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Research Report

Public services and liveability in European cities in comparison

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Policy Notes and Reports 52

Public Services and Liveability in European Cities in Comparison

Mario Holzner and Roman Römisch



The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

Public Services and Liveability in European Cities in Comparison

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Executive Summary

- › A high level of public services in housing, transport, education and health care is essential for liveability in urban centres, as shown in this report, with the help of European data for large cities.
- › Welfare states classified as social democratic Nordic and corporatist continental European, as well as hybrid systems, tend to have much higher public expenditure levels in the areas supporting the provision of public services than those in liberal Anglo-Saxon and Mediterranean welfare regimes.
- › Welfare states' public services expenditures also correlate with the level of economic development, whereby causality is likely to go in both directions.
- › Similarly, welfare state expenditures on public services are correlated with the share of urban households' expenditures on recreation and culture, i.e. for the finer things in life.
- › City dwellers who can save significantly on their housing expenditures can afford a better quality of life, with inhabitants of Austrian urban centres being a case in point.
- › Inhabitants of larger cities, where the housing market is heavily commercialised in terms of the share of homeownership, and where little social housing exists, have to save on consumption items that offer a higher quality of life, such as in Italy.
- › On the opposite side, for instance, cities in Austria, the Netherlands, Sweden and France have housing markets that are much less commercialised and where a lot of social housing exists.
- › These are exactly the urban centres that achieve the top rankings in our new Urban Public Services and Liveability Index (UPSLIde), with Austria in first place.
- › USPLIde relates urban households' expenditure shares in recreation, culture, restaurants, hotels and personal services to the shares of consumption items influenced by public services policies, including housing, transport, health and education.
- › Over time, UPSLId trends downward, with the ratio of expenditure on the finer things in life relative to obligatory consumption items influenced by public services provision sliding from around 70% in the late 1980s to less than 50% in the 2010s.
- › In order for this negative trend to be reversed, public services provision needs to be stepped up and, in particular, rising housing rental costs need to be countered by more social housing construction.

Keywords: Housing policy, transport policy, education policy, health policy, public services, urban well-being, index ranking, household expenditure, cities, Europe

JEL classification: C43, D12, E21, R38, R48, H44, H51, H52, H53, H54, H75, H76, I18, I28, I38

Kurzfassung

- › Ein hohes Niveau öffentlicher Daseinsvorsorge in den Bereichen Wohnen, Verkehr, Bildung und Gesundheit ist für die Lebensqualität in urbanen Zentren unerlässlich. Zu diesem Ergebnis kommt der vorliegende Bericht auf Basis europäischer Daten für größere Städte.
- › Wohlfahrtsstaaten, die als sozialdemokratische nordische und korporatistische kontinentaleuropäische sowie hybride Systeme klassifiziert werden, haben tendenziell ein viel höheres öffentliches Ausgabenniveau in den Bereichen, die die Bereitstellung von öffentlichen Dienstleistungen ermöglichen, als die liberalen angelsächsischen und mediterranen Wohlfahrtsregime.
- › Die Ausgaben der Wohlfahrtsstaaten für öffentliche Daseinsvorsorge korrelieren auch mit dem Niveau der wirtschaftlichen Entwicklung, wobei die Kausalität vermutlich in beide Richtungen geht.
- › Ebenso korrelieren die wohlfahrtsstaatlichen Ausgaben für öffentliche Daseinsvorsorge mit dem Anteil der Ausgaben der städtischen Haushalte für Freizeit und Kultur, also für die schönen Dinge des Lebens.
- › Geringere Ausgaben für das Wohnen ermöglichen Stadtbewohner*innen eine höhere Lebensqualität, wie das Beispiel österreichischer Großstädte zeigt.
- › Bewohner *innen größerer Städte mit einem stark kommerzialisierten Wohnungsmarkt mit wenig Sozialwohnungen und einem hohen Anteil an privatem Wohneigentum müssen bei jenen Konsumausgaben sparen, die eine höhere Lebensqualität ermöglichen. Ein Beispiel dafür ist Italien.
- › Auf der anderen Seite haben z.B. Städte in Österreich, den Niederlanden, Schweden und Frankreich Wohnungsmärkte, die viel weniger kommerzialisiert sind und einen hohen Anteil an sozialem Wohnbau aufweisen.
- › Das sind genau jene urbanen Zentren, die in unserem neuen Urban Public Services and Liveability-Index (UPSLIde) die Spitzenplätze einnehmen, mit Österreich auf dem ersten Platz.
- › Der UPSLIde setzt die Ausgabenanteile der städtischen Haushalte in den Bereichen Freizeit, Kultur, Restaurants, Hotels und persönliche Dienstleistungen in Beziehung zu den Anteilen der Konsumausgaben, die von der Politik für öffentliche Daseinsvorsorge beeinflusst werden, darunter jene für Wohnen, Verkehr, Gesundheit und Bildung.
- › Über einen längeren Zeitraum tendiert der UPSLIde nach unten. Der Anteil der Ausgaben für die schönen Dinge des Lebens zu den notwendigen, von der öffentlichen Daseinsvorsorge beeinflussten, Konsumkomponenten, sank von rund 70 Prozent in den späten 1980er-Jahren auf weniger als 50 Prozent in den 2010er-Jahren.
- › Um diesen Negativtrend umzukehren, muss die öffentliche Daseinsvorsorge ausgebaut und insbesondere den steigenden Wohnungsmieten durch mehr sozialen Wohnungsbau begegnet werden.

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Public Services and Liveability in European Cities in Comparison

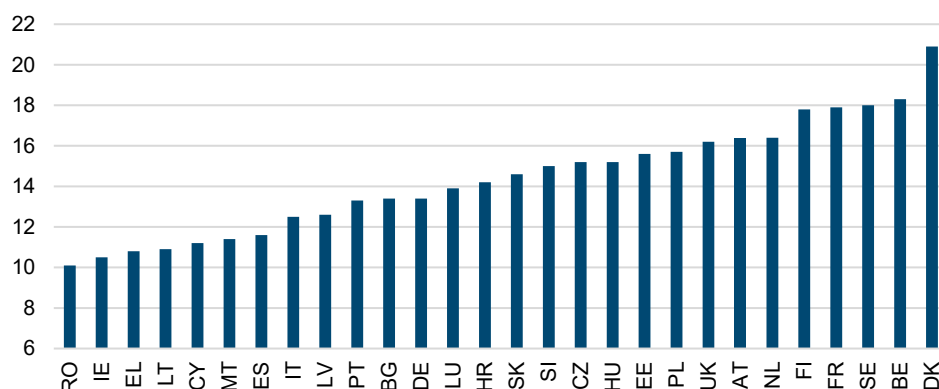
1. THE WELFARE STATE, PUBLIC SERVICES AND THE QUALITY OF LIFE IN EUROPEAN CITIES

This wiiw Policy Note is based on an earlier study that dealt with the quality of public services and their impact on living conditions in European cities (Holzner and Römisch, 2020). The report was commissioned by the Office for Public Services and Municipal Economy of the City of Vienna, as well as the Austrian Association of Cities and Towns. The first part of the Policy Note sets the stage for the issues of the welfare state regime, the amount of public services and the differences in the quality of life in European cities. The second part introduces the novel Urban Public Services and Liveability Index (UPSLIde) and we conclude with policy recommendations.

Following the literature based on Gøsta Esping-Andersen's classification of welfare states published in 1990 (e.g. Kammer, Niehues and Peichl, 2012) – and especially those linking this national classification to cities (e.g. Hudson, 2012; Musterd et al., 2017) – Austria and Vienna, for instance, can be seen as part of a generous corporatist continental European welfare state system similar to that in Germany or France. In addition, Vienna, for example, can be defined as a city with a housing policy characterised by a lower level of commercialisation and thus more affordable housing. The latter is also typical for Stockholm, for example, although Sweden and also Denmark are among the countries with an even more generous social democratic Nordic welfare state system.

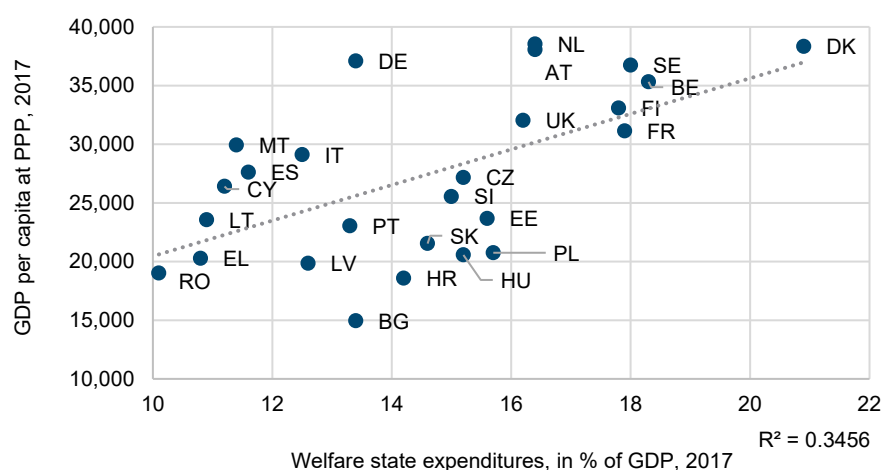
Hybrid cases include, for example, Belgium or the Netherlands. Less generous versions of the corporatist welfare state system can be called Mediterranean forms (e.g. Italy, Spain and Greece). Large cities in these countries – for example Milan or Madrid – are similar to cities from countries with a less generous liberal Anglo-Saxon welfare state, characterised by a more market-based housing policy and typically on a global level in terms of their economic contribution. The globally important cities from the first three welfare state groups – for example Vienna, Paris, Berlin, Copenhagen, Stockholm, Brussels – are typically known for their cultural, political and social contributions.

Figure 1 illustrates the different welfare state models in the EU based on the 2017 welfare state expenditure of the EU member states (as a percentage of GDP). Here, public expenditures that can directly affect the consumption of public services in the traditional categories of education, health, transport and housing have been taken into account. Accordingly, welfare state expenditure is defined as general government expenditure for transport, waste and wastewater management, public health services, education (from early childhood to university), social services for families and children, and housing. Other social expenditures, such as pensions or unemployment benefits, were not taken into account. They have an influence on aggregate consumption, but no specific influence on the above-mentioned traditional categories of public services consumption.

Figure 1 / Welfare state expenditures of EU member states, % of GDP, 2017

Sources: Eurostat; wiiw calculations.

The data in Figure 1 supports, with a few exceptions, the categorisation of countries and cities made above. Thus, the Nordic countries Denmark, Finland and Sweden, but also Belgium and France, have the highest welfare state expenditure ratios, at about 18% of GDP, or more. They are followed by the Netherlands, Austria, the United Kingdom and a number of (post-communist) countries in Central and Eastern Europe. The representatives of the Mediterranean welfare state systems (Italy, Spain and Greece) and the representatives of the liberal systems (Ireland and Malta, but also the Baltic states Latvia and Lithuania) are at the lower end of the expenditure scale.

Figure 2 / Correlation: Welfare state expenditures, % of GDP – GDP per capita at PPP, 2017

Note: Excluding Luxembourg and Ireland, as the economic models of both countries are very different from the EU average, based on low corporate taxes, and both countries are outliers in this correlation.

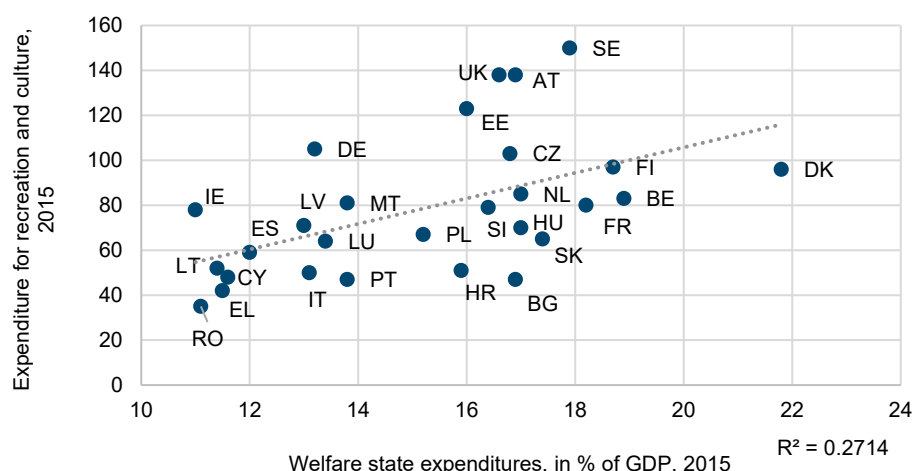
Sources: Eurostat; wiiw calculations.

The degree of development of the welfare state system correlates very strongly with the level of economic prosperity in the EU member states. This means that countries with high per-capita income tend to have a more developed welfare state system. This is clearly shown by the correlation of welfare state expenditure with GDP per capita (at PPP) in Figure 2. There are good reasons to assume causality

in both directions. Richer societies can afford a larger welfare state. Conversely, a strong welfare state can also serve to strengthen the confidence of employees and entrepreneurs by reducing private risk and thus contribute to greater prosperity in the long term.

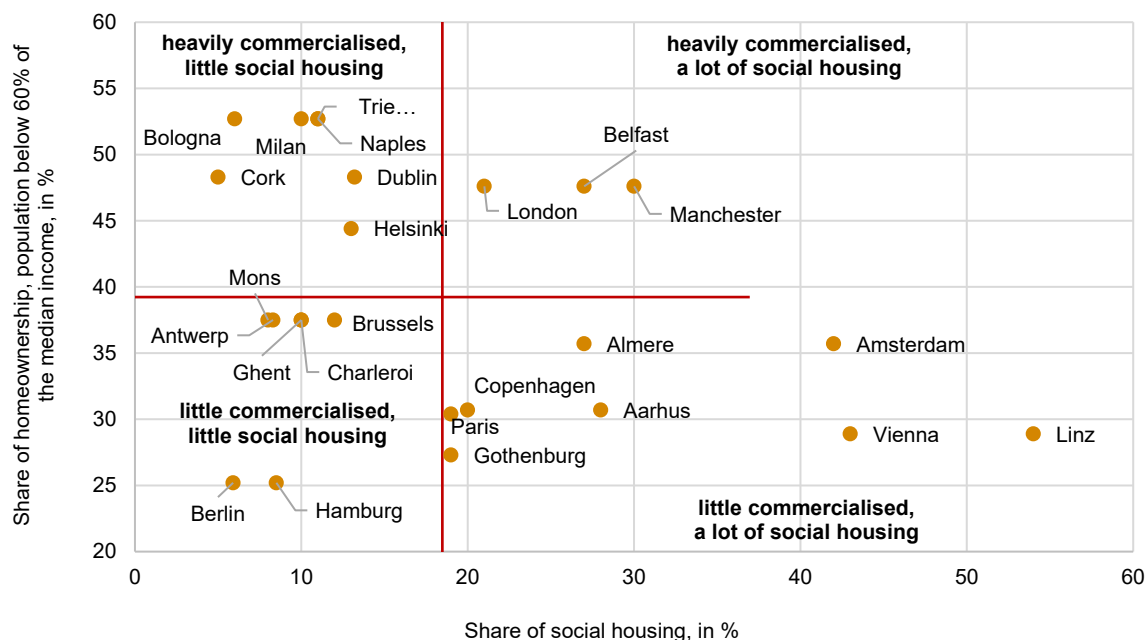
Accordingly, it is hardly surprising that high welfare state expenditure correlates with high consumption expenditure of urban households on leisure and culture (Figure 3). A large share of welfare state expenditure is used in cities and their surrounding municipalities – especially in relation to transport, housing, health and education. Therefore, residents of cities in countries with high welfare state spending may reduce their private spending in precisely these categories and instead spend more on leisure and cultural activities. It is interesting to note that residents of Austria's big cities can save significantly on housing costs, compared with other European city dwellers, while their relative expenditure on transport, health and education is around the European average. Austria's housing market is among the least commercialised in Europe, especially for households with low and average incomes (shown in Figure 4 on the vertical axis for the population below 60% of median income). The share of homeowners is less than 30%, similar to Sweden or Germany. Meanwhile, the share of social housing in cities such as Vienna (43%) and Linz (54%) is among the highest in Europe's large cities.

Figure 3 / Correlation: Welfare state expenditures, % of GDP – mean household expenditure on recreation and culture in cities, in per mille (‰) of total household expenditure, 2015



Sources: Eurostat; wiiw calculations.

Together with cities from the Netherlands, Denmark, Sweden and France, Austrian cities belong to the group of European cities with a less commercialised housing market and an active social housing policy. Thus, cities from Nordic and corporatist welfare states are found here. Cities from the Mediterranean and liberal welfare states (e.g. Italy and Ireland) have a particularly commercialised housing market. In contrast, the housing market in the corporatist welfare state of Germany is characterised by low commercialisation. However, the share of social housing in cities such as Hamburg and Berlin is also comparatively low. Hybrid welfare state systems such as Belgium and the Netherlands have just below-average commercialisation rates and differ in the importance of social housing in their cities. Although Brussels has only a comparatively low share of social housing, Amsterdam's share is almost as high as Vienna's. It is therefore worthwhile to take a closer look at the private expenditure on housing as well as the finer things in life of European city dwellers in comparison.

Figure 4 / Housing market and policy classification, 2019 or latest available year

Sources: Eurostat, Housing Europe; wiiw calculations.

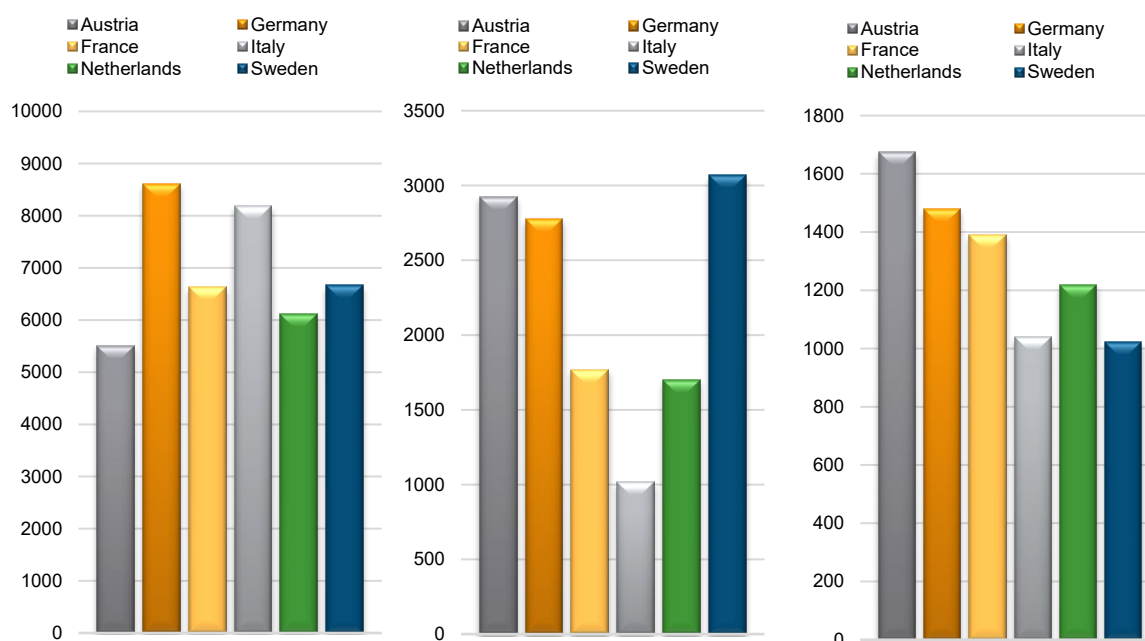
Hence, it is worth comparing the expenditure structure in large cities in absolute monetary terms for representative countries of the most common welfare state types in Europe – here we compare Austria, Germany and France for the corporatist type, with Sweden for the social democratic type, the Netherlands for the hybrid type and Italy for the Mediterranean type. The data originates from Eurostat's Household Budget Survey (HBS) and is structured along the Classification of Individual Consumption According to Purpose (COICOP).

Figure 5 shows that in Austria's larger cities, expenditure on housing, water and energy in euros at purchasing power parities is much lower than in all comparator countries. The comparison with Germany and Italy, the two large neighbouring countries, is particularly impressive. Here, the housing expenditure level of Austrian cities is about a third lower than the German and Italian levels. This leaves Austrian city dwellers more money for recreation and culture. Among the comparator countries, only the urban Swedish regions have higher spending on recreational and cultural activities. Very low values are recorded for the Italian cities. In terms of spending on restaurants and hotels, the large Austrian cities are top. Relatively high expenditure in this area can also be seen in the two other corporatist examples of Germany and France, as well as in the hybrid case of the Netherlands.

The high quality of life, which is already evident in the advantageous spending structure of households in Austria's large cities, is furthermore confirmed by the excellent survey results in Eurostat's EU Perception Survey 2015. Among 112 European cities, the Austrian representatives Graz and Vienna rank among the top-rated in terms of their share of residents who are very satisfied with life in their city. In addition to excellent cultural offerings, there is also a particularly high level of satisfaction with public transport, health care and green spaces. These satisfaction values are also confirmed by regular first places for Vienna in much-cited city rankings such as the Quality of Living Ranking by Mercer and The

Global Liveability Index by The Economist Intelligence Unit. The next section will present our own index, using the HBS information.

Figure 5 / Household expenditures in larger cities in selected EU countries, by type, in euros per capita at PPP, 2015



Note: Larger cities are defined as urban centres in contiguous grid cells, with a density of at least 1,500 inhabitants per km² and a minimum of 50,000 inhabitants. Typically, this includes urban centres of above 100,000 inhabitants.

Sources: Eurostat; wiiw estimates.

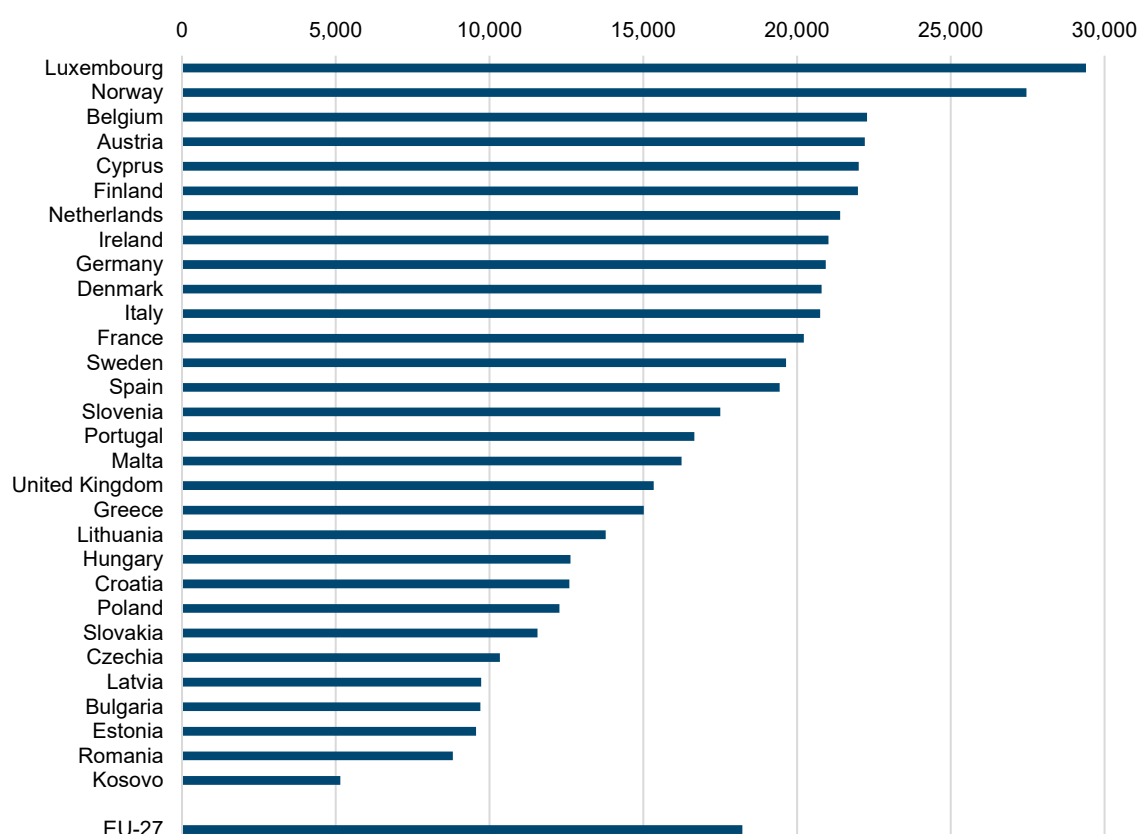
2. THE URBAN PUBLIC SERVICES AND LIVEABILITY INDEX

In order not to rely so much on discrete information, but to provide a more structured picture, we want to develop an index that covers the relationship between European urban households' relative expenditures on goods and services, which are particularly influenced by public services in the areas of education, health, transport and housing, as well as relative expenditures on the finer things in life, which add to quality of life beyond the satisfaction of basic needs. As in the figures above, the data originates from Eurostat's Household Budget Survey (HBS) and is structured along the Classification of Individual Consumption According to Purpose (COICOP). So far, there have been six waves of the survey, in 1988, 1994, 1999, 2005, 2010 and 2015. The results are published years later. For instance, the HBS 2015 data tables for most of the countries were posted on Eurostat's website only in May 2018. The most recent data update is from March 2020.

Also, data supplied by each country are not perfectly harmonised. Nevertheless, each new round of data collection is better harmonised than the previous one. However, some problems of comparability among countries remain. The most important methodological difference in quantitative terms, but not the only one, is the owner-occupier imputed rent. In the more recent survey waves, the following countries have not imputed any rent for the use of owner-occupied dwellings as household main residence: Czechia,

Estonia, Malta and the United Kingdom. For these cases, we have extrapolated the data either along the existing trend (United Kingdom) or the trend of the actual housing rents (Estonia), or we have used the respective shares of comparable countries (Slovakia for Czechia, and Cyprus for Malta). While acknowledging the shortcomings in comparability across countries as well as across time periods, we still believe that the information provided gives a good general overview. Furthermore, given that we combine a number of different household consumption items, the margin of error should not be too high.

Figure 6 / Mean consumption expenditure of urban households in euros at PPP per capita, 2015



Sources: Eurostat; wiiw calculations.

Before dealing with the details of the index, it is worthwhile to have a brief look at the overall levels of average household consumption in European urban centres (Figure 6). It should be noted that the consumption figures are based on the households' disposable income, net of taxes and social security contributions. Consumption levels in the larger cities of outlier countries Luxembourg and Norway are around three to six times the level of those at the other end of the scale in Kosovo and Romania. The main group of countries is led by the urban centres of Belgium and Austria. Most other corporatist, Nordic and hybrid countries' larger cities follow close behind. The urban centres in the Mediterranean come further down the ranking and have consumption levels that are 10% to 30% lower than those in Belgium or Austria. At the bottom of the main group are mostly the bigger cities from Central, East and Southeast Europe, with about half the consumption levels of the group's leaders. When analysing the relative index, we should bear in mind that the absolute values differ substantially between the countries' urban centres.

For the index, we have taken the sum of the expenditure shares for the COICOP groups CP09 Recreation and culture, CP11 Restaurants and hotels, and CP12 Miscellaneous goods and services (e.g. personal care and jewellery), as those expenditures that account for the finer things in life. This we divided by the sum of essential expenditures related to public services and that can be influenced by the public sector, i.e. CP04 Housing, water, electricity, gas and other fuels, CP06 Health, CP07 Transport, and CP10 Education. Finally, the index is multiplied by 100. The respective formula of the Urban Public Services and Liveability Index (UPSLIde) is the following:

$$UPSLIde = \frac{CP09 + CP11 + CP12}{CP04 + CP06 + CP07 + CP10} * 100$$

Not included in the index are the categories CP01 Food and non-alcoholic beverages, CP02 Alcoholic beverages, tobacco and narcotics, CP03 Clothing and footwear, CP05 Furnishings, household equipment and routine household maintenance, and CP08 Communications. The reasoning behind this is that although these are also necessary costs, they are largely dominated by more or less pure market prices and typically are not being co-determined by local municipal policies to the same extent, or, as in the case of alcohol and tobacco, are nowadays regarded to only a limited extent as luxury items.

It is interesting to note that the average index across the countries plummeted from 71 in 1988 to 44 in 2015. Thus, while people in European cities originally had spent the equivalent of more than two thirds of their expenditures for basic public services consumption items on the finer things in life, this has recently been reduced to less than half. This implies that the index can also be read as a percentage share, i.e. the ratio of the consumption of the finer things in life, relative to the consumption of basic public services that are essential.

Theoretically, of course, it could also be that UPSLIde has fallen simply because prices for holidays, inns and hairdressers have fallen sharply over time, compared with those of public services, but random samples of different countries' consumer price structures suggest that this is not the case. It is also interesting to see by how much the Austrian cities lead the index, even if the index there has also declined over time (Table 1). Only the Netherlands might have been in a better position in the past (or at least in 2010), but it fell back sharply in 2015. Currently, households in Austria's larger cities consume the finer things in life at a level of expenditure of about 70% of what they spend on public services-influenced consumption items. In Germany the figure is below 50% and in Italy only slightly above 30%. At the very bottom of the UPSLIde, we find Kosovo, on around 15%.

UPSLIde can also be transformed into a ranking (Table 2). From this it becomes clear that larger Austrian cities have been leading in recent years – with the exception of 2010, when cities in the Netherlands were at the top (but third in 2015). Interestingly, the United Kingdom's urban centres were leading in the late 1980s and early 1990s. However, this is against a backdrop of availability of data for only very few comparator countries' urban centres. France is an interesting case of a country that has improved more recently in the ranking; it is currently in second place. Households in larger German cities were high up in the ranking in earlier years, but fell back to 12th place in 2015. Another interesting result is the backsliding of a Nordic country: Norway. In the latest available year, Norway is ranked only 22nd out of 30 countries.

Table 1 / Urban Public Services and Liveability Index (UPSLIde) results

| | | 1988 | 1994 | 1999 | 2005 | 2010 | 2015 |
|----------------------|----|-----------|-----------|-----------|-----------|-----------|-----------|
| Austria | AT | | | 77.5 | 73.4 | 73.3 | 70.4 |
| France | FR | | | 49.4 | 52.1 | 64.1 | 64.6 |
| Netherlands | NL | | | | | 76.3 | 63.3 |
| Sweden | SE | | | 67.0 | 51.5 | 56.5 | 58.3 |
| Malta | MT | | | | | 55.9 | 57.7 |
| United Kingdom | UK | 114.3 | 68.0 | 62.4 | 57.7 | 54.5 | 54.9 |
| Belgium | BE | 71.6 | 62.5 | 61.1 | 65.3 | 60.3 | 53.6 |
| Finland | FI | | 59.0 | 49.2 | 62.5 | 58.5 | 53.5 |
| Denmark | DK | | 56.1 | 55.6 | 55.1 | 58.8 | 52.9 |
| Slovenia | SI | | | | 55.1 | 50.0 | 49.5 |
| Ireland | IE | | | 46.1 | | 57.5 | 49.2 |
| Germany | DE | | 66.5 | | 59.6 | 57.0 | 47.9 |
| Spain | ES | | 52.2 | 47.1 | 48.2 | 50.7 | 47.7 |
| Cyprus | CY | | | | 48.5 | 43.3 | 45.6 |
| Czechia | CZ | | | | 59.1 | 42.4 | 44.2 |
| Luxembourg | LU | 66.7 | | 58.8 | 50.9 | 50.3 | 42.8 |
| Estonia | EE | | | | 29.6 | 36.0 | 42.3 |
| Latvia | LV | | | | 54.6 | 41.9 | 42.0 |
| Slovakia | SK | | | | 45.8 | 39.6 | 39.9 |
| Greece | GR | 48.6 | | | 50.0 | 44.3 | 39.7 |
| Portugal | PT | 66.5 | 49.2 | 55.6 | 52.4 | 46.2 | 39.3 |
| Norway | NO | | | | 50.2 | 45.9 | 36.7 |
| Poland | PL | | | | 31.8 | 34.5 | 35.0 |
| Croatia | HR | | | | 35.9 | 29.9 | 32.6 |
| Hungary | HU | | | | 60.0 | 31.8 | 32.1 |
| Italy | IT | 55.8 | 50.2 | 41.5 | 39.6 | 35.2 | 32.0 |
| Bulgaria | BG | | | | 19.8 | 19.1 | 29.7 |
| Lithuania | LT | | | | 43.8 | 28.1 | 23.8 |
| Romania | RO | | | | | | 17.5 |
| Kosovo | XK | | | | | | 15.2 |
| Observations | | 6 | 8 | 12 | 25 | 28 | 30 |
| Average index | | 71 | 58 | 56 | 50 | 48 | 44 |

Sources: Eurostat; wiiw calculations.

Questions arise as to the underlying reasons for the secular downward trend of UPSLIde in general and why the countries mentioned above have changed positions in the ranking. Typically, a major reason for the secular trend is that housing rental costs have risen substantially. This was also the case in the urban centres in the leading country, Austria. However, rising spending on housing rentals was countered by falling transport expenditures, and expenditures for restaurants and hotels went up. Overall, inhabitants of large Austrian cities were able to keep up a relative level of consumption of the finer things in life that is unrivalled in the rest of Europe, where data is available.

The United Kingdom's urban centres' steep fall (although from a high level) in the UPSLIde is mainly due to housing rentals going up as well as transport expenditures increasing substantially. In Germany, rising housing rentals were accompanied by falling expenditures for recreation and culture, although spending on restaurants and hotels increased slightly. In the case of Norway, again, spending on housing rentals went up, and this was mirrored by falling expenditures for recreation and culture.

Table 2 / Urban Public Services and Liveability Index (UPSLIde) ranking

| | | 1988 | 1994 | 1999 | 2005 | 2010 | 2015 |
|---------------------|----|----------|----------|-----------|-----------|-----------|-----------|
| Austria | AT | | | 1 | 1 | 2 | 1 |
| France | FR | | | 8 | 12 | 3 | 2 |
| Netherlands | NL | | | | | 1 | 3 |
| Sweden | SE | | | 2 | 13 | 9 | 4 |
| Malta | MT | | | | | 10 | 5 |
| United Kingdom | UK | 1 | 1 | 3 | 7 | 11 | 6 |
| Belgium | BE | 2 | 3 | 4 | 2 | 4 | 7 |
| Finland | FI | | 4 | 9 | 3 | 6 | 8 |
| Denmark | DK | | 5 | 7 | 8 | 5 | 9 |
| Slovenia | SI | | | | 9 | 14 | 10 |
| Ireland | IE | | | 11 | | 7 | 11 |
| Germany | DE | | 2 | | 5 | 8 | 12 |
| Spain | ES | | 6 | 10 | 18 | 12 | 13 |
| Cyprus | CY | | | | 17 | 18 | 14 |
| Czechia | CZ | | | | 6 | 19 | 15 |
| Luxembourg | LU | 3 | | 5 | 14 | 13 | 16 |
| Estonia | EE | | | | 24 | 22 | 17 |
| Latvia | LV | | | | 10 | 20 | 18 |
| Slovakia | SK | | | | 19 | 21 | 19 |
| Greece | GR | 6 | | | 16 | 17 | 20 |
| Portugal | PT | 4 | 8 | 6 | 11 | 15 | 21 |
| Norway | NO | | | | 15 | 16 | 22 |
| Poland | PL | | | | 23 | 24 | 23 |
| Croatia | HR | | | | 22 | 26 | 24 |
| Hungary | HU | | | | 4 | 25 | 25 |
| Italy | IT | 5 | 7 | 12 | 21 | 23 | 26 |
| Bulgaria | BG | | | | 25 | 28 | 27 |
| Lithuania | LT | | | | 20 | 27 | 28 |
| Romania | RO | | | | | | 29 |
| Kosovo | XK | | | | | | 30 |
| Observations | | 6 | 8 | 12 | 25 | 28 | 30 |

Sources: Eurostat; wiiw calculations.

Interestingly, the recent overall drop for the Netherlands in the UPSLIde can be explained by urban households' transport expenditures going up, while expenditures for recreation and culture (in particular, package-holiday expenditures) declined steeply. Finally, France is one of the rare cases of a country that has recently improved in the UPSLIde. French urban households' expenditures on personal care and other services went up, while health expenditures on medical products and outpatient services went down, at the same time.

Therefore, although some of the developments are rather country-specific, there is an overwhelming number of cases in Europe where rising expenditures on housing are crowding out expenditures that are fundamental for a better quality of life, such as outlays on recreation and culture. While some of the changing balance might be related to improvements in the quality of housing, it is likely that the bulk of the shift is explained by an ongoing process of urban growth in Europe and a lack of affordable housing supply. Urban centres of countries with a less commercialised housing market and a lot of social

housing, such as Austria, France, the Netherlands and Sweden, are able to soften the change and are ranked at the very top of the UPSLIde's ranking.

3. POLICY RECOMMENDATIONS

The following economic policy conclusions are derived from the above analysis and the UPSLIde exercise. A high level of quality of life should be maintained in Europe's urban centres and, if possible, further expanded. The key to this is, among other things, the further expansion of subsidised housing in the areas of co-operative and municipal housing. A reduction in average housing costs not only allows households to spend a larger share of their income on the nicer things in life, but also has the macroeconomic function of lowering the price level in cities; this increases competitiveness and makes international investments in new economic sectors more likely, thus creating additional employment opportunities.

Further expansion of public transport and public health care has a similar function. Similarly, in the area of public education and training, there is potential for European cities to improve. All these measures would not only further improve the social and economic situation in urban centres, but would also strengthen the economic potential for the surrounding municipalities, which can benefit from an expansion of income opportunities in the cities as well as from additional, central, public services.

Therefore, an expansion of public services in Europe's urban centres is not necessarily liable to deepen the economic and social difference between cities and the countryside, but would also serve to connect both areas and create a meaningful division of labour. More liveable and competitive cities create more national and international investment in modern and higher-tech economic sectors, which in turn bring demand for goods, services and labour from the surrounding municipalities. Lower price levels, for example in housing costs in cities, have the potential to keep housing prices low in smaller towns as well. Therefore, an active public housing construction policy in the urban centres is not a zero-sum game for the overall society.

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