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Regional dimension on competitiveness in the post-crisis period. Urban policy in Europe

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Abstract. *Europe is currently facing major new challenges such as globalisation, climate change, the demographic decline, migration and energy security. EU's urban policies are critical for the competitiveness growth of European cities. The integrated urban development policies offer a set of tools which have already proved their value in numerous European cities regarding the development of administration structures that are supporting an efficient and capable way to cooperate with one another.*

Keywords: urban policies; urban development; competitiveness; European cities.

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1. Introduction to urban policies in Europe in the post-crisis period

The recent international crisis did not only caused the greatest contraction of world economic activity since the Great Depression, but also revealed the urgency of revising how the economy and the role of public policies are regarded. The crisis laid bare the serious flaws of a policy approach that naively entrusted regulation almost exclusively to the market itself, minimizing and weakening the role of the State. It also revealed failures in ethics and transparency that characterized key market players and their scarce accountability to the societies that suffered the consequences of its actions. The world was witness to one of the biggest crises in modern history, with enormous losses of wealth and a virtual evaporation of institutions believed, until then, to be solid. In fact, at the peak of the crisis, a significant part of the financial markets in several developed countries, which for decades experienced strong growth, disappeared in just two weeks. The effect on the rest of the economy and for several less developed countries was devastating, with significant losses in production and employment and social consequences still to come and that will probably continue for a long time if we fail to understand the changes in public action that the post-crisis context demands.

In emerging Europe there has been a strong tendency to open up financial institutions and financial markets. Financial liberalization can be analysed in its three dimensions: de jure openness (formal legislative liberalization); de facto openness (measured by the total amount of assets and liabilities of residents toward nonresidents of the country; and the role of foreign banks in the domestic banking sector. In all of these dimensions, emerging Europe has opened up a great deal, and an especially striking feature is the major influence of foreign banks operating in the countries. In Southeast Europe specifically, financial liberalization and integration with EU financial markets began in the early nineties, and it speeded up in the first half of last decade. Countries of the Western Balkans had almost completed financial liberalization by the end of 2002. Since 2007 Bulgaria and Romania have been members of the EU and thus of the single European financial market.

Measured by the share of foreign ownership, the banking sectors in all countries in the region have been majority-owned by banks from Austria, Italy, France, Greece and Turkey since 2005. In the literature, the advantages of financial integration are seen as relating to the benefits of financial deepening. However, there is no statistically significant and robust evidence of positive effects on sustainable growth. The benefits of integration have much to deal with institutional strengthening, rather than a direct impact on growth. Financial liberalization is also seen as a buffer against domestic economic shocks, but the current crisis was caused by a global shock, and financial markets were a key transmission channel.

The European Union has formal responsibility for regional policy under the treaty – but not for urban policy. Indeed a Commission proposal to give the EU responsibility for urban matters was rejected by member states in 1991. But since then a growing number of policy-makers, researchers and observers have argued that the EU should increase its involvement in urban affairs. Some have argued for a greater urban dimension to regional policy. Others have more directly called for an explicit EU urban policy.

The argument that cities are the economic drivers of regions has become increasingly important at a European level, as national governments have focused upon the institutional and economic linkages between cities and regions. In particular the concept of city-region has become an increasingly influential idea. This is a new version of an old argument, which essentially says that the administrative boundaries of cities and local governments no longer match their economic realities. In institutional terms it is argued that critical policy issues have to be addressed at a regional or sub-regional scale – for example, economic development, transportation, environmental and waste management and land use planning. On the economic performance front it is argued that urban and regional economies are crucially intertwined and the performance of one directly affects the performance of the other there is not a separate urban and regional economy. Hence since there is no conflict or difference in fact between urban and regional economies - there should be no policy difference.

1.1. The dimension of urban competitiveness

The impact of fundamental developments and the changed role of the city have led to the emergence of urban competitiveness. The new political economy imposes a different approach method: along with the increase in the number of companies that are more flexible and mobile, contributing to the economic performance and well-being of a city, city competitiveness is first of all the effort made to depict the respective region in the most attractive way possible. Given the circumstances, if cities obtain competitive advantages, they must outrun their competitors in the battle for investment attraction in the leading sectors of the new globalized economy. Certain economists, such as Krugmann, support the theory according to which competitiveness is just the attribute of independent economic companies and not of cities, regions or states. Competition exists exclusively between those involved in the phenomenon and who respect a well-defined structure of objectives, since they are autonomous. So the city itself is not in competition: it can be defined as competitive when it hosts various competitive companies. Urban competitiveness is the entrepreneurial competitiveness in a specific area, measured through quantitative factors, such as gross added value. In my opinion, competitiveness is the ability of an economy to attract and maintain companies with stable shares or that are increasing on the stock market, at the same time maintaining a stable or high standard of life for those who participate in it. City competitiveness does not only pertain to the income obtained by companies, but to the way this income is structured to residents.

Competitiveness is different from competition. Competition is a score of zero to one where if a city wins, another loses. In contrast, all cities can increase their competitiveness at the same time so that all cities and the national economy can increase and have benefits simultaneously.

Competition between European cities is poly-stratified and complex. Cities of international importance, such as London and Paris, compete on one level only; other smaller cities compete in certain sectors, defined more and more by their intangible assets. In 1990, Camagni said that obtaining success in an urban competition has to do with the development of the method specific to a certain activity sector, namely the one that offers the competitive advantage to the city in question. This will consolidate the urban competitive advantage, but, at the same time, it will create a permanent inflexibility, which will have negative effects on a continuously changing production system. The fact that despite the increased interest in such problems, such as innovation and creativity, the multiplier of income and the multiplier of occupation, strongly related to inter-urban and intra-urban connections, continues to play a very important part in the process of obtaining income in cities must be mentioned.

Competition involves the existence of winners and losers, but what is a winning city in this context? Arguments brought to this question have suggested the fact that success is, first of all and especially, ensured by the capacity of the city to generate income. But even with this explanation, the notion of competition between cities is not completely elucidated, there still being some problems left.

Firstly, is the city truly an entity in a competition or does this competition manifest only in a group of urban actors, among whom there are probably conflicts of interest and that support this competitive fight? To what extent can a city influence its own chances of obtaining success?

Secondly, the success obtained as a result of the increase in the capacity to generate income involves stability for a longer period of time when this tendency of income increase is constant.

Thirdly, it is obvious that we are not dealing with a game with no stakes, where there are no advantages on either side, or in which none of the parties has anything to lose; *every city, this means that the cities are competing taking into account the relative rates of income, rather than the absolute rates of income.*

Fourthly, *the factor that connects both the capacity to generate income and their stability is power and, first and foremost, the decision power and the capacity to determine the behavior of other actors.* Winning cities are strong cities, but the power of every city is very hard to measure.

Fifthly, *the following are taken into account: every city is located in a system of cities and the capacity to generate income does not produce effects only regarding the administrative area of the locality in question; these effects, indirect or induced, produce a diffusion effect, differently, as far as neighboring areas go.*

Sixthly, *the capacity to increase income also involves the increase in the capacity to create jobs,* but this is not always necessary as long as the result of the continuous innovation process is a demand lower than the labor force. *If the total production of the city increases faster than productivity, the occupying degree will increase and otherwise it will decrease.*

1.2. The role of project management in the increase of urban competitiveness

In order to respond to current urban problems, generated by urban competition and the continuous increase of the demand for services and public goods, a new method of governing and administrating cities is necessary, focused on the demands on the market, action and result. This means redirecting the attitude of local authorities from “administration” to “management”, borrowing aspects of management from the private sector philosophy. The task of urban management is to improve the attractiveness of the city and its competitive position entirely, harmoniously and durably. In order to do so, urban management must develop an integrating strategy that takes into consideration the relations between the demand for urban services and functions, planning of buildings, offices, industrial areas, shopping centers, the infrastructure, etc. and the financing of these operations. Therefore, a pro-active urban management is necessary, seen as an activity of integration and coordination of all public and private activities at urban level (van Dijk, Nientied, 1993).

World Bank, in cooperation with UNCHS, promoted this approach through the Urban Management Program, whose main objective is to improve performances in the key areas of urban development planning. The program supports and finances integrated development operations related to the infrastructure, field management and environmental management. Through this program, World Bank and UNCHS also promote the idea that cities are economic engines of development, economic development being seen as a key development objective and urban management is an essential condition.

Competition between urban areas exists and is emphasized by the tendencies toward a common European market. Therefore, Europe is in a phase regarding a transition to a cultural society and a re-evaluation of the city's virtues. Local governments were given increasing responsibilities, while central governments request cities to become independent financially. At the same time, local authorities must remain neutral when distributing resources and prove their efficiency, not just through expenses or tax collection, but through an activity that was not related to them previously – an entrepreneurial initiative in generating additional income for the management and development of the city (Ave, 1992).

Financing of programs and development projects is a component of urban management and represents, according to its complexity, a difficult task for the local administration. Through their financial value and scale, urban projects often exceed the power of the local budget and require complex financial mechanisms, namely more than just a financing from your own sources.

A way in which municipalities can pay from their own sources is to annually save and invest in the savings, in the construction of a budget specific to every investment program. Although financing from your own sources offers advantages as far as income in the capital financing regarding operational expenses go, it has two major disadvantages (Căluşeru, 2002):

- Insufficient funds for the necessary capital, because the big number of projects or the high costs of certain projects can cause municipality to exceed the financial capacity of a local budget;
- The lack of equity between generations, because those who benefit from the project ought to pay for it, in general, which is not entirely true for urban projects, in which benefits are seen throughout generations.

This disadvantage is an argument for crediting. Municipal loans on the capital market or from the population, through issuances of bonds allow local authorities to implement projects sooner, ensure a bigger equity between generations and equalize the cost of the investment in time. The construction of projects sooner, rather than later, means they will generate benefits sooner. In urban development projects, these benefits, often hard to quantify, can be associated with the creation of jobs, productivity increase, the improvement of the business environment or life, or the revitalization of the historic patrimony.

A particular case, non-reimbursable credits, from international assistance programs, is another important financing source for certain development projects. For Central and Eastern Europe, the last ten years of international assistance have brought non-reimbursable development funds, for local authorities, through PHARE, ISPA and SAPARD programs, but also through international cooperation agencies of the governments of UK, Switzerland, Germany, the

Netherlands, etc. However, this source is a non-durable alternative intended, punctually, for emergency needs, considered by the financer as a strict necessity.

Another possibility to finance urban development is the partnership between the public and the private sector. This occurred in Western Europe in the ‘80s, generally in urban revitalization and field development programs, considered an important tool in the dynamic of urban projects that presented common features for the two partners. Because the externalities of such projects affect both the market and the possibilities of the administration to intervene, a partnership between the two components became necessary.

The public-private partnership represents mechanisms of cooperation between a public partner and a private partner, for a common purpose, in which risks, costs and profits are distributed proportionally among partners (Bramezza, van Klink, 1994). In urban areas, the public administration and the private sector maintain their traditional roles regarding investment programs:

- The role of the local public administration is to ensure the physical planning, to follow legal procedures and to get involved in field management. Additionally, it is responsible for the infrastructure and the financing of some of the activities.
- The traditional role of the private sector is to contract works in urban infrastructure, buildings and public utilities, to carry out investments and to finance certain related activities.

A public-private partnership can have various financial dimensions or it can be made in various organizational forms depending on the level of the projects, the complexity and the opinions of the partners involved. In any event, it begins with a common interest, from the complementary nature of the partners’ roles and the proportional distribution of the profit and risks and is an “advanced” financing method and an efficient tool in overcoming the imperfections on the market (McQuaid, 1994).

Regional Operational Program 2007-2013 *Priority Axis 1: Support of the durable development of cities – urban increase poles*, within the Regional Operational Program (ROP), aims to increase the quality of life and to create new jobs by rehabilitating the urban infrastructure, improving urban services, including social services, as well as developing structures to support business and entrepreneurship. Given the current situation of cities in Romania, the funds granted to urban development will be spent as follows: 60% for the public urban infrastructure, 25% for the social infrastructure and 15% for the business environment.

In this context, the integrated urban development and regeneration plans will contribute to the fulfillment of ROP’s specific objective, namely the increase in the economic and social role of cities, by applying a poly-central approach for a more balanced development of regions, in accordance with the objectives of the National Strategy for Regional Development and the National Strategic Reference Framework, as well as the Strategic Community Directions for the current programming period 2007-2013.

The referential financial attribution available for increase poles, for 2007-2013, is EUR 621.27 million (ERDF and co-financing from the state budget):

- Iasi: EUR 111.25 million;
- Constanta: EUR 90.32 million;
- Ploiesti: EUR 97.00 million;
- Craiova: EUR 95.5 million;
- Timisoara: EUR 70.49 million;
- Cluj-Napoca: EUR 82.41 million;
- Brasov: EUR 74.30 million.

In Romania, three types of urban increase poles have been identified:

- *Increase poles* – 7 big cities and their area of influence appointed through GD: Iasi, Constanta, Ploiesti, Craiova, Timisoara, Cluj-Napoca and Brasov;
- *Urban development poles* – 13 municipalities appointed through GD: Suceava, Bacau, Braila, Galati, Pitesti, Râmnicu Vâlcea, Arad, Deva, Satu Mare, Baia Mare, Oradea, Sibiu and Târgu Mures;
- *Urban centers* – cities with over 10,000 residents, other than increase poles and urban development poles.

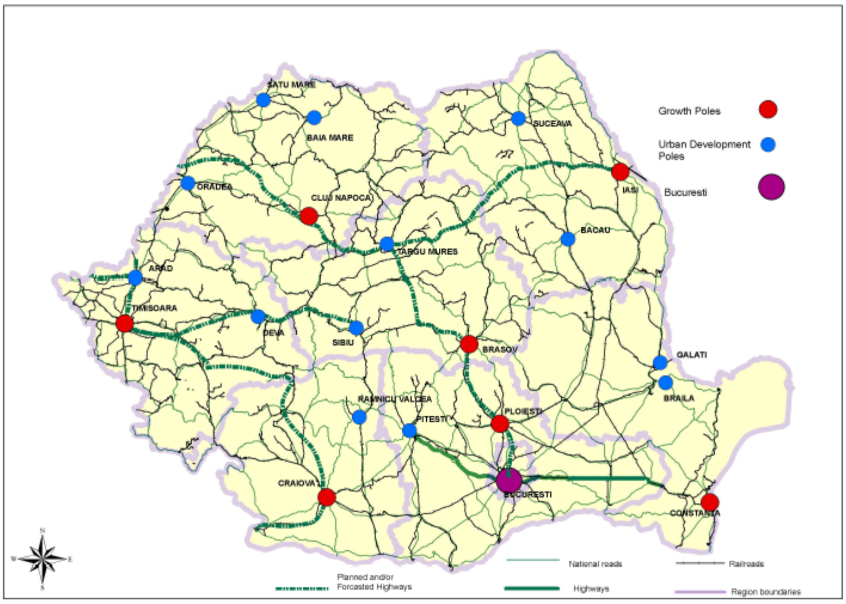

Figure 1. *Growth poles and urban development poles*

Table 1. *Urban development projects*

Subfields	Submitted IUDP	Submitted projects		Contracted projects		
	Nr.	Nr.	Total value (EUR million)	Nr.	Total value (EUR million)	ERDF (EUR million)
Increase poles	7	15	169,9	6	110,6	69,7
Urban development poles	13	86	297,5	8	34,7	22,1
Urban centers	96	333	1.036,4	41	206,7	132,2
Total	116	434	1.503,8	55	352,0	224,0

Integrated urban development plans (IUDP)> previous European experiences (URBAN I, URBAN II) showed that the integrated approach of economic, social and environmental issues in degraded urban areas were a successful method to solve them and to obtain a durable urban development. This approach consisted in simultaneously supporting activities to physically renovate the urban environment along with those to rehabilitate the basic infrastructure, as well as actions for economic development, competitiveness and occupancy increase, the integration of ethnic groups as far as environmental protection goes.

Conclusions

1. Europe is currently facing major new challenges such as globalisation, climate change, the demographic decline, migration and energy security.

2. EU's urban policies are critical for the competitiveness growth of European cities. The integrated urban development policies offer a set of tools which have already proven their value in numerous European cities regarding the development of administration structures that are supporting an efficient and capable way to cooperate with one another.

3. The crisis laid bare the serious flaws of a policy approach that naively entrusted regulation almost exclusively to the market itself, minimizing and weakening the role of the State.

4. The European Union has formal responsibility for regional policy under the treaty – but not for urban policy.

5. In order to respond to current urban problems, generated by urban competition and the continuous increase of the demand for services and public goods, a new method of governing and administrating cities is necessary, focused on the demands on the market, action and result.

6. Financing of programs and development projects is a component of urban management and represents, according to its complexity, a difficult task for the local administration. Another possibility to finance urban development is the partnership between the public and the private sector.

7. The integrated approach of economic, social and environmental issues in degraded urban areas were a successful method to solve them and to obtain a durable urban development. This approach consisted in simultaneously supporting activities to physically renovate the urban environment along with those to rehabilitate the basic infrastructure, as well as actions for economic development, competitiveness and occupancy increase, the integration of ethnic groups as far as environmental protection goes.

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