

Position of Capital Cities in Baltic Sea Economic Area

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Abstract

The Baltic Sea region for the purpose of the present article is the area covering six countries (Denmark, Estonia, Finland, Latvia, Lithuania and Sweden) and seven large administrative regions (*Bundesländer* Mecklenburg-Vorpommern and Schleswig-Holstein in Germany, *voivodships* Pomorskie, Zachodniopomorskie and Warminsko-Mazurskie in Poland, Kaliningrad and St. Petersburg in Russia with the surrounding Kaliningrad and Leningrad *oblast* respectively). The Leningrad *oblast* and St. Petersburg are here dealt with as a single region, although they are separate administrative units in Russia. The capital cities, are Copenhagen, Helsinki, Riga, Stockholm, Tallinn and Vilnius as well as the capitals of the above administrative regions – Gdansk, Kaliningrad, Kiel, Olsztyn, Schwerin, Szczecin and St. Petersburg.

The total Baltic Sea region is 1.1 million km² (10% of the territory of Europe) and their combined population is 44 million people (5% of the total population of Europe). 10 million people live in the capital cities of the Baltic Sea region and that is 23% of the population of the region.

The capital cities are generally economic centres of their countries and regions having a leading role in innovation and, thus, in achieving, for example, the objectives of the Lisbon Strategy. The economic policies of those countries should take it into account. Unfortunately, the economic growth of the capital city and its regional influence has been criticised in Estonia. It is understandable to a certain extent because big regional differences in socio-economic development between the capital city, and other cities and counties away from the capital have emerged in this small country within a relatively short period of time since regaining independence. The lack of objective assessment of the role the capital city has in the economic area is also caused by the fact that, so far, urban policy, that has become one of the most significant aspects of regional policy in the European Union, has not been studied. It is of little consolation that, in the 2004 adopted resolution of the European Parliament on the urban dimension, it is pointed out that no new member states of the European

Union have a clear and comprehensive urban policy at national or regional level.

The position of the capital city in the settlement system of the country or the administrative region are analysed. Particular emphasis in the article is placed on the comparative analysis of the socio-economic development of those cities. The European Union employs the Urban Audit that provides European urban statistics for 258 cities across 27 European countries. It contains almost 300 statistical indicators presenting information on matters such as demography, society, the economy, the environment, transport, the information society and leisure. However, the most recent data the Audit provides dates back to 2001 and, naturally, they do not contain information on the Russian cities. But almost half of the population of the capital cities under study lives in St. Petersburg. Therefore, more recent statistical data on the above countries and cities was analysed. At the same time, using such a universal indicator as Gross Domestic Product (GDP) proves problematic since in the European Union, GDP is provided for regions up to NUTS III level whereas in Estonia, for example, Tallinn is at NUTS III level together with Harju County.

A significant purpose of the article is, based on the comparative analysis of the Baltic Sea region capital cities, to formulate principles that can be used for regulating the legal status of Tallinn as the capital city and for formulating the urban policy of Estonia.

JEL Classification numbers: H – Public Economics: General; State and Local Government, Intergovernmental Relations; J – Labor and Demographic Economics: General; R – Urban, Rural and Regional Economics General; General Regional Economics.

Keywords

The geographical boundaries of the Baltic Sea economic area, European Union, Lisbon strategy, innovation, international organisations in the Baltic Sea region, Group of Independent Experts of the Congress of Local and Regional Authorities of the Council of Europe, country, territory, region, administrative regions, public administration, local self-government, capital city, hinterland, population, habitation system, second largest city, legal environment, legal status of capital city, management of the capital city, good governance, city council, relationship with central government, regional co-operation, local self-government association, regionalisation process of Europe, cross-border co-operation, economic environment, urban statistics, gross domestic product (GDP), economic activities, economic development, sustainable development, NUTS, comparable statistics, Urban

Audit, municipal revenue and expenditure, public services, local budget, budget per capita, socio-economic comparative analysis of cities, agglomeration, urban sprawl, principal urban area, metropolitan area, environmental policy, regional policy, EU structural funds, competitiveness of capital cities, urban policy.

Introduction

Not only research articles but also decisions taken by the European Union and the Council of Europe as well as reports of other international organisations have recently focussed on capital cities as is evident in the references of the current article. Such close attention is well founded since capital cities are generally the largest cities, centres of innovation and economic growth locomotives of their countries. To a large extent, countries' competitiveness in the globalising world and application of the Lisbon strategy as one of the priorities of the European Union depend on international competitiveness of their capital cities.

Most of the publications, reports etc have been economic analyses that deal with the role of the capital city in the economy of the country or a region. Position of the capital city in the legal environment of the country and capital city management have been less thoroughly analysed. In this area, the almost 200-page report „The Status of Capital Cities“ by the Group of Independent Experts of the Congress of Local and Regional Authorities of the Council of Europe compiled in 2006 and 2007, describing the capital cities of the member states of the Council of Europe, deserves, undoubtedly, mention. The author is of the opinion that there are practically no interdisciplinary analyses addressing legal, economic, and demographic and management problems of capital cities. Yet, such an approach is necessary, among other things, for formulating an integrated urban policy. Due to the regionalisation process of Europe, cross-border co-operation is having a more profound effect on the development of cities and other administrative units. Thus, international comparison of cities, especially capital cities, becomes more topical.

An analysis of the role of the capital city in the country or in the region must consider the following aspects:

1. The capital city in the human habitation system.
2. The capital city and the legal environment, including relationship with the central government and regional co-operation.
3. The economic environment in the capital city; the capital city and the economic environment of the region and the country.

Incompleteness or even lack of statistical data is a significant problem in making such analyses. It is a well known fact that what cannot

be measured cannot be managed. Unfortunately, even the Urban Audit, containing information on 258 cities of 27 members of the EU does not provide all the data – e.g. on municipal revenue and expenditure etc. – necessary for an integrated comparative analysis of capital cities.

Defining Baltic Sea Region

A question arises upon starting to study the demographic, economic, public administrative, environmental and other problems of the Baltic Sea region – what are the geographical boundaries of the area to be studied? Logically, the study should cover the territory where the Baltic Sea has a significant influence on the region's development, employment, natural environment etc, and that has historically been characterised by close economic and cultural ties. Today, it should, in the most direct way, be reflected in the membership of organisations established in the Baltic Sea area. Unfortunately, the problem is more complex and the region is defined differently.

Various players have established quite a number of international organisations in the Baltic Sea region – e.g. the Nordic Council of Ministers and the Baltic Assembly were established by states; local governments established the Union of Baltic Cities (UBC); businessmen founded the Baltic Chambers of Commerce Association; universities established the network of universities of technology BALTTECH etc. Those organisations and research institutions etc have published numerous articles, reports and studies on the region. The European Union and the Council of Europe have paid special attention to the Baltic Sea region. For example, the European Parliament adopted the Baltic Sea strategy in November 2006.

The Baltic Development Forum published a report that states (The Baltic, 2006: 14): „We have defined the Baltic Sea Region to include the Baltic Countries (Estonia, Latvia and Lithuania), the Nordic Countries (Denmark, Finland, Iceland, Norway and Sweden), northern Germany (*Hansestadt* Hamburg, Mecklenburg-Vorpommern and Schleswig-Holstein), northern Poland (Pomorskie, Warminsko-Mazurskie and Zachodnio-Pomorskie), and parts of Russia's North-western Region (excluding the four regions least connected to the Baltic Sea Region: the Republic of Komi, Arkhangelskaja *oblast*, Nenetsky AO, and Vologodskaya *oblast*).“ This stretches the border of the Baltic Sea region far in the East, to the Ural Mountains and the White Sea, as well as in the West, to Iceland. Undoubtedly, Hamburg, situated at the North Sea, has had a considerable influence on economy of the Baltic Sea region being the only counterbalance in the region to St. Petersburg but it is not reasonable to deal here with Hamburg considering the issues addressed in the present article.

At the same time, the above list of the Baltic Development Forum has left out Kaliningrad, although the report itself briefly touches upon the city and its surrounding *oblast* (The Baltic, 2006: 76). According to the report of the Baltic Development Forum, the Baltic Sea region is home to about 50 million people, less than 1% of the world population.

The author feels that certain cases - as the current article – call for a narrower definition of the Baltic Sea region. In terms of big countries such as Germany, Poland and Russia, it is reasonable to focus only on the administrative regions bordering the Baltic Sea. In terms of international organisations, the members of the UBC, excluding the cities of Norway and including St. Petersburg, correspond quite well to the Baltic Sea region accentuated in the article.

The Baltic Sea region for the purpose of the present article is the area covering six countries (Denmark, Estonia, Finland, Latvia, Lithuania and Sweden) and seven large administrative regions (*Bundesländer* Mecklenburg-Vorpommern and Schleswig-Holstein in Germany, *voivodships* Pomorskie, Zachodniopomorskie and Warminsko-Mazurskie in Poland, Kaliningrad and St. Petersburg in Russia with the surrounding Kaliningrad and Leningrad *oblast* respectively). The Leningrad *oblast* and St. Petersburg are here dealt with as a single region, although they are separate administrative units in Russia (Table 1).

Table 1 Capital city population in Baltic Sea region in 2006

| Country or administrative region | Area (km ²) of country or region | Population of country or region (in thousands) | Capital city | Population of capital city (in thousands) | Capital city population of total population of country or region (%) |
|----------------------------------|--|--|--------------|---|--|
| Denmark | 43,094 | 5,427.5 | Copenhagen | 503.0 | 9.3 |
| Pomorskie | 18,293 | 2,194.0 | Gdansk | 459.1 | 20.9 |
| Finland | 304,112 | 5,255.3 | Helsinki | 560.9 | 10.7 |
| Kaliningrad Oblast | 15,100 | 945.0 | Kaliningrad | 425.6 | 45.0 |
| Schleswig-Holstein | 15,673 | 2,823.2 | Kiel | 234.4 | 8.3 |
| Warminsko-Mazurskie | 24,192 | 1,428.7 | Olsztyn | 173.9 | 12.2 |

| | | | | | |
|---------------------------------------|-----------|----------|---------------|---------|------|
| Latvia | 64,589 | 2,291.6 | Riga | 727.6 | 31.8 |
| Mecklenburg-Vorpommern | 23,173 | 1,732.2 | Schwerin | 96.7 | 5.6 |
| Leningrad Oblast (with St Petersburg) | 85,900 | 6,253.9 | St Petersburg | 4,601.0 | 73.6 |
| Sweden | 410,314 | 9,011.4 | Stockholm | 765.0 | 8.5 |
| Zachodniopomorskie | 22,896 | 1,695.0 | Szczecin | 411.9 | 24.3 |
| Estonia | 45,227 | 1,344.7 | Tallinn | 396.2 | 29.5 |
| Litauen | 65,301 | 3,403.3 | Vilnius | 541.8 | 15.9 |
| TOTAL | 1,137,864 | 43,805.8 | | 9,897.1 | 22.6 |

Source: City Population, 2007

The total Baltic Sea region is 1.1 million km² (10% of the territory of Europe) and their combined population is 44 million people (5% of the total population of Europe). 10 million people live in the capital cities of the Baltic Sea region and that is 23% of the population of the region.

Capital City in Human Habitation System

From the point of view of economy and public administration, the significance of the capital city in the human habitation system of the state or the region has at least three-fold influence. The larger the concentration of population in the capital city,

- 1) The larger is the territory of its hinterland and the stronger its economic influence in the state or region;
- 2) The more the city is influenced by urban sprawl;
- 3) The acuter is the need for special regulation (a special status) of the capital city in the state's public administration (local self-government) system.

In terms of human habitation of administrative regions, the capital city is dominant especially in Leningrad/St. Petersburg region where close to $\frac{3}{4}$ of the population of the *oblast* and city reside, but also in the Kaliningrad *oblast*. In other administrative regions, $\frac{1}{10}$ – $\frac{1}{4}$ of the population lives in the capital city. Only 5% of the *Bundesland* lives in Schwerin whereas the capital city of Mecklenburg-Vorpommern is the only capital city that is the second largest city of its region after Rostock (Table 2).

Table 2 Population in capital and second largest cities (largest city in Mecklenburg Vorpommern)

| Capital City | Population in capital city (in thousands) | Population in second largest city (in thousands) | |
|---------------|---|--|-------|
| Copenhagen | 503.0 | Århus | 228.5 |
| Gdansk | 459.1 | Gdynia | 253.3 |
| Helsinki | 560.9 | Espoo | 231.7 |
| Kaliningrad | 425.6 | Sovetsk | 43.9 |
| Kiel | 234.4 | Lübeck | 211.8 |
| Olsztyn | 173.9 | Elbląg | 127.7 |
| Riga | 727.6 | Daugavpils | 109.5 |
| Schwerin | 96.7 | Rostock | 199.3 |
| St Petersburg | 4,601.0 | Gatchina | 88.4 |
| Stockholm | 765.0 | Göteborg | 481.4 |
| Szczecin | 411.9 | Koszalin | 107.8 |
| Tallinn | 396.2 | Tartu | 101.7 |
| Vilnius | 541.8 | Kaunas | 360.6 |

Comparison of cities is difficult also because in some countries, the population data is presented by agglomerations. For example, as a result of the 2007 administrative-territorial reform in Denmark, there are 1.1 million inhabitants in Copenhagen principal urban area; the population of Helsinki principal urban area is 1.0 million and that of Stockholm principal urban area is 1.9 million (City, 2007). From the point of view of the analysis of economic potential of a city, it is, undoubtedly, reasonable to view the city as an agglomeration formed as a result of urban sprawl rather than a city within its historical administrative borders. It causes problems, for example, in Estonia where the city is still merely a legal and historical category. For centuries, it was justified, since *Stadtluft machte frei* but nowadays the city (the metropolitan area) should be regarded, first and foremost, as a socio-economic category. A conservative approach has, among other things, hindered an administrative-territorial reform in Estonia. Namely, once a city is merged with a surrounding rural municipality/the surrounding rural municipalities it is represented in population statistics as a settlement but no longer as an administrative unit. Many cities, however, do not wish to give up their status as a city. It is especially true about county centres and some other big or medium-sized cities.

There is another problem concerning medium-sized cities (population 20,000-100,000). On one hand, the physical and social environment in those cities is more favourable than in big cities in terms of natural environment; on the other hand, their physical and social

environment is more favourable than in rural municipalities in terms of public services. At the same time, 13% of the population of Estonia and 16% of the population of Latvia (Statistical, 2005: 38) live in medium-sized cities while 34% of the Finnish population and altogether 50% of the Swedish population (City, 2007) live in medium-sized cities (Table 3).

Table 3 Population (%) in cities of different size in Estonia, Finland, Latvia and Sweden

| Population (in thousands) | 15-20 | 20-25 | 25-50 | 50-100 | 100-250 | above 250 |
|---------------------------------|-------|-------|-------|--------|---------|--------------|
| Estonia | 3.7 | 1.5 | 6.7 | 5.0 | 7.6 | 29.5 |
| Finland | 0,4 | 6,4 | 14,7 | 13,2 | 4,4 | 10,7 |
| Latvia | 1.7 | 0 | 7.0 | 9.0 | 4.8 | 31.7 |
| Sweden | 0,9 | 5,2 | 20,7 | 24,0 | 12,8 | 16,8 |

Figuratively speaking – in economic sense, there is often no middle class in transformation societies and it is also reflected in places of residence. But there is, probably, a close causal connection between the two characteristics.

At the same time, problems caused in welfare societies by people moving from big cities (especially the capital city) to smaller settlements with better physical and social environment in their hinterland, cannot be ignored. People have problems, e.g. with transport etc, due to the fact that, in general, they still go to work or to school in the city they used to live in. But local governments need new solutions as to how to deliver high-quality socio-economic services under the circumstances where their income base is decreasing. Commuters still mostly use the social and technical infrastructure of the centre while their income tax is accrued to the budget of the municipality they reside in. Solutions have to be found, first and foremost, in improving the legal framework of local self-government and forms of regional co-operation. The central authority should support more actively solving economic and other problems of the capital city.

Capital City and Legal Environment, including Relationship with Central Government, and Regional Co-operation

The legal position of the capital city is solely a problem concerning the capital city of a country and usually not the capital city of an administrative region. Among the administrative regions discussed in the

current article, St. Petersburg is the only one to have a special law, adopted by St. Petersburg parliament (???????????????? ???? ???? - ?????????), regulate its status. German *Bundesländer*, each with their own constitution, do not have a special law on their capital cities. However, it is important to point out that, according to article 11 of the constitution of Mecklenburg-Vorpommern, the *Bundesland* is required to facilitate European integration and cross-border co-operation, especially in the Baltic Sea region (*das Land Mecklenburg-Vorpommern wirkt im Rahmen seiner Zuständigkeiten an dem Ziel mit, die europäische Integration zu verwirklichen und die grenzüberschreitende Zusammenarbeit, insbesondere im Ostseeraum, zu fördern*).

Four groups of capital cities can be distinguished, depending on whether and how national legislation regulates the issue of the capital city (Mäeltseems, 2005: 24-25):

1. The constitution establishes the capital city.
2. There is a special law on the capital city.
3. The status of the capital city is provided in a separate chapter, section or sections of the law on local self-government.
4. The capital city is treated in the law on local self-government like any other local government.

Lithuania is the only country among those discussed in the article where the constitution establishes the capital city (Article 17 “*The capital of the Republic of Lithuania shall be the city Vilnius, the long-standing historical capital of Lithuania*.”). There are no special laws passed on the capital cities under discussion, although appropriate proposals have been submitted, for example, in Estonia and Latvia.

Since 1994, Tallinn City Council has submitted four proposals to the Parliament or the Government to adopt a so-called Capital City Act (Mäeltseems & Olle, 2007: 48). The latest proposal was submitted on 7 March 2006 when Tallinn City Council adopted a decision to make a motion to amend the Local Government Organisation Act and the State Budget Act so that the specific character of Tallinn among the local governments of Estonia, both in terms of its size and the state responsibilities discharged by the city, be taken into account. It was proposed, considering the size of the city, that Tallinn City Council be granted the right to delegate certain statutory municipal responsibilities to a municipal authority or even a local government official which was said, among other things, to ensure an increased speed of decision-making in the city. The motion also included a proposal to amend the State Budget Act so that the state responsibilities discharged by Tallinn as the capital city be financed from the state budget. In May 2006, the Ministry of Internal Affairs adopted a position that since the motion was in conflict with the

Constitution and the European Charter of Local Self-government, it could not even be submitted to the Government and the Parliament. In Estonia, there is one difference between Tallinn as the capital city and the rest of the local governments in terms of local self-government organisation. According to the Local Government Council Election Act, local elections in Tallinn take place by city districts. A half of the mandates (32 mandates) are equally divided between the districts (4 mandates each) irrespective of the number of population, and the other half (31 mandates) is divided according to the number of population.

The representatives of Riga have prepared a draft of a special law on Riga, the capital city. But the draft was not supported by the Cabinet of Ministers. According to the amendments to the Law on Local Governments passed on 17 February 2005, Riga as the capital city, in addition to the autonomous functions of all local governments, executes four capital city functions jointly with the state (Vanags & Vilka, 2007: 82).

It must be said in support of specific regulation of the status of the capital city in a country with the capital city significantly bigger than other municipalities that it could be an advantage to many other municipalities, especially the smaller ones. Figuratively speaking, a unified local self-government organisation forces the system into a position equivalent to the Procrustean bed.

Regional co-operation of the capital city is regulated by law in Finland. A specific law on the co-operation of the four municipalities forming the area of greater (or metropolitan) Helsinki defines public transportation, garbage collection and general planning as areas where the municipalities may make joint decisions. This is a legislative arrangement tailored specifically for the needs of the capital area. Helsinki's policies in the restructuring of public services have been made through co-operation within the Helsinki Metropolitan Area Advisory Board and a new co-operation forum of 14 municipalities in the Helsinki region. At the same time, the Advisory Board has paved the way for increasing co-operation in the Helsinki Metropolitan Area through a large number of co-operation projects. (Mäenpää, 2007: 57-58)

There is a special relationship between Riga with its agglomeration and the neighbouring municipalities because they are all included in the Riga Planning Region. The capital city has the leading role in the region (Vanags & Vilka, 2007: 82).

In Estonia, local governments have established voluntary associations for co-operating at the regional (county) level. Such an association was established in Harju County in 1994 and Tallinn became a member in 2006.

Economic Environment in Capital City

Two big groups of problems need to be analysed here:

1. The role of the capital city in the economy of the region and the whole country.
2. Economic activities of the capital city as a local government itself (municipal revenue and expenditure, delivery of public services etc.).

Both problems are quite difficult to analyse due to lack of statistical data to compare. It applies especially to the analysis of the role of the capital city in the economy of the region and the whole country. Generally, comparable statistics are available in the EU countries up to the NUTS II level and partially to the NUTS III level. However, several countries under discussion such as Denmark, Estonia, Latvia and Lithuania are among the units of the NUTS II level as whole, and also at the NUTS III level, capital cities are often represented together with their surrounding administrative units. For example, in Estonia, Tallinn together with its surrounding (Harju) county is considered one NUTS III unit; in Lithuania, another six districts belong to Vilnius *apskritis* and in Finland, Helsinki is together with Uusimaa *lääni* etc. The regions of Russia are, understandably, not at all represented in the Nomenclature of Territorial Units for Statistics.

Gross Domestic Product (GDP) per capita of the EU member states in the region under discussion differs 3.5 times (Table 4).

Table 4 Gross Domestic Product (GDP) per capita (EUR) in Baltic Sea region

| Country or region on NUTS II level | GDP per capita (PPP) in 2003 | % of EU-25 average |
|------------------------------------|------------------------------|--------------------|
| Denmark | 26,771.8 | 124.5 |
| Mecklenburg- Vorpommern | 16,894.7 | 78.6 |
| Schleswig-Holstein | 22,380.1 | 104.1 |
| Estonia | 11,977.5 | 55.7 |
| Latvia | 9,775.1 | 45.5 |
| Litauen | 10,981.5 | 51.1 |
| Mazowieckie | 16,523.2 | 76.8 |
| Zachodnipomorskie | 10,149.2 | 47.2 |
| Pomorskie | 10,658.5 | 49.6 |
| South-Finland | 28,680.6 | 133.4 |
| Stockholm län | 35,620.8 | 165.7 |

Source: Eurostat

In 2001, the gross regional product (?????? ???? ??????) per capita (??????, 2003: 319) was 59,301 roubles in St. Petersburg (EUR 1,706 in 2007 exchange rates), 33,149 roubles (EUR 953) in Kaliningrad *oblast* and EUR 1,562 in Russia on average but obviously different methods were used to calculate GDP. For example, GDP per capita in Russia was USD 9,902 (ca EUR 13,000) in 2004 according to the Human Development Report of the UNO (Human, 2006).

Indirect conclusions about the general level of economic development, however, can be drawn on the basis of the above data since capital cities often have a decisive role in the overall GDP of their region which is confirmed by reports of international organisations. In 2000, Gdansk-Gdynia-Sopot sub-region (51.8%) in the Pomorskie *voivodship* and Olsztynski sub-region (48.9%) in the Warminsko-Mazurskie *voivodship* had the largest share in production of GDP (Portraits). 56% of the total GDP of Latvia is produced in Riga (Vanags & Vilka, 2007: 82). The Stockholm region has much higher GDP per capita than the country's other regions. The GDP per capita at market prices is also the highest in the country with the region having been increasing its share in recent years. In the year 2000, it was 20% higher than the average for the country, and 30% higher than the region with the lowest GDP (Portraits, 2006).

It would be necessary to compare city budgets and especially budgets per capita. Unfortunately, it is a rather hopeless attempt based on the data available on the homepages of the capital cities, although the results of the attempt are shown in Table 5.

Table 5 Data on budgets of capital cities of the Baltic Sea region countries and administrative regions

| Capital city (year) | Data on budgets (million EUR) | Data on budgets per capita (EUR) |
|----------------------|----------------------------------|--|
| Gdansk (2001) | 278 | 606 |
| Helsinki (2005) | 3,523 | 6,281 |
| Kaliningrad (2005) | 129 | 303 |
| Kiel (2006) | 849 | 3,621 |
| Riga (2007) | 522 | 717 |
| St Petersburg (2007) | 6,861 | 1,491 |
| Stockholm (2005) | 3,710 | 4,850 |
| Szczecin (2006) | 173 | 420 |
| Tallinn (2007) | 447 | 1,128 |
| Vilnius (2006) | 238 | 439 |

Source: websites of cities

The homepages of the cities contain data on different years but - this is even more important – it is generally difficult to establish whether budgets contain but revenue generated from their own revenue base or include also allocations from the state; loans have a significant impact on the budget etc. Still, we learn from the homepage of Kaliningrad that allocations from the *oblast* budget counted for a quarter (1.1 billion roubles) of the total of the 2005 budget (4.5 billion roubles) and the total of loans was 0.5 billion roubles. The budget of St. Petersburg, on the other hand, is not that of a local government but a state management unit. The total budget of municipal units was only EUR 79 million, i.e. EUR 17 per capita.

It is not easier to make a comparison of the structure of revenue and expenditure. The following includes but a few examples of some capital cities.

The most important revenue articles of Copenhagen are income taxes and property taxes. Income taxes cover approximately 70% and property taxes approximately 10% of the city's revenue. The remaining 20% of the city's income is derived from user payments, block grants from the state and funds from the special equalisation system of local authorities (Vinten, 2007: 46). The 2001 revenue structure of Gdansk was as follows: subsidies 28.9%, share in tax revenue 22.1%, grants 26.6%, local taxes and charges 16.4%, income from communal assets 11.4% and other income 4.6%. The 2005 revenue structure of Helsinki was as follows: tax revenue 56%; operating revenue (sales, user fees, rents etc.) 36%; government transfers 3.7%; financing revenue 2% and other revenue (income from city corporations etc.) 6%.

The 2001 expenditure structure of Gdansk was as follows: education 36.3%, transport and communications 14.7%, management of communal assets and environment protection 11.0%, social welfare 8.8%, security and fire protection 7.5%, administrative costs 6.5%, housing management 5.1%, culture 2.9%, public debt service 2.4%, health care 2.0%, physical culture and sports 0.8%, and other expenditure 2.1%. The 2005 expenditure structure of Kaliningrad city was as follows: housing management 37%, education 28%, social policy 9%, health care, physical culture and sports 9%, culture and arts 4%, transportation 2% and administrative costs 7%. The 2005 expenditure structure of Szczecin (total budget 896.6 million *zlotys*) was as follows: education 36.0%, social welfare 17.8%, transport and communication 12.7%, administrative costs 8.9%, municipal economy and environmental protection 4.0%, housing economy 2.6%, culture and national heritage protection 2.4%, and health care 1.5%.

The levers of local economic development are certainly expressed in the structure of property, especially of land ownership. The available

data, albeit incomplete, indicate that, in Gdansk, 42.8% of land belongs to the state, 31.3% to local governments, 21.5% to natural persons and 4.4% to other persons.

Within the previous couple of decades, cross-border co-operation has been a growing trend in Europe. As far as capital cities go, co-operation has developed between Helsinki and Tallinn due to their geographical closeness (for example, the name Talsinki denoting twin cities is quite well known; due to improving co-operation with St. Petersburg and, furthermore, because of the possibilities such co-operation could offer, the name St. Talsinki has been used). In 2007, Helsinki and Tallinn City Governments together with Tallinn University of Technology launched a joint research programme to establish the public services the two cities could jointly deliver such as integrated public transport and museum tickets etc. Possible common principles of urban policies of the Baltic Sea region capital cities require further detailed analysis.

Capital Cities in Urban and Structural Policies

A lot is spoken and written about the environmental policy, regional policy and increasingly often also about innovation policy of the Baltic Sea region but there is a growing need for urban policy defining, among other things, the role and development directions of capital cities in the economy, human habitation and public administration of the region in the 21st century. Especially much is to be done in the transformation countries. The 2004 resolution of the European Parliament “On the urban dimension in the context of enlargement” draws attention „to the great disparities in terms of urban policy between the 25 Member States, particularly as a result of the enlargement to include 10 new Member States, which often have no clear and comprehensive urban policy at national or regional level.” (European, 2004).

GDP per capita, as is well known, is a factor playing a significant role in distributing the resources of the EU structural funds; and that, as seen above, is often higher in the capital city. At the same time, more consideration should be given to improving competitiveness of capital cities, ensuring their stable and sustainable development when distributing the EU structural resources.

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