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## EURO-COMMENTARY



### BERLIN: ECONOMIC AND SPATIAL CHANGE

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#### Summary

This paper discusses the past and future economic situation of Berlin in the German city system. Comparing the shares of employment in various service sectors of total employment in Germany from 1939 to 1997 shows the significant changes in the role as a metropolis. Berlin has lost its dominant position as a consequence of isolation from international development for 40 years. Despite successful expansion and restructuring processes in superregionally oriented services, Berlin is still behind the West German economic centers. Future-oriented perspectives for Berlin cannot be found in a regaining of lost functions, but in developing new fields of international service functions. Berlin's potential therefore is its cultural diversity as a context for productive innovations.

**KEY WORDS** ★ Berlin ★ German city system  
★ metropolitan functions ★ services

#### The service sector as the hope of the 20th century

In the early 1950s, the eminent French economist and statistician Jean Fourastie called the process of growth within the service sector the great hope of the 20th century. Today, as this century has been completed, it is clear that Fourastie's expectation that growth in the service sector would ensure an adequate level of employment has *not* been fulfilled.

Yet particularly at the political level, the hope still continues to be maintained that mass unemployment in Germany can be controlled in the medium term through the expansion of jobs in the service sector. The USA is frequently cited as a positive example because of the millions of new jobs created in its service sector in recent years and the significantly lower unemployment levels there than in Europe.

The service sector is, however, a heterogeneous area of the economy for which there is no clear and unambiguous definition. It can be best grasped by delimiting it negatively from the production of goods: at their core, services are not products that can be seen or touched, but rather, immaterial goods such as information, consultation and advice, security, health care, maintenance, cleaning, entertainment, etc. For the concrete delimitation of this area, it is easiest to use the economic branches assigned to it in the official statistics; this includes credit institutions, insurance companies, leasing companies, letting agencies, tax advisors, lawyers, management consultants, advertising agencies, software firms, architecture and engineering bureaux, and security services, as well as the mass media, the hotel and restaurant industry, cultural institutions, the leisure industry, educational institutions, health services, cleaning and personal hygiene. In addition, the large general areas of trade and transport can also be added to the service sector.

Even more than officials at the federal level, Berlin's policymakers look to the service sector to boost the economy and reduce unemployment in the city. Although industry was once significant in Berlin, at present land prices as well as labour costs in the metropolis are too high. Only in the relatively small area of high-tech production with intensive interrelationships to the service economy do cities remain attractive locations. This is true for large cities in general, and thus also for Berlin. The objective of economic policies is therefore to make Berlin a metropolis with a service sector of international standing.

The term 'metropolis' must be understood as the heart of a network of cities, the dominant centre of a region. For a city to be a true metropolis, the centres of different functional areas must overlap: it must be not only the political centre but also the economic and cultural centre of the country – then and only then does it make sense to call a city a metropolis. Prior to the Second World War, Berlin was doubtless such a metropolis, although this did not mean that other German cities such as Hamburg, Leipzig, Frankfurt and Munich had sunk to the level of provincial cities to the extent that this was always true for every large city in France or England in comparison with Paris or London.

In this paper, an historical overview will be presented first, followed by an assessment of the developments in the service sector since unification, a look at where Berlin stands today compared with other centres of the service industry, and a view to where potential fields of growth in the city may lie.

We have chosen a theoretical approach that does not take formal agglomeration models or models of urban hierarchy (Duranton and Puga, 2000) as its central starting point. While the field of new economic geography (Krugman, 1995; Fujita et al., 1999) has made fundamental contributions to the understanding of the long-term economic superiority of individual spatial types and the constitution of economic spatial structures, the concepts it has produced are less relevant in evaluating the prospects for an individual city such as Berlin. This is true not only because the city of Berlin in particular possesses a very specific and unusual history, but also and above all because it is impossible to derive the concrete potential fields of growth solely from the returns to scale and transport costs. The current discussion of the concepts of 'new

industrial districts' or innovative milieus (Storper, 1997; Scott, 1998; Gordon and McCann, 2000) point to the significance of these intercompany agglomeration effects alongside intracompany factors. Only in the concrete context of the city can synergy effects of the spatial concentration of different actors' activities be identified. On this basis, research can begin to take up the question of how to develop the specific economic locational advantages and positioning of Berlin.

At this juncture, it is important to note that despite powerful tendencies in the direction of spatial decentralization and suburbanization of economic activities, high-level service functions in the world's large cities are still concentrated in central locations. Ideas about the future function of the city within the German and European city system are thus closely linked to the perspectives for the old and new centres of Berlin. In the 1920s and 1930s, the district Mitte was the expression of Berlin's economic vitality, and even today, economic rebuilding is concentrated around symbolic sites such as Friedrichstrasse and Potsdamer Platz. Because of this, the question of where in Berlin are the spatial crystallization points for the service sector – past, present and future – will also be discussed here.

## Historical overview

An indicator of Berlin's economic importance in the prewar period is the city's share of total employment in Germany (referring here to the *current* area of the city). In 1939, over 10 percent of all employed persons in Germany were employed in Berlin (see Table 1). Even in the producing sector it

Table 1 Berlin's share of total employment in Germany, 1939–89

	1939	1961	1989
	Share in %		
Producing sector	8.7	4.7	3.8
Trade and transport	10.6	5.5	5.3
Service enterprises	15.9	8.3	5.0
Government and organizations	16.5	7.7	7.1
Total	10.3	5.6	5.0

*Note:* Figures relate to the area of the current city.

*Sources:* Workplace censuses, employee surveys, national accounts of the federal states, authors' calculations and estimates.

was 9 percent, with the large electrical and machine-building companies such as Siemens, AEG, Osram and Borsig contributing significantly to the city's economic clout. The 11 percent share in the areas of trade and transport was largely a result of the big department stores and the headquarters of federal infrastructure companies such as the national railway company (Reichsbahn), the postal service (Reichspost) and Lufthansa.

Berlin's role as a metropolis in that period is most clearly visible in the area of private service enterprises. The city was the German centre for banks, insurance companies, publishers and cultural institutions. Looking at the development of the culture industry, which at that time was in its germinal stage, Berlin was in fact a European metropolis. It was the centre of the glittering, glamorous world of film, radio and television – more than any other city in the world at that time. This high concentration of services is reflected in the employment rate as well: 16 percent of all persons in Germany employed in the service sector were employed in Berlin. This was nearly as high as the share in the government and organizations area, where 16.5 percent of all jobs were in the capital city.

When looking at the spatial distribution of private and public services in the city at that time, it is particularly striking that a high concentration appears in a relatively small area. The business life of the city was in the immediate vicinity of the government offices, which were located on Wilhelmstrasse – the German Downing Street – in the baroque quarter known as Friedrichstadt between Friedrichstrasse station and Leipziger Strasse. Because of this proximity of business and government, the area became known as 'the city' during this period. There were different quarters within Friedrichstadt: the hotel quarter was north of the street Unter den Linden; the banking quarter was on Französische Strasse and the streets Unter den Linden/Behrenstrasse; the insurance companies were clustered around Mohrenstrasse, south of the banking quarter; the fashion/designer clothing quarter had established itself around the plaza Hausvogteiplatz; and south of Leipziger Strasse, a new quarter was emerging with offshoots reaching into the newspaper quarters and the new film quarter. This area of 'mixed use' in Friedrichstadt was complemented by the University, elegant shops and

department stores, bars, cafés, operas, revue theatres, cabarets and so on. Thus, at any given time of day, different functions dominated within the same space.

It is well known that the Nazis wanted to make Berlin the centre from which they would dominate the world, and that because of this, Berlin soon lost most of what it had possessed before. After the end of the Second World War, the city was divided into four zones among the four Allied powers occupying it, and was placed under international law. The banks moved to Frankfurt/Main, most of the insurance companies moved to Munich, and both Hamburg and Munich became the media centres of West Germany. The large industrial companies left Berlin as well and thus contributed to the development of Munich and Stuttgart as modern industrial centres. Not least in importance, the political leadership of West Germany was taken over by the region Bonn/Cologne. East Berlin, however, was the capital of the GDR, but suffered severe population losses. In 1961, the year in which the Berlin Wall was built, the city's share of total employment in Germany was only 5.6 percent and thus about half of the 1939 level.

The decline in the economic importance of Berlin was a process that continued up to the phase immediately preceding German reunification. In 1989 Berlin's share of total employment was only around 5 percent. This decline is particularly conspicuous when looking at the development of West Berlin, which lost almost all its supraregional economic importance. The only exceptions were the cultural sector, which received large federal subsidies, and the also heavily subsidized industrial sector, which was still producing products that were now being produced outside of other large cities. The share of unqualified employees in West Berlin was three times as high as in comparable regions. In West Berlin, the main employer was the city administration, which received 50 percent of its funding from West German taxpayers.

East Berlin, in contrast, had been transformed into the all-dominant metropolis of the GDR at the expense of the Saxon cities of Dresden and Leipzig. In 1989, one-third of the employed persons in the GDR who could be identified as working in the service sector were concentrated in East Berlin. However, because the process of tertiarification – that is, the increase in the importance of services vis-a-vis the production of goods – turned out to be

much higher in West Germany than in the GDR, West Berlin was left behind and the city completely lost its special function in the area of service enterprises. This area's share of total employment in 1989 was, at 5 percent, close to the average of all sectors, but two-thirds lower than in 1939. Only in the area of government and organizations, with an employment share of 7 percent for both East and West Germany, could one speak of a functional surplus – and this was reached thanks to Berlin's role as the outpost of the West and as the capital of the GDR.

The loss of economic importance was also conspicuous when looking at the cityscape. The vital downtown of the prewar metropolis became, through its division, a border area. In the East, large parts of Friedrichstadt were abandoned following the 17 June 1953 demonstrations due to their 'dangerous' proximity to West Berlin. Shortly thereafter, both Potsdamer and Leipziger Platz became border zones and the quarter around Leipziger Strasse was torn down. The GDR built a new centre further to the east. Marx-Engels-Platz was designed to be the centre of political power, while Alexanderplatz, with the department store Kaufhof, a high-rise hotel, representative offices of the nationalized industrial complexes and pedestrian zones, was to be a consumer and communications centre. Between these two prominent points, a large open space was created, and the television tower (Fernsehturm) was placed in its centre. During the GDR period, the historical remains of medieval Berlin were almost completely wiped out and Friedrichstadt was largely emptied. In the Western part of the city, on the other hand, the area around the tree-lined avenue Kurfuerstendamm was developed into the centre because it had historically been a central entertainment and shopping quarter. The new downtown grew up around the Gedächtniskirche (Memorial Church) and the intersection of Joachimstaler Strasse and Kurfuerstendamm, although this area never had the multifunctional network that is typical of city centres. It could not have such a network: aside from small regional branches of banks, insurance companies and publishing houses, there were no supraregional services left in West Berlin.

## The development after reunification

Immediately after the reunification of Germany and of Berlin, the economic perspectives for the development of the city were assessed by experts all over the world to be extremely positive. Whether in politics, science or real estate, on all sides there were almost euphoric expectations of growth based above all on a foreseen expansion of services in Berlin. Thus, forecasts from the early 1990s predicted growth in employment in the order of over 200,000 new jobs by the year 2000. These high expectations of growth are manifested particularly in the numerous new building projects – especially in offices, not only downtown – where a 'new age of expansion' on Friedrichstrasse was being spoken of – but also on the outskirts and in the former industrial areas. Examples of the latter are the AEG (Nixdorf) factory grounds in Wedding, the old Borsig grounds in Tegel, or the redefined use of the industrial grounds in Oberschoeneweide and near the Oberbaum Bridge – once expansive production areas for electronic devices, light bulbs, machines and other such products which have now become spaces for services and contain offices, loft apartments and small businesses or cultural establishments. The grounds of the AEW (ElektroApparateWerke) in Treptower Park is a prototype of this development. For numerous decades, switches, manometers, and instruments were produced in an attractive turn-of-the-century brick building. Today, this is the site of Berlin's largest office building, Allianz Insurance, which was designed to partially integrate the original building. Two further office buildings – the Twin Towers – are located near here on the extensive industrial grounds.

The actual economic development after 1989 looks different, however, and initially contradicts the forecasts on all points: total employment did not increase, but rather, the number of jobs sank yearly. The economic development in Berlin – like that in Germany as a whole – can be divided into two different phases (see Figure 1). The first phase was defined by a severe disparity between development in East and West Germany; the changes in employment associated with this lasted from 1989 to 1992.

With the political and economic collapse of the GDR, East Berlin lost its leadership role in politics, the party and the economy. By 1992, nearly 40

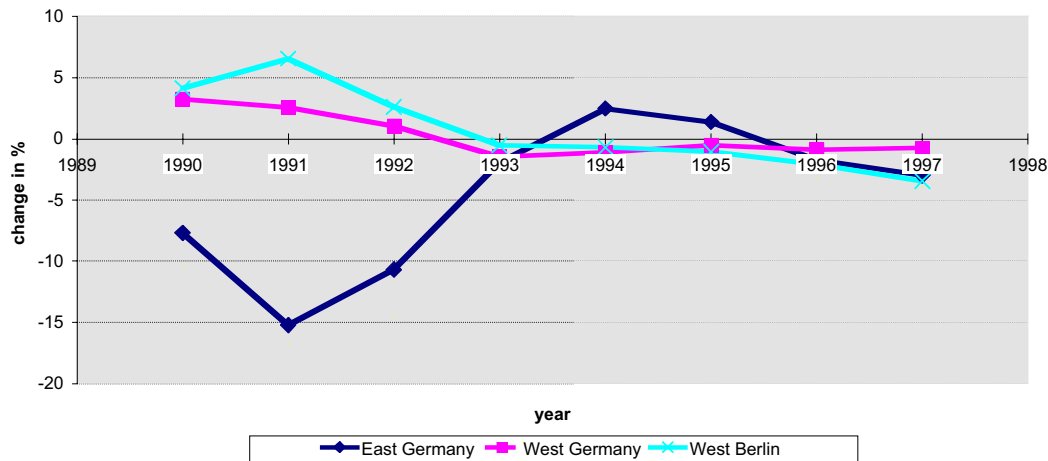


Figure 1 Employment trends from 1989 to 1997

Sources: National accounts of the Federal States, authors' calculations.

percent of jobs had been lost. This is much more than in other areas of the GDR, even though employment fell by almost 30 percent in some of the new federal states (NFS). In the former West Berlin, 1989 brought a phase of economic boom to the city. Because of the high demand from the 'accession area' GDR, employment figures especially in trade and services skyrocketed. Berlin had retrieved its function as the centre in relation to the outlying areas through the fall of the Berlin Wall. In only three years, from 1989 to 1992, employment grew by nearly 15 percent. In the old federal states (OFS) this growth rate was, at less than 7 percent, not even half as high during the so-called 'boom years'.

Since 1993, employment developments in West and East Berlin have increasingly aligned themselves with one another. In both halves of the city, a single negative development can be observed up to 1997, which at the end of the period was again marked by higher losses in employment. Once again, from 1993 to 1997, nearly 15 percent of jobs were lost. In West Berlin, the decline amounts to a total of little more than 8 percent – which corresponds to about half the gain in jobs between 1989 and 1992. The reduction of employment in East Berlin is still high compared to that in the new federal states, and West Berlin also remains well behind the progress being made in the other old federal states. The years 1996 and 1997 show that West Berlin's economic ties with the economic development in the West were

severed because of the loss of large segments of industry.

In sum, Berlin's economic weight within Germany has further declined in relation to the situation prevailing prior to reunification (see Table 2). Berlin's share of total employment shrank from 5.0 percent (1989) to 4.6 percent (1992) and further to 4.3 percent (1997). The decline is particularly severe in the producing sector, which includes industry, the trades and construction. Here, the positive effects of the construction boom in Berlin were over-compensated by the negative effects of the slump in industry. Large parts of West Berlin's industry cut back production in the wake of the new federal policy of subsidy reduction. Others used the opportunity presented by the opening of the borders to move production into the outlying areas. In East Berlin, only a few businesses or parts of businesses managed to make the leap out of the technologically obsolete GDR industry and into the market economy. New industry rarely came to the city – especially because a severe recession had begun in West Germany.

In the area of government and organizations, Berlin's share is also on the decline. This is above all an expression of the 'liquidation' of the party and state apparatus of the GDR, which was particularly labour-intensive, but is also a result of the increasing financial problems of the city-state Berlin, which today has to fund its own budget largely single-

**Table 2** Berlin's share of employment in Germany, 1989–97

	1989	1992	1997
	Share in %		
Producing sector	3.8	3.2	2.8
Trade and transport	5.3	4.8	4.0
Service enterprises	5.0	5.6	5.5
Government and organizations	7.1	5.9	5.7
Total	5.0	4.6	4.3

*Sources:* National accounts of the federal states, authors' calculations and estimates.

handedly. The Western part of the city is no longer the showplace and eastern outpost of the Federal Republic of Germany. Accordingly, less tax funds flow from Bonn to Berlin now than before 1990. This, too, has led to reductions in public spending.

However, the city was able to catch up in the area of service enterprises. The phase from 1989 to 1992 was particularly expansive in this area, especially because of the increase of jobs in West Berlin. After 1993, growth slowed down, but at the same time shifted spatially more and more to East Berlin, that is, to the central district of Mitte and the eastern districts.

With regard to Berlin's function as a metropolis, those services that are created and marketed for a supraregional market are of particular interest. It is they that create a city's functional surpluses, and they that bring additional employment to regions as well. The areas of financial management (credit agencies, insurance companies) and consultation (legal and management consulting firms, architectural bureaus, software firms, and advertising agencies), which are initially oriented towards advance payment by other businesses possess a potentially strong supraregional orientation. The 'household-oriented' service enterprises can also have a supraregional orientation, as in the case of media (publishing houses, television stations, film studios, news agencies) and – in the context of tourism – the cultural sector (opera houses, theatre, freelance artists), and in the hotel and restaurant industries.

If one looks at the development tendencies of the supraregionally oriented services in Berlin via changes in employment, then there are great differences both between business-related and household-related branches and between the Western and Eastern parts of the city (see Table 3).

The areas of financial management and consulting services show significant increases in employment in the entire period 1989–96. The development in the financial sector was particularly dynamic in the period immediately following the fall of the Berlin Wall, from 1989–92. This is plausible because a differentiated banking and insurance system had just been introduced to East Berlin, and West Berlin was being made into the distribution base for all of East Germany. At the same time, established companies were expanding their subsidiaries in Berlin, and

**Table 3** Development of supraregional services in Berlin, 1989–96

	1989–92	1992–96	1989–96 total
	Change in employment (%)		
Credit agencies	28.3	2.7	31.7
Insurance companies	84.3	2.1	88.2
Consulting services	23.6	34.4	66.1
Media and culture	–39.6	–5.0	–42.6
Hotels and restaurants	–0.8	4.2	3.4
Total	–0.6	12.3	11.6
	West Berlin		
Credit agencies	31.3	3.0	35.2
Insurance companies	68.7	4.6	76.5
Consulting services	55.1	35.5	110.3
Media and culture	1.5	1.9	3.4
Hotels and restaurants	8.0	5.4	13.9
Total	26.1	14.3	44.1
	East Berlin		
Credit agencies	17.9	1.5	19.7
Insurance companies	158.4	–5.6	143.8
Consulting services	–10.7	32.2	18.0
Media and culture	–61.5	–14.7	–67.1
Hotels and restaurants	–14.8	1.6	–13.4
Total	–30.5	8.2	–24.8

other institutions – from foreign countries as well – were opening new branch offices. This growth rate has declined sharply since 1992 because of both the slowing of income growth in East Germany and the general situation in which saturation point has, for the present, been reached. Consulting services in West Berlin have followed a similar trend, although the decline in growth in this area in the years 1992–6 was much less steep. In East Berlin, a significant increase in employment began only after 1992, as employment trends immediately after the fall of the Berlin wall were burdened by the liquidation or rationalization of the GDR's technical consulting organizations.

In the household-related branches of media and culture, as well as in the hotel and restaurant industries, employment trends were much less dynamic than in the business-related areas. Especially in the initial period 1989–92, the former branches lagged far behind. Since 1992, however, growth in hotels and restaurants has been increasing faster than in the area of financial management, and the area of media and culture has also begun to catch up. In contrast, the household-related branches in East Berlin suffered significant losses in employment in relation to the situation prior to reunification. This applies especially to the period up to 1992. Along with rationalization, the closure of central GDR institutions such as the national television station (which alone provided over 8,000 jobs before 1989) had an effect here. While the reduction of jobs between 1992 and 1996 in media and culture continued – although significantly slower – the hotel and restaurant industry was again able to achieve a small increase in employment in this period. This delay is understandable in view of the fact that restaurants, cafés, theatres, etc. can be opened only after a preliminary planning period that stretches from the purchase and/or transfer of titles to renovation, reconstruction or complete rebuilding. Thus, the area around Hackescher Markt called the Spandauer Vorstadt ('Spandauer suburb', so termed because it developed outside the city limits along the road to Spandau) could only in the mid-1990s become the internationally known night-life district it is today because of the extensive reconstruction that had taken place there. The development of Gendarmenmarkt and Friedrichstrasse is similar: in these areas, the first new businesses opened in 1996.

Despite the particularly high losses of

employment in East Berlin, especially in comparison to GDR times, it is clear that Berlin made great strides forward with German reunification in regard to total supraregionally oriented services. In West Berlin, capacities in business-related areas (financial management, consulting services) expanded by over 80 percent when measured against employment. And even in the household-related branches (media, culture, hotels and restaurants) expansion was around 10 percent. In East Berlin, some of these areas were completely restructured and thereby raised to a wholly new level of efficiency. Nevertheless, an increase in employment of over 20 percent was achieved in the business-related areas.

### Current position and opportunities for the future

The boosted development in the area of supraregionally oriented services described here has improved the potential for future development. Even the simple increase in the number of supraregionally oriented service enterprises provided more opportunities for internal networking and training of specialists: Berlin gained agglomeration power. However, one must also recognize that with the end of the boom resulting from reunification, Berlin has now moved into 'normal' competition with other service industry centres. In a national framework, cities located mostly in the west of the Republic appear as competitors. These are the cities which had taken over the central functions from Berlin after 1945 and expanded them successfully. In the area of administrative functions, the decision to move the parliament and the government prepared the way for Berlin; today, the city is once again the centre for high-level national functions of the government and the parties. The economic organizations, too, are now returning to Berlin. The Association of German Chambers of Industry and Commerce (DIHT) and the Confederation of German Employers' Federations (BDA), for example, have moved into elegant quarters with a close spatial relationship to the government.

There is no question that in the German parliamentary democracy, economic associations play an important role. The real decision-making power, however, rests with businesses, especially in



**Table 4** Supraregional services in a city–regional comparison, 1996

	Berlin	Hamburg	Cologne/Bonn	Rhein-Main	Munich
Employed persons <sup>a</sup> per 10,000 residents					
Credit agencies	71	110	94	288	179
Insurance companies	28	87	90	87	125
Consulting services	158	186	169	262	325
Legal/economic	70	101	90	141	117
Technical/computer	80	53	63	85	187
Advertising	8	32	16	35	21
Media and culture	51	81	72	56	127
Media	35	72	66	49	114
Culture	16	9	6	7	13
Restaurants and hotels	95	85	84	109	138
Total	402	549	509	802	894

*Note:* <sup>a</sup> Employed persons subject to social insurance contributions.

*Sources:* Structural Reports of the DIW, authors' calculations.

the current age of globalization. Thus, in Berlin's economy, the economic associations have only minor significance. With regard to the economic functions that were at least as important as government functions in defining Berlin's position in prewar times, the prospects for the future are still largely open – if not vague.

To estimate Berlin's economic position today, we will compare the volume of its supraregionally oriented services – measured against employment – with that of the regions Hamburg, Cologne/Bonn, Rhein/Main and Munich. With reference to widely defined city regions, the supraregional functions in particular will be examined, because in this broader context – as opposed to the more narrow pure comparison of cities – the supportive relationship of the city to the outlying areas does not carry weight. Beyond this, in order to take into consideration the differing size of regions, which imply varying needs for their own services, the employment figures will be expressed as a ratio of total population (employment ratio).

Statistical comparison using the employment ratio indicator points to the fact that, despite successful expansion and restructuring processes, Berlin tends toward a secondary position in almost all areas of supraregional services in Germany today (see Table 4). In comparison with West German service industry centres, Berlin comes in last in the areas of credit agencies, insurance companies, legal and economic consultants, advertising, and media.

The gap between Berlin and the leading region in each of these cases is gigantic: the volume of credit agencies and advertising is four times as large in Rhein/Main and that of insurance companies and media in Munich is more than three times as large as in Berlin. In technical consulting and in restaurants and hotels, as well, Berlin holds a middling position. Only in the smallest sector – culture – does Berlin have the highest employment ratio, with Munich a close second.

Although these empirical findings seem to be absolutely clear, there are a multitude of possibilities for interpretation and a variety of conclusions that may be drawn. The fact that Berlin is behind in the employment ratio would at first sight clearly point to an enormous potential for growth, if the city were able to develop the efficiency of supraregional services that can be seen in Munich, Frankfurt/Main, Cologne or Hamburg. This interpretation of the empirical findings was in part responsible for the euphoric predictions of growth in the period immediately following reunification.

However, the same empirical findings – that Berlin is behind in its employment ratio – may indicate that such a process of catching up either will not or cannot take place. A high employment ratio is not only an expression of high total employment, but also stands for the spatial agglomeration of expertise and of communication structures in specific areas of supraregional services that manifests itself in the existence of large, well

established companies, specific types of infrastructure and the like. Thus, the financial centre of Frankfurt-Main is not only home to the headquarters of three of the four largest German banks, but also to the European Central Bank. Munich, the regional centre for technical consulting (with architectural bureaus, engineering bureaus, and software companies), is home to the European Patent Office, to many large offices for patent law, to Siemens, and to foreign computer companies. In the area of media and advertising, in Munich and Hamburg infrastructural interconnections have developed among large film studios and public television companies. In other contexts, such developments can only be expected to take place over long periods of time, if at all.

For this reason, no large company from any of these areas came to Berlin after reunification. Berlin's stock market also remained a small regional trading centre. Plans for a large trade floor in the new Chamber of Commerce building in the Ludwig Erhardt House on Fasanenstrasse never left the drawing board. The fact that parliament and the government have completed their relocation to Berlin will change this situation little. Neither the past experience of the former BRD nor comparisons with other European countries would suggest otherwise. The mere spatial proximity to parliament and the government that Cologne enjoyed never transformed it into a banking, consulting or media centre of any great supra-regional significance. Inversely, it was never a detriment to the development of Milan or Barcelona that they are not capital cities.

Berlin's opportunity to take over supraregional economic functions in the service sector does not lie in attracting established fields of business from other city centres or in copying these cities. Rather, it consists in reacting quickly to fill gaps or niches in supraregional services. These gaps are likely to be, above all, in those fields in which business and household-related activities overlap, such as in facility management, when traditional housing rental companies are combined with environmental services, or in the multi-media sector, where culture is combined with advertising. The chances are high that more and more new, fast-growing areas will open up in the broad field of services, not only because services on the whole are expanding, but also because of a sweeping restructuring taking place

in the production of these services. In this regard, two basic tendencies should be highlighted: the internationalization of the market and the decentralization of organization.

The supraregional market orientation of services in Germany has, up to the present, meant primarily the sales of many services outside the region where they are produced but within the borders of Germany. Thus the actual export contents – deliveries to foreign customers – are growing rapidly, but their overall level remains low. At the same time, a change has clearly taken place in the geographic orientation of international cooperation and sales activities. The internationalization strategies of German service enterprises today are focused more intensively on Central and Eastern Europe.

In modern organization concepts, centres play a more minor role than they used to. The delegation of responsibilities, decentralization of decision making, and competition among different parts of a company's operations are the recipe for innovation and for increased productivity. This means not one centre but many; not hierarchical communication but networking; not a centrally controlled division of labour but the unfolding of endogenous potential through competition, supported by modern transport and communications technologies which facilitate the necessary spatial trade relationships.

In a system of increasing international networking and decentralized organization, Berlin cannot and will not be the preeminent centre of supraregional services that it was before the Second World War. Thus, Berlin will not again become the metropolis of Germany. Nevertheless, Berlin is the largest German city and has a higher population density in its inner-city districts than any other city in Germany. The surplus value of such a large city lies in its unique quality of encouraging and cultivating diversity and eccentricity – a process which is almost 'natural' in such a large group of people, with their various lifestyles and cultures. The great theoretician of cities and cultural philosopher Georg Simmel recognized this at the beginning of the 20th century. The heterogeneity and diversity of a large city is fertile ground for economic and cultural innovations. More recent research on the development of a knowledge-based economy stresses the relation of 'technology and tolerance'. It seems that pluralist social and ethno-cultural identities provide

a favourable seedbed for research and development in advanced technologies. 'People in technology businesses are drawn to places known for diversity of thought and openmindedness' (Florida and Gates, 2001: 6). From a cultural perspective Berlin is the most liberal German city, with a great variety of subcultures and ethnic minorities. Today this seems to be the most important comparative advantage the city has to other urban regions in Germany. Berlin must, however, be prepared to allow variety and to make spaces available within the city where the synergy of economic, cultural and social tensions – in a positive sense – can be lived out and utilized. And where would that be more possible, one must ask, than in the city's centre?

Despite – or perhaps because of – the emptying of the city's centre that was carried out by socialist city planners, the opportunity now exists to allow not merely a monofunctional office district to develop, but rather a heterogeneous space containing residential functions, culture, shopping, entertainment and tertiary services in a lively mixture that does not bear the stamp of state planning. Newly erected building complexes such as those at Potsdamer Platz or around Hackescher Markt give a glimpse of how the downtown of the 1990s could differ from that of the 1960s and 1970s: its texture is defined not simply by office buildings, but by residential areas, entertainment establishments and shopping areas, along with services with a supraregional orientation.

The projects that have been physically carried out thus far are only a beginning. The decisive factor will be whether other key locations – such as Alexanderplatz or Leipziger Strasse – will create the potential for an even greater mixture of uses. Planning along these lines has already taken place. Especially the Berlin Senate's 'Project Downtown' will create new possibilities through changes to the public space and elimination of urban wasteland areas. The 'Project' is intended to undo or repair deadly modern interventions for the sake of urban vitality, but without tearing down buildings. The destruction of street space through widening of city streets to near freeway dimensions is to be stopped, and instead, streets will be reconstructed. On the property reclaimed by this project, new buildings will be built containing both residential and tertiary uses.

In the district of Mitte (centre), a truly 'post-modern mix' of functions could develop, based on

the advantages of spatial proximity that no other city has to offer. This 'creative mixture' could become a crystallization point for Berlin's future development as a competitive service metropolis within a network of national and international centres.

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