OECD Regional Outlook 2014
Regions and Cities: Where Policies and People Meet

Executive Summary

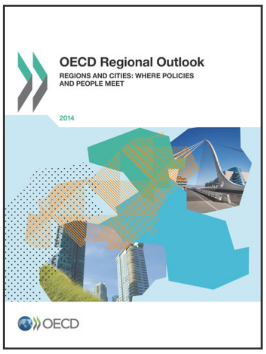
Key findings

1. **Inter-regional income disparities** have widened in most OECD countries over recent decades; the crisis did little to change this trend. Where disparities have narrowed, this has generally reflected weak performance in wealthier regions, rather than growth in poorer ones. The crisis also accentuated disparities in unemployment across regions.
2. The shift from fiscal stimulus to consolidation since the crisis led to **sharp cuts in public investment**, which fell by 13% in real terms across the OECD in 2009-12. Since about 72% of public investment is managed by sub-national governments (SNGs), this has created a particular challenge for regions and localities. While cuts in investment have helped protect current services and transfers, they risk undermining growth and service provision in the future.
3. Fiscal pressures have also been among the drivers of **a growing number of sub-national governance reforms**. These have been motivated in part by a need to achieve scale economies and other cost savings, but also as a means to delegate additional responsibilities.
4. The crisis has highlighted the limits of purely economic assessments of social progress and underscored **the need for broader measures of well-being**. Yet well-being needs to be understood and addressed at a regional level. Disparities in non-pecuniary measures of well-being are often greater among regions within a country than across different countries; they are also extremely stable over time. Countries with larger disparities in access to education, jobs and key services also register lower well-being outcomes overall.
5. The search for growth has focused growing attention on **cities as the most important potential engines of growth** for most OECD economies. Cities are, overall, more productive and their productivity advantage increases with city size. Large cities tend to lift growth in the regions around them, even to a distance of 200-300 kilometres. Smaller cities, however, can reap productivity gains by being closely linked to other cities, using connectivity as a sort of substitute for size.
6. The growth and productivity benefits of urbanisation are not automatic: **the way cities are governed** has a direct and important impact on their economic performance and on citizens' quality of life. The actions of households and firms, as well as the interactions among different strands of public policy, typically have larger positive or negative spill-over effects in cities than in less dense places. This implies a greater need for the co-ordination of policy across sectors, jurisdictions and levels of government.
7. Such **co-ordination is often lacking**: national and sub-national sectoral policies often create contradictory incentives and are poorly aligned across levels of government. Horizontal fragmentation at municipal level compounds the problem, especially in large but politically fragmented metropolitan areas. The OECD Metropolitan Governance Survey throws the costs of fragmented governance into sharp relief and draws attention

to the benefits of better co-ordination of policies at metropolitan scale – *i.e.*, at the scale of cities defined by settlement patterns and economic activity rather than by often antiquated administrative frontiers.

Key policy implications

1. Rising disparities, slow growth and limited room to manoeuvre with respect to fiscal and monetary policies underscore the need for effective, **place-sensitive approaches to policy**. First, even within countries, the barriers to growth differ considerably from one region to another. Secondly, policy must pay increasing attention to the trade-offs that can be made between different goals and the potential complementarities among them that can be exploited with an integrated approach. These trade-offs and complementarities often reflect the specific conditions of particular places and are often most visible – and manageable – to regional or local actors.
2. **Policy geographies matter**: in identifying and promoting connections between economic, environmental and social goals, policy-makers need to look beyond administrative boundaries to consider actual geographies of the challenges that they wish to address – as, for example, when public transport issues need to be addressed for a whole metropolitan area, rather than being tackled separately by individual municipalities. The appropriate scale for policy intervention depends on the challenge to be addressed: catchment areas for schools will differ from those of hospitals, and transport authorities may work at different scales from health authorities. However, the number of levels of government cannot be endlessly multiplied, hence the need for data, tools and institutions capable of facilitating vertical and horizontal co-ordination at different scales.
3. **Adapting policies to fit places is particularly important across the rural-urban divide**. Since around 78% of rural residents in the OECD live near a city, it makes little sense to see urban and rural as distinct domains. Rural and urban policies need to be better integrated if they are to reflect the realities of the places where they are implemented. Rural-urban partnerships can help deliver more integrated territorial development, maximising the potential benefits of the labour market, environmental and other links between urban and rural communities.
4. The squeeze on public investment means that **local and regional governments need to do more – and better – with less**. It is with this in mind that the OECD Council in March 2014 adopted a *Recommendation on Effective Public Investment across Levels of Government*. The principles enshrined in the recommendation will help governments assess the strengths and weaknesses of their public investment capacity and set priorities for improvement.
5. **National and regional/state governments may have an important role to play in fostering the emergence of more effective metropolitan governance solutions**. The obstacles to collective action are frequently substantial, and even if all the municipalities in a large urban area or region stand to gain from co-operation, there may be none among them with the capacity and incentives to take on the costs of gathering the necessary information, mobilising others, *etc*.
6. **Better governance of metropolitan areas needs, in turn, to be buttressed by a greater degree of policy coherence for cities at national level**. Traditionally, explicit national urban policies, where they existed, have tended to be narrowly drawn and to focus on problems rather than on potential. Many other strands of policy, which have profound implications for urban development, may never be viewed through an "urban lens". Governments wishing to get cities right need to develop a much broader vision of urban policy, devising cross-sectoral strategies that seek to tackle the challenges facing cities in an integrated way.



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