



Cities, Regional Development, and Transport

Minutes

The workshop was held in Brussels (Université libre de Bruxelles)
on Thursday 11 June 2015

*Conference organized within the COEURE project “Cooperation for European Research in
Economics”, funded by the FP7 SSH research programme under the grant agreement
FP7/320300 (COEURE)*

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Workshop Programme

- 09:15 - 09:30** **Introduction COEURE**
Wolfgang Leininger (*TU Dortmund*), *Exec Committee, COEURE*
Marianne Paasi, *DG Research and Innovation, European Commission*
- 09:30 - 10:30** **The State of the Art: Cities, Regional Development And Transport**
Jacques Thisse, *Université Catholique de Louvain*
Stef Proost, *University of Leuven*
- 10:30 - 11:30** **Discussion from the Research Viewpoint**
Frédéric Robert-Nicoud, *University of Geneva*
Jens Südekum *Heine-University of Düsseldorf*
- 11:30-11:45** *Coffee Break*
- 11:45-12:30** **Discussion from the Policy Viewpoint**
Alessandro Turrini, *DG EcFin, European Commission*
Kurt van Dender, *Unit Centre for Tax Policy and Administration, OECD*
Discussion
- 12:30 -13:30** *Lunch Break*
- 13:30- 14:30** **Transport and the EU economic space: Theory and Policy**
Miren Lafourcade, *Université Paris-Sud*
Elisabet Viladecans-Marsal, *Universitat de Barcelona*
Francesco di Comite, *IPTS, European Commission*
- 14:30-15:00** **A Case-Study: “The Ruhr Area - Political Governance for Germany’s largest Agglomeration”**
Philipp Breidenbach, *Rheinisch-Westfälisches Institut für Wirtschaftsforschung*
- 15:00-15:15** *Coffee Break*
- 15:15-16:30** **Open Discussion: Challenges and Closing Remarks**
Stef Proost, Jacques Thisse, *Discussants and “Audience”*

Participants

SURVEY AND COORDINATION

Proost, Stef	Principal Investigator
Thisse, Jacques-François	Principal Investigator
Paasi, Marianne	EC Research Programme officer, case officer
Leininger, Wolfgang	Executive Committee of COEURE
Ivaldi, Marc	Coordinator COEURE Project

DISCUSSANTS

Breidenbach, Philipp	Rheinisch-Westfälisches Institut für Wirtschaftsforschung
Di Comite, Francesco	IPTS, European Commission
Lafourcade, Miren	Université Paris-Sud
Robert-Nicoud, Frédéric	University of Geneva
Südekum, Jens	Heine-University of Düsseldorf
Turrini, Alessandro	DG EcFin, European Commission
Viladecans-Marsal, Elisabet	Universitat de Barcelona
van Dender, Kurt	Unit Centre for Tax Policy and Administration, OECD

AUDIENCE

Hasselgren, Björn	Mayor, Eunata	van Leeuwen, Inge
Jennes, Geert	Prager, Jean-Claude	Witschke, Mirjam
Leiner, Vincent	Quinet, Emile	Zierahn, Ulrich

Belau, Julia (Administration)

1 Introduction COEURE

Wolfgang Leininger opened the workshop and emphasized the aims of the COEURE project, in particular the endeavor to evaluate European Research in Economics with a particular reference to its contribution to European economic policy issues. How useful *is* European Research in Economics for European economic policy making? And how useful could it be? Which funding strategies are needed to improve the policy effectiveness of European research in economics? He was followed by Marianne Paasi, who summarized the goals and the rationale of COEURE from the policy communities' point of view. She identified an underfunding and as a consequence undersupply of ideas for key concerns of European policy issues. Marc Ivaldi closed the opening session with an account of the whole range of COEURE surveys and linked some of them to the one presented here.

2 The State of the Art: Cities, Regional Development and Transport

The Principal Investigators Stef Proost and Jacques Thisse gave an one-hour account of the main findings in their survey.

3 Discussion from the Research Viewpoint

Frédéric Robert-Nicoud focussed on several additional points in his presentation. He criticized that the occurrence of spatial sorting and spatial disparities are *prima facie* taken as a justification for place-based policies. But this hides considerable local variation (as e.g. large cities are more unequal than small cities). It is a problem of real disparities versus nominal disparities: rich regions usually host a large city and the cost of living rises with city size. Is spatial concentration then a zero-sum game? No, in the presence of vertical linkages and low trade/transportation costs spatial concentration may in fact benefit everybody. Moreover, cities are the engine of wealth creation: virtually all innovations are conducted in the largest metropolitan areas. There are agglomeration economies: density makes people more productive; e.g. the largest city pays wages that are 2% higher than those in the second largest city. As cities attract the talented, the urban premium is increasing with individual skills, while the skill premium is increasing in city size. This draws attention to the detrimental effects of present day tax systems, which all tax nominal earnings and hence subsidize congestion cost (when those should be taxed!) while agglomeration economies call for the subsidization of earnings. He referred to this as the “urbanophobia of present tax systems”, which is unfair (in taxing real earnings in large cities higher than elsewhere) and inefficient (as it prevents cities

from reaching their optimal size).

For place-based policies this means that the widely held view in policy circles that large infrastructure investments into connecting lagging regions to centers is probably mistaken. It is theoretically ambiguous and empirically very weak. Place-based policies should target individuals not areas. An effective place-based policy should not induce any mobility response. The most pressing point for progress on these issues is data availability, in particular data on land use and land prices, which would allow the realistic estimation of congestion elasticities.

Jens Südekum stressed a very similar point from a different vantage point. Despite vastly falling costs for shipping goods, people or ideas across space, location matters more than ever! If anything, urbanization and concentration of people / economic activity in cities will become even more important in the future. Not only in the developing world, but also in Europe! This means that a European economy that is transforming into a knowledge society, relying ever more on young, talented people, will experience rather more regional disparities. This will make the intelligent use of place-based policies all the more important. He then drew attention to several alternative approaches to study regional disparities. He concluded that the present use of place-based policies is probably misguided from an allocative point of view, if the main concern is more equity, then income transfers should be used. He then briefly surveyed the evidence of the effectiveness of various place-based policy programmes and called for more empirical work on the identification of causal effects of PBPs.

Discussion: Jean-Claude Prager noted the huge difference between the recommendations following from theory and the public perception of the problem. He called for strict empirical evidence for the recommendations and the delineation of conditions for efficient policies. The Principal Investigator Jacques Thisse replied with a basic insight and recommendation: Do not fight against agglomeration.

4 Discussion from the Policy Viewpoint

Alssandro Turrini evaluated the survey from a very pragmatic and practical point of view of a policy maker, sorting common sense recommendations from important, at times “uncomfortable” facts and insights. He stressed as the most important insight from reading the survey the fact, that transport costs still matter when low, with strong indirect, long-term effects. He confronted theory-driven recommendations with political obstacles to their implementation and saw the need for a “de-politicisation” of the public decision making process. He in particular questioned that jurisdictions presently are efficiently defined. He, too, stressed that the

most effective way to reach the policy community with these research insights probably is to transport them via explicit empirical work confirming or supporting them. This, in particular, applies to the case of regional place-based policies.

Kurt van Dender agreed that the stimulation of agglomeration economies could be a good recommendation for policy-making and asked how the policy debate could become informed on this issue. Is agglomeration mainly about working in cities or working and living in cities? He identified several possible policy measures which could work in that direction and stressed, not to be too “efficiency-obsessed”, but address distributional concerns at the same time. He extrapolated on this by means of a discussion of how to tax transport; i.e. how best to replace or at least amend traditional fuel taxes by distance-based measures of congestion taxes.

Discussion: Further comments were postponed to the general discussion at the end of the workshop for lack of time.

5 Transport and the EU economic space: Theory and Policy

Miren Lafourcade lauded the survey as a “crystal-clear synthesis of the tool-box of spatial economics” and drew attention to the need of simultaneous analysis of regional and urban policy issues as a big transport infrastructure impacts on both scales simultaneously. She gave a very good empirical account of the wage premium (agglomeration economies) in dense TTWAs (travel-to-work-areas involving a lot of commuting) in France and concluded from this that much more is known about agglomeration economies than disagglomeration economies. Quantifying the impact of transport infrastructure in this respect is very complex and depends on the right choice of data. She argued that the importance of transport prices and type of services (like frequency etc.) is underinvestigated, in particular in empirical analysis and called for more and better transport data. Such data may become available in the form of “big data” by the exploitation of data from space-based satellite navigation systems and other electronic devices. Those data may allow to infer the reaction of inner city inequality/poverty on transport policies.

Elisabet Viladecans-Marsal started her discussion by trying to make the concepts of urban and regional economics “workable”; the distinction between cities and regions can very quickly become blurred, all the more so since regions are not economic entities per se, but mainly political constructs. It is hence difficult to evaluate the impact of infrastructure and transport investments, in particular when “ownership” (who pays?) and management of them are

separated (who is in charge of policy?). She advances the view that in order to evaluate the effectiveness of European interregional transport policies Europe should best be viewed as a network of cities rather than a collection of regions. Infrastructure mainly connects cities not regions. How does infrastructure between cities then fuel agglomeration within cities and what type of intra-metropolitan infrastructures copes best with this? An important observation in this context is, that the political governance of cities can be an important constraint for the success of metropolitan transport policies. Neither big government, nor laissez-faire work well. The same applies to the EU as whole; i.e. the governance of European transport networks needs to be rethought and much more coordination between regions should become a constitutional part of the relevant EU regulations. Again, the most pressing need for researchers in this area is the availability of data at city level and for transport networks between cities.

Francesco di Comite praised the survey as a comprehensive and timely “knowledge cartography” of the fields covered in it, that should greatly facilitate interaction between research and policy. He drew attention to the “danger of its comprehensiveness” by asking for advice how to choose between different models for different regions and their validity for the entire EU. He agreed with the authors of the survey that not only national but European urban policies are needed and reported first institutional developments within the European Commission to accomplish this (like the “Partnership Agreements” negotiated between the European Commission and the regions). However, the process as a whole is still too decentralized due to national and local specificities. What is really needed for this is an integration of urban and regional economics with the help of New Economic Geography. He pointed to some modeling attempts along these lines in the Netherlands and JRC, which are still far from a truly general model. There are in particular methodological problems concerning the calibration of these models. Nevertheless a Computable General Equilibrium model of a spatial economy like RHOMOLO has already proved very useful; e.g. in the assessment of spill-over effects from the development of one area onto other (mainly neighboring) areas. He concluded that a logical next step from this survey is to provide to policy makers a “compass to find their way among the different theories”.

Discussion: The discussion largely concentrated on the data issue: all agreed that better data are needed; which often is more a problem of accessing and linking at a European level existing data rather than generating them from scratch.

6 A Case-Study: “The Ruhr Area - Political Governance for Germany’s largest Agglomeration”

In his case-study on the Ruhr Area **Philipp Breidenbach** gave a detailed account of a so far largely neglected topic in urban and regional economics: the impact of political governance on policy and policy outcomes. The present form of political governance (53 independent cities and various entities on district level) of the Ruhr Area is often seen as a serious obstacle to its effective development. The investigation started with an opinion poll, which clearly showed that the Ruhr Area is perceived as one common agglomeration among its population. Based on this it explores the most efficient degree of cooperation and competition between the cities and its implementation. Not surprisingly in the light of the previous discussions of the workshop, but still remarkable, it finds a governance structure following the New Regionalism Approach the most promising.

New regionalism is a more decentralized and less institutionalized form of governance, that for these reasons has been criticized as “undemocratic”, which one can read as a the “de-politicisation” demanded by Alessandro Turrini in his presentation. The study then identifies fields most amenable for decentralized and for institutionalized cooperation and reports on a contest held that gave financial rewards for the implementation of voluntary cooperations between different cities or administrative entities.

Discussion: Identification of the population with a whole Ruhr area should facilitate cooperation between administrations, which is not observed. What additional factors are needed (e.g. to avoid troubles like in the “Stuttgart 21”- infrastructure project)? For transport infrastructure projects already a coordination of the budgeting processes between cities may be required.

7 Open Discussion: Challenges and Closing Remarks

This session was opened by a brief account of **Stef Proost** on what the two principal investigators perceived as the most important and valuable comments on and criticisms of the survey. He mentioned

- the need to account for heterogeneity in the theoretical models, in particular when applying them to equity/efficiency issues
- the need to look closer at the interaction of urban and regional policies
- the need to account better for the existence of disagglomeration economies in the field of urban economics

- the need for smart data production at the European level
- the necessity to sell policy recommendations better, in particular with respect to budgetary consequences (do they generate revenues, are they budget neutral?)

The **closing remarks** from the audience concerned exchanges between researchers and policy makers on better modes of cooperation and information sharing; in particular exchanges like the present ones in this workshop. The data availability problem was discussed in some length and depth: European data are usually on a national level, which make them less attractive to researchers as national studies are difficult to publish in high-ranked journals. The availability of across-Europe data supplied by the European Commission would make the whole field much more competitive and attractive to the research community. First examples of cooperation and data exchange between OECD and EC are promising. Generally, one should learn a lesson from the US and how data are provided there. They are much better and this explains the observation that many European researchers work with US data (and thereby contribute to the solution of US problems!).