region (or county) than conflict can arise concerning the division between the city and the rest of the region. If the city is not part of the region then this conflict can be avoided but other conflicts can arise concerning the integrated development of the city and its surrounding.
  - ❖ The practice of establishing cities with regional rights is rather widespread in Central European countries, much more widespread than in other parts of Europe. For example: in Poland there are 65 cities with “powiat” rights. In Hungary, there are 25 cities with county rights.
- 3.12 In the socialist period, until 1990, all aspects of development were determined on political level. In most of these countries there were no significant market forces, thus all the decisions about the territorial development of the country were taken by one power centre. In some of these countries quite high level, sophisticated planning theory, decision-making and implementation systems evolved in order to allocate the development resources in such a way that the aims dictated by the central political power be fulfilled to the most possible extent. Detailed analysis can show that the political aims changed time-to-time, from territorial equalization of the country through developing counter-poles against the capital city till the further development of the capital city.
- 3.13 Furthermore, there was a constant fight between the sectoral and the territorial planning ideas and interests. In the socialist countries the centralized sectoral planning took over, suppressing the earlier regional interests. With all its problems this was still more logical and efficient as the regional planning could have been under the given circumstances (there were serious problems of the ‘regional attempt’ at the end of the 1950s in the USSR and Bulgaria). Illés, 2002:120
- 3.14 All this means that the final territorial outcomes of development were in most socialist countries much more the results of the sum of sectoral policies than the direct results of any distinctive territorial policy to the given region. On that basis even the theoretical statement could be formulated that real regional (territorial) development policy, which would need long-term view, could not be developed under the centralized socialist development system, as it was based on five year development plans and was always subordinated to the power struggle between the different and changing sectoral interests.
- 3.15 Thus the real development processes in the socialist countries never worked out totally as the planners wanted. From the critical analysis of the socialist central planning experiences – one of the

aspects of which could be the relationship between the capital and the second tier cities – important lessons could be drawn with relevance for the EU regarding the possibility to influence territorial development with planning tools. Such ideas are gradually growing ground recently with the increasing criticism against the dominance of the free market forces in territorial development and are expressed concretely with the growing wishes towards some kind of ‘European economic governance’.

### *The Transition into Capitalism*

- 3.16 The collapse of the socialist system was characterized by radical political and economic changes, taking place in the years between 1989-1992 in the different east central European countries. Some aspects of these changes were favourable for second tier cities, while others less so. The more than 20 years period of the new democratic, capitalist period of development in these countries can be divided into different phases.
- 3.17 In the first period, **from 1989 to 1993**, the attention of governments was focussed on the creation of the new institutions, laws and regulation of the democratic state and of the market economy (commercial banks, stock exchange, privatisation, new constitution, new laws, new political parties, new local governments and so on). Less attention was devoted to regional processes. In the new “market euphoria” it was thought that the market will solve all problems and difficulties. Unfortunately this did not happen. In the first years of the “system-change” thousands of firms have lost their former (COMECON) markets and had to close business, hundred thousands of people have lost their jobs, mainly in the eastern, less developed regions. Foreign firms, which had invested in east central Europe, established their new plants in the more developed western, capital and/or port regions, which also increased regional disparities within these countries. The weak and unsustainable catching-up of poor regions (achieved in the preceding 40 years) collapsed in these years and governments were not prepared to handle the newly emerging regional differentiation. All in all regional disparities increased in a dramatic way in this period.
- 3.18 With the sudden collapse of socialism not only the ideology and institutional system of planning has changed radically but also the economic basis (privatization) and administrative structure of the countries. The latter has meant the weakening or even total elimination of the middle tier which existed inbetween the central and local governments (counties, provinces, etc.). Territorial development has been taken over by market forces while the role of the public sector became more and more indirect, influencing territorial development through infrastructure development decisions only. Large differences emerged between the post-socialist countries in the amount and territorial orientation of Foreign Direct Investments which were of decisive importance in the 1990s.
- 3.19 Transition implies both democratic reforms resulting in an improvement of political freedom and civil liberties as well as economic reforms, including macroeconomic stabilization, price and market reform and large scale privatization (Fidrmuc, 2003). In the post-socialist countries this had to be accompanied by decentralization, in the course of which large cities got more priorities. The relation of the central government and the big cities changed radically – this is obvious in the case of the capital cities, but applies also for the second tier cities (Hegedus-Ionescu, 2009?). The changes are related to the decentralization process, the general administrative reforms as well as to the market forces.

*The decentralization process in the administrative system<sup>2</sup>*

- 3.20 A common feature of almost all transition economies is that they began from a legacy of a highly centralized system of public administration and public finance. While originating from the similar economic structures and political systems, during the transition period the former “artificial solidarity” between these countries ceased and a new type of rivalry evolved, a harsh competition started for political recognition, for foreign investments and for NATO and EU accession (Illés, 2002). In fact, the post socialist countries have chosen quite different routes and approaches to decentralization, with some countries being considerably more centralized than others. In addition, progress with implementing intergovernmental fiscal reform has varied across the region.
- 3.21 The uneven nature of the degree of decentralization among the former socialist states largely reflects, among other things historical, political, ethnic, geographic and demographic differences. For instance, countries with larger population or geographical area (such as Poland or Romania) would require a greater decentralization of public service provision to subnational governments as compared to smaller countries (like the Baltic states or Slovenia). Similarly, ethnically diverse countries also would have fairly high need for fiscal decentralization compared to smaller and ethnically more homogeneous transition economies (e.g. Slovenia). At the same time, political factors such as the accession to EU could be seen as providing an impetus for reform in countries like the Baltics, the Czech Republic, Poland and Hungary. In countries such as Croatia and Bosnia and Herzegovina (not discussed in details in this paper) ethnic conflicts have greatly influenced the level and nature of fiscal decentralization that has evolved.
- 3.22 There are big differences in the start and speed of the decentralization, too. Several countries in the region are already in the process of considering or implementing the “second generation” reforms, while others have just started or stuck in the middle of the process. This tendency is well reflected in the decentralization literature. In 2000, Wetzel typified the transition countries into four groups: “keen decentralizers” (Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia); “uncertain decentralizers” (Romania, Russia and Ukraine among others), “non-decentralizers” (Moldova, Armenia, Georgia among others) and decentralizers by necessity (Serbia, Macedonia, Bosnia and Herzegovina). However, in the past 15-20 years, many countries (Romania, Serbia, Macedonia, Russia, Ukraine) moved to the first group – namely keen decentralizers with substantial degree of consensus at the general aims of the public sector reforms, where the basic structures of intergovernmental relations and the democratic political system are largely in place. Also, some “non-decentralizers” today can be rather considered as “uncertain decentralizers”.
- 3.23 In a more recent study Dabla-Norris (2006) gave an overview of the decentralization process in the transition countries and came to the conclusion, that after the first wave of enthusiasm in some countries the process has slowed down because “in the absence of strong institutional capacity and firm and transparent rules that regulate intergovernmental relations, forcing subnational governments to provide an adequate level of services and maintaining a sustainable decentralized system can pose a formidable challenge”.
- 3.24 Due to the decentralization process, the position of big cities in former socialist economies has changed significantly. In most of the transition countries, local governments were assigned tremendous new responsibilities. From our point of view, regarding the decentralization process the biggest question is how much real autonomy do the big cities in transition countries have, how much responsibility is assigned to local governments and how the revenue assignments and the transfer system makes their financing possible.

<sup>2</sup> Decentralization in general means here devolving power from the national to any of the sub-national levels. Later distinction will be made between regional and local decentralization according to which level power has been shifted. As it will be seen, local decentralization is much more wide-spread in the east central European countries than regional, i.e. strong municipalities can be found everywhere while strong regions are very rare.

***The administrative structure of government***

- 3.25 Before the transition period all of the transition countries (except for Albania) had a multi-tier organization of government, with the central level implementing its control over the local level through an intermediate tier of government. The central government was responsible for the overall plan and budget, and the intermediate level was the agency of administrative control through which the center dictated and implemented policy. This middle tier oversaw the expenditures of local governments and was the channel for central fiscal flows to the localities.
- 3.26 It is not surprising that the communist rule generally left these middle-tier county government with a bad image. The first wave of public administration reform after 1989 either swept away the county level from the system of self government as in Czechoslovakia and Poland or severely restricted its resources and responsibilities as in Hungary. It retained a far stronger role in Romania, mostly because they owned and controlled the public utility companies.
- 3.27 After the legal and institutional changes again multiple tiers of government exist in each country. However, at the beginning of the 90's in Poland, Hungary, and Romania the middle tier functioned more as a coordinating agent of the central and local governments with little independent authority or service responsibilities (this role has changed to some extent after the EU accession). In some countries these governments are often in conflict with one another, reflecting the opposite perceptions whether regional authorities are acting on behalf of central authorities or they should have significant control over the allocation of funds coming from the central government. Tensions often crystallize around the conflicting and unclear powers of two parallel regional structures, namely the locally elected head of the legislative body and the centrally appointed regional executive (e.g. Ukraine and Romania). In countries where the role of the middle tier has been significantly reduced (Hungary, the Czech Republic and Slovakia) excessive fragmentation of local governments occurred.

**Box – Consolidation and Fragmentation in CEE**

The beginning of 1990s was marked with territorial fragmentation in many of the CEE countries, a process which might be seen as a reaction to the forced amalgamation of the 70s. In Hungary, the number of municipalities increased from 1,364 (in 1988) to 3,133 (in 1992), while the increase in Czech Republic was almost 50% and number of Slovak municipalities increased by over 20%. Such process of fragmentation was much less characteristic for Poland: since 1988 the number of Polish municipalities has increased by less than 5 percent. Similarly, territorial fragmentation was almost non-existent in Bulgaria, Romania. As a result, presently in Central and Eastern Europe there are examples for countries with many small local governments (Czech Republic, Slovakia, Hungary, Ukraine, Latvia, Estonia) while there are also examples of countries in which the territorial system is highly consolidated (Lithuania, Yugoslavia, Bulgaria, Poland). There are several examples as well of countries which remain between these two extremes (Macedonia, Albania, Slovenia, Croatia, Romania).

Pavel Swianiewicz (2002)

***Expenditure Autonomy***

- 3.28 Sound and efficient decentralization requires a close correspondence between responsibility and decision-making authority. However, effective expenditure autonomy at the subnational level has been limited in many transition economies. Overall we can say that there is a considerable spending autonomy in Central and East European countries such as the Czech Republic, Hungary, Poland and the Baltics whereas in Ukraine, Albania, Bulgaria and Moldova the spending level and priorities are still mainly determined by the central government.

In *Hungary* the local governments are entitled to determine the ways and modes for service provision, depending on the requirements of the local population and the financial resources. In *Latvia*, local governments face no output controls on their service provision. They are free to provide services according to law and norms in certain sectors (education, welfare and environment), to structure the provision of services and, in general, to decide the service level. In the *Czech Republic*, local governments decide on the structure of local expenditures and the quality and quantity of services to be provided (with exception of some earmarked activities financed by specific grants).

Based on OECD country reports

- 3.29 The efficiency of service delivery is often constrained by the excessive fragmentation of municipalities. In Hungary and the Czech Republic many small local governments are required to provide a wide range of services, which leads to an overall inefficiency of the system.
- 3.30 With respect to the distribution of specific expenditure responsibilities, there is a wide variation across countries. Typically big cities in the transition countries are responsible as own or delegated task for planning, public transportation, roads, public parks, cemetery, education (primary and secondary), health services and social services. However, it is very difficult to compare the expenditure assignments of the big cities due to the sector-specific elements of the regulation. (Hegedus-Ionescu)
- 3.31 In most of the Central and East European countries the municipal tier of self-government has played a major role in investments, too. Most of this investment was undertaken in some form of partnership with national government, co-financing grants or accepting credit provided by the state budget, EU and off-budget funds, but substantial cost shares have been borne by municipal revenues as well (Davey, 2003). Municipal participation has been high in investments in environmental infrastructure (water, sewage, solid waste, heating), industrial parks, support to small and medium enterprises, rural revitalization and energy saving. These municipal investments have contributed significantly to reducing disparities in infrastructure and environmental quality, especially in Hungary, Poland and the Czech Republic. However, it is also important to note, that the financial capacity varies considerably between municipalities, depending on their size and prosperity and the adequacy of equalizing mechanisms.

***Local Government Revenue Autonomy***

- 3.32 Granting effective subnational revenue autonomy – the authority for subnational governments to determine tax rates and/or bases – remains a critical challenge for most transition countries. Across the region, there are examples of taxes and user charges implemented in accord with accepted principles of local government finance. We also find measures to reduce the adverse consequences of revenue sharing. Generally, revenue autonomy puts selected urban areas or regions richly endowed with natural resources in better position, creating big economic discrepancies between the richer and poorer parts of the countries.

In the Czech Republic, Slovakia, Hungary and Poland the share of own revenue (over which they have policy control and collect themselves) ranges from 33 to 40 percent. In the Czech Republic and Slovakia most of this revenue is non-tax revenue. Romania (33%), Ukraine (31%) and Russia (43%) also have fairly high shares of own revenues. In the remaining transition countries subnational revenue autonomy remains virtually nonexistent. Even among the Baltics, that have made significant progress in other areas of intergovernmental finance, only a very small share of subnational revenue is controlled by subnational governments, which depend almost entirely on transfers from the central government.

(Dabla-Norris 2006)

- 3.33 The most popular method for financing local authorities in transition countries is tax sharing -- subnational governments are allocated a specific share of tax revenue from the major taxes (e.g. VAT, PIT, enterprise profits tax, etc.). Tax sharing constitutes more than 50 percent in all of the transition countries. In some countries, local agents of the central government collect the taxes, give local authorities their share and pass the rest up the administrative chain (e.g. Ukraine, Russia). In other countries, tax collection is centralized and subnational tax shares are passed down (e.g. Albania, Croatia, Hungary and Poland). Bases and rates for these shared taxes in all cases are determined by the central government.

***Provision of Urban Services***

- 3.34 In the former socialist system public utility and communal enterprises used to be owned by the state. During the decades of state ownership and planned economy, the infrastructure and public services were secondary objectives. In most of the infrastructure sectors, service provision was divided among



- large enterprises, combining production, transmission, distribution and other related activities. These companies were in a monopolistic position, although these monopolies were relatively weak in comparison to the state owned companies in the prioritized sector (heavy industry, mining, etc.).
- 3.35 Under these circumstances, the first step of transformation was the re-structuring of monopolies in order to prepare them for real changes in the system of ownership and the establishment of the market environment. In the second stage of transformation, privatization was implemented in several countries and many service areas.
- 3.36 The lack of public funds for infrastructure development and the low level of public service performance raised the claim for higher service efficiency, and the attracting of more resources in this sector of the economy. Through the reallocation of internal sources and by attracting foreign investment, more funds were also made available in the local public utility sector. “Municipalization” of state owned property of utility services, adaptation of new forms of private enterprises in service delivery, changing the rules of infrastructure financing through user charges and local taxation were the key elements of transformation.
- 3.37 The transformation process of service providers is similar, although stages having reached are different by countries and by sectors. Firstly, monopolies were broken up modestly, i.e. following regional boundaries of large service delivery areas. The measures used in different services were as follows:
- ❖ A structural reorganization of state enterprises by territorial administrative units (Romania)
  - ❖ The devolution of assets to local governments (Hungary)
  - ❖ A discussion on local government shares (water and sewage works in Slovakia, gas works in Hungary)
- 3.38 In the second step, regional enterprises are transformed to companies under the commercial law with 100% shares of the national or local governments. In the meantime, ownership, management and regulatory functions are being separated, initiated by the national legislation. Among urban services the energy sector (electricity and gas supply), water and sewage services and district heating were the relevant ones. It is common that local governments are involved to some extent in this process as owners, managers and regulators.
- 3.39 It can be stated, that during the first years of transition big cities generally obtained a substantial urban capital stock. These assets were usually under-priced and of rapidly deteriorating quality, however, they represented huge opportunities for the transition cities. The way and extent how cities exploited these opportunities, the strategy they have chosen to operate and manage their public utility companies and provide public services determined to a great extent their future development.

**Transformation of Service Organizations in selected CEE countries**

In the **water services**, three basic models were followed. In Hungary and Poland, the former large state owned and regional water works were fragmented, and several hundred small service organizations were created by local governments. The organizational forms are various: budgetary organizations, companies and private businesses provide water services. This model was not followed in Slovakia, where still a few state enterprises operate the water system and privatization is exceptional. Romania has its own way by splitting the large national companies into semi-public forms of ‘regie autonomes’.

**District heating** services were transferred to local governments in Hungary and Poland, which led to some privatization and slow amalgamation of these service organizations. The other extreme case is Latvia, where heat production is still part of the national energy system and only a few cities have received the assets and set up their own company. This ‘random municipalization’ was combined with national government bail out of the indebted companies.

Transfer of public state property to local government, followed by privatization is most typical in municipal **solid waste management**. Local ownership is typical in several countries, slowly creating joint, economically rational size companies for waste disposal and collection. In Poland and Slovakia different methods are used for waste disposal and for collection: generally creating larger service organizations for disposal at regional level whilst supporting competition in collection.

Organizational models in **communal services and housing management** are determined by the country’s characteristics and they are, in general, decentralized. In Hungary and Slovakia multi-purpose urban management service organizations were

fragmented, by separating some revenue making and more market oriented activities from the rest. In Poland and Latvia, where the privatization of the social housing stock is less advanced, multi-profile companies provide combined services. Navigation to the Market (2001)

**Radical change in the economy: privatization**

- 3.40 From all the elements of transformation of east central European countries from socialism to capitalism, privatization was identified as a central component of reform (Berg and Sachs, 1990). It was intended to address the fundamental issues of enterprise efficiency and lack of market orientation and innovation that characterized socialism (Ellmann, 1989). However, transition economies suffered from a paucity of domestic savings and an underdeveloped institutional framework, particularly with respect to capital markets. It was therefore realized that conventional methods of privatization (by tender and through public offerings) would not always be appropriate (Blanchard, 1991). Considerable effort was put into developing new methods, including widespread use of manager/employee buyouts (MBO/EBO) and mass privatization – the ‘sale’ of firms at zero or nominal price, through the issue to the general population vouchers or privatization certificates (Bennett, 2004).

**Different privatization methods in Central and Eastern European countries**

**Restitution**

Restitution aims to return state assets to their former private owners in situations where the government’s original acquisition is seen as unjust, such as uncompensated seizure. In practice, the transition countries have seldom used restitution regarding economic assets, except for Estonia and, to a lesser extent, the Czech Republic. In the housing sector restitution was more widespread.

**Direct Sales and Equity Offering**

In the early 1990s, many of the former socialist countries planned to privatize through direct sales. At first some of them pursued this approach vigorously, but political and practical drawbacks quickly emerged. Ultimately East Germany, Estonia, Hungary and to lesser extent Poland were among the few successful users of this approach.

The initial goal was to sell assets to outside investors in view of the underdeveloped state of domestic capital markets. Policymakers expected three gains: revenue earnings for the state, the rapid infusion of outside expertise and the likelihood that management by outside owners would be more effective.

Among the practical drawbacks, the inadequacy of national stock markets and the lack of domestic capital proved to be greater handicaps than expected, and foreign investors, unable to obtain sound information on the enterprises offered, lacked sufficient interest.

Politically, direct sales and equity offerings could be stalled when the general public saw the process as unfair. Powerful local interests, such as workers and managers, sometimes blocked consideration of direct sale privatizations.

**Management/Employee Buyouts**

Under this approach, shares of an enterprise are sold or given to some combination of managers and other employees. The powerful position of employees – as for example in Poland, and of managers, as in Russia – gave to this approach the twin advantages of feasibility and political popularity. This type of privatization was popular in quite many transition countries (like Croatia, Macedonia, Poland, Romania, Slovakia, Slovenia and Russia).

**Mass Privatization**

In mass, or equal-access, voucher privatization, the government generally gives away, or sells for a nominal fee, vouchers that can be used to purchase shares in enterprises. This technique was rarely used elsewhere in the world before the massive transition started in CEE, but it has proved popular there, particularly in the Czech Republic, but also in Armenia, Kazakhstan, the Kyrgyz Republic, Latvia and Lithuania.

Voucher privatization helps to overcome the shortage of domestic capital. At the outset of transition, voucher schemes were politically popular because they addressed the perceived unfairness of other approaches and avoided the charges of a sellout of national assets to foreigners.

Havrylyshyn-McGettigan (1999)

- 3.41 During the privatization process all the countries in transition used a mix of different methods, however, the significance and dominance of the techniques applied vary significantly across the countries.
- 3.42 Given the relatively poor performance of the centrally planned economies before the transition, most academics and policy makers expected privatization to result in greatly improved economic performance. As it turned out, the post-communist countries went through a deep recession in the

first three to eight years of the transition, a period that usually coincided with the launch of privatization. Recently, evidence based studies suggest that privatization and performance are related but that relationship is more complicated than it has been assumed (Estrin, 2009)

- 3.43 The most important policy implication on the surveys conducted on the effects of privatization and ownership in transition economies is that privatization *per se* does not guarantee improved performance, at least not in the short- to medium-run. Type of private ownership, corporate governance, access to know-how and markets, and the legal and institutional system matter for firm restructuring and performance. However, recent studies justified that the privatization method had influenced significantly the FDI inflows, and foreign ownership tends to have a positive effect on performance. The positive effect of privatization to domestic owners, though, takes a number of years to materialize (Estrin, 2009).

**Table 4. Private Sector Share of GDP**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2006
Estonia	10	10	25	40	55	65	70	70	70	75	75	80
Latvia	10	10	25	30	40	55	60	60	65	65	65	70
Lithuania	10	10	20	35	60	65	70	70	70	70	70	75
Poland	30	40	45	50	55	60	60	65	65	70	75	75
Czech Republic	10	15	30	45	65	70	75	75	75	80	80	80
Hungary	25	30	40	50	55	60	70	75	80	80	80	80
Slovakia	10	15	30	45	55	60	70	75	75	75	80	80
Slovenia	15	20	30	40	45	50	55	60	60	60	65	65
Romania	15	25	25	35	40	45	55	60	60	60	60	65
Bulgaria	10	20	25	35	40	50	55	60	65	70	70	75
Russia	5	5	25	40	50	55	60	70	70	70	70	65
Ukraine	10	10	10	15	40	45	50	55	55	55	60	65

Source, EBRD, Transition Reports

#### 4. THE POST-SOCIALIST DEVELOPMENT OF EAST-CENTRAL EUROPEAN COUNTRIES: FREE MARKET DEVELOPMENT AND EUROPEANIZATION

- 4.1 The development of the east-central European countries, after the collapse of socialism and the immediate transitory changes into capitalism, can be divided into two periods:
- ❖ market dominated development (second half of the 1990s, first half of the 2000s): the period of large FDI flows with dominating role of market forces, withdrawal of the state.
  - ❖ European integration (from the second half of the 2000s): adopting to the European regulations, the planning system (capital cities in relationship to NUTS2 level, second tier cities and their regional roles) and the allocation of Structural Funds

##### *The Market-Dominated Development Period: Weak Public Control (Mid 199S – Early 2000s)*

- 4.2 Following the adoption of the basic laws and regulations, territorial development has been taken over by market forces while the role of the public sector became more and more indirect, influencing territorial development through infrastructure development decisions only. Large differences emerge between the post-socialist countries in the amount and territorial orientation of Foreign Direct Investments which were of decisive importance from the middle of the 1990s.
- 4.3 The pragmatic, or in other words 'opportunity-led' approach of local governments can be explained in the following way: ... urban governments of post-socialist cities have faced increasing demand from international property companies to invest in the property markets and develop projects ... the resulting pressures have led urban governments to adopt 'flexible' strategies and weak enforcement

of planning regulations. It might be argued that urban planning institutions have become opportunity-led mechanisms of the neo-liberal transformation.” (Tasan-Kok, 2006:52)

- 4.4 The market-dominated period was marked, besides the free-market oriented development, by some attention devoted to regional problems – with moderate achievements, though.
- 4.5 One of the reasons of the increasing attention devoted to regional and urban problems was that the increasing disparities became very visible and not evadable any more. The other reason was that all the countries of Central European countries submitted their accession applications to the European Union and they wanted to demonstrate their readiness to comply with the objectives and rules of the EU. They designated their NUTS2 and NUTS3 regions and designated some funds and means for regional and urban development purposes.
- 4.6 The public initiatives to reduce regional inequalities had, however, only moderate success. One of the reasons for that was that the measures were not complex and integrated enough. For example, in Hungary the overwhelming part of the means was spent for establishing access to the natural gas networks in each settlement of the poor regions. In Slovakia, the overwhelming part of the resources was used for motorway construction. These actions are important but alone cannot ensure the catching-up of poor regions. Human resources, education, infrastructure and market-developments are equally important factors.
- 4.7 The second reason of moderate success was that the governments were not able to follow the same regional priorities for longer periods which would have been needed to achieve real results. If support was concentrated to the same poor regions, soon political pressure started to extend the support also to other regions, since those had also their problems. Besides, subsequent governments changed the regional priorities anyway, the culture of continuing the good elements of the policy of the previous government did not develop at all in the new democracies.

***Foreign Direct Investment inflows to the transition economies***

- 4.8 At the beginning of the transition process the problem for these economies was to replace an outdated capital stock and shift production toward goods demanded by the domestic market and goods that could be exported abroad. There was also a great demand for inflows of capital to be used in the restructuring of enterprises in order to create competitive market economies. Domestic savings in the transition countries have been too small to cover the large demand for investments. FDI inflows have therefore fulfilled an important role as a source of capital. However, FDI also has qualitative effects. It has been shown that FDI has a potential to generate technological spillovers to the host country (Sjöholm, 1999), and this potential can further stimulate growth rate of the host country (Borensztein, 1998).
- 4.9 The start of the transition period resulted in a complete turnaround of FDI policies and regulations in the transition countries. The East European governments began to eliminate the existing disincentives by the establishment of new foreign investment laws creating enabling frameworks. The policy change has resulted in a situation where all transition economies were actively competing for inflows of FDI through the use of incentives such as reduction of corporate taxes, tax holidays and provision of social amenities.
- 4.10 Earlier studies of FDI inflows have pointed a large variation in the amount of FDI that the transition countries attracted during the first years of the transition process (McMillan, 1993a; Meyer, 1995). Later studies (for example Johnson, 2006) suggest that these differences have continued during the second half of the 1990s and the beginning of the 2000s.

**Table 5. Cumulative inflows of FDI in total and per capita to the CEE group of countries**

Country	Cumulative FDI inflows 1989-2003 per capita, USD	Cumulative FDI inflows 1989-2003 (millions of USD)	FDI inward stock as share of GDP in 2003 (%)	GDP per capita in 2003, USD
Estonia	2 402 (3)	3 246 (11)	77.6 (1)	2 402 (3)
Latvia	1 545 (7)	3 372 (9)	35.1 (5)	1 454 (9)
Lithuania	1 067 (9)	3 683 (8)	27.2 (8)	1 067 (8)
Poland	1 355 (8)	51 906 (1)	24.9 (9)	1 355 (7)
Czech Rep	3 710 (1)	38 243 (2)	48.0 (4)	3 710 (1)
Hungary	3 364 (2)	33 641 (3)	51.8 (2)	3 364 (2)
Slovakia	1 894 (4)	10 185 (5)	31.5 (6)	1 894 (5)
Slovenia	1 647 (6)	3 277 (10)	15.6 (13)	1 647 (6)
Romania	486 (12)	10 536 (4)	23.4 (10)	486 (10)
Bulgaria	795 (10)	6 235 (7)	29.1 (7)	795 (11)
Croatia	1 857 (5)	8 204 (6)	49.6 (3)	1 857 (4)
Macedonia	501 (11)	1 002 (13)	22.1 (11)	501 (12)
Albania	352 (13)	1 114 (12)	18.1 (12)	352 (13)
Average	1 606	13 434	34.9	1 606

Source: EBRD (2004) in Johnson, 2006

- 4.11 The table above indicates that the transition process triggered large FDI inflows, however, there are large differences in the size of the inward FDI stock. The CEE economies have been in general successful in attracting FDI inflows but there is substantial variation within this country group – with the Czech Republic, Hungary and Estonia having been able to generate the largest inflows of foreign investments.
- 4.12 There are several studies trying to explain the determinants of FDI inflows in transition economies. Holland and Pain (1998) finds that the method of privatization, labor costs, trade linkages and proximity to the EU are the most important factors for FDI inflows. Bevan and Estrin (2000) find that inflows are significantly affected by market size, distance risk and unit labor costs. Resmini (2000) comes to the conclusion that FDI inflows are determined primarily by market variables such as population and GDP per capita. The result of Carstensen and Toubal (2004) indicate that market size has a positive effect on FDI flows and that the level and method of privatization as well as country risk significantly affect the volume of FDI inflows.
- 4.13 A more recent study (Johnson, 2006) examines how host country characteristics are related to FDI inflows. The paper distinguishes between ‘traditional’ determinants based on the motive for FDI and ‘transition-specific’ determinants. The traditional determinants are based on three types of FDI, efficiency-seeking, market-seeking and resource-seeking. The transition-specific variables include transition progress, privatization method and corruption. Their results show that market seeking is an important motive for investment in the CEE economies<sup>3</sup> but not in the CIS countries. Resource-seeking, on the other hand, cannot explain the large FDI inflows to the CEE economies but is important for the distribution of FDI among the CIS economies<sup>4</sup>.
- 4.14 Concerning the transition-related variables, the study argues that the speed and success of the transition process, the primary privatization methods and level of corruption are particularly important.
- 4.15 Judging the progress of an economy’s transition process the EBRD has developed some transition indicators. These indicators include measures of large and small-scale privatization of enterprises, price liberalization, trade liberalization, infrastructure, legal reform, the exchange system as well as financial indicators. Table 6. ranks CEE and CIS countries according to the EBRD transition progress

<sup>3</sup> CEE economies that have received large inflows of FDI also tend to have a high GDP per capita. FDI and GDP per capita are highly correlated

<sup>4</sup> Not surprisingly, the oil economies of Azerbaijan and Kazakhstan have received substantially larger inflows of FDI than the other CIS economies.

measures. According to the EBRD explanation, a score close to 17.2 on the transition progress measure represents approximately the same standard as in an industrialized market economy, while a score close to 4 indicates little progress from the conditions during central planning.

**Table 6. Transition performance in CEE and CIS**

Country CEE	Transition progress measure 2003	Cumulative FDI inflows 1989-2003 per capita, USD	Country CIS	Transition progress measure 2003	Cumulative FDI inflows 1989-2003 per capita, USD
Czech Rep	14.3	3 710 (1)	Kazakhstan	10.9	1 094 (1)
Hungary	15.7	3 364 (2)	Azerbaijan	10.0	873 (2)
Estonia	14.6	2 402 (3)	Armenia	10.9	277 (3)
Slovakia	13.0	1 894 (4)	Georgia	10.6	272 (4)
Croatia	13.4	1 857 (5)	Turkmenistan	4.0	269 (5)
Slovenia	13.3	1 647 (6)	Moldova	10.6	210 (6)
Latvia	14.0	1 545 (7)	Belarus	7.3	200 (7)
Poland	14.6	1 355 (8)	Ukraine	9.3	128 (8)
Lithuania	13.0	1 067 (9)	Kyrgyzstan	9.9	85 (9)
Bulgaria	12.6	795 (10)	Uzbekistan	7.1	35 (10)
Macedonia	10.7	501 (11)	Tajikistan	7.0	34 (11)
Romania	12.0	486 (12)	Russia	10.3	31 (12)
Albania	10.3	352 (13)			
Average	13.2	1 606	Average	9.0	292

Source: EBRD (2004) in Johnson, 2006

- 4.16 The table shows that according to the transition progress measure, Hungary has come closest to the standards of a market economy. The table also indicates that there is a positive relationship between the level of the transition and FDI inflows.
- 4.17 Regarding the privatization method, several studies (Roland, 2000; Aghion and Carlin, 1996, etc.) argue that the choice of the privatization method has a large impact on attracting FDI. According to Holland and Pain (1998) the method that has the largest effect on FDI inflows is direct sales to outside owners. Direct sale implies that each state-owned firm is prepared individually and sold to domestic or foreign investors.

**Privatization and FDI inflows in Poland and Hungary**

Hungary managed to attract substantial inflows already in 1992 and 1993 while Poland did not. Hungary had a fast privatization already during the early years of transition while the process was more gradual in Poland. According to EBRD (2001), large scale privatization in Hungary began as early as 1990. This should be an important explanation for the differences in inflows during the first years. The FDI inflows reached a peak in 1995 and then decreased sharply and stabilized on a lower level. In 1995, the cumulative privatization revenues in Hungary as a share of GDP almost doubled. After 1995, the privatization revenue share of GDP increased at a slower rate whereas the inflows of FDI to Hungary decreased. This is likely to be an indication of the once-off effect of privatization; when the major part of privatization has been completed, an important motive for FDI inflows disappears. The argument is supported by the data for Poland, which also show a strong increase in inflows a few years later, delayed due to a slower pace of privatization.

Johnson, 2006

**European Integration (from the early 2000s)**

- 4.18 In the preparation period for EU accession the administrative structure of the countries had to be re-shaped, with the introduction of a middle tier satisfying the requirements of the EU planning system, with special regard to the planning and allocation of the Structural Funds. The regional (NUTS2) level has been developed according to different logics, leading to significant differences in the planning independence and implementation power of these regions across the new member states. Different

strategies can be observed also in the use of the Structural Funds resources, as a consequence of the differences between territorial (and urban) development ideas.

*Regional development in transition countries*

- 4.19 In the run-up to accession to the EU the debate over reform and development in the candidate countries has had a strong but often confused regional dimension. This has been encouraged by the EU and has had three interlocking strands:
- ❖ *Regional government*: the possible creation or reform of an upper tier of self-government both to complete the reforms of public administration started in 1990 and to stimulate socio-economic development
  - ❖ *Regional policy*: the desirability of directing public investment and encouraging private investment to reduce the growing territorial disparities in levels of income and employment
  - ❖ *Regional development planning*: basing increasing proportions of public investment on regionally conceived and focused strategies and priorities rather than nationwide sectoral programs and targets
- 4.20 The role of regional self-government in the promotion of regional development is still unclear and unproven, although the Polish example may offer some vision to its future (Davey, 2003).
- 4.21 Since 1988 the structural policy of the EU is targeted to the regions, and not the member states. The regions were defined in the 80's for statistical purposes (NUTS system), but with this move the delineation gained new importance, and now it influences the availability of EU funding. The countries joining in 1995 already delineated their NUTS regions taking this into account, and new member states joining in 2004 and 2007 also had the chance to consider 'tactical' points. For the distribution of EU funds only the NUTS 2 and NUTS 3 levels have any significance, NUTS 2 being the more important (Illés [2002] pp. 243-247).
- 4.22 As already discussed, the socialist period generally left the inter-mediary county governments with a bad image and in the first wave of public administration reform after 1989 they were either eliminated as in Czechoslovakia and Poland or severely restricted as in Hungary. EU pressure in the second half of the 90's encouraged the creation of the regions in each of the accession countries. However, some experts argue that the EU search for regional development partners has confused the public administration reform. According to the requirements of the NUTS system the NUTS2 level should consist of large self-governing regions between 1,5 and 3 million population. This was a much bigger size than east central European politicians were willing to create as even a regional population of one million threatened to deprive too many cities of regional capital status (not to speak about the 'problem' that regions with over-million population would become politically too powerful from the perspective of the central government). As a result of this conflict it is only in a few countries (e.g. Poland) that NUTS2 regions are governed by directly elected self-government.
- 4.23 In most of the transition countries municipal governments have been longer in the development/ investment field than the regional and county governments. With the possible exception of Romania the functional responsibilities of municipal governments (such as environmental infrastructure) require substantial investments. Furthermore municipalities, unlike the regions and counties, have real-estate and disposable tax income to contribute to development packages. Real-estate ownership, land-use planning and construction control are also pertinent municipal weapons in the attraction of inward investment.

In the **Czech Republic** regional governments were only established in 2001. They have no taxing power and depend on revenue shares and grants which cover no more than operating costs, leaving no margin for capital expenditure or debt service. Their main responsibilities focus on the coordination of regional development.  
The Czech Republic classified its newly established regions (13 + the capital city Prague) as NUTS3 units. The NUTS2 level is defined as oblasts; these are statistical units (8 in total) consisting of one or more regions. Prague is an oblast on its own.

In **Poland** the sixteen regional self-governments are also latecomers, created in 1998. They have no taxing power and depend on tax shares and equalization subsidies leaving little margin over operating costs. Nevertheless their role in the coordination of investment was more explicit and potentially important than in the other EU accession countries. This is manifested in the formulation of regional development plans which are then the bases of the contracts with the governments about the use of both regional and sectoral development funds on a three-year rolling basis. Polish marshals (elected regional chief executives) have been successful in securing municipal participation in these contracts and thereby leveraging the greater volume of disposal funding as counterparts to state funding. Poland uses the 16 new voivodships as NUTS2 units. The 66 NUTS3 subregions do not correspond to any administrative level.

**Hungarian** counties were retained as tiers of self-government in 1990, but with very limited competences. They have no taxing power and depend on the transfers supplemented by highly discretionary deficit grants. County capitals are outside their jurisdiction. Their chairmen preside over county development councils comprising representatives of state agencies, municipalities and socio-economic partners that allocate state budget investment grants and subsidies. A similar role in allocating EU funded programs has been given, however, to parallel development councils at the level of the seven NUTS II regions (each consisting from around three counties).

In Hungary there was no traditional administrative level corresponding to NUTS2; the City of Budapest and the 19 counties were classified as NUTS3 units. This opened the possibility to different delineations. The main questions were if there is real need to create new units or the existing counties could be used; how many regions should be defined and which cities should be their centres; should they be groups of existing counties or not; and if Budapest should be a separate unit (losing the possibility of structural funds early due to its relatively high GDP) or combined with one or more counties (endangering their possibility to use structural funds). As a result 7 planning and statistical regions have been created, as groups of 3 counties each except for Central Hungary consisting of Budapest and Pest county.

In Hungary the regions have been working as a statistical and planning level, but initiatives to strengthen their legal status never got unanimous political support: the question whether they or the counties should be the stronger sub-national level did not come to a stillstand. Until 2010 the government favoured the strengthening of the regions, since then the new government turned towards the counties. Time to time also the separation of Budapest and Pest county comes up as the latter often sees that the capital limits its own possibilities to use structural funds. Concerning the role of cities, there is no clear designation of regional centres; the regional-level deconcentrated government institutions were shared among the county seats in each region, and now the county-based reorganisation of the state administration also favours each of the 19 county seats equally.

Smaller new member states (the three Baltic states and Slovenia) defined the whole country as one NUTS 2 unit (Illés [2002] pp. 246). In Bulgaria the 28 regions at the meso-level only have central government institutions. For the NUTS 2 level 6 planning regions have been created. There have been discussions about giving them self-government, but no consensus was reached. (Marcou [2007] p. 20)

Based partly on Davey, 2003

- 4.24 The Polish case suggests that regional development over time can achieve a significant role in the coordination of regional development. Substantial sectoral responsibilities such as business and human resource development are now in its hands and the regional planning contracts, together with their supporting lump sum allocations of state budget funding, have given them substantial voice in the allocation of investment finance. Poland is, of course, the largest of the countries in CEE, with the greatest geographical reason for an intermediate level of coordination.
- 4.25 In 2004 almost all east-central European candidate countries became members of the European Union (Romania and Bulgaria followed in 2007). In the 2004-2006 years the new member states received only restricted support from the EU Structural and Cohesion Funds, but from 2007 they became the main beneficiaries of these funds. The utilization of these funds has a somewhat different structure than in the old member states, but this difference can be explained by the different development levels and problem-structures of the two groups of countries. The utilisation of EU Regional Development Funds and Cohesion Fund can be seen in Table 7 below.

**Table 7. The 2007- 2013 National Strategic Reference Framework structures of the new member states (in % )**

Countries	Environmental protection and risk prevention	Research and technological development, innovation and entrepreneurship	Transport	Urban and rural regeneration
Estonia	25,1	21,8	22,7	0,5
Latvia	19,9	17,9	29,5	6,6
Lithuania	16,3	19,1	26,6	4,4



Poland	15,8	18,8	40,9	1,7
Czech Republic	19,0	18,3	33,4	3,8
Slovakia	18,9	12,2	31,7	2,4
Hungary	28,2	16,3	25,8	3,2
Slovenia	23,0	28,1	29,5	1,9
Romania	30,2	12,0	34,3	5,8
Bulgaria	27,9	11,6	34,9	2,7

Source: the 2007-2013 National Strategi Reference Frameworks of the respective countries

*Re-emergence of planning*

- 4.26 The preparation for the EU-accession posed new requirements for the governance and planning systems. For the distribution of the EU funding strategies, called as National Strategic Reference Frameworks (NSRF) had to be prepared at the national level. After the decade of radical decentralisation to the local level, this made some sort of centralised planning on the national level necessary.

*Changing conditions and strategies for urban development*

- 4.27 In the last decades different patterns of urban development policies have emerged in the east central European countries:

- ❖ Top-down political systems: the development of cities depends mainly on redistributive allocation of financial means by the political center. A clear example for this policy is the city of Katowice, which was artificially enlarged (pumped up) under socialism – the number of residents increased from 108 thousand (1945) to 270 thousand (1960) and to 355 thousand (1980).
- ❖ Free market capitalist systems: decisions, location choices are taken by investors, the role of the public sector is in establishing good conditions for economic development in general and fight with special subsidies for individual investors in particular (opportunity led urban development)
- ❖ Public sector led integrated governance systems: instead of waiting for favourable changes in exogenous factors (national power centres or private investors) the city aims at strengthening its endogenous potentials for development. This has to be done in partnership with all important stakeholders: the educational sector, the entrepreneurs, the residents, etc.

- 4.28 The east central European countries were quite efficient in the change from the first to the second pattern, the transition from the planned to the market economy was carried out in a remarkable short time. The change from the second to the third pattern is much more difficult and integrated governance systems are still very rare in these countries.

- 4.29 The Competitive Cities Interreg IIIC project summarizes in the final report six main characteristics of competitive regions. Besides innovation, economic diversity, skilled people, connectivity and place quality strategic capacity is one of the drivers. "... systems, institutions and organisations do shape competitiveness. ... competitive cities emphasise the notions of vision, leadership, partnership and politics in shaping long-term development." (COMPETE, 2007:16) Among all these factors airports and universities deserve special attention for cities on their way towards competitiveness.

- 4.30 The differences between the cities of the western and the east central European countries can be illustrated on examples how local development strategies are created and what role they play in the decisions about new investments:

- ❖ in many of the innovative western cities Investments are based on long-term integrated strategic development concepts which are the results of long planning process, involving all important stakeholders into the consultation process; in optimal case such concepts cover the functional urban area, i.e. are prepared together with the surrounding settlements
- ❖ in most of the cities of the east central European countries Investments are based on ad-hoc political decisions limited to the administrative area of the city, dominated by power struggles within the local political leadership, aimed mainly at the quickest absorption of the designated EU money (strategic development concepts which have to be prepared as a condition to get the

substantial EU subsidies usually remain on paper only, i.e. do not play significant role in the development of the city)

- 4.31 The substantial leeway in the development of infrastructure (due to the policy of the socialist period to concentrate resources on the ‘productive’ industry instead of developing infrastructure, see Tosics, 2005) means that second tier cities of the east central European countries have substantial backlog in the basic conditions for competitiveness. The following table compares second tier cities from the two sides of Europe (calculations of Gyula Horváth in Horváth, 2006:183) Kárpát medence,

**Table 8. Comparison of second tier cities from the two sides of Europe**

Thousand persons	Montpellier	Graz	Trieste	Groningen	Pécs	Oradea
Total population	245	226	208	181	158	226
University students	58	40	27	40	23	16
Airport traffic per year	1750	860	670	180	0	0
Congress center seats	2000	1200	2300	1100	0	0
Science park employees	14	8	17	8	0	0

- 4.32 The second tier cities listed in the table have roughly similar size. The two last cities, representing east central European countries, have relatively low share of students in their population and have none of the three factors listed in the table as being important for city competitiveness (airport, congress center, science park). These data, although not representative, illustrate well how big the difference is in the position of second tier cities in the western and eastern part of Europe<sup>5</sup>.
- 4.33 Airports are mentioned as one of the specifically important aspects of competitiveness in the COMPETE report. The east central European second tier cities are not only in backlog regarding airports but they have also much worse accessibility (compared to the western secondaries) in regard of motorway or high speed trains networks.
- 4.34 The other very important aspect of the competitiveness of second tier cities is higher education. In this case the backlog of the east central European second tier cities is not so much in quantitative terms – all these cities are important university centres with tens of thousands of students. However, it is not enough to have universities in the city, the local government has also to make efforts to connect these and involve them into the discussions about the development of the economy and the city. According to all available information eastern cities are much behind their western counterparts in the development of the ‘Triple Helix’. Efforts to develop new links between the economic, university and municipality actors usually end up in ‘normal’ infrastructure development of universities, while the economic players remain largely uninterested.

### **Urban Development Tendencies in the Sub-Regions of the East-Central European Countries**

- 4.35 Central and South-Eastern countries and their city networks have many similarities, but there are also important differences between them. Common feature is the big gap between the first (capital) city and the next largest city (cities) both in size and development level, functions and accessibility. Common feature is that almost all countries – at a certain point of their history – introduced measures to narrow the gap between primary and second tier cities and it is also common feature that these measures failed to achieve their targets.
- 4.36 It is difficult to classify the countries according to the policies applied by them because there are overlaps between these methods and all countries have applied most methods but with different intensity. Nevertheless, in a rough classification the following sub-regions can be distinguished:

<sup>5</sup> Since 2006 the situation has changed a bit: Pécs opened its airport and also a congress center has been built in the city as part of the investments for the Cultural Capital of Europe (2010). This example shows otherwise that the organization of big events can push forward substantially the development of Second tier cities.

- ❖ North-eastern subregion: the Baltic states (Estonia, Latvia and Lithuania)
- ❖ Central-eastern subregion: the Visegrád countries and Slovenia (Czech Republic, Hungary, Poland, Slovakia and Slovenia)
- ❖ South-eastern subregion: the Balkan countries (only Bulgaria and Romania)

4.37 The tendencies of urban development are analysed and evaluated country by country in details in the Appendix. Here only the main tendencies are summarised, according to the sub-regionl classification.

*North-eastern subregion: the Baltic states*

4.38 The Baltic countries are small countries, where the issue of the second tier cities is not of fundamental importance, since the countries are of the size comparable in other countries to the size of regions within the countries.

4.39 On the other hand, issues of second tier cities are still important, mainly in the context of multinationality. What will be the status of cities in Estonia and Latvia which have large Russian minority or even Russian majority? In Estonia for example 3 of the 6 largest cities have such composition of population. In the case of Lithuania historical (Vilnius) and geographic (Kaunas) view points have to be reconciled.

*Central-eastern subregion: the Visegrád countries and Slovenia*

4.40 Central Europe is not a homogenous group of countries, the fate of second tier cities was rather differentiated.

4.41 In Poland, in 1945, many of the future second tier cities (Gdansk, Szczecin, Poznan, Wroclaw) were almost empty, the German population has been relocated to Germany. It took several decades until the population of these cities achieved their earlier size. Rural population in these areas is still smaller than before World War II. Nevertheless, today, these areas are the most efficient and dynamic areas of Poland.

4.42 In the 1960s and 1970s there were initiatives also in the other Central European countries to direct economy, industry and migration towards the second tier cities. It was only partly successful. People and enterprises insisted on their location in the capital and they could dupe the authorities.

4.43 It was only in Central Europe that governments tried to establish institutions of national importance in cities other than the capital. The Czech Republic, Slovakia, and Hungary initiated to locate the Constitutional Court in a city other than the capital city. In the Czech Republic and in Slovakia this experiment was successful, in Hungary it failed.

*South-eastern subregion: the Balkan countries (only Bulgaria and Romania)*

4.44 The population of South-Eastern European primary cities increased very quickly during the 20<sup>th</sup> century. These countries were earlier agrarian countries where 60-80 percent of the population lived in villages. During industrialisation enormous masses of people moved from the villages into the cities, mostly into the capital city. Urban development and housing construction was not able to keep step with population increase in the capitals. The central governments introduced prohibition of movement into the capital and perhaps into other big cities. It means that these countries applied a negative incentive to promote the development of second tier cities. They applied prohibitions in the primary cities. This "negative incentives were widely applied in the former Soviet Union and sometimes also in Central Europe though not so widely as in the Soviet Union and South-Eastern Europe. These prohibitions were terminated mostly in the 1970s but at the latest at the time of the system-change in 1989.

## 5. RECENT DEVELOPMENT TRENDS AND DILEMMAS IN THE SECOND TIER CITIES OF THE EAST-CENTRAL EUROPEAN COUNTRIES

- 5.1 The short historical background given in the previous chapters has shown that the second tier cities of the east central European countries did not have as good conditions for development as the capital cities. This chapter gives a more detailed overview how did second tier cities perform in the last decade or so from demographic and economic perspective, especially in comparison to their capitals. The last section deals with the own efforts of second tier cities to improve their position – concentrated on the cases of Katowice and Timisoara, the two case study cities from these countries.

### *Demographic Development Trends of Second Tier cities*

- 5.2 The catching up of second tier cities is conditional upon two factors: growth and structural change. The requirement of growth includes – besides economic development – the growth of the population in the city and in the surrounding region. A city and region with substantially decreasing population is in especially difficult situation regarding the efforts of catching up (except if the capital city is even faster shrinking, which is not unusual among the east central European countries, see the case of Estonia, Latvia and Hungary).
- 5.3 Contrary to most of the western countries, in almost all of the east central European countries the population is decreasing. Within this shrinkage, the urban population is also decreasing. The population of second tier cities is either stagnant or is decreasing in almost all countries. The change of their relative position in the urban hierarchy depends whether the population of their capital cities is also decreasing – this is the case in some but not in all countries. Consequently, the gap between the population numbers of the primary (capital) and second tier cities is growing in most countries.
- 5.4 Compared to the slightly decreasing population of the east central European countries some of the capital cities are doing better than the country average (growing capitals: Warsaw, Prague, Ljubljana) while others are doing worse (shrinking capitals: Budapest, Bratislava, Riga, Tallinn, Vilnius). Most of the second tier cities of these countries are growing slower or shrinking faster than their capital cities – exceptions are Hungarian secondaries, where the capital is shrinking, mostly due to suburbanization (Tosics et al, 2011) and Slovakian secondaries.
- 5.5 To sum up: regarding growth in demographic terms, in most countries the capitals are outperforming their second tier cities. Moreover, almost all second tier cities (with only 4 exceptions from the 31 cities shown) have shrinking population if comparing their 2010 population with that of the year of 1990.
- 5.6 However, we have to go more into the details before ending with this dark picture.

Table 9. Population change between 1990 and 2010 in the capital and second tier cities of the east central European countries

	Around 1990	Around 2010	Change %
<b>BALTIC STATES</b>			
<b>Estonia</b>	<b>1.565</b>	<b>1.340</b>	<b>- 14,4 %</b>
<i>Tallinn</i>	<i>478</i>	<i>400</i>	<i>- 16,3 %</i>
Tartu	113	103	- 8,9 %
Narva	83	66	- 20,5 %
<b>Latvia</b>	<b>2.666</b>	<b>2.248</b>	<b>- 15,6 %</b>
<i>Riga</i>	<i>910</i>	<i>706</i>	<i>- 22,5 %</i>
Daugavpils	125	103	- 17,6 %
Liepaja	114	84	- 26,3 %
<b>Lithuania</b>	<b>3.674</b>	<b>3.329</b>	<b>- 9,4 %</b>
<i>Vilnius</i>	<i>576</i>	<i>548</i>	<i>- 4,9 %</i>
Kaunas	418	348	- 16,7 %
Klaipėda	207	183	- 11,6 %
<b>VISEGRÁD COUNTRIES</b>			
<b>Poland</b>	<b>38.609</b>	<b>38.200</b>	<b>- 1,1 %</b>
<i>Warsaw</i>	<i>1.635</i>	<i>1.720</i>	<i>+ 5,2 %</i>
Krakow	745	756	+ 1,5 %
Lodz	823	737	- 10,5 %
Poznan	581	552	- 5,1 %
Wroclaw	642	633	- 1,4 %
Gdansk	463	457	- 1,3 %
Szczecin	418	406	- 3,0 %
Bydgoszcz	386	356	- 7,7 %
Lublin	355	349	- 1,7 %
Katowice	352	307	- 12,7 %
<b>Czech Republic</b>	<b>10.360</b>	<b>10.251</b>	<b>- 1,04 %</b>
<i>Prague</i>	<i>1.212</i>	<i>1.257</i>	<i>+ 3,7 %</i>
Brno	387	371	- 4,1 %
Ostrava	331	307	- 7,3 %
Plzen	175	170	- 2,9 %
<b>Slovakia</b>	<b>5.274</b>	<b>5.435</b>	<b>+ 3,1 %</b>
<i>Bratislava</i>	<i>442</i>	<i>438</i>	<i>- 1,4 %</i>
Kosice	235	233	- 0,1 %
Presov	88	91	+ 3,4 %
Zilina		85	
<b>Hungary</b>	<b>10.374</b>	<b>10.014</b>	<b>- 3,4 %</b>
<i>Budapest</i>	<i>2.016</i>	<i>1.721</i>	<i>- 14,6 %</i>
Debrecen	212	207	- 2,4 %
Szeged	175	170	- 2,9 %
Miskolc	196	169	- 13,8 %
Pécs	170	158	- 7,1 %
Győr	129	130	+ 1,0 %
<b>Slovenia</b>	<b>1.913</b>	<b>2.050</b>	<b>+ 7,2 %</b>
<i>Ljubljana</i>	<i>268</i>	<i>274</i>	<i>+ 2,2 %</i>
Maribor	118	109	- 7,6 %
Koper-Piran-Izola	51	55	+ 7,8 %
<b>BALKAN COUNTRIES</b>			
<b>Romania</b>	<b>22810</b>	<b>21462</b>	<b>- 5,9 %</b>
<i>Bucharest</i>	<i>2067</i>	<i>1944</i>	<i>- 5,9 %</i>
Timisoara	334	311	- 6,9 %
Cluj-Napoca	328	307	- 6,4 %
Iasi	344	308	- 10,5 %
<b>Bulgaria</b>	<b>8487</b>	<b>7351</b>	<b>-13,3 %</b>
<i>Sofia</i>	<i>1114</i>	<i>1270</i>	<i>+14%</i>
Plovdiv	342	331	- 3,2 %

 Source: National Statistical Offices. *Capitals are in bold and italic.*

**Table 10. Population change between 1990 and 2010 in the east-central European countries, their capital and second tier cities (in '000)**

	Around 1990	Around 2010	Change %
All 10 east-central European country	31,371	28,886	- 7.9
All 10 capital cities	5,860	5,585	- 4.7
All 31 second tier cities	9,440	8,952	-5.2

- 5.7 Data in Table 10 show that the shrinkage of the second tier cities is only slightly stronger than that of the capital cities. And, even more importantly, both the capitals and the second tier cities are doing better in their population change than their countries, i.e. the share of the urban population of the relatively large cities is increasing, both regarding the capitals and the second tier cities.
- 5.8 To get an even more detailed picture we have to take into account that population shrinkage is the consequence of three different factors: natural population changes (decrease of fertility), migration within the functional urban area (suburbanization) and migration to other parts of the country or to other countries (emigration of population). These factors, especially the second and the third, might affect differently the development of the capital and second tier cities, moreover, might cause large differences among the second tier cities themselves, due to their history and special development conditions.
- 5.9 The out-migration from the city to the surrounding area, i.e. the suburbanization process has started in the east-central European countries only in the 1990s, with a substantial delay compared to the western countries. Without going into the details it can be assumed that the suburbanization effect is stronger in the larger and economically more successful cities. Thus it can be hypothesized that the shrinkage of capital cities is mainly due to suburbanization, i.e. the whole functional urban areas of the capital cities do not show the same shrinkage as their core cities. This would also mean that the population change comparison between the FUAs of capital and second tier cities would probably result in even larger difference: stable or growing capital city regions would be compared to shrinking or just stable second tier city regions (as in the case of the latter the suburbanisation effect is smaller).
- 5.10 It can be assumed that the population shrinkage of the second tier cities is mainly due to the third factor, i.e. to the emigration of population to other parts of the country or to other countries. This is especially true in those cities which were growing large in the socialist period, as a result of forced industrialization. In these cities the economic base weakened dramatically after 1990, with the collapse of the socialist industry. People employed in these economic sectors had to go back to their original settlements (from where they were recruited by the socialist industries) or to abroad. The latter became increasingly frequent option with the approaching of the country to the EU.
- 5.11 The general analysis of the second tier cities of the east central European countries has been extended by in-depth analysis of two of these cities: Katowice and Timisoara.
- ❖ Both case study cities have shrinking population. Regarding their economic development, in GDP per capita terms they are lagging behind their capital cities, being on half (Katowice) and on 2/3 level of it (Timisoara). Regarding the GDP change between 2000-2007, however, Timisoara is clearly better than Bucharest (while the growth of Katowice is lagging behind that of Warsaw).
  - ❖ Thus the two case study cities are close to the “general picture” we can draw about the second tier cities of the east central European countries: they are shrinking in their population number, while growing in their economic performance, though still lagging behind their capital cities. Both

second tier cities have some speciality: the Polish one, Katowice, is shrinking much faster than the other secondaries, while the Romanian one, Timisoara, is growing faster economically (even faster than the capital city).

The two case study cities show the following picture from demographic aspects.

***Katowice***

- 5.12 The city has lost appr. 13% of its population in the last two decades. Data from Table 9 show that only two of the ten largest Polish cities had increasing population in the last decade: the capital and one of the secondaries, Krakow. Katowice is in the Silesia region, which is the fastest decreasing area of Poland. It is important to recognize that population decline started already before EU accession. The time-series of Katowice population (225 thousand in 1950, 270 th in 1960, 305 th in 1970, 355 th in 1980, 367 th in 1990, 331 th in 2000, 309 th in 2008) clearly shows that outmigration from the area started from the late 1980s, i.e. from the collapse of the socialist heavy industry and mining. The effect of internal migration is very substantial: according to local estimations some 100 thousand young people from Silesia work in Warsaw. Since 2004, Poland's accession to the EU, around 800 thousand Poles left to other countries (OECD 2010c:25). One quarter of all Polish emigrants left from Slaskie region, where Katowice is located.
- 5.13 Local politicians and experts are worried about the decline of population. On the other hand, they argue that the decline has waves and will not continue with the same pace. The first wave of decrease was dramatic: people who came to the city because of coal mining went back to their settlements after the closure of mines. This was just levelling out the artificial increase when head hunters recruited young boys to work in coal mines. Thus the most intensive part of shrinking is finished more or less, future decrease is expected only due to natural processes. Thus local politicians do not consider the decrease in itself as a tragedy, they hope that with the economic development of the city the better educated people will stay.

***Timisoara***

- 5.14 The city has lost appr. 7% of its population in the last two decades. Data from Table 9 show that this equals the national decline and the shrinkage of the capital city, as well. More detailed analysis (Nadolu, et al, 2010) shows that the decline of population is due to migration loss (40%), to the decrease of fertility rate (35%) and to suburbanization (25%). The authors describe the forced industrialization under the socialist times which was combined in Romania with the efforts to demolish many of the villages. Now wonder that the collapse of the totalitarian regime generated massive population migration, first within the country (back from the large industrialized cities), followed by emigration to the more developed European countries.
- 5.15 The loss of population is characteristic for the 1990 and 2000s, as well. In the last few years, however, the number of population is growing again. Thus to talk about the shrinkage in Timisoara nowadays is quite difficult, because the general forecasts have positive and optimistic trends. The work on the strategy for the metropolitan area of Timisoara is ongoing and the idea of shrinking is completely missing from the public discourse.
- 5.16 The two shortly summarized cases show that statistical data have to be evaluated within the context of city development, taking historic factors and current trends into account. In the evaluation of population shrinkage also the 'quality' aspect has to be applied, analysing in which direction shrinkage affects the educational, qualification and age structure of the remaining population.

***Trends in the Economic Development of the Second Tier Cities***

- 5.17 The most striking difference between the western and east-central European countries is to be found in the relative economic growth of the capital and second tier cities: while in the case of the old EU

member states the second tier cities have been growing faster than their capitals, this is not at all the case in the new member states, where almost without exception the capital cities were the champions of economic growth. In Poland the difference between the capital and the top second tier city regarding the GDP/capita indicator is 20-30%, in Lithuania, the Czech Republic, Hungary and Romania 30-45%, while in Estonia, Latvia, Slovakia and Bulgaria 50-65% (ESPON, 2011:30). Thus in economic terms in all east central European countries the capitals are clearly outperforming their second tier cities.

- 5.18 The ESPON FOCI analysis also points out in Eastern Europe the process of concentration of wealth in big cities, mainly the first national cities. The analysis, however, hypothesises differences in time periods in this process: „... the metropolization process – simply defined as a higher growth rate in big cities – is mainly to be observed during the nineties and slow down in the years 2000. According to national average, we even observe slower growth rates in the big/main cities of Western Europe during the 2001-2006 period; even in Eastern Europe, the polarization process in favour of the capital region is slowing down in the years 2000.” ESPON FOCI, 2010, Scientific Report: 108
- 5.19 In order to understand the reasons of economic differentiation between the capital and second tier cities, it is necessary to go back to the transition from socialism to capitalism. This period in the first half of the 1990s brought fundamental changes in the conditions of economic development. Inefficient large state industries collapsed and unemployment increased dramatically in all countries until the new emerging market oriented economy developed, largely on the basis of foreign investments.
- 5.20 In this transition especially hit were those cities and areas which one-sidedly depended on heavy industry which was considered as the engine of economic development. Though such areas were also to be found in capital cities, their largest concentration was in the ‘socialist cities’. Many such cities were developed in the socialist period. Katowice was one of such socialist cities: the biggest increase in population numbers occurred in the decades of socialism, when the population of Katowice increased from 225 thousand (1950) to 367 thousand (1990), based on state investments into heavy industry and mining.
- 5.21 From this artificially increased and one sided economic development the transition into the new system was especially difficult and painful. The newly emerging capitalist economy required profound changes in employment structures. Most cities faced the quick decline of their industrial sectors and quick transition was needed towards services. This transition was much more difficult in the socialist cities than in the capitals which had always more diverse economy.
- 5.22 Once the capitalist economy developed in the post-socialist countries, the analysis of it shows similar features than in the western countries. There are, however, some slight alterations. Some of the features, such as the intensive capital city development, are even stronger in these countries, while there are exceptions from the rules in those areas where the ‘past-dependency’ effects are the largest.
- 5.23 The OECD analysis (2010c:34) has proved that the positive correlation between the size of urban areas and their productivity applies also for Poland: the larger the ULMA’s are, the higher per capita GDP they have. Although size matters, it’s not the only factor driving economic growth: “... metropolitan areas that also function as national capitals tend to have the highest *per capita* GDP whereas smaller metropolitan areas and some of the second-tier metros scored lower.” (Dijkstra, 2009, quoted in OECD, 2010c:37)
- 5.24 More detailed analysis of the link between the size and productivity has shown that population growth results in many relatively smaller places only in slow productivity increase. This can be explained in the following way: „... city size only matters if human capital is also agglomerating ...”



(ibid, page 37). The latter criteria (for which the easiest measure is the share of people with at least secondary education) performs best in capital cities, hence their outstanding productivity increase.

- 5.25 This link between population growth and economic productivity has to be reformulated for the case of second tier cities of east central European countries, simply because most of these cities have not growing but shrinking population. The modified (reversed) form, adapted to the realities of substantially shrinking population number, can be phrased as follows: the decrease of the city size only affects the economic productivity (measured by per employee GDP) if the concentration of human capital is also fastly decreasing. In other words, the decrease of the earlier artificially pumped-up population number does not mean in itself a big problem for the future economic development of the city, provided that the human capital is developing (or at least not decreasing as qickly as the population number).
- 5.26 The two case studies give detailed accounts about the efforts of the cities to keep and further improve the human capital.
- 5.27 Katowice is relatively succesful in increasing the education and research capacities of the city, in cooperation with the other cities of the dense urban area. „Silesia” Metropolis is the second largest scientific & research centre in Poland (after the capital city). The approximately 80 scientific and research entities of various types are concentrating almost 10% of the national research & development potential.
- 5.28 Timisoara, besides similar efforts to increase the knowledge base around the Technical university, was also successful in developing specialized economic clusters. In 2000 the city determined three clusters: IT, software industry and automotive component industry. As a result of concentrated efforts many of the leading western companies came to the city, recognizing that the quality of products is similar while labour costs are only a faction of the western level. In the course of the privatization processes also links to Italian companies were established, leading to the development of a concentrated shoe-making cluster.

### ***Second tier ciity Strategies and Difficulties***

- 5.29 Second tier cities of the east central European countries make many efforts to mitigate the population shrinkage processes. Most of their efforts concentrate on the increase of the attractivity of the city and the urban area, in order to keep and even further increase the concentration of human capital.
- 5.30 The development of the human capital, as one of the most important conditions for the development of the economy, requires high level education and training but also the development of other factors of quaity of life. It is not enough to educate the residents to the high level required by the new economies but it is also needed to be able to retain them in the city.
- 5.31 These points are of crucial importance for second tier cities, such as Katowice and Timisoara. In these cities infrastructure development is quick, roads and motorways are already existing or under construction, and quickly developing international airports make the cities among the best accessible cities within their countries. While it is clear that the improvement of the outdated infrastructure is an important pre-condition for economic growth, the real effects of such improvements depend also on the other, 'softer' factors of development. If no improvement in the other factors of quaity of life (housing, public spaces, social facilities, culture, etc.), the new infrastructure opportunities can as easily used by highly educated people to leave the city (if they do not find the city from other perspectives attractive) as for developers to come to this area. And if the highly educated have left, not even the developers will come – or only those sectors of economy will develop which require low skilled workers, further strengthening the relative backwardness of the area.

- 5.32 The detailed analysis of the two case study cities shows, however, that the cities alone, by themselves are not able to ensure the needed improvements of the infrastructure and soft factors of development. Their local independence, decision-making authority is given but their economic power is far lower than that of similar western European cities. Besides, the cities would need to act together with the other municipalities situated in their functional urban area, adding together the resources and answering together the challenges. In the east central European countries, however, the core cities have very little influence over the development of the functional urban area. The administrative system, legal legislation and municipal financing system from the national level create only very limited initiatives towards cooperation between municipalities of the same functional urban area. In the lack of strong area-wide cooperation in taxation systems, planning, transport, housing and other quality of life services there is no hope that second tier cities can make up their gap of development.
- 5.33 In many of the EU-15 countries second tier cities have strong regional roles and even national frameworks exist for metropolitan cooperation (France, Germany, Netherlands, UK, etc.). The next chapter analyses the situation in the east central European countries from these perspectives.

## **6. PUBLIC FRAMEWORKS FOR SECOND TIER CITY DEVELOPMENT IN THE EAST CENTRAL EUROPEAN COUNTRIES: OPTIONS AND DILEMMAS**

- 6.1 Second tier cities do not have as good indigenous development opportunities as capitals, which are concentrating state power functions, are the main transport hubs of their countries, attract the headquarters of most large private companies arriving to the country and concentrate in this way large share of FDI. Second tier cities, on the other hand, might have the necessary size and hinterland for the potential development of agglomerational economies and they might be economic and employment centers of substantial regions.
- 6.2 The full development of the capacity or potential (i.e. the efficiency, Barca, 2009:20) of second tier cities depends to a given extent on exogenous interventions. Obviously, national policies are critical regarding to what extent the potentials of second tier cities might develop: through the decentralization of political functions, the regionalization of the country, the more decentralized allocation of infrastructure development means (ensuring the accessibility of second tier cities) and the support for metropolitan development a lot can be done to increase the development chances of second tier cities. Those cities get the best chances to become strong second tier cities which get decentralized political functions, might act as power centres of strong regions, are well accessible both from other parts of the country and from their region, and get larger influence across their neighbouring metropolitan areas. Without these conditions the potentials of second tier cities of Europe (with the exception of the strongest secondaries, such as Barcelona, Milan, Munich, which have substantial indigenous development potentials, as well) can not fully develop and they will not be able to approach the development dynamics of their capital cities.
- 6.3 The east central European countries are relatively less developed economically and are still rather centralized politically (the level of regional decentralization is low). Though all second tier cities have democratically elected, independent local governments, neither the system of sub-national public administration nor the national planning frameworks help particularly second tier city development.
- ❖ Second tier cities do not have “regional background”, they are not centers of strong regions and they do not have strong planning control on regional level.
  - ❖ Second tier cities have difficulties to build up their metropolitan area of influence as the necessary administrative and planning tools are underdeveloped in their countries.
  - ❖ Second tier cities are left alone to develop the agglomerational economies in the lack of administrative and planning control tools over the territorial factors of economic development.

6.4 From this it follows that in the east central European countries national and sub-national level public interventions, changes in administrative systems, in planning frameworks and in public policies are needed to strengthen the position of second tier cities. In western countries the existence of such public interventions is also needed but is less crucial as the second tier cities are usually economically and politically strong enough to make their own development pathways, including the needed developments in infrastructure and in the soft factors of development. They are also in better situation regarding the development of metropolitan cooperation as in more mature democracies cooperative policies have higher chances.

***The Dilemma of Equalizing vs Competitiveness Oriented Regional Development Policies***

6.5 National regional development policies always face the basic dilemma to chose between equalizing vs competitiveness oriented strategies. This is partly a question of spatial orientation of public subsidies (to concentrate resources on lagging behind or on already well performing areas), partly a question of chosing between different instruments of supporting development.

6.6 According to Szlachta (2000:7) the ... instruments of regional development policy used in the European Union are usually classified into three main groups, comprising:

- ❖ financial instruments,
- ❖ technological infrastructure development,
- ❖ non-material means of economic development support.”

6.7 Countries which are lagging behind in regard of basic infrastructure (such as well developed roads, railways, and public services within urban areas) usually give top priority to the development of technological infrastructure, intended to improve the quality of the business environment. More developed countries prefer the various financial instruments (which are given to economic entities).

6.8 The comparative analysis of the changes in the national territorial development policies of the east-central European countries shows remarkable similarities. After a couple of years of ‘non-policy’ period in the early 1990s, the first territorial development policies were introduced in the second half of the 1990s:

- ❖ in Hungary first an equalizing territorial policy was introduced in 1998, which has been revised in 2005 towards a more competitiveness oriented policy, in which the development of all the 7 regional poles (including the capital) was meant to be supported. Priority has been given to the development of the motorway network, in order to reach all the important growth poles, which cover the second tier cities of the country. Besides these accessibility measures there were also direct economic development programmes introduced for the growth poles (Radvánszky, 2009)
- ❖ in the Czech Republic first an equalizing policy was introduced in 1998, directed on problem regions. This has been revised in 2006 towards the development of all the 12 regional centres (including the capital), defining also 13 development axes. Among the main tools is the transport infrastructure development, including the assignment of the future High Speed Train lines. These are determined by international connections and are favouring the capital city and the major regional centres. Since 2001 regional self governments and administration have been introduced but the regional government remains weak (partly because the EU and the national regions are not the same). New regional universities have been established (Maier, 2009).
- ❖ in the Slovak Republic in 2001 a future oriented spatial development plan has been adopted, assigning the hierarchy of centres (Finka, 2009).
- ❖ In Poland the reforms introduced in the early 1990s were ambivalent and inconclusive, the system of 49 voivodeships was inappropriate for any sensible regional policy, the regional governor (voivod) remained the dominant actor, nominated by the Prime Minister and responsible for the implementation of central government policy (Ferry, 2004:15). Real changes started only in 1999, with the radical change in the regional system, adopting the three-tier self

government system in which the regional planning function is given to the 16 self-governed regions. In fact all new regions developed regional development strategies in 1999. The development of motorway building speeded up only in late 2000s (OECD, 2010:125).

- 6.9 The tendency is clear: the first, mainly equalizing territorial policies of the post-socialist period have soon be replaced in all countries by more balanced regional policies which introduced the competitiveness aspect, allocating development means to all regions, accepting as legitimate goal of territorial policies to strengthen the existing growth poles of the country.
- 6.10 The national policies to strengthen secondary growth centres, however, were not always successful. A striking example for failed ambitions is the Hungarian growth pole programme, where all the regional seat cities have been assigned as growth poles but finally the state withdrew from the planned large-scale financing and subsequent governments did not continue the program. In the east central European countries each time the government changes there is a complete change of national and regional economic development strategies – this type of discontinuity makes it practically impossible to carry out long-term territorial development ideas.

### ***Administrative Fragmentation and Functional Geographies Around Large European Cities***

- 6.11 As the discussions in the DG Regio Cities of tomorrow project have shown, 67 per cent of Europe's GDP is generated in metropolitan regions (with a population over 250 thousand), while their population only represents 59 per cent of total European population. A comparison of European cities' economic performance also indicates that the major cities are doing better than the rest.
- 6.12 The discussions have also shown, however, that there is marked difference in performance between capital and non-capital cities. It is hard to distinguish the effects of agglomeration alone from the positive externalities of being a capital city and centre of both public and private administrations. There is also an even bigger difference between Western and Eastern non-capital cities that cannot be explained by size alone. Thus it is worth to examine the potential effect of territorial governance systems on the development of second tier cities.
- 6.13 Second tier cities have usually large surrounding metropolitan areas in which their economic influence prevails. This area is one of the biggest potential assets of the second tier cities: for the development of agglomerational economies some parts of the functional urban area have to be made attractive.
- 6.14 Unfortunately the functional urban areas around the second tier cities are usually divided administratively among many local governments. This is true, besides many of the old Member States, especially in the post-socialist countries where the system of territorial administration is fragmented, with large number of municipalities (which got high level of independence in their decision-making).
- 6.15 The following table contains three population data for a selection of large European cities. The first column includes the population of the administrative/political city (Eurostat 2004 data), the second the population of the morphological city area, while the fourth the population of the functional city area (labour basin). The latter two figures come from the ESPON, 2007 study. The third and the fifth columns are the quotiens of the MUA and FUA population numbers, compared to the city population within the administrative boundary.

Table 11. Administrative, morphological and functional areas of large European cities (2004 data)

	Admin city	MUA	MUA/city	FUA	FUA/city
CITIES	million people			million	
London	7.43	8.27	1.1	13.71	1.8
Berlin	3.44	3.78	1.1	4.02	1.2
Madrid	3.26	4.96	1.5	5.26	1.6
Rome	2.55	2.53	1.0	3.19	1.3
Paris	2.18	9.59	<b>4.4</b>	11.18	<b>5.1</b>
Bucharest	1.93	2.06	1.1	2.06	1.1
Budapest	1.70	2.12	1.2	2.52	1.5
Warsaw	1.69	2.00	1.2	2.79	1.7
Vienna	1.60	1.67	1.0	2.58	1.6
Barcelona	1.58	3.66	2.3	4.25	2.7
Milan	1.30	3.70	<b>2.8</b>	4.09	3.1
Prague	1.17	1.18	1.0	1.67	1.4
Birmingham	0.99	2.36	2.4	3.68	<b>3.7</b>
Brussels	0.96	1.50	1.6	2.64	2.8
Belgium central region				5.13	<b>5.3</b>
Amsterdam	0.78	1.05	1.3	1.47	1.9
Stockholm	0.76	1.48	1.9	2.17	2.9
Frankfurt	0.65	1.46	2.2	2.76	<b>4.2</b>
Stuttgart	0.61	1.74	<b>2.9</b>	2.29	<b>3.8</b>
Stuttgart MA	0.61	1.74	<b>2.9</b>	2.67	<b>4.4</b>
Rotterdam	0.60	1.03	1.7	1.43	2.4
Oslo	0.60	0.71	1.2	1.04	1.7
Helsinki	0.56	1.07	1.9	1.29	2.3
Lisbon	0.53	2.32	<b>4.4</b>	2.59	<b>4.9</b>
Göteborg	0.51	0.63	1.3	0.96	1.9
Copenhagen	0.50	1.36	<b>2.7</b>	1.88	<b>3.8</b>
Dublin	0.47	1.07	2.3	1.48	3.1
Lyon	0.47	1.18	2.5	1.79	<b>3.8</b>
Manchester	0.44	2.21	<b>5.0</b>	2.56	<b>5.8</b>
Liverpool	0.44	1.17	<b>2.7</b>	2.24	<b>5.1</b>
Bratislava	0.43	0.44	1.0	0.71	1.7
Zurich	0.37	0.72	2.0	1.62	<b>4.4</b>
Brno	0.37	0.38	1.0	0.54	1.5
Katowice	0.32	2.28	<b>7.1</b>	3.03	<b>9.5</b>
Malmö	0.28	0.28	1.0	0.96	3.4
Strasbourg	0.27	0.42	1.6	0.61	2.3
Ghent	0.24	0.30	1.3	0.70	2.9
Lille	0.23	0.95	<b>4.1</b>	2.59	<b>11.3</b>
Tampere	0.21	0.27	1.3	0.34	1.6
Rennes	0.21	0.25	1.2	0.52	2.5
<b>TOTAL</b>	<b>42.63</b>	<b>74.15</b>	<b>1.7</b>	<b>101.21</b>	<b>2.4</b>

Source: ESPON, 2007; City population: <http://www.citypopulation.de>

- 6.16 The table shows that in all cases the morphological urban area (MUA) is at least as big as the administrative city. On the other hand, there are many cities, where the politically defined city is much smaller than the continuity of the built up area. In these settlements the political/administrative

and the morphological definitions of the city, i.e. the 'cities de jure' and 'cities de facto' (Calafati, 2010) are very far from each other. Out of the 74,2 million people living in the morphological areas of the listed cities, 35 million, i.e. almost half, live in areas, where the administrative city is less than half of the continuous urban area.

- 6.17 The most striking cases in Europe are Katowice (where the continuous urban area has 7,1 times more population than the politically defined city), Manchester (5 times more), Paris and Lisbon (4,4 times more) and Lille (4,1 times more).
- 6.18 Thus almost half of the European metropolitan population lives in continuous urban areas, which can hardly be controlled by the core city, as this city is less than half of the size of the urban area.
- 6.19 The functional urban area (FUA), i.e. the labour basin has in average 2.4 times larger population than the administrative city.
- 6.20 The most striking cases in Europe are Lille (where the labour basin has 11,3 times more population than the politically defined city), Katowice (9,5 times more), Manchester (5,8 times more), Paris and Liverpool (5,1 times more).
- 6.21 To harness the economic potential of the joint labour market would require strong cooperation among the municipalities within the functional urban area, agreeing on joint long-term strategic development concept, common land-use policy, tax harmonization – just to mention a few important aspects.
- 6.22 Cooperation between local governments of the same functional urban area is not a self-evident thing. The less so that exactly the belonging to the same functional urban area creates the biggest conflicts of interest between the local governments. In reality in most countries conflict is much more usual than cooperation.
- 6.23 Cooperation within the functional urban area does not depend only on the will and efforts of the core city. In fragmented local government systems national laws are required, regulating the different layers of territorial administration, the categories of municipalities, their roles and responsibilities and their interrelations (conditions for cooperation). Higher level governments can issue laws ensuring good cooperation across metropolitan areas. In the lack of such direct regulations also legal frameworks for municipal cooperation can be useful, especially if supported by public financial schemes to initiate the better functioning of metropolitan areas.
- 6.24 For the new member states the past 20 years of democracy proved to be too short time to develop the conditions and 'feelings' for cooperation between municipalities. Elected politicians for the cities and villages around the metropolitan centres want to keep their decision-making independence under any circumstances. One of the examples for that is the extremely dense urban area around Katowice: despite their best economic interests the 14 cities of the Katowice functional area started only weak forms of cooperation are not willing to integrate into a strong higher level administrative unit, due to their own political interests.
- 6.25 In such non-cooperating cultures higher level regulations, interventions, initiatives would be especially important to enhance territorial cooperation around large urban centres. In most of the east-central European countries, however, this problem is not even on the political agenda. It is only Poland where such discussions are ongoing since years. Even a draft metropolitan area legislation has been developed in Poland – without any concrete results, though, as the main actors of policy making on the national and regional levels are not able agree on any specific solutions.

*The Economic Development in Large Cities: The Agglomerational Effect*

**Agglomerational economies**

- 6.26 The new economic geography literature describes in details the formation of agglomerational economies. According to Shefer and Frenkel (2006:9) „... in order to reduce the cost of transporting goods and benefit from increasing returns to scale, firms and workers are pulled together toward selected places where agglomeration economies prevail.” The economic results of such concentration of consumers, workers and businesses in a place or area are usually positive: together with the formal and informal institutions that make an agglomeration “thick” and cohesive, there is high potential to produce externalities and increasing returns to scale (Barca, 2009:20).
- 6.27 The ESPON CAEE (2010) study proved with data analysis the „... tendency for employment in key, high growth and high value sectors to cluster and expand in those locations that offer the best environment for them. ... the analysis uncovered strong evidence of agglomeration effects, over all countries, with elasticity coefficients of 13-14%.” (ESPON CAEE, 2010:38)
- 6.28 As analysts comment, the agglomerationalization rule is not equally valid for economic units with different skills/innovation levels. It has been proved that high-tech firms are affected positively and significantly by the high concentration of people and economic activities, i.e. the rate of innovation increases with the prevalence of agglomeration. Such connection has not been shown for the low-tech industries, thus their rate of innovation would be affected only marginally if moved from the core towards the intermediate or peripheral zones. Shefer and Frenkel (2006:10) „... traditional industries tend to survive in pockets outside the metropolitan area, within the wider city-region, often in less accessible locations.” ESPON CAEE, 2010:38
- 6.29 More detailed analyses show evidence that agglomeration effects have limits and that the negative externalities that can result from agglomeration, such as traffic congestion, price increases, pollution, urban sprawl, rising costs of urban infrastructure, social tensions and higher crime rates, may outweigh the benefits. Apart from the direct economic costs of a decrease in the efficiency of the economy there would also be the additional cost of a degraded environment, health problems and a reduced quality of life. According to the OECD, the relationship between income and population size is negative for metropolitan regions of over 6 million people.<sup>6</sup>
- 6.30 Having shown the potential advantages of agglomerational economies, the question arises what can be the role of the public sector to enhance their development? Besides the obvious need for the public sector to help the development of the Triple Helix type relationships between the economic, university and municipal actors, a more specific question can be raised about the impact metropolitan/city-regional institutions have upon agglomeration economies.
- 6.31 The ESPON CAEE project examined this question in details. Some of their statements are rather sceptic about the potential effects of good metropolitan governance on the development of agglomerational economies:
- „... none of the institutions have a strong and direct influence over patterns of spatial economic change and agglomeration, not least because decisions within the public sector as a whole can only ever shape the context in which choices by firms and households are made. The patterns produced by locational preferences that are relevant to different sorts of economic activity are the largely unintended consequences of myriad firm-level choices, not the designs or preferences of public policy-makers.

<sup>6</sup> OECD Territorial Reviews: *Competitive Cities in the Global Economy*, Paris, 2006, quoted in Barca report (see above)

Second, in relation to the key contributions that interviewees identified as having shaped the business environment, in the widest sense, most powerfully – corporate tax policy, critical communication infrastructures, the availability of skilled or high potential labour (including the presence of research intensive higher education institutions), international connectivity through a globally connected hub airport, the clarity, decisiveness and speed of public planning processes – even the strongest metropolitan/city-regional institutions are ‘bit part players’ that can only influence public sector choices within these areas at the margin. ... Metropolitan/city-regional governance, in short, is as much an *outcome* of the search for these conditions as it is a *mechanism* that can embody and intensify them. None of these observations suggest that institutions and networks of metropolitan/city-regional governance have no impact upon agglomeration economies.” (ESPN CAEE, 2010:52)

- 6.32 Despite the many cautious remarks and the seemingly non-linear, complex relationship between metropolitan governance and the development of agglomerational economies, the final conclusions of the project include many statements which emphasize the importance of governance over the functional urban area:

„Taken as a whole, the evidence from case study work suggests that an ‘ideal type model’ for a policy regime built upon exploiting and managing agglomeration processes more effectively would have a number of key characteristics, as follows.

- ❖ A supportive national context which provides clarity about overall understandings of, and aspirations for, patterns of spatial development and links them to core investment plans and choices
- ❖ Strong technical capacity at the metropolitan/city-regional scale for the purposes of strategic analysis and programme delivery (directly or through partner organisations)
- ❖ Metropolitan/city-regional institutions or networks that seek and achieve significant ‘vertical’ influence, at higher levels of government (regional/national), and are able to shape policy agenda and encourage policy integration
- ❖ A compelling, broadly shared and evidence-based narrative which provides the basis for collective, strategic priorities and aspirations and is clear about the relationship between the metropolitan and city-regional scales
- ❖ Strong political leadership (at metropolitan/city-regional or central city level), able to construct strong ‘horizontal’ connections across municipal authorities and with other public and private stakeholder organisations, and
- ❖ An ability to recognise and deal with the environmental and social implications of pursuing strategic development ambitions.”

(ESPN CAEE, 2010:11)

- 6.33 For large cities, which have immense interest is to become attractive towards the high-tech enterprises (which are the key players in agglomerational economies), to understand and apply the rules of the agglomerational economy is crucial. The public sector can and has to do a lot to optimize the conditions for the local innovation milieu, to enhance the collaboration among firms towards creating spillovers between them which leads to the increase of productivity and innovation capabilities. Besides economic (cluster-building) and infrastructure conditions, there are important spatial factors to be taken into account.

- 6.34 At that point the economic efficiency oriented considerations confront the administrative, municipality based logic of local governments. As high-tech industries need a concentration in areas where a large pool of human, social and creative capital is offered, the optimum would require coordinated public governance over metropolitan areas. Such functional urban areas offer the spatial scene for efficient innovation transfer. Local governments of the functionally interdependent urban area should collaborate in initiating economic clusters, help the corresponding specialization of the



educational institutions, developing transport solutions. All these are needed for the development of agglomerational economies which are crucial for the attraction of high tech enterprises.

***Second tier cities and the reality of agglomerational economies***

- 6.35 As already discussed the east-central European countries are lagging behind in regard of basic infrastructure, especially in the quantity and quality of airports, motorways, high speed railways. For this reason in their regional development policies top priority is given to the development of technological infrastructure. It is a big question, however, whether such improvements lead everywhere to the intended outcome, i.e. to the improvement of the quality of the business environment.
- 6.36 Shefer and Frenkel (2006:29) analyse the effects of investments into new transport infrastructure on the regional economy. At first sight the effect must be positive as the improvement in transport possibilities reduce travel times and with that the costs of doing business in the region. However, this relation is in reality a bit more complex. Adequate transportation is necessary but not sufficient factor for economic development. „New transport infrastructure ... can induce growth when used in conjunction with complimentary private investment and other public initiatives and policies designed to raise the region’s relative competitive advantage. ... Without the necessary regional business climate, a new transportation link may actually hinder growth by making it more cost-effective to move resources, including both human and physical factors of production, from that region to more developed areas.”
- 6.37 This is an important statement for second tier cities, as well. It is far not enough to lobby for a new motorway link, this in itself will not lead automatically to better economic development, especially regarding the high-tech functions (which are crucial for the development of agglomerational economies). Besides accessibility there are also other important factors needed for the desired knowledge-based development, e.g a certain minimum size of the city (and positive prospects for development), the active initiating role of the local government, metropolitan cooperation – just to mention a few from the preconditions of the development of good business climate.
- 6.38 In the previous sections we examined metropolitan (city-regional) governance arrangements mainly in regard of strategic economic challenges and opportunities. It is important to emphasize that the long term sustainability of such arrangements depends not only on the economic success but also on their ability to support patterns of spatial development that serve environmental and social goals. (ESPON CAEE, 2010:55)

**7. POLICY RESPONSES ON THE TERRITORIAL DEVELOPMENT**

***Dilemmas in the East Central European Countries***

- 7.1 In the following three important policy factors of second tier ciity development are discussed for the case of the east central European cities:
1. Regional decentralization of government from the national level, with transfer of substantial decision-making power to the regions
  2. Metropolitan area legislation and financing system established by the national level with concrete framework for action
  3. Local and regional economic development policy to strengthen the agglomerational effect for economic development
- Needless to say, these factors are not mutually exclusive, the more of them prevails, the more chances are for the successful development of second tier cities.

**National Policies Towards Regional Decentralization**

**Very limited power on regional level in east central Europe**

- 7.2 Second tier cities due to their economic power and influence are *de facto* centers of larger functional urban areas. In some of the western countries this translates also into the administrative system: second tier cities are, with a few exceptions, also *de jure* administrative centers of regions (which are usually even larger than the FUAs of the second tier cities).
- 7.3 As it could have been seen in the historical chapter, in the east-central European countries regional development was seriously influenced by political factors and changes (see also the Appendix). The administrative regions of the socialist period were largely dissolved or their power made insignificant in the early 1990s. In the free market oriented development period, until the early 2000s, few real developments happened in the building up of a new administrative middle tier – with the notable exception of Poland where at the end of the 1990s political decision could be reached about a new administrative structure based on 16 self-government regions. In the other countries the establishment of regions was urged by the EU: the establishment of the system of NUTS2 regions became a precondition of EU accession to. These regions, however, remained weak in most countries having only planning competences and no elected leadership.
- 7.4 The NUTS2 regions, even if weak from administrative point of view, became important for the allocation of EU resources. Thus intensive competition started among cities to become seat of the Regional Development Councils, i.e. to become regional center. Finally second tier cities performed relatively well, almost all of them achieved this position.

**Table 12. Second tier cities and administrative regions**

	Second tier cities	Number of NUTS2 regions	Second tier cities as NUTS2 regional seats
<b>BALTIC STATES</b>			
Estonia	Tartu	1	NO
Latvia	Daugavpils	1	NO
Lithuania	Kaunas, Klaipėda	1	NO
<b>VISEGRÁD COUNTRIES</b>			
Poland	Krakow, Poznan, Wrocław, Gdansk (TriCity), Katowice, Łódź	16	Yes
Czech Republic	Brno, Ostrava, Plzeň	8	Yes
Slovakia	Košice, Prešov, Žilina	4	Yes
Hungary	Debrecen, Győr, Miskolc, Pécs, Szeged	7	Yes
Slovenia	Maribor (Koper-Piran-Izola)	2	Yes
<b>BALKAN COUNTRIES</b>			
Romania	Timișoara, Cluj-Napoca, Iași, Brașov, Craiova, Constanța, Galați	8	Yes
Bulgaria	Plovdiv, Varna	6	Yes

- 7.5 The table shows that in all countries where more than one NUTS2 region exists the second tier cities are corresponding to the NUTS2 regions – either announced as the seat of the region or only unofficially being regional centre.
- 7.6 In Europe there is substantial variation regarding the strength of the regional level and the role of the second tier cities. The two extremes are as follows:
  - ❖ in some of the countries strong, elected regions exist of which the second tier cities are the officially accepted centers
  - ❖ there are countries where the regional level is weak (nominated leadership, only planning functions), its existence is only to satisfy the EU planning requirements.

- 7.7 From the perspective of the second tier cities the first variant can be considered as the best as this might give the best regional background for the development of the city. There are, of course, many other factors which influence the strength of regional support for the development of the regional center city seat. (This might become quite problematic if the leadership of the region and of the city differ in political colours, as it happened for many years in the Barcelona/Catalunya and München/Bayern cases, and/or if the main aim of the regional leadership is equalization.)
- 7.8 The strength of the administrative role of the second tier cities is obviously different according to the administrative structure of the country.

**Table 13. Typology of territorial governmental systems in the EU27+2 countries**

Government structure	1. Classic unitary countries	2. Centralized unitary countries with strong, but non-integrated local authority level	3. Centralized unitary countries with strong, integrated local authority level	4. Decentralized unitary countries with strong local and strong regional level	5. Regionalized unitary countries	6. Federal states
EU-15 and EFTA countries	Greece Ireland Luxembourg	Portugal	Denmark Finland The Netherlands Sweden Norway	France United Kingdom	Italy Spain	Austria Belgium Germany Switzerland
New Member States		Bulgaria Czech Republic Hungary Romania Slovakia Cyprus Malta	Estonia Latvia Lithuania Slovenia	Poland		

Quoted from PLUREL, 2010. Based on Tosics-Dukes, 2005, with alterations based on ESPON 3.2

- 7.9 The typology of EU countries according to the level of regional and local decentralization (PLUREL, 2010) shows that among the east central European countries it is only Poland which has politically relatively strong regional level; the other countries can all be classified as centralized unitary countries.
- 7.10 Thus in the east central European countries no example exists for the first variant, for the strongest role of the second tier ciity. In these countries the second tier cities do not have strong “regional background”, they are not centers of strong regions and they do not have strong planning control on regional level.
- Regional power and second tier cities in Poland and Romania***
- 7.11 Among these countries Poland has the strongest, directly elected regional level. The regional power, however, is limited.
- 7.12 Regarding the content of the regional reform, the extent of devolving power from the center to the regions, the 1999 regional reform was of large importance, but not without problems. According to Tomasz Grosse “the greatest shortcoming of the administrative reform of 1998 was the insufficient supply of financial resources to the new voivodships.” ... “Indeed, the legal system was decentralized, but the financial system was not. Under the current legal system the voivodship self-governments do not have any tax authority, and therefore they cannot conduct their individual tax policy in relation to economic entities and natural persons. (...) Hence voivodship self-governments have legal personality, political mandate of their voters and competences within the scope of regional policy. Despite this, according to the experts, they do not have the possibility of action as they do not have relevant financial income at their disposal.” OECD, 2010b:25
- 7.13 The regional power concentrates in institutions which are largely independent from the city where they are seated. Moreover, the regional policies are more towards equalizing development

opportunities across the regions as to enhance the development of the main city of the region. The Polish example shows that the existence of a strong regional level is in itself not necessarily a positive factor regarding the development of second tier cities, especially if the regional administration is established by the national authorities as an independent power center. Things can even be worse if the regional institutions develop policies which are partly or mainly targeted against the ambitions of their seat (the second tier city).

- 7.14 This is a crucial dilemma from the perspective of the Polish second tier cities and the Katowice case. Poland is exceptional in the pace of restructuring of its middle tier, creating self-government regions. However, in the lack of independent financial sources regional policies are very much constrained. In short: it is not enough to create the regional level, it is also important to devolve important functions and resources to it from the national level.
- 7.15 Of course, regional policies might vary even within the same country, thus among the 16 self government regions of Poland different examples exist, how supportive the regional power is towards the urban development efforts of the city which is the seat of the region. Moreover, also the national policy for regionalization might change over time. Again Poland can be brought as an example: as opposed to earlier regional policies, the National Strategy of Regional Development 2010-2020 contains the explicit goal to strengthen the functions of regional (voivodship) centres and to integrate their functional areas (Poland, 2010:76).
- 7.16 Apart from Poland, in the other east central European countries the regional level is weak, established only to satisfy the EU requirements. Such 'planning regions' have no elected, only nominated leadership, and their functions are usually limited, acting as intermediator between the national and local actors. In such cases the relative importance of the region depends on its role in the allocation of EU Structural Funds resources. As Hungarian examples show, the relationship between the Regional Development Council and the second tier city might be very complex, depending on the political influence of the city representatives against the other members of the RDC.
- 7.17 Romania did not make any steps towards regional decentralization. There is a sub-national directly elected administrative tier existing, the counties, having big influence on villages. However, the counties are too small (41 counties, average population number 480 thousand) to become decision making units for development strategies.
- 7.18 In Romania most people on the second tier city level think that administrative decentralization would be very important in the country. The main decisions about the development of Timisoara are taken in the capital, 600 km away by people who have no real contact to the area. Also EU programmes are decided in Bucharest, only on the basis of documents. Thus decentralization would be needed, in the course of which financial and planning powers from the national level could be devolved to the present NUTS2 regions. In the course of decentralization the regional level should be strengthened. The regional level should get regional policy making and development competences while counties could remain with other competences (e.g. high schools, social... ).

***The way forward: regional decentralization in order to strengthen regional and local economic development***

- 7.19 In the east central European case studies many problems linked to second tier cities are discussed which can probably only be solved by directly elected regions with substantial delegated power and financial means. In the Romanian case the elected counties are too small to handle the rivalries between cities of the region, situated in different counties. In Poland the elected regions have some rights in planning but far not enough to set up and finance strategies for regional and sub-regional development, solving competing interests of larger cities.

- 7.20 Thus in both countries elected regional power with strong planning and financial mandates would be needed to initiate cross-regional and metropolitan-area cooperation. The politically and financially strong regional level should follow balanced policies, allowing enough support for economic development, lead by the strongest cities of the region.
- 7.21 This would need the strengthening of the power of the already existing regions in Poland while the change in the status of the planning regions into elected ones in Romania. These steps would obviously help the faster development of second tier cities, which are formally or informally regional seats.
- 7.22 On regional level an elected (or at least delegated) council as public administrative body should exist, otherwise no planning and capital borrowing is possible. Also universities should be coordinated on regional level and adjusted to regional realities.
- 7.23 Regional decentralization is of course first and foremost political question. The national level and the capital cities are usually not keen on decentralization to regions as this would mean loss of power for them. Regions would be stronger players and therefore would create larger challenge against the central political power.
- 7.24 One of the usual arguments against regional decentralization is the unequal distribution of wealth and problems across the regions. In both countries there are huge differences between the regions of the country. For some areas of the country more regional independence would be in itself problematic, some of the regions would need strong support if getting decision making autonomy.
- 7.25 However, this should not impede regional decentralization. It is the task of the national level to decide how to connect regional decentralization with the support of weaker regions. Long-term visions are needed on the national level what should be the profile of the different regions. Weaker regions should get relatively more money, but apart of that the regions should get substantial independence to decide how to spend the money (taking the long term national visions into account).

### ***Decentralization in the Urban System: Polycentricity and Second Tier Cities***

#### ***Over-centralized urban systems in the east central European countries***

- 7.26 Although the high level of centralization (the primacy of capital cities) was a dominant tendency in all historical development periods of the east central European countries, time to time there were some attempts to change this situation. In given periods the socialist state aimed for reducing the over-centralization of the urban system. In Hungary, for example, in the first half of the 1960s an outspoken “counter-pole” development policy prevailed, in the course of which four cities (Debrecen, Miskolc, Pécs, Szeged) were prioritized with the aim to develop these as “counter-poles” of Budapest. On the other hand, the development of Budapest was administratively hampered, e.g. no new enterprises were allowed to be opened. These efforts, however, only lasted for half a decade, after which it became clear that the development of Budapest can not be restrained in that way and the country needed the growing potential of the capital city anyway.
- 7.27 Another type of decentralization effort was around the same time to establish important academic research centers outside of Budapest. Not even these efforts lasted long, however. Similar decentralisation actions (relocation of Ministries in the Netherlands and Sweden from the capital, the relocation of leading public research institutes outside the Paris metro-region in France, etc) are otherwise increasingly being seen as ineffective, see e.g. the OECD evaluation (quoted in Barca, 2009:24).

- 7.28 Arriving to the new market economy, after 1990 some countries tried to decentralise those functions which are not bound to the capital city and the location of which is in the competence of the Parliament. They followed in this respect the practice of Germany. These institutions are usually the Constitutional and other high level courts and the offices of the ombudsman. In the Czech Republic Brno became the seat of the Constitutional Court, of the Supreme Court, of the Supreme Administrative Court, of the Supreme Prosecutors' Office and of the Office of the Ombudsman. In Slovakia, the Constitutional Court has been placed to Kosice. However, the same initiative in Hungary failed. The government wanted to place the Constitutional Court to a smaller city, Esztergom, 50 km from Budapest. Nevertheless, the members of the Court have paid only one visit to their future seat and then never turned up again.
- 7.29 From these short summaries it becomes clear that these decentralization efforts were largely ineffective. At that point it is worth to look to a western country which – after many discussions and unsuccessful attempts – can be considered as a good practice in policies towards decentralization in the national urban system.
- 7.30 Geppert (2009) gave an overview on the changes in the French approach to polycentrism. The French policies from the 1950s until the 1980s can be described as top-down planned and executed polycentrism. In the 1990s it became more and more obvious, that the technocratic approach has serious limits, many ideas did not prove to be successful. Nice looking documents drafted in the Ministry, like the draft national spatial development perspective could not be adopted politically due to the lack of consensus. The limits of top-down planning were also seen during the preparation of the ESDP maps at the end of the 1990s, which proved to be so much contested that they had to be withdrawn to allow the document be adopted.
- 7.31 The problems with the top-down 'rational' planning are manifold: there are not only clear interest conflicts between settlements to become center of an area but there is also an ambiguity in the concept of policentricity itself. This can be applied on different levels, European, national and sub-national. Policies which aim polycentricity on European level require the development of national centers in the peripheral countries. This strategy means, however, from the perspective of these countries centralization and is contradictory to their own polycentricity policies.
- 7.32 In France the errors of the top-down decentralization approach have been admitted in the late 1990s (Geppert, 2009:255). The development of regional center cities did not automatically increase their regional influence; applying the same interventions to all cities without taking into account their potentials and without the involvement of local stakeholders has lead to meager results. This critical evaluation resulted in a shift from top-down to bottom-up approaches.
- 7.33 In 2007 the French government changed the policy of the state-region plans (contrat de plan État-Région) into the policy of state-region projects (contrat de projets État-région). It means that instead of the uniform plans for every region, the government will agree only on the financing of individual projects adjusted to the specific needs and conditions of the regions. Projects are not restricted to the territory of one region. They can be implemented with the cooperation of cities and territories in different parts of the country or even with interstate cooperation. The time span of the contrats will be not 5 but 7 years adjusted to the programmes of the EU cohesion policy.
- 7.34 The new strategy considers (contrary to all development plans of the earlier decades!) Paris as an opportunity and allows bottom-up, voluntary development on all levels. In 2003 a new initiative was launched for cooperation focused on metropolization. In order to ensure the critical mass needed for metropolization, „... the call for proposals was open to any group of cities able to demonstrate a population of at least 500.000 inhabitants and one agglomeration above 200.000.” From 23 applicants (all French cities above 500 th and 2/3 of cities of the cities above 100.000) 15 collaborative networks were chosen. Applicants had to describe the governance pattern foreseen for their future

cooperation, not creating new legal entities, but based on threefold organizational form (political body, technical team, large council) and elaborate strategic projects focusing on five selected topics considered as drivers of metropolitanization (Geppert, 2009:262)

- 7.35 The essence of the new approach can be summarized in the following three statements:
- ❖ all territories should develop to fully exploit their potentials (Chirac)
  - ❖ the national level should not dictate models but initiate cooperation in functional areas
  - ❖ local fragmentation should not be handled by new institutional entities but with informal bodies, planning and project preparation.
- 7.36 For the new approach to become successful the central government should act not only as catalyst, but should be continuously engaged: if investment programmes are not possible, at least technical and methodological support should be given and monitoring and evaluation of the national public policy be ensured.
- 7.37 The French example shows a shift from top-down to bottom-up and from dictating to enabling approach in dealing with second tier cities (and is more and more based not only on the cities but also on their functional urban areas).

***Decentralization of the urban system and metropolization efforts of second tier cities in Poland and Romania***

- 7.38 Innovative metropolitan area policies, similar to the French one, are practically unknown in the east central European countries. In general no serious decentralization policies are on the agenda and the debates about regionalization and decentralization are heavily influenced by political considerations (e.g. the situation of the national and ethnic minorities). There are some promising efforts, though, towards the metropolization of second tier cities in the two largest and most polycentric of the east-central European countries, Poland and Romania.
- 7.39 In case of the most developed Polish decentralization strategy (see e.g. the Poland 2020 plan) discussions seem to be in favour of top-down elements, supporting e.g. national (ministerial) decisions on the second tier cities, e.g. in the assignment of their functional urban areas.
- 7.40 In Romania there are some legal efforts and practical experiments with metropolitan areas since the early 2000s (Pauna, 2008). The metropolitan development process in Romania involves two distinct actions, namely definition and delimitation of such areas. According to Law No. 351/2001, Appendix 1, the metropolitan area is “the area (zone) created on the basis of a voluntary partnership association between the urban and rural localities among which multilevel collaboration relationships have been developed”. The methodologies for setting a metropolitan area use the criteria regarding the maximum distance toward the central town (most often up to 50 km), and the relationships established between the town and localities within its neighborhood. Once a metropolitan area is established, all the localities included within such a perimeter should cooperate on many levels (economic, social, cultural, environmental) with the aim to diminish the regional, zone disparities.
- 7.41 After such preparatory attempts, only two metropolitan areas have been created in Romania, which were already institutionalized by 2007: Oradea (since 2001) and Iasi (since 2004). Besides the above-mentioned successful attempts, there are other such projects in progress in the case of the municipalities Timisoara, Bucharest, Bacau and Ploiesti. For instance, in Timisoara, within the “Institutional and civil society partnership for planning the economic and social development of Timisoara area”, financed by Timisoara Town Hall and Foundation for an Open Society and carried on between 1999 and 2000, it was attempted achievement of a Strategy for the development of Timisoara city and its neighboring area.

7.42 The metropolitan area idea was used to enhance integrated urban development with EU money, in the first priority axis (Growth Poles) of the Regional Operational Program 2007-2013. Metropolitan areas were established (after bottom-up consultations) around all the seven assigned growth pole cities. The growth pole of Timisoara consists of the city, 14 villages and the county council. The RDA was involved in the development of the strategy, giving ideas for the list of projects.

7.43 According to the experiences gained in the last years these areas proved to be smaller than they should be. Theoretically for metropolitan areas a distance from the core city of 60-100 km should be covered. For Timisoara the optimal case would be a double city growth pole (Timisoara-Arad) with all settlements around them. However, the bad relations between the two cities (which are within the same planning region but in different counties) make this idea practically impossible.

***The way forward: metropolitan initiatives to strengthen functional urban areas***

7.44 The present ideas for metropolitan area cooperation in Poland and Romania are based on voluntary cooperation between independent municipalities. Experiences show that this is not enough, no substantial metropolitan areas are formed on that basis, due to the rivalization between municipalities. Local political leaders in both countries argue for a national government framework regulation, which should establish the minimal criteria for such areas. If the regulation would be clear and also backed by some financial initiatives, then the local players would accept and cooperate...

7.45 The Polish and Romanian experiences show clearly that functional urban areas (which are crucial for second tier cities to achieve their real power) can only develop optimally if there is regulatory and financial help from national level. Framework regulation and background legal mechanisms are needed to allow second tier cities to build up and manage their regions, otherwise the plans prepared in cooperation can not be fulfilled. The French system could serve as an initial model for the east central European countries.

***Local and Regional Economic Development Policies to Strengthen The Agglomerational effect***

7.46 The French example is instructive to show, how the national approach to territorial development has changed from the balancing-redistributing view towards the efficiency-competitiveness approach, allocating development means to all regions, to allow their optimal development.

7.47 The western case studies of this ESPON project show plenty of examples how the economic development of second tier city metropolitan areas can be enhanced by the public sector. Besides the usual means to foster economic growth and the efforts to create links between the public sector, the universities and the private sector (Triple Helix) special considerations are needed to create efficient cooperation between the municipalities of the metropolitan area. For this reason in many countries legal regulations exist for the metropolitan areas, excluding for example tax-competition between settlements.

7.48 The examples of Katowice and Timisoara show the difficulties to build up economically efficient metropolitan areas exclusively based on bottom-up agreements, lacking all compulsory national level regulations. In these cities the relations between the municipalities, private companies and research institutions are not particularly good. Local policies for research and higher education are largely missing as these are financed by national and other sources. The establishment of economic clusters, which would facilitate the link between industry and research, is in its infancy – voluntary organizations, economic chambers and RDAs are making such efforts as local authorities have no instruments to organize such things. The large economic departments many western cities have within their municipalities are usually unknown in east central European cities where still the view prevails that the economic development is the matter of the market only.



- 7.49 The Growth pole model in Timisoara and the Silesia Metropolis model in Katowice are the first efforts to create cooperation across the metropolitan area in order to enhance economic growth. Experiences have shown the difficulties of these efforts if based almost exclusively on bottom-up voluntary partnerships. For deeper and more stable cooperation between municipalities more higher level initiatives and regulations would be needed. The metropolitan institutions need multiple functions, including difficult ones (e.g. planning power over land use in the cooperating areas) which can only be achieved by higher level regulation and planning policies. Besides, also dynamic local initiatives are needed, e.g. the establishment of innovative economic development agencies.

## 8. CONCLUSIONS

- 8.1 Our analysis has clearly shown that second tier cities are performing quite bad compared to the capital cities in east central European countries. The difference is much worse in this part of Europe than in the old EU member states (in many of which, in fact, secondaries outperform their capitals). The weak performance applies both to the population size and the economic power of second tier cities, which are very much lagging behind the dynamic capitals.
- 8.2 The analysis aimed to explore what might be the reasons behind this disappointing performance of second tier cities: is their relatively low level of success due to the way how the post-socialist institutional restructuring (decentralization, regionalization) has been carried out, or is it the consequence of national spatial development policies, or, finally, can simply endogenous factors made responsible.
- 8.3 On the basis of the analysis of the last two decades of the second tier cities in the different east central European countries we can hypothesise that mainly the market forces and the weakness of public policies are behind the growing gaps between the capitals and second tier cities. As Korcelli and Olejniczak (2007:52) quote Lichtenberger: „Only the primate cities will profit from the transfer policies of international financial markets.” The post-socialist institutional restructuring aimed for market-oriented change and paved the way for the maximum intensity of market forces. This has led to further increase in the already existing differences between first and second tier cities: international investors prioritised the capital cities over secondaries for a long time due to the proximity of the national political power and the better accessibility of capitals. The differences in accessibility decreased in the last two decades but there are still many second tier cities in east-central European countries which have no airports and are not connected well to the motorway or fast rail networks.
- 8.4 Demographic shrinkage is also a barrier for the development of second tier cities. This is in many cases reflecting past policies and/or population restructuring within the metropolitan area. Thus shrinkage of the city population is not an exclusive obstacle against economic development – provided that the share of the more educated population is increasing.
- 8.5 Looking into the future it is clear that the second tier cities of the east-central European countries have large reserves for improving the efficiency of their economic development. In second tier cities the agglomerational effects of economic development are not fully exploited yet while the costs of life are still relatively low. In contrast, in the capital cities agglomeration economies are already developed and their costs (negative externalities) are already high, while smaller cities have much less or no potentials for agglomerational economies.
- 8.6 The more dynamic development of second tier cities would also be in national interest as these cities are centers of larger areas and their development would dynamize their regions, decreasing in that way the centralization of the country.
- 8.7 The examples of successful second tier cities in western Europe shows that strong public interventions are needed, aiming at the creation of integrated, multi-level and participatory governance, in order to

create optimal conditions for the increase of the economic performance of second tier cities. These interventions should come, on the one hand, from the cities themselves, and, on the other hand, from the national level.

- 8.8 First. Second tier cities themselves have two main tasks. First, they have to open up their internal structures towards cooperation with the other stakeholders, mainly the economic and educational partners (triple Helix). Second, they should open up also in territorial sense, towards their surrounding areas, aiming to unite the functional urban area. Economic development is the key factor which needs well organized functional area cooperation to allow for the positive processes of agglomerational economies.
- 8.9 To increase the cooperation between different sectors and across territories, i.e. to fight the weakness of governance in general and of metropolitan governance in particular are not easy tasks. The administrative structure of local governments in most of the east central European countries is much more fragmented than the agglomerational logic of economic development would require. As a consequence, competition between local municipalities prevails instead of joint, coordinated strategic development planning, with the aim to ensure the best possible conditions for the development of agglomerational effect in economy.
- 8.10 The east central European countries restructured their political, economic and institutional systems radically in the early 1990s, having introduced quite successfully the free market economy. Since then, however, local governments (with rare exceptions) did not show substantial further progress. Cities with their opportunity led economic development strategies and fragmented inner institutional structures (with little cooperation between sectoral departments and towards neighbouring municipalities) are increasingly lagging behind the radically modernized western cities which developed towards integrated multi-level urban governance systems. Though the lack of institutional modernization applies both to capital and to second tier cities, the capitals have more chances to counterbalance this shortcoming with their dynamic development.
- 8.11 Second. Many of the problems second tier cities face ('institutional traps' in the terminology of Barca, 2009:24) need exogenous interventions, for example second tier cities can not by themselves impose the required cooperation on their neighbouring local governments. The cases analysed in the new Member States for the Second tier cities project show a clear need for upper level (national and EU level) regulations and incentives to enforce and initiate cooperation between local municipalities across metropolitan areas.
- 8.12 In the last decade many innovative national models have been developed in the western countries which initiate cooperation between local governments within the same urban area. These models are not top-down polycentric development approaches any more. The new ideas are more flexible support schemes, combining incentives for bottom-up collaboration with national planning frameworks, ensuring the efficiency and the non exclusionarity of the emerging systems. This study has only discussed the French model in details but in other papers (e.g. Tosics, 2011) also other examples are described, such as the Dutch strategic planning efforts or the German Metropolitan Regions.
- 8.13 The analysis of the present situation in the east central European countries shows that none of the governments of these states is able to push through similar overarching governance reforms in their national contexts. Though some attempts exist, mainly in Poland and Romania, clear national policies to strengthen secondary growth centres are largely missing. Furthermore, not only the policies are missing but also the general political stability as background: the changes of governments in these countries are usually accompanied by the creation of totally new economic development strategies with little regard on the ideas of the previous government. Needless to say, this seriously hampers the development of any long-term strategic approach.

- 8.14 More than 20 years after the transition started it is only now that the first signs of national efforts towards modernization of governance can be observed. The few promising attempts (the Polish regional development strategy with decentralization aims, the Romanian Growth Pole policy to allocate EU resources to development poles under the condition of territorial cooperation) are, however, for the time being only exceptions.
- 8.15 This report also emphasized the need for more regional decentralization in the east central European countries. Though this seems to be a separate issue, it is connected closely to the topic of second tier cities. In many of the countries regions have no real independence, their development plans are drawn and decided on national level. More regional independence in planning would not only mean more power to second tier cities as centers of the regions but also better circumstances to develop the functional urban area around these cities, more chances to include further away areas into the development of the economy and more potential to emanate the dynamism of development to the whole of the region.
- 8.16 The future of the east central European second tier cities depends on their own efforts and on more open and flexible government policies. As there is very little progress in both regards, there is a clear need for more involvement of Europe. To redirect some financing to second tier cities would be necessary (Cohesion Policy should to a given extent shift its emphasis from compensating for deficient regional growth to encouraging secondary growth centres) but this would not be enough. It would also be important to create incentives for the needed changes (national regulations and financial stimulations) towards the development of integrated governance systems with more cooperation across economic sectors and in the metropolitan areas. Finally, EU guidelines should emphasize the importance of more decentralized regional development in countries which are large enough from this perspective.
- 8.17 There are also other arguments for EU involvement in favour of second tier cities. The five headline targets of the EU2020 strategy require integrated approach. From this perspective second tier cities gain special importance as places with huge potentials of economic development while these cities still have the opportunities for inclusive development (the labour-intensive 'productive' economic sectors are still present as opposed to capital cities from where these are largely missing).
- 8.18 Besides playing an important role in integrated development, second tier cities could also play a special role in helping to ease the dilemma of efficiency and equity. In many cases it is not possible to ensure all conditions of development in sustainable way in the lagging areas (it is very common that jobs established in these areas by EU programmes soon disappear after the end of EU financing). As an alternative, if accessibility of second tier cities from the poor areas would be improved, market-established employment could be offered in second tier cities with the aim to help the lagging regions. Such strategy would indirectly help the poor areas while it would push the development of second tier cities.

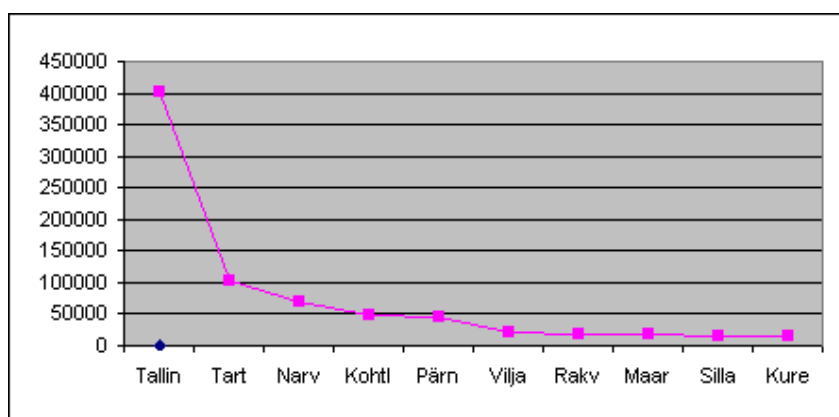
APPENDIX 1

Data on primary and second tier cities according to the east central European countries

Cities of Central and Southeast Europe

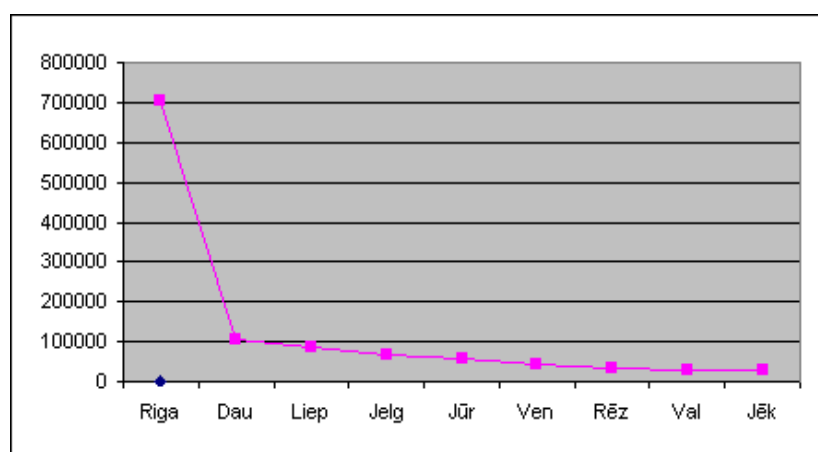
**Estonia 2010**

1	Tallin	400 781
2	Tartu	101 241
3	Narva	68 812
4	Kohtla-Järve	47 797
5	Pärnu	45 591
6	Viljandi	20 800
7	Rakvere	17 120
8	Maardu	16 733
9	Sillamäe	16 181
10	Kuressaare	14 922



**Latvia 2010**

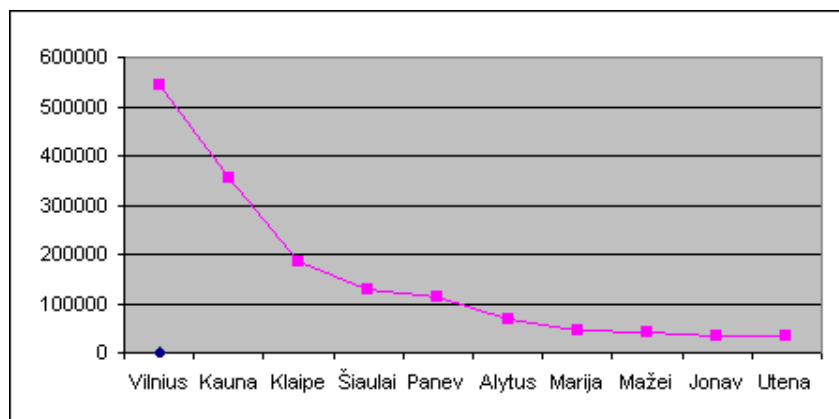
1	Riga	705 703
2	Daugavpils	103 053
3	Liepāja	83 884
4	Jelgava	64 748
5	Jūrmala	56 147
6	Ventspils	42 657
7	Rēzekne	34 912
8	Valmiera	27 217
9	Jēkabpils	27 378



**Lithuania**

**2008**

1	Vilnius	544 206
2	Kaunas	355 586
3	Klaipeda	184 657
4	Šiaulai	127 059
5	Panevežis	113 653
6	Alytus	68 304
7	Marijampole	47 010
8	Mažeikiai	40 572
9	Jonava	34 446
10	Utena	32 572

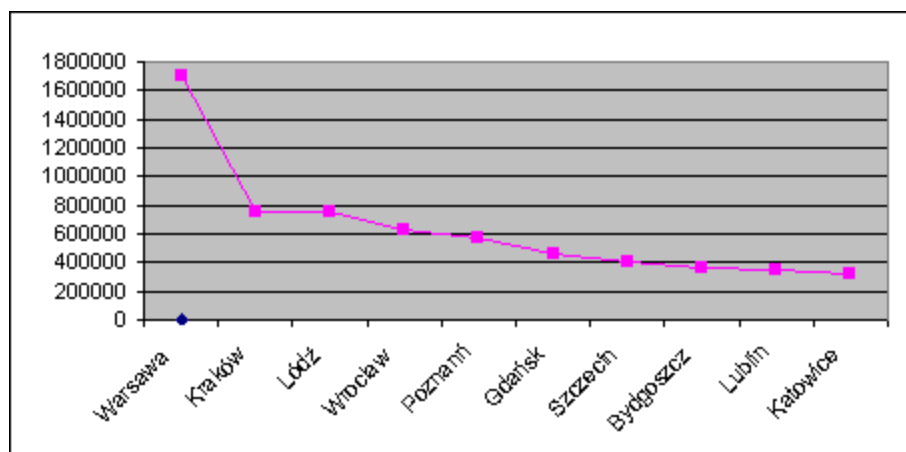


**Poland**

**2007**

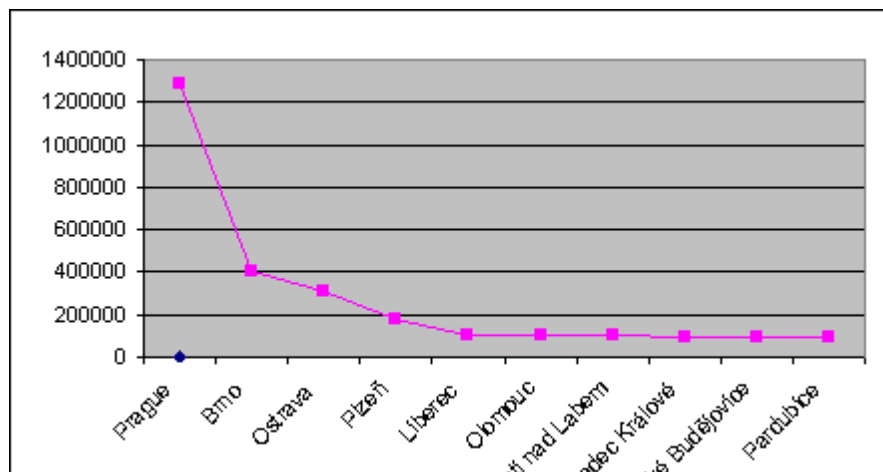
1	Warsawa	1 706 624
2	Kraków	756 583
3	Lódź	753 192
4	Wrocław	632 930
5	Poznań	567 932
6	Gdańsk	458 717
7	Szczecin	410 811
8	Bydgoszcz	361 222
9	Lublin	351 806
10	Katowice	317 220

Katowice agglomeration 2062 200



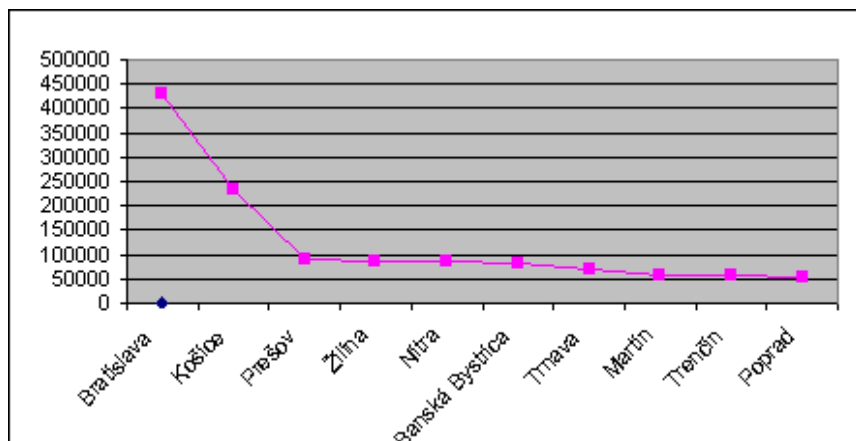
**Czech Republic**

1	Prague	1 285 995
2	Brno	405 337
3	Ostrava	314 590
4	Pizeň	173 936
5	Liberec	105 229
6	Olomouc	102 134
7	Ústí nad Labem	98 884
8	Hradec Králové	95 890
9	České Budějovice	95 700
10	Pardubice	90 755



**Slovakia**

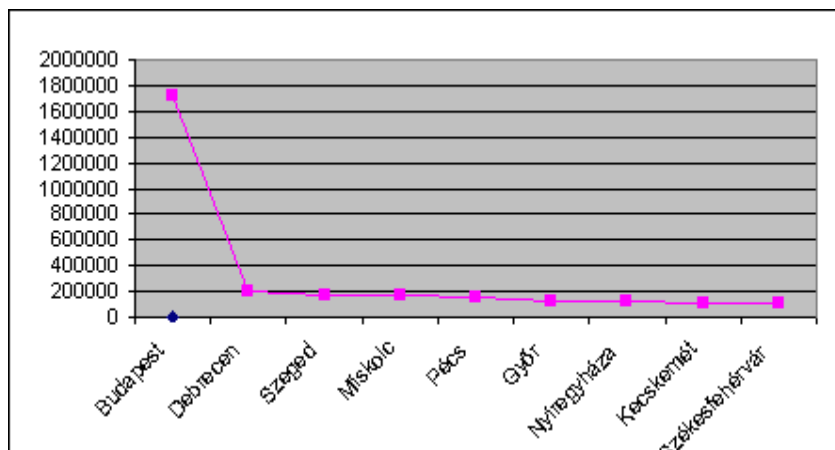
1	Bratislava	431 061
2	Košice	234 596
3	Prešov	91 650
4	Žilina	85 477
5	Nitra	84 800
6	Banská Bystrica	80 730
7	Tрнава	68 466
8	Martin	59 014
9	Trenčín	56 760
10	Poprad	55 042



**Hungary**

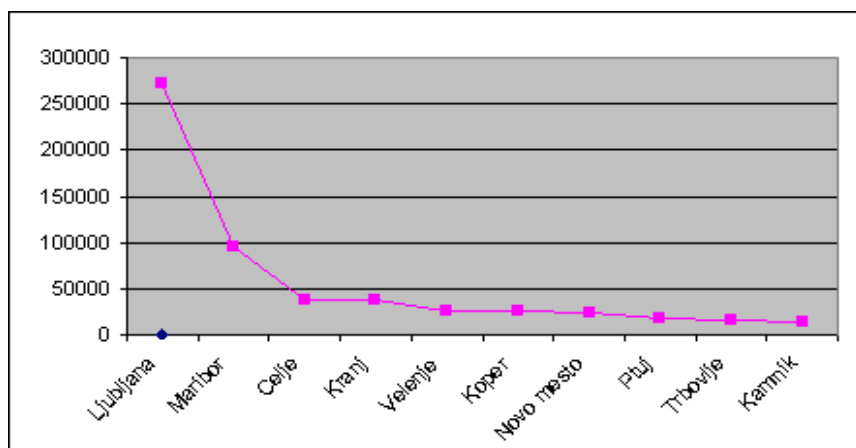
2010

1	Budapest	1 721 556
2	Debrecen	207 270
3	Szeged	169 731
4	Miskolc	169 226
5	Pécs	157 680
6	Győr	130 478
7	Nyiregyháza	117 832
8	Kecskemét	112 233
9	Székesfehérvár	101 973



**Slovenia**

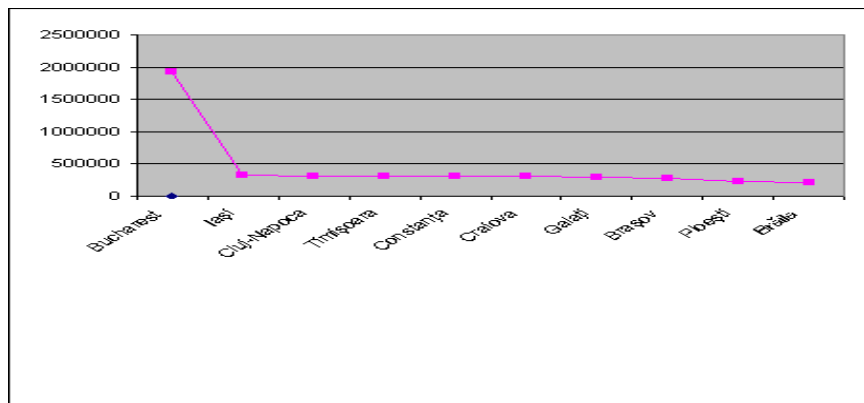
1	Ljubljana	271 900
2	Maribor	95 800
3	Celje	37 800
4	Kranj	36 800
5	Velenje	25 800
6	Koper	24 900
7	Novo mesto	23 200
8	Ptuj	18 200
9	Trbovlje	15 500
10	Kamnik	13 700



Romania

2002

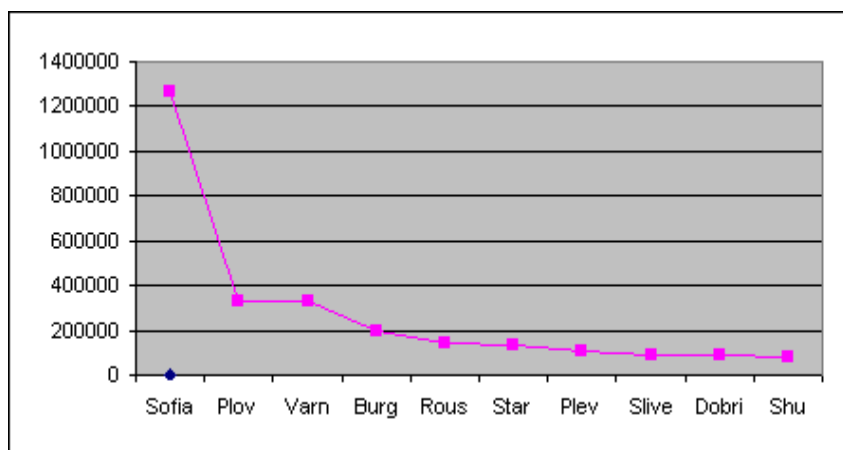
1	Bucharest	1 926 334
2	Iași	320 888
3	Cluj-Napoca	317 953
4	Timișoara	317 660
5	Constanța	310 471
6	Craiova	302 601
7	Galați	298 861
8	Brașov	284 596
9	Ploești	232 527
10	Brăila	216 292



Bulgaria

2011

1	Sofia	1 270 284
2	Plovdiv	331 796
3	Varna	330 480
4	Burgas	197 301
5	Rousse	146 609
6	Stara Zagora	136 363
7	Pleven	106 011
8	Sliven	89 848
9	Dobrich	89 472
10	Shumen	82 557



## APPENDIX 2

### Description of the different east central European countries with special regard on the case of the capital and the second tier cities

#### 1. The north-eastern subregion: the Baltic countries

##### Estonia

- 1.1 Estonia is a small country. Nevertheless, different parts of the country have different historical experiences. Tallinn and North Estonia were under Danish and Swedish influence, while in South Estonia the German influence was important. The main driving forces of development in Tallinn were commerce and navigation, while in South Estonia, in Tartu, it was education (University) and military importance. Nevertheless, trade proved to be the stronger driving force.
- 1.2 The largest city in Estonia is the capital city, Tallinn at the Gulf of Finland (the old name Reval), with 400 thousand inhabitants. The second largest city is Tartu (the old name Dorpat), the old university and military centre in the South, but only with 100 thousand inhabitants.
- 1.3 The University of Tartu was founded in the XII.century. It is one of the oldest universities of Eastern and Northern Europe. The University of Tallinn was established only in 2002. In the Soviet period Tartu was a closed city, because military establishments have been located in the city. Special documents were needed to visit the city by non-residents. This closed city status was a serious obstacle of the general development of the city.
- 1.4 Though the population of Tartu is only one quarter of that of Tallinn, the present importance as a spiritual centre is much larger.
- 1.5 There is another factor supporting the development of Tartu. The southern part of Estonia was isolated from the North for a period long enough to develop different dialects of the Estonian language. Some of them became different languages, first of all the “võro” language. The preservation of these languages and cultures needs support and self-government in the Southern areas where Tartu is also situated.
- 1.6 The third and fourth largest cities of Estonia are: Narva and Kohtla-Järve. The population of Narva is in 85 percent non-Estonians (mostly Russians). The respective percentage of Kohtla-Järve is 80 percent. Therefore the development of these cities is a delicate problem for the Estonian government. The population of both cities has decreased substantially in the last two decades.

##### Latvia

- 1.7 Latvia is the country with the largest concentration of the population in the capital city among the new member states of the EU. About 30 percent of the population lives in the capital city Riga. Simultaneously, Riga is the largest city in the whole Baltic region.
- 1.8 The next largest (second tier) city in Latvia is Daugavpils in the South-Eastern corner of the country. It is the most distant point from the capital in Latvia. Daugavpils has 100 thousand inhabitants, so it is only one seventh of Riga’s population. In respect of economy and income the difference is even larger.
- 1.9 Notwithstanding, Daugavpils is an important urban pole in Latvia and in some sense it functions as a counter-pole of Riga:
  - ❖ 48-50% of the inhabitants are ethnic Russians in both cities. Still, there is an important difference between the two cities. While in Riga, this Russian population consists mainly of immigrants of



the Soviet period and their descendants, in Daugavpils, Russian live there since centuries, they are part of the original population. While in Riga in the last decades the number of Russian population decreased substantially, it is less the case in Daugavpils.

- ❖ Daugavpils is the centre of the Latgale region which was a part of the Pskov Russian guberniya and not of the Baltic provinces in Russia. It is just on the border to Belarus, Lithuania and Russia, therefore its orientation is different from that of the the seaside regions. Latgale was the only region in the 12 new member states of the EU which had voted against the EU accession. These special characteristics should be considered during the development of the urban framework of Latvia.

Most of the other larger cities of Latvia are in the region of Riga (Jurmala, Jelgava) or at the seaside (Liepaja, Ventspils).

### **Lithuania**

- 1.10 Lithuania is the largest among the Baltic countries both in respect to territory and population. Nevertheless, even the largest Baltic country is a small country in European context.
- 1.11 Small countries generally have the means – and it is especially true for Central and Eastern Europe – to establish, and furnish only one city on European level. And that city is generally the capital city. Lithuania is an exception to this rule. It has historical reasons.
- 1.12 The largest city in Lithuania is the capital city, Vilnius with 544 thousand inhabitants. The second larger city is Kaunas with 356 thousand inhabitants. Klaipeda, the port city is the third largest city with 185 thousand inhabitants.
- 1.13 However, these sizes and functions have changed during history. 800-900 years ago Lithuania was perhaps the largest county of Europe. But in the following centuries, it became incorporated into Poland and later into the Russian Empire. At the time (1920) when Lithuania regained its sovereignty, Vilnius the historical capital of Lithuania was a Polish speaking city and was annexed by Poland. Lithuania was compelled to choose another capital city, and it was Kaunas. During the 1920-1940 period the number of inhabitants in Kaunas increased dynamically, while it decreased in Vilnius. Vilnius became the largest city in Lithuania only in the 1970s again.
- 1.14 In the last years, the population of all Lithuanian (and of all Baltic) cities is decreasing (due to negative natural increase and emigration). The decline, however, is smaller in Vilnius than in the other cities, so the primary status of the capital city even increased.
- 1.15 The present administrative division of Lithuania is not favourable for the development of second tier cities. The country is divided into 10 official regions (counties), but the counties are only the seats of deconcentrated offices of the central government, without any self-government and autonomy. Nor represent these counties the historical and cultural regions of Lithuania.
- 1.16 It is partly understandable that after having regained Vilnius, the Lithuanian governments wanted to develop and Lithuanize this city. The means of development were concentrated to Vilnius and the rest was left for the other cities.
- 1.17 Kaunas still has the infrastructure, the institutions and the economic base to become a second tier city which could share national functions with Vilnius. It has an airport, suitable for international flights. Its higher education institutes of national importance, it could perform national functions. It is located just in the centre of Lithuania's territory therefore it can be the hub of Lithuanian land, water and air transport. These advantages are – for the time being - not fully utilized.

## 2. The central-eastern subregion: the Visegrád countries and Slovenia

### Poland

1.18 Poland is the country in Central and Eastern Europe, which could be qualified as a “polycentric” country. The reasons are manifold:

- ❖ The country is big enough for accommodating several larger cities. In the other countries of the region, governments are able to finance and develop only one city of European standards;
- ❖ Polish history made it also necessary to develop more than one city with capital city functions and capacities. The country was divided already in the 12<sup>th</sup> and 14<sup>th</sup> centuries between different smaller “states”. Later, in the 18<sup>th</sup>, 19<sup>th</sup> and partly in the 20<sup>th</sup> century the Great Powers divided it for more than 250 years. Each part of the former Polish areas had developed its own “quasi-capital” city.

1.19 The cities aspiring for the “second city rank” are the following:

- ❖ Kraków 756 thousand
- ❖ Łódz 753 thousand
- ❖ Wrocław 634 thousand
- ❖ Poznan 568 thousand
- ❖ Gdansk 459 thousand
- ❖ Katowice 317 thousand
- ❖ Katowice agglomeration 2 million 62 thousand

### Main data of potential “second tier” cities in Poland (2009)

	Population thousand	Natural increase Per thousand	Migration balance per thousand	Unemployment %	Average wage zloty	Local government revenue per inhabitant	Enterprises per million population
Warsaw	1709	0,4	2,3	1,9	4505	6005	324,3
Katowice	309	-2,6	-3,5	1,9	4150	3845	40,4
Krakow	754	0,6	-0,1	2,8	3260	3954	105,6
Poznan	557	0,7	-5,7	1,8	3517	2377	93,3
Gdansk	455	0,7	0,0	2,6	3848	1016	66,1
Wroclaw	637	-0,4	0,3	3,3	3415	4143	95,6
Lodz	747	-5,6	-2,2	6,8	3002	3361	94,6

1.20 The situation of Warsaw is better than that of the other big cities in every respect. And – according to the data – these disparities between Warsaw and the other cities are larger than in the previous years. The advantages of being capital city and accommodating all ministries, government offices had not decreased in the last decades.

1.21 The least favourable situation is in Łódz. Here is unemployment the highest and wage the lowest. Local government revenue is especially low in Gdansk. In fact, these two cities have the least chance to become “the second tier ciity” and taking over some government functions from Warsaw. Krakow, Poznan and Wrocław have the best chance to gain this role and function in Poland (based on location and dynamism of development).

### **Czech Republic**

- 1.22 The Czech Republic is perhaps the most developed and the most urbanized country among the new members of the European Union. Due to this more urbanised structure, the difference between the largest city of the country (Prague, 1285 thousand inhabitants) and the second largest one (Brno, 405 thousand) is smaller than in most countries in Central and Eastern Europe. Despite this somewhat more balanced structure, the difference between the primary and second tier city is still large and Prague is without competitors the most important city in the Czech Republic.
- 1.23 Nevertheless, the Czech Republic is the only country among the new member states, where there is a division of central state functions between the capital city and the second largest city: Brno. Brno is the seat of the Constitutional Court of the Czech Republic, of the Supreme Court, of the Supreme Administrative Court, the Supreme Prosecutor's Office, and the Office of the Ombudsman.
- 1.24 Brno is also an important centre of higher education in Central Europe with 26 faculties of 11 universities with nearly 100 000 students.
- 1.25 Furthermore, Brno is – due to its location – one of the most important international conventions and trade shows in Central Europe, already since 1928.
- 1.26 The Czech government introduced measures to strengthen the status and the national importance of Brno. On the other hand, they had weakened the city's standing and regional functions by disregarding the ancient dividing line between Bohemia and Moravia. Brno lost its function as the capital city of Moravia.

### **Slovakia**

- 1.27 The second largest city of Slovakia is Košice, with 235 thousand inhabitants. The largest one is the capital city Bratislava with 431 thousand inhabitants. The population of Košice is about the half of that of Bratislava, which can be regarded as a healthy proportion (at least according to the rank and size rule). Considering the East-West dimension of Slovakia and Bratislava's extreme western location within the country, it is a necessity that a second centre is to be developed in the in the Eastern part of the country. Another reason for it is the mountainous character of the country which makes East West transport and communication rather difficult and expensive.
- 1.28 Slovakia followed the Czech example and located the Constitutional Court of the country not to Bratislava, but to Košice. Unlike the Czech Republic, the other institutions of high level jurisdiction remained in Bratislava.
- 1.29 The other cities of Slovakia are substantially smaller, so the only city which could fulfil the role of the second tier city in the country is Košice.
- 1.30 Košice has a long and varied history. In the 16<sup>th</sup> and 17<sup>th</sup> centuries it was the capital of Upper Hungary because it belonged to the smaller part of Hungary which was not occupied by the Ottoman Empire. In 1918 it was for a very short time the centre of the transient "Eastern Slovak Republic", and in 1919 the centre of the – also very short-lived "Slovak Soviet Republic".
- 1.31 Košice was a multinational city where Slovak, Hungarian, Ukrainian, Czech, German, Rusyn and Roma people lived together. Today 90 percent of the population is Slovak. The city is also a cultural centre. In 2013, it will hold the European Capital of Culture title together with Marseille, France.

### **Hungary**

- 1.32 The largest gap between the first and second largest city in Central and Eastern Europe (in respect to the size of the population) can be found in Hungary. The population of the second largest city (Debrecen, 207 thousand) is only 12 percent of the population of the capital city Budapest (1 million

721 thousand). The large gap between the capital and the other cities can be experienced not so much in the population but in all other respects as well (GDP, rate of growth, accessibility, research and development).

1.33 After the change of the political and economic system (in 1990) Hungary has made also efforts to decentralise some functions of the central government to other cities. Like the Czech Republic and Slovakia, they wanted to locate the Constitutional Court not in Budapest but in a smaller city, Esztergom, 50 kilometres from Budapest. Esztergom was the capital of Hungary in the 13<sup>th</sup> century. It was even codified that the seat of the Hungarian Constitutional Court is in Esztergom. Nevertheless, the members of the Court have paid a visit to their future seat and then had never seen it again.

1.34 There are historical reasons for this extreme centralisation:

- ❖ Budapest became the genuine capital of Hungary only after 1867. Earlier capital functions were shared with Vienna and Pressburg (Bratislava). From 1867 the main aim of the consecutive Hungarian governments was to make from Budapest a capital city equal in rank with Vienna. Most of the financial means of the government were used in Budapest. But these financial resources were restricted and hardly anything was left for the other cities.
- ❖ At that time the Hungarian state was larger than at present. There were several larger cities, the urban network was more polycentric than at present. After World War I the size of the new Hungarian state was only one third of the former one. Large cities like Bratislava, Košice, Oradea, Brasov, Cluj-Napoca, Timisoara, Subotica, Novi Sad found themselves on the other side of the border. The cities which remained within the new borders were smaller, and in peripheral situation.
- ❖ After World War II the country became a centrally planned and controlled state which contributed to a further regional centralisation.

1.35 In the 1960s there were some efforts for decentralisation. 5 cities (Debrecen, Miskolc, Szeged, Pécs and Győr) have been marked as “counter-poles” of Budapest. These cities should have been prioritized in development, in order to perform the role of a counter-pole of Budapest.

1.36 Unfortunately, developments happened in the opposite direction. Counter-pole cities received a financial support, while the other cities, being county seats, could mobilise the total financial support of the respective county to enhance the development of the county-seat city. These cities developed much more dynamically than the designated “counter-poles”. Targets and instruments were not harmonised and it can be a lesson for future planning.

#### **Slovenia**

1.37 The Slovene capital, Ljubljana has 272 thousand inhabitants. The population of the second city, Maribor is only 95 thousand. All other cities are significantly smaller, with a population between 37 and 14 thousands. The country as a whole is also small: its population is 2 million.

1.38 The two cities are proportionally located in the country: Ljubljana rather to the West, Maribor to the East. But there are no serious initiatives to divide functions between the two cities.

1.39 This “centralisation” might have historical reasons:

- ❖ Before World War I the present Slovenia was incorporated into the Habsburg Empire, and its present territory was divided among different Habsburg provinces: Carniola, Carinthia, Styria, Istria, Görz and Gradisca, Dalmatia, Hungary, Italy. With the exception of Carniola, the Slovene population was everywhere only a minority, exposed to assimilation. Therefore Slovenes feared any division and regionalisation of their country for a long period even after achieving

independence. They agreed only quite recently with the regionalisation of their country, otherwise they would lose their support from the structural Funds of the European Union. According to these recent changes Slovenia was divided into two NUTS2 regions. One is in the West around Ljubljana, the other is in the East around Maribor. Only the region of Maribor is eligible for the maximal “convergence” support. It is only to be hoped that regionalisation would lead to the decentralisation and to the increasing role of the second tier city.

### 3. THE SOUTH-EASTERN SUBREGION: THE BALKAN COUNTRIES

#### Romania

- 1.40 Romania is one of the large countries of the EU. According to population, it is the 7th largest country of the EU, according to territory it is the 9th. Nevertheless, its administrative and economic structure reminds more to a small centralised country. There are historical explanations for this type of development.
- 1.41 Bucharest was originally the capital of a much smaller territory, than the present Romania. It was the capital of Wallachia Principality in the southern part of the area. Moldavia, Dobrudja, Bukovina, Banat and Transylvania, were separate areas, partly independent, partly belonging to other countries. The first “enlargement” was the union with Moldavia, whereupon Bucharest became capital of the enlarged country. The second was Dobrudja, after a Russian-Turkish war and the third were Transylvania, Banat and Bukovina after World War I.
- 1.42 Obviously, subsequent Romanian governments have made serious efforts to develop a capital city worthy to this large country. They wanted to establish a centralised country, which is capable to keep together these parts, having different origin.
- 1.43 But Romania still did not become a country with only one centre. Relatively large cities have developed in the individual parts, which preserved some elements of a regional centre. These cities are Cluj-Napoca and Braşov (Transylvania), Iaşi (Moldavia), Timişoara (Banat), Craiova (Wallachia), Constanţa and Galaţi (Dobrudja). These cities have – interestingly – almost the same number of inhabitants (about 300 thousand). Romania has about 6-8 second tier cities.
- 1.44 The problem is, however, that the territorial administrative system does not give a special role and function to these “second tier” cities which would enhance polycentric development in Romania.
- 1.45 Romania is divided into 42 counties (including the municipality of Bucharest, which has county status), 268 towns and 2686 communes. Out of the towns, eighty are considered as municipalities, with population of more than eighteen thousand. But the distinction between municipalities and towns has not been legally formalized. It has been based traditionally on factors such as territorial size, number of inhabitants and historical, social, economic and cultural importance. Unlike towns, municipalities may have subdivisions (districts), each of which can elect district councils and mayors to act as semi-autonomous units. The 6-8 large “second tier” cities have the same legal status as all the 42 county seats and the 80 municipalities.
- #### Regionalization
- 1.46 The desire to harmonize with EU structures, emphasis has been shifted towards regionalization and regional development policies. In May 1997 eight macro-regions have been designated in Romania as basic regional policy units. All regions consist of several (in average 5) counties. Region formation is used as a development tool, without changing the administrative structure. Regions are statistical units, not administrative ones. Regions don't have designated seat cities, but no doubt, most of the mentioned “second tier” cities in practice fulfil this function.

- 1.47 It means that there is a huge difference between the legal status of Bucharest and the second tier cities. But it is not the most important difference. The main difference is in the economic, scientific and technological role of these cities.
- 1.48 The city with the second highest GDP per capita in Romania is Timișoara. This position is partly due to the airport of the city, which is suitable for international flight traffic. But while 52 percent of Romanian research and development staff is employed in Bucharest, the share of Timișoara is only 3,8%. Concerning the financial means of R&D, the share of Bucharest is 61 percent, those of Timișoara are only 4,4 %. (Source: Statistical Yearbook of Romania, 2008).
- 1.49 The necessity of second tier centres is emphasised also by the fact, that the geographic situation of the capital city, Bucharest, is rather peripheral in the country. After finishing the construction of the Danube-bridge between Vidin and Calafat, international flows of people and goods will avoid Bucharest and the cities Timișoara, Arad and Oradea have to prepare themselves for the reception of these traffic flows.

**Bulgaria**

- 1.50 Like most other South-Central European countries, Bulgaria is a „one metropolis” country where the capital city – Sofia – is the outstanding city of the country, surpassing other cities both in respect of population, economy, and administrative functions. Its population is 1,35 million people, the population of the whole Sofia metropolitan area is 1,861 millions which is 25 percent of the population of the whole country.
- 1.51 This outstanding position of Sofia is historically rather new. The capital city of the Second Bulgarian Empire in the middle ages (from 1200 to 1400) was Tarnovo (present name is Veliko Tarnovo) in the northern part of the country. Sofia became the capital city of Bulgaria in 1879. But even at that time the Bulgarian city with the largest population was not Sofia but Plovdiv. Sofia became the largest city of Bulgaria at the end of the XIX century.
- 1.52 Though Bulgaria is a country with only one outstanding metropolitan centre, nevertheless, this centralisation is less extreme than in many other countries in the region. There are two large cities in the country which have both a population of 330 thousand and important functions. These two cities are Plovdiv and Varna.
- 1.53 Plovdiv is the largest city in South Bulgaria. It is first of all an economic centre. The Plovdiv International Fair was established in the XIX. Century and it is the most important economic fair in the whole Balkans area. In the last 5 years the annual growth rate of GDP was 14-15 percent per year.
- 1.54 The other city of several national functions is Varna. It is located on the seaside of the Black Sea. It is one of the few Bulgarian cities with increasing population. Tourism is one of the most important economic sectors in the city.
- 1.55 To support the development of the two (second tier) cities is important also for other reasons. Sofia’s location is rather peripheral within Bulgaria. The distance between Sofia and the seacoast (Varna) is about 400 km. Plovdiv is located approximately half-way between Sofia and Varna. It means that some function can be performed by these three cities according to a well organised division of labour.

Region or city	Population	Growth rate	GDP/head	GDP growth
		1995-1997	EU=100	
			2004	
Bulgaria	7781	-0,9	33,2	1,6
Severozapaden	983	-1,6	25,6	1,4
Severo tzentralen	963	-1,3	26,4	2
Severo iztochen	1004	-0,5	29,3	2,7
of which: Varna	330	0,04	44	5,9
Yugoiztochen	1143	-0,9	29,9	2
Yugozapaden	2112	-0,3	49,1	4,9
of which: Sofia	1270	0,3	85	7,8
Yuzhen tsentralen	1576	-1	25,6	1,9
of which: Plovdiv	331	-0,3	30	



**The ESPON 2013 Programme**

## **3.14**

### **TIMISOARA**

**Andrea Tönkö**

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**Antal Gertheis**



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## 1. WHY TIMISOARA?

- 1.1 Timisoara is nowadays one of the first three cities in Romania, an important economic, social and cultural centre. The city had a relatively continuous population growth from the beginning of the 19<sup>th</sup> century. This has been artificially accelerated during the communist period. After the collapse of socialism, the city has started a natural process of reconfiguration, accompanied by a decline of the number of residents (Nadolu-Dinca-Luches, 2010).
- 1.2 Being the farthest from Bucharest among the urban centres in the west of Romania, with a population of more than 400.000 inhabitants, Timisoara is situated in an area open to the European penetration. Bucharest is 533 km from Timisoara on the railroad, while Belgrade and Budapest can be reached in a few hours by train or by car. Timisoara also has a particular trait among the other towns of Romania. Many nationalities live here together, so that not only the Romanian language, but also the Hungarian, the German and the Serbian-Croatian languages are spoken here.
- 1.3 Along its existence, Timisoara has achieved many great things, but most of them were “shadowed” by the Communist regime, the period of material shortage, lack of freedom, moral and spiritual oppression. However, Timisoara due to its advantageous geo-political position, rich cultural and social heritage, disciplined workforce and good city governance succeeded to adapt to the market forces and developed a new path of development.
- 1.4 Timisoara is not a typical Romanian city, neither in attitude, nor in assets. While most of the Romanian municipalities are still following a grant-seeking attitude and depend mostly on central sources, Timisoara – having been constantly in political opposition – had to find its own ways and possibilities of economic and socio-cultural development. The situation of the city is not easy and its prospects for further progress towards a strong and powerful regional centre are not very delightful. The over-centralized national policies do not let too much space for local considerations in several aspects of local and regional economic development. Even so, Timisoara is a good example of how local governance and local strategies can be key drivers for innovation, human capital and place quality.

## 2. CASE STUDY CONTENT

- 2.1 The case study has a very similar structure to the other case studies of this ESPON project. Compared to the other case studies, Section 3 “The Brief History of the City” gets a bit more weight, since this is crucial to understand the very special features of this historical region and its “banatean” spirit. The next sections discuss the recent economic, social and environmental performances, the existing governance system, the role of the city in the national urban framework and the key policy interventions (focusing on the national, metropolitan and city level). Section 6 summarizes their overall effects on Timisoara’s performance, while section 7 draws up the city’s prospects under different scenarios. The case study findings, main messages and policy implications are summarized in the last section.



Source: Aurelia Junie / City Hall of Timisoara

### 3. BRIEF HISTORY OF THE CITY<sup>1</sup>

- 3.1 If we want to understand the development trajectories of the city, it is inevitable to look at its stirring history. All historical epochs let their own mark upon Timisoara; it is their joint influences that have lent it a remarkable unity and equilibrium in spite of the inherent heterogeneity.

#### **Timisoara – The Capital of Banat**

Banat is an ethnically mixed historic region of Eastern Europe; it is bounded by Transylvania and Walachia in the east, by the Tisza River in the west, by the Mures River in the north, and by the Danube River in the south. The Banat was conquered by the Ottoman Empire in 1552, and remained a Turkish sanjak (province) till 1716, when Prince Eugene of Savoy liberated it from the Turkish yoke. It received the title of Banat after the peace of Passarowitz (1718), and remained under a military administration until 1751, when Maria Theresa introduced a civil administration. During the Turkish occupation the district was nearly depopulated, and allowed to lie almost desolate in marsh and heath and forest. Count Claudius Mercy (1666—1734), who was appointed governor of Temesvár (Timisoara) in 1720, took numerous measures for the regeneration of the Banat. The marshes of the Danube and Tisza were cleared, roads and canals were built, German artisans and other settlers were attracted to colonize the district, agriculture and trade were encouraged. Maria Theresa also took a great interest in the Banat, colonized the land belonging to the crown with German peasants, founded many villages, encouraged the exploitation of the mineral wealth of the country, and generally developed the measures introduced by Mercy. In 1779 the Banat was again incorporated with Hungary. After the revolution of 1848—1849, the Banat was separated from Hungary, and created into a distinctive Austrian crown land, but in 1860 it was definitely incorporated with Hungary.

---

<sup>1</sup>This section is based on the following documents: Encyclopaedia Britannica; Electronic Banat ([www.banatul.com](http://www.banatul.com)); History of Timisoara ([www.promariatm.ro](http://www.promariatm.ro)); History of German Settlements in Southern Hungary ([www.banaters.com](http://www.banaters.com)); Timisoara the Capital of Banat ([http://www.umft.ro/en/general\\_information/timisoara's\\_history.html](http://www.umft.ro/en/general_information/timisoara's_history.html))

The historical region had an area of 11.260 square kilometres and was mountainous in the south and southeast, while in the north, west and south-west it was flat and in some places marshy. It was well watered and formed one of the most fertile districts of Hungary.

The Banat had in 1900 a population of 1.431.329 inhabitants. According to nationality there were 578.789 Romanians, 362.487 Germans, 251.938 Serbians and 170.124 Hungarians. The chief town was Temesvár (pop. 53,033), and other places of importance were Versecz (25,199), Lugos (16,126), Nagybecskerek (26,407), Nagykikinda (24,843) and Pancsova (19,044).

After World War I, the victorious Allies divided it by the Treaty of Trianon (June 4, 1920). Hungary retained the district of Szeged, Romania acquired the large eastern section, and the remainder went to Yugoslavia.

### Location of the Banat (dark green) in Europe (territorially involved countries light green)



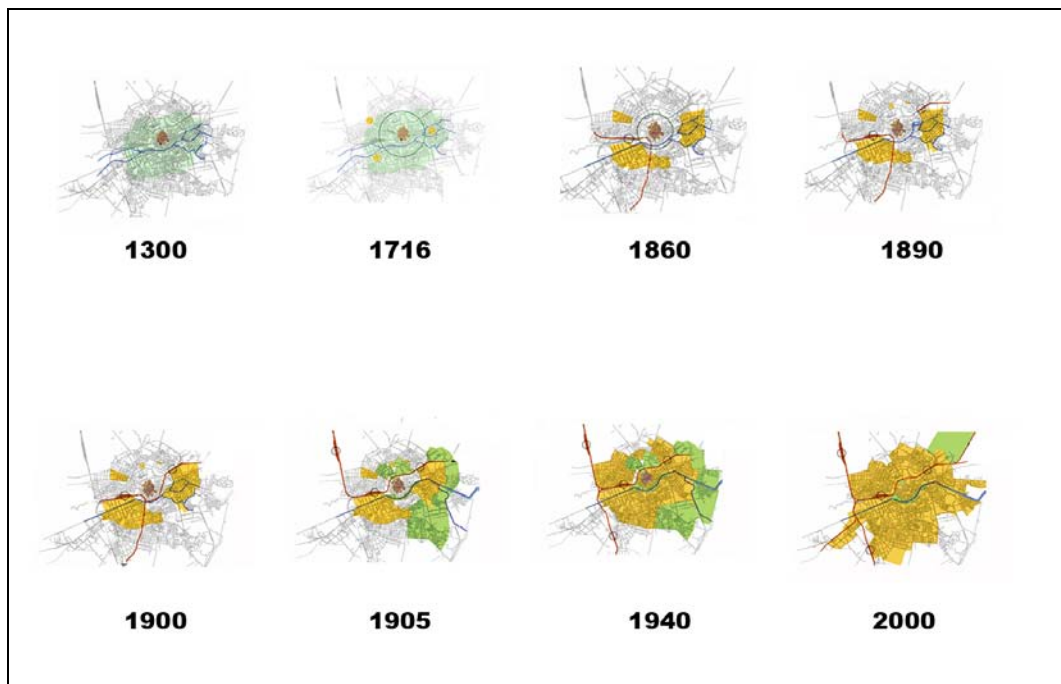
Source: Andrei Nacu / Wikimedia Commons

- 3.2 The first mention of the fort of Timișoara (Castrum Temesiensis) is found in the decree of King Andrew II of Hungary dating from 1212. Therefore, Timisoara was then a fortified "castrum" and it is possible that it had been like that ever since its foundation. The central and the oldest area of the town is suggestively called "The Citadel". This was the nucleus from which the development of the town started. Timisoara fell in 1552 under the Turkish power. During the Ottoman rule, Timisoara was the capital of the Pashalik of Timisoara, covering the Banat and the territory as far as the Tisza and the Cris rivers. The long stretch of time under the Turkish domination (164 years) ended in 1716 when the Habsburg army led by Eugene de Savoy entered the citadel triumphantly, imposing the new Habsburg rule, which was to last for two hundred years. Prince Eugene was further concerned about the Banat; it is most of all due to his "lobby" at the court from Vienna that the Temescher Banat was not included as formerly into the Hungarian Kingdom, but as an "Neo aquisiticum" (newly conquered province) remained under direct supervision from Vienna.
- 3.3 After the Treaty of Passarowitz (1718), the new province incorporated into the Habsburg Empire, the Banat, was proclaimed "possession of the Crown". A military administration ruled Timisoara until 1751 when it was replaced by a civil one. Under the political pressure of the Hungarian Diet, the Viennese Imperial Court accepted that the three counties of the Banat should be incorporated in the Kingdom of Hungary, in 1779. The Hungarian language flourishes from then in

Timisoara. In 1781 Joseph the Second declared Timisoara free from the county authority and, to prevent the nobles from interfering with the administration of the town, he raised it to the rank of a "free kingly town". That status would secure Timisoara internal self-government, the right to have representatives in the Diet and that of disposing of its own revenues.

- 3.4 The Habsburgs strongly promoted for the colonisation of Banat. Floods of emigrants were coming from all German regions: the so-called "Swabians" ("die Schwaben") were being settled into the surrounding villages, but in Timisoara also many Austrians were coming to take jobs in the administration offices. Many Romanians, Jews, Hungarian and Serbs were also moving into the city. In 1728, Count Mercy canalized the waters of the Bega River and this gave Timisoara a new development impulse. In 1774, attempts were made for the supplying of Timisoara with fresh water, the citadel being provided with water from the quarter Fabric, through a great capacity pipe; this aqueduct was quite an achievement back then. The first printing house in Timisoara was opened in 1771. New districts developed radially around the citadel (Elisabetin in 1718, the "Fabrica" in 1720 and Iosefin district in 1744).
- 3.5 Timisoara's 19th century chronicle registered ample and numerous changes. Gradually Timisoara turned from a feudal citadel into a modern town, obviously European through its architecture, the inhabitants' mentality and way of life. There came to be adopted proper measures of outstanding importance for the general progress of the Banat as a whole and of Timisoara in particular. Alongside with the Romanian, Hungarian and Serbian population, the new inhabitants, the German colonists, also brought an important contribution to the development of the province. Towards the middle of the 19th century the first factories were set up. In 1853 there were 28 textiles and food enterprises. At the turn of the century a steadier economic progress was coming due to the creation of the Railway Workshops (1858-1878), the Railway System and of banking establishments. The census of 1910 recorded 3 384 industrial units in Timisoara, the majority belonging to the small-scale commodity production.

**Historic evolution of Timisoara**



Source: Aurelia Junie / City Hall of Timisoara

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- 3.6 Before the First World War, Timisoara was already an industrial town in which a major part of the population was productive. The natural consequence of the town's economic progress was the modernization of several vital domains of urban life. Timisoara found itself in the foreground of the new changes Europe was undergoing, with a view to raising the quality of urban facilities and of putting into practice the 19th century gains of science and technology. In 1881 a telephone-wire system was set up and, three years later, the Electric Plant was built. Timisoara thus became the first town in Europe to use electric light for illuminating streets (12th of November, 1884). In 1895 the main streets of the town were laid with asphalt, and the first electrified tramway was opened for traffic. The old wooden bridges were rebuilt in metal frames and on June 27, 1908 the first cinema-hall opened its gates. In the Josefin district they built one of the most beautiful railway stations of that time.
- 3.7 All in all, the technical innovations of the second part of the 19th century, revolutionized the urban life of Timisoara:
- ❖ In 1853, telegraphy is introduced in the town.
  - ❖ In 1857, public lighting based on gas is introduced in the town.
  - ❖ In 1857, the railway network of Timisoara is connected to the European railway network;
  - ❖ In 1867, it was also the second European and the first city in what is now Romania with horse drawn trams.
  - ❖ In 1881, the modern telephony system is installed;
  - ❖ In 1884, it was the first European city to be lit by electric street lamps;
  - ❖ In 1895, streets begin to be asphalted;
  - ❖ In 1899, the commissioning of the electric tram before many other large cities in Europe;
  - ❖ In the period 1912-1914, the sewage system is modernized.
- 3.8 At the end of the 19th century, there were numerous warehouses and over 400 shops in Timisoara. The productive effort was also backed by a well-organized loan-bank system. The first bank had come into existence as early as 1790. At the beginning of the 20th century, in Timisoara, there were 26 banking establishments. During the first two years of the World War I the press in Timisoara wrote very little on Romania's position and foreshadowed that Romania was going to join Austro-Hungary in the war. However, in 1916, Romania declared war to the Central Powers. In the autumn of 1918, the collapse of the Austro-Hungarian front produced considerable disorder and uprisings. On the 31st of October 1918, there were set up Romanian, German, Hungarian National Councils that took the helm of the town. On the same day a great Romanian national meeting offered support to the National Romanian Military Council, with a view to taking action for the union of the Banat with Romania.
- 3.9 On 1st of December 1918 it was declared the union of the Banat to the Romanian Kingdom. On the 10th of August 1919, the popular assembly of all the inhabitants of Banat took place in Timisoara, and over 40,000 participants in this assembly vote for the union of Banat with Romania. In the following period, the number of Romanian inhabitants increased significantly. The economic development of the city continued also under the new state, as well as the cultural and educational life, in all locally used languages. In the period between the two World Wars a substantial progress was felt in its economic, social and cultural life. Timisoara became one of the most important urban centres of Romania, a model of civilization and of co-inhabiting.
- 3.10 Timisoara was also one of the most important educational and cultural centres of Romania. In the year 1941 Timisoara had 52 school edifices offering training opportunities without any discrimination of nationality or religion. There were used several teaching languages in both secondary and high education: Romanian, Hungarian, German, Serbian, etc. The press enjoyed freedom of expression and very good editing conditions. 125 Romanian publications and 104 Hungarian publications existed between the two World Wars. The theatrical life developed remarkably after the West Theatre was born (1934). The university life of Timisoara began with the birth of the School of Polytechnics (1920). Afterwards the Institute of Agronomy (1945), the
-

School of Medicine (1945) and the University were set up. After World War Two, during the communist regime the municipality of Timisoara went through a rapid and forced industrialization, imposed in the 1960's. This materialized in the setting up of large industrial platforms, in all the districts of the town:

- a) in the south-east, the chemical Aggregate Works, the Machine-tool Construction Plant;
- b) in the south, the building-materials industry, the power industry;
- c) in the south-west, the food industry;
- d) in the north-east, the mechanical-engineering industry.

- 3.11 On the map of the town there appeared or developed several industrial units. However their technological equipment did not keep abreast with the modernizing rhythms adopted in the world. There were great difficulties with the raw materials supply. Besides these, the power shortage, the completely unrealistic production plans did gradually worsen the situation of the city and the living conditions of the employees.
- 3.12 In the "Ceausescu era" Timisoara was not among the prioritized cities, mostly because it was too far from Bucharest, and the mixed population was quite reluctant against the massively nationalistic policy. The identity in this region was always „Banatean" (instead of Romanian, Hungarian, etc.). However, as it turned out, neglecting the city by the Communist Party leader created advantages on the long run, for the post-communist period. The heavy industry was not brought into the city centre, and although there was no money to rebuild the historic city, at least it was not demolished. On December 16–22, 1989, Timisoara took a very important role in the Romanian history: it was the town where the Revolution started that led to the defeat of the Communist regime. People of Timisoara still consider this event as the utmost justification of their European spirituality.

#### 4. PERFORMANCE

- 4.1 Following the NUTS 2 standard, Timisoara belongs to the region RO42 West and it is the seat of Timis County. The entire West Development Region has a well-developed profile and Timisoara is the growing centre of this area.

##### *Performance of West Region<sup>2</sup>*

- 4.2 West Region has a surface of 32,034 km<sup>2</sup> (13.4% of the country surface) and comprises 42 towns (out of which 12 municipalities) and 276 communes (318 administrative-territorial units), grouped in four counties: Arad, Caraş-Severin, Hunedoara and Timiş. Historically, most of the region belongs to the former Banat province, traditionally characterized by a relatively high standard of development. The region has a diverse and harmonious relief, which is to be found in plains, hills and mountains. The region is rich in economic resources, there are both important subsoil resources (mineral coal, anthracite, coloured metals, silver, gold, hard rocks, radio-active deposits, thermal and mineral springs) and soil resources (forests with valuable essences, fertile soils) in this part of the country. The region is linked to Hungary and Serbia & Montenegro through European road and railway corridors. Arad and Timişoara have airports with modern capacities for air traffic flows. The region is part of the Euroregion Danube – Cris – Mureş – Tisa (DKMT), which comprises the four counties of the Romanian West region, three Hungarian counties and the autonomous region of Voivodina in Serbia. The Euroregion was settled in 1997 on the basis of a collaboration protocol signed by the local authorities' officials from the constituent regions.

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<sup>2</sup> This section is based on the Regional Operational Programme 2007-2013 prepared by the Ministry of Development, Public Works and Housing and the Regional development Plan for West Region 2007-2013 prepared by ADRVEST (Regional Development Agency)

## Danube – Kris – Mures – Tisa euroregion since 2004



Source: PANONIAN / Wikimedia Commons

### Regional Disparities in Romania

Analyses on macro-economic disparities in Romania (Otil-Parean, 2010; Balan-Solomon, 2010; Constantin-Parlog, 2003) state affirm that Romania entered the transition process with a relatively low level of regional disparities, compared to some other member states or candidate countries. However, during the economic restructuring period these disparities have grown rapidly and almost continuously. Areas which earlier went through an artificially forced industrial development (mono-industrial areas) were the main losers of this process due to the closure of unprofitable state enterprises and – as a consequence – the increased unemployment of the population. This phenomenon created big disparities between the different regions of the country, but it can also be observed inside the regions (each region has some previously mono-industrial areas).

The major factors that led and still lead to increased disparities are:

- Location and the FDI attraction potential of the area
- Competitive capacity of enterprises, both on domestic and international markets
- Increased physical obsolescence of technologies (especially in the eastern parts of the country)
- Specialization and diversification of work force
- Tradition of crafts and trade
- Migration and immigration influence
- Proximity to source of raw materials
- Nearby external and internal markets
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According to the studies, the regional economic disparities have increased in the last ten years, particularly considering employment and industrial production, but also regarding the income and household financial resources. There are also increasing disparities in some social indicators (education, health care, local public services).

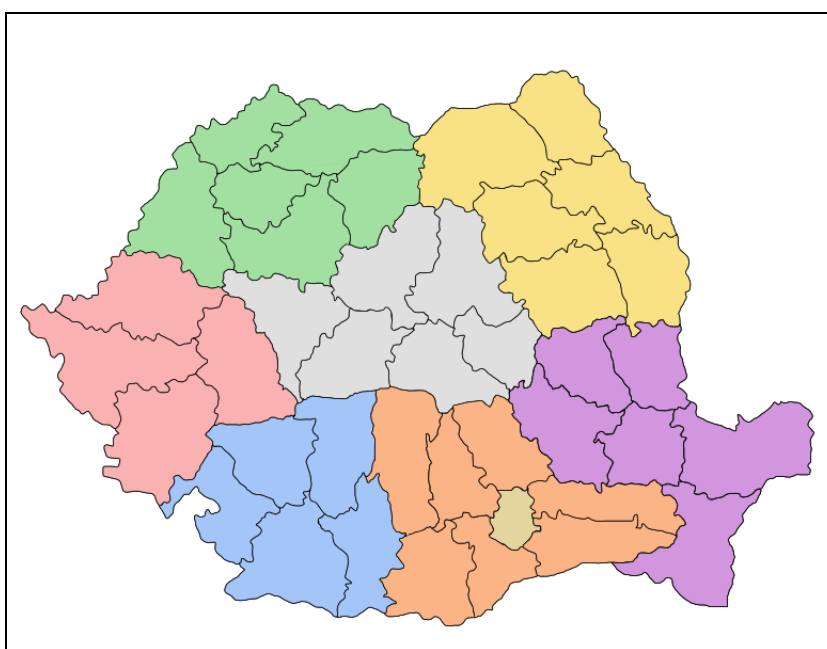
The less developed areas of Romania are located in the North-east, near the border with Moldova and Ukraine and in the South Eastern part along the Danube. The most developed areas include, in addition to Bucharest, Transylvania (Central region) and the Banat (West region).



The National Institute of Statistics of Romania calculated the index of Regional Disparity for the period 2000-2007, based on the regional and national GDP ratio (see Annex 2). The numbers show that beside the leap of Bucharest-Ifov, Western region is the only one in the country where the index had always been higher than the national average.

The case of Bucharest-Ifov is somewhat specific. Economically Romania is over dominated by its capital city: 58,6% of the capital, 55,8% of the business turnover, 57,8% of the profit and 31,8% of the number of employees is concentrated in the capital city, Bucharest<sup>3</sup>. Although these numbers are misleading to some extent (according to the recent regulation the big companies, despite the site of their operation must submit their financial statements in Bucharest instead of the local fiscal authorities), the fact that the big companies feel that “they need to be close to the fire”, “where the decisions are made” is self-explanatory in itself.

#### Development regions of Romania (light red: West region)

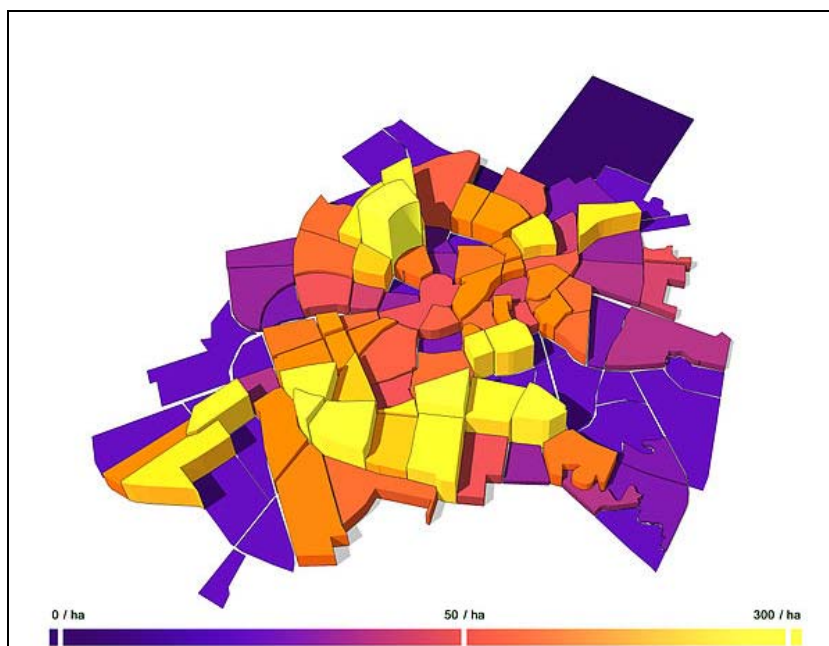


Source: Andrei Nacu / Wikipedia

- 4.3 The population of West Region is characterized by cultural diversity, Romanian, Hungarian, German, Roma and Serbian communities cohabiting together. The national minorities represented 11.7 % of the population within the region in the year 2002. Starting with 1990, the population has constantly decreased, from 2,201,717 to 1,930,458 inhabitants in 2005, following a negative trend in the birth rate and the external emigration of the population in the region. The population density on 1st July 2005 was of 60.3 inhab/sqkm, much lower than the population density at national level (90.7 inhab/sqkm). The regional urbanisation degree (63.6% urban population) overcomes the national average of 54.9%. The rural area is characterised by a low population density, as a consequence of migration and of population aging, a low birth rate, as well as a low capacity of demographic renewal.

<sup>3</sup> Based on the “Integrated Development Plan of Timisoara Growth Pole)”

### Distribution of population density in Timisoara (inhabitants per hectare)



Source: Daniel Tellmann / Wikimedia Commons

- 4.4 The region's **labour force** is the factor that contributes the most to the socio-economic development, as it is motivated, flexible, innovative and specialized -- contributing thus to a dynamic entrepreneurial environment. In 2005, the employed population represented 40.8%<sup>4</sup> of the total population, with the highest percentage in the service sector (43.8%), followed by industry (29.5%) and agriculture (26.6%). The employed population has the highest degree in Timiș (48.3%) and Arad (44.1%) counties. The **unemployment rate** ranged between 2.5% in 1991 and 5.1% in 2005. The highest unemployment rate was registered in Hunedoara County (9.4%), due to the lay-offs in the mining sector, while the lowest unemployment rate was recorded in Timiș county (2.3%).
- 4.5 After 1990, when working abroad has been allowed, an important number of specialised labour force left the country, on the basis of the traditional connections with German countries and Hungary. These qualified workers are still missing, when more and more important investors set up enterprises within the region. Similarly to other development regions in the country, West Region doesn't show a homogenous economic development, either. It can be split in two sub-regions, facing distinctive structural problems and having different development levels. The first of the sub-regions includes Caras-Severin and Hunedoara counties. Branches of extractive industry were developed here (siderurgy, and metallurgy and the related machinery industry), which experienced a strong decline after 1990, and the slow and difficult restructuring process generated high unemployment in the area. The second sub-region includes the territory of Timiș and Arad counties. This sub-region with a traditionally, complex and diversified industrial development (light industry, machinery industry, electro-technical industry) is currently one of the favorite areas for foreign direct investments in Romania

<sup>4</sup> This figure is calculated for the entire population. The employment rate calculated for the working age population (15-64) was 56,6% in Region West and 55.1% in Romania in 2005. For 2010 the employment rate calculated for the working age population was 59,3% (Region West) and 58.8% (Romania).

- 4.6 The GDP/capita in West Region has constantly increased (from 1697 Euro in 1998), up to 3,363.7 Euro (2004), being the second GDP/capita in Romania, after Bucharest – Ilfov. The contribution to this value has been brought mainly by the service sector (43.8%) and industry (29.5%). In the same time, the labour productivity was 6,979.4 Euro in 2004, over the national average. In 2005, the service sector concentrated 78% of the total number of firms in the region. Most of the units in the sector are active mainly in tourism, general services, transport and professional services. West Region is crossed by two of the three pan-European corridors – corridor IV Berlin / Nurnberg – Praga – Budapest, which on Romanian territory has two branches, respectively Nădlac-Arad-Calafat-Vidin and Nădlac-Arad-București-Constanța, and corridor VII – the Danube, by five European roads and three international railways.
- 4.7 In 2005, West Region had a **railway network** of 1904 km, representing 17.39% of the national total. The roads network is well developed and with a relatively balanced territorial coverage of public roads of 10,292 km (12.88% of the national total) out of which 1,883 km are national roads and 8,409 km county and communal roads. Out of the total public roads, 26% are modernised. The public roads density (32.1km/100 sqkm), is very close to the national average (33.5 km/100 sqkm). The road infrastructure at the frontiers is only partly modernised and needs new investments. The high percentage of unmodernised county roads hinders the connections between the county centres Deva - Reșița, Timișoara - Reșița and Timișoara – Deva. The lack of motorways, the traffic increase on interregional and international roads, the low carrying capacity of the existing roads structure, the low-quality boards and illumination seriously constrain the transportation capacity.
- 4.8 The **length of the water network** of West Region is 5,559 km, representing 11.6% of a national total of 47,778 km. The water networks in general, and especially the ones in urban centres, are confronted with problems of deterioration, due to the neglected maintenance and reconstruction works. 90 of West Region localities have **sewerage networks**. The total length of the sewerage pipes in West Region is of 2,441 km, representing 13.3% of the national sewage length. They cover mainly towns, with a concentration in the blocks of flats. Many of the sewerage networks are highly deteriorated. The length of the **natural gas provision system** (3,004 km), represents 10.92% of the length of natural gas network in the country (27,496 km). All urban localities have a system of collecting and depositing of **housing waste** but these systems rarely fulfil the environment protection standards. In rural areas waste collecting activity is not organized in a centralized system and waste depositing is realized on dispersed locations, at the outskirts of the localities. Currently, the waste collection in West region is not organized in a selective manner. The selective collection of the waste is restricted exclusively to some parts of Timisoara.
- 4.9 In 2005/2006 school year, **the education institutions** in West region have been represented by 522 kindergartens, 542 schools and 14 universities (public and private). The Technical University and the Medical University are famous for their national reputation. The life expectancy in West region is on average of 71 years, as compared to a national average of 71.8 years and to a European average of 78.3 years. In 2005, the publicly owned **health institutions** comprised 46 hospitals, 13 polyclinics, 36 dispensaries and 2 TBC sanatoria. Considering the number of institutions the situation is relatively balanced in the region, however, the infrastructure and the equipments need to be urgently replaced or modernised. The **social problems** are relatively lower, compared with the rest of the country, due to the NGOs activity. Starting with March 2005, children are protected in family type institutions (66.51%) or residential services (33.49%). At the end of September 2005, there were 753 children whose parents were working abroad<sup>5</sup>. In 2005,

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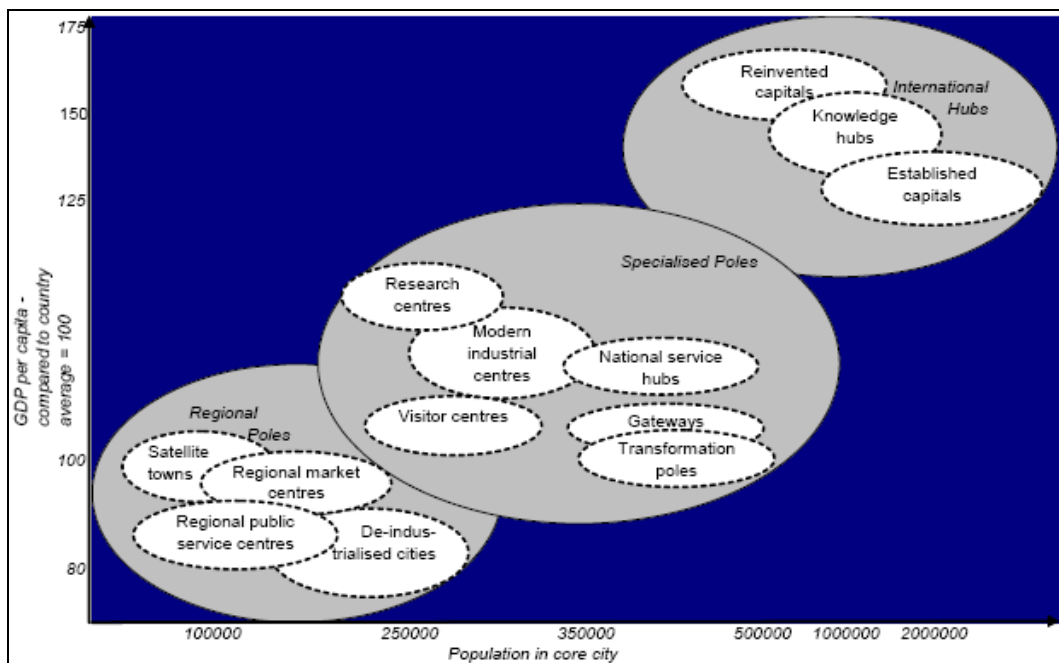
<sup>5</sup> Working abroad is an important source of income for a large proportion of the population in Romania. One in ten Romanian households receive income from international migration. Italy and Spain are the main destinations for Romanians working abroad. (Balan-Solomon, 2010)

the number of the children left by their parents in health units was 298 (157 in Arad and 98 in Timis).

**Timisoara in international context**

4.10 According to the study “State of the European Cities”, based on the Urban Audit, which allows 258 cities in the EU, the weakest cities on the Lisbon<sup>6</sup> benchmark can be found in Poland, Romania and Bulgaria. Unfortunately not all big cities from Romania are included in the Urban Audit benchmark (the list of cities and their performance can be found in Annex 3) Although the study states that there is no relation between the city size when using the Lisbon benchmark, in case of Romania it is clear that Bucharest is performing far better than any other city. However this study identifies Timisoara among the “national service hubs”, which “play an essential role in the national urban hierarchy, which fulfil key national functions and (potentially) play important international role in at least some aspects of the urban economy”.

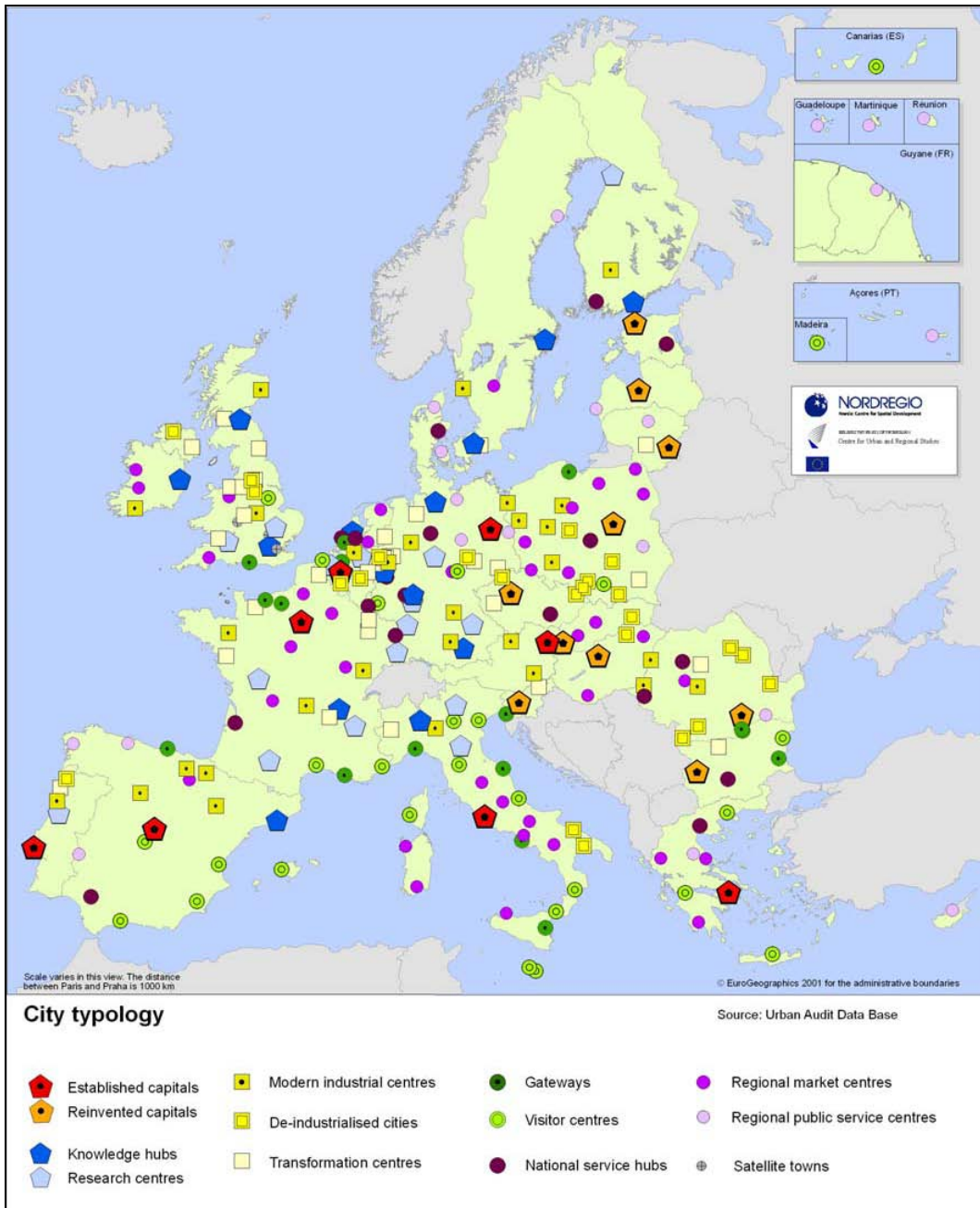
**City-types positioned in the State of European Cities Report**



Source: State of the European Cities Report, European Commission, May 2007

<sup>6</sup> The Lisbon Benchmark is a broader measurement of economic competitiveness, based on the following variables: GDP per total resident area, labour productivity (GDP per person employed), employed residents in % of total population (55-64), long-term unemployment, students in higher education in % of population(15-24), youth unemployment.

City-types mapped in the State of European Cities Report



Source: State of the European Cities Report, European Commission, May 2007

4.11 It is very difficult to compare the performance of Timisoara with same-size cities from Western Europe (see Annex 3 ). The differences in GDP per head are so huge, that it makes almost impossible any other comparison. Even some Central European Cities (Katowice, Brno) have three and four times bigger GDP per head indicators than Timisoara. Similarly to most cities from the Eastern European region, Timisoara is listed among the “Cities in the process of Structural Adaptation” in the Urban Audit survey (beside the national capitals, only few Polish cities were included in the “National Capitals and Metropolises” section, like Gdansk, Krakow, Lodz, Poznan and Wroclaw. Katowice is in the same category as Timisoara).

- 4.12 Timisoara's position in the international urban system can be explained by two factors: on one hand, there is a big difference between the development potentials of the capital, Bucharest and the rest of Romanian big cities, on the other hand, the competitiveness of the country in general is very low. According to the World Economic Forum Global Competitiveness Report 2009-2010 Romania is on one of the last places among the 58 states (the scores in the basic requirements can be found in Annex 3). As the Romanian experts concluded, the "significant gains in terms of business efficiency and infrastructure were not enough to increase the competitiveness of the economy as a whole" (Cismas, Bucur, Pitorac, 2010). The aspects of which Romania was ranked the lowest in the context of global competitiveness are related to direct investments abroad, investments in capital markets abroad, receipts from tourism and real GDP growth. Weaknesses in the system in terms of competitiveness relate also to the "lack of public contracts open to all bidders, the black market economy that does not allow and the competition law that can not stop unfair competition" (Cismas, Bucur, Pitorac, 2010).

#### Romanian cities and regions on the fDi Magazine's rankings

According to the FDI Magazine Study "European Cities and Regions of the Future 2010/11"<sup>7</sup> from the Romanian cities only Bucharest-Ifov was ranked in the Top 10 in some categories. No other Romanian city or region seems to be competitive at the moment, not just compared to the European cities overall, but not even considering just the eastern European cities/regions. However, Bucharest performs quite well. Among the "Top 25 European Cities of the Future", Bucharest got a ranking of 18th, ahead of Warsaw (22nd ) and Budapest (25th). Bucharest also stands on the first place in the "Top 10 Eastern European Cities" (followed by Warsaw and Budapest), and also claimed the first position of the "Top 10 Eastern European Regions". However, considering the FDI Strategy, none of the Romanian regions appears in the Top 5 (this list includes regions from Hungary, Poland and Ukraine). Source: <http://www.sgroup.be/data/File/European-Cities-and-Regions-of-the-Future-2010-11.pdf>

#### Performance of Timisoara Metropolitan Area

- 4.13 Under the positive demographic policy imposed by the communist regime, the population of Timisoara has reached a peak in 1990 with 351,293 persons. One of the reasons for the growth of the population (at the national level) was the Decree No. 770/1966 which has forbidden the abortions. This act together with other measures (various economical advantages for the families with 3 or more children) has improved the birth rate during the 1970s and 1980s (Nadolu-Dinca-Luches, 2010). Another factor of the population growth was that the external migration was generally prohibited. Moreover, during these years, the national policy forced the movement rural population into urban space, further aggravating the artificial growth.
- 4.14 The collapse of the totalitarian regime has generated massive changes in the population structure and profile. During the first two decades of democracy, Timisoara has lost 14% of its population. For the 1990s, the population decline can be explained by the decreasing of the birth rate (as a general behaviour at national level). Another cause of the population decline was the migration. From 1994 until 2007, the number of persons that have moved from Timisoara in a foreign country was constantly higher than the number of foreigners that have established in Timisoara. This phenomenon is mainly due to the ethnic groups (German and Hungarian population) that left Romania during the 90s. However, experts emphasize that to talk about the shrinkage in Timisoara nowadays is quite difficult, because the general previews have positive and optimistic trends. During the last 7 years, the population of the villages involved in the metropolitan area has grown significantly. Within the context of rural depopulation (specific for the entire national level) the whole growing of the villages near Timisoara represents a clear process of

<sup>7</sup> The study is based on a data collection by FDI Benchmark across 223 European cities and 142 European regions, set under six categories. Economic potential, human resources, cost effectiveness, quality of life, infrastructure and business friendliness). For more details on the methodology please see: <http://www.sgroup.be/data/File/European-Cities-and-Regions-of-the-Future-2010-11.pdf>

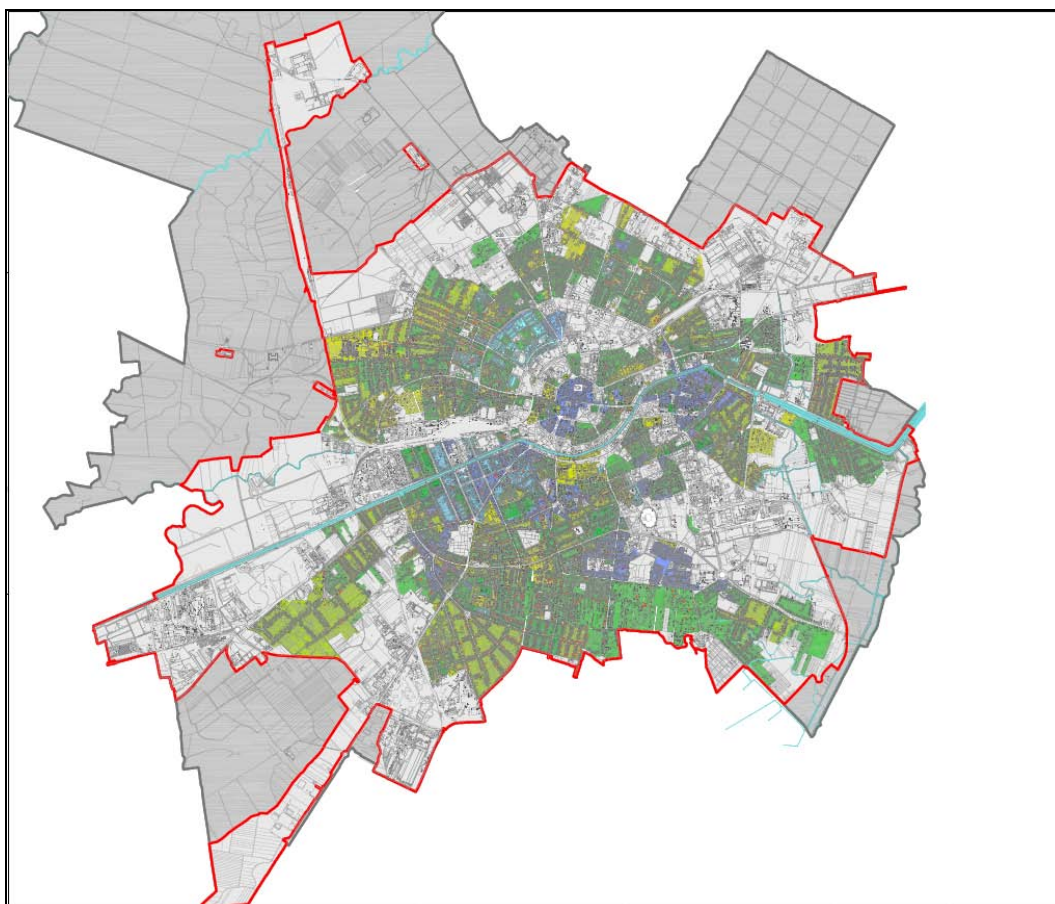
suburbanization, which is one of the most important causes for the shrinking phenomenon in Timisoara. (Nadolu-Dinca-Luches, 2010).

- 4.15 After the political changes Timisoara started the economic restructuring process with significant comparative advantages on a national level (good location, diversified and qualified workforce, high labour productivity, innovative city governance, high potential for FDI attraction, etc.). So contrary to other parts of Romania, the old economic structures were quite quickly and smoothly replaced by new ones.
- 4.16 Nowadays Timisoara is a developed economic centre in Romania – it holds over 95% of the economy in the area, over 60% of the county economy, over 30% of the economy of West Region and over 3% of Romania’s economy. It has a diverse economic structure and a large consumption market. The economy of the city is dominated by private property over public property.
- 4.17 In the last few decades, the industrial zones in Timisoara have formed along the main avenues, the main industrial areas being<sup>8</sup>:
- ❖ South-East Industrial Area - concentrates chemical and electrotechnical industry units, as well as the production of auto parts. It is a developing area, where factories such as Lisa Drexelmeyer, Procter&Gamble or Saguaro Technology carry on their activity.
  - ❖ South Industrial Area - includes the construction material industry, as well as warehouses; lately, especially due to the Incontro Industrial Park, its main domain of activity has diversified a lot. Most assets here are new buildings.
  - ❖ South-West Industrial Area - used to focus mainly on food industry, but it is being restructured at the present. The new companies on the market are changing the area's main domain of activity - Kromberg & Schubert (electrical wiring), Contitech (transmission belts for automobiles).
  - ❖ West Industrial Area -- North Train Station, traditionally with a main petrochemical and electrotechnical, at the present time going through a restructuring process.
  - ❖ Central Industrial Area - developed along the railway which traverses the city, with a diversified domain of activity: constructions, metallic manufacture, bakery and milling, storage etc. At present the area is going through a restructuring process.
  - ❖ North-East Industrial Area -- IMT Industrial Area - mainly composed of the remainders of Intreprinderea Mecanica, Continental Automotive Products, Shell Gaz, Prompt and warehouses.
  - ❖ North-West Industrial Area - a new area, comprising the electronics industry (Soloelectron) and the food industry (Coca-Cola), but also Torontalului Industrial Park, destined for the development of small and medium companies.
  - ❖ East Industrial Area - developed initially around the commercial segment, but, due to some newly founded companies in the auto sector area where it carries on its activity, it tends to become an industrial zone.
  - ❖ North Industrial Area - is undergoing a process of expansion. Mahle Componente de Motor (Mahle Motorparts) has begun its activity in the area, and a furniture factory is to be opened.
  - ❖ Freidorf Industrial Park - a new developing area situated in the South-West region of the city, covering a land parcel of over 50 ha, property of the Municipality of Timisoara and administered by Timisoara Local Council.
  - ❖ Timisoara Industrial and Technological Park - PITT, founded in 2004, has a full occupancy rate, the value of the investments made by the developer being 28 million EUR. The park is located at 14 km distance of Timisoara and has an 11 ha area.

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<sup>8</sup> Based on “Date despre economia municipiului Timisoara”, [www.e-Timisoara.info/timisoara-economie](http://www.e-Timisoara.info/timisoara-economie)

Map of Timisoara



Source: Planul Urbanistic General, Timisoara City Hall

- 4.18 Foreign investment in Romania has been guided by the area's availability and potential and also by the business mentality and traditions in the field (Otil-Parean, 2010). From this respect, the location, business atmosphere and the multicultural and multiethnic character of Timisoara's population, as well as the traditionally high labour productivity made the city attractive for foreign investments. Several multinational corporations have now a local subsidiary in or around Timisoara, such as: Alcatel Lucent, Coca-Cola, Continental, Draxlmaier, Linde Gas, Nestle, Siemens, etc. Among the Romanian cities, Timisoara has the largest Italian business community, and also, a large community of investors from the Arabian countries and Turkey. Unfortunately, there is no national statistics on the economic performance and FDI inflow on a city level, so a comparative analysis of the economic performance of the big Romanian cities is very difficult.
- 4.19 In the period of 2003-2007 in Timis County 27.833 new firms were registered<sup>9</sup>, from which 68% was on the territory of Timisoara Metropolitan Area. In the national context Timis county is on the second place in attracting foreign investments, right after Bucharest. This tendency is well reflected in the GDP of the municipality. GDP per head records a quite constant increase from 1999, which may reflect the efficiency of the local business area (see Annex 5). After 2000, the GDP growth rate records an exponential growing rate. This can be explained by the effect of

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<sup>9</sup> 90% of the firms registered in Timisoara are small and medium-size enterprises ([www.e-Timisoara.info/timisoara-economie](http://www.e-Timisoara.info/timisoara-economie))



foreign investments, but also by the profile and specific activity of these new companies (the development of the car industry and IT products industry).

**Lessons from the experience of Italian Firms in the Region of Timisoara**

According to a OECD study on the small and medium-sized enterprise development in Timisoara area, the Italian investors complained about the “weak and confused regulatory framework which creates an uncertain and costly business environment” (“Clusters of Enterprises and the internationalization of SMEs, OECD, 2004). More specifically, firms criticized the institutional setting lacking transparency, the numbers and frequency of controls from a large number of different sources (lot of paper work which slows down economic activities), lack of coordination among regional and national authorities, a general lack of business information and support.

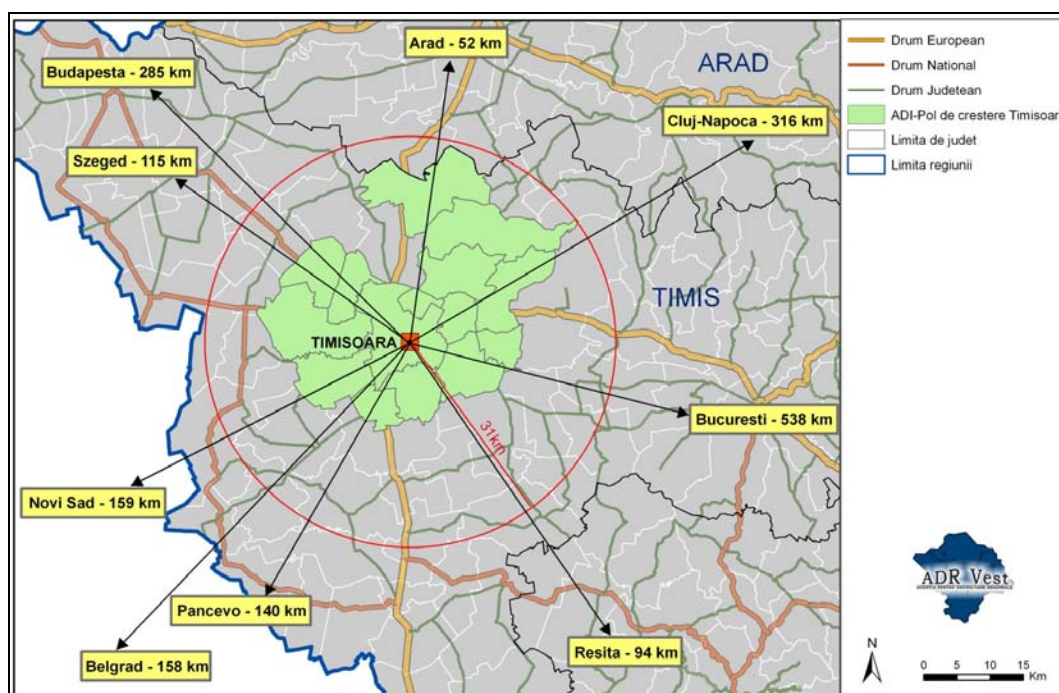
Source: OECD report on “Clusters of Enterprises and the internationalization of SMEs”

- 4.20 The turnover realized in different sectors of Timisoara growth pole shows a fluctuating evolution. While the performance of the agriculture and construction show an increase each year between 2003-2006 (agriculture with an average of 21% and construction with an average of 24%), the industry and service sector have a different evolution. In 2005 there was a significant decrease in the industry – while in 2003 and 2004 it was the leading sector of the municipality’s economic performance, in 2005 and 2006 the service sector undertook this position. Beside the construction sector, the service sector shows the most dynamic sector of activity in the growth pole.
- 4.21 Nationally, Timisoara is considered as a success story of local economic development. However, there are also some factors that constrain the economic development and the international competitiveness of the city and its region. According to the Strategic Concept of Economic and Social Development of Timisoara Area, the weak points of the local economy are the still quite obsolete economic structure, often low quality equipment, the high workforce fluctuation among economic branches, and absence of a selective stimulation mechanism for promoting industries with clean technology, representing high added value.
- 4.22 The population’s occupation rate also reflects the local business area’s evolution. The occupation rates oscillate between the limits of the interval 85-65, the maximum being reached in 1991 and the minimum in 1999. Starting with the year 2000, a constant increase can be recorded in the number of foreign investments. This is reflected in the increase of the employment rate at local level. By the end of 2008, the unemployment rate in Timisoara (and the entire Timis county) is the lowest in Romania. Timisoara’s current educational infrastructure includes all fields of education, starting with pre-school education and ending with post-doctorate studies. Primary and secondary education is delivered in four different languages (Romanian 94,6%, Hungarian 1,5%, German 3,4% and Serbian 0,5%). The number of educational institution corresponds to the actual and forecasted needs of the city. Private education has a very modest role in the city, concentrating only 6% of the total number of children in pre-school education, 0,7% in primary education and 4,1% in secondary education. In the field of higher education, the city has a tradition of nearly 100 years. Timisoara is considered to be the third largest academic pole in Romania, after Bucharest and Iasi. There are 8 institutions in Timisoara, among which four are universities of state ownership (University of Politychnics, University West, Medical School and the University of Agricultural Sciences). 81% of the students are studying in public universities.
- 4.23 The network of local transport is served by an autonomous company (Autonomous Transport Direction of Timisoara -- RATT), which is administered by the municipality. The local public transportation includes buses, trolley buses and tramways, serving 35 local routes and surrounding areas. Since 2009, local transportation includes in its service some supplementary suburban town areas, mainly by buses. In the last five years the local public transportation provider has registered a constant extension of the lines length, the number of passengers and the number of kilometres, while the number of vehicles show a permanent decrease (39 % compared to 1990, Nadolu-Dinca-Luches, 2010). The car park of local transportation was recently

modernized, as well as 50% of the tramway lines. The renewal/change of the existing trams is also on the agenda.

- 4.24 Timisoara is one of the few large cities in Romania where the centralized public heating system is still functional, despite the decrease in the number of users of this service. Over the past 10 years at the local level, due to relatively high costs and especially the need to improve thermal comfort, some buildings have opted for separate heating systems. The most popular and commonly used heating systems are the private gas-fired central heating.
- 4.25 The water supply and sewerage services are currently provided by the regional operator AQUATIM. Timisoara's water supply is originated from two separate sources: surface and depth. The processing of the drinkable water is achieved through three waterworks. 67% of the water, which is distributed to consumers comes from the Bega Water Treatment Station and the rest of the city's drinking water requirement is provided from underground sources. Along with the mentioned sources of water, in recent years many wells were drilled in public area and offered in every district of the city. The water distribution network has a total length of 616.5 km (in 2007) and the wastewater collections network reaches 489 km (in 2007). In Timisoara municipality, 96% of the population is connected to the water system, while in the surrounding area this number is only 48%. 94,5% of the urban (municipality of Timisoara) population is connected to the sewage network, while in the surrounding villages this indicator is only 2,3%. In the city, wastewater and the rain water is collected by the gravitational fall, than is passed to the wastewater unit system and is processed by Sewage Treatment Station of the city (built in 1912, and are constantly subjected for process of modernization).

**Road distances from Timisoara growth pole to some major cities**



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## 5. GOVERNANCE AND ADMINISTRATIVE STRUCTURES

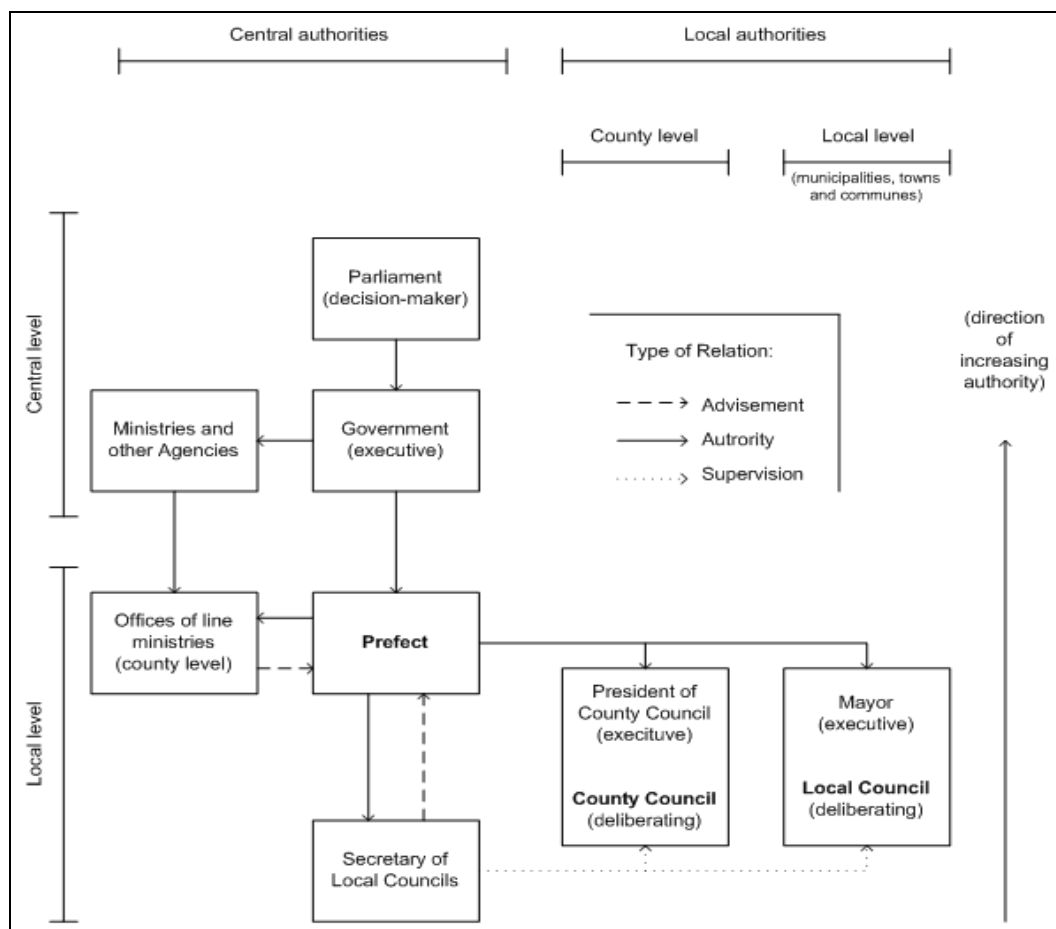
### *Governmental system*

- 5.1 Right after Romania's change in regime in December 1989, profound changes in the structure and functioning of government and economy started to take place. Since the early 1990s the decentralization of the public sector has been an important policy initiative in the process of transition to a market economy and a democratic society. Despite the serious achievements and improvements on this field, the system of intergovernmental fiscal relations in Romania remains still quite centralized (Leonardo-Martinez-Vauquez-Miller-Sepúlveda; 2006), showing rather a de-concentrated than a decentralized character.
- 5.2 Romania is administratively divided in two tiers of sub-national government units. In the first tier there are 41 counties (judete) plus the city of Bucharest. At this county level there are two coterminous administrations. First, there is representation of the central government de-concentrated administration, with regional offices of the line ministries, headed by a Prefect who is also appointed by the central government; and second, an elected decentralized county government, the "judet council", headed by the president. At the local level, there are municipalities, towns and communes. Although local governments in Romania can be considered decentralized units, the central government has an indirect (de-concentrated) representation on the county and local councils through the figure of the "secretary" who is an appointed official and who must countersign all normative acts of the sub-national governments.
- 5.3 Romania has also created 8 development regions (NUTSII) to comply with European Union accession requirements<sup>10</sup>. Each of the regions comprises two to four counties. These regions are not territorial administrative structures; that is they do not have executive or legislative powers or separate budgets. Rather they serve the purpose of providing units of observation for collecting statistical data and providing the framework for implementing Romania's regional development policy, and they are the recipients of the European Regional development Fund.

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<sup>10</sup> The eight Regional Development Agencies (RDA's) were established in 1998 by Law no. 151/1998, which was later amended by Law no. 315/2004 and they are executive bodies of the Regional development Boards, grouping representatives from county and local authorities. The RDA's were designated as Intermediate Bodies for the implementation of ROP.

### Administrative Arrangements of Government Authority in Romania



Source: Intergovernmental Fiscal Relations in Romania; Leonardo-Martinez-Vauquez-Miller-Sepúlveda; 2006

- 5.4 The Romanian decentralization process has been slower than the process in similar countries in the region. The first explicit formal assignment of expenditures responsibilities was approved only in 2006. Nowadays, the expenditure assignments are the conventionally seen in other decentralized countries, with some minor exceptions (fire protection for example is a central responsibility).
- 5.5 Sub-national government expenditures represented 6.5% of GDP in 2004 and 8.4% of GDP in 2008 (this is equal to 24% of total public expenditures in 2008 – “Sub-national public finance in the European Union”, Dexia, 2008)). In the functional classification the most important item is educational expenditures (2-3% of GDP) – which can be explained by the fact that the wages and salaries of teachers are paid for with a conditional grant from the central government. The second item in importance is “public housing development” which represented 20 percent of all subnational government expenditures in 2004. This figure is inflated by the fact that the public housing development item in the budget classification includes, apart from housing expenditures: water supply, public lightening, extension of electricity and natural gas infrastructure. The lack of clarity in the assignment of expenditure functions is the most important issue in this area, especially for the shared or concurrent responsibilities between the county and the local government. The lack of clarity is also important in the responsibility for the financing of capital investments.

- 5.6 Romanian sub-national governments are assigned their own taxes and fees (or own revenue sources) and they benefit as well from a variety of revenue sharing arrangements. The terminology used in the Fiscal Code regarding what is a local tax and what is a local fee is a bit confusing, as almost all of these types of revenues can be considered (theoretically) as local taxes. Tax rate setting is fixed as determined in the Fiscal Code. The central government sets a minimum tax rate annually by government decision for each local tax, which can be increased indefinitely by the local government "taking into account the specific conditions of the area". Nevertheless, for some taxes (e.g. taxes on shows, advertising, permit issuance) the law still provides intervals allowing sub-national governments to set the rates between minimum and maximum level. In terms of actual revenue collection the building tax and land tax, followed by the transportation tax are the most important local taxes. All other taxes and fees appear to generate very little revenues. None of these revenues from local taxes and fees are earmarked to specific use.
- 5.7 Similarly to other countries in transition, Romania also uses revenue sharing of central taxes with sub-national governments on a derivation basis. First, there is a sharing of VAT revenues to pay for teachers salaries and allocations for social assistance at the local level. In this case the legislation (state budget) only states that the sources of these transfers will be the VAT but it never specifies a revenue sharing rate. Therefore this is not a form of revenue sharing in the conventional way, but rather the financing of several conditional grants<sup>11</sup>. Second, the central government shares part of the proceeds of the personal income tax (PIT) on derivation basis with sub-national governments on the basis of where taxpayers work. The overall revenue sharing rate is 82% from which 47% goes to the local government from where the tax is collected, 13 % goes to the county council where the local government is located and 22 % is distributed between the county council government (25%) with the rest (75%) going to form a pool of funds which is distributed among the local governments within a county through an equalization grant system. Third, there are some other forms of minor revenue sharing. In one instance, the central government allows local governments to retain 100 percent of the corporate profit tax paid by the corporations owned by the central government. Also, the central government shares 100% of revenues from stamp duties, technically a central government tax, with the local government where the duties are collected.
- 5.8 By far the most important issues in revenue assignment in Romania is the weak level of revenue autonomy at the subnational level. No major revenue sources have been assigned to subnational governments. Even in the case of property (on land and buildings) taxes and taxes on motor vehicles, which are the taxes at the subnational level with the most potential, the local governments have no discretion to change tax rates. The current system of intergovernmental transfers in Romania comprises first a system of equalization grants (within county and across counties) and a system of conditional grants. Quotas from the PIT are distributed to local governments in accordance with the law on Local Public Finances but the percentages may change from year to year with the State Budget Law. Because of the introduction of a flat rate tax, and an expected decrease in rate of collection, in 2005 the government increased the overall revenue sharing rate to 82% of tax collected in comparison with 63% in 2004. The 82% PIT is distributed as follows:
- ❖ 47% to the local level where the tax is collected
  - ❖ 13% to the county level where the local government is located
  - ❖ 22% to the county authorities for equalizing the local budgets of the communes, towns and county

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<sup>11</sup> It is Possible, legally, to have a local surcharge on VAT but there is no municipality in Romania which is using this source of revenue. Politically it is considered risky to issue it as taxes are already high. Businesses are taxed on the basis of their properties (property tax).

- 5.9 Experts highlight that the biggest problem with this system of equalization is that it emphasizes equalization inside or within each county and gives much less importance to equalizing across counties (variation on revenues and expenditures across counties and Bucharest is quite significant). This approach is highly unusual in the international experience. Regarding the local and shared taxes, in 2010 in Timisoara, more than 55 % of the local taxes came from the PIT (the share of PIT in total revenues in 2010 was 21,8%). This allocation formula (47% of the PIT collected goes back to municipality and no equalization formula is attached) is very favourable for the big, prospering cities like Timisoara<sup>12</sup>.
- 5.10 Local municipalities in Romania do not have too much space for strategic considerations in their tax policy. There are just very few taxes which the local municipality can really influence and make the city attractive for investors. We can conclude that in Romania it is not the city's tax policy which will influence the investor's decisions, there is basically no tax-competition between cities to attract investors. There is no big difference between cities thus mainly other criteria are decisive for the investors where investments are made (geographical position, cultural level, historical and language links, level of workforce, unemployment rate<sup>13</sup> and so on).

### **Urban System**

- 5.11 In accordance with the Constitution, the Romanian State is a Republic organised in line with the principle of the separation and balance of powers, structured within the framework of constitutional democracy. Under the Local Government Act and National Territorial Planning Act, local administrative units consist of communes, towns, cities/municipalities and counties. According to the above-mentioned regulations, in Romania there are 103 urban municipalities (including the capital Bucharest, divided into six districts with their own local councils), 217 towns and 2861 communes. Romania consists of 41 counties and the municipality of Bucharest. The counties correspond to NUTS 3 units. The most populous county is the municipality of Bucharest (corresponding to county level) with 2,029,899 inhabitants.
- 5.12 The cities of Romania concentrate approximately 55% of the total population (around 22 million inhabitants). Romanian cities form a balanced polycentric territorial network. Romania is divided into four NUTS 1 level divisions and eight development regions corresponding to NUTS 2 level regions in the European Union. These development regions have no administrative capacity and are designed as intermediate bodies for the implementation of Regional Development Operational Programmes and for statistical purposes. The development regions (NUTS 2) were established in 1997 in line with the guidelines of EU pre-accession instruments. The regional development process was implemented through regional development agencies. These are non-governmental, public, non-profit bodies, founded on the basis of the voluntary association of neighbouring counties.

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<sup>12</sup> Timisoara and Craiova are similar size cities but the budget of TM is double as the economy is much better functioning and the PIT is much larger here.

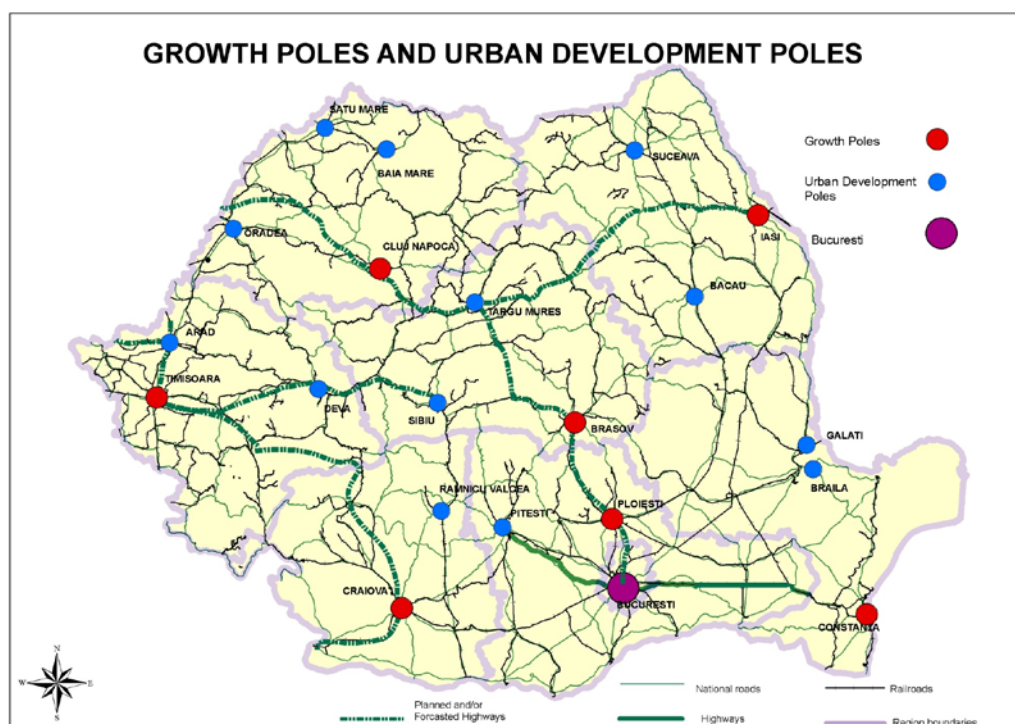
<sup>13</sup> The low level of unemployment in Timisoara is getting to be a barrier for further investments since no free workforce exists. Recently, Nokia wanted to invest in Timisoara, but the required workforce was working for Alcatel, Siemens... thus finally Nokia went to Cluj-Napoca

NUTS II regions of Romania



1. North-East (Iasi); 2. South-East (Constanta); 3. South (Ploiesti); 4. South-West (Craiova); 5. West (Timisoara); 6. North-West (Cluj-Napoca); 7. Central (Brasov); 8. Bucharest-Ilfov  
Source: www.inforegio.ro

- 5.13 At the beginning of transition, many Romanian towns had a relatively little economically developed basis dominated by a single sector of activity. On the other hand, there were huge economic disparities between the towns/cities and the rural peripheries. The national policy recognized and declared that the future perspectives of these regions, and the entire country are depending on the competitiveness of towns, which may be stimulated by all means. Another objective of the national urban policies was to handle the lack of vertical coordination (among the different levels of administrations – ministries, local administrative bodies, etc.) and horizontal cooperation (among the counties, municipalities, neighbour localities, etc.)
- 5.14 The community strategic guidelines for 2007-2013 stipulate the role of cities as engines for growth, and affirm the need to promote a balanced polycentric development through the creation of the urban networks. In the National Strategic Reference Framework, a document based on the National Development Plan, Romania stated the support of the development of the existing or emerging growth poles as one of the main objectives. This decision was based on the National Spatial Development Strategy and was in line with the National Territorial Planning Act, the Section Settlements Network.
- 5.15 The government therefore in 2008 approved a decision to nominate:
- ❖ 7 growth poles to be created around 7 major cities (one for each region of development): Iasi, Constanta, Ploiesti, Craiova, Timisoara, Cluj-Napoca, Brasov. In these cities priority investments will be made with the support of both European and national financing, based on integrated development plans;
  - ❖ 13 urban development poles: Arad, Baia-Mare, Bacau, Braila, Galati, Deva, Oradea, Pitesti, Ramnicu-Valcea, Satu Mare, Sibiu, Suceava, Targu-Mures, in which investments will be made based on integrated urban development plans, particularly on Priority Axis 1: “Supporting the sustainable development of cities – urban growth poles” of the Regional Operational Programme 2007-2013.
  - ❖ Urban centers – towns over 10.000 inhabitants, other than growth poles and urban development poles.



Source: [www.inforegio.ro](http://www.inforegio.ro)

5.16 The urban development in Romania has several weaknesses, the most important of which are the following<sup>14</sup>:

- ❖ Low level of urbanization level, compared with European Union Member States (55.2%);
- ❖ At regional level, urbanization is historically correlated with overall economic development. With the exception of Bucharest-Ilfov (92.5%) the most urbanized regions are among the most prosperous ones: West Region (63.5%) and Center Region (59,8%);
- ❖ In the East part of the country (North-East Region) as well as in the South (South and South-West Regions) the rural population working in agriculture activities is prevailing;
- ❖ The existing of a large number of small and medium sized towns (about 90% in the total number of towns and cities) with limited urban functions and poor infrastructure;
- ❖ Important migration flows of urban population towards rural areas and outside country;
- ❖ Decreasing urban population ( 1990-2006) in all development regions;
- ❖ Poor quality of public infrastructure (including road, health, social and education infrastructure), obsolete urban public utilities and failure to maintain historical and cultural assets;
- ❖ Socio-economic decline of many regional urban centres and the diminishing of their role in the surrounding areas and Regions' development;
- ❖ Large cities increasingly experiencing congestion;
- ❖ Disparities within towns and cities with deprived areas and neighbourhoods, having low level of quality of life.

<sup>14</sup> Based on the Regional Operational Programme 2007-2013 and "The Urban Dimension of Romania's Cohesion Policy" by Gabriel Friptu



- 5.17 Despite these negative characteristics, there are also some important potentials in urban development:
- ❖ The urban system is dominated by a large urban pole – Bucharest, the Capital city and a regional network of secondary poles (large cities).
  - ❖ Cities concentrate economic activities and population, having potential to act as engines for economic development of the Regions;
  - ❖ Relatively well balanced distribution of large cities;
  - ❖ Every development region has at least one city with more than 200.000 inhabitants, which can stimulate and induce development in the surrounding areas;
  - ❖ Some urban areas in the west part of the country are becoming labour market poles;
- 5.18 In full accordance with the European recommendations, the policy of sustainable development of towns in Romania involves: „a controlled urban expansion, achievement of a mix of functions and social groups, improvement and maintenance of the urban eco-system (water, energy, wastes), access to localities by improving the transport network and protection of the local cultural heritage” („Strategic concept of territorial development of Romania over the period 2007-2030”)

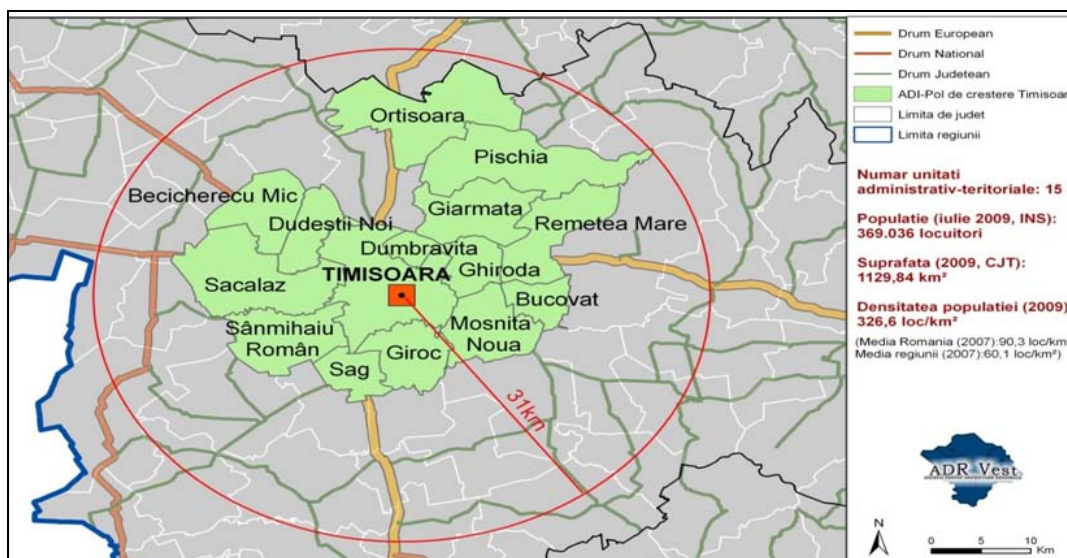
### ***Timisoara Growth Pole***

- 5.19 According to the Government Decision Nr. 98/27.08.2008 about „Support for the sustainable development of cities – Growth poles” and the establishment of the seven growth poles, Timisoara – together with the Faculty of Geography – prepared a detailed analysis to identify precisely and professionally the influence area of the municipality (the study was analyzing among others the commuting area, economic profiles, service “consumption” patterns, etc.). The result was a suggestion of 15 settlements. The proposal from the city towards the settlements was based on this study. First the settlements were quite reluctant to join the association, mainly because of the fear of losing their independence. After a long negotiation process between the mayors and main stakeholders of the municipalities concerned, an association of 14 municipalities was created. One of the settlements refused to join, although the study justified that it strictly belongs to Timisoara’s influence area<sup>15</sup>. The Timisoara Growth Pole now has a population of 380.000 (of which the core city represents 87%); with a surface of 108.000 km<sup>2</sup>. The Association of Timisoara and the 14 settlements prepared a common Integrated Urban Development Plan including a list of projects approved by all of the settlements. The projects are financed from the funds allocated to ROP Priority Axis 1 as well as from other sources.

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<sup>15</sup> They refused joining because of stubborn reasons, and the law doesn’t provide any possibility to force them, the growth pole association should be totally voluntary.

## Intercommunal development association – Timisoara growth pole



## 6. POLICY INTERVENTIONS

### *National Policies*

- 6.1 Romania had to tackle and overcome disparities of all sorts after emerging from the communist era. The European integration process catalyzed and accelerated change. The country had to connect to current practices and policies developed in Western European countries, and new approaches had to be developed as a result of drastic economic changes. Planning instruments, the legislative framework and the administrative capacity had to be strengthened in order to manage the complex issues of the urban environment. For Romanian cities, the past decade has been a period of active urban development. Many cities found innovative ways to create a more vibrant and attractive city for their inhabitants as well as an economically attractive city for potential investors. For many cities the solutions for developing successful initiatives followed the recommendations of the Leipzig Charter: making greater use of integrated urban development policies, and paying special attention to deprived neighbourhoods within the context of the city as a whole.
- 6.2 The most relevant **strategic documents** of urban development and strategic planning in Romania are the following:
- ❖ **The National Development Plan 2007-2013** is the key document for strategic planning and long-term financial programming. It is designed to give direction to national economic and social development, in line with the principles of the EU Cohesion Policy. The general objective of the plan is the fastest possible reduction of socio-economic disparities between Romania and other EU Member States. It details the specific objectives of this process along six priority lines of action that integrate, directly or indirectly, the demands of sustainable development for the short and medium term.
  - ❖ **The National Strategic Reference Framework 2007- 2013**, which was approved by the European Commission on 25 June 2007, sets the priorities for the application of the EU Structural Intervention Instruments (the European Fund for Regional Development, the European Social Fund and the Cohesion Fund). The Framework also links the priorities of the National Development Plan 2007-2013 to those of the EU in accordance with the Community Strategic Guidelines on Cohesion 2007-2013 and the revised Lisbon Strategy (EU2020).

- ❖ **The National Sustainable Development Strategy Romania 2013-2020-2030**, approved by the Government of Romania on 12 November 2008, aims to attune Romanian policy to a crucial EU goal: sustainable development. Knowledge and innovation are at the core of this sustainable development strategy.
- ❖ The **Strategic Concept of Territorial Development of Romania over the period 2007-2030** stresses upon the integrated urban development and the development of a metropolitan network in Romania.
- ❖ The national legal framework of urban development is the focal point of several legal domains: urban planning law, administrative law, environmental law, building law, civil law and public procurement law. The main legislation for territorial and urban planning activities is the **Territorial and Urban Planning Act (350/2001)**. Activities in this field are co-ordinated at national level by the government, which sets up priority programmes, guidelines and sector policies in relation to the content of the governing programme. The Ministry of Regional Development and Tourism is the specialised body of the government for strategic planning, national and regional territorial development and cohesion, cross-border, transnational and interregional co-operation, territorial and urban planning, public works, constructions and tourism.
- ❖ The county council co-ordinates **territorial planning and urban planning activities at county level**. It also establishes general guidelines for territorial planning and organisation as well as urban planning of localities, based on territorial and urban plans. The co-ordination at county level is done by the territorial and urban planning department, led by the county's chief architect. The county council ensures compliance with national, regional and local territorial plans in the territorial and urban planning documents for the administrative territories of the localities of a county. The council also ensures the development of the County Territorial Development Plan and approves it according to the law.

### *European funding*

- 6.3 The EU cohesion policy provides powerful financial instruments for Europe's cities for the purpose of meeting urban challenges. One of several Romanian Operational Programmes approved by the EU, the **Regional Operational Programme (ROP) 2007-2013**, implements important elements of the National Strategy for Regional Development within the National Development Plan. Together with other sectoral programmes, the ROP works towards accomplishing the general objective of the National Regional Strategy: the reduction of disparities between Romania's regions. For the period from 2007 to 2013, the ROP is financed by the European Regional Development Fund (ERDF). EU funding represents approximately 84% of the ROP budget. Under the Priority Axis 1 (Support to sustainable development of urban growth poles) the integrated urban development plans are implemented by projects addressing rehabilitation of the urban infrastructure and improvement of urban services. Urban projects may also be supported by the sectoral Operational Programmes, of which the Environment Operational Programme and Economic Growth Operational Programmes bear the most significance for urban development. In this way projects are financed which aim at the development of an integrated waste management system and rehabilitation of contaminated historic sites, the reduction of pollution and decrease of the effects of climate change, as well as the development of an innovative and eco-efficient productive system.

### *City Strategies and Policies*

- 6.4 Timisoara was among the first cities in Romania that developed a strategy in 2000, with the title "**Strategic Concept of Economic-Social Development of the Timisoara Area**". The process of planning was open and democratic, allowing enhanced participation of local specialists, representatives of the civil society within the Timisoara. The outcomes of the project were presented in the mass media and subjected to public validation by the completion of each work

stage. The final Concept was a result of the voluntary work of over 185 specialists, representatives of local public administration, universities of other institutions, companies, employers and trade unions, religious cults and non-governmental organizations, under the supervision of the project team of the Timisoara City Hall. The concept identifies the overall strategic objective, 4 development strategic directions, 19 objectives and 67 sub-objectives. The overall objective, the mission of the City was defined as: *“Durable development of the Timisoara Area for its recognition as competitive strategic pole at European Level, in order to assure prosperity and life quality of its citizens”*.

- 6.5 The four Strategic Development Directions are the following<sup>16</sup>:
1. Creation of an attractive and moral business and innovation environment
  2. Development of the Timisoara area as economic and regional competitive strategic pole
  3. Development of a stable socio-cultural environment
  4. Creation of an environmentally friendly habitat for citizens
- 6.6 The city of Timisoara with the collaboration of the University of West of Timisoara, The German Society for Technical Cooperation and the Centre for International Migration has developed the **“Integrated Development Plan of Timisoara Growth Pole”** which became the main strategic document of the metropolitan area. The main areas of intervention identified by the document are the following:
- ❖ Rehabilitation of urban infrastructure in the core of the influence area (city centre)
  - ❖ Extension of the urban public transport network to the communities
  - ❖ Improving the traffic connection and management
  - ❖ Revitalization of cultural heritage
  - ❖ Development of business facilities in the influence area
  - ❖ Improvement of social services of the area
- 6.7 Beside these documents, Timisoara has also developed a **General Urban Plan** and several sectoral strategies as well (economic, transport and environmental plans are ready, while the social, health and education strategies are under preparation.). According to the national legislation, local councils co-ordinate and are responsible for all urban planning activities carried out in the territory of their administrative and territorial unit. Each council must ensure compliance with the provisions included in the approved spatial and urban planning documents. In order to achieve these goals, local councils refer to a large variety of social and economic data. The territorial and urban planning department, led by the city chief architect, is responsible for urban planning at city level. The strategic development department or project management department is responsible for the implementation of projects financed through structural funds. The involvement of civil society through actions based on public participation is also seen as a key approach for the resolution of complex urban development problems in the city of Timisoara. Strategic planning and integrated urban development as well as public-private partnerships between different administrative levels are considered as the basis for further development of the municipality.
- 6.8 A **master plan** will be also prepared for the whole metropolitan area, in accordance with the other settlements. Only broad directions will be determined in this document, no NIMBY issues will be touched. The city has the following types of plans: land use plan (structural plan, concentrating on relations between settlements), general urban plan (including zoning plan and detailed plans for given parcels). For the land use plan there should be a legal enforcement (both delimitation and the compulsory planning). A peri-urban plan is under preparation at the county level, but the county plan will not replacing the metropolitan area plan (it will be prepared for a larger area, but being less detailed).

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<sup>16</sup> Based on the “Integrated Development Plan of Timisoara Growth Pole”

## 7. OVERALL IMPACT OF POLICIES

### *Impacts of National Regional Development Policies*

- 7.1 The lack of real regional policy (aiming at regional decentralization) together with the high level of centralization and weakness of over-arching public control seem to be the most serious problems in the Romanian system. At the moment the regions are weak, they are only associations of counties. The Regional Development Agency is a non-profit agency established to better manage European funds, but in reality it is only an implementing body for structural funds. Many of the people we have interviewed stressed that the main decisions are all taken in Bucharest, 600 km away from Timisoara, by people who never talked to people in the area. EU programmes and the financial means are also decided in Bucharest, on the basis of documents submitted by the RDA<sup>17</sup>. The entire process is very long, bureaucratic and not transparent at all. The lack of regional economic and fiscal policies is also a main constraint in regional development. However, the reform of the current system and a greater decentralization towards the region is not on the political agenda in Bucharest.
- 7.2 As other former socialist countries, Romania started the transition process with relatively low level of regional disparities. These disparities have nevertheless been growing rapidly, in particular between the Bucharest-Ilfov region and all the other regions. It has been demonstrated that transition deepens regional disparities since the regulatory factors that used to control economy are replaced by market forces. In terms of GDP Bucharest-Ilfov ranks first, West Region the second and North-East region the eighth. So, on one hand it is totally understandable that it is an intention of the Regional Operational Program 2007-2013 “to concentrate to a certain extent the available resources on the Regions which are most lagging behind”. However, the lack of transparency of decisions about prioritizing projects and their financing give the impression that the allocation of funds is over-politicized and over- bureaucratized. The biggest problem of this system is that it doesn’t provide appropriate incentives for the prosperous regions and, by the end, it’s becoming a constraint of their further development.<sup>18</sup>
- 7.3 In the further development of Timisoara the international infrastructure connections would be of extreme importance. Second tier cities in CEE are usually not in the position to influence national infrastructure development strategies. On the other hand, they are not able to finance the necessary developments by themselves. So the infrastructural position can be concerned as a main factor of success for a second tier city. From this regard, in the national context Timisoara is in a relatively good position (on the periphery of a country which has underdeveloped infrastructure system). However, in international context the connections of the city are quite poor (no motorway, inadequate train links, etc ). The transportation infrastructure which was of outstanding quality 100 years ago, has mostly deteriorated by today, and if Timisoara doesn’t get priority in the national development plans, the situation doesn’t seem to be changed in the near future.

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<sup>17</sup> Regarding the allocation of Structural Funds, for each step of the RDA advise has to be taken from the ministry which takes long time. Average time for a project approval is 270 days, of which half in Bucharest, 70 at beneficiary, 8 days for evaluation, 55 days only in the RDA. In 5 days the RDA has to decide on eligibility. After that the report is sent to Min, the answer can take 3 months... next phase can start... experts can come for evaluation in 1 or in 6 months... if enough points are given, site visits happen to which ministry is also invites... after that 6 months is given.

<sup>18</sup> There are several rumours about the rapid and impressive development of some cities “politically close to Bucharest”, like others, as Timisoara (being always in opposition) lag far behind on the “allocation list”

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### *Impacts of the Growth Pole Policy*

- 7.4 The positive side of the Growth Pole Policy is that finally there is a special EU program dedicated for urban development. This is the first strategy for national development based on growth pole policy in Romania. Although many experts emphasize that the concept of growth poles supports directly the development of the core city and indirectly the development of the surrounding rural areas, it can be still considered as a good solution for both the core city and the surrounding area, which stimulates development and the cooperation between local public administrations. The weakness of the policy is that the methodology is over-ambitious and too time consuming; a legal framework for the spatial delimitation of the municipal association is still missing; only investments are eligible for funding (including public urban infrastructure, buildings and equipments and social infrastructure), while social networks or activities are not taken into consideration. The relationship of Timisoara and the county is quite good regarding the growth pole issue, since both of them consider it as a joint interest for better development. If Timisoara helps neighbouring settlements to access basic infrastructure, then this is in the interest of the county, too. The relationship of Timisoara and the settlements of the influence area is more controversial. The growth pole is an inter-communal association, each settlement is represented in the association. In the general assembly the number of representatives is proportional to the number of residents, but municipalities below 10,000 residents have at least one representative. Small settlements can not bid by themselves; the large city has to put the co-financing. The positive aspect for Timisoara in this game is to gain territory for development (Timisoara is one of the densest cities of the country). On the other hand, land is the most valuable asset of the surrounding municipalities, and they didn't want to lose the control over land use. That's why finally they came to the agreement that each community has veto right about changes in their territory, i.e. all decisions about land can be vetoed.
- 7.5 At the moment the growth pole area is smaller than it should be. Theoretically metropolitan areas should cover 60-100 km in distance. In Romania, however, this could be smaller as the roads are of bad quality. According to experts the real size of Timisoara metropolitan area could be around 5,000 sq km, this would mark the real influence area of the city. Contrary to that recently the growth pole covers approx. 3,000 sq kms. The county wanted to increase the metropolitan area of Timisoara (to give over part of their duties to the city) but the city decided that it can not take over more financial responsibilities. The interest and profile of the city is urban development in the influence area based on public transportation. Part of the problem is that extending public transportation beyond city limits, without the financial contribution of the other settlements, is very problematic. The good news is that a metropolitan association for public transportation has already been established. The city considers mobilization of labour force as crucial.

### *Impacts of Local Policies*

- 7.6 One of the most important strategic directions of the city is the creation of an attractive and moral business environment, to further allure domestic and foreign investors. Due to the fact that "at national level the business environment does not guarantee the conditions required for proper operation of the economy" (Strategic Concept of Economic and Social Development of Timisoara Area), one of the main tasks of Timisoara is to guarantee all local conditions available to establish an attractive business environment from both legislative and institutional point of view. This means to remove artificial and bureaucratic barriers, while launch effective fight against corruption and improvement of the infrastructure supporting businesses. In Romania municipalities have generally very limited role to support economic development. Companies complain about bureaucracy and slow administrative procedures (in other countries authorization takes 30 days, here it takes one year). So Timisoara tries to ease this process by

elimination of non-useful permits, cut of processing period of applications and rendering decision, preparation of urban plans, etc.

- 7.7 In order to become a competitive regional economic pole, Timisoara is planning to develop the applied research activity of the area, as basis to modernize its economy. In Romania, the research and development sector has still weak links with the economic environment, not having a significant contribution to regional economic development. The objective of the local policy is to establish an economy based on knowledge, on industrial clusters and on clusters based on research in order to stimulate the transfer of technology. In Timisoara there are 8 universities of national importance, 32 research institutes and there is a plan for developing a competence centre as well. The city is planning to “keep under operation the already existing industrial enterprises capable of updating technological processes and of becoming competitive, to favour the implementation in the area of such new enterprises that bring top technologies, whose products incorporate mainly brainpower, involve low metal and power consumption and are manufactured under environment friendly conditions” (.Strategic Concept of Economic and Social Development of Timisoara Area). The ultimate goal of the city is to create an environmentally friendly habitat for citizens. Most of the ongoing municipal projects are focusing on this area: improvement of habitat conditions, development of the network of urban and peri-urban communications means, modernization and extension of the technical-utility and power infrastructure, assurance of environment quality of EU standards, increasing efficiency and quality of communal services, etc.
- 7.8 The ongoing projects are based on the pole strategy and they have two main aspects: to handle the transport-mobility problems (due to the small historic part) and increase the attractiveness of the city. The main idea is that developing the city in order to become real centre for the entire metropolitan area will increase the urban quality of the whole metropolitan area. The rehabilitation of a part of the historic fortress area (4 squares and 10 streets) is a combination of EU projects with revolving loan taken from Germany for rehabilitation of historic buildings. Most of the area will become pedestrian – as a consequence transport outside the area has to be improved as even bigger congestion will be the consequence. An interesting element of the project, which also shows how interrelated are the different sectoral investments, is that an “incubator for craftsmen” (under Axis 1 projects) was established when the city has recognized that training for craftsmen is needed as there is a lack of good craftsmen. Rehabilitation of public space along Bega canal, 2\*10 km long with bicycle road and lots of green areas also aims to increase life quality in the city.
- 7.9 In one of the outer districts, but still not far from the city centre a new incubator and business centre is under formation from a former industrial area.. A new building is planned, with the first two storeys for start-ups (max 3 years), and the upper storeys functioning as business centre with lower degree of support for another 3 years. An innovation park offers land for lease for companies who are already established. These three stages are the help from the local government, as according Romanian law financial support can not be given to entrepreneurs.
- 7.10 The strategic planning of the local government is supported by an Advisory Board, a group of private entrepreneurs who participated in the discussions on the strategic plans since 2000. There is also a well functioning Chamber of Commerce, which however, only represents its members and many large companies are not members of it. Strong associations of business communities are organized along languages (e.g. German speaking, Italian, etc). Interestingly the Romanian business community does not have any association. The local authority has good and co-operative relationship with all these actors. However, some stakeholders feel that the relations between companies and research institutions is still not sufficient, and that the local policy for research and higher education is not satisfactory (actually, these sectors are financed by national and other sources at the moment). Clusters would facilitate the link between industry and research. The Chamber of Commerce has established the first one, RDA established two

more, but they do not function appropriately yet. Unfortunately, it seems that at the moment the local authority has no instruments and/or capacity to facilitate this process.

- 7.11 All in all the local policies can be considered successful in Timisoara. The economy is performing relatively well, the crisis didn't have significant effects on the economy, the multi-ethnic background (kids speak many languages already in the kindergarten) is favourable for foreign investors who are welcome from the first moment. 8200 companies from 80 countries invested here, almost half from Italy and Germany. Almost 1% of population is Italian, many people moved and settled down here. Timisoara is now in the position attracting many students. According to the city policy, "to keep the students here is the cheapest way to get educated people". Many of the best students stay here as "life, prices and quality" are better than in many other places of the country.

**Arad and Timisoara – Is there any hope for cooperation?**

Two historical cities in the same region, with a distance of only 48 km between them. The historical labels are Timisoara (300,000) – "the cultural and educational centre" and Arad (170,000) – the "industrial centre". Two well prospering cities without any cooperation. What is behind this attitude? Probably many things: Arad was not part of the traditional Banat, so they are lacking the famous "Banatean spirit", there is also a political factor (leadership representing different political parties), different city strategies and rivalling football teams, rivalling airports. This is all understandable. But can the cities afford to keep on this attitude towards each other? Realities would suggest to work together. A joint plan for the two urban areas would make both of them more powerful. Business would also like to see cooperation. But who should make the first step? And when?



## PROSPECTS

### *The Future National Regional Development Policy*

- 8.1 In the east central European countries the second tier cities do not have “regional background”, they are not centres of strong regions and they do not have strong planning control on regional level. In these countries regional decentralization would be an important factor to strengthen second tier cities. The following box (taken from the Central Eastern European background study) shows that among the east central European countries it is only Poland which made some steps towards regional decentralization of the unitary state.

In the **Czech Republic** regional governments were only established in 2001. They have no taxing power and depend on revenue shares and grants which cover no more than operating costs, leaving no margin for capital expenditure or debt service. Their main responsibilities focus on the coordination of regional development.

The Czech Republic classified its newly established regions (13 + the capital city Prague) as NUTS3 units. The NUTS2 level is defined as oblasts; these are statistical units (8 in total) consisting of one or more regions. Prague is an oblast on its own.

In **Poland** the sixteen regional self-governments are also latecomers, created in 1998. They have no taxing power and depend on tax shares and equalization subsidies leaving little margin over operating costs. Nevertheless their role in the coordination of investment was more explicit and potentially important than in the other EU accession countries. This is manifested in the formulation of regional development plans which are then the bases of the contracts with the governments about the use of both regional and sectoral development funds on a three-year rolling basis. Polish marshals (elected regional chief executives) have been successful in securing municipal participation in these contracts and thereby leveraging the greater volume of disposal funding as counterparts to state funding.

Poland uses the 16 new voivodships as NUTS2 units. The 66 NUTS3 subregions do not correspond to any administrative level.

**Hungarian** counties were retained as tiers of self-government in 1990, but with very limited competences. They have no taxing power and depend on the transfers supplemented by highly discretionary deficit grants. County capitals are outside their jurisdiction. Their chairmen preside over county development councils comprising representatives of state agencies, municipalities and socio-economic partners that allocate state budget investment grants and subsidies. A similar role in allocating EU funded programs has been given, however, to parallel development councils at the level of the seven NUTS II regions (each consisting from around three counties).

In Hungary there was no traditional administrative level corresponding to NUTS2; the City of Budapest and the 19 counties were classified as NUTS3 units. This opened the possibility to different delineations. The main questions were if there is real need to create new units or the existing counties could be used; how many regions should be defined and which cities should be their centres; should they be groups of existing counties or not; and if Budapest should be a separate unit (losing the possibility of structural funds early due to its relatively high GDP) or combined with one or more counties (endangering their possibility to use structural funds). As a result 7 planning and statistical regions have been created, as groups of 3 counties each except for Central Hungary consisting of Budapest and Pest county.

In Hungary the regions have been working as a statistical and planning level, but initiatives to strengthen their legal status never got unanimous political support: the question whether they or the counties should be the stronger sub-national level did not come to a stillstand. Until 2010 the government favoured the strengthening of the regions, since then the new government turned towards the counties. Time to time also the separation of Budapest and Pest county comes up as the latter often sees that the capital limits its own possibilities to use structural funds. Concerning the role of cities, there is no clear designation of regional centres; the regional-level deconcentrated government institutions were shared among the county seats in each region, and now the county-based reorganisation of the state administration also favours each of the 19 county seats equally.

Smaller new member states (the three Baltic states and Slovenia) defined the whole country as one NUTS 2 unit (Illés [2002] pp. 246).

In Bulgaria the 28 regions at the meso-level only have central government institutions. For the NUTS 2 level 6 planning regions have been create. There have been discussions about giving them self-government, but no consensus was reached. (Marcou [2007] p. 20)

Based partly on Davey, 2003

- 8.2 Contrary to Poland, Romania did not make any steps towards this direction yet. The way forward would be to introduce directly elected regions with substantial delegated power and financial means, initiating cross-county and metropolitan (functional urban area) cooperation. There are huge differences between the regions of the country. For some other areas in the country more regional independence would be in itself problematic, some of the regions would need strong support if getting decision making autonomy. This problem, however, has to be handled by the

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national level which has to decide how to connect regional decentralization with the support of weaker regions. Regional decentralization is of course first and foremost political question. The counties have elected leadership but they are so small that they can not influence the decisions of the government. Regions would be stronger players and therefore would create larger risks against the central political power. Regional decentralization must be accompanied by money. Weaker regions should get relatively more money, but apart of that the regions should get independence to decide how to spend the money allocated to them. The real level of decentralization is not according to the documents or policies but the revenue raising, spending and decision-making autonomy of the local level. On regional level an elected council as public administrative body should exist, otherwise no effective planning and capital borrowing is possible. Timisoara, as leading city should officially be announced as the capital of the region (such title does not exist recently).

### *The future of the Growth Pole Policy*

- 8.3 Regarding the growth pole policy, it is obvious that a compulsory national legal regulation of the Growth poles has to be developed, otherwise this policy remains too weak. The present growth pole area is smaller than it should be – the optimal would be a double city growth pole. Also the situation with Santandrei is strange: this settlement refused to join the association though it is clear that it should be part of it, otherwise public transportation and other developments can not be done logically and settlements beyond can not be included. Timisoara has already suggested to create national level legal regulation, but the central government does not seem to have interest in it. Few big cities understand that this would be the way forward. The national regulation of growth poles should not assign in a top-down way the territory of the growth poles. There are, however, minimum conditions required which each growth pole has to fulfil to get the title and the related financial advantages. For such a combination of top-down regulation and bottom-up creation of municipal associations the French urban communities model could be considered as a good practice.
- 8.4 Regarding the future of the growth pole policy the number of and the financial allocation to the growth poles is of crucial importance. According to local experts in reality no more than 4-5 poles exist in Romania: Bucharest, Timisoara, Cluj, Iasi, Constanca. In the post 2013 period the growth pole strategy will probably continue, the question is how the effects will be multiplied. If 30-40 poles will be created, less money will come to the individual growth poles. Today 70 million euro is the total money for Timisoara while the of one of the three heating plants would cost 84 mill euros in itself. This clearly shows that big investments with regional importance would not be possible in the future if the funding is decreasing.

### *Integrated local development policies*

- 8.5 Timisoara has to increase its efforts towards the development of the real metropolitan area. The good locational factors (geopolitical situation, road, train and air links, waterway, young population) could best be used in a larger, double city Timisoara-Arad conurbation. The growth pole is a good starting point but also the city has to do many efforts towards the creation of the larger functional urban area cooperation. Timisoara has to aim to improve the relations between companies and research institutions. Step by step a local policy for research and higher education has to be launched despite the fact that these institutions are financed by national and other sources. Realistic clusters have to be developed to facilitate the link between industry and research. A cooperation between the Chamber of Commerce, the Regional Development Agency and the local authority is needed to speed up this process.
- 8.6 For Timisoara the revival of the cross-border development would be of crucial importance. All three regions which were part of the historic Banat region are peripheral in their countries. On

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the level of declarations the cooperation is quite good, even joint declarations (e.g. for the development of the very much needed railway bridge over the Mures) exist. The Bega canal could become another link between the three countries. It was a real connection with other canals, they had an integrated water network. However, the national governments do not pay enough attention to the cooperation. A solution would be if EU regions could turn directly to Brussels, but at the moment there is no financing line directly to these regions. The three countries should learn from other countries which are doing better job on the matter (Germany/France/Netherlands – Aachen area intersection of three borders is in the lobby of the institution developed for cross-border cooperation). The countries, instead of competing, should cooperate, as they could perfectly complement each other. Timisoara possesses everything to become the real capital of the region, but many of the stakeholders interviewed mentioned that it should be more open, it should assume the leading role and should be more generous to the small settlements.

## 9. MAIN FINDINGS AND POLICY IMPLICATIONS

- 9.1 Timisoara is among the biggest cities in Romania after Bucharest. It's an important economic centre, attractive destination for foreign investors (more than 8% from the foreign investments value at national level) and important university centre (57.000 students). With its 52 research institutes Timisoara is one of the most innovative cities in Romania, with an intensive multicultural life. It has good geo-political position and a fairly advanced infrastructure compared to other areas in Romania.. The human resources are properly trained and the labour productivity is among the highest in Romania. All these characteristics generate the economic growth of the city, making it one of the most dynamic places in the country, attractive both for living and working.
- 9.2 Despite all these positive factors, the performance of Timisoara compared to similar size cities from Western Europe is very low. Although the available GDP per head data are very outdated, differences even to central European cities seem to be large, not to speak about western cities. Timisoara's position in the international urban system can be explained by two factors. On the one hand there is a big difference between the development potentials of the capital, Bucharest and the rest of Romanian big cities. On the other hand the competitiveness of the country in general is very low, the significant improvements in business efficiency and infrastructure were not enough to increase the competitiveness of the economy as a whole. Thus Timisoara has to improve its position from a quite low starting point, both nationally and on European level.
- 9.3 In recent years, improvements in the implementation of innovative new planning instruments, as well as the continuing involvement of civil society through actions based on public participation can be observed. All these create better circumstances to handle the complex urban development problems in the Timisoara area. Timisoara's rich history and the local factors (historical, cultural, structural, institutional) provide comparative advantages for the city. However, if the city wants to become a true "capital of Banat", a centre in the West Region and in the Euro-region, a competitive multifunctional centre of Romania, integrated also in the European economy, further efforts have to be made both on local and on national level.
- 9.4 At the moment, the national strategies, the over-centralized and over-politicized features of the Romanian system are the main constraints of further development. All the main functions and power being concentrated in the national capital, the second tier cities are "keeping their eyes on Bucharest" (where the money comes from and where all the investment decisions are made). Under such circumstances less energy, motivation and interest remain to develop bottom-up networks and strengthen their regional position. In the existing fragmented settlement system, cities are following a selfish attitude and since there are no intensives built into the financial system either, they are reluctant to share there scarce financial resources for some "vague"

regional purposes. Even though Timisoara is emphasizing its position as a “regional centre” and no one is really doubting it, the city has no clear vision about how to become a “real” regional centre.

- 9.5 Under the present circumstances the city’s development is limited to the city border or the influence area. The growth pole idea is in principle a very positive initiative, the key of success, however, lies in the further refinements and implementation of the programs.
- 9.6 All of the experts we have interviewed emphasized the need for strong, directly elected regions in Romania. Some functions which belong now to the ministries (mostly on planning and financial matters) should be devolved to regional level. According to some local experts “the counties should not lose many functions otherwise there would be centralization on regional level” – however, this argument is debatable (it is not a question though that a very specific and clear expenditure assignment will be required which stipulates the responsibilities of the different levels). Regional functions might be master plan of the region (such as rail lines, major roads and major projects), preparing regional economic strategies, regional development plans, project financing etc. With a stronger region – with visionary leadership from the side of the city, county and region -- it might be easier to create the framework for a more efficient metropolitan cooperation.
- 9.7 There are huge differences between the regions in Romania and there are no long-term visions on the national level what should be the profile of the different regions, all things happen without any strategy or vision at the moment. It would be very important for the national level to decide how to connect regional decentralization with the support of weaker regions. Cross-border opportunities are very substantial but the inner problems of the countries and the extreme difficulties for cooperation between countries (Schengen borders for short versus long time period) make prospects very difficult.
- 9.8 Among the main stakeholders we have interviewed, there was a consensus that the future depends on the whole urban area around the cities of Arad and Timisoara. A good cooperation between the two cities would be welcome by the entire business sector and would create a powerful, comparative and sustainable urban area. The optimal case would be a double city growth pole. The first changes should come from bottom-up, but the government should give a precise framework regulation.

## ANNEX 1: STRONG POINTS AND WEAK POINTS OF THE TIMISOARA AREA IN COMPETITION WITH OTHER TOWNS AND REGIONS

FACTOR	STRONG POINTS	WEAK POINTS
Geopolitical position	Location near the border with Yugoslavia and Hungary, in the contact area with the EU, at a distance less than 700 km from 13 European capitals; Significant node of road, railway, air traffic; possibility to resume ship traffic; Location over the Pan European Corridor 4, possibility to access the Pan European Corridor 7 (by Bega Canal); High favourable geographical conditions (climatic, hydro-geologic, pedologic);	Lack of direct access to the EU states – inexistence in the Timis County of a border point with Hungary; poor subsoil resources; alternation of dry and humid years;
Population, workforce	High tolerance level, low level of social disputes among citizens; High education level, exceeding the country average; Major rate of population belongs to the adult group (age of 20-60 years) over 50% of overall population;	general negative demographical balance; simple demographical reproduction – denatality; acute lack of workplaces; raising unemployment rate; compensatory payments for dismissed people, leading to social laziness;
Patrimony	Exceeding stock of industrial buildings and sites, available on industrial platforms, holding proper technical-utility equipment; Reserves of lands that may be reconverted for distinct purposes; Prospective future developments (non-built lands 24,35%) – the land inside the city limits represents about 50% of the city territory; Reserves of good quality lands to practice agriculture, with land betterment works; Balanced free market of lands and buildings inside and outside the city limits, Existence of valuable architectural patrimony.	Yet, it has been not completed the assets owned by the state, by the County Council and by the local community; The existence inside the city limits of special destination lands (military, penitentiary, radio aerials); High price of lands holding technical utilities; Discrepancy between real value of real-estates and their price on the free real-estate market; Accelerated degrading process of the historical patrimony in the city centre; The traffic increase within the historical centre provokes structure damages;
Traffic and transportation infrastructure	Consistency in time as to town planning – radial-concentric, flexible urban structure; Developed and diversified traffic and transportation network, for people and freight (road, railway, air and possible naval); Area with highest railway density of the country (90,5 km railway/100 km <sup>2</sup> of territory); International Airport – highest number of days with good visibility; Modern technical equipment (access to any type of aircrafts); Domestic and international regular air flights; Bega Canal – once navigable over 44 km along the Romanian territory – there is the possibility to resume navigation; Proper territorial coverage with public transportation network, county, urban and between countries; Public electric transportation holds main position (accessible fares); Public railway transportation provided for all travel destinations;	Inexistence of a periurban arranging plan – lack of correlation between urban and periurban road network; Lack of city deviation route; Poor condition of roads, streets and railways; Barrier traffic points – lead to delay and low travel speed; Discontinuity of road traffic on route Timisoara – Cenad (lack of about 10 km up to the border); Lack of control landing equipment for special flight conditions; Poor services for travellers; No dredging over the Bega Canal; Inoperable turning basin of barges; Accentuated damage of the rapids of Costei dam may lead to the interruption of water supply and represents flood danger; Obsolete technical equipment of public transportation (expired operation time: tramways-100%, trolleybuses-80%, buses-15,54%); Inexistence of subventions for public transportation in periurban areas; Obsolete railway transportation equipment;
Utility, power and telecoms networks	Technical infrastructure for water supply, sewerage, defences against floods, land betterment works, power supply, natural gas supply and heating well-developed in Timisoara; Power supply from two major sources (Portile de Fier, Mintia); Supply of natural gas from the Transylvanian Basin and with petroleum gas from the Banatul Plain; Centralized heating system capable to provide over current needs, in around the clock automatic operation of 75%; Main optic fibre telecommunications route; Extended telecommunications network – alternative to	Poor development of technical infrastructure in periurban communes; Advanced wear condition in over 30% of the drinkable water supply network; Waste water treatment plant with insufficient treatment capacity of waste water and obsolete technologies; Timisoara – end point of the natural gas distribution network (reduced pressures during winter); Underdimensioned and obsolete networks; Equipment and technologies partial out of date from the physical and moral point of view;

	fixed telephony network;	poor services of fixed-telephony in periurban communes; single-operator in Romania of fixed-telephony services; quite high price of mobile telephony devices and services;
Institutional infrastructure	Existence of institutions of county and municipal interest (in Timisoara) and communal one (within the area);	V West Region is non-institutionalized; Lack of proper resources required for economic-social development (exhibition, centres, business, commercial, centres, travel agencies, centres for European integration, etc.); Quite low development of business infrastructure;
Economy	Timisoara – developed economic centre – holds over 95% of the economy in the area, over 60% of the county economy, over 30% of the economy of V West Region, over 3% of Romania’s economy; Diverse economic structure; High development index of the entire area (1 <sup>st</sup> category); Large consumption market; Raise of exports in industry – by 73%, in agriculture by 642%; Predominates private property over public property; Raise of the number of small and medium-sized enterprises;	The economy in the area is pending stabilization; Strong decrease of exports of services; Obsolete economic structure, highly worn equipment; Relatively low level of development of the small and medium-sized enterprises; High workforce fluctuation among several economic branches; poor management; absence of a selective stimulation mechanism for industrial activities and for promoting clean industries, holding high added value;
Education	High educational rate (over 99%); High developed and diverse school education network (classis, alternative, religious education in Romanian, German, Hungarian, Serbian, English, French); Various university education – 7 universities (4 public and 3 private), highly skilled teaching staff, proper equipment (course halls, amphitheatres, libraries, laboratories, campuses, cafeterias, experimental lands)	Autonomy of educational organizations is relatively low; School network lacks flexibility; Lack of equipment and materials in educational organizations; Insufficient connection to high technologies; Migration of teaching staff from education to other industries; School and university educational offers improperly related to the needs of labour market;
Research	Research centres with tradition and highly skilled staff in certain domains; Objectives of scientific and applicative research;	The equipment of research centres lacks and is obsolete; Improper correlation between research and production;
Culture and mass-media	Timisoara, a significant cultural centre of Romania, holding cultural tradition; Varied cultural patrimony; Diverse cultural offer (opera house, philharmonic, theatres in Romanian, German, Hungarian, puppet show, art schools, libraries, artistic groups, museums, art galleries); Developed mass-media (written press- 17 daily, weekly, monthly, quarterly, yearly local newspapers in Romanian, German, Hungarian, and Serbian, with private publishing system highly developed; 4 radio stations with regional coverage; 2 local TV stations and 1 territorial studio of the public television, 2 CATV networks).	Insufficient integration in the national and international cultural circuit; Insufficient involvement of civil society in cultural life; Lack of materials, insufficient consolidated mass-media at local level; Broadcasting licences under the required level; Lack of coherent cultural strategy;
Health and social care	Balanced distribution of attended persons/medical office, as well as to the urban/rural ratio; Health facilities cover the needs of the city and of the area; Most modern cardiology centre in Eastern Europe; There are several associations and institutions that provide social care (65 organizations, 46 institutions); Local public administration provides funds and services for social care and supports financially the NGOs that render social care services;	Excessive centralization – no coordination of health care policy at local level; Obsolete health care facilities, some of them requiring modernization; Improper current maintenance; Lack of equipment to develop activities of medical examinations; Insufficient recovery centres; Improper use of hospital beds; The highest hospitalization rates in the country; Legislation related to social care is in ongoing changing; Insufficient services and skilled staff; Improper involvement of the civil society and of churches in solving community social issues;
Environment	Quite low pollution level; existence of landscape green areas and waterhole that may enrich the microclimate; Possibilities of their extension;	Low rate of green area/inhabitant; Reduced leisure possibilities within or next to the area;

	The existence of the Green Forest and of the urban leisure area developed along the Bega Canal banks; The existence of suburban leisure areas (Ianova, Timis, Sanandrei, etc.); Recourses of thermal-mineral waters;	Lack of protection curtains Insufficient use of thermal-mineral waters; Inexistence of an integrated ecological waste management;
Habitation	The average habitable area/inhabitant is relatively high, exceeding the country average; Availability for diversified habitation (common buildings, individual houses); Existence of local policies to purchase and transform real-estates in order to give solutions to social issues;	Low rate of dwellings managed by local public administrations; Advanced wear at about 60% of the overall dwellings; Trend to reduce housing resources through functional reconversion of premises; Improper fitting of certain districts with complementary facilities (education, agricultural markets, green areas, playgrounds); The existence in the habitation areas of incompatible functions;

**TRENDS GENERATING OPPORTUNITIES OR POSSIBLE RISKS TO THE TIMISOARA AREA**

SECTOR	OPPORTUNITIES	RISKS
Romania's overall politics; relations with county authorities	Signing of the treaty of Romania's pre-adhesion to the EU; Improvement of legal and institutional environment in Romania; Extension of decentralization in all economic sectors; Internal political stability; Formation of regional development agencies;	Reorientation of Romania's domestic policy towards an closed economic model; Reorientation of Romania's domestic policy towards a decentralized management system; Monopolization of the economy;
Demographic and social processes	Raise of population mobility; Development of educational standards of population; Inexistence of major social disputes; Continuous raise of population belonging to the demographic segmentation age group fit for work (age of 18-20), with higher education;	Demographic Accentuation of social conflicts; Migration of highly skilled professional developers from higher education organizations to other domains or countries;
Economy	Timisoara was acknowledged as synergic development pole of commercial relations between the countries that signed the CEFTA agreement (final declaration of CEFTA Partnership '98); Development in Timisoara of a Centre to promote economic relations between CEFTA member states; Existence of financial agreements signed with the International Monetary Funds, World Bank and EU; Simplification of customs clearance and visa formalities; Application of the national strategy during medium term; Development and improvement of occupational legislation; Restructuring of public finances; Simplification of legal and administrative proceedings to encourage domestic and foreign investors; Acceleration of the privatization process; Regulation and application of property-related law;	Intensifying the customs procedures; Withdrawal of financial support from international bodies; Raise of number of economic offences, Development of the underground economy; Decrease of rate of privatization process; granting priority facilities to other economic centres from the region and Euro-region;
Regional, Euro-regional, international relations	Existence of the V West Development Agency in Timisoara; Formation of the Development Agency of the Timisoara Area; Traditional relations of partnership in all fields with other cities belonging to the Dunare-Cris-Mures-Tisa Euro-region; Twinning agreement with 6 European cities (Karlsruhe, Mulhouse, Faenza, Gera, Rueil-Malmaison, Szeged); Improvement of Romania's relation with Yugoslavia	International political instability; Deepening and/or extension of conflicts in the Balkans; Emerging of disputes in the Timisoara Area and Timis County (e.g. between administrative institutions); Conflicts of interests between economic centres located in the V West Region;
Major infrastructure	Opening of the border point with Hungary in Cenad; Arrangement of the Pan European Corridor 4, with priority the part between Szeged and Timisoara; Construction of the bridge in Vidin; Rearrangement of the Bega Canal for freight vessel transportation.	Lack of funds to develop the main traffic infrastructure; Conflicts of interests between distinct decisional levels (local, county, national);

Source: Strategic Concept of Economic and Social Development of Timisoara Area

## ANNEX 2 KEY DATA ON WEST REGION

## Indicators to characterize the development level and the economic potential of West Region (2004)

INDICATORS	REGION	COUNTIES*				ROMANIA
		AR	CS	HD	TM	
<b>I.1. Population, employment, unemployment</b>						
I.1 Total population (absolute figures)	1939514	460466	332688	484767	661593	21673328
Urban population (%)	63.7	55.6	56.3	76.9	63.3	54.9
Rural Population (%)	36.3	44.4	43.7	23.1	36.7	45.1
Migration sold	1067	1389	252	-2524	1950	-10095
<b>I.2 Employment</b>						
Active population in total population (%)	44.8	44.8	39.2	44.3	48.0	40.6
Employed population in total population (%)	42.2	43.2	35.6	39.5	46.7	38.0
Employed population by economic sectors:						
Agriculture (%)	26.5	25.5	37.6	23.2	24.9	32.0
Industry (%)	34.7	34.9	28.5	38.5	34.5	30.0
Services (%)	38.8	39.6	33.9	38.3	40.6	38.0
<b>I.3 Unemployment</b>						
Unemployment rate by December 31st 2004 (%)	5.8	3.6	9.0	10.8	2.6	6.3
Feminine unemployment rate by 31st December 2004 (%)	5.4	3.3	8.0	10.4	2.6	5.6
Percentage of unemployed not benefiting from indemnities by 31 December 2004 (%)	52.6	59.9	46.3	54.8	48.6	59.3
<b>II. Economic development</b>						
II. 1. GDP/inhabitant (2003) – euro	2.733,3	2595,9	2265	2303	3385,5	2.420,5
II. 2. Labour productivity (2003) – euro	5.454,2					4.625,3
II. 3. FDI (mil euro)	1.093					15.040
II. 4. Business infrastructure (industrial parks)	1			1		36
<b>II. 5. SMEs</b>						
SMEs/1000 inhabitants (No.)	20,38	20,30	13,07	18,20	25,72	19,35
Total SMEs (absolute figures)	39.358	9.326	4.338	8.745	16.948	418.499
Out of which: Manufacturing (%)	14,57	16,43	17,33	14,36	12,96	13,6
Constructions (%)	6,69	5,85	6,52	6,50	7,29	6,20
Services (%)	74,76	72,33	72,75	76,42	75,76	77,48
<b>SMEs structures by size:</b>						
Micro (%)	86,44	84,58	86,51	87,30	87,00	88,03
Small (%)	10,79	12,47	10,55	10,00	10,33	9,57
Medium (%)	2,76	2,94	2,92	2,68	2,65	2,39
Attractivity rate	35,8					
<b>III. Infrastructure</b>						
<b>III. 1. Transport</b>						
Public roads density (km/100 sqkm)	31,9	28,9	22,8	44,2	33,4	33,3
Modernised public roads in total public roads (%)	26	22,3	39,4	22,2	23,9	26,3
<b>III. 2. Public utilities</b>						
Localities with water supply network in total number of localities (%)	23,2	36,8	10,2	12,3	39,3	
Localities with sewerage network in total localities (%)	6,4	8,9	5,8	6,2	5,0	
<b>III. 3. Education</b>						
Number of schools	1502	266	423	212	601	14,396
<b>III. 4. Health</b>						
Number of hospitals	46	11	8	11	16	425
<b>III. 5. Social services</b>						
Number of institutions providing social services	3540	129	721	42	2648	13747

\* AR (Arad); CS (Caras-Severin); HD (Hunedoara); TM (Timis)



III. 6. Tourism						
Accommodation units (no)	369	81	95	87	106	3,9000
Existing accommodation capacity (places)	21,066	4,690	7,000	4,189	5,187	275,941
Functioning accommodation capacity (places - days)	5,402,123	968,439	864,450	971,315	1,597,919	53,988,640

Source: Regional Operational Programme 2007-2013

### Regional Development of Romania in terms of GDP and urbanization level

No	Region	Population 2006	Urban population % 2006	GDP/inhab 2006 (in PPS, EUR27=100) <sup>19</sup>
	<b>Romania</b>	<b>21,584,365</b>	<b>55.2</b>	<b>38.4</b>
1.	North-East	3,732,583	43.6	24.7
2.	South-East	2,837,834	55.4	32.5
3.	South	3,312,342	41.6	32.1
4.	South-West	2,293,895	47.6	30.4
5.	West	1,927,229	63.5	44.7
6.	North-West	2,730,132	53.1	35.9
7.	Central	2,530,818	59.8	38.3
8.	Bucharest-Ilfov	2,219,532	92.5	83.8

Source: [www.inforegio](http://www.inforegio)

### Regional Disparity Indicators (regional GDP/cap \*100 / national GDP/cap)

	2002	2003	2004	2005	2006	2007
Region						
North-West	0,959	0,951	0,955	0,938	0,936	0,931
Centre	1,051	1,038	1,004	0,980	0,997	1,006
North-East	0,725	0,718	0,690	0,667	0,645	0,631
South-East	0,902	0,883	0,917	0,864	0,850	0,840
Bucharest-Ilfov	2,029	2,012	2,007	2,213	2,193	2,222
South-Muntenia	0,805	0,803	0,824	0,828	0,838	0,839
South-West Oltenia	0,776	0,831	0,821	0,776	0,781	0,782
<b>West</b>	<b>1,094</b>	<b>1,121</b>	<b>1,141</b>	<b>1,127</b>	<b>1,163</b>	<b>1,153</b>

Data source: Romanian Statistical Yearbook 2000-2008, Balan-Solomon, 2010

<sup>19</sup> Romania's GDP =38,4% of the EU-27 average

## ANNEX 3: INTERNATIONAL CONTEXT

## Indicators for Timisoara and same-size European cities

Indicator	Year	City							
		Timisoara	Katowice	Brno	Dresden	Orleans	Bologna	Magdeburg	Utrecht
Total resident population	2004	303,908	319,904	367,729	487,421	274,695	374,425	226,675	270,244
Total annual population change over 5yrs	2004	-2%	-1%	-1%	1%	1%		-1%	3%
Average price/m2 for an apartment	2004	€320	€369	€551	€1,350	€1,100	€2,682	€1000	€1,939
Average price/m2 for a house	2004	€799	€430	€781	€1,600	€1,400		€1,130	€2,012
% of households living in owned dwellings	2004	84%	6%	24%	14%	50%	64%	14%	46%
% of households living in social housing	2001	5%	16%		2%	19%	8%	13%	36%
Average living area in m2/person	2001	17	24	18	34	37	40	35	71
Unemployment rate	2004	8%	18%	7%	16%	9%	4%	22%	3%
Employment rate	2001	52%	43%	67%	62%	63%	66%	60%	73%
Activity rate	2001	57%	61%	72%	74%	69%	69%	77%	76%
GDP per head (€)	2001	€2,121	€6,468	€9,951	€31,169	€25,683	€25,019	€25,605	€52,440

Source: Urban Audit City Profiles, 2001-2004

## Indicators for Timisoara and other Romanian big cities

Indicator	Year	City							
		Timisoara	Cluj-Napoca	Braila	Arad	Targu Mures	Craiova	Oradea	Bucharest
Total resident population	2004	303,908	311,528	218,984	169,327	147,734	299,494	206,463	1,927,448
Total annual population change over 5yrs	2004	-2%	-1%	-1%	-2%	-2%	-1%	-1%	-1%
Average price/m2 for an apartment	2004	€320	€524	€149	€318	€499	€292	€398	€624
Average price/m2 for a house	2004	€799	€604	€102	€426	€548	€110	€398	€546
% of households living in owned dwellings	2004	84%	87%	88%	86%	89%	91%	88%	89%
% of households living in social housing	2001	5%	2%	5%	5%	3%	3%	4%	4%
Average living area in m2/person	2001	17	15	13	17	15	14	15	16
Unemployment rate	2004	8%	8%	17%	5%	8%	14%	6%	7%
Employment rate	2001	52%	52%	49%	55%	54%	47%	53%	54%
Activity rate	2001	57%	59%	59%	59%	60%	55%	58%	59%
GDP per head (€)	2001	€2,121	€1,849	€1,725	€2,121	€2,100	€1,682	€1,849	€4,237

Source: Urban Audit City Profiles, 2001-2004

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**The pillars of competitiveness (on a scale from 1 a worst – 7the most powerful)**

<b>Basic requirements</b>	<b>Score Romania</b>
<b>Institutions</b>	<b>3,7</b>
<b>Infrastructure</b>	<b>2,7</b>
<b>Macroeconomic stability</b>	<b>4,6</b>
<b>Health and primary education</b>	<b>5,5</b>
<b>Efficiency enhancers</b>	
<b>Higher education and training</b>	<b>4,3</b>
<b>Goods market efficiency</b>	<b>4,2</b>
<b>Labor market efficiency</b>	<b>4,3</b>
<b>Financial market sophistication</b>	<b>4,4</b>
<b>Technological readiness</b>	<b>3,8</b>
<b>Market size</b>	<b>4,5</b>
<b>Innovation and sophistication factors</b>	
<b>Business sophistication</b>	<b>3,8</b>
<b>Innovation</b>	<b>3,1</b>

Source: World Economic Forum Global Competitiveness Report 2009-2010

## ANNEX 4 KEY DATA ON TIMISOARA GROWTH POLE

## The evolution of the population in Timisoara growth pole

	Municipality	Number of population		Dynamics 2002/2006
		2002	2006	
1.	Timisoara	308.765	303.224	-1,8
2.	Becicherecu Mic <sup>20</sup>	4.613	2.485	-46,1
3.	Bucovat	-	-	-
4.	Dudestii Noi	-	2.384	-
5.	Dumbravita	2.441	2.778	13,8
6.	Ghiroda	4.584	4.778	4,2
7.	Giarmata	5.319	5.638	6,0
8.	Giroc	3.996	4.354	9,0
9.	Mosnita Noua	3.787	3.958	4,5
10.	Ortisoara	3.884	3.965	2,1
11.	Pischia	2.878	2.766	-3,9
12.	Remetea Mare	3.041	3.124	2,7
13.	Sanmihaiu Roman	4.186	4.373	4,5
14.	Sacalaz	6.182	6.491	5,0
15.	Sag	4.191	2.696	-35,7
Total rural				1,4
Total general				-1,4

Source: Integrated Development Plan of Timisoara Growth Pole

## Evolution of sectoral turnovers in Timisoara growth pole 2003-2006 (million RON)

Sector	2003	2004	2005	2006	Total/ sector
Agriculture	229.991	289.649	318.679	375.723	1.214.039
From which Timisoara	90%	90%	91%	90%	90%
Industry	6.002.799	6.882.647	3.091.054	3.072.000	19.048.500
From which Timisoara	95%	94%	84%	84%	91%
Construction	944.484	1.246.541	1.375.856	1.630.488	5.197.369
From which Timisoara	94%	93%	93%	89%	92%
Services	5.502.961	6.446.507	6.321.810	7.533.868	25.805.146
From which Timisoara	92%	90%	90%	91%	91%
Total/year	12.680.234	14.865.342	11.107.399	12.612.079	51.265.054
From which Timisoara	93%	93%	89%	89%	91%

Source: Integrated Development Plan of Timisoara Growth Pole

## Top investors (by countries) in Timisoara Growth Pole

Rank	Country	Number of firms	Total apported foreign capital (EUR)
1.	France	35	4.339.082
2.	Italy	420	2.021.740
3.	Spain	30	1.214.414
4.	Great Britain	13	841.636
5.	Germany	188	743.746
6.	Belgium	19	636.604
7.	Austria	89	315.285
8.	Hungary	61	175.795
9.	Croatia	7	128.599
10.	Iran	3	102.371

Source: Integrated Development Plan of Timisoara Growth Pole

<sup>20</sup> The data of Becicherecu Mic, Bucovat and Sag are misleading, because in 2005 and 2008 parts of these settlements have split off and formed three new settlements: Dudestii Noi, Bucovat and Parta.

**Public education in Timisoara Growth Pole (2007)**

Type of education	Number of institution	Number of pupils	Number of teachers
Pre-school education	60	8547	774
Primary education	47	24137	2183
Secondary education	34	18879	1444
Art School	1	3513	367
Other (special institutions)	7	1630	410
<b>Total</b>	<b>149</b>	<b>56706</b>	<b>5178</b>

Source: Integrated Development Plan of Timisoara Growth Pole

## ANNEX 5 KEY DATA ON TIMISOARA MUNICIPALITY

### Economic performance at the national level 2003-2007

County	Total capital (%)	Business turnover (%)	Gross profit (%)	Number of employees
Bucuresti	58,6	55,8	57,8	1357738
Timis	3,2	2,6	3,1	155963
Cluj	2,6	2,8	2,9	156423
Ilfov	2,9	2,5	2,4	79925
Total economy	100%	100%	100%	4269035

Source: Integrated Development Plan of Timisoara Growth Pole

### The evolution of GDP in Timisoara (Euro)

1993	1,058	2001	2,157
1994	1,187	2002	2,440
1995	1,297	2003	2,712
1996	1,298	2004	3,214
1997	1,560	2005	4,160
1998	1,679	2006	5,267
1999	1,728	2007	6,699
2000	1,869		

Source: National Statistics Institute

### The unemployment rate's evolution

	Timisoara	Romania
1991	4,6	3
1992	7,1	8,2
1993	7,2	10,4
1994	4	10,9
1995	2,5	9,5
1996	4	6,6
1997	5,9	8,9
1998	8,4	10,4
1999	7,6	11,8
2000	6,5	10,5
2001	3,9	8,8
2002	3,5	8,4
2003	2,6	7,4
2004	2,3	6,3
2005	2	5,9
2006	1,6	5,2
2007	1,6	4

Source: National Statistics Institute

### Housing indicators in Timisoara municipality (2006)

Number of housing units/1000 inhabitants	415,09
Number of rooms/1000 inhabitants	978,46
Number of rooms/ housing unit	2,36
Average number of inhabitant/room	2,39
Average surface area/housing unit (sqm)	40,43
Average surface area/person	16,78

Source: Integrated Development Plan of Timisoara Growth Pole

### Green areas in Timisoara (2007)

Type of area	Surface (ha)	Surface/inhabitant
Parks	87,59	2,78
Squares	12,97	0,41
Alignments in neighbourhoods	328,58	10,30
Forest curtain	25,00	0,80
Green Forest	50,70	1,61
Total	504,84	16,03

Source: Integrated Development Plan of Timisoara Growth Pole

**The share of different type of local revenues in the municipal budget (%)**

	2005	2006	2007	2008	2009
Own revenues	63%	63,6%	66,9%	72,9%	74,1%
Other sources of income	37%	36,4%	33,1%	27,1%	25,9%

Source: The Annual City Hall's Reports

**The Structure of the local budget (%)**

	2005	2006	2007	2008	2009
Share of central government transfers in total revenues	3,7%	1,9%	6,9%	7,5%	5,1%
Share of property/land use income in total revenue	5,3%	7,1%	5%	10,5%	4,5%
Share of local/shared taxes in total revenue	48,1%	46,1%	57%	51,7%	64,6%
Share of other local income in total revenue	42,9%	44,8%	31,1%	30,4%	25,8%

Source: The Annual City Hall's Reports

**Municipal Government Expenditures – Functional Classification (%)**

	2001	2002	2003	2004
<b>Total Expenditures</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Security	6.7	6.6	6.3	6.5
Education	41.7	42.9	37.9	39.8
Culture	2.1	2.0	2.1	2.4
Social Assistance	6.3	9.3	9.8	8.1
Public Housing Development	34.5	30.7	35.8	28.0
Transport and Communication	3.4	2.8	2.9	10.8
Other Expenditures	5.3	5.6	5.3	4.3

Source: Intergovernmental Fiscal Relations in Romania; Leonardo-Martinez-Vauquez-Miller-Sepúlveda; 2006



**The ESPON 2013 Programme**

**3.15**

**KATOWICE**

**Iván Tosics  
Andrea Tönkö  
Antal Gertheis**



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### Annexes

## 1. INTRODUCTION – WHY KATOWICE

- 1.1 Katowice is one of the two post-socialist case study cities in the ESPON research. It is representing Poland, the largest of the new member states, which joined the EU in 2004. Poland shares the general attributum of the east-central European countries insofar as the capital city is developing faster than the second tier cities. Even so, Poland differs from the other countries regarding the size index (the second largest city has 45% of population of the capital city – in other CEE countries this difference is larger). Not only size-wise but also according to other measures (see Tosics-Illés-Hegedüs, 2011) Poland can be considered as the most polycentric among the new member states. The fairly balanced territorial structure is shown in the high number of large cities (17 cities above 200 000 inhabitants) which cover well all areas of the country. Poland has also other important specificities among the new member states: this is the only one country which has regionalized its administrative structure, having been established directly elected regions in 1999.
- 1.2 Katowice is one among the second tier cities of Poland. Taking the population of the administrative city area it is the tenth largest city of Poland. The table below shows that in the last decade (between 1999 and 2008) this was the fastest shrinking city among the ten listed in the table, in strong contrast to Warsaw and Krakow, the two largest and growing cities. From the last column of the table another peculiarity of Katowice becomes apparent: the growth of the city was exclusively the result of the developments of the 20th century, as at the beginning of that century it was still a very small place. Thus Katowice is an 'outlier' among the Polish second tier cities, both from the perspective of the population development of the 20th century and regarding the changes of the last decade.

**Table 1. Trends in population change in the ten largest Polish cities**

	Pop. Dec. 2007	Pop. 1999	Pop. 1900
Warsaw	1,706,624	1,618,468	756,400
Kraków	756,583	740,666	120,300
Łódź	753,192	806,728	351,600
Wrocław	632,930	643,877	422,700
Poznań	567,932	578,235	126,000
Gdańsk	458,717	458,988	140,600
Szczecin	410,811	416,988	210,700
Bydgoszcz	361,222	386,855	52,200
Lublin	351,806	356,251	53,600
Katowice	317,220	345,934	31,700
Upper Silesian Metropolitan Union (USMU)	(2,062,200)		

- 1.3 There is a third aspect, regarding which Katowice can be considered as an exceptional case: the functional urban area. Taken the OECD developed 'Urban Labour Market Areas' (ULMA) approach into account, Katowice has the second largest urban agglomeration of the country ("Silesia Metropolis"), almost surpassing the ULMA of the capital city. Sizewise the two agglomerations are very similar and substantially larger than the functional areas of the other Polish second tier cities. From this overview it is obvious that Katowice is the most peculiar among the Polish second tier cities. Having declining population at the same time it is the central city of Poland's largest conurbation in which a substantial share of the country's medium and large cities can be found. Thus, while Katowice in itself is not representative for the Polish second tier cities, its case is very important regarding the urban development of the country.
- 1.4 The historical factors and the regional role of Katowice show that Katowice can not at all be categorized as a 'normal' shrinking city. Shrinkage might be temporary and could in the future slow down or even change into its opposite. From an industrial boom-town in the 19th century, following the post-industrial shrinkage period Katowice aims now to turn into a modern European cultural and commercial centre. This is also shown by the fact that this city was one of the candidates for Capital of Culture for 2016 (finally not being awarded to the title). However, the way to reach this ambitious goal is not without barriers and difficulties. The city has good potentials, but it's historical (industrial) heritage is still a heavy burden. It will probably take long decades to change the prestige of this region and turn it into a place, where people really like and want to live.

## 2. CASE STUDY CONTENT

- 2.1 One of the purposes of the case study is to explore in a detailed way the different institutional, economic and politic factors that influence the performance of the city, and to asses its current and potential role in the local, regional national and European territorial development. Due to the discussed peculiarities, in order to fulfil the aims of the case study analysis, i.e. to give an overarching picture of second tier city development in the selected country, the methodology applied for the analysis of the Katowice case will not be restricted to explore and explain all details of the development of Katowice itself, but also to put the topics and the results into regional and national context in order to allow, as far as possible, comparison to the other second tier cities of Poland. The fulfilment of this task is to a great extent facilitated by the fact that OECD recently completed its National Urban Policy Review on Poland (OECD, 2010c), which is a very rich source of information about the development of Polish cities. The study starts with a brief history of the city, emphasizing the key points of development and growth triggers. This is followed by a description of the city performance in key areas (economic, social, and environmental) and how it compares with city region, region and the national performance. The study also describes the main governance arrangements; the city's position in the broader urban system and how the regional development and urban policy in Poland determines the development potentials of the city.

## 3. BRIEF HISTORY OF THE CITY

- 3.1 Katowice, capital of the Silesian Region (Śląskie Voivodeship), located in southern Poland, is one of the most important cultural, academic and economic centres in Poland. While the region has been settled for centuries, it was not until the Industrial Revolution that Katowice began to grow into a busy centre we see today. Katowice has changed hands many times in its history. Originally inhabited by ethnic Silesians, it was ruled by the Polish Piast dynasty before falling into Czech hands in 1335, and then into the Habsburg domain in 1526. The city Katowice was founded in the 19th century, gaining city status in 1865. During the history, the city's inhabitants consisted mainly of Poles, Germans, Jews and Silesians.

### *Short History of Upper Silesia*

- 3.2 The earliest traces of human activity in the historical region of Silesia date back as far as 200,000 years B.C. The first written record of Silesia can be found in the ancient works of Ptolomaeus and Tacitus. Before the Polish state was established under the Piast dynasty, Silesia became part of Great Moravia, the Central European empire, founded by Prince Mojmir I. Around 890 – 900 the Great Moravian ruler conquered the present-day southern Poland, including Silesia. However, Silesia did not enjoy its being a part of the Polish Kingdom for a long time. Upon the death of Boleslaus III the Wrymouth, the power of the country became split among his sons. Consequently, the early Polish Kingdom was divided into 5 principalities. One of them was Silesia., the hereditary province of Wladyslaw II the Exile. However, after his acknowledgement of the overlordship of the Holy Roman Empire over Poland, he had to seek exile, whereas the reign of Silesia was granted to his sons. One became duke of Lower Silesia and the other – duke of Upper Silesia. Under their successors the further fragmentation of the lands of Silesia continued. By the 1390s there were as many as 16 principalities within the lands of Silesia.
- 3.3 Politically strong Bohemia stood in contrast to the fragmented Polish state. Thus, a lot of the Silesian dukes pledged allegiance to the Bohemian ruler. Hence, though the Polish Kingdom became united under the two last Piast rulers, Wladyslaw I the Elbow-high and Casimir III the Great, Silesia could not be incorporated into it. Over the centuries upon the death of the dukes of Silesian Piast dynasty, Silesian duchies became incorporated into Bohemia. At the same time Silesia came under the influence of the Holy Roman Empire. What followed whas an influx of German settlers and a strong Germanization process. Being part of Bohemia Silesians were involved in the Hussite wars during which a lot of Silesian towns were plundered and burnt. After the death of George Podiebrad, King of Bohemia, the Hungarian King, Matthias Corvinus, ruled over Silesia. His 16-year-long reign was followed by another rule of Bohemian kings. Upon the death of Louis VI, King of Bohemia and

- Hungary, in 1526 Hungary and Bohemia, including Silesia, came under the rule of the Habsburg dynasty.
- 3.4 The Habsburgs' governance of Silesia was a period of religious conflicts. The early 16th century Protestant Reformation made a lot of Silesia inhabitants become Lutherans. However, the Catholic King Frederick II, Holy Roman Emperor and King of Bohemia and Hungary suppressed Protestants, which sparked the Thirty Years' War. The Westphalian Treaty of 1648 ended the Thirty Years' War with 60 % of the Silesians converted into Catholicism. In the early 18th century Silesia, except for the Duchy of Cieszyn and the Duchy of Opava, was annexed by King Frederick II into the Kingdom of Prussia. By 1763 almost the whole area of Silesia was in the hands of the Prussians. At that time German became the language spoken in the majority of the Silesian cities, especially in Upper Silesia. In 1871, being a province of Prussia, Silesia became incorporated into the German Empire as a consequence of the unification of Germany. The industrialization process was initiated, which encouraged lots of people come to settle in Upper Silesia.
- 3.5 The early 20th century brought about a change in the lot of Silesians. After the defeat of Germany in World War I, under the Treaty of Versailles a plebiscite on the future of this area was to be held in Upper Silesia. The voting whether Silesia was to remain within Germany or be incorporated into Poland was to be held in March 1921. When in 1918 Poland had regained independence, the ethnically Polish Silesians from the eastern part of Upper Silesia wanted to be incorporated into Poland. On the other hand, Germans wanted the region to remain in Germany as it was heavily industrialized with rich coal deposits. The propaganda started on both sides, leading to a social unrest. As a result, the First (1919) and Second (1920) Silesian Uprisings broke out. In 1921 the plebiscite was held, however, the Allied Supreme Council could not work out an agreement on the partition of the Upper Silesian territory. The reason was that the plebiscite results were differently interpreted by the governments of Great Britain and France. As the acts of violence against the population of the Upper Silesia from the German paramilitary troops began to appear, the Silesians led by Wojciech Korfanty sparked off the Third Silesian Uprising. Eventually, the insurgents managed to take over most of the territory of Upper Silesia, including the local industrial district, the former bone of contention between Germany and Poland. In 1922, as the aftermath, the special commission set up by the League of Nations decided that the eastern-most Upper Silesian areas where majority voted for Poland should become an autonomous area within Poland. The area obtained the status of the Autonomous Silesian Voivodship.
- 3.6 The Silesians of the autonomous area could not enjoy their freedom for long. Between 1939 – 1945 the area was occupied by the Germans. During the five-year long occupation the Germans took control of the whole area of Silesia. Equally dramatic was the 1945 "liberation" of Silesia by the Soviet Red Army. The situation changed after the 1945 German capitulation when under the treaties signed in Yalta and Potsdam the formerly German areas of Silesia, east of the Oder and Neisse Rivers, including the pre-war Silesian voivodship, were incorporated into Poland. As the population of Lower Silesia was predominantly German, they either fled from the area or were forcibly deported by the new authorities. In return, the Poles from eastern areas of Poland, which were annexed by the Soviet Union, came to live here. After World War II, especially in the 1960s and 1970s, lots of people from all over Poland came to work in the local mines. Over the years the industry developed contributing to the wealth of both the region and the whole country.
- 3.7 The city underwent its main growth in the 19th-20th century, when coalminers and steelworkers began developing the area's natural resources and infrastructure. A key point of the city's development was the opening of the Mysłowice-Wrocław railway line. In 1889, a dynamic concern "Kattowitzer Aktien-Gesellschaft" group set up its head office Katowice along with a number of well known banks, and so began the city's transformation into a significant financial centre. At the beginning of the 20th century the construction of the Municipal Theatre on the Market Square strengthened the city's role as the main commercial and cultural centre of Upper Silesia. It is important to point out that Upper Silesia, Manchester and the Ruhr were the driving forces of the Industrial Revolution – it was in these regions that industry and technology developed at a pace unlike anywhere else in Europe at that time.

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- 3.8 Industrial development was stimulated by the events of World War I, especially because of the importance of the Katowice steelworks. Between 1919 and 1921 the Silesian population took part in three uprisings against German control. On 20th June 1922 Katowice officially became part of the Polish state, and soon afterwards the city was named capital of the Silesian Province. Between the wars, many housing estates and monumental buildings were constructed. On 8th September 1939, the whole region of the Upper Silesia came under control of the Third Reich. Katowice was liberated in 1945, and almost immediately regained its status as a centre of industry and administration.
- 3.9 The newest history of Katowice is connected not only with the industrial and urban development but also with a large infrastructure and social negligence. The city's technical and social infrastructure fell into disrepair, and pollution and bad health became major problems due to the outdated equipment and techniques used in the many mines. Since 1990 Katowice has been changing its traditional, industrial image. The 1990 first democratic elections and the restitution of the self-government marked the beginning of a new period in the history of Katowice. However, the city's legacy was rather a painful burden than a promising starting capital. The city needed a strong impulse. The self-government of Katowice started to implement its own scenario for development, defining a clear vision as well as the stages and directions of the city development. Katowice became a strong leader in the field of Polish investment policy. The "coal & steel" city image becomes outmoded, though heavy industry will always be an important element of the local economy. However one of the major goals of the capital of Upper Silesia is to rapidly become a thriving cultural and recreational centre, taking advantage of its "forgotten" attractiveness.

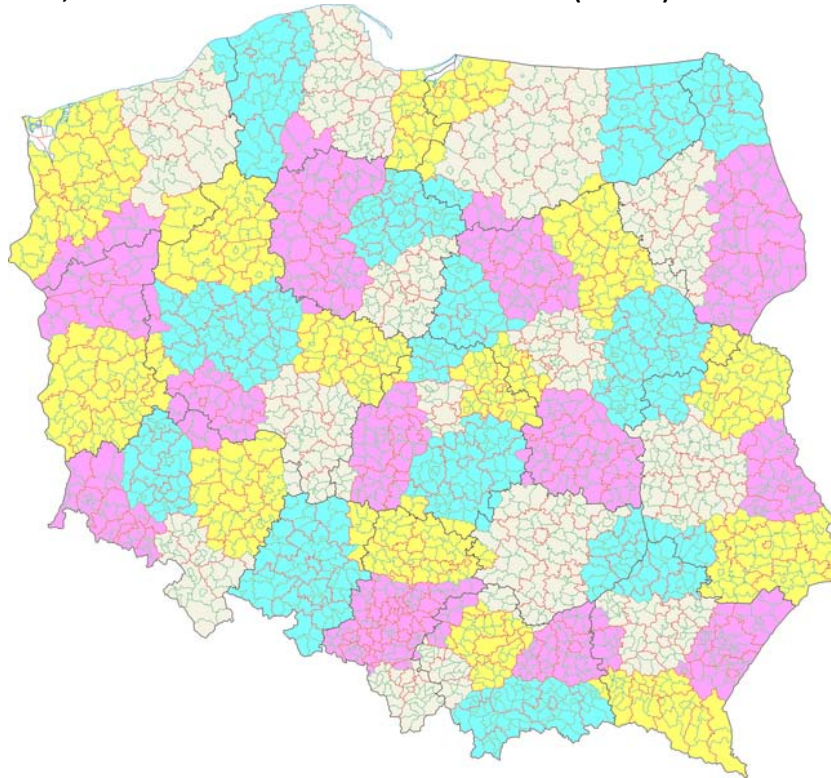
#### 4. GOVERNANCE

- 4.1 In 1989 the first democratic elections in the post-second war history of Poland took place. It was also the year when the self-governments were re-established at the municipal level. In 1998 the old and relatively small regions (49) were replaced by 16 new ones and another – sub-regional -- level of self government was established, namely the counties. So, from 1990 Poland can be characterized by a permanent process of decentralization of competencies, strengthening of self-government position and consolidation of the governance system. Since the administration reform in 1999, Poland has four levels of public administration: national, regional (16 voivodships), sub-regional (379 counties) and local (2478 municipalities). The local government of the region consists of regional council which is elected directly every 4 years, and the marshal who is the head of the executive body of the region's local government. The marshal is chosen and approved by the regional council. Regional authorities are responsible for the management and allocation of EU funds.

##### ***Regionalization: the development of a new administrative framework***

- 4.2 In the course of the 1990s there were many debates, how many regions should be established? On the basis of the development levels of second tier cities a maximum of 12 regions should have been established. However, political and territorial considerations resulted in 16 regions, 2 of which have shared leadership of two cities. „The State and self-government model of governance adopted in Poland in 1999 significantly strengthened some part of cities important from the perspective of furthering development processes at the voivodeship and national, as well as supraregional levels. This followed from the decision on placing State and self-government authorities in 18 municipal centres, which contributed to concentration of many social and economic functions in this centres. The current 18 voivodeship cities were granted the status of cities with poviats status, and as a result they became the seats of gmina, poviat and voivodeship self-governments, as well as State administration in a voivodeship ..." (OECD, 2010b:25). Thus to become the seat of the new regions substantially strengthened the position of the 18 cities, while the loss of this function (for the remaining cities which were earlier the seats of the 49 regions) could have become a serious obstacle in the development of these other cities.

Map of Poland, with administrative division from 1975-1998 (colours) and since 1999 (borders)

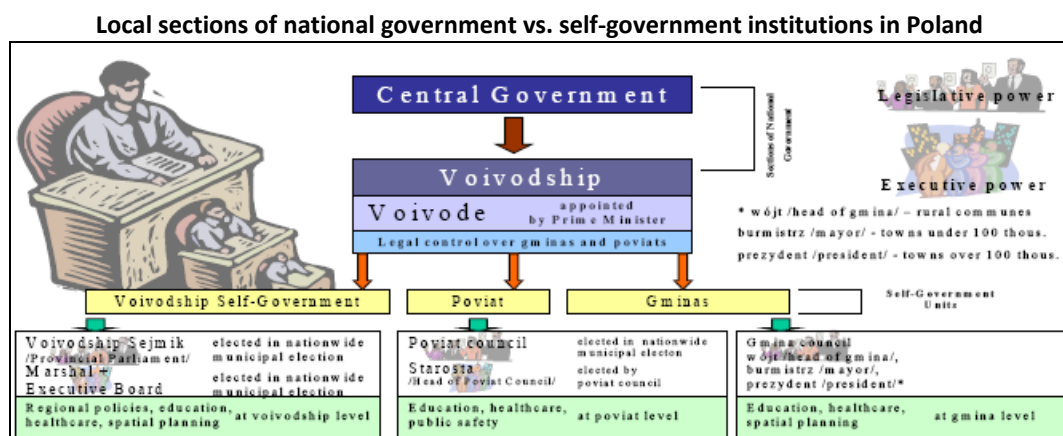


The 16 voivodeships since the 1999 reform



Source: Odder

- 4.3 The real importance of the regions depends on the content of the regional reform, on the extent of devolving power from the centre to the regions. In this regard the 1999 regional reform was of large importance, but not without problems. According to Tomasz Grosse “the greatest shortcoming of the administrative reform of 1998 was the insufficient supply of financial resources to the new voivodeships.” ... “Indeed, the legal system was decentralized, but the financial system was not. Under the current legal system the voivodeship self-governments do not have any tax authority, and therefore they cannot conduct their individual tax policy in relation to economic entities and natural persons. (...) Hence voivodeship self-governments have legal personality, political mandate of their voters and competences within the scope of regional policy. Despite this, according to the experts, they do not have the possibility of action as they do not have relevant financial income at their disposal.” OECD, 2010b:25
- 4.4 This is a crucial dilemma from the perspective of the Polish second tier cities and the Katowice case. Poland is exceptional among the new member states in the pace of restructuring of its middle tier, creating self-government regions with some decision-making autonomy. This system, however, has to be analyzed more deeply to explore how the central government develops policies and to what extent independent regional policies are allowed in areas where these would lead to more adequate development. In short: it is not enough to create the regional level, it is also important to devolve important functions to it from the national level. The county level administration consists of directly elected county councils. The head of the executive body is elected and approved by the county council. On local level municipal councils are directly elected by citizens for 4 years. Heads of the executive body are also elected directly by citizens. There are three legal categories of municipalities: urban, rural and mixed.



Source: PAS

- 4.5 The allocation of the responsibility for urban development to local governments resulted in a revitalization of local initiatives. In many cases, local governments successfully managed the infrastructural, social and economic problems. However, Polish local governments – similarly to other local governments in the transition countries – struggle with limited financial resources, and the experience is that the assignment of responsibilities is much broader than the assignment of revenues, which after all means shifting the deficit down. Some of the local functions (to control and reduce unemployment, social exclusion and poverty, criminality, vandalism and homelessness) fall beyond the local authorities’ possibilities.

## 5. NATIONAL URBAN FRAMEWORK

- 5.1 The Silesian Voivodeship (region) is situated in the southern part of Poland. The region is of a polycentric nature – there is not one core centre that would fulfil the metropolitan functions (administration, finances, insurance, schools of higher education, culture). The major elements of the settlement system in the Silesian Voivodeship are the municipal agglomerations: the Upper-Silesian –

of European significance and Bielsko, Czestochowa and Rybnik – of national significance. These agglomerations are core centres for four sub-regions: northern, central, western and southern. The sub-regions were established by the Spatial management Plan of the Silesian Voivodeship. This informal multi-level governance structure was created in order to intensify collaboration and to strengthen formal connections.

**Administrative map of the Silesian Voivodeship, with urban counties in dark and numbered**



Source: Aotearoa / Wikimedia Commons

5.2 The core of the central sub-region is the Upper Silesian Metropolitan Union (also referred as Upper Silesian Metropolitan Association, or simply “Silesia Metropolis”). The Association is a common initiative of 14 member cities located in the heart of the Upper Silesian conurbation, having a similar development history based on the heavy industry and sharing similar problems. The aim of the union is to initiate harmonious development of the whole area of the Metropolis through the best possible utilization of member towns’ potential, while respecting their identity and specificity. The Association has a legislative body, the Assembly, constituted by 29 members (the 14 mayors and one more delegated person from each city, except Katowice, which delegates two more members) and an executive body, the Board, formed by 7 member mayors, chosen by the Assembly. The member cities contribute to the budget of the Association by 0,5 euro/person/year. The Association is registered in the normal registry for voluntary associations (although it is not just a one-purpose association). Unfortunately there is no legislative regulation for metropolitan areas in Poland. Despite the legal constraints, the goal of the association is to create a dynamically growing “Silesia” metropolis, which can effectively compete with other metropolitan areas in Poland and abroad. They developed a Strategy of Development of Upper Silesian Metropolis, with a perspective till 2025.



**Table 2. Area and Population of Katowice, “Silesia” Metropolis and Silesia Voivodeship**

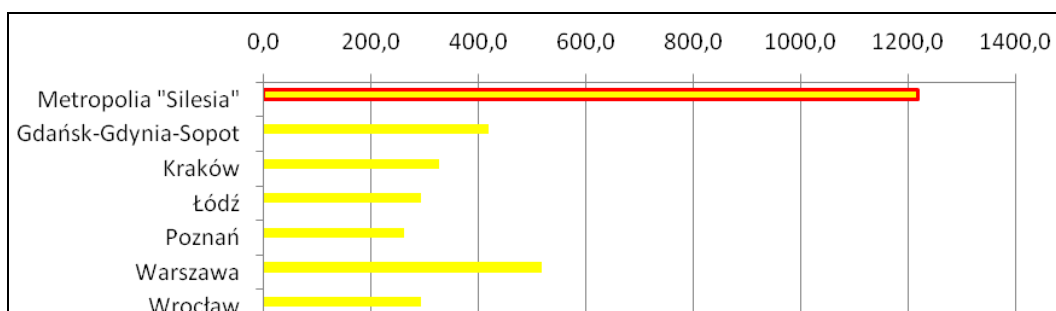
Basic data	Katowice	%	“Silesia” metropolis	%	Silesia Voivodeship	%
Area	165 sq km	1,3%	1218 sq km	10%	12 334 sq km	100% (3,9% of Poland)
Population	309 621	6,7%	2 million	43%	4,6 million	100% (12% of Poland)

**“Silesia Metropolis”**

5.3 The Silesian Voivodeship is considered as a very specific region in the Polish urban framework. First, it is strongly concentrated in geographical terms, second, it is a highly urbanized region with very homogeneous economic and social structure, and some historic-economic heritage. These factors contributed to the creation of the “Silesia Metropolis”, an association of 14 cities with the leadership of Katowice. The mayors of these cities realized, that a great potential lies in their common geographic, urban and economic potentials and creating such an association will strengthen their position in the national urban system. Since 2007 the 14 cities prepare joint offer for developers and try to function as a metropolitan entity. The new slogan is “Silesia Metropolis - 2 million people”

5.4 Although there is still a long way to achieve the “metropolitan dream” and function as the other European metropolises, the devotion of the member cities towards this idea is very strong and well reflected in almost all development strategies and planning documents of the city. This “bottom-up” organized metropolitan development gives a further peculiarity to the case study on Katowice, showing the strong efforts the city takes to change the negative tendencies and that these efforts are combined with cooperation attitudes towards the whole functional urban area. Taken this local reality and the ambitious aims into account, the Katowice case study will as much focus on the 2 million large “Silesia Metropolis” as on the 300 thousand city of Katowice.

**Area of “Silesia” Metropolis in the national context**



Source: The Metropolitan Association of Upper Silesia

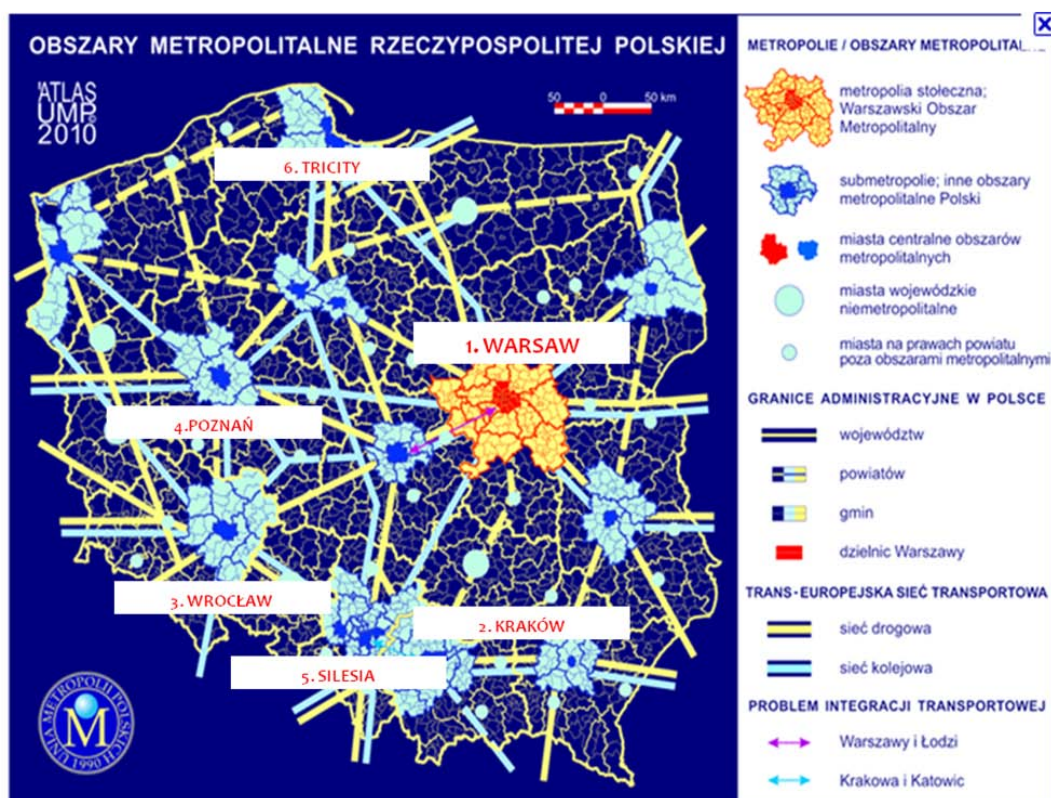
***Katowice, Silesia Metropolis Municipal Association – Where is it coming from and where is it going to?***

5.5 The idea of creating a metropolitan area in Silesia goes back to 2006. The cooperation of 14 cities covers an area of almost 2 million people. Unfortunately 3 additional settlements were excluded from the association by the Voivodship Office in 2007, due to legal reasons (not being in city status). Recent head of the association is the mayor of one of the other cities (other than Katowice). The member cities pay for the Association 2 zloty (0,5 eur) per capita, i.e. the annual budget is around 4 million zloty. Some portion of the money was given to a company developing bids. The Marshall office is giving support by helping to set up a website. The money of the association is very small compared to the total budget of the 14 cities, which is around 9 billion zloty. The accessibility of this area is very good: the A4 transport corridor already exists and the crossing with the A1 motorway, which is under construction, will create the largest motorway hub of Poland.

- 5.6 The recent cooperation covers mainly the following three areas:
- ❖ Modernization of tram network, 705 mill zloty (half of it EU).
  - ❖ Modernization of waste management 1,5 bn zloty.
  - ❖ Metropolitan night of theatres.

- 5.7 The initiative for having a formal law on metropolitan associations came from a deputy of the Silesia region. There is still no official document on national level about metropolitan associations. Some cities just gave up the hope and continue to develop cooperation from the bottom. The general opinion of the people working for the Association is that “to have a national legal framework would make life easier but it is not an absolute condition”. Nowadays the first steps in metropolitan strategy making were already taken, and several stakeholder groups were included into it (private sector, population groups, etc).
- 5.8 According to the previous Marshal of Silesia the metropolitan association was a threat for the region, taking away money from the region. An important question of the future is whether and how the city association can become direct addressee of the ROP planning and implementation (this happened so far only in 2 out of the 16 Polish regions). The first steps have already been taken to push the ROP to take the plans of functional areas into account: 4 sub-regions have been formed in the Silesia region, one of which is the extended version of Silesia metropolis. Thus the Silesia metropolis cooperation starts to exist but is facing always difficulties if some of the players discover better looking opportunities outside the association...

**Metropolitan strength of cities – 2010 ranking (based on A/connectivity, B/strong and up-to-date economy, C/variety of options and cities’ living standards)**



Source: Metropolitan Ranking of Polish Cities – Nordea Metrox.2010

The METROX methodology which was used for calculating an aggregated relativity indicator of cities’ metropolitan strength is calculated on the basis of 3 sub-measures following the conjunction formula:  $M_x = (B \times C) \times A$ , in which capital letters stand for: A connectivity, B strong and up-to-date economy, C variety of options and cities’ living standards.

## 6. PERFORMANCE

6.1 The Silesian Voivodeship with its 4.6 million inhabitants is one of the smallest, but most populated regions of Poland. It is a highly urbanized area, 80% of region's population lives in cities and towns, while every third town in Poland is in the Province of Silesia. Silesia Metropolis with its population of almost 1 972 thousand is the largest urbanized area in the Central Europe and the 9th largest in Europe. Compared to the other metropolitan areas in Poland, "Silesia" Metropolis has the biggest area (1 218 km<sup>2</sup>) and the smallest population density (1,619 thousand/km<sup>2</sup>, while the highest population density – in Warsaw – is 3,282 thousand/km<sup>2</sup>).

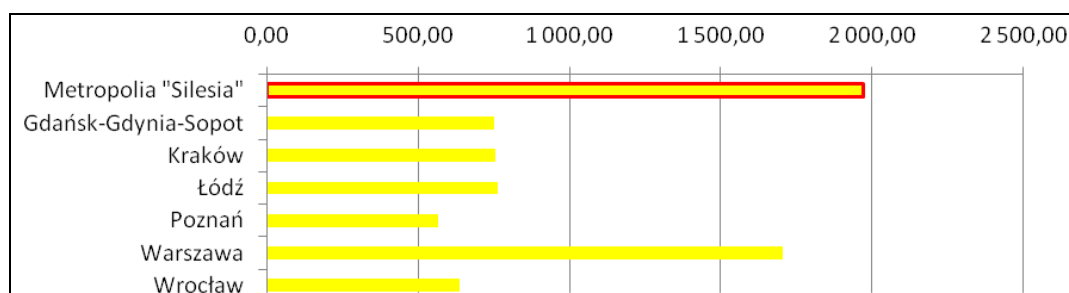
### *Demographic development*

6.2 Data from Table 1 show that only two of the ten largest Polish cities had increasing population in the last decade. On the other hand, according to the OECD study (2010c:26) „... except for Katowice and Lodz, population growth is a function of ULMA's size: the larger the ULMA, the stronger the growth rate.” From these observations it follows that some of the large cities, e.g. Poznan and Wroclaw, are shrinking mainly due to suburbanization, which is a different reason compared to the case of Katowice and Lodz, where shrinking is due to outmigration of people to other parts of the country and/or to abroad. Since 2004, Poland's accession to the EU, around 800 thousand Poles left to other countries (OECD 2010c:25). One quarter of all Polish emigrants left from Silesia region, where Katowice is located. The effect of internal migration is also very substantial: according to local estimations some 100 thousand young people from Silesia work in Warsaw. They pay PIT here but corporate taxes to Warsaw. As a consequence of these factors Silesia is the fastest decreasing area of Poland. It is important to recognize that population decline started already before EU accession. The time-series of Katowice population (225 thousand in 1950, 270th in 1960, 305th in 1970, 355th in 1980, 367th in 1990, 331th in 2000, 309th in 2008) clearly shows that outmigration from the area is a process from the late 1980s, i.e. from the collapse of the socialist heavy industry and mining.

6.3 In the opinion of local leaders the decline of population has waves and will not continue with the same pace. The first wave of decrease was that people who came here because of coal mining went back to their settlements after the closure of mines. This is just levelling out the artificial increase when head hunters recruited young boys to work in coal mines. Thus the most intensive part of shrinking is finished more or less, future decrease will be due to natural processes only. The decrease in itself is not a tragedy, the quality of population is more important.

6.4 The OECD study (2010:21-23) contains a policy-relevant grouping of ULMAs of the largest cities, based on cluster analysis of the most important socio-economic indicators (population, population growth, transport infrastructure, employment in the manufacturing and services sectors). This grouping has led to four categories regarding the largest cities (and further two categories for the medium and smaller ones): The national champion (Warsaw); The challenged metro (Katowice); Large and dynamic cities (Krakow, Poznan, Wroclaw); Large but with attractiveness challenges (Bydgoszcz, Gdansk and Lodz). In this grouping (and in most others) Katowice got a special category for its own which illustrates well the special character of the development of this city.

**Population of "Silesia" Metropolis in the national context**



Source: The metropolitan Association of Upper Silesia

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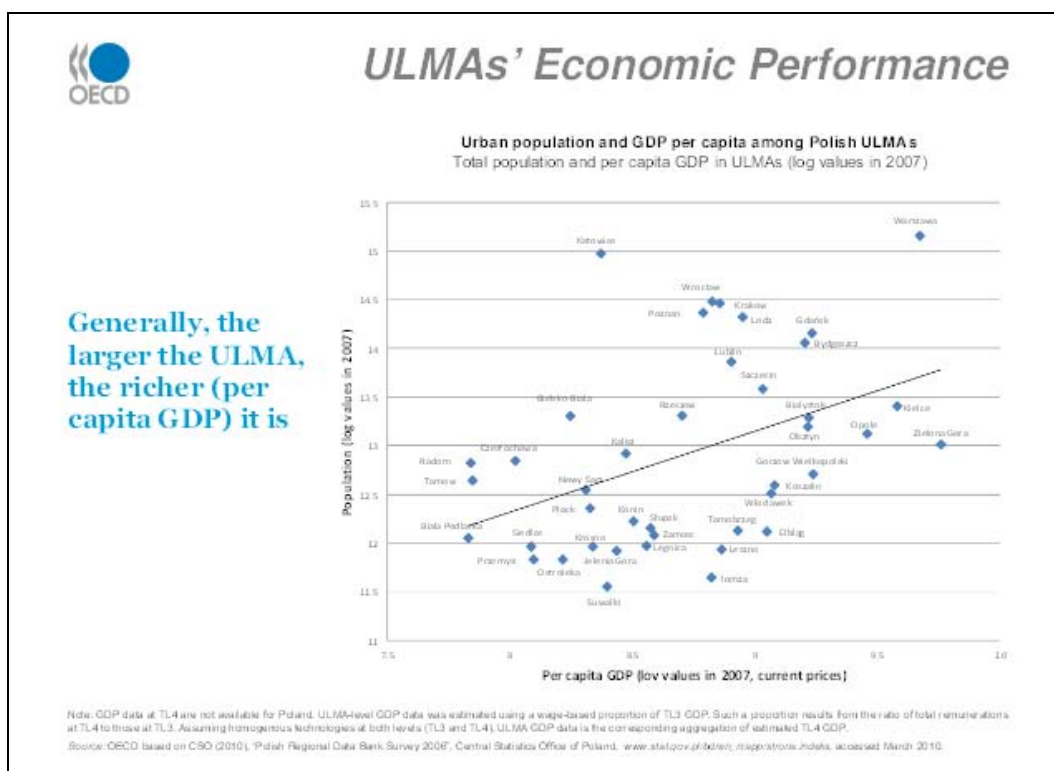
***Economic Development***

- 6.5 The transition from socialism to capitalism brought fundamental changes in the conditions of economic development. Inefficient large state industries collapsed and unemployment increased dramatically in all countries until the new emerging market oriented economy developed, largely on the basis of foreign investments. In this transition especially hit were those areas which one-sidedly depended on heavy industry. Many such cities were developed in the socialist period when the industrial sectors were considered as the engine of economic development. Katowice was one of such 'socialist cities' – though the increase of the city already started in the early decades of the 20th century, the real development occurred in the decades of socialism, when the population of Katowice increased from 225 thousand (1950) to 367 thousand (1990), based on state investments into heavy industry and mining. From this artificially increased and one sided economic development the transition into the new system was especially difficult and painful.

***Transition and economic restructuring***

- 6.6 Katowice is the second largest urban functional area in Poland. Being once successful industrial and mining urban centre, it has been under stress from industrial decline and an ongoing restructuring process of old and de-capitalised heavy industries such as coal, steel, zinc and other minerals. In Upper Silesia, the region where Katowice is located, the restructuring of two major industrial branches has resulted in the closure of many factories and mines. In 1960, 80 mines were in operation, but by 2006 only 20 were still extracting coal. From 1990 (in less than twenty years), annual production has been halved from 177.4 to 87.2 million tonnes. In terms of employment, the number of mineworkers has decreased from 415 700 to 116 400 over the same period. In the steel sector, the consequences of restructuring have been similar. Several workshops have been liquidated and ten blast furnaces have also stopped their activity. Annual steel production has declined significantly (from 20 million in 1980 to 11 million tonnes in 1994). Many sites have been forced to close down for lack of profitability and less than twenty are still in operation. To counter this trend, some of these mines came together in 2002 under the Polskie Huty Stali consortium, now owned by the Anglo-Indian Mittal Steel. Nevertheless, this has not been enough to prevent the loss of more than 100 000 jobs in the steel sector since the beginning of the restructuring.
- 6.7 During this time of reform, people have often expressed their dissatisfaction. Strikes shook up the Upper Silesia, particularly during the winter of 1992-93. As the mining sector was in a difficult situation, the government had to juggle between the need to restructure the industry and the refusal of people to lose their jobs and their benefits obtained during communism. Many Silesians, holders of the mineworker's card, had housing reserved for them, rented at low prices. This card also guaranteed benefits in terms of food. In addition, their salaries were about two times higher than the national industrial average. However, the restructuring process has entailed a reduction in coal mines and employment in the sector. In 2006, there were only one-quarter of the mines open in 1960 and nearly 300 000 jobs have been lost in the sector in Katowice since 1990. The economic restructuring has had many negative social consequences: increased unemployment and crime (in particular petty offences), and housing problems (often more than two generations live under the same roof because of low salaries and the lack of employment).
- 6.8 In the process of post-socialist restructuring Foreign Direct Investments played a decisive role. A detailed analysis of the FDI processes regional has shown that "... disparities have widened as a result of FDI allocation. Investors are attracted to regions with higher income in general and agglomeration appears to matter as well. ... human capital is probably the single most important factor for FDI location choice." In the competitions between the regions for FDI the Silesia region was on the weaker side since the needed restructuring of the conditions were much slower compared to other areas of the country. The state's regional policy has had a very limited impact on the structural change in traditional industry regions, as the Upper Silesia region (Slask) known for the mining and quarrying industries. The subregion around Katowice was a typical coal-and-steel region, with a biased social and educational structure, heavily polluted environment and an old but relatively good infrastructure.

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- 6.9 Although the state policy towards this region used to stand on the same liberal grounds as in the case of Lodz, this proved to be not enough to solve the serious problems of this area. The demand for coal dropped significantly in the past years due to rationalisation of energy consumption and shift to other sources of energy. Polish coal also turned to be too expensive, alternative sources, as for example the cheap Siberian coal import proved to be more profitable for enterprises. Parallel to the downturn in demand, no restructuring occurred in production and the similarly sharp reduction in employment was omitted. The reason: the political touchiness of this problem due to the region's demographic potential, that could be turned to votes at elections, the high concentration of worker population and the strong trade unions, that did not hesitate to utilize energy blackmail to achieve their aims.
- 6.10 Upper Silesia is also characterized by slow formation of new enterprises due to lack of business tradition, as well as inadequate R&D facility or universities, and the above mentioned role of strong labour unions. These factors proved to be serious brakes for an endogenous development in the area, and was also a barrier for foreign investors, that could only be overcome by huge subsidies and tax relieves. Apart from the difficulties characteristic for the region, its development can be described rather as mixed, as parallel to the lagging state sector, strong multinational players also appeared in this area that helped to counterbalance the negative impacts of the restructuring problems and to modernise certain branches, a very good example of which is the car industry. The newly emerging capitalist economy requires profound changes in employment structures. Most cities face the decline of their industrial sectors and quick transition is needed towards services. Employment in manufacturing decreased significantly between 1996 and 2003. Lublin lost 45% of its manufacturing employment while Krakow lost 40% (almost 50 000 jobs) in only those seven years. A similar loss can be found in Lodz where manufacturing employment went from more than 100 000 to 60 000 in the same period (Ministry of Regional Development, 2010a). In the Katowice ULMA at least 187 000 jobs were lost in the same period which amounted to 42% of total sectoral jobs in the region. The whole Katowice ULMA that used to be an industrial hub during communism is challenged by unemployment and inadequate skills to attract new activities. Many of the communities in the Katowice ULMA such as Bytom or Zabrze that lost more than two-thirds and one-half respectively are trying to reinvent themselves as academic or cultural centres, but the future remains uncertain.
- 6.11 Once the capitalist economy developed in the post-socialist countries, the analysis of it shows similar features than in the western countries. There are, however, some alterations. Some of the features, such as the intensive capital city development, are even stronger in these countries, while there are exceptions from the rules in those areas where the 'past-dependency' effects are the largest.
- 6.12 The OECD analysis (2010c:34) has proved that the positive correlation between the size of urban areas and their productivity applies also for Poland: the larger the ULMA's are, the higher per capita GDP they have. Although size matters, it's not the only factor driving economic growth: "... metropolitan areas that also function as national capitals tend to have the highest per capita GDP whereas smaller metropolitan areas and some of the second-tier metros scored lower." (Dijkstra, 2009, quoted in OECD, 2010c:37) This feature of capitalist economic development is even more present in the post-socialist countries where the capital city areas develop much more intensively than other parts of the country – consequently the gap between capital and second tier cities is growing. For the other alteration from the general rule Katowice (having been a 'socialist city' with strong path-dependency effects from this period) is a good example. "As population in Polish ULMAs increases, per capita GDP tends also to increase. There is, however, one exception to this trend: Katowice, in southern Poland, is a large ULMA that has been recognised by policy makers as an urban area facing industrial decline ... The fall in local employment in traditional coal and steel mining and related industries that led to lagging per capita GDP." OECD, 2010:34



Source: Ostry, 2011

- 6.13 The figure illustrates well the relatively low economic productivity of the Katowice area. Though the Warsaw and Katowice ULMAs are almost the same size regarding the number of their population, their economic power is very different, as the per capita GDP of the Katowice area is very low, in fact it is the lowest compared to the other second tier cities.

**Table 3. Basic indicators of Polish second tier cities**

Indicator	City							
	Warsaw	Katowice	Gdansk	Krakow	Lódz	Lublin	Poznan	Wroclaw
Total resident population	1,692,854	319,904	459,072	757,430	774,004	355,998	570,778	636,268
Total annual population change over 5yrs	1%	-1%	0%	1%	-1%	0%	0%	0%
Average price/m2 for an apartment	€857	€369	€704	€622	€404	€517	€551	€539
Average price/m2 for a house	€508	€430	€637	€493	€357	€457	€430	€531
Unemployment rate	14%	18%	17%	17%	22%	20%	15%	18%
Employment rate	47%	43%	43%	42%	41%	40%	45%	44%
Activity rate	66%	61%	63%	60%	64%	59%	64%	64%
GDP per head (€)	€15,034	€6,468	€7,693	€8,284	€6,448	€4,124	€10,894	€7,595

Source: Urban Audit City Profiles, 2001-2004

- 6.14 More detailed analysis of the link between the size and productivity has shown that population growth results in many relatively smaller places only in slow productivity increase. This can be explained in the following way: „... city size only matters if human capital is also agglomerating ...” (ibid, page 37). The latter criteria (for which the easiest measure is the share of people with at least secondary education) performs best in capital cities, hence their outstanding productivity increase. This statement is important for Katowice in a modified (reversed) form, adapted to the realities of substantially shrinking population number. The following hypothesis can be raised: the fast decrease of the city size only affects the economic productivity (measured by per capita GDP) if human capital is also decreasing fast. In other words, the decrease of the earlier artificially pumped-up population

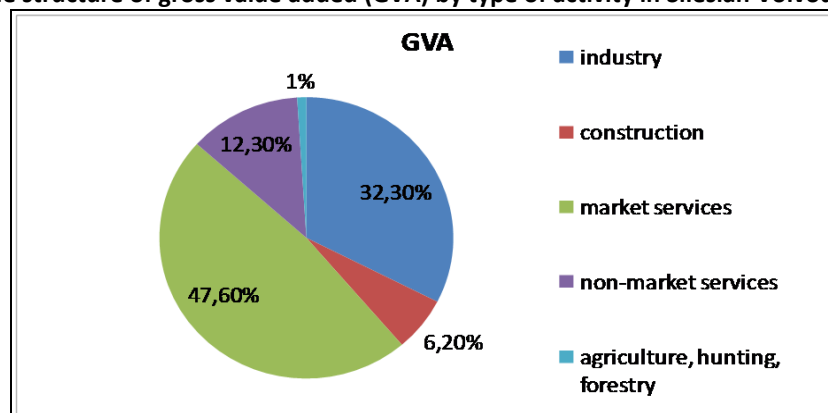
number does not mean in itself a big problem for the future economic development of the city, if the human capital is developing (or at least not decreasing as quickly as the population number).

- 6.15 The development of the human capital, as one of the most important conditions for the development of the economy, requires high level education and training but also the development of other factors of quality of life (housing, public spaces, social facilities, culture, etc.). It is not enough to educate the residents to the high level required by the new economies but it is also needed to be able to retain them in the city. These points are of crucial importance for Katowice. Data show that infrastructure development of the Katowice area is quick, the new internal highway and the A4 motorway, as well as the quickly developing international airport make the city one of the best accessible cities of Poland. While it is clear that the improvement of the outdated infrastructure is an important pre-condition for economic growth, the real effects of such improvements depend also on the other, 'softer' factors of development. To put it bluntly, the new infrastructure opportunities can as easy used by highly educated people to leave the city (if they do not find the city from other perspectives attractive) as for developers to come to this area. And if the highly educated have left, not even the developers will come – or only those sectors of economy will develop which require low skilled workers, further strengthening the relative backwardness of the area.

#### ***Economic Performance of Silesia Region and Silesia Metropolis***

- 6.16 The Silesian Voivodeship is one of Poland's strongest regions in terms of economy. 13% of the country's Gross Domestic Product (GDP) is being produced here, with the voivodeship being Poland's second largest producer. The relatively strong position of Silesia among the regions is in absolute terms and is a different indicators than the relatively weak position of Katowice among the large cities regarding the GDP/capita indicator. A great transformation in the region's economy is reflected by a noticeable change in the structure of its gross value added (newly produced value). Its share in market and non-market services amounts to nearly 60%, while its share in industry – to 33%, which puts it in second place in the country. The Silesian Voivodeship has many natural resources, including hard bituminous coal, zinc and lead deposits, seams of methane, natural gas, deposits of marl, limestone and gravel, as well as medicinal, therapeutic and mineral waters. This natural resources base gave rise to Poland's biggest industrial district.
- 6.17 Restructuring processes that have been developed here for several years now have been resulting in a systematic change in the structure of the voivodeship's economy. The share in the region's industry of mining and metallurgy, which had until recently dominated its economy, is decreasing, while the importance of the electro-engineering, information technology and power industries is growing, with the automotive industry (the region is the country's major car producer) and food industry being the fastest developing branches of industry.

**The structure of gross value added (GVA) by type of activity in Silesian Voivodship**



Source: Marshal Office of Silesia Voivodeship

- 6.18 The "Silesia" Metropolis can be characterized by the same economic tendencies as the whole region. The GDP of „Silesia" Metropolis counts for 67% of the regional GDP (of Silesian Voivodeship) and

8,7% of the national GDP. The employment structure (according to individual sectors of the economy) in the Metropolis is the following:

- ❖ 58,7%: service sector (market and non-market services)
- ❖ 41,1% : industry and construction
- ❖ 0,2% : agriculture, hunting, forestry, and fishing

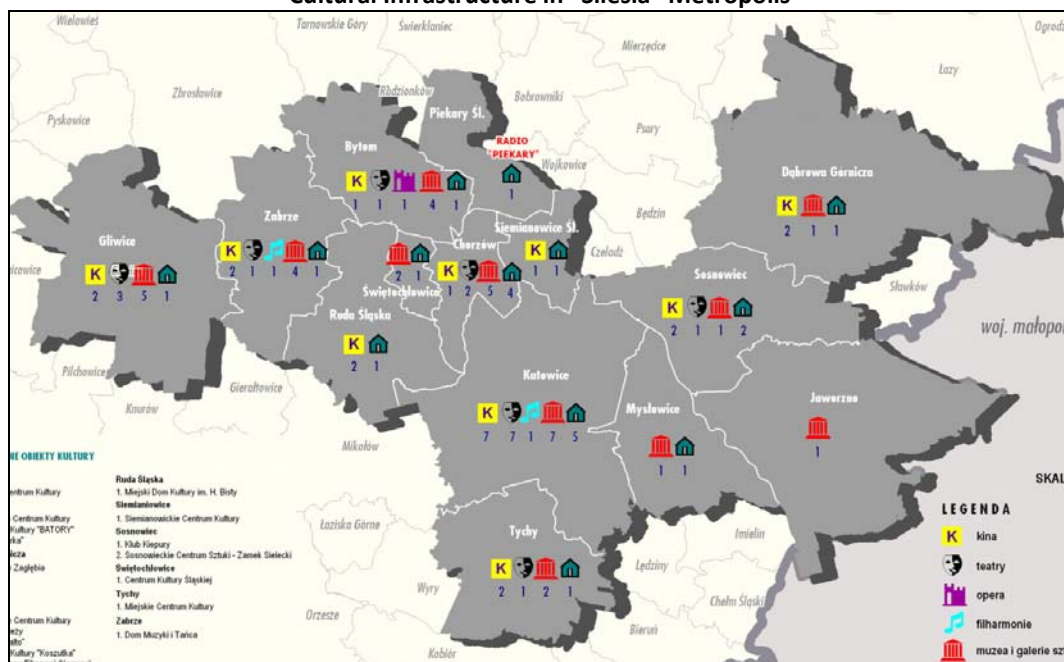
**Education, Science and Culture**

6.19 Education, science and culture are highly prioritized areas in the strategic development plan of the Metropolis. The Metropolitan Association is one of the biggest university centres of Poland: 28 public and 30 non-public universities are educating approx. 134 thousand students (it is 11% of the national students); there is a big variety of branches and faculties- providing education in the field of: technical, economic, humanistic, natural science, art, medicine, etc. and 10% of the students are attending the third level education. „Silesia” Metropolis is the second largest scientific & research centre in Poland (after the capital city). The approximately 80 scientific and research entities of various types are concentrating almost 10% of the national research & development potential. One important element of changing the stereotype image of the „land and coal and steel” and creating a real metropolis is to turn this region into a cultural centre. The conditions for achieving this goal are not bad, since the Metropolis has very favorable cultural infrastructure:

- ❖ more than 20 theatres,
- ❖ Opera House,
- ❖ 2 philharmonic halls;
- ❖ cinemas and museums, houses of culture;
- ❖ many industrial premises of historical value (several of them belong to Industrial Heritage Route or The Route of Wooden Architecture).

6.20 In Katowice, one of the city’s development strategies is to make the post industrial areas of former Katowice coal mine an outstanding cultural zone. Currently, the most famous spectators’ hall in Poland, the “Saucer” is seated in Katowice, and three other huge cultural and scientific investments are under implementation: the International Congress Centre (with a total value of € 75 million), the Silesian Museum and Seat of the Symphonic Orchestra (€ 66 million) and the Scientific Information Centre (€ 20 million). All three projects are partly financed by the European Regional Development Fund and the City of Katowice.

**Cultural Infrastructure in “Silesia” Metropolis**





**Medical Care**

- 6.21 The medical care system in the metropolitan area is quite comprehensive and modern and it can be characterized by: high quality world-renowned health care and research facilities specialising in heart surgery, oncology and burn treatment; developed network of private healthcare institutions; highly regarded specialists; modern equipment; nearly 14,000 hospital beds.

**Environment**

- 6.22 Historically: the intensive industrial development since the 19th century, based on the excavation of coal, sand, zinc and lead ores, ferrous and non-ferrous metallurgy, chemical industry, etc.) – resulted in a very harmful effect on the environment, but also in a big number of institutions and units dealing with environmental protection, since the 70s. Nowadays, the transformation process of a 20 years period resulted in: shutting down many of the industrial plants (or restructuring them); a significant improvement in the quality of the environment – because of a relatively high expenses (as for Poland) on the investments in the field of environmental protection (i.e. reclamation, remedy action, gradual application of pro-ecological technical and technological solutions).
- 6.23 The most significant mining impact on the environment are the following:
- ❖ 25% of total surface is covered by anthropogenic forms made of different industrial wastes;
  - ❖ salinity of surface waters: excessive salinity of rivers, corrosion of industrial and communal installations (about 100 000 m<sup>3</sup> per day);
  - ❖ waste production, waste storage, mine waste dumps: storage of wastes is a disadvantageous solution because of the threat of endogenic fire (coal mine slagheaps), difficulty of greening (ferrous and nonferrous slagheaps), etc.;
  - ❖ change of water relations: lowering of ground water level, disturbance of water lawyers and the proper surface water flow - metropolis surface;
  - ❖ subsidence and surface damages: (damages of buildings, roads, the river beds, etc.) – approximately 25% surface is deformed due to underground mining.
- 6.24 The general pollution status of selected components of the environment: surface water pollution: 80% of V class (bad quality); underground water deposits: II or IV class (from good to unsatisfactory quality); air: the C class due to exceeded limits of suspended particulate matter (PM10); Noise: above limit along main roads' networks.

**7. CITY ASSETS, ROOTS OF COMPETITIVENESS**

- 7.1 Based on a recent study on regional disparities in Poland, the capital city of Warsaw clearly distinguishes itself from the remaining parts of Poland in practically all the dimensions examined (economic structure, innovativeness, natural environment, social problems, human capital, accessibility). This result is certainly not a surprise, since Warsaw with its immediate surrounding is commonly recognized as the only fully developed metropolitan Structure in Poland. However, for the ranking of the “second city in Poland” there is a big “fight” between several growth poles. It is more or less a consensus, that from a demographical and cultural point of view Cracow is the best (outside the capital), from economical perspective Poznan and Wroclaw, in political manners Gdansk – but all these rankings are made on very subjective criteria. More objectively, based in the dimensions mentioned before, experts say that beside Warsaw the strongest urban centres are Poznan, Wroclaw, Krakow, Tricity (Gdansk-Gdynia-Sopot), Lodz, Szczecin and the Silesian conurbation.
- 7.2 According to a ranking published in the famous Polish weekly newsmagazine “Przekrój”, Katowice ended in the 7th place in 2009 and 2nd place in 2010. This ranking was based on 25 indicators (most of them testing living conditions) and all the cities with more than 175 thousand inhabitants were taken into consideration. It is very difficult though to compare this region with the other parts of Poland, because it has a very specific socio-economic structure. Beside Warsaw, it is the area of highest urbanization level in Poland that mostly feature extraordinary level of economic development, however, the structure of the local economy, the relatively lower quality of human capital resources,

the very unfavourable natural environment and the heavily degraded city substance can be considered as serious barriers of development.

**Table 4. Potentials, barriers and threats of “Silesia” Metropolis**

Potentials	Barriers	Threats
Location (convenient and easy access) Huge potentials in the number of population Productivity of enterprises Innovativeness of the science sector Availability of basic infrastructure Communication accessibility	Landscape transformations Pollution of surface waters and soil Air pollution Labour market situation Degraded city substance	Demographic situation

**Potentials**

7.3 Location is undoubtedly one of the region’s assets. Both the proximity to the Czech Republic, Germany, Hungary and Slovakia, as well as the fact that 6 European capitals are located within a radius of 600 kilometres from Katowice, namely: Warsaw, Prague, Bratislava, Vienna, Budapest and Berlin, make this region attractive in the eyes of investors.



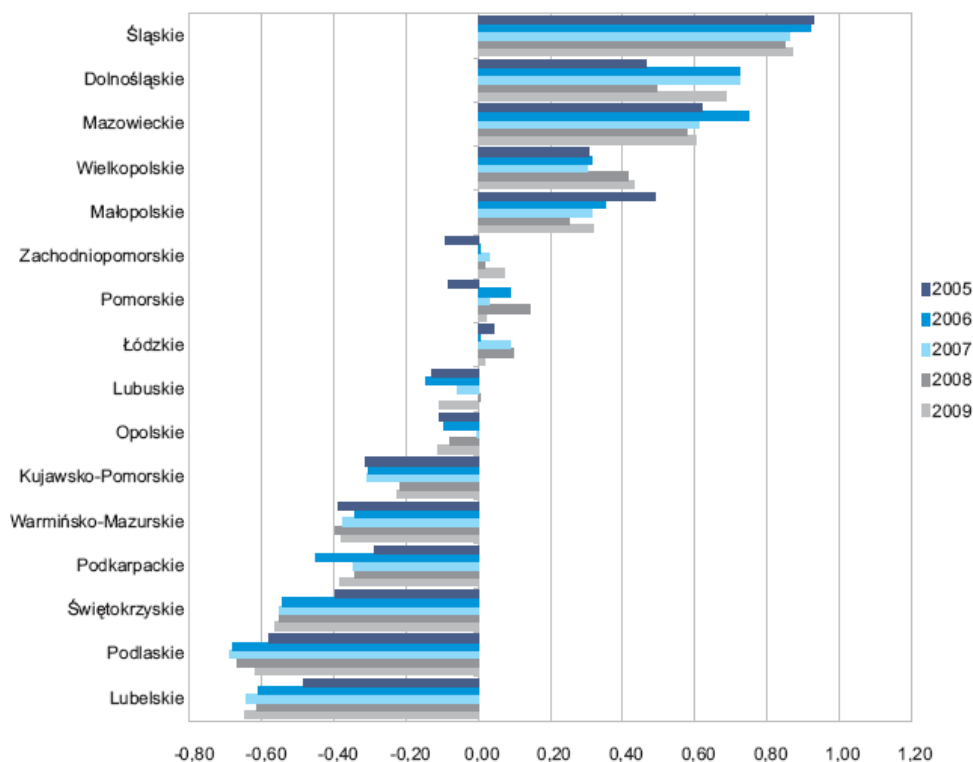
7.4 With thirteen neighbouring towns and cities, forming a tightly-knit agglomeration with over two million people it is the greatest urbanised area in Central-Eastern Europe. The population potential cannot be neglected when talking about the city’s potentials. The Silesian Voivodeship is on the 14th place in terms of the occupied area among Polish voivodeships and the 2nd place in terms of population. Such a high concentration of population on a relatively small area creates a potential for a huge output market of consumer products. Evidence of the region’s high level of urbanisation is an almost 79% share of the population living in 71 cities. One in three Polish big cities is located in the Silesian Voivodeship. One comparative advantage against Wrocław, the main competitor city is exactly this factor. Although Wrocław has very good project management skills, its population potential is much less.

7.5 Today, the Upper Silesian capital has the best transport infrastructure in Poland. Within a few years, the modern local roads system, together with the Trans–Regional Fast Road (known in Poland as the DTŚ) has been developed. The Silesian Voivodeship is a region where 2 European interchange and communication corridors (III and IV) intersect, namely: Berlin-Wrocław-Katowice-Kraków-Lvov-Kiev; Gdańsk-Katowice-Žylna (Section A: Katowice via Ostrawa to the corridor IV).

- 7.6 The region boasts the best roads in Poland in terms of number and quality, which significantly facilitates transport of people and goods. In The last 10 years, huge road investments were carried out in Katowice (road was one of the main priority area of city development policy) which account to 425 million euro. The SIR (Silesia Intercity Road) connects the parts of the agglomeration (from this perspective, this area is more developed than Warsaw, which lacks this structure). The fact that all the significant traffic routes in the country e.g. the A4 and A1 motorways, the international E30 and E65 and railroads run through this area seems to be of great importance. Katowice has also the most dynamically developing airport in Europe, situated in nearby Pyrzowice.
- 7.7 Due to these potentials, the Silesian Voivodeship is leader in terms of investment attractiveness in Poland. According to the latest ranking released by the Gdańsk Institute of Market Economics, the Silesian Voivodeship has once again (for the fifth time in a row) come on the first place, based on a comprehensive evaluation of the investment attractiveness of Polish voivodeships and sub-regions in terms of three categories: industrial activity, services and the level of technological development.

**Investment attractiveness of Polish voivodeships and sub-regions**

Wykres 8. Ocena województw pod względem atrakcyjności inwestycyjnej



Źródło: opracowanie IBnGR.

**Barriers**

- 7.8 A significant development challenge for Silesia is a still incomplete process of restructuring the traditional industry branches. The share of people employed in heavy industry in Katowice still amounts to 25%, which makes the economic situation strongly dependent on unstable raw material markets (OECD, 2008). At the same time, the structural changes in the economy should be also pointed out: Greater and greater role in the economy is performed by the service sector. Maintaining this trend is a prerequisite of the creation of a modern metropolitan centre. The productivity of enterprises operating within the territory of "Silesia" Metropolis remains at a relatively high level, although it is slightly lower in comparison with the other growth poles in Poland (Warsaw, Poznan, Wrocław, Krakow, Tricity, Lodz and Szczecin). The reason for this difference can be found in a

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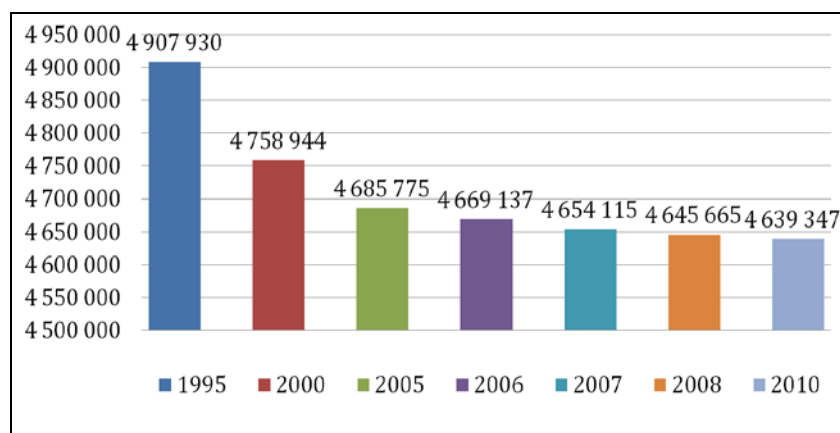
relatively lower quality of human capital resources (lower qualification of labour force), which cannot be compensated by means of relatively high activity of the regional academic centres and enterprises.

- 7.9 The region can be characterized by very unfavourable values of the indicators describing local natural environment. Especially the most serious problems on the national scale regarding pollution of surface waters and soil occur, but the air is polluted as well. Industrial pollution prevents the dynamisation of the economic growth to a large extent. A large challenge is represented also by heavily degraded city substance. By making reference to international experience (German Ruhr, French Pas de Calais) experts estimate that recultivation and revitalization of these areas in the optimistic option will require approximately 35-40 years.
- 7.10 After the collapse of the socialism, the perception about Katowice was that it is a problem area, heavily polluted. It was more or less a consensus in the country, that Silesia is not a good place to live in. Although a recently published "Newsweek" rating ranks Katowice as best city in Poland to live in (based on the prices of real estate; accessibility to health care system; number of cultural and sports venues/events and quality of transportation system), the subjective prestige of the city hasn't really improved. Moreover, people living here have lower opinion about the area than those who do not live here. This attitude of the people living here is a serious barrier of development – it is difficult to change an area where people themselves do not believe that change is possible. In general, the region is characterized by the problem of low social capital accumulation, meaning that the inhabitants are not willing to participate in general elections and the number of non-governmental organizations per one inhabitant is also relatively low.
- 7.11 A recent IBM study points out that the city is very weak in inner and outer promotion. It will took several years (if not decades) to change the national perception of Silesia and Katowice, but all the experts emphasize that beside the actual economic, social, cultural etc. changes cannot be neglected "soft" elements of a "city promotion" strategy.

#### **Threats**

- 7.12 The major threats to the development of the "Silesian" Metropolis, and the entire Silesia Voivodeship are the following:
- Decrease in the number of the voivodeship's inhabitants,
  - Outflow of the highly-qualified workforce to other voivodeships that can guarantee higher earnings,
  - Trans-national outflow in search of jobs or better paid jobs,
  - Ageing process of the region's population,
  - Growth of employment within the so-called grey zone,
  - Decrease in the region's income due to the non-payment of taxes.
- 7.13 The average density of Silesia is three times higher than the country average – thus some experts say that the decline can be considered as natural. Although unfavourable demographic trends are one of the main urban problems in the entire country, Upper Silesia is classified as a real problem area from this respect. The Population of Silesia decreased from 4.9 million in 1995 to 4.6 million by 2010. By 2030 the forecast is 3.95 million. Katowice had the highest population in 1987 (367 thousand), but the decrease of the population now is one of the fastest in this city, which had less than 310 thousand inhabitants in 2008.

### The Silesian Voivodeship's Population 1995-2010



Source: GUS – Poland's Central Statistical Office

- 7.14 A serious demographic challenge is that according to the demographic forecasts, the share of post-working age (65+) will increase from 17% to 29% by 2030. The total number of population in 2030 will be only 80,5% of the population of 1995 (86,4% of the population of 2010).

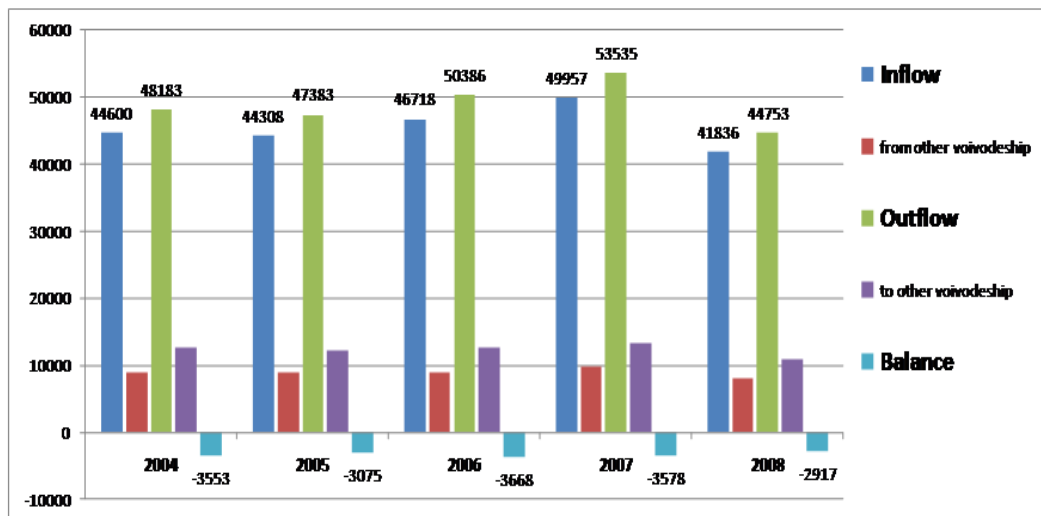
**Table 5. A forecast of changes in the population's share in pre-working, working and working age by 2030 (in thousands and %)**

Age	2010		2020		2030	
	N	%	N	%	N	%
Pre-working	764,0	16,3	638,3	14,8	534,0	13,5
Working	3 013,9	65,9	2 611,0	60,5	2 260,6	57,2
Post-working	814,3	17,8	1 063,5	24,7	1 157,8	29,3
Total (1)	4 574,2	100	4 312,8	100,0	3 952,4	100
Total (2)	4 574,2	100	4 312,8	94,2	3 952,4	86,4

Source: GUS – Poland's Central Statistical Office

- 7.15 Beside an urban sprawl that can be seen around all of the four sub regional centres, the region is also characterized by intensive internal and external migration. Highly educated people from Silesia go to other cities of Poland (Warsaw, Wroclaw, Cracow), while low educated go to abroad. According to an estimation, around 100 thousand young people from Silesia work in Warsaw. They pay PIT in Silesia, but corporate taxes to Warsaw. The inflow of people to the Silesian Voivodeship (the 3rd place in Poland) still gives some hope that for a major part of the society, this is still an attractive place that offers an opportunity of improving their social status. A significant (2nd) place among all the areas of negative migration balance in Poland proves that expectations on the part of these people have not been satisfied to a sufficient degree and that transformations that are taking place in this region do not buoyant a certain group of the inhabitants. The migration balance for the Silesian Voivodeship's population is negative and amounts to -1. This means that more people leave this region for permanent residence than come to live here. The demographic prognosis in the "Silesia" Metropolis is even more dramatic. The average decline of population by 2025 is estimated at 17.9%. All these tendencies emphasize the need for a complex strategy to keep people here (with well-paid jobs, good housing, and well functioning urban infrastructure).

The population's internal migrations for permanent residence by destinations within the Silesian Voivodeship (absolute numbers)



Source: GUS – Poland's Central Statistical Office

## 8. POLICY CONTEXT AND IMPACT

8.1 In this chapter we focus on three big issues of the Polish development policies. Unlike in other CEE countries where regions are only administrative/planning levels, in Poland the most important level is NUTS 2, with real power and vast responsibilities. Regional development policies are currently high on the political agenda in Poland, so in our analysis we also devote special attention to this area. Although large cities are main drivers of Polish growth, there is no real urban policy on national level in Poland. An integrated planning approach for large urban areas is still missing. Metropolitan policy has been discussed in Poland since the 1990s, but the legal regulation is still not worked out. As this is a core issue regarding the development of Katowice and the "Silesia" Metropolis, the next issue discussed in this chapter is possibilities and perspectives in the Polish metropolitan policy. Similarly to other countries in the region, most NUTS levels in Poland have their basic documents and development plans. The third topic of our analysis is logical coherency of the strategic and planning documents of the different administrative levels, and their effect on urban development.

### *Regional Development in Poland*

8.2 The two most important events that influenced the development of Poland's regional policy was the creation of the 16 Polish regions (voivodeships) with elected regional assemblies and accession to the European Union in 2004. EU funds have represented the bulk of Poland's budget for regional policy since 2004; complemented by a significant national co-financing effort. All Poland's regions were eligible for EU funds for 2007-2013. The Ministry of Regional Development was created in 2005 to coordinate policies and EU funding, signalling a political commitment to improve territorial development and multi-sector co-ordination. Polish regions will receive EUR 67.3 billion in cohesion funds for 2007-2013, 20% of total EU cohesion funds, making Poland the all-time leading recipient of support under the cohesion policy. Polish regions are playing and increasing role in designing regional development strategy. Since 2007 Regions are in charge of managing 24.6% of the cohesion funds, more than EUR 16 billion. In the period 2004-2006 EU funds were allocated at central level.

8.3 The regional structure indicates two basic trends: (1) the collapse of the old industrial regions and (2) the formation of new, prosperous regions with production adapted to the requirements of the new economic conditions. On the other hand, this regional policy could not solve the problem of traditional gap between rural and urban areas and between small and large cities. The development gap between the eastern and the western part of the country has even increased in the last few years. The relative prosperity generated by the transformation along the western border contrasts sharply with the stagnation and high unemployment along the eastern border. Some regions have assumed a

stronger position than others, mostly because of the economic prosperity of their main metropolises and large cities.

#### **Urban Policy in Poland – Lack of Metropolitan Legislation**

- 8.4 The urban system in Poland has a polycentric character. The largest city – Warsaw – is followed by 17 others with more than 200,000 inhabitants. The main strategic documents setting the framework of urban policy in Poland are the following:

**Table 6. Main Strategic Documents in Poland**

Strategic document	Policy issues
National Strategic Reference Framework 2007-2013	<ul style="list-style-type: none"> <li>• In implementation of the cohesion policy in Poland in the years 2007-2013 the urban dimension will be manifested in three elementary scopes of operation               <ul style="list-style-type: none"> <li>- Using the potential of the largest municipal centres as a driving force for regional development</li> <li>- Strengthening relations between metropolises and urbanized areas on the one hand, and areas that surround them on the other, including small and medium towns and rural areas</li> <li>- Promoting internal coherence on urban areas to limit the high concentration of ecological and social problems within major urban centres, and enhancing the reconstruction process of economic potential in small towns and settlements</li> </ul> </li> </ul>
Poland 2030	<ul style="list-style-type: none"> <li>• Development based on polarization-diffusion model. Concentration of development in the largest cities and spread it into the less developed areas</li> </ul>
National Strategy for Regional Development 2010-2020	<ul style="list-style-type: none"> <li>• Strengthening the metropolitan functions of regional centres and integration their functional areas:               <ul style="list-style-type: none"> <li>- Warsaw capital city</li> <li>- Other regional centres</li> <li>- Creating the conditions for spreading development processes and increasing their absorption outside regional centres</li> </ul> </li> </ul>
Position of the Government on the future of Cohesion Policy after 2013	<ul style="list-style-type: none"> <li>• Strengthening of the urban dimension under Cohesion Policy implemented at the national and regional level, e.g. by instruments, which primarily aim at integrated urban development. The following instruments can be considered for this purpose: global grants for urban areas or separate programs/priority axes for urban areas, programs financing the revitalization of cities</li> </ul>

- 8.5 Urban policies get a relatively high priority in the national development strategies. In the administrative hierarchy, however, cities have a much lower political significance than any other regional administrative bodies. The basic policy challenge for Polish cities is the issue of urban and metropolitan governance. Currently there is still a lack of mechanism to harmonize the different fragmented policies that could enhance competitiveness, development and social cohesion. Although the National Strategies of Regional Development for 2010-2020 gives large cities a driving role, no metropolitan policy has yet been developed, nor are there specific tools to enhance metropolitan co-operation. One consequence of this shortcoming is the difficulty to achieve economies of scale in public service delivery and competitiveness. In large cities the lack of metropolitan perspective also creates problems for absorbing EU funds, as many projects extend beyond specific administrative areas. Metropolitan policy has been discussed in Poland since the 1990s, but incentives to enhance co-operation have yet to be adopted.
- 8.6 The different kind of initiatives that institutionalized interest groups have been formed in the field of research and strategic planning demonstrate that cooperation is a recognized need of cities and towns. The best examples are the Union of Polish Metropolises (formed in 1990); the Association of Polish Cities (formed in 1991) and the Union of Polish Towns (formed in 1990).

#### **The Union of Polish Metropolises**

- 8.7 Union of Polish Metropolises promotes Polish metropolises which are not so visible in Europe, by providing information and help towards the formation of a stronger network of twelve urban centres. They emphasize cooperation rather than competition. The members of the union are: Warsaw, Lodz, Cracow, Wroclaw, Poznan, Gdansk, Szczecin, Bydgoszcz, Lublin, Katowice and Bialystok. These urban centres together with their agglomeration house the most important administrative, financial,

cultural and educational functions. Together, the twelve Polish metropolises can contribute substantially to the European urban network.

***Development Policies of Different Administrative Levels***

8.8 After almost two decades of social and economic transformation, only a very minimal coordination of strategic planning at the local, regional and national levels has been arrived at. The NUTS2 (Voivodeship) level is probably the most significant planning/administrative level in Poland. Regional leadership and local capacity building are essential to ensure efficient management of the EU funds. The main priorities for Polish regional development policy are the following:

- ❖ Transport infrastructure
- ❖ Human capital development
- ❖ Regional innovation strategies
- ❖ Diffusion of knowledge and its use by SMEs

8.9 The next level with huge responsibilities is NUTS 5 (local self-governments). The rapid shift of control over urban space from the central to the local level has created many problems in Poland. The new local governments were not prepared to deal with the emergence of numerous new actors, mostly from the private sector. The institutional context for strategic planning has gradually been established. The Act on Spatial development (1994) equipped local authorities with two legal planning instruments: (1) local physical development plans and (2) strategic plans. Katowice has its own development strategy since 2005. Beside these two levels, NUT 3 (sub-regions) and NUTS 4 (association of cities) can also prepare their development strategies, but this is totally voluntary, without any legal requirements. "Silesia" Metropolis has developed its own development strategy, which is harmonized with the priorities of the strategies of particular member cities, and also with the priorities of the Silesian Voivodeship's Strategy (see Annex 3).

***Strategic Development Priorities of "Silesia" Metropolis***

- 8.10 **Priority A: Management and Status of the "Silesia" Metropolis** – changing of the stereotype of the "land of coal and steel"
- Priority B: The Economy, Science, Culture** – education and science, labour market, social economy, information society, human capital, tourism, culture
- Priority C: Transport and Communication** – public transport, transport system, logistic facilities
- Priority D: Environment** – quality of individual elements of the environment and their protection, waste management
- Priority E: Living Conditions and Social Facilities** – public space, regeneration of city centres, living conditions, green areas, public safety and health

***Spatial Planning***

8.11 The currently obligatory planning document is the National Spatial Arrangement Policy, prepared in a previous legal system (invalid today), when Poland wasn't a member of EU.



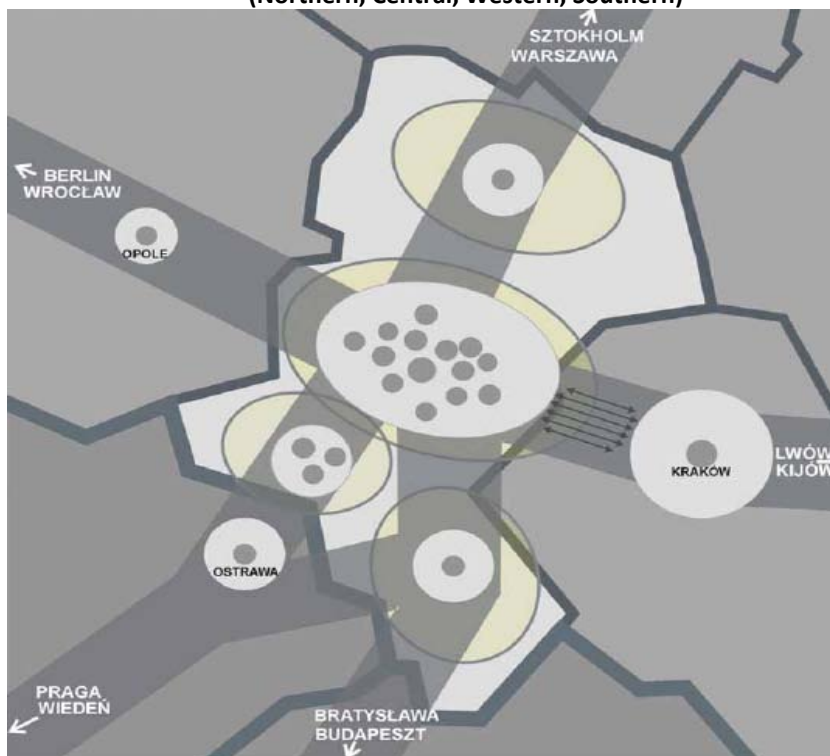


Source: The Metropolitan Association of Upper Silesia

- 8.12 The Project of National Spatial Arrangement Policy 2030 is now in the preparatory phase. It is a main government strategic document defying the guidelines of the national spatial policy for 30 years. It combines components of spatial planning and socio-economic development aspects and it presents a spatial development vision based on the functional network of national growth centres, which create a polycentric network metropolis (comprising of the biggest cities and other sub-regional and peripheral centres related to them) - open to the influence of the European metropolitan centres. This is totally a new approach to the spatial development vision of Poland compared to the document from 2001)
- 8.13 The new **National Spatial Arrangement Model** of spatial development is based on the polycentric settlement structure of Poland, that is expected to be sustained and strengthened. In the document under preparation Silesian Agglomeration is mentioned instead of „Silesia” Metropolis and it is referred as:
- ❖ Spatially and functionally integrated area with the reach development poetical-supported by revitalization processes, which helps to restore the cultural and ecological functions of this region.
  - ❖ Concentrating innovative national and international investments - what is possible due to flexible labor market and will educated human capital. Additional asset is the preservation of the cultural heritage and accessibility of well developed recreational areas.
- 8.14 At **regional level** the Voivodeship Spatial Development Plan 2004 is also referring to Silesian Agglomeration (instead of „Silesia” Metropolis). It states that the Silesian Agglomeration (14 cities) is showing the tendency of polycentric development and the migration of the population beyond the Agglomeration’s area (the development of the neighbouring areas). The “Vision” defines the elements of the spatial structure as follows:
- ❖ 4 metropolitan areas with the centres in particular agglomerations (Silesian, Częstochowska, Rybnicka, Bielska Agglomerations) – they make Consolidated Silesian Metropolitan Area (being a part of Silesian and Cracow Europolis).
  - ❖ Multifunctional zones (of agricultural and residential, recreational and forest, agricultural and truism type, etc.) with local centres – evenly distributed in the entire Consolidated Silesian Metropolitan Areas.

- ❖ Development bands (transport and settlement corridors) – connected functionally with metropolitan areas and economically stimulated by location the development t and environmental friendly functions;

**Consolidated Silesian Metropolitan Area – with the four metropolitan areas  
(Northern, Central, Western, Southern)**



Source: The Metropolitan Association of Upper Silesia

- 8.15 In the planned spatial structure Silesian Agglomeration (consisting of 24 cities) is a centre of the main metropolitan area of the European significance (along with Agglomerations of: Rybnik, Częstochowa, Bielsko-Biała - which are the centres of remaining of supportive metropolitan areas). In the vision of the Cities of the Agglomeration make one integrated area in terms of transport, economic and technical connections, which as a whole needs concentrated revitalization and restructuring actions. In its vision, Silesia Voivodeship managed to cover the administrative region with four functional metropolitan areas. At the local level, detailed spatial plans are not compulsory and can be done in smaller units, for particular areas of the settlement. Even Katowice doesn't have a spatial plan for the entire city. The metropolitan level doesn't have a spatial plan, either.

## 9 . PROSPECTS

- 9.1 Poland is in the process to modify the regulatory framework for regional and urban development of the country. The changes can be summarized as follows (based on interviews with officials of the Ministry of Regional Development). The future development strategy for Poland is based on investments into the growth poles of the country. The document of key importance in this regard is the National Strategy of Regional Development 2010-2020 (July 2010). There are 16 growth poles assigned, of which some 12 can be real engines of future development. For the legal background of this idea also national urban policy has to be established. Regarding the other types of cities, their absorption capacity has to be developed to be able to accept the development coming as diffusion from the growth poles. The other important national document is the National Spatial Development Strategy 2030. This deals also with functional areas. The strategy has been adopted by the government in the second half of 2011. On the basis of this document a spatial planning system will be developed.

## Concept of the polycentric metropolitan network in 2030



Source: OECD, 2010b p. 74

- 9.2 There is a territorial concentration of development on the eastern periphery (5 regions) through their centres. Here also the capacities for diffusion have to be developed. The role of second tier cities (the centres of the 16 regions) is differentiated: 12 are metropolises, the rest regional growth centres. There is a second category of cities defined which involves cities above or around 100 thousand population. Finally there is a third category of sub-regional centres, cities with 50-100 thousand population. In the next financial period, beyond 2014 a new programme for competitiveness of growth poles will be established, in order to territorialize the sectoral approach. This will address the complaints that the regions with their ROPs did not care enough about their centres. The Managing Authority will be the Ministry of Regional Development, not the cities will play this role. The 16 growth poles will compete with each other on the national level. The growth pole programme will be additional to the ROP and the sectoral operational programmes.
- 9.3 In the national spatial development strategy also novelties in planning will be introduced: development strategy will have to be prepared on city-region level. An action plan will clarify how to establish the functional area together with central government and with the statisticians of the Central Statistical Office. On central government level the way of planning has changed in this spirit in the last two years. Also a new system of management has been introduced in order to make planning easier. Instead of 200 strategies only 9 national sectoral strategies will be prepared. All strategies will have a territorial part. Territorial contracts will be signed between the regional or city authorities and the national level. This will be a new way of territorial coordination, for which the Ministry of Regional Development will have the responsibility.
- 9.4 For Katowice, one of the most challenging issues is the negative population dynamics. It is not easy to preserve the status as second tier city under the conditions of population shrinking, though not impossible. After the analysis of the reasons for the negative population dynamics a strategy has to be set up to develop new opportunities on the basis of which new growth sectors and dynamic areas can be established, even within the framework of general shrinkage of population. Such a strategy can on the longer term even lead to change in the negative population dynamics. Such development path, however, is much more difficult than the development of 'normal' (not shrinking) second tier cities and needs long term thinking. The restructuring problems of Katowice can be compared to many

western cities which faced the challenges of post industrial restructuring in the last decades of the 20th century. Not even the drop in population numbers is exceptional, there are many examples in Europe of cities which managed the restructuring and are again growing (after the loss of substantial part of their earlier population).

## 10. MAIN FINDINGS AND POLICY IMPLICATIONS

### *The position of Silesia and Katowice*

- 10.1 The urban system in Poland has a decentralized and polycentric character. The biggest city, Warsaw is followed by 17 others with more than 200,000 inhabitants. The Silesian Voivodeship is a strongly concentrated area in geographical terms and is characterized by the highest urbanization level in Poland. Silesia covers the administrative region with four functional metropolitan areas (also referred as sub-regions). The core of the central sub-region is Upper Silesia Metropolitan Union (also referred as "Silesia" Metropolis or Silesian Agglomeration), a voluntary association of 14 member cities located in the heart of Upper Silesian conurbation (without visible borders between most of them). The "Silesia" Metropolis prepared its own development strategy and the member cities prepare joint offers for developers. The promotion strategy of the area is based on the slogan "Silesia Metropolis – 2 million people". With this number of inhabitants, this is the biggest urban agglomeration in Poland.
- 10.2 Katowice, the centre of the Upper Silesia Metropolitan Union is a relatively new city, formed from several mining villages. Even the city itself has a polycentric structure, cut by many green areas. While Katowice is undeniably the capital of the region, there are doubts about the role of the city within the agglomeration. Official views do not always correspond to public opinion in this matter. Development problems and potentials of Katowice. The population number of Katowice is declining in the last two decades. This population decline can be considered as a 'normal' consequence of the artificial overpopulation processes of the socialist period, due to the forced development of heavy industrial sectors. Due to its regional role Katowice can not at all be categorized as 'dramatically shrinking city' in longer terms. Shrinkage might be temporary and could in the future slow down or even change into its opposite. From an industrial boom-town in the 19th century, following the post-industrial shrinkage period Katowice aims to turn into a modern European cultural and commercial centre.
- 10.3 Katowice and the "Silesia" Metropolis (as the entire Silesia Voivodeship) feature a quite high level of economic development (compared to the national average). It has the highest investment attractiveness in Poland. However, the structure of the local economy is not very advantageous; the restructuring of the traditional industry branches is still not complete. The share of people employed in heavy industry is still 25%. Katowice has the lowest unemployment in the area. The positive structural changes in the economy show into the direction of the automotive industry, IT and High-tech, followed by the service sector (the big financial and advisory companies). Katowice and the "Silesia" Metropolis have very unfavourable values of natural environment. Although in the past 20 years significant improvements were achieved on this area, the overall level of the environment is still not satisfactory for most of the population. Despite all the changes in the economy, environment, social and cultural life, the stereotype image of Silesia being the "land of coal and steel" didn't change too much. One of the biggest challenges of this region is to break this stereotype down.
- 10.4 The strategic decision making capacity of the city is quite good. Both the city of Katowice, and the "Silesia Metropolis" have their own development strategies. These two documents are more or less harmonized. The priorities of the strategies of particular member cities, as well as the priorities of the Silesian Voivodeship's Strategy are reflected in the agglomeration's strategy. The regional Development Policy however has no direct reference to the cities' policies.
- 10.5 The comparative advantage of "Silesia" Metropolis lies in the huge population potentials. However, the demographic prognosis for this region is scaring. In order to become a real metropolis, Silesia has to keep its highly educated people by providing them as good living conditions as the competitor cities (mostly Warsaw). The development of the human capital, as one of the most important conditions for the development of the economy, requires high level education and training but also

the development of other factors of quality of life (housing, public spaces, social facilities, culture, etc.). It is not enough to educate the residents to the high level required by the new economies but it is also needed to be able to retain them in the city.

- 10.6 These points are of crucial importance for Katowice. Data show that infrastructure development of the Katowice area is quick, the new internal highway and the A4 motorway, as well as the quickly developing international airport make the city one of the best accessible cities of Poland. While it is clear that the improvement of the outdated infrastructure is an important pre-condition for economic growth, the real effects of such improvements depend also on the other, 'softer' factors of development. Otherwise the new infrastructure opportunities can easily be used by highly educated people to leave the city (if they do not find the city from other perspectives attractive). And if the highly educated have left, not even the developers will come – or only those sectors of economy will develop which require low skilled workers, further strengthening the relative backwardness of the area.

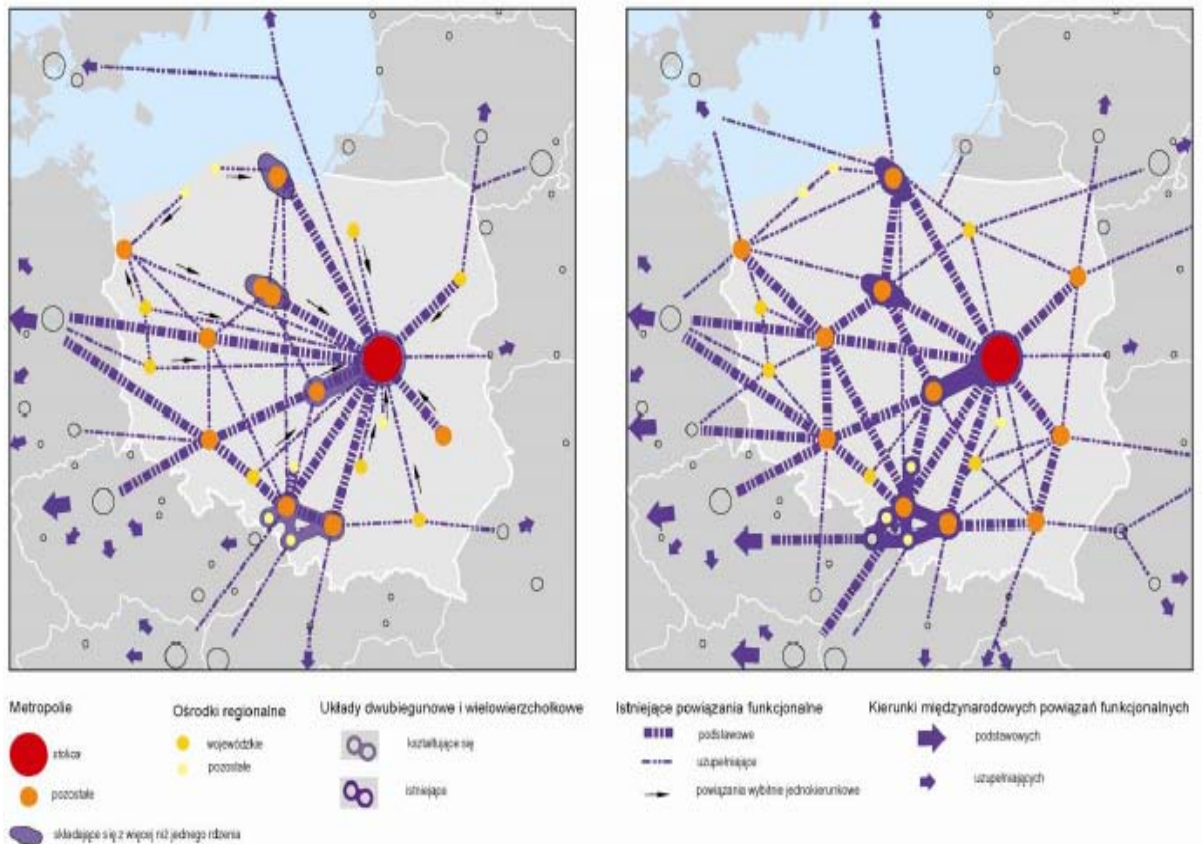
***The key importance of territorial governance***

- 10.7 In large countries regional decentralization is crucial, accompanied by the development of regional centres into real second tier cities. Such polycentric development would allow better correlation between infrastructure and human capital development, compared to monocentric development. Poland is exceptional among the post-socialist countries regarding the steps taken towards administrative regionalization. However, the analysis has shown that this regionalization has not led to decentralization of the political power. Katowice is the seat of the regional government of the Silesia region, but the region does not have the mandate and the financial resources for developing any unique regional development strategy. Thus the future development of the Katowice area continues to depend largely on national decisions. From the second tier cities perspectives the decentralization of the political power would be welcome, provided that a higher level law would assure that the regional strategy to be developed takes the interests of the central city into account.
- 10.8 One of the key conditions for second tier cities to close their development gap against the capital cities is the strengthening of agglomeration economies, to which the intensifying of the functional urban area is one of the preconditions (Tosics – Illés – Hegedüs, 2011). This general rule is even more important for second tier cities under economic restructuring. Cooperation between municipalities across the functional area can become a very important factor in finding the new opportunities and dynamic areas. Such cooperation, however, has to be initiated from the higher administrative levels and by national policies to overcome the short term interests, especially in fragmented administrative settlement systems.
- 10.9 The challenges Katowice face can be compared e.g. to the case of Lille, where first a national framework for urban communities created the necessary legal background for cooperation across the functional urban area. Only after that could the city make further efforts to increase the cooperation area across regional and national borders. Due to the special arrangement of the Metropolis, the working relationship between the city and the surrounding sub region and region is very intensive, and based rather on cooperation than competition/rivalry. Actually, the basic idea of the Metropolis was to enhance the harmonious development of the whole area through the best possible utilization of the member towns potential, while respecting their identity and specificity.
- 10.10 Urban policies get a relatively high priority in the most recent national development strategies. In the administrative hierarchy, however, cities have a much lower political significance than the regional administrative bodies. The basic policy challenges for Polish cities are the strengthening of regional decentralization and the introduction of metropolitan governance. These should ensure the basis for the harmonization of the different fragmented policies that could enhance competitiveness, development and social cohesion. Although the National Strategies of Regional Development for 2010-2020 gives large cities a driving role, no metropolitan policy has yet been developed, nor are there specific tools to enhance metropolitan co-operation. The National Spatial Development Strategy 2030 has recently been adopted. It is a main government strategic document defying the guidelines of the national spatial policy for 30 years. It combines components of spatial planning and

socio-economic development aspects and it presents a spatial development vision based on the functional network of national growth centres, which create a polycentric network of metropolises (comprising of the biggest cities and other sub-regional and peripheral centres related to them).

- 10.11 For the strengthening of their positions, Polish second tier cities depend largely on the higher levels of public administration. The national and the regional tiers of the public administration have different tools to influence territorial development. The most important of these are legal regulations (allow metropolitan associations), planning tools (allow functional urban areas of second tier cities to plan for and implement EU projects) and financial allocations (create incentives for planning on functional urban area level). Some Polish cities, most notably Katowice and Poznan, show the signs of bottom-up efforts to create (in the absence of national legislation) metropolitan cooperation. With an appropriate legal framework, however, this would be much easier, as the French example shows, where the urban communities legislation proved to be so successful that no large city could accept to remain out from this legislation and by now all large areas created their functional urban area cooperation. As completely voluntary associations rarely work well, a legal framework is needed.
- 10.12 The French approach is a unique combination of a government issued framework regulation and incentives to urban areas to voluntarily join the cooperation scheme. Similar approach would be needed in the post-socialist countries as well, keeping local governments for democratic needs but unite planning, economic, etc functions on supra-local level. This could be achieved through voluntary settlement associations if the law places requirements for compulsory functions and financing. For Katowice, similarly to the other large Polish second tier cities, not the redirection of financing to second tier cities is the most needed but the establishment of legal conditions for the needed governance changes. The metropolitan area legislation would be crucial for second tier cities which do not have as good endogenous development opportunities as the capital city but are large enough to have big area of influence where their future development opportunities lie – which, however, can only be materialized in cooperation with the functional urban area.

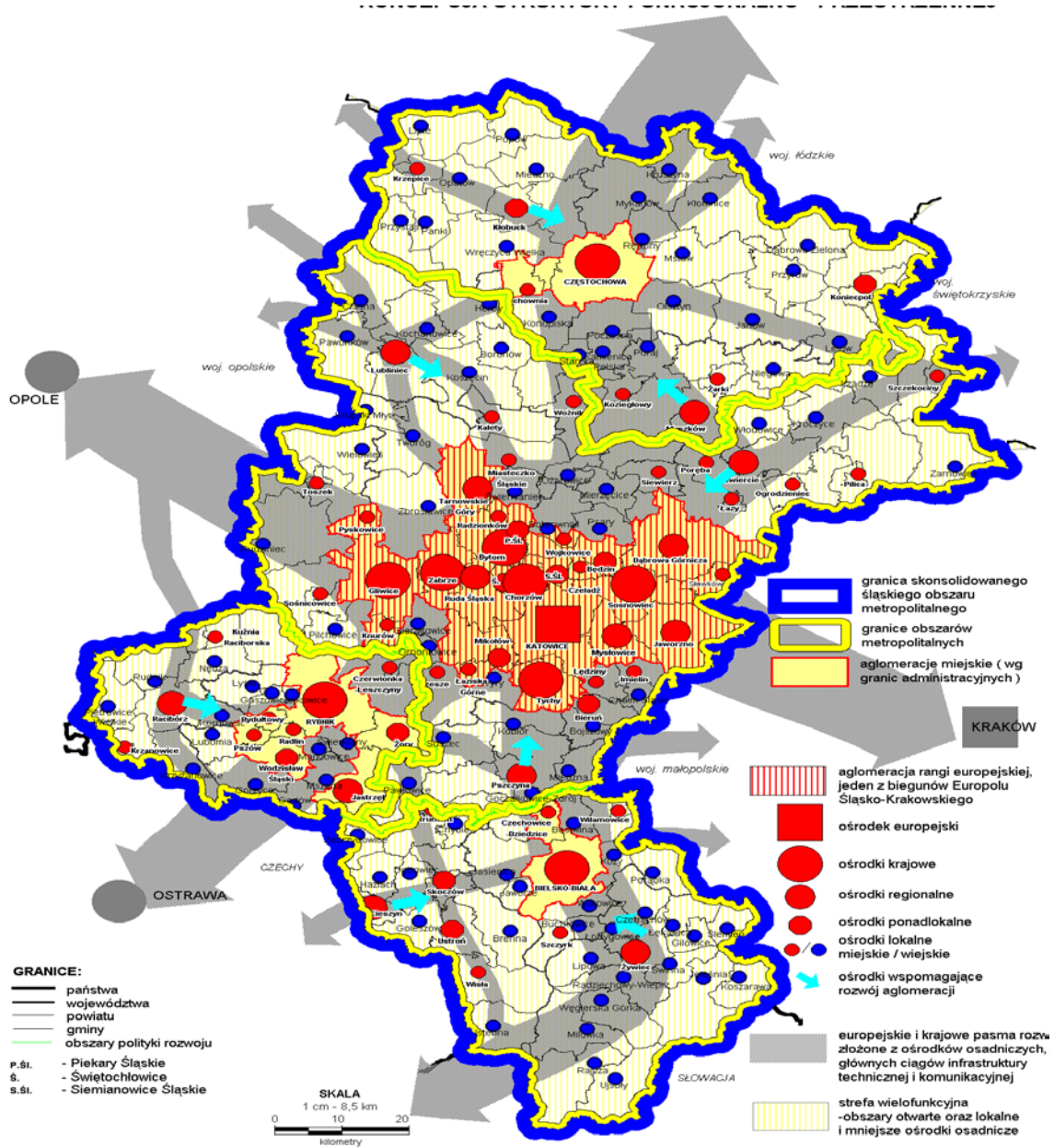
ANNEX 1: FUNCTIONAL CONNECTIONS IN THE MAIN URBAN AREAS (PLAN)



● the main settlement junctions: Warsaw; ● the biggest metropolitan areas, including the Silesian Agglomeration; ● Remaining regional centres (former Voivodeship capitals);  
 ■■■■ Connections (basic and supportive);

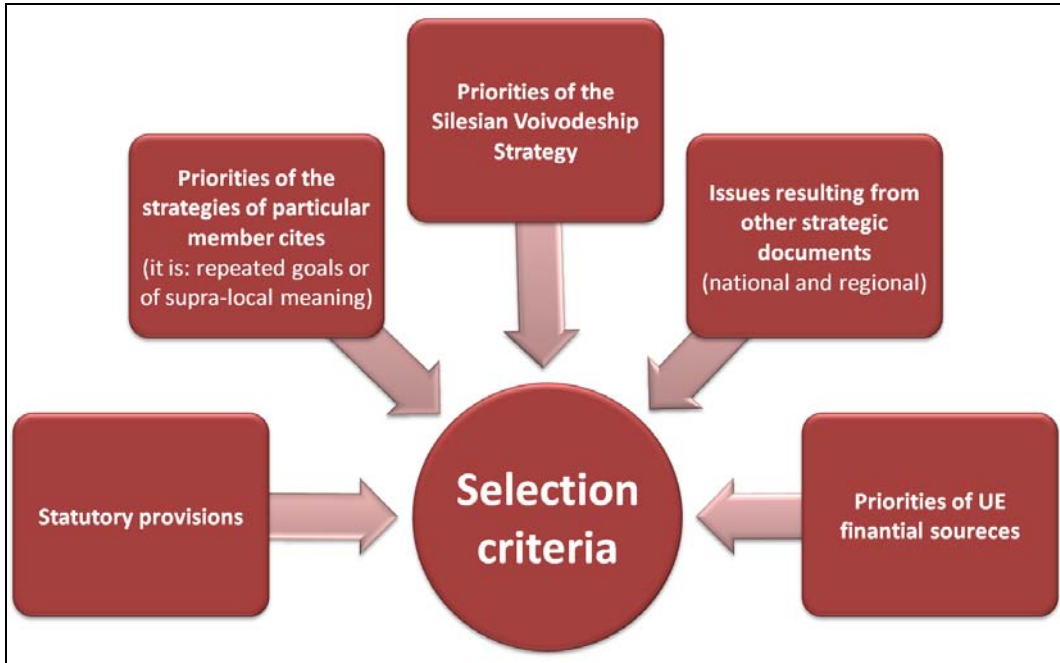
Source: National Spatial Arrangement Model

ANNEX 2: THE CONCEPT OF THE REGIONAL SPATIAL STRUCTURE – SILESIA VOIVODESHIP





**ANNEX 3: CRITERIA SELECTION OF THE STRATEGIC PROVISIONS OF "SILESIA" METROPOLIS**





The ESPON 2013 Programme

**4.**

## **SECOND TIER CITIES: ROOTS OF PERFORMANCE & PROSPECTS**



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## 4. Second Tier Cities – Roots of Performance & Prospects

### ***The relationship between capitals and second tier cities***

- 4.1 This study has reviewed the key features of performance of European cities. It shows the contribution that capital and second tier cities make to their national economies varies across Europe. In particular for historical, economic, political and institutional reasons, capital cities especially dominate their national economy in the east. But although most capitals do dominate second tier cities, the size of the gap varies and in some cases is declining. Also many second tier cities have successfully restructured their economies and are making a growing contribution to national prosperity. In terms of policy, some countries concentrate attention and resources on the capitals at the expense of their second tier cities. But many are beginning to develop policies which explicitly target them. More widely, in some countries mainstream national policies which implicitly affect urban competitiveness - innovation, diversity, skills, connectivity, place quality and strategic governance capacity – have been used to help second tier cities develop. Most interestingly, in countries which are less centralised and less economically concentrated, and where cities have greater powers, resources and responsibilities, cities have performed better and helped the national economy more.

### ***What support for our key arguments?***

- 4.2 The section on individual cities has presented a wide range of evidence about policy principles and practices in a series of second tier cities across a wide range of countries. We distil the key collective messages. However, Table 13 shows in schematic fashion what the evidence from each city tells us about our five key arguments about the performance of second tier cities. It shows that although their experiences greatly differ in detail, they offer considerable support for the key arguments this study has advanced. They support the arguments that deconcentration of investment and decentralisation of powers shape cities' potential trajectories and development. But they also show that in many countries cities have not been given the necessary powers and resources to meet their growing responsibilities and challenges. They underline the significance of local factors especially entrepreneurial local leadership. But the study has also underlined the significance of inherited economic structure. The experience of all the cities underlines that few countries or cities have successfully addressed the key territorial challenge of developing economic governance at scale so that all the key actors and institutions across a single territory can maximise their resources and assets to achieve integrated place based economic strategies. Delivering governance at scale and economic place making remain substantial challenges to many cities in many countries. Too many cities are still attempting to use 19<sup>th</sup> century local boundaries and 20<sup>th</sup> century forms of government to shape and develop a 21<sup>st</sup> century global economy. This remains a key policy challenge for decision-makers at all level of governance.

**Table 13: Do the case studies support our five key hypotheses?**

Case Study	Deconcentration	National policy/centralisation	Local factors	Performance drivers	Territory
<b>Munich</b>	<b>Yes</b> -Balanced, de-concentrated urban system -Munich one of strong state capitals/second tier cities, each with distinctive sectoral mix	<b>Yes</b> -Federal system -State/regional government significant powers -National policy framework/implementation at other levels -State investment in key sectors, transport/ leisure infrastructure, HE etc. crucial	<b>Yes</b> -Municipal entrepreneurialism, leadership -State/city governments harnessed key assets - HE/R&D, connectivity etc., supported key sectors -Rapid response to external threats	<b>Yes</b> -Sectoral mix/good education and skills/HE sector/innovation system/ governance capacity/connectivity/place quality/major urban investment	<b>Yes</b> -City region governance weak due to administrative fragmentation, voluntaristic planning arrangements
<b>Barcelona</b>	<b>Yes</b> -Capital dominant, Barcelona next most important -Econ. transformation post-Franco decentralisation -Strong regions with significant fiscal power -Decentralisation process incomplete – weak municipalities	<b>?</b> -City succeeded despite national policy -No national urban strategy, policy centred on Madrid -European funding important -Lack of vertical/horizontal policy integration	<b>Yes</b> -Powerful regional tier -Inspirational political leadership -Strong public private partnerships -Maximise natural/economic/cultural assets -Financial prudence	<b>Yes</b> -Emphasis on range of key sectors/ improving skills/innovation/ connectivity/place making/marketing/ governance	<b>Yes</b> -Informal working arrangements producing sub-optimal outcomes - loss of coastline/urban sprawl/lack of funding for infrastructure, planning neighbourhoods
<b>Lyon</b>	<b>Yes</b> -Dominant capital, major gap second tier cities -Traditional support for major metropolitan areas to act as counterweights to dominant Paris a help -Recent switch of emphasis to supporting competitiveness welcome -Decentralisation process uneven and incomplete	<b>Yes</b> -National control key policy areas (health, education, R&D, transport) -Strong territorial presence -Poles of competitiveness policy assisted dynamic sectors -TGV's mixed effects	<b>Yes</b> -Commitment to partnership working -Local initiatives: place making, public transport, Higher Education, R&D and innovation -Promotion, internationalisation policies	<b>Yes</b> -Public private partnership/diverse sectors/place making and promotion/human capital/innovation/connectivity/investment in major urban projects each significant	<b>Yes</b> -National policies encouraged joint authorities covering Greater Lyon compensating for administrative fragmentation -Still lack coherent approach to city region because multiple tiers
<b>Leeds</b>	<b>?</b> -Succeeded despite London dominance -Could have done better/addressed challenges more effectively if clearer urban policy framework, more devolution of power	<b>Yes</b> -National policy supportive e.g. urban regeneration programmes and transport investment (roads) but not light rail	<b>Yes</b> -Good political leadership -Strong public private partnerships -Efforts policy integration	<b>Yes</b> -Human capital/connectivity/ innovation/place quality recognised as important and nurtured	<b>Yes</b> -Early recognition of city region joint working -Political constraints on integrated approach to transport
<b>Tampere</b>	<b>Yes</b> -Although Helsinki dominant and international hub, Finland has polycentric urban structure, important second tier cities -National Government pro-balanced development -Local Government extensive competences	<b>Yes</b> -National policy promoting growth/innovation of second tier cities proved helpful -Welfare system promoted social cohesion -City successful proactive local policymaking, sectoral policies.	<b>Yes</b> -Path dependency partly broken by local determination to transform manufacturing into knowledge economy, promoting higher education/research/innovation/high tech sectors.	<b>Yes</b> -Skills/regional innovation system/ promoting range of new sectors/adaptive capacity and governance	<b>Yes</b> -Government recognises importance upscaling government, supporting collaboration re. land use planning
<b>Turin</b>	<b>Yes</b> -Italy has many cities for historical and geographical reasons, capital not especially dominant -Some decentralisation but policy towards cities not that significant and unreliable -National Government holds purse strings	<b>Yes</b> -State funding for education/research important but impact limited because uneven support, lack of clear, stable policies	<b>Yes</b> -Good local growth coalition attempted to change development path -Municipal leadership -Players exploited local assets -Municipal indebtedness constraint	<b>Yes</b> -Skills, innovation/governance and leadership/joint planning	<b>Yes</b> -Lack regional mediating mechanism to co-ordinate & manage territorial interests at city region level/achieve multi-level governance re. education/research and innovation/connectivity
<b>Cork</b>	<b>Yes</b> -Very dominant capital -Few important second tier cities apart from Cork	<b>Yes</b> -Centralised governmental system -National policy incentives crucial (tax, EU funding) -Spatial planning promoting counterweights but lack of resources	<b>Yes</b> -Effective urban planning, physical regeneration of core, deployment of EU funding – transport and ICT infrastructure,	<b>Yes</b> -Education and skills/ICT/transport infrastructure/place quality important, capitalised upon	<b>Yes</b> -Limited vertical/horizontal policy integration due to over- centralised state system
<b>Katowice</b>	<b>Yes</b> -Balanced, polycentric urban system -Formerly economically successful but restructuring, environmental, depopulation challenges -Recent decentralisation but insufficient financial decentralisation/lack of clarity	<b>Yes</b> -Lack of national urban policy -Lack of vertical/horizontal policy integration and incentives for urban and metropolitan governance -EU Structural funding very significant in funding new facilities	<b>Yes</b> -Regions most significant tier, role in allocating EU funds -Local government less so, under-resourced -Example of path dependency	<b>Yes</b> -Strategic location, good transport links, concentration of population -Pollution, poor environment, population loss - constraints	<b>Yes</b> -Good co-operation authorities at conurbation level -Coherent approach difficult because voluntaristic arrangements
<b>Timisoara</b>	<b>Yes</b> -Economic power/political influence concentrated in Bucharest -A major constraint on city development, growth -Decentralisation process slow, limited local autonomy	<b>Yes</b> -Growth pole policy backed by EU resources -Lack of vertical/ horizontal policy integration	<b>Yes</b> -Some visionary policies, exploiting available resources but limited capacity -Commitment to business friendly support and environmentally friendly policies	<b>Yes</b> -Higher Education, human capital, business support infrastructure, place quality, each important -Notable gaps – innovation policy etc.	<b>Yes</b> -Limited city regional working due to many autonomous authorities, limited powers regional/local level

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***The recession is hitting second tier cities– but with different effects***

- 4.3 Many second tier cities performed well during the boom years when they had national government support and investment. But the recession has had a major impact on many of them - in particular those which flourished during the boom decade. Some regions in Central and Northern Europe - Netherlands, Austria, Denmark, Switzerland, Norway, Luxembourg and Iceland – have coped relatively well with the economic crisis so far. By contrast, many regions in the Baltic States, Spain, Ireland, Eastern Germany and some in Romania, Bulgaria and France have been hit severely. Capital cities generally are better placed to withstand the recession. But capitals and second tier cities in the South and East have been especially hard hit with a dramatic reversal of the improvements experienced in the growth period. But even in these countries the picture is mixed. Some second tier cities are holding up relatively well.

***Risk of increased gaps between secondary and capital cities***

- 4.4 Although the crisis is still unfolding, there is evidence that the gap between capitals and second tier cities which closed in many countries during the boom years, has begun to reopen. More generally there is a risk that the gap between the more and less successful cities across Europe will widen in the future. There will be intense competition between places for limited public and private investment in the coming years. There is a risk that private and public investment will focus on already successful cities which have better economic prospects. Because of this risk, national governments will need to be more explicit in their decisions about territorial investment programmes in the future than they have been in the past.

***Cities can shape their trajectory - the role of local leadership***

- 4.5 Many factors affect second tier cities' strategic options. But they still have discretion to shape their fortunes and futures. Some cities have been successful almost against the odds despite not having a supportive national government. But all are path dependent to some degree. Their performance has been influenced by their geographical advantages, culture, indigenous assets and resources, politics, luck as well as good judgement. Second tier cities that rely heavily on a single company or narrow range of industries have found it harder to break with the past and discover new rationales when those activities have become outmoded. And inherited economic and governance structures remain a crucial constraint in many ways. Munich and Katowice are at opposite ends of the spectrum in terms of the basic assets they have to work with. So places like Katowice will face much bigger challenges in future.

- 4.6 In other words, some cities have a stronger hand to play than others. But in many cities, key partners have played a major role in maximising their city's assets and reinventing their role. The key to success is a combination of good leadership, entrepreneurialism, effective governance and policy integration. The ingredients of good leadership include visionary thinking (Tampere, Barcelona), marshalling support around a compelling strategy (Barcelona, Turin and Tampere), maximising competitive advantage (Munich) and boosting inward investment by quality place making (Barcelona). In cities on a downward trajectory, reinvention has come at moments of crisis when partners realised that old models were broken and traditional coalitions and strategies were no longer credible. This provided the opening for determined new actors to gain influence (Tampere). Entrepreneurial strategies have included political lobbying for national investment in major events and infrastructure, extensive networking and collective problem solving. In successful cities, joint working on agreed goals and common philosophies has become an intrinsic part of the culture ('Munich Way', 'Lyon Spirit', 'Leeds Visions'). They typically have a dense web of support agencies, intermediaries and research and development bodies to promote innovation and key sectors (Munich, Tampere, Barcelona, Leeds).

***Territorial governance matters***

- 4.7 Globalisation makes it crucial to have multi-level governance and governance at scale. In every city in this report, this challenge is one of the most intractable created by administrative fragmentation, local autonomy and financial pressures. The result has been competition and conflict between governments, delays in decision making, little integrated land and transportation planning, congestion, pollution, and sprawl. These challenges are most acute in the most successful, rapidly growing second tier cities. Most progress on these has been made where higher level governments have incentivised collective working between different levels of government. So many second tier cities struggle to align territory, governance and economy and find effective ways of dealing with growth.

***Horizontal and vertical integration is possible***

- 4.8 Some successful second tier cities have managed to integrate national, regional and local policies to promote development. In some cases city and regional actors have maximised national programmes and initiatives and blended them with local initiatives and resources. There are also many good examples of horizontal policy integration. Partners have worked together to deliver comprehensive, widely supported economic development strategies in Barcelona, Munich and Tampere. Such relationships usually sprang from leaders' ambition either to reinvent their city (Turin, Leeds, Tampere), maintain their competitiveness (Barcelona, Munich) or create an environmentally friendly city

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(Timisoara). Delivering large projects and major events has also been a key driver (Turin, Munich, Barcelona, Cork, Lyon).

***National policies and resources matter***

- 4.9 National government support has taken five main forms: sympathetic governance systems and policy frameworks, injection of funds, fiscal incentives, support for key industries and direct provision of jobs. Their impact has varied for three reasons. First, the allocation of responsibilities between national and other government levels, the strength of national government territorial administration, cities' level of fiscal autonomy and dependence upon national resources all varied. Second, second tier cities have benefited when there has been either an explicit national urban policy or policies which have favoured them. Third, the influence of the urban lobby on national governments has also been important. In most member countries the lobby has been fragmented and comparatively weak, with some notable exceptions.

***Good governance - shared responsibilities and clarity of roles***

- 4.10 The key governance issue is not simply the division of powers and resources. It is also the extent to which responsibilities are shared and roles are transparent or confused. For example, urban policies tend to be vertically integrated in German cities because key functions are shared, or because the Federal Government funds urban and regional partnership experiments or because they are the subject of extensive negotiations between federal, state and city governments. Cities' financial capacity, in particular the extent to which they rely upon national grant, transfers and financial equalisation or can raise their own revenue, also affects national policy impacts. In some cases, centralisation of power is exacerbated by the lack of strong, democratically elected regional government and fragmented metropolitan governance (Timisoara). In other cases, cities in decentralised states (Katowice) were in virtually the same position as those in centralised unitary states (Cork) because decentralisation of responsibilities has not been matched by the decentralisation of financial resources.

***Governments' mainstream money matters most***

- 4.11 Mainstream policies matter more to second tier cities than explicit urban policies for three reasons. First, mainstream programmes dwarf financially those explicit, area based initiatives which specifically target 'urban' problems and affect cities much more significantly through policies for education and research; skills; transport; housing, planning, business support. Second, many explicit urban programmes are more concerned with poverty and social cohesion than urban competitiveness and performance. Third, there is often a large gap between strategy and implementation in explicit programmes because of limited resources, siloed policymaking, and fragmented governance at city region level.

***Keys to success of national policies – local discretion , shared values, flexibility and trust***

- 4.12 National policies work best when there is collective understanding at different government levels of how different interventions affect cities and the right levers to pull to maximise performance. National policies are most effective where there is scope to shape them to local circumstances. This requires multi-level governance as well as human and fiscal capacity and autonomy at city level. Also the consistency, transparency and reliability of national policy are critically important because urban economic development is a long term business. Finally, the most robust policy systems are underpinned by a set of shared principles and values. These include: focussing upon business and community needs; understanding and responding to future urban challenges; reconciling strategic and local perspectives; trust, reciprocity, and mutual respect.

***Long term investment is critical***

- 4.13 National resources and investment matters. Some national governments have directly funded major urban redevelopment programmes which have helped reshape second tier cities. The extent of national support has varied depending upon the state of national finances, policy priorities and the availability of European funding. Structural Funds have also strengthened the regional tier of government, benefiting second tier cities even in the highly centralised Eastern European states. Some national governments have focussed research funding on the best or most competitive research sectors which has also favoured some second tier cities. Tax incentives have boosted Foreign Direct Investment in Irish cities. Feed-in tariffs have stimulated the growth of environmental industries in Munich. Some cities have benefited from national government procurement because they contain key strategic industries. Others have benefited from Government jobs either because they are important administrative centres or because of decentralisation of civil service activity from capitals.

***Decentralisation of powers – AND resources - matters***

- 4.14 Levels of centralisation matter. But decentralisation of responsibilities to cities only works if responsibilities are matched by corresponding powers and resources. The report shows that cities perform better in those countries which are less centralised and economically concentrated and where cities have greater powers, resources and

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responsibilities. The report also shows that many policy makers and researchers believe that, given the impact of deconcentrating resources and decentralising powers on second tier cities, national policies should give them more powers, responsibilities and resources. A policy of economic place making has benefitted many cities. It underlines the potential for wider implementation in national and European policies in the future.

***What prospects for second tier cities?***

- 4.15 Second tier cities face different challenges. Some wrestle with the consequences of success and rapid economic growth. For example, Munich and Barcelona need support from state and federal governments to create more effective city regional governance. Other cities have performed well but face uncertainties. Lyon and Turin face challenges of overcoming the loss of headquarter functions, defining new economic activities and improving their connectivity. Cork needs to develop its innovation capacity and reduce its dependence upon Foreign Direct Investment. Tampere and Munich, although they have pursued a successful innovation strategy, need to improve cross sectoral co-operation and innovation. Katowice faces a herculean task of overcoming its mining and heavy industry legacy, diversifying and modernising its economy, reversing its population decline and cooperating across the city region. Timisoara similarly faces urban shrinkage, needs governments to help territorial cooperation and improve cross-border transport infrastructure and co-operation with its Hungarian counterparts.

***Challenges will grow***

- 4.16 Many of the dilemmas cities now face will continue in future. In fact they will become even more challenging because of economic and institutional restructuring, national deficits and credit restrictions. Second tier cities will face many of the following challenges: maintaining competitiveness in the face of increasing competition from rival cities, changing markets and a more austere economic climate; reconciling competitiveness, environmental sustainability and social cohesion; attracting international investment and workers without losing identity; devising new ways of funding development; getting clarity from national governments about cities' future roles and resources; strengthening governance at city regional level to deliver integrated place-based policies. Meanwhile, the urban world is changing around them.

***Second tier cities in a global economy - the bar has been raised***

- 4.17 European cities will have to operate in a fast changing global context. Previous research by ESPON has described the hierarchy of cities in national and European spatial divisions of labour measured by industrial structure and global connectivity. These analyses distinguish the global cities of London and Paris from those cities lower down the European hierarchy. But they have not discussed in detail the changing global urban hierarchy in which European cities are positioned. For example, the McKinsey Global Institute has estimated that 600 cities account for 60 percent of global GDP and Europe has 153 of them. But by 2025 the makeup of these cities will have significantly changed as the centre of gravity of global development shifts south and east. Over 130 new cities are forecast to move into the leading group. All are from the developing world - mainly from China but also India and Latin America. 9 of the top 25 cities will be in Asia. While London, Paris and the Rhine-Ruhr and Randsstad North conurbations might consolidate their position, other European cities are expected to drop out of it. The cities that will move up the hierarchy are in the countries that have been relatively immune from the global recession and are part of a step-change in urbanisation caused by this new phase of economic development.
- 4.18 These global developments provide challenges for the European economy and its cities. Those with leading technology-based companies will benefit from the global trends because of their innovative edge. This will favour cities in the centre and north of Europe where these leading companies are based. EU2020's focus on smart and sustainable growth is important in this context. Another distinctive feature of the new phase of globalisation is the incorporation of Africa. This shift could favour some southern European cities because of their historic political links with the continent and their geographical proximity. However, east European cities are threatened by massive population losses and threats to their future economic development. Europe's economy and its leading cities are entering a new phase of globalisation that will bring new economic challenges in addition to those identified in this report.



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**5.**

**POLICY MESSAGES:  
WHY INVEST BEYOND THE CAPITALS IN AN AGE  
OF AUSTERITY?**



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## 5. POLICY MESSAGES:

### WHY INVEST BEYOND THE CAPITALS IN AN AGE OF AUSTERITY?

5.1 A key concern of this study is to examine the argument that spreading investment and encouraging high performance in a range of cities rather than concentrating on the capital city would pay benefits. This report has provided significant evidence for this argument. It has shown although the capital cities in many countries are responsible for a significant proportion of national GDP, second tier cities nevertheless make a significant contribution. In many cases the economic contribution that a series of second tier cities make is greater than that of the capital itself. So the contribution of second tier cities that lie between the successful capitals and the lagging cities is crucial to national economic success.

#### ***Capital cities do matter***

5.2 This report also suggests that in many respects capital cities receive preferential treatment from national governments. It has been argued that decision-makers find it easier to allocate resources to existing capitals rather than identify opportunities elsewhere. It has also been argued that private sector investors take the easiest strategy of investing in buoyant locations rather than taking risks with more marginal locations. The argument can be overstated. Nevertheless, capitals are privileged in that they are typically the centres of national political, administrative and economic power. They have stronger private sectors. They are more integrated into global networks. They are more likely to contain companies' headquarters. Their producer services are typically the most advanced. They contain major financial institutions giving easier access to risk capital. They have significant agglomeration advantages. They contain leading academic and research institutions. They are at the hub of national transportation and ICT networks. They attract public and private 'prestige' investment because they are seen as representing their nations.

#### ***But not at the expense of everywhere else***

5.3 Successful capitals are crucially important to their national economies and must be able to compete in a global market. But the risk is that they suck life out of the rest of the urban system so the national economy becomes spatially and structurally unbalanced. To avoid this, second tier cities need as much policy attention as capitals. Sometimes second tier cities do benefit from national policy. But often this happens in implicit rather than explicit ways. Most states do not have a policy for second tier cities which means their collective interests are overlooked. A key policy issue is how to realise the potential of second tier cities so they can bring maximum added value to their national economies.

#### ***Deconcentration and decentralisation can help economic performance***

5.4 The experience of Germany suggests that decentralisation, deconcentration and a strong set of second tier cities helps drive strong national economic performance. By contrast, if the gap in economic importance and performance between second tier cities and capitals is very large, this will limit national performance. First, over-concentration in capitals will weaken more peripheral areas because they will not have buoyant second tier cities and support services. Second, second tier cities in systems dominated by capitals are less likely to feature in national policy because they are seen as less important. Third, the dominance of competitiveness-oriented urban policies will mean that already successful areas will be prioritised, increasing territorial imbalances. Finally, the lack of competitive second tier cities limits the scope to reduce the pressure on capital cities' land, property, environmental resources, transport and infrastructure by relocation.

#### ***The costs of agglomeration – the limits of capital cities***

5.5 This study has also identified a series of concerns about the dominance of capital cities. In this respect our work reflects similar analysis of the performance of regions by the OECD. One theme is the costs and negative externalities of agglomeration. The second theme is that all urban areas have potential and national policy should encourage that rather than concentrating upon a limited number of already successful places. Agglomeration does obviously produce economic benefits. OECD research has shown in some countries, the largest single metropolitan area produces between one-third and one-half of national GDP. However, the economic benefits of agglomeration are not limitless. Cities can reach a point where external diseconomies make them less competitive because of negative externalities caused by unregulated urban growth and diminishing marginal returns. OECD identifies risks that beyond a certain point, congestion, land scarcity and sprawl, marginalised human capital and infrastructure deterioration contribute to an area's decline. And investors and developers may start to avoid them and move elsewhere. Given such potential risks, this study supports the argument that focusing on second tier cities would create greater economic growth and greater efficiency by reducing diseconomies of scale.

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### ***Balancing investment between leading cities and those with potential***

- 5.6 This report also confirms the OECD analysis that, although leading metropolitan regions are important for national economies, second tier regions also make a substantial contribution to growth. In most OECD countries, such regions have generated more than 50% of national growth over the past decade. So policies to support lagging regions and cities not only address disadvantage but can help generate growth for national prosperity. The policy choice is not between favouring growing areas as opposed to the regeneration of declining areas. It is between putting the national eggs into a smaller or larger number of baskets. Our study suggests that national governments which concentrate attention and resources on their capital cities risk creating very uneven development with whole regions and cities missing out on chances to enter the new economy. Second tier cities, although less able to act on the global stage, can still generate important dynamism for regions outside the capital and contribute to overall national growth.

### ***Second tier cities can bring national advantages***

- 5.7 This study shows that many second tier cities contain major concentrations of economic activity, substantial wealth creation potential, human capital and creativity. In many cases they punch beyond their weight relative to their share of population. They cater for variations within nation states and contribute to territorial cohesion. They contain higher order services and offer companies better access to them than if they were all concentrated in the capital city. They can achieve many of the agglomeration effects of capitals, provided they have the right infrastructure, facilities, capacity and powers. They can lift the performance of their regions, reduce inter-regional inequalities which promote social cohesion.

### ***The balance sheet***

- 5.8 This report has demonstrated that second tier cities make a substantial contribution both to national economic development and to the European economy itself. Many cities are punching above their weight economically - but others could do more. Second tier cities do not contribute as much economically as capital cities in most countries. But they could contribute more with greater national policy support, tools and investment. There are three simple messages to policy makers at different government levels. To city region leaders, it shows that city regions which get their act together and act strategically to exploit their assets flourished more in the recent boom period and will survive better in the current economic crisis. Increasing strategic governance capacity to deliver economic place-based policies at the city region level should be a key target for all local partners. To national governments it shows that if they strategically invest in second tier cities they are more likely to maximise the economic potential of the national economy. And to the European Commission it shows that city regions are crucial to the delivery of their strategic goals identified in EU2020 and that they and their leaders should be taken even more seriously in the future development and delivery of Commission policies.

### ***So what should the policy approach be?***

- 5.9 The relationship between capital and second tier cities should not be seen as zero-sum but as win-win. The capital city in virtually all ESPON countries makes a huge economic contribution to the overall national economy. There is little demand for that to be artificially limited to encourage the development of second tier cities. The policy message is that it is better to encourage the development of both rather than to constrain the capital. The trick is to grow the overall national urban economic pie without killing the golden goose of the capital city. A key policy issue is how to encourage second tier cities to absorb some of the capital city's growth as it reaches the limits of its capacity to accommodate it and the costs begin to outweigh the benefits.

### ***Transparency about territorial investment strategies***

- 5.10 There is often not enough transparency about the territorial investment decisions of national governments. They typically do not specify how they allocate resources to leading or lagging, growing or declining and capital or second tier cities. Those investment criteria should be made more explicit and transparent in future. In addition the potential sources of this investment need to be identified because of the recession. The recession, government debt and public sector expenditure cuts clearly reduce the funding potential of the public sector. The EU's Cohesion Policy and the European Investment Bank will remain important sources of public investment for cities. But it will not cover all cities in all countries. Initiatives like JESSICA will be important but will remain limited in scale and coverage. In this context, public-private partnerships and new investment funding mechanisms will be more important. Different forms of value capture including local asset backed investment vehicles and tax increment financing offer potential for public-private co-investment projects and financial as well as wider social and economic returns.

### ***What policy messages for the European Commission – take second tier cities and their leaders seriously?***

- 5.11 In recent years the European Commission policy has broadened and deepened to grapple with the complex mix of opportunities and problems facing different European cities. In particular during the past decade, it has promoted and encouraged the principles of multi-level governance and of integrated, place-based economic development. But this study emphasises the need for current EU policy to increase the territorial, place based spatial dimensions of its

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policies if it is to deliver its wider economic and social ambitions. EU 2020 is the critical policy context outlining three clear goals - smart, inclusive and sustainable growth. Its objectives are to: increase employment to 75%; invest 3% of GDP in R&D; cut greenhouse emissions by 25%; reduce early school leavers to 10%, increase the proportion with tertiary education to 40%; reduce people in poverty by 25%. These ambitious targets may or may not be realistic given many regions' current performance. However, second tier cities are potential levers to make them a reality. They account for 85% of Europe's GDP, 75% of its population and 80% of its carbon footprint. But many policy makers involved in this study have questioned whether Commission policy is yet sufficiently focussed upon the economic place making agenda. In particular, many insist that EU 2020 does not have a sufficiently explicit territorial focus and does not locate its targets or investment actions in particular places. This point was underlined by the revised Territorial Agenda 2020 which argued that, despite a series of successes, EU policy needed: more effective coordination of different policies, actors and planning mechanisms; more sharing of territorial knowledge; more sophisticated multi-level governance arrangements and greater integration of the place-based approach into public policies at EU, national, regional and local levels

***Meeting the economic, policy and governance challenge in the East***

- 5.12 Urban policy must recognise that Europe remains enormously diverse. National differences in cultural and ideological values, economic performance, governance arrangements and policies have an important impact upon second tier cities. In particular the capacity of different countries to incorporate the principles of place based economic development varies enormously. They require flexibility, cross sectoral working, cross departmental working and partnership between public and private sectors. This has proved difficult in many countries. But it is particularly true of the new member states. Many of them are still constructing democratic governance, institutional and infrastructural capacity and modern economic systems. They typically have: highly centralised government systems segregated along department and sectoral policy lines; regional and local government with limited powers and resources; and limited incentives to encourage collaboration across policy and geographical boundaries. So policy must reflect that diversity of countries and cities across Europe but nevertheless find common principles and ways of unblocking barriers to implementing them.

***So when should national governments invest in second tier cities?***

- 5.13 The number of high performing second tier cities a country can sustain will vary according to both the country's size and level of economic development. For example, in smaller countries there will be less scope for a large number of places to complement the capital. Equally in the developing economies of the east, the capital city is the most significant driver of the national economy. In both cases, capital cities might remain the initial focus for investment because they are most likely to have the capacity and critical mass to succeed. Nevertheless, countries must have strategies for developing second tier cities, to spread economic benefits and help them become the economic motors of their wider regions. Governments should encourage as many successful second tier cities as the population and pattern of economic growth and development permits.

- 5.14 Only national governments have the detailed knowledge needed to make the right investment decisions in future. Each case should be determined on its individual merits. But some clear principles have emerged from this study. National government should be prepared to make investment in second tier cities where the following conditions are found:

- The productivity gap between capital and second tier cities is significant and growing.
- The business environment in second tier cities is poor because of under investment in hard and soft infrastructure by national government.
- There is clear evidence of negative externalities in the capital including for example: high and increasing real estate prices, congestion, environmental pressure, skill shortages and wage inflation.

Under such conditions investing more in second tier cities should benefit everyone, including the capital, by taking the pressure off it.

**Final Policy Messages**

***Greater transparency about territorial investment and more systematic policies for second tier cities***

- 5.15 Although capital cities have usually dominated national economies, leading second tier cities play a very important role in national wealth creation, maintaining social cohesion and increasing environmental sustainability. This has been true during recent boom times and recession. **In future national governments and the EU should fully recognise the significance of second tier cities and systematically pursue policies which maximise their potential. They should also be more transparent about their territorial investment policies.**

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- Continue investment in the new member states***
- 5.16 There is great variation across Europe in the size of the economic gap between capital and second tier cities and in the size, number, importance and performance of major second tier cities. The gap in economic performance between capitals and their leading second tier cities is particularly large in the new member states because of their traditionally centralised political systems, territorial underdevelopment and the effects of rapid marketisation. The East still faces challenges of building institutional and infrastructural capacity which are much larger than second tier cities in the old member states in the West. **This study underlines the importance of sustaining EU funding in the new member states since this has been critical to promoting regional decentralisation and modernising urban infrastructure.**
- Monitor and maximise territorial impact of national policies for competitiveness***
- 5.17 The classic drivers of competitiveness are strongly correlated with economic performance in second tier cities and capitals. A small number of governments have recognised this and focussed them on second tier cities. **More EU and member governments should recognise the importance of these competitiveness drivers - innovation, economic diversity, connectivity, skills and human capital, place quality and strategic governance capacity - and maximise their collective impact on the widest territorial scale not concentrate them on capital cities.**
- Decentralise more responsibilities and resources and deconcentrate more investment.***
- 5.18 Second tier cities perform better where national government policies support them, give them significant powers and resources and where investment is more deconcentrated. **National governments should decentralise responsibilities and resources to cities and deconcentrate public investment more.**
- Create territorial economic governance at scale***
- 5.19 Few countries or cities have successfully addressed the key territorial challenge of developing economic governance at scale so that all the key actors and institutions across a functional economic urban area can maximise their resources and assets to achieve integrated place based economic strategies. Too many cities are still attempting to use 19<sup>th</sup> century local boundaries and 20<sup>th</sup> century forms of government to shape and develop a 21<sup>st</sup> century global economy. Successful city regions need governance to be upscaled to the functional economic level. At the moment too often, they are too many, too small and not fitted to not fit for purpose **European, national and regional governments should incentivise and encourage voluntary collaboration but also strengthen territorial governance at city region level.**
- Encourage financial innovation***
- 5.20 The credit crunch and recession mean that public resources are under great pressure and new methods of financing urban development are needed. There is no single solution. **But governments should actively pursue a combination of public loans, pension funds, tax increment financing, local asset backed vehicles and pooled budgets.**
- Focus mainstream, implicit policies as well as explicit area based initiatives on second tier cities***
- 5.21 Urban policy across the EU is very uneven. There has been a shift in the orientation of explicit urban policies and greater emphasis on boosting urban competitiveness. But the funds allocated for them are dwarfed by mainstream spending programmes. Few states consider the effects of mainstream programmes and spending on the performance of second tier cities since most governments are organised on functional non spatial lines. Also, very few member states have introduced conscious policies to promote their leading second tier cities. **Cities' role as motors for their regional economies should be fully recognised by EU and member states and they should introduce supportive policies in line with the best practice identified in this report.**
- So when to invest in second tier cities?***
- 5.22 Strong capitals matter to nation states' global positioning and competitiveness. However, strong second tier cities also matter. **Both capital and second tier cities must be supported in future. It is a win-win, not a zero sum relationship. Governments should help second tier cities so they can emerge from the current recession with more 'investment ready' places to maximise future national economic performance. Now is the time to prepare for recovery from recession. In particular, national governments should invest more in second tier cities when : (i) the gap between them and capitals is large and growing (ii) the business infrastructure of second tier cities is weak because of national underinvestment and (iii) there is clear evidence about the negative externalities of capital city growth.**
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# **ANNEXES FOR THE SCIENTIFIC REPORT**

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## **ANNEX 1**

# **POLICIES FOR SECOND TIER CITIES IN EUROPE APPROACHES, ISSUES AND CHALLENGES**

**RICHARD MEEGAN**



EUROPEAN UNION

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## 1. GOVERNANCE, DECENTRALISATION: WHAT ARE THE PATTERNS?

### *The study hypotheses*

1.1 We are exploring the performance and prospects of second tier cities across Europe as actual or potential 'growth poles' by addressing four key hypotheses:

(i) **Deconcentration matters.** This hypothesis essentially argues that the benefits of an urban system where public and private investment resources are concentrated upon the capital city are smaller than those of a more deconcentrated, territorially balanced urban system where growth and resources are spread across a range of different sized cities in a wider territory. It implies that: national economies will be more successful when the gap in economic, social and environmental performance between the capital and second tier cities is smaller; more successful national economies have more second tier cities performing well.

(ii) **National policies matter.** This argues that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. It implies that institutional and financial decentralisation from national to sub-national (regional and local) government will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. In addition, second tier cities will perform better where national and regional policy making systems are horizontally and vertically aligned to focus upon place making.

(iii) **Local factors matter.** Second tier cities are path dependent and are constrained by external factors - historical, cultural structural, political and institutional. But those factors are not determinant. The economic performance of cities will depend upon their strategic capacity to manage those external constraints.

(iv) **Territory matters.** This argues that globalisation makes the governance capacity of place more important. It will be increasingly multi scalar. Economic governance in second tier cities should be located at the highest achievable spatial level. Second tier cities need strategies to shape the different territorial roles they play regionally, nationally and in Europe.

### *A grouping of countries by state system*

1.2 It was clear that we needed first to position second tier cities in their respective national state systems to indentify the distribution of competences or regulatory powers between different administrative levels of government and the degree of decentralisation of these competences from central to lower tiers of government.

1.3 We found two recent studies to be particularly helpful in this exercise. The first is a study carried out by Ismeri Europa and Applica for DG Regio as part of the latter's preparatory work for the recently published Fifth Cohesion Report (DG Regio, 2010). The study documents the distribution of competences between different administrative levels in the 27 Member States of the European Union, concentrating specifically on competences relating to regional development (Ismeri Europa and Applica, 2010). Importantly, it distinguishes between four broad typologies of state organisation and thus provides a grouping of countries according to state system that add an explicit governance dimension to the broad territorial grouping that we are also using in our research.

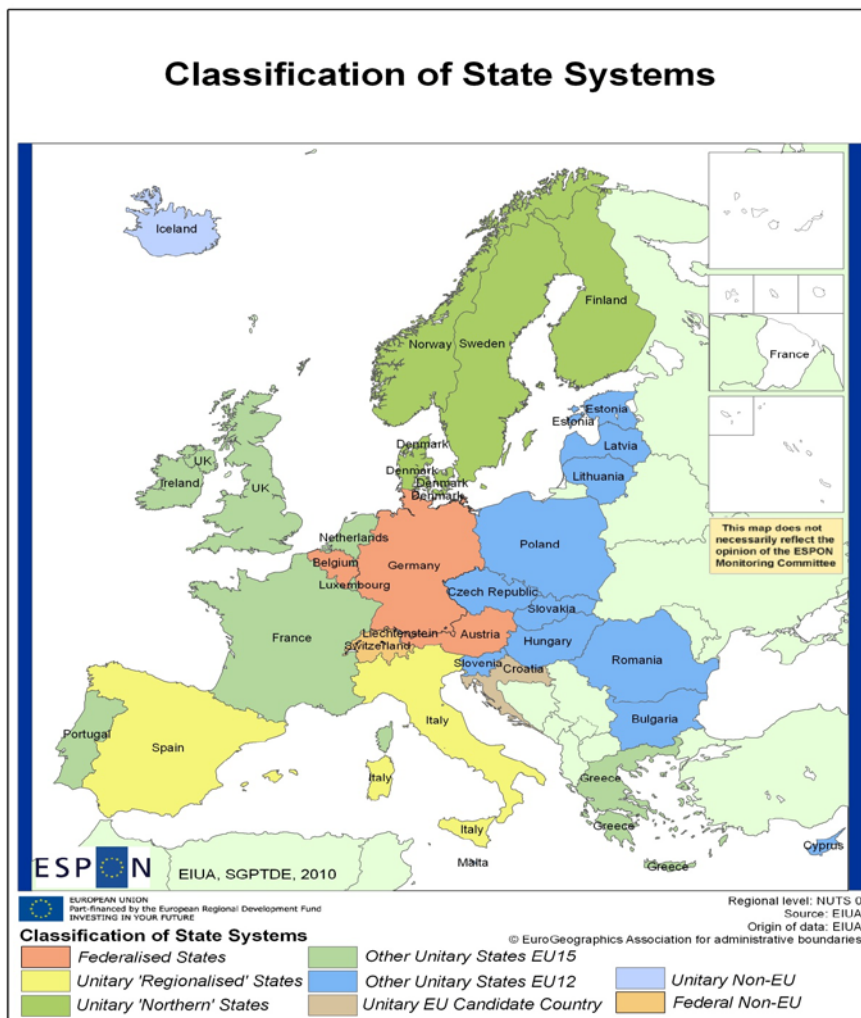
1.4 The typologies distinguish between federal and unitary Member States with the latter further divided into three giving the following broad typology:

- ❖ **Federalised states** (Austria, Belgium and Germany): characterised by a central government and regional authorities both with own legislative and administrative competences that are exercised independently and recognised by the Constitution. For our data analysis, we will also include Switzerland, a non-EU Member State, in this group as part of the wider ESPON territory.
- ❖ **Unitary 'regionalised' states** (Italy and Spain): unitary countries that have established an intermediate level of government with a wide set of competences. What sets them apart from traditional unitary states is their high degree of regionalisation.

- ❖ **Unitary 'Northern' states** (Denmark, Finland and Sweden): unitary countries in which local governments have a wide range of responsibilities in relation to regional development. Norway also falls in this group for our data analysis as part of the wider ESPON territory.
- ❖ **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): where central government is predominant, although there is considerable historical variation between them, not least in relation to the degree of decentralisation - which is relatively high in some countries such as the Netherlands, Slovenia and Lithuania and very limited in others like Ireland, Greece, Bulgaria, Romania and Malta.

1.5 The distinction between 'old' and 'new' member states also captures, in the latter, the state restructuring being experienced by the former socialist states of Eastern Europe. With the exception of the former FDR, which has been integrated into Germany's Federal System, all of these previously highly centralised socialist states have developed unitary political systems albeit with varying degrees of decentralisation of competences.

1.6 Other Unitary States to be included in the data analysis for the ESPON territory as a whole are Unitary States are the non-EU Member States of Iceland and Lichtenstein and the former socialist state and EU candidate country, Croatia. (See Map 1 and key).



**Table 1.1**

STATE SYSTEM GROUPING	CHARACTERISTICS	COUNTRIES
<b>Federalised states</b>	Central and regional authorities with independent legislative & administrative competences recognised by Constitution	<b>EU 15:</b> Austria Belgium, Germany, <b>Non-EU:</b> Switzerland
<b>Unitary 'regionalised' states</b>	Intermediate government with wide set of competences and high degree of regionalisation	Italy, Spain
<b>Unitary 'Northern' states</b>	Local governments with wide range of responsibilities for economic development	<b>EU 15:</b> Denmark Finland, Sweden <b>Non-EU:</b> Norway
<b>Other Unitary States</b>	Central government dominant. Considerable variation in terms of decentralisation. Distinction between 'old' and 'new' member states captures state restructuring in former socialist states	<b>EU 15:</b> France, Greece, Portugal, Ireland, Luxembourg, Netherlands, UK <b>EU12:</b> Czech Republic, Hungary, Poland, Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovakia and Slovenia <b>EU Candidate Country:</b> Croatia <b>Non EU:</b> Iceland, Lichtenstein

- 1.7 The report shows how that the share of sub-national government expenditure in general government expenditure is highest in countries with a “Northern system” and in the federal and regionalised states. It makes the point that decentralised countries clearly give larger responsibility to regional and local authorities but less obviously:
- ❖ Federal and regionalised states do not show major differences in the distribution of competences. While the legal status of competences, allocation of funds and policy decision-making processes differ in the two types of state, the difference in the “division of labour” between central and decentralised administrations in development policy is not so marked.
  - ❖ The same is true in States with northern systems where both local and intermediate levels of administration are experiencing an increasing role in development policy.
  - ❖ While very different national models of competence distribution coexist in Unitary States there are many instances of local administrations with a significant role in development policies.
  - ❖ Across all the state typologies, because competences are shared between different administrative levels, and hence in many policy areas relevant for development, co-decision or coordination between different administrative levels is necessary;
  - ❖ Decentralised governments have more power in competences to do with territorial management (the environment, urban policy, culture, etc.) and some public services (housing, social services, public utilities, etc.). The central level has more power in infrastructure (energy, transport, etc.) and national standardised services (education, public safety) or in policy which is not territorialised (R&D).
- 1.8 Regional and local governments in total account for over 50% of total expenditure on development policies but there are marked differences across and within Member States and between regions. Thus, the share of local and state expenditure in total development spending ranges from 31% in London to more than 80% in Wales and to 96% in Bolzano (Italy). This variation depends on institutional and policy arrangements which affect the distribution of competences between government levels and policy areas. The result can be very different national and regional regimes, particularly in countries with differing degrees of regional autonomy.
- 1.9 Capital regions (or large metropolitan regions) often have special arrangements as regards the distribution of responsibility for development policy and, as a result, the mix between national and local expenditure is different from that prevalent in other regions.
- 1.10 The report also shows that there has been a general redistribution of competences towards sub central levels of government in Europe in the last two decades. While the autonomy and revenues of local government have also increased, financial devolution is particularly significant only in regionalised countries and the need for policy to respond to globalisation challenges does appear to have slowed down the general trend in devolution.
- 1.11 Municipalities play a significant policy role in both unitary and decentralised States, managing on average 30% of public development expenditure.

- 1.12 On average, sub-central governments account for two-thirds of total development spending, approximately and in regionalised States sub-central expenditure per head is higher than for the central level. In Spain, for example, it is more than twice the central level.
- 1.13 In contrast, in some northern systems as well as unitary States, there is an imbalance in favour of the central level (as in, for example, Greece, Slovakia and Slovenia). But in many other unitary States, local government expenditure is prevalent (for example, France and the Netherlands in the EU15 and Poland in the EU12).
- 1.4 In terms of competences of local governments for expenditure for development differences exist across the different state groupings:
- Local authorities in federal states have competence in regulating issues of territorial importance such as traffic management and local public transport, building regulations and urban planning as well as some social services.
  - In regionalised states, central and intermediate levels of government tend to share competences in areas relevant to economic development such as infrastructure, human resources and the productive environment. In most sectors, the Central Government sets the basic legislation to guide the Regions.
  - States with northern systems have an old tradition of decentralisation and, more recently, there has been administrative reform combining counties and municipalities into larger entities.
  - Even though unitary states have variously seen increasing devolution of regional development policy, they nevertheless remain very centralised. Competences for infrastructure for development, human resources and business support schemes are either fully in the hands of central governments or, while administration has been transferred to sub-national levels, decision-making still remains firmly in the hands of the centre.
- 1.15 The report also underlines just how important EU Cohesion Policy has been in increasing the public investment capacity of Central and Eastern European countries. We will return to the role that Cohesion Policy and EU funding has played in these countries in the discussion for regional and urban policies in Section 2 below. Table 1.2, taken from the report, summarises the different features and trends in competences and local autonomy of the different groups of states.

**Table 1.2: Summary of features of the different state systems: trends in competences and local autonomy**

Group of countries	Features	Trends in competencies	Local revenues & autonomy
<b>Federal states</b> (Austria, Belgium, Germany)	Constitutionally recognised, shared powers between central and sub-central levels (states)	Not significant changes, reinforcement of federal organisation in Belgium	Medium
<b>Unitary 'Northern' states</b> (Sweden, Finland, Denmark)	Centralised states with strong local autonomy	Rationalisation and unification of some local tiers (counties, municipalities aggregated into regions)	High
<b>Unitary regionalised states</b> (Italy and Spain)	Strong autonomy of intermediate levels (regions)	Fast devolution and tendency to introduce federal agreements	Medium-high and increasing
<b>Other unitary states – 'old' Member States</b> (France, Greece, Ireland, Luxembourg, Netherlands, Portugal, UK)	Different institutional forms with more (UK, Netherlands, France) or less power to local government (Portugal, Greece)	On-going but slow devolution and reorganisation in UK and France. Slow-down or devolution halt in Portugal and Greece	Medium (high in France)
<b>Other unitary states – 'new' Member States</b> (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Cyprus, Malta)	States undergoing restructuring; limited power to local government	Re-establishment and reinforcement of local governments; some more articulated devolution process in Poland	Medium low

Source: Ismeri Europa and Applica (2010)

- 1.16 The second study we have found useful is the one carried out by Basel Economics for the Assembly of European Regions. It goes a step further than the Ismeri Europa and Applica study by attempting to measure the links between the degree of decentralisation within a country and economic development. It defines 'decentralisation' as the sum of competences that sub-national jurisdictions have – the more competences regions and municipalities have, the more decentralised countries are. It measures the degree of decentralisation within 26 European states: 23 EU Member States (excluding Cyprus, Luxembourg, Malta and Slovenia and 3 Non-EU states (Croatia, Norway and Switzerland). It constructs an innovative 'decentralisation index' based on a combination of quantitative data from OECD, IMF and Eurostat sources and qualitative data from a survey of regions across the 26 Member States.
- 1.17 The overall decentralisation index is constructed from five differentially weighted sub-indices which measure, respectively, 'Administrative', 'Functional', 'Political', 'Vertical' and 'Financial' decentralisation (see Table 1.3). Thus, the 'financial' sub-index is the most important sub-index in relation to decentralisation and regional and local autonomy, accounting for 40 percent of the overall decentralisation score. The least significant is the 'vertical' index, which simply measures the number of tiers of government and accounts for just 3 percent of the overall index.
- 1.18 The different sub-indices and the overall decentralisation index for countries/regions are measured on a scale from 0 to 100. It shows, for example, that the most decentralised of the countries studied was Switzerland, with a score of 70, and the most centralised was Bulgaria, with a score of 25 (see Table 1.4). It also underscores the link between state systems and the degree of decentralisation with countries in federal, regionalised and Northern systems displaying medium to high levels of decentralisation in contrast to the low to medium levels present in unitary states.
- 1.19 Using regression analysis, Basel Economics correlates the decentralisation index with various measures of regional economic performance including GDP per capita, GDP growth and a measure of regional innovation that includes data on higher education, academic research and patents. The exercise shows that decentralisation overall has a positive impact on regional economic performance. Given the now widely accepted argument that regional performance is driven by the major cities within them, we would expect a potentially more positive link with city performance and we intend to test this relationship in our study using the data we have compiled for (NUTS3) Metropolitan Regions.

**Table 1.3: Basel Economics’ (2009) decentralisation indices**

Sub-indices	Description	Weighting in overall decentralisation index
Administrative	<p>It is the only sub-index that consists of qualitative and quantitative indicators. The quantitative indicator “employees” for example consist of the regional share of public employees (civil servants) and the regional share of public remuneration as an indicator of the manpower resources of the sub-national tier(s). It accounts for 10 percent of the aggregate decentralisation index.</p> <p>The indicator <i>EU</i> – weighted by 2 percent – consists of the qualitative sub-indicators administration and competences on a regional level. It asks whether the region is represented in Brussels with an own agency responsible for lobbying and securing subsidies. It also asks whether the region in question is responsible for the transposition of EU legislation.</p>	12
Functional	<p>This sub-index pools the indicators ‘decision making power’, ‘implementing power’ and ‘territory’. <i>Decision making power</i> measures the regional power to decide in various policy fields and <i>implementing power</i> measures the regional power to implement those policy decisions. Both indicators thus reflect regional power in relation to such policy fields as economy, education and research, infrastructure, migration, social services, healthcare policy etc. The indicator <i>territory</i> on the other hand reflects regional competences to constitute the spatial and administrative territory.</p>	25
Political	<p>It contains indicators which include <i>regional representation in the national parliament</i>, <i>election of the regional government</i>, <i>political power distribution</i>, <i>the constitutional rights of the regional tier</i> and <i>the interrelation of the regional with the national tier</i>. <i>Regional representation in the national parliament</i> reflects the existence of a uni- or bicameral parliamentary system and whether the region is represented adequately in the national legislative. <i>Political interrelation</i> covers the role of the regional tier in the national tier and vice versa, for example whether the national government has the power to overrule regional decisions. <i>Regional government</i> reflects the existence and partly the competences of the legislative, executive and judiciary authorities in the regions. <i>Regional constitution</i> and <i>political power distribution</i> show whether a regional constitution exists and how much political power each tier in a country possesses.</p>	20
Vertical	<p>The <i>number of tiers</i> and the <i>amount of elements</i> within the regional tier reflect the geographical division in a country. The <i>hierarchical structure</i> and the <i>residual autonomy</i> of regions capture the formal power distribution among the tiers. The reason for the low weight of this sub-index is its relatively minor explanatory power with regard to decentralisation and autonomy.</p>	3
Financial	<p>The indicator shows the financial power of the regional tier and is the most important element of the overall index. It integrates quantitative and qualitative indicators. The <i>qualitative indicators</i> include (among others) perequation (financial flows between the jurisdictions), the power to levy taxes (financial competences, e.g. determination and allocation of taxes), financial debts and incentives. <i>Quantitative indicators</i> include the percentage of revenues, expenditures, public consumption and investment, assets and debt of the regional tier. Information about the amount and direction of financial flows within the perequation system of the country is also included.</p>	40

Source: Basel Economics (2009)

**Table 1.4: Degree of centralisation by type and overall**

State system/ country	Tiers of government	Degree of decentralisation by type and overall											
		Administrative		Functional		Political		Vertical		Financial		Decentralisation (overall)	
		Index Score ●●● High ●● Medium ● Low	Rank	Index Score ●●● High ●● Medium ● Low	Rank	Index Score ●●● High ●● Medium ● Low	Rank	Index Score ●●● High ●● Medium ● Low	Rank	Index Score ●●● High ●● Medium ● Low	Rank	Index Score ●●● High ●● Medium ● Low	Rank
<b>FEDERAL</b>													
Austria	4: 9 states (Bundesländer) 101 districts (Bezirke) 2,357 municipalities (Gemeinden)	76 ●●●	3	35 ●●	18	77 ●●●	1	54 ●●●	7	47 ●●	14	54 ●●	5
Belgium	3: 2(a): 3 Regions (Flemish, Brussels-capital and Walloon region) 2(b): 3 Communities (Flemish (3), French (2) and German-speaking community (1) 10 Provinces	78 ●●●	1	54 ●●●	3	69 ●●●	5	28 ●	23	64 ●●●	3	63 ●●●	3
Germany	4: 16 states (Länder) 439 districts (Kreise) 12,239 municipalities (Gemeinden)	75 ●●●	4	58 ●●●	1	75 ●●●	2	36 ●	19	66 ●●●	2	66 ●●●	2
<b>REGIONALISED STATES</b>													
Italy	4: 20 regions (regione) 109 provinces (provincia) 8,101 communities (comune) Special status 5 autonomous regions (Friuli-Venezia Giulia, Sardinia, Aosta Valley, Trentino-Alto Adige, Sicily)	51 ●●	12	50 ●●●	6	57 ●●	8	52 ●●	8	50 ●●	7	52 ●●	6
Spain	4: 17 autonomous communities (comunidades autónomas) 50 provincias (provincias) 8,111 municipalities (municipio) Special status 2 autonomous cities (Ceuta, Melilla)	76 ●●●	2	53 ●●●	4	69 ●●●	4	27 ●	24	51 ●●	6	58 ●●●	4
<b>NORTHERN (NORDIC) SYSTEMS</b>													
Denmark	3: 5 regions (regioner) 98 municipalities (kommuner)	69 ●●●	8	20 ●	25	33 ●	22	22 ●	26	52 ●●	5	42 ●●	17
Finland	3: 20 regions (maakunta) 415 municipalities (kunta) Special status Åland	71 ●●●	7	35 ●●	17	39 ●●	19	46 ●●	11	46 ●●	15	45 ●●	12
Norway	3: 19 counties (fylker) 435 communities (kommuner)	56 ●●	11	28 ●	23	36 ●	20	39 ●●	16	46 ●●	17	41 ●●	19
Sweden	3: 21 provinces (län) 290 municipalities (kommun)	74 ●●●	5	34 ●●	19	42 ●●	17	42 ●●	14	47 ●●	13	46 ●●	11

	Special status 2 autonomous regions (Västra Götaland, Skåne)												
<b>UNITARY STATES (EU15)</b>													
France	4: 26 regions (régions) 96 departments (départements) 36,569 communes (communes) Special status 1 region with special status (Crosica) 4 overseas regions (Martinique, Giana, La Réunion, Guadeloupe)	32 ••	18	41 ••	12	44 ••	15	27 •	25	46 ••	16	42 ••	16
Greece	3: 54 prefectures (nomos) 1,033 communities (dimos)	17 •	24	37 ••	16	30 •	24	62 •••	2	31 •	25	31 •	24
Ireland	2: 26 counties	23 •	21	33 ••	20	41 ••	18	50 ••	9	49 ••	9	41 ••	18
Luxembourg	n/a												
Netherlands	3: 12 provinces (provincies) 443 communities (gemeenten)	63 •••	9	40 ••	13	49 ••	12	47 ••	10	56 ••	4	51 ••	7
Portugal	4: 18 districts (distritos) 308 municipalities (municipios) 4,259 parishes (freguesias) Special status 2 autonomous regions (Azores, Madeira)	15 •	25	46 •••	8	58 ••	7	39 ••	15	41 •	19	42 ••	15
United Kingdom	2: 2(a) Scotland 2(b) Northern Ireland 2(c) Wales 2(d) Greater London 2(e) 41 counties 2(f) 34 unitary authorities 2(g) 6 metropolitan counties	57 ••	10	43 ••	10	55 ••	10	30 •	22	48 ••	11	49 ••	9
<b>UNITARY STATES (EU12)</b>													
Bulgaria	3 28 provinces (oblasti) 264 municipalities (obshtina)	29 •	19	28 •	22	15 •	26	44 ••	13	25 •	26	25 •	26
Czech Republic	4: 14 regions (kraj) 76 districts (okres) 6'248 municipalities	38 ••	14	49 •••	7	57 ••	9	54 •••	6	50 ••	8	50 ••	8
Estonia	3: 15 counties (maakond) 227 municipalities (omavalitsus)	20 •	23	30 ••	21	34 •	21	44 ••	12	34 •	23	31 •	25
Hungary	4: 20 regions (megyék) 173 subregions (kistérségek) 3'152 towns (városok)	48 ••	13	38 ••	15	43 ••	16	30 •	21	48 ••	12	44 ••	13
Latvia	3: 26 districts (rajoni) 550 municipalities (pa"vald#bas)	34 •	17	23 •	24	33 •	23	55 •	4	38 •	22	33 •	23



Lithuania	4: 10 counties (apskritis) 61 municipalities (savivaldybe) 551 elderates (seniunijos)	22 •	22	50 •••	5	22 •	25	32 •	20	33 •	24	34 •	22
Poland	4: 16 provinces 379 counties (powiats) 2,478 communities (gminas)	37 ••	16	45 •••	9	62 •••	6	36 •	17	48 ••	10	48 ••	10
Romania	4: 42 counties (judete) 3,005 municipalities (comune) 13,092 towns (orase)	37 ••	15	43 ••	11	54 ••	11	36 •	18	40 •	21	43 ••	14
Slovakia	4: 8 regions (kraje) 79 districts (okresy) 2,883 municipalities (obce)	29 •	20	13 •	26	47 ••	13	55 ••	5	45 ••	18	36 •	21
Slovenia	n/a												
<b>EU Candidate Countries</b>													
Croatia	3: 21 counties (zupanija) 550 municipalities (opcina)	13 •	26	38 ••	14	45 ••	14	57 •••	3	40 •	20	38 •	20
<b>NON-EU</b>													
Switzerland	3: 26 Cantons (Kantone) 2,763 Municipalities (Gemeinden)	72 •••	6	58 •••	2	75 •••	3	67 •••	1	75 •••	1	70 •••	1

**Source:** Based on Ismeri Europa and Applica (2010) and Basel Economics (2009)

Note: Our calculations of relative scoring. Overall decentralisation: range 25-70. High: 25-40; Medium: 41-56; Low: 57-70. Administrative decentralisation: range 13-78. High: 59-78; Medium: 36-58; Low: 13-25. Functional decentralisation: range 13-58. High: 45-58; Medium: 29-44; Low: 13-28. Political decentralisation: range 15-77. High: 59-77; Medium: 37-58; Low: 59-77. Vertical decentralisation: range 22-67. High: 54-67; Medium: 38-53; Low: 22-37. Financial decentralisation: 25-75. High: 59-75; Medium: 42-58; Low: 25-41.

## 2. GOVERNANCE, DECENTRALISATION: WHAT POLICY APPROACHES?

### 2.1 Introduction

- 2.1 In this chapter we want to explore the range of policies for policies for balanced territorial development and second tier cities that are in place in the different countries in the broad state groupings introduced in Section 1.
- 2.2 In Section 2.2 we first emphasise the need to understand the political context in which policy orientations and instruments are developed and to recognise that politics underpins policies at supranational, national, regional and local levels and is played out in the interaction between these different levels.
- 2.3 In Section 3 we focus on policies in three inter-related areas: spatial planning (at strategic level) and especially in relation to polycentric urban development (3.1); regional economic development policy (3.2) and explicit urban policy (3.3). In each of these areas we first describe European/ EU level influence and then attempt to summarise national approaches.

### 2.2 Politics and policies

#### *Setting the political context*

- 2.4 Policies – spatial or otherwise - are not developed in a political vacuum. They are shaped by political systems and the politics that underlie them. As Pacione (2009) argues in relation to urban policy:

*“Urban policy is the product of the powered relationships between the different interest groups that constitute a particular social formation. Foremost amongst these actors are the state, both local and national, and capital in its various fractions. Capital and state pursue specific goals, which may be either complementary or contradictory. For capital, the prime directive is profit maximisation. The state, on the other hand, in addition to facilitating the process of accumulation, must also satisfy the goal of legitimation. These political and economic imperatives have a direct influence on the nature of urban policy. Urban policy is also conditioned by external forces operating within the global economic system, as well as by locally specific actors and agents.*

*“Understanding the policy context of urbanization and urban restructuring in Western society requires a comparative of the particular manifestations of urban development processes in different countries and localities, informed by an appreciation of the macropolitical economy.”*

(Pacione, 2009; p.3)

- 2.5 It is important to understand the interaction between politics and policies within different political systems and how different interpretations of the processes of uneven development are interpreted and translated into policy by different political regimes. And these interpretations and political responses expressed in policy vary over time. We will argue below, for example, how the definition and delimitation of regional and urban policies have changed over time and how this has been accompanied by changing policy objectives, policy instruments and governance.

#### *‘Varieties of welfare capitalism’ and state systems*

- 2.6 In linking macro politics to national policy approaches we do not seek to identify ideal types on the Esping Anderson (1990) ‘varieties of welfare capitalism’ model or variants thereof (see, for example, Art and Gellison, 2002 and Bamba, 2007). That said, we would argue that a broad grouping on these lines offers a starting point for exploring national political

contexts that both further differentiates and complements the state system groupings we introduced in Chapter 1.

2.7 These groupings are a combination of Esping Anderson-type welfare capitalist systems and state political systems. Five groupings suggest themselves from the literature (Kazepov, 2005, Dühr et al, 2010):

- ❖ **Social democratic/ Nordic** – low market dependency and high levels of redistribution combined with high degrees of decentralisation of competences to regional and municipal tiers of government: Denmark, Finland, Norway and Sweden.
- ❖ **Liberal Anglo Saxon** – high market dependency emphasising individual responsibility and market solutions with minimum protection combined with centralised state structures (Ireland, United Kingdom)
- ❖ **Conservative, continental** – an intermediate level of market related to labour market position with a tendency to maintain the status quo in Federal state systems (Austria, Belgium, Germany and Switzerland) and unitary states in the case of France, Luxembourg and the Netherlands. The difference between the two state systems are important
- ❖ **Southern** – in which clientelism, segmented labour markets, locally fragmented social assistance schemes and unsupported family responsibilities dominate combined with regionalised state structures in the case of Italy and Spain and unitary centralised states in the case of Cyprus, Greece, Malta and Portugal
- ❖ **New Member States from the former socialist Eastern bloc** - political regimes in transition from socialism to market economics in unitary centralised states: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovenia

### ***Multiscalar politics***

#### *European level*

2.8 Politics also clearly structure policies at EU level. As a sui generis supranational union of member states the competences of the EU are inevitably shaped by the politics of those member states. For example, The EU has not attempted to take on any supranational competence for spatial planning because member states have been unable to agree on the issue. The European Commission, post the European Spatial Development Perspective, has stopped supporting intergovernmental spatial planning.

2.9 The differences in government stances towards spatial planning at EU level were most recently revealed in the responses to the recent Green Paper on Territorial Cohesion (Faludi, 2009). For example, while France remains broadly supportive of EU-level spatial planning both Germany and the UK stand resolutely opposed. Among the new Member States, Hungary supports an EU role in contrast to Poland, which wants to maintain a clear divide between territorial cohesion policy and spatial planning, with the former regarded as a legitimate EU concern but the latter seen strictly as the competence of individual member states

2.10 EU regional policy also has a political background, with a major impetus coming from the politics surrounding the accession of the United Kingdom in the early 1970s. Not benefiting significantly from CAP, the UK needed some 'payback' for accession and this took the form of a nascent regional development policy (Faludi, 2009 and 2010). Similarly, the accession of Finland and Denmark in 1995 saw the inclusion of an additional objective for EU regional and cohesion policy funding - 'the development and structural adjustment of regions with an extremely low population density'.

2.11 Recently, some national government sought to 'repatriate' EU regional policy funding, challenging the Commission's control. In Unitary United Kingdom, for example, this provoked a reaction from regions and cities hitherto recipients of regional and cohesion

policy funding. The great majority sided with the Commission and its partnership approach to implementation and saw the move as one threatening an important aspect of hard won regional autonomy. The intervention put national government on one side of the debate and the Commission and regions and city-region administrations on the other. The status quo prevailed.

- 2.12 Politics also help explain why the European Commission still has no formal responsibility for urban policy. There has been a longstanding political debate over whether the Commission's responsibility for regional development justifies it taking greater responsibility for urban development (Parkinson, 2005). That dilemma still remains unresolved although, as we will describe in Section 2.2.3 there has been growing recognition of the important role that cities can play in cohesion policy and in sustainable development.

*National level*

- 2.13 Table 2.1 attempts to trace broad political shifts over the last three decades in countries in the broad political-state system grouping introduced above.

**Table 2.1: National-level political shifts over the last three decades by political system and country**

Political system/ country	Left	Centre-left	Centre-right	Right
<b>CONSERVATIVE CONTINENTAL: FEDERAL</b>				
<b>Austria</b>				
1980s	•			
1990s	•			
2000s		•	•	
<b>Belgium</b>				
1980s				
1990s				
2000s				
<b>Germany</b>				
1980s	• (East Germany)		•	
1990s		•		
2000s		•	•	
<b>Switzerland (Non-EU)</b>				
1980s				
1990s				
2000s				•
<b>CONSERVATIVE CONTINENTAL: UNITARY</b>				
<b>France</b>				
1980s	•			
1990s	•		•	
2000s			•	
<b>Luxembourg</b>				
1980s			•	
1990s			•	
2000s			•	
<b>Netherlands</b>				
1980s				
1990s				
2000s			•	
<b>SOUTHERN: REGIONALISED STATES</b>				
<b>Italy</b>				
1980s			•	
1990s		•	•	
2000s		•	•	
<b>Spain</b>				
1980s	•			
1990s	•		•	

2000s	•		•	
<b>SOUTHERN: UNITARY</b>				
<b>Greece</b>				
1980s				
1990s				
2000s		•	•	
<b>Portugal</b>				
1980s				
1990s				
2000s	•			
<b>Malta</b>				
1980s				
1990s				
2000s				•
<b>SOCIAL DEMOCRATIC: NORTHERN (NORDIC) SYSTEMS</b>				
<b>Denmark</b>				
1980s				
1990s				
2000s			•	
<b>Finland</b>				
1980s				
1990s				
2000s			•	
<b>Norway</b>				
1980s	•		•	
1990s	•		•	
2000s	•	•	•	
<b>Sweden</b>				
1980s	•			
1990s	•		•	
2000s	•		•	
<b>LIBERAL ANGLO-SAXON: UNITARY STATES (EU15)</b>				
<b>Ireland</b>				
1980s				
1990s				
2000s		•		
<b>United Kingdom</b>				
1980s				•
1990s				•
2000s	•		•	
<b>FORMER SOCIALIST UNITARY STATES (EU12)</b>				
<b>Bulgaria</b>				
1980s	•			
1990s				
2000s			•	
<b>Czech Republic</b>				
1980s				
1990s				
2000s		•		
<b>Estonia</b>				
1980s	•			
1990s				
2000s			•	
<b>Hungary</b>				
1980s	•			
1990s				
2000s			•	
<b>Latvia</b>				
1980s	•			
1990s				
2000s			•	

<b>Lithuania</b>				
1980s	•			
1990s				
2000s			•	
<b>Poland</b>				
1980s	•			
1990s				
2000s			•	
<b>Romania</b>				
1980s	•			
1990s				
2000s		•		
<b>Slovakia</b>				
1980s	•			
1990s				
2000s		•		
<b>Slovenia</b>				
1980s	•			
1990s				
2000s		•		
<b>FORMER SOCIALIST UNITARY STATES: EU candidate</b>				
<b>Croatia</b>				
1980s	•			
1990s				
2000s			•	

Current administration: shaded

- 2.14 Overall, there appears to have been broad shift towards centre-right political administrations with a few notable exceptions (Austria, Spain and Portugal).

#### *Social democratic/ Nordic*

- ❖ In the social democratic/ Nordic systems there have been relatively stable centre-left political regimes but questions remain over this stability given the recent shift to the centre-right in Sweden (and perhaps less extremely in Denmark and Finland). The power of the municipalities remains a potential counterweight.

#### *Conservative, continental systems*

- ❖ In Austria there has been tendency towards left and centre-left politics with some centre-right influence over the period while Germany has seen a national shift to centre-right politics.
- ❖ An important distinction in this grouping, however, needs to be made between Federal and Unitary state systems. In the former the regional level of government is especially important. In Austria and Germany the Land/Lander play an important role and there are political differences both between these regions and between them and the Federal Governments. The interplay between these government levels is at the heart of policy development.
- ❖ Belgium is an extreme case where politics is very firmly regional and language community based. There are no significant political parties that operate at national level. Tensions between the two main language-speaking regions – Dutch-speaking Flanders and Francophone Wallonia – dominate what have proved recently to be very unstable national political coalitions. At the time of writing it has still proved impossible for a national government to be agreed some seven months after the election last year. The two largest parties to emerge from this election were the Flemish nationalist party (the New Flemish Alliance) and the Socialist Party based in Wallonia. The former, the largest single party, advocates a kind of Confederation in which Belgium would become two separate sovereign states - Wallonia and Flanders - that would agree to pool sovereignty over some areas of policy like defence or foreign policy. Underpinning this advocacy is the longstanding Flemish political view that the richer, Dutch speaking Flanders should

no longer subsidise its poorer French speaking Wallonian counterpart. Balanced regional development is thus a critical political debate.

#### *Liberal Anglo Saxon*

- ❖ A notable recent shift to centre-right politics with new Conservative-Liberal Democrat Coalition government following 13 years of centre-right New Labour control, which had itself brought an end to 17 years of right wing Conservative control.

#### *Southern*

- ❖ In the Regionalised states: Italy has seen a shift to the centre right while Spain has moved between the left and centre-right with the former currently in power. Like the Federal States, however, regional politics, especially in Spain, remains important.
- ❖ In the Southern Unitary States: Cyprus, Greece and Malta have shifted to the centre-right or right while Portugal and Greece remain left and centre-left, respectively.

#### *New Member States from the former socialist Eastern bloc*

- ❖ Dominated by the politics of transition with moves towards variations of centre-right politics. Nowhere is the salience of political change more marked:

*"There is hardly a region of the world which has undergone a more dramatic transformation over the last twenty years than the region comprising the countries of Eastern Europe and the former Soviet Union. Since the abrupt collapse of communist regimes in 1989 and the dissolution of the Soviet Union in 1991, this vast region stretching from the heart of Europe to the Pacific Ocean experienced a turbulent transition during which all fundamental characteristics of the old order, from government-planned economy to equalitarian social relations, were dismantled and restructured all anew, ostensibly along the flagship doctrines of communism's victorious twentieth-century rival: free-market capitalism." Hirt and Stanilov, 2009; p. lx)*

- 2.15 It is beyond the scope of this paper to link these changing political contexts to policy development across all of the ESPON states. The links will need to be made in the case studies. What we can attempt here, however, is to illustrate how politics and policy are connected using the recent development of urban policy in the United Kingdom as an example (Meegan, 2005 updated). It is an example of a relatively centralised unitary state in which urban policy has largely been implemented by central government in varying degrees of partnership with local government and with different policy objectives and instruments.

#### *Politics and policy- the example of UK urban policy*

- 2.16 As will be explored in more detail in the UK national case study, British urban policy, since its inception in 1968, has been operated under two Conservative, three Labour governments and, from May 2010, a Conservative Liberal Democrat coalition. And there have been major shifts in underlying philosophy, institutional structures and institutional relationships in that time.

- 2.17 A key shift in policy came with the election of Margaret Thatcher's conservative government in 1979 which presaged a plethora of initiatives and significant changes in institutional structures and relationships. The main features of this neo-liberal era urban policy in the 1980s were:

- ❖ an ideological shift seeking to facilitate market-led urban redevelopment; with the deregulation and subsidisation of private-sector activity (public "managerialism" giving way to private-sector "entrepreneurialism"); and
- ❖ a strengthening of "top-down" central government activity through departmental agencies and quasi-autonomous development corporations; mirroring
- ❖ a relative downgrading of the role of local government (a centralisation of urban politics and policy).

- 2.18 Yet the impact of all this policy and institutional change and increasing expenditure on the problems of the inner cities was unclear and, as the 1980s drew to a close, urban policy like the overall neo-liberal experiment in government of which it was a part, was being exposed to a sustained critique. There was a gradual rethinking of urban policy at central government level, at first by the Conservative government following the Thatcher administration and accelerated by the (New) Labour government elected in 1997.
- 2.19 The main features of urban policy as it has evolved from the late 1990s have been:
- ❖ the coordination of urban policy initiatives and spending programmes;
  - ❖ the recognition of the leading role of local government;
  - ❖ the inclusion of the voluntary and community sector in more broadly defined local partnerships;
  - ❖ an emphasis on multi-agency partnership working;
  - ❖ a shifting central government narrative towards seeing cities as places of economic dynamism as opposed to the previously prevailing view of cities largely as repositories of social and economic problems needing support and regeneration;
  - ❖ a government focus on city-regions within broader regional economic development.
- 2.20 The Labour government elected in 1997 intensified this approach. Its urban policy had two clear strands. The first, captured in the White Paper, *“Our Towns, Our Cities: The Future – Delivering an Urban Renaissance”* (2000) emphasises the contribution of urban design and physical regeneration to urban renaissance. It instituted an “Urban Summit” and commissioned a “State of the Cities Report” to pursue this renaissance agenda.
- 2.21 It also set up Regional Development Agencies in 1997 in the English regions to plan for and support regional economic development through Regional Economic Strategies. Over time, the importance of sub-regional development strategies was recognised and partnerships were formed to promote these, including, importantly, ones based around city regions that increasingly became a policy focus. A *Framework for City Regions* was proposed which emphasised the potential economic contribution of city-regions to regional and national growth:
- “There are three ‘in-principle’ logics for taking city-regional geographies more seriously within the policy process. These are based on arguments for: the devolution or decentralisation of democratic decision-making to a more localised scale; the improvement of service delivery; and the enhancement of economic performance. All three have their attractions but the latter is the most compelling.”* (ODPM, 2006; p. 5).
- 2.22 In England, Urban Regeneration Companies (URCs) were established to take responsibility for the physical regeneration of designated areas in selected cities. These URCs themselves showed how levels of governance were merging in urban regeneration, being based on partnership between national (English Partnerships), regional (Regional Development Agencies) and urban (City Council) agencies. URCs were later to be joined, and in some cases replaced by, Economic Development Companies (EDCs) with broader geographical coverage (sometimes covering whole city areas) and powers.
- 2.23 The government instigated an important review of sub national economic development and regeneration (2007). This Sub National Review (SNR) again marked a significant shift in government policy toward cities – from cities being perceived as victims of economic decline and places of asocial breakdown and environmental decay to being seen as centres of economic dynamism and places that can solve contemporary social and economic challenges (Turok, 2008).
- 2.24 A key indicator of this shift can be seen in the approach of HM Treasury that had hitherto been largely sceptical of the economic potential of old industrial cities (and regions) with spatial policy



directed towards them as being essentially distributional and 'zero sum'. It shifted towards recognition of the role that cities can play in both regional and national economic growth as seen in its symbolic 2006 report – *Devolved Decision Making: Meeting the Regional Economic Challenge: The importance of cities to regional growth*.

- 2.25 Reinforcing this central government shift was the initiative of cities themselves in promoting their development potential and importance to the national economy as reflected in England by the formation of the 'Core Cities Group' in 1997. This group brings together the local authorities of the eight largest second tier cities - Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle-upon-Tyne and Nottingham - to pursue their joint interests in urban renaissance.
- 2.26 The second strand of New Labour urban policy remained concerned with social inclusion and the neighbourhood dimension of urban regeneration. This strand of policy was strongly informed by the work of the Social Exclusion Unit that the government established when it came into office and was seen in the work of a newly created Urban Renewal Unit. It was also reflected in funding, notably through a Neighbourhood Renewal Fund targeted at the 88 most disadvantaged local authority areas and the New Deal for Communities initiative that targeted funding at 39 of the most disadvantaged neighbourhoods. A strong theme in all these new funding initiatives was multi-agency partnership working and the direct involvement of communities in the targeted areas.
- 2.27 Urban regeneration was also heavily influenced by New Labour's 'Modernising Local Government Agenda' and particularly by the Local Government Act of 2000, which gave local authorities the power 'to do anything' to promote or improve the economic, social and environmental well-being of their areas. While the Act recognised the central role of local authorities in regeneration activity and gives them new powers to intervene, it also imposed on them the duty to work in partnership with other agencies and local communities – through 'Local Strategic Partnerships' (LSPs) - to exercise those powers. Local Strategic Partnerships are responsible for producing 'community strategies' to drive regeneration and those operating in the 88 most disadvantaged areas are also responsible for devising and implementing Local Neighbourhood Renewal Strategies and disbursing their Neighbourhood Renewal Fund allocations. The LSPs were thus another addition to the complex institutional landscape and further demonstrate the degree to which urban regeneration is now delivered through evolving forms of collaborative governance.
- 2.28 The urban policy of the recently elected Conservative Liberal Democrat government is still taking shape but there have already been some interventions that suggest another major shift is being set in train. The Regional Development Agencies (set up by the previous Labour Government) and the Integrated Regional Offices (set up by the last Conservative government) have been abolished, removing in the process key elements of the intermediate regional tier of policy. Local Economic Partnerships (LEPs) at sub-regional level (with many of those that have formed operating at city-regional level) have been encouraged but central government funding for these remains unclear. The newly created Regional Growth Fund, to which LEPs can apply for funding represents a dramatic cut in funding compared to the previous levels of support for the RDAs – reflecting the emphasis placed by government on public sector expenditure cuts in its overarching strategy for tackling the country's economic crisis-driven 'structural deficit'. The government has argued that it is committed to balanced economic development, and particularly between 'North and South' but the role that urban policy and cities are expected to play in this is re-balancing remains, as yet, unspecified.

### 3. POLICIES FOR BALANCED TERRITORIAL DEVELOPMENT

#### *Policies for balanced territorial development and policies for cities*

- 3.1 In this section we want to position second tier cities in three interrelated policy areas:
- ❖ spatial planning and polycentric development;
  - ❖ regional policy; and
  - ❖ urban policy.
- 3.2 It is inevitably schematic. In individual countries the way in which these policies play out and 'collide' will reflect not only different spatial planning and policy traditions and the particular historical circumstances that underpin these traditions but also the different urban structures and settlement patterns that the policies address.
- 3.3 In Chapter 3 we look in more detail at these policies in a selection of case study countries:
- ❖ Federal states: Belgium and Germany
  - ❖ Regionalised states: Italy and Spain
  - ❖ Unitary EU 15: France, Luxembourg and the Netherlands.

#### 3.1 **Spatial planning and polycentric development**

- 3.4 The European Commission's comparative review of spatial planning systems and policies in EU Member States in the mid-1990s (CEC, 1997) defined spatial planning as

*"...the methods used largely by the public sector to influence the future distribution of activities in space...undertaken with the aims of creating a more rational territorial organization of land uses and the linkages between them, to balance demands for development with the need to protect the environment and to achieve social and economic development objectives...[and encompassing] measures to coordinate the spatial impacts of other sectoral policies to achieve a more even distribution of economic development between regions than would otherwise be created by market forces, and to regulate the conversion of land and property uses (p. 24).*

- 3.5 Spatial planning brings together elements of national and transnational planning, regional policy, regional planning and detailed land use planning.

#### **EU influence**

- 3.6 As we noted in the previous section, the European Commission does not have a competence in spatial planning at EU level. It nevertheless exerts a number of 'channels of influence' (Dühr et al, 2010) on spatial planning and territorial development in EU Member States.
- 3.7 These channels help shape the context in which spatial planning operates in individual Member States and broadly comprise (as summarised in Table 3.1):
- ❖ spatially defined (or targeted) EU sectoral policies with strong territorial impacts – including cohesion, competition and transport policies
  - ❖ non-spatially defined (or targeted) EU sectoral policies with strong territorial impacts – including CAP, education, R&D, competition policies
  - ❖ EU sectoral policies with direct impact on domestic planning legislation and procedures – including environmental policies
  - ❖ specific initiatives in European spatial planning with impacts on planning policies and practices – including spatial planning and cohesion reports.
- 3.8 The Commission has directly influenced the EU spatial planning agenda by:
- ❖ commissioning the EU Compendium of Spatial Planning (1996);
  - ❖ sponsoring the ESDP (1999);

- ❖ sponsoring specific polycentric development projects under Cohesion Policy (for example, INTERREG and URBACT (discussed below));
- ❖ bringing forward the 'Territorial Agenda for the EU' – emphasising the goal of territorial cohesion across the EU; and
- ❖ orchestrating Cohesion Policy – promoting balanced development (and cities) feature in Cohesion Reports

**Table 3.1: The Channels of Influence of the EU on Spatial Planning and Territorial Development in the Member States: A Typology**

Type of EU Policies	Mechanisms/Mode of Operation	Policy Areas (examples)
Spatially defined (or targeted) EU sectoral policies with strong territorial impacts	<ul style="list-style-type: none"> <li>• Delimitation of areas eligible for financial support and different rates of funding</li> <li>• Improvement of infrastructure in specific areas</li> <li>• Experimental programmes fostering an integrated territorial approach in areas with specific characteristics</li> </ul>	<ul style="list-style-type: none"> <li>• EU Cohesion/regional policy (targeting by objectives that are geographically defined).</li> <li>• EU competition policy: rules on regional state aid (regional aid map).</li> <li>• EU transport policy: designated TEN-T 'priority projects'.</li> <li>• Community Initiatives URBAN I and II (1994-2006).</li> <li>• Integrated Coastal Zone Management (demonstration programme 1996-99) and Integrated Maritime Policy.</li> <li>• Community Initiative Leader for the integrated development of rural areas (until 2006).</li> </ul>
Non-spatially defined (or targeted) EU sectoral policies with strong territorial impacts	<ul style="list-style-type: none"> <li>• Subsidies to income and production</li> <li>• Specific thematic programmes and initiatives (culture, education, research...)</li> <li>• Regulatory policies</li> </ul>	<ul style="list-style-type: none"> <li>• Common Agricultural Policy: payments to farmers (income support, price guarantees and market policies).</li> <li>• Education: EU Lifelong Learning/ERASMUS exchange programmes facilitating the trans-European mobility of students (including planning students!) and staff.</li> <li>• EU Framework Programmes for Research and Technological Development: research projects on sustainable urban development, urban social cohesion etc.</li> <li>• Single Market and Economic and Monetary Union: changing the geography of investment and mobility and hence spatial development patterns (generating new spatial planning issues).</li> <li>• Competition policy: rules on state aid influence 'room for manoeuvre' of public authorities in the exercise of their regional and urban development policies.</li> <li>• Competition: liberalisation of network industries and services: strong territorial impacts</li> </ul>
EU sectoral policies with direct impact on domestic planning legislation and procedures	<ul style="list-style-type: none"> <li>• Restrictions on or changes in the use of land and/or the location of development.</li> <li>• Influence on the planning control and development process.</li> <li>• Influence on the scale of planning</li> </ul>	<ul style="list-style-type: none"> <li>• EU environmental policy: Birds Directive and Habitat Directive. Designation of protected areas (Natura 2000) where restrictions on development apply (controlled through the planning system).</li> <li>• 'Seveso Directive': constraints on the location of high-risk installations.</li> <li>• Directives on Environmental Impact Assessment and Strategic Environmental Assessment implemented in most countries through planning legislation. Now a routine part of the development control and plan-making process.</li> <li>• Water Framework Directive: responsible authorities have to create new water management plans at the level of a river basin.</li> </ul>
Specific initiatives in European spatial planning with impacts on planning policies and practices	<ul style="list-style-type: none"> <li>• Creation of new data and knowledge base on spatial development trends and European spatial planning.</li> <li>• Cooperation between member states to develop guidelines, spatial strategies and visions</li> <li>• INTERREG and other forms of territorial cooperation across boarders</li> </ul>	<ul style="list-style-type: none"> <li>• ESPON</li> <li>• Reports on Economic and Social Cohesion</li> <li>• Urban Audit</li> <li>• Glossaries</li> <li>• At the EU level: ESDP, Territorial Cohesion agenda</li> <li>• At the level of large transnational areas: 'Baltic Sea Region'.</li> <li>• INTERREG strands A, B and C (cross-boarder, transnational interregional)</li> <li>• Inter-city networks</li> </ul>

## National spatial planning approaches

- 3.9 The *EU Compendium of Spatial Planning* is careful to emphasise that, while the need for spatial planning is generally widely accepted across Europe, very different arrangements have been put in place in member states as a result of a complex mix of factors including: “...the historical and cultural conditions, geographical and land use patterns, the constitutional and legal framework, levels of urban and economic development, and political and ideological aspirations” (p. 34)
- 3.10 The impact of these deep-seated forces is reflected in what the Compendium summarises as four broad traditions of spatial planning:
- ❖ The **regional economic planning approach**: targeting disparities in wealth, employment and social conditions between different regions, although as will be discussed below, this emphasis on regional disparities has been joined by a new emphasis on regional competitiveness in what has been described as a new regional policy paradigm (see OECD, 2010a and Bachtler, 2010). Where this approach is dominant central government plays an important role in managing spatial development pressures and in undertaking public sector investment. France, and to a lesser extent, Portugal are closely associated with this approach.
  - ❖ The **comprehensive, integrated approach** in which spatial planning is conducted through a systematic hierarchy of plans from national to local level coordinating public sector activity across sectors but focusing more on spatial coordination than economic development. The Netherlands is cited as a good example of this tradition. The Nordic countries provide examples of sub-categories of this approach where local authorities play a dominant role in the system alongside central government. Austria and Germany also have systematic structures and processes but, as Federal systems, the countries’ regional governments play the key role.
  - ❖ **Land use management** with the focus on the narrower task of controlling land use change at strategic and local levels. The UK is cited as the main example of this approach with local authorities undertaking most of the planning work abed the central administration supervising the system and setting central policy objectives. The Compendium placed Ireland and Belgium in this category but noted that they appeared to be in the process of shifting towards more comprehensive approaches.
  - ❖ An **urbanism tradition** with a strong emphasis on architecture and urban design, townscape and building control. This tradition is a particular characteristic e the Mediterranean Member States. Urbanisme is also important in the French system.
- 3.11 The Compendium also highlights three contextual factors that play a fundamental role in determining the characteristics of different spatial planning systems: constitutional law, the legal framework and, significantly, government systems and the related distribution of spatial planning responsibilities.

### *Constitutional influences*

- ❖ In some countries, the constitution has direct implications for spatial planning. The constitutions of the Netherlands and Spain establish the right of all citizens to a decent home, which partly explains the importance given to housing in their planning systems. In the Netherlands the constitution also requires local authorities to provide good living conditions and to protect and improve the local environment. In Germany, the constitutional principle of securing equal conditions across the country is backed up by a financial mechanism for distributing resources between Lander.
- ❖ Constitutional rights might also conflict with planning objectives. In Finland and Portugal, for example, landowners have the right to build on their land, which makes regulation difficult.
- ❖ In some countries, on the other hand, there are few provisions in the constitution relating to spatial planning and issues of rights and duties have to be established through law. This also applies to the UK where there is no written constitution.

### *Government structures*

- ❖ The Compendium distinguishes between unitary, regionalised and federal states. It does not, as we have, separate out the Nordic countries from the unitary states category but does acknowledge the high degree of decentralisation in them and the high degree of local autonomy given to regional and local authorities.
- ❖ While recognising the complexity of government structures, the Compendium summarises the varying roles and responsibilities of the three different tiers of governments: national, regional and local.
- ❖ All Member States governments have some responsibility for spatial planning with the exception of Federal Belgium, where the competence for spatial planning is devolved to the country's three regions which have their own planning laws. The role of the national government in Federal Austria is also limited. It has no specific competence in spatial planning but the latter is undertaken at national level in a joint forum with advisory powers in which the national government and the Lander are equal partners. Greece provides the extreme example of a country in which spatial planning is the sole responsibility of national government. National government also plays an important role in Ireland, Luxembourg and the UK (albeit tempered in the latter by recent devolutionary developments).
- ❖ In the federal and regionalised states, the regions play the primary role in spatial planning – the Belgian regions, the Austrian and German Lander and the Spanish and Italian regional authorities. The regional (and provincial) structure is important in Nordic Denmark and Finland and the unitary states of France and the Netherlands while it is much less important in Ireland, Luxembourg and the UK (despite the attempts by the last government at introducing integrated regional plans).
- ❖ At local level, the role of local authorities is strongest in the decentralised Nordic countries.
- ❖ The Compendium stresses that there is no simple correlation between government structures and the real locus of powers and competences in spatial planning in practice and the government structures and administrations do not always coincide with the need to plan for functionally coherent territories or the specific needs of particular localities. Spatial planning systems are constantly under review and changing. One important aspect of these changes is the widespread use of non-elected bodies with special powers. These bodies can be decentralised arms of central government, like the Austrian Districts, the regional préfetures and Départements, Finland's almeellinen ympäristökeskus, Luxembourg's Commisison d'Aménagement, Portugal's Comissões de Coordenação Regional, Sweden's Lästyrelse and the UK's soon to be abolished Integrated Regional Offices. Another group are set up to coordinate policy and foster cooperation between neighbouring local authorities as in Finland's maakunnallinen liitto, France's organismes de coopération intrercommunale and agencies d'urbanisme.
- ❖ The Compendium thus highlights the complex intermeshing of administrative tiers of government in relation to spatial planning with a certain degree of consistency of approach, notably:
  - National governments, with the exception of Belgium, all providing the framework and structure for spatial planning
  - At lowest level, a large number of local authorities with the exception of Ireland and the UK
  - Local authorities generally have significant spatial planning responsibility with the exception of Greece where the lowest tier with planning powers are the Prefetures
  - Between the above two levels, is a complex web of elected and non-elected bodies reflecting historical, political and cultural factors
  - A general tendency for decentralisation of powers to lower authorities counteracted at the same time by some centralisation tendencies to create larger areas for planning.

### **Legal framework**

- ❖ The influence of the legal framework is complex, operating at both national and regional levels of government. In many Member States it is based around one fundamental law providing the basis for building regulation and the preparation of plans, supplemented by a relatively small number of laws specifically relating to, for example, heritage, urban renewal and environmental assessment and sometimes related legislation on, for example, local government powers. Federal Austria, Belgium and Germany have such laws. So too do the regionalised states of Italy and Spain and Unitary France, Greece, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal
- ❖ In some of the unitary states it is difficult to identify an overarching legislative framework for the planning system given the large number of acts, decrees and regulations operating for specific plans or planning procedures. Examples of these are Greece, Italy and Portugal.
- ❖ The regional tier of government plays an important role in spatial planning legislation in Federal states. Regional governments have established their own legal frameworks for planning in the Federal States, Austria and Belgium have established their own legal planning frameworks, reflecting in the latter the fact that regional governments have full responsibility for spatial planning. Federal law continues to be important in Germany reflecting the balance in planning between national and regional, Lander, levels. Of the regionalised states, the autonomous communities in Spain are gradually establishing their own planning legislation within the national framework.

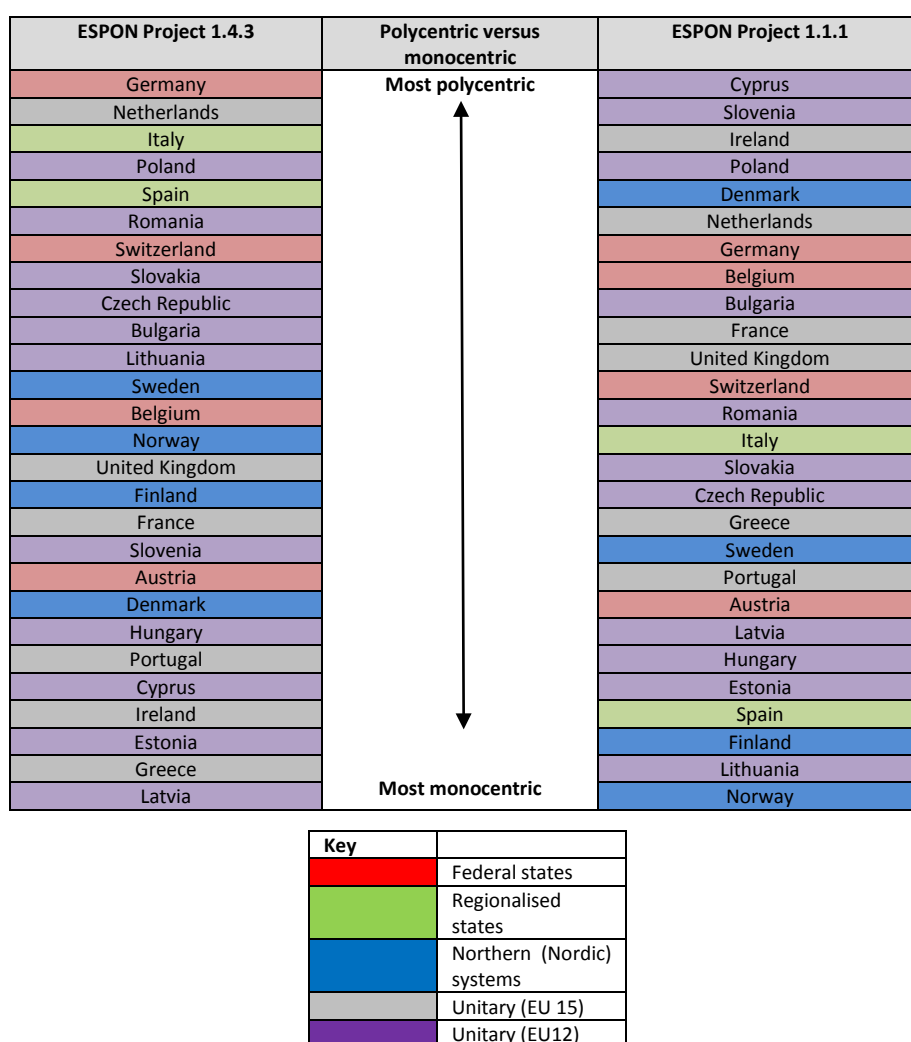
### **Polycentric development policies – emphases and spatial scales**

- 3.12 While there are continuing debates over the empirical measurement of polycentricity and the relationship between polycentricity and economic efficiency and spatial equity (e.g. Meijers, 2008 and Vandermotten et al, 2008), polycentricity remains a focus of territorial planning and policy. At European level, polycentric development is engrained in the continuing debates over European territorial cohesion policy (Faludi, 2005, 2006 and 2009) and, at national level, many Member States have pursued polycentric development policies that provide a context and framework for addressing the relationship between capital and second tier cities.

#### *Measuring polycentricity*

- 3.13 Two ESPON Projects have attempted to measure polycentricity across the ESPON territory, Potentials for polycentric development in Europe' (ESPON Project 1.1.1) and 'Study on Urban Functions' (ESPON Project 1.4.3). They came up with very different results in terms of rankings.. Indeed, the latter project was partly set up to meet the criticisms of the former, which came up with definitions of polycentricity that ran counter to the perceptions of policymakers and practitioners. Ireland was a case in point which the first project labelled relatively highly polycentric when it was considered by many commentators as an example of classic monocentricity. The differences hinged on measurement issues and notably the relative weight placed on morphological measures of size and territorial distribution and relational measures of networks of flows and cooperation (see Meijers, 2008). Project 1.1.1 combined both morphological and relational measures while 1.4.3 focused solely on the size distribution of functional urban areas. We think the latter is the most appropriate for our focus on the relationship between capital and second tier cities and provides the pattern shown in the left hand column of Figure 3.1.
- 3.14 While there is no direct correlation between degrees of polycentricity and state systems, the federal and regionalised states (with the exception of Austria in the former) tend to have relatively high degrees of polycentricity. The Northern states are 'middling' and unitary states range from relatively highly polycentric (Poland, Romania, Slovakia, Czech Republic, Bulgaria and Lithuania to more monocentric (Hungary, Portugal, Cyprus, Ireland, Estonia and especially Greece and Latvia).

**Figure 3.1 Polycentricity-monocentricity across the ESPON territory**



*Urban settlement systems*

3.15 Europe’s settlement structure is one of longstanding urbanisation and is slow to change. As Clark (2009) in his study of European cities and towns from the fifth to the beginning of the 21st centuries, argues:

*“In terms of the number and diversity of towns – ranging from multi-functional capitals to regional centres, smaller communities, and specialist towns - Europe has a much denser network than any other continent, a nascent urban system based on strong national and regional economies, relatively efficient, pan-European transport and communications links, and powerful support from the European Union for greater integration...Clearly the longevity of the European network dating back to the high Middle Ages, and in some regions, much longer, is of fundamental importance for its multi-layered density and strength” (p. 368)*

3.16 The settlement structure is also highly complex and heterogeneous, as shown by the findings of the Council of Europe’s recent survey of evolving territorial structures and policies:

*“The evolution of settlement systems in Europe is a complex process. Although the driving forces shaping the process of urbanisation show significant similarities among*

*the various countries and regions, they apply their influence in regional contexts, which are rather different. The urbanisation process has not been homogeneous in time throughout Europe. In some regions, it started substantially earlier than in others, so that the present picture of settlement systems reflects different historic trajectories. In addition to this, the countries of Central and Eastern Europe and the Russian Federation have inherited urban settlements, which had been significantly influenced by the policies of the communist era. A patchwork of heterogeneous situations is resulting from this.” (CEMAT, 2010; p.5)*

3.17 In Table 3.2, we attempt to summarise the key characteristics of the current settlement structures drawing on the Council of Europe report and other sources. It is highly schematic and understates the complexity of actual structures but it hopefully indicates the variation that policy has to address.

3.18 The pattern broadly is:

*Federal States*

- ❖ Strong growth around metropolitan regions (West Germany) and city regions (Austria and Belgium).
- ❖ Some urban decline in East Germany although even her some signs of urban renaissance.
- ❖ Suburbanisation pressures around city-regions (Belgium) and capitals (Austria).
- ❖ Switzerland also underlines the role of physical geography with development highly concentrated spatially because of the country’s physical terrain.

*Regionalised States*

- ❖ Development balanced across cities (Italy and Spain) with Spain marked by the relative growth of both large and small to medium cities.

*Nordic states*

- ❖ Considerable variation:
  - Denmark densely populated with a dominant capital city;
  - Finland also with a dominant capital but with notably growing second tier cities;
  - Norway less urbanised but with core second tier cities growing rapidly;
  - Sweden sparsely populated with concentrations in the capital and two second tier cities.

*Unitary States (EU15)*

- ❖ Some with development still dominated by capitals (Greece, Ireland, Luxembourg and Portugal).
- ❖ UK capital city-region dominant but some growth in second tier cities.
- ❖ France capital city-region again dominant but main second tier cities also growing.

*Unitary States (EU 12)*

- ❖ Cyprus has four urban settlements: the capital, Nicosia and its second tier city Limassol and two small-sized urban agglomerations, Larnaca and Paphos. Urban growth is more pronounced in Limassol, on the coast, than in the inland capital. Indeed, 55% of the island’s urban population lives in the coastal zone, the population of which has been growing faster as a whole than the capital in recent decades.
- ❖ Three broad urbanisation patterns in former socialist states:
  - Slow growth: modest national growth rates mirrored by a slightly faster growth in urban areas (Croatia, Slovakia, Slovenia and Poland); most of this growth in second tier cities while all capitals, with the exception of Warsaw lost population).
  - Slow decline: modest decline in national population mirrored by similar declines in urban populations (Czech Republic and Hungary) but with particularly marked decline in Hungarian capital, Budapest standing out.
  - Fast decline: substantial national population declines with comparable declines in urban and rural populations (Bulgaria and Baltic States of Estonia, Latvia, Lithuania). The capitals of both Bulgaria and Latvia lost proportionately more population than second tier cities while the reverse was the case in Estonia and Lithuania. Romania is the exception with the capital, Bucharest, gaining population while second tier cities experienced declines.



**Table 3.2 Key characteristics of and trends in settlement structures**

<b>Political system/ country</b>	<b>Key characteristics of/ trends in settlement structures</b>
<b>FEDERAL</b>	
Austria	<ul style="list-style-type: none"> <li>• City regions are becoming the growth poles of the economy</li> <li>• Issues of suburbanisation around capital city, Vienna.</li> </ul>
Belgium	<ul style="list-style-type: none"> <li>• Flanders dominated by central urban network of Antwerp-Leuven-Brussels-Ghent ('Flemish Diamond')</li> <li>• Wallonia dominated by triangle between Brussels-Charleroi-Liege and cross-border settlements: Charleroi-Lille; Liege-Aachen-Maastricht (Belgium, Germany, Netherlands); and Arlon-Luxembourg.</li> <li>• Strong suburbanisation pressures</li> </ul>
Germany	<ul style="list-style-type: none"> <li>• Polycentric urban structure with an upper tier of economically well-performing (functionally specialised) cities in the west and south contrasting with still restructuring cities in the east and north.</li> <li>• Growth and innovation areas are mainly the metropolitan regions and other important agglomerations, especially in the western regions.</li> <li>• Urban system connected to European and global networks of cities with its multi-tiered networks of a regional, national, European and global nature.</li> <li>• Some signs of urban renaissance even in east</li> </ul>
Switzerland (Non-EU)	<ul style="list-style-type: none"> <li>• Small and densely populated with only thirty-one per cent of the country's total surface area suitable for human settlement.</li> <li>• Settlements concentrated in the <i>Mittelland</i> between the Jura and the Alps, which has only twenty seven per cent of the country's surface area but all the large cities, production and service centres and the main road, rail and air transport arteries.</li> </ul>
<b>REGIONALISED STATES</b>	
Italy	<ul style="list-style-type: none"> <li>• A number of large cities, by European standards, populate the Italian territory but the geographical coverage is well balanced and contrary to most other EU countries no urban area dominates.</li> <li>• No city considered to be the 'prime' city, and in many senses all can be considered 'second tier' cities.</li> </ul>
Spain	<ul style="list-style-type: none"> <li>• Dense urban networks of large and medium-sized cities distributed around the coast with, apart from Madrid, little urbanisation in the interior.</li> <li>• Madrid a major European metropolis and Barcelona a European one, followed by 6 cities with European potential (inc. Valencia, Seville and Granada) and then another 6 of consolidated national importance (inc. Cordoba and Santander).</li> <li>• Big cities (the 7 with more than 0.5 million people) have shown the strongest economic performance followed not by the next size group (200,000 to 500,000 people) but the third (100,000 to 200,000) - underling the fact that medium-small cities are also performing strongly alongside the biggest.</li> <li>• Coastal cities performing better than those in the interior.</li> </ul>
<b>NORTHERN (NORDIC) SYSTEMS</b>	
Denmark	<ul style="list-style-type: none"> <li>• Copenhagen is 5-7 times larger than Arhus, the second largest city. The primacy of the Copenhagen city-region marks Denmark out in relation to other Scandinavian countries</li> <li>• Compared to other Scandinavian countries, Denmark is relatively densely populated and has a very urbanised population, with larger and medium sized towns distributed evenly throughout the country</li> </ul>
Finland	<ul style="list-style-type: none"> <li>• Helsinki is by far the dominant city in Finland – contains a fifth of the population; one fourth of employed persons; &amp; one third of GDP of the whole country.</li> <li>• Despite this, Finland's second tier cities have been growing and performing strongly over the past decade or so, in particular Tampere, Turku, Oulu &amp; Kuopio.</li> </ul>
Norway	<ul style="list-style-type: none"> <li>• Not highly urbanised by European standards with only 5 cities with population exceeding 100,000, all located in the southern part of the country</li> <li>• All these major urban areas are growing with Oslo, Bergen, Stavanger and Trondheim growing particularly rapidly.</li> <li>• Growth is also spreading towards small and medium-sized towns.</li> <li>• Suburbanisation marked around major cities and small and medium-sized town in central regions.</li> </ul>
Sweden	<ul style="list-style-type: none"> <li>• Sparsely populated country with most of the population concentrated in a small number of larger urban areas.</li> <li>• Only 3 cities in Sweden have a population above 200,000 – the capital, Stockholm and Gothenburg and Malmö</li> </ul>
<b>UNITARY STATES (EU15)</b>	
France	<ul style="list-style-type: none"> <li>• Big gap between the French capital, Paris, and other large cities.</li> <li>• "Second" city candidates (Lille, Lyon or Marseille) are about 6-7 times smaller in terms of population and economic weight.</li> <li>• Paris and the large metropolitan areas of Lille, Lyon, Marseille and Strasbourg, Toulouse are growth areas.</li> <li>• Suburbanisation marked in coastal regions of western and southern France and around some large metropolitan areas (Bordeaux, Montpellier and Toulouse).</li> </ul>
Greece	<ul style="list-style-type: none"> <li>• Dominated by Athens, the primate capital with approximately 50% of the countries urban population</li> </ul>
Ireland	<ul style="list-style-type: none"> <li>• Dominated by Dublin and still a strong between it and larger urban centres in south,</li> </ul>

	<p>southeast, west &amp; northwest including the key second tier cities of Cork, Limerick, Galway &amp; Waterford</p> <ul style="list-style-type: none"> <li>Population share of five gateway cities (the capital, Dublin, and Cork, Limerick, Galway and Waterford) declining.</li> </ul>
Luxembourg	<ul style="list-style-type: none"> <li>Dominated by the Luxembourg city-region with marked gap between it and the country's second tier cities in the south and the smaller towns in the rural areas situated to the north and east of the capital.</li> </ul>
Netherlands	<ul style="list-style-type: none"> <li>Highly urbanised and distinguished by a single major metropolitan region covering the four cities of Amsterdam, Rotterdam, The Hague and Utrecht - the Randstad.</li> </ul>
Portugal	<ul style="list-style-type: none"> <li>Lisbon dominates with Porto the main second tier city struggling to develop.</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>Capital city region, Greater London, dominant but second tier of large cities seeing some recent growth (notably Bristol in the south west and Leeds in the north).</li> </ul>
<b>UNITARY STATES (EU12)</b>	
Bulgaria	<ul style="list-style-type: none"> <li>Falling urban population closely related to the continuing drop in the national population.</li> <li>Capital, Bucharest, experiencing slightly more decline than second tier cities.</li> </ul>
Cyprus	<ul style="list-style-type: none"> <li>There are four official urban areas in Cyprus: 2 medium sized agglomerations (Nicosia and Limassol) and two small sized agglomerations (Larnaca and Paphos).</li> <li>Urban growth more pronounced in the second tier city, Limassol, than in the capital, Nicosia. 55% of island's population located in the coastal zone and, in recent decades, the three coastal towns together have grown faster in population than the capital, Nicosia.</li> </ul>
Czech Republic	<ul style="list-style-type: none"> <li>Fragmented settlement structure with large number of municipalities and dense network of small and medium-sized cities.</li> <li>Only three cities larger than 250,000 inhabitants – the capital, Prague, and Brno and Ostrava, where growth has largely been concentrated at the expense of other regional towns.</li> <li>Depopulation of inner city areas of large agglomerations.</li> <li>Slow population decline in capital and second tier cities.</li> </ul>
Estonia	<ul style="list-style-type: none"> <li>Dominated by capital, Tallinn and Tartu and Parnu second tier cities.</li> <li>Second tier cities experiencing proportionately more population decline than capital.</li> <li>Suburbanisation of large city agglomerations.</li> </ul>
Hungary	<ul style="list-style-type: none"> <li>Strongly monocentric dominated by capital city, Budapest.</li> <li>Population increase highest in towns located around the Budapest agglomeration.</li> <li>Population loss in capital (possibly exaggerated by census procedures) and some growth in second tier cities.</li> </ul>
Latvia	<ul style="list-style-type: none"> <li>Strongly monocentric dominated by capital city, Riga.</li> <li>Capital losing proportionality more population than second tier cities.</li> <li>Some towns growing (Balozī, Irskile) and others declining (Viesīte, Līgatne, Ape, Vīlaka, Aināzi).</li> <li>Suburbanisation accelerating in past decade.</li> </ul>
Lithuania	<ul style="list-style-type: none"> <li>Declining population in urban areas but decline less in capital than second tier cities.</li> </ul>
Malta	<ul style="list-style-type: none"> <li>Dominated by capital (Valetta) which is only small (less than 8,000 inhabitants)</li> </ul>
Poland	<ul style="list-style-type: none"> <li>Little change in the general pattern of population distribution; although Warsaw and its metropolitan area have been growing, both in absolute terms and in relation to other urban places, on account of internal, as well as international migration.</li> <li>More polycentric development with growth distributed amongst capital and various second tier cities (Warsaw, Kraków, Wrocław, Poznań, the Gornolaska conurbation, Gdansk-Sopot-Gdynia and Lodz).</li> <li>But there is still a question of overconcentration in the capital-city agglomeration.</li> <li>Suburbanisation affecting capital, Warsaw, and larger cities of Gdansk, Poznań, Wrocław, Cracow, on the one hand, and the cities of Rzeszów, Lublin, Białystok and Olsztyn in Eastern Poland on the other.</li> </ul>
Romania	<ul style="list-style-type: none"> <li>Relatively balanced polycentric development with cities housing approximately 55% of the total population (around 22 million inhabitants).</li> <li>Capital, Bucharest, gaining population while second tier cities experiencing declines.</li> <li>In 2008, the government designated 7 growth poles around 7 major cities and 13 urban development poles.</li> </ul>
Slovakia	<ul style="list-style-type: none"> <li>Strongly monocentric dominated by Bratislava-Trnava core area with the capital, Bratislava, at the centre.</li> <li>Falling population in capital offset by some growth in second tier cities.</li> <li>'Concentrated deconcentration' in urban agglomerations – seeing inflow set against suburbanisation within the vicinity of largest cities.</li> <li>Suburbanisation strongest around Bratislava and Kosice, the two largest agglomerations.</li> </ul>
Slovenia	<ul style="list-style-type: none"> <li>Polycentric development based on 8 regional development centres, although with only two having populations over 100,000 – the capital, Ljubljana and the second largest city, Maribor.</li> <li>Some population loss in capital offset by some growth in second tier cities.</li> </ul>
<b>EU Candidate countries</b>	
Croatia	<ul style="list-style-type: none"> <li>Monocentric development but slight population fall in capital, Zagreb, offset by growth in the three conurbations of Split, Rijeka and Osijek.</li> </ul>

Source: Based principally on CEMAT (2010), Hirt and Stanilov (2009) but also ESPON Monitoring Committee member observations and Bibliography for some countries.

3.19 It is clear, therefore, that policies for second tier cities have to adapt to existing urban structures and settlement systems. In the more polycentric and growing urban systems like Germany and Spain, for example, policy is going with the grain of urban development. In

others where monocentricity is ingrained as, for example, in Ireland it is more of challenge and, in some senses, more about breaking the mould.

#### **Policies for polycentric development**

- 3.20 The Nordregio led ESPON project which explored the 'Potentials for polycentric development in Europe' (ESPON Project 1.1.1) provided a useful overview of these national policies across ESPON member states (see Final Report and subsequent policy-orientated papers by the project researchers, Meijers et al, 2005 and 2007 and Waterhout et al, 2005).
- 3.21 The researchers acknowledge the variation between countries regarding the objectives, instruments and embeddedness of polycentric development policies but also note the similarities in approach in relation to their definition of polycentric development policy as "...one that addresses the distribution of economic and/or economically relevant functions over the urban system in such a way that a multitude of urban centres rather than one or two gains significance". (2005). For them "...polycentricity is basically about the distribution of economic and/or economically relevant functions over the urban system in such a way that the urban hierarchy is flattened in a territorially balanced manner." (Meijers et al, 2007, p.?)
- 3.22 The researchers argue that the pursuit of polycentric development is seen as a major objective in spatial or spatial-economic in a majority of the European Union Member States - although reference is not always made to the term 'polycentric development' as such. Seventeen countries have it as a major policy aim at the national scale and a couple of others have it as a subsidiary aim. In a number of either 'federalised' or 'regionalised' countries polycentricity is also a major aim at the *regional* scale (Table 3.3).
- 3.23 Polycentric development is not recognised in formal policy at national level in the federal states, although there are examples of informal national policies that have polycentricity as a main aim (in Germany with its *European Metropolitan Region* approach) or a subsidiary aim (in Austria, with the *Spatial Development Concept 2001*). Polycentric development policies in these countries are principally – as their state systems might suggest - the main aims of policy at regional level.
- 3.24 Polycentric development is a major aim in formal national policies in three of the Northern States, Denmark, Finland and Norway. It is less central in Sweden but does feature as a subsidiary aim in both formal and informal national policy in the shape of The National Vision 'Sweden 2009, which is based on the aim of connecting twenty-five identified city regions (or 'pearls') by high-speed railway connections to form a functional 'String of Pearls Network'.
- 3.25 Johansson et al (2009) note how the polycentricity debate in the Nordic countries is heavily conditioned by demography and the urban structure. With the exception of Denmark, the Nordic states are sparsely populated especially in the northern peripheries and in all of them the capital regions dominate. These characteristics together limit the degree of polycentric development that can be based on geographic proximity. A large share of the territory in Finland, Norway and Sweden is made up of sparsely populated areas and this feature has been amplified over time despite various regional policy interventions. The urbanization rate in the Nordic countries is lower than in most European countries but the concentration of people in urban areas, especially the big city areas, continues to grow.

**Table 3.3: Polycentric development policies in Europe**

Political system/ country	Polycentric Policy at National level				No Polycentric Policy at National Level	
	Formal policy		Informal policy (vision by a working group etc.)		Polycentric policy at regional level (some cases)	No national, no regional polycentric policy
	Polycentricity major aim	Polycentricity subsidiary or minor aim	Polycentricity major aim	Polycentricity Subsidiary aim		
<b>FEDERAL</b>						
Austria				•	•	
Belgium					• <sup>a</sup>	
Germany			•		•	
<b>UNITARY REGIONALISED STATES</b>						
Italy		•			•	
Spain					•	
<b>NORTHERN (NORDIC) SYSTEMS</b>						
Denmark	•					
Finland	•					
Norway	•					
Sweden		•		•		
<b>OTHER UNITARY STATES (EU15)</b>						
France	•					
Greece	•					
Ireland	•					
Luxembourg	•					
Netherlands	•					
Portugal	•					
United Kingdom				•		
<b>OTHER UNITARY STATES (EU12)</b>						
Bulgaria	•					
Cyprus						•
Czech Republic						•
Estonia	•					
Hungary	•					
Latvia		•				
Lithuania	•					
Malta						•
Poland	•					
Romania		•				
Slovakia		•				
Slovenia	•					
<b>EU Candidate Countries</b>						
Croatia	n/a					
<b>Non EU</b>						
Switzerland	•					

•<sup>a</sup> Polycentricity could be seen as a major aim at national level in Belgium since the Walloon and Flanders Regions together cover 99 per cent of the territory and both take the Brussels Region into consideration in their polycentric policies. Similarly, polycentric development policy on the regionalised states of Italy and Spain are principally pursued at regional level, although national policy in Italy does have polycentricity as a main aim in national formal policy.

Source: Based on Meijers et al (2007)

- 3.26 Johansson et al (2009) raise the question whether there is such a thing as “Nordic style” polycentric development given the fact that, by European standards, the Nordic countries are morphologically quite monocentric with a high primacy of the capital urban areas. They acknowledge that regional development policy in all Nordic are “attuned to various aspects of the polycentricity “paradigm”” with a focus on bottom up networks and coordination between territorial entities. As such polycentric development is based less on geographic proximity and more on functional cooperation networks. They conclude that while, it is not possible to argue that there is a specific “Nordic Style” of polycentric development, it is possible to argue that, despite national differences in interpretation, there appears to be a similarity across the Nordic countries in understanding polycentricity as an analytical concept at the national level and in encouraging functional relationships at the local and regional level - even if this is rarely explicitly interpreted as “polycentricity”. Of the seven remaining unitary states of the EU15 - France, Greece, Ireland, Luxembourg, Netherlands, Portugal and the United Kingdom – only the latter was identified as not having a national policy addressing polycentric development. Even in the UK, however, recent years have seen some embryonic attempts at polycentric development though the development of growth poles in the south of England and designation of the ‘Northern Way’ growth corridor on the south of England, although the latter is now currently threatened by public expenditure cuts.
- 3.27 The ESPON Project argued that 9 of the 10 ten former socialist countries of the EU 12 had polycentric development either as a main aim of national policy (in Estonia, Hungary, Lithuania, Poland and Slovenia) or a subsidiary aim (in Latvia, Romania and Slovenia). And the one exception, the Czech Republic, has subsequently gone on to develop such a policy in the shape of its National Spatial Development Policy (PUR, 2006) and the follow-up Principles of Territorial Development (ZÚR, 2008) (see REPUS, 2007).
- Polycentricity - cohesion and/or competitiveness?*
- 3.28 The research identified two main clusters of policies towards polycentricity: the first targeting cohesion and the diminishing of urban disparities within national urban systems and the second to enhance the competitiveness of the urban system or of groups of cities within the systems and thereby the overall competitiveness of the country in question. Most polycentric development policies pursue both objectives at the same time.
- 3.29 Diminishing urban disparities to enhance cohesion is central to 14 European countries: of the Federal states, Germany: Denmark, Finland and Norway in the Northern states; Italy in the regionalised states; France, Germany, Greece, Ireland and Portugal in the other unitary states of the EU15; and Estonia, Hungary, Latvia, Poland, and Slovenia in the former socialist countries of the EU12 unitary states.
- 3.30 Two types of cohesion-orientated polycentric policies can be distinguished: first, those that focus on reducing urban disparities within the urban system (a ‘nodal approach’); and, secondly, those policies which address a significant geographical imbalance within a country’s territory (a ‘zonal approach’).
- 3.31 Table 3.4 below summarises cohesion-oriented policies in the 14 countries.
- 3.32 Urban disparities dominate cohesion-oriented polycentric development policy in Denmark and Finland in the Nordic countries. In the former, it is the gap between the capital Copenhagen and other major cities or ‘national centres’ and, in the latter, the gap between the five most urbanized regions and other cities or regional centres. Addressing urban disparities also dominate polycentric development policy in France, Greece, Ireland and Portugal in the other unitary EU15 states. In France it is the gap between the capital Paris and other cities in the urban system. In Greece, it is the gap between the metropolitan regions of Athens and Thessalonica and all other cities with the national spatial development

plan attempting to strengthen the regional and trans regional role of certain urban centres, which have to develop into 'nodes' or 'gates' within the wider context of the eastern Mediterranean and the Balkan and the Black Sea countries. In Ireland, it is the gap between the capital Dublin and the so-called 'gateway' cities in lagging regions. In Portugal, it is the gap between the capital Lisbon and Porto one hand and the medium-sized cities that make up the next group of cities in the urban hierarchy. In the former socialist countries of the EU12, it is the gap BETWEEN capital cities and other early represented parts of the urban system that feature in polycentric development policies in Estonia, Hungary, Lithuania and Poland.

- 3.33 Policies aimed at reducing the geographical imbalance between parts of a country can be found most notably in Federal Germany where the focus is on closing the gap between cities in East and West Germany and in regionalised Italy, where the issue of division between north and south dominates the agenda. In Norway, the gap is between capital Oslo and other cities in the south of the country on the one hand and other regional centres. In Slovenia, it is the gap between the country's advanced western and central part and its eastern counterpart that dominates.
- 3.34 The objective of contributing to increased national competitiveness has become a particular feature of countries and regions with a relatively polycentric urban system, like federal Germany and Belgium (Flanders) and the unitary states of the Netherlands, Poland and Slovenia. This has commonly taken the form of linking the size and importance of cities to different spatial domains of competition in a kind of hierarchical classification of the national urban system. Different categories of cities are identified – either actual or desired – such as major centres that compete internationally and national and regional centres that compete nationally or regionally. Examples include Germany's 'European Metropolitan Regions', Poland's 'Europols', the 'gateways' or 'gate-cities' of Greece and Ireland, Luxembourg's 'Centres de développement et d'attraction', the 'economic core areas' of the Netherlands, Portugal's 'anchor cities' and Sweden's 'pearls'. The designation of so-called 'urban networks' or 'city networks' has also become popular based on fostering cooperation between two or more cities located relatively close to each other such as the so-called 'Saxony Triangle' in Germany.
- 3.35 Meijers et al (2007) argue, however, that cohesion and competitiveness are not separate objectives but tend to be pursued at the same time. Traditional regional policies based on redistribution approaches have been replaced in many cases by polycentric development strategies based on 'potential based approaches', emphasising 'positive sum games' or adopting 'a search for winners approach'. Cohesion as well as competitiveness feature in the strategies and they point to a shift of focus from lagging regions to the development of cities or urban networks as 'motors of the economy' within those regions. They also argue that there has been a concomitant shift to investing in the already well performing functions of cities that have endogenous potential. Likewise, in countries with large disparities within the urban system polycentric development strategies are aiming to create cohesion through encouraging greater competitiveness in parts of the urban system through better use of their endogenous potential and building up institutional resources.

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**Table 3.4: Types of gaps addressed by cohesion-oriented polycentric development policies and privileged groups of cities**

State system/ country	Type of urban disparities addressed by policy	Type of cities focused on by policies	Type of gap addressed	
			Reducing urban disparities within the urban system – addressing gaps between different categories of cities caused by a limited representation of cities of a certain level of the urban hierarchy (a 'nodal' approach)	Addressing major geographical imbalances within the country's territory - the gap between cities located in regions with diverging rates of socio-economic Development (a 'zonal' approach)
<b>FEDERAL</b>				
Germany	Gap between cities in former West Germany and cities in former East Germany	Cities in former East Germany		•
<b>REGIONALISED STATES</b>				
Italy	Gap between cities in the North and cities in the South	Cities in the South, in particular Medium sized cities	(•)	•
<b>NORTHERN (NORDIC) SYSTEMS</b>				
Denmark	Gap between the capital Copenhagen and other major cities or urban regions in terms of economic development opportunities	'National centres	•	
Finland	Gap between the five most urbanized regions of Finland and other cities or regional centres in terms of population development, employment and GDP	Regional centres (medium and small towns)	•	
Norway	Gap between the capital Oslo and other cities in the south on the one hand and other regional centres on the other in terms of population development, employment and GDP as well as service provision	A selection of regional centres		•
<b>UNITARY STATES (EU15)</b>				
France	Gap between the capital Paris and cities in the rest of the country	Urban areas except for Paris	•	
Greece	Gap between the two largest cities (Athens and Thessalonica) and the next group of cities in the hierarchy. The bottom of the hierarchy is also considered too weak: a lack of viable rural centres	Major cities outside Athens and Thessalonica as well as rural centres	•	
Ireland	Gap between the capital Dublin and cities in lagging regions	'Gateway cities'	•	(•)
Portugal	Gap between the capital Lisbon and Porto on the one hand and the next group of cities in the hierarchy (the level of medium-sized cities is lacking)	Medium-sized cities	•	
<b>UNITARY STATES (EU12)</b>				
Estonia	Gap between the capital Tallinn and other major cities in terms of socio-economic development	Smaller country centres	•	
Hungary	Gap between the capital Budapest and the medium sized regional centres	Regional centres	•	
Latvia	Gap between the capital Riga and the rest of the urban system	Not specified	•	
Poland	Gap between the capital Warsaw and more diversified cities (mainly in the west) on the one hand and less diversified, lagging or peripheral cities on the other in terms of economic development	Less diversified lagging and peripheral cities (east Poland)	•	(•)
Slovenia	Gap between advanced western and central part of Slovenia vis-à-vis eastern part. Gap between Ljubljana and other cities.	National and regional centres, urban regions and cross-border regions	(•)	•

Note: where both types of gaps are addressed, the symbol in brackets denotes the one receiving lesser emphasis.

## 3.2. Regional Policy

### EU Regional and Cohesion Policy

- 3.36 Table 3.5 summarises key milestones in the development of EU regional and cohesion policy, which remains a fundamental element of EU integration.
- 3.37 The Table shows the gradual development of an ‘urban dimension’ to regional policy principally through the URBAN Community Initiative and its URBACT successor, which we discuss below.
- 3.38 Broader regional policy also inevitably had an urban impact given the nature of the objectives of successive programming periods. Thus, for example, the objective to ‘promote the development and structural adjustment of regions whose development is lagging behind’ (Objective 1 of the 1994-1999 and 2000-2006 programmes) targeted Merseyside in the UK, the first ‘old industrial area’ in the EU to receive such funding. The programme not only provided very significant resources but also helped set up a city-region governance structure and surrogate plan that filled the gap created by the abolition of the Merseyside County Council by national government – politics again- some eight years earlier.
- 3.39 The UK also provides examples of second tier cities benefiting from other regional policy programming objectives, notably Objective 2 of the first programmes ‘converting regions or parts of regions (our emphasis) seriously affected by industrial decline’. Manchester, for example, received significant support under Objective 2 for development of its airport and Sheffield, for development of its city centre.

**Table 3.5: Milestones in the development of EU Cohesion and Regional Policy**

<b>‘Origins: 1957-1988’</b>		
<b>Phases/ dates</b>	<b>Action</b>	<b>Main actor</b>
1957	European Social Fund (ESF) set up	European Commission
1962	European Agricultural Guidance and Guarantee Fund (EAGGF) set up	European Commission
1965	Communication on European Regional Policy	European Commission
1968	Establishment of Directorate-General for Regional Policy	European Commission
1973	<i>The Regional Problems in the Enlarged Community (Thompson Report)</i> published – arguing the need for balanced and harmonious development	European Commission
1975	European Regional Development Fund (ERDF) set up	European Commission
1984	Increase of ‘non-quota’ part of ERDF and Community-wide rather than national procedure for designation of eligible areas	
1986	<i>Single European Act</i> – laying basis for regional/ cohesion policy to offset impact of single market on less-favoured regions (introduction of ‘economic and social cohesion’ objective)	European Commission
<b>‘From projects to programmes: 1989-1993’</b>		
<b>Phases/ dates</b>	<b>Action</b>	<b>Main actor</b>
1988	Regulation integrating Structural Funds under the umbrella of Cohesion Policy Financial allocation for Structural Funds more than doubled for 1989-93 Introduction of 4 new principles: concentration, programming, partnership and additionality	European Council
1992	Maastricht Treaty – creation of Cohesion Fund	European Council
1993	Revised Treaty on the European Union and revised Treaty on the European Communities come into force following Maastricht agreement Cohesion Fund and Committee of the Regions established Introduction of subsidiarity principle	European Council
<b>‘Consolidation and doubling the effort: 1994-1999’</b>		
<b>Phases/ dates</b>	<b>Action</b>	<b>Main actor</b>
1989-93	Programming period for EU Structural and Cohesion Fund programmes  5 principal objectives: 1. Promoting development and structural adjustment of regions whose development is	European Commission Directorate-General for Regional Policy



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	<p>lagging behind</p> <ol style="list-style-type: none"> <li>2. Converting regions seriously affected by industrial decline</li> <li>3. Combating long-term unemployment</li> <li>4. Facilitating the occupational integration of young people</li> <li>5a. Speeding up the adjustment of agricultural structures</li> <li>5b. Promoting the development of rural areas</li> </ol> <p>16 Community Initiatives (including INTEEREG I and Leader)</p>	
1993	<p>New Cohesion Policy regulations – now including Financial Instrument of Fisheries Guidance and Cohesion Fund</p> <p>Further doubling of financial allocation for Structural Funds for 1994-1999 (equal to a third of EU budget)</p>	European Council
1994-99	<p>Programming period for EU Structural and Cohesion Fund programmes</p> <p>6 principal objectives:</p> <ol style="list-style-type: none"> <li>1. Promoting development and structural adjustment of regions whose development is lagging behind</li> <li>2. Converting regions or parts of regions seriously affected by industrial decline</li> <li>3. Combating long-term unemployment and facilitating the integration onto working life of young people and of person exposed to exclusion from the labour market, promotion of equal employment opportunities for men and women</li> <li>4. Facilitating the adaptation of workers to industrial changes and to changes in production systems</li> <li>5. Promoting rural development by: <ol style="list-style-type: none"> <li>(a) Speeding up the adjustment of agricultural structures in the framework of reform of the Common Agricultural Policy and promoting the modernisation and structural adjustment of the fisheries sector</li> <li>(b) Facilitating the development and structural adjustment of rural areas</li> </ol> </li> <li>6. Development and structural adjustment of regions with an extremely low population density (following accession of Austria, Finland and Sweden in 1995)</li> </ol> <p>13 Community Initiatives (including INTERREG II and URBAN I)</p>	
1999	'Agenda 2000' reform package to adjust regional policy before EU enlargement in 2004	
<b>'Making enlargement a success: 2000-2006'</b>		
<b>Phases/ dates</b>	<b>Action</b>	<b>Main actor</b>
2000-2006	<p>Programming period for EU Structural and Cohesion Fund programmes</p> <p>3 principal objectives:</p> <ol style="list-style-type: none"> <li>1. Promoting the development and structural adjustment of regions whose development is lagging behind</li> <li>2. Supporting the economic and social conversion of areas facing structural difficulties</li> <li>3. Supporting the adaptation and modernisation of policies and systems of education, training and employment</li> </ol> <p>4 Community Initiatives (INTERREG III, URBAN II, EQUAL and Leader+)</p>	European Commission (DG REGIO)
2000	<i>Lisbon Strategy</i> – focusing on growth, employment and innovation and providing momentum for shift in Cohesion policy	European Council
2004	Accession of 10 new Member States – bringing increased regional disparities in income and employment and receiving EU Structural and Cohesion Fund support	European Council
2005	<i>Lisbon Strategy</i> relaunched – putting more emphasis on growth and jobs and transferring more ownership to member states through national action plans Agenda shifted from purely 'growth and jobs' focus	European Council
2006	EU Cohesion Policy reform: now 3 objectives for 2007-13 programming period (convergence, regional competitiveness and employment and European territorial cooperation)	European Council
2007	Accession of 2 more states (Bulgaria and Romania) (again eligible for and in receipt of EU Structural and Cohesion Fund support)	European Council
<b>'Focus on Growth and Jobs: 2007-2013'</b>		
<b>Phases/ dates</b>	<b>Action</b>	<b>Main actor</b>
2007-13	<p>Programming period for EU Structural and Cohesion Fund programmes</p> <p>3 objectives:</p> <ol style="list-style-type: none"> <li>1. Convergence</li> <li>2. Regional competitiveness and Employment</li> <li>3. European Territorial Cooperation (based on INTERREG initiative, support available for cross-border, transnational and interregional cooperation)</li> </ol>	European Commission (DG REGIO)
2008		EU heads of state and government
2008	Publication of Consultation Paper <i>Regions 2020 – An Assessment of Future Challenges for EU Regions</i>	European Commission (DG REGIO)
2009	Publication of <i>An Agenda for a Reformed Cohesion Policy – A Place based Approach to Meeting European Union Challenges and Expectations</i> (the 'Barca Report') – reviewing the operation of Cohesion Policy and making recommendations for the future, including the adoption of a 'place-based approach'.	European Commission (DG REGIO)

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2009	Publication of <i>Working towards a New Europe: The role and achievements of Europe's regional policy, 2004-2009</i> .	European Commission (DG REGIO)
2009	Consultation on <i>Europe 2020 – a new strategy for greener and socially inclusive growth in recovery from economic crisis</i>	European Commission (DG REGIO)
2010	Publication of <i>Investing in Europe's Future: Fifth Report on Economic and Social Cohesion</i> - reinforces role of cities and regions in securing economic and social cohesion	European Commission (DG REGIO)
2010	Communication on <i>Conclusions of the 5<sup>th</sup> Report on Economic, Social and Territorial Cohesion: the Future of Cohesion Policy</i>	European Commission
2010	Informal meeting of the Ministers responsible for cohesion policy in Liège	European Council
2011	Communication on <i>Regional Policy Contributing To Sustainable Growth In Europe 2020</i>	European Commission

Source: DG Regio and Dühr et al (2010)

**National Regional Policy**

3.40 In their review of regional policy developments in Europe, Yuill et al (2008) argue that the definition and coverage of regional policy has changed significantly over time. Up to the late 1990s, the principal focus was on regional investment aid and infrastructure support, with interventions targeted heavily on designated aid areas. Most regional policy was nationally-administered or, in federal countries, nationally-coordinated with some attempts at more decentralised approaches. Since then, regional programmes and programming have become more important. For some countries this shift has been heavily influenced by EU programming requirements, notably in the Convergence countries like Spain and the new Member States highly dependent on EU Cohesion Policy funding. In these and other countries, it also reflects a more general shift in policy towards support for endogenous development, building on regional potential and promoting innovation.

3.41 The OECD (2009 and 2010) agrees, arguing that there has been a paradigmatic shift in regional development policy in recent years (Table 3.6). Regional policy began in the 1950s and 1960s, a period of relatively strong economic growth, fiscal expansion and low unemployment. The principal objectives were greater equity and balanced growth in a period of rapid industrialisation. The main instruments were wealth redistribution through national financial transfers and large-scale public investments. During the 1970s and early 1980s, economic shocks and changes in the global economy led to concentrations of unemployment in many countries and regional policy changed to address these challenges. Overall, the results were disappointing. Regional disparities were not significantly reduced. As a result a new paradigm of regional policy aimed helping all regions, whether wealthy or not, to maximise its own comparative advantages in a positive sum game that contributes to national objectives. Regional policy had shifted from short-term subsidies into a much broader family of long-term development policies designed to enhance regional competitiveness. These can be characterised as follows:

- ❖ a development strategy covering a wide range of direct and indirect factors affecting the performance of local firms;
- ❖ a greater focus on endogenous assets rather than exogenous investments and transfers;
- ❖ an emphasis on opportunity rather than disadvantage;
- ❖ a collective approach to governance involving national, regional and local government along with other stakeholders, with the central government less dominant.

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**Table 3.7: Paradigm shift of regional development policy**

	<b>Old paradigm</b>	<b>New paradigm</b>
<b>Problem recognition</b>	Regional disparities in income, infrastructure stock and employment	Lack of regional competitiveness, underused regional potential
<b>Objectives</b>	Equity through balanced regional development	Competitiveness and equity
<b>General policy framework</b>	Compensating temporarily for location disadvantages of lagging regions (Reactive to problems)	Tapping underused regional potential through regional programming (Proactive for potential)
- <b>theme coverage</b>	Sectoral approach with a limited set of sectors	Integrated and comprehensive development policies with wider policy area coverage
- <b>spatial orientation</b>	Targeted at lagging regions	All-region focus
- <b>unit for policy intervention</b>	Administrative areas	Functional areas
- <b>time dimension</b>	Short term	Long term
- <b>approach</b>	One-size-fits-all approach	Context-specific approach (place-based approach)
- <b>focus</b>	Exogenous investments and transfers	Endogenous local assets and knowledge
<b>Instruments</b>	Subsidies and state aids (often to individual firms)	Mixed investment for soft and hard capital (business environment, labour market, infrastructure)
<b>Actors</b>	Central government	Different levels of government, various stakeholders (public, private, NGOs)

Source: OECD (2010a)

- 3.42 Bachtler (2010) argues that policy thinking on regional development underpinning this paradigmatic shift has been significantly reshaped by three developments in theory and empirical research: the 'New Economic Geography' with its emphasis on spatial agglomerations; endogenous growth theories focusing on the sources and spatial distribution of innovation; and institutional theories emphasising the capacity of (regional) economies to adapt and innovate (citing Storper, 1997 and Farole et al, 2009). However, there remain differences in how this broad thinking is interpreted politically in policy on the ground in different countries.
- 3.43 Yuill et al (2008) provide the most comprehensive and authoritative review of developments in regional policy across the EU and Norway. They document detailed changes in the definition and coverage of regional policy, the changing nature and perception of the regional problem, changing policy responses (in form, objectives, spatial orientation, instruments, budgets and expenditure) and the changing regional policy administration and delivery systems (reallocation of delivery powers across administrative tiers, coordination and efficiency and accountability). The latest report (Yuill et al, 2010) explores the impact of the recession on regional policy.
- 3.44 In relation to the changing nature and perception of the regional problem, Yuill et al (2008) make a number of comparative points that are echoed in the OECD's paradigmatic shift in policy, namely:
- ❖ In most countries, socio-economic disparities persist, though there are differences as to how these problems are perceived.
  - ❖ In some cases, disparities are seen to be declining or not considered to be a significant problem.
  - ❖ Nearly all countries favour policy intervention.
  - ❖ While a focus on weaker areas remains, there has been a general shift towards a more differentiated approach for tackling regional problems.
  - ❖ Many countries now prioritise the development of all regions to maximise national growth in a global context...
  - ❖ As a result, the traditional focus on disparities *between* regions has increasingly given way to recognition of the need to utilise potential *within all* regions.
  - ❖ The nature of the problem has also become more varied.

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- ❖ Generally, problems are related to socio-economic disparities. However, in the face of globalisation, many countries have adopted a broader approach, focusing on competitiveness but also including newer challenges relating to environmental and energy-related issues.
- ❖ Although some countries continue to analyse regional problems in terms of trends in disparities, many others now view the success of regions as being dependent on their ability to anticipate and respond to new challenges.
- ❖ Related to discussions on the nature of the regional problem, the level of analysis has changed. On the one hand, there is an increasing interest in sub-regional disparities, which has moved policy towards the sub-regional level. On the other hand, many countries now increasingly compare problem regions against EU comparators. And countries with border regions often include the immediate bordering regions in their analysis.

3.45 That said, there remain differences between countries that reflect differences in political interpretation and differing national context. Yuill et al (2008) allocate countries to six groups, which do not simply map on to our state system grouping, although the Nordic countries and the former socialist new unitary member states appear to share some common characteristics:

- a) Federal Austria, Denmark in the Nordic states and Luxembourg, and to a lesser extent the Netherlands (where perceptions differ), of the Unitary EU15 Member States, where regional disparities are considered to be relatively limited, particularly in comparison to other EU countries. This is not seen to justify major regionally-targeted interventions.
- b) Federal Belgium and France, Ireland and the United Kingdom of the Unitary EU 15 Member States, where differentiated regional problems calling for fine-tuned policy responses are seen to exist.
- c) Finland, Sweden and Norway in the Nordic countries where sparsely populated regions (and certain areas facing problems of structural adjustment) continue to be acknowledged by targeted policy measures, although a growth focus on all regions has gradually moved centre stage, particularly in Finland and Sweden.
- d) Federal Germany and regionalised Italy, where severe internal regional differences remain between east-west and south-north respectively and continue to provide the main policy focus.
- e) Unitary Greece and Portugal and regionalised Spain. Where the main concerns – as Convergence countries - are policies for enhancing national development.
- f) Poland and most of the rest of the EU12, where internal disparities are marked (particularly between capital city and lagging regions often along eastern borders) and there is generally also a major development gap with the rest of the EU. In these countries, too, the policy stress is on national development.

3.46 Yuill et al (2008) also summarise key variations in the definition and scope of regional policy.

- ❖ Where EU Cohesion policy dominates, regional policy is strongly programme-based and growth-oriented, aiming to close the development gap with the rest of the EU. Internal disparities are of secondary, though often growing concern.
- ❖ In the Nordic countries, domestic regional programmes have become core policy instruments, bringing together local, regional, national and EU funding sources in a coordinated way; at the same time, regional aid and related measures remain significant in the sparsely-populated north and in areas facing structural challenges.
- ❖ Where problems are less marked – as in Austria, Ireland and the Benelux – regional policy is lower-key and competitiveness-oriented, with policy coordination often stressed.
- ❖ Coordination also lies at the heart of policy in France and Germany. In the former, it is the core activity of the DIACT, while in Germany it provides the rationale for the

Regional GA regional policy is now one of just two areas where joint federal-Land activities (GA) are found; (. In both countries, balance in development is a prime goal, though increasing attention is now paid to growth and competitiveness.

- ❖ Finally, in the UK, regional policy has expanding coverage, reflecting its productivity focus, while also becoming more devolved and decentralised. As elsewhere, measures to enhance policy coordination are an increasing policy feature.

3.47 In relation to changes in the spatial orientation of regional policy, Yuill et al (2008) demonstrate how the growing stress on regional growth and competitiveness, on maximising regional potential, and on programme-based policymaking has meant that, in most countries, significant aspects of regional policy now have an all-region focus. Moreover, and of particular importance for our study, in relation to specific spatial targeting, the growing focus on developing regional strengths and promoting innovation has led to policy changes which promote urban areas and growth centres with examples in:

- ❖ Federal Austria and Germany
- ❖ All the Nordic countries - Denmark, Finland, Norway and Sweden - with the last three also focusing on urban areas as part of the increasing policy emphasis on developing viable territorial structures.
- ❖ Regionalised Italy.
- ❖ Of the Unitary States: France, Germany, Ireland, the Netherlands, Portugal and the United Kingdom of the EU15. They also note how the strategic profile of urban areas has also been raised in Greece, Ireland, the Netherlands, Portugal, and the United Kingdom as a result of growing links between national spatial development strategies and regional policies.
- ❖ Poland and a number of the new Member States of the EU12 under the influence of EU Cohesion policy, notably Bulgaria, Hungary and Latvia.

### 3.3 **Urban Policy**

3.48 As Pacione (2009) argues, urban policies vary reflecting different institutional environments and policy instruments but four general forms can be identified:

- ❖ policies designed to generate urban growth and change at national scale, - i.e. between urban regions;
- ❖ policies to generate urban growth and change at intra-regional or metropolitan scale – i.e. within urban regions;
- ❖ in some federal countries there may be an intervening level of policy development at state or provincial level;
- ❖ ‘non-urban’ policies that indirectly or often inadvertently affect urban restructuring. (p. )

#### **EU Urban Policy**

3.49 Table 3.7 sets out key milestones in the development of an ‘urban agenda’ in EU cohesion policy. As already argued in the introduction, the use of the word ‘agenda’ reflects the fact that the Commission does not have a formal remit for urban policy. What passes for urban policy has always been developed under the umbrella of regional policy (Parkinson, 2005). Yet cities continue to feature strongly in debates over cohesion policies and sustainable development.

3.50 Four broad stages in the evolution of EU ‘urban policy’ can be distinguished (Van den Berg et al, 2005 and Parkinson, 2005, updated):

*Stage 1 1975-1988: Territorial differences on the EU agenda - but regions, not cities*

- ❖ From its inception, the purpose of the European Community was to achieve political integration through economic integration. But in the mid-1970s it became apparent that this ambition was being blocked by the extent of differences between the richest and poorest regions. This led in 1975 to the creation of the European Regional Development Fund with 5% of the Community budget, the first recognition of the need for a territorial dimension to policy. The Single European Act set the basis for a genuine EU cohesion policy designed to offset the impact of the single market upon less developed areas. When the Act came into force in 1987, regional policy constituted almost 20% of the total EU budget. But even though regional policy in the 1980s shifted from a concern with differences between regions to differences within regions, there was no evidence of an urban dimension to EU policy.

*Stage 2 1989-1993: The emergence of the urban agenda*

- ❖ In the 1990s the idea that cities mattered to the EU because of their concentration of problems as well as their economic opportunities slowly emerged on the agenda. In 1988 the Council dramatically boosted resources for Structural Funds. The 1992 Treaty of European Union set cohesion alongside monetary union and the single market as one of the main goals of the Union. The Treaty created the Cohesion Fund to support transport and the environment in the least prosperous regions of the Union, encouraged by the entry of Spain, Greece and Portugal in 1986. The significance of cities was underlined by two crucial research studies in this period, the Cheshire report in 1988 and the Parkinson report in 1992. These studies encouraged policy entrepreneurs within DG Regio to promote urban interests. Indeed, the significance of cities led the EC in 1991 to propose that the Treaty be modified to make cities the specific competence of the EU – but member states rejected the proposal. And in 1990 the Urban Pilot Projects set up under Article 10 of the ERDF were the first EU attempt to focus upon cities. In fact it was a very limited programme with very modest resources, but it was nevertheless regarded as a political and administrative success which demonstrated the potential of successful EU action in the urban arena.

*Stage 3 1994-1999: Consolidating the urban agenda*

- ❖ In 1993 the Council reformed the Structural Funds once more, doubling their budget to almost 33% of the total budget. As resources to alleviate regional territorial differences increased, so did the concern for cities. In 1994, for example, following the success of the Urban Pilot Projects, the European Parliament requested and authorised the creation of a Community Initiative URBAN which focussed upon issues of urban regeneration and cohesion in deprived neighbourhoods. This was the first EU action focussing solely upon cities. In 1997 a second round of Urban Pilot Projects was launched. Also that year the Treaty of Amsterdam confirmed the significance of cohesion and stressed the need for member states to work together to reduce unemployment. And also in 1997 the European Commissioner presented a position paper entitled 'Towards an urban agenda in the European Union' which clearly highlighted the problems and opportunities of cities. This discussion paper laid the foundations for the creation of the EU's Urban Audit, a pilot project designed to benchmark the strengths and weaknesses of European cities. The Dutch Presidency also held an informal meeting of EU ministers for spatial development where the urban dimension of EU policy was discussed. Both these events drew attention to the role of cities, but did not constitute a concrete decision to put cities at the centre of EU policy. 1998 probably marked the high point of concern for cities in regional policy. The Commission published 'Sustainable Urban Development in the European Union: a framework for action', which laid the foundations of the EU's urban approach to urban policy. The document received a very favourable reception at the EU Urban Forum,

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which was held in Vienna in December 1998. As van den Berg noted, the Forum “represented an important step in the development of the urban dimension of the EU policy since for the first time both the Member States (with the Informal Meeting of Ministers) and the EC showed their willingness to pursue the development of a common urban policy (Euricur 2004: 44).”

*Stage 4 2000 onwards: Recognising the contribution of cities and positioning them in cohesion policy and policies for sustainable development*

- ❖ In 1999 the European Council reformed and simplified the Structural Funds and adjusted the Cohesion Funds. The focus was upon improving the economic competitiveness and performance of the least wealthy regions and countries by investing in human and physical capital. In this period the contribution of cities to regional economic development was slowly being recognised. The Community Initiative was extended to URBAN II. URBACT was launched with the aim of developing transactional exchange of experiences and good practices with more emphasis, following the Lisbon Agenda, on competitiveness, although still with projects addressing social cohesion. URBAN has subsequently been mainstreamed into Cohesion Policy funding. Significantly, the URBAN principles were included in the regulatory framework for the Operational Programmes of the new Convergence and Regional Competitiveness and Employment Objectives. For the first time in the history of EU Regional Policy all cities across the EU are now eligible for ERDF funding. Both of the Fourth and Fifth Cohesion Reports have underlined the importance that the Commission places on the role of cities in helping to secure economic and social cohesion. Most recently, the Commission Communication on ‘Regional Policy Contributing to Sustainable Growth in Europe 2002’ underscores the urgent need for developing sustainable European cities as part of the Europe 2020 strategy and Cohesion Policy-supported shift to investment in ‘smart and sustainable growth’.

**Table 3.7: Milestones in the development of an EU ‘urban agenda’**

<b>The emergence of the urban agenda: 1989-1993</b>		
Dates	Action	Main actor
1989-93	Urban Pilot Projects	European Commission (DG REGIO)
1990	Publication of the Green Paper on the <i>Urban Environment</i>	European Commission (DG Environment)
1991	Creation of the <i>Expert Group on the Urban Environment</i> and of the <i>European Academy for the Urban Environment</i> in Berlin	European Commission (DG Environment and national experts)
1991	Publication of <i>Europe 2000</i>	European Commission (DG REGIO)
1993	Initiation of the <i>European Sustainable Cities Project</i>	European Commission (DG Environment and network of cities)
<b>1994-1999: Consolidating the urban agenda: 1994-1999</b>		
Dates	Action	Main actor
1994	<i>European Sustainable Cities and Towns</i> campaign	European Commission (DG Environment and network of cities)
1994-99	URBAN I Community Initiative	European Commission (DG REGIO) (implementation by local actors)
1995	<i>Urban Policy Unit</i> set up within DG REGIO	European Commission (DG REGIO)
1996	Publication of <i>European Sustainable Cities: report of the Expert Group on the Urban Environment</i>	European Group of national experts
1997	Communication <i>Towards an Urban Agenda in the European Union</i>	European Commission (DG Environment)
1998	Communication <i>Sustainable Urban development in the European Union: Framework for Action</i>	European Commission (DG Environment)
<b>Recognising the contribution of cities and positioning them in cohesion policy and policies for sustainable development: 2000 -</b>		
Dates	Action	Main actor
2000	Informal meeting of the European ministers responsible for urban policy in Lille	Member States
2000-06	URBAN II Community Initiative	European Commission (DG REGIO)
2002	Creation of the URBACT programme	European Commission (DG REGIO)
2004	Informal meeting of the European ministers responsible for urban policy in Rotterdam	European Commission (DG REGIO)
2005	Creation of the Interservice Group on Urban Development in the European Commission, chaired by	European Commission (DG REGIO with participation of other DGs))

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	DG REGIO	
2005	Informal meeting of the European ministers responsible for urban policy in Bristol ( <i>'Bristol Accord'</i> )	Member States
2006	Communication on <i>Cohesion Policy and Cities: The Urban Contribution to Growth and Jobs in the Regions</i>	European Commission (DG REGIO)
2006	<i>Thematic Strategy on the Urban Environment</i>	European Commission (DG Environment)
2007	Publication of <i>State of European Cities Report</i> (May 2007)	European Commission (DG REGIO)
2007	Publication of <i>Growing Regions, Growing Europe: Fourth Report on Economic and Social Cohesion</i> - raises issue of role of cities and regions in securing economic and social cohesion	
2007	Informal meeting of the European ministers responsible for urban policy in Leipzig: <i>Leipzig Charter on Sustainable European Cities</i>	Member States
2007	Launch of URBACT II	European Commission (DG REGIO)
2007	Follow-Up of the <i>Territorial Agenda and the Leipzig Charter: Towards a European Action Programme for Spatial Development and Territorial Cohesion</i>	European Parliament (Policy Department Structural and Cohesion Policies)
2007-13	Urban focus included in mainstream Structural/Cohesion Funds programmes as part of EU Cohesion Policy (separate URBAN programme ceases)	European Commission (DG REGIO)
2008	Publication of <i>Green Paper on Territorial Cohesion; Turning Territorial Diversity into Strength</i> – follow up to informal meeting of the European ministers responsible for urban policy in Leipzig	European Commission (DG REGIO)
2008	European Parliament resolution recognising the issues highlighted by the <i>Territorial Agenda and the Leipzig Charter</i> and proposing a range of actions to take forward the ideas and recommendations in them.	European Parliament
2008	Publication of results of " <i>Health check for European Cities</i> " based on Urban Audit	European Commission (DG REGIO)
2008	Publication of <i>Fostering the urban dimension: Analysis of the Operational Programmes co-financed by the European Regional Development Fund (2007-2013)</i>	European Commission (DG REGIO)
2009	Publication of <i>Promoting Sustainable Urban Development in Europe: Achievements and Opportunities</i>	European Commission (DG Environment)
2010	Publication of <i>Investing in Europe's Future: Fifth Report on Economic and Social Cohesion</i> - reinforces role of cities and regions in securing economic and social cohesion	European Commission (DG REGIO)
2011	Communication on <i>Regional Policy Contributing To Sustainable Growth In Europe 2020</i> - again highlights potential role of cities in sustainable economic development	European Commission (DG REGIO)

Source: Dühr et al (2010) updated

### The URBAN programme

- 3.51 URBAN was focused on the regeneration of rundown urban districts in EU 15 Member States through a mix of economic, social and environmental interventions. 188 urban areas received funding from URBAN I (1994-1999) and 70 from URBAN II (2000-2006). Included in this number were neighbourhoods in 39 of our second tier city grouping and in 4 of our second tier city case studies (Cork, Leeds Lyon and Turin) (Table 3.8).
- 3.52 The only country without a second tier city included in the URBAN programmes is Finland where URBAN participation has been confined to Helsinki and Joensuu.
- 3.53 URBAN was a classic neighbourhood-based urban renewal programme attempting to strengthen disadvantaged areas within cities and tipping more towards the cohesion than the competitiveness agenda



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**Table 3.8: Cities in the URBAN Programme**

<b>Political system/ country</b>	<b>URBANI 1994-1999</b>	<b>URBAN II 2000-2006</b>
<b>FEDERAL</b>		
Austria	<b>Graz</b> Vienna	<b>Graz</b> Vienna
Belgium	<b>Antwerp</b> Brussels <b>Charleroi</b> Mons-La Louvière	<b>Antwerp</b> Brussels-Capital Region Sambreville
Germany	Berlin Brandenburg <b>Bremen</b> <b>Chemnitz</b> Duisburg-Marxloh Efurt-Ost Halle Kiel Magdeburg-Cracau Rostock Saarbrücken Zwickau	Berlin Bremerhaven Dessau Dortmund Gera Kassel Kiel Leipzig Luckenwalde Mannheim/ Ludwigshafen Neubrandenburg Saarbrücken
<b>REGIONALISED STATES</b>		
Italy	<b>Bari</b> Cagliari <b>Catania</b> Catanzaro Cosenza Foggia <b>Genova</b> Lecce <b>Napoli</b> <b>Palermo</b> Reggio Calabria Roma <b>Salerno</b> Siracusa Trieste Venezia	Carrara Caserta Crotone Genova Milan Misterbianco <b>Mola di Bari</b> Pescara Taranto <b>Turin</b>
Spain	Albacete Avilés Badajoz Badalona Baracaldo (Bilbao) <b>Cadiz</b> Cartagena Castellón Córdoba Huelva La Coruña Langreo León Madrid <b>Malaga</b> <b>Murcia (Barriomar)</b> Palm de Mallorca Pontevedra Sabadell Salamanca Santa Coloma de Gramenet (Barcelona) Santander <b>Sevilla</b> Telde (Valle de Jinámar, Las Palmas de Gran Canaria) Toledo <b>Valencia</b> Valladolid Vigo Zaragoza	S. Cristobal de la Laguna Pamplona Orense Gijon Teruel S. Adrià de Besos Jaen S. Sebastian-Pasaia Caceres Granada
<b>NORTHERN (NORDIC) SYSTEMS</b>		
Denmark	<b>Aalborg</b>	<b>Arthus Gellerup</b>
Finland	Helsinki-Vantaa Joensuu	Helsinki-Vantaa
Sweden	<b>Malmö</b>	<b>Göteborg</b>

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UNITARY STATES (EU15)		
France	Amiens Aulnay-sous-Bois Bastia Chalons-sur-Saône Clichy-Montfermeil (Paris) Les Mureaux (Paris) <b>Lyon</b> Mantes La Jolie <b>Marseille</b> Mulhouse Roubaix-Tourcoing Saint-Etienne Valenciennes	Clichy-Montfermeil (Paris) Le Mantois Grigny/ Viry Val-de-Seine Bastia Le Havre <b>Strasbourg</b> <b>Grenoble</b> <b>Bordeaux</b>
Greece	Ermoupolis Keratsini Patras Peristeri (Athens) <b>Thessaloniki</b> Volos	Perama Komotini Heraklion
Ireland	<b>Cork</b> Dublin	Ballyfermot
Luxembourg	Dudelange-Differdange	
Netherlands	Amsterdam <b>Rotterdam</b> The Hague Utrecht	Amsterdam <b>Rotterdam</b> Heerlen
Portugal	Amodora (Lisbon) Gondomar (Porto) Lisbon (Casal Ventoso) Loures (Lisbon dormitory) Oeiras (Lisbon) <b>Porto (Campanhã Valley)</b>	Asmadora (Lisbon) Lisbon <b>Porto Godomar</b>
United Kingdom	<b>Belfast</b> <b>Birmingham</b> Brighton <b>Bristol</b> Coventry Derry <b>Glasgow North</b> <b>Leeds</b> London (Hackney Tower) London (Park Royal) <b>Manchester</b> <b>Merseyside-Leasowe</b> <b>Merseyside-Liverpool</b> <b>Merseyside-Netherton</b> <b>Merseyside-North Huyton</b> <b>Nottingham</b> Paisley <b>Sheffield</b> Swansea	West Wrexham <b>Belfast</b> <b>Bristol</b> Burnley Halifax Hetton & Murton (East Durham Coalfield) Normanton in Derby Peterborough Stockwell (London) Thames Gateway <b>Clyde Waterfront</b>

Second tier cities in bold

**Source:** Based on information from URBACT

**The URBACT programme**

- 3.54 Set up to promote networking and information sharing between cities, URBACT I (2002-2006) developed out of URBAN and focused on issues social cohesion within deprived urban areas. It also involved networks in the new Member States. A third of the cities involved were in the latter.
- 3.55 Altogether there were some 217 cities in 29 different States involved in URBACT 1's thirty-eight projects. These projects focused on 6 key themes
- ❖ Citizen participation.
  - ❖ Economic development and employment.
  - ❖ Immigrant populations.
  - ❖ Integrated urban renewal.
  - ❖ Urban security.
  - ❖ Young people.

3.56 URBACT II was set up to cover the 2007-2013 programming period and the projects strongly reflect the ‘competitiveness, growth and jobs’ objective of the Lisbon-Gothenburg Strategy. Projects are clustered into three broad groups, which not surprisingly map on to some of the generally recognised key ‘drivers of urban competitiveness’ – innovation, human capital/skills, governance capacity, quality of place.

**1. Cities, Engines of Economic Development and Job Creation:**

- Innovation and Creativity
- Human Capital and Entrepreneurship.

**2. Cities, Active Inclusion and Governance**

- Active Inclusion
- Quality Sustainable Living
- Metropolitan Governance

**3. Cities and Integrated Sustainable Development**

- Regeneration of Disadvantaged Neighbourhoods
- Low Carbon Urban Environment
- Cultural Heritage and City Development
- Port Cities

3.57 58 of our grouping of Second tier cities have been involved in 83 URBACT II projects. Of these 5 of our case study cities have been involved in 7 projects, 3 of which are still ongoing (Table 3.9). The projects span:

- ❖ Metropolitan Governance (Katowice, Lyon, Munich)
- ❖ Sustainable Housing (Lyon)
- ❖ Health – building healthy communities (Turin)
- ❖ Human capital and entrepreneurship (Lyon)
- ❖ Social inclusion (Timisoara)

**Table 3.9: Our case study cities in URBACT II**

City	Theme	Project
Katowice	Metropolitan Governance	NODUS (Spatial Planning and Urban Regeneration) Now closed.
Lyon	Low Carbon Urban Environments	CASH (Cities’ Action for Sustainable Housing)
	Metropolitan Governance	LUMASEC (Sustainable Land use Management) Now closed.
	Human Capital and Entrepreneurship	URBAMECO (Fostering Sustainable Integrated Regeneration of Deprived Urban Areas) Now closed
Munich	Metropolitan Governance	CityRegion.net (Urban Sprawl and Development of Hinterlands)
Turin	Quality Sustainable Living	Building Healthy Communities (Urban Factors Influencing Health)
Timisoara	Active Inclusion	MILE (Managing Migration and Integration at Local Level - Cities and Regions) Now closed

**National Urban Policy**

*Territorial Development and Urban Policies in Europe: Key Messages from OECD Research*

3.58 During the past decade the OECD has undertaken extensive reviews of strategies and trends in both spatial planning and urban and territorial policy in many countries in Europe and beyond. In particular it territorial reviews have built up one of the most detailed and coherent analyses of the issue. An overview of those reviews produced in 2010 is a rich and

fertile source of knowledge about the European scene. We rehearse the key features and policy messages of their analysis here.

*Public policy matters to cities – directly and indirectly*

- 3.59 First the review showed there was considerable evidence that certain policies, often with other objectives, had important effects on urban areas. They include for instance housing, transport, fiscal and industrial policies. For example, in the case of France Prudhomme (2008) identified four main public policies in the 1950s-1960s that pushed the development of medium sized cities. First the creation of the DATAR in the 1960s, France developed strong active regional policies targeting the less developed areas with large scale infrastructure investment and public subsidies for firms and discouraged further investment in Paris. Second, strong housing policies, with subsidies or reduced rates loans for private construction and subsidised public housing construction for low income renters although not being explicitly spatial, benefitted both medium sized and large cities. Third, major redistribution policies with explicit social goals had a key unintended spatial impact as the equalisation scheme favoured the development of small and medium-sized cities.

*A shift from territorial to strategic planning*

- 3.60 In many OECD countries, a long term national vision for urban development is found in the national spatial planning frameworks. OECD note spatial planning systems have the following roles:

- ❖ a long or medium-term spatial strategy, controlling regional disparities and encouraging sustainable development.
- ❖ as a tool to co-ordinate sectoral policies to achieve spatial development objectives.
- ❖ as a mechanism of co-ordination and interaction which allows sub-national governments to shape their territorial development policies to reflect national or even international policy goals

- 3.61 Globalisation has meant that strategic planning has progressively replaced spatial planning. During the period of massive urban expansion, urban policy involved coping with rapidly expanding public demands for urban space and services. Economic globalisation and increased inter-city competition placed urban economic competitiveness on the top of urban policy agenda, with more attention paid to the profound change in the governance of cities and urban regions, particularly in the field of urban spatial development. The change has led to a shift away from provision of social welfare services, to that of entrepreneurialism, with a greater focus upon economic growth, risk-taking, innovation and a private sector orientation. This shift opened up a new policy dimension in urban spatial development, created numerous policy innovations, and produced results in successful cases.

*City size and diminishing returns*

- 3.62 The OECD review also underlined that if market forces were allowed to operate, cities that reached a certain size would become so congested and expensive that investors and developers would start to avoid them and move elsewhere. It underlined the risk that public policy aimed at such cities could allow them to long after they have become uneconomic, preventing diminishing returns from setting in. In the case of cities, costs of travel congestion, increasing land values for commercial and residential property, high costs of living, labour shortages, and deteriorating environmental quality reduce the attractiveness to investors of a favoured city. This leads to the establishment of new investment locations in cities where these costs and disadvantages do not exist and in the long run there should be relatively even development across cities. The policy conclusion is that governments should not subsidise the construction of transportation structures, rents or other land costs, high costs of living, skills training or infrastructural and environmental improvement in dynamic cities since they lead to symptoms of urban imbalance.

- 3.63 Very few governments in the OECD subsidise land costs as part of urban policy, but they are highly active with measures ranging from the location of major cultural centres in favoured cities to cost-of-living supplements to public employees' pay, usually in capital cities. The current emphasis on supporting and sustaining these cities makes it less rather than more likely that diminishing returns will set in. However, the economists' arguments cannot be ignored, and policy-makers need to consider the implications of policies that prevent diminishing returns from inhibiting extreme geographical imbalances in development. This may require ensuring the advance of a number of dynamic cities spread more or less evenly around the national territory, to produce a more level playing field of competition among the country's cities.
- 3.64 OECD territorial reviews in Holland and Italy have also underlined argued is also scope for the central governments to identify cases of metropolitan regions that are not making the most out of their potential because of a lack of appropriate public policy. They note for example, the Randstad is a high growth area, but the fact that its productivity is lower than in some other parts of the Netherlands suggests that it is not taking full advantage of polycentricity. Few firms locate their R&D there - though there is a strong public infrastructure of knowledge – due to issues such as transport inefficiency. There is a similar lack of coordination in Milan, with many of the city's large numbers of SMEs being poorly informed of development possibilities, with no true innovation policy, a lack of interaction among firms, and with the city's two major universities not being involved in the city's urban policy
- Comparative analysis of urban policy is complex*
- 3.65 The OECD review also provided an overview of the state of play in urban policy across different European states which we summarise in the next section. That works underlines underlined the point that comparative analysis of urban policy is complex for several reasons.
- 3.66 First, urban policy is a broad based concept and nearly all public policies directly or indirectly affect urban development. Central governments have a large impact on urban areas through a variety of policies, programmes and projects carried out by a wide range of national ministerial departments and agencies. National governments provide extensive funding to urban areas. National Housing, transportation and educational and R&D programmes impact upon places and Second tier cities. Some programmes fund cities directly whereas others impact upon them through regional programmes which then filter in. Many programmes which are not regarded as urban affect urban development. Airport location policy clearly has spatial implications. But also regulatory and investment policies which are not explicitly spatial do have territorial impacts. So implicit as well as explicit policies matter.
- 3.67 Second, urban policy goals differ between countries. Urban policies in deindustrialising countries are clearly different form those in fast growing countries with high growth cities. In some cases social segregation is a greater problem than in others. Some countries, such as the United Kingdom, the United States and France, face more serious spatial segregation issues in their cities than in Nordic countries, and their policies need to target specific neighbourhoods.
- 3.68 Third, urban policy has to recognise different levels of centralisation amongst federal and national governments. In federal countries, regional, whose responsibilities are comparable to the national government of unitary countries, tend to be in charge of urban development. In more decentralised countries, the national government has often restructured its administrative and technical machinery at the sub-national level .For example, some national governments have re-organised authorities into metropolitan regions, supra-municipal authorities and given them substantial powers. In other circumstances, national-level reforms are less explicit and are limited to the subsidisation of existing regional councils and infrastructure projects.

The report identified a series of developmental trends in these policy areas.

*Search for greater territorial balance*

3.69 The first trend is that regional development policies have increasingly embraced the idea of balanced territorial development which tends to benefit urban regions. Many national governments see excessive urban concentration as negative. They argue that the concentration of population and output in metro-regions harmed the national economy because it was draining skills, capital and physical resources from other regions, compromising balanced territorial development. Several factors have forced national governments to rethink their approaches to urban policy. First, they accept that economic performance depends on their capacity to maintain the competitiveness of their urban regions. The role of large cities on the international marketplace has clearly impacted the way national governments perceive high urban concentration. Establishing or reinforcing urban areas as a preferred location for advanced economic activities has quickly become a major field for public policy.

3.70 OECD noted that States were increasingly developing a more differentiated approach to urban areas, acknowledging the principle of regional diversity. In Nordic countries, which are dominated by one single metropolitan area and a large number of smaller urban regions (also called city-regions), national governments have started to develop differentiated urban policy approaches to preserve the growth capacity of their champion cities while enhancing the development of a number of subsidiary urban poles. For example the review of Finland in 1994, Finland introduced a specific urban policy to foster the innovation and growth of its eight largest city-regions (excluding Helsinki), under the name Regional Centres Programmes (RCP). This policy had a regional focus, with balanced territorial development as a key objective. It also recognised that a certain degree of concentration was needed and included as a key objective the allocation of funds for greater more collaboration and economic integration between a core city and its neighbouring municipalities. Meanwhile, a policy package had been prepared for the major urban regions, including Helsinki. In Sweden, which like Finland, was focused only on regional equity objectives, the national government has, since the beginning of the decade, paid greater attention to Stockholm supporting the initiative to foster the integration of the larger Stockholm Malar region through public infrastructure investment, social support in distressed areas called “metropolitan policy”) and a regional innovation strategy.. German spatial planning policy also sought to link the eleven most developed —European metropolitan regions with smaller centres — via secondary road networks is one example.

*More forward looking, competitively oriented policies*

3.71 The second main trend OECD identified was that national urban policies are becoming more pro-active and forward-looking. Urban policies traditionally tended to be remedial and not pro-active. In the 1980s and 90s concern with remedying the decline of industrial cities and managing issues of decay, crime and social welfare were often the key focus of urban policies. Today, in most member states, urban development policies no longer focus solely on the regeneration of declining areas but with programmes for creating urban areas capable of and competing in the most innovative and dynamic sectors of the global economy. Such policies have led to policies designed to attract firms and their highly skilled work forces to the most innovative and dynamic sectors and are the provision of the high-quality urban infrastructures that they demand. This did not mean that social challenges had been eliminated. In fact these issues continue to loom large among those addressed by urban development policies. However, a number of governments, including Germany, Finland and Norway had re-oriented their national spatial strategies in order to come to terms with the changing geography of economic dynamism. The experiences of the major OECD agglomerations, suggests that urban economic growth depends on economic interdependencies as well as social cohesion and the physical environment. Areas which are isolated from the economy and labour market of the metropolitan region hinder the

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competitiveness of the region as a whole. The review argued that competitiveness is only one contributing factor to improving quality of life and social cohesion. 'But, without a competitive urban economy, it is difficult to raise living standards and improve the environment.'

**What kinds of urban policies have European countries adopted?**

3.72 Table 3.10 provides a synoptic overview of national urban policies, drawing heavily on the OECD's (2010a and 2010b) summary assessment of national urban policies.

**Table 3.10: National urban policies in Europe**

Political system/ country	Urban policy
<b>Federal States</b>	
<b>Austria</b>	No explicit urban policy at federal or regional (Land) level. The Lander are more driven by concern with the effects of suburbanisation and the 'weak' position of regional peripheries rather than 'strong' urban centres. Strong fiscal equalisation mechanisms mean that there is a high degree of 'home rule' amongst municipalities and intense inter-municipal competition.
<b>Belgium</b>	No specific urban policy until 1990s when the salience of urban issues rose, reflecting the rise of right wing political parties at local level, urban rioting and the growth and segregation of minority ethnic urban communities. A strongly federalised governmental system and the differential economic experiences of Belgium's three regions has produced a divergence of policy approaches with an initial focus upon physical urban renewal in Wallonia, urban safety and poverty in Flanders and a mixture of the two in the Brussels region. The policy focus in the latter two regions has shifted recently towards an emphasis on quality of life issues (on one hand social control, on the other the attraction of high income residents and high value firms). Urban policy is a shared competence between federal and regional levels and national and regional policies have a strong urban dimension as a result.
<b>Germany</b>	Urban policy developed in a context characterised by a highly federalised governmental structure, strong fiscal equalisation mechanisms, a deep national commitment to the preservation of a balanced urban system, the need to manage the consequences of German re-unification and, recently, relatively late (by European standards) processes of de-industrialisation. Urban policies as a result have focused upon experimental 'state-down' and 'bottom-up' attempts to improve competitiveness and manage the physical and social consequences of industrial decline and depopulation through the repositioning of cities and city-regions to attract public and private funding within a set of well-established institutional relationships that are difficult to reform.
<b>Switzerland (Non-EU)</b>	A new Article in the Constitution (2001) set the grounds for urban policy stating that "the government shall take into account the particular situation of the cities and agglomerations" and since then policies have focused on improving urban centres and the competitiveness of urban centres and agglomerations". The new federal urban policy has introduced a new vertical dimension of cooperation between cities, cantons and the Confederation. While cities have gained new influence in the process, the cantons remain dominant. Nevertheless it is still a move towards multi-level governance and away from the previous hierarchical pattern of co-operative federalism.
<b>Unitary Regionalised States</b>	
<b>Italy</b>	No formal urban policy until 1990s. Weakly developed since then as statutes for metropolitan reform remained unimplemented or partially implemented. Lack of coordination between national, regional and local levels of government means that urban programmes are piecemeal and dependent upon individual municipal efforts, hence dependent upon unevenly-developed institutional capacities.
<b>Spain</b>	Little in the way of formal, national urban policy. Urban initiatives given momentum by EU programmes and, to varying degrees, the devolution of powers and responsibilities to the regional scale. Complex division of responsibility between national, regional, metropolitan and municipal levels has meant that recognition of urban potential and problems has been dependent upon the development of joint programmes of activity between levels of government.
<b>Unitary Nordic Systems</b>	
<b>Denmark</b>	A good example of the importance of implicit rather than explicit urban policies. The latter remain relatively weak, with limited support from national government for programmes of urban renewal focused on tackling neighbourhood decline and social fragmentation. The former, traditionally based upon redistribution and the development of local government's role in the national welfare state, began to shift in the 1990s with a series of initiatives (airport development, strategic use of state land assets, creation of bridge/tunnel link between Copenhagen and Malmo in southern Sweden) that had the effect of strengthening the competitive position of the capital city-region.
<b>Finland</b>	Little in the way of specific, overt urban policy but urban areas have been seen as key to a strong technology-orientated spatial policy that has been especially successful in the Helsinki city-region and is now being used to try and promote balanced spatial development across the country as a whole. Relatively lightly funded. Fits into a system of inter-governmental relations in which there is strong local authority 'home rule'
<b>Iceland (EU Candidate Country)</b>	No explicit national urban policy although there is a policy for urban development in the capital, Reykjavík, which dominates the urban system.
<b>Norway (Non-EU)</b>	Traditionally urban policy in Norway has focused on environmental problems, quality of life, urban density and urban centres. More recently urban policy has shifted focus to city competitiveness with a strong emphasis on innovation and cluster policies, strongly linked to the country's regional policy Sectoral policies are important with many taking into account urban areas. Innovation policy is a feature of this, involving, for example, support for science parks and research institutions; a cluster policy involving many of the country's largest city-region; the location outside Oslo of public policy institutions for funding and developing innovation activity to encourage growth outside the capital; and an innovation programme for the country's six major cities.

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<b>Sweden</b>	First specific national urban policy introduced in 1998, focusing upon problems of social segregation in the country's three main metropolitan areas (around Stockholm, Gothenburg, Malmo). 1st phase focused upon housing. 2nd phase focusing upon localised economic growth and development. Fits into a highly decentralised local government system and a lively, but as yet unresolved, debate about the extent to which the capital city-region around Stockholm is being 'drained', through the operation of fiscal redistribution mechanism, of resources that could be used to support its development.
<b>Other Unitary States EU15</b>	
<b>France</b>	Focus of urban policy has been on institutional innovation and the creation of institutional capacity, in a highly fragmented local government system, through (a) statutory encouragement of various forms of inter-municipal co-operation, (b) the provision of national government incentives through central-local contracts, and (c) the development of additional mechanisms for citizen and stakeholder engagement in local governance. Depending upon local conditions, the strengthening of governance is seen as a means to address issues of urban unemployment, economic development and segregation. Urban policy innovation has occurred in parallel with a sustained programme of governmental decentralisation and the progressive abandonment of regional policy initiatives that previously sought to encourage greater economic balance between the capital city-region and provincial centres.
<b>Greece</b>	Little in the way of explicit urban policy. Urban programmes dominated mainly by the need to deal with the consequences of poorly-regulated patterns of market-driven urban development and the demands it generates, e.g. in terms of the provision of infrastructure. The limited financial capacity of local authorities to support urban development programmes has been eased to some extent by EU funding.
<b>Ireland</b>	Weakly developed explicit urban policy, focusing mainly upon commercial and residential urban renewal. EU programmes have been instrumental in supporting these efforts but their effects have been overshadowed by high rates of national economic growth, the impetus this has given to rapid and lightly regulated suburbanisation and associated growth in housing costs, congestion and segregation.
<b>Luxembourg</b>	No explicit urban policy but, beginning with the new law on territorial planning in 1999, explicit policies and frameworks have been set up to address the country's territorial unbalances. Specifically in relation to urban areas, this approach has included efforts to improve the performance of the country's second tier cities in the south of the country and the collection of smaller and more rural towns located in the north (the NORDSTAD).
<b>Netherlands</b>	First formal urban policy developed in mid-1990s in response to de-industrialisation and economic crises/related social difficulties in the major cities. Initial focus on the 'gateway' functions of Randstad cities, especially Amsterdam and Rotterdam. Subsequently extended both geographically (to other urban centres in the Netherlands) and functionally (to social as well as economic/physical renewal). Resulted in strengthening of 'compact city' strategies of major cities but dilution of spatial focus. Ambitious programme of metropolitan governance reform failed but push for greater strategic, inter-governmental policy integration carried through. Subsequent national economic recovery and renaissance of major urban centres, along with high profile breakdown of social harmony in Dutch cities resulted in more recent urban policy focus on social order, integration of minority ethnic communities, education and citizenship
<b>Portugal</b>	Urban programmes largely driven by EU funding and priorities. No explicit urban policy until late 1990s and the introduction of the National Spatial Planning and Urbanism Act and the subsequent establishment of a Ministry of Cities, Territorial Planning and Environment. Policies for cities nonetheless remain fragmented, horizontally (between different sectoral policy areas and municipal jurisdictions) and vertically (between different levels of government).
<b>United Kingdom</b>	Forty-year history of explicit urban policy, initially focused upon 'filling holes in the welfare net' but subsequently, from the late 1970s, concerned primarily with the economic, social and environmental consequences of industrial restructuring. Mainly focused upon 'problem' areas within the larger conurbations. Constant changes in area-based initiatives and delivery arrangements; little continuity, sustained investment. With recent urban renaissance, signs of a longer-term, less problem-focused approach in which inter-governmental approaches to the development of city-regions may play a larger part.
<b>Other Unitary States EU 12</b>	
<b>Bulgaria</b>	No explicit urban policy. Its nascent urban policy is heavily influenced by EU Cohesion Policy. The country's Regional Development Operational Programme emphasises the country's major cities with investments aimed at supporting social infrastructure, local economic development, infrastructure and transport. Sustainable and integrated urban development is one of five priority axes in the Operational Programme and a JESSICA Holding Fund has been established to assist in the rehabilitation of deprived areas in seven of the country's large cities.
<b>Cyprus</b>	Urban policy is part of regional economic development policy and is based on indicative planning and legally defined in Local Plans and Area Schemes. Spatial policies recognise an urban hierarchy with Nicosia as the capital and primary city and Limassol as the second tier city. This hierarchy is recognised in the country's governance structure and planning and legal systems. There are four official urban areas in Cyprus: 2 medium sized agglomerations (Nicosia and Limassol) and two small sized agglomerations (Larnaca and Paphos).
<b>Czech Republic</b>	No explicit urban policy with emphasis still on broader regional policy with focus on cohesion issues and infrastructure including the development of new forms of social and health services. Urban policy, however, is evolving as part of national and EU-supported regional and cohesion policies. There is an urban dimension in the current National Strategic Reference Framework, which emphasises balanced territorial development and the strengthening of the role of cities as growth poles. All of the Regional Operational Programmes include urban development through either a specific Urban Priority Axis or a mixed Axis that also includes regional and/or rural development. Urban development in regional centres requires integrated urban development plans that address deprived zones and/ or zones with high growth potential in cities.
<b>Estonia</b>	Urban policy is heavily conditioned by EU Cohesion Policy funding. The 'Development of Living Environment' programme in the current 2007-13 programming period includes a strategic priority for the 'Integral and balanced development of regions' with a sub-measure focused on developing urban regions. This measure targets the five largest agglomerations of Tallinn, Tartu, Narva, Pärnu and the Kohtla-Järve conurbation. Support covers the development of sustainable urban transport, public infrastructure related to child care and social security provision, public urban space, recreation and green areas.
<b>Hungary</b>	No explicit national urban policy with emphasis on broader regional policy. Policies for addressing social polarisation issues are implemented at regional and micro-regional level rather than at urban level. EU Cohesion Policy, however, is encouraging an urban dimension to regional policy alongside the National Development Concept, which identifies a growth pole strategy based around Budapest at the centre and a group of large towns surrounding it. The production of a Manual on Urban Renewal, which promotes an integrated approach to urban development, is seen as a breakthrough in urban planning policy. And the development of integrated Urban Development Strategies is a policy requirement for cities to access funding under the Regional Operational Programmes.
<b>Latvia</b>	Latvian urban policy has not been clearly defined and, in practice, has focused more on the structural development of the country's peripheral areas. EU Cohesion policy, however, currently provides an important context for developing urban policy.



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	The National Development Plan of Latvia for 2007-2013 aims for polycentric development through utilising the development potential of cities and the formation of networks of cities. In the negotiations over the 2007-13 EU Cohesion policy, the Commission requested the inclusion of an urban development priority in the country's programmes. As a result, urban development was given an additional boost with the creation of a specific urban priority axis in the programme 'Infrastructure and Services' that priority focuses on regional growth centres outside the Riga region and also the most deprived areas of Riga city.
<b>Lithuania</b>	Little in the way of explicit urban policy with emphasis on broader regional policy albeit with an orientation towards more equal development of growth centres and avoiding overconcentration of investment in current growth centres. EU Cohesion Policy has introduced a specific urban development field of action focusing on regenerating public spaces, housing, transport, social cohesion and local community initiatives in urban areas.
<b>Malta</b>	Urban policies are implemented at central and local government levels. There is no regional tier of government. Problems include decaying urban fabric, transport and traffic problems. Social and environmental problems are less marked than in other European states. Key policies relate to land use, conservation of the urban fabric and transport
<b>Poland</b>	Urban policies receive relatively high priority in national spatial development strategies but an explicit metropolitan policy has not yet been developed. A basic challenge for policy is urban and metropolitan governance and an overarching framework is needed for harmonising the still fragmented policies for promoting competitiveness and social cohesion in cities. EU Cohesion Policy is encouraging an urban dimension in regional policy with the National Strategic Reference Framework identifying the need for: building on the potential of the largest cities as drivers of regional development, strengthening the relationship between the metropolis and urbanised and surrounding areas; and promoting the internal cohesion of urban areas and addressing the concentration of economic, environmental and social problems in major urban centres.
<b>Romania</b>	A more conscious urban policy is being developed. Emphasis has been on developing integrated urban development approaches. Some of these have focused on development of historic centres (such as in Baia Mare, Sibiu and Alba Iulia) and others have focused on disadvantaged neighbourhoods within cities. EU Cohesion Policy is supporting an urban dimension in regional policy with the current Regional Operational Programme emphasising the achievement of a polycentric and more balanced urban structure, the concentration of investments in urban growth poles and improving the accessibility of cities.
<b>Slovakia</b>	Little in the way of explicit urban policy with emphasis on regional policy. EU Cohesion Policy is having an influence, however, and funding, steered by the National Strategic Reference Framework and the Slovak Spatial Development Perspective, is being targeted towards towns and municipalities seen as innovation and cohesion growth poles
<b>Slovenia</b>	There is no single urban policy document but an approach to urban policy has been developed which attempts to combine an overarching spatial planning framework in the shape of the country's Spatial Development Strategy with urban development strategies to promote, amongst other objectives, the polycentric development of cities and their integration into the European urban system; re-urbanisation processes and the redevelopment of degraded urban areas. The focus in inner cities has been on transforming former industrial and military areas for commercial development, shopping centres and private housing. Another issue has been constraining the development of satellite extensions to existing urban areas. A big issue is the strengthening of urban quality, which is seen as one of the country's main competitive assets. EU Cohesion Policy is providing some support for urban development through the current 'Strengthening Regional Development Potentials' Operational Programme.
<b>Other Unitary</b>	
<b>Croatia (EU Candidate Country)</b>	No explicit urban policy but concerns over the monocentric development around the capital, Zagreb, have seen polycentric development policies focussing on decentralisation to strengthen the role of cities, especially the largest cities identified as potential growth centres.

**Source:** Based principally on OECD (2010a & b), CEMAT (2010), EUKN (various 2005 and 2010), Yuill et al (2008 and 2010) and a number of EU and national policy documents and academic books/journal articles – see Bibliography.

## 4. FINDINGS

### *The state of play*

- 4.1 In Table 4.1 we summarise the pattern of spatial policies - ranging from spatial planning for polycentric development at national and regional levels, regional policy with a marked urban dimension and strong urban policy – that emerges from the literature reviewed.
- 4.2 We would argue that policies for second tier city development will be stronger where all of these policies are present and are integrated.
- 4.3 It is revealing that only one country – Federal Germany – appears to have the full hand of policies: national **and** regional spatial planning (albeit with the former more informal than formal), regional policy with an urban dimension and strong urban policy.

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**Table 4.1: Spatial policies summary**

Political system/ country	Spatial planning: polycentric development main aim		Regional policy with urban dimension	Strong Urban Policy
	National	Regional		
<b>FEDERAL</b>				
Austria		•	•	
Belgium		•		•
Germany	• (Informal)	•	•	
Switzerland (Non-EU)	•			•
<b>REGIONALISED STATES</b>				
Italy		•	•	
Spain		•		
<b>NORTHERN (NORDIC) SYSTEMS</b>				
Denmark	•			
Finland	•			
Norway	•			
Sweden				
<b>UNITARY STATES (EU15)</b>				
France	•		•	•
Greece	•			
Ireland	•		•	
Luxembourg	•			
Netherlands	•		•	•
Portugal	•		•	
United Kingdom		•	•	•
<b>UNITARY STATES (EU12)</b>				
Bulgaria	•		•	
Cyprus	•			
Czech Republic	•			
Estonia	•			
Hungary	•		•	
Latvia			•	
Lithuania	•			
Malta				
Poland	•		•	
Romania				•
Slovakia				
Slovenia	•			•

4.4 The broad pattern appears to be:

*Federal States*

- ❖ Germany – as already noted, all strands of spatial policy.
- ❖ Belgium – regional spatial planning with an urban dimension alongside explicit urban policy but no national spatial plan seeking a more balanced urban system.
- ❖ Switzerland – national spatial planning and urban policy.
- ❖ Austria – regional spatial planning and regional policy with an urban dimension but no explicit urban policy.

*Regionalised States*

- ❖ Regionalised spatial planning in both Italy and Spain with regional policy with an urban dimension also present in the later.

*Nordic States*

- ❖ With the exception of Sweden, all with national spatial planning frameworks.

*Unitary States (EU15)*

- ❖ France - all three policies but recent concerns that the national spatial planning framework is being downgraded.

## POLICIES FOR SECONDARY CITIES IN EUROPE APPROACHES, ISSUES AND CHALLENGES

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- ❖ Netherlands – strong in all three policy strands but recent concerns over political shift of urban policy.
- ❖ Ireland and Portugal – national spatial planning and regional policy with an urban dimension but no explicit urban policy.
- ❖ United Kingdom – regional policy with urban dimension added to strong urban policy.
- ❖ Greece and Luxembourg – national spatial planning but no regional or urban policy.

### *Unitary States (EU12)*

- ❖ Cyprus – national spatial planning with strong urban dimension.
- ❖ *Former socialist states*
  - With exception of Romania and Slovenia, weakly developed urban policy.
  - Spatial planning at national level important in 7 countries (Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Poland and Slovenia).
  - Of these 7, national level spatial planning bolstered by regional policy with an urban dimension in Bulgaria, Hungary and Poland – encouraged by EU Cohesion Policy funding.
  - Latvia – regional policy with an urban dimension again encouraged by EU Cohesion Policy funding.



**The ESPON 2013 Programme**

## **ANNEX 2**

# **COMPETITIVENESS OF SECOND TIER CITIES IN THE KNOWLEDGE ECONOMY REVISITED:**

## **A LITERATURE REVIEW**

**Markku Sotarauta**

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# Competitiveness of Secondary Cities in the Knowledge Economy Revisited

(A collaged literature review for the Secondary  
Cities in Territorial Development –project)  
Markku Sotarauta

## 1. INTRODUCTION

- 1.1 This paper provides answers to such questions as ‘how the key drivers of urban competitiveness, innovation, human capital, connectivity, governing capacity and quality of place, are constructed in the literature’ and thus also ‘what is competitiveness of city-regions like?’. The question of ‘what are the key elements of competitiveness’ becomes relevant too. The point of departure here is that the globalizing economy and the rapid technological progress, among other things, have challenged us to find not only new policies and innovations, but also new ways to think about competitiveness of city-regions<sup>1</sup>.
- 1.2 Competition and competitiveness have steadily been growing in importance as policy concerns among European cities (Budd, 1998). Cities compete in the sense that they engage in rivalry in creating or attracting activities that generate wealth for their citizens (Jensen-Butler, 1997, 3). This ability to provide the wherewithal to be successful in these terms is commonly described by the concept of competitiveness. Institutional and evolutionary theories of regional economic development have focused on the institutional arrangements and ‘softer’ factors like networking, trust and social capital that together provide externalities that encourage the emergence and subsequent growth of local and regional economies (Grabher, 1993; Maskell, 2002; Amin and Thrift, 1995). Policy makers across the world aim to forge new partnerships, build networks, construct regional innovation systems, foster creativity, boost learning, and push clustering forward.
- 1.3 The literature has also introduced the important concept of ‘path dependency’ and explored the factors enabling the shifting of development trajectories (Arthur, 1996; Simmie, 2006). Innovation, knowledge and learning have also become central ideas in institutional and evolutionary approaches to local and regional economic development focusing on how localities and regions can produce, absorb and make use of innovations and knowledge through learning (Pike, Rodríguez-Pose and Tomaney, 2006). Technological transfer and spillover underpin the development of regional innovation systems (Cooke and Morgan, 1998) and ‘innovative milieux’ (Camagni, 1996). Recent thinking emphasises the need to integrate understanding of both the emergence of technologically-based clusters and the specific role of policymaking - i.e. focusing on both evolutionary and constructive forces in cluster formation (Sölvell, 2009).
- 1.4 Consequently, it is evident that regions and cities aiming to reinvent themselves as ‘knowledge cities’, ‘learning regions’ (Morgan, 1997), ‘intelligent cities’ (Komninos, 2002), or ‘creative cities’ (Landry, 2008) need to continuously foster their competitiveness in a global knowledge-intensive economy. In a knowledge city context, competitiveness aligns itself with such concepts as, for example, innovation, innovation systems, clusters and creativity, all praised for their fresh approach as well as criticized for their fuzziness in the academic spheres but enthusiastically embraced by policy communities in many parts of the globe. All

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<sup>1</sup> City-region is here understood as a functionally inter-related geographical area comprising a central city surrounded with a hinterland of smaller urban centres and rural hinterlands. A key to understanding the role of city-regions is that the core city and their regions are socially and economically interdependent.

this reflects, in one way or another, the basic assumptions of the contemporary research agenda that in the knowledge economy the creation of a local high-level knowledge pool with strong internal links and pipelines to global knowledge sources is the way to construct regional advantage (eg Asheim et al, 2006; Bathelt et al, 2004; Cooke et al, 1997; de la Mothe and Mallory, 2004).

- 1.5 In many city regions strategies aimed at fostering competitiveness have puzzled over the question of how to adapt to a changing environment, not like driftwood in a stream but with purpose by strengthening innovation capacity. The idea of knowledge-based competitiveness has implied, or at least should imply, the identification of fundamental determinants of place prosperity, i.e. the basis for sustainable growth and continuous renewal in modern economies (Turok, 2004; Sotarauta 2005). In their efforts to boost competitiveness city-regions need to be able to pool the resources, competencies and networks of a multiplicity of actors and hence, in the end, the question may be more about collaborative advantage than straightforwardly about the construction of knowledge-based regional advantage. Of course, these two are in many ways interlinked. From these points of departure, this paper discusses innovation, human capital, connectivity, quality of place and governance capacity the aim being to find conceptual links between these. Let us start by taking a bit closer look at the concept of the knowledge city.

## 2. COMPETITIVENESS OF A KNOWLEDGE CITY

- 2.1 Early 21<sup>st</sup> century seems to be dominated by an almost compulsive need to find new pathways to future. All over the world policy-makers have been chasing new buzz-words for their endeavours to show how dynamic their city-regions are. In ten years we have witnessed a rapid flow of key ideas, concepts ranging from clusters to networks, from knowledge to innovation, and from learning to creativity. Many city-regions have indeed changed according to these lines and many policy-makers have found new food for thought. In practice, the new practices of economic development policy in the city-regions range from pure rhetorical gimmicks to dynamic action. Sometimes it is difficult to distinguish these two extremes from each other.
- 2.2 All in all, in the late 2000s it is rather generally accepted that the capability of city-regions to generate, apply and exploit new knowledge and to innovate is in the core of their competitiveness. In the knowledge economy, according to Cooke (2002), (a) knowledge is quickly out-dated and new knowledge is constantly challenging the old; (b) scientific knowledge (incl. social sciences) is respected and permeates society faster than ever before; and (c) existing knowledge is used to create new knowledge. A knowledge city is a place where the local milieu enables the intensive, continuous, diverse and complex creation and exploitation of new knowledge (see for more e.g. Carrillo, 2006; Cooke, 2002). To make the situation even more challenging, and simultaneously more interesting, Olivier and Hugues (2009) suggest that knowledge economy is a vast global playground for different knowledge and different players to interact in complex production-consumption systems that are multi-locational in nature. From this point of departure city-regions need to develop themselves not only as central locations in a national system but as attractive hubs of wider global systems (see also Castells 1996).
- 2.3 Reflecting the search for solutions to construct knowledge cities both the rapidly expanding policy-oriented and theoretical literature on regional development has celebrated such (city-) regions as Silicon Valley, Cambridge, Boston and Singapore as the stars of the knowledge era. However, in the midst of an intensifying global innovation race, there are more and more voices warning policy-makers about the dangers of 'imitate the best practice' and 'replicate Silicon Valley' strategies fairly commonly adopted by many regional policy-makers. It is believed here that regional advantage cannot be constructed on one 'best practice'

model but with more fine-tuned development policies reflecting the different conditions and problems of respective regions and regional innovation systems (Tödling and Trippl, 2005). It is not possible to transfer institutions from one place to another and hence, a need to understand better place-specific institutional change dynamics emerges as crucial. (Rodriguez-Pose and Storper 2006.)

- 2.4 From these points of departures it is now possible to define competitiveness of city-regions as an ability to: (a) connect the city-region and its actors to the best possible networks as strongly as possible; (b) maintain and develop the quality of life of local residents (services, education, environment, etc.); (c) attract new, competitive actors to the city-region and; (d) create such operational prerequisites that the existing actors of a city-region are able to maintain and develop its competitiveness. This definition takes into account the demands of both the residents and the companies, and connects competitiveness to networks. Competitiveness is based on the availability of resources in the region, the constructed physical environment and the region's special institutional talents. Institutional talent is manifested in the complex interaction of elements of different ages; ancient ones, like religion, and significantly younger elements, like regulations and industrial standards. These three elements have been shaped in the course of historical processes. (Maskell & Malmberg 1995, 11-12.) To improve the offerings of a city-region new infrastructures and gateway functions are developed and novel opportunities for differentiation are sought for. Hence new multi-layered and complex mosaics of competitive factors are in making.
- 2.5 The competitiveness of cities, as outlined above, culminates in five decisive measures (a) how well local companies are able sell their products (and their services) on competitive markets (trade); (b) what is the value of these products and services and the efficiency with which they are produced (productivity); (c) how efficient is the use of local human and other resources (resources and capabilities); (d) what is the ability of local actors to create, together and separately, new resources that contribute to the city's competitiveness (capabilities and management); (e) what is the ability of local actors to translate economic competitiveness into structures and services that support residents' circumstances of life and prosperity (wellbeing). (source for a, b and c is Turok 2003, 1070 and for d and e Sotarauta & Mustikkamäki 2008):
- 2.6 The literature, for two decades have been stressing soft (dynamic) elements of competitiveness alongside hard (structural) ones. Learning and innovation have been seen in several studies as the most important dynamic elements in the competitiveness of a city-region (e.g. Turok 2003; Boschma 2004; Simmie 2001). In sum, if it is the generation and application of knowledge that leads to improved economic performance and quality of life, then the ability of cities to foster collective learning processes is fundamental to their success. Firms will grow and thrive in the city if the learning based externalities overcome the negative effects of high costs and congestion (Porter, 1995); social exclusion will be ameliorated if the disadvantaged residents can be retrained for the new jobs; middle class parents will not desert the city if their children can be educated to a high standard in a safe environment; and policies to improve the quality of life can be effective if the best lessons from elsewhere can be learned and implemented. (CITE).
- 2.7 The research tendency briefly introduced above was fuelled when the learning region and the mass production region were equated with each other both in practical experiences and in research. In the 21<sup>st</sup> century, the classification devised by Richard Florida well illustrates the change that has happened or is happening in many cities.



**TABLE 1. Basic features of mass production and learning regions (Florida 1995)**

	Mass production region	Learning region
Basis of competitiveness	Comparative advantage based on: a) natural resources; b) physical labour	Sustainable advantage based on: knowledge creation
Production system	Mass production: a) physical labour as source of value; b) separation of innovation and production	Knowledge-based production: a) continuous creation; b) knowledge as source of value; c) synthesis of innovation and production
Manufacturing infrastructure	Arm's length supplier relations	Firm networks and supplier systems as sources of innovation
Human infrastructure	a) Low-skill low-cost labour; b) Taylorist work force; c) Taylorist education and training	a) Knowledge workers; b) continuous improvement of human resources; c) continuous education and training
Physical and communication infrastructure	Domestically oriented physical infrastructure	a) Globally oriented physical and communication infrastructure; b) electronic data exchange
Industrial governance system	a) Adversarial relationships; b) Command and control regulatory framework	a) Mutually dependent relationships; b) network organization; c) flexible regulatory framework

### 3. INNOVATION SYSTEMS

3/1 Innovation has indeed been steadily climbing policy ladders and it now ranks high on public policy agendas in many corners of the globe. It can be seen that (city-)regions are important playgrounds for innovation to emerge and be shaped and coordinated. As was indicated above, many commentators (Florida, 1995; Lundvall, 1992; Knight, 1995 etc.) have focused on the role of successful cities as pools of knowledge, where technological spillovers occur and where business can benefit from place-specific tacit knowledge. Learning and knowledge being concentrated in cities is, of course, by no means a new phenomenon. Cities have been the main concentration of knowledge and competence in their own time ever since they first came into being (Hall 1998). Sometimes it is a university that is at the core around which the agglomeration developed, sometimes it is economic clusters and/or company networks, city services or knowledge and competence concentrated in large companies. Hall (1998) says that when people congregate in cities, they are simply forced to be innovative in order to guarantee the basic prerequisites for life in new circumstances. He emphasises also that it is possible to see creativity in both art and culture and technological innovations. These factors are convergent as time goes by. What is interesting in Hall's historical analysis is that, in addition to immigration, institutions of knowledge and competence and intensive interaction, he sees marginal groups as key factors in cities' innovativeness.

3.2 Indeed, regional innovation systems often culminate in the offerings found in cities. Regional innovation system (RIS) literature recognises such localised capabilities as specialised resources, skills, institutions, localised learning processes as well as common social and cultural values equally important in the innovativeness of firms and other organisations (Cooke et al, 2004; Fritsch & Stephan, 2005; Maskell et al, 1998). Innovation is a good point of departure for studies focusing on competitiveness of knowledge cities for five reasons.

3.3 *First*, as new creations of economic and social significance, innovations are widely accepted as primary sources of economic growth and social renewal in a global and capitalistic economy (e.g. Edquist, 2005; Freeman, 1987). *Second*, innovation requires a proper environment to flourish and a well-functioning system to support it and, hence, as Asheim and Coenen (2005) argue, it is important to take account of the institutional and political frameworks found at the regional, national, and/or supranational levels in which specific organizational change processes and related development efforts are embedded. This is in line with Asheim and Gertler (2005) who define innovation system as 'institutional

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infrastructure supporting innovation within the production structure of a region' (Asheim & Gertler 2005, 299). In short, the system of innovation encompasses the determinants of innovation processes that is, all important economic, social, political, organizational, and other institutional factors that influence the development, diffusion, and use of new knowledge (Edquist, 2008, 5) and have an influence on the learning capacities of individuals, firms, and organizations and hence on their ability to innovate (Lundvall, 1992; Lundvall et al, 2002).

- 3.4 *Third*, at the core of the innovation system literature is the view of innovation as an evolutionary process, hence both institutional change and institutional entrepreneurship ought to be studied against a moving multidimensional target. State-of-the-art understanding presents innovation as a complex process characterized by ambiguity, uncertainty, and institutional inertia, where innovation emerges in systems that exhibit rather heterogeneous structures and defy traditional geographical, technological, or institutional characterizations (Fagerberg 2005; Tether and Metcalfe, 2004). Consequently, and *fourth*, innovation is an outcome of an interactive process and, to boost innovativeness, new reciprocal relationships need to be fostered as well as old ones untied. This poses several delicate questions about how to change reciprocal and often delicate interpersonal relationships between autonomous agents how to intervene in soft relational institutions. *Fifth*, creating, abolishing, and changing institutions (conditions for renewal) are among the most important activities in maintaining (and also increasing) dynamism of innovation systems (Edquist, 2008, 15).
- 3.5 A simple but useful definition of innovation systems is presented by Niosi et al (1993, p. 212) who define it as 'interacting private and public firms (either large or small), universities, and government agencies aiming at the production of science and technology within national borders'. Further, according to Niosi et al (1993), 'interaction among these units may be technical, commercial, legal, social, and financial, inasmuch as the goal of the interaction is the development, protection, financing, or regulation of new science and technology'. Freeman (1987, p. 1), for his part, defines innovation system as a 'network of institutions in the public and private sectors whose activities and interactions initiate, import, modify, and diffuse new technologies'.
- 3.6 The above definitions reflect well the national origins of innovation system thinking in the 1980s. In the 1990s it became the practice to acknowledge also the role of regions in innovation scenes, and indeed the concept of regional innovation systems has provided many studies with a useful conceptual framework to analyse innovation processes from systemic and relatively holistic points of departure. This line of enquiry has significantly increased our understanding not only of innovation but also of regional economic development (Cooke et al, 2004; Kautonen, 2006). Consequently, there is now a fairly well established but dynamic body of knowledge on how industries are embedded in national, sectorial and/or regional systems of innovation (Cooke et al, 2004) and how regional innovation systems are constructed on knowledge-creating and knowledge-utilizing sub-systems (Autio, 1998).
- 3.7 A narrow definition of an innovation system incorporates, as stated by Asheim and Gertler (2005, p. 300), the R&D functions of universities, public and private research institutes and corporations, reflecting a top-down and science-push model of science and technology policies. The broad definition of the innovation system emphasises the wider setting of organisations and institutions affecting and supporting learning and innovation, in practice, embracing potentially the entire society (Asheim & Gertler 2005, p. 300.) The broad definition of an innovation system stresses the additional need to study experience-based knowledge and the role of customers and users in innovation systems, i.e., all those sources of knowledge that do not necessarily have much to do with the actual knowledge-creating

organisations (i.e., research organisations and universities). All this points towards in-depth analyses of learning, knowledge resources, knowledge flows and joint, as well as separate, capabilities (Jensen et al, 2007; Malmberg & Maskell, 2006; Asheim et al 2006b; Martin & Sunley, 2002).

3.8 In this context, there is no reason and perhaps no opportunity, either, to begin wading comprehensively through the research literature relating to cities’ innovativeness. Instead, as the background to the examination of competitiveness, Isaksen and Wiig Aslesen’s classification is introduced. It describes fairly well on a general level how cities have positioned themselves as innovation centres. The theory families recognised by Isaksen and Wiig Aslesen overlap each other in many ways, but they reveal on a general level in what the role of urban regions in an innovation-driven economy culminates. Allen Scott has simplified the basic message in the background to Table 1 to the effect that what is at the core of urban region’s competitiveness is an ability to build global competitiveness on the strength of local competence (Scott 1988).

**TABLE 2. Cities as centres of innovation – three main research orientation (Isaksen & Wiig Aslesen, 2001, 873)**

Theoretical approach	Main explanation of the role of large cities as innovation centres
Cities as first receivers of ‘global’ knowledge	Large cities are important nodes of information. The largest cities in a nation then often first seize ‘global’ innovations that have occurred in more urbanized and highly industrialized areas, and the innovations are reworked and produced first in the largest cities.
Cities as breeding-grounds for innovation	Large cities stimulate ‘local’ innovations by the presence of localization and urbanization economies, and by the flow of non-codified knowledge requiring proximity to be efficiently exchanged.
Cities as cores in national systems of innovation	Knowledge organizations, specialized firms, demanding customers, etc. in large cities are important actors in wider innovation systems, as they often hold important knowledge to feed into innovation processes in firms outside of the cities.

3.10 However, it should be noted that many of the ‘ordinary regions’, not endowed with such innovation capacity as the cambridges and silicon valleys, face a number of systemic problems that prevent seamless knowledge flows between competitive businesses and world-class research centres and many other processes found important. Some of the secondary cities may belong to the group of the ‘innovation stars’ but most of them have fewer innovative businesses and additionally their economic structure is less responsive to innovation-promotion measures than in the star regions. Moulaert (2002) identifies two different barriers that affect knowledge: ‘internal fragmentation’ and ‘external dislocation’. Internal fragmentation refers to barriers between the effective interaction of innovation activities within a city-region and external dislocation to situations where the city-region is cut off from wider knowledge and production networks, either through a poor position within the functional division of labour or a lack of global knowledge nodes. Therefore, also the local/regional dynamics in which innovations grow and emerge need to be taken into consideration.

**Clusters, local buzz and global pipelines**

3.11 Since the first half of the 1990s, innovation, learning and creativity have rather generally been targeted in the context of cluster theories (Porter, 1990). The cluster concept has become rooted at the core of development work in several countries and cluster thinking has been applied in the greatest variety of ways and contexts. At the same time, it has acquired many meanings depending on what it is applied to and by whom (Benneworth, 2004). Asheim, Cooke and Martin (2006, p. 22) criticise Porter’s way of distinguishing between different clusters as superficial and descriptive. In several cases, what might be described as ‘clusters’ on the basis of Porterian premises are comparatively modest agglomerations of functions (Gordon & McCann, 2000), from which some minor benefits may accrue from

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concentration, linkages between production inputs and results as well as social networks, but which are not true clusters in any sense. In this study, the concept of cluster is used fairly loosely as a metaphor to describe the economic entities revolving around the case industries.

- 3.12 The strong emphasis on clusters highlights both directly and indirectly the importance of regional specialisation. As Feldman and Audretsch (1999, p. 427) maintain, however, on the basis of American sector-based data, from an innovation- and knowledge-based economy perspective strict specialisation or variety is not important as such but rather the structure built on many complementary parts that share a common scientific basis, i.e., a knowledge base. Duranton and Puga (2000, p. 553) note that there are both benefits and drawbacks in specialisation. The benefits include a stronger 'localisation economy' based on geographical proximity and the drawbacks include, for example, vulnerability in the face of rapid upswings and declines in certain sectors and technologies. Indeed, high-tech industries are the most volatile of all (DeVol et al, 1999, p. 10).
- 3.13 As Asheim et al (2006a, p. 4) state: '...it is not regional diversity (which involves too large cognitive distance) or regional specialization *per se* (resulting in too much cognitive proximity) that stimulates real innovations, but regional specialization in related variety that is more likely to induce interactive learning and innovation. As such, the concept of related variety goes beyond the traditional dichotomy of localization economies and Jacobs' externalities'. Therefore, as they argue further, it is important to study '[the] mechanisms that give insights in how related variety enhances knowledge spillovers across sectors, how new growth sectors come into existence, and how economies diversify in new directions now and then' (Asheim et al, 2006a, p. 4; for more detail about related variety see Frenken et al, 2007; Boschma & Iammarino, 2009).
- 3.14 As Nootboom et al (2007) argues, if firms rely too much upon local knowledge sources and/or knowledge sources of the same sector, the cognitive distance may become too short and the learning ability of the firms and other actors is hampered. Thereby the capacity to adapt to ever-changing situations may diminish and an entire region may be locked into its past (Grabher, 1993). The interplay between local and global knowledge flows and multi-scalar learning is crucial for innovation to emerge (Gertler & Levitte, 2005). Multi-scalar learning suggests that in the knowledge economy, learning, more often than not, does not have regional boundaries and it is not always possible to locate learning processes in a certain territorial level.
- 3.15 As Bathelt et al (2004) suggest, both local buzz (the knowledge and communication ecology created by co-location of relevant actors) and global pipelines (channels used in accessing knowledge external to a region) offer advantages for organisations engaged in innovation and knowledge creation. They push their definition further by maintaining that 'local buzz is beneficial to innovation processes because it generates opportunities for a variety of spontaneous and unanticipated situations, global pipelines are instead associated with the integration of multiple selection environments that open different potentialities and feed local interpretation and usage of knowledge hitherto residing elsewhere' (Bathelt et al, 2004). However, as Trippel et al (2009) show based on their empirical study on the software sector in Vienna, the local buzz and global pipelines dichotomy often remains at a too general level and loses the more precise mechanisms by which firms and other organizations in a cluster gain access to knowledge at different spatial scales. They reach beyond the buzz-and-pipelines and highlight the need to achieve a more nuanced view by studying knowledge linkages, different market relations, formal networks, spillovers as well as informal networks.
- 3.16 By now studies on local buzz/global pipelines dynamics have shown that there are differences between regions on how this dynamic plays out in different contexts. In his study on the Leipzig media sector, Bathelt (2005) notes that the lack of local as well as trans-local

interaction is the main cause for stagnation of the Leipzig media industry after a decade of substantial growth. He argues that the firms in Leipzig do not have strong pipelines to firms and markets outside the cluster nor do they engage in intensive local networking and interactive learning. Trippel et al (2009) show how knowledge flows of the software industry in Vienna are based on informal networks crossing all the spatial levels. They also show how informal networks are complemented by formalized partnerships at the local and national levels. Drawing on his study of the electronics industry in Horten (Norway) Isaksen (2003) maintains that the buzz and pipeline approach need to be supplemented with stronger focus on internal knowledge creation of firms, interaction in national business communities and their involvement in global value chains. Based on their empirical studies on the Finnish intelligent machinery and digibusiness clusters Sotarauta and Kosonen (2011 and forth.) raise similar kinds of observations. In a way, the importance of national linkages in the Norwegian and Finnish cases, identified by Isaksen (2003) and Sotarauta & Kosonen (2011), complements the strong focus on local buzz and global pipelines by Bathelt et al (2004) and Storper and Venables (2004) with additional ingredients, and they also point that in small countries the local/regional/national/global dynamics is by necessity different from places such as Silicon Valley, Cambridge MA and Cambridge UK, to take few obvious examples.

### **Steps towards local/regional innovation policy**

- 3.17 There are several reasons to assume that localized and/or regionalized innovation policies have some advantages in solving specific issues. First, national innovation policies have a regional impact, whether intended or not, and it should be recognized. Second, there are not only regional differences in the quantity and quality of innovation activity or in the performance of the entire regional innovation system but also in the institutions framing the action and choices made in the region (see for more Fritsch & Stephan, 2005, 1123-1124). For these reasons, 'best practice' policy measures that apply to all regions or cities may not produce the desired results and, therefore, differentiated strategies and instruments are needed both to serve the specific city-regions and to achieve national-level goals more effectively.
- 3.18 Regional innovation systems and policies are more than just some kinds of prototypes of national innovation systems (Howells, 1999, 86). Regional systems may be distinguished from national innovation systems by observed differences across cities and regions in industrial structure, R&D and technology provision, policy initiatives, business service provision, governance structures and the institutional framework, particularly the nature and extent of the inter-relationships between key players (Oughton, Landabaso & Morgan, 2002). Of course, such approaches as innovative milieux (Camagni, 1995), clusters (Porter, 1990), regional innovation systems (Cooke, Uranga & Etxebarria, 1997) and learning regions (Florida, 1995), among others, have already shifted the attention towards networks, social capital, knowledge spillovers, territorial embeddedness of knowledge, etc. and hence the view on innovation policy has been regionalized and/or localized considerably.
- 3.19 Local and/or regional contexts have also become more important in innovation policies because tacit knowledge is more easily transferred and new knowledge created in an environment where constant interaction and exchange are easier and cheaper (Oughton, Landabaso & Morgan, 2002, 101). Gertler (1995) argues that simply 'by being there' firms can utilize the benefits of frequent, effective and often unplanned interaction that draws on common language, modes of communication, customs, conventions and social norms. Additionally, increasing attention has been paid to the dangers of lock-in situations in cases where the majority of linkages are internal to the region in question (Tödtling & Trippel, 2005; Grabher, 1993). Storper and Venables (2004) and Bathelt, Malmberg and Maskell (2004) emphasize both local interaction and interaction through trans-local linkages and hence there is a recognized need to establish extra-regional linkages to complement localized learning.

- 3.20 In their influential article Tödtling and Trippl identify three different types of regional innovation systems (RIS) that are differentiated by their main deficiencies. They are organizationally thin RIS, locked-in RIS and fragmented RIS. They further associate these RIS types with specific types of regions: peripheral regions (organizational thinness), old industrial areas (lock-in) and metropolitan regions (fragmentation) (Tödtling & Trippl, 2005, 1207). Of course, as Tödtling and Trippl (2005, 1209) also maintain by themselves, there is no exclusive correspondence between different types of innovation problems and the three types of regions they identify. In practice regions face a mix of deficiencies. In this study, in addition to these RIS types, we also use two of the three knowledge bases identified by Asheim and Coenen (2005), Asheim and Gertler (2005), Asheim et al (2007) and Gertler (2008) and distinguish between analytical, synthetic and symbolic knowledge bases. Most industries draw upon all three knowledge bases but the assumption is that more often than not one of them is at the core of competitiveness and the other knowledge bases support effective utilization of the core knowledge base.
- 3.21 An analytical knowledge base is based on innovation created from new knowledge, dominated by codified, mainly scientific knowledge, usually based on deductive processes and formal models that can also be relatively easily transferred from context to context. A synthetic knowledge base is based on novel combinations of existing knowledge that is often constructed in interactive learning processes among firms, customers, clients, research organizations and even competitors. Here, tacit knowledge is more dominant than codified knowledge even though both may be needed. Synthetic knowledge bases stress the importance of applied, problem-solving, focused knowledge that is more inductive than deductive in nature and typical of engineering industries (Asheim et al, 2007, 661). A symbolic knowledge base enables innovation by recombining existing knowledge in new ways. It introduces craft and practical skills as important sources of new knowledge and it also highlights the importance of learning through interaction in professional communities. It is clearly more culturally oriented than the other two knowledge bases and hence the importance of reusing, redefining or challenging existing conventions to create new symbols and identities becomes relevant (Asheim et al, 2007). A synthetic knowledge base has a strong semiotic content and the importance of interpretation is high (Gertler, 2008, 2010). Symbolic knowledge is related, for example, to the dynamic development of cultural industries such as media (film making, publishing, music, etc.), advertising, design and fashion.

#### 4. HUMAN CAPITAL AND QUALITY OF PLACE

- 4.1 One of the key issues in the vitality of the innovation systems is the ability of a city-region to attract mobile knowledge workers. It is generally acknowledged that the success of a city-region depends on its people and successful cities will attract talented and creative people. Quality of life and/or place is often cited as a factor in competitiveness (Rogerson, 1999) but this may not hold true in all places. The geography of the role human capital plays in the competitiveness of city-regions and quality of place as a factor attracting and retaining creative class has been debated for a decade or so from the premises that Richard Florida (2002) popularized. In spite of the huge global success of his work also critiques<sup>2</sup> have been

<sup>2</sup> Florida has been criticized for thinness of the empirical evidence as well as his definition of the creative class (Malanga 2004; Törnqvist 2004; Glaeser 2004; Gibson and Klocker 2005; Markusen 2006; Scott 2006; Boyle 2006; Peck 2005; Rausch and Negray 2006; Hansen 2007; Clifton 2008; Hansen and Niedomysl 2009). The criticism sees that the concept of creative class is nothing more than rephrased concept of human capital that is widely used and well-established in economics and regional studies. Additionally, as Asheim (2009, 356) reminds us, it is important to bear in mind that Florida's (2002) notions on creative class were developed in North American context and for American debate. In the USA, the number of cities that people can move between is much higher, the intercity competition on the national level is much more intense, and a large national labor market with a common language and institutional setting is present than in most of the European countries. Additionally, in spite of many efforts Europe is not yet a one integrated economy where labour moves from country to country and city to city

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numerous. In practice, Florida's 3T's (technology, talent, and tolerance) have been adopted without considering whether the theory fits into the specific settings of a city-region in question. Leaving the hype and critique aside, the linkages between human capital and quality of place is briefly discussed here from the setting provided by Florida. What makes creative class thesis particularly interesting from the perspective city-regional development is that the creative class is not evenly distributed across cities and regions. Another interesting point is that Florida focuses on spillover and innovation generating creative individuals and what they do instead of emphasizing knowledge spillovers between firms and industries and the industrial affiliations of the labour force. (Boschma & Fritch 2009, 392-393)

- 4.2 Florida's (2002) main hypothesis is that the creative class is a key driver of urban and regional growth. Hence, it is the nature of the population in a place (i.e., creative or not) that makes the difference. According to Florida, regions with a high share of creative people will perform better economically because they generate more innovations, have a higher level of entrepreneurship, and attract creative businesses. (Boschma & Fritch 2009, 392.) In a nutshell, Florida (2002) argues that the people climate (factors that attract and retent highly skilled and educated people) is becoming more and more important and it is even replacing the business climate (factors that positively effect the location of businesses) in promotion of regional economic growth.
- 4.3 As Florida (2002) maintains, in some sectors of the knowledge economy, a people climate even constitutes the most important factors. Consequently, according to his reasoning, people, particularly those who work in the high technology and creative industries, do not follow jobs but follow people. This point runs contrary to what has been common wisdom for years—that firms that create jobs have to be attracted through fiscal or structural (cluster and innovation) policies in order to promote regional growth and development. (Asheim & Hansen 2009, 426). Instead, as Florida (2002) sees it, in the knowledge economy, it is crucial to improve the people climate by creating and catering to diversity, openness, and tolerance, in addition to more conventional factors of urban attractiveness, such as a rich cultural scene, interesting architecture, and well developed recreational facilities. Asheim and Hansen (2009, 427) simplify Florida's thinking as follows: 'the creative class approach focuses on three related elements: a good people climate attracts and retains creative and talented people, who, in turn, fertilize the ground for a competitive business climate, and, finally, a good and competitive business climate brings about economic growth.
- 4.4 An extensive study on creative class in Europe (500 regions in 7 countries) demonstrates that some regions in Europe have considerably higher shares of the creative class than some others. (Boschma & Fritch 2009.) To discover why this is the case, Boschma and Fritch tested three types of influences on the share of creative occupations in each region: (a) regional culture, which is closely associated with particular cultural qualities of a region, such as a climate of tolerance and openness; (b) regional facilities that refers to the public provision of services and cultural offerings and; (c) region's economic condition that is measured by region's job opportunities by its annual employment growth rate. The main results indicate that a location characterized by an atmosphere of openness, cultural opportunity, and the presence of bohemians is of at least equal importance as employment opportunities. The provision of public facilities in health care and education has only a minor, if any, impact on the presence of the creative class, which is also true for the regional supply of cultural and recreational amenities. The effect of regional job opportunities on the creative class is quite significant. Not surprisingly, the results were to some extent mixed with respect to the

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in same way as in the USA. In line with Asheim (2008, 357), it is here kept in mind that the differences between the USA and Europe as well as with many emerging economies have an impact on talented people's preferences for - as well as perceptions of - the quality of places in Europe and North America, respectively.

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relationship between the creative class and regional development in a number of European countries. (Boschma & Fritch 2009, 413-418.)

- 4.5 Using an extensive original database of 444 European cities in 8 countries, Lorenzen and Varst Andersen (2008) analyzed both the urban hierarchy of the general European population and the creative urban hierarchy of the distribution of the creative class. According to their analysis, the creative class's specialized consumer preferences influence the creative urban hierarchy in Europe and, as they conclude, the urban hierarchy of the European general population and the urban hierarchy of the European creative class are quite distinctive. Additionally, the creative class's specialized job preferences influence the creative urban hierarchy because of labour market thresholds for creative jobs. (Lorenzen and Varst Andersen 2008.)
- 4.6 When looking at Nordic city regions (Andersen et al 2008), it is possible see that some of the conclusions of Florida's thesis on the creative class were supported by positive correlations between particular aspects of qualities of place and high proportions of members of the creative class in the large Nordic city regions, as well as between a high proportion of the creative class in the regions and favourable performances of high-technology industries. However, it is only for larger city regions (those with more than 100,000 inhabitants) that the thesis in its original form seems to be valid because the results are less supportive for less urbanized regions (those with fewer than 50,000 inhabitants). This finding indicates that the creative class approach is not relevant for understanding overall growth or growth in high-technology industries in the smaller Nordic city regions.
- 4.7 It is also worth noting that the gap between the knowledge worker and other groups has grown, and the skilled manual class has been reduced, especially in cities, with many being pushed into unskilled jobs or chronic unemployment (Turok, 1999). So there is no automatic relationship between 'knowledge economy' growth and social inclusion. In conclusion, human capital clearly is an important equation on the puzzle of competitiveness of city-regions.

## 5. CONNECTIVITY

- 5.1 Above discussion suggests that because people do choose between work opportunities and because firms are mobile, cities are in competition and increasingly at a global level. As has also become evident above the competitiveness of city-regions is based on a complex web of factors. This web traditionally includes the connections between cities; road, rail and air as well as modern telecommunications infrastructure. Again, cities tend to be the main hubs for such networks but success depends also on the volume of traffic generated by the wider region, and this relates to the attractiveness of the city and region for those individuals that generate business traffic. This brings us back to the Manuell Castells' (1996) network society thesis that is based on the fact that economies have become globally interdependent and new relationships between economy, state and societies are emerging.
- 5.2 A central determinant of the network society and its space of flows is dynamics. Flows pass through certain nodes and hubs, but if a city-region becomes less attractive or some other area becomes more attractive, the routes of flows may change quite rapidly. The dynamics of the flows force urban areas to continuously develop their competitiveness, because decreasing competitiveness means that important flows will find other, more attractive routes. The incessant need to improve competitiveness requires urban areas to specialise. In other words, urban areas need to choose which flows they want to attract and what type of development strategies they need to implement. In the space of flows, companies are not the only global competitors; also regions and cities compete globally. This means that within



certain segments, urban areas have to possess clear competitive advantages that they can offer to local operations, organisations and people. (Kostiainen 1999.)

- 5.3 Connectivity does not always provide city-regions with unique competitive advantage but reduced connectivity may fairly quickly result in competitive handicaps.

## **6. GOVERNANCE CAPACITY AND COMPETITIVENESS**

- 6.1 There is clear evidence that urban economic development policies, instead of being directly targeted at firms, focus nowadays more on urban competitiveness as a whole. The core of competitive advantage is being consciously developed and many city-regions aim to build 'superior performance' and consequently local assets and capabilities policies ought to, drawing on Barney and Hesterly (1996, 134), a) be valuable (in the sense of enabling actors to exploit its environmental opportunities and/or neutralise its threats), b) be rare among its current or potential competitors, c) be costly to imitate and d) be without close strategic substitutes. These are daunting requirements indeed. And moreover, even though the transformation processes have their local characteristics, at a general level the nature of transformation from industrial to knowledge economy and strategies to boost the transformation have many similarities in different parts of the world. Globalisation seems also to lead towards convergence of development strategies. Interestingly, the literature implicitly suggests that city-regions can build superior performance that draw on unique local capabilities with more or less similar strategies across the world.

- 6.2 All this may also be leading to a polarised development through increased differentiation in innovation and economic growth between the 'successful' and the 'unsuccessful' regions. It is also obvious that fortunes change, and that the 'successful' ones may lose their touch in the hearts of global flows; and fortunes surely have changed during the transformation from industrial to some kind of knowledge-based economy. Such cases as Tampere in Finland and Akron and Rochester (Safford 2004) in the USA, for example, show us that the economic crisis these city-regions have experienced have quite largely been due to companies' and other organisations' apparent inability to innovate. Companies have addressed this issue by acquiring portfolio companies, building new research capabilities in different areas of technology and strengthening their innovation capacity but also moving some innovation activities to places that offer more cutting edge expertise. Community leaders have responded to industrial crisis by a set of new policy interventions. Policy-makers for their part have aimed to promote conversations among firms in ways that might, as Safford (2004) states, approximate the creative cacophony that prevailed in the emerging high-tech hotspots.

- 6.3 The examples from different parts of the world suggest that in addition to quite traditional elements of competitiveness of city-regions (most notably firms, location, infrastructure and knowledge producing institutions) the quality of local institutions supporting smooth transformation are important elements of competitiveness. For example the quality of governance, interactive policy process, has not for long been seen something for competitive advantage, but in practice it seems to be a significant element of competitiveness of city-regions governance structures being able to enable or hinder various actors to exploit resources available both in the urban region and external to it and/or to construct new ones. Good governance is not necessarily rare among current or potential competitors, but it surely is difficult to sustain and imitate. Consequently, governance is one part of the dynamic competitiveness of city-regions as it is connected to interaction between actors, to their abilities to learn and innovate in co-operation with each other. Structural and dynamic competitiveness are tightly intertwined. Without dynamic competitiveness structural competitiveness is like an empty shell, a hollow structure. On the other hand it might be difficult to sustain and create dynamic competitiveness without proper structures.

- 6.4 The global playground and complex networks involved in constructing local advantage being more ambiguous than ever before, it is sometimes difficult to say what the development objectives are and, to make situations even more difficult, more of then than not we can perceive a series of objectives, series of objectives of individual actors that are all the time evolving. At the same time development coalitions are changing, new ones emerge and old ones wither away. Indeed, in many city-regions in Europe the governance structures are highly dynamic but fragmented between several local authorities and/or state sectoral agencies. In many cases the core city carry significant costs of its regional role without an adequate tax base and this, among many other factors, is a challenge for co-ordination as mechanisms to achieve all this been limited or non-existent. Additionally, regional governance structures overlay city-regions and in some cases separate parts of the hinterlands from their core cities. Central government relations with urban areas tend not to differentiate between the roles and responsibilities of core cities, and the regional dimension is absent from urban policy and as we well know the influence of national policies can even be in conflict with regional policy objectives. Governance therefore is a true challenge in enhancing and/or maintaining economic competitiveness.
- 6.5 All this reflects the nature of governance systems instead of traditional forms of government. At the simplest level governance is concerned with co-operation, which transcends sectional borders, takes many goals into consideration and is constantly evolving combinations of teams according to situations. Therefore combinations should not be determined on institutional or regional grounds, but rather on the basis of shared interests and issues, regardless of administrative borders. Hence, in the new forms of governance, the point of departure is not necessarily the search for right answers, as it is in the government of uncertainty, but rather how people contending against issues from different sides and perspectives can join forces in the search for new questions and new answers. Faith in exerting influence on societal development by direct means has diminished, thus governance depends on the interaction of several actors and on a selection of combined indirect and direct means which are not necessarily planned in advance by any organisation, as Royall (1993,51) states, modern governance stresses supporting the emergent models. The forces constantly seeking for economic profit or novel solutions for society in large are, most of the time, self-sustaining without any need for special attention from public administration.
- 6.6 Hatakenaka (2004) shows how in spite of the many efforts a fragmented governance systems remained as hindrance of economic development in Hamamatsu Japan. As she maintains, central government superstructures distracted local players from the actual content of initiatives. Consequently, there has been little evidence of either dynamic growth or interactions among key players. It seems that proactive technological coordinators (e.g. public research institutes or university professors) were not able to get corporate parties to come together regularly. (Hatakenaka 2004.) In addition, the evidence presented by Hatakenaka points out that in Hamamatsu government incentives have not been enough in bringing actors together. First, most of the programmes came with central government conditions and priorities that may in fact be more distracting than appealing to the localities. Hatakenaka stresses that nationally orchestrated programmes need to be stabilized so that the proposal solicitation process and the subsequent evaluation provide incentives for well thought through proposals, rather than quick fixes on fictitious stories to meet central preferences. Second, it is not easy to orchestrate such local efforts effectively, as they require considerable content knowledge on the specific aspects of the technology. There have to be local and neutral players who are capable of coordinating such efforts, and these are in short supply. (Hatakenaka 2004.) The experience of Hamamatsu is one example in midst of many cases where failed governance lead to failed development initiatives.

- 6.7 Indeed, the many governance bottlenecks are not only a challenge for policy makers but local and regional development scholars too. As Wohlgemuth (2002) maintains, in many of the studies the understanding of policy-making processes and governance systems is often inadequate. Therefore the link between competitiveness and governance remains fuzzy, we know its there but we are not able properly to demonstrate it. For example, innovation scholars tend to suggest what policy makers ought to do whilst being generally less concerned with what policy makers actually do (Uyerra 2010). As she further maintains, when giving policy recommendations, innovation scholars implicitly assume an unproblematic and straightforward translation of the recommendations into the formulation of regional innovation policies. Local and regional development literature has more or less neglected individuals as active change agents and thus governance for urban development remains an unsolved problem. All in all, to understand the link between competitiveness we ought reveal the secrets of modern governance instead of traditional forms of government.

**TABLE 3. Difference in the formulation of policy in government and governance thinking (adapted from Sotarauta 1996)**

	<b>Government</b>	<b>Governance</b>
<i>System</i>	Bureaucratic, centrally co-ordinated and sectorised, emphasis on traditions of doing things	Decentralized, emphasis on doing together and networking, also mutual dependence recognised and accepted
<i>Problems</i>	Tame, can be relatively precisely defined	Increasingly wicked, hard to define
<i>Objectives</i>	Clear, basic assumption of shared nature of society's main goals and lack of conflict	Differentiated and ambiguous, may also be contradictory
<i>Resources</i>	Resources believed to grow continuously, political attention on allocation of resources, existing constructs and actions not questioned	Needs constantly exceed resources, ample economic operating environment formed from organisation capable of negotiations and ready to seek start-up joint projects
<i>Organisation of co-operations</i>	Institution based policy arenas	Issue based policy arenas

## 7. CONCLUSIONS

- 7.1 This essay has explored the key concepts and assumptions related to competitiveness of city-regions. As it suggests, it is crucial to respect both the structural and dynamic elements of the competitiveness of city-regions. In a global knowledge-intensive economy, cities and regions are increasingly becoming critical agents of economic development and hence, better understanding on the dynamics of city development and its governance systems are needed to support new forms of local leadership. This is important, as the cities are believed to have a greater responsive capacity compared to nation states. However, the response capacity to generate targeted development projects, negotiate with firms, to foster the growth of small and medium endogenous firms, and to create conditions that will attract the new sources of wealth, power and prestige (Castells & Hall 1994) requires a deeply rooted sense of change and qualities of place, its institutions, social fabric and governance dynamics.



**The ESPON 2013 Programme**

**PERFORMANCE OF SECOND TIER CITIES:  
WHAT DOES THE LITERATURE TELL US?**

**Gerwyn Jones and Michael Parkinson**

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## 1. THE ECONOMIC PERFORMANCE OF SECONDARY CITIES IN EUROPE: WHAT STORY DOES THE LITERATURE TELL?

- 1.1 This study has generated a wealth of original quantitative data to assess the performance and prospects of secondary cities in Europe. Nevertheless, a wide range of valuable evidence generated by academia and consultancy studies about the way in which different cities contribute to the economic performance of Europe already exists. In contrast to our study, such studies typically do not systematically focus upon secondary cities as a specific category nor have they typically collected comparative data on consistent boundaries. Nevertheless they provide an important context for our primary analysis. In this section we identify some of the key messages about cities from some of the most significant recent academic and consultancy studies. As we shall see later, they tend to support our approach to the drivers of secondary city success and also the broad patterns of territorial performance.
- 1.2 Hall's review (2005) identifies two alternative methods of analysing urban systems the 'Urban Hierarchy' approach and a 'Geographical-Functional Categorization'. The former is most recently represented through the work of GAWC (Global Analysis of World Cities) in which a Global Hierarchy of cities is based on the relationships between cities and the advanced producer services. The second approach has been adopted by a variety of studies over the years. For example, Cheshire and Hay (1990) attempted to rank 117 'functional urban regions' on a variety of economic and social indicators. Other influential studies using this approach have led to popular stereograms of the European urban system, such as the 'Blue Banana', stemming from the French study 'Les villes européennes'. More recently, the geographic functional categorisation approach for explaining the European system was adopted by the State of the European Cities report (2007) and the report by BBSR on Metropolitan areas in Europe (2011).
- 1.3 Drawing upon much of this literature Hall identifies four broad groups of cities. Central High-Level Service Cities are major cities (national capitals) and major commercial cities in the 'Pentagon': London, Paris, Milan, Munich, Frankfurt, Hamburg, Amsterdam, Brussels, and Luxembourg. These cities have the highest multi-modal transport accessibility within the EU. They are connected by dense air corridors now being supplemented by new high-speed train lines. Gateway Cities (Sub-Continental Capitals) contains national capitals and major commercial cities outside the 'Pentagon', and as a high-level service centres for major parts of Europe. These include Madrid-Barcelona, Rome, Athens, Vienna, Berlin, Copenhagen, Prague, Warsaw and Budapest. These are normally major for flag carriers and increasingly the cores of regional high-speed train systems which are not yet connected to the 'Pentagon' system, and they may be too distant in some cases for rail to compete effectively. They also include some larger commercial cities: Manchester, Lyon, Stuttgart and Leipzig. Smaller Capitals & Provincial Capitals are smaller equivalents of the previous case, commanding less extensive space in terms of population and economic production, in many cases they are at the periphery of Europe: Dublin, Edinburgh, Lisbon, Helsinki, Stockholm, Bratislava, Ljubljana, and Sofia. This also contains smaller commercial centres controlling 'provincial' territories: Bristol, Bordeaux, Grenoble, Strasbourg, Hannover, Bologna, Poznan, and Krakow. 'County Towns' are typical rural administrative and service centres for a surrounding 40-60km in radius, of which hundreds exist in Europe.
- 1.4 The key feature of Hall's analysis is the contrast between the European Central Capital Region, with its dense cluster of high level cities closely networked through air, high-speed train, and telecommunications links, and the 'gateway' or 'regional capital' cities in the more peripheral European regions, each dominating a large, but less densely-populated territory. These intermediate-size gateway cities have proved relatively dynamic in the 1970s and 1980s. They invariably act as regional airport hubs, with a range of long-distance destinations (Copenhagen, Madrid) and as the hubs of regional high-speed-train systems (Madrid, Rome); they have a wide variety of global service functions, especially where they dominate linguistic regions (as Madrid for Latin America). With expansion of the EU eastwards, the eastern gateway cities (Berlin, Vienna) promise to play new roles

in their respective areas, returning to the roles they played before 1914. However, policy does not appear to have played much of a direct role in this development; it is a function of European geography and its relation to the wider global economy.

- 1.5 Smaller cities seem have experienced some advantages when they are clustered so as to constitute a wider economic area sharing labour markets and specialised services. The outstanding examples are the Greater South East region outside London and the fringes of Randstad Holland. But many other parts of Europe have developed corridors of intense urbanisation along major transport spines, as in the Rhine Valley above Frankfurt, the Rhone Valley below Lyon, or the Emilia-Romagna region of Italy. In a few cases (as in South East England) planning policy has played a conscious role in this; elsewhere, again, it seems to have been a spontaneous evolution. Many more isolated medium-sized towns, outside these major trans-European corridors but located on national movement corridors connecting larger cities, have shown remarkable dynamism. Examples include Nottingham and Bristol, Hannover and Munich, Grenoble and Toulouse, Naples and Ravenna, Zaragoza and Valencia. The key seems to be first that they are in "Sunbelt" rural regions that are themselves prosperous, either through efficient agricultural production, or (more commonly) because these cities themselves have become the main centres for advanced service employment. Public sector spending policies have played a role here, by concentrating such functions as higher education and hospitals in these places. But the sources of growth are more subtle than this, and such places show remarkable variations in fortune, depending on local socio-cultural factors that may go back for centuries - as, for instance, between northern and southern Italy.
- 1.6 These trends reflect underlying economic realities. Globalisation and the shift to the informational economy give special value to large cities as centres for efficient face-to-face information exchange. They are the locations of the major hub airports and the high-speed train stations; they also are hubs for commuter traffic. But they also experience some economic disadvantages: high rents, congestion, pollution, the costs of attracting middle- and junior-level staff. So certain activities ("back offices", R & D) tend to migrate outwards: to corridors leading to the airports, to suburban train stations, to country towns in the surrounding ring. Meanwhile, medium-sized cities ("provincial capitals") in "sunbelt" rural regions (Bristol, Hannover, Bordeaux, Oporto, Seville, Bologna) are growing through strong concentrations of public services (higher education, health services), retailing and tourism. Some of these also act as centres of high-technology manufacturing, and/or have attracted longer-distance office decentralisation. Some similar-level cities in older industrial regions (Dortmund, Leeds) have seen a similar growth, though others have been less successful, especially if they are peripheral either nationally or in a European sense. Finally, there are many cases of growth at the next level of the hierarchy: the "county town", or medium-sized administrative-service centre of a rural region, of which hundreds of European examples exist. These centres have grown as local service centres; they often offer a high level of environment (and some, like Freiburg, are outstanding examples); they are attractive both to migration and inward investment.

#### ***Globalising City Connectivity Index***

- 1.7 The work of Taylor et al (2011) is the most recent study to adopt the hierarchical approach for analysing urban systems. Their Globalizing City Index is a ranking mechanism for the importance of cities in the working of the world economy and represents a general ordering of cities as business centres and hubs (Taylor et al 2011). It uses indicators such as ..... The top 100 of the GCI are dominated by cities from the US, Europe and Pacific Asia, with a weaker representation from the 'rest of the world'. Europe and the Pacific Asia cities are particularly well represented in the top 50, while the United States and cities from the 'rest of the world' feature more strongly in the second 50. Pacific Asia, in particular stands out with having a number leading global cities, reflected in the fact that half of the top 10 cities come from here. In Taylor's study Pacific Asia has most representatives in the top 10, with 5 cities, followed by Europe with 3 and the US with 2 cities. The CGI scores reveal a clear gap between the top four, comprised of New York, London, Tokyo, and Paris and the rest, with Hong Kong, in fifth position, having nearly half the CGI score of New York in first. Madrid makes up the third European city in the top ten, standing in 6<sup>th</sup> position. Three other European capital cities

make it into the top 20, including Milan (14<sup>th</sup>), Brussels (18<sup>th</sup>) and Amsterdam (20<sup>th</sup>). The best performing European secondary cities comprise Zurich (23<sup>rd</sup>), Frankfurt (30<sup>th</sup>) and Rome (34<sup>th</sup>). With Munich (42<sup>nd</sup>) and Barcelona (47<sup>th</sup>) also making the top 50. The polycentric nature of the German urban system is clearly evident in the rankings. Although none of its cities make the top 25, Germany is the European country with most cities making the global city index top 100, with 6 representatives, emphasising the horizontal structure of its urban hierarchy. It is followed by the UK with 3 representatives in the top 100. In the UK however, a very large gap exists between the capital cities, London, in 2<sup>nd</sup> position overall, and next best performing secondary city, Birmingham in 88<sup>th</sup> position. Switzerland (Zurich & Geneva), Italy (Milan and Rome) and Spain (Madrid and Barcelona) are the only other European countries with more than one representative city in the top 100.

- 1.8 Taylor ranks 74 European cities by their global network connectiveness. London is the outright world class performer within the European rankings, with Paris also a class of its own in a European context. Beneath these two dominant capital cities, the top 25 European cities display four strata. Below London and Paris, Milan, Madrid and Brussels form a distinctive stratum with global network connectivity's around two thirds of the maximum. Next appear Warsaw, Zurich, Amsterdam, Dublin and Rome. These represent, in order, post-communist rise of Eastern European (capital) city; two important traditional financial centres one of the major success stories of globalization, and the capital of one of Europe's four largest countries.
- 1.9 The third group contains a mix of capital cities of medium sized countries (Lisbon, Stockholm, Vienna and Athens) and two from the former communist east (Budapest and Prague), plus Frankfurt. Frankfurt a traditional financial centre, is Germany's leading city, reflecting the country's horizontal urban hierarchy partly due to its federal political structure and its capital Berlin has yet to fully recover economically from its division after the war. It is in group 4 with political capitals from a range of smaller countries (Helsinki, Oslo and Copenhagen), and one capital from the East (Bucharest). Hamburg is also in group 4 with Geneva.

## 2. HOW DO COUNTRIES AND REGIONS COMPARE ON THE GCI?

### *Western and central Europe*

- 2.1 Germany's horizontal urban hierarchy and dispersed geographical distribution of cities with high global network connectivity is unique. It has 6 cities with a gross network connectivity which is above one fifth of the highest connectivity. Moreover, the scores of these 6 cities are all closely matched with 4 cities with a score lying in the 30,000-40,000 range, and only approximately 20,000 separating Stuttgart in 6<sup>th</sup> and Frankfurt in 1<sup>st</sup>. In stark contrast, London dominates the UK's urban hierarchy, with a gross connectivity score, of 96,267, which is almost four times higher than the next best performing secondary city, Manchester, with 21,525. Only one other city, Edinburgh, has a score above 20,000, although 9 other UK cities have a gross connectivity score ranging between 10,000-20,000, including Leeds, in sixth position, with 16,720. In France Similarly to London, Paris' 'role as one of Europe's top hosts to major global city users, advanced service firms in the global economy, has contributed to the city's economic dominance in a highly primate and monocentric French urban structure' (ibid, p.231). While Lyon, ranked as France's second city, has a proportionate connectivity standing at a fifth of Paris', Marseille, ranked in third, has a score less than one sixth of the capital. While the 3 Benelux capital cities top the global connectivity rankings for this region, led by Brussels with a score three fifths of the highest ranking European city, a number of second tier cities also demonstrate relatively strong performances. In particular, both Antwerp and Rotterdam have a global connectivity score that is above a fifth of the maximum proportionate connectivity. Whilst registering much lower scores, The Hague, Liege and Utrecht also have a global connectivity between a twentieth and a tenth of the maximum.



**Southern Europe**

- 2.2 Italy contains two cities, Milan and Rome, which are strongly connected to the global city network, the latter with a connectivity two-thirds of the highest connectivity, and the former half that of the highest. Beneath these two leaders, however, the performances of the other leading Italian cities are much weaker. Bologna, in third position, has a global connectivity which is less than a quarter of Milan's, the leading Italian city, while Genoa (4<sup>th</sup>) and Turin (5<sup>th</sup>) are less than a sixth of Milan's global connectivity score. Zurich and Geneva stand out in Switzerland with a moderately strong degree of global connectivity, with Zurich leading with a score around half of the highest connectivity (i.e. London) and Geneva scoring just over a third of the highest rate. In Spain Madrid tops the global connectivity rankings, with a score approaching two-thirds of the highest global connectivity observed in Europe. Barcelona lies in second place in the Spanish rankings, with a score of 40 per cent of the highest connectivity ranking. These two cities dominate the Spanish urban hierarchy in relation to their connectivity rankings, as the third placed city, Valencia, lags some way behind, with a connectivity score of just over a tenth of the European maximum, a quarter of that of Barcelona's. Seville and Bilbao follow close behind. Porto lags some way behind these three, possessing half the global connectivity score of Barcelona.

**Eastern Europe**

- 2.3 The top twenty of the Eastern European city rankings are dominated by capital cities, with Warsaw at the top. The Polish capital is followed by Prague and Budapest, to make up the top three. Only three non capital cities make up the top 20 of the Eastern European global connectivity rankings, all coming from Poland: Krakow (13<sup>th</sup>), Wroclaw (16<sup>th</sup>) and Poznan (15<sup>th</sup>).

**Nordic Countries**

- 2.4 The 4 Nordic capital cities, comprising Stockholm, Oslo, Helsinki and Copenhagen dominate the Nordic global connectivity rankings. These four are all relatively evenly matched with a gross connectivity score ranging between just over a third and a just under half of the highest connectivity score. Thereafter the global connectivity scores fall away dramatically, and while 4 secondary cities achieve a connectivity score above the one twentieth thresholds of the maximum European score, they remain significantly below the four leading Nordic capital cities:

**The Functional-Geographical Approach State of European Cities**

This report (2007) is one of the most recent attempts to describe the European urban system adopting a geographic-functional approach, drawing mainly upon data from the Urban Audit. It underlined a series of trends across Europe

**East-West divide**

- 2.5 The East –West divide is clearly evident. Inhabitants of new member states have purchasing power about half the EU27 average Purchasing power is strongest in North Western Europe, where the major cities of London, Paris, Amsterdam, Brussels, Hamburg & Nordic capitals clearly stand out. Cities in and around Alpine region, such as Munich, Vienna and Milan also have comparable living standards.

**Signs of convergence?**

- 2.6 The strongest GDP growth between 1996-2001 came from the European periphery rather than from core. In the North of Europe Swedish and Estonian cities were amongst the strongest growers along with many Polish cities. Strong growth rates were also evident in many Central and Eastern European cities, particularly in Bulgaria and Romania. In the South, Greece and Spanish cities saw significant increases in GDP, together with South of France and number of Irish and Western UK cities (e.g. Manchester and Bristol); In contrast more sluggish growth was evident in central parts of Europe – particular parts of Germany, Austria and Italy, while Benelux countries saw average growth during this period.

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- Cities as employment centres – urban paradox***
- 2.7 The concentration of economic activity in Europe's cities is demonstrated by employment data – with concentration of jobs even stronger than residents; Many of Europe's main employment centres are within cities and its largest cities are economic powerhouses. London and Paris in particular are unrivalled as Europe's employment centres – each hosting more than 2 million jobs. Madrid, Berlin & Rome come next, with Hamburg and Barcelona following. Other cities are also unparalleled employment centres within their national contexts – Riga (Latvia), Vienna (Austria), Budapest (Hungary) and Bucharest (Romania). However, the generated wealth within cities is not translated into corresponding rates of employment amongst urban citizens themselves – what SECR term – the 'urban paradox'. Only 28% of urban audit cities have employment rate higher than average for the country where they located & only 10% have employment rate of 70% of the Lisbon target for 2010. Highest performers primarily located in Northern Europe: Denmark, Netherlands and the UK. Others have a very low performance, with employment rates lower than the national average (and between 50-60%). These included cities in Greece, Romania & most French cities outside Paris. Employment rates were particularly low in Poland, Southern Italy, and some cities in Belgium, the UK & Germany
- The National Context***
- 2.8 Considerable variation in the performance national economy influences growth of individual cities. The fastest growing cities (1996-2001) were, amongst others, located in Ireland, the Baltic States, Romania, Poland and Finland. With exception of Romania, these cities benefited from favourable national context between 1996-2001. But poor performance of individual cities is not entirely due to national performance. There are many cities coping with major structural adjustment problems, independent from the level of national growth – often found in Central & Eastern Europe.
- Service sector based***
- 2.9 Europe's urban economies are rapidly becoming service based and the majority of new jobs have been created in these sectors. Western Europe service sector highly developed as a source of employment. Of the five largest labour markets in the EU27 (London, Paris, Berlin, Madrid and Rome) service sector employment accounts for 80-90% of all jobs. This % is highest in 3 distinct types of cities: capitals with substantial administrative functions and/or are economic powerhouses; cities with strong link to HE ('university towns'); medium-sized cities acting as 'dormitory' suburbs within large conurbations. Industrial (manufacturing) sector accounts for approximately a quarter all employment in the EU15 cities – particularly Central & Eastern Europe. Of the 16 urban audit cities with more than 40% employment in manufacturing, 10 are Romanian, 3 Polish and 1 Czech. Generally cities with concentration of economic activity in primary & secondary sectors are less dynamic than those with higher service sector employment – especially those specialising in market services.
- City Size & Agglomeration Economies***
- 2.10 Larger cities with over 1 million inhabitants were amongst the fastest growers with GDP 25% higher than in the EU as a whole, and even 40% higher than national average. Growth rates were also higher than the country average – about 2% per year. Typical examples include London, Warsaw and Paris. Other strong 'engines' were found in Munich, Prague and Budapest. At other end of scale, Berlin and especially Naples have GDP levels which are considerably lower than their respective national averages. Cities as 'strong economic engines' are also found in the 500,000-1 million inhabitants range – although less prevalent than amongst largest cities. Overall levels of GDP are about 15% higher than national averages. Examples of cities doing well in this league are Dusseldorf, Riga, Brussels, Poznan & Lisbon. Contributions to national wealth amongst this groups of cities were said to be weaker in cities such as Sheffield, Leeds, Seville & Palermo. Overall, the contribution of cities to GDP/capita levels tends to decrease with size.
- 2.11 Cities in the 250,000 to 500,000 range still have GDP levels higher than national averages, as a whole. But those between 150,000 -250,000 and 100,000-150,000 inhabitants score lower than their national averages. Smaller cities score even lower (less than 100,000). Again it is wrong to conclude from these findings that all medium-sized cities contribute little to national wealth. Range of medium-sized
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cities makes positive contribution to national GDP – especially Germany: e.g. Darmstadt, Mainz, etc. BUT considerable variation in extent to which medium-sized cities contribute to national GDP levels & substantial variation in growth rates (p.47) Reasons for modest performance of smaller and medium sized cities, include: Commuting: large cities attract commuting from further distances than smaller cities, which influences GDP data; Smaller cities are more dependent on developments at regional level, so more handicapped when located in lagging region; Large cities to contrary, increasingly functioning within a national or international context & therefore less dependent on functioning of their own region; Large cities benefit from ‘agglomeration economies’

### **3. SIGNIFICANT METROPOLITAN FUNCTIONS: HOW AND WHERE ARE THEY CONCENTRATED IN EUROPE?**

- 3.1 BBSR (2011) provides a recent attempt to assess the performance of cities and in particular to chart the distribution of significant 'metropolitan functions' across different kinds of cities. It measures 5 key metropolitan functions. Politics measures National Government and Supranational and politically oriented organisations. Economy includes the head quarters of leading enterprises, advanced producer services, banks and markets. Science includes ‘education & research’; ‘scientific communication’, and ‘entrepreneurship & innovation’ Transport includes air passenger transport, air freight transport, long distance passenger rail transport, maritime goods transport and data traffic. Culture includes theatres, operas, music events, art fairs, World Heritage Sites, stadiums and major sporting events.
- 3.2 The key metropolitan functions are strongly concentrated in the Central European core area. Around half of all locations with metropolitan functions, which also cover about 50% of all metropolitan functions, are situated in the European Pentagon, formed by London, Hamburg, Munich, Milan and Paris. Outside the Pentagon, there is much lower density and significant locations are only found occasionally. Within the Pentagon and a little beyond though, there is a decentralised distribution of metropolitan functions. This especially applied to Germany, Switzerland, the Netherlands and Italy, where the most significant location in each country only covers up to 20% of the metropolitan functions of the related country.
- 3.3 In most small and medium sized and Eastern European countries the majority of metropolitan functions are concentrated in capital cities. Examples include, Estonia with Tallinn, Lithuania with Vilnius, Minsk in Belarus, and Riga in Latvia. Here more than two-thirds of their metropolitan functions are concentrated in their capitals. Metropolitan functions are highly concentrated in capitals in the larger Eastern European countries including Hungary with Budapest, Slovakia with Bratislava, Bulgaria with Sofia. In Austria, more than half the metropolitan functions are concentrated in Vienna.
- 3.4 The report groups European cities into 4 types, according to how balanced, diverse or specialised metropolitan areas are with regard to the five functional areas, above. Type 1 MAs having the greatest variety of metropolitan functions, and Type 4 with the least variety of functions. Europe’s large capital cities from its core feature prominently in Type 1, although some leading secondary cities do feature here, for example Barcelona and Munich. Cork, Leeds, Lyon and Turin all feature as Type 3 MAs.
- 3.5 The study also breaks down the performance of areas on the 5 indicators. The politics function is highly concentrated in national capitals, and only a minority of other areas. The ‘Economy’ metropolitan function is found in all countries, but with lower densities in Eastern Europe. Here again they are most often in the capitals of these countries. While this function is more largely spread across the European territory, it is more highly concentrated in the European core area – from UK, along the Rhine to Northern Italy. The ‘Science’ metropolitan function reveals a core-periphery divide. London and Paris are the most dominant cities, followed by Munich, Brussels and Vienna. Amongst the most important locations, some specialised poles can be found – e.g. Eindhoven and Cambridge. Eastern. South Eastern European cities are hardly found in the top 100 significant locations for this

category. 'Transport' function are found all over Europe, but the highest concentrations are found within the European core area. They strongly decrease towards the periphery, especially towards the north and east. 'Culture' reveals large spatial spreading across Europe, with many locations outside the European core scoring highly. Here the European Pentagon is not so dominant but these countries have the highest performing individual cities, London and Paris. Germany has most secondary cities appearing in the top 10 of the various functional categorisations. Munich appears in the top 10 in three of the categories (economy, science and culture), while Frankfurt appears in two (economy and transport). Barcelona also appears in the top 10 in two of the categories (economy and culture). Other secondary cities making the top 10 on at least one occasion are Dusseldorf, Eindhoven, Hamburg and Rotterdam

#### 4. WHAT STORY FROM ESPON?

##### *Overall European Economic Structure*

- 4.1 ESPON has provided two synthetic reports which offer much context on the shape and performance of cities in Europe. The first ESPON showed that the European core is expanding. In 2002 the traditional European core made up of London, Hamburg, Munich, Milan and Paris covered 14% of the ESPON territory; generated 46% of its GDP; was home to 32% of its population; and received 75% of its R&D investments. But there are several strong urban areas outside the European core. Both larger met regions & small and medium sized towns outside the European core are gaining ground as important nodes for European development. Many are important economic engines for their areas & some outperform urban areas within the core in relation to economic & Lisbon indicators. These include: Madrid, Barcelona, Athens, Dublin, Stockholm, Helsinki, Oslo, Warsaw and Budapest. Regions that scored well on combined 14 Lisbon indicators lie in an arc sweeping from the South of Finland, through Sweden and Denmark to Northern Germany and the Netherlands, then to East Anglia, back to Brussels and Luxembourg, on through Switzerland, Southern Germany, Austria and the Czech Republic to Bratislava and Budapest. There are north-south and east-west divides.

##### *Competitiveness*

- 4.2 The core and Northern Europe, along with urban agglomerations, are ahead on the drivers of competitiveness including education, creativity, R&D, and ICT. Crucially, northern areas show it is possible to have prosperous economic development despite peripherality and low accessibility. There is also a very high concentration of multi-national HQs in parts of Europe. Most company HQs of 2000 largest companies in the world located between north of England and central Italy, including Benelux, Germany, and Switzerland. London and Paris are the main nodes in the core area. But the Randstad (Amsterdam-Rotterdam) is not far behind. Outside this area HQs are found more rarely and most often in capital cities including Madrid, Stockholm & Helsinki. Munich is one of major non-capitals with a high number of HQs. Innovation potential, such as R&D and creativity is particularly concentrated in the centre-North of Europe. In many countries R&D expenditure is concentrated in the capital region. For example, Austria, Czech Republic, Finland, France, Hungary, Greece and Portugal, half of the top regions account for half of all R&D expenditure. In France 45% of national R&D expenditure is concentrated in Ile de France, followed by Rhone Alps with 10%. Economic growth of larger cities has contributed to polycentric development of Europe. But its effect has been to widen regional disparities within countries. There is a two speed economy within cities where benefits of economic growth not reached all sections of society. Capital cities such as London, Paris, Lisbon, Helsinki, Warsaw, Bratislava and Bucharest, are engines of economic growth, but perform poorly on social indicators.
- 4.3 Then 2010 synthesis report from ESPON identified the following key trends. Europe's position in the world is changing: because of the economic challenge from Asia and the Americas an aging labour force and demographic change, energy supply and demand, and the possible impacts of climate change. In that context Europe's competitiveness depends greatly on its global cities and metropolitan regions, where enterprises can benefit from agglomeration economies and networks linking global market places. The report noted that an area's growth still strongly influenced by the

state of the national economy. But there is evidence of cities which outperform their national economies because of the advantages of agglomeration economies. There is a general process of concentration of wealth in the biggest cities, especially in Eastern Europe. However, this metropolisation was stronger in 1990s than at present (p.33). While all countries have suffered in the economic crisis, the impacts have been uneven. The Baltic States have been particularly badly hit by rise in unemployment. So have Ireland, Iceland, Spain, 3 countries where a property boom which seemed to offer economic growth collapsed.

- 4.4 The report also emphasised that technological innovation has acquired increasing strategic importance for economic competitiveness, and for Europe's positioning in globalised world. Nanotechnology, biotechnology, information technology & cognitive science will drive the next innovation wave so the location of NBIC centres will influence future path of European urban system. There are 2 geographical patterns of NBIC networks. The major centres are the largest European capitals and economic centres whose role is to integrate almost all other European cities within networks that accompany diffusion of knowledge and know-how. Other major centres with specific profiles are specialised nodes that could anchor further technological developments, since the next economic cycle was expected to be strongly associated with research activities. ESPON argue if NBIC does become a driving force for economic and regional development, it is likely to reinforce dominance of the capital cities, especially in smaller countries. Regional cooperation may help: Finland, for example was more strongly placed in these networks. But in the east Bulgaria, Romania, Slovakia & Baltic States risk being left behind in these rapidly developing sectors. Poland and Hungary were useful models to learn from.

## 5. WHAT STORY FROM THE 5<sup>TH</sup> COHESION REPORT?

### *Overall Economic and Social performance of the EU*

- 5.1 The Cohesion report underlined that comparatively, the EU 27 experienced higher economic growth per capita than the US, Japan & Canada between 2000-2007. This was largely due to the higher growth rates of the less developed & moderately developed EU member states. Brazil, Russia, India & China all have internal disparities in GDP per head between regions which are much wider than in the EU. Growth in EU12 regions led to marked narrowing of regional disparities in GDP per head in PPS terms across the Union. But, disparities remain pronounced, with levels less than a third of the EU Average in 7 Romanian & Bulgarian regions & levels 50% higher than EU average in 19 regions, of which 11 are capital city regions. Despite disparities declining over the EU as a whole, disparities increased in a number of Member States, particularly in the EU12. E.G. in Romania the coefficient variation rose from 15 in 1995 to 44 in 2007, reflecting relative concentration of growth in one or two regions, especially the capital city region.

### *Capitals and secondaries cities*

- 5.2 In most if EU12 disparities that were already pronounced between the capital city region and the rest of the country in 2000. These had widened further by 2007. In the EU15 the difference between the capital city second cities tends to be small. In 9 Member States the second city region had a higher GDP than the capital. In EU12 difference between the capital city region and the rest are much larger. These differences partly due to less favourable business environment outside the capital city region: accessibility, IT usage, transport & infrastructure, education level all tend to be significantly lower outside the capital city region. Employment rates also much higher in the capital city region. It noted that the tendency for the EU12 to concentrate public investment in the capital city region contributes to this

### *The Drivers of Competitiveness*

- 5.3 The cohesion report also identified Innovation as the main driver of regional development. It showed that that highest regional innovation capacity is in Nordic States, with Sweden and Finland having higher capacity than Japan and the US. It is generally lower in the EU12 countries, although some of these (Cyprus, Estonia & Czech Republic) perform better than Southern EU15 States. In terms of R&D

expenditure there Large disparities ranging from 5-6% in Braunschweig & Stuttgart in Germany & Vastsverige, Sweden, to 0.1% in Some Bulgarian & Polish regions. Expenditure exceeds 3% (Europe 2020 target) in only 10 regions. Among 20 regions with highest expenditure 17 are highly developed (with GDP per head above EU average) & 3 are capital city regions (in Austria, Sweden and Denmark). Regions with lowest levels of R&D expenditure are located in EU12 or regions of EU15 with low GDP per head levels. Regional disparities here in qualified workforce are wide... Regions highly endowed with educated workforce generally have higher level of GDP per head and are often capital city. Only 4 out of 20 top regions scoring high on this indicator have GDP per head below EU average & 12 are capital city regions. Share of low education is substantial in all Southern member states, except Cyprus.

#### ***What has been Regional Impact of the Economic Crisis?***

- 5.4 The Cohesion report argued that the Impact of the crisis was no worse, on average, in the less developed regions than in the highly developed ones. In general, the EU12 convergence regions seem to have been affected less than those in the south of the EU15. Economic crisis hit regions specialising in manufacturing and those highly dependent on construction. More rapid recovery was expected in industrial regions specialised in manufacturing and those with a large share of financial & business services, while those dependent on tourism, construction & public administration are projected to recover more slowly. Relatively fast recovery was projected in prosperous regions in Germany & North of Belgium as well as some capital city regions in the North and the Centre of the EU. Regions in Poland also projected to continue to perform well and most other regions in the EU12 projected to recover quite quickly. By contrast, prospects were less favourable for Convergence regions in Greece, and to a lesser extent in Spain, Italy, Portugal & France. Prospects were not good for quick reduction in unemployment, which in most regions is projected to increase further: in virtually all regions in Spain, Baltic States & Ireland, unemployment increased dramatically. Germany managed to avoid large increases in unemployment, to large extent because of short-time working schemes and employers reducing working hours.

#### ***Demographic Trends across Europe***

- 5.5 How have population developments affected the overall shape of urban Europe. Turok & Mykhnenko (2007) analyse the trajectory of 310 European cities between 1960 and 2005. Over the long term, the growth of European cities has generally slowed over the past few decades, with a short term recovery in recent years (2000-2005). The growth and revival of cities is most common in Western Europe. Decline is more widespread in the East. Larger cities also appear to have improved slightly relative to smaller cities. The regional pattern across Europe varies dramatically however.

#### ***Northern Europe***

- 5.6 This territory has experienced generally positive growth, with cities populations growing faster than their respective countries. The largest growth differential between the country average and its cities are seen in Finland, but are also strong in Denmark and Sweden. During 1996-2001 core cities in Northern Europe have grown more strongly than larger urban zones, so urbanization & counter-urbanization have turned to re-urbanization.

#### ***Western Europe***

- 5.7 Cities here clearly outpaced national trends during the 1960s and early 1970s and were engines of growth. This was followed by a sharp slowdown that lasted a decade, followed by a stabilisation and a low rate of growth at below national trends. There was a slight recovery in the late 1980s, especially for the larger cities/capitals, followed by another slowdown in the late 1990's. Since 2000 many more cities are now growing than shrinking, but only very slowly and less than the 1960 and early 1970s. Between 2000-2005, 78 per cent of cities in the West were growing.

#### ***Eastern Europe***

- 5.8 Cities far out-paced national trends throughout 1960s-1980s – 'catching up' with the West. There was dramatic slowdown lasting a decade during the 1990's because of political and economic upheaval dramatic deterioration in the position of cities. There has been no recovery since nadir of the 1990's,

except for a few large cities and capitals. Between 2000-2005, there were four times (82%) as many cities shrinking than growing cities in Eastern Europe.

#### ***Southern Europe***

- 5.9 Many southern Europe city populations have experienced growth in recent years. This has brought a number of pressures & challenges mainly caused by large-scale suburbanization. In particular mid & high income families tended to leave core urban areas, resulting in urban sprawl, often uncontrolled and sometimes illegal.

#### ***The impact of demographic change upon cities***

- 5.10 The recent work of Gerohazi et al (2011) underlines the impact on cities of these demographic changes. They identify three major patterns of demographic change as a result of differential fertility rates and migratory patterns. Western and Northern countries are the relatively 'high fertility belt of Europe', where there is also higher levels of immigration to cities. Southern Europe and German speaking countries have low fertility rates but have experienced replacement immigration, which helped them compensate for population loss. Central and Eastern Europe had low levels of fertility combined with very little or no immigration, and in some cases extensive emigration. Although in terms of GDP/capita new Member States have closed the gap with the EU average, regional demographic disparities are growing in these regions. The capital cities and regions in the western parts are developing faster, while other regions are increasingly lagging suffering from 'vast outmigration'. They identify three types of cities which will face demographic challenges.

#### ***Stable or growing cities***

- 5.11 These cities over the long term will continue to experience strong population increase due to their sustainable economic power. These contain the largest European cities in Western Europe, whose economies are connected closely to the world economy. The biggest challenge facing these cities will be to operate effective integration strategies. Moreover, these cities will have to deal with additional demand on infrastructure and public services, and further increasing density of the built environment, which arise as a consequence of substantial immigration.

#### ***Gradual shrinkage***

- 5.12 These are cities with strong economic backgrounds, which will either experience a gradual shrinking in their populations, or a stable population. Most medium sized and large European cities are included and they tend to have better demographic and economic characteristics than their national average. The main challenge facing these cities is to create flexible urban strategies. Flexibility means improvement of urban infrastructure and environment in such a way it can fit different purposes (e.g. housing for youth and elderly, low density housing inside the urban borders.)

#### ***Complex shrinkage***

- 5.13 Cities face 'complex shrinkage', when there both demographic and economic decline. These are mostly located in Central and Eastern parts of the EU (Eastern parts of Germany, Eastern regions of Poland's, Hungary, Slovakia, Romania and Bulgaria). Some peripheral parts of Western Europe are also effected (e.g. Southern Italy, Northern parts of England, Northern parts of Scandinavia, etc). The main cause of complex shrinkage is economic restructuring: the city starts to lose its population when it is not able to provide enough work places compared to other cities (countries or regions). The mitigating strategy against complex shrinkage should concentrate on the redefinition of the economic basis.

#### ***How do the consultants and the private sector see countries and cities performance?***

- 5.14 In addition to academic analyses of the performance of European cities, there are a wide range of consultancy and think tank efforts to review their performance. They vary in approach and quality. Nevertheless they are worth taking into account. We review here the most robust studies. Which include The Global Competitiveness Report 2010-2011, World Economic Forum, IMD World Competitiveness Scoreboard, European Competitive Index 2006-07, World Knowledge Competitive-ness Index of Regions, European Cities & Regions of the Future, Cushman & Wakefield European Cities

Monitor, Mercer Quality of Living Worldwide City Rankings 2010, and The Economist Intelligence Unit's Liveability Survey?

***What is the big picture on countries? Overall Competitiveness the impact of the recession***

- 5.15 European countries tend to perform strongly on global competitiveness indices. Those from North, Central and Western Europe perform strongest, while Southern and Eastern European countries rank much lower overall. Countries that have improved their overall competitiveness rankings, when comparing them pre and post recession, are fairly equally spread across the European territory. Countries whose competitiveness has declined the most after recession are disproportionately located in Southern and Eastern Europe. Poland stands out as one of the few Eastern European countries which has risen up the competitiveness rankings, after global recession. Regional competitiveness rankings (NUTS 1) are dominated by Northern regions, followed by Central and Western European regions. Again, aside from one or two exceptions, Southern and Eastern regions lag somewhat behind in the rankings. Germany, in particular, performs strongly, often with more than one city located in the top 10 or 15 cities across the various indices. Germany and Spain are the only two European countries where a secondary city often outperforms their respective capital (e.g. Barcelona outperforming Madrid; and Frankfurt outperforming Berlin).

***Key Competitiveness Indicator Performances***

- 5.16 Northern European countries perform strongest on the following competitiveness indicators: institutions, higher education and training, technological readiness and innovation. They are least competitive in relation to their infrastructure and market size. The highest levels of public and private R&D expenditure are concentrated in Northern European regions and German regions. Germany contains the highest proportion of top performing regions in relation to concentration of biotechnology & chemicals manufacturing Northern European countries contain the highest proportion of top performing regions for IT and computer manufacturing employment. Eastern European countries perform best (relative to their overall position) in relation to competitiveness factors such as market size and higher education and training. They are particularly weak on innovation and infrastructure.
- 5.17 While high technology service employment is predominantly concentrated in capital city regions, high technology manufacturing employment is more evenly dispersed. It is noted, that in contrast to the former, the elements of the latter (e.g. car manufacturing) continue to be primarily attracted on the basis of low labour costs. Some Eastern European regions perform strongly here. The highest earnings inequalities between the highest and lowest performing regions within countries are found in Eastern European countries, which highlight the larger disparities between the capital city region and the rest in these countries; Northern European regions dominate the top tier of the rankings for high economic activity rates. With the exception of Northern European regions, the ranking exercises show a strong correlation between well developed infrastructure and overall regional competitiveness. Eastern European regions dominating the bottom of the competitiveness rankings also have the lowest scores in relation to infrastructure development.

## **6. THE GLOBAL COMPETITIVENESS REPORT 2010-2011: WORLD ECONOMIC FORUM**

- 6.1 The GCI index includes a weighted average score based on 12 pillars of economic competitiveness. These include: institutions; macroeconomic environment; health & primary education; higher education & training; goods market efficiency; labour market efficiency; financial market development; technological readiness; market size; business sophistication; innovation. 139 world economies are ranked in the WEFs competitiveness report. Overall European countries feature prominently among the most competitive economies in the world. Six European countries are among the top 10, and 12 are in the top 20. All the top 20 are from North, Central and Western Europe. Southern & Eastern European countries are all ranked outside of the top 35 countries. Poland and the Czech Republic are the best performing of the southern and eastern European countries, ranking 36<sup>th</sup> and 39<sup>th</sup> respectively in 2010/11. Spain and Italy rank in 42<sup>nd</sup> and 48<sup>th</sup> places, respectively, while



Romania ranks somewhat lower at 67<sup>th</sup> overall. By far the biggest losers are located in Southern and Eastern Europe, these being Greece, falling 22 positions; Hungary, falling 14 positions; and Spain dropping 13 places. Another big loser according to WEFs rankings is the UK, falling 10 positions from 2<sup>nd</sup> place overall immediately pre recession, to 12<sup>th</sup> position in 2010/11.

#### IMD World Competitiveness Scoreboard

- 6.2 The IMD World Competitiveness Scoreboard showed a similar position assessing economic performance; governance efficiency; business efficiency; and infrastructure. Over 300 criteria are used to provide an overall ranking score. In 2010 European countries made up nearly half of the top 20, accounting for 9 in the highest third of the rankings. The top ten was shared more equally between Asian and European countries, with the former accounting for 4 countries against Europe's 3. Northern European countries had most representatives in the top 20, with 4 countries, two of which, Norway and Sweden, appear in the top 10. Central European countries have three in the top 20, with Switzerland ranking 4<sup>th</sup> overall. Western Europe has two representatives in the top 20, Luxembourg and the Netherlands. Southern and Eastern European countries rank somewhat lower, with the Czech Republic and Poland being the highest place in 29<sup>th</sup> and 32<sup>nd</sup>, respectively. These two out-perform the best placed southern countries, Spain and Italy, which rank 36<sup>th</sup> and 40<sup>th</sup> respectively (Table 3).

#### Crisis Winners & Losers

- 6.3 Apart from Ireland, which fell 7 places, countries which have been hit hardest by the crisis are predominantly located in Southern and Eastern Europe, including: Bulgaria, dropping 12 places; Greece, dropping 10 places; Hungary, dropping 7 places; and Spain, dropping 6 places. The exception here appears to be Poland, which has seen its ranking position increase by the most globally, jumping 20 places between 2007 and 2010, from 52<sup>nd</sup> to 32<sup>nd</sup>. In Northern and Western Europe, the picture has been more stable, with countries either gaining or losing no more than 3 or 4 places overall. The largest increases were seen in Norway, up by 4 places, and Sweden and France, both up 3 places.

#### Regions : European Competitive Index 2006-07 NUTS 1 Regions

- 6.4 Many surveys focus on countries rather than lower spatial levels. The ECI measures and compares the competitiveness of Europe's nations but also regions. It ranks 118 Nuts 1 areas for the EU 25 states, plus Norway and Switzerland. The top 20 Nuts 1 regions are dominated by those from Northern and Central states, both accounting for 7 regions each. The remainder come from Western Europe (with 3 regions), the South (with 1 region), and the East (2 regions). Two NUTS 1 regions in Eastern Europe stand a very long way in front of the other regions in terms of economic competitiveness: Prague in the Czech Republic and Bratislavsky in Slovakia. Both of these make it into the top 10 of the ECIs overall competitiveness rankings, with the next best performing region from Eastern Europe lying in 47<sup>th</sup>. While these three regions have an above average overall index score, all the remaining Eastern European regions competitiveness score lies well below average (Table 1).

**Table 1: ECI European Regional Competitiveness Index Score 2006/07**

Nuts 1 Region	Rank	Overall Index Score
<b>Top 10 Regions</b>		
Brussels, Belgium	1	193.5
Uusimaa, Finland	2	188.3
Ile de France, France	3	185.2
Stockholm, Sweden	4	177.8
Etela-Suomi, Finland	5	175.4
Luxembourg	6	165.9
Prague, Czech Republic	7	165.7
Hamburg, Germany	8	163.5
London, UK	9	162.6
Bratislavsky Kraj, Slovakia	10	159.6
<b>Bottom 10 Regions</b>		
Estonia	109	49.4
Lithuania	110	45.7
Severozapad, Czech Republic	111	44.2

Stredni Morava, Czech Republic	112	44.1
Latvia	113	42.7
Stredne Slovensko, Slovakia	114	42.4
Alfold es Eszak, Hungary	115	41.2
Severovychod, Czech Republic	116	39.7
Stredni Cechy, Czech Republic	117	38.3
Wschodni, Poland	118	37.6
<b><i>NUTS 1 Regions of Case Study Cities</i></b>		
Lansi-Suomi, Finland (Tampere)	21	132.4
Bayern, Germany (Munich)	24	129.7
Southern & Eastern Ireland (Cork)	29	122.1
Centre-Est, France (Lyon)	32	119.0
Nord Ovest, Italy (Turin)	40	112.2
Este, Spain (Barcelona)	45	107.7
Yorkshire & Humberside, UK (Leeds)	57	102.3
Poludniowy, Poland (Katowice)	100	62.1
Timisoara – not available	-	-

Source: European Competitiveness Index 2006/07

#### ***Cities: Cushman & Wakefield European Cities Monitor***

- 6.5 Cushman and Wakefield’s survey explores the perceptions of business executives about the leading business cities across Europe. A total of 500 European companies took part in the 2010 survey assessing 36 European cities in terms of: qualified staff; ease access to markets; external transport links; availability & value for money of office space; staff costs; internal transport links; quality of life for staff; freedom from pollution; telecommunications. German cities dominate Cushman and Wakefield’s city rankings. 4 are located in the top 10 during 2010, including Munich. Barcelona, together with Frankfurt are the only two secondary cities which out perform their respective capitals, Madrid and Berlin. Southern and Eastern European cities fill the bottom third of the rankings, with five out of the bottom ten from these regions.

#### ***Recession winners & losers***

- 6.6 Cushman and Wakefield’s survey suggests that Eastern European cities appear to have fared the worst as a result of the global recession. These cities have seen their rankings fall by the greatest margins, particularly Budapest (-8) and Bucharest (-7). Apart from Dublin, which has seen its rank drop by 9 places between 2007 and 2010, no other cities from Northern, Central and Western have seen their rankings fall to any great extent. But there have been cities from these parts of Europe which have seen their rank increase significantly post recession. The biggest climbers appear to be secondary cities. For example, Dusseldorf in Germany, climbing 6 places to reach the top 10 in 2010. Leeds has also seen its ranking increase substantially, albeit from a much lower position, up 7 places from 30<sup>th</sup> in 2007 to 23<sup>rd</sup> in 2010 (Table 2).

#### ***Mercer Quality of Living Worldwide City Rankings 2010***

- 6.7 The Mercer Quality of Living city index covers 221 cities worldwide and is upon 39 factors which are grouped into 10 categories. Europe contains 16 of the top 25 cities in Mercers index (Table...). Central European cities feature prominently, with three German cities in the top ten, three from Switzerland and one from Austria, with the latter, Vienna, taking the top ranking. Interestingly, apart from Vienna and Bern, all the other European cities in the top ten are non capitals. Southern European countries lag somewhat behind their central, northern and western European neighbours, with Milan being the highest ranked in 41<sup>st</sup> position. Barcelona features higher Madrid in the index, ranked 44<sup>th</sup> to Madrid’s 48<sup>th</sup>. The leading Eastern European countries are ranked the lowest amongst Europe’s main regions. Prague is ranked the highest, in 70<sup>th</sup> position, followed by Budapest in 73<sup>rd</sup> (Table 10).

#### ***The Economist Intelligence Unit’s Liveability Survey***

- 6.8 The economist liveability survey assesses 140 cities are assessed against 30 qualitative and quantitative factors across five broad categories,: stability (crime, military conflict, civil unrest, etc); healthcare (availability; quality, etc); culture & environment (social/religious restrictions, corruption; censorship; sporting & cultural availability, food & drink, etc); education (availability, quality, etc) and

infrastructure (quality of road & public transport network; quality international links; quality energy, water & telecommunications provision, etc). European cities make up 12 of the top 25 cities, with central European cities accounting for 6, Northern 4 and Western 2 (Table 11). Southern and Eastern European cities lag somewhat behind their European neighbours, with the highest placed cities from these regions being Milan (50<sup>th</sup>) and Budapest (55<sup>th</sup>). In Germany, Spain and the UK one or more secondary cities feature higher than their respective capital.

#### European Cities & Regions of the Future

6.9 Northern (6 cities), Western (7 cities) and Central (7 cities) European cities dominate the top of the FDI rankings. Southern and Eastern European cities only account for 5 of the top 25 cities. Spain and Germany are the only two countries where secondary cities feature higher than their respective capitals. For example, Barcelona lies in 5<sup>th</sup> place overall, while Madrid is positioned in 11<sup>th</sup>. Similarly in Germany, both Frankfurt (8<sup>th</sup>) and Hamburg (14<sup>th</sup>) rank higher than Berlin (16<sup>th</sup>), which is also closely followed by Munich (17<sup>th</sup>). Germany and the UK are the only two countries with more than one city in the top 25 of FDI rankings, both with 4 representatives each (Table 2).

**Table 2: Top 25 European Cities Overall**

City	2010/11 Ranking	2007/08 Ranking	Ranking Change 2007/08-2010/11 (+/-)
London	1	1	0
Paris	2	2	0
Moscow	3	-	-
Stockholm	4	25	+21
Barcelona	5	14	+9
Dublin	6	21	+15
Vienna	7	24	+17
Frankfurt	8	8	0
Brussels	9	9	0
Edinburgh	10	6	-4
Madrid	11	12	+1
Amsterdam	12	5	-7
Copenhagen	13	4	-9
Hamburg	14	18	+4
Zurich	15	42	+27
Berlin	16	3	-13
Munich	17	31	+14
Bucharest	18	-	-
Oslo	19	43	+24
Eindhoven	20	-	-
Cambridge	21	32	+11
Warsaw	22	28	+6
Helsinki	23	39	+16
Manchester	24	10	-14
Budapest	25	47	+22

Source: Fdi magazine European Cities & Regions of the Future



**The ESPON 2013 Programme**

## **ANNEX 4**

# **REVIEW OF NATIONAL, REGIONAL AND CITY RANKING STUDIES**

**Gerwyn Jones**



EUROPEAN UNION  
Part-financed by the European Regional Development Fund  
INVESTING IN YOUR FUTURE

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2. **Country Rankings**
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## Summary

- 1.1 This review provides a brief summary of the findings from major consultancy groups and leading professional bodies and magazines relating to the performances and competitiveness of European countries, regions, and cities.
- 1.2 This summary also explores the impact of the global recession upon the European territory by comparing indices immediately prior to the recession (in 2007) with the most recently available (2010/11).

### 1. **Headline Findings:**

#### *Overall Competitiveness & Recessionary Impacts*

- ❖ European countries feature strongly in Global Competitiveness indexes. Those from North, Central and Western Europe perform strongest, while Southern and Eastern European countries rank much lower overall.
- ❖ European countries that have improved their overall competitiveness rankings, when comparing them pre and post recession, are fairly equally spread across the European territory. Countries whose competitiveness has declined the most post recession, are disproportionately located in Southern and Eastern European territories. Poland stands out as one of the few Eastern European countries which has risen up the competitiveness rankings, post global recession.
- ❖ Regional competitiveness rankings (NUTS 1) are dominated by Northern regions, followed by Central and Western European regions. Again, aside from one or two exceptions, Southern and Eastern regions lag somewhat behind in the rankings.
- ❖ Central Europe comes to the fore in relation to city competitiveness rankings. Germany, in particular, performs strongly, often with more than one city located in the top 10 or 15 cities across the various indices.
- ❖ Germany and Spain are the only two European countries where a secondary city often outperforms their respective capital (e.g. Barcelona outperforming Madrid; and Frankfurt outperforming Berlin).
- ❖ Again, Eastern European cities appear to have seen their competitiveness suffering the most as a result of the global recession.

#### *Key Competitiveness Indicator Performances*

- ❖ Northern European countries perform strongest on the following competitiveness indicators: institutions, higher education and training, technological readiness and innovation. They are least competitive in relation to their infrastructure and market size.
- ❖ The highest levels of public and private R&D expenditure are concentrated in Northern European regions and German regions.
- ❖ Germany contains the highest proportion of top performing regions in relation to concentration of biotechnology & chemicals manufacturing;
- ❖ Northern European countries contain the highest proportion of top performing regions for IT and computer manufacturing employment;
- ❖ Eastern European countries perform best (relative to their overall position) in relation to competitiveness factors such as market size and higher education and training. They are particularly weak on innovation and infrastructure.
- ❖ While high technology service employment is predominantly concentrated in capital city regions, high technology manufacturing employment is more evenly dispersed. It is noted, that in contrast to the former, the elements of the latter (e.g. car manufacturing) continue to be primarily attracted on the basis of low labour costs. As such, some Eastern European regions perform strongly here.
- ❖ The highest earnings inequalities between the highest and lowest performing regions within countries are found in Eastern European countries, which highlights the larger disparities between the capital city region and the rest in these countries;

- ❖ Northern European regions dominate the top tier of the rankings for high economic activity rates;
- ❖ With the exception of Northern European regions, the ranking exercises show a strong correlation between well developed infrastructure and overall regional competitiveness. Eastern European regions dominating the bottom of the competitiveness rankings also have the lowest scores in relation to infrastructure development.

## 2. Country Rankings

### The Global Competitiveness Report 2010-2011: World Economic Forum

- 2.1 Since 2005 the WEF has based its competitiveness analysis on the Global Competitiveness Index (GCI) – which captures microeconomic and macroeconomic foundations of competitiveness. WEF define competitiveness as *‘the set of institutions, policies, and factors that determine the level of productivity of a country.’* This concept of competitiveness is said to include both *static* and *dynamic* components. The GCI index includes a weighted average score based on 12 pillars of economic competitiveness. These include: institutions; macroeconomic environment; health & primary education; higher education & training; goods market efficiency; labour market efficiency; financial market development; technological readiness; market size; business sophistication; innovation (see Appendix 1 for full description).
- 2.2 WEF note that it is important to recognise that these pillars are not independent of each other and tend to reinforce one another, with a weakness in one area often having a negative impact on other areas. For example, innovation (pillar 12) would be very difficult without a well-educated and trained workforce (pillars 4 & 5) that are adept at absorbing weak technologies (pillar 9) and without sufficient financing (pillar 8) for R&D.
- How does Europe perform?*
- 2.3 139 world economies are ranked in the WEFs competitiveness report. Overall European countries feature prominently among the most competitive economies in the world. Six European countries are among the top 10, and 12 are in the top 20. All the top 20 are from North, Central and Western Europe.
- 2.4 Southern & Eastern European countries are all ranked outside of the top 35 countries. Poland and the Czech Republic are the best performing of the southern and eastern European countries, ranking 36<sup>th</sup> and 39<sup>th</sup> respectively in 2010/11. Spain and Italy rank in 42<sup>nd</sup> and 48<sup>th</sup> places, respectively, while Romania ranks somewhat lower at 67<sup>th</sup> overall (Table 1)
- Pre & Post Recession Winners and Losers?*
- 2.5 In terms of WEFs rankings, the world recession has impacted variously across the European territory, with no clear patterns emerging in terms of regions and state systems which have been impacted the least, or most.
- 2.6 Cyprus and Sweden are the biggest European climbers in terms of overall Global competitiveness ranking, with the latter standing in 2<sup>nd</sup> place overall in 2010/11, up from 9<sup>th</sup> position immediately pre economic crisis. Although starting from a much lower position overall, Cyprus moved up from 49<sup>th</sup> to 40<sup>th</sup> position overall over the same period.
- 2.7 Other notable climbers from the Eastern part of Europe include both Poland and Romania, both improving their position by 6 places. Of the central European countries, Luxembourg and Belgium have seen their positions improve the most post crisis, both climbing 5 positions, and into the top 20 overall, having previously been outside this top tier pre global recession.
- 2.8 Perhaps more revealingly are the European territories which have seen their competitiveness positions suffer the most post crisis. By far the biggest losers are located in Southern and

Eastern Europe, these being Greece, falling 22 positions; Hungary, falling 14 positions; and Spain dropping 13 places. Another big loser according to WEFs rankings is the UK, falling 10 positions from 2<sup>nd</sup> place overall immediately pre recession, to 12<sup>th</sup> position in 2010/11.

- 2.9 Table 2 shows how countries scored on the separate indexes for a selection of GCI competitiveness pillars. Key findings relating to the countries of the case study cities include:
- ❖ Northern European countries, and Finland in particular, perform strongly on the following competitiveness pillars: Institutions, Higher Education, Technological Readiness, and Innovation. Finland takes 1<sup>st</sup> place overall globally for its higher education and training and 3<sup>rd</sup> for Innovation.
  - ❖ Northern European countries perform weakest on Infrastructure, Labour Market Efficiency and Market Size.
  - ❖ Germany performs very strongly in relation to Infrastructure (2<sup>nd</sup> overall in World Rankings); Technological Readiness (10<sup>th</sup>); Market Size (5<sup>th</sup>) and Business Sophistication (3<sup>rd</sup>) and Innovation (8<sup>th</sup>). Its weakest performances relate to Labour Market Efficiency (21<sup>st</sup>) and Financial Market Development (70<sup>th</sup>).
  - ❖ The UK appears in the top 10 globally for Infrastructure, Labour Market Efficiency, Technological Readiness, Market Size and Business Sophistication. Its weakest performances are on Institutions (17<sup>th</sup>), Higher Education and Training (18<sup>th</sup>) and Financial Market Development (25<sup>th</sup>).
  - ❖ France performs very strongly in terms of infrastructure (4<sup>th</sup>) and also in relation to Market Size (7<sup>th</sup>). But scores very low for labour market efficiency (60<sup>th</sup>), and moderately low on its Institutions (26<sup>th</sup>), relative to its overall position (15<sup>th</sup>).
  - ❖ Ireland (29<sup>th</sup>) performs strongest, and slightly better than its overall position, in relation to Higher Education and Training, Labour Market Efficiency, Technological Readiness, Business Sophistication and Innovation (all featuring in the top 25 overall). Its weakest competitiveness pillars relate to Financial Market Development (98<sup>th</sup>), its Market Size (54<sup>th</sup>) and Infrastructure (38<sup>th</sup>).
  - ❖ Spain (42<sup>nd</sup>) and Italy (48<sup>th</sup>) both record very low competitiveness scores for labour market efficiency, 115<sup>th</sup> and 118<sup>th</sup> respectively. Italy also scores very low on Financial Market Development (101<sup>st</sup>), and its Institutions (92<sup>nd</sup>). Spain scores low, in relation to its overall position, on its Institutions (53<sup>rd</sup>) and Financial Market Development (56<sup>th</sup>). Italy's strongest performances are in relation to Market Size (9<sup>th</sup>) and Business Sophistication (23<sup>rd</sup>). Spain also performs well in relation to Market Size (13<sup>th</sup>), and scores strongly on Infrastructure (14<sup>th</sup>).
  - ❖ Poland (39<sup>th</sup>) performs strongest on Market Size (21<sup>st</sup>) and its Higher Education and Training (26<sup>th</sup>). Its main weaknesses include Infrastructure (72<sup>nd</sup>), Innovation (54<sup>th</sup>) and Institutions (54<sup>th</sup>).
  - ❖ Romania (67<sup>th</sup>) performs best, relative to its overall position, on its Market Size (43<sup>rd</sup>), and Higher Education and Training (54<sup>th</sup>). Its weakest competitiveness pillars are Business Sophistication (93<sup>rd</sup>), Infrastructure (92<sup>nd</sup>) and Innovation (87<sup>th</sup>).



Table 1: Global Competitive Index Rankings 2010-2011

Country/Economy	2010/11 Ranking	2006/2007 Ranking	Rank Change 2006/7-2010/11
Switzerland	1	4	+3
Sweden	2	9	+7
Singapore	3	8	+5
United States	4	1	-3
Germany	5	7	+2
Japan	6	5	-1
Finland	7	6	-1
Netherlands	8	11	+3
Denmark	9	3	-6
Canada	10	12	+2
Hong Kong SAR	11	10	-1
UK	12	2	-10
Taiwan, China	13	13	0
Norway	14	17	+3
France	15	15	0
Australia	16	16	0
Qatar	17	32	+15
Austria	18	18	0
Belgium	19	24	+5
Luxembourg	20	25	+5
<b>Selected Others</b>			
Ireland	29	22	-7
Czech Republic	36	31	-5
Poland	39	45	+6
Cyprus	40	49	+9
Spain	42	29	-13
Portugal	46	43	-3
Italy	48	47	-1
Hungary	52	38	-14
Greece	83	61	-22
Romania	67	73	+6

Source: World Economic Forum

Table 2: Global Competitiveness Index – Competitiveness by Pillar

Country	Overall Global Rank 2010	Institutions	Infrastructure	Higher Education & Training	Labour market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
Switzerland	1	7	6	4	2	8	7	36	4	2
Sweden	2	2	10	2	18	13	1	34	2	5
<b>Germany</b>	<b>5</b>	<b>13</b>	<b>2</b>	<b>19</b>	<b>21</b>	<b>70</b>	<b>10</b>	<b>5</b>	<b>3</b>	<b>8</b>
<b>Finland</b>	<b>7</b>	<b>4</b>	<b>17</b>	<b>1</b>	<b>22</b>	<b>4</b>	<b>15</b>	<b>56</b>	<b>10</b>	<b>3</b>
Netherlands	8	12	7	10	23	26	3	19	5	13
Denmark	9	5	13	3	5	18	6	52	7	10
<b>UK</b>	<b>12</b>	<b>17</b>	<b>8</b>	<b>18</b>	<b>8</b>	<b>25</b>	<b>8</b>	<b>6</b>	<b>9</b>	<b>14</b>
Norway	14	6	29	12	15	5	9	44	14	18
<b>France</b>	<b>15</b>	<b>26</b>	<b>4</b>	<b>17</b>	<b>60</b>	<b>16</b>	<b>12</b>	<b>7</b>	<b>12</b>	<b>19</b>
Austria	18	15	20	16	32	23	18	33	6	20
Belgium	19	29	21	7	43	34	13	27	11	15
Luxembourg	20	9	19	41	37	6	2	89	18	16
<b>Ireland</b>	<b>29</b>	<b>24</b>	<b>38</b>	<b>23</b>	<b>20</b>	<b>98</b>	<b>21</b>	<b>54</b>	<b>20</b>	<b>22</b>
Czech Republic	36	72	39	24	33	48	32	42	34	27
<b>Poland</b>	<b>39</b>	<b>54</b>	<b>72</b>	<b>26</b>	<b>53</b>	<b>32</b>	<b>47</b>	<b>21</b>	<b>50</b>	<b>54</b>
Cyprus	40	30	26	29	42	15	38	104	33	38
<b>Spain</b>	<b>42</b>	<b>53</b>	<b>14</b>	<b>31</b>	<b>115</b>	<b>56</b>	<b>30</b>	<b>13</b>	<b>35</b>	<b>46</b>
<b>Italy</b>	<b>48</b>	<b>92</b>	<b>31</b>	<b>47</b>	<b>118</b>	<b>101</b>	<b>43</b>	<b>9</b>	<b>23</b>	<b>50</b>
Hungary	52	79	51	34	62	68	37	49	69	49
<b>Romania</b>	<b>67</b>	<b>81</b>	<b>92</b>	<b>54</b>	<b>76</b>	<b>81</b>	<b>58</b>	<b>43</b>	<b>93</b>	<b>87</b>
Greece	83	84	42	42	125	93	46	39	74	79

Source: World Economic Forum

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**IMD World Competitiveness Scoreboard**

- 2.10 The IMD World Competitiveness Scoreboard assesses 58 economies, which the IMD regards as key players in the world markets. They are scored against 4 broad 'competitiveness factors', which are made up of a series of 'competitiveness sub-factors' (Appendix 2). The former consist of the following: economic performance; governance efficiency; business efficiency; and infrastructure. Over 300 criteria are used to assess and score economies against these competitiveness factors to provide an overall ranking score.
- 2.11 In 2010 European countries made up nearly half of the top 20, accounting for 9 in the highest third of the rankings. The top ten was shared more equally between Asian and European countries, with the former accounting for 4 countries against Europe's 3.
- 2.12 Northern European countries had most representatives in the top 20, with 4 countries, two of which, Norway and Sweden, appear in the top 10. Central European countries have three in the top 20, with Switzerland ranking 4<sup>th</sup> overall. Western Europe has two representatives in the top 20, Luxembourg and the Netherlands.
- 2.13 Southern and Eastern European countries rank somewhat lower, with the Czech Republic and Poland being the highest place in 29<sup>th</sup> and 32<sup>nd</sup>, respectively. These two out-perform the best placed southern countries, Spain and Italy, which rank 36<sup>th</sup> and 40<sup>th</sup> respectively (Table 3).
- 2.14 The IMD provides the following commentary the European performers in its 2010 index:
- ❖ Switzerland maintains an excellent position characterised by strong economic fundamentals (very low deficit, debt, inflation and unemployment) as a well defined position on export markets;
  - ❖ Sweden and Norway shine for the Nordic model
  - ❖ Germany leads the larger 'traditional' economies such as the UK, France, Japan and ITALY. Despite a significant budget deficit and growing debt Germany's performance is driven by strong trade (second largest exporter of manufactured goods), excellent infrastructure and a sound financial reputation.
  - ❖ The UK is undergoing uncertainties of the post-election period but also faces the dual challenges of the crisis' huge financial cost as well as the de-industrialisation of its economy.
  - ❖ France continues to suffer from the weight of its government sector although business efficiency is improving.
  - ❖ The credit worthiness storm that affects Southern Europe acts as a drag on the performance of Spain and Portugal...and Greece...It is expected that these three nations, which all have significant budget deficits, growing debt and a weak trade performance, will suffer from further recession this year
  - ❖ The social consequences of the crisis will remain
- Pre & Post Crisis Winners & Losers*
- 2.15 Comparing the IMD indexes for 2007 and 2010 reveals striking changes. While some countries have evidently been hit hard by the economic crisis and have fallen significantly down the IMDs index, others seem to have improved their overall competitiveness. Apart from Ireland, which fell 7 places, countries which have been hit hardest by the crisis are predominantly located in Southern and Eastern Europe, including: Bulgaria, dropping 12 places; Greece, dropping 10 places; Hungary, dropping 7 places; and Spain, dropping 6 places. The exception here appears to be Poland, which has seen its ranking position increase by the most globally, jumping 20 places between 2007 and 2010, from 52<sup>nd</sup> to 32<sup>nd</sup>.
- 2.16 In Northern and Western Europe, the picture has been more stable, with countries either gaining or losing no more than 3 or 4 places overall. The largest increases were seen in Norway, up by 4 places, and Sweden and France, both up 3 places.
-

- 2.17 After Poland, Asian countries appear to have improved their competitiveness the most markedly pre and post crisis, with Taiwan and Malaysia improving by 10 and 13 places respectively, and now ranked in the top 10 countries globally.

**Table 3: IMD World Competitiveness ScoreBoard 2010**

Country	Rank 2010	Rank 2007	Rank change 2007-2010 (+/-)
Singapore	1	2	+1
Hong Kong	2	3	+1
USA	3	1	-2
Switzerland	4	6	+2
Australia	5	12	+7
Sweden	6	9	+3
Canada	7	10	+3
Taiwan	8	18	+10
Norway	9	13	+4
Malaysia	10	23	+13
<i>Selected others</i>			
Germany	16	16	0
Finland	19	17	-2
Ireland	21	14	-7
UK	22	20	-2
France	24	28	+4
Czech Republic	29	32	+3
Poland	32	52	+20
Spain	36	30	-6
Italy	40	42	+2
Hungary	42	35	-7
Greece	46	36	-10
Bulgaria	53	41	-12
Romania	54	n/a	n/a

Source: IMD World Competitiveness Scoreboard

#### European Competitive Index 2006-07: Country Rankings

- 2.18 The ECI measures and compares the competitiveness of Europe's nations and regions. It defines competitiveness as *'the capability of an economy to maintain increasing standards of living for those who participate in it, by attracting and maintaining firms with stable or rising market shares in an activity, As such the competitiveness of a region will depend on its ability to anticipate and successfully adapt to internal and external economic and social challenges, by providing new economic opportunities, including higher quality job'* (p.1).
- 2.19 The ECI selects a wide range of indicators (36 in total) across 5 overarching variables in order to make a quantitative comparison of the competitiveness of Europe's regional and national economies. Its five key competitiveness variables include: creativity; economic performance; infrastructure & accessibility; knowledge employment; and education (see Appendix 3 for fuller description).
- 2.20 The most recent ECI national rankings are only available pre world economic crisis, covering 2006-07. The top of the rankings are dominated by countries from Northern, Central and Western Europe, with Northern states featuring particularly strongly in the top 10, with five representatives. The highest ranked Southern state is Italy (14<sup>th</sup>), with Slovenia being the highest ranked Eastern state (16<sup>th</sup>).
- 2.21 Finland features at the top of the rankings (Table 4). The ECI provides the following reasons: *'[Finland's rank] is due to its focus on maintaining investment in innovation across the whole country, with large increases in both public and corporate research over the past couple of decades (p.6). It ranks highest for both government and higher education R&D employment, and second for business R&D employment, only being surpassed by Switzerland and Germany for patent production per capita (p.6).*

**Table 4: National European Competitive Index 2006-07**

Country	Rank
Finland	1
Luxembourg	2
Switzerland	3
Norway	4
Denmark	5
Sweden	6
Netherlands	7
United Kingdom	8
Austria	9
France	10
<i>Selected Others</i>	
Germany	12
Ireland	13
Italy	14
Spain	15
Slovenia	16
Poland	24

Source: European Competitiveness Index 2006/07

### 3. Regional Rankings

#### European Competitive Index 2006-07

- 3.1 The regions included in the EC index cover Nuts 1 areas for the EU 25 states, plus Norway and Switzerland. 118 Nuts 1 regions are ranked. *See above description for ECI methodology.* The top 20 Nuts 1 regions are dominated by those from Northern and Central states, both accounting for 7 regions each. The remainder come from Western Europe (with 3 regions), the South (with 1 region), and the East (2 regions).
- 3.2 Two NUTS 1 regions in Eastern Europe stand a very long way in front of the other regions in terms of economic competitiveness: Prague in the Czech Republic and Bratislavsky in Slovakia. Both of these make it into the top 10 of the ECIs overall competitiveness rankings, with the next best performing region from Eastern Europe lying in 47<sup>th</sup>. While these three regions have an above average overall index score, all the remaining Eastern European regions competitiveness score lies well below average (Table 5).
- 3.3 Of the case study cities, Tampere's NUTS 1 region performs strongest, standing in 21<sup>st</sup> overall, closely followed by Munich's Nuts 1 region, Bayern, in 24<sup>th</sup>. Cork's Southern and Eastern NUTS 1 region also makes the top 30, standing in 29<sup>th</sup>. At the other end of the rankings, it is Eastern European case study cities' NUTS 1 regions which perform the weakest, with Katouice's region ranking 100<sup>th</sup> overall.

Table 5: ECI European Regional Competitiveness Index Score 2006/07

Nuts 1 Region	Rank	Overall Index Score
<b>Top 10 Regions</b>		
Brussels, Belgium	1	193.5
Uusimaa, Finland	2	188.3
Ile de France, France	3	185.2
Stockholm, Sweden	4	177.8
Etela-Suomi, Finland	5	175.4
Luxembourg	6	165.9
Prague, Czech Republic	7	165.7
Hamburg, Germany	8	163.5
London, UK	9	162.6
Bratislavsky Kraj, Slovakia	10	159.6
<b>Bottom 10 Regions</b>		
Estonia	109	49.4
Lithuania	110	45.7
Severozapad, Czech Republic	111	44.2
Stredni Morava, Czech Republic	112	44.1
Latvia	113	42.7
Stredne Slovensko, Slovakia	114	42.4
Alfold es Eszak, Hungary	115	41.2
Severovychod, Czech Republic	116	39.7
Stredni Cechy, Czech Republic	117	38.3
Wschodni, Poland	118	37.6
<b>NUTS 1 Regions of Case Study Cities</b>		
Lansi-Suomi, Finland (Tampere)	21	132.4
Bayern, Germany (Munich)	24	129.7
Southern & Eastern Ireland (Cork)	29	122.1
Centre-Est, France (Lyon)	32	119.0
Nord Ovest, Italy (Turin)	40	112.2
Este, Spain (Barcelona)	45	107.7
Yorkshire & Humberside, UK (Leeds)	57	102.3
Poludniowy, Poland (Katowice)	100	62.1
Timisoara – not available	-	-

Source: European Competitiveness Index 2006/07

### 3.4 These were the key findings relating to the individual competitiveness sector variables:

#### *Creativity*

- ❖ Only 14 of the 118 regions in the ECI study had an **R&D expenditure** that exceeded 3% of GDP. 8 of these were either from Finland or Sweden, with 4 NUTS 1 regions each. Germany followed with 3 regions; with the UK, France and Czech Republic all with 1 region each.
- ❖ The 20 leading European regions for **business expenditure on R&D** were concentrated in Germany (5), Sweden (4) and Finland (4).
- ❖ 10 of the top 20 regions for **patent applications** were present in the top 20 of the overall ECI rankings, which the ECI authors note: *'supports the use of this indicator to measure innovative capacity, and knowledge competitiveness more generally'* (p.12). Again, German (6), Swedish (4) and Finish (4) regions made up the majority of the top twenty, with 14 regional representatives. Baden-Wurttemberg of Germany was the top performing NUTS 1 European region.

#### *Knowledge Economy*

- ❖ The top 20 regions for **high technology services employment** (an aggregate measure for employment in ICT services; R&D; and telecommunications) are represented by 15 different countries, and predominantly in the capital city regions. As the ECI authors note: *'each nation tends to have a central pole region which provides the base for the nation's high technology service companies...with these regions tending to be centred around the nation's economic centres [and capital cities]: Paris, Stockholm, Madrid, Brussels, Prague and so on...'*

- ❖ The top 20 regions for **high technology manufacturing** shows a greater degree of geographical concentration, with 4 regions from Germany, 4 from Italy and 5 from the Czech Republic. The Czech Republic performs well here due to the country being the Central European hub for FDI investment in the form of mechanical and automotive engineering companies. However, for the Czech Republic this does not translate into a high score in the overall Competitiveness Index as ‘this investment continues to be primarily attracted on the basis of low labour costs’ (p.16).
- ❖ **Biotechnology and Chemicals** are recognised as having very specific human capital requirements that are often very highly knowledge-intensive (ibid, p.18). 3 German regions make the top 10 of this index (with 2 in the top 3) and 4 are in the top 20. 4 other countries had more than one representative in the top 20: Italy (2), UK (2), Czech Republic (2) and France (2).
- ❖ The majority of the top 20 NUTS 1 regions for **IT and Computer manufacturing** come from Northern Europe, with 7 NUTS 1 regional representatives. However it is closely followed by Central-East Europe with 5 representatives, coming from two countries, the Czech Republic and Hungary. Western and Central Europe each have 4 representatives.

#### *Economic Performance*

- ❖ The worst performing region in terms of **long term unemployment** were concentrated in Southern and Eastern Europe. The best performing regions were predominantly from either Western and Northern Europe. The UK, Sweden and Netherlands, in particular stand out with more than one region each in the top 10.
- ❖ Mean **gross monthly earnings** are ‘a key measure of the relative wealth and standards of living within a region, and to some extent a proxy measure of the quality of the jobs within a region’ (p.25). Here there is a clear gap between the Eastern Europe and the rest, with the bottom 7 nations all coming from either Central East or Eastern Europe.
- ❖ A similar story emerges relating to **earnings inequalities** between regions within countries. The highest inequalities between country NUTS 1 regions are found in Hungary, Slovakia and the Czech Republic, which as the report notes, highlights that large disparities between the capital region and the rest in these countries: ‘For Hungary this represents the large income disparity between the capital Budapest, and the rest of Hungary...In second and third position are Slovakia and the Czech Republic...home to the dynamic regions of Bratislavsky and Prague respectively...It is important that these nations find an effective means to disseminate the knowledge and technological advantages generated by these economic centres to their less affluent peripheries.’ [p.26].
- ❖ Northern European regions dominate in terms of high **economic activity rates**, with 12 representatives in the top 12. Western Europe is the next best performing, with 6 NUTS 1 regions in the top tier. As the ECI authors note: ‘economic activity rates are a key indicator of both economic and asocial vibrancy...The level of economic activity within a region or nation is an indicator of its social cohesion and level of dependency upon its public welfare system.’ (p.27).

#### *Infrastructure & Accessibility*

- ❖ The ECI report notes: ‘well-developed infrastructure is a feature of the majority of Europe’s most economically competitive regions...The exceptions to this rule are generally found in northern region of Finland, Norway and Sweden...At the other end of the scale Ile de France, Luxembourg and London stand out as particularly well-connected regions’ (p.28)
- ❖ All the top 10 ECI ranked NUTS 1 regions, apart from the 2 Finish regions, score well above the average for the majority infrastructure index scores (Table 6).
- ❖ Conversely, the NUTS 1 regions appearing at the bottom of the ECI competitiveness rankings all score well below the average for the majority infrastructure index scores. Moreover, all these regions are concentrated in Eastern Europe (Table 6)
- ❖ The ECI authors note ‘broadband penetration is undoubtedly a key indicator of the density and modernity of a nation’s and regions communications infrastructure’ (p.29). The top performers on this index are Northern and Western European states, with Netherlands, Denmark and Finland heading the list. Ireland stands out as a relatively poor performer in terms of broadband penetration: ‘Ireland performs extremely poorly in this category...with only one access line for every 20 people’ (p.29). This compares to one access line for every 5 inhabitants for the best performers. The bottom of the rankings are dominated by Eastern and Southern European countries, with Greece, Slovakia and Poland being the bottom 3 of the ECI country rankings.

**Table 6: Top & Bottom 10 ECI Regions: Infrastructure Index Scores**

<b>Nuts 1 Region</b>	Length of motorway index score	Air freight Embarked Index	Air Passengers Embarked Index	Length of Railway Index
<b>Top 10 Regions</b>				
Brussels, Belgium	265.4	0.9	-	816.5
Uusimaa, Finland	-	-	-	-
Ile de France, France	190.9	303.0	246.2	132.9
Stockholm, Sweden	142.1	98.9	352.1	46.3
Etela-Suomi, Finland	39.0	98.4	153.2	29.2
Luxembourg	215.0	3972.6	126.3	105.9
Prague, Czech Republic	80.8	117.2	250.8	383.5
Hamburg, Germany	405.6	57.6	211.3	725.9
London, UK	143.5	520.0	344.1	-
Bratislavsky Kraj, Slovakia	189.3	34.5	28.6	118.9
<b>Bottom 10 Regions</b>				
Estonia	8.2	8.1	20.7	21.3
Lithuania	24.2	2.7	8.1	27.1
Severozapad, Czech Republic	12.9	0.0	0.8	170.2
Stredni Morava, Czech Republic	0.0	3.1	0.0	119.3
Latvia	0.0	3.1	11.9	37.2
Stredne Slovensko, Slovakia	10.7	0.3	0.3	66.6
Alfold es Eszak, Hungary	9.9	0.0	0.0	18.5
Severovychod, Czech Republic	0.0	0.0	0.0	133.5
Stredni Cechy, Czech Republic	59.0	0.0	0.0	126.5
Wschodni, Poland	0.0	0.0	0.0	46.6

Source: European Competitiveness Index 2006/07

### World Knowledge Competitiveness Index of Regions

- 3.5 The WKCI is an integrated and overall benchmark of the knowledge capacity, capability and sustainability of each region, and the extent to which this knowledge is translated into economic value, and transferred into the wealth of the citizens of each region. The index compares 145 regions across 19 knowledge economy benchmarks, which are grouped under five components: human capital; knowledge capital; regional economy outputs; financial capital; and knowledge sustainability (see Appendix 4 for more details). The European regions contained in the index (54 in total) are based on NUTS 1 regional units.
- 3.6 The top 20 of the global rankings are dominated by the US, with 13 regions, followed by 5 regions from Europe and 2 from Japan. The US metropolitan region of San Jose, home of Silicon Valley, leads the rankings overall.
- 3.7 Of the European regions Northern states dominate, with 7 of the top 10 European regions coming from here. The remainder are from Central Europe, with 1 representative, and 2 from Western Europe (Table 7). Eastern European regions appear at the foot of the Global knowledge competitiveness rankings, with Budapest being the highest placed in 128<sup>th</sup> position overall.



**Table 7: Top 10 European Regions for Knowledge Competitiveness 2008**

Region (NUTS 1)	Global Rank
Stockholm	6
Iceland	14
West, Sweden	16
West, Netherlands	19
Pohjois-Suomi, Finland	20
Etela-Suomi, Finland	23
Switzerland	28
Ile de France	29
Luxembourg	34
Denmark	36

Source: World Knowledge Competitiveness Index 2008

### European Cities & Regions of the Future

- 3.8 The FDI magazine's European cities and regions of the future rankings benchmark 223 European cities and 142 European regions under six categories: economic potential; human resources; cost effectiveness; quality of life; infrastructure; and business friendliness; and FDI promotion strategies. Each category consists of a number of quantitative data indicators, which are combined to give an overall score.
- 3.9 The top of the regional rankings are dominated by Western European regions, with 6 in the top 10, with Central and Northern European regions containing two each. Only one region from Eastern Europe makes the top 25 of the rankings (Table 8).

**Table 8: Top European Regions 2010/11**

Region	Rank
South-east	1
Ile-de-France	2
Nordrhein-Westfalen	3
Bayern	4
Capital Region	5
Centre-est	6
Flanders	7
Scotland	8
Greater Dublin Region	9
Greater Stockholm Region	10
<i>Selected others</i>	
Catalonia	11
Yorkshire & Humberside	24
Bucharest-Ilfov, Romania	25

Source: FDI magazine European Cities & Regions of the Future

## 4. City Rankings

### Cushman & Wakefield European Cities Monitor

- 4.1 Cushman and Wakefield's survey explores the perceptions that business executives have about the leading business cities across Europe. A total of 500 European companies took part in the latest survey during 2010, looking at 36 European cities. The survey asks for business executives' perceptions & experiences on a number of themes, which include the best cities in terms of: qualified staff; ease access to markets; external transport links; availability & value for money of office space; staff costs; internal transport links; quality of life for staff; freedom from pollution; telecommunications. Each area receives an individual ranking. An overall ranking is also constructed, which combines each of the individual rankings for an average score.

- 4.2 In its 2007 survey Cushman and Wakefield interestingly noted that the availability of qualified staff had overtaken access to markets as being the most important factor business executives considered when locating a business. Access to market came second, followed by quality of telecommunications in third. Fourth was external transport links.
- 4.3 German cities dominate Cushman and Wakefield’s city rankings. 4 are located in the top 10 during 2010, including Munich. Barcelona, together with Frankfurt are the only two secondary cities which out perform their respective capitals, Madrid and Berlin.
- 4.4 Southern and Eastern European cities fill the bottom third of the rankings, with five out of the bottom ten from these regions.
- Pre & Post Recession winners & losers*
- 4.5 Cushman and Wakefield’s survey suggests that Eastern European cities appear to have fared the worst as a result of the global recession. These cities have seen their rankings fall by the greatest margins, particularly Budapest (-8) and Bucharest (-7).
- 4.6 Apart from Dublin, which has seen its rank drop by 9 places between 2007 and 2010, no other cities from Northern, Central and Western have seen their rankings fall to any great extent.
- 4.7 But there have been cities from these parts of Europe which have seen their rank increase significantly post recession. The biggest climbers appear to be secondary cities. For example, Dusseldorf in Germany, climbing 6 places to reach the top 10 in 2010. Leeds has also seen its ranking increase substantially, albeit from a much lower position, up 7 places from 30<sup>th</sup> in 2007 to 23<sup>rd</sup> in 2010 (Table 9).

**Table 9: Cushman & Wakfield European Cities Monitor Rankings**

City	2010 Rank (out of 36)	2007 Rank (out of 33)	Rank change 2007-10 (+/-)
London	1	1	0
Paris	2	2	0
Frankfurt	3	3	0
Brussels	4	6	+2
<b>Barcelona</b>	5	4	-1
Amsterdam	6	5	-1
Berlin	7	8	+1
Madrid	8	7	-1
<b>Munich</b>	9	9	0
Dusseldorf	10	16	+6
<i>Selected others</i>			
Dublin	20	11	-9
<b>Lyon</b>	19	17	-2
<b>Leeds</b>	23	30	+7
<b>Warsaw</b>	24	19	-5
<b>Bucharest</b>	35	28	-7
<b>Budapest</b>	30	23	-8
<b>Athens</b>	36	33	-3

Source: Cushman & Wakfield European Cities Monitor

*Case Study City Performances in 2010*

- 4.8 **Barcelona** performs best from the case study cities, ranking 5<sup>th</sup> overall. The city performs particularly strongly on the quality of life for employees, ranking first overall. It also performs strongly in relation to office space availability & value for money; staff costs; and internal transport. Its weakest performances were in relation to the presence of qualified staff (13<sup>th</sup>), the quality of its telecommunications (15<sup>th</sup>), languages spoken (13<sup>th</sup>) and freedom from pollution (13<sup>th</sup>), but even these are all in the top half of the rankings.

- 4.9 **Munich** follows Barcelona in 9<sup>th</sup> position. Again it offers very strong quality of life for employees, ranking second overall behind Barcelona. Munich also performs strongly in relation to qualified staff; ease of access to markets; quality of telecommunications; external and internal transport links; and freedom from pollution, all appearing in the top 10 for their respective rankings. However, Munich ranks very low on staff costs (34<sup>th</sup>); and appears in the bottom half of the rankings in relation to value for money and availability of office space.
- 4.10 **Lyon** ranks 19<sup>th</sup> overall. It performs strongest on value for money of office space and ease of access to markets, both appearing in the top 10 overall. But Lyon appears in the bottom third of the rankings in relation to qualified staff; languages spoken; and the business climate created by the government in relation to tax incentives and financial incentives.
- 4.11 **Leeds** ranks 23<sup>rd</sup> overall. It performs particularly strongly in relation to value for money of its office space, ranking first place overall. It also ranks in the top ten cities in terms of its staff costs and availability of office space. Leeds is weakest in terms of quality of life for employees; and languages spoken, both appearing in the bottom third of the rankings. Leeds appears in the middle order for most other categories.

**Mercer Quality of Living Worldwide City Rankings 2010**

- 4.12 The Mercer Quality of Living city index covers 221 cities worldwide and is devised based upon 39 factors which are grouped into 10 categories, including: political & social environment; economic environment; socio-cultural environment; health and sanitation; schools and education; public services and transportation; recreation; consumer goods; housing; natural environment.
- 4.13 Europe contains 16 of the top 25 cities in Mercers index (Table...). Central European cities feature prominently, with three German cities in the top ten, three from Switzerland and one from Austria, with the latter, Vienna, taking the top ranking. Interestingly, apart from Vienna and Bern, all the other European cities in the top ten are non capitals.
- 4.14 Southern European countries lag somewhat behind their central, northern and western European neighbours, with Milan being the highest ranked in 41<sup>st</sup> position. Barcelona features higher Madrid in the index, ranked 44<sup>th</sup> to Madrid's 48<sup>th</sup>.
- 4.15 The leading Eastern European countries are ranked the lowest amongst Europe's main regions. Prague is ranked the highest, in 70<sup>th</sup> position, followed by Budapest in 73<sup>rd</sup> (Table 10).

**Table 10: Mercer Top 10 Cities for Quality of Living**

City	2010 Ranking	2007 Ranking	Rank change 2007-10 (+/-)
Vienna	1	3=	+2
Zurich	2	1	-1
Geneva	3	2	-1
Vancouver	4	3=	-1
Auckland	5	5	0
Dusseldorf	6	5	-1
Frankfurt	7	7	0
<b>Munich</b>	8	8	0
Bern	9	9=	0
Sydney	10	9=	-1
<i>Selected Others</i>			
Dublin	26	27	+1
Paris	34	33	-1
Helsinki	35	30	-5
<b>Lyon</b>	38	36	-2
<b>London</b>	39	39	0
<b>Milan</b>	41	49	+8

<b>Barcelona</b>	44	41	-3
<b>Madrid</b>	48	42	-6
<b>Prague</b>	70	72	+2
<b>Budapest</b>	73	74	+1
<b>Athens</b>	75	78	+3
<b>Warsaw</b>	84	85	+1
<b>Bucharest</b>	107	108	+1

Source: Mercer Quality of Living Index 2010

### The Economist Intelligence Unit’s Liveability Survey

- 4.16 The economist liveability survey assesses which locations around the world provide the best and the worst living conditions. 140 cities are assessed against 30 qualitative and quantitative factors across five broad categories, which include: stability (crime, military conflict, civil unrest, etc); healthcare (availability; quality, etc); culture & environment (social/religious restrictions, corruption; censorship; sporting & cultural availability, food & drink, etc); education (availability, quality, etc) and infrastructure (quality of road & public transport network; quality international links; quality energy, water & telecommunications provision, etc).
- 4.17 European cities make up 12 of the top 25 cities, with central European cities accounting for 6, Northern 4 and Western 2 (Table 11). Southern and Eastern European cities lag somewhat behind their European neighbours, with the highest placed cities from these regions being Milan (50<sup>th</sup>) and Budapest (55<sup>th</sup>).
- 4.18 In Germany, Spain and the UK one or more secondary cities feature higher than their respective capital.

**Table 11: Top 25 European Cities & selected others from Economist Liveability Survey**

<b>City</b>	<b>Ranking</b>
Vienna	2
Helsinki	7
Geneva	8
Zurich	9
Stockholm	14
Hamburg	14=
Paris	17
Frankfurt	19
Copenhagen	21
Berlin	22
Oslo	24
Luxembourg	25
<i>Selected Others</i>	
Munich	28
Lyon	34
Barcelona	35
Madrid	39
Manchester	46
Dublin	49
London	51
Hungary	55
Prague	60
Warsaw	70

Source: Economist Intelligence Unit

### European Cities & Regions of the Future

See section 3.3 for brief methodological description.

- 4.19 Northern (6 cities), Western (7 cities) and Central (7 cities) European cities dominate the top of the FDI rankings. Southern and Eastern European cities only account for 5 of the top 25 cities.
- 4.20 Spain and Germany are the only two countries where secondary cities feature higher than their respective capitals. For example, Barcelona lies in 5<sup>th</sup> place overall, while Madrid is positioned in 11<sup>th</sup>. Similarly in Germany, both Frankfurt (8<sup>th</sup>) and Hamburg (14<sup>th</sup>) rank higher than Berlin (16<sup>th</sup>), which is also closely followed by Munich (17<sup>th</sup>).
- 4.21 Germany and the UK are the only two countries with more than one city in the top 25 of FDIs rankings, both with 4 representatives each (Table 12).

**Table 12: Top 25 European Cities Overall**

City	2010/11 Ranking	2007/08 Ranking	Ranking Change 2007/08-2010/11 (+/-)
London	1	1	0
Paris	2	2	0
Moscow	3	-	-
Stockholm	4	25	+21
Barcelona	5	14	+9
Dublin	6	21	+15
Vienna	7	24	+17
Frankfurt	8	8	0
Brussels	9	9	0
Edinburgh	10	6	-4
Madrid	11	12	+1
Amsterdam	12	5	-7
Copenhagen	13	4	-9
Hamburg	14	18	+4
Zurich	15	42	+27
Berlin	16	3	-13
Munich	17	31	+14
Bucharest	18	-	-
Oslo	19	43	+24
Eindhoven	20	-	-
Cambridge	21	32	+11
Warsaw	22	28	+6
Helsinki	23	39	+16
Manchester	24	10	-14
Budapest	25	47	+22

Source: Fdi magazine European Cities & Regions of the Future

## Appendices

### Appendix 1: GCI 12 Competitiveness Pillars

Competitiveness Pillars	WEF Summary & Definition
Institutions	Institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate income and wealth in the economy. The quality of institutions has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies.
Infrastructure	Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions. In addition, the quality and extensiveness of infrastructure networks significantly impact economic growth and affect income inequalities and poverty in a variety of ways
Macroeconomic environment	The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country.
Health & primary education	A healthy workforce is vital to a country's competitiveness and productivity. Workers who are ill cannot function to their potential and will be less productive. Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency. Investment in the provision of health services is thus critical for clear economic, as well as moral, considerations.
Higher education & training	Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products. <sup>13</sup> In particular, today's globalizing economy requires countries to nurture pools of well-educated workers who are able to adapt rapidly to their changing environment and the evolving needs of the production system. This pillar measures secondary and tertiary enrolment rates as well as the quality of education as evaluated by the business community
Goods market efficiency	Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy. Healthy market competition, both domestic and foreign, is important in driving market efficiency and thus business productivity, by ensuring that the most efficient firms, producing goods demanded by the market, are those that thrive
Labour market efficiency	The efficiency and flexibility of the labour market are critical or ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs. Labour markets must therefore have the flexibility to shift workers from one economic activity to another rapidly and at low cost, and to allow for wage fluctuations without much social disruption. The importance of the latter has been dramatically highlighted by the difficulties countries with particularly rigid labour markets—such as Spain—have encountered in recovering from the recent major economic downturn.
Financial market development	The recent financial crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities. An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses. It channels resources to those entrepreneurial or investment projects with the highest expected rates of return rather than to the politically connected. A thorough and proper assessment of risk is therefore a key ingredient. Business investment is critical to productivity. Therefore economies require sophisticated financial markets that can make capital available for private-sector investment from such sources as loans from a sound banking sector, properly regulated securities exchanges, venture capital, and other financial products
Technological readiness	In today's globalized world, technology has increasingly become an important element for firms to compete and prosper. The technological readiness pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICT) in daily activities and production processes for increased efficiency and competitiveness
Market size	The size of the market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries. There is vast empirical evidence showing that trade openness is positively associated with growth. Even if some recent research casts doubts on the robustness of this relationship, the general sense is that trade has a positive effect on growth, especially for countries with small domestic markets
Business sophistication	Business sophistication is conducive to higher efficiency in the production of goods and services. This leads, in turn, to increased productivity, thus enhancing a nation's competitiveness. Business sophistication concerns the quality of a country's overall business networks as well as the quality of individual firms' operations and strategies.
Innovation	The final pillar of competitiveness is technological innovation. Although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital, all these factors eventually seem to run into diminishing returns. The same is true for the efficiency of the labor, financial, and goods markets. In the

	long run, standards of living can be enhanced only by technological innovation. Innovation is particularly important for economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear.
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**Appendix 2: IMD Competitiveness Factors & sub-factors**

Competitive Factors	Competitive Sub-Factors
Economic Performance (76 criteria)	Macro-economic evaluation of domestic economy: <ul style="list-style-type: none"> <li>- Domestic economy</li> <li>- International trade</li> <li>- International investment</li> <li>- Employment</li> <li>- Prices</li> </ul>
Governance Efficiency (71 criteria)	Extent to which government policies are conducive to competitiveness: <ul style="list-style-type: none"> <li>- Public Finance</li> <li>- Fiscal Policy</li> <li>- Institutional Framework</li> <li>- Business Legislation</li> <li>- Societal Framework</li> </ul>
Business Efficiency (67 criteria)	Extent to which national environment encourages enterprises to perform in an innovative, profitable & responsible manner: <ul style="list-style-type: none"> <li>- Productivity</li> <li>- Labour Market</li> <li>- Finance</li> <li>- Management Practices</li> <li>- Attitudes &amp; Values</li> </ul>
Infrastructure (113 criteria)	Extent to which basic, technological, scientific & human resources meet the needs of business: <ul style="list-style-type: none"> <li>- Basic Infrastructure</li> <li>- Technological Infrastructure</li> <li>- Scientific Infrastructure</li> <li>- Health &amp; Environment</li> <li>- Education</li> </ul>

**Appendix 3: ECIs Measures of Competitiveness**

Variable	Indicators
Creativity	<ul style="list-style-type: none"> <li>• R&amp;D Employment</li> <li>• R&amp;D Expenditure</li> <li>• No of patent applications</li> <li>• Employment in ICT Services</li> </ul>
Economic Performance	<ul style="list-style-type: none"> <li>• GDP per capita</li> <li>• Labour productivity</li> <li>• Unemployment &amp; Long term unemployment Rate</li> <li>• Mean Gross Monthly Earnings</li> <li>• Economic Activity Rates</li> </ul>
Infrastructure & Accessibility	<ul style="list-style-type: none"> <li>• Motorway Length (per km &amp; vehicle)</li> <li>• Length of railway (per km)</li> <li>• Air freight &amp; passenger disembarked per 1,0000</li> <li>• Number of vehicles</li> <li>• Broadband access lines</li> <li>• Secure Servers</li> </ul>
Knowledge Employment	<ul style="list-style-type: none"> <li>• Employment in biotechnology &amp; chemicals</li> <li>• Employment in IT and computer manufacturing</li> <li>• Employment in ICT services</li> <li>• Employment in R&amp;D</li> <li>• Employment in telecommunications</li> <li>• Employment in machinery &amp; equipment manufacturing</li> <li>• Employment in instrumentation &amp; machinery</li> <li>• Employment in automotive &amp; mechanical engineering</li> </ul>
Education	<ul style="list-style-type: none"> <li>• No of students in general &amp; pre-vocational upper secondary education</li> <li>• No students in vocational upper secondary education</li> <li>• No students in vocational tertiary education</li> <li>• Tertiary education expenditure per capita</li> <li>• Secondary education expenditure per capita</li> </ul>

**Appendix 4: World Knowledge Competitiveness Index**

Knowledge Competitiveness Component	Indicators
Human Capital	<ul style="list-style-type: none"> <li>- Employment in IT 7 computer manufacturing per 1,000</li> <li>- Employment in biotechnology &amp; chemicals per 1,000</li> <li>- Employment in automotive &amp; mechanical engineering per 1,000</li> <li>- Employment in instrumentation &amp; electrical machinery per 1,000 employees</li> <li>- Economic activity rate</li> <li>- Number of managers per 1,000 employees</li> </ul>
Knowledge Capital	<ul style="list-style-type: none"> <li>- Per capita expenditure on R&amp;D performed by Government</li> <li>- Per capita expenditure on R&amp;D performed by business</li> <li>- Number of patents registered per 1 million inhabitants</li> </ul>
Regional Economy Outputs	<ul style="list-style-type: none"> <li>- Labour productivity</li> <li>- Mean Gross Monthly Earnings</li> <li>- Unemployment Rates</li> </ul>
Financial Capital	<ul style="list-style-type: none"> <li>- Per capita private equity investment</li> </ul>
Knowledge Sustainability	<ul style="list-style-type: none"> <li>- Per capita public expenditure on primary &amp; secondary education</li> <li>- Per capita public expenditure on higher education</li> <li>- Secure Servers per 1 million inhabitants</li> <li>- Internet hosts per 1,000 inhabitants</li> <li>- Broadband access per 1,000 inhabitants</li> </ul>





**The ESPON 2013 Programme**

## **ANNEX 5**

# **PROJECT BIBLIOGRAPHY**



EUROPEAN UNION  
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## SECTION 2: CASE STUDIES AND NATIONAL POLICIES

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## APPENDICES: LITERATURE REVIEWS

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**The ESPON 2013 Programme**

## **ANNEX 6**

# **QUESTIONNAIRE**



EUROPEAN UNION  
Part-financed by the European Regional Development Fund  
INVESTING IN YOUR FUTURE

20<sup>th</sup> October, 2010

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**Director  
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E I U A

Dear Colleague,

**ESPON: Secondary Cities in Europe: Performance, Policies and Prospects**

I am writing to ask you for your help with this project by completing the attached questionnaire. It is part of a large study of secondary cities that I am leading for ESPON with the Metropolitan Research Institute in Budapest and the University of Tampere. The questionnaire is designed to get the views of senior policy makers and researchers across Europe of:

- ❖ The performance and prospects of secondary cities - nationally and across Europe;
- ❖ The impact of national, regional and local government policies upon them;
- ❖ How secondary cities could improve their performance and the key policy messages

We define secondary cities as those larger cities outside the capital whose economic and social performance is sufficiently important to affect the potential performance – positively or negatively - of the national economy.

We are now piloting this questionnaire with the ESPON Monitoring Committee and a limited number of senior policy makers and researchers across Europe to get their views. I would be very grateful if you could help us by completing it. I appreciate the questionnaire is quite long. But essentially I am asking for your existing views rather than lots of detailed information. However, I would ask you to provide as much evidence as you can to allow us to build up a picture of good practice across Europe. The boxes will expand to whatever size you need to enter your views. At the end of the questionnaire there is also an opportunity to add anything else that has not been raised.

All views will remain anonymous. But I would ask you to identify the country to which your remarks apply. I do hope you can find the time to complete this. It would help me a lot in this important study.

If you have any queries major or minor do feel free to contact me by e-mail or phone. I would be very happy to discuss things.

Many thanks in advance for you help.

Yours ever,



Professor Michael Parkinson CBE



## QUESTIONNAIRE ON SECONDARY CITIES IN EUROPE

**Section 1: HOW ARE SECONDARY CITIES PERFORMING - NATIONALLY AND IN EUROPE?**

**Section 2: WHAT IS THE IMPACT OF NATIONAL AND REGIONAL POLICIES ON SECONDARY CITIES?**

**Section 3: WHAT ARE THE FUTURE PROSPECTS & POLICIES FOR SECONDARY CITIES?**

\* \* \* \* \*

### Section 1: HOW ARE SECONDARY CITIES PERFORMING NATIONALLY AND IN EUROPE?

1. Which secondary cities do you think are performing well economically in your country? For example, how big a contribution are they making to national performance – how and why? Do any play important roles in the European economy? How and why?

2. How would you assess the current balance of economic, territorial and political power between the capital city and secondary cities? Does the capital dominate or not? What impact does it have on the performance of the urban system and national economy?

3. How effective are secondary cities in promoting balanced territorial and economic development? How coherent and effective are governance arrangements in secondary cities? How ambitious, strategic and effective is local leadership? Are there ways in which these could be improved? For example what additional tools or levers of economic growth might be needed in secondary cities?

4. How effective are the working relationships between public, private and community and voluntary partners in secondary cities? Can you provide an example of good practice? Are there ways in which these relationships could be improved?

5. How effectively do secondary cities work with their sub regional and regional government and partners? Are there examples of economic and territorial cooperation or competition between them? Does national policy encourage territorial competition or collaboration between secondary cities and how?

6. What impact has the current economic and financial crisis had upon the territorial and economic performance and prospects of secondary cities and their relationship with the capital? Are there ways in which this impact might be reduced?

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## **Section 2: WHAT IS THE IMPACT OF NATIONAL AND REGIONAL POLICIES ON SECONDARY CITIES?**

The role of national and regional governments in the development of secondary cities varies in different countries. In your replies, please describe the contribution of both where they are significant.

7. How much importance does national and/or regional government attach to the contribution of secondary cities to economic and territorial development? Is there an explicit policy to improve the performance of secondary cities and achieve a more balanced territorial system? Does territorial development policy help secondary cities enough? Are there ways in which policy has either helped or hindered secondary cities' contribution to national performance?

<b>National government policy:</b>	
<b>Regional government policy:</b>	

8. If there is an economic gap between the capital and secondary cities, what is national government doing to reduce that gap and rebalance territorial relationships between capital and secondary cities? Is it doing enough?

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9. Is the division of responsibilities, roles, resources and powers between national and regional government and secondary cities adequate to encourage the development of secondary cities? For example, do secondary cities have enough financial and decision making powers? Could the position be improved in any way?

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10. What key factors characterise the relationship between national, regional and local governments? In particular, is national urban and territorial policy driven by national goals and targets or is it more based on contractual relationships between national government and cities? How could those relationships be improved?

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11. If there is a national policy for cities, does it focus narrowly on urban and territorial policy initiatives or more widely on the full range of mainstream public programmes which impact upon secondary cities? If there is a national policy, what are its key goals – economic competitiveness, regeneration, social cohesion, environmental sustainability, governance capacity, more balanced territorial development?

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12. Does national government have the right balance between those different goals? For example, should policy be more or less concerned with economic competitiveness, social cohesion, environmental sustainability and their territorial impact?

13. How have national and regional government priorities for investment in key sectoral economic development policies affected secondary cities? Do these sectoral policies have an explicit territorial dimension? Has investment in these sectors been distributed evenly across the country or concentrated in the capital? What have been the results?

Key policy sectors include:	Comments:
Research and development	
Transport and IT infrastructure	
Skills and education	
Housing and physical infrastructure	
Cultural and architectural place quality	
Anything else?	

14. Is national government sufficiently well integrated and comprehensive in its policies towards secondary cities? Do different departments and branches of government share the same policy goals and understanding of the urban agenda, or are there differences? What are the results? How could the position be improved?

15. Are relationships between different levels of government – national, regional, local - sufficiently well integrated to encourage the development of secondary cities? If not, how could they be improved?

16. What do you think has been your country's' most successful policy initiative to improve the performance of secondary cities? What were the key reasons for its success and what can we learn from it?

### Section 3: WHAT ARE THE FUTURE PROSPECTS & POLICIES FOR SECONDARY CITIES?

17. What actions or programmes could local leaders – public, private, and community – take to improve the contribution of secondary cities to national and European performance?

18. What changes - if any - would you like to see in national government strategies and policies for secondary cities? Could you comment on the following potential changes?

Strategy and policy changes:	Comments:
More powers and resources for secondary cities	
Greater investment in physical or social infrastructure, education and training	
Greater focus on the territorial impact of national government policies and more balanced territorial development	
More consistency in national policy priorities for secondary cities	
Greater integration of government policies which affect cities	
Greater collaboration between national, regional and local governments	
Anything else?	

19. What has been the impact of EU policies on secondary cities in your country? Have they helped or hindered their performance? What changes in policy focus, implementation, or resources, if any, would you recommend?

20. Does the Europe 2020 strategy focus enough upon improving the performance and prospects of secondary cities? If not, what else might it do?

\* \* \* \*

**If you would like to add anything else that has not been raised in this questionnaire, please do so below. The more you write the more helpful you will be!**

### **Identification**

This questionnaire is anonymous but please identify the country to which your remarks apply.

### **Future contact**

If you are willing to discuss with us your views in more detail in future please do add your e-mail address.

## Key documents and people

I would be very grateful if you could identify - or attach electronically - any key policy or research documents you think would help us to understand better these issues. Equally I would be very pleased to receive suggestions about key researchers or policy makers we might contact whose views you think might help this study.

Key Documents:	
Key researchers & policy makers:	

## What next?

Please return this questionnaire to [j.parry@ljmu.ac.uk](mailto:j.parry@ljmu.ac.uk). We would accept it whenever it comes - but it would be most helpful if you could return it by **30 November 2010**.

If you would like to discuss any issues about this questionnaire or the study more generally I would be very happy to discuss them. Do please contact me at [m.h.parkinson@ljmu.ac.uk](mailto:m.h.parkinson@ljmu.ac.uk)

Thanks for your help and support.



Professor Michael Parkinson CBE



## CAPITAL AND SECONDARY CITIES IN STUDY

COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES
Austria	Vienna	France	Paris	Greece	Athens	Poland	Warsaw	Sweden	Stockholm
	Linz		Lille		Thessalonica		Katowice-Zory		Gothenburg
	Graz		Marseille	Hungary	Budapest		Krakow		Malmo
	Salzburg		Lyon		Debrecen		Gdansk	Switzerland	Zurich
	Innsbruck		Lens - Liévin		Miskolc		Wroclaw		Geneva
Belgium	Brussels		Bordeaux	Ireland	Dublin		Lodz		Bern
	Antwerp		Rouen	Italy	Rome		Poznan		Lausanne
	Liege		Nantes		Milan		Kielce		Basel
	Gent		Grenoble		Naples		Wloclawek	UK	London
	Charleroi		Toulouse		Turin		Bydgoszcz		Manchester
Bulgaria	Sofia		Strasbourg		Bari		Szczecin		Birmingham
	Plovdiv		Metz		Palermo		Lublin		Bradford-Leeds
	Varna		Nice		Brescia	Portugal	Lisbon		Glasgow
Croatia	Zagreb		Toulon		Catania		Porto		Sheffield
	Split		Montpellier		Salerno	Romania	Bucharest		Liverpool
Cyprus	Nicosia		Rennes		Florence		Iasi		Newcastle u Tyne
Czech Republic	Prague	Finland	Helsinki		Bologna		Craiova		Nottingham
	Ostrava		Tampere		Genoa		Constanta		Cardiff
	Brno		Turku	Latvia	Riga		Cluj-Napoca		Bristol
	Plzen	Germany	Berlin		Daugavpils		Timisoara		Leicester
	Hradec Kralove - Pardubice		Düsseldorf-Ruhrgebiet	Lithuania	Vilnius	Slovakia	Bratislava		Edinburgh
Denmark	Copenhagen		Frankfurt am Main		Kaunas		Kosice		Belfast
	Aarhus		Hamburg		Klaipeda	Slovenia	Ljubljana		
	Aalborg		Köln-Bonn	Luxembourg	Luxembourg		Maribor		
	Odense		Stuttgart	Malta	Valletta	Spain	Madrid		
Estonia	Tallinn		Munich	Netherlands	Randstad North		Barcelona		
	Tartu		Bielefeld		Randstad South		Valencia		
			Hannover		Eindhoven		Seville		
			Nuremberg		Arnhem		Malaga		
			Bremen		Heerlen		Murcia		
			Mannheim		Enschede		Bilbao		
			Leipzig	Norway	Oslo		Cádiz		
			Dresden		Bergen		Coruña		
			Chemnitz		Stavanger		Oviedo		



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## **ANNEX 7**

# **SELECTING SECOND TIER CITIES**



EUROPEAN UNION  
Part-financed by the European Regional Development Fund  
INVESTING IN YOUR FUTURE

### 1. Introduction

1.1 The CU response to our Inception Report invited us to rethink the selection of secondary cities and return with a clear proposal. In particular it noted that there were no secondary cities in some smaller countries and that in the case of Italy a number of cities that might have been expected to be included were excluded.

1.2 We have reviewed the position and identified a clear set of principles which we think should guide us. We set out our final proposal for our list of capital and secondary cities in this document. The request for a review has highlighted a series of choices or tensions we are trying to manage.

#### *How many are in – more or less?*

1.3 On one hand we have been encouraged to focus on places which really matter in functional terms to the performance of Europe. On the other we have been reminded of the need to have good geographical representation and balance. The former pushes us to a smaller number of places. The latter pushes us to a larger number. We have decided in this phase of the analysis to reflect the request for territorial representation. We will increase the number of places that will be analysed in this quantitative strand of the project. This complements the fact that in the case studies where we undertake qualitative work we have concentrated on a relatively small number of places.

#### *What selection criteria – population or function?*

1.4 In our initial selection we focussed primarily on a population cut-off but adjusted that by informal judgements of which places at the marginal cut off points were of such significance they had to be included or whether they could be excluded. On reflection we decided that attempting to use an informal functional judgement raised too many difficulties and decided to adopt a simple population criterion adapted by country size and, in the larger countries, the scale of their urban systems.

#### *How many representative places from the larger and smaller countries*

1.5 The 22 countries with populations fewer than 15 million have fewer metro-region areas than the 8 larger countries with populations up to 85 million. They have five or fewer. We have decided to include all metro regions in the 22 as they could all be assumed to matter to the national economy. By contrast we have decided to include only a selection of the metro regions in the 8 larger countries on the basis of their relative importance in the urban system. We ranked cities in descending order of population size and grouped them according to cumulative percentage shares of the total metropolitan population (excluding the capital). In this way, we could group secondary cities in terms of their relative importance in their different national urban systems. We could then apply a common threshold, defined by share of total metropolitan population (by quintile or quartile), across the larger countries.

#### *What about really small countries?*

1.6 Our initial selection excluded some places due to the absence of defined agreed metro-region boundaries. This was the case in smaller countries. To address the territorial representation theme we have decided that every country should have the capital city and the next biggest place. We will define the boundaries where this needs to be done. In some cases however there are no secondary cities to include outside of the capital.

## 2. Selecting the secondary cities

2.1 In our inception report we made the case for using OECD/DG-Regio metro-regions as an approximation for major secondary cities in Europe. That principle has been accepted so we do not repeat these arguments here. We proposed a list of 30 capital and 79 secondary city metro-regions. The choice was based on population data alongside our judgement of the significance of the various places. The Monitoring Committee proposed the inclusion of a number of additional cities. In considering their suggestions we decided we needed to construct a more robust coherent and consistent approach to the selection of cities.

### *Distinguishing between countries with larger and smaller populations*

2.2 Our starting point is the OECD/DG-Regio list of 255 metro-regions across 30 countries. Our first decision was to include all available metro-regions in the 22 countries with populations of under 15 million where defined metro-regions numbered five or less. In total this gave us an initial list of 55 places, 22 capitals and 33 secondary cities. These are listed in table 1.

**Table 1: Metro-regions selected in 22 of the 30 countries**

COUNTRY	METRO-REGION	COUNTRY	METRO-REGION
Austria	Vienna	Hungary	Budapest
	Linz		Debrecen
	Graz		Miskolc
	Salzburg	Ireland	Dublin
	Innsbruck		Cork
Belgium	Brussels	Latvia	Riga
	Antwerp	Lithuania	Vilnius
	Liege		Kaunas
	Gent	Luxembourg	Luxembourg
	Charleroi	Malta	Valletta
Bulgaria	Sofia	Norway	Oslo
	Plovdiv		Bergen
	Varna		Stavanger
Croatia	Zagreb	Portugal	Lisbon
Cyprus	Nicosia		Porto
Czech Republic	Prague	Slovakia	Bratislava
	Ostrava		Kosice
	Brno	Slovenia	Ljubljana
	Plzen		Maribor
Denmark	Copenhagen	Sweden	Stockholm
	Aarhus		Gothenburg
	Aalborg		Malmo
	Odense	Switzerland	Zurich
Estonia	Tallinn		Geneva
Finland	Helsinki		Bern
	Tampere		Lausanne
	Turku		
Greece	Athens		
	Thessalonica		

2.3 In the eight largest countries – France, Germany, Italy, Netherlands, Poland, Romania, Spain and the UK – the number of metro-regions was high, 200 in all. Since our focus is on the larger places in each of the countries, we decided to reduce the number of cities listed. We do it on the basis of population. But we do it not on a standard population threshold across the eight countries but in terms of the percentage of total metropolitan region population. Table 2 shows the places which

## Selecting Secondary Cities Revisited

would be included in our sample depending on whether we include the top 50%, 60%, 66.7%, 75% or 80%. The metro-regions are listed in size order starting with the largest, excluding the capital.

**Table 2: Cities in France, Germany, Italy, Netherlands, Poland, Romania, Spain, UK, at population thresholds from 50% to 80% of total metropolitan region population (excluding capitals)**

	FRANCE	GERMANY	ITALY	NETHERLANDS	POLAND	ROMANIA	SPAIN	UK	Cumulative no. of places (excluding capitals)
Capital cities	Paris	Berlin	Rome	Randstad North incl. Amsterdam	Warsaw	Bucharest	Madrid	London	
50% threshold includes	Lille	Düsseldorf-Ruhrgebiet	Milan	Randstad South	Katowice-Zory	Iasi	Barcelona	Manchester	51
	Marseille	Frankfurt am Main	Naples	Eindhoven	Krakow	Craiova	Valencia	Birmingham	
	Lyon	Hamburg	Turin	Arnhem	Gdansk	Constanta	Seville	Bradford-Leeds	
	Lens - Liévin	Köln-Bonn	Bari		Wroclaw	Cluj-Napoca	Alicante	Glasgow	
	Bordeaux	Stuttgart	Palermo		Lodz		Malaga	Sheffield	
	Rouen	Munich			Poznan		Murcia	Portsmouth	
	Nantes	Bielefeld			Kielce			Liverpool	
	Grenoble							Newcastle upon Tyne	
Toulouse							Nottingham		
Strasbourg									
60% threshold includes	Metz	Hannover	Brescia	Heerlen	Wloclawek		Bilbao	Stoke-on-Trent	67
	Nice	Nuremberg	Catania		Bydgoszcz		Cádiz	Cardiff	
	Toulon	Bremen							
66.7% threshold includes		Mannheim							
	Montpellier	Leipzig	Salerno	Enschede	Szczecin	Timisoara	Coruña	Bristol	82
	Rennes	Dresden	Florence		Lublin		Oviedo	Leicester	
	Chemnitz								
75% threshold includes									
	Brest	Saarbrücken	Bologna	Breda	Walbrzych	Galati	Vigo	Coventry	102
	Angers	Karlsruhe	Genoa		Kalisz		Zaragoza	Norwich	
	Saint-Etienne	Heidelberg	Caserta					Edinburgh	
	Kiel								
80% threshold includes		Augsburg							
	Nancy	Freiburg im Breisgau	Padua		Opole		Granada	Exeter	117
	Mulhouse	Erfurt	Verona		Bielsko-Biala		Córdoba	Bournemouth	
		Aachen							
		Magdeburg							
	Osnabrück								

2.4 There are a variety of considerations about the selection threshold. For example if we were to use the 50% rule, we add 51 places to the 33 already identified from the 22 smaller countries. However if we use this threshold some cities of regional significance would appear to be omitted, e.g. Cardiff or Bilbao. We feel that a higher threshold should be used.

2.5 We have decided to use the 66.7% cut-off. We believe it strikes a good balance between including places that really matter and territorial coverage. The 66.7% gives us a total of 82 from the big 8

## Selecting Secondary Cities Revisited

which added to the 33 from the 22 smaller countries gives a combined total of 115. This is higher than the list of 79 we identified in the Inception report. In addition our analysis will also include the 30 capitals.

2.6 Table 3 below lists the places that are omitted from the study if we use the 66.7% rule.

**Table 3: Metro regions omitted from the study, using the 66.7% rule**

FRANCE	GERMANY	ITALY	NETHERLANDS	POLAND	ROMANIA	SPAIN	UK
Brest	Saarbrücken	Bologna	Breda	Walbrzych	Galati	Vigo	Coventry
Angers	Karlsruhe	Genoa	Tilburg	Kalisz	Brasov	Zaragoza	Norwich
Saint-Etienne	Heidelberg	Caserta	Leiden	Opole		Granada	Edinburgh
Nancy	Kiel	Padua	Groningen	Bielsko-Biala		Córdoba	Exeter
Mulhouse	Augsburg	Verona		Radom		Las Palmas	Bournemouth
Caen	Freiburg im Breisgau	Venezia		Olsztyn		Santa Cruz de Tenerife	Belfast
Orléans	Erfurt	Vicenza		Rzeszów		Palma de Mallorca	Northampton
Clermont-Ferrand	Aachen	Modena		Częstochowa		Donostia-San Sebastián	Kingston-upon-Hull
Reims	Magdeburg	Taranto		Białystok		Pamplona/Iruña	Worcester
Amiens	Osnabrück	Cagliari		Tarnów		Santander	Stockton-on-Tees
Tours	Braunschweig	Latina				Valladolid	Swansea
Le Mans	Münster	Reggio nell'Emilia					Aberdeen
Dijon	Halle an der Saale	Parma					Wrexham
Avignon	Ulm	Pescara					Sunderland
	Kassel	Prato					Brighton & Hove
	Heilbronn						Plymouth
	Ingolstadt						Southampton
	Göttingen						Derby
	Lübeck						Swindon
	Regensburg						Luton
	Wolfsburg						
	Oldenburg						
	Mainz						
	Schwerin						
	Bremerhaven						
	Koblenz						
	Rostock						
	Pforzheim						
	Siegen						
	Hildesheim						
	Paderborn						
	Würzburg						
	Reutlingen						
	Cottbus						

2.7 We identified 4 places which were excluded using the strict population rule - but which our own understanding and the comments from the experts and monitoring committee suggested should be included. They are Edinburgh and Belfast in the UK - capitals of Scotland and Northern Ireland and Genoa and Bologna in Italy. We have added these.

### Alternative Boundaries

2.8 A further issue concerns the boundaries that are used in the OECD/DG-Regio metro-region work. We believe OECD/DG-Regio boundaries are the best agreed boundaries that are available at NUTS 3 level, the level at which pan-European data are published. We are aware that by using the populations of these metro-regions some over-bounding occurs.

## Selecting Secondary Cities Revisited

- 2.9 As a simple way of testing the extent of over-bounding we compared metro-region population data with Urban Audit LUZ population data. We are aware that the two boundary definitions are based on differing criteria. However we felt the comparison was valuable as the Urban Audit LUZ definitions are also trying to approximate the functional urban areas of each of the cities. The comparison was possible for 176 of the 255 places. The table below shows the results.

**Table 4: Metro-region and LUZ populations compared**

METRO-REGION POPULATION COMPARED WITH LUZ POPULATION	NUMBER OF CITIES	% OF CITIES
MR between 3 and 3.5 times size of LUZ	2	1.1
MR between 2 and 3 times size of LUZ	24	13.6
MR between 1.5 and 2 times size of LUZ	35	19.9
MR between 0.8 and 1.5 times size of LUZ	115	65.3
Total	176	100.0

- 2.10 In about 2 out of 3 cases the metro-region and LUZ boundaries both produce population figures that are within the same ballpark. In about a third of cases the metro-regions do appear to over-bound if the LUZs are taken as a better fit than the NUTS 3 metro definitions. In some cases, the over-bounding does influence the order in which cities appear in countries when cities are ranked by size. In four cases we have taken into account their size and significance in their respective countries and have chosen to omit these from our final list.

### Secondary cities mentioned in the Monitoring Committee's comments

- 2.11 In addition to the case of Italy, a number of cities were mentioned by name in the CU's comments on the inception report. These include: Daugavpils in Latvia; Klaipeda in Lithuania; Tartu in Estonia; Hradec Kralove / Pardubice in Czech Republic; and Basel in Switzerland. The Italian cities have all been included in the revised selection we proposed earlier. We shall consider each of the other places mentioned in turn.
- 2.12 The argument to include Daugavpils, Klaipeda and Tartu, are in our view well made. They were initially excluded because we did not have the OECD/DG Regio boundaries. It is not possible to fully replicate the OECD/DG-Regio methodology in creating metro-regions, due to the unavailability of the two employment measures – employment by residence and employment by workplace. Nevertheless we propose to include them by representing them using the NUTS 3 regions that each of these three cities lie within. This will mean that Latvia and Estonia both gain at least one secondary city, rather than only being represented by the capital. For the same reason we are also proposing to include Split as a second city for Croatia. Four countries in the study will still only have one capital city each – Cyprus, Luxembourg and Malta, and also Iceland, where we have added Reykjavik. It is not possible to include any secondary cities in these countries. We have also included Hradec Kralove / Pardubice in the Czech Republic and Basel in Switzerland.

### Final selection

- 2.13 Table 5 shows the final list of 31 capitals and 124 secondary cities.

ANNEX 7

Table 5: Our final list of capital and secondary cities in study

COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES	COUNTRY	CITIES
Austria	Vienna	France (cont.)	Lens - Liévin	Hungary (cont.)	Gyor	Poland (cont.)	Krakow	Switzerland	Zurich
	Linz		Bordeaux	Iceland	Reykjavik		Gdansk		Geneva
	Graz		Rouen	Ireland	Dublin		Wroclaw		Bern
	Salzburg		Nantes		Cork		Lodz		Lausanne
	Innsbruck		Grenoble	Italy	Rome		Poznan		Basel
Belgium	Brussels		Toulouse		Milan		Kielce	UK	London
	Antwerp		Strasbourg		Naples		Wloclawek		Manchester
	Liege		Metz		Turin		Bydgoszcz		Birmingham
	Gent		Nice		Bari		Szczecin		Bradford-Leeds
	Charleroi		Toulon		Palermo		Lublin		Glasgow
Bulgaria	Sofia		Montpellier		Brescia	Portugal	Lisbon		Sheffield
	Plovdiv		Rennes		Catania		Porto		Liverpool
	Varna	Germany	Berlin		Salerno	Romania	Bucharest		Newcastle u Tyne
Croatia	Zagreb		Düsseldorf-Ruhrgebiet		Florence		Iasi		Nottingham
	Split		Frankfurt am Main		Bologna		Craiova		Cardiff
Cyprus	Nicosia		Hamburg		Genoa		Constanta		Bristol
Czech Republic	Prague		Köln-Bonn	Latvia	Riga		Cluj-Napoca		Leicester
	Ostrava		Stuttgart		Daugavpils		Timisoara		Edinburgh
	Brno		Munich	Lithuania	Vilnius	Slovakia	Bratislava		Belfast
	Plzen		Bielefeld		Kaunas		Kosice		
	Hradec Kralove - Pardubice		Hannover		Klaipeda	Slovenia	Ljubljana		
Denmark	Copenhagen		Nuremberg	Luxembourg	Luxembourg		Maribor		
	Aarhus		Bremen	Malta	Valletta	Spain	Madrid		
	Aalborg		Mannheim	Netherlands	Randstad North		Barcelona		
	Odense		Leipzig		Randstad South		Valencia		
Estonia	Tallinn		Dresden		Eindhoven		Seville		
	Tartu		Chemnitz		Arnhem		Malaga		
Finland	Helsinki	Greece	Athens		Heerlen		Murcia		
	Tampere		Thessalonica		Enschede		Bilbao		
	Turku	Hungary	Budapest	Norway	Oslo		Cádiz		
France	Paris		Debrecen		Bergen		Coruña		
	Lille		Miskolc		Stavanger	Sweden	Stockholm		
	Marseille		Szeged	Poland	Warsaw		Gothenburg		
	Lyon		Pecs		Katowice-Zory		Malmo		





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## **ANNEX 8**

# **BOUNDARIES**

## Boundaries

Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
1	AT	AT01MR	Vienna	AT126	Wiener Umland/Nordteil
1	AT	AT01MR	Vienna	AT127	Wiener Umland/Südteil
1	AT	AT01MR	Vienna	AT130	Wien
2	AT	AT02MR	Linz	AT312	Linz-Wels
3	AT	AT03MR	Graz	AT221	Graz
4	AT	AT04MR	Salzburg	AT323	Salzburg und Umgebung
5	AT	AT05MR	Innsbruck	AT332	Innsbruck
6	BE	BE01MR	Brussels	BE100	Arr. de Bruxelles-Capitale/Arr. van Brussel-Hoofdstad
6	BE	BE01MR	Brussels	BE212	Arr. Mechelen
6	BE	BE01MR	Brussels	BE231	Arr. Aalst
6	BE	BE01MR	Brussels	BE232	Arr. Dendermonde
6	BE	BE01MR	Brussels	BE241	Arr. Halle-Vilvoorde
6	BE	BE01MR	Brussels	BE242	Arr. Leuven
6	BE	BE01MR	Brussels	BE310	Arr. Nivelles
6	BE	BE01MR	Brussels	BE325	Arr. Soignies
7	BE	BE02MR	Antwerp	BE211	Arr. Antwerpen
8	BE	BE03MR	Liege	BE332	Arr. Liège
9	BE	BE04MR	Gent	BE234	Arr. Gent
10	BE	BE05MR	Charleroi	BE322	Arr. Charleroi
11	BG	BG01MR	Sofia	BG411	Sofia (stolitsa)
12	BG	BG02MR	Plovdiv	BG421	Plovdiv
13	BG	BG03MR	Varna	BG331	Varna
14	CH	CH01MR	Bern	CH021	Bern
15	CH	CH02MR	Zurich	CH040	Zürich
15	CH	CH02MR	Zurich	CH033	Aargau
16	CH	CH03MR	Basel	CH031	Basel-Stadt
16	CH	CH03MR	Basel	CH032	Basel-Landschaft
16	CH	CH03MR	Basel	DE139	Lörrach
17	CH	CH04MR	Lausanne	CH011	Vaud
18	CH	CH05MR	Geneva	CH013	Genève
19	CY	CY01MR	Nicosia	CY000	Cyprus
20	CZ	CZ01MR	Prague	CZ010	Hlavní mesto Praha
20	CZ	CZ01MR	Prague	CZ020	Stredočeský
21	CZ	CZ02MR	Ostrava	CZ080	Moravskoslezský
22	CZ	CZ03MR	Brno	CZ064	Jihomoravský
23	CZ	CZ04MR	Hradec Kralove/Pardubice	CZ052	Královehradecký
23	CZ	CZ04MR	Hradec Kralove/Pardubice	CZ053	Pardubický
24	CZ	CZ05MR	Plzen	CZ032	Plzenský
25	DE	DE01MR	Berlin	DE300	Berlin
25	DE	DE01MR	Berlin	DE412	Barnim
25	DE	DE01MR	Berlin	DE413	Märkisch-Oderland
25	DE	DE01MR	Berlin	DE414	Oberhavel
25	DE	DE01MR	Berlin	DE415	Oder-Spree
25	DE	DE01MR	Berlin	DE423	Potsdam, Kreisfreie Stadt
25	DE	DE01MR	Berlin	DE424	Dahme-Spreewald
25	DE	DE01MR	Berlin	DE426	Havelland

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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
25	DE	DE01MR	Berlin	DE428	Potsdam-Mittelmark
25	DE	DE01MR	Berlin	DE42A	Teltow-Fläming
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA11	Düsseldorf, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA12	Duisburg, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA13	Essen, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA14	Krefeld, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA15	Mönchengladbach, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA16	Mülheim an der Ruhr, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA17	Oberhausen, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA18	Remscheid, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA19	Solingen, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA1A	Wuppertal, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA1C	Mettmann
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA1D	Rhein-Kreis Neuss
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA1F	Wesel
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA31	Bottrop, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA32	Gelsenkirchen, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA36	Recklinghausen
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA51	Bochum, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA52	Dortmund, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA53	Hagen, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA54	Hamm, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA55	Herne, Kreisfreie Stadt
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA56	Ennepe-Ruhr-Kreis
26	DE	DE02MR	Dusseldorf-Ruhrgebiet	DEA5C	Unna
27	DE	DE03MR	Frankfurt am Main	DE261	Aschaffenburg, Kreisfreie Stadt
27	DE	DE03MR	Frankfurt am Main	DE264	Aschaffenburg, Landkreis
27	DE	DE03MR	Frankfurt am Main	DE711	Darmstadt, Kreisfreie Stadt
27	DE	DE03MR	Frankfurt am Main	DE712	Frankfurt am Main, Kreisfreie Stadt
27	DE	DE03MR	Frankfurt am Main	DE713	Offenbach am Main, Kreisfreie Stadt
27	DE	DE03MR	Frankfurt am Main	DE714	Wiesbaden, Kreisfreie Stadt
27	DE	DE03MR	Frankfurt am Main	DE716	Darmstadt-Dieburg
27	DE	DE03MR	Frankfurt am Main	DE717	Groß-Gerau
27	DE	DE03MR	Frankfurt am Main	DE718	Hochtaunuskreis
27	DE	DE03MR	Frankfurt am Main	DE719	Main-Kinzig-Kreis
27	DE	DE03MR	Frankfurt am Main	DE71A	Main-Taunus-Kreis
27	DE	DE03MR	Frankfurt am Main	DE71C	Offenbach, Landkreis
27	DE	DE03MR	Frankfurt am Main	DE71D	Rheingau-Taunus-Kreis
27	DE	DE03MR	Frankfurt am Main	DE71E	Wetteraukreis
28	DE	DE04MR	Hamburg	DE600	Hamburg
28	DE	DE04MR	Hamburg	DE933	Harburg
28	DE	DE04MR	Hamburg	DE939	Stade
28	DE	DE04MR	Hamburg	DEF06	Herzogtum Lauenburg
28	DE	DE04MR	Hamburg	DEF09	Pinneberg
28	DE	DE04MR	Hamburg	DEF0D	Segeberg
28	DE	DE04MR	Hamburg	DEF0F	Stormarn
29	DE	DE05MR	Cologne-Bonn	DEA22	Bonn, Kreisfreie Stadt

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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
29	DE	DE05MR	Cologne-Bonn	DEA23	Köln, Kreisfreie Stadt
29	DE	DE05MR	Cologne-Bonn	DEA24	Leverkusen, Kreisfreie Stadt
29	DE	DE05MR	Cologne-Bonn	DEA27	Rhein-Erft-Kreis
29	DE	DE05MR	Cologne-Bonn	DEA28	Euskirchen
29	DE	DE05MR	Cologne-Bonn	DEA2B	Rheinisch-Bergischer-Kreis
29	DE	DE05MR	Cologne-Bonn	DEA2C	Rhein-Sieg-Kreis
30	DE	DE06MR	Munich	DE212	München, Kreisfreie Stadt
30	DE	DE06MR	Munich	DE216	Bad Tölz-Wolfratshausen
30	DE	DE06MR	Munich	DE217	Dachau
30	DE	DE06MR	Munich	DE218	Ebersberg
30	DE	DE06MR	Munich	DE21A	Erding
30	DE	DE06MR	Munich	DE21B	Freising
30	DE	DE06MR	Munich	DE21C	Fürstenfeldbruck
30	DE	DE06MR	Munich	DE21E	Landsberg am Lech
30	DE	DE06MR	Munich	DE21H	München, Landkreis
30	DE	DE06MR	Munich	DE21L	Starnberg
31	DE	DE07MR	Stuttgart	DE111	Stuttgart, Stadtkreis
31	DE	DE07MR	Stuttgart	DE112	Böblingen
31	DE	DE07MR	Stuttgart	DE113	Esslingen
31	DE	DE07MR	Stuttgart	DE114	Göppingen
31	DE	DE07MR	Stuttgart	DE115	Ludwigsburg
31	DE	DE07MR	Stuttgart	DE116	Rems-Murr-Kreis
32	DE	DE08MR	Nuremberg	DE252	Erlangen, Kreisfreie Stadt
32	DE	DE08MR	Nuremberg	DE253	Fürth, Kreisfreie Stadt
32	DE	DE08MR	Nuremberg	DE254	Nürnberg, Kreisfreie Stadt
32	DE	DE08MR	Nuremberg	DE255	Schwabach, Kreisfreie Stadt
32	DE	DE08MR	Nuremberg	DE257	Erlangen-Höchstadt
32	DE	DE08MR	Nuremberg	DE258	Fürth, Landkreis
32	DE	DE08MR	Nuremberg	DE259	Nuernberger Land
32	DE	DE08MR	Nuremberg	DE25B	Roth
33	DE	DE09MR	Hannover	DE928	Schaumburg
33	DE	DE09MR	Hannover	DE929	Region Hannover
34	DE	DE10MR	Bielefeld	DEA41	Bielefeld, Kreisfreie Stadt
34	DE	DE10MR	Bielefeld	DEA42	Gütersloh
34	DE	DE10MR	Bielefeld	DEA43	Herford
34	DE	DE10MR	Bielefeld	DEA45	Lippe
35	DE	DE11MR	Bremen	DE501	Bremen, Kreisfreie Stadt
35	DE	DE11MR	Bremen	DE922	Diepholz
35	DE	DE11MR	Bremen	DE936	Osterholz
35	DE	DE11MR	Bremen	DE937	Rotenburg (Wümme)
35	DE	DE11MR	Bremen	DE93B	Verden
35	DE	DE11MR	Bremen	DE941	Delmenhorst, Kreisfreie Stadt
36	DE	DE12MR	Mannheim	DE126	Mannheim, Stadtkreis
36	DE	DE12MR	Mannheim	DE715	Bergstraße
36	DE	DE12MR	Mannheim	DEB31	Frankenthal (Pfalz), Kreisfreie Stadt
36	DE	DE12MR	Mannheim	DEB34	Ludwigshafen am Rhein, Kreisfreie Stadt
36	DE	DE12MR	Mannheim	DEB3C	Bad Dürkheim

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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
36	DE	DE12MR	Mannheim	DEB3I	Rhein-Pfalz-Kreis
37	DE	DE13MR	Dresden	DED21	Dresden, Kreisfreie Stadt
37	DE	DE13MR	Dresden	DED25	Meissen
37	DE	DE13MR	Dresden	DED29	Sächsische Schweiz
37	DE	DE13MR	Dresden	DED2A	Weißeritzkreis
38	DE	DE14MR	Leipzig	DED31	Leipzig, Kreisfreie Stadt
38	DE	DE14MR	Leipzig	DED32	Delitzsch
38	DE	DE14MR	Leipzig	DED34	Leipziger Land
38	DE	DE14MR	Leipzig	DED35	Muldentalkreis
39	DE	DE15MR	Chemnitz	DED11	Chemnitz, Kreisfreie Stadt
39	DE	DE15MR	Chemnitz	DED13	Zwickau, Kreisfreie Stadt
39	DE	DE15MR	Chemnitz	DED15	Chemnitzer Land
39	DE	DE15MR	Chemnitz	DED19	Mittweida
39	DE	DE15MR	Chemnitz	DED1A	Stollberg
39	DE	DE15MR	Chemnitz	DED1C	Zwickauer Land
40	DK	DK01MR	Copenhagen	DK011	Byen København
40	DK	DK01MR	Copenhagen	DK012	Københavns omegn
40	DK	DK01MR	Copenhagen	DK013	Nordsjælland
40	DK	DK01MR	Copenhagen	DK021	Østsjælland
41	DK	DK02MR	Aarhus	DK042	Østjylland
42	DK	DK03MR	Aalborg	DK050	Nordjylland
43	DK	DK04MR	Odense	DK031	Fyn
44	EE	EE01MR	Tallinn	EE001	Põhja-Eesti
45	EE	EE02MR	Tartu	EE008	Lõuna-Eesti
46	ES	ES01MR	Madrid	ES300	Madrid
47	ES	ES02MR	Barcelona	ES511	Barcelona
48	ES	ES03MR	Valencia	ES523	Valencia
49	ES	ES04MR	Sevilla	ES618	Sevilla
50	ES	ES05MR	Malaga	ES617	Málaga
51	ES	ES06MR	Murcia	ES620	Murcia
52	ES	ES07MR	Cadiz	ES612	Cadiz
53	ES	ES08MR	Bilbao	ES213	Vizcaya
54	ES	ES09MR	Coruna	ES111	La Coruña
55	FI	FI01MR	Helsinki	FI181	Uusimaa
55	FI	FI01MR	Helsinki	FI182	Itä-Uusimaa
56	FI	FI02MR	Tampere	FI197	Pirkanmaa
57	FI	FI03MR	Turku	FI183	Varsinais-Suomi
58	FR	FR01MR	Paris	FR101	Paris
58	FR	FR01MR	Paris	FR102	Seine-et-Marne
58	FR	FR01MR	Paris	FR103	Yvelines
58	FR	FR01MR	Paris	FR104	Essonne
58	FR	FR01MR	Paris	FR105	Hauts-de-Seine
58	FR	FR01MR	Paris	FR106	Seine-Saint-Denis
58	FR	FR01MR	Paris	FR107	Val-de-Marne
58	FR	FR01MR	Paris	FR108	Val-d'Oise
59	FR	FR02MR	Lille	FR301	Nord
60	FR	FR03MR	Marseille	FR824	Bouches-du-Rhône

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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
61	FR	FR04MR	Lyon	FR716	Rhône
62	FR	FR05MR	Lens-Lievin	FR302	Pas-de-Calais
63	FR	FR06MR	Bordeaux	FR612	Gironde
64	FR	FR07MR	Nantes	FR511	Loire-Atlantique
65	FR	FR08MR	Rouen	FR232	Seine-Maritime
66	FR	FR09MR	Toulouse	FR623	Haute-Garonne
67	FR	FR10MR	Grenoble	FR714	Isère
68	FR	FR11MR	Strasbourg	FR421	Bas-Rhin
69	FR	FR12MR	Nice	FR823	Alpes-Maritimes
70	FR	FR13MR	Metz	FR413	Moselle
71	FR	FR14MR	Montpellier	FR813	Hérault
72	FR	FR15MR	Toulon	FR825	Var
73	FR	FR16MR	Rennes	FR523	Ille-et-Vilaine
74	GR	GR01MR	Athens	GR300	Attiki
75	GR	GR02MR	Thessalonica	GR122	Thessaloniki
76	HR	HR01MR	Zagreb	HR011	Grad Zagreb
76	HR	HR01MR	Zagreb	HR012	Zagrebacka zupanija
77	HR	HR02MR	Split	HR035	Splitsko-dalmatinska zupanija
78	HU	HU01MR	Budapest	HU101	Budapest
78	HU	HU01MR	Budapest	HU102	Pest
79	HU	HU02MR	Miskolc	HU311	Borsod-Abaúj-Zemplén
80	HU	HU03MR	Debrecen	HU321	Hajdú-Bihar
81	HU	HU04MR	Gyor	HU221	Gyor-Moson-Sopron
82	HU	HU05MR	Szeged	HU333	Csongrád
83	HU	HU06MR	Pecs	HU231	Baranya
84	IE	IE01MR	Dublin	IE021	Dublin
84	IE	IE01MR	Dublin	IE022	Mid-East
85	IE	IE02MR	Cork	IE025	South-West (IE)
86	IS	IS01MR	Reykjavik	IS001	Höfudborgarsvæði
87	IT	IT01MR	Rome	ITE43	Roma
88	IT	IT02MR	Milan	ITC15	Novara
88	IT	IT02MR	Milan	ITC41	Varese
88	IT	IT02MR	Milan	ITC42	Como
88	IT	IT02MR	Milan	ITC43	Lecco
88	IT	IT02MR	Milan	ITC45	Milano
88	IT	IT02MR	Milan	ITC46	Bergamo
88	IT	IT02MR	Milan	ITC48	Pavia
88	IT	IT02MR	Milan	ITC49	Lodi
89	IT	IT03MR	Naples	ITF33	Napoli
90	IT	IT04MR	Turin	ITC11	Torino
91	IT	IT05MR	Bari	ITF42	Bari
92	IT	IT06MR	Palermo	ITG12	Palermo
93	IT	IT07MR	Brescia	ITC47	Brescia
94	IT	IT08MR	Salerno	ITF35	Salerno
95	IT	IT09MR	Catania	ITG17	Catania
96	IT	IT10MR	Florence	ITE14	Firenze
97	IT	IT11MR	Bologna	ITD55	Bologna

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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
98	IT	IT12MR	Genoa	ITC33	Genova
99	LT	LT01MR	Vilnius	LT00A	Vilniaus (Apskritis)
100	LT	LT02MR	Kaunas	LT002	Kauno (Apskritis)
101	LT	LT03MR	Klaipeda	LT003	Klaipedos (Apskritis)
102	LU	LU01MR	Luxembourg	LU000	Luxembourg (Grand-Duché)
103	LV	LV01MR	Riga	LV007	Pieriga
103	LV	LV01MR	Riga	LV006	Riga
104	LV	LV02MR	Daugavpils	LV005	Latgale
105	MT	MT01MR	Valletta	MT001	Malta
106	NL	NL01MR	Randstad North	NL230	Flevoland
106	NL	NL01MR	Randstad North	NL310	Utrecht
106	NL	NL01MR	Randstad North	NL323	IJmond
106	NL	NL01MR	Randstad North	NL324	Agglomeratie Haarlem
106	NL	NL01MR	Randstad North	NL325	Zaanstreek
106	NL	NL01MR	Randstad North	NL326	Groot-Amsterdam
106	NL	NL01MR	Randstad North	NL327	Het Gooi en Vechtstreek
107	NL	NL02MR	Randstad South	NL332	Agglomeratie 's -Gravenhage
107	NL	NL02MR	Randstad South	NL333	Delft en Westland
107	NL	NL02MR	Randstad South	NL335	Groot-Rijnmond
107	NL	NL02MR	Randstad South	NL336	Zuidoost Zuid-Holland
108	NL	NL03MR	Eindhoven	NL414	Zuidoost-Noord-Brabant
109	NL	NL04MR	Arnhem	NL226	Arnhem/Nijmegen
110	NL	NL05MR	Enschede	NL213	Twente
111	NL	NL06MR	Heerlen	NL423	Zuid-Limburg
112	NO	NO01MR	Oslo	NO011	Oslo
112	NO	NO01MR	Oslo	NO012	Akershus
113	NO	NO02MR	Bergen	NO051	Hordaland
114	NO	NO03MR	Stavanger	NO043	Rogaland
115	PL	PL01MR	Warsaw	PL127	Miasto Warszawa
115	PL	PL01MR	Warsaw	PL129	Warszawski-wschodni
115	PL	PL01MR	Warsaw	PL12A	Warszawski-zachodni
116	PL	PL02MR	Katowice-Zory	PL227	Rybnicki
116	PL	PL02MR	Katowice-Zory	PL228	Bytomski
116	PL	PL02MR	Katowice-Zory	PL229	Gliwicki
116	PL	PL02MR	Katowice-Zory	PL22A	Katowicki
116	PL	PL02MR	Katowice-Zory	PL22B	Sosnowiecki
116	PL	PL02MR	Katowice-Zory	PL22C	Tyski
117	PL	PL03MR	Kraków	PL213	Miasto Kraków
117	PL	PL03MR	Kraków	PL214	Krakowski
118	PL	PL04MR	Gdansk	PL633	Trojmiejski
118	PL	PL04MR	Gdansk	PL634	Gdanski
119	PL	PL05MR	Wroclaw	PL514	Miasto Wroclaw
119	PL	PL05MR	Wroclaw	PL518	Wroclawski
120	PL	PL06MR	Lódz	PL113	Miasto Lódz
120	PL	PL06MR	Lódz	PL114	Lódzki
121	PL	PL07MR	Poznan	PL415	Miasto Poznan
121	PL	PL07MR	Poznan	PL418	Poznanski

## ANNEX 8

Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
122	PL	PL08MR	Kielce	PL331	Kielecki
123	PL	PL09MR	Wloclawek	PL615	Wloclawski
124	PL	PL10MR	Bydgoszcz	PL613	Bydgosko-Torunski
125	PL	PL11MR	Szczecin	PL424	Miasto Szczecin
125	PL	PL11MR	Szczecin	PL425	Szczecinski
126	PL	PL12MR	Lublin	PL314	Lubelski
127	PT	PT01MR	Lisbon	PT171	Grande Lisboa
127	PT	PT01MR	Lisbon	PT172	Península de Setúbal
128	PT	PT02MR	Porto	PT114	Grande Porto
129	RO	RO01MR	Bucharest	RO321	Bucuresti
129	RO	RO01MR	Bucharest	RO322	Ilfov
130	RO	RO02MR	Iasi	RO213	Iasi
131	RO	RO03MR	Constanta	RO223	Constanta
132	RO	RO04MR	Craiova	RO411	Dolj
133	RO	RO05MR	Cluj-Napoca	RO113	Cluj
134	RO	RO06MR	Timisoara	RO424	Timis
135	SE	SE01MR	Stockholm	SE110	Stockholms län
136	SE	SE02MR	Göteborg	SE232	Västra Götalands län
137	SE	SE03MR	Malmö	SE224	Skåne län
138	SI	SI01MR	Ljubljana	SI021	Osrednjeslovenska
139	SI	SI02MR	Maribor	SI012	Podravska
140	SK	SK01MR	Bratislava	SK010	Bratislavský kraj
141	SK	SK02MR	Košice	SK042	Košický kraj
142	UK	UK01MR	London	UKH23	Hertfordshire
142	UK	UK01MR	London	UKH31	Southend-on-Sea
142	UK	UK01MR	London	UKH32	Thurrock
142	UK	UK01MR	London	UKH33	Essex CC
142	UK	UK01MR	London	UKI11	Inner London - West
142	UK	UK01MR	London	UKI12	Inner London - East
142	UK	UK01MR	London	UKI21	Outer London - East and North East
142	UK	UK01MR	London	UKI22	Outer London - South
142	UK	UK01MR	London	UKI23	Outer London - West and North West
142	UK	UK01MR	London	UKJ11	Berkshire
142	UK	UK01MR	London	UKJ12	Milton Keynes
142	UK	UK01MR	London	UKJ13	Buckinghamshire CC
142	UK	UK01MR	London	UKJ23	Surrey
142	UK	UK01MR	London	UKJ41	Medway Towns
142	UK	UK01MR	London	UKJ42	Kent CC
143	UK	UK02MR	Manchester	UKD31	Greater Manchester South
143	UK	UK02MR	Manchester	UKD32	Greater Manchester North
144	UK	UK03MR	Birmingham	UKG31	Birmingham
144	UK	UK03MR	Birmingham	UKG32	Solihull
144	UK	UK03MR	Birmingham	UKG34	Dudley and Sandwell
144	UK	UK03MR	Birmingham	UKG35	Walsall and Wolverhampton
145	UK	UK04MR	Bradford-Leeds	UKE41	Bradford
145	UK	UK04MR	Bradford-Leeds	UKE42	Leeds
145	UK	UK04MR	Bradford-Leeds	UKE43	Calderdale, Kirklees and Wakefield



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Number	Country Code	Metro-region Code	Metro-region Name	NUTS 3 Code	NUTS 3 Name
146	UK	UK05MR	Glasgow	UKM31	East Dunbartonshire, West Dunbartonshire and Helensburgh and Lomond
146	UK	UK05MR	Glasgow	UKM34	Glasgow City
146	UK	UK05MR	Glasgow	UKM35	Inverclyde, East Renfrewshire and Renfrewshire
146	UK	UK05MR	Glasgow	UKM36	North Lanarkshire
146	UK	UK05MR	Glasgow	UKM38	South Lanarkshire
147	UK	UK06MR	Sheffield	UKE31	Barnsley, Doncaster and Rotherham
147	UK	UK06MR	Sheffield	UKE32	Sheffield
147	UK	UK06MR	Sheffield	UKF12	East Derbyshire
148	UK	UK07MR	Liverpool	UKD51	East Merseyside
148	UK	UK07MR	Liverpool	UKD52	Liverpool
148	UK	UK07MR	Liverpool	UKD53	Sefton
148	UK	UK07MR	Liverpool	UKD54	Wirral
149	UK	UK08MR	Newcastle upon Tyne	UKC21	Northumberland
149	UK	UK08MR	Newcastle upon Tyne	UKC22	Tyneside
150	UK	UK09MR	Nottingham	UKF13	South and West Derbyshire
150	UK	UK09MR	Nottingham	UKF14	Nottingham
150	UK	UK09MR	Nottingham	UKF16	South Nottinghamshire
151	UK	UK10MR	Cardiff	UKL15	Central Valleys
151	UK	UK10MR	Cardiff	UKL16	Gwent Valleys
151	UK	UK10MR	Cardiff	UKL22	Cardiff and Vale of Glamorgan
152	UK	UK11MR	Bristol	UKK11	City of Bristol
152	UK	UK11MR	Bristol	UKK12	Bath and North East Somerset, North Somerset and South Gloucestershire
153	UK	UK12MR	Leicester	UKF21	Leicester City
153	UK	UK12MR	Leicester	UKF22	Leicester CC and Rutland
154	UK	UK13MR	Edinburgh	UKM23	East Lothian and Midlothian
154	UK	UK13MR	Edinburgh	UKM25	Edinburgh, City of
154	UK	UK13MR	Edinburgh	UKM28	West Lothian
155	UK	UK14MR	Belfast	UKN01	Belfast
155	UK	UK14MR	Belfast	UKN02	Outer Belfast



**The ESPON 2013 Programme**

# **ANNEXES 9-11 OF THE SCIENTIFIC REPORT**



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## ANNEX 9

### INDICATORS DEVELOPED & DATASETS PROVIDED TO ESPON DATABASE

The following indicators have been produced for the 155 capital and second tier cities alongside national data:

- Total GDP 2007 & 2000-7 % change
- GDP per capita 2007 & 2000-7 % change
- GDP per person in employment 2007 & 2000-7 % change
- Population 2000-7
- Employment 2000-7
- % employed in financial intermediation; real estate, renting and business activities 2000-7
- Employment rate, 2008
- % of 25-64s educated to tertiary level, 2008
- European Patent Office patent applications, 2006/7
- Potential accessibility by air, 2006
- Net migration 2007
- Unemployment 2000-9

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- Total GDP – no Icelandic or Swiss city data
- GDP per capita – no Icelandic or Swiss city data
- GDP per person employed – no Icelandic or Swiss city data
- Employment – no Icelandic data; Swiss data only available for 2001, 2005 & 2008; Dutch data only available 2001-7; Belfast data only available 2000-2
- % employed in financial intermediation; real estate, renting and business activities 2000-7 – No Icelandic or Swiss data; UK data only available 2002-7; No Porto data; Belfast data only available 2002
- Employment rate, 2008 – No Croatian, Icelandic, Norwegian, Romanian or Swiss data.
- % of 25-64s educated to tertiary level, 2008 – No Croatian, Icelandic, Norwegian, Romanian or Swiss data.
- European Patent Office patent applications, 2006/7 – No Croatian, Icelandic, Norwegian or Swiss data.
- Potential accessibility by air, 2006 – no Croatian data
- Net migration 2007 – No Croatian, Icelandic, Luxembourg, Norwegian, Swiss or UK data
- Unemployment 2000-9 – No Croatian, Icelandic or Swiss data; Danish data only 2007-9; Norwegian data only 2000-8; German data only 2001-9; Slovenian data only 2001-9; Belgium no 2007 data, Ireland no 2007 data; Berlin only 2004-9, Belfast 2004-7 missing, Brno only 2003-9, Glasgow & Edinburgh 2007 data missing, Mannheim 2001 data missing

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