

# SGPTD

## Second Tier Cities and Territorial Development in Europe: Performance, Policies and Prospects

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**The ESPON 2013 Programme**

# **FINAL REPORT**



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## 1. WHY DO SECOND TIER CITIES MATTER?

### *The Eurozone crisis, cities and economic competitiveness*

- 1.1 The global recession and Eurozone crisis have already had a huge impact upon the European economy and present even greater future threats. They have sharpened the existing debate about policies for competitiveness as policy makers struggle to make the European economy succeed in an increasingly turbulent, global world. They have also raised questions about the contributions that different territories make to national competitiveness. In particular they have encouraged a debate about the economic contribution of capital and non capital cities and whether countries perform better if they concentrate their investment in their capitals or spread investment across a wider set of cities. Recession in the property and financial services sectors has intensified debates in some countries about the need to rebalance their economies and raised questions about which economic activities should take place where in future. For national governments, they pose classic questions about the relationship between territory, economy and governance and the shape of regional and urban policy. For the European Commission, they pose key questions about strategic investment priorities – all of which are sharply reflected in debates about the future of the Structural Funds.
- 1.2 This policy debate will become more important during the next decade as the crisis threatens to undermine the real achievements made by many cities in Europe. In the past decade, cities in many countries improved their economic performance and made a growing contribution to national economic welfare. But it was a result of high performing national economies and substantial investment of public resources. Those conditions will not be found during the next decade. Many underlying economic and social problems in cities - which had been masked by the boom - have already been intensified by the crisis. There is a risk that economic and fiscal problems and the competition for scarce public and private sector resources will limit the growth of cities and widen economic and social gaps within them and between them and the capitals. If so, the threats to a balanced territorial system across Europe will increase. Declining public resources means it is crucial that governments are more transparent and explicit about their territorial investment plans – whether they invest in their leading or lagging cities, bigger or smaller, capital or second tier cities. All governments will need to do more with less and find the most efficient way of addressing their problems. This obviously applies to Commission policy. At a European level, the importance of these issues has been underlined by the publication of *EU2020*, the *5<sup>th</sup> Cohesion Report*, the *Territorial Agenda 2020*, the work of the Hungarian and Polish Presidencies on urban and territorial policy and the Commission's proposals for the reform of Structural Funds after 2013. All underline the need for an explicit discussion about cities and their contribution to balanced territorial development across Europe.

### *What do capital and second tier cities bring to national economies? And what are their limits?*

- 1.3 Many argue that agglomeration economies mean that investment in capital cities offers greatest gains to national economies. In this view, capital cities have significant agglomeration advantages. 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 which provide easier access to risk capital. 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 'represent' their nations. It has been argued that capital cities receive preferential treatment from national governments because public decision-makers find it easier to allocate resources to existing capitals rather than identify opportunities elsewhere. Similarly it has been argued that private sector investors adopt the safer strategy of investing in buoyant, capital locations rather than taking risks with more distant, perhaps more economically marginal locations.

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- 1.4 But there are challenges to this view. There are many concerns about the dominance of capital cities, especially the costs and negative externalities of agglomeration. Agglomeration clearly produces economic benefits. However, they are not unlimited. Capital cities can reach a point where diseconomies make them less competitive because of negative externalities caused by unregulated urban growth and diminishing marginal returns. Other researchers have focused more upon the positive contribution that non-capital, ‘second tier’ cities can make. Many of those cities contain major concentrations of economic activity, substantial wealth creation potential, human capital and creativity. They contain higher order services and offer firms better local access to services than if they were all concentrated in the capital. Second tier cities can achieve many of the agglomeration effects of capitals, if they have the right infrastructure, facilities, capacity and powers. And they can lift the economic performance of their regions and reduce inter-regional inequalities, promoting territorial and social cohesion. So the policy and research issues involved remain contested.
- 1.5 The picture across Europe is diverse with huge national differences in policy approaches. However, some key messages are clear. In fact few countries have explicit policies for second tier cities. To the extent they have policies for places, until very recently most governments have focused primarily upon social cohesion and neighbourhood policies rather than upon economic performance. That said, national governments typically concentrate attention and resources in capitals at the expense of second tier cities. There has been little explicit policy debate until very recently about the relationships between the two. However, the debate has begun in some of the Eastern countries, for example Poland and Romania, where the dominance of the capital is a major issue. Despite national differences, the policy issues are common to all countries. They have important implications for decisions about priorities and investment at national and European level. They pose a crucial question: Why should policy makers invest beyond the capital cities in an age of austerity?
- What analytical explanations?***
- 1.6 However there are few clear answers to this question, partly because decision-makers in different countries take different views of the problems and the solution. Partly also there is not a settled view amongst researchers and economists about the optimal distribution of economic activity and on the underlying issues of territorial scale, balance, hierarchy and economic performance. As with policy-makers, analytical and ideological approaches and therefore interpretations vary. But essentially there are two contrasting schools of thought. Free market analysts stress the importance of agglomeration economies as justification for allowing capital cities to grow in an unrestricted fashion to reflect market demand and forces. Another school of thought focuses upon the role of the state and public sector investment in creating the conditions where more cities can become more competitive. This view focuses upon the costs of agglomeration and the potential greater overall economic returns – as well as equity gains - that come from having more high performing cities rather than a dominant capital city.
- 1.7 In recent years, the OECD has made a significant contribution to this debate with a series of studies exploring the contribution of different regions to national competitiveness. Some of its recent work has focused specifically upon the middle regions, showing that growth does not come only from a small number of leading regions at the top of the regional hierarchy but from the many more regions further down its long territorial tail, whose collective contribution is crucial. OECD’s policy position is that the economic contribution of the middle regions is typically underestimated and governments should do more to maximise their contribution if they want to maximise national competitiveness.
- 1.8 This report explores some of these issues. It argues that continuing over-investment in capital cities and underinvestment in second tier cities in the long run could be unsustainable and lead to economic underperformance. It argues that although individual countries face different circumstances, European, national regional and city regional leaders should exploit the policy levers, tools and resources they have to encourage more, higher performing second tier cities if they want higher

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performing national and European economies. Given the complexity of the relationships, the range of places and the quality of available data, the report does not claim to provide absolute proof of the arguments. These are necessarily matters of judgement and interpretation. But, it presents a significant amount of compelling evidence from quantitative data analysis, policy reviews and individual city studies that point in the same direction. They cumulatively demonstrate that policy makers should take these issues more seriously in future and systematically examine how their decisions affect second tier cities.

***What are second tier cities?***

- 1.9 There are many typologies of cities. All have their limitations. We explore the concept of second tier cities. We define them as those cities outside the capital whose economic and social performance is sufficiently important to affect the potential performance of the national economy. It does not imply that they are less important than the capital cities. It certainly does not mean that they are second class. And it does not mean they are the ‘second’ city – because there is only one of these in each country. And second tier cities are not all the same – they vary enormously. Sometimes they are very large regional capitals. Sometimes they are the second largest city of the country with huge national significance – for example Barcelona, Munich and Lyon in this study. But many are much smaller. However, while they differ in many respects, second tier cities can play comparable national economic roles. In this study we explore the differences between them. But we also examine their similarities and assess their collective national and European economic contribution. The 124 second tier cities in this study constitute almost 80% of Europe’s metropolitan urban population. They lie between the capital cities which contribute a huge amount to their national economy and the many smaller places which contribute rather less. They are the middle of the urban system.

***How does this report contribute to the policy debate about second tier cities in Europe?***

- 1.10 This report assesses the performance of, policies for and prospects of second tier cities across Europe. It is based on a wide range of evidence: literature, interviews with policymakers and researchers, an e-questionnaire, reviews of national policies, quantitative data about 124 secondary and 31 capital cities across 31 countries and 9 studies of second tier cities drawn from across the whole ESPON territory. The cities are: Tampere, Cork, Leeds, Barcelona, Lyon, Turin, Munich, Katowice, and Timisoara. The Scientific Report contains much more detailed evidence and analysis than is possible in this report. It also provides an extensive guide to the academic and policy literature the study has drawn upon. Literature and references have not been included in this report to keep it as simple and accessible as possible.

***What key arguments do we test?***

- 1.11 The report examines five key arguments about the performance and prospects of second tier cities and urban policy across Europe. We derived these arguments from a review of a wide range of literature identified in the Scientific Report as well as from discussions with senior policy makers. We test the arguments in detail in our case studies, policy reviews and in our quantitative data analysis to see the extent to which they explain the performance of the cities in this study. We outline the five arguments below.
- 1.12 ***1. National policies and governance matter to cities.*** The first argument is that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct or indirect. Explicit urban policies, which specifically focus on particular territorial targets, as well as mainstream policies for infrastructure, education and skills, connectivity, research and development which have less explicit territorial dimensions all affect the ways in which second tier cities perform. The report argues that countries whose governments pay more attention to the territorial and urban impacts of those policies will have higher performing cities and national economies as opposed to those who do not. In addition, second tier cities will perform better where national, regional and local policy making systems are horizontally and vertically aligned and focus upon economic place making.



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- 1.13 **2. Deconcentration of investment and decentralisation of responsibilities and resources matter. But mature national- local relationships are also crucial.** The second argument is that deconcentration of investment and decentralisation of decision-making and resources will lead to more high performing second tier cities. Institutional and financial decentralisation from national to regional and local levels of government will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. However, two conditions must be met for this to happen. First, national governments must provide regional and local governments with the powers, resources and capacity needed to deliver these responsibilities. Otherwise they will be programmed to fail. There must be real not symbolic decentralisation. The second condition is that national governments cannot abdicate responsibility for the successful delivery of those policies. The key governance challenge is to get transparency, clarity and agreement upon the division of responsibility for the delivery of shared policy commitments. In other words it requires genuine multi-level governance. In turn that requires significant institutional and political maturity. But if those conditions are met, the benefits of a system where public and private investment and resources are spread across a range of different sized cities over a wider territory in the long run will be greater than those in a more centralised system where investment is concentrated in the capital. 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 will have higher performing second tier cities.
- 1.14 **3. Local factors – especially leadership - matter.** This argues that cities are path dependent and are constrained by external factors - historical, cultural, structural, political and institutional. But those factors are not decisive. Places that start in similar economic and social positions often have very different development trajectories. The economic performance of cities will partly depend upon their strategic capacity to manage their constraints. Local partners and leaders can use their resources and powers to maximise their city assets and advantages to be successful. Leadership can come from a variety of sectors – public, private and third. Usually a combination of all three is necessary. Although individual players can make a difference, leadership is essentially a systemic rather than a personal quality. It will draw upon a range of assets – political, financial, territorial, institutional and intellectual. It is a process and a relationship. The scale and quality of leadership is not finite but can be increased. Leadership is the institutional mobilisation of all resources and partners to deliver successfully agreed long term ambitions through systematic, coherent strategies and policies. The key issues for leaders are vision, strategy, governance, partnership, policy capacity, learning and delivery.
- 1.15 **4. The key drivers of territorial performance are innovation, economic diversity, skills and human capital, connectivity, place quality, and strategic governance capacity.** This argument is that city regions' performance on those drivers shapes their trajectory. Again we derived these drivers from a review of a wide range of academic literature which is discussed in the Scientific Report as well as with conversations with senior policy makers. Judgements about the key drivers of urban success vary. Other studies have used some different or additional drivers. We considered but did not include them. But there is a broad consensus amongst both researchers and policy makers that these six matter. We have used these drivers successfully in our own research previously. The first four are the 'harder', most quantifiable and probably the most significant drivers. The final two – place quality and governance capacity - are 'softer', less quantifiable. Nevertheless they remain important. National and local policies on those key drivers are crucial. The drivers that can be most directly influenced at city-regional level are place quality and strategic capacity. The others – innovation, human capital, economic diversity and connectivity – are more directly influenced by European, national and regional policies. Influencing these drivers demands successful multi-level governance.
- 1.16 **5. Territory and places matter more not less in a global world.** This argument emphasises that globalisation makes the governance capacity of place more important. It means that governance will be increasingly multi level. It also means that economic governance should be located at the widest achievable spatial level – preferably the city region. It also emphasises that second tier cities do not
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operate at a single spatial level. They need explicit strategies to shape the different territorial roles they play at regional, national and European level.

***So how does this report deal with these issues?***

- 1.17 The logic of this study was to: (i) review the literature to generate a set of key arguments about the performance, policies and prospects of second tier cities; (ii) collect a range of quantitative and qualitative data to test those arguments; (iii) weigh the evidence to determine the strength of those arguments; and (iv) make a set of policy recommendations to European, national, regional and city regional policy makers in the light of our evidence and analysis. This report has four sections. First, it assesses the economic performance of second tier cities and the gaps between them and capital cities in different countries. Second, it assesses the urban policy debate in different countries. Is the debate essentially about economic competitiveness or social cohesion? Do policy makers recognise the nature of the gap between the capital and second tier cities? Has government begun to target the economic importance of second tier cities? It exemplifies those debates with a detailed discussion of the experiences of 9 second tier cities. Third, it identifies the key findings about second tier cities' performance and prospects. Finally, it identifies key messages for policy makers at all levels of governance across Europe.

***At the beginning of this report - what key messages?***

- 1.18 Some second tier cities make a substantial contribution both to national economic development and to the European economy itself. But others could do more. In most countries, second tier cities do not contribute as much to national economic performance as capital cities. But they could contribute more if they were given greater European and national policy support, tools and investment. Some researchers and policy makers have argued that there is no need for government intervention to address regional and urban imbalances. In their view the market itself will self regulate and lead to increased investment in second tier cities as the costs and price of growth in the capital become more obvious and the opportunities in second tier cities become equally obvious. But our analysis, in keeping with much regional economic analysis, does not support that view. The logic of over investment in the capitals and under investment in second tier cities has been shown to be too strong in too many countries in this study. There are three simple policy messages for governments. The first is for regional and city region leaders. City regions which strategically mobilised and exploited their assets flourished more in the boom years and are more likely to do better in the economic crisis. Increasing strategic governance capacity to deliver economic place-based policies at city region level must be a key target for all partners. The second message is for national governments. If they strategically invest in second tier cities they are more likely to maximise the economic potential of the national economy than if they concentrate all resources in the capital. This means that explicit territorial policies should be concerned with second tier cities. But also the different territorial impact of national policies and resources for example on innovation, research and development, education and skills, transport and connectivity and infrastructure investment on capital and second tier cities should be a crucial concern. Governments' territorial investment strategies should be made much more explicit in future.
- 1.19 The third policy message is for the European Commission. City regions are crucial to the delivery of its strategic goals identified in *EU2020*. It must take city regions - and their leadership - more seriously in future. Commission policy for cities has varied in recent years and the economic place making agenda has fluctuated in its significance. Many interviewed in this study believe the issues have slipped down the Commission's agenda in recent years and should be reasserted. The Commission needs to exercise leadership and provide clarity and resources in this field. It should do more to ensure that the economic potential of second tier cities is clearly recognised in its strategies. The territorial impact of all Commission policies, not just those of DG Regio should be made more explicit. The sectoral policies of the Commission should be better integrated. The proposed revision of the Structural Funds could encourage this process.

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- 1.20 So for policy makers at all government levels - European, national, regional and city regional - the message is clear. 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 at all levels 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. The individual circumstances of countries, regions and city regions will vary and so will policy responses. But some general principles to guide future territorial investment are clear. **Specifically governments should invest more in second tier cities when: (i) the gap with 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. The stakes - and the potential rewards - are high.**

## 2. HOW DO SECOND TIER CITIES PERFORM AND COMPARE WITH CAPITALS?

- 2.1 This section presents the key results from our analysis of quantitative data about the performance of second tier and capital cities across the ESPON territory. It explains how we chose the cities and the indicators of competitiveness. It compares the performance of cities. It looks at the relationship between centralisation, concentration and performance. It identifies the challenges faced by cities in different parts of the European territory, especially the new member states. It presents a range of quantitative evidence that support many of the key arguments identified in Section 1. Later sections provide more qualitative evidence supporting those arguments.

### *Selecting the second tier cities*

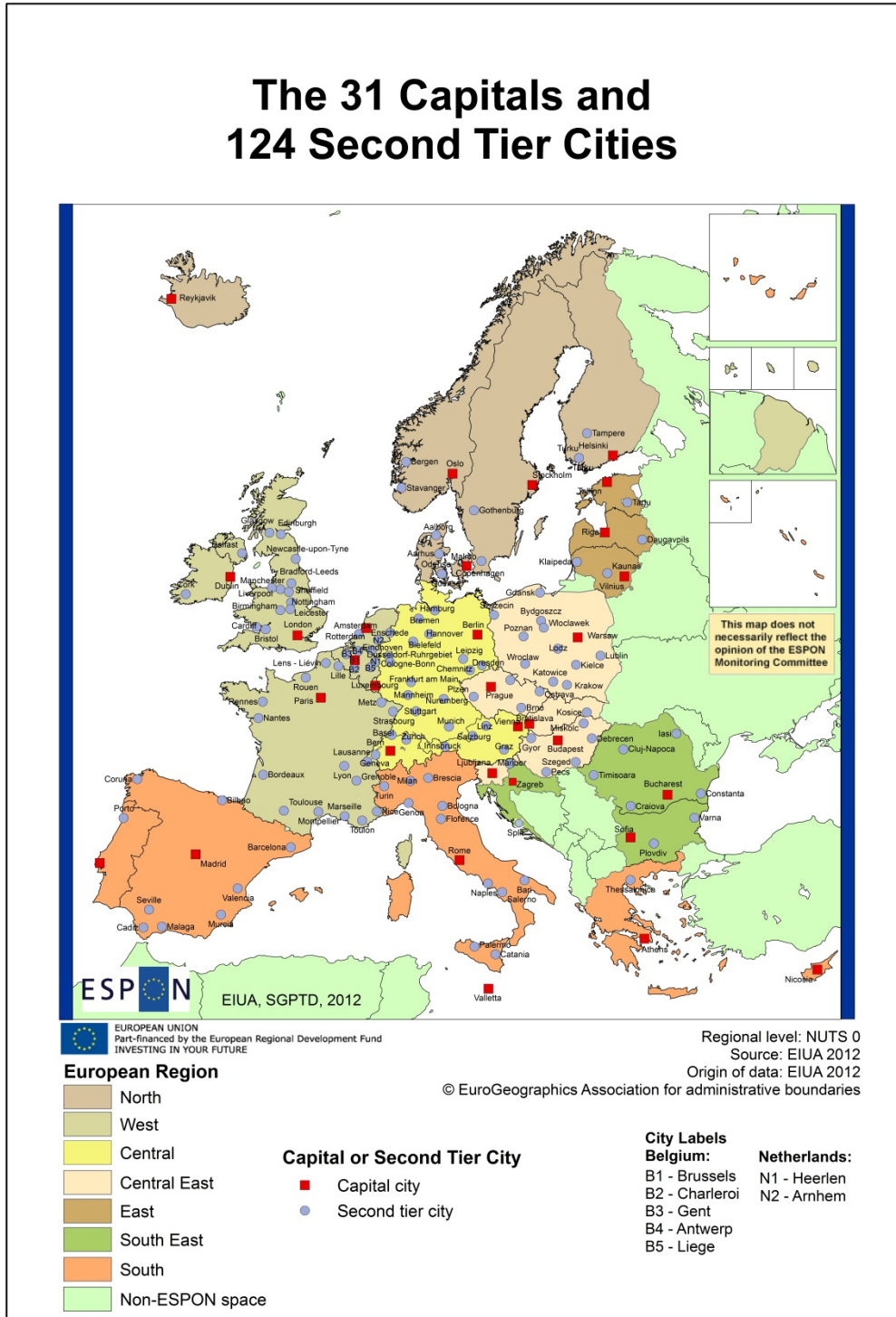
- 2.2 Selecting the second tier cities was not straightforward. It involved many technical and substantive issues. We explain in more detail how we finalised the choice in Annex 7 of the Scientific Report. As that shows we decided to use the boundaries developed by the OECD and DG Regio for metro regions, especially since these are used in the *5th Cohesion Report*. To focus on the most significant second tier cities, we include all of them in the 22 countries which have populations under 15 million and which have 5 or less second tier cities. In the 8 largest countries France, Germany, Italy, Netherlands, Poland, Romania, Spain and the UK with populations up to 85 million, we included those cities in the top two thirds of the metropolitan urban population of their country. We added a small number of places just excluded by the population rule but whose significance suggested they should be included. Also to give maximum territorial representation we decided every country should have the capital and the next biggest city. This gave the final list of 31 capitals and 124 second tier cities which contain nearly 80% of all population in metropolitan urban areas across Europe. Map 2.1 shows the cities.

### *What data did we collect?*

- 2.3 We collected data on a range of indicators: population, migration, employment, output, productivity, unemployment, innovation, economic diversity, skills and human capital and connectivity. We answer the following questions about second tier and capital cities. Are they attracting or losing people? Are jobs being created or lost? What are the levels of economic output and productivity in these cities and how have these changed recently? What are the patterns of employment and how have these changed? How innovative, skilled and well connected are they? Primarily data is available for the boom period before 2007. So much of our analysis necessarily focuses upon that period. Nevertheless we do include evidence from the recession period where it is available. We examine which places did well during the boom years and which places have been badly hit by the recession. This study attempts to be as systematic and robust as possible using authoritative comparative data. However, a series of data limitations at European wide level presents challenges. In particular there are challenges about boundary definitions across the ESPON territory and also availability of data below national level for the non EU countries. In the case of Cyprus and Luxembourg NUTS 3 boundaries refer to national level so it is not possible to report data about second tier cities. Similarly for Malta the NUTS

3 boundary covering Valletta refers to virtually the entire Maltese territory. The tables and charts in this report present either national level or virtually national level data for them to ensure that these countries are included in our analysis. In the case of Iceland and Switzerland data on the issues we are discussing are not routinely available from Eurostat at the appropriate second tier city level. This explains why these countries are not found in all of the tables and figures in this report. Further detail can be found in Annexes 7 and 8 of the Scientific Report.

**Map 2.1: The 31 Capital and 124 Second tier cities in this study**



### **Grouping the second tier cities**

2.4 This report argues that governance matters and in particular that the degree of deconcentration of investment and decentralisation of powers, responsibilities and resources affects the performance and prospects of cities. We used a classification of European states which reflects the distribution of powers and responsibilities between national and urban governments and the degree of decentralisation of those responsibilities from national to regional and local administrations along territorial lines. Table 2.1 developed for the European Commission by Ismeri Europe and Applica shows this typology. We use it along with a broad geographical grouping in our analysis.

**Table 2.1: State systems: responsibilities and local autonomy**

<b>GROUP OF COUNTRIES</b>	<b>FEATURES</b>	<b>TRENDS IN COMPETENCIES</b>	<b>LOCAL REVENUES &amp; AUTONOMY</b>
<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, Norway)	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 & 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; fragmented local government	Re-establishment and reinforcement of local governments; more articulated devolution process in Poland	Medium low

### **Population - how dominant are capital cities?**

2.5 The percentage of population in the capitals and second tier cities provides a rough measure of capital city dominance and the importance of second tier cities in national urban hierarchies. At one extreme are the relatively small countries where the capital dominates – Luxembourg, Cyprus, Malta and Iceland. At the other extreme are the larger countries with relatively extended urban hierarchies like Germany, France, Italy, the Netherlands, Poland and the UK. There are large differences in the relative demographic dominance of the capital. The capital city with the smallest share of total metropolitan population - Berlin in Federal Germany - is in one of the most polycentric countries. In Federal Switzerland, the capital, Bern, is also smaller than Zurich. The capitals of the two regionalised states of Italy and Spain also have less dominant capital cities. Poland also has a capital with a relatively small share of the country's urban population.

### **Population decline in Eastern Europe - but growth just about everywhere else**

2.6 Population grew between 2000-2007, in 22 countries, from 0.1% in Germany to nearly 15% in Ireland. In the other 9 – all former socialist states in Eastern Europe – population fell. Economic transition for these former state socialist economies has been accompanied by varying levels of population decline. 26 of the 31 ESPON capitals had population increases. Population increased in 75% of second tier cities. In 13 countries 31 second tier cities actually grew faster than their capitals.

### **Migration – capitals dominate but many second tier cities attract migrants**

2.7 Virtually all capitals had positive migration rates, underlining their continuing pull. But a significant number of second tier cities also attracted immigrants. All 10 capital cities in Central East, East and South East Europe had positive net migration rates. Although demographic trends are complex, there is a general pattern of the capitals pulling away from the second tier cities.



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***Employment scale. Second tier cities perform relatively well – but big territorial differences. The South and East lag***

2.8 Capital cities dominate employment. In only 3 countries do second tier cities have more employment than their capitals. However, the recent pattern of change in employment is more varied. In the Federal States of Austria and Germany, 4 and 9 second tier cities respectively, outperformed the capital. Leading second tier cities in the Nordic states of Denmark, Finland, Norway and Sweden all showed relatively strong growth in relation to their capital. In West Europe, second tier cities also performed relatively well. In the UK, virtually all the English Core Cities performed relatively well in relation to London, as did Glasgow, Edinburgh and Cardiff. In France, 10 second tier cities outperformed Paris as did 3 in the Netherlands. In South Europe, the picture is more mixed. Greece's principal second tier city outperformed Athens. In Spain, performance was evenly split with 4 second tier cities outperforming and 4 underperforming Madrid. Italy stands out, with none of its second tier cities matching Rome's growth rate. In the former socialist states, with a few notable exceptions including Poland, the performance of second tier cities is markedly weaker. In only 3 of the 11 such states did a small number of second tier cities grow faster than their capitals.

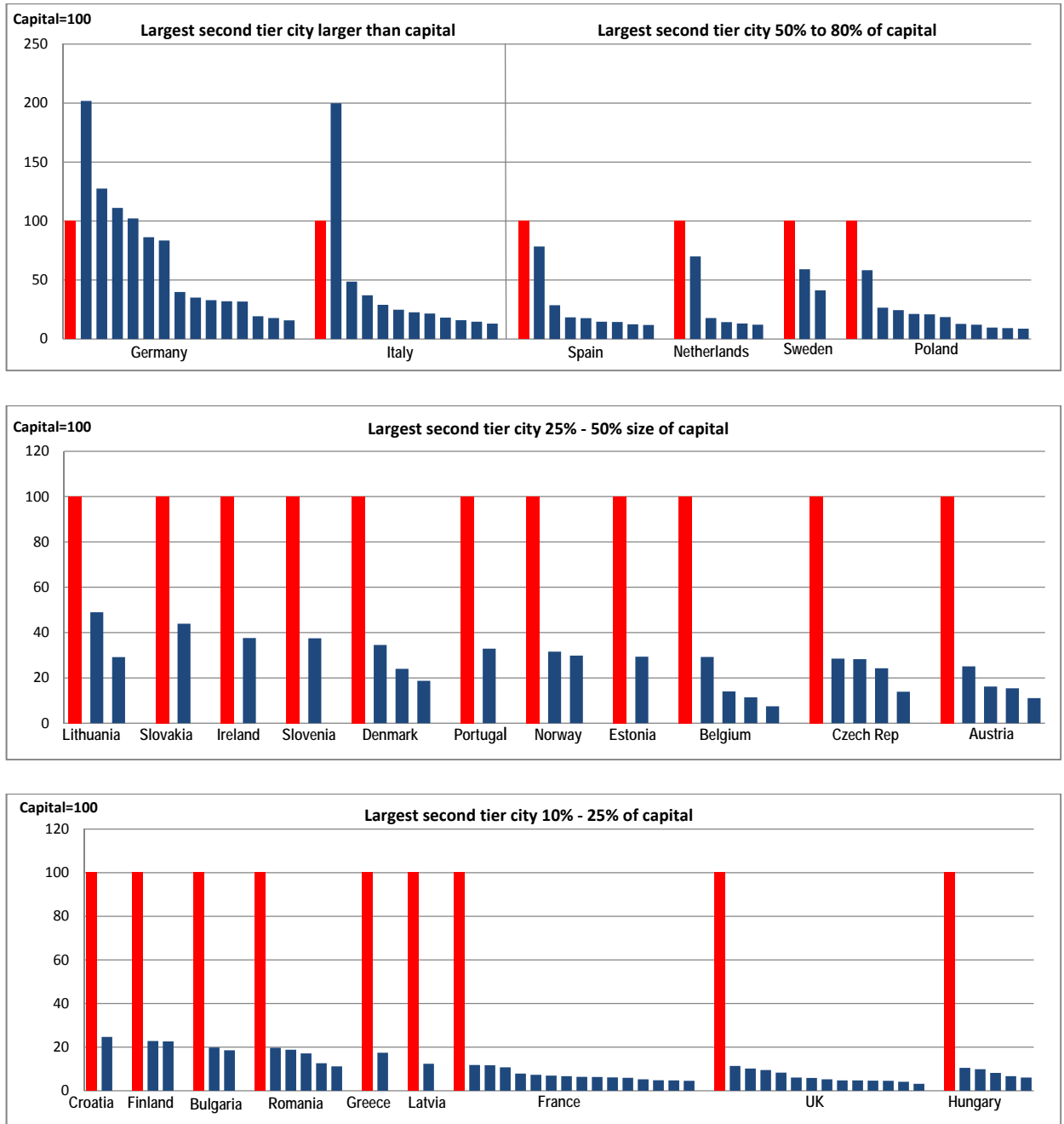
***Employment rates – some strong performances. But still underused potential – especially in the South and East***

2.9 While some second tier cities have high employment rates, typically they lag behind their capitals. Employment rates for capitals ranged from 56%, for Valletta in the South, to 79%, for Copenhagen in the North. For the second tier cities, the range stretched from 41%, for Naples in the South, to 79% for Enschede in the West. With a few exceptions, cities from the North, West and Central are at the upper end of the range. Cities from the South, Central East, East and South East are at the lower end. The underused employment potential of a significant number of second tier cities – and a small number of capitals – in all parts of Europe is clear. But it is particularly acute in Eastern Europe.

***Total economic weight. Capitals lead but second tier cities matter***

2.10 Capitals dominate their national economies. The total GDP of the capitals exceeds that of their leading second tier cities in all countries except Germany and Italy. Nevertheless, 12 of the 28 economically largest cities in Europe are second tier. But half of these are German. The performance of second tier cities matters a great deal to the EU's economic weight and prosperity. Figure 2.1 shows total GDP for capital and leading second tier cities in 2007. It shows the extent of the gap between the GDP of the capital and the leading second tier city. Germany and Italy are the only member states where the largest second tier city has a GDP which exceeds that of the capital. In Germany's case this reflects its relatively balanced urban system in which 6 cities are of major economic importance alongside a capital whose growth has been historically constrained. Italy has much more in common with Spain, Netherlands, Sweden and Poland where the most significant second tier city has a total GDP of between 50-80% that of the capital. In most of them, the gap between the capital and the leading second tier cities and that of other cities is as significant as the gap between the capital and the leading second tier city. In 11 countries the largest second tier city has a total GDP between 25 and 50% that of the capital. These include 5 EU15 countries (Ireland, Denmark, Portugal, Belgium and Austria) and 5 EU12 countries (Lithuania, Slovakia, Slovenia, Estonia and Czech Republic) and also Norway. The capitals of Croatia, Finland, Bulgaria, Romania and Greece dominate their urban hierarchies with the GDP of their largest second tier less than 25% that of the capital. Capitals dominate most in countries where the largest secondary produced only 10-15% of the GDP of the capital. These include the UK and France where London and Paris dominate because of their global city status and also the highly centralised Eastern states of Hungary and Latvia.

Figure 2.1 Total GDP in PPS, 2007

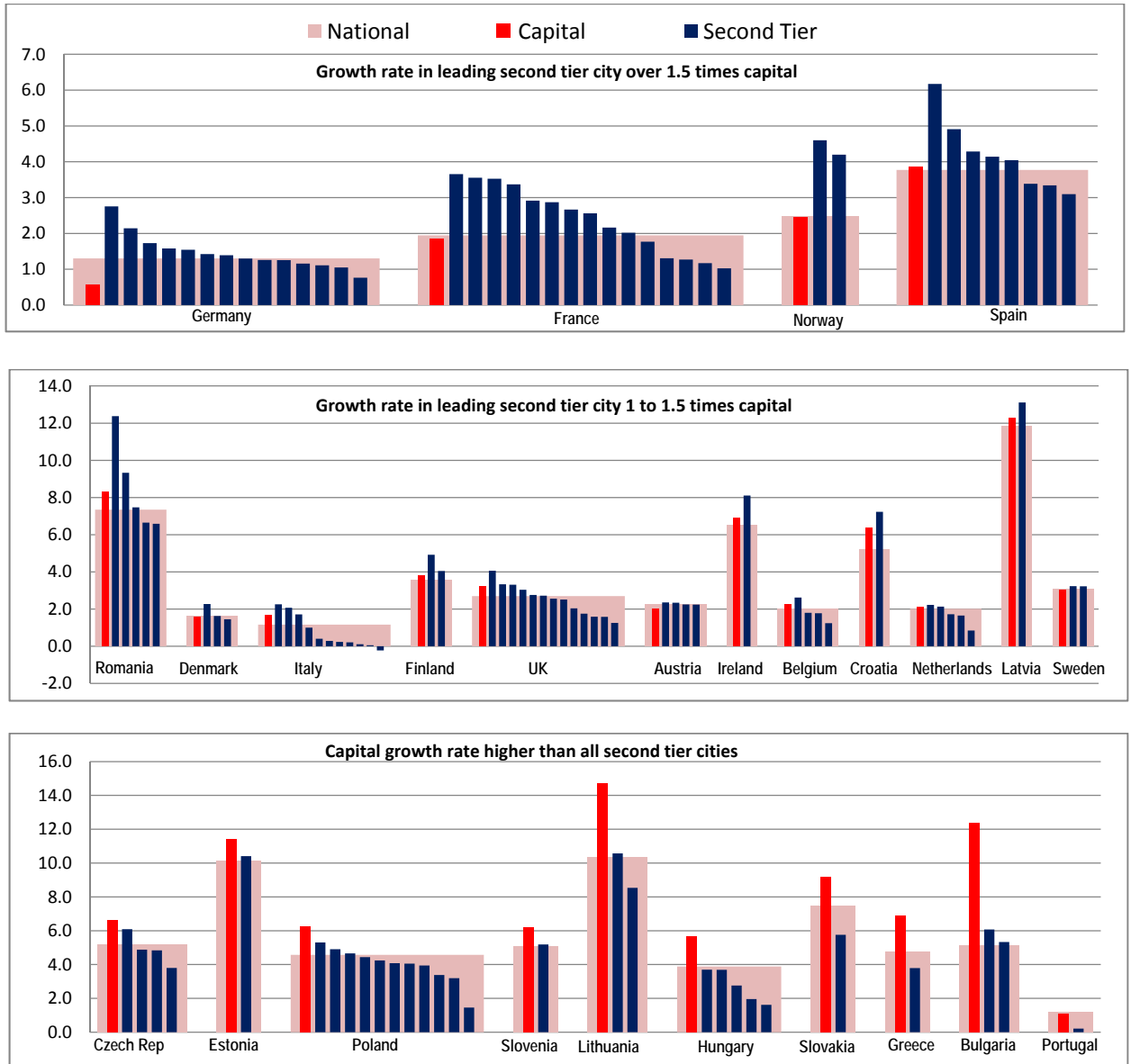


Source: Eurostat

**Changing economic weight. Second tier cities closing gap in some but not all countries**

2.11 Structurally, capitals dominate their national economies. But change is also important. And many second tier cities strengthened their position in the boom years 2000-7. In 16 of 26 countries for which data are available, 1 or more second tier cities had higher annual GDP growth than their capitals. In Austria and Germany, all second tier cities had higher growth rates than their capitals. The relatively strong growth rates in a number of capitals and second tier cities in the Central East and South East, as their economies integrated into the European economy, also stand out. Indeed, the highest growth rates over this period were in these regions. A significant number of second tier cities in the EU are putting in strong performances (Figure 2.2).

Figure 2.2 Total GDP Average Annual % Change 2000-7



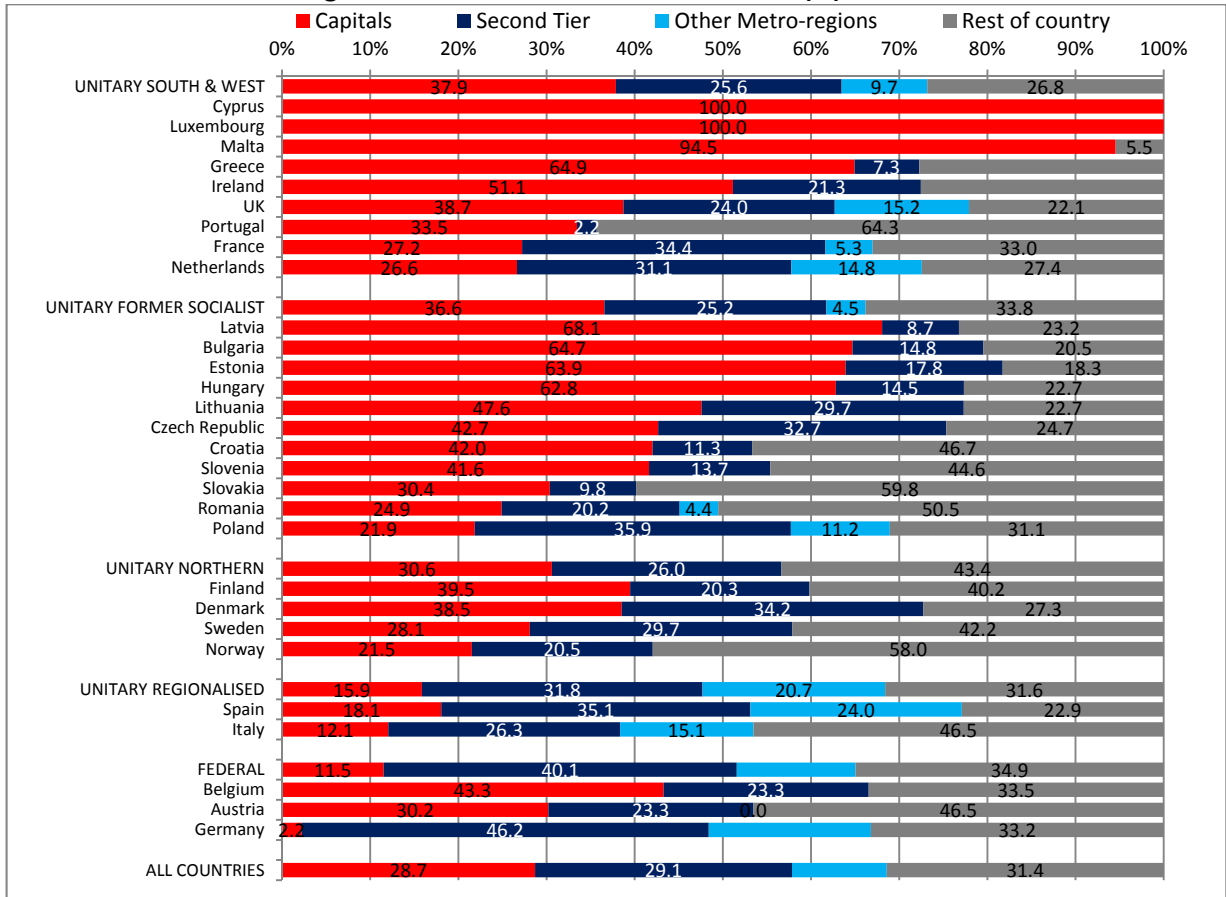
Source: Eurostat

**Shares of growth in the boom years**

2.12 Figure 2.3 shows the sources of growth in GDP in the boom years 2000 to 2007. Capitals accounted for 29% of GDP growth. Second tier cities made a similar contribution of 29%. Second tier cities made the biggest contribution to growth in Germany, Poland, Spain, France, and the Netherlands. The continuing dominance of capitals in the former socialist countries stands out. Poland was the exception.



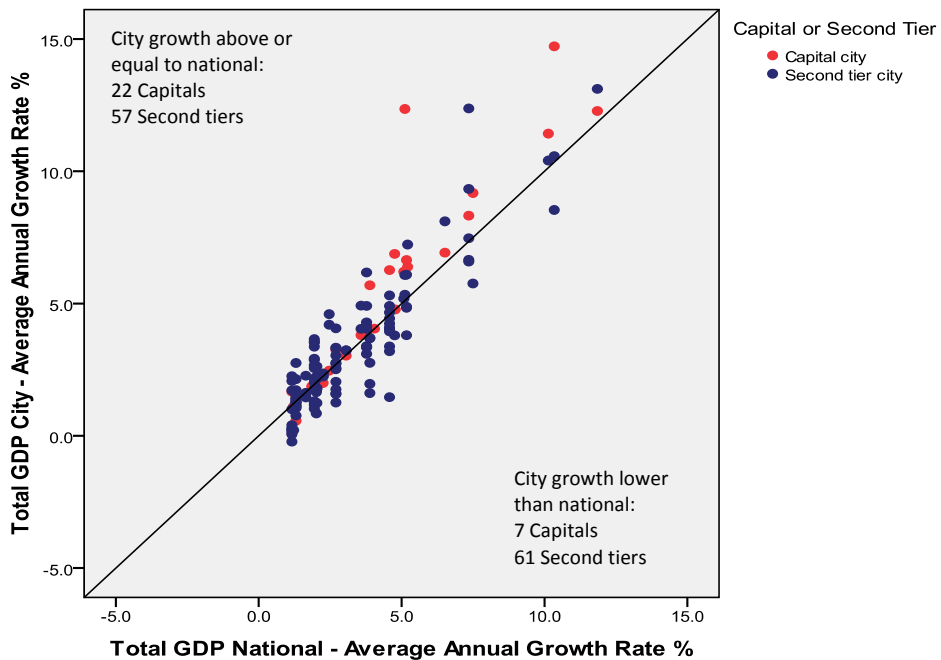
**Figure 2.3: Share of Growth in Total GDP (%) 2000-7**



Source: Eurostat

2.13 Figure 2.4 compares city and national growth rates between 2000 and 2007. Two thirds of capitals were above the national average. But also almost half of second tier cities grew faster than the national average.

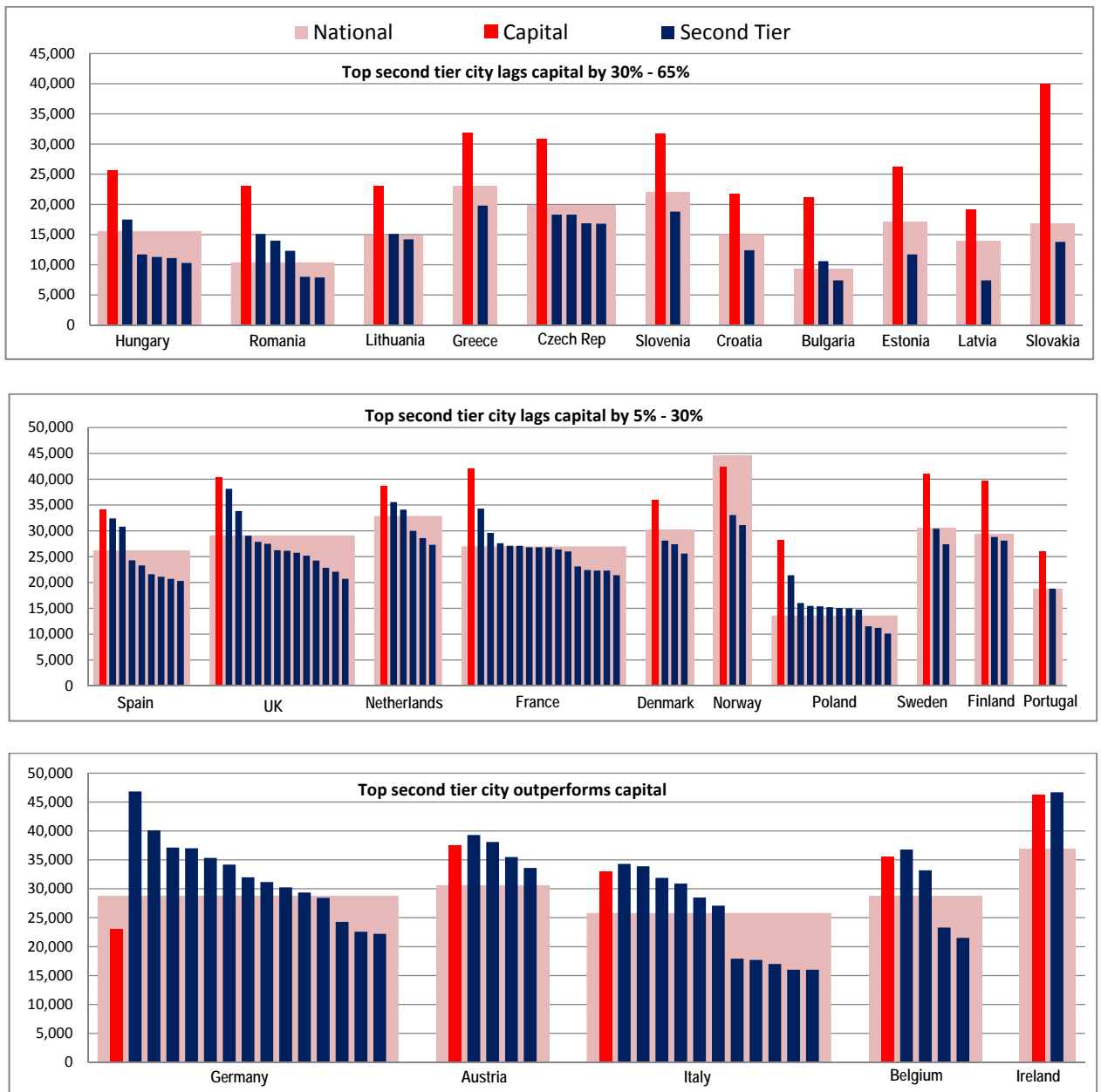
**Figure 2.4: Total GDP - City growth rates compared with national growth rates, 2000-7**



**Decentralisation encourages economic productivity**

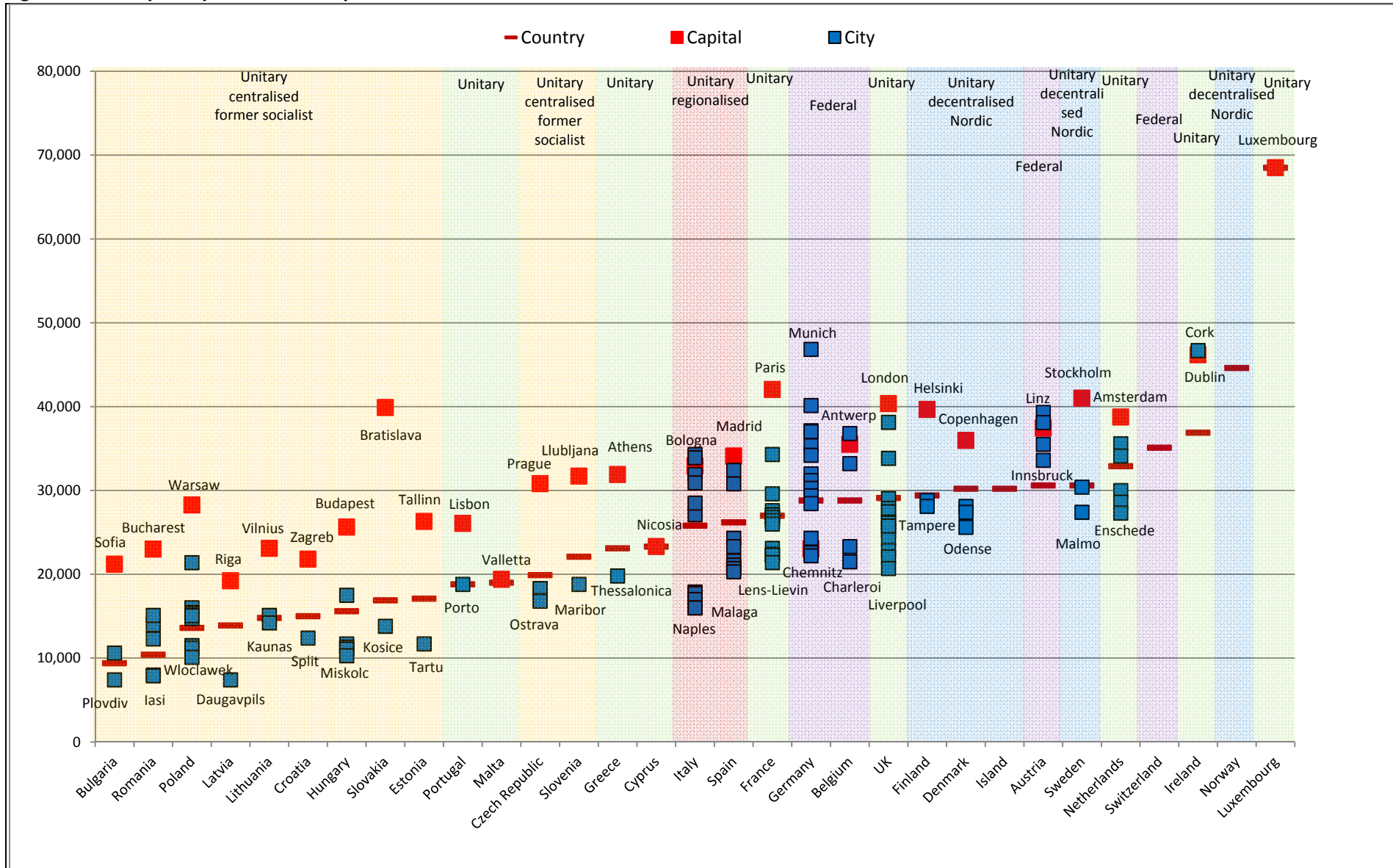
2.14 Figures 2.5 and 2.6 show performance measured by GDP per capita in 2007. They demonstrate a significant relationship between the level of centralisation and economic performance. For example, in the unitary centralised former socialist states, all capitals perform significantly better than all second tier cities. In the three federal states Germany, Austria and Belgium, a number of second tier cities perform better than the capitals – virtually all in Germany. This is also the case in the regionalised state of Italy. These figures show the position in a single year 2007. This relationship is significantly stronger when rates of growth through the decade are considered, as we shall show next.

**Figure 2.5 GDP per capita in PPS 2007**



Source: Eurostat & DG-Regio

Figure 2.6: GDP per capita in PPS in capital and second tier cities in 2007

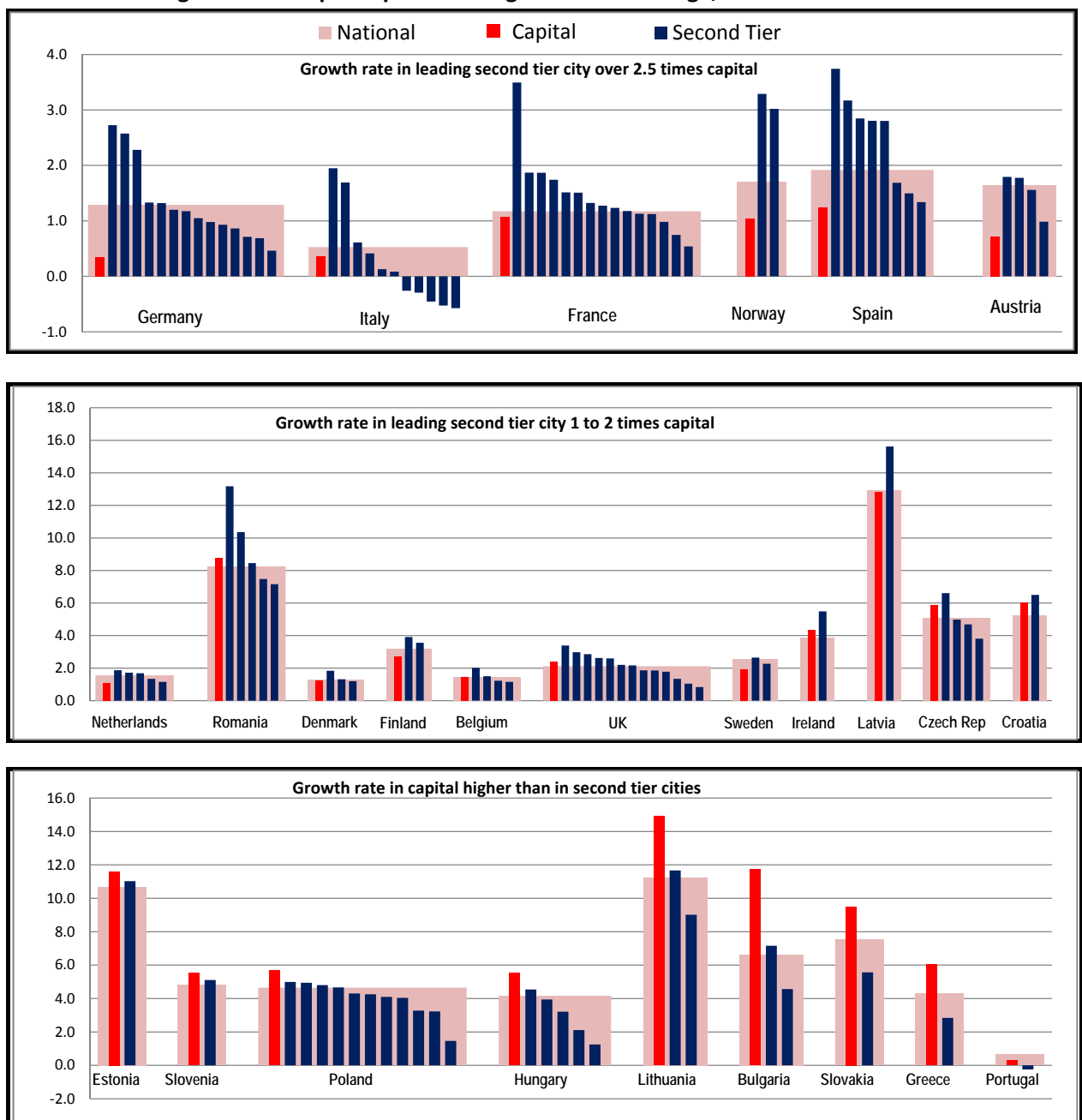


Source: Eurostat

**Changes in GDP per capita 2000-07. Many second tier cities outstrip their capitals**

2.15 The previous Figure showed the position in 2007. Figure 2.7 by contrast shows the important dimension of change. There are very significant differences in the rate of growth of capital and second tier cities. Despite the economic dominance of capitals, between 2000 and 2007 many second tier cities grew faster than capitals. For example, in the Federal states, all of Germany's and Austria's and half of Belgium's second tier cities outperformed the capital. In the regionalised states, all of Spanish and a third of Italian second tier cities grew faster than their capital. In the Nordic states, all grew faster than the capital. In the unitary states, all second tier cities in Netherlands, 12 out of 15 in France, 5 out of 13 in the UK, and 1 in Ireland were above their capital. In Greece and Portugal, however, the capitals grew faster than the second tier cities. The position in many of the new member states is markedly different. In the former socialist states of Hungary, Poland, Slovakia, Slovenia, Estonia, Lithuania and Bulgaria all the capital cities grew faster than all the second tier cities and all but one in the Czech Republic. However, in Romania 2 out of 5, and in Latvia and Croatia both second tier cities grew faster than their capital.

**Figure 2.7 GDP per capita – average annual % change, 2000-7**

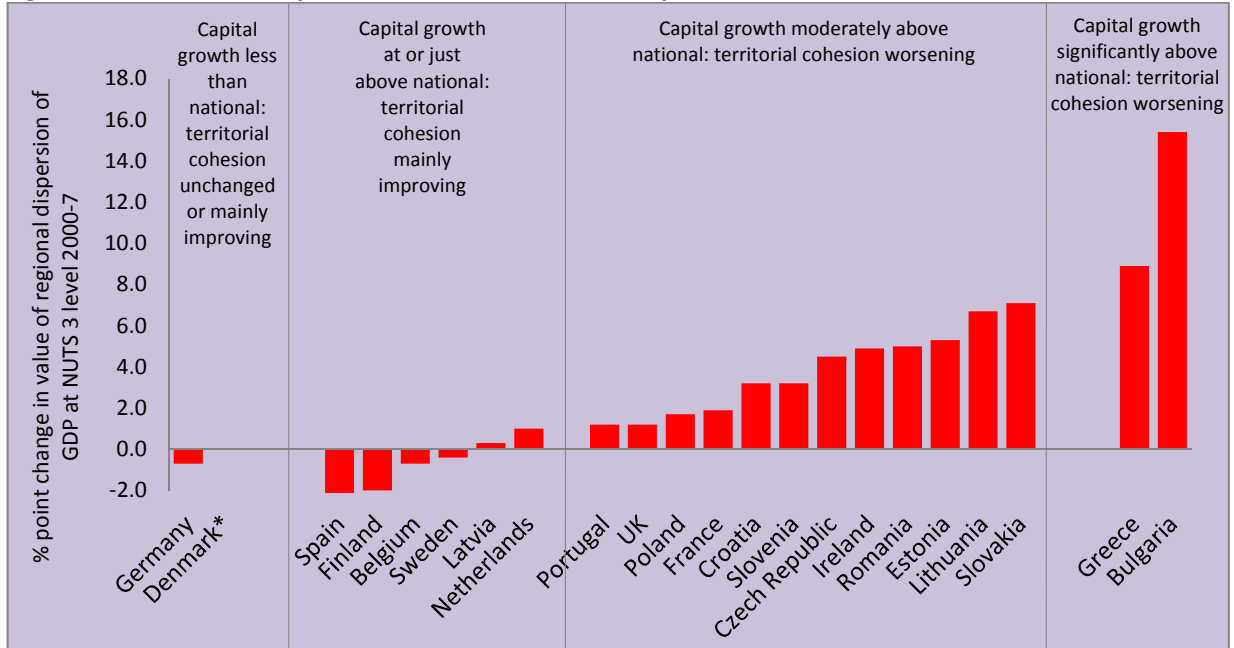


Source: Eurostat

**Impact of capital city growth on regional inequality and territorial cohesion**

2.16 The growth in GDP of capital cities has an important impact upon territorial cohesion. Figure 2.8, which uses regional dispersion of GDP as one indicator of cohesion, shows the relationship. High GDP growth in capital cities is associated with worsening territorial cohesion. In countries where the growth of the capital city was either lower than or just above national growth, territorial cohesion improved or remained unchanged. This was the case for federal Germany and Belgium, Nordic Denmark, Finland and Sweden, and regionalised Spain. By contrast, in countries where the growth of the capital was moderately or significantly above the national rate, territorial cohesion worsened.

**Figure 2.8: Growth in Capitals' and Countries' GDP: Impact on Territorial Cohesion**



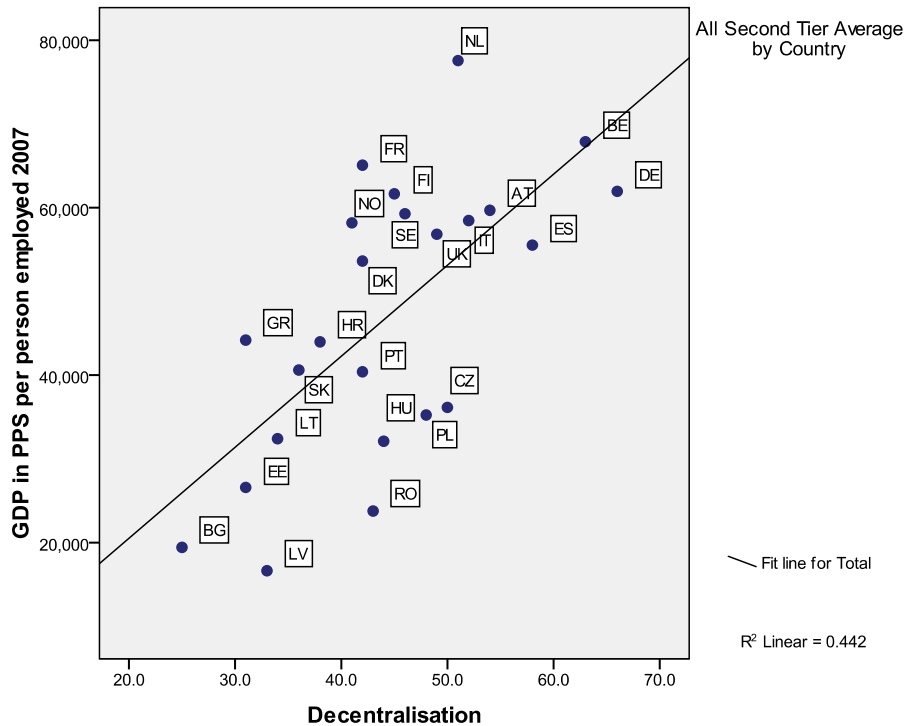
Source: Eurostat; figures use latest data where available; Notes: 'At or just above' refers to indexed growth rate of 1.00-1.10; 'moderately above' 1.11-1.50; 'significantly above' 1.51-2.50; \* Regional dispersion is unchanged in Denmark.

**Decentralisation encourages improved productivity**

2.17 Figure 2.9 supports the analysis above. It applies a decentralisation index developed by Basel Economics to our productivity data on second tier cities. It shows the relationship between decentralisation and economic performance in terms of GDP per person employed for second tier city averages. It shows that greater decentralisation in countries is associated with stronger economic performances by their second tier cities.



**Figure 2.9: Decentralisation and Second Tier Cities' Average Productivity 2007**



**Big drops in unemployment- particularly in the East**

2.18 Between 2000 and 2007, unemployment fell from 9.0 to 7.2% across Europe. In 12 countries the rates rose but only fractionally. 9 of the 18 countries where unemployment rates fell were in East, Central East and South East Europe – ranging from 0.7% in Romania to 6% or more in Poland, Slovakia, Latvia, Estonia, Bulgaria and Lithuania. During the early 2000s there was strong growth in most former socialist economies after the economic transition in the 1990s. Unemployment rates for the capital cities fell from 7.3% in 2000 to 5.2% in 2007. Between 2000 and 2007, many second tier cities saw unemployment rates fall, including many in the former socialist countries.

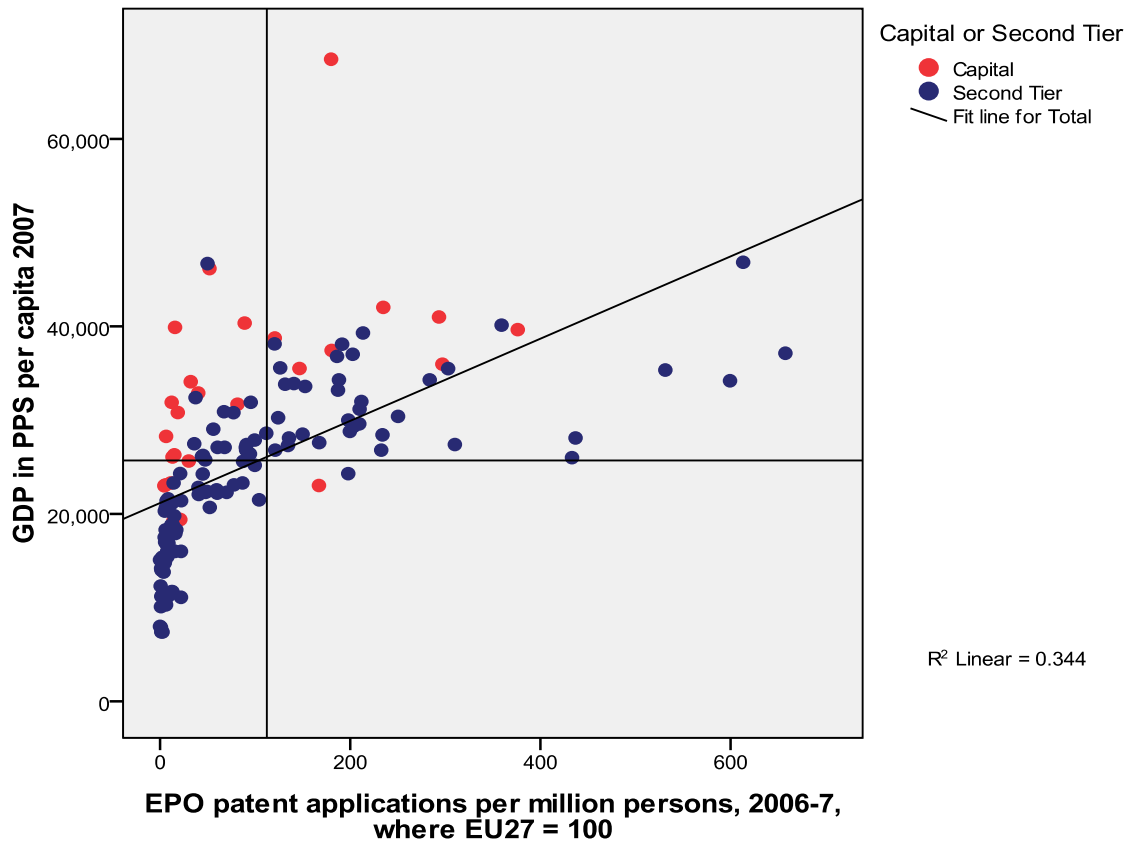
**How do cities perform on the key drivers of competitiveness?**

2.19 We explored some of the drivers of competitiveness which contributed to the cities' economic performance, examining performance on innovation, skills, leading employment sectors and connectivity. We found degrees of correlation varying from moderate to high.

**Innovation matters to economic performance**

2.20 Figure 2.10 presents the innovation data – European Patent Office patent applications. A number of second tier cities are performing as well as or better than capitals. The 7 cities with the highest numbers of patent applications are all second tier – Eindhoven in the Netherlands, Stuttgart, Munich, Nuremburg and Mannheim in Germany, Grenoble in France and Tampere in Finland. The top 30 listing of patent applications in 2006-7 included only 4 capitals - Helsinki, Copenhagen, Stockholm and Paris. Second tier cities in Central and Northern countries perform best, where nearly two thirds had higher rates of patent applications than their capitals. In the South, both of the second tier cities in Greece and Portugal performed slightly better than their capitals, as did over two fifths of second tier cities in the regionalised states of Italy and Spain. In the West, second tier cities performed relatively well in Belgium and the Netherlands. The dominance of innovative cities in Federal and Nordic systems at least suggests a relationship between decentralised systems and innovation. The relatively weak performance of second tier cities in Eastern Europe stands out. With the exception of Poland, none of the second tier cities outperformed their capitals. 27 of the bottom 30 cities in terms of innovation were in the former socialist states of Eastern Europe. Innovation clearly remains a constraint upon the development of the transition economies and their cities.

Figure 2.10: Patent applications and GDP per capita for capital and second tier cities



***Skills and human capital affect economic performance***

2.21 There is also a moderate correlation between the proportion of the population with a high level of education and GDP per capita. Capitals perform more strongly than second tier cities on high levels of education, although a number of second tier cities also perform well. These tend to be located in the North and West regions but with a small number of outstanding performers in Central East and East. Of the 112 second tier cities, only 7 outperformed their national capital cities. 3 were in Germany. Again, none of the second tier cities in the former socialist states of East Europe outperformed their national capitals. Second tier cities did perform relatively well, however, when measured against national averages. In Eastern Europe Poland again stands out, with 9 of its 11 second tier cities having high-level education rates above the national average.

***Employment in leading sectors affects economic performance***

2.22 There is a strong correlation between the proportion of employment in ‘financial intermediation, real estate, renting and business activities’ and GDP per capita. As with high educational levels, capital cities perform relatively well in this sector of employment. 11 of the top 20 cities are capital cities. Cities in the West and Central regions have relatively high shares of employment in these sectors while the opposite holds for those in the South East, East and Central East. Only 8 second tier cities have higher shares of employment in the sector than their national capitals. 7 of them are in Germany. 50% of second tier cities had shares higher than the national average. Again Germany stands out with 12 out of 14 in this category, Italy in the South with 7 out of 11 and Poland in Central East Europe, with 8 of its 11 second tier cities having higher than national shares of employment in the sector. For the remainder of Eastern Europe, however, performance is relatively weak.

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### ***Connectivity affects economic performance***

- 2.23 Connectivity, measured in terms of potential accessibility by air, is also highly correlated with GDP per capita. Capital cities perform strongly but so do a significant number of second tier cities. Central and West European cities are relatively highly accessible, unlike their Eastern European counterparts. The top 20 cities in terms of potential accessibility by air are split evenly between capitals (9) and second tier cities (11). While only 14 of the 124 second tier cities for which we have comparative data have potential air accessibility greater than their national capitals, half of them have levels of accessibility higher than both EU and national averages. These accessible second tier cities are mainly clustered in Central and West Europe. The evidence underlines the accessibility and transport infrastructure challenges facing Eastern European states. Only 3 of the 33 second tier cities in the East, Central and South East have potential accessibility levels by air above the EU average. Most of the cities in the bottom 20 of potential air accessibility are in Eastern Europe.

### ***The boom is over***

- 2.24 So far this report has focused upon the boom period until 2007. Partly this is explained by the shortage of good recent data. But that period has ended. 2007 marked a watershed in the global economy with the onset of the economic crisis in 2008 that was triggered by a financial crisis, initially in the US but quickly of global reach. European cities are now faced with very different and more difficult economic conditions from those of the pre-recession years.
- 2.25 The crisis had a very varied territorial impact between and within countries. This geography can be seen in patterns of change in output, employment and unemployment and in government fiscal balances and debt levels. Map 2.2 shows national GDP growth rates over the crisis period, 2007-2010 for 33 European countries. There are some striking differences. In the EU27 GDP fell by just over 2%. Of the 33 countries, GDP fell in two thirds, in a number of cases quite dramatically. Standing out clearly are the large declines in the Baltic States - Lithuania 11%, Estonia 16%, Latvia 21% - and Ireland 10%. Poland is an exception since it has continued to perform impressively. It also clear that the crisis is a moving target with some stabilisation and recovery. For example during 2010-11, nearly 90% of countries increased GDP, if only by a small figure. The largest increases were in Turkey with 8.5%, Estonia 7.6%, Lithuania 5.9%, Latvia 5.5%, and Poland with 4.3%. But Greece's GDP declined by 6.9%.

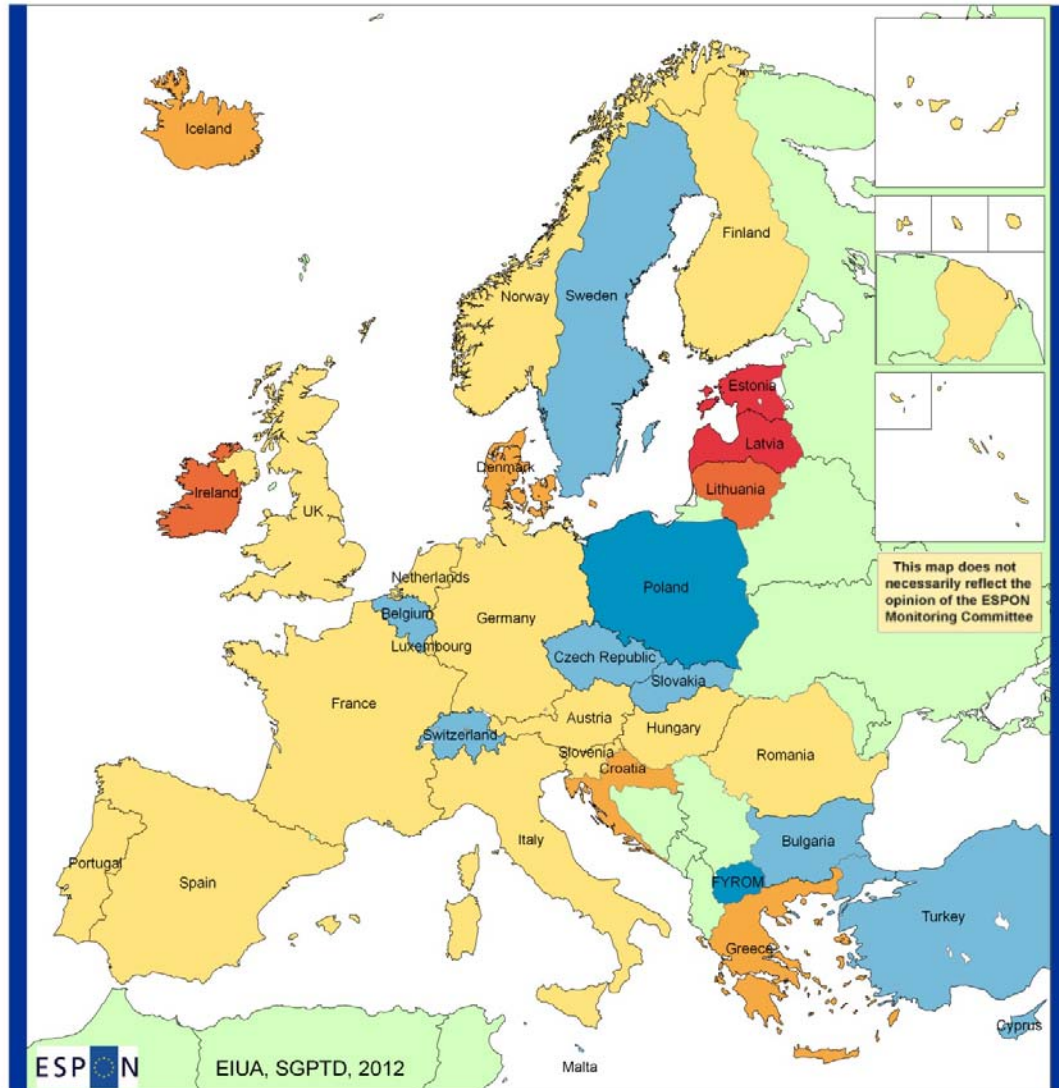
### ***The crisis threatens to undermine achievements of second tier cities***

- 2.26 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. Map 2.3 shows the changes in GDP during the period 2007-9. More than 75% of the cities experienced GDP falls 2007-9. Capitals performed far better than second tier cities during the crisis. The better performing places were in Eastern Europe and in Poland in particular. The fastest growing 19 places – 12 Polish - were all in Eastern Europe. The Baltic cities were heavily hit. Major Western European countries have all been hit. In Germany only Berlin grew. All other German cities' GDP declined. In the UK all 14 cities declined. In Italy all 12 cities declined. In Spain 8 of 9 declined.
- 2.27 There are great regional disparities in unemployment. In 2010, 1 in 3 regions had rates above 10%. The rate in 2010 was greater than in 2007 in 4 out of 5 European NUTS 2 regions. Only 49 regions had a reduction in unemployment rates, with the biggest falls in Germany and Corsica. The regions most severely affected were in Spain, Ireland, the Baltic States and Greece – countries with significant reductions in GDP growth. In cities, unemployment has increased dramatically. For example, only 4 capital cities had unemployment above 8% in 2007, in 2009 11 had. Of the second tier cities, 26 had unemployment over 10% in 2007, but by 2009 the number had increased to 47. Some such cities were holding up relatively well, however. In 2009 36% had lower rates of unemployment than their capitals and 48% had lower than the national rates.



Map 2.2: Total GDP change (%) by country, 2007-2010

## Total GDP % change 2007-2010



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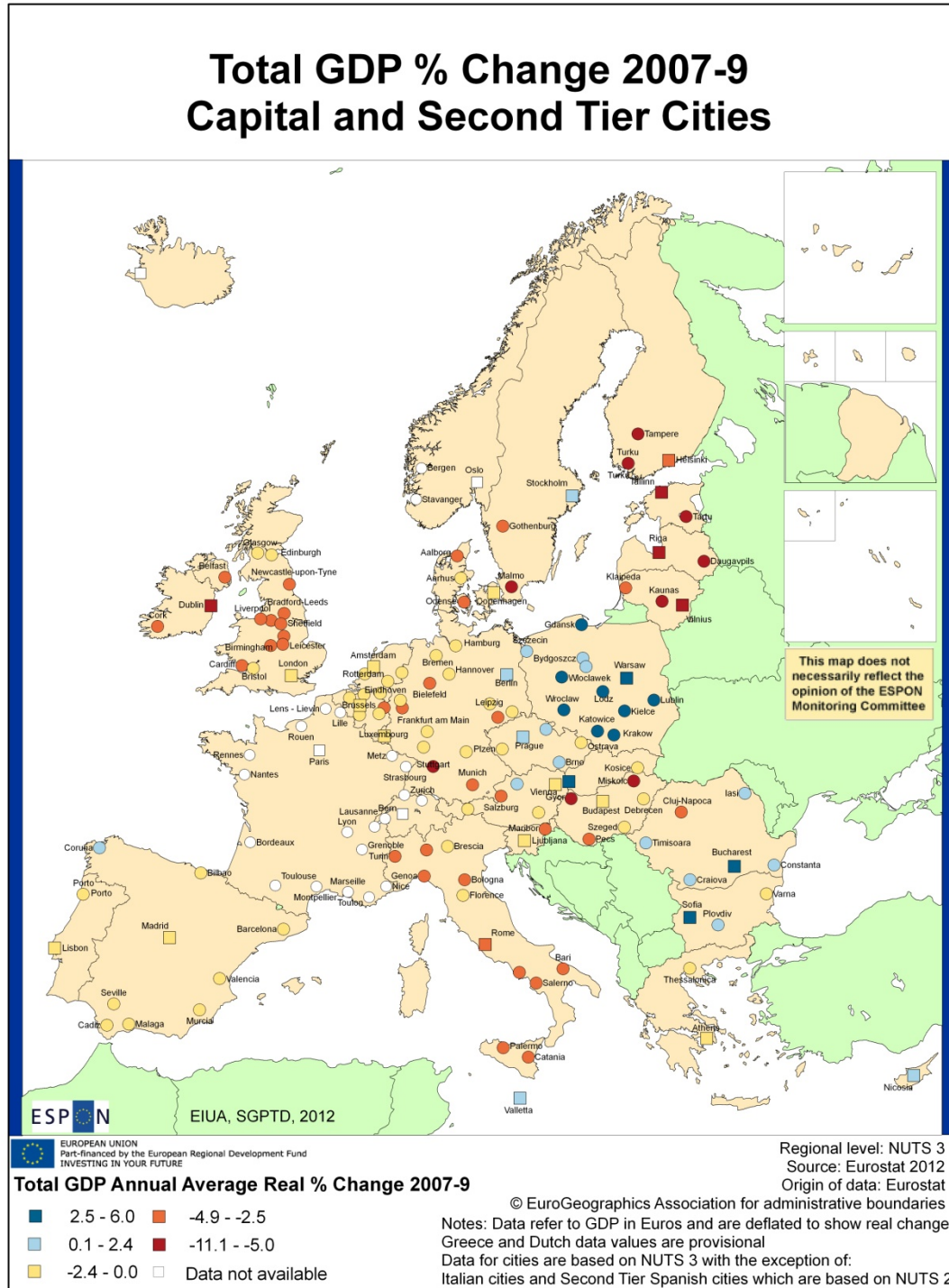
**Total GDP % change 2007-10**

5.1 - 11.0	-9.9 - -5.0
0.1 - 5.0	-14.9 - -10.0
-4.9 - 0.0	-20.7 - -15.0

Regional level: NUTS 0  
Source: Eurostat 2012  
Origin of data: Eurostat  
© EuroGeographics Association for administrative boundaries

Figures show real % changes in GDP in Euros  
Greece 2007 & 2010 data are provisional  
Portugal & Croatia 2010 data are provisional  
FYROM 2010 data are forecast

Map 2.3 Impact of recession on cities' GDP



#### Key messages from our quantitative data analysis

#### **Capital cities dominate but second tier cities make a significant contribution**

2.28 The essential message of this report is that capital cities continue to dominate the European urban systems in terms of population, employment and output – with the exceptions of Germany and Switzerland. But second tier cities continue to make a significant contribution to their national economies and the European economy. The gap between capital and second tier cities is large and in most of the former socialist states of Eastern Europe growing. The total GDP of capital cities in 2007

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was greater than their leading second tier cities in all but 2 countries, Germany and Italy. In 19 countries the total GDP of the capital was more than twice that of the largest non-capital city and was as much as 8 times greater in 4 states - UK, France, Hungary and Latvia. The capitals, which accounted for 16% of total population in 2000, accounted for 31% of population growth 2000-7.

2.29 Change measures show a rather more nuanced story. Despite the capitals' dominance, second tier cities still made a positive contribution to growth and, in a significant number of cases, demonstrated their potential for increasing this contribution. In 2000 second tier cities accounted for 31% of population. Between 2000 and 2007, they accounted for 34% of population growth. By 2007, three quarters of the second tier cities had positive net migration rates and one third had rates above those of their capitals. Over the same period, they accounted for 29% of total GDP growth. And the top 36 second tiers provided one third of the total GDP growth that capital and second tier cities together generated.

***Signs of second tier cities breaking path dependency***

2.30 In 16 states, 1 or more second tier cities recorded higher annual growth in total GDP between 2000 and 2007 than their capitals especially in Germany, France, Norway, and Spain. But it also happened in 3 former socialist states. And states in Eastern Europe experienced some of the fastest growth rates, as their economies integrated into the European economy, with second tier as well as capital cities contributing. While this growth may be vulnerable to the recession, it forcefully demonstrates that second tier cities can improve their performance and break out of path dependency. This point is also illustrated by the relatively high productivity growth rates in some German second tier cities that were formerly part of the GDR - Dresden and Leipzig. Their performance clearly reflects the integration of these cities into the strong German economy and Federal system and contrasts with other former socialist states where second tier cities have achieved productivity levels 20% less than their capitals. Federal investment policy in Germany has clearly been significant.

***Decentralisation encourages improved economic performance***

2.31 We analysed national governance arrangements to determine the impact of decentralisation upon cities' performance. On the basis of quantitative data alone, it is not possible to demonstrate direct causal links between performance and national governance systems. This needs the more qualitative analysis that we provide in section 3. However, the quantitative data provide some significant evidence that levels of decentralisation do matter. Between 2000 and 2007 many second tier cities grew faster than their capitals in terms of GDP per capita growth. But more grew faster than their capital in the federal and regionalised states than in the highly centralised states of former socialist states in Eastern Europe. For example, in the Federal states, all German and Austrian and half of Belgium's second tier cities outperformed their capitals. In the regionalised states, all Spanish and a third of Italian second tier cities grew faster than their capitals. In the Nordic states, all grew faster than their capital. In the unitary centralised states of Hungary, Poland, Slovakia, Slovenia, Estonia, Lithuania and Bulgaria all second tier cities and all but one in the Czech Republic had lower growth rates than their capital cities. Only in Romania, Latvia and Croatia did some second tier cities outperform their capital.

***Germany – unique but instructive***

2.32 Germany provides important lessons on the economic role of second tier cities. Of course Germany is unique in Europe. It is a Federal system. It has changed the capital city, whose scale and growth has been artificially constrained. The country has been divided. Its second tier cities are typically state capitals with extensive powers and resources. It has a unique system of regional banking and powerful middle sized firms. It is not possible for other European countries to simply imitate the structural characteristics of the German system. Nevertheless, the key principles of the German experience can be transferred between different countries. Its experience clearly underlines our wider argument that politics and policy matter in urban development. And it particularly underlines the argument that decentralisation of powers and resources and the spatial deconcentration of investment leads to a higher performing national economy. Economic activity – private and public - is more evenly

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distributed across a range of cities that form a powerful multi-cylinder economic engine. Over the period 2000 to 2007, population increased faster in 6 German second tier cities than in Berlin. 9 second tier cities outperformed it in employment growth. All 14 second tier cities had employment rates above Berlin. All 14 second tier cities also had productivity growth rates above Berlin. At a European level, 5 of the top 10 second tiers in terms of GDP growth between 2000 and 2007 were German. 5 of the top 10 cities in terms of our measure of performance in innovation were German. And German second tier cities have been relatively resilient to the crisis, with all but one experiencing a drop in unemployment between 2007 and 2009.

#### ***Drivers of competitiveness in second tier cities***

- 2.33 The data also point to links with some of the drivers of competitiveness. For example, in the Federal and Nordic states, innovation is highly related to the strong performance of second tier cities, suggesting a relationship between decentralised systems and innovation. This contrasts markedly with the highly centralised, unitary states of Eastern Europe, where 27 of the 30 worst performing second tier cities in terms of innovation are found. City performance and skill levels are also correlated. Capital cities again tend to dominate. Only 7 of the 112 second tier cities outperformed their national capital cities on this measure. But again, 4 of these were in the Central federal states: 1 in Austria and 3 in Germany. In this case, Poland and Lithuania are notable exceptions to the general eastern European pattern. While their second tier cities did not have high level education rates above the capitals, many had rates above the national average. In Poland's case, high level skills are more evenly spread across its urban system.
- 2.34 City performance and employment in financial intermediation, real estate, renting and business activities was also relatively highly correlated. As with high educational levels, capital cities performed relatively well. Only 8 second tier cities had higher shares of employment in this sector than their national capitals. 7 were in Germany, again reflecting its deconcentrated industrial structure. Second tier cities performed relatively well with half having shares higher than national average. The challenges facing the new member states from Eastern Europe are again underlined by the fact that 19 of the bottom 20 performers were located there. City performance and accessibility were also relatively highly correlated. Central and West European cities were relatively highly connected. But reflecting historical political and policy priorities in infrastructure development, cities in the unitary states of Eastern Europe were weakly connected.

#### ***What economic contribution of second tier cities?***

- 2.35 Our evidence has shown that all second tier cities made a contribution - and some a significant one - to economic growth in Europe between 2000 and 2007, even if many were overshadowed by capital cities to different degrees in different parts of Europe. Productivity levels and employment rates in second tier cities show they are located on a spectrum of productive capacity and agglomeration economies, with some nearer their productive potential than others. But many have the potential to grow and the ability to benefit further from agglomeration economies. Individually, the majority of second tier cities do not match the economic contribution of capital cities. But collectively their contribution to national economies is significant.

### **3. HOW DO NATIONAL AND LOCAL POLICIES AFFECT SECOND TIER CITIES?**

- 3.1 Across Europe urban policy has been expanding. But policies have varied because different places face different challenges and have different histories, cultures, constitutional arrangements and decision-making systems. During the past decade across the original 15 member EU states there have been three broad policy trends. First there has been a redrawing of the balance between national, regional and local actions with many countries reducing the role of the national government and providing greater responsibilities – if not always resources - to cities. Second, there has been growing recognition by many European countries and governments of the potential economic contribution that cities can make to national economies and a more coherent attempt to boost their economic



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performance. Third, there has been a growing recognition of the need for more explicit national urban policies which specifically address the challenges and opportunities facing cities, their communities and residents.

- 3.2 The policy position is rather different in the former Eastern countries. In most cases local authorities are now more important for urban development. Here, the absence of a national urban policy is the direct result of the political and economic transformation occurring since around 1990. Since then, responsibility for urban issues has been devolved to local levels and the private sector. This has created a range of challenges including a lack of coordination, limited attention to urban issues, and often limited resources to help cities. Local governments have been forced into short-term, uncoordinated approaches to resolve acute problems because they have little time, capacity, or money to develop longer term structural solutions. But local governments have increasingly recognised that they cannot handle the problems of their cities alone, or even in collaboration with the private sector. As a result, many major cities in the new EU countries have been pressing for more coherent and systematic national urban policies.
- 3.3 This study asks whether there was a clear policy focus upon second tier cities, whether their performance was considered an issue and whether national government were trying to strengthen and improve the capacity, powers, resources and performance of cities. The policy picture across Europe is very diverse with significant national differences. However, some key messages do emerge. Countries typically concentrate attention and resources in capitals at the expense of second tier cities. There has been little explicit policy debate about the relationships between them. But that debate has begun in some countries, especially in some of the Eastern countries, where the dominance of the capital is a major issue. Some countries are beginning to develop more explicit policies for second tier cities and trying to break the concentration upon the capital. Sometimes they are territorial policies, sometimes they are implicit policies.
- 3.4 Few countries have explicit policies for second tier cities. To the extent they have policies for cities, until very recently they have focused primarily upon social cohesion and neighbourhood policies rather than upon economic performance. Even if few countries have explicit urban policies and fewer still explicit policies for second tier cities, many have extensive implicit policies designed to increase national competitiveness. This section will show there is evidence that policies have made a difference to the performance of second tier cities. The roots of urban success are partly a consequence of national and local policies for the key drivers of performance - innovation, diversity, skills and human capital, connectivity, place quality and strategic governance capacity. Some of those policies have made a difference and helped second tier cities perform better. It will also show that there is demand amongst policy makers and researchers for a more explicit policy for second tier cities to encourage more balanced, higher performing national economies. There is also demand for a more explicit EU policy focus upon cities in general and second tier cities in particular.

#### ***Messages from our countries and cities***

- 3.5 It is important to understand the processes, dynamics, trends and principles that underlie urban policies. In the following section we do this by looking in more detail at national policies for second tier cities in the countries where we carried out case studies – Germany, Spain, Italy, Finland, Ireland, France, the UK, Poland and Romania. We complement the national reviews with individual city case studies. Cities are the places where a wide range of policies meet 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 of local capacity to shape and implement those policies.

#### ***A range of circumstances***

- 3.6 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 3.1 summarises key characteristics of the case studies presenting data for the wider city regions not for narrow city boundaries. They cover the whole range of national urban structures. Cork is the only

second tier city in Ireland and Tampere is one of only 2 second tier cities in Finland. At the other extreme are the case studies from large countries with extended urban structures. These include: Katowice and Turin, each one of 11 second tier cities in Poland and Italy; Leeds, 1 of 13 second tier cities in the UK; Munich 1 of 14 in Germany; and Lyon, 1 of 15 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%. 6 have shares of national GDP greater than their shares of national employment - Barcelona, Cork, Katowice, Lyon, Munich and Timisoara.

**Table 3.1: The case studies – key characteristics**

Country	Geographical grouping	State System	Urban structure: Second tier cities (no.)	Case study second tier city/ metropolitan region	Population ('000s): 2007 number	Population: share national (%): 2007	GDP PPS per person employee: 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	54,665	3.2	1,028	3.6

3.7 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, 6 performed better than nationally - Barcelona, Leeds, Lyon, Munich, Tampere and Timisoara - but only 2 better than their capital cities - Lyon and Munich. In terms of employment change, 6 performed better than the national average (Katowice, Leeds, Lyon, Munich, Tampere and Timisoara) and 2 better than their respective capitals (Lyon and Munich). In terms of GDP change, 5 bettered national and capital city performance: Cork, Lyon, Munich, Tampere and Timisoara.

**Table 3.2: 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	✓	✓
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***

- 3.8 The case studies also provide a range of performance in relation to our key drivers of performance. On skills, 4 score better than the national average – Barcelona, Lyon, Munich and Turin. But only Munich did better than its capital. 3 score better than their capital cities on the innovation measure – Barcelona, Munich and Tampere. 8 have better than national scores in relation to connectivity. But only Barcelona and Munich did better than their capital cities.

**Table 3.3: 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***

- 3.9 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 wider functional economic area or city region - not just the narrow administrative city boundary. Their degree of success varies.

### ***But different stories***

- 3.10 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 a 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 shows 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.
- 3.11 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;

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the city's prospects; and policy messages for local, regional, national and European partners on territorial balance.

## Second Tier Cities in a Federal State – Messages from Munich and Germany

**Munich** is one of Europe's most economically successful second tier cities. Its history, geography, economy, and the German model of Federalism and local and regional governance are crucial to its success. It has many important assets but governance and political exploitation of them have been crucial and suggest lessons for other European second tier cities. Munich has excelled because of determined, visionary political leadership and because of integrated policymaking especially in innovation and infrastructure. But it is not immune from economic challenges and shares other cities' frustrations in developing effective governance across the city-region.

### ***Decentralisation, deconcentration and high performance***

- 3.12 Germany is the clearest example in this study of the relationship between governance and urban performance. As we explained earlier, it is not possible for other European countries to simply imitate the structural characteristics of the German system. Nevertheless, the key principles of the German experience can be transferred between different countries. It has the most decentralised policy making system and also many of the highest performing cities in Europe. The system is not free from economic and social challenges and in particular from very uneven development between West and East. Its approach to policy making has important implications for the rest of Europe. Its key features are the levels of decentralisation, commitment to long term planning and action, the allocation of powers to regional and urban authorities, the focus upon innovation, education, research and development. The German system has helped create one of the most balanced urban systems in Europe. Neither Berlin nor any of its second tier cities dominate in terms of population or economic performance. 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. There has been variable urban performance - especially between East and West – but recent 'reurbanisation'. The German economy is the strongest and most resilient in Europe. This is primarily because of its strong manufacturing industries and export base, overseas demand, restructuring of its national finances, national economic stimulus programmes, low wage inflation as well as avoidance of the real estate bubble because of its decentralised land markets, preference for rented rather than owner occupier housing and consequent lack of speculation. However, Germany's economic resilience has been helped by key state and city actors putting in place the necessary infrastructure and investment so that key urban economies flourish.

### ***Long term investment and consensus***

- 3.13 National policy has also been crucially important to the development of second tier cities. Many state capitals grew rapidly during the 40 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 powers and resources to improve cities' competitiveness. The Federal Government has also made heavy countercyclical investments to maintain the competitiveness of key sectors of the economy and cities. Cities have benefited from German technology policy which has prioritised long term investment in research and education, skills programmes, diffusion of technology in key sectors, co-operation between academic institutions and businesses, promotion of technology start ups and research and technology based clusters. Policymaking is well integrated vertically and horizontally and based on negotiation and compromise. The policy of backing winners in the face of mounting international competition has pervaded all levels of government. Persistent focus on catering for private sector needs has also promoted close joint working between business, research organisations and governmental elites.

### ***Messages from Munich - one of the most competitive cities in Europe***

- 3.14 Munich, one of the most highly performing and successful of the German state capitals, has rapidly become a growth pole of European as well as Bavarian and German significance since the end of the Second World War. Munich city region accounts for 29% of Bavaria's GDP and 21% of its population and 5.2% of Germany's GDP and 3.2% of its population. It is of even greater significance and



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importance in terms of its economic potential since it is a leading centre of innovation. Germany is Europe's strongest economy which experienced 3% growth in 2010. The economic performance of Germany and its leading cities such as Munich will have a significant bearing on Europe's future prospects.

3.15 Munich is the capital city of a very large state with a population of over 12 million people. It is an exceptional kind of second tier city. Nevertheless, it tells us a great deal about the roots of urban success and has many messages for governments and partners at different government and territorial levels. Its experience confirms many of the key hypotheses of our study. It clearly underlines the value of national strategies supporting high performing cities beyond the capital across its wider territory. It underlines the significance of local leadership and actions. It reinforces the significance of the key drivers of innovation, economic diversity, and place quality and strategic governance capacity. It underlines the importance of cities operating in wider circles – sub-regional, national, European and beyond. Munich offers a wealth of good practice in terms of policymaking. For example, 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 promoted research and development organisations between academia and industry. Conscious policy decisions about urban form, conservation, tourism, arts and cultural facilities have also helped ensure it has good place quality. Co-operation and partnership working are intrinsic to Munich and Germany's governmental system and also the city's civic culture. The secrets of Munich's success are: good governance and networking; policy stability and continuity; intelligent interventions on the key drivers of competitiveness; a balanced approach to competitiveness, cohesion and environmental sustainability; a respect for the past, combined with a forward looking mentality ('the Munich Way') and maintaining economic diversity (the 'Munich Mix').

***National relationships and policies - letting go and flourishing***

3.16 National policy has been crucially important to Munich's success. Germany's decentralised system of governance has provided state and city governments with the scope and financial capacity to strengthen the city's asset base and its competitiveness, especially after the Second World War and to later maintain it when it faced external threats in the early 1990s. Munich has also benefited from German technology policy given its concentration of HEIs and public research organisations and its dynamic, diverse economy.

***Local leadership drives performance***

3.17 The Munich experience underlines that creating local governance capacity is a complex process and the consequence of national and regional as well as local relationships. There is a strong tradition of networking between public and private sectors created by mutual interest, personnel with knowledge of partners' perspectives as well as by policy initiatives. 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 has also enabled both state and city governments to respond to any threats that the city might be overtaken by its rivals. The City established and retained arms' length companies to run key infrastructure such as the airport, public utilities, trade fairs and leisure facilities. 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 relatively socially cohesive as well as successful city, despite significant pockets of poverty.

***Innovation, innovation, innovation***

3.18 Munich in particular underlines the significance of innovation as a driver of success. It has pursued innovation longer and more systematically than most other European cities. The process involves many stakeholders within the state, the universities and the private sector. The partnerships are complex and overlapping and the process is self reinforcing. Munich has a powerful culture of

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consensus between stakeholders and networks. Effective multi-level governance ensures that the weight 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. 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 deeply embedded within the city. Munich also has a vast knowledge base. Munich and the state of Bavaria have established a high quality education system and an infrastructure which supports the development of business and innovation. The constant expansion of the universities and the attraction of researchers from abroad and support for the development of a number of clusters laid the grounds for success. The Universities have invested huge resources to improve the quality of research and to develop an entrepreneurial culture. The Chamber of Commerce is very powerful and plays an important role in involving small and medium-sized enterprises in the policy process and importing innovation into them.

***But constrained by territorial governance***

- 3.19 Finally, Munich shows that territorial governance matters to economic performance. The most problematic issue facing Munich is city regional governance. Although the city is Germany's largest local authority, it is surrounded by many small municipalities. Rapid urban expansion has meant that many key businesses are located outside the city boundary and planning and transportation issues need to be handled on a city regional basis. There is no institutional means of ensuring that an integrated development strategy is adopted at a city region level which can ensure that Munich expands in both an efficient and environmentally sustainable way. Success has come at a heavy environmental price. The large amount of low density development in areas without access to rapid transit is environmentally and physically unsustainable. Land and transportation planning, policymaking and implementation is very patchy and uneven because responsibility is so fragmented. Historic attempts by the City to extend its influence and boundaries have always been resisted by the surrounding municipalities.

***Prospects and implications***

- 3.20 Despite its economic success, Munich faces a number of challenges. It faces competition from other German cities and major cities outside Germany. German cities tend to be under-represented politically within Federal or state governments and face fiscal pressures since responsibilities are not matched with the necessary resources. Munich is a relatively expensive place to live and operate a business. Land is cheaper, housing more affordable and business tax rates lower in surrounding municipalities and improvements in transport have made them more accessible. All this has prompted decentralisation of economic activity but also extensive in-commuting. As Munich has prospered and grown, the need to secure a coherent sub-regional approach to economic development, planning, and governance and policymaking has become ever more pressing. Weak city regional governance could damage Munich's longer term prospects since the present rate of land consumption and traffic growth cannot continue indefinitely without causing severe congestion, environmental degradation, associated diseconomies such as delays in journeys to work and supply of goods, deteriorating quality of life and ultimately strangulation.

**Second Tier Cities in a Regionalised State – Messages from Barcelona and Spain**

Barcelona is a major second tier city which has undergone massive economic transformation during the past three decades after the advent of democracy in Spain. 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 successfully reinvented itself in recent decades, 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. Barcelona's leaders in the public and private sector have responded to challenges and exploited opportunities to the city's advantage. Barcelona has significant strategic decision making capacity.

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### ***Democratisation, deindustrialisation and regionalisation***

3.21 Spain is an important case for this study. It has undergone a series of major transformations in recent decades – democratisation, Europeanisation, urbanisation, deindustrialisation, governance restructuring, economic restructuring and decline, recovery and recession. It is still developing appropriate institutional arrangements and governance capacity to address the challenges facing second tier cities. There is a consensus that the division of powers and resources between national regional and local government is not yet quite right. The focus of institutional reform has been the creation of regional government but less attention has been paid either to the powers and performance of local government or the relationships between the two. There has been much decentralisation of power to regional authorities but Madrid remains dominant in the urban system. There is no explicit national strategy for cities but again Madrid often benefits from that lack of strategy and in particular from the pattern of investment in transport infrastructure.

### ***Powerful regional but limited national urban policy***

3.22 There are no explicit national urban policies in Spain. There are many policies which have an impact on urban areas but they are generally piecemeal. The major explanation can 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 decentralise to the regional level. Autonomous Communities were established with strong powers and resources. In that process, urban issues were largely devolved to the regional level. Since there are no national urban policies in explicit terms, it is no surprise that there are no administrative or technical bodies within government responsible for urban areas. In that respect, Spain strongly differs from countries like Germany, the UK, France, the Netherlands or even Italy. There are no contractual-type policies like the German "Soziale Stadt", French "politique de ville" or the British "Local Area Agreements". Decentralisation has led to some vertical integration of policies between national, regional and local authorities. But there is a complete lack of horizontal coordination. Policies remain sectoral and few efforts are made to integrate them. The complex institutional arrangements and division of powers in each sector means that all the effort goes into articulating national, regional and local division of roles in each policy sector, with little time or resources left for horizontal coordination.

3.23 Spain has been through a series of linked institutional and economic challenges during the past three decades. The policy making system and its limitations reflect the uneven and unfinished impact of the structural changes. Many Spanish cities have improved their performance but Madrid still is the dominant city and the institutional framework and practices at regional and local level are still sub-optimal. The study found a clear demand for a more coherent integrated national strategy for cities, better strategic links between national, regional and city governments, a more balanced urban system, greater concern with the territorial impact of national policies, more powers and resources for second tier cities.

### ***Barcelona – reinvention and repositioning through strategic leadership***

3.24 Barcelona is a major second tier European city which has undergone massive economic transformation during the past three decades after the advent of democracy in Spain. It operates in a decentralised policy making system with powerful regional government more important than either national or local government. It also operates in a complex multi-level territorial governance system. 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. In many ways it has outperformed the Spanish economy and in terms of Foreign Direct Investment and exports it is crucial to the future of the Spanish economy.

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### ***Local leadership drives change***

- 3.25 Barcelona's leaders in the public and private sector have responded to challenges and exploited opportunities to the city's advantage. 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. Leaders used strategic planning and project-led development to successfully deliver an ambitious modernising and repositioning strategy over several decades. 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 focused 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 dynamic 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. Finally, Barcelona's leaders have understood that although city government matters, 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. 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.

### ***Improved performance on key drivers***

- 3.26 Barcelona has significantly improved its performance on all drivers of economic competitiveness 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 have 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 have been expanded and modernised massively. It is now better connected, although links along the Mediterranean axis from North Africa to northern Europe need improving. 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. It has a powerful and successful economic development agency - Barcelona Activa. But social challenges are growing. And the global economic challenge is also greater.

### ***Territorial economic governance constrains the city region***

- 3.27 Barcelona's experience has also underlined the importance of territorial governance. Its economic achievement in recent decades has almost been despite rather than because of the governance arrangements for the city region area. Fragmentation and conflicts within the city region area have led to unbalanced economic and social growth across the city and arguably to its economic underperformance. 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 has been 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

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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 city region’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’.

***Prospects and challenges***

- 3.28 There are challenges ahead for Barcelona city 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 stock has led to very high rentals. 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, especially recent immigrants, means Barcelona will have to pay particular attention to sustaining social cohesion in the next decade. Barcelona has demonstrated clear leadership. Nevertheless, some argue that the longevity of the political system which has been an advantage is becoming a liability as the new generation feels it cannot enter the political elite or the old model of development appropriate to an earlier period is no longer as relevant for the future.
- 3.29 Barcelona 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 increased the capacity of Catalonia and Barcelona metropolitan area as its key driver. However many in Barcelona feel that their success has been almost despite rather than because of national government policy. They argue that the primary focus of national policy is to support the capital Madrid rather than other second tier cities in Spain. There is no coherent national 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 focused upon creating successful regional institutions rather than sub regional and urban institutions. In Barcelona there is a view that the city is still challenged by Madrid’s 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 achievements against the odds. But there is also a great desire for a national strategy that would encourage its continued success.
- 3.30 Also global competition will be fiercer in future. The city and the city government must continue to become more international, more multilingual, 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 to fulfil its international ambitions without losing its authenticity and identity which makes it so different and hence attractive to residents, visitors and investors. 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. 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.



Turin is a classic – if partial – urban regeneration success story: a once Fordist one-company town transformed into an innovative and international city with a diversified new economy based on innovation, creativity and tourism. The renaissance of Turin is due to the invention of a new model of development which integrated the social, cultural, economic, historical and political dimensions. It has required institutional and organisational innovations in public policy making, new ways of thinking, new instruments and new governance arrangements. But, like many second tier cities in this study, its success is partial and incomplete. Its experience underlines the need for long term reliable national government support.

### ***A turbulent process of decentralisation and federalisation***

- 3.31 For geographic and historical reasons, Italy is a nation of cities and, unlike France or the United Kingdom no urban area dominates. The political context in which national urban policies are developed has been unstable and uncertain and, as a result, public policies have had to be developed to compensate for this instability. After decades of indecision and missed opportunities for reform, the decentralisation process gained speed in the 1980s and 1990s. A regional-federalist process occurred which empowered the regions and transferred to them a significant portion of national responsibilities and some legislative powers. This process has been turbulent, however. Local governments have claimed more responsibilities from the regions while, at the same time, the national government has been increasingly reluctant to transfer more powers downward. Italy thus remains a unitary state but with specific roles and powers allocated to the regional level. Decentralisation from the regional to local governments has, however, largely depended upon the willingness of the regions to transfer responsibilities. Some regions have proved more willing than others so local governments in some regions have more responsibilities and powers than their counterparts in others.

### ***National government is a key but not always reliable partner***

- 3.32 National government remains a powerful player in urban policies because it is the unique source of national legislation and an important financial actor. It is also a policy initiator and responsible for policy sectors of national interest like infrastructure and energy. From local government's point of view, however, the national government has not been a reliable partner. National policy positions are not stable and there has been a climate of instability and uncertainty in implementing and funding national policies. Many policy initiatives have been launched without the administrative and financial resources to implement them or have been cut back or even cancelled without notice.

### ***A proliferation of programmes but few real urban policies***

- 3.33 There has been a proliferation of measures and programmes for urban areas but they have been fragmented, lacked coherence and not sufficiently supported by stable funding. This can be seen particularly in the 'Complex Programmes' and 'Negotiated Programming' which not only cover a wider range of policy domains - social cohesion, housing, public space, employment, economic development, environment - but also operate at different scales - neighbourhoods, municipalities, larger areas. They are developed, funded and managed by different ministries and agencies that do not cooperate and are unable to coordinate them. The Ministry for Urban Areas, set up in 1984, could have done this but it did not last long.

### ***A focus on urban areas but little on second tier cities***

- 3.34 National government has produced many measures and programmes for urban areas. Many of the "complex programmes", a large part of Negotiated Programming and the Urban Free Zones are aimed at urban areas but because the latter are never defined and because programmes tend to focus on small neighbourhoods and part of municipalities, the programmes end up by being located in tens or hundreds of places including big cities and small towns. Second tier cities are never explicitly targeted except for measures to enhance their strategic capacity, for example, 'Metropolitan cities'.

### ***A focus on social issues rather than economic competitiveness***

- 3.35 Urban programmes have primarily focused on social issues. In the various 'Complex Programmes', social issues are indirectly treated through, for example, housing improvement, the upgrading of

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public spaces and the development of urban services. Strategic capacity is addressed through the improvement of territorial governance - the most innovative aspect of urban programmes. They have demonstrated the capacity of Italian society to invent tools to achieve collective action. In a sense, it is because institutional reforms have proved so difficult, that the search for organisational and institutional alternatives has been so fierce. Because local governments know that they cannot rely politically and financially on national government they have developed instruments and mechanisms for collective action. Indeed, most of the organisational and institutional innovations have been developed by local actors before being adopted at national level.

***Messages from Turin - partial reinvention***

- 3.36 Turin is a classic – if partial – urban regeneration success story. It is a once Fordist one-company (Fiat) town that has been transformed into an innovative and international city with a diversified new economy based on innovation, creativity and tourism. The renaissance of Turin is due to the invention of a new model of development which integrated the social, cultural, economic, historical and political dimensions. It has required institutional and organisational innovations in public policy making, new ways of thinking, new instruments and new governance arrangements. But, like many second tier cities in this study, its success is partial and incomplete. With about 2.3 million people, Turin is the fourth largest metropolitan province in Italy, behind Milan, Rome and Naples. Economically, with a GDP of more than €56 billion in 2006, it is the third metropolitan province of Italy. However, it has not performed that well in many sectors and some areas have underperformed the national economy. Its GDP growth has lagged behind many cities and GDP per capita make it 6th across Italy. Its unemployment levels are higher than some and its educational and skill levels lower. Housing costs have risen in recent years and immigration has risen to 13% of the population, giving it the second largest immigrant population in Italy. It is less well connected than many other second tier Italian cities. But it has restructured to become one of the most service dominated economies and for example its investment in R&D is the third highest in Italy. But productivity in the service sector remains low. The transformation of the economy cannot be separated from the transformation of the image of the city. Although Turin remains in many ways an industrial city, in its culture and urban fabric, the city's national and international image has changed. Turin is no longer a grey city that tourist guides advise travellers to avoid but is now seen as a city of culture and quality of life which is now well positioned as a place worth visiting. Although this positive image may not well be easily translated into the daily life of its population, it is nevertheless an important asset for the city now and in the future.

***Do national policies help?***

- 3.37 National government remains central because of its control over major resources and its legal powers but national policies towards cities are not that significant and have proved unreliable. The Turin example underlines the point that it is not simply the scale of national policies that matters but their organisation and implementation. National resources are important to Turin in terms of large infrastructure projects as well as for education, research and governance. But the study underlines that to help cities to perform better national policies must meet two clear conditions. National government must have policies that are relatively stable with clear priorities. It must also be a reliable actor and funder of local government. Neither of these conditions has been met in Turin which is one reason for its declining role in national and European economies.

***How have local leaders exploited drivers of competitiveness?***

- 3.38 City leadership has been both political and financial. The mayor of Turin and his board have been key players in initiating and carrying out the transformation of the city, notably through strategic plans and their implementation. This political leadership was also a leadership of ideas in the sense that the mayor and his team have developed a new model of territorial development based upon re-activating cultural and patrimonial heritage and innovation in traditional sectors such as car design. Building governance capacity in Turin would have been impossible without a strong political leadership capable of mobilising the whole civil society through strategic plans. This political leadership has been

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concentrated in the mayor who, by controlling the city's administration, has been able to launch successfully a process of strategic planning. Strategic planning has thus become an essential tool to manage change.

- 3.39 Turin has used local factors to exploit some key drivers of performance. It has used its historical culture, Baroque architecture, its royal buildings and squares and historical assets, its gastronomy and 'culinary' products to improve its quality. In the field of innovation, it has used its historic economic jewel, the automotive industry, to develop innovative clusters. Turin shows how political leadership is important for producing a vision for the future and to making it legitimate. But to transform this vision into a strategy with concrete policies and actions to implement it, a political leadership must have the capacity to mobilise local society as a whole and key stakeholders. In that respect, the Turin political leadership has been open, not confined to the political field and not partisan and has been able to integrate new players in for example the cultural sector and the bank foundations.

***What impact of territorial governance?***

- 3.40 Turin has been able to build a strong governance capacity at the city level. But this has been limited to the central city. Attempts to change the territorial scale of governance and improve multi-level governance have been much less successful. This has had significant impacts on the performance of several key policy sectors such as connectivity and research and innovation. Despite many attempts and the creation of ad-hoc bodies, multi-level governance of the Turin city region area has suffered from two major flaws: the lack of regional leadership and the unreliability of the national government and its unwillingness to play a leadership role in policy areas where its role is crucial. There has been a lack of planning and of coordination in many policy sectors such as transport and housing. This has limited the development of the city region because funding has been spread out rather than concentrated on specific sectors and actions. Also because the division of responsibilities among players has not been clear, it has been more difficult to solve or regulate conflicts.

***Prospects and challenges***

- 3.41 The city faces two big challenges – one fiscal and one economic. The city of Turin does not have the financial resources to undertake new development. It has been very active in the regeneration 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 Winter Olympics. But this has seriously affected the city's finances to the extent that it is currently the most indebted city in Italy. The city has reduced financial capacity to maintain or develop its social and cultural infrastructure. The Province is also facing budgetary pressures. The Region and the national government do not have the resources either and the city is not on good terms with these players. Also the economic crisis has seriously hit Turin's economy, underlining the fragility of the city's recent success. Many of Turin's firms have successfully diversified their markets but those markets have been the ones most seriously hit by the crisis. This situation presents a large challenge to the city. It remains uncertain whether they will be able to produce adequate policies to meet them.

**Second Tier Cities in a Unitary Nordic state – Messages from Tampere and Finland**

Finland is an important example of national government policies significantly improving the economic prospects of second tier cities but without a precise territorial focus upon second tier cities. There have been three main ambitions of Finnish urban policy: i) to promote cities as nodal points for the creation of new jobs and the spread of economic growth; ii) to promote innovation to enhance cities competitiveness; and iii) to sustain a large network of cities to encourage balanced territorial development. Tampere illustrates the importance of both local capacity in economic development policy delivery and external investments and expertise. At every major turning point it has been able to reinvent itself by adapting to global and national developments, attracting resources and expertise from elsewhere and making good decisions locally. The continuous reinvention of the city is a story of local development policies, business sector activities and forward-looking, relatively young universities.

- 3.42 Finland is an important example of national government policies significantly improving the economic prospects of second tier cities but without a precise territorial focus upon them. There are several crucial features of this Finnish approach to policy. First, it has urbanised rapidly if fairly late and, like other Nordic countries, has a dominant capital city, Helsinki, with a small number of other significant



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cities. Second, national policies traditionally have been regional not urban and have focused upon redressing regional inequalities and helping declining regions. In the past decade there has been a major shift to economic competitiveness with major implications for cities. Third, there has been a concerted national focus upon modernising the economy through high value added sectors, especially communication to promote innovation and through the triple helix model of public private partnerships. Fourth, there has been consistent investment in education at all levels but especially universities which are seen as key drivers of national economic performance. Fifth, there have been a series of national strategies to support projects which improve regional economic performance. Sixth, local authorities as in all the unitary Nordic states have considerable powers and resources and are well positioned to address economic change. Recently, national government has attempted to restructure local authorities and encourage collaboration across city regions. But reform is unfinished and governance arrangements at city region level are still suboptimal.

***Regional and urban policy - from territorial justice to competitiveness***

- 3.43 The Nordic countries have an extensive welfare model which has shaped economic and regional development. In particular second tier cities have been squeezed by having to struggle for national level recognition with capital regions but also with the remote regions. This has been changing in recent years. In Finland, the deep recession of the early 1990s followed by rapid recovery, EU membership in 1995, and the impact of globalisation, created a major shift in regional policy. The development of the knowledge-based economy became a national goal, so regional policy shifted from redistributing industrial activities to emphasising cities, competitiveness and innovation instead of simple territorial peripherality.
- 3.44 In 1994, Finland introduced a specific urban policy, the Centre of Expertise Programme that focused on knowledge intensive sectors of its 8 largest city-regions including Helsinki. Later the programme was expanded to cover 18 regional centres of expertise and 4 networked centres with operations in more than one region. This policy had balanced territorial development as a key objective. One of its main objectives was to encourage collaboration and economic integration between a core city and its neighbouring municipalities. The strategy envisaged Helsinki as a global high-tech centre but also identified the need to boost high-tech in a series of smaller cities and towns, most notably in Tampere and Oulu. Both the latter have continued to flourish economically. Although the central priority of the Regional Development Act was competitiveness, it has also safeguarded services throughout the country to encourage balanced regional structure. In 2003 the model was extended to the whole country with 9 cities being selected as potential growth poles for their regions.
- 3.45 There have been three main ambitions of Finnish urban policy: i) to promote cities as nodal points for the creation of new jobs and the spread of economic growth; ii) to promote innovation to enhance cities' competitiveness; and iii) to sustain a large network of cities to encourage balanced territorial development. One justification for the development of second tier cities is that the wider development will transmit knowledge back to Helsinki region. The polycentric structure exploits the economic advantages of scale across the country, but also helps Helsinki to be a powerful European city region. In this way the larger cities outside the capital have been drawn into the process of developing the national economy. There has been little in the way of specific, overt urban policy. But urban areas are seen as key to a strong technology-oriented spatial policy that has been especially successful in Helsinki. This is now being used to try and promote balanced spatial development across the country as a whole. Relatively lightly funded, this model fits into a system of inter-governmental relations where there is local authority 'home-rule'.

***Key cultural values underpin performance***

- 3.46 So a series of key institutional and cultural features have underpinned the Finnish approach to urban policy. Its key institutional features have included: a deregulated ICT sector; extensive regional collaboration in a triple helix model; a consistent government focus upon competitiveness; extensive regional and municipal collaboration; a successful Centre of Expertise programme; strong municipal government; extensive investment in business incubators; city-university cooperation; and a tradition

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of rapid public sector decision making. Key cultural values include the cultural solidarity developed during and after the second world war; a commitment to internationalisation; equal opportunities for learning; a tradition of social justice and equality; low levels of corruption and extensive trust; minimal social hierarchies and high levels of informality; a commitment to knowledge, education and the welfare state.

### ***Messages from Tampere***

- 3.47 Tampere is the second largest city region in Finland which has reinvented itself economically during the past two decades. It was one of the first industrialised cities in the world but has restructured significantly in recent decades based upon intensive innovation systems. In 1991, industrial restructuring, domestic bank crises and the collapse of Soviet trade plunged Finland into a deep recession lasting until 1994. In Tampere unemployment was 24%. But by the beginning of this century it had regained its former position. In the process, the service sector has become more important but manufacturing also remains strong partly due to the emergence of knowledge-intensive industries like ICT and partly due to the renewal of more traditional industries like engineering. The public sector remains the largest sector but many of the jobs are knowledge-intensive because of the two universities, University Hospital and other educational and research institutes. In recent years Tampere city-region has been among the fastest growing sub-regions in Finland. And it has a very favourable image based on increase of jobs, central location and good connections, and the cultural amenities of the city. The economic recessions of early and late 2000s have challenged Tampere's industries again. But so far it has been able to cope with continuous change.

### ***Co-evolution of policies***

- 3.48 Tampere illustrates the importance of both local capacity in economic development policy delivery and external investments and expertise. At every major turning point it has been able to reinvent itself through adapting to global and national developments, attracting resources and expertise from elsewhere and making good decisions locally. The continuous reinvention of the city is a story of local development policies, business sector activities and forward-looking relatively young universities. Tampere's story has been long-term co-evolution with global and national developments, in which local adaptive capacity has been the key. Adaptive capacity has consciously been improved by proactive local innovation development policy. The city's good geographical location in Finland also helped.

### ***How have local leaders exploited the drivers of competitiveness?***

- 3.49 Local leadership has been crucial to the renaissance of Tampere. After the 1990s recession, Finland and its core cities began to transform themselves into a knowledge economy. Tampere as the second R&D hub in Finland has been among the core cities in Finland's transformation processes. The economic crisis was helpful in shifting trajectories, dissolving some of the obsolete structures and making local actors aware of the need to do new things. Four factors proved important: a) the extensive research and education capacity developed earlier; b) Nokia's presence and growth in Tampere; c) renewal of the mechanical engineering industry; d) proactive local economic development policy.
- 3.50 Today, Tampere has a diverse 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. 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. At its core lies the idea that Tampere should be able to maintain and create as many high-quality innovation environments as possible in selected fields of business and research. However, the emergence of a knowledge base and the development of the structures and systems supporting it is a long process. They were not the result of one strategic plan but a consequence of several plans, individual perseverance and years of effort.

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### ***How has national policy affected Tampere?***

- 3.51 In Finnish policy-making, the roles of national, regional and local levels of government often blur. The key is the co-evolution of national and local policies. Many national policies have been reinterpreted at the local level to make them better fit the needs of a specific locality. Tampere shows that path dependency can be broken, but it also shows that the promotion of economic development itself is path dependent. The new development focus has emerged step-by-step from the visions of a few brave individuals into official policy. Tampere has never been among the major targets of national or European regional policy. But it is clear that dominant policy thinking on a national level helped to lay the foundation for new policy thinking in Tampere. It quickly adopted national knowledge economy and information society themes into its own policy portfolio.

### ***Prospects and policy messages***

- 3.52 In terms of social welfare and cohesion – education, employment, housing, health, family cohesion and crime – Tampere city-region has so far avoided the problems that are usually associated with rapid population growth. This is partly because of the Finnish welfare system and the local values of an industrial town such as egalitarianism and a collectivist culture. However, there are signs of growing social problems that over time could concentrate in specific neighbourhoods. The economic crisis of the early 1990s had serious social consequences for the city-region as the unemployment rate skyrocketed to 24%. Since then, the unemployment rate has gradually decreased but has remained relatively high partly because of prolonged long-term unemployment and the migration of job-seekers to the city-region.
- 3.53 Tampere is a successful second tier city-region with an impressive history of economic renewal. However, it will face tough challenges in the near future. It will need continuous renewal supported by flexible governance structures and public-private partnerships. The relatively small scale of Tampere region is an advantage – it can create agile procedures and governance structures. The immediate threat is the impact of structural changes in the economic and industrial base of the city-region. To maintain competitiveness, local and regional leaders recognise it will be crucial to develop innovation processes rather than specific narrow measures. Tampere city region will need increased cross-sectoral co-operation and innovation between clusters and enhanced co-operation between municipalities in the region and public-private partnerships. Infrastructure investment will be crucial. To be really successful in future Tampere needs to address three challenges: (a) have major municipal mergers or more coherent city governance through local co-operation; (b) become one of the most attractive city-regions in Europe, the second largest and second most important city-region in Finland, and play an active part in the development corridor in Southern Finland; and (c) become a nationally leading city-region in key areas of economic activity, with several headquarters of international companies.

## **Second Tier Cities in a Unitary State – Messages from Cork and Ireland**

Ireland exemplifies the challenges of developing high performing second tier cities in administratively and economically centralised countries. It is a highly centralised state where local authorities have very few powers and resources and where the capital city has dominated economically, culturally and politically. For the past ten years, the Irish government has had a specific territorial strategy to re-balance the state's urban structure and to enhance the competitiveness and performance of cities outside of the capital. So Cork is 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. It has made huge strides but faces significant economic and social challenges in future exaggerated by the current economic and financial crises.

### ***From Celtic tiger to recession in a centralised country***

- 3.54 Ireland exemplifies the challenges of developing high performing second tier cities in administratively and economically centralised countries. Ireland is a highly centralised state where local authorities have very few powers and resources and where the capital city has dominated economically, culturally and politically. There has been a heavy price for this paid by the capital Dublin in terms of the costs of growth and the failure of other second tier cities to match Dublin's performance. During the past decade until the recession, however, the national economy performed very well encouraged

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by national government policies which helped improve the performance of some second tier cities. There has been a clear recognition of the costs of the current system of over-centralisation and underdevelopment and the need for a coherent national strategy to decentralise and improve the performance of second tier cities. However, despite some improvements, traditional political and administrative barriers have prevented significant progress with the government's agenda during the past decade. The current crisis has raised significant further barriers to the development of second tier cities and the rebalancing of the national urban system with a continuation of the economic, social and environmental costs.

- 3.55 The demographic and economic growth of Irish cities and the capital Dublin over the past twenty years has been closely linked to the fortunes of the national economy. Between 1995 and 2000 the Irish economy grew at a rate three times greater than the European average 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 new technology industries. This was fuelled by a number of policy factors: low corporation tax rates, at 12.5% one of the lowest in Europe; good educational levels, accompanied by the English language amongst the Irish workforce which was the result of a national policy to increase the numbers receiving third level education within the country; and low personal income tax rates which were attractive in recruiting and retaining skilled labour. Europe has also helped the Irish renaissance with its substantial and diversified trade linkages with other EU countries. Ireland's position as the key gateway into Europe for US trade was made even more significant as a result of the UK's reluctance fully to commit to the EU project. Ireland received substantial EU Structural Funds investment during the 1990s.

***Coping with centralisation***

- 3.56 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. Two key policy areas strongly contributed to this uneven and unregulated growth. The first was Ireland's traditionally localised planning system and the lack of a 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. 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 national 'Gateways' were intended to act as a national network of strong centres as a counterbalance to Dublin. In addition, eight national hubs were designated around the country to help bring growth to the surrounding rural areas.

***Challenges of implementation***

- 3.57 Despite the National Spatial Strategy (NSS) being drafted almost a decade ago, it has been unevenly implemented for a variety of reasons. An overly centralised state apparatus has failed to strengthen and address regional and local governance structures as a way of implementing the NSS on the ground. The result has been a number of developments taking place over the past decade which have actually run counter to the aspirations of the NSS. The failure 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, are also key restraints on Irish second tier cities. Both are required if the NSS is to be effectively implemented and other city-regions are to be made able to make a greater contribution to national economic competitiveness.

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### ***Messages from Cork - what role of national and European policies?***

3.58 All Ireland's cities have witnessed impressive growth rates during the past two decades. During this period Cork became a dynamic second city to Dublin. The Cork city region with its concentration of FDI manufacturing firms and universities, is the economic driver for the South West region of Ireland. National policies have both helped and hindered Cork's development. For example, 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. These reforms have resulted in tighter national integration and management rather than decentralisation of control to the sub-national tier. Nevertheless, national policies have also helped, for example, with the swathe of FDI and high end manufacturing firms located in and around the Cork city region that has driven its performance over the past two decades. National policies such as low corporation tax rates, the country's success in attracting good quality manufacturing investment and a focus upon improving third level educational attainment, have influenced Cork's success. European funds and resources have played an integral part in its development, particularly for infrastructure and urban regeneration projects. European money has contributed towards major investments in the non-national roads network across the city-region, the development of new deepwater and container ship terminals and cruise berths at the Port of Cork, a broadband programme, investment in the rail infrastructure, and in new rolling stock between Cork and Dublin. Significant ERDF funding during the 1990s kick-started economic and social regeneration in the historic centre of Cork.

### ***How has local leadership increased competitiveness?***

3.59 Despite local governance actors in Ireland having limited powers and resources, the Cork City Region has made the most of a limited hand. Since the late 1970s there have been coordinated efforts to plan strategically and coordinate development within the city-region. The latest strategic planning guidance for the city-region and Cork is now at the forefront of metropolitan planning in Ireland, with a coherent system of spatial planning operating at the city-regional level. Local leadership has strategically exploited and developed the key drivers of competitiveness. These individuals were influential within local government and were the catalyst for much of the development and business and enterprise growth within Cork. The city was hit badly by deindustrialisation during the 1980s. 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. It 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, encouraged by being designated the European Capital of Culture in 2005.

3.60 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 capital with lower living costs, better environmental amenities and less congestion than Dublin. Moreover, the city-region possesses a very attractive natural landscape and environment. The keys to its success include: well organised city-regional strategic land use planning; good working relationships between city-regional governance actors; success in attracting high value added FDI investment; a more balanced economic profile between services and the industrial and manufacturing sectors compared with other Irish city-regions, including the capital; a young, well-educated population and workforce; a strong third sector, Universities and research community; and conscious local policies to promote place quality assets.

### ***How does territorial governance affect the city region?***

3.61 Territorial governance in Cork is not efficient. It could be argued that Cork has performed well despite, not because of, this. The failure of national policies fully to integrate policymaking, both vertically and horizontally and the lack of financial and legislative powers of local and regional government actors is a key constraint for the Cork city-region, and undoubtedly other Irish second tier cities.



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### **Prospects and challenges**

- 3.62 Despite its achievements the Cork city region faces some important challenges. The centralisation of power means local and regional actors have limited powers and resources at their disposal. The existence of a dual economy and large differences in disposable incomes across the city-region, combined with continued population decline in Cork city, creates imbalances. Cork County is the fourth most affluent of Ireland's 34 counties. But Cork City is the fifth most disadvantaged district in the country. The city itself contains some of the most deprived areas in the country and employment and skill levels are also much lower in the city than in the county. Cork has a relatively high dependence on FDI to maintain city-region competitiveness. Although clusters and networks between industry and third level research institutes exist, many of these are in their infancy and are less well developed than in other European city-regions. It has key connectivity deficits and lags behind Dublin and other European cities. Perhaps most significant in the short term is the impact of the national deficit and current economic climate upon proposed developments, for example the Cork Docklands. The policy messages that emerge from the study provide clear evidence that local leadership can exploit the drivers of competitiveness to improve their position; that European and national policies can operate to improve cities' performance; but also that greater decentralisation and deconcentration and integration can further enhance cities' performance in future.

### **Second Tier Cities in a Unitary State – Messages from Lyon and France**

France has traditionally had a highly centralised policy making system but began an important if unfinished and uneven process of decentralisation in the past two decades. Despite decentralisation, the State remains a very powerful actor in Lyon's development. It still controls many policy sectors such as health, education, research and development and transport. Lyon is France's second city and has many assets which it has been able to develop. However, its international and European competitive position is still fragile. In many ways it is at a crossroads. It has achieved much through voluntary collaboration across the city region in a strong public private partnership model but now faces challenges of strengthening those processes to cope with continuing economic challenges.

- 3.63 France has traditionally had a highly centralised policy making system which has been through an unfinished and uneven decentralisation process in the past two decades. Paris, a potential global city, remains dominant although there have been significant efforts to encourage the growth of second tier cities through investment in transport infrastructure and the decentralisation of public sector jobs and services. France also has a highly fragmented governance system at local level and there have been significant recent efforts to encourage cooperation between existing local governments to create larger territorial units at city regional level. Innovative contractual arrangements between national, regional and local governments have been introduced to compensate for institutional fragmentation. The territorial and institutional organisation of France at the local level has many layers of municipalities, départements, the region, national government and joint authorities - but few links between them. In contrast to many other European countries, there is no hierarchy between local governments. The result has been a decentralisation process that is still unfinished and confusing in its division of responsibilities, resources and leadership. In this context, relations between national and local governments and between local governments themselves are crucial.
- 3.64 The urban challenges which have led to the development of policy measures at the national level are similar to those in other European countries. Social issues have dominated the political agenda with economic competitiveness and development of environmental issues entering the agenda relatively recently. There are explicit national urban policies with the most important being the *Politique de la Ville* ('Policy for the City'), '*pôles de compétitivité*' ('poles of competitiveness') and '*coopération métropolitaine*' ('metropolitan cooperation'). The *Politique de la Ville* is territorially based, targeting the social problems of disadvantaged suburbs. The 'poles of competitiveness' policy, launched in 2004 as an arm of French industrial policy, is largely associated with high tech clusters of firms, education and training centres and research units. They are designed to help produce R&D projects of national or international visibility in both new sectors like nano-technologies, bio-technologies, micro-electronics and in more traditional sectors such as aeronautics and automobiles. Once the territory of each project is clearly demarcated and partnership structures established, national government signs a contract with the partners.



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### **Challenges to successful policy making**

- 3.65 With the exception of the ‘*poles of competitiveness*’ policy, which is generally regarded as successful, other national urban policies have struggled to tackle the problems they were set up to address. After about 30 years of the *Politique de la Ville*, problems have not significantly been reduced and in many instances have worsened. Measures have been prolific but piecemeal and lacked coherence. There have been difficulties in opening up the governance process to new players and civil society has not been effectively engaged. Although decentralisation has opened up the system to local government actors, this process remains unfinished and ambiguous to the extent that many observers speak of a return of national government. National government has not clearly specified the nature of decentralisation and its degree and as a result most of the decentralisation laws have spread responsibilities among governmental tiers without defining who is in charge. It has been a way of satisfying all levels of government but has also produced confusion and lack of leadership. Additionally, national government has transferred several responsibilities to local governments without their consent as with the transfer of national roads to the *départements* and minimum welfare payments to municipalities. Local governments argue that these responsibilities were not matched by adequate funding. Finally, national government’s focus on Greater Paris in recent years with actions designed to promote the ‘only French global city’ has called into question the government’s commitment to develop a national system of competitive metropolitan areas.

### **Messages from Lyon**

- 3.66 Despite decentralisation, national government remains a very powerful actor in Lyon’s development. It still controls many policy sectors such as health, education, research and development, transport. As a Napoleonic State it also has a powerful local administrative arm implementing these policies. It intervenes in the funding of projects and local policies through the Region-State Project Agreement in the Lyon area. It also intervenes through a special planning instrument, the Territorial Planning Guidance - *Directive Territoriale d’Aménagement* (DTA) - which prioritises infrastructure of national importance. The State has also established innovative institutional 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 currently local ‘*metropolitan poles*’. Lyon also directly benefited from national policy aimed at rebalancing the national territory and supporting second tier cities to provide a counterbalance to Paris in the shape of improved public transport with the construction of the metro in the 1970s and the TGV connection in 1982.
- 3.67 Lyon, France’s second city with about 2 million people in the urban area has itself been innovative in sectors like planning and governance and urban services. It has implemented large scale urban projects and has been successful in research and development policies and international promotion. Its GDP per capita is second to Paris and it is better connected than other second tier cities in France, in part because of the TGV. It has a very good reputation for its professional training schools, engineering schools and universities and is well positioned at the national level for innovation. Its economy is relatively strong with strengths in sectors such as bio-tech, medical sciences, logistics, textiles and chemicals. This diversity has contributed to its resilience to the current crisis. The central city has been physically transformed with the upgrading of the historic centre into a UNESCO world heritage site, the revitalisation of the river banks, the development of large-scale urban projects and the hosting of festivals and fairs. The city has the best public transport system in France after Paris. Its unemployment rate has almost always been lower than regional and national rates.

### **Local leadership and exploiting the drivers of competitiveness**

- 3.68 Two key features distinguish decision making in Lyon. The first is the ability of local actors to work together for the development of their city region. The second is Lyon’s culture of consensus and pragmatism and the good relations between the public and the private sector captured in the expression ‘the Lyon spirit’. The Lyon spirit has had tangible results, in particular the production of big urban projects, with 10 currently being built which will significantly change the physical appearance of

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the city and reinforce its image as a dynamic city region. The strengthening of relations between the public and the private sectors has also had significant impacts in several policy sectors allowing Lyon to win major state projects in R&D and higher education and organise city regional promotion and internationalisation.

### ***The limits of territorial governance***

- 3.69 The 'Lyon spirit' has allowed some successes in certain policy sectors. However, it has been less effective in producing policies to address the important challenge of territorial governance. Lyon does benefit from having a longstanding 'metropolitan' authority, the Grand Lyon *Communauté Urbaine*, but municipalities have remained in control and political leadership is weak. The Lyon area is famous in France for its innovation in territorial governance. However, while progress has been made in up-scaling governance in terms of structures and processes, it remains to be seen whether these can produce effective policies. Three major initiatives in upscaling governance have been attempted in the last decade: i) the creation of the *Région Urbaine de Lyon* (RUL); ii) the Inter-SCOT process; and iii) the construction of a Metropolitan Pole. By and large, however, their impact has been limited.
- 3.70 Three reasons explain the limited impact of the upscaling of governance so far. First, the Lyon area has gradually become overcrowded with political institutions which compete for legitimacy and as a result it has only been possible to create ad-hoc, low profile governance arrangements. Second, these arrangements have been established to eliminate institutional players but they nevertheless have remained. Third, political leadership is lacking. The institutional arrangements that have been set up have been unable effectively to address big issues because they have largely functioned on an ad-hoc, voluntary basis.

### ***Prospects and challenges***

- 3.71 Lyon has many assets and achievements. But its international and European competitive position is still fragile. In many ways it is at a crossroads. It has succeeded in changing its image and is no longer seen as a bourgeois, industrial city but as a dynamic, modern and creative city. The 'Lyon spirit' has helped achieve major physical transformation of its urban fabric and has built strong governance at the Grand Lyon level. By European standards, it is not an expensive location and its land and property market, especially for business, are attractive. But Lyon also has significant weaknesses. It lost many of the headquarters of its largest firms in the last decade. The firms remain in Lyon, but their command centres have moved to Paris or other European major cities. It also has an incomplete infrastructure network, notably the airport and highways. Lyon also has territorial weaknesses. It is part of a polycentric territory with many competing territories. The metropolitan area of Lyon must ally with other urban poles in order to produce shared policies. However this is a much more difficult task than in a mono-centric area because it involves many more actors in a very diverse territory. Also, as a weak regional capital, Lyon has fewer resources than strong regional capitals and therefore has to enter more into cooperation with external players.
- 3.72 Other problems remain. Transport outside the Grand Lyon area has worsened along with air quality as a result of traffic congestion and pollution. Housing costs in Lyon are high, forcing middle and working class households out of the city centre. Social and territorial disparities are increasing. Lyon is known for the first important urban riots that occurred in its eastern suburbs in the 1980s and 1990s. The situation has not significantly changed and low income households doubled in number between 1993 and 2007. Unemployment is increasing and is unevenly distributed over the city region area with central Lyon having a rate of 8% and the suburbs 18%.
- 3.73 Finally some policy lessons are clear about territorial governance. First, it cannot be established without political leadership at the right territorial level. This is more difficult to establish when there is no hierarchy between local governments. Second, territorial leadership must be supported by higher-level tiers of government if it is to succeed because it is a conflictual process which needs support from powerful players. Third, territorial leadership must be supported by other economic and social

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players. The Grand Lyon *communauté urbaine* has built a successful alliance with business in recent decades. But this has not been achieved at the wider scale such as that of the urban region of Lyon.

### Second Tier Cities in a Unitary State – Messages from Leeds and the UK

The UK remains a relatively highly centralised unitary state although there have been some recent devolutionary moves in sub-national government. The government is now attempting to develop an explicit policy for second tier cities. Leeds is a good test bed for this experiment. It is one of the largest and most diverse local economies in the country in a relatively depressed region. This diversity has underpinned its relative economic success, reflected in its recent growth in population and employment. It has been innovative in terms of governance, partnership working and place making. But it faces big challenges in sustaining economic growth without widening social gaps in a period of recession and central government austerity measures.

- 3.74 The UK remains a relatively highly centralised unitary state although there have been some recent devolutionary moves in sub-national government towards Scotland, Wales, Northern Ireland and the capital city. While cities remain important deliverers of statutory services they do so under strong central government control and direction. In term of economic development and place-making, cities have to augment their relatively limited fiscal powers by bringing together at local level, national and regional policies on business support, education, health, innovation, urban regeneration and transport.

#### ***An urban - but not a cities - policy***

- 3.75 Until relatively recently, England had an urban policy but no real policy for cities. There has been an explicit urban policy for over forty years - primarily concerned with welfare issues and addressing the social, economic and environmental impact of economic restructuring on cities. 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 had two strands to its urban policy. The first strengthened the focus on social inclusion and neighbourhood renewal. The second was an embryonic cities policy in which cities were seen as places of economic dynamism and 'renaissance'. Reinforcing this central government shift was the initiative of cities themselves in promoting their development potential and importance to the national economy. In England this saw the formation of the 'Core Cities Group', which brings together the local authorities of the eight largest second tier cities to promote their joint development interests. In England, Urban Regeneration Companies (URCs) were also set up to take responsibility for the physical regeneration of designated areas in a number of second-tier cities. Policy was also influenced by government attempts to modernise local government with city authorities encouraged, for example, to work in partnership with other agencies and local communities through 'Local Strategic Partnerships' (LSPs); an approach further reinforced by the introduction of Local Area Agreements (LAAs) where public sector partners were encouraged to combine spending programmes to meet local targets agreed with government. City-regional partnerships were also promoted to provide governance at the level of functional economic areas, accompanied by matching Multi-Area Agreements (MAAs) across local authority boundaries. The panoply of LSPs, LAAs, MAAs and city-regional partnerships demonstrated both the degree to which local development was increasingly being delivered through multi-level collaborative governance and an implicit, if not explicit, recognition on the part of government of the need for some form of devolution of powers.

#### ***'Unlocking growth' – an emerging policy for second tier cities?***

- 3.76 The Conservative-Liberal Democrat coalition government has set in train a major shift in policy away from regional economic development to a more localist approach in which the setting up of sub-regional Local Enterprise Partnerships has been encouraged. The government has made it clear that its immediate priorities are deficit reduction and its localism agenda for encouraging growth. It does not intend to produce a national regeneration strategy or framework as it sees this as being inconsistent with its localism agenda. It is up to local partners to identify their own regeneration priorities and strategies using a 'toolkit' of devolved powers, flexibilities and government funding incentives and support programmes. It is under the banner of '*Unlocking Growth in Cities*' that a policy for second tier cities might emerge. Powers over regeneration, housing, transport and broadband infrastructure, skills, rates and local revenue raising are being devolved through negotiated

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'city deals', initially with the eight English core cities and their wider Local Enterprise Partnerships, but eventually extending to other cities.

### ***Messages from Leeds***

#### ***Deconcentration matters***

- 3.77 Leeds acts as an important counterweight to London and the South East in the national economy. Outside of the capital, it is first in employment 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. It has successfully hosted public sector jobs transferred from the capital, strengthening in the process its regional administrative role. The City Region has the second largest functional sub-national economy after the capital, accounting for around 5% of the national economy. It is a major economic centre yet still not exhibiting some of the agglomeration diseconomies of the capital. And, importantly, the polycentric structure of both the city and city-region means it has the potential to grow further.

#### ***Decentralisation and local strategic governance capacity matter***

- 3.78 The city's powers are relatively limited in the UK's unitary state system. It finds itself on the receiving end of an often rapidly changing array of policies from central government departments and national agencies that it needs to join together at local level. A distinctive response to that political and policy context has been the city's partnership-based approach to place-making in the shape of the 'Leeds Initiative', which has produced a series of 'visions' for the development of the city. Initially focused on economic development, the remit of the 'Leeds Initiative' has been extended to social and environmental concerns and its membership has also widened from the public and private sectors to include the third sectors. Would the city have been more successful if there had been more decentralisation of powers? The politicians and policymakers interviewed for this study argued strongly that more devolved powers would have helped the city's economic development. Our analysis supports this view.

#### ***National policies matter for cities - more transparency in territorial investment needed***

- 3.79 The city has not been eligible for major levels of European or national regional policy funding but the policies that it has been able to secure have had significant impact. The Urban Development Corporation did act as a catalyst for waterfront regeneration that the Council and Leeds Initiative were able to build on. And national urban policy has assisted the regeneration of priority areas. This support, however, has been sporadic and time-limited so, for some key schemes, there has had to be a continual juggling of funding to maintain momentum.
- 3.80 National policies for innovation, skills and connectivity have been important in the city's development, albeit with mixed outcomes. The Leeds initiative and the City Region have put major efforts into developing innovation strategies, emphasising industrial collaboration and the transfer of university expertise to industry. But the city has not been helped by the absence at national level of a coherent regionalised industrial and innovation policy. A regional dimension to national innovation policy was provided, for a time, by the Regional Development Agency, Yorkshire Forward, which did support a number of university-based innovation projects in the city region. But this spatial dimension to innovation policy has been lost with the Agency's abolition. Nationally-financed universities and further education institutions are key city assets. And Leeds has engaged over time with all the various national skills agencies to develop its own skills and children and young people strategies. But the 'top-down' nature of this relationship explains the city region's 'ask' for more devolved powers in skills development policies as part of the 'city deal' it is negotiating with the government. National skills policies need to be grounded at local level and the city needs more powers to achieve this.

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3.81 National government support has been particularly problematic in relation to transport. Leeds has been successful in securing national funding for road building. It has struggled, however, with its public transport infrastructure, which has become a key issue as road congestion has worsened. The failure to secure central government funding for a light rail transit system provides a classic example of both central government control of transport infrastructure investments and the limited local revenue raising powers of local government to compensate for this. It also highlighted the large and growing gap between transport spending in London and the rest of the country and points, more generally, to the need for greater transparency in the territorial distribution of public spending.

***Territorial governance for the wider economy matters - but is challenging***

3.82 The city began exploring city-region links and relationships a number of years before central government actively promoted the idea. It has successfully developed city-regional institutions and policies, culminating in the establishment of the City Region Local Enterprise Partnership. The city region's functional economic rationale and appropriateness for infrastructure development and key policies like innovation and skills have local political support. But this support needs to be nurtured and adequately resourced and this remains a challenging task. It is not helped by the absence of a national regeneration framework and the dismantling of the intermediate regional planning and economic development frameworks that were put in place over the past decade.

***Prospects and challenges – the need for a new growth model***

3.83 A fundamental challenge facing the city and city region is the impact of the recession. Forecasts are for a relatively slow and protracted recovery. Combined with continuing population growth, this raises difficult questions about the ability of the city's economy to provide enough jobs. Employment in the city has fallen back to the level reached a decade ago and unemployment has risen in both the city and city region. The growth of the 2000s was not equally shared and was accompanied by the development of a 'two-speed city' that has been the focus of policies aimed at 'narrowing the gap'. There is a real danger that this gap will widen further as a result of the recession.

3.84 Leeds has recognised that the recession and wider environmental issues underline the need for a new growth model and has produced a growth strategy that has more of a sustainable development emphasis. It aims to build, for example, on the diversity of the financial and business services sector by identifying new opportunities such as low carbon 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 also targeted for growth and the need for support for social enterprise and the third sector is recognised. This sustainable development focus also runs through the Local Enterprise Partnership's development plan for the city region.

***'Re-balancing' - a policy for cities and real devolution of power needed***

3.85 Leeds would be helped in its post-recession strategy for growth by a national policy framework that involves genuine devolution of powers as part of a broader programme for re-balancing the economy. Whether the current government's proposals for devolving powers to cities through its 'city deals' amount to such a policy remains to be seen. But they are a step in this direction.

**Second Tier Cities in a Unitary Centralised State – Messages from Timisoara and Romania**

During the past decade, Romanian cities have faced many challenges but also enjoyed significant development opportunities. Rapid industrialisation and urbanisation has left a legacy of poorly constructed buildings, sprawl, pollution and environmental degradation. Timisoara is one of the three largest second tier Romanian cities and one of its most successful growth poles. Its businesses generate the second highest GDP per capita in the country after the capital. Romania is taking promising if tentative steps to realise the potential of second tier cities by developing a more conscious urban policy. However, implicit as distinct from explicit forms of urban policy are underdeveloped. If Timisoara is to meet current and future challenges it will need new national legal frameworks, greater incentives to work in partnership, strategies which deal with the urban system as a whole and the interconnections between Romanian and neighbouring European city regions.



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### **Democratisation, marketisation and urbanisation**

- 3.86 Romania is experiencing a rapid transformation from a centrally-controlled to a market-led economy which has markedly affected its cities. They have witnessed most economic growth but are also the scene of major social problems and greatest resource consumption and pollution. Its capital, Bucharest dominates other cities in terms of its share of GDP (22%), population (10.4%) and R&D expenditure (61%). Romania has a polycentric urban structure since it contains 7 regional capitals or second tier cities, each containing about 300,000 inhabitants. The dramatic economic changes the country has witnessed since the end of communism have led to increased social polarisation within cities. All urban areas have been losing population due either to emigration or decentralisation of economic activity.
- 3.87 The country has a highly centralised public administration system which has underscored Bucharest's primacy. But over the last two decades there have been moves to decentralise power. In 1999, local authorities gained virtually full control of their spending allocations from central government and powers to raise additional revenue locally. The other level of the 2 tier sub-national administrative system is the 41 counties. A desire to harmonise with EU structures in preparation for accession in 2007 led to the formation of planning regions and regional development policies and major injection of EU structural funds. In 1997, 8 macro-regions (NUTS2) were designated and were later used to implement Regional Development Operational Programmes. But despite recent moves to decentralisation, Romania remains a highly centralised country. National government continues to dominate policy making. The regions are not territorial administrative structures and do not have legislative powers or separate budgets. On the other hand, the counties are too small to counterbalance national power. Governance is weak in terms of both vertical and horizontal integration because of centralisation of power and government elites' reluctance to engage with civil society organisations and the private sector. So their resources have not yet been properly mobilised.

### **The costs of urbanisation**

- 3.88 Over the last decade, Romanian cities have faced all kinds of challenges but also enjoyed significant development opportunities. Rapid industrialisation and urbanisation had left a legacy of poorly constructed buildings, sprawl, pollution and environmental degradation. Equally rapid marketisation over the last decade has resulted in the loss of traditional state owned or controlled industries. More positively, EU succession, coupled with Romania's low labour costs and improved access to international capital markets, has led to a rapid influx of foreign direct investment, especially in and around the major cities. Until comparatively recently, Romania has lacked an urban policy. Cities, in many respects, have had to fend for themselves and centralisation of power has tended to favour Bucharest. There has been little appreciation of how cities relate to each other and to their regions. Division of responsibility between tiers of local government and many municipalities has also produced fragmentation. However, the situation has changed since 2000. There is now a national development plan and an urban growth pole policy which supports directly the development of city cores and indirectly the development of rural areas as well as stimulating co-operation between local public administrations. However, the budget for growth poles is quite limited and the designated areas do not always cover the cities' sphere of influence.

### **Shaping urban growth**

- 3.89 In response to these urban challenges, the Romanian Government has developed a national urban policy to address four main priorities: limiting urban sprawl; improving housing conditions; meeting the conditions for sustainable, competitive and cohesive cities; limiting the exposure of the population to technological and natural risks. The key current document for strategic planning and long-term financial programming of urban development is the *National Development Plan 2007-2013*. It is closely linked to the *National Strategic Reference Framework 2007-2013*, which indicates how the European Regional Development Fund, the European Social Fund and the Cohesion Fund will be used to support plan implementation. Another key strand of the national plan is the *Regional Operational Programme (ROP) 2007-2013* which seeks to reduce disparities between Romania's regions by, among



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other things, supporting the sustainable development of urban growth poles and concentrating investment in them. There are 3 types of urban growth poles: Growth Poles which are the 7 second tier cities and their hinterlands; Urban Development Poles which comprise 13 smaller cities; and Urban Centres which are towns with over 10,000 inhabitants.

***Timisoara - success against the odds***

- 3.90 Timisoara is one of Romania's most successful growth poles. Its businesses generate the second highest GDP per capita in the country after the capital Bucharest. Despite suffering from extensive economic restructuring following the introduction of a market economy after the 1989 revolution, Timisoara has since attracted a substantial amount of foreign investment, especially from Italy, Germany, Austria and the Netherlands. It is an engine of growth for the west region and effectively its regional capital. It is also an important educational and cultural centre and has a cosmopolitan population because of its location and complex history. The city has achieved economic growth despite operating within a centralised governmental system. It is a good example of how local governance and local strategies can be key drivers of innovation, human capital, place quality and therefore competitiveness and also the supportive role of EU structural funding. However its experiences also highlight how Romania's governmental system limits its potential.
- 3.91 During the Ceausescu era, Timisoara did not receive attention mainly because it was a long way from Bucharest. This period of relative neglect did create some longer term advantages. The historic city centre was not spoiled by heavy industry. Also, city interests were forced to discover their own way of achieving economic and socio-cultural development which encouraged innovation and self-sufficiency. Since the end of totalitarianism, the city has enjoyed spectacular economic success. 8,200 companies in a variety of manufacturing and services sectors from 80 countries have invested in and around Timisoara. It appeals to foreign investors because of its low labour costs, excellent location, and multi-cultural affinities. Different levels of policies have played a facilitating role. Dramatic political change triggered the investment. Government investment in higher education facilities has also boosted Timisoara's competitive advantage. The government directly funds its 8 Universities, 32 research institutes and a forthcoming skills centre. Many students stay after graduating because the cost of living and quality of life is comparatively good, supplying skilled labour to local firms and adding to the vibrancy of city life.

***Impact of local leadership***

- 3.92 Progressive reform of the governmental system has strengthened local government capacity and autonomy. This has particularly benefited relatively buoyant areas like Timisoara since the municipality is entitled to receive 47% of personal income tax revenues, giving the city greater scope to act. The city has also benefited from the strengthening of planning instruments, the legislative framework and the administrative capacity to manage complex urban environmental issues. The municipality has played an important role in the city's economic success by creating an attractive and ethical business environment, eliminating unnecessary permits, speeding up plan and decision making. It has specifically encouraged inward investment by granting relocating companies three year tax exemptions as well as land and premises. It has used EU money to develop an incubator and business centre for new, small and medium sized enterprises. It is also trying to create the right environment for leading technology companies, knowledge industries, environment friendly companies and manufacturers requiring a clean environment. Timisoara has also pioneered strategic planning in Romania. EU membership, policies and funding have been important stimuli. It was among the first cities in Romania to develop a socio-economic development strategy for the Timisoara Area in 2000, involving all the key local stakeholders. A General Urban Plan has been prepared and the city is in the process of producing several sectoral strategies and a master plan. The municipality has also established a series of consultative councils to come up with proposals for improving city infrastructure, public transportation, social cohesion and addressing the needs of particular groups. Timisoara has always been an open and tolerant city containing multiple ethnic groups and has pioneered more inclusive and progressive forms of governance.

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### ***Too little territorial integration***

- 3.93 The city has relatively poor regional transport infrastructure, although it is improving. The motorway linking Timisoara and Arad opened in 2011 and will continue to Szeged. There are plans for a high-speed train line that will link Szeged, Arad and Timisoara in the future. The city lacks innovation capacity which is heavily concentrated in Bucharest, and is vulnerable to the migration of the most highly skilled to other areas and countries. The city operates within a very centralised regime and its fiscal capacity is still heavily constrained. Growth pole policies offer a way forward but institutional arrangements are insufficiently strong to ensure that a coherent city regional approach to infrastructure development is adopted. There is also a tension between spreading national government and EU money to assist lagging regions and promoting equalisation and backing and incentivising those poles with the greatest growth potential such as Timisoara. This issue of how to link growth areas with more needy areas has not been systematically thought through at a national or regional level. The growth pole policy has encouraged closer working between Timisoara municipality and the county since they both have a joint interest in improving basic infrastructure throughout the city region. However, the policy has only limited funding and covers an area only three fifths of its optimal size. Romanian cities tend to compete with one another and with those on the other side of its international borders. For example, Timisoara has little to do with Arad a prosperous industrial centre which is only 48 km away. Both cities, part of the same development region, could benefit from working together because they have complementary strengths. But they do not co-operate because they are in different counties, controlled by different political parties, have different cultural roots and rival airports. Similarly, Timisoara could benefit from greater cross border co-operation with its Hungarian neighbour, Szeged. Improving road and rail links and developing an integrated water network using the Bega canal would be in both cities' interest. There is also potential to work more closely with north eastern Serbia which has relatively good infrastructure. The Romanian, Hungarian and Serbian governments currently overlook the economic importance and potential of their peripheral cities and regions. The restoration of cooperation between the different parts of the historic Banat region has only just begun.

### ***Prospects and challenges***

- 3.94 Timisoara's future prospects are mixed. It has major indigenous strengths such as good higher educational and training facilities, a thriving economy because of major inward investment, an open, multi-cultural society, an attractive historic core and a relatively entrepreneurial and progressive local administration. EU accession has resulted in a new economic impetus and improvements to the legal and institutional environment and some decentralisation which has led to increased recognition nationally of the importance of urban growth poles like Timisoara and potentially opened up new trade opportunities. Timisoara will suffer from the lack of co-operation with its neighbours and at the moment there is not much appetite at either national or local government level to address this fully. Timisoara is therefore a relatively successful city operating in a sub-optimal environment and unless this changes it will curtail its future growth prospects.
- 3.95 Romania is taking promising if tentative steps to realise the potential of second tier cities by developing a more conscious urban policy. However, implicit as distinct from explicit forms of urban policy have not been explored and remain underdeveloped. Romanian urban policy also relies heavily on EU Structural Funds. If cities like Timisoara are to meet current and future challenges, they will need: new national legal frameworks; real regionalisation based upon direct elections and greater incentives for cooperation across the city region; strategies which deal with the urban system as a whole and the interconnections between Romanian and neighbouring European centres and also functional urban areas.

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## Second Tier Cities in Unitary Centralised State: Messages from Katowice and Poland

Poland's successful transformation from a communist to a market-oriented system has led to important changes in cities such as the return of self-government and the restructuring of the housing sector. But cities face a host of challenges including uneven economic and population growth, shift from manufacturing to services, significant unemployment, growing inequalities, ageing and shrinking labour forces, educational under-attainment, lack of basic urban infrastructure and capacity and fragmented governance at national, regional and local level. Katowice exemplifies many of these challenges. It has many strengths and assets such as a thriving airport, many universities, a large concentration of scientific and research facilities, good cultural facilities and health care system. But city leaders must address its post industrial environmental legacy and turn it into a modern European cultural, recreational and commercial centre. It faces strong competition from Poland's other second tier cities, many of which are more environmentally attractive and less polluted. It will need a sophisticated and integrated urban strategy which delivers well paid jobs, good housing and support services and quality of life. And it needs significantly to strengthen territorial governance at scale.

### **Successful response to democratisation and marketisation**

- 3.96 Poland has responded well to democratisation and marketisation but nevertheless faces some fundamental challenges. Since it joined the European Union in 2004, its GDP per capita has increased from 44% to 48% of the pre-2004 enlargement EU average. Even during the recent economic crisis, Poland has been the best economic performer in the OECD. The transformation from communist to market-oriented systems has led to important changes in Polish cities such as the return of self-government and restructuring of the housing sector. Cities face a host of urban challenges including: uneven economic and population growth, significant unemployment outside the larger cities, growing inequalities, ageing and shrinking labour forces, educational under-attainment, lack of basic urban infrastructure, fragmented governance, housing shortages and quality and affordability problems, suburban sprawl and environmental degradation.

### **Emerging national urban policy**

- 3.97 Responsibility for policies at national level that affect urban areas are scattered which makes horizontal co-ordination within central government difficult. Strategies and plans for spatial development and co-ordination mechanisms exist, but their impact on the ground is limited. Like other countries that have emerged from a centrally planned, top-down system of government, Poland's governance pendulum has swung from a highly centralised administrative culture which the public did not support, to a decentralised one fraught with inconsistencies and constrained by limited financial resources. Consequently, decision-making on transportation, housing, urban revitalisation and economic development is highly fragmented and there is unhealthy competition between administrative units in the same single functional area. They all lack mechanisms to coordinate more effectively different layers of governments.
- 3.98 Recent policies have begun to address these issues. *The National Strategy for Regional Development (NSRD) 2010-2020*, goes furthest in bridging the gap between national development strategy and urban policy implementation. It aims to strengthen the metropolitan functions of the regional (*voivodeship*) capitals and their functional areas. It also seeks to strengthen linkages between non-urban areas and cities at a regional level, which should boost synergies between urban and rural economies and regional competitiveness. Finally, it seeks to revitalise cities in danger of losing their socio-economic functions. *The National Spatial Development Concept 2030 (NSDC)*, currently being approved by Government, could address the lack of multi-level governance and fragmentation between economic and spatial development goals. The NSDC focuses on: (i) the basic elements of the urban network and highlights metropolitan areas; (ii) environmental protection; (iii) international and national social infrastructure; and (iv) international and national transport infrastructure and water resources and management. The NSDC could provide the basis for integrated, cross sectoral development strategies and investment plans and promote inter-municipal co-ordination in city regions.

### **Messages from Katowice**

- 3.99 Katowice is Poland's tenth largest city with a population of 305,000. It is distinctive in a number of ways. It is shrinking more rapidly than any other second tier city and has lost 17% of its population since 1987 because of the decline of coal and steel and related industries, hastened by the transition from socialism to capitalism and abandonment of state control and the migration of highly educated

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people to other Polish and European cities. However, it lies at the heart and is the capital of the Silesian metropolis, the second largest urban agglomeration in the country of some 2m people where the 14 constituent cities work together under Katowice's leadership. The Silesian region is effectively the Polish equivalent of the Ruhr area. Unlike other second tier cities, Katowice's productivity is very low because of its loss of human capital. City leaders face a huge challenge of dealing with its post industrial environmental legacy and attempting to turn the city into a modern European cultural, recreational and commercial centre.

- 3.100 On the other hand, Katowice and the Silesian metropolis have many strengths and assets such as an excellent road system, a thriving airport, many universities, the second largest concentration of scientific and research facilities in the country, good cultural facilities and a very good health care system. The metropolitan region is part of the Silesian Voivodeship (region) which is also highly urbanised and has a population of 4.5m. The region is rich in natural resources. New automobile, electronic engineering, IT, power and food industries, finance and business services are replacing declining metal and metallurgy industries. Silesia is very attractive to foreign direct investment because of its economic activities, services and level of technological development.

#### ***Impact of national policy***

- 3.101 The most significant national government policies for Katowice - besides continuing to invest in the city region's key infrastructure - have been associated with the re-establishment of self-government at municipal level. This involved staging the first democratic elections in 1989, the creation of the 16 Polish regions (Voivodeships) and elected regional assemblies in 1999 and gaining accession to the European Union in 2004. Restoration of self-government and allocation of the responsibility for urban development to local governments gave Katowice scope to define a future vision and attract more new investment. On the other hand, the local authority has struggled to handle some new responsibilities, for example, reducing unemployment, social exclusion, poverty, crime, and homelessness, because it has not been given the necessary revenue or tax raising powers. And the division of responsibilities between sub-national tiers of government is unclear.
- 3.102 Regionalisation has had mixed implications for the city-region. Katowice has been made the seat of the regional government which has strengthened its administrative significance. Also, national and regional planning documents repeatedly stress the need to strengthen metropolitan functions and concentrate development in the largest cities. EU regional funding has significantly boosted Katowice's aspirations to become an outstanding cultural centre by part financing three major cultural and scientific investments. However, the regional development strategy and spatial development plan while acknowledging metropolitan areas does not contain explicit policies for developing them. Decentralisation of functions and the legal system has not been matched by the devolution of financial powers and resources. For example, the Voivodeships lack tax raising powers.

#### ***Local policy just emerging***

- 3.103 Local policy has become significant only since the demise of communism. Urban areas were centrally planned but the restoration of self-government has given Katowice municipality the scope to forge its own destiny and deal with its infrastructural, economic and social problems. It has defined a clear vision for development and an implementation strategy. By promoting itself as a thriving cultural, recreational and commercial centre, Katowice is trying to cast off its traditional, industrial image and provide a platform for developing a market-driven economy, securing EU funding and inward investment.

#### ***Territorial governance***

- 3.104 Both regional and local governments have attempted to improve city regional governance. The Voivodeship has created 4 sub-regions centred upon the 4 municipal agglomerations of Upper-Silesia, to improve multi-level governance, intensify collaboration and strengthen formal connections, and referred to them in its spatial management plan. Also, the 14 cities comprising the Upper Silesian conurbation have formed Silesia Metropolis to ensure the area is competitive, harmonise

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development strategies in line with the Voivodeship's strategy and exploit their potential. The cities face similar problems since their economies were based on heavy industry. Joint work has centred on modernising the tram network and waste management system and cultural events. However, the association is a voluntary body which does not cover the entire conurbation. More promisingly, a transport association comprising 26 member authorities has been formed which more closely matches the city region's boundaries. But reaching agreement over the tram network and shared development projects has proved difficult given individual municipalities' extensive land use powers and different interests.

***Prospects and challenges***

- 3.105 Addressing economic decline and other city regional challenges will take time given Katowice's economic composition. A quarter of its jobs are in traditional extraction and manufacturing sectors which continue to haemorrhage. Projections suggest that both city and metropolitan region will continue to lose population at an alarming rate - 18% by 2025. Recovery of polluted land will also be a lengthy task. If the city is to change its trajectory, it will need a sophisticated and integrated urban strategy which delivers well paid jobs, good housing and support services and quality of life. But this will prove difficult since local government is fragmented and national policymaking siloed. Katowice also faces strong competition from Poland's other second tier cities, many of which are more environmentally attractive and less polluted. It must promote a new image, restore local self-confidence and break down stereotypes. Retaining talent will also be challenging.
- 3.106 The basic policy challenge for Katowice and other Polish cities is urban and metropolitan governance. Currently there is no mechanism for harmonising the different fragmented policies that could enhance their competitiveness and social cohesion. Despite post-communist public administrative reforms, there is only minimal co-ordination of strategic planning between local, regional and national levels. Although the National Strategy for Regional Development recognises cities' key role, no metropolitan policy has yet been developed and implicit policies are still operated by numerous central government departments in independent, siloed fashion. Urban policy is only slowly becoming a national priority and cities have yet to gain political significance in regional development policy. A stronger national legal framework and financial incentives are needed if the current voluntary attempts to develop city regional approaches are to work.

***What evidence from the case studies about our main arguments?***

- 3.107 This chapter 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. The following chapter will distil the key collective messages. However, Table 3.5 pulls the extensive evidence together to identify some of the common messages about the performance of second tier cities. Of course, the different cities have experienced different challenges, experiences and policy responses. But overall the table identifies many examples which offer support for the key arguments this study has advanced. They provide much evidence that deconcentration of investment and decentralisation of powers affect cities' potential trajectories and development. 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 3.5: What evidence from the case studies about our main arguments?**

Case study	Deconcentration	National policy/centralisation	Local factors	Performance drivers	Territory
<b>Munich</b>	-Balanced, de-concentrated urban system -Munich one of strong state capitals/second tier cities, each with distinctive sectoral mix	-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	Municipal entrepreneurialism, leadership -State/city governments harnessed key assets - HE/R&D, connectivity etc., supported key sectors -Rapid response to external threats	-Sectoral mix/good education and skills/HE sector/innovation system/governance capacity/connectivity/place quality/major urban investment	-City region governance weak due to administrative fragmentation, voluntaristic planning arrangements
<b>Barcelona</b>	-Capital dominant, Barcelona next most important -Econ. transformation post-Franco decentralisation -Strong regions with significant fiscal power -Decentralisation process incomplete – weak municipalities	-City succeeded despite national policy -No national urban strategy, policy centred on Madrid -European funding important -Lack of vertical/horizontal policy integration	-Powerful regional tier -Inspirational political leadership -Strong public private partnerships -Maximise natural/economic/cultural assets -Financial prudence	-Emphasis on range of key sectors/ improving skills/innovation/ connectivity/place making/marketing/ governance	Informal working arrangements producing sub-optimal outcomes - loss of coastline/urban sprawl/lack of funding for infrastructure, planning neighbourhoods
<b>Lyon</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	-National control key policy areas (health, education, R&D, transport) -Strong territorial presence -Poles of competitiveness policy assisted dynamic sectors -TGV's mixed effects	-Commitment to partnership working -Local initiatives: place making, public transport, Higher Education, R&D and innovation -Promotion, internationalisation policies	-Public private partnership/diverse sectors/place making and promotion/human capital/innovation/connectivity/investment in major urban projects each significant	-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>	-Succeeded despite London dominance -Could have done better/addressed challenges more effectively if clearer urban policy framework, more devolution of power	- Some national policy supportive e.g. urban regeneration programmes and transport investment (roads) - but not light rail	-Good political leadership -Strong public private partnerships -Efforts at policy integration -Higher education	-Human capital/connectivity/ innovation/place quality recognised as important and nurtured	-Early recognition of city region and joint working -Political constraints on integrated approach to transport
<b>Tampere</b>	-Although Helsinki dominant and international hub, Finland has polycentric urban structure, important second tier cities -National Government pro-balanced development -Local Government extensive competencies	-National policy promoting growth/innovation of second tier cities proved helpful -Welfare system promoted social cohesion -City successful proactive local policymaking, sectoral policies	-Path dependency partly broken by local determination to transform manufacturing into knowledge economy, promoting higher education/research/innovation/high tech sectors	-Skills/regional innovation system/ promoting range of new sectors/adaptive capacity and governance	-Government recognises importance upscaling government, supporting collaboration on land use planning
<b>Turin</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	-State funding for education/research important but impact limited because uneven support, lack of clear, stable policies	-Good local growth coalition attempted to change development path -Municipal leadership -Players exploited local assets -Municipal indebtedness constraint	-Skills, innovation/governance and leadership/joint planning	-Lack regional mediating mechanism to co-ordinate & manage territorial interests at city region level/achieve multi-level governance on education/research and innovation/connectivity
<b>Cork</b>	-Very dominant capital -Few important second tier cities apart from Cork	-Centralised governmental system -National policy incentives crucial (tax, EU funding) -Spatial planning promoting counterweights but lack of resources	-Effective urban planning, physical regeneration of core, deployment of EU funding – transport and ICT infrastructure,	-Education and skills/ICT/transport infrastructure/place quality important, capitalised upon	-Limited vertical/horizontal policy integration due to over-centralised state system
<b>Katowice</b>	-Balanced, polycentric urban system -Formerly economically successful but restructuring, environmental, depopulation challenges -Recent decentralisation but insufficient financial decentralisation/lack of clarity	-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	-Regions most significant tier, role in allocating EU funds -Local government less so, under-resourced -Example of path dependency	-Strategic location, good transport links, concentration of population -Pollution, poor environment, population loss - constraints	-Good co-operation authorities at conurbation level -Coherent approach difficult because voluntaristic arrangements
<b>Timisoara</b>	-Economic power/political influence concentrated in Bucharest -A major constraint on city development, growth -Decentralisation process slow, limited local autonomy	-Growth pole policy backed by EU resources -Lack of vertical/ horizontal policy integration	-Some visionary policies, exploiting available resources but limited capacity -Commitment to business friendly support and environmentally friendly policies	-Higher Education, human capital, business support infrastructure, place quality, each important -Notable gaps – innovation policy etc.	-Limited city regional working due to many autonomous authorities, limited powers regional/local level



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## 4. SECOND TIER CITIES - PERFORMANCE AND 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 that 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 Eastern Europe. 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 and human capital, 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. This section provides the key messages about second tier city performance and prospects.

### *The recession is hitting second tier cities*

- 4.2 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. Unemployment has increased dramatically. For example, only 4 capital cities had unemployment above 8% in 2007. In 2009 11 had. Of the second tier cities, 26 had unemployment over 10% in 2007. But by 2009 the number had increased to 47. Some such cities were holding up relatively well, however. In 2009 36% had lower rates of unemployment than their capitals and 48% had lower than their national rates. More than 75% of the cities experienced GDP falls in 2007-9. Capitals performed far better than second tier cities during the crisis. The better performing places were in Eastern Europe and in Poland in particular. The fastest growing 19 places – 12 Polish - were all in Eastern Europe. The Baltic cities were heavily hit. Major Western European countries have all been hit. In Germany only Berlin grew. In the UK all 14 second tier cities declined. In Italy all 12 and in Spain 8 of 9 second tier cities declined.

### *Risk of increased gaps between second tier and capital cities*

- 4.3 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 territorial investment strategies in the future than they have been in the past.

### *Cities can shape their trajectory - the role of local leadership*

- 4.4 Many factors affect second tier cities' strategic options. But they still have some 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. Places like Katowice will face much bigger challenges in future.

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4.5 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 the 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***

4.6 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. Decision making at city regional level is crucial to economic performance but difficult to achieve.

***Horizontal and vertical integration is possible***

4.7 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 (Timisoara). Delivering large projects and major events has also been a key driver (Turin, Munich, Barcelona, Cork, Lyon).

***National policies and resources matter***

4.8 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***

4.9 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

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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.

***Government's mainstream money matters most***

- 4.10 Mainstream national government 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. They affect cities much more significantly through policies for education and skills; research and development; transport; housing, planning, and 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 regional level.

***Keys to success of national policies – local discretion, shared values, flexibility and trust***

- 4.11 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 government 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; and trust, reciprocity and mutual respect.

***Long term investment is critical***

- 4.12 National resources and investment matters. Some national governments have directly funded major urban development 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 focused 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***

- 4.13 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 responsibilities. The report also shows that many policy makers and researchers believe that, given the impact of deconcentrating resources and decentralising powers to 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.

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### ***What prospects for second tier cities?***

- 4.14 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 national and regional 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 and needs governments to help territorial cooperation and improve cross-border transport infrastructure and co-operation with its Hungarian counterparts.

### ***Challenges to second tier cities will grow***

- 4.15 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; and 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***

- 4.16 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, it has been 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 Amsterdam city regions 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.
- 4.17 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.

### ***What implications for ESPON?***

- 4.18 This project has explored many key analytical, policy and technical issues. Some would benefit from further inquiry. In particular, this project suggests the following issues could helpfully be explored by

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ESPO in future: (i) are the boundaries we have adopted the most appropriate ones to define second tier city regions? (ii) how can better data on social and environmental, in addition to economic, performance be produced at the right spatial level? (iii) how can territorial governance be better shaped to deliver improved sustainable economic performance across city regional economies? (iv) how can national government policies be better aligned to encourage more high performing second tier cities? (v) how can the territorial impact of EU policies upon second tier cities be more systematically monitored, evaluated and aligned? (vi) what is the impact of the economic crisis and recession upon second tier cities?

## **5. POLICY MESSAGES: WHY INVEST BEYOND THE CAPITALS IN AN AGE OF AUSTERITY?**

5.1 A key concern of this study has been to examine the argument that decentralising responsibilities, powers and resources and 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 that, 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. Individually, second tier cities may lag behind capitals but collectively their contribution to national economic performance is hugely significant.

### ***Capital cities 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 which provide 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 'represent' 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 dominate 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.

### ***Decentralisation and deconcentration 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



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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 which national policy should encourage rather than concentrating upon a limited number of already successful places. Agglomeration does obviously produce economic benefits. OECD research has shown that, 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 unlimited. 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 focussing on second tier cities would create greater economic growth and greater efficiency by reducing diseconomies of scale.

***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 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 can generate important dynamism for regions outside the capital and contribute to overall national growth.

***Second tier cities can bring national and regional economic 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. They cater for variations within nation states and contribute to territorial cohesion. They contain higher order services and offer companies better local access to them than if they were all concentrated in the capital city. They can achieve many of the agglomeration effects of capitals, if they have the right infrastructure, facilities, capacity and powers. They can lift the performance of their regions, reduce inter-regional inequalities and help 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 are making a substantial economic contribution - 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 acted 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



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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 damaging 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 investment involving, for example, public sector pension funds and 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.

***Policy messages for the European Commission – take second tier cities and their leadership more seriously***

- 5.11 In recent years 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 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%; and 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. But many policy makers involved in this study have questioned whether Commission policy is yet sufficiently focused 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

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flexibility, cross sectoral working, cross departmental working and partnership between public and private sectors. This has proved difficult in many countries. 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. In particular, given the impact of national policies and resources, national governments should focus their policies to encourage as many high performing second tier cities as the population and pattern of economic growth and development permits.
- 5.14 Only policy makers in individual countries 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 for policy makers at all levels have emerged from this study. National government in particular 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.

## **6. SO WHAT SHOULD POLICY MAKERS DO IN FUTURE?**

***Greater transparency about territorial investment and more systematic policies for second tier cities***

- 6.1 Although capital cities have usually dominated national economies, leading second tier cities play a very important role in creating national wealth, 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.**

***Continue investment in the new member states***

- 6.2 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 infrastructure 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**

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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***

- 6.3 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 focused them on second tier cities. **More EU and member governments should recognise the importance of these competitiveness drivers - innovation, economic diversity, skills and human capital, connectivity, place quality and strategic governance capacity. They should maximise their collective impact on the widest territorial scale and not concentrate policy attention solely on capital cities.**

***Decentralise more responsibilities and resources and deconcentrate more investment***

- 6.4 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.**

***Encourage the creation of territorial economic governance at scale***

- 6.5 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 in the city region 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, there are too many, too small local government units that are 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***

- 6.6 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***

- 6.7 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 national and regional 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 rather than territorial lines. Also, very few states have introduced conscious policies to promote their leading second tier cities. **Governments should be more transparent about their criteria for territorial investment and their impacts upon different city regions. Governments should monitor and publicise the territorial impacts of their expenditure programmes. In particular, Governments should ensure that all mainstream programmes, as well as special urban programmes are focused on second tier cities and not concentrated upon the capitals. National government policies, for example, for innovation, research and development, education and skills, transport and connectivity, infrastructure investment have a major impact upon the relative performance of capital and second tier cities. It is crucial they are used strategically to avoid over concentration upon and overheating of the capital as well as to avoid limiting the flow of scarce resources to second tier cities. These principles will become more significant in a period of austerity.**

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### **Greater EU focus on second tier cities**

- 6.8 The European Commission needs to exercise leadership and provide clarity and resources in this field. It should do more to ensure that the economic potential of second tier cities is clearly recognised in its strategies. City regions are crucial to the delivery of its strategic goals identified in *EU2020*. It must take city regions - and their leadership - more seriously in future. Commission policy for cities has varied in recent years and the economic place making agenda has fluctuated in its significance. The issues have slipped down the Commission's agenda in recent years and should be reasserted. The Commission should do more to ensure that the economic potential of second tier cities is clearly recognised in its strategies. The territorial impact of all Commission policies, not just those of DG Regio should be made more explicit. The sectoral policies of the Commission should be better integrated. The proposed revision of the Structural Funds could encourage this process. It is crucial that the proposed Integrated Territorial Investment approach and the proposal that at least 5% of funds should be focused upon urban areas should be implemented. But the key challenge is to ensure that not only the explicit targeted resources but all mainstream Commission funding helps second tier cities in a more coherent way than it currently does. In a period of austerity, it is crucial that the Commission commits to the importance of those cities. First, it should not retreat to a policy of concentrating only on small socially deprived areas but focus more widely upon economic place making. Second, it must not focus only on a limited number of already successful places but should make the wider investments that will bring longer term economic prosperity to more places, more countries and hence to Europe.

### **So when to invest in second tier cities?**

- 6.9 So for policy makers at all government levels - European, national, regional and city regional - the message is clear. 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 at all levels 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. The individual circumstances of countries, regions and city regions will vary and so will policy responses. But some general principles about future territorial investment are clear. **Specifically governments should invest more in second tier cities when: (i) the gap with 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. The stakes - and the potential rewards - are high.**

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