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H.L.F. DE GROOT, G. MARLET, C. TEULINGS AND W. VERMEULEN (2015)

Cities and the Urban Land Premium

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After a long period of stagnation and suburbanization, cities have revived. According to many forecasts, in 2050, three quarters of the entire world population will live in urban areas. Cities are becoming increasingly attractive for workers, companies and households, and this appeal is driven not only by production-related factors but also, and more often, by consumption-related aspects. The book published in 2015 by de Groot *et al.* explores these issues with respect to the Dutch case, and provides useful policy insights and suggestions on how to finance and organize the activities of a modern city efficiently.

The book, which is the outcome of a fruitful collaboration among CPB Netherlands Bureau for Economic Policy Analysis, the Municipal Atlas and VU University Amsterdam, is structured in nine chapters. Chapter 1 presents the historical background of urban development, starting from the Neolithic revolution, passing through the industrial revolution, and ending with the recent ICT revolution. The authors show that the success of cities is not self-evident, but follows unpredictable patterns. While the «production city» can be used as a model for predicting the rapid urbanization process that occurred during the industrialization phase, the «consumer city» seems to be the paradigm with which to interpret the rise of cities in the knowledge economy era. The growing attractiveness of cities is well reflected in the rise of land price: this indicator reflects not only the demand for land but also the quality of the environment and of local public facilities.

Chapter 2 provides the interpretative framework of the monocentric city and some stylized facts concerning recent land price patterns in the Netherlands. Since the mid-1980s, decreasing transport costs and increasing population density have given rise to the paradox of «urban triumph»: in a period when many goods and services can be purchased at a distance, the city becomes even more attractive than ever because of the high value that people give to the perceptions and experiences that a city centre can offer. In this regard, the authors stress the difference between land and house prices and provide some interesting evidence on the determinants and the geography of land prices and on commuting flows in the Netherlands. Their analyses confirm that the Netherlands represent a perfect case study to show

that: i) house prices are a good proxy for land prices; ii) house prices per m² increase with population density; iii) house prices per m² increase with proximity to the city centre; iv) the largest urban areas, like Amsterdam, Rotterdam and The Hague attract most commuting flows. All this evidence explains why land price in Amsterdam city centre is 200 times as high as that in the countryside of East-Groningen, and why this price difference more than doubled between 1985 and 2007.

Chapter 3 presents the dynamics of the Dutch urban system. According to available data, the growth of Dutch cities seems to follow the Zipf's law, but the rank size rule flattened over time: small and medium level municipalities are developing more rapidly than larger metropolitan areas, as emphasized by recent studies on the performance of second-rank cities in Europe (Dijkstra, Garcilazo, McCann, 2013). However, the Netherlands seems to be a special case, where this flattening of the rank size rule is even stronger than the European average and seems to be due to the relatively smaller size of the main large cities (like Amsterdam) with respect to the European ones. Two main explanations are provided by the authors: one is based on «geography-type I» factors, like the peculiar configuration of the Dutch delta; the other is based on «geography-type II» factors, like the even spatial distribution of political and administrative power across Dutch cities.

Chapters 4 and 5 represent the core of the book and provide two alternative explanations of why wages (and other urban benefits) are higher in urban rather than rural areas. The production city model is the explanation explored in Chapter 4: using original micro-data, the authors show that individual characteristics capture 50-60% of the regional wage differentials, leaving room for urbanization economies. These latter occur because of the presence of natural resources, or because of a different composition of the workers' pool in the local labour market or because of agglomeration economies. The authors show that, in most cities, the wage difference between metropolitan and non-metropolitan areas is explained by: i) the concentration of highly educated people, ii) spatial agglomeration forces like population density and land size, and iii) industry specialization. Interestingly, the authors calculate that, in most cities, the land value surplus is much higher than the wage surplus. This can be explained not only by an even distribution of jobs across space, but also by the fact that other locational benefits concur to explain differences in land value between urban and rural areas: for example, the presence of amenities.

This last conclusion allows the authors to use, and support, the «consumer city» model as the second potential explanation of the regional wage differentials in the Netherlands. People give a high value to land not only for job-related reasons but also because of easier accessibility to jobs (by car and by public transport) and because of the presence of amenities. Among these latter, the authors find that proximity to cultural facilities and events (like theatres and concerts), shops for fashion and luxury items, and national monuments is of particular importance. In other words, demand for central places follows the individuals' preferences for culture. Of particular interest is Figure 5.5, where the authors show, for the main Dutch cities, the extent to which land prices are explained by production or consumer city elements: with few exceptions, the latter dominate the former.

Chapters 6 and 7 are policy oriented. Chapter 6 aims to provide insights useful to city planners on how to finance the provision of local public goods. The first recommendation is that the land value should be used as the main leverage, instead of entrance fees. In fact, a local city planner who maximizes the land value surplus will be able to realize the most socially desirable package of public facilities, especially those characterized by high fixed costs (like transport infrastructures). In this respect, the best way to finance a municipality is by taxing the land value surplus, whereas the General Grant from the Municipal Fund is found to be a second-best alternative.

Chapter 7 centres on some general spatial planning suggestions related to the materialization of agglomeration externalities. Specifically, the authors show that, if both the number of cities and total urban population remained fixed, the agglomeration benefits occurring in one city would be cancelled out by the loss elsewhere. In the case of a fixed population but a variable number of cities, the net creation of an additional city from scratch would cause a productivity loss in existing cities, which calls for a restriction in the number of cities. In

the case of a growing urban population, at the expense of the countryside, the authors show that spatial planning policy at the edge of successful cities should be relaxed. A numerical exercise on the Randstad region is provided to support this idea.

Chapter 8 provides a social cost-benefit analysis (SBCA) of an inner-city transformation project concerning Nijmegen Waal Riverfront. The exercise demonstrates how useful SBCA is for mapping out the external effects of area development, but also that the welfare effects of a transformation project depend on the scale of the project, the degree of open space preservation, and housing demand at the edge of the city.

Finally, Chapter 9 provides an agenda for future research. It advances a claim for relevant information on land use and land prices to be made publicly available. These data would constitute the ideal basis for social cost-benefit analyses, which, in turn, should represent the best tax base for financing local public facilities and urban transformation projects.

The book includes a series of interesting and robust analyses on the spatial development of cities, and touches upon different aspects of urbanization. It represents an ideal tool for scholars and spatial planners who wish to understand the production versus consumption-related drivers of modern urbanization and to assess land value surplus relying on reliable data and examples. The book is short, but dense with information, its structure is linear and intuitive: the authors make use of history, theory, empirical and case-study evidence to support their arguments on the rise of the city and the spatial and time dynamics of urban land premium.

The main limitation of the book is that it is based only on the Netherlands. Although similar evidence on land prices has been found also for Italy (Cannari *et al.*, 2016), the Netherlands, and the Ramstad region in particular, represent an ideal example of efficient spatial planning. In this special case, political power is widely distributed across space, cities are not as large as in many other countries, high institutional quality ensures a high level of effectiveness of government action, and land value is likely to follow the land market dynamics. The Dutch case should therefore constitute a benchmark for the development of other country-specific case studies on urban land premium, especially in less developed economies. The main message, and added value, of the book, instead, relies not only on the original empirical analyses conducted by the authors but also on the idea of using the urban land premium as the main tool for financing spatial planning and urban regeneration policies (Camagni, 2016).

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