Property Regimes in Territorial Competition

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Prepared for the 39th ISoCaRP International Planning Congress
17-22 October 2003
Cairo, Egypt.

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Abstract

This paper aims to identify the institutional structure and development of property regimes in different territories of the European Union and the United States. More particularly, this research wants to look at the contribution of the institutional structure of property regimes to the competitive performance of cities and urban regions and the implications for spatial planning. Though it seems clear that the property market will influence urban competitiveness directly through the provision of suitable accommodation for economic activity and indirectly through its cumulative contribution to the built environment, the role of the property market in the urban development process has largely been ignored or it has been regarded as relatively unproblematic by planners (Keogh and D'Arcy, 1999). Here, European research contrasts with work done in the United States where property has been given a more formal role in urban economic research and policy practice, like Logan and Molotch's (1987) concept of Growth Machines. The Growth Machine and its, mainly Marxists proponents, symbolizes the political-ideological nature of property as a way to organize societies. In addition to Keogh and D'Arcy's rather market centered-conception of property, this study therefore places the property market in a broader perspective: the institutional environment of the property market by making use of regime theory. It will be argued that changes in the property regime, defined as a structure of provision, can affect the competitive performance of urban territories. The revived case for the reform of metropolitan governance can shed more light on the dynamic interplay between property regimes and territorial competition.

Keywords: property, regimes, territory

Property Regimes in Territorial Competition

This paper proposes a research approach aiming to identify the institutional structure and development of property regimes in different territories of the European Union and the United States. More particularly, this research wants to look at *the contribution of the institutional structure of property regimes to the competitive performance of cities and urban regions and the implications for public policy and spatial planning*. In doing so, this research wants to join recent debates about territorial competition in the European Union (see Urban Studies Special Issue, vol. 36, 1999) from a property regime perspective, while at the same time elaborate on the long tradition in the US.

Territorial competition in the United States has been a permanent phenomenon ever since the colonial era and can be explained as the outcome of geographical capitalization of (innovative) industries (Storper and Walker, 1989, Storper, 1998) in a large integrated economy with few constraints on production factor mobility. Similar conditions now apply to the European Union with its single market, common currency and a projected eastwards territorial expansion. The aim of this paper is therefore to formulate hypotheses which focus on the relationship between the institutional structure and development of the property regimes, the way the physical development is being shaped and how this in turn contributes to the competitive performance of territories. In order to do so, the first step is to explain the influential role of property regimes in the allocation and distribution of resources.

Keogh and D'Arcy (1997 :703) assign to property in their article "Towards a property market paradigm of urban change", an explanatory role in the urban development processes by using theories derived from *new institutional economics* (see North,1990, Eggertsson, 1990) and the *structure of provision approach* (Ball, 1983, 1998). Though it seems clear that the property market will influence urban competitiveness directly through the provision of suitable accommodation for economic activity and indirectly through its cumulative contribution to the built environment, the role of the property market in the urban development process has largely been ignored or it has been regarded as relatively unproblematic by planners (Keogh and D'Arcy, 1999). Here, European research contrasts with work done in the United States where property has been given a more formal role in urban economic research and policy practice, like Logan and Molotch's (1987) concept of *Growth Machines*. The Growth Machine and its, mainly Marxists proponents, symbolizes the political-ideological nature of property as a way to organize societies. In addition to Keogh and D'Arcy's rather market centered-conception of property, this study places the property market in a broader perspective: the institutional environment of the property market by making use of *regime theory*.

Since the 1990s, European scholars have started to explore the institutional structure and environment of property markets, the property regime, as a potentially important factor in shaping urban competitive advantages, sustainable economic growth and development outcomes, and as a policy instrument for urban competition (D'Arcy and Keogh, 1999).The first hypothesis is then: *the Structure of Provision of a territory, which includes the property market and if necessary specified by a real estate sector, can affect the competitiveness of that territory relative to other territories*.

Globalisation and the ongoing process of European integration especially, affect the inter-relationships between property markets, planning systems and the way our physical environment is being shaped. In general, the removal of (trade) barriers to capital flow has led to the globalisation of real estate- investment and property development (Healey, 1992, Berry & McGreal,1995), with investors seeking to benefit from the asynchronies of property and business cycles within and across national economies and where the planning system has increasingly become geared to the priorities of the market. In practice, this means that cities and regions will have to supply conducive investment environments for firms to successfully compete in the global economy (Taylor, 2001, :192) and implies that cities and urban regions as political-administrative units themselves are confronted with forms of competition to achieve public objectives through effective and efficient policy and structure of governance. This development has been defined as *territorial competition* (Cheshire and Gordon 1996, :385): a process through which groups acting on behalf of a regional or sub-regional economy seek to promote it as a location for economic activity either implicitly or explicitly in competition with other areas. If this is so, then the following hypothesis can be derived from the previous one: *The increasing competition between territories in the European Union will lead to attempts to change the Structure of Provision of territories so as to improve their competitiveness.*

In order to change the Structure of Provision, that is the way a society allocates and distributes resources such as property rights, one needs to take into account the Structure of the State as it defines the rules and conventions of the game that regulate the processes by which markets operate and policy decisions are made and implemented. This is the institutional environment of the property market or 'the regime'. The most basic rules that structure the state can be described by the distinction in decisional, fiscal and jurisdictional dimensions, all having a spatial dimension: territory. In the emerging political-economic order of competing territories in the European Union this might imply reconsideration of state structures itself in order to cope with new challenges imposed on them by the global economy of the twenty-first century. The third hypothesis of research is then: *The Structure of Provision which can cope best with territorial competition depends on the successful reform of decisional, fiscal and jurisdictional rules as they define the property rights regime of the territory in question.*

The case for metropolitan governance reform can shed more light on the interplay between property regimes and territorial competition. Institutional fragmentation of metropolitan areas, for instance, provide the political-economic conditions for intra-metropolitan competition between localities. Consolidation, on the other hand, offers more political opportunities for distribution of wealth and growth over the entire functional urban region. While the reality of most metropolitan areas is a fragmented institutional set-up, the case for consolidation has been put on the political and research agenda again. As cities and regions are increasingly becoming de-linked from their national economies and engaged in territorial competition on a global scale, the concept of strong self-supporting and self-sustaining metropolitan areas emerges as a strategic political response. The fourth and final hypothesis is *Deliberate changes in the property regimes on the metropolitan level are driven by territorial competition.*

In order to analytically back-up the proposed hypotheses, this paper will first focus on the concept of property regime understood as an institutional structure, its dynamic role in the urban economy and the physical development, and the implications for urban policy. More specifically, this first part will elaborate on the theoretical insights provided by new institutional economics conceptualized with the analytical approach of the Structure of Provision and the institutional hierarchy of property markets as developed by Keogh and D'Arcy placed within the regime theory (Bromley,1991, Terhorst and van der Ven, 1997). Then our attention moves towards territorial organization as the geographically defined space for political-economic action and its dynamics, by applying the insights to the recently revived topic of the reform of metropolitan governance. This all will be placed in the discourse on territorial competition as the outcome and driving force of political-economic change in Europe and the United States. Finally, some directions for further research will be addressed.

1 Path Dependency and Institutional Dynamics

"Institutions are the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change" (North, 1990 :3).

The definition of Nobel Prize winner Douglass North clearly indicates the social-constructivist character of institutions. They are invented by people time-space specific as mental social constructs to serve people, i.e. to structure everyday life. As such, institutions define and limit the set of choices of individuals. They include any form of constraint that human beings devise to shape human interaction, both formal and informal. Formal constraints are for instance rule of law or regulations, whereas as informal constraints can be conventions or traditions. Additionally, institutions include effective forms of enforcement of these rules and constraints. Examples of institutions are property, the nation, the market, currency, the state, law and even more radical the truth, facts, rules and, hence, science itself.

Institutions are not static: they evolve incrementally through time as new insights, developments and circumstances demand adaptation or they are designed rather directly to cope with revolutionary and chaotic conditions. The process of institutional change is directed by *organizations* which therefore are distinct from institutions. Both structure human interaction, but organizations behave within the framework of institutions, which are defined as a matrix of formal and informal rules (Eggertsson, 1990). Organizations include *political bodies* such as political parties or regulatory agencies, *economic bodies* such as firms or labor-unions, *social bodies* such churches or clubs, *legal bodies* such as police-forces or the Supreme Court, and finally *educational bodies* such as schools and universities. They are groups of individuals bound by some common purpose to achieve certain objectives, also known as *associations*. How organizations evolve and what brings them into existence is influenced by the institutional framework and vice versa. Thus, institutions are the rules of the game of human social interaction, whereas organizations and their entrepreneurs are the players.

As argued by North and his followers (Putnam, 1993) institutional change can be locked into a particular path of development. A "path" exhibits and is defined as an identifiable pattern of constraints and incentives which generates strategies, routines and shared decision rules through operation in a given institutional system. These constraints and incentives should definitely not be regarded as negative: they create opportunities for one party and might limit the scope of actions of another party. As such, they coordinate human interactions in a society, whether hierarchical, through prize-mechanisms or by thrust, and therefore reflect the division of power in a given society. In broad sense, *path dependency* means that what happened at a earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time or more narrowly speaking: preceding steps in a particular direction induce further movement in that same direction. Minor historical developments may affect the development into a particular path, featuring not necessarily the most optimal or efficient solutions. A path dependent historical process is one characterized by a self-reinforcing mechanism or realization of increasing returns in moving along this same path. This makes us understand why 'inefficient' political-economic orders persists, and why the mainstream economic assumption that the cost- minimizing behavior of organizations operating in markets eventually leads to the most efficient resource allocation will not stand*: history and institutions matter in economic performance*.

2 Property Markets and Urban Development

Analysis of property markets from an institutional-economic approach has been most profound in British research (Healey, 1991, Gore and Nicholson, 1991, Ball, 1998), and is categorized in four different models of research: event-sequence models, agency models, structure models and institutional models (see for review: Guy and Henneberry, 2002:9). It is the last type of model which is of our particular interest as it formulates a synthesis of the other models that are characterized by methodological individualism and therefore tend to be over-deterministic (Bromley, 1998). Methodological individualism is the philosophical position that believes the single agent to be the sufficient unit of analysis, but as Bromley puts it, the institutional arrangements of a society- including property relations- must be understood to reflect prior values and expectations regarding future opportunities of manifold agents.

Institutional models (Ball, 1998) emphasize the organizations involved in property development and the practices and networks that influence the ways in which those organizations operate and interrelate. This category is a broad one which overlaps with the foregoing approaches, incorporating many of their elements. It covers institutional treatments from mainstream economics, considerations of power (Marxism) such as those included in behavioral institutionalism. The structure-agency institutionalism of Healey (1992) and Ball's 'structures of building provision' (1983, 1998), can be seen as the main exponents of this type model of research.

A structure of provision (SoP) refers to the contemporary network of social relationships associated with the provision of particular types of buildings at specific points in time. The relationships are embodied within the organizations associated with that type of building provision, and they may take a market or a non-market form. 'Provision' encompasses the whole range of development, construction, ownership and use of land and buildings. The SoP approach to property can be summarized in eight points:

1. The network of organizations and markets involved in a particular form of building provision is the 'structure' of that provision. There is consequently no dichotomy between agency and structure.
2. Organizations and markets are both part of structures of provision, because of the two-way influence of each on the other. They, and the constraints and rules under which they operate, are the conduits of market relations and so help to determine the nature of markets; while markets affect the nature of organizations with competition forcing them to change over time.
3. Each type of building provision (houses, offices, etc.) is associated with historical specific institutional and other social relations, and hence is a unique SoP. Several might also exist for a particular type of built structure at one point in time- i.e. housing or infrastructure provision. There can consequently be no universal explanation of the development process. Different countries moreover are likely to have distinct SoPs.
4. SoPs are subject to continual change arising from factors like market pressures, technological innovations, tastes, policies and other strategies of the organizations involved. There is no a priori weighting of the importance of these potential influences- the answers can only come from specific investigations. As such, the SoP approach rejects the strongly deterministic evolutionary position of some transaction-cost economics which argues that institutions are forced along paths as a result of transaction cost minimization. SoPs may develop in such way that may not lead to efficiency improvements, without necessarily leading to their demise.
5. SoP is a conceptual device for incorporating institutions into analyses of the development process. It does not constitute a complete theory in itself, rather it is a methodological theory. Other theories are therefore needed to understand particular research questions formulated within its framework. The SoP approach places institutions within context, and so guides the research focus rather than directly providing answers.

6. The relative importance of institutions is contingent and with it the significance of considering SoP. Whether an institutional focus is required or not is a matter of researcher judgement.
7. Contingent contexts are at the core of the SoP approach. Defining what a SoP is has to be treated in the same empirically specific way. Which institutions and relations should be included, and which distinctions are unimportant and can be ignored, depend on the researchers questions.
8. Within commercial property development in the UK, the number of structures of provision is limited. Where SoP distinctions are more important is in the context of international comparison.

(Ball, 1998 :1513-1515)

Ball (1998, :1515) himself mentions the limitation of the SoP approach, namely the historically contingent nature of a SoP. This makes it difficult to define them in advance and to say when and how they should be used for analysis. This might a reason for the limited use to which the approach has been put empirically, though the SoP approach has been applied in international comparative research. Terhorst and van de Ven (1997) for instance use the SoP approach to compare the *urban trajectories* or paths of development of consolidated Amsterdam and fragmented Brussels as the local components of the Dutch and Belgian states. As such the SoP is a helpful tool for explaining international differences in the way physical development is being shaped.

Keogh and D'Arcy (1999) have used the SoP- approach to develop an analytic model (see figure 1) which allows us to compare the institutional dynamics of different property markets in different countries. They describe the *property market as the institutional arrangements through which real property is used, traded and developed, and the wide range of actors involved in these processes*. At the macro level, the property market exists within an institutional framework defined by the political, social, economic and legal rules and conventions by which the society in question is organized. At the next level, the property market itself can be considered as an institution with a range of characteristics which determine its structure, scope and function. It entails both market and non-market mechanisms through which property sector activity occurs. The argument is based upon the fact that the classical dichotomy between the market and state planning is an out of date conception: "Institutional economics has modified the simplistic assumptions of classical economics to reveal the fallacy of this dichotomy: planning is not limited to the public sector, nor do markets exclude planning". (Alexander 2001 :2, 1992).

These institutional characteristics vary from one national property market to another and from one time-period to another. These national differences are important to the analysis of market outcomes and behavior (see also Keogh and D'Arcy, 1994) and to the analysis of the different urban trajectories or paths of development which cities undergo (see Terhorst van de Ven, 1997). At the micro level, the main organizations which operate in the property market can be considered in terms of the way they are structured and the way they change. Keogh and D'Arcy (1999, :2407) describe the relationship between institutions and organizations at each level, and between levels, as "interactive, defined in relation to one another and capable of change in response to action and experience".

The institutional environment (macro)
Political institutions
Social institutions
Economic institutions
Legal institutions

The property market as institution (meso)
Market and non-market aspects
Decentralized and informal
Legal and conventional aspects of property rights
Legal and conventional aspects of land use and development

Property market organisations (micro)
Users
Investors
Developers
Property service providers
Financial service providers
Professional bodies
Governmental and non-governmental agencies

Figure 1: The institutional hierarchy of property markets (Keogh and D'Arcy, 1999)

Any analysis of property markets should first of all take into account the *physical and legal aspects of property* and its explanatory role in the urban development process. First of all, the physical quantity and quality of the existing property stock are important factors in urban development. The durability of property dictates that the existing stock will dominate the market and that much of the built environment must be regarded as given. Since the existing occupation of space is the result of development decisions taken in the past, often reflecting considerably different circumstances, varying degrees of physical mismatch can be expected: the property market is characterized by persistent disequilibrium and cycles of oversupply and undersupply (D' Arcy and Keogh, 1999 : 918). Mismatches may arise in absolute terms, e.g. there is too little stock to meet current needs, or moreover they arise in relative terms, e.g. intensification of use when there is insufficient stock. As such, *physical mismatches affect the economic performance of firms operating in these circumstances and, consequently affect the competitiveness of cities within the urban system*.

The first hypothesis is then: *the Structure of Provision of a territory, which includes the property market and if necessary specified by a real estate sector, can affect the competitiveness of that territory relative to other territories*.

Another important factor to take into account is the *prevailing pattern of property rights* which those buildings embody. The building stock can better be seen as a stock of legal interests which serve a variety of use and investment objectives which makes property both a productive resource and a store of wealth. This follows from the fact that property rights are a 'bundle of rights' from which certain 'sticks' can be split-off, e.g. development rights from ownership rights (Eggertsson, 1990: 34). The permissible relationships between ownership interests is regulated in general by legislation such as property law and the rights of owners may in addition be restricted externally through planning or compulsory purchase legislation, also known as attenuation. In principle, the specific structure of property rights should be easier to change than the physical stock of buildings, at least in the short or medium term. The municipality of Rotterdam for instance is changing the system of tenure of a considerable amount of the building stock from leasehold to freehold. On the other hand, certain forms of property interest confer protection from market pressures and inhibit change. Sagalyn (2002) exemplifies this with her case study of the redevelopment of Times Square in New York. Not only were the property rights not clearly delineated in that area, the ambitions of the municipality to 'redevelop' the area did not match the property interests of established sex-shop owners in the area. Here, the municipality used the aggressive strategy of eminent domain (condemnation or taking) to acquire the private property, resulting in a storm of legal conflicts. Therefore, *the structure of legal rights in property might either facilitate or restrict the refurbishment and redevelopment of cities and neighborhoods*.

Yet, the property market as an institution is embedded in a wider institutional environment capable of regulating or manipulating the behavior of actors operating in the market either directly or indirectly. As such, the property market is subjected to a specific regime, 'sets of explicit or implicit principles, norms, rules and decision-making procedures around which actor expectations converge' (Krasner, 1982 :186) dealing with the allocation of resources and distribution of wealth. *Regime theory*, in its discussion of the social bases of conflict and cooperation in redevelopment, more easily accommodates racial differentiation and ideological forces than do most structuralist critiques. It detects the structural biases within political economic systems that channel the redevelopment process but, more than the clearly Marxian analyses, it accepts the importance of political and ideological factors (Fainstein, 1994, :263). Since property regimes are dealing with the allocation of resources and distribution of wealth, and therefore dealing with political issues such as growth versus equity, they are morally controversial through time and space. Let us now apply regime theory to the institution of property by making extensive use of the work done by Bromley (1991, 1998) and Terhorst and van de Ven (1997).

3 Property Regime as a Structure of Provision

Fundamental in the sophisticated notion of property is that it is not an object, but rather it is *a social relation*, a right, that defines the property holder with respect to something of value (the benefit stream or resource) against all others (Bromley, 1991 :2). Property regimes as social constructs therefore differ both in time and space, i.e. different countries have different property regimes. In legal theory four types of property regimes can be distinguished: state, private, common and open access (see for elaboration Bromley, 1991) which are not mutual exclusive for a country and with the rise public-private partnerships and globalization increasingly become interwoven and international.

Property relations are according to Bromley, like any other institution, structural attributes of an economy that provide agents with domains of choice within they may act. They are at the same time constraints and liberation: a property right for alpha (liberation) is a correlated duty for Beta (constraint) to exclude himself from enjoyment of alpha's property right. Property regimes presuppose therefore the existence of an *authority system* (external legitimacy) which secures these social relations, preventing a person from taking over the possessions of another without any form of just compensation enforced by law. Without enforcement of the law by the state, society runs the risk of falling back in to what the English Social Contract theorist Thomas Hobbes (1588-1679) first described as men's original 'state of nature': an aggressive and dangerous world of total social disorder where nobody's material possessions are safe.

Property rights as *the legal control over an economic resource* provide the owner with a degree of *political power* in a given society and are therefore constantly a source of political debate and legal conflict within and among societies (Jacobs, 1998). This becomes apparent when the interests of private property owners do not match the objectives of public policy in the form of land use planning or zoning ordinances. This is because of the fact that conflicts about defining property rights originate from a paradoxical situation: *the public origin of private property* or as Bromley (1998, :86) puts it: "…any structure of property relations requires a commitment from the recognized system of authority that enforcement will be collectively assured instead of privately required. After all, when individuals must enforce their own property rights, the concept of a property "right " becomes a contradiction in terms". In other words: *the legal right must be grounded in a public belief that it is morally right* (Macpherson, 1978).

As such property rights reflect a *pre-allocative function* or what Lindblom (2001 :169) has termed as *prior determinations*, essential for any economic system to come into existence and to survive. What follows is that the economic system must make two interrelated decisions in the process of defining property rights. First, the system needs to decide on the *distribution of wealth*; who shall have the rights to ownership of the scarce economic resources even before trading and contracting begin. The second refers to the *allocative function of property rights*; they confer incentives on the decision-makers within the economic system. The first set of decisions must be treated as endogenous for the economic system and constitute the exogenous conditions for trading agents when operating in the consequently established markets. The second set of decisions are then simply the ones made by the agents in the marketplace (Bromley, 1998 :85, following Dahlman, 1980). The eventual mix of political rights and private property rights are then the prerequisite for markets to function and for economic systems to sustain itself. It also provides goods and services which otherwise would not be provided by capitalists, the so-called nonexclusive and non-rival (public) goods and services essential to the social welfare of the people such as city-parks, lighthouses, infrastructure, police-forces and spatial planning (Fischel, 2000). Indeed, "spatial planning, which basically comes down to the specific allocation of private and public property rights in space, and public investments in infrastructure, are a prerequisite for private investments to realize their aims" (Terhorst and van de Ven, 1997 :68). Land use planning, in other words reduces the risks and externalities that are inherently rooted in the immobile character of investments in landed property.

Thus, the paradox of the public origin of private property basically comes down to the establishment of markets and the regulating powers of the state by means of a democratic elected government. As summarized by Terhorst and van de Ven (1997:41), the more political decision-making is subject to democratic rules, the more this contradiction will be revealed:

- In a democracy, political power is, in a formal sense, equally divided. The principles of political equality and majority rule are the ultimate sources of democratic legitimization.
- The very existence and smooth functioning of the capitalist economy, with its inherently unequal division of power to command resources, is predicated upon the existence of political rules. The majority of voters has to support the extra-economic preconditions of capitalism: the institutions of private property rights.
- A democracy can be a threat to capitalism as the majority of voters may use their political power to invade or intrude private property rights as compensation for the inequalities in the economic sphere. This, in turn, erodes the material basis of their political power which is dependent on taxes generated in the capitalist economy.
- The erosion of the material basis of political power implies that economic resources are to some extent convertible into political resources. This undermines the principle of political equality and may, ultimately, erode the democratic legitimization on which the preconditions of capitalism rest.

(Terhorst and van de Ven, 1997: 41)

So, even though capitalism and liberal democracy are condemned to each other, they are also endlessly in conflict with each other. Yet, permanent change would prevent any form of social-economic order from coming into existence. Terhorst and van de Ven (1997) therefore conclude that conflicts about the allocation and distribution of property rights can only be reconciled (whether enforced or not) if conflicts about the rules themselves are reconciled, that is, the rules that make up the state. *State structures* are the rules of the game that regulate the processes by which policy decisions are made and implemented: the institutional environment of the property regime. Terhorst and van de Ven (1997, :47) conceive the so-called basic structure of the state as being made up of *decisional, fiscal and territorial rules*. All these rules are intimately interwoven and the existence of one presupposes the other, i.e. they are necessarily related. The basic structure of the state can take a variety of forms in space and time and *is neither just national nor just local but both*. States are namely hierarchically structured, but that does not imply that either units of different tiers or units of one and the same tier must have identical decisional, fiscal and territorial rules. A disharmonized tax structure may exist at subcentral level (e.g. in the US) or general and specific grants to urban municipalities might be different from those to rural ones. Furthermore, some urban regions may be significantly more consolidated than others within one state.

Decisional rules can vary from oligarchic to democratic; taxes can be levied according to different principles and in many ways, and can vary from centralized to decentralized; the territorial structure can vary from fragmented to consolidated. Together they determine the allocation and (re)distribution of resources (property rights) within a particular area. But, these rules only apply as such when effectively enforced by law under some kind of legal system. That is the reason why I want to add a legal dimension in the form of *jurisdictional rules* to the basic structure of the state as it frames the constitutionally allowed scope of actions of the state and its agencies itself. In terms of the built environment and physical development one can think here about property law as well as land use planning law, building codes and zoning ordinances. Furthermore, jurisdictional boundaries define the geographical area in which private disputes and conflicts about property rights are resolved through court. The assignment of property rights entailed by boundaries therefore define the very nature of transactions which takes place within the jurisdiction and this might advantage some and disadvantage others. This makes the assignment of property rights through boundaries a fundamental political choice based upon normative considerations and where issues such as class, race, religion and gender might play a prominent role in making such decisions.

A property regime is therefore a structure of provision: it is not an aim in itself but a means to facilitate or obstruct the making of specific policies, i.e. it is a collectively recognized conflict resolving mechanism in a time-space specific context consisting of decisional, fiscal, jurisdictional rules and a given mix of political rights and private property rights. All these institutions-rules governing access to goods, i.e. the rights on property, their use, disposal and consumption, the decision-making rule and the levying of contributions to the collectivity-belong to what Ostrom calls *constitutional-choice rules* (Ostrom, 1990, :50-55, Terhorst and van de Ven, 1997 :21-22). Ostrom distinguishes between (i) operational rules directly affecting daily activities, (ii) collective-choice rules governing the process by which policy decisions, including the creation of operational rules, are made, and (iii) constitutional-choice rules affecting "operational activities and results through their effects in determining who is eligible and determining the specific rules to be used in crafting the set of collective-choice rules that in turn affect the set of operational rules " (Ostrom, 1990, :52). The first set of rules are changed relatively easy, the constitutional-choice rules are on the other hand difficult to change. What these rules all need is a bounded geographical area which defines the political community capable of changing and enforcing these rules, that is a territory.

4 Territorial Competition in the United States and the European Union

In the era of globalization, where trade barriers have been lowered as a consequence of trade liberalization negotiations conducted at both the international and regional levels and where national economies are increasingly and deliberately being supplanted by multinational economic blocs, urban territories have been increasingly de-linked from their national economy and are vulnerable to the competitive forces of the global economy:

"National governments have accepted self-imposed constraints on their capacity to intervene in their own economies, through adoption of limitations on the use of tariffs, quotas and other traditional devices, and through establishment of impartial, trade dispute resolution mechanisms" (Kresl and Singh, 1999 :1017).

The increased exposure of urban economies to current political-economic change and neoliberal rationality has made it imperative that local governments pay more attention to the competitiveness of their tradable goods industries in relation to each other. This implies that cities and regions as political-administrative units will have to supply conducive investment environments for firms to successfully compete in the global economy (Taylor, 2001 :192). Another equally important challenge for urban administrations is not only to attract new capital, but also to keep existing business life and population within the territory (Nijkamp et al, 2002 :1866).

In order to secure a sustainable future for their communities, local territories are therefore more dependent on their own endogenous growth potentials and their capability to strategically co-operate in a wider regional and international institutional environment through entrepreneurial strategies and joint visions. Urban competitiveness can be broadly defined as:

"The degree to which cities can produce goods and services which meet the test of wider regional, national and international markets, while simultaneously increasing real incomes, improving the quality of life and citizens and promoting development in manner which is sustainable" (Lever and Turok, 1999: 792)

These developments assign a new political-economic meaning to territory. According to Camagni (2002 :2396) the territory of the twenty-first century is at the same time:

- a system of *localized technological externalities*- i.e. an ensemble of material and immaterial factors which, thanks to proximity and the resulting reduction in transaction costs involved, can also become pecuniary externalities;
- a system of economic and social relations, which make up *the relational capital* or *the social capital* (Putnam,1993) of a certain geographical space; and
- a system of *local governance*, which brings together a collectivity, an ensemble of private actors and a system of local public administrations.

In short, cities *compete for* mobile investment, population, tourism, public funds and hallmark events such as the Olympic Games. They *compete by* assembling a skilled and educated labor force, efficient modern infrastructure, a responsive system of local governance, high environmental standards and a high standard of living, a flexible land and property market (Lever and Turok, 1999: 791). In general, the removal of (trade) barriers to capital flow has led to the globalization of real estate- investment and property development (Healey, 1992, see Berry & McGreal,1995), with investors seeking to benefit from the asynchronies of property and business cycles within and across national economies and where the planning system has increasingly become geared to the priorities of the market.

The second hypothesis is: *The increasing competition between territories in the European Union will lead to attempts to change the Structure of Provision of territories so as to improve their competitiveness.*

These political -economic developments and events in Europe have a considerable impact on the structure of the nation states, most notably for the local territories: "there is a near consensus in the existing literature that European integration has reinforced, and will continue to reinforce, existing advantages- at regional, sectoral and establishment level- with an increased role for absolute over comparative advantages (Cheshire,1999: 860). The fact that the competition between urban economies takes an absolute character instead of comparative (as is the case for nations), will imply that there is no efficient, automatic mechanism to grant each territory some role in the international division of labor, whatever its relative performance (Camagni, 2002 :2407). What follows is according to Camagni that, "weak and lagging territories- in terms of competitiveness of the economic fabric, internal/ external accessibility, quality of the human and environmental factors, internal synergy and learning capability- risk exclusion and decline to a larger extent than in the past". In other words, since urban regions do not have the comparative advantage nations have, namely price-wage flexibility and exchange rate movements, the mechanism of inter-urban competition and migration of mobile production factors will generate both winners and losers.

Thus, there are reasons to believe that *inter-urban competition is not practiced on a level playing field* nor does it contribute to such a territorial wide competitive equilibrium. According to Leitner and Sheppard (1999), territorial competition will systematically favor some cities over others depending on broader political-economic factors which create the so-called *conditions of possibility*. These conditions influence the chances of success for local initiatives. There are then three ways in which conditions of success differentiate between cities. First *each city is embedded in a social system of production or a mode of regulation*: a set of national and regional institutions, regulatory systems, traditions and norms that condition the nature and possible outcomes of local initiatives. This corresponds with the so-called constitutional-choice rules and our earlier defined basic structure of the state as the institutional environment of property markets or 'the regime'. Secondly, each city occupies a *unique geographical trajectory* as a consequence of the time-space specific context of the wider evolving political-economic hemisphere. This uniqueness creates differences in the ability of individual cities to respond to institutional restructuring. This corresponds with the path dependent nature of institutions and regimes. Thirdly, *political favoritism* exercised by higher levels of the state, whether deliberately or unintentionally, also creates unequal conditions of possibility with which cities must struggle. This corresponds with the fact that transaction-costs minimization is not the only rationale in economic performance.

Current revival of competition between cities in Europe is a relatively recent phenomenon and its rise paralleled the ongoing process of European political-economic integration, symbolized by common currency. Although we can trace city-competition in Europe back to the glory days of the Greek Polis, and later on in Renaissance Italy, it virtually disappeared with the rise of the nation state and its re-distributional powers during the nineteenth and twentieth century. Nevertheless, the grandeur and prestige of nations in a comparative perspective still kept on being symbolized through their capitals and major cities by attracting hallmark mark events such as World Fairs and Olympic Games and by impressive new forms of architecture and civil engineering. The World Fairs of London (1851) and Paris (1889), for instance, exhibited the new possibilities of steel constructions symbolized by the Crystal Palace and the Eiffel Tower; the Olympic Games of Berlin (1936) were used by the Nazis to symbolize Arian athletic supremacy; and New York's World Exposition of 1939/1940 expressed America's hope for a brighter and more colorful future in a world at war with the introduction of the color-television.

In the US, in contrast, territorial competition has been a permanent feature of urban development ever since the colonial era (Cheshire, 1999: 844). In the colony of Massachusetts newcomers, mostly European immigrants, had to buy shares in the Massachusetts Bay Company in order to settle and function in the colony and can be seen and understood in this context as early forms of public-private partnerships known as *joint-stock companies* (McClelland, 1996: 183). A joint stock company was the ideal image of a community based on voluntary contract: its members agreed to hold property in accordance with joint stock companies' charter. The joint-stock idea was particular appropriate to a political community which was expected to expand both territorially and in population (McClelland, 1996: 183). Indeed, cities (or would be cities) at the Western frontier in nineteenth century America competed for development by attracting capital through collaboration with the development industries (Logan and Molotch 1987, Storper and Walker 1989). The connection to railroad-systems based upon private real-estate development proved to be decisive for the future competitive fortunes of urban areas at that time. An example in this case is the rise of Chicago as the dominant center in the Midwest through the entrepreneurial actions of city-mayor and real-estate privateer William Ogden (Logan and Molotch 1987: 54). Similar kinds of strategies continued into the twentieth century, where for instance Denver's inclusion into President Eisenhower's initiated mammoth federal inter-state highway program of the 1950s was ensured by the entrepreneurial actions of Colorado state leaders, and as such favored Denver over Cheyenne as the place to invest in and live. Logan and Molotch with their concept of the *Growth Machine* as a strategic public-private alliance have provided, as such, substantial evidence that the locally dependent development industries and local authorities have continued to modify the institutional environment within which they operate, into present day America.

Similar conditions now apply to the European Union after the dissolution of the Iron Curtain and the collapse of the Soviet Union, where individual member states are embedded in a wider institutional economic environment, most notably the Single European Market and the European Monetary Union. A EU soon expanding both in territory and in population to the East. Already European policy such as the Trans European Network program, the Structural Funds, Common Agricultural Policy and the Bird and Habitat Guidelines have their impact on local territories and businesses. Furthermore, cities are increasingly perceived by their own national governments as the engine not only of growth within their own territory but of broader, regional and national economic growth and prosperity: "nation-states in Europe are engaged in a "hollowing out" of their responsibilities for economic growth and prosperity, devolving these downward to local authorities and upward to the European Union" (Leitner and Sheppard, 1999 :228).

The third hypothesis is then: *The Structure of Provision which can cope best with territorial competition depends on the successful reform of decisional, fiscal and jurisdictional rules as they define the property rights regime of the territory in question*.

5 The Case: The Reform of Metropolitan Governance

In the Era of Globalization, cities and localities are now increasingly in competition over all sorts of capital and are therefore in the need to strategically co-operate with surrounding territories of the urban region or metropolitan area (CEC 1999, OECD 2000). Yet the governance structures in place in most of the metropolitan areas of Europe and the United States are ill-equipped for the new tasks they currently face. Major area-wide urban problems associated with unregulated urban sprawl and territorial competition such as congestion, environmental and service degradation, and social-economic polarization affect the quality of life and economic opportunities of the entire region, which therefore calls for substantially enhancing the governance capacity of metropolitan authorities. According to the OECD (2000 :2) the three main obstacles to improve metropolitan governance are: fragmentation of administrative jurisdictions, which results in a lack of correspondence between administrative and functional territories; strain on the financial and fiscal ability of local authorities in metropolitan areas; and, lack of transparent, accountable decision making processes. As Cheshire puts it (1999, :844): "The most effective scale of territorially competitive agencies is often larger than that of established units of city government, because those units seldom correspond to economically functional areas,… most obviously the city-region".

There is no ideal or uniform model of metropolitan governance, i.e. *reforming the governance structure of a particular urban region must be tailored to its specific situation and national context*. The debate on metropolitan reform differs in the United States from that in Europe, most notably the demography of urban centers and their peripheries (Keating, 1995, see Lowery 2001, :1). Nevertheless, most metropolitan areas in the world tend to be highly fragmented institutionally with sometimes hundreds of separate municipal jurisdictions. The metropolitan area of Chicago for instance has more than 1,100 local governments, whereas New York City has over 500 (Anas, 2003). In American literature also regional differences are recognized: the older metropolitan areas in the Northeast and the Midwest surprisingly tend to be more fragmentized and to sprawl more severely the last twenty years than their more auto-orientated counterparts in the West . According to Lowery this is because the newer metropolitan areas of the west have both a tradition of strong county government and more tractable annexation laws. Metropolitan areas in Europe tend to be less fragmentized than their North-American counterparts, yet the degree of fragmentation is still considerable as exemplified by Berlin-Brandenburg (two states, 16 counties and 230 municipalities). Therefore, fragmentation is more the rule than the exception, and relatively few formerly fragmented metropolitan areas have opted for consolidated government in the period after the Second World War (Rusk ,1995). Thus, where the reality of most urban regions is a fragmented institutional set-up, the case for consolidation has been put on the political and research agenda again both in Europe as in the United States during the 1990s to effectively combat metro-wide problems associated with urban sprawl and to successfully engage in territorial competition on a inter-regional scale.

In urban theory two traditions of metropolitan reform have been labeled by Ostrom (1972) as two opposite approaches toward metropolitan governance: public choice case for fragmentation based upon the work of Tiebout (1956) and the currently re-emerged progressive case for consolidation (cf. Lowery, 2000). The earliest approach to metropolitan governance reform in the US dates back to the 1920s and was associated with the progressive reform movement favoring consolidated governments. Already in 1898 a charter forming Greater New York ensured the incorporation of the metropolitan area's fragmented local governments into one centralized municipality consisting of the Bronx, Brooklyn, Manhattan, Queens and Staten Island. Yet it was the public choice approach which held the intellectual high ground in the US during the second half of the twentieth century by exposing the limited theoretical underpinnings of the traditional consolidationist approach and offering an alternative founded on a quasi-market interpretation of the virtues of governmental fragmentation. *Public choice scholars see local governments merely as producers of* *services in competition with each other rather than as political entities*, and assume full information of metropolitan residents and businesses when ‘shopping’ for the most satisfying packages of taxes and services in the region (voting with their feet). It is exactly this public choice assumption of full information and citizen satisfaction in fragmented settings which consolidationists reject.

First of all, self-interested politicians have incentives to manipulate institutions for their own advantage and for those of established property owners (see the Growth Machine coalition), and findings suggest that fragmented settings provide many more opportunities for such manipulation (Lowery, 2000). Consequently citizen information about service provision will be more distorted in territorial fragmented institutional settings, raising questions about the democratic accountability of the local government. Secondly, while the overall citizen satisfaction over provided services does not vary systematically across the two types of governmental settings, there are still two ways in which citizens in consolidated settings were found to have a satisfaction advantage. The psychological attachment to the community tends to be higher in consolidated settings. Citizens are also more satisfied when they receive (and pay for) more services and when more services are provided by consolidated governments. Furthermore, while preferences for types of services (sewerage, police, garbage disposal) do not vary much across citizens, it is the access to wealthy and poor jurisdictions ensured through boundaries that varies across citizens in fragmented settings: “Thus, fragmentation works to ensure that some will be much more satisfied with local services than others” (Lowery,2001, : 5). The social stratification- government inequality (SSGI) thesis as first developed by Hill (1974) and Neiman (1976) can be seen as pioneering in this context, suggesting that fragmented institutions perpetuate income inequality within metropolitan areas by systematically mismatching resources and needs. More recently, scholars working under the rubric *“new regionalism”* have emphasized the incapacity of fragmented local governments to effectively combat the housing, environmental, and transportation problems associated with urban sprawl. Moreover, fragmentation itself is believed to be a major source of urban sprawl and unequal distribution of economic opportunities within metropolitan areas (Lowery, 2000, Sellers, 2000).

The fourth and final hypothesis is then:
Deliberate changes in the property regimes on the metropolitan level are driven by territorial competition.

Consolidation or *merger of municipalities* into one metropolitan government is one option to overcome these problems, but is politically very difficult to achieve as the population and businesses in the more affluent jurisdictions fear increased tax-burdens. Another critique of consolidation is the lack of transparent decision-making of such a metropolitan government since the distance between citizens and politicians will increase considerably. In metropolitan Los Angeles for instance, the business community and the home-owner association of incorporated San Fernando Valley have actually joined forces for secession from the municipality of Los Angeles (Hogen-Esch, 2001). On the other hand, the City of Toronto has successfully installed a single-tier metropolitan government, by unifying six local municipalities in 1998. Another form of re-delineating territorial boundaries is *annexation* by the central city of adjacent municipalities with much available land for development. In the Netherlands, for instance, several municipalities near designated cities were forced by the national government under the Fourth National Key Planning Decision Extra (1991) to provide building land for residential development on their territory, and in some cases they even had to cede these lands to the central city. Annexation most of time leads to protests by local populations who fear the loss of their local identity.

An alternative strategy for metropolitan governance is *voluntary cooperation* between the localities, for example through the creation of a special-purpose-body for the provision of a public utility or through a Council of Governments. Voluntary cooperation is thus a form of metropolitan governance without government. However, cooperation implies mutual agreement which is generally difficult to realize, so that the number of issues that can effectively be dealt with is limited. Furthermore, voters of larger municipalities would be strongly underrepresented if the special-purpose-boards or council of governments were to be elected according to the principle 'one municipality, one vote' (Terhorst and van de Ven, 1997, :83). Finally, *fiscal centralization* or *tax-base sharing* is a way of metropolitan governance without changing jurisdictional boundaries. In this case, localities are less exposed to inter-municipal tax competition in which central cities especially are severely handicapped compared with the adjacent suburbs. Tax-base sharing provides more opportunities for redistribution of income between parts of the citizenry living in the metropolitan area and may promote economic efficiency as well, as private firms can now compete for locations in a more homogeneous space. The Twin Cities Minneapolis/ St. Paul in Minnesota is one of the few metropolitan areas in the US where such a fiscal regime has been installed.

Which of the territorial strategies will be employed can, theoretically, not be predicted. The choice for a certain strategy is in other words a normative one and case-specific. Once a strategy has been chosen, it reduces the range of options from which to choose in the future and as such must be understood as the starting point of a specific urban development trajectory.

6 Towards a Research Agenda

This paper is a first investigation in the institutional dynamics of property regimes in both the European Union and the United States. It has postulated four hypotheses for empirical and comparative research using insights from new institutional economic theory, regime theory and the structure of provision-approach; all placed within the academic discourse of territorial competition. Territorial competition is a phenomenon which has been a characteristic of American urban politics and policy ever since the colonial era, and as Logan and Molotch's Growth Machine thesis have shown us, continued throughout the twentieth century. According to Harvey Molotch (1999, :250) himself, the Growth Machine provides good leads to:

- Understanding settlement everywhere, not just the United States- it has a comparative dimension;
- Understanding macrostructures of state, economy, and global dynamics- an "up-link" dimension; and
- Understanding what happens in daily life at the social-psychological level- a "down-link" to ordinary life.

This study wants to focus on these three items and this paper has made a start by looking at the up-link dimension of the institution of property markets, 'the property regime', and how it could be researched in a comparative way by making use of regime theory and the structure of provision-approach. The political issue of metropolitan governance reform, both topical in the US as in the EU, can provide the empirical case and as such has the potential to make the down-link to ordinary life. More particularly, one case could include the question of consolidation versus fragmentation of a metropolitan area in terms of territorial competition in the United States. Second, a case could be selected in a former communist EU-accession country (e.g. Poland or the Czech Republic), which has changed its political-legal structure during the 1990s to a liberal-democratic market economy. A third case in the light of this research could be a shift in the land-use planning system and practice of an established EU-member state, for instance the Netherlands.

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