

# the shifting fortunes of european cities

**Ivan Turok** and **Vlad Mykhnenko** examine whether renewed confidence in the social and economic role of cities is reflected in the fundamentals of increased jobs and higher incomes, and they look ahead to the actions that cities may need to take to safeguard their economic futures



**Left**

Dublin has 'undoubtedly been Europe's star performer', but, in varying degrees, cities in other countries have seen a turnaround from decline to revival too

The gloomy outlook for the global economy is unfortunate news for many cities in Europe, whose prospects appeared to be improving in recent years. Just at the point when many governments and private investors had recognised the significance of cities as sources of economic and social development, they could be dealt a body blow by a downturn associated with the credit crunch and the rising costs of energy and commodities.

European cities have patently been in vogue among consumers, tourists and property developers, with a physical transformation under way in central commercial areas and waterfront

locations. The question arising is how far this visible manifestation of renewed confidence is reflected in the economic fundamentals of more jobs and higher incomes. We sought to assess the extent and nature of any improvement by analysing the trajectories of 150 major Western European cities over the last 25 years.<sup>1</sup>

## **The logic of urban renaissance**

There are essentially three reasons why cities are often thought to have become more important for mobile businesses and households in the twenty-first century. First, cities afford knowledge-intensive

firms access to specialised skills, technology and links to global customers and collaborators. They benefit from superior flows of ideas and information, resulting in more learning and innovation, which yields more valuable products, processes and services. Successful cities function as *knowledge hubs* in an interconnected global system of information, trade and financial flows with a self-reinforcing centripetal dynamic that attracts mobile capital and talent.

Second, cities offer firms in more routine sectors a deep labour pool and a healthy choice of services, suppliers and premises. In a fast-changing economy there is a premium on flexibility, and big cities enable firms to 'mix and match' their inputs and adjust their workforces more easily, which lowers costs and improves resilience. This is especially important for *generic office-based services* such as call centres, data processing, IT support operations and other outsourced 'shared services'.

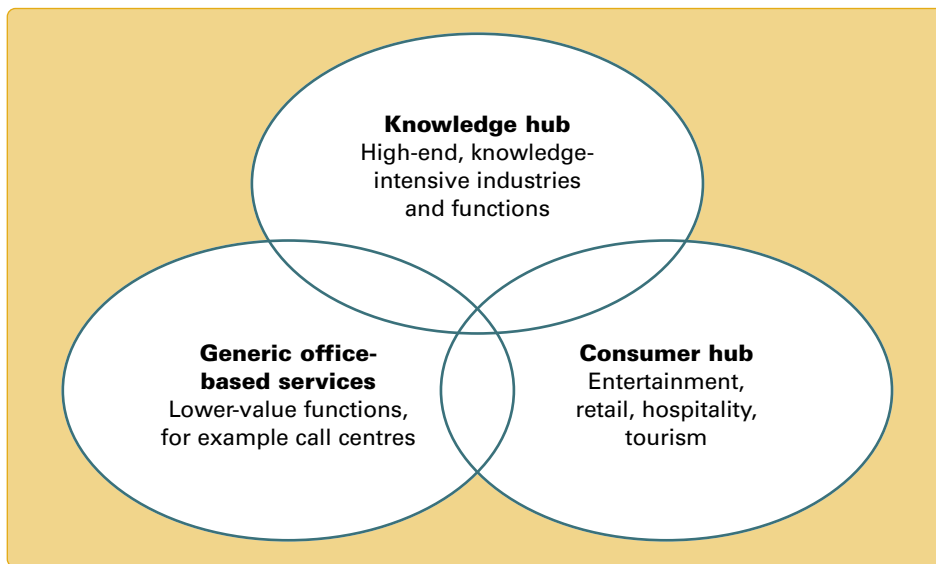
Third, cities offer unique advantages to consumers, including shopping, entertainment, recreational, educational and cultural facilities that are not viable elsewhere. The exceptional costs of

between cities so that they develop in distinctive ways. Increased knowledge intensity implies higher-'quality' growth associated with higher-value output and productivity. This is best measured by rising average incomes. Generic office-based services imply more 'extensive' growth, with activity reproduced on a larger scale through gains from flexibility. Such growth is best measured by rising employment. Consumer services also imply extensive growth, since these sectors tend to be lower value added, which is therefore also best measured by rising employment.

### How is urban revitalisation defined?

The notion of revival has an absolute and a relative meaning.

First, it implies an improvement in absolute urban conditions compared with some past period; i.e. things are better than they used to be. This could be a period of decline followed by recovery, or acceleration from standstill/slow growth to faster growth. A long-term perspective is essential to avoid misinterpreting short-term fluctuations of the economic cycle.



Above

Fig. 1 Different sources of urban revitalisation

upgrading such amenities in line with shifts in fashion and technology encourage concentration in the biggest urban centres. The position of successful *consumer hubs* that attract people to visit, study, live and work is also reinforced by demographic changes – smaller, dual-earner households, busier lifestyles, and the expansion of higher education.

These processes are not mutually exclusive (see Fig. 1, above), although the mix is likely to vary

Second, revival also implies that the position of cities has improved relative to the rest of the country. This complements the absolute dimension – otherwise local economic improvements may simply be bound up with national trajectories and have little to do with cities as such. Resurgent cities should be growing more strongly than other kinds of places.

Cities are defined in the study as functional rather than administrative entities. They are derived from NUTS3 units (level 3 of the EU Nomenclature of

**Table 1**  
**National variations in urban trajectories**

	<b>Jobs and incomes</b>	<b>Jobs</b> (not incomes)	<b>Incomes</b> (not jobs)
<b>Consistent strong performance</b>	1 Ireland 2 Netherlands		
<b>Improvement over the last decade</b>	1 Finland 2 Sweden 3 UK 4 Denmark	1 Spain 2 France 3 Italy 4 Belgium	1 Austria
<b>Slow-down over the last decade</b>	1 Germany		

Territorial Units for Statistics) containing continuous built-up areas with a population of over 200,000. Adjacent NUTS3 units covering the same built-up area were amalgamated to form a larger conurbation. This procedure yielded 150 cities, covering almost half (49 per cent) of Western Europe's total population.

#### Changes in the aggregate position of cities

Considering all 150 cities together, there is little evidence of a general urban revival, defined in absolute or relative terms. The process of aggregation washes out the examples of cities that have clearly experienced a turnaround. Urban trajectories in Europe overall have tended to follow a regular cyclical pattern over time, superimposed on a secular trend of rising prosperity, rather than sustained decline and then recovery. The long-term trend for jobs has been more positive than for incomes. This contradicts the idea that city economies have been steadily upgrading to more valuable and productive activities.

When the possible effects of city size and capital city status were examined, there was little evidence of either making much difference to urban performance. Other factors seem to be much more significant.

#### National variations

Is there more evidence of urban improvement in some countries than others? This is not inevitable considering the trend towards closer European integration through monetary union, the Central Bank and the adoption of the euro. In fact national differences emerge as surprisingly important, suggesting that country-specific conditions have a big effect on the decisions of investors and consumers, and that national labour market norms and regulations matter for employment patterns.

Table 1 summarises the main findings. Cities in two countries stand out as having performed consistently well over the last two decades through

rising employment and higher living standards: Ireland (Dublin) and the Netherlands. Dublin has undoubtedly been Europe's star performer, with strong and accelerating all-round growth over this period. It started from a relatively low base in the 1980s but has rapidly caught up and overtaken other places.

Cities in two other countries – Finland and Sweden – have seen genuine turnaround from decline to strong revival. They have the strongest

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claim to the urban renaissance title, having been through a difficult period in the late 1980s and early 1990s. Among them, Helsinki, Tampere, Stockholm and Gothenburg have all experienced some of the biggest improvements across Europe in jobs and incomes over the last decade.

Cities in the UK and Denmark have also enjoyed substantial economic gains, albeit weaker than in Finland and Sweden. The British cities showing the strongest signs of all-round revitalisation include Liverpool, Newcastle upon Tyne, Sheffield, Derby, Southampton and Sunderland. Some of these former industrial cities have bounced back from acute difficulties they experienced in the 1980s and early 1990s.

The improvements among cities in Spain, France, Italy and Belgium have been more partial and have been led by growth in employment rather than in

incomes. The rate of job growth in Spanish cities has been particularly strong, far outstripping the rise in living standards. This has been linked with a construction boom and fuelled by large-scale immigration, which may have depressed wages and facilitated growth of routine jobs. Spain's top performers have been Madrid, Málaga and Bilbao. The dynamics in Austrian cities have been quite different, driven by rising incomes rather than jobs.

German cities have experienced the most sluggish performance over the last decade, albeit from a position of comparative prosperity at the outset. It is the only country in Europe where growth in jobs and incomes has slowed compared with the previous decade. German cities have also consistently tended to lag behind the rest of Germany. This comes as something of a surprise considering that the UK Government has said repeatedly that cities in Britain under-perform those in Germany. Our evidence suggests that British cities are catching up fast.

## 'The recent improvements in British cities have been more evident in employment than in average incomes. Generating a commensurate increase in incomes will require consistent efforts to develop the economy of many cities towards more productive activities'

### Pathways to prosperity

The foregoing analysis does not tell us very much about how and why economic conditions have improved. To learn useful lessons about urban revitalisation we need to probe more deeply into the complex processes at work. However, there are already some clues available which indicate that there is no single growth formula involved.

For example, there is a big contrast between job-rich, low-productivity growth in Spanish cities, and high-income growth in many northern European cities. This clearly illustrates that the revitalisation of cities is not a simple, uniform process being followed everywhere. There are different paths to prosperity.

Among the most dynamic cities there is also a big contrast between Ireland, with its low tax rates, and cities in Scandinavia, where taxes are the highest in Europe. The new Scottish Government tends to treat these 'Arc of Prosperity' countries as a single exemplar, when there are clearly quite different policy frameworks being pursued, yet with similar levels of success.

The recent improvements in British cities have been more evident in employment than in average incomes. Generating a commensurate increase in incomes will require consistent efforts to develop the economy of many cities towards more productive activities. This probably means less reliance on basic consumer services and routine business services, and more encouragement of value-added functions, without abandoning less-skilled sections of the population in the course of upgrading.

### Conclusion

There have been important signs of economic improvement in many European cities over the last decade. National differences are significant, and cities in Finland, Sweden, Ireland, Britain and Spain show clear signs of revival or accelerated growth. There is also some variation between high-income and job-rich forms of growth.

Looking ahead, there are concerns about the resilience of cities in the headwind to be faced in the years ahead. Private investors will be more cautious, household expenditure will come under pressure, and public spending will be tighter. Major consumer hubs may be particularly vulnerable to a downturn. City centres could be hit harder than other areas by the credit squeeze and the slump in property markets. A contraction in new construction and a slow-down in discretionary consumer spending on entertainment, tourism and luxury goods could damage jobs and living standards.

Cities need to look beyond the short-term pressures to consider longer-term possibilities too. Moving the local economy up the value chain to more original, higher-quality products and services could help to protect and enhance living standards over time. For leading economic sectors it means continual change, creativity and innovation to find new ways of doing things and new things to do. More emphasis is required to develop capabilities for change and improvement through careful analysis, experimentation, improvisation and enhancement of firms and support organisations. Gains may also be made by building stronger business relationships with other places, deliberately seeking out and adapting innovations created elsewhere, and responding more quickly to opportunities as they emerge. Success also depends on progressively raising skill levels to ensure that the process of growth and development is inclusive for all groups.

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### Note

- 1 I. Turok and V. Mykhnenko: 'Resurgent European cities?'. *Urban Research & Practice*, 2008, Vol. 1 (1), 54-77