

**CITIES AND REGIONS:  
INSTITUTIONS, RELATIONSHIPS  
AND ECONOMIC CONSEQUENCES**

**The Evidence Base**

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**For the Core Cities Working Group**

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## 1. INTRODUCTION

### Purpose

1.1 This literature review was commissioned by the Core Cities Working Group as part of its work on the regional PSA target of improving regional economic performance and closing the gap in growth rates between the different regions in the UK. In particular the Group is interested the contribution that cities can make to improving regional economic performance. So this paper is designed to throw some light on three simple questions:

- How do the economies of cities and regions perform and interrelate?
- How do cities and regions manage their institutional relationships?
- What policy implications are there for the Core Cities Working Group?

### Health warnings

1.2 This paper is a sequel to a research report, which explored the sources of urban economic competitiveness in Europe, *Competitive European Cities: Where Do The Core Cities Stand?*, available at [www.odpm.gov.uk](http://www.odpm.gov.uk). It is different in purpose and method. The original report looked at the economic performance of large cities. This is primarily concerned with the economic relationship between large cities and their regional hinterlands. More important, that report was based on extensive original research and was able to explore directly issues that the Group was interested in. This paper is not based on original work but is a review of existing literature. It is therefore constrained by what others have said and done on these issues. It should be regarded as essentially a scoping paper, which tells us what evidence is out there and what we might want to look at in greater detail in future.

1.3 Even more health warnings have to be attached to this piece of work than to the original. The field is bedevilled by a range of problems. Different researchers and policy-makers mean different things when they use the same words like cities, metropolitan areas, sub-regions, regions and Functional Urban Areas. Different countries have different regional arrangements with apparently similar institutions having very differing powers, resources - and therefore policy significance. There are familiar technical problems about meaning and measurement, boundaries and data sources with great variation across different studies. Most important there are large gaps in the evidence. There is quite a lot of material which looks at the institutional and political relationships between cities and their wider hinterlands. However, there is relatively little systematic work, which attempts to compare the performance of urban and regional economies in Europe although there is a bit more in the US. And on top of all this, as always people often disagree in their interpretation of the same facts.

1.4 Finally, this literature search was done quickly and had to cover a lot of material from a wide variety of disciplines – economics, government and administration, regional science and geography as well as urban studies. Not all of that literature repaid the time and effort which had to be invested in finding and reviewing it. So I have not let the best drive out the good but have tried to put common sense interpretations on the most robust evidence that we have found. I have tried to be as positive as possible while remaining aware of the limitations of evidence and interpretation. However, I have been sailing in uncharted waters on a sea of data and analysis for some months. I am no longer drowning and am in the lifeboat. But I'm still bailing. Cleverer people than me will no doubt have different views about all of this. So all should be treated with caution and as work in progress.

**What did we do?**

1.5 We reviewed a wide range of empirical and analytical material from Europe and North America. It was drawn from a range of different disciplines, which incidentally confirmed that they rarely speak to each other. There is not a consensus on all the issues involved. I have tried to present it around a few simple themes. They may not do full justice to a complex literature but should aid understanding. The material is arranged around the following themes

- Are cities becoming more important as economic drivers in different countries?
- What is the relationship between urban and regional economic performance in different countries?
- How do cities and regions in different countries manage their economic and policymaking relationships to maximise their economic competitiveness?
- How do policy makers in different countries see the potential contribution of cities to regional and national economic performance?
- What are the policy implications for the UK?

**What are we comparing?**

1.6 A key task in any analysis of comparative regional and economic performance is deciding what to measure and which boundaries to use. In fact it is not simple. The term city-region has become enormously popular in debates about urban and regional development and about competitiveness and globalisation. One of the challenges in understanding these ideas is being clear in the use of language. Different people use regions and city-regions in different ways in places. Also regions can be merely territorial agencies to deliver policies made elsewhere or they can involve real regional consciousness. Whether they become powerful decision-making bodies depends upon national constitutional framework and the powers given to regions in the state hierarchy. Two other distinctions matter here. First, the role of regions is different depending upon whether the state is centralised or decentralised. Second regions vary according to whether they are monocentric and dominated by a single urban area or polycentric, where there are several equal and sometimes competing smaller urban areas. In the first the major city can effectively reduce the region to its functional hinterland. In the second, competing cities create a more complex system of territorial regionalism.

1.7 Perhaps the most significant recent review of the economic performance of European regions has been undertaken by Rodriguez Pose (1998). His work underlines that in contrast to the definition of national state, 'regions lack the tradition and the global recognition given to nation-states. As a consequence the literature on the concept of region is vast, and there is little agreement on what should be considered as a homogeneous region. The different nature of regional systems across states and nations, therefore, makes comparing regions cross-nationally a difficult ask. Even if there is agreement on the boundaries, the meaning of regions varies from state to state, depending upon the nature of state organisation.' He distinguishes between four broad kinds of arrangements:

- Federal states where regions have large political autonomy - this would include Austria, Belgium and Germany.
- Regional states which hover between a centralised and decentralised state – this would include Italy and Spain and possibly with Britain.
- Regionalised states where the state is defining some kind of regions but which have relatively little power - this which would include France and Portugal
- Centralised states, which have little regional organisation, which would include Denmark, Finland, Greece, Ireland Luxembourg, the Netherlands and Sweden.

- 1.8 But even within these groupings, regions mean very different things. Regions in German and Belgium vary, as do those in Spain and Italy. Danish centralism has little in common with that of Greece or the Netherlands. Regions also vary in terms of whether they are seen as cultural or economic groupings. Hence the basic unit of analysis for regional comparisons is complex.
- 1.9 It is commonly agreed that the administrative city or local authority is inadequate. But there is great variation in what different people think should be the appropriate boundary, the ways in which there are defined and the basis on which evidence is collected. In the UK the city-region has become fashionable but its boundaries are blurred. In the USA The Standard Metropolitan Statistical area is sometimes used but also Economic Areas are used. And any boundaries will contain very different mixes of economic activity with for example some SMSAs being much more urbanised than others. And any boundaries will contain very different mixes of economic activity with for example some SMSAs being much more urbanised than others. On the continent the range of administrative arrangements across different countries means it is difficult to get comparable area, boundaries and data sets. Where do sub-regions begin and end where do regions end. Are the German Lander with 16m people really regions when they are bigger than many continental states.
- 1.10 Rodriguez Pose' work also underlines another reason why it is difficult to assess the performance of different kinds of regions and their relationships with urban areas. The lack of data is the most important. Although he made a considerable effort to gather social and political data over time and across regions in Western Europe, shortage of data was a serious handicap to his work. Short time series were also a significant obstacle. Data limitations were reinforced by the fact that existing variables are perhaps not the most suitable to test theories about the connection between economic growth and social and political factors. So we are in tricky conceptual and empirical waters.
- 1.11 One other question is relevant – does it make sense analytically to distinguish between urban and regional economies? In many respects they cannot be seen as distinct self-contained entities. Central cities have economic relationships with many different actors and places within the wider region. And they have relationships of different kinds with many actors outside the region. The economic relationships will be more complex than the distinction between urban and region imply. And the boundaries of economic activity will vary for different economic actors on different sectors. Indeed in some cases the economic weight of the central city is a major part of the wider regional economy. When one measures regional performance one is often measuring urban performance. Even if one could disentangle to the Manchester and Liverpool economy from the northwest region analytically and empirically, the non-urban part of the region would be relatively small. In this sense, the most sensible concept to use is Paul Cheshire's Functional Urban Regions. The practical difficulty for our purposes is that does not correspond with administrative and institutional realities and boundaries, which are the typical basis of data sets. There is no simple solution to this. There is variable geometry for different economic purposes. There is great variation across and between different countries. So making comparisons between the UK and other countries has to be done carefully. Nevertheless policy makers have to operate in the real world with available evidence. And this report has to do the same thing.

## **2. DO CITIES MATTER ECONOMICALLY?**

### **Ways of seeing – what makes urban areas successful?**

- 2.1 This is not meant to be an essay about urban economics. As an economic illiterate I am the last person to write it. However, my reading of the literature on urban and regional

performance inevitably led me into some regional economics. Reflecting on some of that very complex literature leads me to think it may be worth clarifying one underlying issue in explanations for urban and regional economic performance. It has important implications for the different ways in which people see the world and possibly the policy conclusions they are led to. For example, it might throw some light on what I detect to be different perceptions within the Working Group about what really matters to urban and regional competitiveness. I raise the issue hesitantly because I am not an economist and I may have the wrong end of the stick. But it helps me to understand a puzzle – why there is an apparent gap in perception within the group about how to change or improve regional economies. Even if I am completely wrong or naïve – both of which are likely - it may stimulate some worthwhile discussion in the group and help it clarify some important issues. To oversimplify grossly I was faced with two questions. Are cities still important to economic performance? And if they are - why are they?

- 2.2 Many volumes have been written and much blood has been spilt about why people and economic opportunities congregate in cities and whether their attractions are increasing or declining. The theories and arguments are endless. Essentially the argument in favour of cities is that is that large urban areas have agglomeration economies that make them more efficient than other areas. Essentially they have two advantages – hard and soft infrastructure and transportation costs. Production costs are lower by being shared with common social and physical infrastructure. Second transportation and transaction costs may be reduced as a consequence of enhanced interaction between suppliers and customers located side by side.
- 2.3 The rise of globalisation has led some to argue that these traditional urban advantages have been reduced. Others, by contrast, argue that the death of geography, distance and cities has been much overstated and that places matter more not less. It is tremendously complicated but my reading of the literature cited in the bibliography leads me to share the second interpretation. Large urban areas exhibit agglomeration economies, which means they will remain economically significant despite the consequences of globalisation.

#### **Agglomeration economies – urbanisation or localisation**

- 2.4 But crucially there are different kinds of agglomeration economies, which generate much analytical and policy debate and dispute. The two identified above referred to above are the classic, traditional urbanisation economies. But as everyone in this field knows, more recently great emphasis in the analytical literature and in policy terms has been concentrated upon other urban economies, which may be termed localisation rather than urbanisation economies. Again the literature is large and complex. But the essential argument is that firms are attracted to urban areas less because of infrastructure and transportation advantages than because of the advantages of being close to other customers, suppliers and competitors where close physical location leads to shared understandings and transactions – untraded interdependencies. The weight one attaches to these two explanatory factors has important implications for analysis and policy. Despite many complexities, essentially this principle underpins the cluster analysis of Michael Porter, which has become very fashionable as a policy concept and underpins much of current DTI and Treasury understanding of regional competitiveness. However, the whole idea is contested analytically, empirically and in policy terms.
- 2.5 This is not the place for a learned discourse on this matter. But it is worth unpacking the idea and identifying some of the policy implications for the Working Group. They are not mutually exclusive but the relative weight attached to them in explaining – and improving – economic performance produces rather different policy orientations. They may throw some light on some possible differences in perception within the Working Group. The distinction between urbanisation and localisation economies is important because they

- lead to different ways of seeing the world. One emphasises structural factors, external forces and relationships and public actions and goods. The other tends to emphasise cultural factors, internal factors and private factors. As Malmberg (2000) points out, 'Urbanisation economies' relates to the general economies of regional and urban concentration that apply to all firms and industries in a single location. They represent those external economies passed on to firms as a result of savings from the large-scale operations of the agglomeration as a whole. These are the forces that lead to the formation of industrial core regions and metropolitan regions. And these are often essentially publicly provided resources and assets – for example transport infrastructure, advanced education, research and development. Such advantages are often linked to external linkages and economic activities and exports and have implications for the provision of external connectivity.
- 2.6 By contrast, localisation economies are the specific economies that relate to firms engaged in similar or interlinked activities, leading to the emergence of spatial agglomeration of related firms - industrial districts, localized industry clusters etc. Such advantages tend to be cultural, local, and private - for insiders - as they emphasise innovation, learning and flexibility within and between firms. This view of economic life also tends to emphasise internal intra-regional relationships rather than external linkages and exports. It tends to explain differences in economic performance in terms of cultures, private and internal factors. There are many nuances to this debate. And we are oversimplifying enormously for the sake of debate. But some policy implications are clear.
- 2.7 If one subscribes to the cultural, clustering private view of economic life, the roots of regional economic success may be found in a different set of instruments than if one believes in the urbanisation economies and the public provision of assets. It can be argued that the DTI Treasury policy approach to regional economic performance tends to focus significance of innovation, flexibility and learning and understate the importance of publicly provided externally oriented resources and assets. By contrast the Core Cities approach to regional and urban performance would focus upon urbanisation economies – transportation, public investment in R&D, provision of higher public education. Again to grossly oversimplify one view of life thinks the roots of economic performance both lie within the local and cultural sphere. The other does not deny that - but places them in the context of external structural public sphere. Once again to grossly oversimplify, the former view can be compared the explanations made about the problems of the 'inner cities' in the late 1960s which looked their internal pathologies to explain their economic failure as opposed to the external opportunity structure which constrained and perhaps explained their failure. It could be seen as an updated and scaled up to regional level of cultural explanations of failure leading to blaming the victim.
- 2.8 To concretise the dilemma. The cultural explanation of regional underperformance would focus upon the low level of graduates in the workforce, which could be presumed to reflect upon the region's ability to generate talented people. The structural view would focus less upon the internal failings of the region and more upon the external and policy factors which encourage graduates to leave one region to get better highly paid jobs in another region, in the process explaining why graduate production rates across regions are relatively similar while graduate retention rates vary significantly. If one tracked that approach through a series of policy issues and sectors one might see why there are rather different perceptions within the group of why regional economic performance varies and who should do what about it. It will be recalled that our first report on urban economic competitiveness identified a set of explanatory factors. It certainly recognised that intra-urban, cultural factors played a part. But the weight of evidence on the roots of economic performance lay with public policies that were often externally provided, shaped and controlled. Inactivity rates may indeed be an aspect of economic performance – but it only raises the question why, how it is caused and what should be

done about it. This distinction is certainly oversimplified. And I may be quite wrong. But it occurs to me that the different emphasis placed upon urbanisation and localisation economies may be leading to different ways of seeing within the group, which are at least worth exploring.

### **To cluster or not to cluster**

- 2.9 Quite apart from the differences in policy orientation the two concepts might lead to which one has greater theoretical and analytical purchase? Despite the popularity of the cluster concept, there is actually not much robust empirical research. However, that which has been done in Sweden by Malmberg (2000) for example argues that the localisation advantages have been significantly overstated. He looked at the export performance of Swedish firms, which they regard as a critical measure of competitiveness. First, if one can penetrate foreign market must have some advantages. Second localisation economies often stress that that local milieu is critical to global success and hence export performance. Third urban and regional growth often associated with rapid increases with exports. They analysed the behaviour of a wide range of firms to see what mattered most to their location and performance. What did they find? They find that localisation economies, the advantages derived from joint location of similar or related forms are not as important as theoretical claims suggest. Instead traditional scale economies with urbanisation economies are more important. 'High levels of export performance are unambiguously related to the increasing scale of operations. It is not necessarily the size of the export firm alone that matters. Export performance is also promoted by the scale of operation associated with urban agglomerations and corporate groups. The positive effect of a local leader firm indicates that the increasing scale of operations has, in addition, a spillover effect on local export performance.' (p. 318)
- 2.10 Martin and Sunley (2003) have undertaken the best review of clusters as an analytical and policy concept. They identify a whole series of analytical, empirical and policy reservations. Their basic position is that while some elements of the idea are helpful essentially it is a chaotic concept which has jumped to policy prominence with too little critical analytical and empirical assessment. Their main arguments are worth rehearsing. One key point is that there is a degree of ambiguity about the idea, which means that different people use in so many different ways that it means everything and eventually nothing. What are the principle analytical reservations? There is no agreement on the scale of the cluster. Sometimes it used as a local grouping, sometimes regional, sometimes national and occasionally global. There is no clear definition of the strength, quality or density of the relationships between firms in the cluster. Density of connections between the firms in the cluster. Clusters can vary in size breadth and stage of development e.g. embryonic, latent or potential. There is much emphasis upon the dynamics of untraded interdependencies and tacit knowledge, but little empirical exploration of how those processes really work which demonstrates how important they really are. The social dimension remains something of a black box.
- 2.11 What are the empirical reservations? Clusters are regarded as the form of regional, development when at best they are only one potential model. They are typically not fitted into the wider regional economy but abstracted from it. It is not clear how why and with what results they connect with other bits of the regional economy. Empirically clusters are hard to specify. There has been little evidence which in detail demonstrates the operation of clusters in terms of their linkages densities, quality of interaction. The claims that clusters increase competitiveness and productivity is asserted but not often empirically proven. As we have seen Malmberg's work specifically denied their greater efficiency. There is little evidence that clusters are more innovative than other patterns of relationship. Indeed there is some evidence that they can become introverted and conservative, focussing upon internal factors rather than external factors, which are often the source of innovation, creativity and profits. As Simmie (2003) has argued, it is

important that endogenous economic development should not be equated with indigenous economic development. External linkages, the sharing of ideas the generating of exports are more the source of economic dynamism. Local and regional, specialisation can be a disadvantage rather than an advantage. Also far from being a general or universal model, in their obviously successful forms found in relatively few untypical places in Italy southern Germany California and New York. Clusters are more unique than typical.

- 2.12 What are the policy reservations? As a policy prescription, cluster theory presents a number of dilemmas. Although theorists suggest clusters should only be built where there is existing strength, it does not advise what to do when such strengths do not exist. It runs the risk of encouraging all places attempting to generate similar clusters when they do not have strengths. Clusters are intended to be high value added. But the theory does not demonstrate that low-income activities will be absorbed into the high value added cluster - nor what to with the firms or individuals that are excluded from the charmed circle. It cannot be assumed that the promotion of one or several clusters within a regional economy leads to balanced economic development, greater competitiveness or greater well-being across the nation. Many things like place marketing, networking associated with the theory do not need cluster theory to be employed. Martin and Sunley (2003) argue that it would be more advisable for local and regional authorities to concentrate on encouraging productivity improvements in all firms as well improving their business environments, without necessarily, subscribing to a cluster mind-set. Their view is that as Michael Porter himself has recognised ' many of the most significant influences on industrial development stem from the way in which national regulatory frameworks influence the demand for sophisticated products, the course of industrial innovation, and levels of entrepreneurship. Such regulation, along with the quality of the economic and social infrastructure, may well, represent a better focus for policymakers' attention. ' (p28)
- 2.13 Their final judgement is that the cluster literature is 'a patchy constellation of ideas, some of which are clearly important to contemporary economic development and some of which are either banal or misleading. But there are two key limitations. First, a concept so elastic as the cluster cannot provide a universal and deterministic model on how agglomeration is related to regional and local economic growth. At present the siren of universalism is pulling the cluster concept into shallow waters. It is being applied so widely that its explanation of causality and determination becomes overly stretched, thin and fractured. Second, and related to this, economic geographers and other regional analysts have long been aware that just because there is an association between some high-growth industries and various forms of geographical concentration does not mean that this concentration is the main cause of their economic growth or relative success.' As they say 'the cluster concept should carry a public health warning.' (p5)
- 2.14 Simmie (2003) has approached the issue of urban and regional, competitiveness through the prism of innovation. His argument is that agglomeration is a key factor on competitiveness. With world of cheap labour competitive advantage depends upon knowledge and commercialisation. This virtuous circle has a strong geography. Innovative activities have been shown to be highly concentrated in a minority of US States and European urban regions. The reasons for this have to do with the accumulation of critical knowledge resources such as R&D. Agglomeration matters because of innovation and tacit knowledge industrial milieu agglomeration skilled workers trust connections. There is some evidence that urban areas are more innovative than non-urban areas. Malecki (1979) showed investments in R&D are in core metropolitan regions. Audretch and Feldman (1996) found 96% of the innovations were made in metropolitan areas, which account for only 30% of the US population. Cities are thus the places where innovations occur (p8).

- 2.15 In this process, he is willing to allow some advantages to localisation economies. His argument is that agglomeration is important to innovation and that part of that can be the advantages of localisation economies. He argues that in terms of the supply of critical knowledge resources such as R&D expenditures and their outputs in terms of patents, a minority of regions are much better endowed than others. The main reason why regional characteristics play an important role in the supply of knowledge is that social networks for the exchange of knowledge seems to benefit from the proximity of their actors. Second, labour mobility among highly qualified professional and technical workers also contributes to the sharing of knowledge and this is easier within metropolitan labour markets than between them. Thirdly the agglomeration of knowledge resources makes it easier to 'pick and mix' the inputs required at different stages of the process of innovation. Core metropolitan regions are often the median locations for the multiple knowledge resources needed in this process.'
- 2.16 However, while recognising some virtues of untraded inter-dependencies, Simmie is also at pains to point out that demand as well as supply factors are important to regional economic success. His argument is that innovation is a key to internationally competitive exports and therefore the economic growth of regions. Two self-reinforcing processes involved in innovation and exports also lead to the concentration of innovation in a minority of regions. These are trade and international spillover. Thus in order to trade competitively innovators need to know what the leading world current best practice is in their particular specialization. So the more you trade with international people the more informed and efficient you are which gives you an advantage over non trading regions and reinforces your dominance. But people do not just learn from next door they learn from international experience hence trading exports and connections to do so are critical. Endogenous growth theory should not mean indigenous growth theory. Development of human capital, new technology and beneficial externalities are not confined to local or national economies. Therefore lagging regions can't rely on just doing what they do must be outward looking. The aim of regional policy should be to connect leading firms in different regions, not just collaboration within.

### 3. HOW ARE URBAN ECONOMIES PERFORMING?

#### Are cities coming back in the USA?

- 3.1 The best review of these issues is the '*State of the Cities 2000*' report prepared by HUD. It identified four big challenges to urban America – the new economy, the new demography, the new housing challenge, the new forces of decentralisation. On balance the report demonstrated that urban areas had been through the worst of their economic problems and that there were grounds for optimism. But a series of challenges meant they would remain a dilemma.
- 3.2 The central cities made significant economic progress during the 1990s. Most of America's cities are participating in the new economy, with high tech growth driving a new wave of economic prosperity – but at the same time creating both winners and losers. High tech employment is growing faster in the suburbs than in the cities. But the proportion of new jobs that are high tech is larger in cities than suburbs.
- 3.3 Cities are sharing in the unprecedented expansion of the new economy. Cities are enjoying new vigour in job growth, drawing closer to suburban growth rates. Between 1992-7, the number of private sector jobs in central cities grew by 2.3 million by 8.5%. Business growth in cities is accelerating and wage growth in cities surpasses that of their surrounding suburbs. Between 1992-4 businesses grew by just 0.7%. But between 1994-7 by 3.7%, although business growth in suburbs is still like that of cities. Wage

- growth outpaced that of suburbs since 1992, 4.8% in comparison to 4.3%. The current average wage in cities is 10.5% higher than the average wage in suburbs.
- 3.4 Overall cities had a larger percentage decline in unemployment rates than did suburbs. Although absolute rates are higher, they fell by 3.7% to 4.8% in cities compared with a suburban drop by 3.2% to 3.4%. Incomes are steadily increasing in cities and poverty has declined. Income levels were highest in 1998 than they had been since a decade earlier. And although all areas shared in the prosperity, household incomes grew faster in the cities than in the suburbs.
- 3.5 High tech is a substantial contributor to recent economic gains in cities. High tech jobs account for 27% of new employment in cities. The high tech job growth rate is three times that of overall job growth in central cities. Between 1992-7 there was a 27% increase in high tech job growth in cities compared with an 8.5% overall job growth.
- 3.6 The achievements are regionally related however. All regions saw high tech job growth, but central cities in south grew by 34%, the west by 27%, 21% in the mid-west and 19.5% in the northeast. But there is a new digital divide in high tech jobs between cities and suburbs. High tech growth in suburbs is 30% faster than that of cities.
- 3.7 Despite these economic gains, however, American central cities continue to face substantial social problems. Cities remain doubly burdened with high unemployment, and significant population loss and high poverty rates. Although 1 in 8 was an improvement on earlier years of 1 in 7, 39 cities have unemployment twice the national average. Despite declines, unemployment and poverty is still worse in the cities than in the suburbs. Unemployment is about 33% higher in cities than in the suburbs. Young people unemployment rate was 22%. The national poverty rate was 13% but in cities it was, despite a drop, still 18%. Cities are aging. All areas have aging populations - but a disproportionate number of the elderly poor live in cities. All areas are becoming more ethnically diverse, but the cities are still more homogenous ethnically. Between 1980-98, the minority share of the population central cities rose from 34% to 37%. In the suburbs the increase was from 13% to 21%.
- 3.8 At the same time advances in information technology, coupled with rising incomes, population growth, infrastructure and spending patterns, continue to drive residential and business development to the fringe. Improved information and communication technologies are encouraging the spread of jobs and people to the urban edge. But cities continue to have the inherent advantages of agglomeration – face to face contact, accessibility and a built up amenity sericulture – which have always been critical to economic growth and are valuable to the new economy as well. Cities share of jobs is declining. In 1992 the suburbs had 55% of metropolitan jobs, but this rose to 57% by 1997. Population growth in the suburbs relative to their central cities accelerated in the 1990s compared with the 1980s. Between 1990-8, suburban population grew by 11.9% in comparison with 4.7% for central cities. Central cities share of the metropolitan population has dropped to 38% compared with 45% in 1970. At the same time, land is being consumed at twice the rate of population growth. Land use grew at approximately twice the rate in the 1990s as it did in the 1970s. This sprawl has adversely affected environmental quality, transportation and infrastructure.
- 3.9 William Testa (2001), a Federal Reserve Bank economist has looked at the role of the large cities in the mid-west asking whether they are having an urban recovery in the 1990s and their relationship with their wider metropolitan areas. He looked at the performance of 11 central cities on a range of data on population, income, employment, unemployment, and housebuilding over three decades. Essentially his detailed regional analysis gives support to the argument that central cities are having a renaissance – but

that they still do not perform as well as many of their suburban areas. His work also underlines that city performance varies regionally in the US.

- 3.10 On average the population of the 11 cities almost stabilised in the 1990s a marked improvement compared with the 1970s. Partly this was a result of more buoyant regional economies rather than of structural change. Central cities continue to lose population to their suburbs. However, housing trends were different. If the central cities lost population to their suburbs, new home ownership was greater in the central cities. Similarly labour force participation and income levels improved in both the city and the suburbs. Tightening labour markets clearly narrowed the gap between suburban and central city unemployment rates. However, the low ratios of household incomes in cities in contrast to their suburbs have not improved. Also city residents still look to jobs on the periphery of their regions. Until 1997 at least jobs were moving out of central city areas. His overall analysis is that, although there are some exceptions, central cities in the mid-west continued to struggle to keep pace with their suburbs in the 1990s in terms of job growth and economic development. Nevertheless there were positive indications for the future and it was clear that central cities of the mid-west have shared in the general economic recovery. Some places did better, including Chicago. But the current trends did not justify any complacency on the part of urban leaders or policymakers. So there is evidence that cities have had a good decade during the 1990s in the US – better than the two preceding ones. However, in many cases they remain behind their wider regional areas.

#### **Which are the successful regions?**

- 3.11 In the USA, the most extensive analysis has been undertaken recently by Michael Porter (2003) who has assessed the economic performance of the 172 Economic Areas as defined by the Bureau of Economic Analysis. Although we do not subscribe to the thrust of Porters' theoretical framework, his work on urban and non-urban regions is empirically rich and helpful.
- 3.12 What does he find? Porter uses average income levels as a measure of regional economic performance. There is substantial variation in those levels between regions in the US ranging from \$19,00 to \$52,000. His work has two broad messages for this review. First, it underlines that the striking importance of regional economies to the overall performance of nations, which vary significantly in terms of wages, wage growth, employment growth and patenting. His view underlines the argument that countries with greater economic decentralisation like Germany and the US have been historically successful.
- 3.13 The second and most important message for this study concerns the relative economic performance of urban and non-urban regions during the past decade. Basically, Porter finds that the urban regions outperformed non-urban areas in most respects. He divided all US counties into those that are part of a metropolitan area (847) and those that are not (2,293). Metropolitan urban counties account for 80.4% of US population and 85.6% of private employment in 2000. The average metropolitan county wage was \$35,716 in 2000, far higher (49%+) than the \$24,004 average in non-metropolitan counties. The Compound Annual Growth rate (CAGR) of wages over the 1990 to 2000 period in metropolitan areas counties was 4.8% versus 3.8% in non-metropolitan counties. However, the CAGR of employment between 1990 and 2000 in metropolitan counties was 2.1%, less than the 2.3% in non-metropolitan counties.' (p559) Even though there was greater growth in employment outside the metropolitan areas, the metropolitan jobs were created at higher wage levels.
- 3.14 These findings about agglomeration and the relationships between population density and average labour productivity are confirmed by similar analyses in the US and Europe.

For example, Ciccone and Hall (1996) for the US and Ciccone (2002) for Europe report a significant positive relationship between output per worker and population density, having controlled for differences in human and physical capital. In the UK Rice and Venables (2003) report similar results. They find that population density is significantly positively correlated across the sub-regions with the earning indices, with house prices and, to a lesser extent, with GDP per employee and skill composition.

### **The growing economic significance of cities to regions in Europe**

3.15 Further evidence of the growing importance of urban areas in Europe is provided by Rodriguez Pose's (2003) detailed analysis of acquisitions and mergers in German cities. Although based on a single country, this analysis presents further evidence about why city regions will become not less significant in the future. The work analyses the processes of mergers and acquisitions in firms (M&As) as a measure of economic power and concentration and traces how they impact upon different urban areas. His argument is that globalisation and economic integration have led to greater competition between firms, which try to secure or enhance their market share by the greater concentration of resources. This is basically achieved through the process of firm mergers and acquisitions, which then have an important effect on the economic weight of localities and regions.

3.16 He finds some general evidence that mergers and acquisition bring about changes in corporate control, which at the European scale, appear to favour the large urban areas of the northern core countries to the detriment of smaller urban areas within the 'core' and of the southern periphery. His analysis of M&As in Germany is used to test three analytical arguments

- That high level of economic activity in large urban areas would be associated with relatively high levels of M&As.
- That market size and economic agglomeration are likely to be important in this process leading to an economic concentration of economic activity in the largest German cities
- That geographical distance – as well as other factors such as the local endowment of human capital, the concentration of R&D activities and of political power – may also affect the dynamics of acquisitions.

In Germany this would imply that during the 1990s the large German metropolis including Frankfurt, Dusseldorf, Munich or Hamburg as well as the top capital cities of the Lander would emerge as the winners from the process.

3.17 Rodriguez Pose undertook analysis of 30,000 M&As during the 1990s. What does the evidence show?

- M&As are fundamentally an urban phenomenon as demonstrated by the strong concentration in top German metropolis.
- Although an urban phenomenon they are concentrated in 6 cities – Frankfurt, Hamburg, Dusseldorf, Berlin, Munich and Cologne – which accounted for over 55% of M&As. These are the only German cities regarded as being within a world network.
- Most significant for this review most of the transactions take place within the municipal boundaries of the core city with a relatively small percentage in the regional hinterland – Munich gets 82% of regional activity, Hanover 80%, Frankfurt over 60%. Even in regions, which are more polynucleated, the concentration is marked.

- 3.18 The essential features to emerge from his work this work are
- 'M&As are fundamentally a large city phenomenon and, thus, are contributing to the economic takeoff of the main German metropolis. The transactions taking place in the largest German cities far outweigh in relative terms all those taking place in other regions.' (p.27)
  - 'a large percentage of the mergers and acquisitions ' take place within the same region or involve companies already located in large urban centres, which emphasises the relevance of intercity relationships in an increasingly globalised world.' (p.27)
  - 'Economic agglomerations and the concentration of political power are the main drivers behind the dynamics of mergers and acquisitions. Local social and economic characteristics are much less important in determining the process. Next to agglomeration impacts distance and transport is critical. Even if German firms look for target firms primarily in other German large urban areas, they typically look for them in neighbouring areas rather than those urban regions, which are much further away. (p.27)
- 3.19 Given the relative success of German cities demonstrated in our first report, this project is important. It underlines the growing importance of the most successful large urban areas to the German national economy and their economic significance to their regions. It adds grist to the Core Cities arguments about their potential national and regional economic significance.

#### **What is the geographical location of businesses in the UK?**

- 3.20 The most systematic analysis of the location of businesses in the UK in the 1990s has been undertaken by Bennett et al (1999). Their work falls into two parts - a major review of literature on location and a detailed empirical analysis of firm location in the UK.
- 3.21 It shows that much theoretical literature in part indicates that agglomeration economies explain a pattern of increasing geographical concentration. Krugman for example argues that there are increasing returns of scale deriving from localisation and urbanization effects, and that larger cities experience greater competitive advantage than smaller ones. The literature shows that business services are clearly an increasingly source of employment in the UK economy. There is considerable empirical evidence that business services are concentrated in a limited number of urban areas. Howell and Green observed the development of the process during the 1970s and 80s. Keeble et al confirmed the trends with developments during the 1980s. London dominates this process - but a number of established business centres in Manchester, Birmingham, Glasgow, Edinburgh, Aberdeen and Cardiff also are important.
- 3.22 Of course the continuing importance of urban centres as primary business locations has been challenged by the emergence of company downsizing, and decentralisation, outsourcing and a greater role for SMEs in the economy. These developments have, in principle, allowed a more flexible and footloose pattern of location for many types of business. But despite this new agglomeration economies appear to being produced, suggesting there is a continual concentration on existing major centres.' The work of Marshall & Green (1990) and O'Farrell & Hitchens (1990), show that corporate headquarters continue to be chiefly located in the major urban areas. Also, while corporate decentralisation, outsourcing and SME development may be giving greater scope for development outside the main centres, the extent of the spread of many of these developments tend to be restricted to within 50-80 kilometres from headquarters or major centres. 'Hence, proximity to major urban centres continues to be significant, even if location within them may be less important.'

- 3.23 In the USA, Harrison et al (1996) find that it is 'suburban' areas adjacent to the largest urbanized and metropolitan centres that show the highest rates of innovation and business growth. Similarly, Illeris (1994) reviewing a range of studies across a number of countries concludes that within region interactions account for 60-80 per cent of supply. Tordoir (1994) found that 40-96 per cent of services were supplied within the same region of the USA and the Netherlands, with the local sourcing increasing with city size and frequency of use. Similarly in Britain, the evidence tends to suggest that it is not only location within urban centres, but also close proximity to those centres that may be important. There is some scope for peripheral and rural locations but urban size factors still appear to influence location towards the major local centres. Thus Wood et al (1993) report that research and management consultancy firms are predominantly urban based and where located in more rural or small town environments have modern communications still allowing accessibility to major economic centres.(p. 397)

#### **What does Bennett's empirical analysis show?**

- 3.24 Bennett (1999)undertook the first detailed map of businesses in Britain using GIS analysis to examine detailed post-code data. His aim was to demonstrate that business concentration is a dominant pattern in Britain. Before we look at his findings, one point of clarification is required. Bennett uses the term clusters extensively in his analysis. But he uses it in a general sense of businesses having commonalities and complementarities rather than the more precise idea that clusters are intense local networks of supply chains or embeddedness. He is not therefore endorsing many of the attributes of clusters employed by other writers - about which there is considerable scepticism as this paper has indicated.
- 3.25 The data is rich, detailed and comprehensive their analysis complex. But the big picture is clear. Bennett's analysis demonstrates that businesses are highly concentrated. Businesses that are either in a major cluster, or within 15 miles of a cluster, cover 76.45 per cent of all businesses in only 33 per cent of the geographical area. The largest 30 clusters cover 43 per cent of businesses in 9 per cent of the area. The largest 10 clusters cover 26% of businesses in 3 per cent of the area. Hence the levels of concentration increase as they focus on the larger clusters. The overwhelming conclusion of the analysis is that there are increasing returns of scale with agglomerations, and that business is highly urbanized and is chiefly focused on a relatively small number of clusters. In his judgement this confirms earlier analyses that demonstrate the importance of urban locations (Pred 1977, Goddard 1978; Coffey and Polese 1987; Marshall 1994) or the conclusions of Wood et al (1993) that business service firms are either predominantly urban-based or are closely accessible to urban areas.
- 3.26 There is also an indication of a hierarchical effect that larger clusters are relatively more important as foci than smaller clusters. This suggests there are fairly distinct differences between London, a group of five or six 'regional clusters, and the next group of secondary clusters. Business service firms are even more concentrated and even more affected by the advantages of urban agglomerations. Their work did not allow them to determine precisely trends and whether concentration is increasing or decreasing. But their review of literature suggests that whereas concentration was decreasing in the 1970s and 1980s at relatively modest rate, in the 1990s there is evidence this pattern may be reversing, with increasing concentration now returning to the large urban centres (Keeble 1998).(p.416.) Whatever the underlying trend their final judgement is 'that business concentrations are presently so high in urban areas, particularly the largest centres, that it will take a very long time to change the pattern in any fundamental way.' (p.416.) One implication for local economic policy supports the Core Cities case that 'only some areas have a major role to contribute to economic development policy, chiefly the metropolitan districts, London and the unitary authorities.' (p 416.)

- 3.27 Business service location closely follows the location of other businesses. 'There is a strong agglomeration effect, which tends to increase existing unevenness of development. Moreover, the scale of agglomeration increases with the size of cluster: business services are more highly agglomerated the larger the cluster, they are more concentrated in clusters as a whole, and these effects are most highly focused cluster of all. The arguments of increasing returns of scale from agglomeration are therefore strongly confirmed.' (p.410-11). The very high degree of agglomeration suggests a pattern whereby declines of manufacturing and non-service businesses are likely to encourage an even higher concentration of business services in the already more concentrated areas. 'This suggests that the expectations of horizontal spread of decentralisation are unlikely to be strong, but instead increasing agglomeration economies will reinforce clusters of concentration.'(p.411) Even though studies have found some modest urban – rural shift or high rates of growth of service industry employment in smaller and more provincial centres, this' does not suggest a shift away from the dominance of concentrated clusters of business locations in the larger conurbations and medium-sized urban cores.'(p.411) This UK evidence indicates that as in the USA and Germany there remain important reasons why large urban areas will continue to be successful economically.

#### **4. HOW DO URBAN AND REGIONAL ECONOMIES CONNECT?**

- 4.1 A key question for the Core Cities group is not only whether urban areas are flourishing or declining, but how they affect their surrounding sub-regional and regional economies. At this point it is worth recalling some of the general findings of our earlier study. That came to three general conclusions on the basis of the existing literature. First, the majority of all economic activity is concentrated in Functional Urban Regions – or large cities. Therefore most economic activity in most regions is dominated by what happens in the major or a small number of large cities. As we have just seen, the work of Bennett in the UK underlines the significance of urban areas for business clusters and their relevance to regional economies. Therefore, if you can improve the economic performance of cities, this will have a major impact upon the economy of the entire region.
- 4.2 Second modern service industries are highly concentrated in the central areas of regional capitals. These are often the major growth industries in advanced economies. Modern high-tech industries such as ICT and the life sciences are also concentrated in the centres of regional capitals. So regional capitals tend to be privileged in the new growth industries or are the places where they would typically like to be located. Sponsoring these sectors in cities will also have a disproportionate effect on the competitiveness of the entire region. Third trading cities have always been the most economically successful areas. Once they were located at river crossings and ports. Now they are located at international airports. Cities are the connecting nodes of the international trading economy. Therefore fostering the efficiency and connectivity of regional capitals provides an economic gateway to the international economy and benefits the whole regional economy.
- 4.3 The empirical evidence from our original study complemented that analysis. First, not all regions across Europe are urban. And there are examples of successful non-urban regions. However, in our study there were no successful urban regions, which did not have successful cities at their core. We saw this in many of our detailed tables, which presented both urban and regional performance on key criteria of competitiveness. The regions that performed well were those where the core city performed well - and vice versa. Nor did we find cities that wildly outperformed their region or vice versa. Second in some regions the economic weight of the central city/ies is so large that the GDP of the urban area is often a significant part of the regional GDP and one is actually

measuring the same kind of thing. Third, even though many regions are polycentric, outlying areas still depend heavily upon the central city since many of their residents commute to and work in them and the central city provides them with a variety of economic, social and cultural services. Fourth, many of the features that successful modern industries require – innovation, creativity, skilled human capital, access to markets - are the qualities that the urban areas, institutions and residents we studied typically possessed. Fifth, the significance of urban-regional relationship has been recognised by many governments in Europe. For example, much of the thrust of EU policy in the past decade has been to seek improved regional performance by focusing upon the contribution of cities. And many national and regional governments on the continent have also recognised the contribution that cities make to regional economic performance.

**What is the empirical evidence on urban-regional economic performance from the literature?**

- 4.4 There has been surprisingly little written about the relationships of urban and regional performance, although our earlier comment about the difficulty of separating the two analytically and the absence of reliable data help explain this. Despite this there has been growing interest in the past decade in the US in attempting to link cities and their surrounding suburban areas together better both in terms of greater equity and greater economic efficiency. The argument is increasingly made that if urban areas were managed on city-regional level they would be both fairer and more efficient. This argument is increasingly made in the light of the realisation that central cities during the past decade have experienced something of an economic renaissance after two decades of decline.
- 4.5 What is the strength of the evidence? Opinions inevitably vary. But increasingly the evidence is that there is a relationship between urban and regional economic performance. To simplify there are two basic interpretations of the evidence. The more cautious accepts that there is a relationship and is willing to argue that cities and suburbs are linked together economically. But it thinks that may well be a correlation. The second view is more positive. It argues effectively that cities are the drivers of metropolitan or sub-regional economies.
- 4.6 There has been a variety of evidence. Perhaps the three most substantial empirical works has been that of the Federal Reserve Bank economists Richard Voith and William Testa and the Brookings Fellow Janet Rothenberg Pack. In addition the National League of Cities has provided a general review of the arguments and evidence. What do they tell us?
- 4.7 Paul Gottlieb (1998) for the National League of Cities reviewed the evidence from 18 separate studies of the relationship between income, poverty and economic performance in cities and their wider metropolitan areas during the 1990s. The studies measured slightly different things in different ways. But in his judgement they generally confirmed the following:
- There is a positive correlation between central-city and suburban economic performance.
  - A positive correlation between central-city and metropolitan level economic performance.
  - A positive correlation between greater spatial equality and metropolitan economic performance.

Although a few studies failed to find significant correlations - none found evidence actually running in the opposite direction.

- 4.8 Gottlieb's (1998) literature review also showed that the relationship between central city and metropolitan growth rates has been changing in recent decades. For example, in the 1960s if central cities declined suburbs grew. But since then the trend has reversed. 'So while we think of the 1980s and 1990s as a time in which edge cities have functionally displaced central cities, compared to the 1960s this appears to be a time of increasing complementarity between the two parts of the metropolis. ...There is 'a consensus on the interdependence of central city and suburban economies, and likely agreement that this interdependence looks more like complementarity than substitution. In other words, the competition for economic advantage between cities and their suburbs is no longer a "zero-sum" game, although it might have been at one time. Meanwhile the few studies addressing causation have merged with a conclusion that suburban residents living near central cities benefit from increases in the welfare of central-city residents.'
- (p47)
- 4.9 Richard Voith (1998), an economist for the Mid West Federal Reserve Bank, has undertaken research on the economic relationships between cities and their wider metropolitan areas for many years. His most recent work - *Do Suburbs Need Cities?* - looked at changes in population, real per capita income and house value growth over three decades from 1960 to 1990. His work confirms the familiar US pattern that 'suburban population and per capita income outpaced city growth in every decade. Cities, therefore, now have a smaller share of total population, and their population is poorer relative to their suburbs than in the past. Aggregate income in the city grew much more slowly than in the suburbs, contributing to fiscal stress observed in many cities today.
- 4.10 But the nature of the relationship changes over time. He found a surprising trend towards higher correlation between city and suburban variables over time, despite decentralization in metropolitan areas. Suburban population was negatively and significantly correlated with city population growth whereas in the 1970s and 1980 the correlation turned significantly positive. 'The correlation between city and suburban growth in income, population and house value increased in the three decades following the 1960s' surprised many people. But his argument is that this suggests that 'continued suburban growth may have become increasingly dependent on the overall desirability of the region, rather than simply shifting population. Metropolitan areas not plagued with the problems associated with declining cities appear to have had a more robust suburban growth.' (p.451)
- 4.11 His modelling also leads him to suggest that 'a 1 percentage point increase in the rate of city growth in a moderate size city of one half million people would result in an increase in the suburban income growth of 0.45 percentage points. In a very large city of 3 million, the increase in suburban income growth would be 0.60 percentage points. ' (p458). In other words the impact is greater in larger cities. 'The large difference in impacts between very large cities and small cities is consistent with the idea that large cities offer unique benefits to their suburban neighbours, but small cities do not offer opportunities that are not already available in the suburbs.' (p462)
- 4.12 Voith argues that his empirical data and raw correlations suggest that the correlation between city growth rates and suburban growth rates have been increasing over the last three decades. His modelling work which was designed to get around the allegations of mere correlation led him to suggest that city income growth results in higher suburban income growth, house-value appreciation and, to a much lesser extent, population growth. The effects of cities on suburbs arise primarily in metropolitan areas with larger cities. There appears to be little, if any, measurable relationship between small city growth and suburban growth. His view is that this statistical evidence is important since

suburbs, while seeing that they perform better than their central cities may miss the fact that their performance may still be less good than it could be.

- 4.13 His policy interpretation is worth quoting at length. 'The implications of these findings for urban policy are very important. In particular, these results imply that suburban residents, and by extension, the nation, have important stakes in the prosperity of large central cities. Large central cities perform valuable functions that are not replaced when they decline. The evidence of a positive causal relationship suggests the possibility that both cities and suburbs could improve their welfare through cooperative actions to arrest urban decline. These actions might include regional financing of social services programs, regions efforts to improve educational opportunities for children in poor quality school districts, and the limitation of large differences in taxes in local tax rates, especially taxes on mobile factors such as labour. Policies that require cooperation to achieve long run objectives, however, may be difficult to forge, since there are likely to be short-run benefits for suburban areas from central city decline. Moreover, even if there are potential net benefits to the region as a whole, it may not necessarily be the case that the benefits to the suburban residents outweigh their costs.' (p463.)
- 4.14 Janet Rothenberg Pack (2002) in *Growth and Convergence in Metropolitan America* (2002) has undertaken similarly extensive analysis of the performance of a large number of metropolitan areas in the United States during the past three decades. Pack agrees with much of the empirical observations but takes a slightly more cautious interpretative view of the evidence. She asks the question - what can be inferred from the positive correlations between city and suburban growth rates found in the recent research? In her judgement, 'The conclusion that the fates of suburbs and central cities are intertwined – the "linkage view" – is convincing. The stronger conclusion that healthy suburbs require healthy cities seems premature.' (p 23) Partly her view rests on her wider argument that growth rates in metropolitan USA have to be seen in their wider regional context. This shows that indeed cities and suburbs are growing - but that it is confined to the west and south of the nation. In the mid west and northeast long term decline of both cities and suburbs is still the norm. In her judgment there is no absolute demonstration that cities drive wider metropolitan areas in all places and at all times. It is contingent upon time and place.
- 4.15 Pack's conclusion is the following. 'The conclusion from the evidence for linkage between growth or well-being of cities and suburbs is based upon positive correlation's among a variety of variables in cities and their suburbs: growth rates (per capita income, population) and levels (per capita income, office space costs, house prices, poverty rates, unemployment rates.) Although the studies that form this literature differ in many important respects – the variables for which linkage is considered, the time periods covered, the size of the sample of metropolitan areas – the positive correlation appear to be widespread although they differ in magnitude. The evidence that the suburbs are dependent on their central city is less persuasive. The arguments are appealing but the evidence is sparse. Too little systematic attention has been paid to the importance of third factors influencing both city and suburbs in a metropolitan area. There is evidence that the state of the national economy and regional shifts in the locus of economic activity play an important part in the explanation; several studies have included or at least emphasize regional variables, but they have not played the central role in the discussion that they may warrant. With respect to the sources of linkage – externalities, agglomeration economies, economies of scale – there is substantial consistency made by various investigators, but the evidence is sparse and often contradictory.' (p191)

#### **Urban and regional economic performance in Europe - what is the evidence?**

- 4.16 The evidence on these issues is complex. As we have seen when reviewing the literature from the United States, it is not simple to demonstrate causality. However, there

- is considerable evidence that points in the direction of urban areas leading regions and urban regions being the most successful. Some of this empirical evidence of course gives empirical support for the analytical arguments identified earlier in this paper about the advantages of large urban agglomerations.
- 4.17 Much of the subsequent analysis is based upon Herrschel and Newman (2002). They point out that the performance of urban regions needs to be seen in the context the wider patterns of regional growth, decline and inequality across Europe during the past two decades. The question of whether regional inequalities are growing or declining depends upon the spatial level at which it is examined as the European Commission has observed. Virtually every interpretation is conceivable. At nation state level there has been a growing convergence of GDP per capita with Objective 1 regions improving their performance. But inequalities within regions have also increased and the relative performance of the top and bottom regions has not shifted very much. For example using NUTS 1 level data 8 Of the richest 10 in the late 1980s were in the top 10 in the late 1990s. At NUTs 2 level 'Gaps in economic performance (GDP per capita) between the 25 worst and best performing has, if anything, increased slightly from 50 to 52% and 140 to 142 per cent respectively of the average EU GDP per capita between 1986 and 1996.'
- 4.18 Sectoral employment patterns clearly vary between countries and affect regional performance. Manufacturing remains important, especially in Germany. The 25 regions with highest manufacturing share in employment achieved wealth certain 8 per cent above the EU average. (EU 1999) But this was less impressive than performance in service dominated regions. The 25 regions with the highest employment shares in service industries – even though not all service jobs are high income - are also among the most economically successful with a GDP level 27% above the EU average.
- 4.19 Differences within regions are important and the EU reports are growing. Why? Increasingly variations within regions also gain in importance. Even small variations within regions matter and affect the overall economic performance of an area now and in the future. And the variations are growing. One explanation is the balance between rural and urban areas in the same formal region. Herschel and Newman conclude 'The degree of urbanization appears to be directly related to economic performance, measured by GDP per capita, emphasising the importance of city-regions as economic core areas. Thus in the EU, regions (NUTS 2) characterised as 'urban' have a GDP of almost a quarter (22%) above the EU average, jointly generating some 60 per cent of the EU's total GDP (EC, 1999a). Put differently, each of the ten regions with the highest level of wealth creation in the EU includes at least one major conurbation.' Looking at a finer scale at NUTS 3 level other variations and inequalities emerge. 'For instance, capital cities emerge consistently as the main foci for new investment and innovation and thus prosperity. (EC 1999a).
- 4.20 The EU uses population density as a measure of population, with over 500 people per sq. km defined as densely urban. On that basis nearly 50% of EU population lives in urban areas, but are spatially concentrated occupying only 3.5% of the EU territory. This indicates a narrow territorial selectivity of innovation and investment and thus wealth creation. 'These localised centres of high development potential are concentrated on a narrow band through north western Europe, linking the main urban centres stretching from Benelux via western Germany to northern Italy. Their judgement is that 'Urbanization seems a necessary, not sufficient condition for good economic prospects. Rather, existing economic structures play a crucial role. On that basis, an urban region with a high content of new industries would encounter the rosier prospects for regional development. Urban areas with more prominent old industrial structures would by comparison, be in a less advantageous situation, possibly competing with less densely populated semi-rural regions, but which possess the advantage of a new technology-based post-industrial economic structure.' (p 73)

**Which European regions perform better?**

- 4.21 This analysis is underlined by the work on economic growth in European regions by Rodriguez Pose (1998). He undertook a major empirical exercise collecting substantial amounts of quantitative data on the economic performance of regions within the EU from the 1970s to the early 1990s, identifying the nature and sources of their growth. His primary concern was to explain why economically successful regions continued to perform well despite changes in the global economy and in contrast why underperforming regions failed to improve their economic performance under new global circumstances. In this work which focuses on differences in GDP per capita growth rates he distinguishes between the 'most dynamic capital and urban regions', to intermediate less dynamic regions to the least changing peripheral non-dynamic regions. In addition he adds the finer scale of capital and urban financial centres which have ambitions to be global cities.
- 4.22 He identifies the dynamics, which drive regions based upon interregional competition. The dynamism is particularly vigorous in the main city regions with their appeal to development and investment input. 'The places that win are in many cases dynamic systems of cities and extended metropolitan city regions.' (p110) It is no accident in his judgement capital and urban regions have achieved growth rates above the European average during the 1980s and early 1990s and that 'almost all of the ten leading regional economies in Europe are centred on metropolitan cities' followed by the main industrial regions. (p 111).
- 4.23 What explains it? Although capital and information have become increasingly mobile with technological change and deregulation, 'both have become increasingly concentrated in large metropolitan areas, especially in those where the existence of a developed financial market is combined with political power... Economic and political power are now more concentrated than ever in a few blocks around emblematic spaces in the central areas of large metropolises...(p112)
- 4.24 Why does this happen? His judgement is that it is explained by the concentration of highly skilled people in the main metropolis, offering location advantages over other areas. In addition metropolitan regions act as main switchboards in networks both electronically and in terms of interpersonal communication/collaboration. These regions display 'a fairly dynamic social panorama characterized by a high level of qualification of the population, positive rates of population growth and high population attraction, low demographic dependency and unemployment, and a fuller integration of females in the labour market.' (p.120) So 'from a social perspective, capital and urban regions have enjoyed the greatest social dynamism. The stock of qualified labour available, the existence of top-level universities and the relative absence of social conflict have eased the assimilation of innovation and technological advances and fostered economic growth.' (p122)

**Leading or Lagging – English urban areas and regions**

- 4.25 How do urban and regional economies perform in the UK? The next section of this paper tries to give some indication of the pattern of economic performance and growth in different urban areas in different English regions. It is based on analysis by Mary Hutchins of some simple GVA and employment growth data. Working with a limited number of indicators it starts to explore some of the inter- and intra- regional relationships, to show which areas are performing well in terms of productivity and employment growth and to identify which areas are contributing most to regional performance. It is preliminary and simply meant to present an overview of some of the issues. There is much scope for discussion about the data.

4.26 Hutchins' work underlines a number of themes:

- In terms of GVA/GDP the UK depends on a very few 'hot spots' for the generation of national wealth.
- Within the 'best' performing regions there is significant variation in GVA/GDP per capita.
- In terms of GVA Core Cities lead their wider metropolitan area [health warning – limited data].
- Even in 'rural' regions employment growth is found in urban areas.

### Gross Value Added

4.27 In terms of (1) the generation of total GVA and (2) GVA per capita London and the South East dominate the rest of England.

**Table 1: GVA £ billion 2001**

	NE	NW	YH	EM	WM	E	London	SE	SW	England
	27.7	87.6	61.9	55.4	68.8	85.8	140.4	138.9	63.6	730.0
% Share UK	3.3	10.3	7.3	6.5	8.1	10.1	16.5	16.3	7.5	85.7

Source: National Statistics

**Table 2: GVA £ per capita 2001**

	NE	NW	YH	EM	WM	E	London	SE	SW	England
	11,000	13,000	12,500	13,300	13,100	15,900	19,500	17,300	12,900	14,800
% Share UK	76.1	89.9	86.2	91.7	90.3	109.9	134.9	119.9	89.0	102.6

Source: National Statistics

4.28 There is significant variation within regions in the level of GVA generated per capita

**Table 3: GVA per capita 1998**

	NE	NW	YH	EM	WM	E	London	SE	SW
Max	11254	14172	14305	17373	14843	17158	57281	19008	18129
Min	8818	7313	7992	8448	10176	11016	8017	7847	8185
SD	1055.46	2353.64	1789.12	2680.39	1412.14	1861.77	18312.73	3322.35	2681.97

Source: National Statistics

4.29 Within each region those areas with higher than the regional average GVA per capita tend to have sizeable urban areas within their boundaries.

**Table 4: Areas where GVA per capita is 10% greater than regional average**

Region	Leading areas for GVA
North East	Darlington, Hartlepool
North West	Halton and Warrington, Cheshire, Greater Manchester South, East Cumbria
Yorkshire and Humberside	York, North/ North East Lincolnshire, Leeds
East Midlands	Nottingham, Derby, Leicester, Northamptonshire
West Midlands	Telford and Wrekin, Warwickshire, Solihull
Eastern	Peterborough, Cambridgeshire, Luton
London	Inner London West
South East	Berkshire, Portsmouth, Milton Keynes, Surrey
South West	Swindon, Bristol, Gloucestershire

Source: National Statistics

#### 4.30 Hotspots for total GVA 1998

**Table 5: Areas that contribute 2% or more to England's total GVA (1998)**

Region	Area	Total GVA £ million	GVA per capita	% contribution to England's GVA
London	Inner London West	57,424	£57,281	9.0
London	Inner London East	27,064	£15,496	4.3
London	Outer London West and NW	24,440	£14,045	3.8
North West	Greater Manchester South	18,363	£13,204	2.9
South East	Surrey	16,914	£15,945	2.7
South East	Hampshire	16,295	£13,173	2.6
South East	Kent	15,710	£11,800	2.5
South East	Berkshire	15,212	£19,008	2.4
Eastern	Essex	15,056	£11,604	2.4
Eastern	Hertfordshire	14,143	£13,717	2.2
West Midlands	Birmingham	12,652	£12,456	2.0

Source: National Statistics

#### 4.31 Hotspots for GVA per capita 1998

**Table 6: Areas with GVA per Capita 20% or more above the England Average (£12,845 1998)**

Region	Area	GVA Per Capita	% of England's average GVA (£12,845)
London	Inner London West	£57,281	457%
South East	Berkshire	£19,008	152%
South West	Swindon	£18,129	145%
South East	Portsmouth	£18,012	144%
South East	Milton Keynes	£17,557	140%
EM	Nottingham	£17,373	139%
Eastern	Peterborough	£17,158	137%
SE	Surrey	£15,945	127%
Eastern	Cambridgeshire	£15,783	126%
London	Inner London East	£15,496	124%
South West	Bristol	£15,472	123%

Source: National Statistics

Table 7: Sub regional GDP per capita 1998

<b>North East GDP per Capita = £9,741</b>			<b>West Midlands GDP per Capita= £11,455</b>		
	GDP per capita	+/- regional average		GDP per capita	+/- regional average
Darlington	11254	1513	Telford and Wrekin	14843	3388
Hartlepool	10872	1131	Warwickshire	13288	1833
Tyneside	10469	728	Solihull	12757	1302
South Teesside	10299	558	Birmingham	12456	1001
Sunderland	9209	-532	Coventry	12013	558
Northumberland	8818	-923	Worcestershire	11467	12
Durham	8199	-1542	Herefordshire	11011	-444
			Stoke on Trent	10738	-717
<b>North West GDP per Capita= £10,909</b>			<b>East per Capita = £12,973</b>		
	GDP per capita	+/- regional average		GDP per capita	+/- regional average
Halton and Warrington	14660	3751	Peterborough	17158	4185
Cheshire	14172	3263	Cambridgeshire	15783	2810
Greater Manchester S	13204	2295	Luton	14400	1427
East Cumbria	12217	1308	Hertfordshire	13717	744
Blackburn	11420	511	Suffolk	13143	170
Liverpool	10886	-23	Thurrock	13055	82
West Cumbria	10556	-353	Bedfordshire	11874	-1099
Lancashire	10173	-736	Norfolk	11825	-1148
Blackpool	8899	-2010	Essex	11640	-1333
Greater Manchester N	8636	-2273	Southend on Sea	11016	-1957
East Merseyside	8270	-2639			
Wirral	7525	-3384	<b>South East GDP per Capita = £13,731</b>		
Sefton	7313	-3596		GDP per capita	+/- regional average
			Berkshire	19008	5277
<b>YH GDP per Capita = £10,983</b>					
	GDP per capita	+/- regional average	Portsmouth	18012	4281
York	14305	3322	Milton Keynes	17557	3826
N NE Lincolnshire	13402	2419	Surrey	15945	2214
Leeds	13322	2339	Southampton	14675	944
Hull	11850	867	Oxfordshire	13983	252
Sheffield	11171	188	Buckinghamshire	13813	82
North Yorkshire	11085	102	West Sussex	13622	-109
Calderdale etc	10423	-560	Hampshire	13173	-558
Bradford	10339	-644	Kent	11800	-1931
East Riding	10051	-932	Medway	10639	-3092
Barnsley	7992	-2991	Brighton and Hove	10260	-3471
			Isle of Wight	8397	-5334
<b>East Midlands GDP per Capita= £11,848</b>				East Sussex	-5884
	GDP per capita	+/- regional average	<b>South West GDP per Capita = £11,447</b>		
Nottingham	17373	5525		GDP per capita	+/- regional average
Derby	14629	2781	Swindon	18129	6682
Leicester	13973	2125	Bristol	15472	4025
Northamptonshire	13369	1521	Glous	12772	1325
Leics. And Rutland	12139	291	Bournemouth & Poole	12078	631
Lincolnshire	10751	-1097	N NE Somerset and		
S & W Derbyshire	10404	-1444	E Glous	11730	283
N Nottinghamshire	10176	-1672	Wiltshire	11708	261
East Derbyshire	8802	-3046	Plymouth	11437	-10
S Nottinghamshire	8448	-3400	Somerset	10877	-570
			Dorset	10016	-1431
<b>London GDP per Capita = £18,566</b>				Devon	-1811
	GDP per capita	+/- regional average		Torbay	-2792
IL West	57281	38715		Cornwall	-3262
IL East	15496	-3070			
OL West and NW	14045	-4521			
Outer	10996	-7570			
OL South	10358	-8208			
OL East and NE	8017	-10549			

Source: National Statistics

## Employment

4.32 Employment and employment growth is not distributed evenly across the UK. In terms of total employment the UK is dominated by London and the South East – together these regions are account for 30% of all UK jobs.

**Table 8: Regional Employment and employment change 1998-2001**

	1998	2001	% change in employment 1998-2001	Rank % change	Rank overall size
South West	1950850	2099315	7.6	1	7
Scotland	2161902	2308621	6.8	2	5
South East	3425095	3655500	6.7	3	2
London	3764082	4014939	6.7	4	1
Wales	1038078	1090661	5.1	5	10
Eastern	2188185	2271254	3.8	6	6
North West	2788401	2887023	3.5	7	3
North East	945717	973889	3.0	8	11
Yorkshire and Humber	2049746	2085721	1.8	9	8
West Midlands	2289441	2313766	1.1	10	4
East Midlands	1756873	1755706	-0.1	11	9

Source: National Statistics/Nomis Annual Business Inquiry

4.33 Total employment, and growth in employment is concentrated in urban areas, even within regions that are predominantly rural. The following table lists the local authority districts in each region that have experienced employment growth above the regional average between 1998 and 2001. The location of employment growth within these LAD's has been analysed further and in those districts which are predominantly rural the employment growth identified here has taken place in urban areas - as defined in the OPDM's Urban Policy Evaluation Strategy consultation paper.

**Table 9: Areas experiencing Growth in Employment above the regional average 2001**

South West	Exeter, South Gloucestershire, South Hams, Tewkesbury, Kennet, North Wiltshire, Salisbury, Carrick, Plymouth, East Devon, Torridge, Torbay, South Somerset, Penwith, Sedgemoor, Taunton Deane, East Dorset, Teignbridge, North Dorset, Kerrier, West Devon,
South East	Brighton and Hove, Hart, Isle of Wight, Dartford, Reading, Bracknell Forest, Milton Keynes, Rother, Ashford, Horsham, Eastbourne, Lewes, Runnymede, Slough, Sevenoaks, South Oxfordshire Wealden, Thanet, Epsom and Ewell, Reigate and Banstead, East Hampshire, Woking, Tandridge, Basingstoke and Deane, Dover, Mole Valley, Tonbridge and Malling, Swale, Fareham, Shepway, Rushmoor, Wokingham, New Forest, Cherwell
London	Hammersmith and Fulham, Tower Hamlets, Kensington and Chelsea, Hackney, Wandsworth, Southwark, Hounslow, Merton, Hillingdon, Islington, Camden, Croydon, Lambeth, Lewisham, Harrow, Westminster, Redbridge
Eastern	Hertsmere, Mid Suffolk, Three Rivers, Maldon, Uttlesford, Welwyn Hatfield, Suffolk Coastal, Ipswich, Brentwood, Broadland, Forest Heath, Braintree, Chelmsford, Watford, Cambridge, Tendring, Rochford, South Cambridgeshire, Waveney, Colchester, St Edmundsbury, Epping Forest, Basildon, Dacorum, North Hertfordshire, Breckland, Southend-on-Sea, Mid Bedfordshire, Luton
North West	Knowsley, Crewe and Nantwich, Chorley, Trafford, South Ribble, Manchester, Vale Royal, Warrington, Wigan, Chester, Sefton, Ribble Valley, Preston, Salford, Macclesfield, Liverpool
North East	Easington, Derwentside, Teesdale, Newcastle-upon-Tyne, Darlington, Stockton on Tees, Middlesbrough, Gateshead, Chester-le-Street, Durham
Yorkshire and Humber	Ryedale, Harrogate, Richmondshire, Selby, Craven, York, Rotherham, Hambleton, Scarborough, Wakefield, Leeds, Kirklees, Sheffield
West Midlands	Malvern Hills, Worcester, Redditch, Shrewsbury and Atcham, East Staffordshire, Bromsgrove, Cannock Chase, Walsall, Lichfield, Solihull, Herefordshire, Wolverhampton, Coventry, Wychavon, Staffordshire Moorlands, Tamworth, Birmingham, Bridgnorth, Dudley
East Midlands	South Northamptonshire, Northampton, Daventry, North West Leicestershire, East Northamptonshire, North East Derbyshire, Bolsover, West Lindsey, South Holland, Rushcliffe, South Kesteven, Amber Valley, Kettering, Broxtowe, Derby City, North Kesteven

Source: National Statistics/Nomis Annual Business Inquiry

### The old metropolitan counties – who leads, who lags?

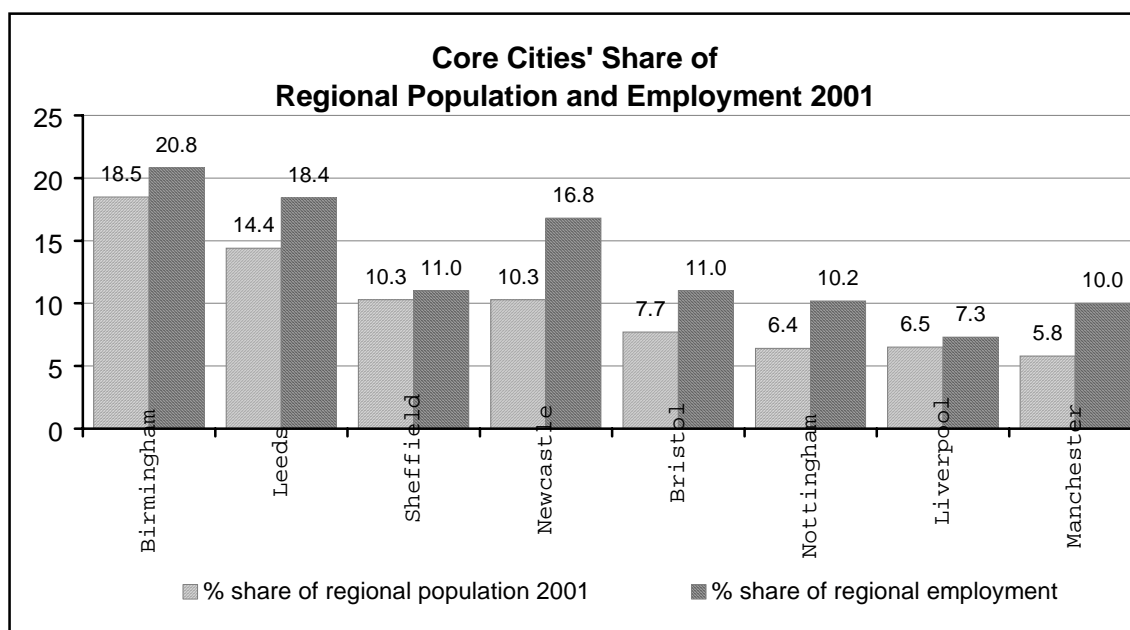
4.34 There is only limited GVA data available at the sub regional level. However where data is available it shows that the central city is often the productivity hub for the wider urban area.

**Table 10**

Region	NUTS3 Area	Total GVA 2001 (£ million)	GVA per capita 2001
Merseyside (GVA per capita £10,414)	<b>Liverpool</b>	<b>5,890</b>	£13,317
	East Merseyside	3,008	£9,165
	Wirral	2,689	£8,611
	Sefton	2,635	£9,315
Greater Manchester (GVA per capita £13,920)	<b>Greater Manchester S</b>	<b>22,861</b>	£17,015
	Greater Manchester N	12,110	£10,361
Tyne & Wear --	<b>Tyneside</b>	<b>9,995</b>	£12,539
	Sunderland	3,149	£11,215
South Yorkshire (GVA per capita £10,633)	Barnsley, Doncaster & Rotherham	6,983	£9,270
	Sheffield	6,483	£12,634
West Yorkshire (GVA per capita £13,581)	Bradford	5,605	£11,895
	Leeds	12,907	£16,904
	Calderdale etc	10,595	£11,815
West Midlands (GVA per capita £14,095)	<b>Birmingham</b>	<b>15,127</b>	£15,344
	Solihull	2,984	£14,951
	Coventry	4,843	£15,979
	Dudley & Sandwell	7,072	£11,988
	Walsall & Wolverhampton	5,810	£12,611

(Source: ONS, NUTS3 Gross Value Added: Methods and Background.)

4.35 Table 11 demonstrates how Core Cities, which have lower percentages of population than their regions, nevertheless have higher levels of employment.



(Source: National Statistics, Mid-Year Population Estimates and Annual Business Inquiry, Crown Copyright)

## 5. URBAN AND REGIONAL INSTITUTIONAL RELATIONSHIPS – HOW DO OTHER COUNTRIES MANAGE THEIR AFFAIRS?

- 5.1 This section of the report reviews the evidence on institutional and economic policy-making relationship between cities and regions in Europe. Again it is worth reminding ourselves of some of the big messages which came out of our earlier work on these themes.

### **Cities and sub-regions**

- 5.2 The appropriate relationship between Core Cities and their economic hinterlands is an increasingly important issue. The continuing debate about the significance of city regions underlines the fact that the current relationships in many UK cities are sub-optimal. But the UK is not alone in these concerns. There is great awareness in continental Europe of the importance of the economic relationships between cities and regions. Everybody recognises that city administrative boundaries do not correspond with current economic realities and that the wider region or sub-region needs to be taken into account for long term policymaking. Second there are increased efforts to devise sub-regional institutional relationships so that cities and their surrounding regions can work together more efficiently, partly to manage internal issues - economic development, physical infrastructure, human capital, environment, transport issues - and partly to market their regions externally. The nature of the relationships ranges from formal to informal. Both approaches have costs and benefits. Third, these urban- regional relationships are never simple with a range of economic and political tensions making it difficult to get easy solutions. Fourth, drawing boundaries and deciding who is in who is out - formally or informally - is not simple. Different cities have worked with different boundaries. Political realities and relationships are a key consideration. But in many urban areas there are efforts to build relationship between neighbouring local authorities, or occasionally between more distant towns and cities, which all emphasise the economic advantages derived from critical mass and increased collaboration. Working on as wide a scale upon which you can get political agreement is probably the best advice.
- 5.3 Despite the assumption that things work better on the continent, this did not prove to be the case. In fact there are a series of regional-urban difficulties that we find in the UK. These include, for example: local government fragmentation, economic competition between adjacent local authorities, worries about the environmental impact of residential and job decentralisation, fiscal exploitation of the central city by suburban service users, the segregation of excluded communities as municipalities contest to attract richer and repel poorer people and housing, failures to market the sub-region effectively, and concerns that the central city is too small to punch its weight in European and global markets.
- 5.4 But the overall picture is that few urban areas have yet devised a satisfactory set of arrangements that capture the wider economic territory. There are a series of territorial tensions. Smaller municipalities are reluctant to be overwhelmed by the larger city. Often national governments are reluctant to strengthen the position of already powerful central cities. There is therefore a very mixed picture with some areas unable to devise metropolitan wide arrangements. Some have ad hoc separate agencies to undertake limited metro or sub-regional functions most typically transport, waste and environment. But in all the cities we looked at, there is a view that the central city is not large enough to serve as the basis for economic development.

**Regional planning and policy-making.**

- 5.5 This section again draws heavily on the work of Herrschel and Newman (2002). The experience of different European city regions clearly varies. There is substantial difference whether the state is centralised or decentralised. In constitutional terms Herrschel and Newman note there are probably three types of regional planning and policy-making systems with different levels of powers in relation to local authorities.
- Loose informal arrangements with clearly limited powers jealously guarded by local authorities – this would include the Ruhr for example.
  - Strong regions acting top down as agents of central national government and affecting local planning directly regional council of l'Île de France.
  - Spatial planning systems with locally based bottom up forms of regionalisation within broadly centralised states – Lisbon or Copenhagen.
- 5.6 For example there are relatively few examples where functional areas correspond closely with administrative boundaries. - Stockholm, Vienna, Hamburg and Madrid are a few examples. Even where economic and institutional boundaries fit, the actual functions may be limited, as is the case in Helsinki where functions are essentially limited to public transport and waste management. In many cases for example, Austria, Germany, Denmark national government encourages city-regional collaboration. Informal arrangements occur when formal planning and policy systems are not congruent and informal. Here there are informal designer regions, which emerge to deal with specific functions - green belts, regional parks, waste management, and public transport.
- 5.7 But differences in regional arrangements are affected as much by politics as they are by formal constitutional arrangements. Formal arrangements to provide city regional collaboration may seem the most obvious and affective way of doing things. But the European experience tells us these can run into significant local opposition from local governments wary of losing power and influence. Often the different decision-making and planning agencies in a single territory do not overlap and there fragmented decision-making. There are two kinds of solutions. The first is by creating formal hierarchical structures. The second is operating informal, non-institutional organisational structures. The first is hard. The second is soft. 'The "softer" the institutionalisation, the more flexible the system becomes.

**Intra-Regional Collaboration and Governance**

- 5.8 Herrschel and Newman assessment is that 'While there continues to be a strong emphasis on conventional, territorial- based regional planning, the new over-arching agenda across Europe is on network building between local authorities, cities in particular, and the inclusion of regional considerations in local planning.' (p.73) For example in Germany, the Lander retain responsibility for formal regional planning. At city-regional level problems of co-ordination are addressed through informal collaborative arrangements, such as planning agreements between neighbouring municipalities. Denmark wished to strengthen the polycentric system has led to an emphasis upon national centres of good practice in regional network building both between cities and cities and rural areas. This national encouragement of regional collaboration finds some echoes in Germany where seven European Metropolitan regions were introduced into the national planning paradigm in the late 1990s, with the emphasis on international competitiveness and networking. In Copenhagen until 2001 regional planning was left to the five local authorities. They have now created a strategic body with responsibility for transport and regional planning but with few real powers.
- 5.9 Politics were the main reason for choosing the 'weak' solution for regional governance. Basically the two mayors could not agree who should take the lead. In fact Copenhagen

got into a joint arrangement with Sweden to develop a city regional network around Oresund. We shall see more of the Oresund example later. But the wider point as Herschel et al remark is that 'These city-based initiatives illustrate an observed general shift across Europe away from traditional Keynesian-style, welfare oriented, redistributive territorial policies based upon large centrally managed financial transfers between regions, towards a more city focused, network based, individualized and inherently competitive planning for activating growth.' (p75)

#### **How do regions and cities collaborate?**

- 5.10 The following section reviews regional-urban relationships in a number of countries to indicate the range of experiences and identify some key messages. It again draws heavily on Herrschel and Newman (2002). One thing is made clear. There is great diversity between states and regional arrangements. There are no obviously magic bullets. But there are some key principles, which seem to drive good practice.

#### **Regions and regionalisation in unitary states – caught between central and local competition for power.**

- 5.11 There has been a general shift towards recognizing the importance of regions as a separate scale of government in their own right. But it causes tensions for strong central states, which do not want to create an alternative lower level of government. But they also recognise the need to manage inter-regional competition and respond to EU spatial policies. In all examples 'attention clearly focused on cities as centres of economic development and thus as regional growth centres, particularly in monocentric regions. There is little appetite for new territorial-based regionalisation, but for a network network-based and less formal approach with a lesser challenge to existing governmental structures and policy-making capacity. A loose, non-committal informal arrangement is their preferred option, particularly when competing with each other in the same region. In polycentric regions, in a unitary state, new territorial regionalisation with a formal tier of government faces opposition from both local and central government. 'Soft' informal, voluntary options thus seem the only realistic option for addressing regional scale issues. The position is again affected by whether the state is centralized or decentralised. Centralised countries can attempt to mandate regional cooperation.

#### ***Finland***

- 5.12 Finland is such a case of nationally constructed regions. Traditionally there was a strong central state and local authorities with no regional authorities. But during the past decade increasingly the Finns have seen cities as drivers of regional economies and have given greater attention and resources to them at the expense of traditionally managed regional policies. They have also created 27 local-central time-limited urban programmes to encourage collaboration, in for example, housing, city marketing and city-region wide transport. These recognise that 'cities are the main foci of economic development across the region and that public investment needs to be channelled accordingly, albeit through specifically defined projects rather than a general policy-making empowerment at regional level.
- 5.13 The Finnish government mandated the creation of regional authorities primarily to benefit from and manage European funds after entry into the EU. However, the councils seem bolted on rather than clear regional restructuring with relatively few powers. They only work where there is genuine inter-local collaboration. The experience is that cooperation is easier in monocentric rather than polycentric regions. Helsinki is a case in point. The wider Helsinki region consists of 12 local authorities and the metropolitan area consists of four local authorities. So Helsinki has three levels of government affecting it. So the Mayor in 1997 created the Helsinki club from public and private sectors in the region to

promote dialogue debate and cooperation about the competitive future of the region in an international context.

- 5.14 The hope is that this informal loose arrangement might become more permanent as trust is established and small authorities recognise they are not under threat from big brother. It represents represent 'a general shift from state-designed regions to locally based definitions of contents and purpose and function of regionalisation.' (Herrschel and Newman, 2002, p.81). To make such arrangements work, clear, generally agreed regional agenda and policy goals between local authorities in a region seems crucial for any genuine form of regional policy-making. Otherwise, 'the strongest and relatively most successful city of a declared region will seek to pursue its own agenda without consideration of regional issues. In monocentric regions, the outcome will be a region reduced to being subject to the main cities' local initiatives, and in polycentric regions, interlocal competitiveness is likely to undermine any sense of common regional purpose. The advantage of a monocentric region is the clearer leadership structure, because the largest city drives the agenda However unequal development between the core city and the rest of the region may be a drawback.' (Herrschel and Newman, 2002, p.81)

### **France**

- 5.15 There are considerable tensions between the principle of regionalisation and the Napoleonic central state. Regions were introduced in 1980, which has given some powers to lower levels. But this is complicated by a series of other factors. First there are an enormous number of local authorities - 36,000 - that have not been rationalised, making collaboration on the ground complicated. Second, the nation state has continued to play a leading role in shaping the policies, processes and priorities at regional level, rather than allowing genuine regional views to take the lead. The regional representatives of the nation state remain the most powerful players at regional level, especially in the debates about the Contrat de Plans, which are the financial vehicles for pulling together state and regional actors around regional development. Some regions have used their political muscle to have greater impact than others. Nord Pas de Calais around Lille is one important example.
- 5.16 Legislation in 1997 requiring local collaboration amongst lower level governments is something of an exception to this. But there is not yet enough evidence to judge the real impact of change. But the evidence again suggests that the arrangements work best where there is real political leadership in support, underlining' the importance both of a key personality to establish and drive a unifying regional agenda and the role of cities in anchoring their regions into wider collaborative networks.' (Herrschel and Newman, 2002, p.84)
- 5.17 The renewed focus on urban regions was underlined with a review of the competitiveness of the 22 French regions. DATAR proposed the creation of a system of super regions created on the basis of functional similarities. Through the national plan and the Contrats de Plan the state reinforced these regions, ensuring the nation state still has great power in shaping regional affairs. But national dominance is partially offset by the recognition 'the dynamic role that of the major urban areas in regional development across the nation state. In each super region it is the cities where economic performance has been strong that will take a 'natural' leading portion in regional development policy-making.' So the French view on urban and regional linkages and economic performance is a of state consisting of 'both super regions as large territorial entities with undertones of traditional state driven interventionist policies, effectively taking on some of the managerial roles of the central state, and dynamic cities with a stronger locality focused economic potential and thus scope for more state independent policy making.' (Herrschel and Newman p 84)

- 5.18 France thus retains many of the advantages of a national regional policy which gives powers to regions and localities but where the nation state still has much influence of the resources and priorities. This means that regional development in France is more than the outcome of independent competition between independent regions. As our earlier study showed the impact of French national regional policy on the development of many provincial cities has been critical.

***The Netherlands Randstadt: state inspired polycentric city region***

- 5.19 The Randstadt is a polycentric region dominated by Amsterdam and Rotterdam. The concept was originally a planning concept to encourage a more even spread of urban development rather than letting Amsterdam take the lead. In fact it can be argued that the region 'is not a functionally integrated urban structure, but is kept together by the common economic attraction of the airport and Rotterdam 'seaport'. The Randstadt is seen as a way of strengthening the Dutch cities position in international competition since none of them is large enough to succeed on their own with the Global cities. This impulse underpins the efforts to extend the Randstadt into the Delta Metropolis emphasizing the metropolitan rather than urban character of the region. There is also an attempt to move away from complex and rather heavy-handed formal planning systems and arrangements to more lighter informal negotiated modes of working in metropolitan areas and a move away from a focus upon planning and land management to more proactive concerns to encourage economic competitiveness.
- 5.20 But despite this, it is difficult to get genuine regional collaboration across the region for a variety of reasons. First there is little tradition of regionalism. The central state is very powerful and finances most urban expenditure and is reluctant to create an alternative regional power. The big cities themselves compete. And there have been conflicts between the big cities and their surrounding smaller suburbs, which have beaten of plans to create metropolitan government, which the latter feared would lead to the dominance of the big cities. The real tension is between 572 local authorities and the national government. There are 12 provinces but they have little power especially in relations to the cities. Formal efforts to get wider metropolitan working have failed. The trend is towards more informal networked systems. Formal systems only appear to succeed when there is an economic crisis. This became clear during the early 1990s with efforts to establish formalized and institutionalised transport planning regions in addition to administrative territories in the early 1990s. But the initiative lasted only a couple of years. Since 1998 the Dutch have adopted single-purpose and temporary collaborative regional arrangements, so called ROM. Any transfer of local responsibilities will be reversed after the set task has been completed by the regional body. This ensures local authorities of their independence and removes the anxiety about a possible permanent loss of local powers. Municipalities are thus more willing to cooperate in the interest of regional concerns.
- 5.21 Herrschel and Newman conclude that the experiences in the Netherlands demonstrate the challenge that regions face from the established powers of central state and local government. Both are reluctant to engage in any concessions towards regional governance, which may lead to a permanent loss of powers. In the absence of a clear and formally established representations of regions in government, voluntary collaborations across and between non-regional government tiers appear to be the only option available, because they offer a visible escape route for collaborators to allay their concerns about a possible loss of powers. It seems that, in a centralised state, unclear responsibilities in regional matters heighten a sense of risk about potential losses of policy-making capability as a result of engaging in collaboration. This problem includes both mono- and polycentric regions where municipalities are vying with each other about potential supremacy in the first case, and are wary of the dominant city's position in the latter. (Herrschel and Newman, 2002, p.88).

**Does a more federal system allow easier collaboration?*****Italy***

- 5.22 Similar trends towards informal regionalisation have been evident in Italy since the early 1990s, partly stimulated by EU regional policies. There has been a shift towards regional governance involving different levels of government and social partners. But there has been no coherent regional development plan. Network based relations are increasingly encouraged. As in other European countries this also recognises the role of local and urban forces in regional development. This can be illustrated by the case of Turin. As part of its effort to make Turin a European metropolis after 2000, one of its key strategic aims has been to create a new metropolitan government including a Metropolitan government to govern the whole metropolitan area. This is trying to deal with the Turin functional urban region and adjust territorial government to it.
- 5.23 City-focussed regionalism has been described as 'a renaissance of metropolitan governments' in the new regionalism. The state did attempt to promote top down institutional reorganisation in the mid- 1990s, but this was rather overtaken by the emergence of local arrangements. In the case of Bologna this led to a formal urban network where the 48 municipalities signed a contract of cooperation with the region for a range of specified regional matters, which would be addressed as required. But it was essentially voluntary ad hoc time limited – a platform for discussion and denotation. Herschel and Newman assessment is that regions in Italy ' the result of regional clustering of a multitude of local societies which have their networks, strategies and cohesion at the municipal and provincial levels rather than a genuine separate regional scale of government. As a result there is no genuinely regional interest or dynamism to translate into region-based policies and networking within the state system. The new Italian reforms may change this but it is not yet clear the extent to which regions can 'develop their own identity and policy agenda between central state and competitive an unenthusiastic local authorities.' (Herschel and Newman, 2002, p.95)

***Spain and Barcelona***

- 5.24 Barcelona is clear example of widening sub-regional collaboration. Its route towards economic modernisation, European status has encouraged a growing system of intra-regional collaboration between the Core City and its surrounding local authorities. There are several layers of government operating in the region – central state, regional metropolitan, regional and municipal. There are 217 municipalities in the metropolitan statistical area with over 4 million residents. Working sub-regionally is complicated by this set of overlapping networks. Since the success of the Olympics in 1992, the emphasis in the area has been upon widening working political relationships an networks beyond the city limits in to the wider city – region, all as part of the areas ambitions to impose itself as a major European and international player from the Mediterranean.
- 5.25 The widening spatial reach can be demonstrated by the evolution of its Strategic Plans which have over a decade moved from a concern with the city to the wider functional urban area, in an effort to achieve a flexible, polycentric system. The most recent strategic Plan of 2003 made a reality of this city region approach for the first time as the plan beyond the city boundaries in a collaboration in which 35 local authorities have signed up for a series of metropolitan wide projects, which move metropolitan resources. This formal realisation marks another important stage in the process. But it is important to recognise that it was pragmatic – based upon a voluntary cooperation, incorporated only a proportion of the local authorities those with whom the city could work with politically and with whom it already had some working relationships upon transport and environmental management. Barcelona is thus the best example of designer city region,

which is voluntary, networked, functionally driven and politically led by the core city. And political leadership by the Mayor was crucial to the process.

### **Regionalism in Federal and decentralised states**

#### ***Germany.***

- 5.26 Despite a decentralised system and a proliferation of regional and inter-communal planning bodies, achieving effective city-regional working remains a challenge in many German regions. There have been a variety of approaches to the project. The Rhine Ruhr is often seen as a good example of a polycentric relationship in which a series of larger and medium sized towns collaborate. The reality is somewhat different. The Ruhr is a good example of 'institutional thickness comprising municipalities, government office regions, several inter-municipal associations for specific tasks several economic development agencies and non-government organisations. This complex web of regional actors had no common regional development vision. We shall discuss the experience later in this report.

#### *The IBA Emscher Park.*

- 5.27 One important example of regional collaboration in this context was the IBA Emscher Park, which brought together 17 local authorities together to do major environmental renewal of a vast old industrial region. The IBA focused upon specific environmental projects throughout the region, adopted a private sector led free wheeling lean and mean administrative style but left implementation to the local authorities concerned, an attempt to get around institutional complexity. The aim of the IBA was to turn a derelict industrial area into an environmentally attractive, greened urban living space with an underlying theme of industrial heritage.
- 5.28 The experience of the IBA shows some weaknesses and strengths. The weaknesses were that it has reinforced the image of city regions as opportunistic responses to State financial incentives rather than genuine policy making bodies. It is not a very inclusive forum of governance relying on appointed party insiders. Despite this there has been at least some more regional policy making as a consequence of Lander financial incentives, which have offered alternative routes to regional governance outside the formalised and technocratic hierarchy of territorial government.
- 5.29 As Herrschel and Newman observe, 'Such open entry and exit 'regionalisation appears to be the only option in a region consisting of some 29 neighbouring urban municipalities which are fundamentally in competition for new business investment. Inevitably localism is never far away when it comes to balancing local and regional economic policy objectives This localism is further supported by historically strong local identities of steel-making and mining communities. There has therefore been decreasing willingness to cooperate due to growing economic problems in the region and thus growing interlocal competition for whatever investment potential existed.' (p101) This local competition undermined the power of the regional Association of the Ruhr, a voluntary municipal association of 50 local authorities.

#### ***Frankfurt***

- 5.30 The experience of Frankfurt is a further illustration of dilemmas involved in creating city-regional collaboration. It was the first German city to experiment with formal regional association. In 1975 it set up the Frankfurt City Region Association, which brought together Frankfurt, and the surrounding local authorities in a formal association with boundaries determined by the participating local authorities to undertake transportation and waste management, which linked the city and region together. But the association

had relatively powers and was too small in size. Local authorities were reluctant to transfer real powers. The peripheral authorities were highly suspicious of the perceived effort by the dominant Core City to dominate the region. In 2001 the association was abandoned and replaced by an even weaker form of association after a major political dispute within the land government after land elections in 1999. It covers a wider territory – 75 instead of 43. But its responsibilities are restricted to regional planning and marketing. There are provisions for task specific associations of groups of local authorities and a governing body consisting of the local authority leaders to hold the arrangement together. But it has already been dismissed as a talking shop.

5.31 There is clearly competition between local authorities, which appears to have been exacerbated by the stronger position that local authorities are given in formally decentralised government systems. Although regions are given a naturally stronger role, it is weakened by increased localism. 'This may ultimately undermine regional government at the city-region scale as the German case revealed.'(p104) 'Strong, competitive localism undermined seemingly well established city-regional planning bodies and 'repatriated' almost all powers and responsibilities transferred to them earlier. The effect has been a distinct weakening of governance at the city-region scale, which is danger of being reduced to little more than a vaguely coordinated accumulation of local policies.' (p104-5.) Herrschel and Newman conclude that 'city regions as a scale of policy-making seem to be falling between the two stools of traditional regional scale governance on the one hand, and well established, confident local government as autonomous policy-makers on the other.' (p.105) 'Polycentric city regions are, in principle, more likely to face competitive localism under a federal arrangement, whereas a dominant major city may exercise sufficient regionalising pressure, if only for its own benefit. There is a danger, however, that depending on the size of the other communities in such a region, resentment and, ultimately, non-cooperation may ensue.' (Herrschel and Newman, 2002, p.105)

5.32 The importance of city-regional relationships is reinforced by the recent review of by the German Institute for Urban Affairs. Their list of key challenges included:

- Fiscal stress since revision of tax systems means cities lack resources for infrastructure in particular.
- Migration and social polarization
- Communication and traffic remains a problem.
- City regions suffering deindustrialisation need to attract service industries
- telecommunications need to be improved

But was the most important strategic challenge was

- improved co-operation between cities and their surrounding regions.

#### **Polycentric regions- do they co-operate better than monocentric?**

5.33 Many of the Core Cities dominate their surrounding region and balances therefore have to be struck between a dominant centre and weaker sub-region. There is an assumption that a polycentric urban region with a balance of more equal cities is in some desirable and works well. Is it true? The evidence very mixed. In fact there can be competition between a range of cities, which limit co-operation if there are local financial or political costs. 'Economic necessities, such as competing for limited volumes of public or private investment capital, for instance, may encourage non-cooperation, while the growing complexity of development issues, and the growing emphasis on the regional scale in corporate investment decisions, push for more regional engagement by policy-makers. Polycentric regions seem inherently more affected by these essentially contradictory aims of city-regional governance than monocentric regions, where the dominant city's interests and policies are likely to shape the agenda for the rest of the region's governance. As a

- result, a clear regional identity and voice is more likely to emerge in monocentric than polycentric regions with their latent internal divisions.' (Herrschel and Newman. (p 67.)
- 5.34 If this analysis is accurate it is of considerable interest to the Core Cities which in the main are, monocentric regions, with the exception of the bi-polar Northwest and the polycentric Yorkshire region. If dominant cities can avoid the fears about dominance or bullying they may be more able to fashion regional consensus than more evenly balanced regions. The experience of Yorkshire hitherto might confirm this, even though current sub-regional relationships are clearly improving.
- 5.35 Dieleman and Faludi (1998) have provided an interesting overview of polynucleated regions, defined as a large urban region, which does not contain a large primate city. In particular they review the evidence on three regions: the Rhine Ruhr, the Randstadt and the Flemish diamond and asked:
- Do such regions perform better economically?
  - Plan their regions better?
  - Develop into an integrated urban regions?
- 5.36 The evidence was not persuasive. First it is difficult to show that the three regions really perform as functional units in terms of economic interactions or commuting and traffic flows. The evidence on politics and administration is even more challenging. In the three regions there is no metropolitan government. In all cases where it has been proposed, local authorities have rejected it. Amsterdam and Rotterdam are worlds apart as urban governments and profile themselves separately for international concerns. The Rhine Ruhr area is really a consequence of post war allies' policy. Within it there are substantial political, economic and cultural differences and few are willing to cede powers and control to regional bodies. It is essentially a top-down idea and 'it should come as no surprise that is no felling of togetherness, no idea of the Rhine-Ruhr being an entity worth a common effort.' (P371) There is no overall strategic planning policy for either the Ruhr of the Belgium diamond. There is planning strategy for the Randstadt. Indeed it emerged primarily as a way of avoiding the core cities becoming too powerful in the region. But like the other two, there is no institutional representation of the Randstadt. 'Voluntary co-ordination between the provinces responsible for the Randstadt exists, but all efforts to from an overall 'Randstadt province' have foundered.' As the core of the country, the Randstadt is an area of national government concern. Therefore the national government that looks after the Randstadt, including its position in the wider European territory and economy.' (p 373)
- 5.37 Meijers and Romein (2003) review make similar points about the problems and prospects of polynucleated regions. They reviewed the evidence on the performance of four such regions, the three already discussed but adding the central belt of Scotland. Their work identifies a whole series of potential advantages that co-operation within polynuclear regions is supposed to achieve e.g. avoiding competition between constituent cities, greater economic weight and hence international competitive potential, improved environmental management. However, desirable as an ideal however their review found the practice was rather different. So the advantages of polynuclear arrangements appeal to spatial policy-makers. But they are not often realised because the regions have not found it simple to develop regional organising capacity, which will allow them to operate effectively. The three main barriers have been institutional fragmentation, the lack of political leadership and cultural diversity.
- 5.38 None of the four had seriously undertaken the efforts required to make these regions work in reactive and regional organizing capacity had hardly been developed. The regions did not systematically collaborate within the region more than they do with people and places outside. The regions also require quite sophisticated multi-level governance

arrangements, which are difficult and not often achieved. In particular leadership is absolutely critical to making network systems operate efficiently precisely because they lack formal hierarchical structures. A key requirement is cultural agreement. But they argue that since polynuclear regions are often imposed top down, regional identities and agreement are often weak. Cultural divides can be found even in regions, which are relatively small. For example in the Rhine Ruhr and Central Scotland there is unwillingness by the more prosperous parts of the region to be associated with the more deprived areas e.g. Edinburgh with Glasgow, Dusseldorf with Dortmund. Even the Randstadt is short of common symbols. There is no undisputed boundary. There are no clear cultural symbols. No institution takes the Randstadt as its formal boundaries. It is not a political arena and there are no media specifically attached to it.

#### **What policy lessons do they identify?**

- 5.39 Policymakers need to address those political realities to make the concept meaningful. It does not mean it is not possible - but policymakers have to be realistic. There are limits on what can be achieved initially so - 'the best start is a small start'.(Meijiers and Romein 2003, p.184). Where there is limited agreement and collaboration, 'voluntary cooperation between a small limited number of actors on simple, not too sensitive issues or well defined projects with clear benefits to the individual actors is best. Mutual trust, understanding and stronger working relationships are likely to evolve, enabling more complex policies and projects in a later stage.' (Meijiers and Romein, p.184) This is precisely the strategy adopted in Barcelona with its new Metropolitan strategy. Where there is more developed relationships as in the Randstadt, 'regional organising capacity in the truest sense of the word must be developed to make possible ongoing deliberation, debate, negotiation and decision-making by all interested parties on a wide variety of more or less complex projects and policies that benefit the competitiveness of the region as a whole. This does, however, sometimes require concessions to the wider regional interests by individual actors.' (Meijiers and Romein, p185)
- 5.40 Lambooy (2002) has asked whether mono or polycentric regions have greater economic potential. The idea of cooperation between cities in the these three regions was essentially encouraged by the decline of their traditional industries during the 1970s and 1980s and realization that the constituent cities were on their own too small to compete on a global economy against the cities like London and Paris. This concern was encouraged by concerns to create more environmentally sustainable regions as well. However designating them capital regions was not the key to economic success. Indeed it has become clear that even acting together means they are still not large enough to compete against the powerful global cities in financial and business services for example. Nevertheless, the view is that polynuclear regions can perform well as second and third tier cities and find different niches in a world economy and dare more powerful because of their collaboration. Such regions can also have quality of life advantages over global cities. Lambooy review of the agglomeration economies leads him to the view that for activities in finance, business services, real estate, the high transaction costs of highly qualified actors leads to concentration in the cores of world cities like London and Paris. But for other activities, the high costs of operating in these environments is a disincentive to firms. So polynucleated metropolitan regions with smaller cities may have an advantage for other economic activities.
- 5.41 It should also be noted that polynucleated systems are not immune to wider forces. A variety of studies have demonstrated that deconcentration of population and economic activities are occurring not only in metropolitan regions around very large central cities, but also in polynucleated regions like the Rhine Ruhr, the Randstadt and the Flemish diamond. Areas at the fringe of these metropolitan regions are growing much faster in population and employment than the cores. This means that boundaries and approaches

to physical and economic planning will need to be flexible to accommodate those changes.

**Formal institutions for urban and regional economic development. the case of Stuttgart.**

- 5.42 There have been growing efforts to create sub-regional working relationships between municipalities. It has taken different forms with different success in different places. In France the intense municipal fragmentation into 36,000 small communes has meant that much effort has been invested in creating *Communités Urbaines* to encourage collaboration. But the partnership has typically been between the public sector agencies. And increasingly as is the case in Lyon, the *Communités Urbaines* are actually too small to function as effective economic units and efforts are being made to move to an even larger unit, the *Région Urbaine*. There is considerable political willingness to operate at the sub-regional level, but the achievements yet are modest. Barcelona has only very recently succeeded in extending its spatial and economic planning from beyond the City of Barcelona to the wider metropolitan area, producing a new strategic plan for the metropolitan area. Munich has created a tri-area sub-regional organisation in an attempt to do area marketing.
- 5.43 But there have been few recent examples of regional structures being formally created to undertake the full range of economic development functions. Indeed in the Netherlands, a proposal to create metropolitan wide arrangements was voted down a decade ago and the experience has probably worsened intra-metropolitan tensions. But one important exception is Stuttgart. At the height of an economic crisis a decade ago, at the behest of the Lander government, it created a formal economic development organisation in which 179 local authorities voted to transfer powers and resources to the Stuttgart Regional Agency to promote the economic development of the region. There were particular circumstances in Stuttgart, including the depth of the economic crisis in the car industry and the loss of almost 200,000 jobs, which led the Lander government to propose the solution and made local players receptive to it. The same combination of circumstances has not been found elsewhere. Nevertheless, the RSA's supporters argue that the new association, with its influential economic development agency, has significantly improved the region's ability to cope with economic change and has been responsible for a more flexible and comprehensive regional economic development strategy. The OECD recently undertook an evaluation of the SRO. (OECD, 2004) What did it find?
- 5.44 Government in German regions is complicated. There are four levels - the Lander government, the middle level of the state with 4 Administrative Presidencies, the districts and municipalities. In addition to the administrative framework there are separate planning systems. There are 12 in Baden Wurtenburg. 11 undertake regional planning but the Stuttgart region has taken rather broader powers. In addition the regional assembly which runs it is directly elected.

**Funding**

- 5.45 The SRO is funded by contribution levied upon municipalities (for example for regional business promotion) and the four rural districts around Stuttgart for local public transport and by grants from the Lander government for regional planning or Federal government monies for reorganizing the suburban express train network. The SRO does not collect taxes from either firms or individuals. The Organisation has acquired external funds from the EU, which constitute 5% of its expenditure, which it would like to increase. The bulk of SRO expenditure is on local public transport about 150m euros annually. Regional planning, landscape planning, business promotion, advice to local authorities accounts for a relatively small share of its expenditure. The organisation has 66 staff, 40% of which are involved in local public transport. 30 people work in business promotion firm

with a budget of about 7m euro. Important projects, which they have undertaken, include communication systems about local business and trade services, European activities, environmental technology networks, the media and entrepreneurship, areal estate project for low qualified women. As well as tourism and inter authority industrial estates.

- 5.46 The SRO gets involved in two kinds of cooperation – formal institutional and project based. For example, institutionally the Organisation has involved many partners business promotion company WRS and taken a minority share in its Company GmbH. The SRO has also encourages a range of regional organisations and initiatives in culture, media, youth, churches and women groups. The organisation has worked hard to create successful projects which include: The BioRegio network to extend bio technology throughout the region to smaller towns, the PUSH network for encouraging firms from within universities and research world, Mobilist for the development of Transport technologies. And annual regional structural reports designed to encourage debate about progress and prospects in the region is produced jointly by the region, the Trade Corporation and the trade unions.

### **Organisational challenges and conflicts**

- 5.47 There have been conflicts about decisions taken by the regional assembly about the allocation of contracts to transport operators and the rising levy upon municipalities, the location of a trade fair or the location of large scale outlets in the region, with the Assembly in conflict with local authorities in each case. There are also tensions about the need to move beyond cooperation to structural change. There are conflicts of institutional egoism where existing authorities resent the SRO's increasing role. And there are limits to voluntary cooperation. There has been good cooperation over the projects identified earlier. But there limits to that cooperation on big projects with resource implications. The Organisation gets cooperation when it puts its own money on the table or can access federal funding, but where it cannot do that it is more difficult for it to persuade. The SRO would like to assume full responsibility for delivering local public transport which will present political resistance from participating local authorities. There are also a variety of bodies promoting regional and municipal businesses in the region. But the SRO has been given responsibility for regional business promotion by law.

### **How well has it performed?**

- 5.48 The OECD evaluation of the SRO experience makes a substantial case for formal organisations like the SRO rather than the informal arrangements identified more often by Herrschel and Newman. It underlined that 'Throughout Europe there is a growing tendency to organise conurbations as powerful regional entities. Citing Greater London, Copenhagen Lyons and the Randstadt. Confirming that 'regional concepts are all the fashion.' It is the only way of tackling transport and environmental problems and making the most of economic opportunities, and the only way that regional entities can develop the stronger bargaining position needed throughout Europe in respect of public services such as gas, water, electricity, and local, public transport faced with the greater capacity of major international conglomerates to meet demand. Its judgement is that the organisational structure must be tailor made for success.
- 5.49 The OECD perspective is that 'Sustainable regional development calls for cross-sectoral and integrated planning and implementation concentrated in the hands of a single authority, with sovereign powers, a sound financial basis and direct legitimacy. Unlike the 'delegation model', where regional assembly members see themselves as having a supervisory role, direct election of assembly members means that municipal egoism can be put to one side because their popular mandate encourages them to adopt a more regional perspective. The role of regional planning and policymaking is therefore acknowledged, paving the way for cooperation with other regional, national or European

players. Its democratic legitimacy also brings it much closer to those living in the region. The “hard” form of regional organisation chosen by the Stuttgart region, consisting of a public body with a directly elected assembly is a result of its lengthy and wholly unsatisfactory experience with the different associations and joint boards that came before. The region sees the present solution as a minimum, which still needs to be improved. (OECD, 2004, p.8-19)

- 5.50 Regional management guarantees that the SRO is geared towards the needs of people who live in the region. In relation to the suburban express rail network or regional planning generally, the SRO lays down a binding general framework, which goes beyond the 179 local authorities. It encourages projects; it encourages networks between municipalities. Its contribution is beyond money to political influence. ‘Its activities are therefore a cross between the binding targets traditionally associated set by regional planners and the stimulating networks of regional players. It is this particular management mix which has produced the characteristic form of regional governance found in the region of Stuttgart. Regional management is therefore able to achieve a great deal without having to devote vast sums of money to cover staff costs, with a staff of 80 excluding the Transport Association and an annual budget of 185m euro.
- 5.51 Having a regional association also means that the social partners adopt a more regional approach to issues - and a greater regional consciousness and identity has emerged. There does however need to be top-down support for the process. ‘The core region of a Land is particularly important for that land, but power-sharing arrangements also results in internal competition. In the face of international competition, national and European policies must therefore do more to strengthen the regional level of metropolitan regions and to actively promote them.’ (OECD, 2004, p.20)

#### **What more does it need?**

- 5.52 The SRO has apparently been a success. But what more powers and resources would it like to become more effective in delivering a regional metropolitan agenda.
- Money and taxes. The SRO is reaching the limits of its financial capacity. It has maximised income for third party agencies like the EU. But the levy it charges on local authorities is very high. It would like to have its own independent non-levy based source of finance.
  - Transport – local and regional. Public responsibility for local public transport is fragmented between 8 different authorities companies and institutions making it very hard to provide an integrated transport policy. Transport is crucial to the future of a European metropolitan region like Stuttgart an OECD responsibility should be in the hands of the SRO.
  - Integrating regional transport strategies and investment decisions. The regional transport plan determines future project needs in a regional fashion but local agencies actually finance determine and deliver such projects. Currently they do not have to take regional priorities into account. They ought to be made binding.
  - Lander funds. The SRO needs to benefit directly from Land regional finds for planning and providing regional transport policy.
  - Regional planning. The SRO would like to have responsibility for assessing and determining regional planning instead of it taking place at lower level districts, especially for strategic issues like energy supply routes and major retail projects. It would like greater responsibility and resources to manage undeveloped greenbelt areas.
  - Waste management. The SRO would like to increase its responsibilities in this area. Local waste management authorities have not been as progressive in the management of waste. The SRO would like to be given lead responsibility for this function.

- Simpler majorities. In order to undertake substantial regional projects like the Fair, culture and sporting events the Assembly currently requires a majority of two thirds. The SRO would like that reduced to 50%.

## **6. HOW DO POLICY MAKERS AND RESEARCHERS PERCEIVE CITY-REGIONAL RELATIONS?**

- 6.1 The evidence reviewed above shows that the relationships between cities and regions are complicated economically, institutionally and politically. There is no best way of managing their affairs. And different countries have performed differently in getting good working relationships. But despite the uneven picture on the ground, there is nevertheless growing consensus between policymakers and researchers in different countries that getting the two spatial levels to work better together would lead to increased economic efficiency. We can see this by looking at the development of European Commission regional policy during the past decade, as well as the arguments from north America which are seek promoting more integrated city-regional relationships through the Smart Growth movement in the US or the Metropolitan reform movement in Canada. There is a clear consensus that even if such improved relationships are difficult they are at least desirable. Few are arguing that increased government fragmentation and reduced cooperation between cities and their regions will make them and their national economies more successful.

### **A European policy perspective on city regional relationships**

- 6.2 Herrschel and Newman have outlined the shifting parameters of EU regional policy during the past decade. One key question they raise is whether the policy focus upon regions and city regions is appropriate. The wider European evidence is that it is. First there is evidence of increased spatial economic dynamism, in particular the changing role of city region in the European spatial economy. Regions have been changing from essentially territorial containers, the traditional role of regions within the EU. Instead Europe has witnessed 'a more active role of regions as economic entities with specific indigenous economic potential and 'a greater emphasis upon cities as growth centres. (Herrschel & Newman, 2002, p.4)
- 6.3 Second during the past decade the EU has changed its policy perspective in three ways. There has been a shift from seeing regions merely as ways of redistributing growth to a concern with encouraging the indigenous economic competitiveness of city regions. There has been a growing concern to encourage cross-sectoral partnerships. Finally there has been a growing awareness that the way to encourage regional growth has been to focus upon the cities. There has been a shift from a concern with industrial policy to territorial and regional policy - and more specifically with a concern with the economic performance of Europe's city regions and the damaging effects of urban problems upon economic performance. There has developed a new spatial image of Europe which consisting of pro-active, network-oriented, competitive regions rather than static regional containers of welfare policies. 'The shift from regional to urban scale reflects ever closer linkages between cities and European institutions and a new set of ideas about the dynamic properties of city regions in the European economy. The Europe of the regions which had seemed to represent the future of the European economy and institutions at the end of the 1980s has been ousted by an image of the city regions as the real economic motors for, and new foci of, European policy intervention.' (p4) The central argument of a range of EU reports in the late 1990s is that urban areas are the dynamos of the European economy and therefore crucial in t the drive for greater competitiveness. But it also recognised that cities are the places of intense social

exclusion. So the themes of the European policy debate have increasingly been with strengthening economic prosperity and social inclusion 'by integrating problem areas into the wider city and regions fabric.'

### **An American perspective on city regional collaboration**

- 6.4 The argument in favour for improved urban, sub-regional institutional relationships has become an increasingly important theme in the US as well. In the United States as the earlier section made clear, economic competition and institutional fragmentation between cities and their surrounding sub-regions is a classic endemic problem. There have always been calls for improved sub-regional collaboration. But that movement has achieved new visibility – if not necessarily impact – with the Smart Growth movement. That reform movement essentially argues that improved relationship between cities and suburbs would lead to greater economic efficiency, greater spatial equity and greater environmental sustainability at the metropolitan level.

### **What is the challenge for sub-regional governance?**

- 6.5 Bruce Katz (2002) has written cogently upon the implications of metropolitan differentiation and what is needed to achieve wider metropolitan strategies. Essentially his analysis confirms much of the evidence of continuing disparities between cities and their suburban metropolitan areas, despite the relative improvements of some central cities during the 1990s. In the largest metropolitan areas, population growth in the suburbs was twice that of central cities 18% as opposed to 9%. Across the 100 largest metropolitan areas only 22% of population work within 3 miles of the centre and 35% work more than 10 miles from the centre. The consequences are greater poverty in the central cities, with poverty rates of 16% in the cities as opposed to 8% in the suburbs. Traffic congestion is growing. The costs of transportation has greater impact upon poor communities taking 36 percent of household expenditure by the very poor as opposed to the average 18 more than food and also most as much as housing. Green space is disappearing as urbanized land increased by 47% between 1982 and 1997. There is a mismatch across metropolitan areas so that entry-level jobs are far more available outside the central city but with central city residents less able to access them because of lack of car ownership. The process has been reinforced if not driven by public policies - federal programmes, tax and regulatory policies, zoning regulations.

### **What has been attempted?**

- 6.6 Katz has reviewed the growth of metropolitan Smart Growth strategies during the 1990s. Essentially there are five broad responses, primarily by led state governments. First are new forms of metropolitan governance to handle issues like transportation, environmental protection, waste management, cultural amenities and economic development. Second have been land use reforms to manage growth at the metropolitan fringe. Third state resources have been used to preserve land threatened by sprawl and to reclaim brownfield land for productive use. Fourth states are steering infrastructure investment and other resources to older established areas rather than greenfield sites. Finally they are considering tax reforms to reduce fiscal disparities between jurisdictions and reduce the competition between jurisdictions for commercial development.

### **What else needs doing?**

- 6.7 But despite progressive state efforts and achievements, progress so far has been modest. The movement has fundamentally shifted the pace of decentralisation or the geographic scale of suburbanisation. Katz identifies five challenges that will have to be met to make progress.

- 6.8 First the Smart Growth will need to address the spatial distribution of affordable housing and get some into the suburbs. This has not been done and the barrier to metropolitan integration remains. Second Smart Growth will have to come to terms with the variety of state experiences and growth patterns and be sensitive to them. Third it will need to make the reform movement a federal rather than a state concern, since the federal government remains a major part of the problem in terms of its transportation, housing and even data provision. Fourth, Smart Growth will require city reform so that they are made more business friendly than they are currently. Cities need to do the basics well, use their public assets more constructively, create quality neighbourhoods, and create real family wealth and shape metropolitan growth. Finally, the movement would need to come to terms with race and racism and bridge the gaps between communities.
- 6.9 Katz is under no illusion that it is a long-term, challenging agenda. Better working relationships between cities and their metropolitan regions remains a high ambition. There has been modest progress. But the road is a long one.

### **The Canadian Perspective on city –regional collaboration**

- 6.10 There is currently a very lively debate taking place between policy-makers, politicians and researchers about the economic conditions and contributions of Canadian cities. There is growing awareness of the major contribution that its large cities make to the national economy. But there is also recognition that if the national economy is to flourish cities needs to be given greater recognition by Federal government as well as greater powers, resources and responsibilities. There is also a demand for better vertical relationships between Federal, state and local governments and most importantly for much better horizontal relationships between local authorities within city regions.
- 6.11 The Canadian debate is captured in a major review - *Why Cities Matter?* Written by Bradford and published in 2002 by a blue ribbon committee Canadian Policy Research Networks. Essentially the wish to remain internationally economically competitive is forcing them to address city-regional wide concerns. The review argued that cities are back on the agenda since Canada there has been an urban explosion. Canada is one of most urbanised countries in the world at 80%. 64% of its population live in 27 large and mid-sized metropolitan areas. In 1921 there were 6 urban areas with populations of 100,000 +. In 2001 there were 27 areas, 4 with over million residents.
- 6.12 What explains the growing importance of urban areas to Canada? The report underlined that the dynamics of globalisation and the information technology revolution had increased not diminished the significance of cities. 'Demographic and economic trends continue to make cities the place where the vast majority of Canadians live and work. Political relations within the state system that drive policy responsibility down towards the local officials have paralleled the steady movements of commerce and people into cities.' (Bradford, 2002, p.5). Service industries dominate modern economies and services are concentrated in urban areas. On one hand knowledge intensive services in business finance and the professions depend on a range of analytic and information skills to generate innovations. These activities thrive in dense, localized labour markets that are rich in human capital and personal interactions. On the other hand, and at the other end of the income and jobs continuum, in-person service providers also depend for their livelihood on being located in concentrated population settlements. 'Given these dynamics, it is not surprising that Canada's seven largest metropolitan areas generate almost 45% of the country's GDP, or that cities such as Vancouver, Winnipeg and Montreal account for more than half their province's GDP.' (Bradford, 2002, p.5)
- 6.13 But despite their significance, the report stressed that Canadian cities are at the crossroads and face a series of crucial challenges: economic restructuring and poverty; socio-spatial segregation; sprawling development and environmental degradation; crime

and insecurity; changing national and provincial policies cities more responsibilities but fewer resources; fiscal pressures and infrastructure investment. The Toronto Board of Trade(2001) argues for example, 'Canada's cities are struggling for survival....at a time when global competitiveness is quarterbacked upon thriving urban regions.' And Bradford's report noted that 'many observers now warn of a complacency about the state of cities in Canada, perhaps traceable to the fact that in comparison to the United States, our urban areas have historically performed very well. With lower crime rates, less social disparity and spatial segregation, and more vital downtowns, Canadian cities have provided a decent quality of life for most people to carry on their lives. However, there is a concern that Canadian cities may be living off investments made decades ago and that their capacity for renewal is blocked by out-dated governance structures and limited policy imagination. While other countries experiment with new approaches, the danger is that Canada is resting on its laurels. (Bradford, 2002, p.12)

- 6.14 But the problems are not caused or solved locally. Simply put, city fortunes and their quality of local places remained conditioned by extra-local forces, and all governments at all scales have to think anew about the issues. Multi-level collaboration across political scales needs to replace one-sided "solutions" of either centralization or decentralisation.' The Canadian argument in favour of greater collaboration between the cities and their wider regions is threefold.
- The first is the establishment of formal or informal methods of combining local governments in metropolitan regions to promote cooperation across a range of issues on the theory that such cooperation will enable regions to become more competitive in the global economy.
  - A second purpose has been to address, through mechanisms of regional governance, the negative externalities or spillover effects produced by uncontrolled development within governmentally fragmented metropolitan areas,
  - A final purpose has been to use the newly established mechanisms of regional governance to provide fiscal and other forms of relief to beleaguered central cities. Indeed they argue that controlling spillover effects and helping central cities are essential to achieving regional economic competitiveness.
- 6.15 The Bradford report identified three policy lessons, which were especially critical to the concerns of this paper.
- The need to redress the resource-responsibility imbalance between local and upper level governments, and belatedly, to better align federal, provincial and municipal economic, environmental and social policies with the physical design and community planning of cities.
  - The need to recognise the economic and functional ties that link the fates of central cities and inner and outer suburbs.
  - The need for urban planning and policy planning process to address metropolitan development through city-region spatial focus.
- 6.16 There have been different approaches to city-regional relationships: Amalgamation of municipalities, Toronto, Winnipeg; 2 tier regional partnerships Vancouver, Inter municipal co-operation different cities. There are pros and cons to these three approaches. But concerns arise about whether the consensual models retain the authority to make hard decisions in the overall regional interest, allow for sufficient public accountability, or extend societal representation in informal alliances beyond business interests.'

### **Toronto**

- 6.17 The experience of metropolitan collaboration in Toronto is sobering. Fiske (2001) has written that the history of Toronto has been one of gradual disengagement from

metropolitan governance. Provincial or national governments have not made the effort required to manage metropolitan growth. 'Economic goals have always been prominent in provincial decision-making, although other factors (including equity concerns) have often influenced policy choices. Economic objectives have not persuaded the government to end political fragmentation in the Toronto region however. The region has become institutionally more complex, in fact it has increased in size and geographical extent. Nor have economic objectives prompted the government to make lasting commitments to policies to counter those aspects of the region's development that are contributing to a growing gap between its core city and its suburbs.' (Fiske, 2001, p.515)

- 6.18 Fiske argues that essentially these are political decisions, which require political leadership from the top. Her judgement of the prospects in Canada is almost as challenging as those identified by Katz in the US. 'Toronto's experience holds discouraging lessons for those who look to senior governments (nations, states or provinces) to use their legislative and financial powers to shape the political systems of city-regions into effective organisations for addressing problems on a regional scale. Senior governments, even those with undisputed authority to decide the character and responsibilities of municipal institutions have political and financial agendas that may not coincide with the tenet of regionalism. While such governments are likely to place economic objectives high on those agenda, they are less likely to link the achievement of such objectives to the development of strong institutions of regional governance. Moreover, the political and financial costs of regional restructuring in the interest of regional empowerment are likely to outweigh the economic benefits as a region increases in size, municipal complexity and number of interests with a political stake in the outcomes.' (Fiske, 2001, p.515)

## 7. CONCLUSIONS

- 7.1 The evidence is diverse collected by different people in different ways for different purposes. And there have been a range of interpretations of the relationships. But several findings emerge which have policy implications for the UK.
- 7.2 There is considerable evidence that the traditional urban agglomeration economies remain important and indicate that cities will remain important economic players. There is also considerable evidence that the localised economies upon which cluster theory is predicated is not analytically or empirically persuasive and not a good guide to policy. The policy implication underlines the continued significance of public provision of infrastructure - hard and soft - in the economic performance of urban economies as opposed to more proactive sharing of information through non-traded inter-dependencies.
- 7.3 There is considerable evidence in the US that large cities have reversed the trend of the past two decades, improved their economic performance during the past decade, even if they have not caught up with their surrounding metropolitan areas. In the US there is some interesting evidence that the economic fates of cities and their wider surrounding regions are closely connected. Cities have done better where suburbs have done better and vice versa. There is a difference of view about whether this means that cities drive regional economies. Some authors have reservations. But others are willing to argue that the evidence does indicate that successful cities are necessary for successful regions
- 7.4 Much European evidence on the performance of regions indicates that it is the urbanised regions which are the most successful. Our original project on 15 successful continental large cities and regions found that there was no example of a successful region, which did not have a successful city at its core.

- 7.5 The most authoritative review of urban and regional performance in Europe by Rodriguez-Pose clearly indicated that the really successful regions were the most urbanised. Selective evidence about corporate behaviour in Germany during the past decade demonstrated how a small number of leading cities were becoming increasingly significant as national economic drivers. Evidence from the USA by Porter also indicated that urban regions had outperformed non-urban regions in the past decade. There was also evidence of higher economic performance being associated with higher densities and hence urban areas. There was evidence about the concentration of innovation being greatest in North American cities. The UK evidence also underlines the continuing significance of urban areas for business investment and growth. There is evidence that in the UK urban areas perform better than the regions in which they are located
- 7.6 There is considerable that many European nation states regard cities as important drivers of regional and economic performance and are being targeted by governments to drive change.
- 7.7 In the USA and Canada there is much less governmental support for sub-regional approaches to urban economies. But there is a growing demand amongst some cities that there should be a much more explicit city-regional approach. The Smart Movement although embryonic increasingly and powerfully makes the argument about the economic desirability of more compact metropolitan forms and for metropolitan governance, Many Canadian authorities are arguing the need for a different federal policy which both empowers cities and encourages metropolitan strategies to achieve increased economic competitiveness
- 7.8 There is great diversity in the scale, powers, and significance of regional, sub-regional, metropolitan government. But European countries experience many of the same problems of urban regional tensions that we do in the UK – increasing sprawl with adverse environmental consequences, competition between neighbouring cities and towns for investment, fiscal exploitation of central cities by suburban users, great fiscal differences and competition. However, there is a growing recognition that policy should be encouraging better working relationships between cities and regions.
- 7.9 There is also a consensus that although regions matter, they are often too large an area at which to tackle economic competitiveness. Sub-regional approaches are increasingly being adopted, even in federal Germany, where Lander of 16-18 million are seen as too distant from economic realities on the ground to be the sole player. In all our cities and countries there is growing concern to create the right relationships between regions and cities. The question of the appropriate spatial level at which to tackle economic competitiveness issues is an increasingly growing concern. Just as there is an agreement that the city is too small a space to tackle these issues, there is a growing view that in some cases the region is too large.
- 7.10 One message for Core Cities and RDAs is that their counterparts in Europe are convinced that to be competitive in the global marketplace in future they have to organise and act at a wider metropolitan or sub-regional level. Another message is that, despite Stuttgart's achievements, most of them have decided it is not worth attempting to create formal institutions to achieve this, since they are unlikely to be implemented. The most common view is that informal strategic alliances between willing partners which can be mobilised around agreed territories and powers and resources are better than the alternatives of acting only on a local basis or of spending a great deal of time and energy fighting unwinnable battles for formal change.
- 7.11 The prospects for better working vary and in surprising ways between mono-centric and polycentric regions. Indeed it was extensively questioned whether allegedly polycentric regions actually do operate as integrated regions as opposed to as series if linked but

- different and competing places - polycentric regions. There was extensive evidence that despite the alleged virtues of polycentric regions, it was actually very hard to get regional cooperation where there were a range of equal Cities with comparable powers and resources.
- 7.12 Monocentric regions where there is essentially a dominant larger city seem to be able to get more coherent leadership, once fears of central domination were allayed. This is helpful to many Core Cities, which tend to be monocentric. They are not necessarily disadvantaged by their status and can exercise leadership. But it indicates the need for hard political grafting to get and sustain sub-regional collaboration where that is not found.
- 7.13 There is overwhelming evidence that the problems of achieving formal institutional or constitutional sub-regional collaboration are formidable. Many attempts have been unsuccessful. The one genuinely formal approach in Stuttgart still relies upon internal collaboration and partnership, which is not always achieved. The bulk of places are attempting to work informally on issues, boundaries and with partners where they can. This emphasises the need for informal sub-regional collaboration in the UK
- 7.14 It is also instructive that in a number of European countries national government are attempting to incentivise that collaboration. That might be a role that national government could undertake more positively in the UK.

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