

European Cities' Development Trajectories: A Methodological Framework

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Summary

- 1. Introduction..... 3
- 2. Cities in time 4
- 3. European cities: the identification issue 5
- 4. cities' Economic performances: the EU's evaluation paradigm 8
- 5. Understanding cities' Development Potentials..... 12
 - 5.1. *The economy of a city: decomposing cities' production systems*..... 12
 - 5.2 *Differences in European cities' development potential*..... 14
- 6. European cities: the coming challenges..... 17
 - 6.1 *Adapting to external changes* 17
 - 6.2 *Upgrading the state of the European city* 21
 - 6.3 *Increasing cities' competitive capacity (the resilience of the city)*..... 21
- 7. Scenarios for the European urban system..... 22
 - 7. 1 *Development, stagnation and decline in European cities*..... 23
 - 7.2 *Regional patterns of urban performances*..... 24
 - 7.3 *Social cohesion in European cities*..... 25
- 8. Towards an urban policy framework in the European Union..... 25
 - 8.1 *Improving local governments' cognitive capacity and political rationality*..... 26
 - 8.2 *Integrating cities' urban surplus by direct transfers*..... 27
 - 8.3 *Reconstructing a viable local production system* 27
- 9. Concluding remarks..... 28
- Bibliographic references..... 29

1. INTRODUCTION

Europe is a region characterised by a paradigmatic polycentrism, and the heterogeneity of its cities – in terms of *size*, *structure* and *performances* – is a constitutive element of its economic, cultural and political history. Yet it is now feared that the globalisation process will have an impact on the European urban landscape such that, for the first time in recent history, cities' heterogeneity may increase to the point of putting at risk two fundamental pillars of the 'European project', namely the 'European model of the city' and the 'European model of territory'.

Under the pressure of territorial competition – the result partly of globalisation and partly of cities' increased political autonomy – European cities *will react very differently*, and this may lead to an undesirable urban landscape. Following an escalation in their policy sovereignty and the fact that *some* of them command a large economic surplus (that can be re-allocated), European cities' future development trajectories may be very different.

The fear that the European urban landscape might undergo a profound, undesirable and worrying change is demonstrated by the increasing attention paid to European cities' future performances among policy-makers at all tiers of government. Since the publication of the European Commission communication 'Towards an Urban Agenda in the European Union' (1997), there has been a growing interest, on the part of the European Union itself and national governments, in the development trajectories of European cities and their territorial impact. Yet the role of cities in promoting local, regional and national development and cohesion is not equally acknowledged in all European countries. A comparative exploration of the actual and potential state of European cities seems to be an important step towards an upgrading of the European policy framework.

This paper aims at outlining a conceptual framework for the analysis of European cities' potential development trajectories.¹ It is therefore oriented towards understanding *future performances* – in the awareness that they may be very different, more than they have been until now. Understanding the evolutionary change taking place in historical time in cities is a scientific aim which has been relatively little pursued, in substantive terms, in social science. The field of urban studies has a long and exceptionally rich research tradition of addressing very well-focused partial (or specific) urban imbalances. Yet the task of understanding cities' overall development trajectories – in particular, potential development trajectories – has been rarely pursued². For this reason, this paper is primarily devoted to reviewing a set of concepts and methodological insights that may lay down the basis for modelling cities' potential

¹ It is important to stress that this paper focuses on *European* cities, because in addressing the issue of their prospective evolution one should be deeply aware of the differences between European cities and those in other areas of the world.

² More insights on this question, which is a key question from a policy perspective, have emerged from the practice of 'strategic planning'.

development trajectories and, also, to redesigning, where necessary, the European Union's urban policy framework.

2. CITIES IN TIME

An effective strategy for studying cities is to treat them as *progressive systems*, that is systems that change their structures in time, often very deeply and rapidly. Indeed, cities changes in (historical) time at many different levels. Demographic changes may be (and have recently been in many European cities) very rapid. Technological changes are also taking place in time – as do the sector composition of the city economy, the social preference function and many other elements. Structural changes are taking place not only in the long-run but also in the short- and medium-run, the time horizon of many public policies.

The concept of 'system' forces to adopt the 'structure-performance paradigm', distinguishes between 'structure' and 'performances' and treating performances as generated by the underlying structures. This methodological perspective directs the attention to the structure of the system and its structural evolution, making it possible to deal with the following fundamental fact: the structural evolution of complex systems is not necessarily governed by a unique self-organisation mechanism able to stabilise the system and maintain its trajectory along the desired path. Therefore, in order to explain the determinants of the economic development trajectory of a city, a key factor to be explored is its structural evolution, which has to be traced back to the operation of a number of mechanisms.

When highlighting cities' structural evolution as a key factor in interpreting cities' development trajectories, two aspects should be borne in mind. Firstly, cities are 'open systems' and, consequently, their structural evolution has to be analysed with respect to changes in the 'environment' of the system. Secondly, cities are semi-artificial systems, which means that their structural evolution can be shaped to a certain (and varying) extent by public policies, depending on the resistance/resilience of the structure and the efficacy of public policies.

The structure-performances paradigm leads to a fundamental distinction between static and dynamic efficiency of cities. Static efficiency refers to the 'productivity' of the system (city) at a given time, that is, the efficiency of the local production system in transforming 'resources' in 'goods'. It is the usual way 'performances' are measured. Dynamic efficiency refers instead to the ability of a system to adjust its structure over time in order to meet the following two fundamental challenges: a) changes in the system's environment; b) changes in the system's social preference function.

There are obvious and direct relationships between static and dynamic efficiency. For example, cities with very high static efficiency may be in a position to devote resources to investment, attaining by so doing the requested dynamic efficiency. Yet dynamic efficiency – the capacity of adapting the structure – is a complex issue, also because it is deeply influenced by public policies.

In order to forecast cities' future development trajectories – to build development scenarios to use in the policy-making process – it is necessary to focus on the structural evolution of cities, to monitor what kinds of changes are taking place and are expected to take place at this level and evaluate them with regard to the changing 'environment'.

3. EUROPEAN CITIES: THE IDENTIFICATION ISSUE

The first task to be accomplished in any exercise in forecasting the development trajectory of a 'complex system' – as the city is conceptualised from the methodological perspective assumed in this paper – is identification of the system and, therefore, of its boundaries. Similarly, any policy requires the identification of the object of intervention and its boundaries so that it can be outlined properly and its effects correctly assessed. Moving from the level of the (administrative) region – very much at centre stage in regional analysis and EU regional policy in recent decades – to that of 'city', the 'boundaries issue' is an unavoidable task. Particularly, because, as any comparative analysis would highlight, there are striking differences between European countries in the way in which urban territory is 'conceptualised' and 'governed'.

As a general criterion – and as is widely acknowledged – one should identify cities using functional criteria; that is, focusing on the city *de facto* rather than on the city *de jure*. Besides, one should distinguish between *cities* – be they cities *de facto* or cities *de jure* – and cities' *functional urban areas* – be they 'metropolitan areas' or travel-to-work-areas or city-regions. Certainly, there may exist cities without functional urban areas (leaving aside their countryside). Yet, in most cases, in Europe, focusing on cities should not lead to a focus on cities solely, but rather on both cities (*de facto* or *de jure*) and their corresponding functional urban areas.

The functional approach to identification of the 'urban phenomenon' has a particularly significant methodological meaning since it reflects acknowledgement of an epochal change in the physical and social organisation of urban processes. As urban planners have repeatedly pointed out, *modern* cities are 'dispersed cities', which means that what identifies a city is no longer the spatial compactness of a settlement, but rather the spatial interaction patterns of agents.³ Although the methodological dimension of this issue has been extensively debated in the European scientific community, a European perspective has not yet consolidated.

In Europe, each country shows a distinctive history of territorial development, and cities have turned from compact to dispersed spatial units in different historical periods. In Italy, which was a late-comer among industrial countries, urban dispersion began to manifest itself widely and intensely as a consequence of the industrial take-off in the 1950s – and there are still no signs of a slow-down in this process of territorial organisation. In Great Britain, this

³ This perspective leads to consideration of the 'sub-urbanisation process' in a different light: as the manifestation of a change in the spatial organisation of cities and not as a sign of their dissolution or disintegration.

phenomenon started much earlier, and, already at the beginning of the twentieth century, controlling urban dispersion was regarded as a challenge for urban planners – and the concept of 'conurbation' entered the vocabulary. In Germany, too, the dispersion of the urban settlements was a phenomenon addressed very early in planning the spatial expansion of cities during the industrialisation phase that started in the second half of the nineteenth century.

These differences in the timing and intensity of transformations in the territorial organisation among European nation states, compounded with differences in their capacities to adapt the administrative organisation of the State, have generated rather diverse patterns of territorial conceptualisation and local regulation mechanisms in Europe. Such diversity is not a minor question, since the identification of the 'urban units' has crucial analytical and policy implications. With respect to the analytical implications of the identification issue, one should note that changing the boundaries of a system may give rise to markedly different system structures – and, accordingly, to markedly different system performances. Taking cities *de facto* rather than cities *de jure* may fundamentally change the way in which the urban landscape is conceptualised and modify the conclusions of any comparative analysis or case-study exploration. Besides, taking the corresponding 'metropolitan region' (FUR) or the corresponding 'travel-to-work-area' as the 'functional urban area' of a given city also leads to rather different results.⁴

The policy implications of the identification of urban units are also straightforward. Firstly, urban policies should be evaluated with regard to the territorial manifestation of their impacts. Secondly – and as a consequence of the previous statement – a correct cost-benefit assessment of urban policies requires, so that they come into being, the existence of a governance mechanism for the corresponding city *de facto* and the corresponding metropolitan area. Negotiating a policy with a political body that does not correspond – however roughly – to the space of the 'policy effects' runs counter to one of the fundamental rules of a democratic policy-making process, besides generating inefficient and ineffective intervention.

⁴ An exploration of the Urban Audit data set focusing on the different criteria adopted by European nation states to identify the 'larger urban zone' suffices to highlight this question.

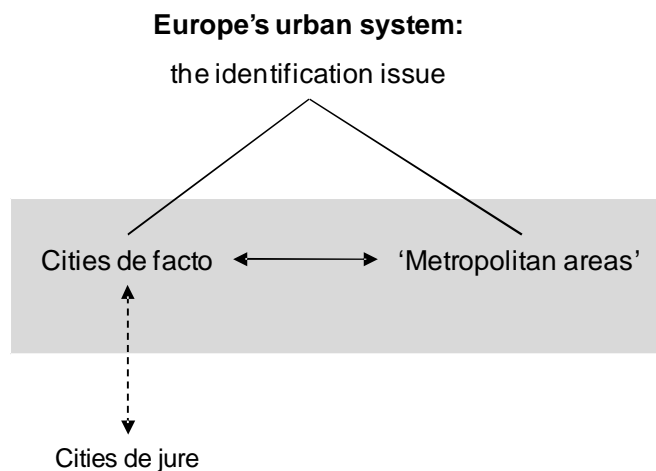


Fig. 1 – Towards a comparable conceptualisation of national urban systems within the EU

Making an effort to achieve proper conceptualisation of the urban territory and identification of cities' boundaries may be unnecessary for some EU countries – such as Germany or the Netherlands, to give just two examples – that have traditionally devoted constant attention to aligning their political administrative systems with the emerging territorial organisation. Yet there are countries – and Italy is a striking case – in which the units for territorial analysis and governance are still highly undetermined.⁵ Other countries – like France – have already started a process of re-alignment of territorial organisation with local government mechanisms and procedures.

The question of the differences in the territorial organisation among European nation states has been occasionally raised (see, for example OECD (2002), ESPON Project 1.1.1. (2005) – and its importance has been acknowledged. Yet to date it has not been adequately addressed at the European level. It is true that it was not urgently necessary to address it to the extent that urban policies remained outside the European Union's main policy fields. But it becomes necessary to address it now, if urban policies are to be assigned a more important role in the EU's regional policy. Firstly, the current dis-homogeneous conceptualisation of the urban territory at the European scale is an obstacle to correct appreciation of the state of the European urban systems on a comparative basis. Indeed, by using the current dis-homogeneous conceptualisation, we may be comparing the performances of a city *de jure* with those of a city *de facto*, or the performances of a 'travel-to-work-area' with those of a 'metropolitan area' or a 'metropolitan region'. Secondly, it will make the devising and implementation of bottom-up (but also top-down) policies rather difficult, since in some nation states, cities *de jure*, which are political-administrative entities and have the power to represent their interests, are not appropriate policy targets, and 'functional urban areas' lack a

⁵ Compare, for example, how the crucial question of the governance systems of metropolitan areas has been addressed in Italy and in Germany, countries that display similar polycentric urban landscapes.

correspondent level of governance and, therefore, cannot behave as 'policy actors' in the policy-making process.

4. CITIES' ECONOMIC PERFORMANCES: THE EU'S EVALUATION PARADIGM

Once the object of analysis has been identified – European cities (and their corresponding functional urban areas) – one may move to the question posed by any non-stationary system, namely: *what will be the future states of the system* (of European cities, in this case)? But before discussing this question – which is at the centre of the paper – it seems necessary to raise another question of fundamental importance when policy-makers – in fact, the underlying society – are confronted with the evolution of the socio-economic system: *how does one evaluate the evolution of the system?* This is a question that, when searching for a framework for urban policy, cannot be avoided. Fortunately, giving an answer seems not to be difficult because it can be found in the documents that constitute the basis of the EU's territorial policy framework. Undoubtedly, the European Union, as a political body, may change its policy framework according to the established political procedures at any moment. One may also want to add that the EU's policy framework is constantly in flux, given the nature of its policy-making process. Yet one should not confuse the two levels of analysis: the current policy framework and the policy framework that may emerge in future.

By analysing the documents that have marked the formation of the framework for European regional policy – and, in turn, for the 'European Project' – one can identify the perspective from which to evaluate the recent and potential evolution of European urban systems.⁶ Certainly, if one examines the public discourse – both the ongoing political and scientific debate – opinions radically questioning the EU's regional policy or even the 'European Project' as a whole can be found. Yet we are very distant from a U-turn in the EU's policy paradigm.

Against the background of the current policy framework, evaluation of the prospective trajectories of European cities – indeed, any discussion aimed at defining the guidelines for a new generation of urban policies – ought to consider two fundamental meta-objectives that are at the core of the 'European Project'. Firstly, cities in Europe are looked at – and evaluated from – the vantage point of what we may call the 'European model of the city'; secondly, cities are looked at through the lens of what we may call the 'European model of territory'. Therefore, the question previously raised can be expressed as follows: *how does the prospective evolution of European urban landscape relate to the 'European model of city' and the 'European model of territory'?*

The 'European model of the city' is a cornerstone of the 'European Project', being a fundamental element of the European identity. Cultural anthropology has taught us that values

⁶ See, for example, the European Commission's documents *Towards an Urban Agenda in the European Union* (1997) and *Sustainable Urban Development in the European Union: A Framework for Action* (1998). See, more recently, the Leipzig Charter on Sustainable Cities (2007) and related documents.

(and identities) change in time, but a dramatic shift in the European public discourse – and in the EU's documents – toward a different model of city is not in sight. Quite the contrary: in the past two decades some European nation states have strongly stressed, when putting forward guidelines for a new generation of urban policies, their reference to the 'European model of the city', which, however, has been given a sufficiently clear specification in various European Union policy documents.⁷ The significance of this model should not be underrated: without constant (implicit or explicit) reference to it, most of the current discussion on the urban question in Europe – at local, national and European level – would be incomprehensible. Most of the public investment made and regulations (institutions) introduced in the past decades would not be understood without reference to the 'European model of the city'.

The 'European model of the city' is a fascinating issue. On the one hand, it captures essential features of European cultural history, and is deeply rooted in the past and, hence, related to the identity question. On the other, it captures essential aspects of the political vision of the European Union and, hence, of the future as envisaged by the underlying society. In this respect, it is self-evident that 'environmental sustainability' has become one of the fundamental features of the 'European model of the city'. Other features, such as 'social cohesion', appear to have acquired more importance than in the past, reflecting a shift in individuals' meta-preferences.

The 'European model of territory' is also a question systematically addressed within the policy-making process of the European Union and thoroughly explored in its conceptual, empirical and ethical dimension.⁸ It can be depicted as characterised by the following three objectives: a) polycentrism (the maintenance of it); b) a minimum amount of per capita well-being to be reached in every 'locality' – or node – in the European territory; c) a sufficient amount of local knowledge to be provided for an effective learning and innovation process. It should be stressed that the objective of maintaining – and improving – a 'balanced territorial organisation' – an expression with which one may epitomise the above-mentioned three objectives of the 'European model of territory' – is not pursued only from a purely political (moral) perspective – which, at any rate, is crucial to understanding the 'European Project'. Against the background of the specific economic context in which the European economy will have to operate in the next decade, it is also regarded as instrumental to two further objectives: firstly, reduction of the ecological impact of human activities; secondly, the

⁷ For a remarkable example of this perspective see the report on English towns coordinated by Richard Rogers, *Our Towns our Cities: The Future* (2000). Germany, too, has coherently developed a model of the city in many official and semi-official documents (see BBR, 2006).

⁸ From *The European Spatial Development Perspective. Towards a Balanced and Sustainable Development of the Territory of the European Union* (1999) to the more recent *Territorial Agenda of the European Union* (2007) – and related documents and reports – a clear perspective has been developed on the European model of territory. That it seems to be necessary to reform the governance mechanisms of territorial policy – cfr. Barca Report (2009) – should not be confused with the fact that a clear-cut concept of territory has been developed.

mobilisation of hidden local capital (as a step towards increasing the potential economic performances of the European Union).⁹

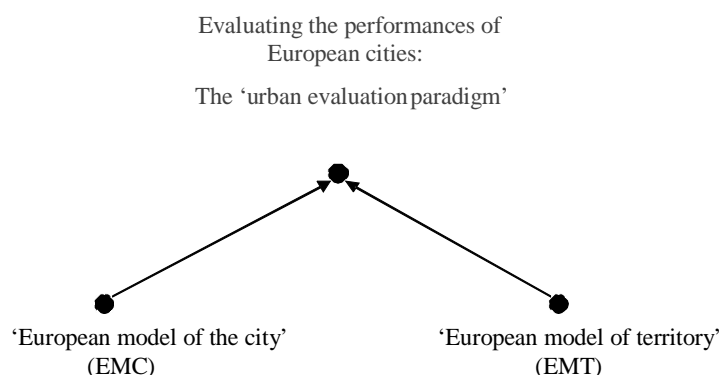


Fig. 2 – From which perspective does the EU evaluate the performances of European cities?

When tackling the problem of how to evaluate the evolution of European cities, one may also want to consider the use of indicators like per capita income or per capita GDP. In this respect, it has been recently stated that raising the question of the '*convergence*' of per capita income or per capita GDP among places and regions' should be considered as a '*misconception*' (Barca Report, p. 39). Indeed – whether because cities' performances have never attracted much attention from economists or because the field of 'urban studies' is characteristically distant from a reductionist perspective – expressing urban performances in terms of per capita GDP is certainly uncommon. In fact, it is self-evident that cities defy a reductionist perspective as to the evaluation of their performances. This is quite clear in the concept of the 'European model of the city' previously discussed, which refers to a complex state of the (urban) world that can be expressed only through a set of indicators – which, in turn, are linked to each other through a complex and changing web of relationships.

The multi-dimensionality of the performances of a territorial system – be it a nation state, a region, a city (or a 'place') – has long been an acknowledged fact in economics. In the 1980s, the shift to a complex configuration of indexes to evaluate economic performances was about to be completed. After two decades in which a narrower perspective of societies' performances has gained ground, the multi-dimensionality of economic performances has recently resurfaced (see the by now well-known *Report by the Commission on the Measurement of Performances and Social Progress* (2009)) – indeed, the attention to this old-established perspective has boomed. The OECD itself, which for some decades relied almost exclusively on the use of standard national accounts to measure and to dissect national and regional economic performances, has now converted to a complex concept of well-being.

⁹ Both points – especially the second one – are extensively elaborated in the *Barca Report* (2009).

For better understanding of the multi-dimensionality of cities' performances, one may observe that cities have always been evaluated by their citizens according to a complex configuration of indicators – however implicitly. And there is no reason for analysts or policy-makers to start now to adopt a reductionist approach – just when a new evaluation paradigm of economic performances seems to have consolidated. Indeed, the Urban Audit Project – reflecting a more general position to be found in the EU's policy framework towards complex evaluation processes – tries to capture the specificity of European cities through a vast array of indicators.

A further critical issue that should be borne in mind when evaluating the economic performance of a local society is the substantive heterogeneity of the preference functions of individuals. This aspect can be expressed by considering that the same amount of consumption – of any kind of (public, collective or private) goods/services – of two individuals may generate a different level of utility (well-being) – a phenomenon that should be more openly acknowledged in the policy-making process. This is a relevant aspect of cities' heterogeneity and an element of their structural diversity.

From this perspective, cities can be interpreted as 'places' or local communities with specific social preference functions based on specific configurations of individual preferences. The fact that individuals living in a city which exhibits much lower than average performances – regardless of how they are measured, using a scalar (GDP) or a set of indicators – do not systematically try to emigrate toward better performing cities may be the direct consequence of locally specific preference functions which value the same goods differently. One might say that cities self-select their citizens – or citizens adapt their preferences to the local context. Obviously, factors like the learning cost of moving to another city or the social embeddedness of individual choices play a crucial role in preventing individuals from going to live in a different city. But it would be difficult to understand the persistence of European polycentric territorial organisation without taking account of the fact that individuals have different preference functions.

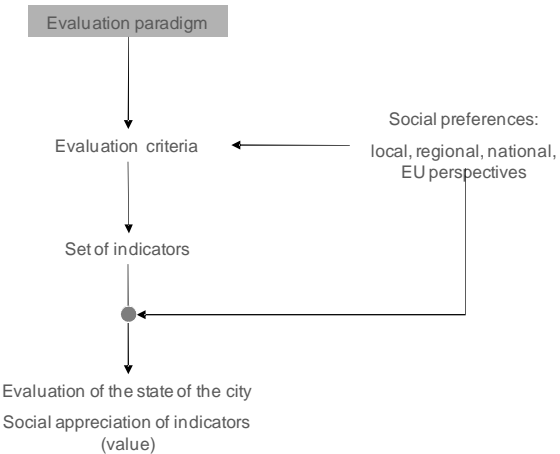


Fig. 3 – Assessing the actual and potential state of European cities: criteria and indicators

In conclusion, when comparing cities' performances one should not too hastily refer to 'objective' indicators, since what counts is the local community's evaluation, based on individuals' evaluations and mediated by the political system. Projecting the preferences map of the 'representative agent' onto all individuals – and local communities – is unsound in this context. Against this background, the convergence of per capita GDP among cities is not an issue and should not be elevated to the status of a 'policy objective'. This is because, firstly, according to the above-mentioned European evaluation paradigm, a set of performance indicators should be considered and, secondly, cities' performances have to be assessed by their citizens on the basis of their preference functions. Consequently, what should be detected is the *effective* well-being of individuals as they perceive it.

5. UNDERSTANDING CITIES' DEVELOPMENT POTENTIALS

Various attempts have been made to draw up taxonomy of European cities.¹⁰ Yet the positive and normative implications of cities' heterogeneity are far from being well focused. From the methodological perspective outlined in this paper – in which cities are conceptualised as 'progressive systems' and the focus is 'applied', that is, concentrated on policy design – what is needed is a taxonomy of European cities *according to their 'development potentials'*. The 'development potential' of a city identifies a 'band of trajectories' which contains the one trajectory that will be actually followed by the city.

Like all intelligent systems, cities use their 'development potentials' (a) to adapt to external (exogenous) shocks (changes in a system's economic and institutional environment (see Para. 5.1)) and (b) to attain its changing level of performances (see Para. 5.2) Therefore, the evolution of a system is driven by (a) changes in the structure as reactions to exogenous shocks in order to maintain current performances and (b) changes in the structure in order to achieve better performances (required by the upgrading of the social preference function).

5.1. *The economy of a city: decomposing cities' production systems*

From an economic perspective, a city is, firstly, a 'production system' and, secondly, a 'consumption system'. Yet, if one applies the standard accounting system to it, one misses fundamental aspects of cities' economies. In fact, the working of cities' economies can be understood only if one acknowledges that a significant part of the 'goods' produced (and consumed) by the system comprises non-market goods, which are produced and distributed on the basis of institutional arrangements that lie outside the market. Very important is also the fact that a substantial part of the 'investment' (capital accumulation) made by firms and households consists of non-market goods – in particular, the crucial goods that feed the learning and creative processes that are the basis of agents' entrepreneurial decisions and also of agents' meta-preferences.

¹⁰ See, for example, the classifications recently proposed in *State of the European Cities Report* (2007) and *Urban Audit Analysis II* (2010).

As first approximation, the economy of a city can be decomposed into four building blocks from which the well-being of the local community originates; that is, they allow households to perform the desired consumption and investment processes. One can express the nature of these four building blocks – or sub-systems – in terms of the corresponding types of goods they 'generate': a) market goods; b) public goods; c) collective goods; d) positive externalities.

When focusing on the well-being of a city, one should consider the working of its production sub-systems and how they evolve in time according to self-adaptation mechanisms that are specific to each of them and the regulation interventions. One should also take into account that the production sub-systems of a city are not dynamically independent and, consequently, cities' development trajectories should be understood as a *co-evolutionary process*.

The first sub-system gives rise to those processes through which households' purchasing power is generated and the consumption of 'private (market) goods' made possible (market goods that can be exchanged and consumed within the city or outside the city). More generally, it generates a surplus that is employed to consume private goods but also to produce/consume public goods.

The second sub-system delivers 'public goods' for the local community – public goods that are supplied to citizens completely free-of-charge or at a conventional price. In this respect one has to highlight two fundamental questions: a) how many resources are allocated to this sub-system; b) what configuration of public goods has to be produced. How important this sub-system is in terms of its contribution to local communities' well-being is difficult to exaggerate. The history of cities shows unmistakably the role that public goods have played in shaping the physical and social organisation of cities.

The third sub-system characterising a city, which is more elusive and often neglected although its importance is decisive in understanding the working of cities, generates a variety of collective goods (or 'club goods'); that is, goods that are self-produced and exchanged within small groups of people linked by different types of relationships. Collective goods are produced by pooling resources and time – in some cases, practically only time – from two or more individuals linked by some objectives – a family, a club, a social network. The goods produced are exchanged according to rules specific to the group. One may refer to the huge amount of collective goods produced (exchanged and consumed) within families. But in societies characterised by high labour productivity (and a substantial amount of no-work-time) collective goods are increasingly important outside the family too. In European cities the increasing importance of collective goods is also due to the presence of ethnic groups in which 'reciprocity' and 'redistribution' are key elements of their identity. On the other hand, 'reciprocity' may be a cultural feature that develops in local community as a consequence of economic strains.

Finally, the fourth sub-system refers to the process through which 'positive externalities' – which also are 'goods' – are being generated and appropriated (in a territorial context, such as

the urban environment, characterised by extreme proximity)¹¹. Differently from the way in which they are considered in some economic paradigms, externalities are ubiquitous in society and especially in cities. Among urban analysts, the thesis that externalities are critical to the static and dynamic efficiency of cities is rather common. In recent years they have been increasingly appreciated in the ranking exercises conducted on cities' quality of life. The fact that these types of goods are highly evaluated in the preferences function of individuals has prompted public intervention (blurring the distinction between public goods and externalities). The amount and type of positive (and negative) externalities generated in a city are regulated by an extremely complex configuration of factors, ranging from the formal and spatial features of the physical space to the behaviour of agents, individuals and organisations.

The above-mentioned four economic sub-systems, which coexist in any city, display diverse governance mechanisms and diverse evolutionary logics. They also differentiate from city to city and in the same city in different times in terms of their relative importance. Moreover, they are based on quite different production functions (technologies) and preference patterns. Finally, they are interconnected, in very complex and changing ways. From one side, it is evident that all four sub-systems are acknowledged in the field of urban studies; on the other, however, the market sector and the public sector, those for which an accounting system has been developed, often receive exclusive attention in discussion on the economic performances of cities. For instance, when the focus is on GDP, value-added per worker or employment, practically only these two sub-systems are being considered. Yet the evaluation paradigm discussed above obliges that all four sectors be considered as sources of well-being.¹²

5.2 Differences in European cities' development potential

The first step in assessing cities' potential development trajectory is to acknowledge that the base sector of European cities differs greatly in structure, size and the amount of surplus generated – the last two either in absolute or in relative terms. Size matters, of course, in determining the amount of the surplus a city generates, but value-added per unit of employment matters as well. If the focus is on these two variables, it is straightforward to appreciate the astonishing differences in 'development potential' among European cities rooted in the per capita urban surplus.

Another question to be carefully considered – and to be addressed as a second step – concerns the allocation mechanism of the urban surplus: that is, the allocation mechanism through which surplus generated by cities is allocated among the diverse types of investment. Two realms should be taken into account when addressing the issue of the allocation process of the urban surplus: the private sector (both firms and households) and the city government. It goes without saying that, in a capitalist economy, firms play a crucial role. The first aspect to stress is that the investment pattern of firms is the outcome of strategic decisions dependent on the features of the local industrial/service sector (that exports what is produced). In this regard, it

¹¹ Positive externalities are different from public goods because they are unintentionally produced.

¹² One should acknowledge, however difficult it may be at this stage to measure or evaluate it, that European cities are governed by sets of formal and informal norms which are *local* and, consequently, differ significantly.

should be emphasised that the base sector of European cities differs significantly not only in terms of size but also – and perhaps more important – in terms of industrial organisation and strategic behaviours.¹³

At any moment in time, one can reconstruct – even if it is difficult – how the urban surplus generated by the local production sector is being allocated. This is a crucial piece of information on which to reflect. Yet in a society like the European one, with its very high level of household consumption, one should not refrain from using the notion of 'surplus' to refer to that part of households' net per capita disposable income that can be allocated after basic needs have been satisfied. In particular, with reference to the 'knowledge society' it would be contradictory not to consider how many resources households devote – or could devote – to learning in an effort to adapt their 'functional knowledge' to the changing labour market conditions – given their (changing) life plans.

The second realm to consider when addressing the issue of the allocation process of urban surplus is the city government, which appropriates a varying share of urban surplus, directly or indirectly.¹⁴ The allocation patterns of cities' public spending is a decisive aspect for the understanding of cities' potential development trajectories. Consequently, the mechanisms governing the allocation process – the policy-making process – are a fundamental level of observation.

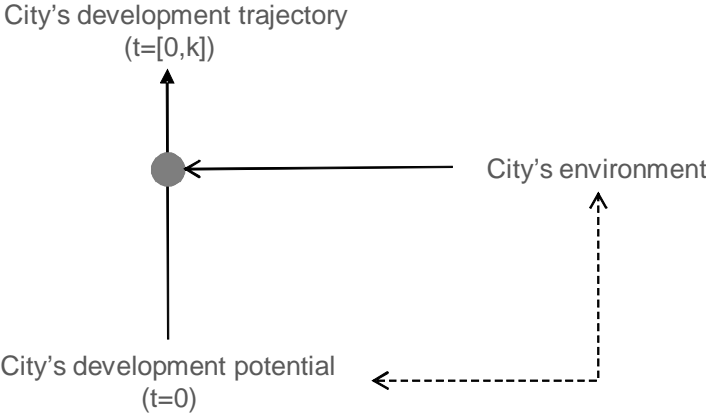


Fig. 4 – From a city's development potential to its development trajectory

¹³ This has strong implications if we assume – as is strongly and correctly advocated in the *Barca Report* (2009) as well as in the tradition of cities' strategic planning – the perspective according to which taking the strategic orientation of the local production system – its governance mechanism – should be the starting point of any strategic plan devised by the city government.

¹⁴ The diverse modes of funding a local government's activity in EU member states are explored in *State of the European Cities Report* (2007, Ch. 5.0) and its follow-up *Urban Audit Analysis II* (2010., Ch. 3.5.3-6).

Bearing in mind that current allocation patterns are constrained by past allocation decisions,¹⁵ the most important levels of analysis concerning the public sector are (a) the cognitive ability of the local policy-makers (their ability to devise effective policies) and (b) the formation of consensus for the 'right' policies. Indeed, non-functional (distorted) preferences may be a further issue to explore in understanding the allocation process.¹⁶

In conclusion, when assessing the development potential of European cities, three spheres should be examined (Fig. 5): (a) the amount of urban surplus; (b) the private sector's self-organisation mechanisms; and (c) the public sector's decision modes. Insufficient 'development potential' may be rooted in one or more of these spheres, and to assess its precise origin from a regional, national or European perspective is not a minor task. To cope with coming challenges, European cities must learn to assess their own development potential to make the best use of it. At the same time, in order to devise effective and fair urban policies, the European Union, too, should learn to assess European cities' development potentials and also the *causes* of an insufficient development potential.

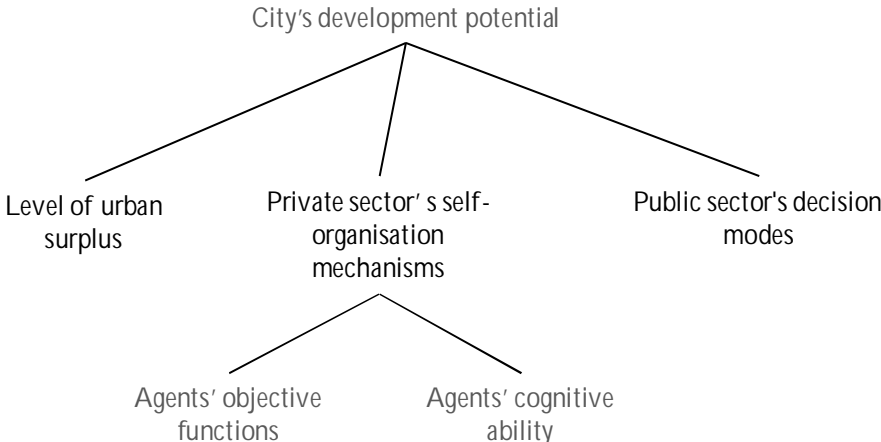


Fig. 5 – Identification of the competitive capacity shortcomings of European Cities

¹⁵ For example, cities may not have invested enough in the past and are now constrained to adjust their capital stock to the desired level.

¹⁶ An insufficient amount of resources to be devoted to public capital (and goods/services) is another important issue to investigate when the entire spectrum of European cities is observed (and attention is shifted away from those cities that seem to be models of government).

6. EUROPEAN CITIES: THE COMING CHALLENGES

The challenges confronting European cities in the next decade (and beyond) can be conceptualised against the background of the systemic approach, and in terms of the following three types of changes. Firstly, the challenge raised by 'external changes' – namely, changes in the institutional and economic environment in which European cities operate. The term 'globalisation' summarises many of these external changes, amounting to shocks that local economies and societies must deal with. The second issue is the challenge raised by the upgrading of the 'European model of the city' proposed at the European level and apparently accepted at national level. In fact, European cities – moving in a direction the reverse of that observed in other areas of the world – now have a benchmark – a standard – that is even more ambitious than in the past. Thirdly, there is the challenge posed by 'territorial competition'. Cities are now required to behave strategically in the European space and – in the case of the largest cities – in the global space.

It should be stressed that these challenges are not natural features of contemporary European capitalism, but rather the manifestation of a normative vision – practically, they are policy meta-decisions. Therefore, in principle, one can take into consideration political and institutional changes that would deeply modify the landscape of challenges that cities will have to address in the next decade (and beyond). Although this is an issue that the European Commission should explore more thoroughly, the current landscape of challenges seems to be sufficiently fixed.

6.1 *Adapting to external changes*

To conceptualise a city as an *intelligent* system means, by implication, to postulate that it displays to a certain extent a capacity to adapt to its environment. This means that some of the structural changes observed in a given system are the outcomes of 'adjustment attempts' made necessary by changes in the system's environment: that is, they have been brought about by the need to redefine the system's structure in light of the new configuration of the system's environment. Conceptually, changes in the configuration of the environment are exogenous shocks – and the effects of these shocks constitute a fundamental level of analysis construing urban development trajectories.

From a systemic perspective, exogenous shocks – significant changes in the system's corresponding environment – do not have, by definition, a negative characterisation. In many cases, the reconfiguration in the use of resources prompted or determined by exogenous shocks is a factor of economic development, because, for instance, exogenous shocks may steer the system towards a productive specialisation and an institutional and organisational configuration which allow the system to make the most of its potentialities by promoting the use of as yet unutilised resources. The development of many cities – and not only their decline – may originate from changes in their environments which determine an increase in the local systems' opportunities by virtue of their specific structures. The remarkable differences among cities' structures are one of the causes of the differences observed in their

development trajectories against the background of changes in their environments. *Cities react differently to the same exogenous shocks because they have different structures.*

This introduces an essential element of uncertainty into the development of cities determined by the interaction between changes in their environments and changes in their structures. Against this background, two levels of analysis ought to be given a central role: information on the nature of exogenous shocks, and knowledge about the adaptation capacity of cities. These constitute a decisive step towards proper understanding of the potential outcome of the attempt at system adaptation that characterises any intelligent system – that is, in this case, the potential development trajectories of European cities.

The following key trends (Fig. 4) concerning the 'environment' of European cities should be highlighted: A. persisting differences in the local/global relative prices configuration; B. homogenisation of consumption patterns and the spatial origins of consumption goods; C. growing inequality in income distribution.

A. Persisting differences in the local/global relative prices configuration. Price adjustments – and exchange rate adjustments – are medium-long term phenomena. This means that we have to look at the radical internationalisation of the European economy that began in the 1990s as a phenomenon whose effects are still unfolding. A further aspect to consider is that some prices – like China's exchange rate – are administered ones. Consequently, their adjustment is not led by the market but by the long-term strategic objectives of the corresponding nation state. Moreover, it can be observed that the imbalances in the price system caused by removing the institutional barrier to competition among individuals, firms and territories were so large that their consequences will certainly continue to unfold in the next decade. In this respect, we wish to emphasise the slow but continuous erosion of the manufacturing base of most European cities due to the current spatial configuration of relative prices. Until now this phenomenon has taken the relatively benign form of de-localisation – retaining in the European space the control over the productive chain and all the other advanced services required in modern capitalism to perform transactions. But it has also taken the form of importing from foreign firms goods and services that were previously locally produced.

B. Homogenisation of consumption patterns and the spatial origins of consumption goods. As well put by Jane Jacobs, cities began to grow by starting to produce what they previously imported. The reverse is that cities may begin to decline by starting to import what they previously produced. Indeed, for any consumption good exchanged within the boundaries of a given city, one may raise the following question: Is this consumption good produced within or outside the city's boundaries? That is: Is it locally produced or imported? The ensuing question being: Which factors explain why a consumption good is locally produced or imported?

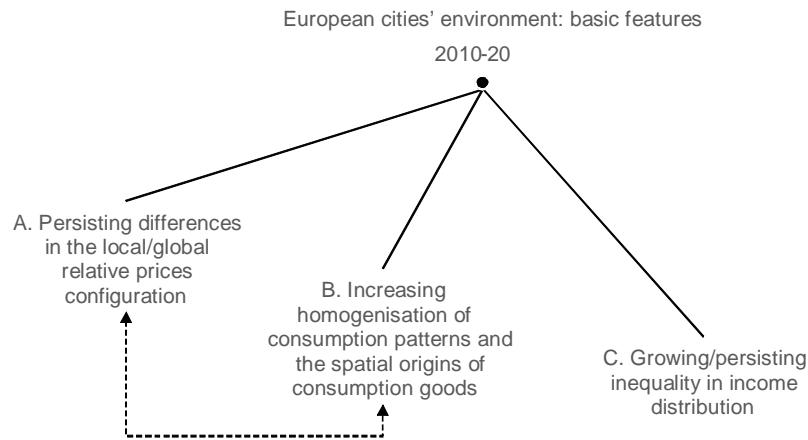


Fig. 4 – Mega-trends in European cities' environments

To unravel this complex issue one may start by noting that a larger number of goods consumed in Europe have undergone a strong process of homogenisation, opening up the possibility of exploiting returns to scale in the production of these goods as never before in the history of modern capitalism. It has also opened up the possibility that the new configuration of relative prices modifies consumption patterns directly and indirectly (via changes in individuals' meta-preferences). A further aspect to which attention should be paid is that the term 'delocalisation' normally refers to a re-configuration of the spatiality of the production chain of the export-sector of a city or an administrative region. Here it should be stressed that we should also use it to refer to the fact that consumption goods (and services) previously produced within the boundaries of the city – often constituting fundamental elements of the economic identity of the city itself – are increasingly produced outside the city.

The phenomenon of territorial change in the production process of goods and services consumed in the city is not relevant in itself but rather in its dimension: the share of consumption goods now imported and previously produced locally. Even more important is the territorial pattern of this phenomenon. To a certain extent, it may be interpreted as a consequence of factors leading to an efficient spatial distribution of the production process of consumption goods. Yet two questions arise: At which territorial scale – national, supra-national, global – should the efficiency of the spatial distribution of the production process of consumption goods be assessed? Moreover: At which territorial scale will there be equilibrium?

Although many European cities show signs of a revival of the local production of consumption goods for the local market, the trend in the opposite direction is very strong and deeply rooted in the current institutional and economic context – an issue to which appropriate consideration should be given. In the next decade, European cities may continue to experience a reduction in this important economic sub-sector.

C. Growing inequality in income distribution. The dynamic of (personal) income distribution is a central issue in economic analysis for at least two well-known reasons: firstly, the ethical dimension; secondly, the incentive dimension. The trade-off between these two levels of analysis has had a central position in social philosophy in recent decades. In this context, one should also consider the relationships between income distribution and the states of cities.¹⁷ There are reasons to believe that the 'European model of the city' is crucially linked to *low* levels of inequality in income distribution and to – correlated – minimum levels of 'shadow economy' (with the associated phenomenon of very low paid jobs).

If the 'European model of the city' is taken as a benchmark, it is important to stress the relationship between income distribution and the investment pattern of families/individuals in the maintenance/renewal of the housing stock. This is a very complex issue because it is related to the configuration of 'relative wages' in contemporary cities. That income distribution has a spatial pattern manifest in districts displaying standards of living very much below the average is a phenomenon commonly observed in cities. One may also state that segregation in cities cannot ever be completely eradicated for two main and totally different reasons. Firstly, because a certain level of inequality is intrinsic to capitalism; secondly, because cities are relational contexts in which individuals explore their potentialities and often settle down before having gained adequate jobs.

Increasing inequality in income distribution, coupled with an expansion of the 'shadow economy' – a response to the pressure of globalisation and power relationships in the labour market – has brought about – will bring about – an increasing number of households that cannot afford investment in the maintenance/renewal of the housing stock (or that cannot rent houses at a price that makes restoration/renovation possible). In other words, increasing inequality in income distribution may be expected to exercise a strong negative impact on social cohesion – or minimum level of segregation – in cities. But if social cohesion in cities is – as, indeed, it is – a fundamental feature of the 'European model of city', then income distribution is a crucial variable for proper understanding of the evolution of European cities in the next decade.¹⁸

The above-mentioned four mega-trends concerning the environment within which European cities' development trajectories will take shape in the next decade do not exhaust the issue. Conceptualising the environment of a system is a theoretical operation just as much as it is to conceptualise the structure of a system. Moving from the methodological perspective proposed in this paper, other environmental trends should be taken into account to analyse future potential development trajectories of European cities.

¹⁷ At local level – the city and its functional urban area – it is necessary to take account of the workings of the 'shadow economy'; otherwise, any analysis of income distribution will be distorted.

¹⁸ It is well known, but worth stressing anyway, that a dichotomised urban development may be manifest even in highly performing cities (cities which display high per capita incomes, high growth rates of per capita income).

6.2 Upgrading the state of the European city

As previously pointed out, any intelligent system has a 'meta-preference function' that is subject to changes in time. It follows that pursuing a new set of objectives is to be considered a 'challenge' to the same extent that maintaining the same performances against the background of a changed environment is a challenge. Yet a significant distinction should be drawn between these two challenges, in that the latter, like any change in preferences, is set by the actor itself. The upgrading of the 'European model of the city', which can be conceptualised as the consequence of a change in the 'meta-preference function' of European cities, can be regarded as the emergence, at European level, of a new model of the policy-making process.

According to the new features of the European model of cities proposed in the EU policy discussion and accepted by a large and increasing number of European cities, at least three new fundamental meta-objectives have to be considered: (a) increased energy efficiency; (b) urban quality (including environmental quality); (c) increased social cohesion. These are very ambitious objectives in terms of thresholds either established at European level or implicitly set by territorial competition. Since some cities are very close to the fixed standards, whereas others are very (much) distant from them, the new model of the city is a real challenge – and we cannot expect all cities to meet it.

The new model of European cities requires a re-allocation of the urban surplus (from consumption to capital investment and from 'old' to 'new' types of capital investment), a change in the legal framework of the economy and a change in agents' orientation. These changes will certainly put a strain on the policy-making process aimed at adapting the local political system to the task of implementing the required policies.

6.3 Increasing cities' competitive capacity (the resilience of the city)

There is a further challenge that cities must meet, and it is implicit in the paradigm of 'territorial competition'. European cities are expected to become 'very flexible' so that they can deal with the continuously changing environment that globalisation will bring about. Cities are expected to become systems that exhibit a certain degree of 'resistance' – the capacity to absorb an exogenous shock without generating disequilibria in the system – and, above all, a high degree of 'resilience' – the capacity to recover quickly from a disequilibrium caused by an exogenous shock.

The increasing territorial competition distinctive of the present period is due to various factors. Firstly, cities have acquired growing power – in some nation states more than in others.¹⁹ Secondly, cities have changed their attitude when realising that they may implement strategic behaviour if confronted with a new context. They have started to strategically use

¹⁹ As documented in the first and second report on the state of European cities, cities belonging to different nation states show substantial differences in city power.

policy instruments which were already at their disposal – in particular, stimulated by the reduction in the resources coming from upper levels of government. Thirdly, territorial competition has emerged as the new policy paradigm within the European Union, becoming a key category in the policy discourse. Competition has entered the stage as an 'instrument' to force local systems to mobilise their unused (or inefficiently used) resources and to stimulate local systems to search for a niche in the global market.

The meaning of 'territorial competition' and its potential territorial effects has not been thoroughly explored in the European policy debate. It may be necessary to revise its foundations but, in any case, territorial competition will remain a constitutive element of European cities' environment in the next decade. In short, territorial competition will generate an environment in which cities should behave strategically – raising the question of their *strategic ability*. In fact, territorial competition belongs to the category of 'dynamic competition' (and implies the concept of the 'fitness' of the competing units). Territorial competition evokes a scenario of winning and losing cities.²⁰

Against this background, it is evident that resilience is a crucial feature for a city. It depends on the capacity of a city to execute as rapidly as necessary a shift in the allocation pattern of the urban surplus in the private (households, social networks and firms) and public sectors. This involves a more general ability to devise an effective system strategy – the intersection of the agents' strategies. Therefore, resilience – given the per capita urban surplus – crucially depends on the quality of the decision processes (private, collective and public ones) that are at the basis of the workings of any social system. Individuals and collective agents, business organisations and policy-makers ought to be observed from the standpoint of their strategic attitude: more precisely, with regard to the resources they devote to meta-learning – that is, the resources they devote to upgrading the cognitive system continuously – to the plasticity of their preference function, and to their financial flexibility.

7. SCENARIOS FOR THE EUROPEAN URBAN SYSTEM

Developing scenarios for the European urban system until 2020 would fall outside the scope of this paper. Scenario planning is nevertheless a crucial intermediate step towards formulating an urban policy framework and effective policy interventions. Therefore, more resources should be devoted to this purpose by EU policy-makers of all political-administrative tiers. In periods of deep structural transformations, scenario planning becomes more difficult but also all the more necessary. The current structural breaks make our knowledge of cities' past trajectories insufficiently useful as a basis for the next generation of urban policies, and hence more foresight exercises are required to understand what kind of disequilibria cities will have to face in the coming ten to twenty years.

²⁰ In turn, this implies that policy-makers must prepare themselves to design 'rescue plans' for cities that will lose the competition badly – a very complex political (and moral) issue to deal with. This problem surfaced in the European public debate when Berlin ran into budget difficulties. But it is more widespread. For instance, a rescue plan was launched for Taranto and Catania, two important Italian cities in Southern Italy.

Making use of the insights discussed in the previous section, one may suggest that at least three fundamental issues should be addressed when developing scenarios for the European urban system: (a) heterogeneity of urban performances; (b) regional pattern of urban performances; (c) unequal well-being distribution within the city (degree of inequality and spatial pattern).

7.1 Development, stagnation and decline in European cities

Foresight is at the core of the approach proposed in this paper. Plotting European cities' future development trajectories is the outcome of two activities: exploring both cities' development potentials and the challenges cities will have to face. The focus on cities' structure as the factor that determines their performances and on the current heterogeneity of European cities' structures and current performances leads to the conclusion that it is very likely that strongly divergent development trajectories in the European urban system will be manifest in the next decade (and thereafter).

Different urban performances are a matter of fact in recent European history. In the past five decades, classification of cities' performances could generally be conducted according to the classes of 'booming cities'/'moderately growing cities'. Indeed, urban crises have been rare and, anyway, in most cases temporary. As to the future, it instead seems appropriate to develop scenarios taking also two further classes of performances into account, those of 'stagnating cities' and 'declining cities'.

In fact, under the pressure of globalisation, numerous European cities may not be able to maintain either their current levels of employment and labour productivity or their current levels of public services and urban externalities (with the ensuing deterioration of the physical environment), whilst a large number of cities may be able only to maintain their current levels of performance. Territorial competition makes things worse. Policy-makers should be aware that (dynamic) competition generates a very unstable world due to the cumulative causation it involves, which induces some systems to decline very rapidly as a consequence of quite evident self-reinforcing processes at work – certainly in systems like cities. These remarks suggest that avoiding wishful thinking about the future development trajectories of European cities – by extrapolating future development trajectories from the satisfying overall performances of the past decades – is rather important in the activity of scenario planning for the European urban system.

The first step is to draw a map of the potential development trajectories of European cities. In this regard, one should be aware that a number of cities will not be able to adapt spontaneously to the changing environment, with the consequence of a decline in their *level of per capita well-being* and, even more important, a further deterioration of their *adaptation capacity*. In the coming decade, a number of cities may experience negative performances such as, for example, declining quality in their housing stock, increasing social segregation, declining purchasing power, rising unemployment, emigration, and rising crime rates. At the same time, one must acknowledge that a number of cities – given the amount of surplus generated by their private sectors and their in-built adaptation mechanisms – exhibit the

capacity to continue, and even reinforce, their development trajectories and come ever closer to the ideal-type of the 'European model of the city'.

In conclusion, we may not be measuring European cities' current performances correctly, exaggerating their diversity of performances; but large differences are certainly to be observed. Territorial competition risks increasing these differences since some states of the (urban) world that characterise the 'European model of the city' – efficient public transport, well-designed public spaces, sustainable urban neighbourhoods, to give just some examples – have the nature of externalities for the advanced and more competitive manufacturing and service sectors.

7.2 Regional patterns of urban performances

In the European policy framework, cities' performances – that is, cities' development trajectories driven by the interaction of private and public adjustment processes – are valued from outside in terms of their impact on territorial cohesion (that is, stabilisation of the polycentric territorial organisation and a minimum level of well-being for each 'place'). That territorial competition, given the substantive heterogeneity of cities previously discussed, can guarantee territorial cohesion is an untenable hypothesis. Therefore, the question arises of the territorial implications of the heterogeneous reactions of European cities to the emerging competition context in which they will operate.²¹

The polycentrism of the European territory seems not to be at risk as an outcome of expected urban dynamics. Yet some macro-regions may undergo a strong concentration of economic activities that weakens the polycentric organisation of the territory. Moreover, it is possible that most cities of a given region or macro-region may simultaneously enter a path of decline or stagnation. In this regard, looking back over the past twenty years one may indicate Eastern Germany as a typical example²², but other regions in some Central and Eastern European member states have experienced similar patterns of territorial concentration and diffused urban decline. The salient question is now whether in Europe regional patterns of urban decline or urban stagnation will strengthen where they are already manifest or will start where they have not yet occurred – and this because the emergence of new regional patterns of urban crisis is a possible outcome in Europe. What is necessary is exploration of the European urban system in terms of spatial patterns of potential decline and development, and identification of the set of cities that may be considered 'at risk' and the territories (regions or macro-regions) that are 'in danger' against the background of the expected dynamics of their cities.

²¹ 'Territorial cohesion' has a straightforward implication for future EU urban policy because it establishes a trade-off between focusing on the global competitiveness of leading European cities and metropolitan areas, on the one hand, and the regional/national competitiveness of most cities at regional and national scale, on the other.

²² The worrying long-run demographic trend of East German (formerly DDR) cities has been widely discussed. See: Berlin-Institut für Bevölkerung und Entwicklung, *Die demografische Lage der Nation*, Deutscher Taschenbuch Verlag, München 2007²; see also the position taken by the same research Institute in the recent report *Demografischer Wandel. Ein Politikvorschlag unter besonderer Berücksichtigung der Neuen Ländern*, Berlin, 2009.

7.3 Social cohesion in European cities

High urban social cohesion is a distinctive feature of European cities, and any comparison between European cities and North American cities (not to mention South American or Asian ones) would be pointless, given the striking differences among degrees of social cohesion to be observed between them. It seems more appropriate, instead, to assess urban social cohesion within Europe, exploring variations in space and time.

A reduction in urban social cohesion seems likely in many European cities. Increasing inequality in income distribution, together with deprivation and poverty due to unemployment and underemployment, may be the major force driving spatial and social segregation. Patterns of immigration from non-EU countries also exert a significant impact, because they change the relationship between labour market conditions and immigration inflows in European cities, making unemployment and under-employment more widespread. Racial segregation and social fragmentation are no longer phenomena which affect only large cities; they affect small- and medium-sized ones as well.

The fact that European cities are (physically) dispersed facilitates the spatial segmentation of the local community. Some general patterns can be detected. Yet, each European city may show a peculiar spatial pattern of territorialisation of relative poverty, deprivation and under-employment and should be encouraged to devise a scenario concerning inner social cohesion and its spatial manifestation. In Europe, all tiers of government should pay more attention to this issue.

8. TOWARDS AN URBAN POLICY FRAMEWORK IN THE EUROPEAN UNION

On shifting the focus of regional policy to cities, one encounters a powerful obstacle: the size of cities. It is true that numerous cities in Europe are small, but nevertheless the economic weight of medium-sized and large cities is overriding in the European urban system. What generates the economic trajectory of a medium-sized city – let us say with 100 000-300 000 inhabitants – is an amount of resources (use of urban surplus) that is 'huge' when compared to the resources invested in rural or marginal areas in the past. Shaping the development trajectories of medium-sized and large cities is not an easy task for policy-makers. More than delivering 'transfers of resources', policy-makers may find it more viable to influence the allocation of the urban surplus through moral suasion, city empowerment, incentives and other means. There are cities that are so resistant to external shocks of the magnitude that a normal policy intervention may have – given their size, that it may prove impossible to change their development trajectories through resource transfers. In the case of these cities, only by reshaping the allocation pattern of the urban surplus may the development trajectories be influenced.

If territorial competition is to fulfil its promises and stimulate a re-allocation of urban surplus consistent with the coming challenges, EU policy-makers should establish a competition

framework that would mitigate the disruptive effects of dynamic competition. According to the 'European model of territory' – a category already discussed, and epitomised in the concept of 'territorial cohesion' – recording too many losing cities would not be acceptable. But, given the striking heterogeneity in terms of 'city power' currently to be observed in Europe, the disruptive effects of territorial competition constitute a possibility which is highly likely.

8.1 Improving local governments' cognitive capacity and political rationality

If a local government sets itself the task of steering the development trajectories of its territory, a new policy agenda unfolds that is quite demanding in terms of the skills and knowledge needed to be identified and utilised. The instrument of 'strategic planning' seems to be increasingly referred to as suitable for dealing with the complexity of shaping urban development trajectories. Yet the expression 'strategic planning' is only a label to attach to a learning process and decision process whose substantive significance and effectiveness has to be established case by case. It remains to be proved, therefore, whether city governments have the capacity to represent cities' disequilibria correctly and design appropriate policies, that is, to design and implement the right development strategies.

The capacity of city government for implementing a coherent and effective development policy is partly a matter of 'cognitive skills', that is, of the amount of relevant knowledge the political-administrative systems command directly and indirectly – that is, the knowledge that is dispersed in society, among individual and specialised private and public organisations. City government's cognitive skill can be improved by appropriate investment in knowledge, designing new interaction routines among bureaucrats, refocusing the learning processes, and establishing effective communication channels among the political system and society.

Besides cognitive skills, there is the question of 'political rationality', that is, of the social foundations of the objectives that local governments actually pursue. The question "who governs?" with regards to cities is a vexed and very important one. Cities in recent years have been arenas for experimenting new forms of participation, introduced to improve their 'political rationality'. Strategic planning itself is often interpreted as a procedure to make the public policies more accountable and legitimate at city level. Indeed, there is much to improve in the formation of the social preference function of European cities. (But, again, the warning is not to belittle heterogeneity in this sphere too).

To improve city governments' policy-making may prove to be a fundamental policy space for the European Union in the next programming phase of cohesion policy. A better allocation of the local surplus which, as previously mentioned, is of key importance in achieving better performances can be prompted simply by improving the quality of the decision process by upgrading cognitive skills and improving political rationality.

8.2 Integrating cities' urban surplus by direct transfers

According to the perspective sketched in this paper there are three spheres in which the urban surplus is allocated – each sphere conducting the allocation process on the basis of profoundly different rules: a) the market sector; b) the public sector; c) the collective sector (made up by any kind of social network self-producing goods/services on behalf of its members). Transfers towards each one of these spheres are certainly not difficult to find in recent European urban history – although a transfer strategy that integrates the three levels or that focuses on just one according to the kind of disequilibria a city faces is not very common.

Given the acceptance of ‘territorial competition’, future urban policy will have to be more courageous as to direct transfers. It will imply assigning much more importance to ‘conditionality’, forcing cities to develop a clear-cut concept of their disequilibria and to justify why direct transfers are strictly needed. Yet, for restoring or upgrading the competitive capacity of a city, direct transfers may simply be necessary – often to avoid a situation where losing cities experience a deterioration in their competitive capacities that may prove very hard to reverse.

8.3 Reconstructing a viable local production system

We could imagine the future of some cities as pure 'consumer cities' – cities in which the fundamental economic activity is to sustain the exchange of private goods – the disposable income coming from de-accumulation of wealth. We could also imagine the future of some cities as pure 'tourist cities', where the local demand is sustained by disposable income created in other territories. Yet, it is simply out of the question to imagine that these types of cities could be anything else but exceptional cases. Instead, what is normal is a city which has a viable base sector exporting goods/services and in so doing generates the income that sustains the local economy.

In the long run, the base sector of a city may undergo spectacular changes – therefore one should not be afraid of observing structural transformation. Yet structural transformation may manifest itself not as an 'adaptation' or even 'upgrading', but rather as a deterioration of the economic base – a deterioration that may lead to a disruption of the economic base or to a lock-in of its evolution. There are many cities in Europe for which there is the necessity to reconstruct the economic base.

Since the notion of 'industrial poles' entered the debate, the possibility of 'inserting' in a 'place' (city) a cluster of business firms to form an economic base has been explored in all its theoretical and policy implications. This problem is very similar to the one numerous cities in Europe – in particular, but not only, at the periphery of the European space – have to deal with today, namely to reconstruct their economic base. Incentives to attract business firms is a widely shared policy to ensure this aim is met. However, equally important is the localisation decisions related to the rank of cities.

9. CONCLUDING REMARKS

In the recent history of European cities, the implicit 'division of labour' between the private and public sector has given rise to a sort of paradigm of urban government. Cities are supposed to exhibit *by definition* a private sector which grows steadily in scale and/or efficiency, and a public sector that, by investing part of the surplus generated by the private sector, is supposed to provide the required amount of public capital and public goods/services. The public sector is also required to deliver the institutional setting for a balanced spatial development pattern (ensuring the production of positive externalities). Cities, therefore, are supposed to move along a development trajectory, and the possibility of economic and social disequilibria, although it is not ruled out, is related to specific partial (and spatially bounded) imbalances like racial segregation, social anomies, temporary over-supply of labour, etc.

This way of understanding the scope (and instruments) of urban policies, in regard to detecting whether cities were actually on a development path, was not unwarranted. Indeed, with the exception of wartimes and their immediate aftermaths, most European cities have constantly been on a development path, often moving very rapidly along it (and in certain phases of their history much more rapidly than in other ones). Against this background, one may regard as correct a 'vision' according to which policy-makers simply had to properly allocate the urban surplus they commanded and deliver the institutional setting necessary for a smooth – and to a certain extent 'fair' – spatial development. Although when looking back to Europe's recent economic and social history we may discover cases of urban decline, the urban policy paradigm that one refers to implicitly, is derived from a positive attitude towards the capacity of cities' economic base to bring about a sufficiently high rate of accumulation and growth.

In Europe, the received urban policy paradigm has undergone slow but steady change in the past two decades. The increasing importance given by cities to 'strategic planning' can be understood as acknowledgment that focusing on spatial planning and providing public capital/goods are no longer sufficient. Strategic planning is shifting its focus to the 'power' and 'efficiency' of the economic engine of European cities. In this regard, what we observe is that many cities are still moving – and very rapidly – along a development path and may continue to refer to the old policy paradigm as an effective policy framework. Yet, in the past two decades, an increasing number of European cities have begun to show deteriorating development potential up to the point of recording trajectories of economic decline or entering a phase of stagnating economy.

Most of the cities of the new member states, including many cities in the former German Democratic Republic, have had to face the problem of moving to a new development path – given that the one followed hitherto was 'unsuitable'. In other words, they had to reshape their economies, a task that is not yet accomplished. If we turn our view to the future, we may easily draw the conclusion that a growing number of cities will be concerned with the difficult task of improving their development potentials or making their economies 're-start'. Many

small- and medium-sized industrial cities in Europe may face the challenge of re-inventing their economic base in the next decade. This means that a growing number of cities will need to design and implement 'development policies'.

In order to avoid the trap of 'ceremonial' urban policies, one should carefully distinguish between two kinds of urban policies: on the one hand, urban policies that assume as given and suitable the development trajectory generated by the private sector and focus on using the urban surplus they command to deliver the required public goods and appropriate institution; on the other, *urban policies aimed at stimulating or even reconstructing viable city economies*. This second class of policies is quite different from the previous one, it is more ambitious and risky – but is the only type of policy that is helpful. In Europe, a new urban policy paradigm is needed – a paradigm that acknowledges the fundamental differences between *standard* urban policy and *new* urban policies – and lays the moral, institutional and resource bases for 'effective' urban development policies whenever they are needed.

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