New Approaches to Economic Challenges in a century of cities

by
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We live in the century of cities. In OECD countries, two out of three people live in cities with 50,000 or more inhabitants. Outside the OECD, the share of urban residents is currently slightly lower, but urbanisation is progressing rapidly. While today over half of the world’s population lives in urban areas, the United Nations (UN) estimate that the global urbanisation rate will reach 60% by 2030 and 70% by 2050. Cities are important drivers of economic performance, and their contribution can be expected to increase. Metropolitan areas with more than 500,000 inhabitants generate 55% of OECD countries’ GDP and more than 60% of their economic growth. Due to agglomeration economies and high levels of human capital, most cities have higher productivity levels than their countries as a whole. As many OECD countries have seen declining rates of productivity growth in recent years, utilising the full potential of productivity-increasing agglomeration effects can create new sources of growth.

Cities matter not only for the economic performance of a country; they also play a crucial role in determining the well-being of their residents. This is recognised prominently in Sustainable Development Goal (SDG) 11, which calls for cities to be inclusive, safe, resilient and sustainable. It is also at the heart of the “New Urban Agenda”, to be launched at the UN-Habitat III Conference in October 2016 and an opportunity to reinvigorate our collective commitment to address urban policies at all levels of government.

Already today, many cities are desirable places to live and continue to attract new residents. Cities often provide better and more specialised services than rural areas. They generally have better transport connections and more diverse consumption opportunities. Most cities also offer greater cultural diversity and other amenities than rural areas. But cities also face challenges in the form of agglomeration costs. Some are directly measurable economic costs, such as higher price levels; others primarily affect the well-being of residents and are more difficult to quantify in monetary terms. Air pollution and noise levels, for example, tend to be worse in large cities and have negative effects on the health of residents. Most commonly, agglomeration costs affect both economic performance of cities and well-being. A shortage of affordable housing, increasing congestion, long commutes and high
crime rates have clear economic costs and also direct adverse effects on well-being.

Cities within the same country often have very different productivity levels and face varying degrees of agglomeration costs. This indicates that policies play an important role in influencing the performance of cities. In particular, the degree to which agglomeration costs can be avoided determines a city’s success. Cities in developing countries face some challenges that developed countries have already tackled, such as the provision of water and access to sanitation for all residents. But reducing agglomeration costs is important everywhere and can improve productivity and well-being even in the most advanced cities.

Agglomeration costs and policies to alleviate them frequently concern the same fields across developing and developed countries, albeit at very different starting points. The provision of affordable housing is a necessary condition to upgrade slums in developing countries and it is also required to make the most successful cities in developed countries more inclusive. Similarly, reducing congestion will increase productivity levels in cities in advanced countries, just as it will increase productivity levels in the least developed countries.

Most of the challenges that cities face are complex and multi-dimensional. The policy response therefore requires governance mechanisms which facilitate the development and implementation of complex and multi-dimensional public policies in urban areas. Running a big city requires more than just concentrating on a few specific problem areas in a piecemeal approach to policy. It requires a package of co-ordinated policies that produces synergies and complementarities.

Effective urban and regional policy calls for co-ordination between many different actors, an area in which until recently many countries have fallen short. In the past, national-level urban policies in OECD countries were often narrowly defined and limited to one or two issues, such as infrastructure provision or the revitalisation of distressed neighbourhoods.
Yet a wide range of national policies can have a profound impact on urban development, even if national policy makers do not view them through an “urban lens”. Better co-ordination of national policies affecting cities can eliminate tensions between various sectorally oriented policies and give clearer signals to city leaders, empowering them to work more effectively with each other, with higher levels of government, with citizens and with the private sector.

Empowering cities will in many cases require more efficient city and metropolitan governance. As administrative boundaries are typically based on historical settlement patterns that do not reflect the increasingly inter-connected socioeconomic realities in large urban agglomerations, municipal fragmentation makes it difficult to co-ordinate policies on the local level and puts a brake on growth. OECD metropolitan areas with appropriate governance systems have not only higher productivity, but also experienced less sprawl and greater citizen satisfaction, particularly with transport systems.

According to the United Nations, urban populations in high-income countries are expected to increase only modestly over the next two decades, from 920 million people to just over 1 billion. Consequently, changes to cities and their urban form will be incremental.

In developing countries, by contrast, the stakes are much higher. Existing cities will need to be modified and expanded, and new cities will need to be built. The importance of actions taken today goes far beyond the 15 years’ time horizon of the SDGs. Housing and infrastructure that will be built to accommodate billions of new urban residents will determine urban form for many more decades to come. This is a task that neither city authorities nor national governments can take on alone. It is therefore crucial that the mechanisms chosen to implement the SDGs and the New Urban Agenda take into consideration how choices made in cities today will affect the extent and impact of global challenges such as climate change, the ability to achieve emission reductions and the capacity to adapt to changing circumstances, such as ageing population.
Achieving inclusive growth requires co-ordination of economy-wide and local policy measures to build cities that are both environmentally sustainable and offer the opportunities for personal fulfilment that education, skills and jobs can bring. At stake are our hopes and aspirations for a fairer, more prosperous world. Let's make sure we “get cities right”.

Useful links


OECD work on cities: www.oecd.org/gov/cities.htm

OECD work on regional development: www.oecd.org/gov/regional-policy

How’s life in your region?: www.oecdregionalwellbeing.org