Setting The Scene: Economic Transitions In European Cities

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SETTING THE SCENE: ECONOMIC TRANSITIONS IN EUROPEAN CITIES

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In the recent 'Regional outlook', the OECD (2014) convincingly argues that cities can be the drivers of national growth and recovery: in principle, their diversity and density makes people and companies more productive and innovative. This is not only a tale of large cities: over the last decade, as recent studies demonstrate (e.g. Dijkstra, 2013) many smaller and medium-sized cities across Europe were important economic engines. But this did not happen automatically: to make that happen, 'getting cities right' is the key challenge, and action on the city level matters! As demonstrated by recent OECD data (OECD, 2014), poorly organised cities fail to reap their economic potential.

So, how to 'get cities right'? European cities are confronted with a rapidly changing economy. The crisis has destroyed jobs across both service and manufacturing industries, and has revealed the shakiness of the financial service sector. Jobs were lost, some businesses become obsolete; yet, at the same time, new growth areas are emerging (van Winden et. al., 2007), for example linked with the digital economy, health and environmental protection. In this dynamic economic landscape, what is the scope of action for local governments to steer urban economies? Should they 'sit and wait' for changes to come and affect them, or is there room for a more pro-active urban policy to grasp emerging opportunities? How to act in a sustainable and integrative way? And how can economic growth also be inclusive rather than benefitting just a small group?

It has become clear that many traditional tools to boost the urban economy have become out-dated or are no longer cost-effective. Recipes

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such as investing in large landmark projects (new Guggenheims, big stadiums and global events), generous fiscal incentives or smokestack chasing (blindly attracting companies and investments from outside) are not very effective, and rarely get the economy of cities right (Bartik, 2005); moreover, at the EU level, those are often a zero sum game. There is a growing acknowledgement that **cities should look for more indigenous approaches**: building on existing qualities and assets, linking related industries to one another, mobilising companies and citizens to innovate and engaging them in the discovery of promising new specialisations.

Naturally, that is easier said than done. Among others, it requires deep knowledge about a city's economic dynamics, a balanced involvement of stakeholders and the proactive monitoring of promising trends, challenges and opportunities (see article on 'urban intelligence'). These are all themes explored in this publication.

MEGATRENDS BEHIND 'NEW URBAN ECONOMIES'

On a general level, which key megatrends can we see affecting urban economies today? In this section we sketch some of these megatrends (political, economic, social, technological and environmental). These are forces that cities can hardly control; yet, they are giving rise to new economic activities in urban areas, and to the fading out of others. They underpin the development of new modes of economic organisation, innovation and business models, gradually visible in European cities.

First, from the political side, the retrenchment of the state has been impacting the economy of many cities. In the EU, public investment by cities and regional authorities dropped nearly 14 percent during 2010–12 (CEMR, 2012). On the one hand, overall demand declined and the European macroeconomic situation is still far from stable. Public budget cuts have hit many small and medium sized companies in cities, namely the ones that relied more directly on public services and transfers. On the other hand, the withdrawal of the state is leading to the development of new types of businesses and ventures, e.g. in the health care domain.

Second, throughout the economy we see profound changes in the way value is created. In the new economy, the knowledge and information embedded in products and services grows across all economic sectors and activities. It puts new demands on skills and specialisation, and leads companies into open innovation (e.g. companies buying and searching for innovative solutions in other companies). In this increasingly knowledge-based economy, routine activities tend to leave expensive cities for cheaper locations. Yet, this is a not about 'manufacturing versus services', but about the types of activities that are prone or not to routinisation. Paradoxically, there is an emerging trend of manufacturing resurgence in some European cities known as re-shoring (i.e. formerly off-shored production returning to Europe) and the production of small batches of specialised products (van Winden et al., 2012), for example backed up by new digital and 3D printing technologies. Some of these processes are so responsive to market needs that the time taken to ship from South East Asia is not an option.

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Third, social forces like ageing have consequences for the economy's growth potential, challenging public budgets and welfare systems. The proportion of people over age 55 was 30 percent in 2010 and is expected to increase to 37 percent by 2030 (OECD/European Union, 2012). However, ageing is also likely to have other, perhaps more positive consequences in urban economies. For example, it may stimulate higher levels of senior entrepreneurship (OECD/European Union, 2012), and can give rise to new businesses targeting the needs of the elderly and retired, linked with tourism services and **health-related businesses.** Another trend has to do with collaborative consumption (sharing of goods and services), crowdsourcing and new mixes between the 'worlds' of production and consumption (e.g. consumers becoming producers, for example of organic food and renewable energy). Altogether, both trends open opportunities for new types of economic activity in cities.

Many of the aforementioned trends are driven by fast moving developments in technology and its mass adoption, namely in Information and Communication Technologies (ICTs). The fast diffusion of smartphones, social media and the internet-of-things, allows for unprecedented connectedness and interaction between humans (and machines). As a result, **new digital-related businesses** flourish. Moreover, the amounts of data produced in cities have been growing and are likely to continue to grow exponentially. For example, social networking platforms (such as Twitter or Facebook) enable their users to share about 1.3 billion pieces of information everyday; 90 percent of the data existing today has been created in the last two years, and its volume is now doubling every three years (Filippov, 2014). All this opens up new innovation and commercialisation opportunities in cities. However, on the flip side, the digital economy also comes with the decline of other urban industries and the re-organisation of business models: just think about the impacts of on-line commerce on shopping streets, or of the new web platforms for taxis, car sharing and accommodation. 'Innovate or die' is a harsh reality for many firms.

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Last but not least, despite the economic slowdown, climate change and its environmental consequences are still important issues for European cities. The continuous pressure, namely from NGOs and other civic movements is likely to keep the climate agenda high in many cities, and the energy transition towards renewables continues. Despite the 'hype', the economic relevance of the **green economy** is likely to be substantial (e.g. ESPON and Tecnalia, 2013). Green jobs – e.g. linked with climate adaptation, new modes of mobility and energy production and efficiency, water and air quality – increased in the EU from 3 to 4.2 million between 2002 and 2011, including 20 percent during the recession years (European Commission, 2014). Many of these new jobs and businesses are in the hand of large corporations, but not always: new innovative companies and a number of co-operative and energy-sharing models are also emerging.

EU2020, EU COHESION POLICY AND 'NEW URBAN ECONOMIES'

Not surprisingly, many of aforementioned challenges and opportunities are central to the Europe 2020 strategy (EU2020), whose overall ambition is to promote economic growth and competitiveness, linking it to social inclusion and environmental sustainability. The EU2020 and many of its flagship initiatives – e.g. the 'Innovation Union', the European Digital Agenda, or the 'Resource-efficient Europe' – are to be largely delivered by the European Regional Cohesion policy and its Operational Programmes, in the different Member States. These initiatives and investments may well have important impacts on city economies, but policies still mainly address regions or sectoral themes, not cities. The urban dimension of EU policy is often neither clear nor explicit in these strategies and the operational programmes. Crucially, the management of the funds normally takes place at higher levels with only a token devolution through the new article 7 of the ERDF, which will establish a floor of 5 percent of funds for integrated urban development.

Having said that, there are shifts in the thinking that underpins European regional and urban policy (McCann, 2015). It is increasingly recognised that speeding up Europe's economic development and innovation requires taking urban and regional specificities into consideration. There are no silver bullets and one-size-fits-all policies are often sub-optimal. Stemming from this idea, European regions are asked by the Commission to formulate a so-called 'Smart Specialisation Strategy' (S3) in which they find clever ways to marry economic traditions with new growth opportunities. They must do so in order to be eligible for European Regional Development Funds (ERDF).

At the core of S3 strategies is a process called 'entrepreneurial discovery'. The idea is that stakeholders in regions (companies, entrepreneurs, knowledge institutes, sub-national governments) interact to identify promising specialisations while permanently monitoring policy results. Importantly, 'smart specialisations' are often not rigid industrial sectors, but platforms or combinations of activities around a certain theme (see articles in this publication on 'health & care'; 'urban green growth' and 'new style cluster policy').

So far, national and regional governments, together with companies and universities, have primarily driven S3 strategies. However, it is clear that many smart specialisations will have an important urban dimension. The digital economy (see article in this publication) is just one example. Moreover, beyond companies and universities, there are good reasons why local governments should become more involved in S3. On the one hand, S3 strategies can affect the direction of urban economic renewal; on the other hand, many local governments in Europe have been developing systematic economic 'discovery' processes before (see articles on 'Triple Helix' and 'Urban Intelligence') that can bring important input to regional-level S3 strategies. This is a plea to find new ways to integrate economic development and innovation strategies at multiple levels, and to strengthen the economic dimension in a EU Urban Agenda (European Commission, 2011).

As said, 'getting cities right' matters for the economy at large. There is mounting evidence that well-designed economic development initiatives at the local level can have positive impacts and contribute to economic change. This is an important conclusion of a recent study of 50 ERDF-funded good practices in European cities (European Commission, 2013), with interventions ranging from the neighbourhood up to the metropolitan level. A key challenge open to European cities is how to scale up and spread lessons from those initiatives within and across urban areas, making the best out of the opportunities on offer from Cohesion Policy.

SUMMING UP: KEY ISSUES AND POLICY CHALLENGES

It goes without saying that cities are economic and innovation engines in their regions. However, what is more difficult and controversial is how to get them right. How can governments do so? To what should they pay attention? There are at least two necessary, broad conditions that should underpin the action of local governments: understanding thoroughly how urban economies work and how are they changing and acting within an appropriate governance framework at the right spatial level. Many old policy recipes to 'boost' urban economies have been found to have their limits (Van den Berg et al., 2014). Their impacts are often unsustainable and may have been producing economic benefits for a small elite with collateral damage to the rest of society. Cities need to move towards more indigenous approaches and support new economies from the bottom up. They must be based on two principles: first, they must build on specific local assets, strengths and traditions, and link them with promising new specialisations and external business-innovation networks and second, they must be developed through a partnership focused co-production made up of different and diverse types of stakeholders.

Moreover, as 'new urban economies' unfold, cities must deal with 'creative destruction' and the fading out of obsolete activities. Cities have limited control over these processes, but they can harness local firms and citizens to become innovative and learn new transversal skills. Among the trends that affect the economies of Europe's cities, the digital revolution is the key game changer. It deeply impacts many sectors of the economy, it fundamentally changes how companies and people work and learn, and evokes entirely new business models.

In this dynamic environment, a key challenge for cities, as outlined in the European Commission's (2011) report 'Cities of Tomorrow', is to achieve economic growth that benefits all citizens and does not compromise the environment. A way to move in this direction is to more explicitly link local economic development initiatives with societal challenges and social innovation (see the publication of 'Social innovation in cities', URBACT II capitalisation, April 2015). A promising avenue to 'smart growth' is when cities tackle societal challenges and at the same time create new economic activities and benefits, as explored through many cases and illustrations throughout this publication. ●

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