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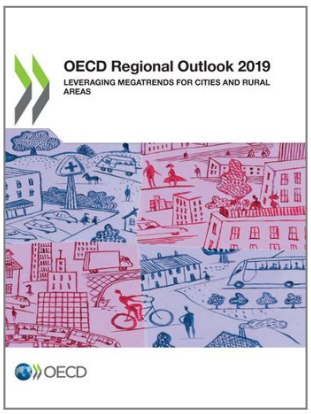
OECD Regional Outlook 2019

Leveraging Megatrends for Cities and Rural Areas

Summary in English



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Place-based policies can address weak economic growth and public discontent

Since its foundation in 1999, the OECD Regional Development Policy Committee has made the case for place-based policies to help all regions use their full economic potential. Place-based policies are an indispensable complement to structural economic policies because structural economic policies do not consider specific regional factors adequately.

Adopting place-based policies is particularly urgent in light of large and persistent inequalities in regional performance in many OECD countries. On average, productivity in the least productive region of a country is 46% lower than productivity in its most productive region. Moreover, in one-third of OECD countries, productivity growth has been concentrated in a single, already highly productive, region that is usually home to the country's largest city, further increasing regional imbalances. Due to limited labour mobility, workers in many regions are therefore stuck in jobs that are less productive than they could be.

The effects of regional inequality have been compounded by the global financial crisis and subdued growth in most OECD countries in recent years. Together, these factors have led to growing public discontent with the political, economic and social status quo. Place-based policies can help to overcome public discontent not only because they promote economic development, but by valorising local cultures and traditions, they can help counter feelings in some regions of being "left behind" or that they "do not matter".

In addition to the effects from globalisation and the discontent it has generated in certain geographies, going forward, place-based policies will have to anticipate and address the region-specific impacts of three types of global megatrends:

- digitalisation, automation and other technological changes
- demographic changes, including urbanisation, ageing and migration
- climate change and resource scarcity.

These megatrends will not affect countries uniformly, but differ from region to region. Adequate policy responses need to address this diversity, for example by targeting new investments and adjusting multi-level governance systems to make them more responsive to regional conditions.

Automation and other disruptive technologies will reshape economies and societies in all regions

Artificial intelligence, autonomous vehicles, 3D printing and other new technologies are important drivers of productivity growth that ultimately ensure rising living standards. They will change where people live and how they work and communicate with each other. However, they also result in automation that will

lead to major job reallocation across sectors and places. Estimates show that the number of jobs at high risk of automation varies between 4% and 39% across OECD regions.

Regions, especially those with a large share of jobs at risk of automation, need to develop policies to equip workers with skills that are less likely to be automated and that are adaptable to new job profiles. Depending on the types of jobs lost and created in a given region, different combinations of skills development and firm upgrading will be required.

Automation will be felt especially strongly in rural areas because these areas rely disproportionally on manufacturing and have a low share of services in their economy. In contrast, many emerging technologies, such as autonomous vehicles, unmanned aerial vehicles, additive manufacturing and virtual reality technology, can benefit rural areas because they will reduce the disadvantages due to low density and long distances. New technologies can also improve service delivery in rural areas and policy makers should facilitate their adoption.

Large cities are likely to benefit the most from the growing importance of knowledge- intensive activities due to technological change. However, skill polarisation in jobs can lead to growing intra-urban inequalities between high-skilled and low-skilled workers. For successful urban areas, the biggest challenge will be to ensure that continued economic success does not lead to rising costs of living, which are a burden especially for the poorest, but increasingly also for the middle class. Ensuring housing affordability is a key element to meet this challenge.

Big data analytics, the Internet of Things, civic technology, virtual reality and other technologies can be used to build smart cities, transform public service delivery and facilitate citizen participation at the local level. Local governments should adapt these technologies while addressing the associated risks, for example related to privacy and the exclusion of marginalised groups.

Regional demography will change due to ageing, urbanisation and migration

Urbanisation is progressing across the globe. The share of urban population is growing in most OECD countries, but growth is higher in low- and middle-income countries. Across the globe, there were 5 799 cities with more than 100 000 inhabitants in 2015, providing a home to approximately 3 billion people.

While some cities and regions are growing strongly, others are shrinking. New projections show that of the OECD regions for which data are available, 57% are expected to lose population by 2050. This will shrink tax bases and make it more difficult to provide public services. Such challenges can be mitigated by automation and the use of new technologies for service provision, and policy makers in ageing and shrinking regions should use the possibilities of new technologies strategically.

Migration can mitigate population ageing because migrants tend to be younger than average in most regions. Policies to integrate migrants should be adapted to the profile of regions and of local migrant communities and have to involve a wide range of local stakeholders, including businesses and non-governmental organisations.

Demographic change will have asymmetric effects on subnational public finances within countries. It will affect rural remote areas particularly negatively, both on the spending and on the revenue side. Demographic developments and other megatrends, such as digitalisation, may also fundamentally change regions' tax bases via shifts in labour markets and business incomes, as well as changes in land values and housing prices. Subnational taxation and equalisation mechanisms will need to be adjusted accordingly.

Subnational governments are important actors in fighting climate change

The dominant environmental megatrend over the coming decades is climate change. Regional and local governments play a key role in fighting climate change and adapting to it, not least because they make 64% of all climate-related public investment.

Subnational governments pursue some of the most committed policies to fight climate change. Where their scope is limited by funding and capacity challenges, national governments should provide the necessary legal and financial means to allow subnational governments to pursue ambitious policies. To reflect the prominent role that subnational governments play in fighting climate change, their contributions to carbon emission reductions should be made more explicit through targets.

Global megatrends entail new investment needs

The current level of total investment is less than half of what is required to prepare for new technologies and address challenges such as ageing and climate change adequately. Subnational governments, which, on average, are responsible for 57% of public investment in OECD countries, will be leading actors in scaling up investments and ensuring a high return on them. To maximise fiscal capacity for investment, subnational governments should also seek external private financing where this option is appropriate.

Multi-level governance systems have to be adapted to meet future demands

Multi-level governance systems need to be strengthened and made more flexible to reflect regional disparities. Many OECD countries have moved towards asymmetric decentralisation in recent years. This trend is likely to continue and can help to adapt governance to differences in regional, metropolitan and local conditions and capacities.

Experimental governance that embeds learning-by-doing and trial and error processes into policy design can help governments to develop better approaches to address different local needs. Such approaches can be combined with asymmetric decentralisation, for example to develop new governance solutions for metropolitan areas.

Understanding future trends is essential to develop good policies. Across the OECD, national and subnational governments use several instruments to future-proof regional policy, ranging from data-driven forecasts to flexible foresight exercises. Using a broad range of tools is desirable to prepare for a wide range of plausible – although by definition uncertain – scenarios over different time horizons.

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