

## CHANGING ECONOMIES: THE TERRITORIAL DIMENSION

### I Competitiveness

Competitiveness, the subject of this conference, has become the very leitmotif of economic geography. People want to know which places are, or will be, the most attractive for growth and investment. And they want to know what chances all the places not on one of these lists have to succeed in a globalising economy. This interest in the location of business leads me to my first point. Announcements of the death of distance, to paraphrase Mark Twain, are premature. Space matters now more than perhaps at any time since the 1930s.

My second point follows: Territories are not the victims of change, as if globalisation, electronic commerce and biotechnology were vast, impersonal forces; nor are they statistical units, which can be added up to arrive at a national total. Territories are the vital components of nations and regions. The economic future is shaped in part by how well territories can exploit and enhance their endowments and assets, what can be called territorial capital. Territorial change is therefore closely linked to clusters of firms and networks of places, which are after all dependent on proximity and fluidity. If we begin to assess the assets and endowments of territories, we are likely to find that there are more opportunities to create value than had been thought.

My third point is a note of caution, reflecting the fact that a positive, optimistic view of territorial development in a globalising economy is not widespread. Change tests the elasticity of a society, its capacity to absorb change incrementally. Are our societies prepared for change? People want to know whether their communities will be better places to live and work in 10 years, say, than they are today. Many territorial changes are not favourable, such as urban sprawl, persisting patterns of deprivation in distressed areas, the loss of open space, congestion, etc. There is a danger when the rebuilding of city centres or the modernisation of communications and transport infrastructures are associated with widening disparities, rather than promoting a more cohesive society. The challenge of enhancing the adaptability of societies to change lies in finding ways that blend a liberal approach to economic change with the social and environmental concerns of people in the places where they live.

My fourth and final point is that the territories most likely to enjoy more opportunities are those on the cusp between regions which are more different than alike. Territorial diversity is a strength for regions and for the places in regions. Such differences can be described in terms of gradients or differentials. From this perspective, comparative advantages lie, not in being homogenous, but in being able to exploit and thrive on heterogeneity and complexity.

Change will affect how territories are managed and built. There is an urgent need for better ways to adjust territories to the new economy, and to make the process of change, which has been costly and slow, easier. Spatial policy however must evolve if it is to facilitate economic change and the adoption of

innovations, while at the same time enhancing local assets which are also key factors in growth. As I will say later, learning how to manage space better is a major challenge for economic development in the 21st century.

We are in fact in a period of transition. Transitions between dominant modes of decision-making are usually short in duration, a matter of 10 or at most 20 years. In the past, a transition period ended when new institutional frameworks and rules were installed in a burst of activity, often involving several countries at once in what in hindsight appears to have been a collective exercise. A new mode of territorial development is in fact being defined at this time, and it is particularly suitable to economic growth organised around clusters, anchored in local contexts, and structured into polycentric networks.

Much depends on where we think we are in this process. If this transition commenced around 1992 (the Single Market Act, early recovery from recession, the internet, the Rio conference on sustainable development, etc.), then the years 2002-2008 will be critical. In other words, we are only partway through this period of transition, but approaching its climax.

What are some of the pressures that cannot be accommodated within the established framework of normative rules and procedures, some of which date from the early years of the 20<sup>th</sup> century?

- The expansion of educational opportunity has been a great achievement of the post-war era in OECD Member countries. But now, the need for immigrants in specialised, high-tech fields is so great that our countries are welcoming people from places where we would not send our children to be educated.
- In the next 40 years, as the world's population increases from 6 to 8 billion people, over 90 % of all the new jobs in the world will be in non-OECD Member countries, and the remainder of these new jobs will be shared about equally between the US and the other countries.
- Economic activity consumes fewer material resources to produce more, yet our patterns of urban development consume more land to house fewer people.
- The expansion of democratic rights, subsidiarity and decentralisation were supposed to reduce the democratic deficit, but voter turnout at local elections remains marginal, and the mismatch between local and regional responsibilities and resources is serious.
- The welfare state has created a society in which for the first time, there are fewer older people than children burdened by poverty. But the gains come at costs which appear difficult to finance in the future, unless major reforms in social systems and labour rules are introduced. (In 1960, men lived on average 68 years, spending 50 in work; now they live 76 years, but work only 38. Dependency ratios have fallen from 4-1 in 1960 to 3-1 today, and look set to fall further, to 2-1 in 2030).
- The end of the cold war in 1989 has reoriented fears from abroad to home, as questions of insecurity at the neighbourhood level have led people to accept measures of passive surveillance and protection which surpass anything seen in time of war. The spread of residential enclaves, or gated communities, principally in the United States, is but a symptom of how private rights are being used to push back civic space.

Ironically, problems are accumulating at a time when economic growth should alleviate them. On the one hand, the practicality of radical innovation is often greater than expected; on the other, the aversion to risk is surprisingly widespread. Change which is pro-active and pre-emptive is often less costly than

change which is remedial, but very often the will to effect change comes only after defeat or in crisis, not when times are good. In an article called “Defining Deviancy Down” published in 1993, Daniel Patrick Moynihan, the distinguished American academic, diplomat and senator, argued that the American public can only handle a couple of problems at a time. When new ones rise up, some existing problems are simply assimilated into the category of things we learn to live with, part of the fabric of life that we wear uncomplainingly. As a result, fundamental reforms are postponed or forgotten.

## II. Territories are actors on the national and global stage, and this has major implications for clusters and networks

To understand the phenomenon of change in our time – including those changes which affect behaviour and value systems, we need to clarify the difference between extrapolations and emergents. Extrapolations, based upon time series, surveys, and analyses, show the medium-term impact of current trends. Emergents relate to what Jane Jacobs called “unaverage clues” [The Death and Life of Great American Cities, New York: Random House, 1961, p. 488], or in other words, unexpected innovations. We must keep in mind what Robert Nisbet, a distinguished American social scientist, concluded from his historical survey of change as an idea in Western thought: “there is no evidence that macro changes are the cumulative result of many little events” [Social change in History (1969), p. 288].

Let me give some examples of trends which can be extrapolated into the future, and new patterns or developments which are likely to emerge in the medium-term future.

Extrapolations	Emergents
<ul style="list-style-type: none"> <li>• Societies will be older;</li> <li>• Diversity will dominate certain areas places;</li> <li>• more people will choose to live alone as family structures continue to break up.</li> <li>• More people speak English as a second language than as a native tongue. Cities will continue to lose population as urban sprawl continues apace.</li> </ul>	<ul style="list-style-type: none"> <li>• New ideologies, perhaps not based on power but on self-development; value shift associated with inter-generational conflict.</li> <li>• More mixed-use development at higher densities will create an urban environment more like that of the 18<sup>th</sup> century.</li> </ul>
<ul style="list-style-type: none"> <li>• The electorate will continue to fragment, making the building of consensus more difficult.</li> <li>• Issues of identity will pose new problems about the rights of minorities.</li> </ul>	<ul style="list-style-type: none"> <li>• Neo-mercantilism based on access to or ownership of scarce natural resources (water, energy).</li> <li>• The middle class outside the OECD may become bigger than the middle class in developed countries.</li> </ul>
<ul style="list-style-type: none"> <li>• Immigrants will be increasingly important to economic development;</li> <li>• Free time exceeds time at work.</li> <li>• The education of people today will have a major impact on innovation in 20 years.</li> <li>• States, like corporations, are increasingly seen as amoral entities, delivering services on a competitive basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Internalisation of costs of sustainable development, environment;</li> <li>• Time at work increases, reversing recent trends.</li> <li>• Budgets will be territorialised, not sectoral.</li> </ul>

Both types of change, extrapolations and emergents, can yield unexpected results, especially at the territorial level: thus, the burgeoning use of e-commerce for the home delivery of goods is causing an increase in the size of trucking fleets for companies such as UPS and FedEx, an increase in urban congestion, and an increase in the sheer volume of packaging material that must go to landfills. Many emergents appear to be the opposite of many extrapolations. Some changes involve trends to which people can adjust over time. Others however involve disruptions which cannot easily be fitted in to existing social and economic arrangements, but require more extensive changes. Thus, the internalisation of the costs of sustainable development should lead to changes in consumer patterns, spatial organisation, modes of transport and other forms of energy use, etc. The point for what follows is that the nature of change today has not reduced the importance of space so much as redefined it, albeit in terms that are not yet clear.

In recent years, macroeconomic and sectoral policy have provided a robust but incomplete range of tools to cope with change. Liberal economic orthodoxy prescribed mobility of labour and capital as the basic mechanisms of adjustment, facilitated and eased by the removal of trade barriers and restrictive labour and social welfare policies. The Single Market Act, NAFTA and the creation of the Euro were all achieved to this end. The emphasis of macroeconomic policy and neo-classical theory on labour mobility drew attention to the advantages of borderless and homogenous societies such as the United States, and highlighted the difficulties facing Europe or Mexico where internal variation, cultural diversity and local preferences limit mobility. From this perspective, adjustment is a matter of individual initiative and responsibility, as long as government reforms remove structural impediments to mobility.

The neo-classical approach to change, whatever its many attributes, can lead to a situation of precipitous decline in some places and unmanageable growth elsewhere, both of which compromise sustainability and raise pressures on governments for protection and compensation. Macroeconomics treat the national unit as indivisible, meaning that the overall result is not affected by where things happen. From this point of view, the fact that most cities have above average levels of productivity is a “black box phenomenon”: people know that something is going on inside the city which accounts for the outcome, but exactly what is happening, and who is responsible, are mysteries. Cities however are not simply microcosms of nation-states.

In the logic of mobility, the more places resemble each other, with similar housing markets, schools and retail facilities, the easier it is for people to relocate. Space in the old economy could be developed wholesale on the basis of standardised models and zone land use patterns, whether for housing, retail and stores, or public facilities to which people had to conform. But the new economy wants more mixed use, more custom design, more specialised forms which take better account of the changing needs and wants of people for environments for leisure, working and living. Now and for the foreseeable future, firms may need to be in places where the people they want to employ or serve want to live. This alters the methods of territorial development fundamentally, away from functionalism and towards a human-oriented approach. New modes of governance are needed so that effective medium-term strategies can be linked to a vision of a future that people want. Top-down, technocratic strategies alone appear unable to generate a reassuring vision of the future on which an overall development strategy can be based. Growth and development will still be uneven, but the opportunities are now more a matter of exploiting local assets than of capturing transitory investments. Territorial diversity in the new economy is an asset, not a handicap.

Territorial capital is the knowledge to make best use of endogenous assets. Endogenous development which reinforces the assets of cities and regions is the mirror image of a logic of

competitiveness which links firms to a milieu, or in other words, that fosters clustering. Firms benefit from actions which develop territories because these provide the foundation for clusters. Territorial capital integrates firms and people at the local and regional levels, where spatial relationships are often important in environmental quality, social integration and economic efficiency. Territorial capital enhances mobility and investment within a region; on a national scale, it does not redistribute activities, but adds value. Territorial capital is built on the qualities of places, their comparative advantages which are a combination of immovable and intangible assets. It mobilises actors; and it builds networks linking cities and regions. Successful clusters are located in places where people can acquire and share tacit knowledge about how things work. How places are organised – their spatial and local dimensions – is a factor in the competitiveness of the firms. The factors that are favourable to clustering, and especially their implications for land use, planning and spatial development more generally, are still not well recognised. Learning how to manage space better is therefore a major challenge for economic development in the 21<sup>st</sup> century .

The combined efforts of local, regional and national governments to strengthen territorial development -- to build up territorial capital -- are likely to become one of the major drivers of change, improving the endowments of places and the abilities of people, creating greater opportunities for business. Indeed, the business of territorial development – of building and managing large, diverse and complex cities and regions – is increasingly an international business. This constitutes a major paradigm shift in public policy. Local expertise has become an internationally traded commodity. There is a large and growing market to supply the goods, services and expertise that territories need for their own development. And increasingly, this is an international market – albeit one which is neither measured nor analysed.

No single type of region can take its future for granted, the phenomenon of path dependence or geographical momentum notwithstanding. Like a cluster, a network cannot guarantee that all its members will survive; the relative strength or weakness of an individual component in a network, or cluster, does not however compromise the strength of the network itself. Networks of cities, like clusters of firms, are based on negotiation and compromise, not confrontation; they seek to enhance exchange and welcome diversification. Thus, the regeneration of the Rust Belt in the United States, the industrial heartland of the Great Lakes States from Illinois to Ohio, has strengthened cities like Indianapolis and Cleveland, but not Detroit or Cincinnati. Cities dominated by a single exporting sector organised in a few large firms are much less likely to survive from one cycle to another than cities with a healthy degree of diversification. It is inconceivable that anyone could invent the automobile industry in Detroit today. On the other hand, whatever their problems which are considerable, Istanbul and Mexico City are places where all the different phases of the industrial revolution, from steam engines to software, can still be built and repaired in those cities' myriad small shops, many of which fill in the side streets and alleys adjacent to modern office towers.

## **II Many regions are not prepared to be competitive**

The sobering fact is that many regional, intermediate and metropolitan regions as they exist fall short of our needs and expectations. Rural regions are overly dependent on the public sector for employment, are handicapped by out-migration and a low skills base, and often suffer from problems of accessibility. Intermediate regions may be overly dependent on a narrow range of sectors, and a lack of jobs for all segments of the population. Metropolitan regions are constrained by the costs of regenerating areas abandoned in the transition from one economic phase to another, by the complexities of integration large numbers of immigrants, and by the high costs of providing adequate infrastructure and amenities, and meeting the demand for a better environment.

Metropolitan areas are perhaps the most important type of region to consider when thinking about economic development because they play such a critical role in both globalising networks and in the diffusion of the new economy. A 1999 survey of American urban scholars commissioned by the Fannie Mae Foundation selected the top ten influences for the future of cities. In descending order, the list reads: 1) growing disparities of wealth; 2) suburban political majority; 3) ageing of the baby boomers; 4) perpetual 'underclass' in central cities and inner-ring suburbs; 5) initiatives to limit sprawl; 6) the internet; 7) deterioration of post-1945 suburbs; 8) shrinking household size; 9) expanded superhighway system to serve new edge cities; and 10) racial integration. Most of these items, which are extrapolations not emergents, are negative. This list indicates that the social and environmental dimensions of development are likely to be more important than, and more difficult to solve, than the economic ones.

This list is of problems touches on the agglomeration effects of cities, and hence, on their contribution to productivity. Cities are economic drivers, or engines, because they are uniquely complex environments where the economic, social and political benefits of density, interaction and contact outweigh their costs. If our cities, where most of the people live, continue to pose major problems, the prospects for economic development will be compromised because firms need to be based in urban areas in order to take advantage of clustering effects and a wider labour market. Here is part of the answer to the question at the nexus between urban regeneration and economic development, whether cities must have a centre. The American analysis shows however that when the cores of cities decline, the problems do not stop at the municipal boundary. The Urban Renaissance task force, chaired by Lord Richard Rodgers, produced a report which is broadly right on the point that city centres provide an organising principle.

But it is too soon to know whether there is enough political will and understanding to take a proactive approach. Our experience with remedial strategies is greater than with proactive, preventive ones. The logic of territorial development relies on a willingness of people to develop strategic visions of the medium-term future, implemented through public and private programmes of investment. A recent book by Robert Putnam, Bowling Alone, raises a serious question about whether there will be a constituency for anything like the progressive programmes of Wilson, Roosevelt, Truman or Johnson in the United States in the foreseeable future. Putnam describes the collapse of civic-mindedness in the US. Two statistics are very telling: the number of individuals seeking an elected office at any level has fallen by 15% in the last two decades, meaning that some 250,000 people have not presented themselves, and the percentage of people who acknowledge having attended one meeting in an organisation on any subject whatsoever has fallen by 40% between 1973 and 1994. There is no paradox that this decline in civic-mindedness parallels a remarkable economic boom, given that the consequences can be seen in the extent to which this boom has fed private consumption, and has not generated public investment in schools, libraries, parks, etc. It is an open question whether in this respect Europe is simply 10-20 years behind the United States. It need not be.

Putnam makes his point that a generation of civic involvement was a unique historical phenomenon spanning the Great Depression and the Second World War. Its ethos was already described 50 years ago in The Lonely Crowd (1948), a classic written by Putnam's Harvard colleague Daniel Riesman. Riesman described two character types. The generation of civic involvement corresponds to Riesman's "inner-directed man" who was self-motivated, and could work out problems based on his knowledge. During a period of confusion, he would stick to fundamentals on his own. The postwar era was dominated by the "outer-directed man" whose great skills were role-playing and team work. He was fit for work in large organisations whose goals were set and modified by others. Times of confusion or uncertainty are not a problem for the "outer-directed man" who would simply go along with whatever his cohort did. Inspired by this typology, I have added a third category to describe many younger people today, who are I believe "self-directed". Given uncertainty and confusion, they do not act like the "inner-directed man" according to an inner compass of basic principles, nor follow the crowd like the "outer-directed man", but rather retreat into an inner state of personal satisfactions and pursuits. It is

but a step to conclude that the undirected are either apathetic or cynical about politics, and if this is the case, then the prospects for support for territorial development policies are compromised. The moral stance of the self-directed matters because we do live in times of uncertainty, when the question of how to plan for the future is particularly vexing. . Planning is fundamentally an optimistic exercise grounded in assumptions about the potential for and benefits of collective action without coercion. But I have doubts about how imaginative and creative people are today when thinking about the future of places.

#### **IV The dynamic centres of the future are likely to be in “marginal places”, between two economic regions**

In his most recent book, Cities and Civilisation, Sir Peter Hall concludes that it is difficult to predict where innovations are likely to occur, but this statement is tempered by his reading of history which shows that such places often are located on the margins or borders between regions (what Sir Peter, quoting James Vance, calls “unravelling points”, p.21) , that they often are places with an unusually high level of immigration, multiple networks, pathways or circuits connecting people and sectors, and that there must be a certain instability, a genuine uncertainty about the future.

As Jane Jacobs wrote 40 years ago., cities are where innovations are incorporated into everyday life. Innovation is not, as far as I can tell, a major factor in the ranking of cities. The criteria for benchmarking the most competitive cities change from year to year, and from one agency or consulting firm to another, suggesting excessive short-termism: for some, lifestyle and a quality environment is most important, for others it is the tax and regulatory structure. But efforts to improve the competitiveness of places take time – 10 to 20 years – a period long enough to span two or three electoral and economic cycles. In 1820, Manchester was the city to see; people went to see the future in Paris in the 1860s, Chicago around 1900, London in the 1930s, Los Angeles in the 1960s, perhaps Barcelona or Singapore in the 1990s.

Which territories might generate new economic and social opportunities? They are gateways or portals, on the cusp between regions which are different. The gradients or differentials between regions therefore need to be better mapped and measured.

Japan’s major cities around Tokyo Bay face the open Pacific, but the opportunities for growth lie to the west, within the Asian archipelagos extending from Singapore to Seoul;

The countries on the periphery of Europe – Ireland, Finland, Portugal, perhaps Scotland – are leapfrogging in their development, as their trade increases with other parts of Europe that are more remote rather than with their immediate neighbours;

Cross-border regions within Northwest Europe are among the areas with the fastest growth, where unemployment is lowest;

The critical growth areas in North America are on the US-Canada-Mexico borders or along the corridors linking them.

Innovation is more likely to emerge in places where people mix. This suggests that successful places will be those which:

- Develop a culture open to internationalisation
- Provide more and better international schools, degrees

- Expand the market for goods and services for territorial development
- Improve the quality of projects
- Are linked into wider networks
- Nurture local awareness, pride
  - Reform governance to enhance collective problem-solving, strategic planning

Get the balance broadly right between private interests and public needs, especially in the use and enhancement of space. The challenge is for urban design and planning to get ahead of the pressures of growth and change.

FLUX : Flows of people, information, funds – overcoming capacity constraints

FLEX Adaptability in the built environment, in institutions, in regulatory frameworks --  
 Monofunctional land use patterns and buildings, large-scale zoning, and detailed, prescriptive regulations should be replaced by systems that adjust to complexity, set targets or outcomes as objectives.