

SGPTD

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

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The ESPON 2013 Programme

EXECUTIVE SUMMARY



EUROPEAN UNION
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1. WHY DO SECOND TIER CITIES MATTER?

Growing interest in relationship between capital and second tier cities

1.1 There is huge interest in the economic contribution and future of Europe's cities. Their concentration of economic, physical and intellectual resources makes many of them centres of prosperity, creativity, culture, communication and innovation - the dynamos of the European economy. Some play important roles as the command and control centres of a rapidly developing global economy. But many others are experiencing declining economic competitiveness, growing social exclusion and physical and environmental deterioration - making them a drain on Europe's economic performance and a threat to its social stability. There is also growing interest in the economic contribution that different kinds of cities make. In particular, policy makers across Europe are trying to develop ways in which capital and second tier cities can complement – rather than compete with – each other to make the maximum joint contribution to national performance. The policy debate takes different forms in different countries, depending on the relationship between the capital and second tier cities. It is particularly, although not exclusively, significant in the new member states where capitals are especially dominant. It has already encouraged a more explicit and strategic territorial debate in many of those countries. But the issues are common to all countries. They have important implications for decisions about priorities and funds, at national and European level. They raise the question of why should policy makers invest beyond the capital cities in an age of austerity. This report argues they should.

What are second tier cities?

1.2 We define them as those cities outside the capital city whose economic and social performance is sufficiently important to affect the potential performance of the national economy. It does not imply that they are less important than the capital cities. And second tier cities are not all the same – they vary enormously. Sometimes they are very large regional capitals. But many are much smaller. However, despite individual differences, second tier cities can play similar roles in their national economic systems. The 124 second tier cities in this study constitute almost 80% of Europe's urban population. They lie between the capital cities which contribute a huge amount to their national economies and the many smaller places which contribute rather less. They are the crucial middle of the urban system. In many, although not all, cases, second tier cities already contribute a lot to national performance. In many more cases they could contribute even more - with greater national support.

The economic and fiscal crisis makes the policy issues more pressing

1.3 The policy debate about the contribution of capital and second tier cities will become more important during the next decade as economic recession and fiscal problems threaten to undermine the real achievements recently made by many second tier cities in Europe. In the past decade, second tier cities in many countries improved their economic performance and made a growing contribution to national economic welfare. But it was a result of high performing national economies and substantial investment of public resources. Those conditions will not be found during the next decade. There is a risk that economic and fiscal problems and the competition for scarce public and private sector resources will limit the growth of second tier cities and widen economic and social gaps within them - and between them and the capitals. Declining public resources means it is crucial that governments are more transparent and explicit about their territorial investment plans. In future, they must show how and why they invest public resources in different places, especially capital or second tier cities.

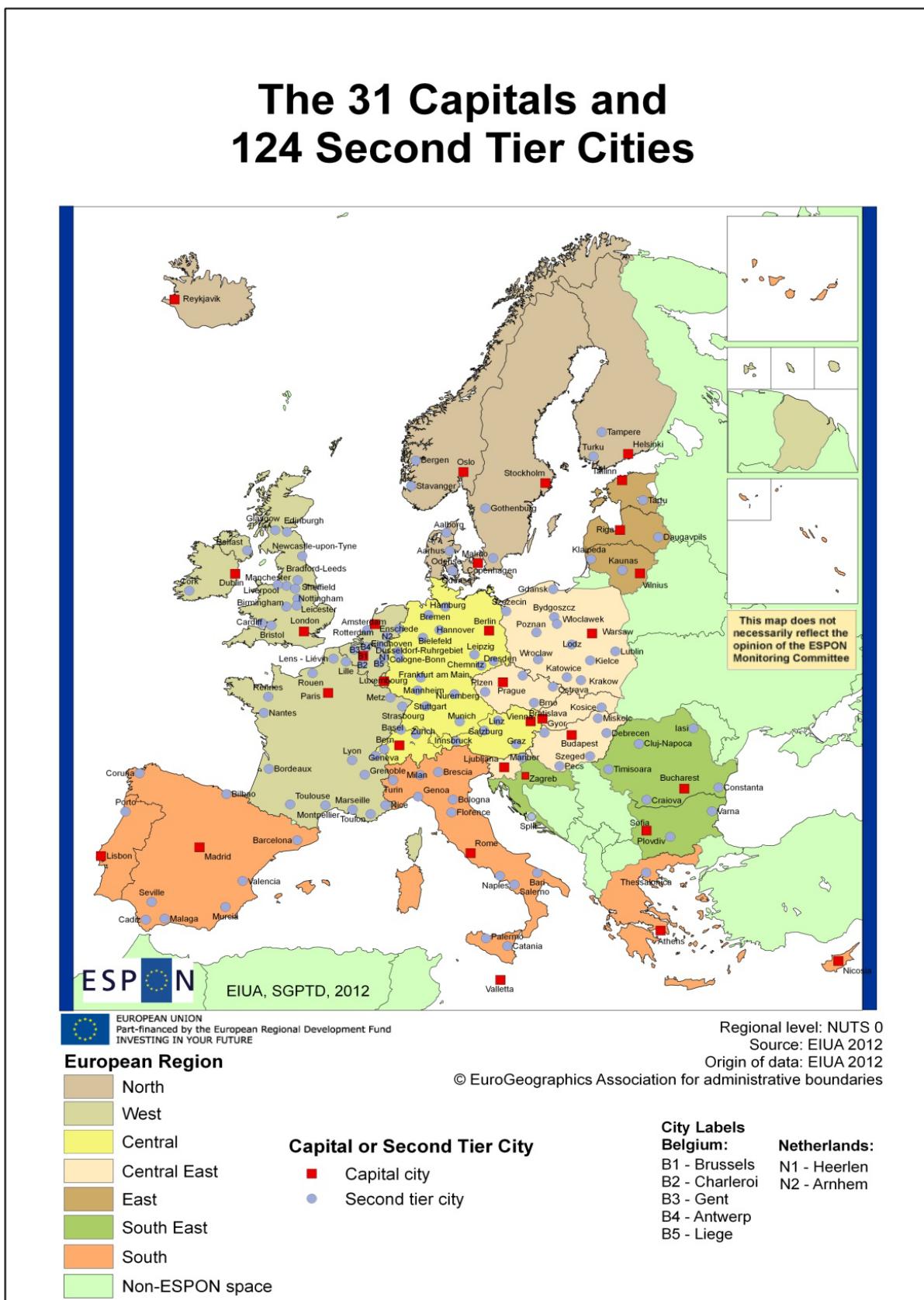
How does this report contribute to the policy debate in Europe?

1.4 This report assesses the performance of, policies for and prospects of second tier cities across Europe. It is based on a wide range of evidence: literature, interviews with policymakers and researchers, reviews of national policies, quantitative data about 124 secondary and 31 capital cities across 31 countries and detailed studies of 9 second tier cities: Munich, Barcelona, Turin, Tampere, Cork, Leeds, Lyon, Timisoara and Katowice. Map 1 identifies the 155 cities.

At the start of this summary, what key policy messages?

1.5 Second tier cities make a substantial contribution both to national economic development and to the European economy itself. Many are punching above their weight economically - but others could do better. Second tier cities do not contribute as much economically as capital cities in most countries. But they could contribute more if they were given greater national policy support, tools and investment. There are three simple policy messages. For city region leaders, the message is that city regions which got their act together to exploit their assets flourished more in the boom years and will do better in the economic crisis. Increasing strategic governance capacity to deliver economic place-based policies at city region level must be a key target for all local partners. For national governments the message is that if they strategically invest in second tier cities they are more likely to maximise the economic potential of the national economy. And for the European Commission the message is that city regions are crucial to the delivery of its strategic goals identified in EU2020 and the Commission must take them and their leaders more seriously in future.

Map 1 The 31 Capitals and 124 Second Tier Cities in this study



2. WHAT KEY ARGUMENTS AND FINDINGS?

WHAT KEY ARGUMENTS

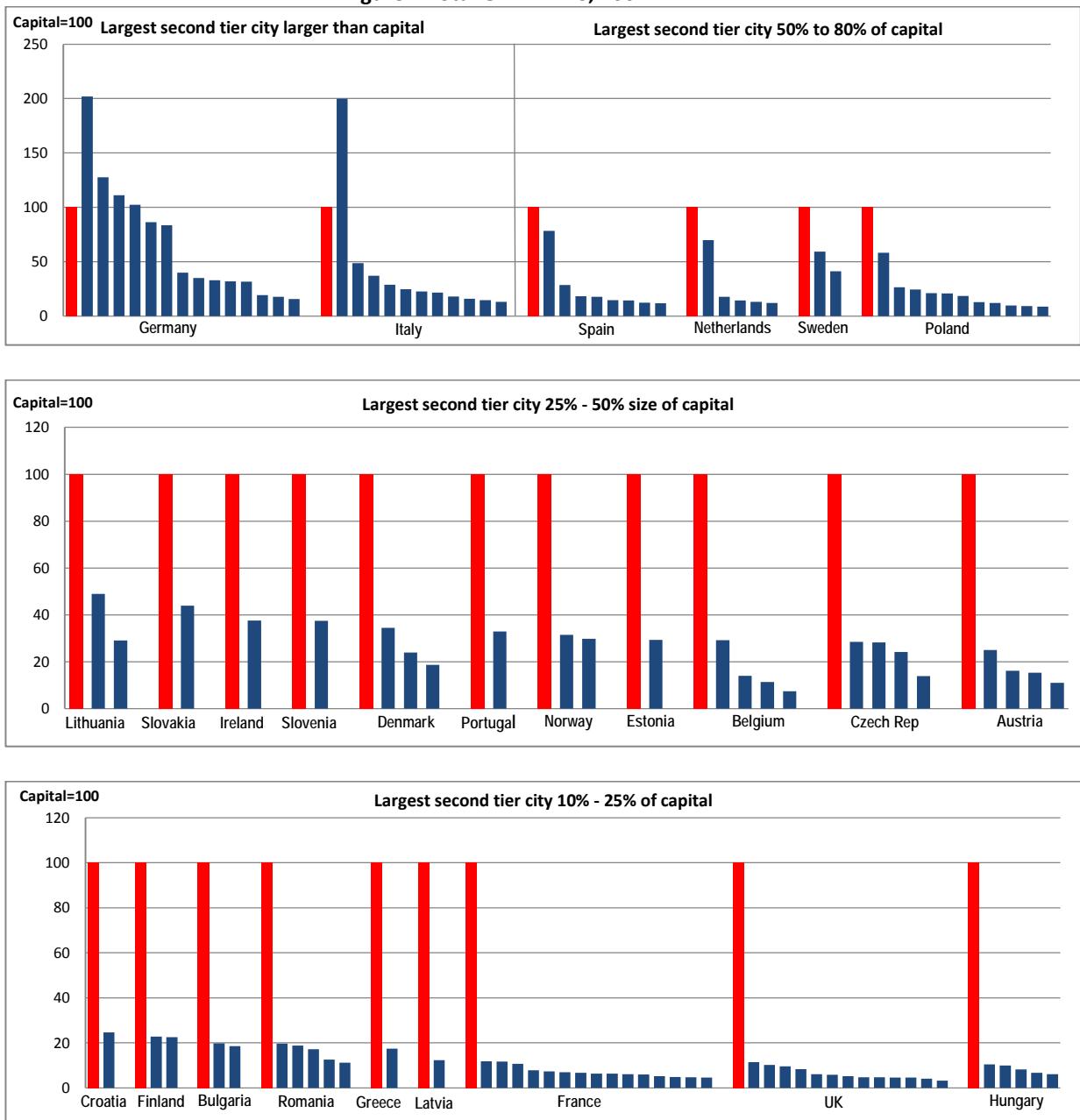
- 2.1 The report examines five key arguments about the performance and prospects of cities and urban policy across Europe. **National policies and governance matter.** The performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. Explicit urban policies – those which specifically focus on particular territorial targets - as well as mainstream policies for infrastructure, skills, investment, connectivity, research and development which have less explicit territorial dimensions - all affect the ways in which cities perform. Countries whose governments pay more attention to the territorial and urban impacts of those policies will have higher performing cities and national economies as opposed to those who do not.
- 2.2 **Deconcentration of investment and decentralisation to places matter. But mature national-local relationships are also crucial.** The second argument is that deconcentration of investment and decentralisation of decision-making and resources will lead to more high performing second tier cities. Institutional and financial decentralisation from national to regional and urban government will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. However, two conditions must be met for this to happen. First, national governments must provide second tier cities the powers, resources and capacity needed to deliver these responsibilities. Otherwise they will be programmed to fail. In other words, there must be real not symbolic decentralisation. The second condition is that national governments cannot abdicate responsibility for the successful delivery of those policies. That requires significant institutional and political maturity.
- 2.3 **Local factors - especially leadership - matter.** Cities are constrained by external factors - historical, cultural, structural, political and institutional. But those factors can be shaped. Places that start in similar economic and social positions often have very different development trajectories. The economic performance of cities will depend upon their strategic capacity to manage their constraints and maximise their city assets to be successful. Leadership can come from a variety of sectors – the public, private and third. Usually a combination of all three is necessary. It will draw upon a range of assets – political, financial, territorial, institutional and intellectual. The scale and quality of leadership is not finite but can be increased. Although individual players can make a difference, leadership is essentially a systemic not a personal quality. It is a process and a relationship. Leadership is the institutional mobilisation of all resources and partners to deliver successfully agreed long term ambitions through systematic, coherent strategies and policies. Leadership needs vision, strategy, governance, partnership, policy capacity and delivery.
- 2.4 **The key drivers of territorial performance are innovation, diversity, human capital, connectivity, place quality, and strategic governance capacity.** Places' performance on those drivers shapes their trajectory. In particular, national and local policies on those key drivers are crucial. The drivers that can be most directly influenced at city-regional governance level are place quality and strategic capacity. The others – innovation, human capital, economic diversity and connectivity – are more directly influenced by national and regional policies. Influencing these drivers demands successful multi-level governance.
- 2.5 **Territory and places matter more not less in a global world.** Globalisation makes the governance capacity of place more important. It means that governance will be increasingly multi scalar. It also means that economic governance should be located at the highest achievable spatial level – the city region. It also emphasises that second tier cities need explicit strategies to shape the different territorial roles they play at regional, national and European level.

WHAT KEY FINDINGS?

- 2.6 **What economic contribution do capitals and second tier cities make?** The report provides a lot of complex information. But two really key features stand out. First in too many countries, the capital city plays a huge role in the national economy and second tier cities do not contribute enough. They punch below their weight. But in some they contribute much more. But the second feature is that during the boom years many second tier cities improved their economic contribution dramatically and often grew faster than their capital cities. So second tier cities are not losers. Given the right support they contribute a lot.
- The economic baseline. Capitals lead in many but not all countries. But second tier cities matter**
- 2.10 Capitals dominate their national economies. The total GDP of the capitals exceeds that of their leading second tier cities in all but 2 countries, Germany and Italy. Nevertheless, 12 of the top 28 European cities are second tier. Figure 1 shows the size of the gap between the GDP of the capital and the leading second tier city. Germany and Italy are the only member states where the largest second tier city has a GDP bigger than the capital. In Spain, Netherlands, Poland and Sweden the GDP of the most significant second tier city is between 50-80% that of the capital. In 11 countries the GDP of the largest second tier city is between 25 and 50% that of the capital- Ireland, Denmark, Portugal, Norway, Belgium and Austria and from the new member states - Lithuania, Slovakia, Slovenia, Estonia and Czech Republic. In Croatia, Finland, Bulgaria, Romania and Greece capitals dominate with the largest second tier less than 25% of the capital. Capitals are most dominant where the largest secondary produced only 10-15% of the GDP of the capital.

These include the UK and France where London and Paris dominate because of their global city status and the highly centralised states of Hungary and Latvia.

Figure 1 Total GDP in PPS, 2007

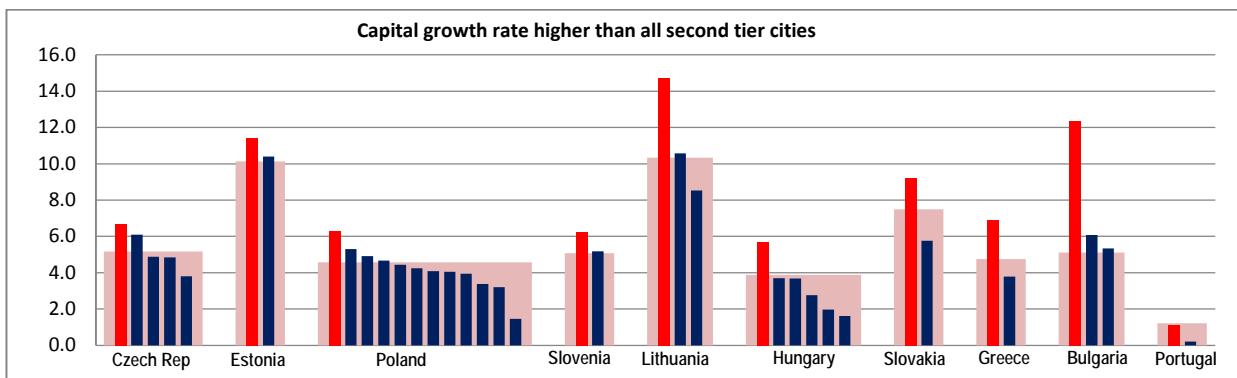
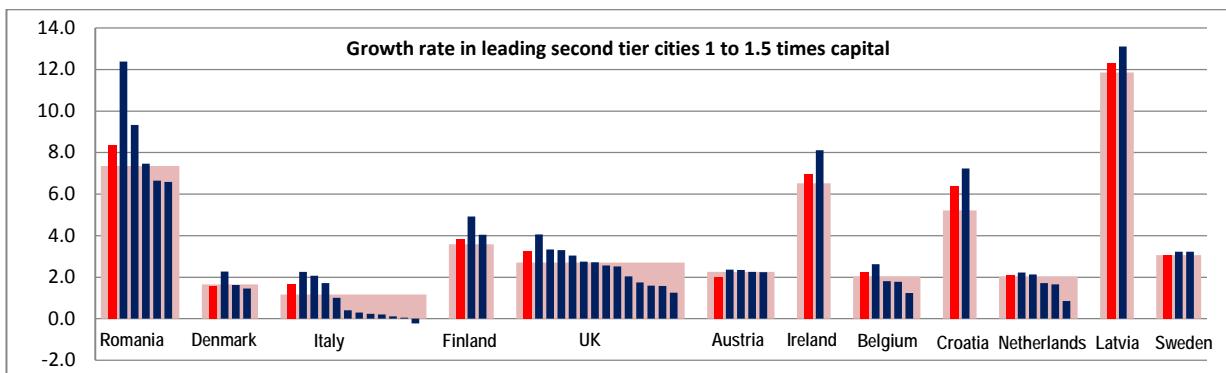
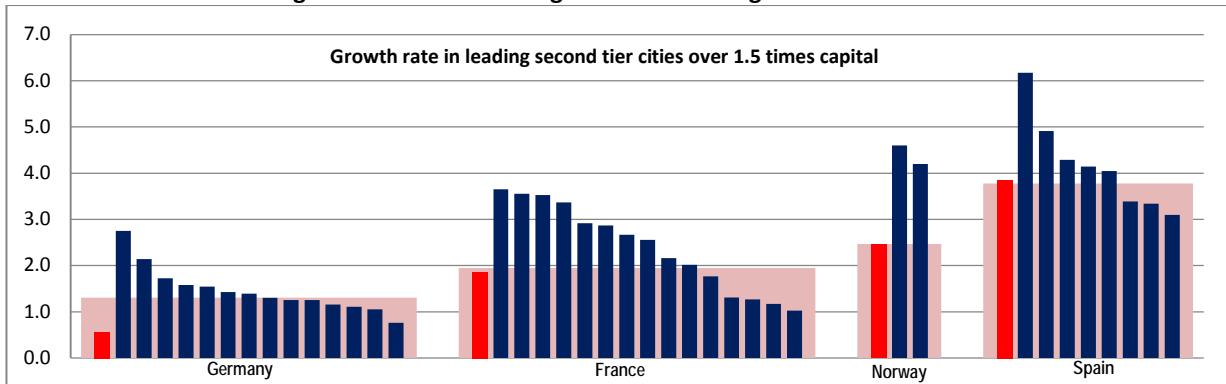


Source: Eurostat

Change in the boom years. Second tier cities closed the gap in some but not all countries

2.11 Structurally, capitals dominate their national economies. But change is also important. And many second tier cities improved their position in the boom years 2000-7. In 16 of the 26 countries, one or more second tier cities had annual GDP growth higher than their capitals. In Austria and Germany, all second tier cities outperformed their capitals. The relatively strong growth rates in a number of capitals and second tier cities in eastern Europe, as their economies integrated into the European economy, also stand out. Indeed, the highest growth rates over this period were there.

Figure 2 Total GDP Average Annual % Change 2000-7



Source: Eurostat

3. POLICIES, PERFORMANCE AND PROSPECTS

The relationship between capitals and second tier cities

3.1 Although most capitals do dominate second tier cities, the size of the gap varies and in some cases is declining. Also many second tier cities have successfully restructured their economies and are making a growing contribution to national prosperity. In terms of policy, some countries concentrate attention and resources on the capitals at the expense of their second tier cities. But many are beginning to develop policies which explicitly target them. More widely, in some countries mainstream national policies which implicitly affect urban competitiveness - innovation, diversity, skills, connectivity, place quality and strategic governance capacity – have been used to help second tier cities develop. Most interestingly, in countries which are less centralised and less economically concentrated, and where cities have greater powers, resources and responsibilities, cities have performed better and helped the national economy more.

The recession is hitting second tier cities– but with different effects

3.2 Many second tier cities performed well during the boom years when they had national government support and investment. But the recession has had a major impact on many of them - in particular those which flourished during the boom decade. Many regions in the Netherlands, Austria, Denmark, Switzerland, Norway, Luxembourg and Iceland – have coped relatively well with the economic crisis so far. By contrast, many in the Baltic States, Spain, Ireland, Eastern Germany and some in Romania, Bulgaria and France have been hit severely. Capital cities generally are better placed to withstand the recession. But both capitals and second tier cities in the South and East have been especially

hard hit with a dramatic reversal of the improvements experienced in the growth period. But even in these countries the picture is mixed. Some second tier cities are holding up relatively well.

Risk of increased gaps between second tier and capital cities

- 3.3 Although the crisis is still unfolding, there is evidence that the gap between capitals and second tier cities which closed in many countries during the boom years, has begun to reopen. More generally there is a risk that the gap between the more and less successful cities across Europe will widen in the future. There will be intense competition between places for limited public and private investment in the coming years. There is a risk that private and public investment will focus on already successful cities which have better economic prospects.

Good governance - shared responsibilities and clarity of roles

- 3.4 The key governance issue is not simply the division of powers and resources. It is also the extent to which responsibilities are shared and roles are transparent or confused. For example, urban policies tend to be vertically integrated in German cities because key functions are shared, or because the Federal Government funds urban and regional partnership experiments or because they are the subject of extensive negotiations between federal, state and city governments. Cities' financial capacity, in particular the extent to which they rely upon national grant, transfers and financial equalisation or can raise their own revenue, also affects national policy impacts. In some cases, centralisation of power is exacerbated by the lack of strong, democratically elected regional government and fragmented metropolitan governance. In other cases, cities in decentralised states were in virtually the same position as those in centralised unitary states because decentralisation of responsibilities has not been matched by the decentralisation of financial resources.

Government's mainstream money matters most

- 3.5 Mainstream policies matter more to second tier cities than explicit urban policies for three reasons. First, mainstream programmes dwarf financially explicit, area based initiatives which specifically target 'urban' problems and they affect cities much more significantly through education, research and development, skills, transport; housing, planning, business support. Second many explicit urban programmes are more concerned with poverty and social cohesion than urban competitiveness and performance. Third there is often a large gap between strategy and implementation in explicit programmes because of limited resources, siloed policymaking, and fragmented governance at city region level.

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

- 3.6 National policies work best where there is collective understanding at different government levels of how different interventions affect cities and the right levers to pull to maximise performance. National policies are most effective where there is scope to shape them to local circumstances. This requires multi-level governance as well as human and fiscal capacity and autonomy at city level. Also the consistency, transparency and reliability of national policy are critically important because urban economic development is a long term business. Finally, the most robust policy systems are underpinned by a set of shared principles and values. These include: focussing upon business and community needs; understanding and responding to future urban challenges; reconciling strategic and local perspectives; trust, reciprocity and mutual respect.

Long term investment is critical

- 3.7 National resources and investment matters. Some national governments have directly funded major urban redevelopment programmes which have helped reshape second tier cities. The extent of national support has varied depending upon the state of national finances, policy priorities and the availability of European funding. Structural Funds have also strengthened the regional tier of government, benefitting second tier cities even in the highly centralised eastern European states. Some national governments have focused research funding on the best or most competitive research sectors which has also favoured some second tier cities. Tax incentives have boosted Foreign Direct Investment in Irish cities. Feed-in tariffs have stimulated the growth of environmental industries in Munich. Some cities have benefited from national government procurement because they contain key strategic industries. Others have benefited from Government jobs either because they are important administrative centres or because of decentralisation of civil service activity from capitals.

Decentralisation of powers - AND resources - matters

- 3.8 Levels of centralisation matter. But decentralisation of responsibilities to cities only works if responsibilities are matched by corresponding powers and resources. Cities perform better in those countries which are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities. Many policy makers and researchers believe that, given the impact of deconcentrating resources and decentralising powers on second tier cities, national policies should give them more powers, responsibilities and resources. A policy of economic place making has benefitted many cities. It underlines the potential for wider implementation in national and European policies in the future.
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- Challenges to second tier cities will grow***
- 3.9 Many of the dilemmas cities now face will continue in future. In fact they will become even more challenging because of economic and institutional restructuring, national deficits and credit restrictions. Second tier cities will face many of the following challenges: maintaining competitiveness in the face of increasing competition from rival cities, changing markets and a more austere economic climate; reconciling competitiveness, environmental sustainability and social cohesion; attracting international investment and workers without losing identity; devising new ways of funding development; getting clarity from national governments about cities' future roles and resources; strengthening governance at city regional level to deliver integrated place-based policies. Meanwhile the urban world is changing around them.
- Second tier cities in a global economy - the bar has been raised***
- 3.10 European cities will have to operate in a fast changing global context. For example, it has been estimated that 600 cities account for 60 percent of global GDP and Europe has 153 of them. But by 2025 the makeup of these cities will have significantly changed as the centre of gravity of global development shifts south and east. Over 130 new cities are forecast to move into the leading group. All are from the developing world - mainly from China but also India and Latin America. 9 of the top 25 cities will be in Asia. While London, Paris and Randstadt North conurbations might consolidate their position, other European cities are expected to drop out of it. The cities that will move up the hierarchy are in the countries that have been relatively immune from the global recession and are part of a step-change in urbanisation caused by this new phase of economic development. Those with leading technology-based companies will benefit from the global trends because of their innovative edge. This will favour cities in the centre and north of Europe where these leading companies are based. Another distinctive feature of the new phase of globalisation is the incorporation of Africa. This shift could favour some southern European cities because of their historic political links with the continent and their geographical proximity. However, cities in eastern Europe are threatened by massive population losses and threats to their future economic development. Europe's economy and its leading cities are entering a new phase of globalisation that will bring new economic challenges in addition to those identified in this report.
- #### **4. WHY INVEST BEYOND THE CAPITALS IN AN AGE OF AUSTERITY?**
- 4.1 This study examined the argument that spreading investment and encouraging high performance in a range of cities rather than concentrating on the capital city would pay benefits. It has provided significant evidence and support for this argument. Although the capital cities in many countries are responsible for a significant proportion of national GDP, second tier cities nevertheless make a significant contribution. In many cases the economic contribution that a series of second tier cities make is greater than that of the capital itself. So the contribution of second tier cities that lie between the successful capitals and the lagging cities – the critical middle - is crucial to national economic success.
- Capital cities do matter***
- 4.2 In many respects capital cities receive preferential treatment from national governments. It has been argued that decision-makers find it easier to allocate resources to existing capitals rather than identify opportunities elsewhere. It has also been argued that private sector investors take the easiest strategy of investing in safe locations rather than taking risks with more marginal locations. The argument can be overstated. Nevertheless, capitals are privileged because they are typically the centres of national political, administrative and economic power. They have stronger private sectors. They are more integrated into global networks. They are more likely to contain international companies' headquarters. Their producer services are typically the most advanced. They contain major financial institutions so easier access to risk capital. They have significant agglomeration advantages. They contain leading academic and research institutions. They are at the hub of national transportation and ICT networks. They attract public and private 'prestige'investment because they are seen as representing their nations.
- But not at the expense of everywhere else***
- 4.3 Successful capitals are crucially important to their national economies and must be able compete in a global market. But the risk is that they suck life out of the rest of the urban system so the national economy becomes spatially and structurally unbalanced. To avoid this, second tier cities need as much policy attention as capitals. Sometimes second tier cities do benefit from national policy. But often this happens in implicit rather than explicit ways. Most states do not have a policy for second tier cities which means their collective interests are overlooked. A key policy issue is how to realise the potential of second tier cities so they can bring maximum added value to their national economies.
- Deconcentration and decentralisation can help economic performance***
- 4.4 The experience of Germany suggests that decentralisation, deconcentration and a strong set of second tier cities helps drive strong national economic performance. By contrast, if the gap in economic importance and performance between second tier cities and capitals is very large, this will limit national performance. First, over-concentration in capitals will weaken more peripheral areas because they will not have buoyant second tier cities and support services. Second, second tier cities in systems dominated by capitals are less likely to feature in national policy because they are

seen as less important. Third, the dominance of competitiveness-oriented urban policies will mean that already successful areas will be prioritised, increasing territorial imbalances. Finally, the lack of competitive second tier cities limits the scope to reduce the pressure on capital cities' land, property, environmental resources, transport and infrastructure by relocation.

The costs of agglomeration – the limits of capital cities

- 4.5 This study has also identified a series of concerns about the dominance of capital cities. One theme is the costs and negative externalities of agglomeration. The second theme is that all urban areas have potential which national policy should encourage rather than concentrating upon a limited number of already successful places. Agglomeration does obviously produce economic benefits. OECD research has shown that in some countries, the largest single metropolitan area produces between one-third and one-half of national GDP. However, the economic benefits of agglomeration are not limitless. Cities can reach a point where external diseconomies make them less competitive because of negative externalities caused by unregulated urban growth and diminishing marginal returns. Beyond a certain point, congestion, land scarcity and sprawl, marginalised human capital and infrastructure deterioration contribute to an area's decline. And investors and developers may start to avoid them and move elsewhere. Given such potential risks, focusing on second tier cities would create greater economic growth and greater efficiency by reducing diseconomies of scale.

Balancing investment in leading cities and those with potential

- 4.6 The policy choice is not between favouring growing areas as opposed to the regeneration of declining areas. It is between putting the national eggs into a smaller or larger number of baskets. Our study suggests that national governments which concentrate attention and resources on their capital cities risk increasing uneven development with whole regions and cities missing out on chances to enter the new economy. Second tier cities, although less able to act on the global stage, can still generate important dynamism for regions outside the capital and contribute to overall national growth. In many cases they punch beyond their weight. They cater for variations within nation states and contribute to territorial cohesion. They contain higher order services and offer companies better access to them than if they were all concentrated in the capital city. They can achieve many of the agglomeration effects of capitals, provided they have the right infrastructure, facilities, capacity and powers. They can lift the performance of their regions, reduce inter-regional inequalities and promote social cohesion.

So what should the policy approach be?

- 4.7 The relationship between capital and second tier cities should not be seen as zero-sum but as win-win. There is little demand for capital cities to be artificially limited to encourage the development of second tier cities. The policy message is that it is better to encourage the development of both rather than to constrain the capital. The trick is to grow the overall national urban economic pie without killing the golden goose of the capital city. A key policy issue is how to encourage second tier cities to absorb some of the capital city's growth as it reaches the limits of its capacity to accommodate it and the costs begin to outweigh the benefits.

Transparency about territorial investment strategies

- 4.8 There is often not enough transparency about the territorial investment decisions of national governments. They typically do not specify how they allocate resources to leading or lagging, growing or declining and capital or second tier cities. Those investment criteria should be made more explicit and transparent in future. In addition the potential sources of this investment need to be identified because of the recession. The recession, government debt and public sector expenditure cuts clearly reduce the funding potential of the public sector. The EU's Cohesion Policy and the European Investment Bank will remain important sources of public investment for cities. But it will not cover all cities in all countries. Initiatives like JESSICA will be important but will remain limited in scale and coverage. In this context, public-private partnerships and new investment funding mechanisms will be more important. Different forms of investment involving for example public sector pension funds and value capture including local asset backed investment vehicles and tax increment financing offer potential for public-private co-investment projects and financial as well as wider social and economic returns.

What policy messages for the European Commission – take second cities and their leaders seriously?

- 4.9 European Commission policy has broadened and deepened to grapple with the complex mix of opportunities and problems facing different European cities. It has promoted and encouraged the principles of multi-level governance and of integrated, place-based economic development. But EU policy needs to increase the territorial, place based spatial dimensions of its policies if it is to deliver its wider economic and social ambitions. The EU 2020 ambitious targets may or may not be realistic given many regions' current performance. However, cities are potential levers to deliver them. They account for 85% of Europe's GDP, 75% of its population and 80% of its carbon footprint. But many policy makers question whether Commission policy is yet sufficiently focussed upon the economic place making agenda and in particular whether EU 2020 has a sufficiently explicit territorial focus and locates its targets or investment actions in particular places. Territorial Agenda 2020 supports this view arguing that, despite many successes, EU policy needed: more effective coordination of different policies, actors and planning mechanisms; more
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sharing of territorial knowledge; more sophisticated multi-level governance arrangements and greater integration of the place-based approach into public policies at EU, national, regional and local levels

Meeting the economic, policy and governance challenge in eastern Europe

- 4.10 Urban policy must recognise that Europe remains enormously diverse. National differences in cultural and ideological values, economic performance, governance arrangements and policies have an important impact upon second tier cities. In particular the capacity of different countries to incorporate the principles of place based economic development varies enormously. They require flexibility, cross sectoral working, cross departmental working and partnership between public and private sectors. This has proved difficult in many countries. But it is particularly true of the new member states. Many of them are still constructing democratic governance, institutional and infrastructural capacity and modern economic systems. They typically have: highly centralised government systems segregated along department and sectoral policy lines; regional and local government with limited powers and resources; and limited incentives to encourage collaboration across policy and geographical boundaries. So policy must reflect that diversity of countries and cities across Europe but nevertheless find common principles and ways of unblocking barriers to implementing them.

So when should national governments invest in second tier cities?

- 4.11 The number of high performing second tier cities a country can sustain will vary according to both the country's size and level of economic development. For example, in smaller countries there will be less scope for a large number of cities to complement the capital. Equally in the developing economies of the east, at present the capital city is the most significant driver of the national economy. In both cases, capital cities might remain the initial focus for investment because they are most likely to have the capacity and critical mass to succeed. Nevertheless, countries must have strategies for developing second tier cities, to spread economic benefits and help them become the economic motors of their wider regions. Governments should encourage as many successful second tier cities as the population and pattern of economic growth and development permits.

- 4.12 Only national governments have the detailed knowledge needed to make the right investment decisions in future. Each case should be determined on its individual merits. But some clear principles have emerged from this study. National government should be prepared to make investment in second tier cities where the following conditions are found:

- The productivity gap between capital and second tier cities is significant and growing.
- The business environment in second tier cities is poor because of under investment in hard and soft infrastructure by national government.
- There is clear evidence of negative externalities in the capital including for example: high and increasing real estate prices, congestion, environmental pressure, skill shortages and wage inflation.

Under such conditions investing more in second tier cities should benefit everyone, including the capital, by taking the pressure off it.

5. WHAT SHOULD POLICY MAKERS DO IN FUTURE?

More systematic policies for second tier cities

- 5.1 Although capital cities have usually dominated national economies, leading second tier cities play a very important role in national wealth creation, maintaining social cohesion and increasing environmental sustainability. This has been true during recent boom times and recession. **In future national governments and the EU should fully recognise the significance of second tier cities and systematically pursue policies which maximise their potential.**

Continue investment in the new member states

- 5.2 The gap in economic performance between capitals and their leading second tier cities is particularly large in the new member states because of their traditionally centralised political systems, territorial underdevelopment and the effects of rapid marketisation. New member states still face challenges of building institutional and infrastructural capacity which are much larger than second tier cities in the old member states. **EU funding to the new member states which has been critical to promoting regional decentralisation and modernising urban infrastructure must be sustained.**

Monitor and maximise territorial impact of national policies for competitiveness

- 5.3 The classic drivers of competitiveness are strongly correlated with economic performance in second tier cities and capitals. A small number of governments have recognised this and focussed them on second tier cities. **More EU and member governments should recognise the importance of these competitiveness drivers - innovation, economic diversity, connectivity, skills and human capital, place quality and strategic governance capacity - and maximise their collective impact on the widest territorial scale not concentrate them on capital cities.**
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- Decentralise more responsibilities and resources and deconcentrate more investment.**
- 5.4 Second tier cities perform better where national government policies support them, give them significant powers and resources and deconcentrated investment. **National governments should decentralise responsibilities and resources to cities and deconcentrate public investment more.**
- Create territorial economic governance at scale**
- 5.5 Few countries or cities have successfully addressed the key territorial challenge of developing economic governance at scale so that all the key actors and institutions across a functional economic area can maximise their assets to achieve integrated, place-based economic strategies. Too many cities are still attempting to use 19th century local boundaries and 20th century forms of government to shape and develop a 21st century global economy. Successful city regions need governance to be upscaled to the functional economic level. At the moment too often, they are too many, too small and not fit for purpose. **European, national and regional governments should incentivise and encourage voluntary collaboration but also strengthen formal territorial governance at city region level.**
- Encourage financial innovation**
- 5.6 The credit crunch and recession mean that public resources are under great pressure and new methods of financing urban development are needed. There is no single solution. **But governments should actively pursue a combination of public loans, pension funds, tax increment financing, local asset backed vehicles and pooled budgets.**
- Greater transparency about territorial investment strategies. Focus mainstream, implicit policies as well as explicit area based initiatives on second tier cities**
- 5.21 Urban policy across the EU is very uneven. There has been a shift in the orientation of explicit urban policies and greater emphasis on boosting urban competitiveness. But the funds allocated for them are dwarfed by mainstream spending programmes. Few states consider the effects of mainstream programmes and spending on the performance of second tier cities, since most governments are organised on functional non spatial lines. Also, very few member states have introduced conscious policies to promote their leading second tier cities. **Governments should be more transparent about their criteria for territorial investment and their impacts upon different city regions. Governments should monitor and publicise the territorial impacts of their expenditure programmes. In particular, Governments should ensure that all mainstream programmes, as well as special urban programmes are focussed on second tier cities and not concentrated upon the capitals.**
- So when to invest in second tier cities?**
- 5.22 Strong capitals matter to nation states' global positioning and competitiveness. However, strong second tier cities also matter. Both capital and second tier cities must be supported in future. It is a win-win, not a zero sum relationship. Governments should help second tier cities so they can emerge from the current recession with more 'investment ready' places to maximise future national economic performance. Now is the time to prepare for recovery from recession. **In particular national governments should invest more in second tier cities when: (i) the gap with capitals is large and growing (ii) the business infrastructure of second tier cities is weak because of national underinvestment and (iii) there is clear evidence about the negative externalities of capital city growth.**



The ESPON 2013 Programme

REPORT



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

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1. WHY DO SECOND TIER CITIES MATTER?

Growing interest in relationship between capital and second tier cities

1.1

There is huge interest in the economic contribution and future of Europe's cities. Their concentration of economic, physical and intellectual resources makes many of them centres of prosperity, creativity, culture, communication and innovation - the dynamos of the European economy. Some play important roles as the command and control centres of a rapidly developing global economy. But at the same time many cities are experiencing declining economic competitiveness, growing social exclusion and physical and environmental deterioration - making them a drain on Europe's economic performance and a threat to its social stability. There is also growing interest in the economic contribution that different kinds of cities make. In particular, policy makers across Europe are trying to develop ways in which capital and second tier cities can complement – rather than compete with – each other to make the maximum joint contribution to national performance. The policy debate takes different forms in different countries, depending on the relationship between the capital and second tier cities. It is particularly, although not exclusively, significant in the new member states where capitals are especially dominant. It has already encouraged a more explicit and strategic territorial debate in many of those countries. But the issues are common to all countries. They have important implications for decisions about priorities and funds, at national and European level. They pose the question of why should policy makers invest beyond the capital cities in an age of austerity. This report provides some answers.

What are second tier cities?

1.2

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

The economic and fiscal crisis makes the policy issues more pressing

1.3

The policy debate about the contribution of capital and second tier cities will become more important during the next decade as economic recession and fiscal problems threaten to undermine the real achievements made by many second tier cities in Europe recently. In the past decade, cities in many countries improved their economic performance and made a growing contribution to national economic welfare. But it was a result of high performing national economies and substantial investment of public resources. Those conditions will not be found during the next decade. Many underlying economic and social problems in cities which had been masked by the boom have already been intensified by the crisis. There is a risk that economic and fiscal problems and the competition for scarce public and private sector resources will limit the growth of second tier cities and widen economic and social gaps within them and between them and the capitals. If so, the threats to a balanced territorial system across Europe will increase. Declining public resources means it is crucial that governments are more transparent and explicit about their territorial investment plans – whether they invest in their leading or lagging cities, bigger or smaller, or capital or second tier cities. All governments will need to do more with less and find the most efficient way of addressing their problems. This obviously applies to Commission policy. At a European level, the importance of these issues has been underlined by the publication of EU2020, the 5th Cohesion Report, the Territorial Agenda 2020, the work of the Hungarian and Polish Presidencies on urban and territorial policy and the Commission's proposals for the reform of Structural Funds after 2013. All underline the need for explicit discussions about cities and their contribution to balanced territorial development across Europe.

How does this report contribute to the policy debate in Europe?

1.4

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

What are our key arguments?

- 1.5 The report examines five key arguments about the performance and prospects of cities and urban policy across Europe. **National policies and governance matter.** First, it argues that the performance of second tier cities is significantly affected by national government policies - implicit or explicit, direct and indirect. Explicit urban policies – those which specifically focus on particular territorial targets - as well as mainstream policies for infrastructure, skills, investment, connectivity, research and development which have less explicit territorial dimensions - all affect the ways in which cities perform. The report argues that countries whose governments pay more attention to the territorial and urban impacts of those policies will have higher performing cities and national economies as opposed to those who do not. In addition, second tier cities will perform better where national, regional and local policy making systems are horizontally and vertically aligned and focus upon economic place making.
- 1.6 **Deconcentration of investment and decentralisation to places matter. But mature national- local relationships are also crucial.** The second argument is that deconcentration of investment and decentralisation of decision-making and resources will lead to more high performing second tier cities. Institutional and financial decentralisation from national to regional and local levels of government will reduce the costs of overconcentration on the capital and maximise the contribution of second tier cities to national competitiveness and welfare. However, two conditions must be met for this to happen. First, national governments must provide regional and local governments the powers, resources and capacity needed to deliver these responsibilities. Otherwise they will be programmed to fail. There must be real not symbolic decentralisation. The second condition is that national governments cannot abdicate responsibility for the successful delivery of those policies. The key governance challenge is to get transparency, clarity and agreement upon the division of responsibility for the delivery of shared policy commitments. In other words it requires genuine multi-level governance. In turn that requires significant institutional and political maturity. But if those conditions are met, the benefits of a system where public and private investment and resources are spread across a range of different sized cities in a wider territory in the long run will be greater than those in a more centralised system where investment is concentrated in the capital. National economies will be more successful when the gap in economic, social and environmental performance between the capital and second tier cities is smaller. And more successful national economies will have higher performing second tier cities.
- 1.7 **Local factors – especially leadership - matter.** Cities are path dependent and are constrained by external factors - historical, cultural, structural, political and institutional. But those factors are not determinant. Places that start in similar economic and social positions often have very different development trajectories. The economic performance of cities will depend upon their strategic capacity to manage their constraints. Local partners and leaders can use their resources and powers to maximise their city assets and advantages to be successful. Leadership can come from a variety of sectors – public, private and third sectors – and usually a combination of all three is necessary. Although individual players can make a difference, leadership is essentially a systemic rather than a personal quality. It will draw upon a range of assets – political, financial, territorial, institutional and intellectual. It is a process and a relationship. The scale and quality of leadership is not finite but can be increased. Leadership is the institutional mobilisation of all resources and partners to deliver successfully agreed long term ambitions through systematic, coherent strategies and policies. The key issues for leaders are vision, strategy, governance, partnership, policy capacity, learning and delivery.
- 1.8 **The key drivers of territorial performance are innovation, diversity, human capital, connectivity, place quality, and strategic governance capacity.** Places' performance on those drivers shapes their trajectory. In particular, national and local policies on those key drivers are crucial. The drivers that can be most directly influenced at city-regional governance level are place quality and strategic capacity. The others – innovation, major infrastructure investment, human capital, economic diversity and connectivity – are more directly influenced by national and regional policies. Influencing these drivers demands successful multi-level governance. And multi-level governance helps ensure that place-based policy making does not focus narrowly on local issues but has wider strategic, territorial ambitions.
- 1.9 **Territory and places matter more not less in a global world.** This argument underlines that globalisation makes the governance capacity of place more important. It means that governance will be increasingly multi scalar. It also means that economic governance should be located at the highest achievable spatial level – the city region or wider functional economic area. It also emphasises that second tier cities do not operate at a single spatial level. They need explicit strategies to shape the different territorial roles they play at regional, national and European level.
- 1.10 **So how does this report deal with these issues?**
The report has five sections. First, it assesses the economic performance of second tier cities and the gaps between them and capital cities in different states. Second, it describes the urban policy debate in different countries. Is the debate essentially about economic competitiveness or social cohesion? Do policy makers recognise the nature of the gap between the capital and second tier cities? Has government begun to target the economic importance of second tier cities? It exemplifies those debates with a detailed discussion of the experiences of nine second tier cities. Third, it identifies the key messages about cities' performance and prospects. Finally, it identifies key messages for policy makers at all levels of governance across Europe. Given the complexity of the relationships, the range of places and

the quality of available data, the report does not claim to provide absolute proof of the arguments. But it presents a lot of persuasive evidence that policy makers should take these issues very seriously and examine how their decisions affect second tier cities. It shows that policy makers at least must be more explicit in their territorial investment decisions in future. It suggests the more they can help second tier cities, the more they can help their nation – and Europe. And it suggests that in an age of austerity there is a serious case for investing beyond the capitals.

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

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

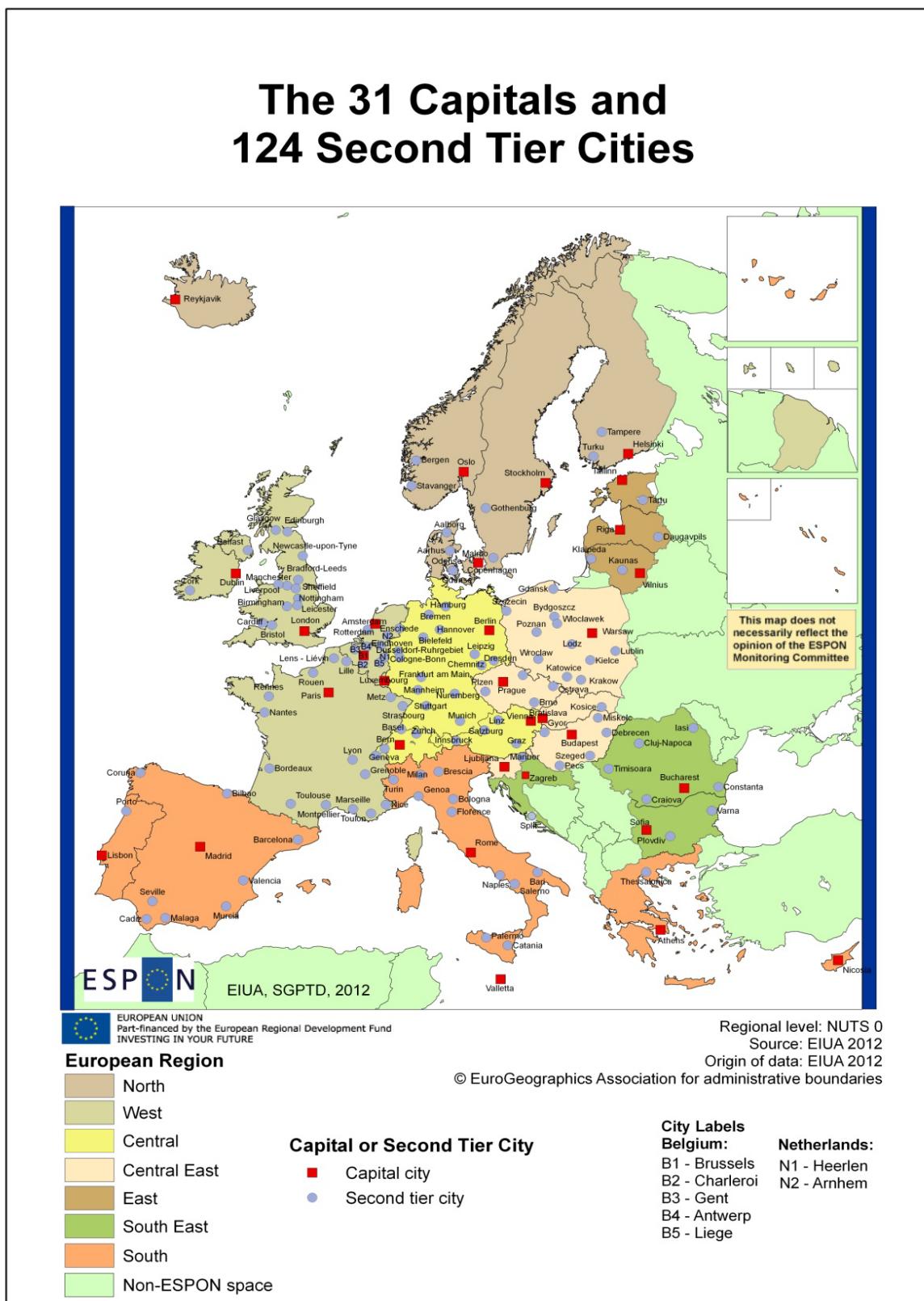
Selecting the second tier cities

- 2.2 To select the second tier cities we used the boundaries developed by the OECD and DG Regio for metro regions, especially since these are used in the 5th Cohesion report. To focus on the most significant second tier cities, we include all of them in the 22 countries which have populations under 15 million and which have five or less second tier cities. In the eight largest countries France, Germany, Italy, Netherlands, Poland, Romania, Spain and the UK with populations up to 85 million, we included those cities in the top two thirds of the metropolitan population of their country. We added a small number of places just excluded by the population rule but whose significance suggested they should be included. Also to give maximum territorial representation we decided every country should have the capital and the next biggest city. This gave the final list of 31 capitals and 124 second tier cities which contain nearly 80% of all population in urban areas across Europe. Map 2.1 shows the cities.

What data did we collect?

- 2.3 We collected data on a range of indicators: population, migration, employment, output, productivity, unemployment, innovation, economic diversity, skills and human capital, connectivity. We answer the following questions about second tier and capital cities. Are they attracting or losing people? Are jobs being created or lost? What are the levels of economic output and productivity in these cities and how have these changed recently? What are the patterns of employment and how have these changed? How innovative, skilled and well connected are they? Primarily data is available about the boom period before 2007. So much of our analysis necessarily focuses upon that period. Nevertheless we do include evidence from the recession period where it is available. We examine which places did well during the boom years and which places have been badly hit by the recession. This study attempts to be as systematic and robust as possible using authoritative comparative data. However, a series of data limitations at European wide level presents challenges. In particular there are challenges about boundary definitions across the ESPON territory and also availability of data below national level for the non EU countries. In the case of Cyprus, Luxembourg and Malta NUTS 3 boundaries refer to national level so it is not possible to report data about second tier cities. In the case of Iceland and Switzerland data on the issues we are discussing are not routinely available from EUROSTAT at the appropriate second tier city level. This explains why these countries are not found in all of the tables and figures in this report. Further detail can be seen in Annexes 7 and 8 of the Scientific Report.

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



Grouping the second tier cities

2.4

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

Table 2.1: State systems: responsibilities and local autonomy

GROUP OF COUNTRIES	FEATURES	TRENDS IN COMPETENCIES	LOCAL REVENUES & AUTONOMY
Federal states (Austria, Belgium, Germany)	Constitutionally recognised, shared powers between central and sub-central levels (states)	Not significant changes, reinforcement of federal organisation in Belgium	Medium
Unitary 'Northern' states (Sweden, Finland, Denmark)	Centralised states with strong local autonomy	Rationalisation and unification of some local tiers (counties, municipalities aggregated into regions)	High
Unitary regionalised states (Italy and Spain)	Strong autonomy of intermediate levels (regions)	Fast devolution and tendency to introduce federal agreements	Medium-high & increasing
Other unitary states – 'old' Member States (France, Greece, Ireland, Luxembourg, Netherlands, Portugal, UK)	Different institutional forms with more (UK, Netherlands, France) or less power to local government (Portugal, Greece)	On-going but slow devolution and reorganisation in UK and France. Slow-down or devolution halt in Portugal and Greece	Medium (high in France)
Other unitary states – 'new' Member States (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Cyprus, Malta)	States undergoing restructuring; fragmented local government	Re-establishment and reinforcement of local governments; more articulated devolution process in Poland	Medium low

Population - how dominant are capital cities in urban hierarchies?

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

Population decline in eastern Europe - but growth just about everywhere else

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

Migration – capital dominate but a significant number of second tier cities also attract migrants

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

Employment scale. Second tier cities perform relatively well – but big territorial differences. The south and east lag.

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

Employment rates – some strong performances. But still underused potential – especially in the south and east

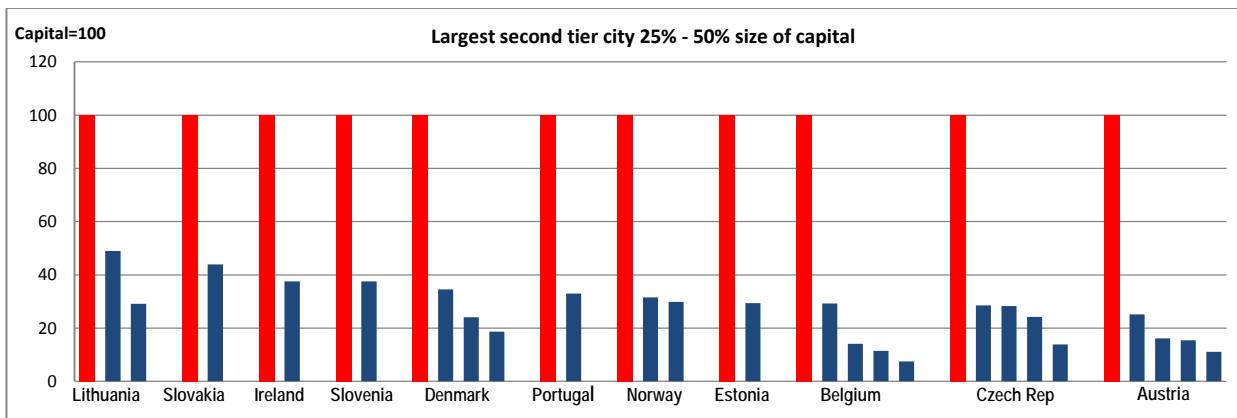
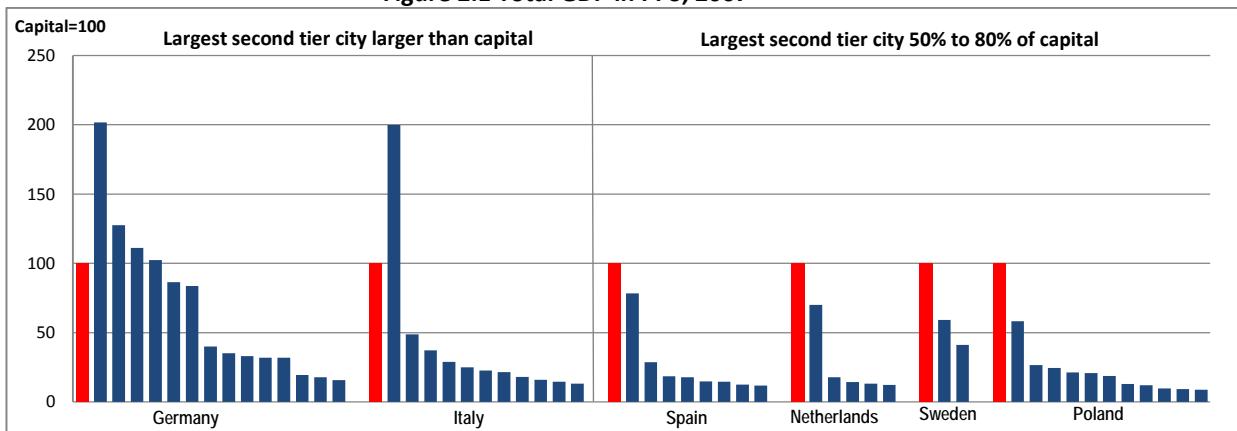
2.9 While some second tier cities have high employment rates, typically they lag behind their capitals. Employment rates for capitals ranged from 56%, for Valletta in the South, to 79%, for Copenhagen in the North. For the second tier cities, the range stretched from 41%, for Naples in the South, to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

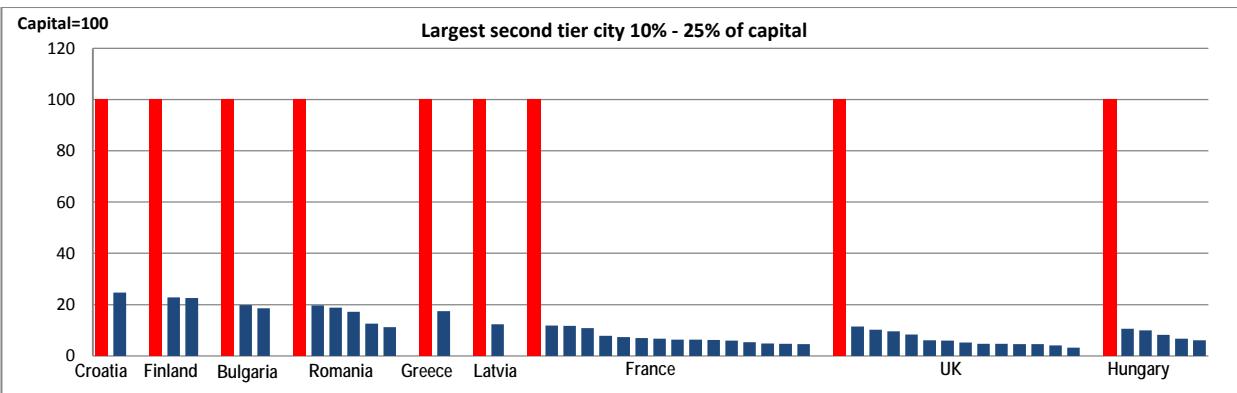
2.10

Total economic weight. Capitals lead but second tier cities matter

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

Figure 2.1 Total GDP in PPS, 2007





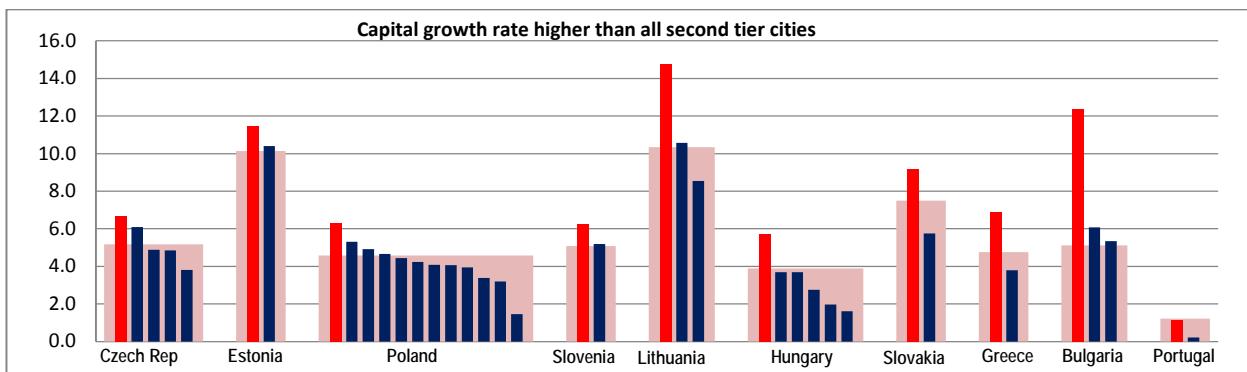
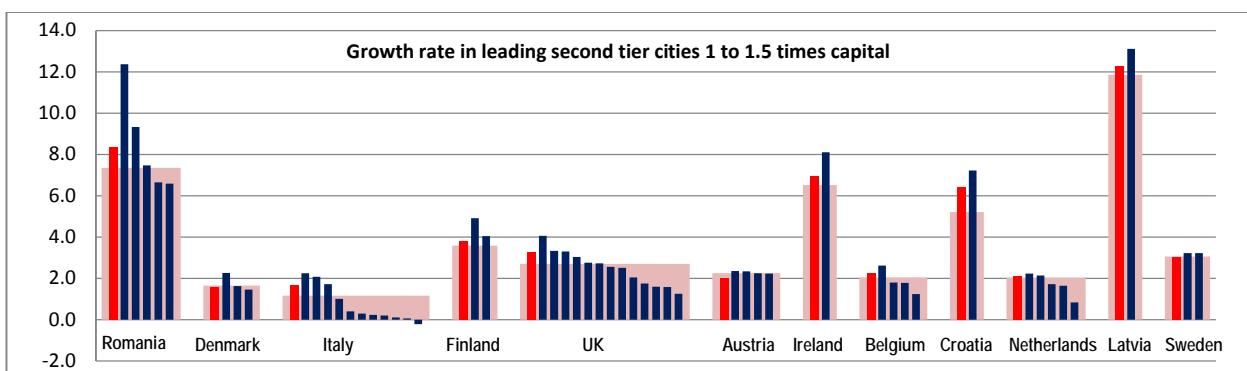
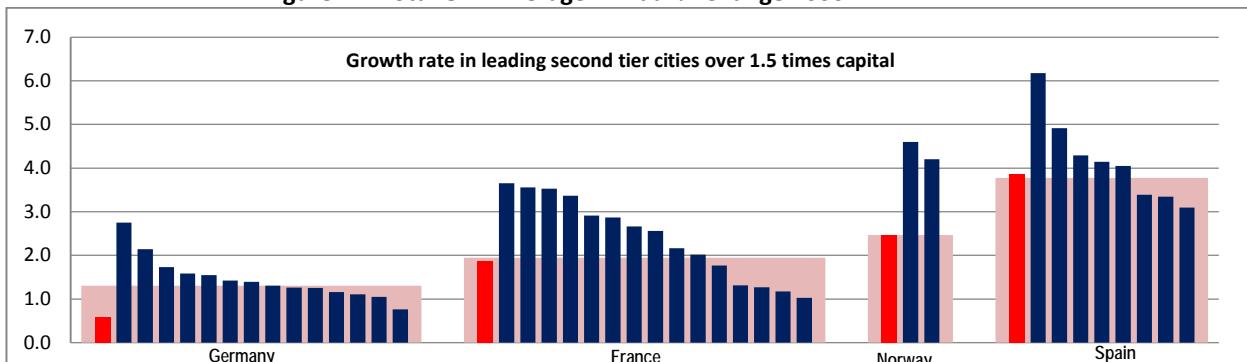
Source: Eurostat

Changing rate of growth in economic weight. Second tier cities closing the gap in some but not all countries

2.11

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

Figure 2.2 Total GDP Average Annual % Change 2000-7



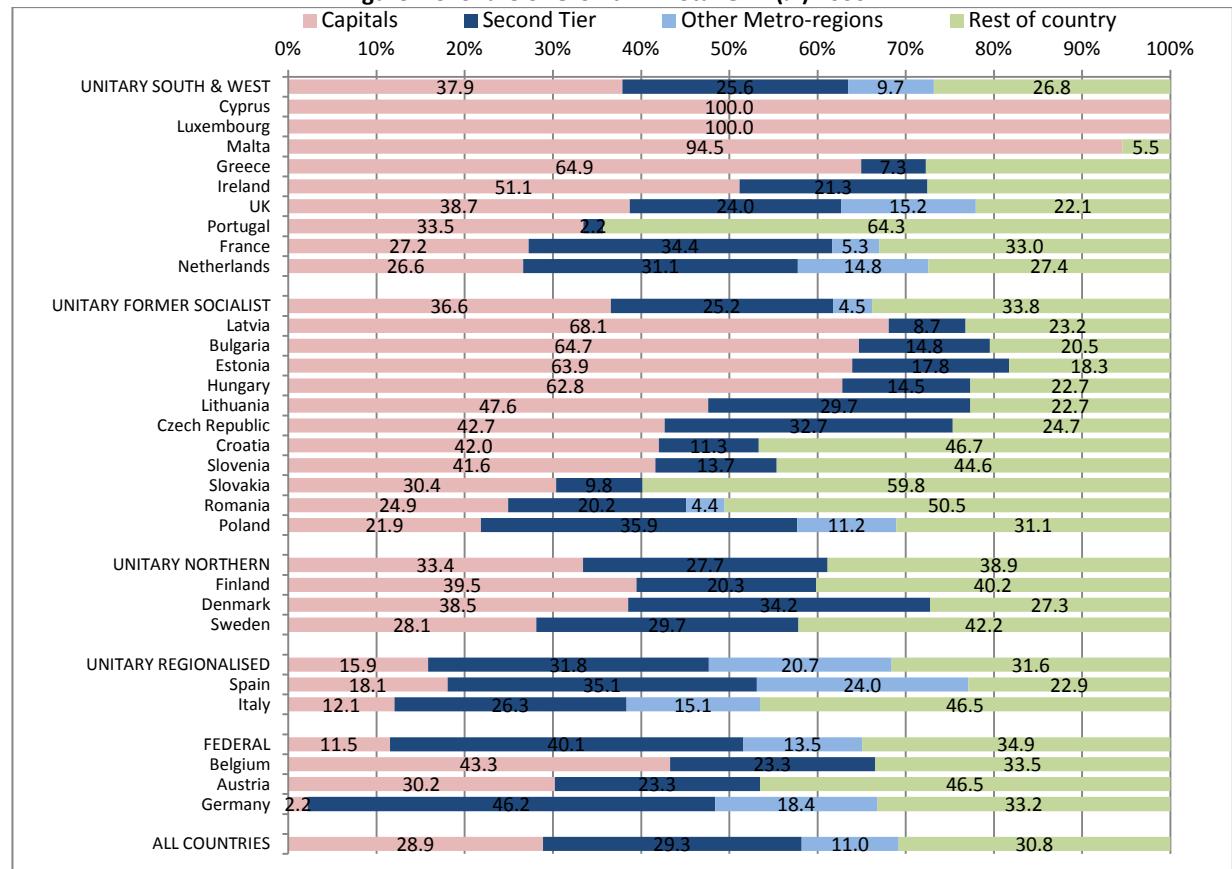
Source: Eurostat

2.12

Shares of growth in the boom years

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

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



Source: Eurostat

2.13

Figure 2.4 indicates the relative growth performance of capital and second tier cities. It is a simple measure of whether the cities were performing above their weight or not. It shows cities by their share of GDP in 2000 and their share of growth between 2000 and 2007. The cities above the line had higher shares of growth than their initial share of output would suggest. Those below the line had lower shares of growth than their initial share of output would suggest. 53% had higher shares of growth over the period than their share of GDP at the beginning, indicating that, to varying degrees, they were punching above their weight. Figure 2.5 places the cities in their national context. 57 punch above their weight; 61 do not.

Figure 2.4 Shares of total GDP, 2000 and GDP growth 2000-2007, capitals and second tier cities

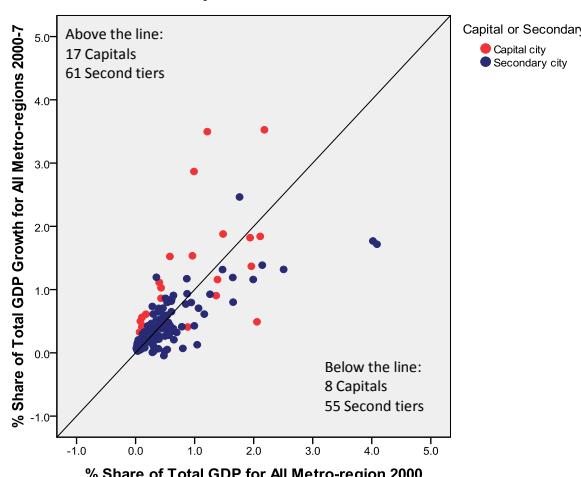
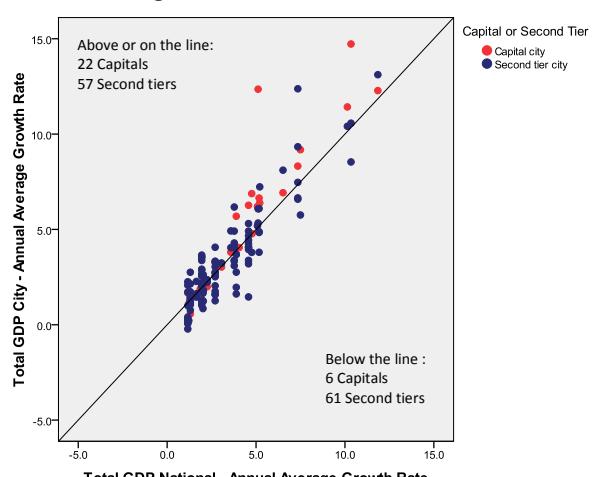


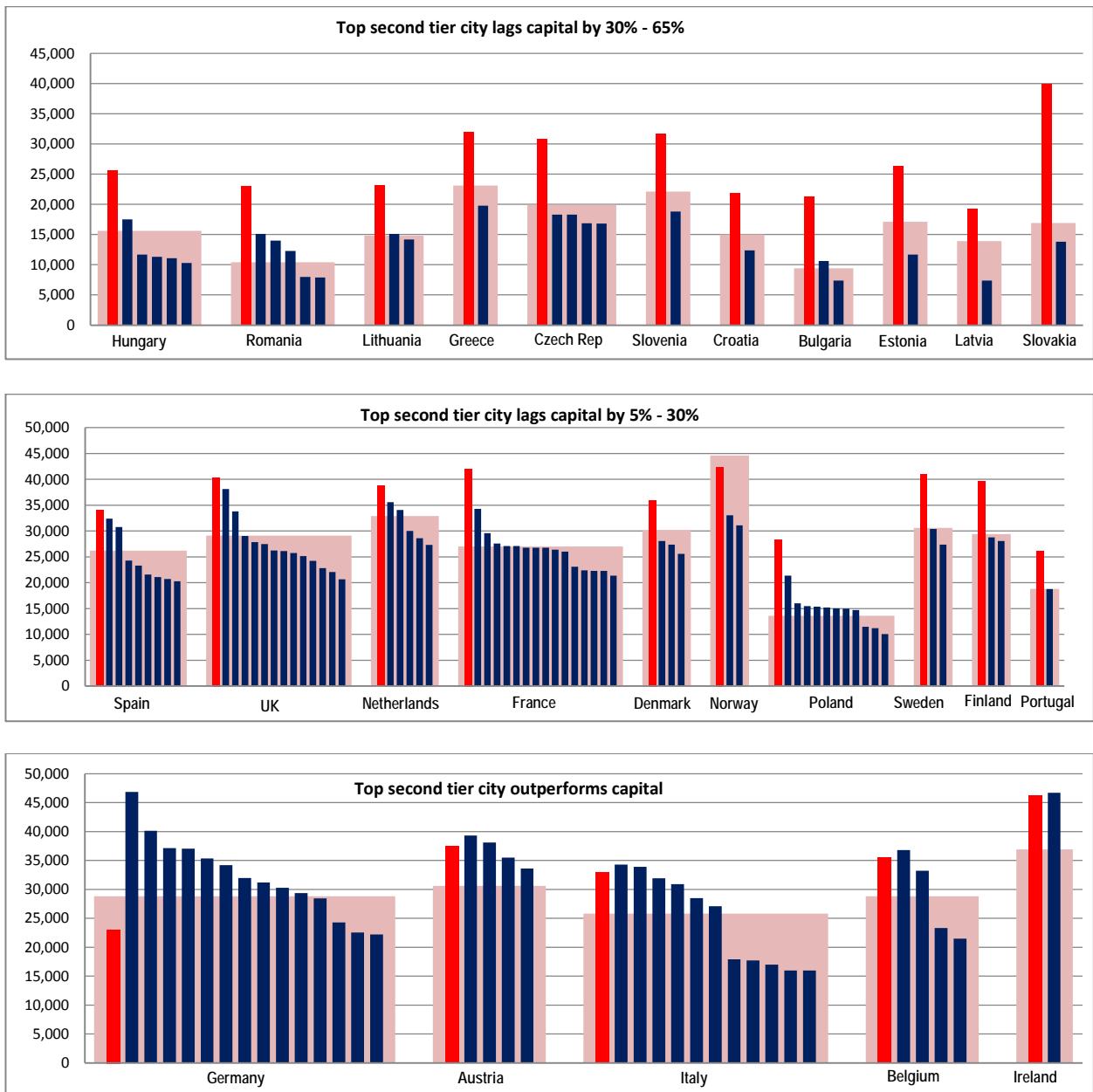
Figure 2.5 Total GDP - City growth rates compared with national growth rates, 2000-7



Decentralisation helps economic performance

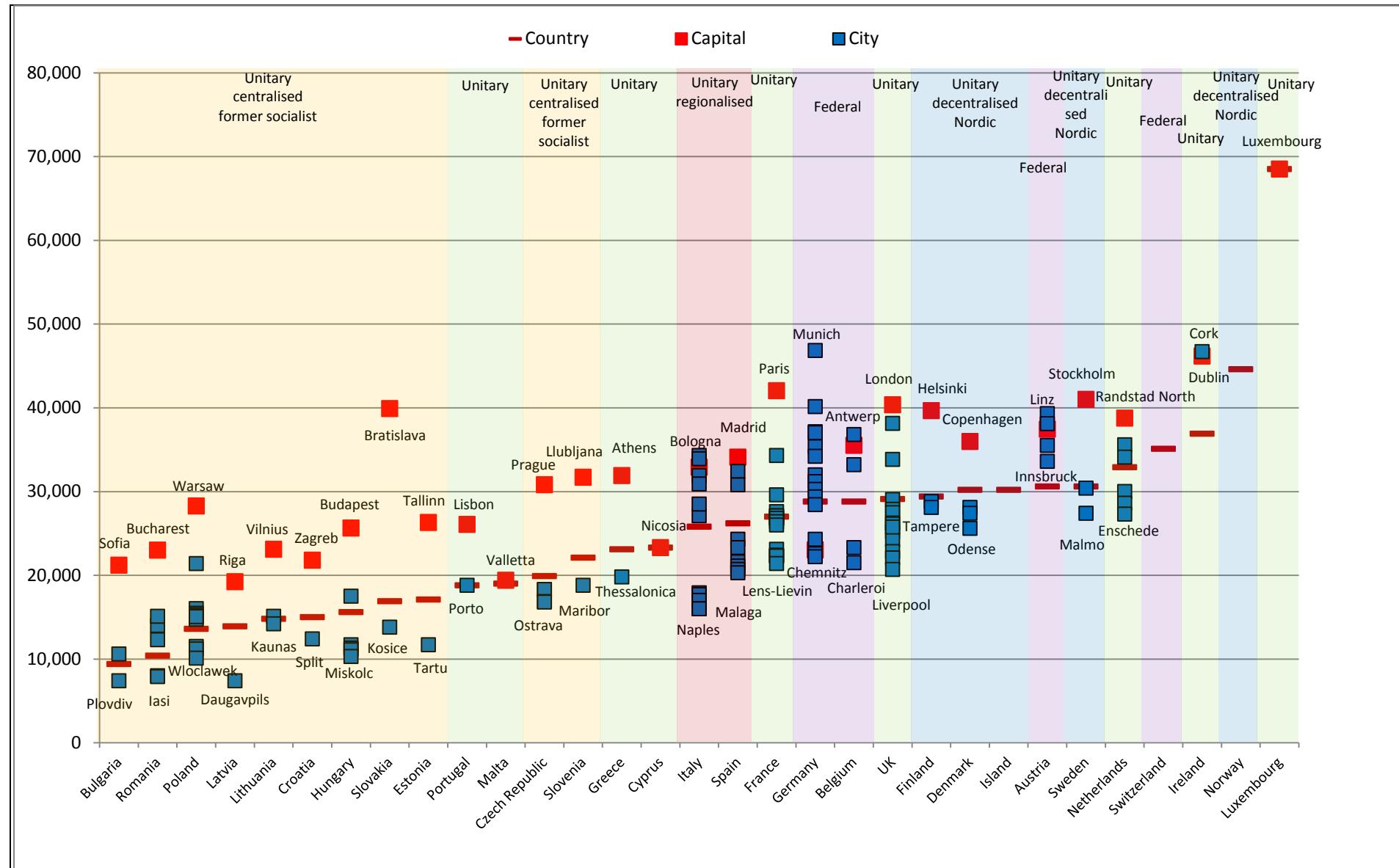
Figures 2.6 and 2.7 show performance measured by GDP per capita in 2007. They demonstrate a significant relationship between the level of centralisation and economic performance. For example, in the unitary centralised former socialist states, all capitals perform significantly better than all second tier cities. In the three federal states Germany, Austria and Belgium, a number of second tier cities perform better than the capitals – virtually all in Germany. These figures show the position in a single year 2007. This relationship is significantly stronger when rates of growth through the decade are considered, as we shall show next.

Figure 2.6 GDP per capita in PPS 2007



Source: Eurostat & DG-Regio

Figure 2.7: GDP per capita in PPS in capital and second tier cities in 2007



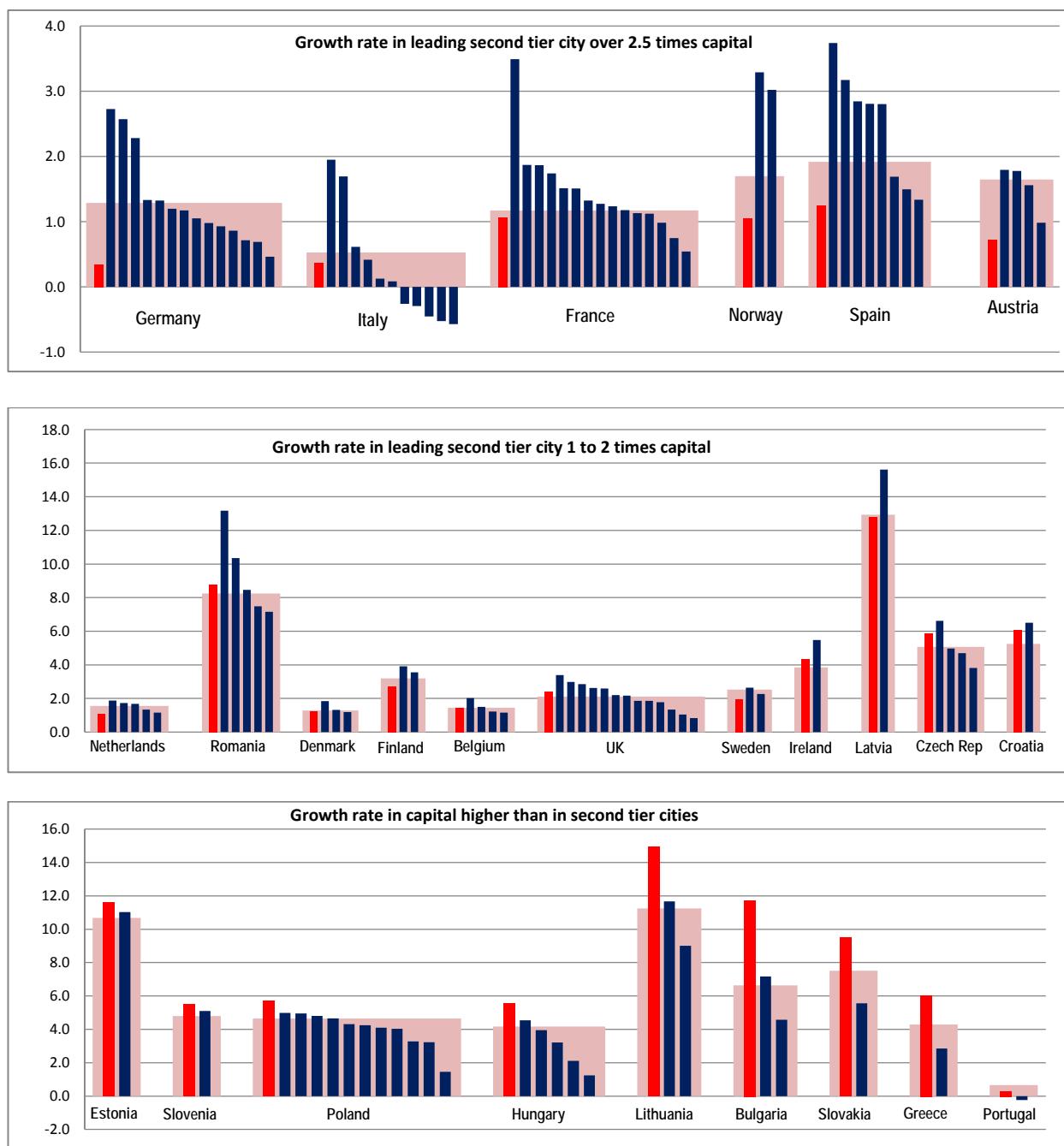
Source: Eurostat

2.15

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

The previous Figure showed the position in 2007. Figure 2.8 by contrast shows the important dimension of change. There are very significant differences in the rate of growth of capital and second tier cities. Despite the economic dominance of capitals, between 2000 and 2007 many second tier cities grew faster than them. For example, in the Federal states, all of Germany's and Austria's and half of Belgium's second tier cities outperformed the capital. In the regionalised states, all of Spanish and a third of Italian second tier cities grew faster than their capital. In the Nordic states, all grew faster than the capital. In the unitary states, all second tier cities in Netherlands, 12 out of 15 in France, 5 out of 13 in the UK, and 1 in Ireland were above their capital. In Greece and Portugal, however, the capitals grew faster than the second tier cities. The position in the many of the new member states is markedly different. In the former socialist states of Hungary, Poland, Slovakia, Slovenia, Estonia, Lithuania and Bulgaria all the capital cities grew faster than all the second tier cities and all but one in the Czech Republic. However, in Romania 2 out of 5, and in Latvia and Croatia both second tier cities grew faster than their capital.

Figure 2.8 GDP per capita – average annual % change, 2000-7



Source: Eurostat

2.16

Decentralisation encourages improved productivity

Figures 2.9 and 2.10 support the analysis above. They apply a decentralisation index to our productivity data on capital and second tier cities. Figure 2.9 shows the relationship between decentralisation and economic performance in terms of GDP per person employed by country. Figure 2.10 repeats the exercise for the capital cities and second tier city averages. They show that countries with greater degrees of decentralisation are associated with stronger economic performance. The same applies to second tier cities in more decentralised countries.

Figure 2.9 Decentralisation and National Productivity 2007

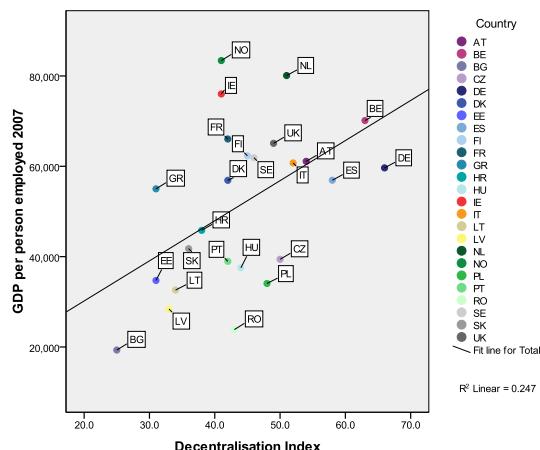
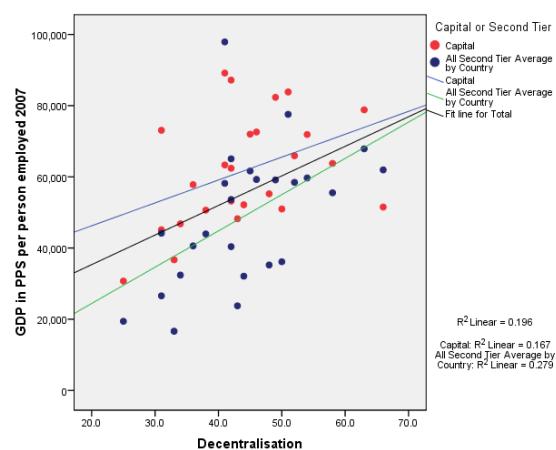


Figure 2.10 Decentralisation and Metropolitan Regions' Productivity 2007



2.17

Big drops in unemployment- particularly in the East

Between 2000 and 2007, unemployment fell on average from 8.2 to 6.0% across Europe. In 12 countries the rates rose but only fractionally. 9 of the 18 countries where unemployment rates fell were in East, Central East and South East Europe – ranging from 0.7% in Romania to 6% or more in Poland, Slovakia, Latvia, Estonia, Bulgaria and Lithuania. During the early 2000s there was strong growth in most former socialist economies after the economic transition in the 1990s. Unemployment rates for the capital cities fell from 7.3% in 2000 to 5.2% in 2007. Between 2000 and 2007, many second tier cities saw unemployment rates fall, including many in the former socialist countries.

2.18

How do cities perform on the key drivers of competitiveness?

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

2.19

Innovation matters to economic performance

Figures 2.11 and 2.12 present the innovation data - EPO patent applications. A number of second tier cities are performing as well as or better than capitals. The seven cities with the highest numbers of patent applications are all second tier – Eindhoven in the Netherlands, Stuttgart, Munich, Nuremberg and Mannheim in Germany, Grenoble in France and Tampere in Finland. The top 30 listing of patent applications in 2006-7 included only 4 capitals - Helsinki, Copenhagen, Stockholm and Paris. Second tier cities in Central and Northern countries perform best, where nearly two thirds had higher rates of patent applications than their capitals. In the South, both of the second tier cities in Greece and Portugal performed slightly better than their capitals, as did over two fifths of second tier cities in the regionalised states of Italy and Spain. In the West, second tier cities performed relatively well in Belgium and the Netherlands. The dominance of innovative cities in Federal and Nordic systems at least suggests a relationship between decentralised systems and innovation. The relatively weak performance of second tier cities in Eastern Europe stands out. With the exception of Poland, none of the second tier cities outperformed their capitals. 27 of the bottom 30 cities in terms of innovation were in the former socialist states of Eastern Europe. Innovation clearly remains a constraint upon the development of the transition economies and their cities.

Figure 2.11: Patent applications and GDP per capita by capital and second tier cities

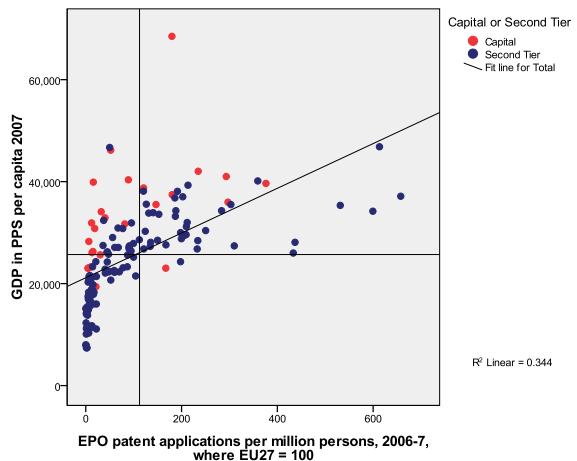
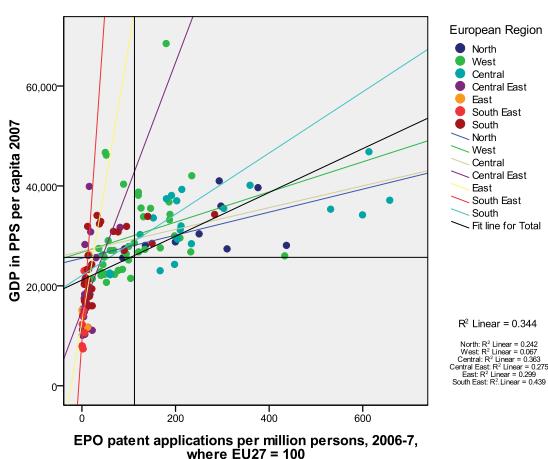


Figure 2.12: Patent applications and GDP per capita by geographical groupings



Skill, human capital affects economic performance

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

Employment in leading sectors affects performance

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

Connectivity affects economic performance

2.22 Connectivity, measured in terms of potential accessibility by air, is also highly correlated with GDP per capita. Not surprisingly, capital cities perform strongly but so do a significant number of second tier cities. Central and West European cities are relatively highly accessible, unlike their eastern European counterparts. The top 20 cities in terms of potential accessibility by air are split pretty evenly between capitals (9) and second tier cities (11). While only 14 of the 124 second tier cities for which we have comparative data have potential air accessibility greater than their national capitals, half of them have levels of accessibility higher than both EU and national averages. These accessible second tier cities are mainly clustered in Central and West Europe. The evidence underlines the accessibility and transport infrastructure challenges facing Eastern European states. Only 3 of the 33 second tier cities in the East, Central and South East have potential accessibility levels by air above the EU average. Most of the cities in the bottom 20 of potential air accessibility are in Eastern Europe; the exceptions being Rouen in France, Cadiz and Murcia in Spain, Reykjavik in Iceland and Nicosia in Cyprus.

The boom is over – and has hit some second tier cities

2.23 So far this report has focussed upon the boom period until 2007. Partly this is explained by the shortage of good data after then. But that period has ended. 2007 marked a watershed in the global economy with the onset of the economic crisis in 2008 that was triggered by a financial crisis, initially in the US but quickly of global reach. European cities are now faced with very different and more difficult economic conditions from those of the pre-recession years.

2.24 The crisis had has a very varied territorial impact between and within countries. This geography can be seen in patterns of change in output, employment and unemployment and in government fiscal balances and debt levels. For example, Map 2.2 shows national GDP growth rates over the crisis period, 2007-2010 for thirty-three European countries. There are some striking differences. The EU27 as a whole saw GDP fall by just over 2%. Of the thirty-three

countries, two thirds saw GDP fall, in a number of cases quite dramatically. Standing out clearly are the large declines in the Baltic States - Lithuania 11%, Estonia 16%, Latvia 21% - and Ireland 10%. The economic growth these countries and their cities experienced before the crisis is clearly under threat. The exception is Poland which has continued to perform impressively.

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



2.25

Big territorial differences in impact

There are great regional disparities in unemployment. In 2010, 1 in 3 regions had rates above 10%. The rate in 2010 was greater than in 2007 in 4 out of 5 European NUTS 2 regions. Only 49 regions had a reduction in unemployment rates, with the biggest falls in Germany and Corsica. The regions most severely affected were in Spain, Ireland, the Baltic States and Greece – countries with significant reductions in GDP growth. In cities, unemployment has increased dramatically as Map 2.3 shows. For example, only 4 capital cities had unemployment above 8% in 2007, in 2009 11 had. Of the second tier cities, 26 had unemployment over 10% in 2007, but by 2009 the number had increased to 47. Some such cities were holding up relatively well, however. In 2009 36% had lower rates of unemployment than their capitals and 48% had lower than the national rates.

Map 2.3 Unemployment rates 2009 in European metro-regions



Key messages from our quantitative data analysis

Capital cities dominate but second tier cities make a significant contribution

- 2.26 The essential message of this report is that capital cities continue to dominate the European urban systems in terms of population, employment and output – with the exceptions of Germany and Switzerland. But second tier cities continue to make a significant contribution to their national economies and the European economy. The gap between capital and second tier cities is large and in the former socialist states of Eastern Europe, growing. The total GDP of capital cities in 2007 was greater than their leading second tier cities in all but two countries, Germany and Italy. In 19 countries the total GDP of the capital was more than twice that of the largest non-capital city and was as much as eight or nine times greater in 4 states UK, France, Hungary and Latvia. The capitals, which accounted for 16% of total population in 2000, accounted for 31% of population growth 2000-7.
- 2.27 Despite this structural dominance change measures show a rather more nuanced story. Despite capitals' dominance, second tier cities still made a positive contribution to growth and, in a significant number of cases, demonstrated their potential for increasing this contribution. In 2000 second tier cities accounted for 31% of population, and between 2000 and 2007, accounted for 34% of population growth. By 2007, three quarters of the second tier cities had positive net migration rates and one third had rates above those of their capitals. Over the same period, they accounted for 29% of total GDP growth. And the top 36 second tiers provided one third of the total GDP growth that capital and second tier cities together generated.

Signs of improvement and second tier cities breaking path dependency

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

Decentralisation matters

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

Germany – a case in point

- 2.30 Germany provides important lessons on the economic role of second tier cities. It supports our wider argument that politics and policy matter in urban development. Alongside the national capital in Federal Germany is a group of regional capitals with extensive decentralised powers and responsibilities. Economic activity – private and public - is more evenly distributed across a range of cities that form a powerful multi-cylinder economic engine. Over the period 2000 to 2007 population increased faster in 6 German second tier cities than in Berlin. 9 second tier cities outperformed it in employment growth. All 14 second tier cities had employment rates above Berlin. All 14 second tier cities also had productivity growth rates above Berlin. At a European level, 5 of the top 10 second tiers in terms of GDP growth between 2000 and 2007 were German. 5 of the top 10 cities in terms of our measure of performance in innovation were German. And German second tiers have been relatively resilient to the crisis, with all but one experiencing a drop in unemployment between 2007 and 2009.

Drivers of competitiveness

- 2.31 The data also point to links with some of the drivers of competitiveness. For example, in the Federal and Nordic states, innovation is highly related to strong performance of second tier cities, suggesting a relationship between decentralised systems and this driver. This contrasts markedly with the highly centralised, unitary states of Eastern Europe, where 27 of the 30 worst performing second tier cities in terms of innovation are found. City performance

and skill levels are also relatively highly correlated. Capital cities again tend to dominate. Only 7 of the 112 second tier cities outperformed their national capital cities on this measure. But again, four of these were in the Central federal states: one in Austria and three in Germany. In this case, Poland and Lithuania are notable exceptions to the general eastern European pattern. While their second tier cities did not have high level education rates above the capitals, many had rates above the national average. In Poland's case, high level skills are more evenly spread across its urban system.

- 2.32 City performance and employment in financial intermediation, real estate, renting and business activities was also relatively highly correlated. As with high educational levels, capital cities performed relatively well. Only 8 second tier cities had higher shares of employment in this sector than their national capitals. 7 were in Germany, again reflecting its deconcentrated industrial structure. Second tier cities performed relatively well with half having shares higher than national average. The challenges facing the new member states from Eastern Europe are again underlined by the fact that 19 of the bottom 20 performers were located there. City performance and accessibility were also relatively highly correlated. Central and West European cities were relatively highly connected. Reflecting historical political and policy priorities in infrastructure development, cities in the unitary states of eastern Europe were weakly connected.

The crisis threatens to undermine achievements of second tier cities—despite signs of resilience

- 2.33 The crisis has had a varied and changing territorial impact with both capitals and second tier cities. The South and East have been badly hit. The east in particular, has suffered a dramatic reversal of the growth rates and improvements in unemployment it experienced between 2000 and 2007. Unemployment across Europe has increased dramatically following the notable declines of the 2000-2007 growth period. Overall, however, some second tier cities appear to be holding up relatively well. 36% had lower rates of unemployment than their capitals in 2009 and 48% had lower than national rates of unemployment.

What economic contribution of second tier cities?

- 2.34 Our evidence has shown that all second tier cities made a contribution - and some a significant one - to economic growth in Europe between 2000 and 2007, even if many were overshadowed by capital cities to different degrees in different parts of Europe. Productivity levels and employment rates in second tier cities show they are located on a spectrum of productive capacity and agglomeration economies, with some nearer their productive potential than others. But many have the potential to grow and the ability to benefit further from agglomeration economies.

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

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

- 3.2 The policy position is rather different in the former eastern countries. In most cases local authorities are now more important for urban development. Here, the absence of a national urban policy is the direct result of the political and economic transformation occurring since around 1990. Since then, responsibility for urban issues has been devolved to local levels and the private sector. This has created a range of challenges including a lack of coordination, limited attention to urban issues, and often limited resources to help cities. Local governments have been forced into short-term, uncoordinated approaches to resolve acute problems because they have little time, capacity, or money to develop longer term structural solutions. But local governments have increasingly recognised that they cannot handle the problems of their cities alone, or even in collaboration with the private sector. As a result, many major cities in the new EU countries have been pressing for more organised national urban policies.

- 3.3 This study asks whether there was a clear policy focus upon second tier cities, whether their performance was considered an issue and whether national government were trying to strengthen and improve the capacity, powers, resources and performance of cities. The policy picture across Europe is very diverse with huge national differences. However, some key messages do emerge. Countries typically concentrate attention and resources in capitals at the expense of second tier cities. There has been little explicit policy debate about the relationships between them. But that debate has begun in some countries, in particular in some of the eastern countries like Poland and Romania, where the dominance of the capital is a major issue. Some countries are beginning to develop more explicit policies for second tier cities and trying to break the concentration upon the capital. Sometimes they are territorial policies, sometimes they are implicit policies.

3.4 Few countries have explicit policies for second tier cities. To the extent they have policies for places, until very recently they have focussed primarily upon social cohesion and neighbourhood policies rather than upon economic performance. Even if few countries have explicit urban policies and fewer still explicit policies for second tier cities, many have extensive implicit policies designed to increase national competitiveness. This section will show there is evidence that policies have made a difference to the performance of second tier cities. The roots of urban success are partly a consequence of national and local policies for the key drivers of performance - innovation, diversity, skills, connectivity, place quality and strategic governance capacity. Some of those policies have made a difference and helped second tier cities perform better. It will also show that there is demand amongst policy makers and researchers for a more explicit policy for second tier cities to encourage more balanced, higher performing national economies. There is also demand for a more explicit EU policy focus upon cities in general and second tier cities in particular.

Messages from our countries and cities

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

A range of circumstances

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

Table 3.1: The case studies – key characteristics

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

1 Bradford-Leeds share of employment is of Great Britain

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

Table 3.2: The case studies – performance on population, employment and total GDP

Case study second tier city/ metropolitan region	Population			Employment			Total GDP		
	Change: 2000-2007 (%)	Better than national	Better than capital	Change: 2000-2007 (%)	Better than national	Better than capital	Change: 2000-2007 (%)	Better than national	Better than capital
Barcelona	11.7	✓	x	22.9	x	x	23.4	x	x
Cork	13.3	x	x	21.2	x	x	56.7	✓	✓
Katowice/Katowice-Zory	-3.1	x	x	5.5	✓	x	28.6	x	x
Leeds/Bradford-Leeds	4.9	✓	x	4.2	✓	x	11.1	x	x
Lyon	5.4	✓	✓	7.0	✓	✓	14.1	✓	✓
Munich	7.3	✓	✓	5.5	✓	✓	10.8	✓	✓
Tampere	5.6	✓	x	15.1	✓	x	34.4	✓	✓
Timisoara	-2.9	✓	x	-9.2	✓	x	86.6	✓	✓
Turin	4.2	x	x	4.1	x	x	2.1	x	x

A range of performance

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

Table 3.3: The case studies – performance against key drivers

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

Shared challenges

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

But different stories

- 3.10 Each city also tells a slightly different story about second tier cities' performance, policies and prospects. Munich is one of the most successful cities in Europe based on long term investment in innovation and education, powerful regional government and public private partnership working. Barcelona is an important example of a city which through strategic local leadership has restructured successfully in the past decades and makes a major contribution to the regional and national economy. Tampere is an excellent example of local elites using national programmes to turn classic manufacturing city into a successful information based city. Turin tells us of the ability of local leadership to reposition a city through expansive regeneration strategies. Leeds tells us the virtues of pragmatic city leadership and good governance, combining national and local policies and promoting place making. Cork tells us how a second tier city can use its quality of life assets and foreign direct investment to help temper the dominance of the capital in a highly centralised country. Lyon illustrates the impact of the decentralisation process upon a diversified economy as well as ways of working at city regional level. Katowice also throws much light on the challenges of creating governance at scale in the former socialist countries. Timisoara shows how it is possible to be dynamic and improve economic performance even in a centralised post-socialist country.

- 3.11 Since each city is different we do not discuss the same issues in the same terms in every city. Rather we present the key features of each place and their wider policy messages. Each profile selects from a series of key issues: their contribution to regional, national and European economies; their performance on the key drivers of competitiveness; their relationship with the capital city and other key parts of the urban system; the impact of explicit and implicit

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

Second tier cities in a Federal state – Messages from Munich and Germany

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

Decentralisation, deconcentration and high performance

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

Long term investment and consensus

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

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

- 3.14 Munich, one of the most highly performing and successful of the German state capitals, has rapidly become a growth pole of European as well as Bavarian and German significance since the end of the Second World War. Munich city region accounts for 29% of Bavaria's GDP and 21% of its population and 5.2% of Germany's GDP and 3.2% of its population, and is clearly punching well above its weight. It is of even greater significance and importance in terms of its economic potential since it is a leading centre of innovation. Germany is Europe's strongest economy and it has recovered from the recent recession better than any other member state, experiencing almost 4% growth in 2010. The economic performance of Germany and its leading cities such as Munich will have a significant bearing on Europe's future prospects.

- 3.15 Munich is obviously the capital city of a very large state with a population of over 12 million people. It is an exceptional kind of second tier city. Nevertheless, it tells us a great deal about the roots of urban success and has many messages for governments and partners at different government and territorial levels. Its experience confirms many of the key hypotheses of our study. It clearly underlines the value of national strategies supporting high performing cities beyond the capital across its wider territory. It underlines the significance of local leadership and actions. It reinforces the significance of the key drivers of innovation, economic diversity, and place quality and strategic governance capacity. It underlines the importance of cities operating in wider circles – sub-regional, national, European and beyond. Munich offers a wealth of good practice in terms of policymaking. For example, its key actors have consistently pursued a set of coherent policies for supporting wealth creation, but never lost sight of social cohesion and environmental sustainability goals. They have invested heavily in new technology industries, technology transfer and innovation, physical infrastructure such as ICT and transport facilities, developed an excellent education system and promoted research and development organisations between academia and industry. Conscious policy

decisions about urban form, conservation, tourism, arts and cultural facilities have also helped ensure it has good place quality. Co-operation and partnership working are intrinsic to Munich and Germany's governmental system and also the city's civic culture. The secrets of Munich's success are: good governance and networking; policy stability and continuity; intelligent interventions on the key drivers of competitiveness; a balanced approach to competitiveness, cohesion and environmental sustainability; a respect for the past, combined with a forward looking mentality ('the Munich Way') and maintaining economic diversity (the 'Munich Mix').

National relationships and policies - letting go and flourishing

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

Local leadership drives performance

- 3.17 The Munich experience underlies that creating local governance capacity is a complex process and the consequence of national and regional as well as local relationships. There is a strong tradition of networking between public and private sectors created by mutual interest, personnel with knowledge of partners' perspectives as well as by policy initiatives. High levels of autonomy have enabled both the state and city to implement far reaching policies relating to physical infrastructure and business support. Such capacity has also enabled both state and city governments to respond to any threats that the city might be overtaken by its rivals. The City established and retained arms' length companies to run key infrastructure such as the airport, public utilities, trade fairs and leisure facilities. Municipal enterprise has enabled strategic investment in key infrastructure and encouraged the growth of new industries, for example in the environmental technology sector. City government policies have also prioritised inclusiveness which has helped produce a relatively socially cohesive as well as successful city, significant pockets of poverty notwithstanding.

Innovation, innovation, innovation

- 3.18 Munich in particular underlines the significance of innovation as a driver of success. It has pursued innovation longer and more systematically than most other European cities. The process involves many stakeholders within the state, the universities and the private sector. The partnerships are complex and overlapping and the process is self reinforcing. Munich has a powerful culture of consensus between stakeholders and networks. Effective multi-level governance ensures that the clout of the Federal Government and Land innovation programmes are brought to bear but also tailored and embedded because many of key Munich's key research and business support organisations play a pivotal role in implementing these programmes. Munich's innovation system has grown incrementally and is characterised by continuity, institutional thickness, trust, co-operation, a complex web of relationships and supply of high level skills and is therefore deeply embedded within the city. Munich also has a vast knowledge base. Munich and the state of Bavaria have established a high quality education system and an infrastructure which supports the development of business and innovation. The constant expansion of the universities and the attraction of researchers from abroad and support for the development of a number of clusters laid the grounds for success. The Universities have invested huge resources to improve the quality of research and to develop an entrepreneurial culture. The Chamber of Commerce is very powerful and plays an important role in involving small and medium-sized enterprises in the policy process and importing innovation into them.

But constrained by territorial governance

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

Prospects and implications

- 3.20 Despite its economic success, Munich faces a number of challenges. It faces competition from other German cities and major cities outside Germany. German cities tend to be under-represented politically within Federal or state governments and face fiscal pressures since responsibilities are not matched with the necessary resources. Munich is a relatively expensive place to live and operate a business. Land is cheaper, housing more affordable and business tax rates lower in surrounding municipalities and improvements in transport have made them more accessible. All this has prompted decentralisation of economic activity but also extensive in-commuting. As Munich has prospered and

grown, the need to secure a coherent sub-regional approach to economic development, planning, and governance and policymaking has become ever more pressing. Weak city regional governance could damage Munich's longer term prospects since the present rate of land consumption and traffic growth cannot continue indefinitely without causing severe congestion, environmental degradation, associated diseconomies such as delays in journeys to work and supply of goods, deteriorating quality of life and ultimately strangulation.

Second tier cities in a regionalised state – Messages from Barcelona and Spain

Barcelona is a major second tier city which has undergone massive economic transformation during the past three decades after the advent of democracy in Spain. It operates in a decentralised policy making system with powerful regional government being more important than either national or local government. It also operates in a complex multi-level territorial governance system. Barcelona successfully reinvented itself in recent decades, strengthening its position in Europe and attracting foreign investment, international entrepreneurs and tourists. Although Barcelona is not immune to the current global financial crisis and recession, it is an important example of urban economic transformation in a country that is Europe's fifth largest economy and the eleventh largest economy in the world. Barcelona's leaders in the public and private sector have responded to challenges and exploited opportunities to the city's advantage. Barcelona has significant strategic decision making capacity.

Democratisation, deindustrialisation and regionalisation

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

Powerful regional but limited national urban policy

- 3.22 There are no explicit national urban policies in Spain. There are many policies which have an impact on urban areas but they are generally piecemeal. The major explanation can be found in the political and institutional framework of the Spanish democracy. After the fall of the Franco dictatorship, it was essential - in order to preserve the country's territorial integrity - to decentralise at the regional level. Autonomous Communities have been established with strong powers and resources. In that process, urban issues have largely been devolved to the regional level. Since there are no national urban policies in explicit terms, it is no surprise that there are no administrative and/or technical structures or bodies within the State apparatus which are responsible for urban areas. In that respect, Spain strongly differs from countries like Germany, the UK, France, the Netherlands or even Italy. There are no contractual-type policies (like the German "Soziale Stadt" French "politique de ville" or the British "Local Area Agreements". Decentralisation has led to some vertical integration of policies between the national, regional and local authorities. But there is a complete lack of horizontal coordination. Policies remain sectoral and no efforts are made to coordinate or integrate them. The complicated institutional arrangements and division of powers in each sector means that all the effort goes into articulating national, regional and local division of roles in each policy sector, with little time or resources left for horizontal coordination.

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

Barcelona – reinvention and repositioning through strategic leadership

- 3.24 Barcelona is a major second tier European city which has undergone massive economic transformation during the past three decades after the advent of democracy in Spain. It operates in a decentralised policy making system with powerful regional government being more important than either national or local government. It also operates in a complex multi-level territorial governance system. The capital of Catalonia, the largest economic region in Spain, Barcelona successfully reinvented itself following nearly 40 years of General Franco's dictatorship, strengthening its position in Europe and attracting foreign investment, international entrepreneurs and tourists. Although Barcelona is not immune to the current global financial crisis and recession, it is an important example of urban economic transformation in a country that is Europe's fifth largest economy and the eleventh largest economy in the world. In many ways it has outperformed the Spanish economy and in terms of Foreign Direct Investment and exports it is crucial to the future of the Spanish economy.

Local leadership drives change

3.25 Barcelona's leaders in the public and private sector have responded to challenges and exploited opportunities to the city's advantage. Barcelona has significant strategic decision making capacity. The city government has played a major role in the political economy of the region. That leadership has been high quality, often charismatic, and consistent. It has encouraged public private partnerships through its strategic planning processes but also through the myriad of economic development initiatives it has undertaken. Leaders used strategic planning and project-led development to successfully deliver an ambitious modernising and repositioning strategy over several decades. There are several reasons for Barcelona's success. First, it has shown consistent entrepreneurial and visionary leadership. Second, it has developed a model of public private partnership and citizen involvement which constantly evolves but whose essential principles remain the same. Third, it has made strategic planning not an add-on but a standard way of doing business in the city. Fourth it has focussed upon quality which increasingly differentiates cities from each other. Fifth it has internationalised its ambitions and its reach. Sixth, it has systematically worked on the fundamentals of the economy as well as some of the more dynamic sectors of the economy like tourism, biomedics, culture, and ICT. The seventh secret is its constant self assessment and willingness to compare its performance with the best places within Europe and globally. The city has never rested on its laurels but is always willing to learn from competitors about how to improve. Finally, Barcelona's leaders have understood that although city government matters, city governance matters even more. The city council has recognised that being well run and efficient is important - especially in a period of scarce resources. But Barcelona's leaders have understood something bigger about city government. Providing well run local services are a necessary but not a sufficient condition of success for a city. They have recognised that the city council should not be a provider of services alone. It has to be a leader and a shaper of place. The idea of place shaping is now very fashionable. But Barcelona virtually invented the idea. It has demonstrated leadership in creating the kind of place that people globally and locally want to live, work and invest in. That is the key to its success.

Improved performance on key drivers

3.26 Barcelona has significantly improved its performance on all drivers of economic competitiveness in recent years. It has a large traditional manufacturing economy which is dominated by small firms but is also encouraging innovation through its universities and in key sectors of the economy like biomedicine, logistics, and design. The Barcelona economy is a mixed one with strengths in traditional as well as modern sectors. It does not have all its eggs in one basket. The city has made significant efforts to improve its skill base. It has also significantly upgraded its connectivity in recent years. Its airport, port, rail and metro systems have been expanded and modernised massively. It is now better connected although links along the Mediterranean axis from North Africa to northern Europe need improving. The place quality of the city is extraordinarily good. From the Olympics onwards, it has made great efforts to improve the urban fabric, creating a place which is both modern but authentic with deep roots in its traditional culture and identity. And it has made huge efforts to develop and promote its image nationally, in Europe and globally. It has a powerful and successful economic development agency - Barcelona Activa. But social challenges are growing. And the global economic challenge is also greater.

Territorial economic governance constrains the city region

3.27 Barcelona's experience has also underlined the importance of territorial governance. Its economic achievement in recent decades has almost been despite rather than because of the governance arrangements for the city region area. Fragmentation and conflicts within the city region area have led to unbalanced economic and social growth across the city and arguably to its economic underperformance. Barcelona City Council has demonstrated leadership and strategic decision making capacity and has delivered many substantial projects. But since the abolition of the metropolitan agency in 1987, the governance of the wider Barcelona area has been a challenge. The fragmentation of local government has been a constraint upon the wider metropolitan area's economic development, even allowing for the success of a series of voluntary Metropolitan Strategic Plans which encouraged wider working. It is very significant that a new Barcelona Metropolitan Agency was approved in 2010. But it is crucial that it has the powers and resources to help Barcelona to operate at a greater economic and geographic scale than it currently does. Working together at the increased scale of the real Barcelona urban economy – not artificial local government boundaries – is the key to the city region's future economic performance and social development. To play on the world stage it needs the advantages that scale brings. That could be Barcelona's next 'grand projet'.

Prospects and challenges

3.28 There are challenges ahead for Barcelona city region – economic, social and political. Unemployment has risen recently because of the global recession. The collapse of the housing market has left some with negative equity and the increased pressure upon existing stock has led to very high rentals. The pressure upon public expenditure, given the need to expand its infrastructure, is a challenge. The city has become much more ethnically diverse during the past decade with an increased number of city residents born outside Spain. This has brought many assets and benefits to the city. But increased social and economic challenges for all groups in a recession, especially recent immigrants, means Barcelona will have to pay particular attention to sustaining social cohesion in the next decade. Barcelona has demonstrated clear leadership. Nevertheless, some argue that the longevity of the political system which has been an

advantage is becoming a liability as the new generation feels it cannot enter the political elite or the old model of development appropriate to an earlier period is no longer as relevant for the future.

- 3.29 Barcelona has again underlined the significance of national and more importantly regional policy for success. Democratisation and decentralisation of government and decision-making since 1979 has arguably strengthened the capacity of Cataluña and Barcelona metropolitan area as its key driver to flourish. However many in Barcelona feel that their success has been almost despite rather than because of national government policy. They argue that the primary focus of national policy is to support the capital Madrid rather than other second tier cities in Spain. There is no coherent national urban strategy for Spain. Transport policy it has been argued is primarily designed to strengthen Madrid rather than second tier cities. The cities themselves have limited financial powers because so much of reform has been focussed upon creating successful regional institutions rather than sub regional and urban institutions. In Barcelona there is a view that the city is still challenged by Madrid's economic dominance and that many decision making powers and the headquarters of key firms have moved to the capital in recent years at the expense of Barcelona. There is pride in Barcelona's achievements against the odds - but also a great desire for a national strategy that would encourage its continued success.
- 3.30 Also global competition will be fiercer in future. The city and the city government must continue to become more international, more multi lingual, and more business friendly. Despite the improvements it has made in recent years, the city region needs to improve its skills and innovation levels even further. Also, Barcelona must strive to fulfil its international ambitions without losing its authenticity and identity which makes it so different and hence attractive to residents, visitors and investors. But Barcelona has recognised - and is therefore well positioned to meet - those challenges. Its economy is fundamentally sound. The investment it has made in both image and infrastructure endures. There is significant public-private sector consensus on what needs to be done. The city council is well managed with debt levels below some other Spanish cities. The city invested less in financial services and the property boom and has experienced less of a collapse. So it has a huge amount to work with. And despite the crisis, Barcelona is also better placed than most other Spanish cities to emerge intact because of its diversified economy, robust governance models, increasingly innovative economy, long term infrastructure investment, sound financial management and lack of over dependence upon the finance and housing markets which have recently collapsed in many countries including Spain.

Second tier cities in a regionalised state – Messages from Turin and Italy

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

A turbulent process of decentralisation and federalisation

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

National government is a key but not always a reliable partner

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

A proliferation of programmes but few real urban policies

- 3.33 There has been a proliferation of measures and programmes for urban areas but these have been fragmented, lacked coherence and have not been sufficiently supported by stable funding. This can be seen particularly in the "Complex Programmes" and "Negotiated Programming" which not only cover a wider range of policy domains - social cohesion,

housing, public space, employment, economic development, environment - but also operate at different scales - neighbourhoods, municipalities, larger areas. They are developed, funded and managed by different ministries and agencies that do not cooperate and are unable to coordinate them. The Ministry for Urban Areas, set up in 1984, could have done this but it did not last long.

A focus on urban areas but little on second tier cities

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

A focus on social issues rather than economic competitiveness

- 3.35 Urban programmes have primarily focussed on social issues. In the various Complex Programmes, social issues are indirectly treated through, for example, housing improvement, the upgrading of public spaces and the development of urban services. Strategic capacity is addressed through the improvement of territorial governance - the most innovative aspect of urban programmes. They have demonstrated the capacity of Italian society to invent tools to achieve collective action. In a way, it is because institutional reforms have proved so difficult, that the search for organisational and institutional alternatives has been so fierce. Because local governments know that they cannot rely politically and financially on national government they have developed instruments and mechanisms for collective action. Indeed, most of the organisational and institutional innovations have been developed by local actors before going national.

Messages from Turin - partial reinvention

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

Do national policies help?

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

How have local leaders exploited drivers of competitiveness?

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

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

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

What impact of territorial governance?

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

Prospects and challenges

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

Second tier cities in a Unitary Nordic state – Messages from Tampere and Finland

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

- 3.42 Finland is an important example of national government policies significantly improving the economic prospects of second tier cities but without a precise territorial focus upon them. There are several crucial features of this Finnish approach to policy. First, it has urbanised rapidly if fairly late and, like other Nordic countries, has a dominant capital city Helsinki with a small number of other significant cities. Second, national policies traditionally have been regional not urban and have focussed upon redressing regional inequalities and helping declining regions. In the past decade there has been a major shift to economic competitiveness with major implications for cities. Third, there has been a concerted national focus upon modernisation of the economy through high value added sectors, especially communication to promote innovation and through the triple helix model of public private partnerships. Fourth, there has been consistent investment in education at all levels but especially universities which are seen as key drivers of national economic performance. Fifth, there have been a series of national strategies to support projects which improve regional economic performance. Sixth, local authorities as in all the unitary Nordic states have considerable powers and resources and are well positioned to address economic change. Recently, national government has attempted to restructure local authorities and encourage collaboration across city regions. But reform is unfinished and governance arrangements at city region level are still suboptimal.

Regional and urban policy - from territorial justice to competitiveness

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

Key cultural values underpin performance

- 3.46 So a series of key institutional and cultural features have underpinned the Finnish approach to urban policy. Its key institutional features have included: a deregulated ICT sector; extensive regional collaboration in a triple helix model; a consistent government focus upon competitiveness; extensive regional and municipal collaboration; a successful centre of expertise programme; strong municipal government; extensive investment in business incubators; city university cooperation; and a tradition of rapid public sector decision making. Key cultural values include the cultural solidarity developed during and after the second world war; a commitment to internationalisation; equal opportunities for learning; a tradition of social justice and equality; low levels of corruption and extensive trust; minimal social hierarchies and high levels of informality; a commitment to knowledge, education and the welfare state.

Messages from Tampere

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

Co-evolution of policies

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

How have local leaders exploited the drivers of competitiveness?

- 3.49 Local leadership has been crucial to the renaissance of Tampere. After the 1990s recession, Finland and its core cities began to transform themselves into a knowledge economy. Tampere as the second R&D hub in Finland has been among the core cities in Finland's transformation processes. The economic crisis was helpful in shifting trajectories, melting some of the obsolete structures and making local actors aware of the need to do new things. Four factors proved important: a) the extensive research and education capacity developed earlier, b) Nokia's presence and growth in Tampere, c) renewal of the mechanical engineering industry and d) proactive local economic development policy.
- 3.50 Today, Tampere has a diverse cluster-based specialisation, especially in the fields of ICT, health and biotechnology, mechanical engineering and automation, media and communication, culture, and knowledge intensive business services. These clusters are locally supported by the two universities and the two polytechnics, several research institutes, technology centres, and other public and semi-public support organisations. At its core lies the idea that Tampere should be able to maintain and create as many high-quality innovation environments as possible in selected fields of business and research. However, the emergence of a knowledge base and the development of the structures and systems supporting it is a long process. They were not the result of one strategic plan but a consequence of several plans, individual perseverance and years of effort.

How has national policy affected Tampere?

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

Prospects and policy messages

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

Second tier cities in a Unitary State – Messages from Cork and Ireland

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

From Celtic tiger to recession in a centralised country

3.54 Ireland exemplifies the challenges of developing high performing second tier cities in administratively and economically centralised countries. Ireland is a highly centralised state where local authorities have very few powers and resources and where the capital city has dominated economically, culturally and politically. There has been a heavy price for this paid by Dublin the capital in terms of the costs of growth and the failure of other second tier cities to match Dublin's performance. During the past decade until the recession, however, the national economy performed very well encouraged by national government policies which helped improve the performance of some second tier cities. There has been a clear recognition of the costs of the current system of over centralisation and underdevelopment and the need for a coherent national strategy to decentralise and improve the performance of second tier cities. However, despite some improvements, traditional political and administrative barriers have prevented significant progress with the government's agenda during the past decade. The current crisis has raised significant further barriers to the development of second tier cities and the rebalancing of the national urban system with a continuation of the economic, social and environmental costs. Despite this, all of Ireland's cities have witnessed impressive growth rates during the past two decades as the Celtic Tiger's economy grew at three times the European average during large parts of the period.

3.55 The demographic and economic growth of Irish cities and the capital Dublin over the past twenty years has been closely linked to the fortunes of the national economy. Between 1995 and 2000 the Irish economy grew at a rate three times greater than the European average and continued to grow until the global recession of 2008. A key stimulus for this impressive economic growth was Ireland's increasing ability to attract good quality foreign direct investment, particularly in the pharmaceutical and new technology industries. This was fuelled by a number of policy factors: low corporation tax rates, at 12.5% one of the lowest in Europe; good educational levels, accompanied by the English language, amongst the Irish workforce which was the result of a national policy to increase the numbers receiving third level education within the country; low personal income tax rates which were attractive in recruiting and retaining skilled labour. Europe has also helped the Irish renaissance with its substantial and diversified trade linkages with other EU countries. Ireland's position as the key gateway into Europe for US trade, was made even more prominent as a result of the UK's reluctance fully to commit to the EU project. And Ireland received substantial EU Structural Funds investment during the 1990s.

Coping with centralisation

3.56 Although Ireland, its main cities, and in particular Dublin, experienced strong economic growth during the 1990s, by the end of the decade the unevenness and sustainability of this growth was a concern for national policy makers. Two key policy areas strongly contributed to this uneven and unregulated growth. The first was Ireland's traditionally localised planning system, and the lack of any coherent national spatial planning structure, with little vertical or horizontal coordination between governance structures and policy. The second was an urban policy which had consistently, since the late 1980s, prioritised tax incentives for physical development, over social and environmental concerns. Official policy recognition that change was needed emerged in 1999, with the publication of the 2000-2006 National Development Plan. This was closely followed by the 2002-2020 National Spatial Strategy. Both these documents emphasised the need for more balanced development and the need for growth in key urban areas outside of Dublin. In particular, they drew attention to the need to invest and to encourage growth in the larger second tier cities outside of Dublin, in particular Cork. These national 'Gateways' were intended to act as a national network of strong centres as a counterbalance to Dublin. In addition, eight national hubs were designated around the country to help bring growth to the surrounding rural areas.

Challenges of implementation

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

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

3.58 All Ireland's cities have witnessed impressive growth rates during the past two decades. During this period Cork became a dynamic second city to Dublin and was able to punch above its weight. The Cork city region with its concentration of FDI manufacturing firms and universities, is the economic driver for the South West region of Ireland. National policies have both helped and hindered Cork's development. For example, although changes have occurred during the 1990s, with new forms of governance being established at the sub-national tier, the country remains highly centralised, with such changes being instigated on a 'top down' basis. These reforms have resulted in tighter national integration and management rather than decentralisation of control to the sub-national tier. Nevertheless, national policies have also helped, for example, with the swathe of FDI and high end manufacturing firms located in and around

the Cork city region that has driven its performance over the past two decades. National policies such as low corporation tax rates, the country's success in attracting good quality manufacturing investment and a focus upon improving third level educational attainment, have influenced Cork's success. European funds and resources have played an integral part in its development, particularly for infrastructure and urban regeneration projects. European money has contributed towards major investments in the non-national roads network across the city-region, the development of new deepwater and container ship terminals and cruise berths at the Port of Cork, broadband programme, investment in the rail infrastructure, and of new rolling stock between Cork and Dublin. Significant ERDF funding during the 1990s kick-started economic and social regeneration in the historic centre of Cork.

How has local leadership increased competitiveness?

- 3.59 Despite local governance actors in Ireland having limited powers and resources, the Cork City Region has made the most of a limited hand. Since the late 1970s there have been coordinated efforts to plan strategically and coordinate development within the city-region. The latest strategic planning guidance for the city-region and Cork is now at the forefront of metropolitan planning in Ireland, with a coherent system of spatial planning operating at the city-regional level. Local leadership has strategically exploited and developed the key drivers of competitiveness. These individuals were influential within local government and were the catalyst for much of the development and business and enterprise growth within Cork. The city was hit badly by deindustrialisation during the 1980s. Since then the city-region has sought to reinvent itself, and during the past two decades new industries have appeared, along with numerous infrastructure, residential and commercial developments. It has become the European home for numerous global pharmaceutical, technological and service-based industries. Over the past decade the city-region has discovered a new found confidence, becoming the European Capital of Culture in 2005.

- 3.60 Cork possesses strong place quality assets, which have helped to embed foreign firms and attract and retain the young and well qualified within the city-region. Overall quality of life is arguably superior to that of the capital with lower living costs, less environmental deprivation, and less congestion than Dublin. Moreover, the city-region possesses a very attractive natural landscape and environment. The keys to its success include: well organised city-regional strategic land use planning; good working relationships between city-regional governance actors; success in attracting high value added FDI investment; a more balanced economic profile between services and the industrial/manufacturing sectors compared with other Irish city-regions, including the capital; a young, well educated population and workforce; strong third sector, Universities and research community; conscious local policies to promote place quality assets and good quality of life.

How does territorial governance affect the city region?

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

Prospects and challenges

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

Second tier cities in a Unitary State – Messages from Lyon and France

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

3.63 France has traditionally had a highly centralised policy making system which has been through an unfinished and uneven decentralisation process in the past two decades. Paris, a potential global city, remains dominant although there have been significant efforts to encourage the growth of second tier cities through investment in transport infrastructure and the decentralisation of public sector jobs and services. France also has a highly fragmented governance system at local level and there have been significant recent efforts to encourage cooperation between existing local governments to create larger territorial units at city regional level. Innovative contractual arrangements between national, regional and local governments have been introduced to compensate for institutional fragmentation. The territorial and institutional organisation of France at the local level has many layers of municipalities, départements, the region, the State and joint authorities - but few links between them. In contrast to many other European countries, there is no hierarchy between local governments. The result has been a decentralisation process that is still unfinished and confusing in its division of responsibilities, resources and leadership. In this context, relations between national and local governments and also between local governments are crucial.

3.64 The urban challenges which have led to the development of policy measures at the national level are similar to those in other European countries. Social issues have dominated the political agenda with economic competitiveness and development or environmental issues entering the agenda relatively recently. There are explicit national urban policies with the most important being the *Politique de la Ville* ('Policy for the City'), 'pôles de compétitivité' ('poles of competitiveness') and 'coopération métropolitaine' ('metropolitan cooperation'). The *Politique de la Ville* is territorially based, targeting the social problems of disadvantaged suburbs. The "poles of competitiveness" policy, launched in 2004 as an arm of French industrial policy, is largely associated with high tech clusters of firms, education and training centres and research units. They are designed to help produce R&D projects of a national or international visibility in both new sectors like nano-technologies, bio-technologies, micro-electronics and in more traditional sectors such as aeronautics and automobiles. Once the territory of each project is clearly demarcated and partnership structures established, national government signs a contract with the partners.

Challenges to successful policy making

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

Messages from Lyon

3.66 Despite decentralisation, the State remains a very powerful actor in Lyon's development. It still controls many policy sectors such as health, education, research and development, transport. As a Napoleonic State it also has a powerful local administrative arm implementing these policies. It intervenes in the funding of projects and local policies through the Region-State Project Agreement in the Lyon area. It also intervenes through a special planning instrument, the Territorial Planning Guidance - *Directive Territoriale d'Aménagement* (DTA) - which prioritises infrastructure of national importance. The State has also established innovative institutional instruments which have played a significant role in the governance of the Lyon area, such as the creation of *communautés urbaines* in the 1960s, the new planning instruments at the urban area level such as the *Schéma de Cohérence Territoriale* (SCOT) at the end of the 1990s and early 2000s and currently local 'metropolitan poles'. Lyon also directly benefited from national policy aimed at rebalancing the national territory and supporting second tier cities to provide a counterbalance to Paris in the shape of improved public transport with the construction of the metro in the 1970s and the TGV connection in 1982.

3.67 Lyon, France's second city with about 2 million people in the urban area, has itself been innovative in sectors like planning and governance and urban services. It has implemented large scale urban projects and has been successful in Research and Development policies and international promotion. Its GDP per capita is second to Paris and it is better connected than other second tier cities in France, in part because of the TGV. It has a very good reputation for its professional training schools, engineering schools and universities and is well positioned at the national level for innovation. Its economy is relatively strong with strengths in sectors such as bio-tech, medical sciences, logistics, textiles and chemicals and this diversity has contributed to its significant resilience to the present crisis. The central

city has been physically transformed with the upgrading of the historic centre into a UNESCO world heritage site, the revitalisation of the river banks, the development of large-scale urban projects and the hosting of festivals and fairs. The city has the best public transport system in France after Paris and its unemployment rate has almost always been lower than regional and national rates.

Local leadership and exploiting the drivers of competitiveness

- 3.68 Two key features distinguish decision making in Lyon. The first is the ability of local actors to “work together” as a key asset for the development of their metropolis. The second is Lyon’s culture of consensus and pragmatism and the good relations between the public and the private sector captured in the expression “the Lyon spirit”. The Lyon spirit has had tangible results, in particular the production of big urban projects, with 10 currently being built which will significantly change the physical appearance of the city and reinforce its image as a dynamic city region. The strengthening of relations between the public and the private sectors has also had significant impacts in several policy sectors allowing Lyon to win major state projects in R&D and Higher Education and organise metropolitan promotion and internationalisation.

The limits of territorial governance

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

Prospects and challenges

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

Second tier cities in a Unitary State – Messages from Leeds and the UK

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

- 3.74 The UK remains a relatively highly centralised unitary state although there have been some recent devolutionary moves in sub-national government towards Scotland, Wales, Northern Ireland and the capital city. Local government, powers and autonomy have been diminished relative to the national state. While cities remain important deliverers of statutory services they do so under strong central government control and direction. In term of economic development and place-making, cities have to integrate their relatively limited fiscal powers by bringing together at local level, national and regional policies on business support, education, health, innovation, urban regeneration and transport. This place-making approach has involved the development of new forms of governance involving partnerships with private, public and voluntary and community sectors and, more recently, the up-scaling of governance to city-regional levels.

An urban but not a cities policy

- 3.75 Until relatively recently, the UK has had an urban policy but no policy for cities. There has been an explicit urban policy for over 40 years - primarily concerned with welfare issues and the social, economic and environmental issues of economic restructuring in cities. During this period, urban policy experienced several shifts in underlying philosophy, institutional structures and institutional relationships. In the 1980s, under a Conservative government, the focus was on market-led redevelopment, sometimes steered through departmental agencies and quasi-autonomous development corporations, with the role of local government downgraded. From the late 1990s, policy shifted towards the coordination of initiatives and spending programmes and an emphasis on multi-agency partnership working in which local government resumed a leading role and the voluntary and community sector was variously engaged. More recently, a localism agenda, while leading to fragmentation of policy making also offers the prospect of greater powers for second tier cities.

- 3.76 At the end of the 1990s a cities policy began to take shape. The Labour government, elected in 1997, had two strands to its urban policy. The first strengthened the focus on social inclusion and the neighbourhood dimension of urban regeneration. The second strand was an embryonic cities policy in which cities were seen as places of economic dynamism rather than repositories of social and economic problems. Reinforcing this central government shift was the initiative of cities themselves in promoting their development potential and importance to the national economy. This development is illustrated in England by the formation of the 'Core Cities Group', which brings together the local authorities of the eight largest second tier cities to pursue their joint interests in urban development. Cities also gradually came to feature in the sub-regional development strategies of the Regional Development Agencies, set up as part of the government's wider devolution agenda. In England, Urban Regeneration Companies (URCs) were established to take responsibility for the physical regeneration of designated areas in selected cities. These URCs themselves showed how levels of governance were merging in urban regeneration, being based on partnership between agencies at national (English Partnerships), regional (Regional Development Agencies) and urban (City Council) levels.

- 3.77 Urban regeneration was also heavily influenced by government attempts to modernise local government. Local authorities were given the power 'to do anything' to promote or improve the economic, social and environmental well-being of their areas but they were also encouraged to work in partnership with other agencies and local communities through 'Local Strategic Partnerships' (LSPs). This partnership approach was further reinforced by the introduction of Local Area Agreements (LAAs) where public sector partners were encouraged to combine spending programmes to meet targets agreed with government. City-regional partnerships were also promoted to provide governance at the level of functional economic areas, accompanied by matching Multi-Area Agreements (MAAs) across local authority boundaries. The panoply of LSPs, LAAs, MAAs and city-regional partnerships not only added to the already complex institutional landscape but further demonstrated the degree to which urban regeneration has increasingly been delivered through evolving forms of multi-level collaborative governance.

Unlocking growth – an emerging policy for second tier cities?

- 3.78 The election of a Conservative Liberal Democrat government has set another major policy shift in train. The regional development institutional architecture is being dismantled in a shift to a more localist approach in which the establishment of Enterprise Partnerships at sub-regional level has been encouraged. The government has claimed to be committed to balanced economic development – regional and sectoral - and has created the post of Minister for Cities in a renewed focus on cities. Elected mayors for cities have also come back onto the political agenda. A recent Parliamentary Select Committee has been critical of the government's initial policy statement on urban regeneration, emphasising its perceived lack of strategic direction, the reduction in funding, the absence of any strategy for attracting private sector investment, the failure to acknowledge the benefits of effective planning and the failure to consider how policy will be evaluated. The government's response, however, has been to announce what is potentially

the first explicit policy for second tier cities. Under the banner of ‘Unlocking Growth in Cities’, the government has set out plans for negotiating the devolution of powers to city administrations. Powers over regeneration, housing, transport and broadband infrastructure, skills, rates and local revenue raising are to be devolved through negotiated “city deals”, initially with the eight English core cities and their wider Local Enterprise Partnerships, but eventually extending to other cities. Second tier cities are at last on the political agenda.

Messages from Leeds

- 3.79 Leeds is a major second tier city in the United Kingdom, the country’s second largest Metropolitan District with a population of around 799,000. The wider Leeds City Region has a population of just under 3 million people, which makes it the second largest functional sub-national economy outside London. The city has one of the most diverse local economies in the country. This diversity has underpinned its relative economic success. Between 2001 and 2010, its population increased by 12 percent, double the national increase. And between 1998 and 2008 there was a 14% increase in jobs, a faster increase than the nation, the City Region and region. The city has consolidated its role in commercial and financial services with significant growth in public sector jobs in higher education, administration and medical services. And the urban landscape has been dramatically transformed, with record levels of commercial property and residential development in the city centre during this period.

Developing strategic governance capacity in a centralised state

- 3.80 Like other second tier cities in the UK, the city’s approach to economic development has evolved through a process of negotiation with central and regional tiers of government over development powers and access to national policies. At the same time the city’s political administration has taken the lead in developing partnership-based institutional structures to bring together national spending programmes and local development initiatives in an integrated place-based approach. The history of Leeds particularly in the last two decades can be seen as an attempt by the city to develop the strategic capacity needed to intervene effectively. This has involved changes in governance with increased partnership working between public, private and voluntary sectors and an up-scaling of governance to city-regional level.

Partnership and city leadership

- 3.81 Because of its relative economic strength, Leeds has never been eligible for national regional policy aid or the highest levels of EU regional policy. Instead it has drawn relatively successfully on a small number of national urban policy initiatives and the EU’s URBAN community initiative. The most significant of these in terms of funding and impact was the Urban Development Corporation established by central government and operating between 1988 and 1995. This brought an impetus to development in the city’s neglected waterfront. The UDC also made an equally important impact by acting as a catalyst in city governance. The City Council responded by setting up its own Development Corporation and Development Agency, both now incorporated into its City Development Department. And, significantly, the City Council and local Chamber of Commerce together formed the ‘Leeds Initiative’, a partnership that has played the strategic role of producing a series of ‘visions’ for the development of the city. Partnership working has underpinned its proactive approach to development that also included setting international benchmarks with the aspiration to emulate Barcelona in its urban design and cultural facilities. The Leeds Initiative epitomises Leeds’ pragmatic, partnership approach to development. Initially focussed on economic development, its remit has been extended to social and environmental concerns in co-evolution with national policy. Its membership has also widened from public and private sectors to include the voluntary and community sector. The Council has also orchestrated changes to partnership structures to reflect changing priorities.

Upscaling of governance

- 3.82 Early local initiatives on city-regional governance chimed with and were further supported by national policy. The city-regional Multi Area Agreement has evolved into the city regional governance architecture. The city region is now negotiating with central government over the city-regional Local Enterprise Partnership set up to mirror the shift in central government policy. So far it has been successful in getting government support for an Enterprise Zone, which builds on earlier regeneration initiatives.

Decentralisation and connectivity matter

- 3.83 The city also provides a good example of the importance of decentralisation of public sector jobs from the capital. The Council, for example, worked with the UDC to secure the Royal Armouries Museum, which helped consolidate the city’s waterfront development. It also received civil service jobs transferred from the Departments of Health and Work and Pensions in London. This was particularly important in strengthening the city’s administrative role. Leeds has been particularly successful in road building and air connectivity, with its local airport proving to be one of the fastest growing regional airports and good access to Manchester Airport. But the city has struggled with public transport infrastructure, which has become a key issue as road congestion has worsened. The failure to secure central government funding for a light rail transit system provides a classic example of both central government control of transport infrastructure investments and the limited local revenue raising powers of local government to compensate for this. It also shone light on the large and growing gap between transport spending in London and the rest of the country, underlining central government’s favouring of the capital in terms of transport infrastructure.

Relatively resilient local economy but threats of polarisation

3.84 The city-region so far is weathering the recession relatively well. It benefits from the size and agglomeration advantages of the city region economy, economic diversity, the relatively large number of headquarters of leading companies, Higher Education Institutions and strong connectivity. The lower than average share of public sector employment is likely to lessen the impact of public expenditure cuts. After being delayed by the credit crunch, major private sector retail developments are going ahead along with the largely council-funded Arena project. But jobs in both the city and city-region have been lost. Employment in the city has fallen back to the level reached a decade ago and highly localised unemployment has risen in both the city and city region. The growth of the 2000s was not equally shared and was accompanied by the development of a ‘two-speed city’. The recession means that groups and neighbourhoods on the margins of growth are likely to face increasing pressures.

Better public transport, innovation and skills

3.85 One of the biggest challenges is transport. The road network is almost at capacity and the growth in rail commuting has resulted in overcrowding on public transport services. Without improved public transport provision, congestion will worsen. Innovation also remains a problem for Leeds since the growth of recent years has not been sustained by relatively high levels of public and private sector spend on R&D. The city has made a major effort in developing innovation strategies, emphasising industrial collaboration and the transfer of university expertise to industry. But it has not been helped by the absence at national level of a genuine regionalised industrial and innovation policy. Leeds has also emphasised the need to develop skills and employment programmes. Leeds currently has the second highest employment rate, after Bristol, of all the large cities in the UK. There have been significant improvements in educational attainment in recent years. But it still lags behind national averages and there are continuing concerns about the number of young people not in education or training.

A policy for cities and real devolution of power needed

3.86 Addressing Leeds’ challenges would be helped by a clear national policy framework for cities, which involves some genuine devolution of powers to city and city-regional levels. The last decade has seen a number of initiatives in relation to city development but these have not really constituted a coherent policy for second tier cities. Whether the current government’s proposals for devolving powers to cities through its “city deals” amount to such a policy remains to be seen – but they are a step in this direction.

Second tier cities in a Unitary Centralised – Messages from Timisoara and Romania

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

Democratisation, marketisation and urbanisation

3.87 Romania is experiencing a rapid transformation from a centrally-controlled to a market-led economy which has markedly affected its cities. They have witnessed most economic growth but are also the scene of major social problems and greatest resource consumption and pollution. Its capital, Bucharest dominates other cities in terms of its share of GDP (22%), population (10.4%) and R&D expenditure (61%). Romania has a polycentric urban structure since it contains eight regional capitals or second tier cities, each containing about 300,000 inhabitants. The dramatic economic changes the country has witnessed since the end of communism has led to increased social polarisation within cities. All urban areas are currently losing population due either to emigration or decentralisation of economic activity.

3.88 The country has a highly centralised public administration system which has underscored Budapest’s primacy. But over the last two decades there have been moves to decentralise power. In 1999, local authorities gained virtually full control of their spending allocations from central government and powers to raise additional revenue locally. The other level of the 2 tier sub-national administrative system is the 41 counties. A desire to harmonise with EU structures in preparation for accession in 2007 led to the formation of planning regions and regional development policies and major injection of EU structural funds. In 1997, eight macro-regions (NUTS2) were designated and were later used to implement Regional Development Operational Programmes. But despite recent moves to decentralisation, Romania remains a highly centralised country. National government continues to dominate policy making. The regions are not territorial administrative structures and do not have legislative powers or separate budgets. On the other hand, the counties are too small to counterbalance national power. Governance is weak in terms of both vertical and horizontal integration because of centralisation of power and government elites’ reluctance

to engage with civil society organisations and the private sector. So their resources have not yet been properly mobilised.

The costs of urbanisation

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

Shaping urban growth

- 3.90 In response to these urban challenges, the Romanian Government has developed a national urban policy to address four main priorities in a comprehensive, integrated way: limiting urban sprawl; improving housing conditions; meeting the conditions for sustainable, competitive and cohesive cities; limiting the exposure of the population to technological and natural risks. The key current document for strategic planning and long-term financial programming of urban development is the National Development Plan 2007-2013. It is closely linked to the National Strategic Reference Framework 2007-2013, which indicates how the European Fund for Regional Development, the European Social Fund and the Cohesion Fund will be used to support plan implementation. Another key strand of the national plan is the Regional Operational Programme (ROP) 2007-2013 which seeks to reduce disparities between Romania's regions by, among other things, supporting the sustainable development of urban growth poles and concentrating investment in them. There are three types of urban growth poles: Growth Poles which are the seven second tier cities and their hinterlands; Urban Development Poles which comprise 13 smaller cities; Urban Centres which are towns with over 10,000 inhabitants.

Timisoara - success against the odds

- 3.91 Timisoara is one of Romania's most successful growth poles. Its businesses generate the second highest GDP per capita in the country after the capital Bucharest. Despite suffering from extensive economic restructuring following the introduction of a market economy after the 1989 revolution, Timisoara has since attracted a substantial amount of foreign investment, especially from Italy, Germany, Austria and the Netherlands. It is an engine of growth for the West region and effectively its regional capital. It is also an important educational and cultural centre and has a cosmopolitan population because of its location and complex history. The city has achieved economic growth despite operating within a centralised governmental system. It is a good example of how local governance and local strategies can be key drivers of innovation, human capital, place quality and therefore competitiveness and also the supportive role of EU structural funding. However its experiences also highlight how Romania's governmental system is limiting its potential.

- 3.92 During the Ceausescu era, Timisoara did not receive attention mainly because it was a long way from Bucharest. This period of relative neglect did create some longer term advantages. The historic city centre was not spoiled by heavy industry. Also, city interests were forced to discover their own ways of achieving economic and socio-cultural development which encouraged innovation and self-sufficiency. Since the end of totalitarianism, the city has enjoyed spectacular economic success. 8,200 companies in a variety of manufacturing and services sectors from 80 countries have invested in and around Timisoara. Timisoara appeals to foreign investors because of its low labour costs, excellent location, and multi-cultural affinities. Different levels of policies have played a facilitating role. Dramatic political change triggered the investment. Government investment in higher education facilities has also boosted Timisoara's competitive advantage. The Government directly funds its 8 Universities, 32 research institutes and a forthcoming skills centre. Many students stay after graduating because the cost of living and quality of life is comparatively good, supplying skilled labour to local firms and adding to the vibrancy of city life.

Impact of local leadership

- 3.93 Progressive reform of the governmental system has strengthened local government capacity and autonomy. This has particularly benefited relatively buoyant areas like Timisoara since the municipality is entitled to receive 47% of personal income tax revenues giving the city greater scope to act. The city has also benefited from the strengthening of planning instruments, the legislative framework and the administrative capacity to manage complex urban environmental issues. The municipality has played an important role in the city's economic success by creating an attractive and ethical business environment, eliminating unnecessary permits, speeding up plan and decision making.

It has specifically encouraged inward investment by granting relocating companies three year tax exemptions as well as land and premises. It has used EU money to develop an incubator and business centre for new, small and medium sized enterprises. It is also trying to create the right environment for leading technology companies, knowledge industries, environment friendly companies and manufacturers requiring a clean environment. Timisoara has also pioneered strategic planning in Romania. EU membership, policies and funding have been important stimuli. It was among the first cities in Romania to develop a socio-economic development strategy for the Timisoara Area in 2000, involving all the key local stakeholders. A General Urban Plan has been prepared and the city is in the process of producing several sectoral strategies and a master plan. The municipality has also established a series of consultative councils to come up with proposals for improving city infrastructure, public transportation, social cohesion and addressing the needs of particular groups. Timisoara has always been an open and tolerant city containing multiple ethnic groups and has pioneered more inclusive and progressive forms of governance.

Too little territorial integration

3.94

The growth pole policy has encouraged closer working between Timisoara municipality and the county since they both have a joint interest in improving basic infrastructure throughout the city region. However, the policy has only limited funding and covers an area only three fifths of its optimal size. Romanian cities tend to compete with one another and with those on the other side of its international borders. For example, Timisoara has little to do with Arad (170,000) a prosperous industrial centre which is only 48 km away. Both cities, part of the same development region, could benefit from working together because they have complementary strengths. But they do not co-operate because they are in different counties, controlled by different political parties, have different cultural roots and rival airports. Similarly, Timisoara could benefit from greater cross border co-operation with its Hungarian neighbour, Szeged. Improving road and rail links and developing an integrated water network using the Bega canal would be in both cities' interest. There is also potential to work more closely with north eastern Serbia which has relatively good infrastructure. The Romanian, Hungarian and Serbian governments currently overlook the economic importance and potential of their peripheral cities and regions. The restoration of cooperation between the different parts of the historic Banat region is only at the very beginning.

Prospects and challenges

3.95

Timisoara's future prospects are mixed. It has major indigenous strengths such as good higher educational and training facilities, a thriving economy because of major inward investment, an open, multi-cultural society, an attractive historic core and a relatively entrepreneurial and progressive local administration. EU accession has resulted in a new economic impetus and improvements to the legal and institutional environment and some decentralisation which has led to increased recognition nationally of the importance of urban growth poles like Timisoara and potentially opened up new trade opportunities. However, the city has relatively poor regional transport infrastructure, lacks innovation capacity which is heavily concentrated in Budapest, and is vulnerable to the migration of the most highly skilled to other areas and countries. The city operates within a very centralised regime and its fiscal capacity is still heavily constrained. Growth pole policies offer a way forward but institutional arrangements are insufficiently strong to ensure that a coherent city regional approach to infrastructure development is adopted. There is also a tension between spreading Government and EU money to assist lagging regions and promoting equalisation and backing and incentivising those poles with the greatest growth potential such as Timisoara. This issue of how to link growth areas with more needy areas has not been systematically thought through at a national or regional level. Timisoara will suffer from the lack of co-operation with its neighbours and at the moment there is not much appetite at either national or local government level to address this fully. Timisoara is therefore a relatively successful city operating in a sub-optimal environment and unless this changes this will curtail its future growth prospects.

3.96

Romania is taking promising if tentative steps to realise the potential of second tier cities by developing a more conscious urban policy. However, implicit as distinct from explicit forms of urban policy have not been explored and remain underdeveloped. Romanian urban policy also relies heavily on EU Structural Funds. If cities like Timisoara are to meet current and future challenges, they will need new national legal frameworks, real regionalisation based upon direct elections and greater incentives for cooperation across the city region, strategies which deal with the urban system as a whole and the interconnections between Romanian and neighbouring European centres and also functional urban areas.

Second tier cities in Unitary centralised State: Messages from Katowice and Poland

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

Successful response to democratisation and marketisation

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

Emerging national urban policy

3.98 Responsibilities for policies at national level that affect urban areas are scattered which makes horizontal co-ordination within the central government difficult. Strategies and plans for spatial development and co-ordination mechanisms exist, but their impact on the ground is limited. Like other countries that have emerged from a centrally planned, top-down system of government, Poland's governance pendulum has swung from a highly centralised administrative culture which the public did not support, to a decentralised one fraught with inconsistencies and constrained by limited financial resources. Consequently, decision-making on transportation, housing, urban revitalisation and economic development is highly fragmented and there is unhealthy competition between administrative units in the same single functional area. They all lack mechanisms to coordinate more effectively different layers of governments.

3.99 Recent policies have begun to address these issues. The National Strategy for Regional Development (NSRD) 2010-2020, goes furthest in bridging the gap between national development strategy and urban policy implementation. It aims to strengthen the metropolitan functions of the regional (*voivodeship*) capitals and their functional areas. It also seeks to strengthen linkages between non-urban areas and cities at a regional level, which should boost synergies between urban and rural economies and regional competitiveness. Finally, it seeks to revitalise cities in danger of losing their socio-economic functions. The National Spatial Development Concept 2030 (NSDC), currently being approved by Government, could address the lack of multi-level governance and fragmentation between economic and spatial development goals. The NSDC focuses on: (i) the basic elements of the urban network and highlights metropolitan areas; (ii) environmental protection; (iii) international and national social infrastructure (iv) international and national transport infrastructure and water resources and management. The NSDC could provide the basis for integrated intersectoral development strategies and investment plans and promote inter-municipal co-ordination in functional urban areas.

Messages from Katowice

3.100 Katowice is Poland's tenth largest city with a population of 305,000. It is distinctive in a number of ways. It is shrinking more rapidly than any other second tier city and has lost 17% of its population since 1987 because of the decline of coal and steel and related industries, hastened by the transition from socialism to capitalism and abandonment of state control and migration of the more highly educated to other Polish and European cities. However, it lies at the heart of, and is capital of, the Silesian metropolis, the second largest urban agglomeration in the country of some 2m people where the 14 constituent cities work together under Katowice's leadership. The Silesian region is effectively the Polish equivalent of the Ruhr area. Unlike other second tier cities, Katowice's productivity is very low because of its loss of human capital. City leaders face a huge challenge of dealing with its post industrial environmental legacy and attempting to turn the city into a modern European cultural, recreational and commercial centre.

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

Impact of national policy

3.102 The most significant national government policies for Katowice - besides continuing to invest in the city region's key infrastructure - have been associated with the re-establishment of self-government at municipal level. This involved staging the first democratic elections in 1989, the creation of the 16 Polish regions (*voivodeships*) and elected regional assemblies in 1999 and gaining accession to the European Union in 2004. Restoration of self-government and allocation of the responsibility for urban development to local governments gave Katowice scope to define a future vision and attract more new investment. On the other hand, the local authority has struggled to handle some new

responsibilities, for example, reducing unemployment, social exclusion, poverty, crime, and homelessness, because it has not been given the necessary revenue or tax raising powers. And the division of responsibilities between sub-national tiers of government is unclear.

- 3.103 Regionalisation has had mixed implications for the city-region. Katowice has been made the seat of the regional government which has strengthened its administrative significance. Also, national and regional planning documents repeatedly stress the need to strengthen metropolitan functions and concentrate development in the largest cities. EU regional funding has significantly boosted Katowice's aspirations to become an outstanding cultural centre by part financing three major cultural and scientific investments. However, the regional development strategy and spatial development plan while acknowledging metropolitan areas does not contain explicit policies for developing them. Decentralisation of functions and the legal system has not been matched by the devolution of financial powers and resources. For example, the Voivodeships lack tax raising powers.

Local policy

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

Territorial governance

- 3.105 Both regional and local governments have attempted to improve city regional governance. The Voivodeship has created four sub-regions centred upon the four municipal agglomerations of Upper-Silesia, to improve multi-level governance, intensify collaboration and strengthen formal connections, and referred to them in its spatial management plan. Also, the 14 cities comprising the Upper Silesian conurbation have formed Silesia Metropolis to ensure the area is competitive, harmonise development strategies in line with the Voivodeship's strategy and exploit their potential. The cities face similar problems since their economies were based on heavy industry. Joint work has centred on modernising the tram network and waste management system and cultural events. However, the association is a voluntary body which does not cover the entire conurbation. More promisingly, a transport association comprising 26 member authorities has been formed which more closely matches the conurbation's boundaries. But reaching agreement over the tram network and shared development projects has proved difficult given individual municipalities' extensive land use powers and different interests.

Prospects and challenges

- 3.106 Addressing economic decline and other city regional challenges will take time given Katowice's economic composition. A quarter of its jobs are in traditional extraction and manufacturing sectors which continue to haemorrhage. Projections suggest that both city and metropolitan region will continue to lose population at an alarming rate -18% by 2025 - which will affect service industry. Recovery of polluted land will also be a lengthy task. If the city is to change its trajectory, it will need a sophisticated and integrated urban strategy which delivers well paid jobs, good housing and support services and quality of life. But this will prove difficult since local government is fragmented and national policymaking siloised. Katowice also faces strong competition from Poland's other second tier cities, many of which are more environmentally attractive and less polluted. It must promote a new image, restore local self-confidence and break down stereotypes. Retaining talent will also be challenging.

- 3.107 The basic policy challenge for Katowice and other Polish cities is urban and metropolitan governance. Currently there is no mechanism for harmonising the different fragmented policies that could enhance their competitiveness and social cohesion. Despite post-communist public administrative reforms, there is only minimal co-ordination of strategic planning between local, regional and national levels. Although the National Strategy for Regional Development recognises cities' key role, no metropolitan policy has yet been developed and implicit policies are still operated by numerous central government departments in independent, siloised fashion. Urban policy is only slowly becoming a national priority and cities have yet to gain political significance in regional development policy. A stronger national legal framework and financial incentives are needed if the current voluntary attempts to develop city regional approaches are to work.

What support for our key arguments?

- 3.108 This chapter has presented a wide range of evidence about policy principles and practices in a series of second tier cities across a wide range of countries. The following chapter will distil the key collective messages. However, Table 3.5 shows in schematic fashion what the evidence from each city tells us about our five key arguments about the performance of second tier cities. It shows that although their experiences greatly differ in detail, they offer considerable support for the key arguments this study has advanced. They support the arguments that deconcentration of investment and decentralisation of powers shape cities' potential trajectories and development. But they also show that in many countries cities have not been given the necessary powers and resources to meet

their growing responsibilities and challenges. They underline the significance of local factors especially entrepreneurial local leadership. But the study has also underlined the significance of inherited economic structure. The experience of all the cities underlines that few countries or cities have successfully addressed the key territorial challenge of developing economic governance at scale so that all the key actors and institutions across a single territory can maximise their resources and assets to achieve integrated place based economic strategies. Delivering governance at scale and economic place making remain substantial challenges to many cities in many countries. Too many cities are still attempting to use 19th century local boundaries and 20th century forms of government to shape and develop a 21st century global economy. This remains a key policy challenge for decision-makers at all level of governance.

Table 3.5: Do the case studies support our five key hypotheses?

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

4. SECOND TIER CITIES - PERFORMANCE AND PROSPECTS

The relationship between capitals and second tier cities

4.1 This study has reviewed the key features of performance of European cities. It shows that the contribution that capital and second tier cities make to their national economies varies across Europe. In particular, for historical, economic, political and institutional reasons, capital cities especially dominate their national economy in the east. But although most capitals do dominate second tier cities, the size of the gap varies and in some cases is declining. Also many second tier cities have successfully restructured their economies and are making a growing contribution to national prosperity. In terms of policy, some countries concentrate attention and resources on the capitals at the expense of their second tier cities. But many are beginning to develop policies which explicitly target them. More widely, in some countries mainstream national policies which implicitly affect urban competitiveness - innovation, diversity, skills, connectivity, place quality and strategic governance capacity – have been used to help second tier cities develop. Most interestingly, in countries which are less centralised and less economically concentrated, and where cities have greater powers, resources and responsibilities, cities have performed better and helped the national economy more.

The recession is hitting second tier cities– but with different effects

4.2 Many second tier cities performed well during the boom years when they had national government support and investment. But the recession has had a major impact on many of them - in particular those which flourished during the boom decade. Some regions in Central and Northern Europe - Netherlands, Austria, Denmark, Switzerland, Norway, Luxembourg and Iceland – have coped relatively well with the economic crisis so far. By contrast, many regions in the Baltic States, Spain, Ireland, Eastern Germany and some in Romania, Bulgaria and France have been hit severely. Capital cities generally are better placed to withstand the recession. But capitals and second tier cities in the South and East have been especially hard hit with a dramatic reversal of the improvements experienced in the growth period. But even in these countries the picture is mixed. Some second tier cities are holding up relatively well.

Risk of increased gaps between secondary and capital cities

4.3 Although the crisis is still unfolding, there is evidence that the gap between capitals and second tier cities which closed in many countries during the boom years, has begun to reopen. More generally there is a risk that the gap between the more and less successful cities across Europe will widen in the future. There will be intense competition between places for limited public and private investment in the coming years. There is a risk that private and public investment will focus on already successful cities which have better economic prospects. Because of this risk, national governments will need to be more explicit in their decisions about territorial investment programmes in the future than they have been in the past.

Cities can shape their trajectory - the role of local leadership

4.4 Many factors affect second tier cities' strategic options. But they still have discretion to shape their fortunes and futures. Some cities have been successful almost against the odds despite not having a supportive national government. But all are path dependent to some degree. Their performance has been influenced by their geographical advantages, culture, indigenous assets and resources, politics, luck as well as good judgement. Second tier cities that rely heavily on a single company or narrow range of industries have found it harder to break with the past and discover new rationales when those activities have become outmoded. And inherited economic and governance structures remain a crucial constraint in many ways. Munich and Katowice are at opposite ends of the spectrum in terms of the basic assets they have to work with. So places like Katowice will face much bigger challenges in future.

4.5 In other words, some cities have a stronger hand to play than others. But in many cities, key partners have played a major role in maximising their city's assets and reinventing their role. The key to success is a combination of good leadership, entrepreneurialism, effective governance and policy integration. The ingredients of good leadership include visionary thinking (Tampere, Barcelona), marshalling support around a compelling strategy (Barcelona, Turin and Tampere), maximising competitive advantage (Munich) and boosting inward investment by quality place making (Barcelona). In cities on a downward trajectory, reinvention has come at moments of crisis when partners realised that old models were broken and traditional coalitions and strategies were no longer credible. This provided the opening for determined new actors to gain influence (Tampere). Entrepreneurial strategies have included political lobbying for national investment in major events and infrastructure, extensive networking and collective problem solving. In successful cities, joint working on agreed goals and common philosophies has become an intrinsic part of the culture ('Munich Way', 'Lyon Spirit', 'Leeds Visions'). They typically have a dense web of support agencies, intermediaries and research and development bodies to promote innovation and key sectors (Munich, Tampere, Barcelona, Leeds).

Territorial governance matters

- 4.6 Globalisation makes it crucial to have multi-level governance and governance at scale. In every city in this report, this challenge is one of the most intractable created by administrative fragmentation, local autonomy and financial pressures. The result has been competition and conflict between governments, delays in decision making, little integrated land and transportation planning, congestion, pollution, and sprawl. These challenges are most acute in the most successful, rapidly growing second tier cities. Most progress on these has been made where higher level governments have incentivised collective working between different levels of government. So many second tier cities struggle to align territory, governance and economy and find effective ways of dealing with growth.

Horizontal and vertical integration is possible

- 4.7 Some successful second tier cities have managed to integrate national, regional and local policies to promote development. In some cases city and regional actors have maximised national programmes and initiatives and blended them with local initiatives and resources. There are also many good examples of horizontal policy integration. Partners have worked together to deliver comprehensive, widely supported economic development strategies in Barcelona, Munich and Tampere. Such relationships usually sprang from leaders' ambition either to reinvent their city (Turin, Leeds, Tampere), maintain their competitiveness (Barcelona, Munich) or create an environmentally friendly city (Timisoara). Delivering large projects and major events has also been a key driver (Turin, Munich, Barcelona, Cork, Lyon).

National policies and resources matter

- 4.8 National government support has taken five main forms: sympathetic governance systems and policy frameworks, injection of funds, fiscal incentives, support for key industries and direct provision of jobs. Their impact has varied for three reasons. First, the allocation of responsibilities between national and other government levels, the strength of national government territorial administration, cities' level of fiscal autonomy and dependence upon national resources all varied. Second, second tier cities have benefited when there has been either an explicit national urban policy or policies which have favoured them. Third, the influence of the urban lobby on national governments has also been important. In most member countries the lobby has been fragmented and comparatively weak, with some notable exceptions.

Good governance - shared responsibilities and clarity of roles

- 4.9 The key governance issue is not simply the division of powers and resources. It is also the extent to which responsibilities are shared and roles are transparent or confused. For example, urban policies tend to be vertically integrated in German cities because key functions are shared, or because the Federal Government funds urban and regional partnership experiments or because they are the subject of extensive negotiations between federal, state and city governments. Cities' financial capacity, in particular the extent to which they rely upon national grant, transfers and financial equalisation or can raise their own revenue, also affects national policy impacts. In some cases, centralisation of power is exacerbated by the lack of strong, democratically elected regional government and fragmented metropolitan governance (Timisoara). In other cases, cities in decentralised states (Katowice) were in virtually the same position as those in centralised unitary states (Cork) because decentralisation of responsibilities has not been matched by the decentralisation of financial resources.

Government's mainstream money matters most

- 4.10 Mainstream policies matter more to second tier cities than explicit urban policies for three reasons. First, mainstream programmes dwarf financially those explicit, area based initiatives which specifically target 'urban' problems and affect cities much more significantly through policies for education and research; skills; transport; housing, planning, business support. Second, many explicit urban programmes are more concerned with poverty and social cohesion than urban competitiveness and performance. Third, there is often a large gap between strategy and implementation in explicit programmes because of limited resources, siloed policymaking, and fragmented governance at city region level.

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

- 4.11 National policies work best when there is collective understanding at different government levels of how different interventions affect cities and the right levers to pull to maximise performance. National policies are most effective where there is scope to shape them to local circumstances. This requires multi-level governance as well as human and fiscal capacity and autonomy at city level. Also the consistency, transparency and reliability of national policy are critically important because urban economic development is a long term business. Finally, the most robust policy systems are underpinned by a set of shared principles and values. These include: focussing upon business and community needs; understanding and responding to future urban challenges; reconciling strategic and local perspectives; trust, reciprocity, and mutual respect.

Long term investment is critical

4.12 National resources and investment matters. Some national governments have directly funded major urban redevelopment programmes which have helped reshape second tier cities. The extent of national support has varied depending upon the state of national finances, policy priorities and the availability of European funding. Structural Funds have also strengthened the regional tier of government, benefiting second tier cities even in the highly centralised Eastern European states. Some national governments have focussed research funding on the best or most competitive research sectors which has also favoured some second tier cities. Tax incentives have boosted Foreign Direct Investment in Irish cities. Feed-in tariffs have stimulated the growth of environmental industries in Munich. Some cities have benefited from national government procurement because they contain key strategic industries. Others have benefited from Government jobs either because they are important administrative centres or because of decentralisation of civil service activity from capitals.

Decentralisation of powers –AND resources - matters

4.13 Levels of centralisation matter. But decentralisation of responsibilities to cities only works if responsibilities are matched by corresponding powers and resources. The report shows that cities perform better in those countries which are less centralised and economically concentrated and where cities have greater powers, resources and responsibilities. The report also shows that many policy makers and researchers believe that, given the impact of deconcentrating resources and decentralising powers on second tier cities, national policies should give them more powers, responsibilities and resources. A policy of economic place making has benefitted many cities. It underlines the potential for wider implementation in national and European policies in the future.

What prospects for second tier cities?

4.14 Second tier cities face different challenges. Some wrestle with the consequences of success and rapid economic growth. For example, Munich and Barcelona need support from state and federal governments to create more effective city regional governance. Other cities have performed well but face uncertainties. Lyon and Turin face challenges of overcoming the loss of headquarter functions, defining new economic activities and improving their connectivity. Cork needs to develop its innovation capacity and reduce its dependence upon Foreign Direct Investment. Tampere and Munich, although they have pursued a successful innovation strategy, need to improve cross sectoral co-operation and innovation. Katowice faces a herculean task of overcoming its mining and heavy industry legacy, diversifying and modernising its economy, reversing its population decline and cooperating across the city region. Timisoara similarly faces urban shrinkage, needs governments to help territorial cooperation and improve cross-border transport infrastructure and co-operation with its Hungarian counterparts.

Challenges to second tier cities will grow

4.15 Many of the dilemmas cities now face will continue in future. In fact they will become even more challenging because of economic and institutional restructuring, national deficits and credit restrictions. Second tier cities will face many of the following challenges: maintaining competitiveness in the face of increasing competition from rival cities, changing markets and a more austere economic climate; reconciling competitiveness, environmental sustainability and social cohesion; attracting international investment and workers without losing identity; devising new ways of funding development; getting clarity from national governments about cities' future roles and resources; strengthening governance at city regional level to deliver integrated place-based policies. Meanwhile, the urban world is changing around them.

Second tier cities in a global economy - the bar has been raised

4.16 European cities will have to operate in a fast changing global context. Previous research by ESPON has described the hierarchy of cities in national and European spatial divisions of labour measured by industrial structure and global connectivity. These analyses distinguish the global cities of London and Paris from those cities lower down the European hierarchy. But they have not discussed in detail the changing global urban hierarchy in which European cities are positioned. For example, the McKinsey Global Institute has estimated that 600 cities account for 60 percent of global GDP and Europe has 153 of them. But by 2025 the makeup of these cities will have significantly changed as the centre of gravity of global development shifts south and east. Over 130 new cities are forecast to move into the leading group. All are from the developing world - mainly from China but also India and Latin America. 9 of the top 25 cities will be in Asia. While London, Paris and the Rhine-Ruhr and Ransdstad North conurbations might consolidate their position, other European cities are expected to drop out of it. The cities that will move up the hierarchy are in the countries that have been relatively immune from the global recession and are part of a step-change in urbanisation caused by this new phase of economic development.

4.17 These global developments provide challenges for the European economy and its cities. Those with leading technology-based companies will benefit from the global trends because of their innovative edge. This will favour cities in the centre and north of Europe where these leading companies are based. EU2020's focus on smart and sustainable growth is important in this context. Another distinctive feature of the new phase of globalisation is the incorporation of Africa. This shift could favour some southern European cities because of their historic political links with the continent and their geographical proximity. However, east European cities are threatened by massive

population losses and threats to their future economic development. Europe's economy and its leading cities are entering a new phase of globalisation that will bring new economic challenges in addition to those identified in this report.

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

- 5.1 A key concern of this study has been to examine the argument that spreading investment and encouraging high performance in a range of cities rather than concentrating on the capital city would pay benefits. This report has provided significant evidence for this argument. It has shown that, although the capital cities in many countries are responsible for a significant proportion of national GDP, second tier cities nevertheless make a significant contribution. In many cases the economic contribution that a series of second tier cities make is greater than that of the capital itself. So the contribution of second tier cities that lie between the successful capitals and the lagging cities is crucial to national economic success.

Capital cities matter

- 5.2 This report also suggests that in many respects capital cities receive preferential treatment from national governments. It has been argued that decision-makers find it easier to allocate resources to existing capitals rather than identify opportunities elsewhere. It has also been argued that private sector investors take the easiest strategy of investing in buoyant locations rather than taking risks with more marginal locations. The argument can be overstated. Nevertheless, capitals are privileged in that they are typically the centres of national political, administrative and economic power. They have stronger private sectors. They are more integrated into global networks. They are more likely to contain companies' headquarters. Their producer services are typically the most advanced. They contain major financial institutions giving easier access to risk capital. They have significant agglomeration advantages. They contain leading academic and research institutions. They are at the hub of national transportation and ICT networks. They attract public and private 'prestige' investment because they are seen as representing their nations.

But not at the expense of everywhere else

- 5.3 Successful capitals are crucially important to their national economies and must be able to compete in a global market. But the risk is that they suck life out of the rest of the urban system so the national economy becomes spatially and structurally unbalanced. To avoid this, second tier cities need as much policy attention as capitals. Sometimes second tier cities do benefit from national policy. But often this happens in implicit rather than explicit ways. Most states do not have a policy for second tier cities which means their collective interests are overlooked. A key policy issue is how to realise the potential of second tier cities so they can bring maximum added value to their national economies.

Deconcentration and decentralisation can help economic performance

- 5.4 The experience of Germany suggests that decentralisation, deconcentration and a strong set of second tier cities helps drive strong national economic performance. By contrast, if the gap in economic importance and performance between second tier cities and capitals is very large, this will limit national performance. First, over-concentration in capitals will weaken more peripheral areas because they will not have buoyant second tier cities and support services. Second, second tier cities in systems dominated by capitals are less likely to feature in national policy because they are seen as less important. Third, the dominance of competitiveness-oriented urban policies will mean that already successful areas will be prioritised, increasing territorial imbalances. Finally, the lack of competitive second tier cities limits the scope to reduce the pressure on capital cities' land, property, environmental resources, transport and infrastructure by relocation.

The costs of agglomeration – the limits of capital cities

- 5.5 This study has also identified a series of concerns about the dominance of capital cities. In this respect our work reflects similar analysis of the performance of regions by the OECD. One theme is the costs and negative externalities of agglomeration. The second theme is that all urban areas have potential and national policy should encourage that rather than concentrating upon a limited number of already successful places. Agglomeration does obviously produce economic benefits. OECD research has shown that, in some countries, the largest single metropolitan area produces between one-third and one-half of national GDP. However, the economic benefits of agglomeration are not limitless. Cities can reach a point where external diseconomies make them less competitive because of negative externalities caused by unregulated urban growth and diminishing marginal returns. OECD identifies risks that beyond a certain point, congestion, land scarcity and sprawl, marginalised human capital and infrastructure deterioration contribute to an area's decline. And investors and developers may start to avoid them and move elsewhere. Given such potential risks, this study supports the argument that focussing on second tier cities would create greater economic growth and greater efficiency by reducing diseconomies of scale.

Balancing investment between leading cities and those with potential

5.6 This report also confirms the OECD analysis that, although leading metropolitan regions are important for national economies, second tier regions also make a substantial contribution to growth. In most OECD countries, such regions have generated more than 50% of national growth over the past decade. So policies to support lagging regions not only address disadvantage but can help generate growth for national prosperity. The policy choice is not between favouring growing areas as opposed to the regeneration of declining areas. It is between putting the national eggs into a smaller or larger number of baskets. Our study suggests that national governments which concentrate attention and resources on their capital cities risk creating very uneven development with whole regions and cities missing out on chances to enter the new economy. Second tier cities, although less able to act on the global stage, can still generate important dynamism for regions outside the capital and contribute to overall national growth.

Second tier cities can bring national advantages

5.7 This study shows that many second tier cities contain major concentrations of economic activity, substantial wealth creation potential, human capital and creativity. In many cases they punch beyond their weight relative to their share of population. They cater for variations within nation states and contribute to territorial cohesion. They contain higher order services and offer companies better access to them than if they were all concentrated in the capital city. They can achieve many of the agglomeration effects of capitals, provided they have the right infrastructure, facilities, capacity and powers. They can lift the performance of their regions, reduce inter-regional inequalities which promote social cohesion.

The balance sheet

5.8 This report has demonstrated that second tier cities make a substantial contribution both to national economic development and to the European economy itself. Many cities are punching above their weight economically - but others could do more. Second tier cities do not contribute as much economically as capital cities in most countries. But they could contribute more with greater national policy support, tools and investment. There are three simple messages to policy makers at different government levels. To city region leaders, it shows that city regions which get their act together and act strategically to exploit their assets flourished more in the recent boom period and will survive better in the current economic crisis. Increasing strategic governance capacity to deliver economic place-based policies at the city region level should be a key target for all local partners. To national governments it shows that if they strategically invest in second tier cities they are more likely to maximise the economic potential of the national economy. And to the European Commission it shows that city regions are crucial to the delivery of their strategic goals identified in EU2020 and that they and their leaders should be taken even more seriously in the future development and delivery of Commission policies.

So what should the policy approach be?

5.9 The relationship between capital and second tier cities should not be seen as zero-sum but as win-win. The capital city in virtually all ESPON countries makes a huge economic contribution to the overall national economy. There is little demand for that to be artificially limited to encourage the development of second tier cities. The policy message is that it is better to encourage the development of both rather than to constrain the capital. The trick is to grow the overall national urban economic pie without killing the golden goose of the capital city. A key policy issue is how to encourage second tier cities to absorb some of the capital city's growth as it reaches the limits of its capacity to accommodate it and the costs begin to outweigh the benefits.

Transparency about territorial investment strategies

5.10 There is often not enough transparency about the territorial investment decisions of national governments. They typically do not specify how they allocate resources to leading or lagging, growing or declining and capital or second tier cities. Those investment criteria should be made more explicit and transparent in future. In addition the potential sources of this investment need to be identified because of the recession. The recession, government debt and public sector expenditure cuts clearly reduce the funding potential of the public sector. The EU's Cohesion Policy and the European Investment Bank will remain important sources of public investment for cities. But it will not cover all cities in all countries. Initiatives like JESSICA will be important but will remain limited in scale and coverage. In this context, public-private partnerships and new investment funding mechanisms will be more important. Different forms of investment involving, for example, public sector pension funds and value capture including local asset backed investment vehicles and tax increment financing offer potential for public-private co-investment projects and financial as well as wider social and economic returns.

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

5.11 In recent years European Commission policy has broadened and deepened to grapple with the complex mix of opportunities and problems facing different European cities. In particular during the past decade, it has promoted and encouraged the principles of multi-level governance and of integrated, place-based economic development. But this study emphasises the need for current EU policy to increase the territorial, place based spatial dimensions of its policies if it is to deliver its wider economic and social ambitions. EU 2020 is the critical policy context outlining three clear goals - smart, inclusive and sustainable growth. Its objectives are to: increase employment to 75%; invest 3% of

GDP in R&D; cut greenhouse emissions by 25%; reduce early school leavers to 10%, increase the proportion with tertiary education to 40%; reduce people in poverty by 25%. These ambitious targets may or may not be realistic given many regions' current performance. However, second tier cities are potential levers to make them a reality. They account for 85% of Europe's GDP, 75% of its population and 80% of its carbon footprint. But many policy makers involved in this study have questioned whether Commission policy is yet sufficiently focussed upon the economic place making agenda. In particular, many insist that EU 2020 does not have a sufficiently explicit territorial focus and does not locate its targets or investment actions in particular places. This point was underlined by the revised Territorial Agenda 2020 which argued that, despite a series of successes, EU policy needed: more effective coordination of different policies, actors and planning mechanisms; more sharing of territorial knowledge; more sophisticated multi-level governance arrangements and greater integration of the place-based approach into public policies at EU, national, regional and local levels

Meeting the economic, policy and governance challenge in the East

5.12

Urban policy must recognise that Europe remains enormously diverse. National differences in cultural and ideological values, economic performance, governance arrangements and policies have an important impact upon second tier cities. In particular, the capacity of different countries to incorporate the principles of place-based economic development varies enormously. They require flexibility, cross sectoral working, cross departmental working and partnership between public and private sectors. This has proved difficult in many countries. But it is particularly true of the new member states. Many of them are still constructing democratic governance, institutional and infrastructural capacity and modern economic systems. They typically have: highly centralised government systems segregated along department and sectoral policy lines; regional and local government with limited powers and resources; and limited incentives to encourage collaboration across policy and geographical boundaries. So policy must reflect that diversity of countries and cities across Europe but nevertheless find common principles and ways of unblocking barriers to implementing them.

So when should national governments invest in second tier cities?

5.13

The number of high performing second tier cities a country can sustain will vary according to both the country's size and level of economic development. For example, in smaller countries there will be less scope for a large number of places to complement the capital. Equally, in the developing economies of the east, the capital city is the most significant driver of the national economy. In both cases, capital cities might remain the initial focus for investment because they are most likely to have the capacity and critical mass to succeed. Nevertheless, countries must have strategies for developing second tier cities, to spread economic benefits and help them become the economic motors of their wider regions. Governments should encourage as many successful second tier cities as the population and pattern of economic growth and development permits.

5.14

Only national governments have the detailed knowledge needed to make the right investment decisions in future. Each case should be determined on its individual merits. But some clear principles have emerged from this study. National government should be prepared to make investment in second tier cities where the following conditions are found:

- The productivity gap between capital and second tier cities is significant and growing.
- The business environment in second tier cities is poor because of under investment in hard and soft infrastructure by national government.
- There is clear evidence of negative externalities in the capital including for example: high and increasing real estate prices, congestion, environmental pressure, skill shortages and wage inflation.

Under such conditions investing more in second tier cities should benefit everyone, including the capital, by taking the pressure off it.

Final Policy Messages

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

5.15

Although capital cities have usually dominated national economies, leading second tier cities play a very important role in national wealth creation, maintaining social cohesion and increasing environmental sustainability. This has been true during recent boom times and recession. **In future national governments and the EU should fully recognise the significance of second tier cities and systematically pursue policies which maximise their potential. They should also be more transparent about their territorial investment policies.**

Continue investment in the new member states

5.16

There is great variation across Europe in the size of the economic gap between capital and second tier cities and in the size, number, importance and performance of major second tier cities. The gap in economic performance between capitals and their leading second tier cities is particularly large in the new member states because of their traditionally centralised political systems, territorial underdevelopment and the effects of rapid marketisation. The East still faces challenges of building institutional and infrastructural capacity which are much larger than second tier cities in the old

member states in the West. **This study underlines the importance of sustaining EU funding in the new member states since this has been critical to promoting regional decentralisation and modernising urban infrastructure.**

Monitor and maximise territorial impact of national policies for competitiveness

- 5.17 The classic drivers of competitiveness are strongly correlated with economic performance in second tier cities and capitals. A small number of governments have recognised this and focussed them on second tier cities. **More EU and member governments should recognise the importance of these competitiveness drivers - innovation, economic diversity, connectivity, skills and human capital, place quality and strategic governance capacity - and maximise their collective impact on the widest territorial scale not concentrate them on capital cities.**

Decentralise more responsibilities and resources and deconcentrate more investment

- 5.18 Second tier cities perform better where national government policies support them, give them significant powers and resources and where investment is more deconcentrated. **National governments should decentralise responsibilities and resources to cities and deconcentrate public investment more.**

Create territorial economic governance at scale

- 5.19 Few countries or cities have successfully addressed the key territorial challenge of developing economic governance at scale so that all the key actors and institutions across a functional economic urban area can maximise their resources and assets to achieve integrated place-based economic strategies. Too many cities are still attempting to use 19th century local boundaries and 20th century forms of government to shape and develop a 21st century global economy. Successful city regions need governance to be upscaled to the functional economic level. At the moment, too often, there are too many, too small administrative units that are not fit for purpose. **European, national and regional governments should incentivise and encourage voluntary collaboration but also strengthen territorial governance at city region level.**

Encourage financial innovation

- 5.20 The credit crunch and recession mean that public resources are under great pressure and new methods of financing urban development are needed. There is no single solution. **But governments should actively pursue a combination of public loans, pension funds, tax increment financing, local asset backed vehicles and pooled budgets.**

Focus mainstream money and policies as well as explicit area based initiatives on second tier cities

- 5.21 Urban policy across the EU is very uneven. There has been a shift in the orientation of explicit urban policies and greater emphasis on boosting urban competitiveness. But the funds allocated for them are dwarfed by mainstream spending programmes. Few states consider the effects of mainstream programmes and spending on the performance of second tier cities since most governments are organised on functional non-spatial lines. Also, very few member states have introduced conscious policies to promote their leading second tier cities. **Cities' role as motors for their regional economies should be fully recognised by EU and member states and they should introduce supportive policies in line with the best practice identified in this report.**

So when to invest in second tier cities?

- 5.22 Strong capitals matter to nation states' global positioning and competitiveness. However, strong second tier cities also matter. **Both capital and second tier cities must be supported in future. It is a win-win, not a zero sum relationship. Governments should help second tier cities so they can emerge from the current recession with more 'investment ready' places to maximise future national economic performance. Now is the time to prepare for recovery from recession. In particular, national governments should invest more in second tier cities when : (i) the gap between them and capitals is large and growing (ii) the business infrastructure of second tier cities is weak because of national underinvestment and (iii) there is clear evidence about the negative externalities of capital city growth.**

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