Chapter 9
Attaining Sustainable, Smart Investment:
The Smart City as a Place-Based Capital Allocation Instrument

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ABSTRACT

This paper presents a research agenda focusing on the role of smart, socially inclusive, sustainable cities in furthering the balanced, equitable development of the European economy. In order for cities to play this role it is necessary to start from a vision of the city as a system of interlinked assets, and from the need to manage these assets in a sustainable way using a methodology broadly based on the principles of corporate finance. This research agenda aims to span areas of expertise and policy dimensions that are often fragmented, in order to lead to improved diagnostics and strategic investing. In Europe, this vision of the city and of the urban management process will enable better bottom-up policy delivery, and address the challenges facing the European economy by facilitating the adaptation of European city systems to diverging spatial growth patterns, youth unemployment, ageing populations, migration patterns, and increasingly sharp financial divergences among different territorial systems.

INTRODUCTION

Cities and the urbanisation process are increasingly seen as key drivers of global development (see Glaeser, 2011, Glaeser, 2008 & Dobbs et al., 2011). According to recent estimates, the urbanised share of the world's population could reach five billion people (60%) by 2030, compared with 750 million (29%) in 1950 (see Véron, 2006). This dramatic increase, and the manner in which it is coming about - mainly through rapid migration from the countryside towards the fringes of established cities in fast-

rising emerging economies (see Saunders, 2010 & Davies, 2006) – not only has very strong implications for the macro-economy and the social system, but will also have a long-lasting environmental impact. According to the European Commission, since the mid-1950s the land area occupied by cities in the EU has increased by 78%, even though population has grown by only 33%. Land taking and soil sealing partly decoupled from population growth, an even faster growth in fixed capital assets, and the general lack of integrated planning, have serious negative effects on food production, water resources, climate resilience and environmental protection. Urban researchers, planners, city managers and technology specialists will need to become aware of the importance of smart city investment in a world of globalised markets, and as we shall see, of the growing impact of finance in shaping urban and territorial dynamics.

Challenges to Smart City Investment

Why is investing in smart, socially inclusive and sustainable cities an issue? What barriers exist to such investment? Which funding or implementation gaps need to be addressed? An initial, simplistic reaction is to blame the "great recession" and the lack of money to fill the "funding gap". Others could object that the municipal infrastructure industry, real estate and financial sector have tried to spur urban growth at all costs in the decades leading up to the recession, following top-down, short-sighted and socially inconsistent approaches, and that the *polis* has become more a field for political in-fighting than an area for effective cooperation among social groups, with neo-liberal urban development strategies at the roots of growing social imbalances (Harvey, 2012 & 2010). In our view there are three factors which hinder the advancement of smart city investment: a) the lack of an analysis of the financial roots of the current global spatial transformation, which has led to the rapidly increasing movement of production, services, financial resources and workers across countries and cities within a context of rapidly falling transport and production costs; b) a limited understanding of the ways in which financial imbalances impact the long-term spatial economic mechanisms leading cities to thrive or decline – and possibly default on their financial obligations; c) the limited availability, with the possible exception of niche courses in more sophisticated countries, of higher education institutions providing specialist know-how about innovative/holistic models for sustainable city management, strategic investment and urban governance. Urban studies remain prevalently focused on technical and sector-driven approaches, while links between urban development and the macro-economy, monetary policy and demographics remain relatively unexplored.

Overcoming Barriers: New Roles for Mayors and Citizens?

Even successful cities may have large pockets of deprivation and under-development. Despite the creative classes, "triumphant" cities and the many success stories we hear, many cities do not just suffer from poor resilience to climate change or sub-optimal ICT infrastructure, as mayors are confronted daily with acute social problems involving young people, elderly citizens, immigrants and at-risk households, and the challenges of unemployment, affordable housing, education standards, long-term care and so on. Growing competitive pressures and rapid technological change impinge on city management, with many cities facing increasingly severe reductions in tax revenue and the drying up of fiscal transfers. These conditions affect the administrators' capacity to look for long-term strategies, as decision making is often hampered by previous deliberations, obsolete planning, new regulations, non-functioning bodies, management turn-over and a lack of know-how and of urban integration professionals. Without

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