OECD Regional Outlook

REGIONS AND CITIES: WHERE POLICIES AND PEOPLE MEET

2014

OECD

OECD Regional Outlook 2014

REGIONS AND CITIES: WHERE POLICIES AND PEOPLE MEET

BETTER POLICIES FOR BETTER LIVES

This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:
OECD (2014), *OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet,* OECD Publishing.
doi: 10.1787/9789264201415-en

ISBN 978-92-64-20140-8 (print)
ISBN 978-92-64-20141-5 (PDF)

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Photo credits: © Max Lindenthaler/Shutterstock.com; © littleny/Shutterstock.com

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Foreword

Regions and cities are on the front lines in the battle to achieve inclusive growth. They are where policies meet people in their daily lives. This second edition of the OECD Regional Outlook *comes at a time when many regions and cities are still trying to bounce back from the financial crisis of 2008. Inequalities between places and among populations remain entrenched. Citizens are calling for a more inclusive form of growth. They want a more comprehensive approach to well-being, with policies that address daily concerns in people's lives, from ready access to jobs and education to safe and healthy environments and efficient and effective health care for young and old. Citizens also expect and demand that regions and cities be made as resilient as possible in the face of economic and demographic developments and natural disasters.*

Governments are seeking new ways to work effectively with their cities and regions. Ministers responsible for regional and urban development and local government met at the OECD's Territorial Development Policy Committee meeting at ministerial level, held on 5-6 December in Marseille, France. They highlighted several areas where the need for public action calls for greater dialogue between national governments, the OECD and regional and city leaders, together with the private sector and social partners.

Part I of this OECD Regional Outlook *makes the case for the contribution of regions and cities to overall economic performance. It describes the main trends at the regional and city level, notably on increasing income disparities, and provides a comprehensive overview of the institutional setting of regional policies across OECD countries and of ongoing territorial reforms. To address these challenges and opportunities, Part II responds directly to the call by ministers for OECD data and policy guidance on topics of priority for their national agendas. It addresses the issues involved in the management of public investment and the challenges of fitting policies to places. Policy makers need a clear vision of these realities to respond at the appropriate geographic scale, which does not always coincide with municipal and regional administrative boundaries.*

The Policy Forum, Part III of this Outlook, *gathered key policy makers, including the European Commissioner for Regional and Urban Policy, Johannes Hahn, and the United States' Secretary for Housing and Urban Development, Shaun Donovan, and prominent academics, Professors Paul Romer and Brandon Fuller of New York University, Amitabh Kundu of Jawarharlal Nehru University and Sir Peter Hall of University College, London, to focus on "the future of cities".*

This Regional Outlook *contributes a spatial dimension to an increasingly comprehensive and coherent package of structural policies to address the challenges faced by our societies in the aftermath of the crisis. The material presented here suggests how all levels of government can integrate place-sensitive approaches to improve overall policy outcomes.*

First, as a basic principle, policy must take better account of the places where people live and the issues that matter for their daily lives. This means looking beyond administrative boundaries to consider "functional" areas and to better understand the linkages between different types of regions. Second, there is potential for growth in all types of regions, but the policies to generate that *growth are not uniform. A new approach to rural development is needed that can recognise the real strengths and weaknesses of rural areas today, in particular their linkages with urban areas. "Getting cities right" implies a more strategic, integrated approach in the design and implementation of policies for urban areas. National governments need to move from narrowly defined urban policies that are limited to one or two issues to urban policy frameworks that address economic, social and environmental challenges in an integrated way.*

But identifying the right policies is only half the battle. Effective regional policies depend on good governance. Institutional and municipal reforms are a necessary complement to effective regional policies. Reducing fragmentation and increasing capacity at the sub-national level will improve service delivery and encourage more effective investment. Effective public investment – which is a key to unlocking growth in any region – requires substantial co-ordination across levels of government and capacity to bridge information, policy or fiscal gaps that often arise. In this regard, the OECD's newly developed Principles on Effective Public Investment across Levels of Government highlights the best practices in these areas.

We hope that this report can serve as a "guide" for policy makers who face the challenge of crafting and implementing better policies for regions and cities.

Angel Gurría
OECD Secretary-General

Acknowledgements

The *OECD Regional Outlook 2014* was supervised by Joaquim Oliveira Martins, and co-ordinated by Karen Maguire and Betty-Ann Bryce. The report was prepared by the Regional Development Policy Division of the Directorate for Public Governance and Territorial Development, under the direction of Rolf Alter. Contributions were received from Aziza Akhmouch, Rudiger Ahrend, Betty-Ann Bryce, Dorothée Allain-Dupré, Monica Brezzi, Claire Charbit, Isabelle Chatry, Jose-Enrique Garcilazo, Claudia Hulbert, Alexander Lembcke, Soo-Jin Kim, Karen Maguire, Joaquim Oliveira Martins, Oriana Romano, Marissa Plouin, Alexis Roberts, Abel Schumann, William Tompson and Paolo Veneri. Statistical support was provided by Eric Gonnard and Daniel Sanchez-Serra. Nicholas Bray, Aileen Edenholm Hopper, Victoria Elliott, Jennifer Allain, Kate Lancaster and Katherine Kraig-Ernandes provided editorial support. Erin Byrne and Ulrike Chaplar prepared the report for publication.

Contributions to the Policy Forum in Part II were made by Brandon Fuller, Deputy Director of the New York University Stern Urbanization Project and Paul Romer, Professor and Director of the New York University Stern Urbanization Project, Amitabh Kundu, Professor of Economics at the Center for the Study of Regional Development and Dean of the School of Social Services, Jawaharlal Nehru University, New Delhi; Shaun Donovan, Secretary for the United States Department of Housing and Urban Development; Johannes Hahn, European Commissioner of Regional and Urban Policy; and Sir Peter Hall, Professor of Urban Regeneration and Planning, University College, London. As the *Regional Outlook* was in production, we learned of the death of Sir Peter, long one of the world's leading urbanists and a scholar who combined cutting-edge academic research and direct engagement with policy, including an involvement with the OECD stretching back some 20 years. We are honoured to be publishing what is perhaps his last paper. We are grateful to Brandon Fuller, Paul Romer and to the World Bank for their permission to reproduce the paper "Urbanization as opportunity", previously published as a *World Bank Policy Research Working Paper*.

The Secretariat is also grateful to delegates to the OECD Territorial Development Policy Committee for valuable feedback on the draft.

Table of Contents

Part II

Special focus: Tools for more inclusive growth in regions and cities

Part III

The future of cities: A policy forum

Part IV

Country Notes

Tables

Figures

Reader's Guide

Definitions and methodology

Budget balance	deficit/surplus is defined as the net lending/net borrowing. It measures the difference between all expenditure and revenue.
Debt	based on the SNA, gross debt includes the sum of the following liabilities: currency and deposits (AF.2) + securities other than shares, except financial derivatives (AF.33) + loans (AF.4) + insurance technical reserves (AF.6) + other accounts payable (AF.7). Most debt instruments are valued at market prices. NB: The OECD definition differs from the one defined in the Maastricht Protocol, which is restricted to the sum of AF.2 + AF.33 + AF.4 (i.e. mainly borrowing).
Direct investment	is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period.
Expenditure	comprises current expenditure and investment expenditure (direct and indirect investment).
Expenditure by economic function	according to the 10 functions defined in the Classification of the Functions of Government (COFOG): general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; social protection.
Functional regions	are geographic areas defined by their economic and social integration rather than by traditional administrative boundaries. A functional region is a self-contained economic unit according to the functional criteria chosen (for example, commuting, water service or a school district).
Functional urban areas	are defined as densely populated municipalities (urban cores) and adjacent municipalities with high levels of commuting towards the densely populated urban cores (hinterland), according to the OECD-European Union (EU25) (EU) definition. Functional urban areas can extend across administrative boundaries. The OECD tracks functional urban areas of 50 000 inhabitants and more.
General government (S.13)	Includes four sub-sectors: central/federal government and their related public entities (S.1311); federated government ("states") and related public entities (S.1312); local government, i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each sub-sector (neutralisation of financial cross-flows).
Indirect investment	is defined as capital transfers, i.e. investment grants and subsidies in cash or in kind made by sub-national governments to other institutional units.
Investment	comprises both direct and indirect investments.
Metropolitan areas	are defined as those functional urban areas with a population of over 500 000. There are 275 metropolitan areas in the 29 OECD countries with data; of these, 77 have a population greater than 1.5 million.
OECD area	refers to the calculation of a "weighted" average at the OECD level, as opposed to an "unweighted" average between OECD countries.
Regional disparities	are measured by the difference between the maximum and the minimum regional values in a country (regional range) or by the Gini index, which gives an indication of inequality among all regions.
Regions	are classified by the OECD into two territorial levels that reflect the administrative organisation of countries. OECD's large regions (TL2) represent the first administrative tier of sub-national government, such as the Ontario region in Canada. OECD small (TL3) regions are contained within a TL2 region. For example, the TL2 region of Aquitaine in France encompasses five TL3 regions: Dordogne, Gironde, Landes, Lot-et-Garonne and Pyrénées-Atlantiques. In most cases, TL3 regions correspond to administrative regions, with the exception of Australia, Canada, Germany and the United States. TL3 regions have been classified as predominantly urban (PU), intermediate (IN), predominantly rural close to a city (PRC), and predominantly rural remote (PRR). Due to lack of information on the road network, the predominantly rural regions (PR) in Australia, Chile and Korea have not been classified as remote or close to a city.
Revenue	comprises tax revenue; transfers (current and capital grants and subsidies); tariffs and fees; property income and social contributions.
Sub-national government	is defined here as the sum of sub-sectors S.1312 (federated government) and S.1313 (local government). The data are not consolidated between the two sub-sectors.
Tax revenue	comprises taxes on production and imports (D2); current taxes on income and wealth (D5) and capital taxes (D91). It includes both own-source tax revenue (or "autonomous") and tax revenue shared between central and sub-national governments.

List of TL2 regions

For administrative boundaries, the OECD has classified two levels of geographic units within each member country. The higher level (territorial level 2 [TL2]) consists of 362 large regions, which correspond in most cases to the principal sub-national unit of government (states or provinces), while the lower (territorial level 3 [TL3]) comprises 1 802 smaller regions. For more information about OECD regional classification see *OECD Regions at a Glance 2013*.

ISO	Region
AUT	Burgenland (AT)
AUT	Lower Austria
AUT	Vienna
AUT	Carinthia
AUT	Styria
AUT	Upper Austria
AUT	Salzburg
AUT	Tyrol
AUT	Vorarlberg
AUS	New South Wales
AUS	Victoria
AUS	Queensland
AUS	South Australia
AUS	Western Australia
AUS	Tasmania
AUS	Northern Territory (NT)
AUS	Australian Capital Territory (ACT)
BEL	Brussels Capital Region
BEL	Flemish Region
BEL	Wallonia
CAN	Newfoundland and Labrador
CAN	Prince Edward Island
CAN	Nova Scotia
CAN	New Brunswick
CAN	Quebec
CAN	Ontario
CAN	Manitoba
CAN	Saskatchewan
CAN	Alberta
CAN	British Columbia
CAN	Yukon
CAN	Northwest Territories
CAN	Nunavut
CHE	Lake Geneva Region
CHE	Espace Mittelland
CHE	Northwestern Switzerland
CHE	Zurich
CHE	Eastern Switzerland
CHE	Central Switzerland
CHE	Ticino

ISO	Region
CHL	Tarapacá
CHL	Antofagasta
CHL	Atacama
CHL	Coquimbo
CHL	Valparaíso
CHL	O'Higgins
CHL	Maule
CHL	Bío-Bío
CHL	Araucanía
CHL	Los Lagos
CHL	Aysén
CHL	Magallanes y Antártica
CHL	Santiago Metropolitan
CHL	Los Rios
CHL	Arica y Parinacota
CZE	Prague
CZE	Central Bohemian Region
CZE	Southwest
CZE	Northwest
CZE	Northeast
CZE	Southeast
CZE	Central Moravia
CZE	Moravia-Silesia
DEU	Baden-Württemberg
DEU	Bavaria
DEU	Berlin
DEU	Brandenburg
DEU	Bremen
DEU	Hamburg
DEU	Hesse
DEU	Mecklenburg-Vorpommern
DEU	Lower Saxony
DEU	North Rhine-Westphalia
DEU	Rhineland-Palatinate
DEU	Saarland
DEU	Saxony
DEU	Saxony-Anhalt
DEU	Schleswig-Holstein
DEU	Thuringia
DNK	Capital (DK)

ISO	Region
DNK	Zealand
DNK	Southern Denmark
DNK	Central Jutland
DNK	Northern Jutland
EST	Estonia
ESP	Galicia
ESP	Asturias
ESP	Cantabria
ESP	Basque Country
ESP	Navarra
ESP	La Rioja
ESP	Aragon
ESP	Madrid
ESP	Castile and León
ESP	Castile-La Mancha
ESP	Extremadura
ESP	Catalonia
ESP	Valencia
ESP	Balearic Islands
ESP	Andalusia
ESP	Murcia
ESP	Ceuta
ESP	Melilla
ESP	Canary Islands
FIN	Western Finland
FIN	Helsinki-Uusimaa
FIN	Southern Finland
FIN	Eastern and Northern Finland
FIN	Åland
FRA	Ile de France
FRA	Champagne-Ardenne
FRA	Picardy
FRA	Upper Normandy
FRA	Centre (FR)
FRA	Lower Normandy
FRA	Burgundy
FRA	Nord-Pas-de-Calais
FRA	Lorraine
FRA	Alsace
FRA	Franche-Comté

ISO	Region
FRA	Pays de la Loire
FRA	Brittany
FRA	Poitou-Charentes
FRA	Aquitaine
FRA	Midi-Pyrénées
FRA	Limousin
FRA	Rhône-Alpes
FRA	Auvergne
FRA	Languedoc-Roussillon
FRA	Provence-Alpes-Côte d'Azur
FRA	Corsica
GRC	Northern Greece
GRC	Central Greece
GRC	Athens
GRC	Aegean Islands and Crete
HUN	Central Hungary
HUN	Central Transdanubia
HUN	Western Transdanubia
HUN	Southern Transdanubia
HUN	Northern Hungary
HUN	Northern Great Plain
HUN	Southern Great Plain
IRL	Border, Midland and Western
IRL	Southern and Eastern
ISR	Jerusalem District
ISR	Northern District
ISR	Haifa District
ISR	Central District
ISR	Tel Aviv District
ISR	Southern District
ISR	Judea & Samaria Area
ISL	Capital Region
ISL	Other Regions
ITA	Piedmont
ITA	Aosta Valley
ITA	Liguria
ITA	Lombardy
ITA	Abruzzo
ITA	Molise
ITA	Campania
ITA	Apulia
ITA	Basilicata
ITA	Calabria
ITA	Sicily
ITA	Sardinia
ITA	Province of Bolzano-Bozen
ITA	Province of Trento
ITA	Veneto

ISO	Region
ITA	Friuli-Venezia Giulia
ITA	Emilia-Romagna
ITA	Tuscany
ITA	Umbria
ITA	Marche
ITA	Lazio
JPN	Hokkaido
JPN	Tohoku
JPN	Northern-Kanto, Koshin
JPN	Southern-Kanto
JPN	Hokuriku
JPN	Toukai
JPN	Kansai region
JPN	Chugoku
JPN	Shikoku
JPN	Kyushu, Okinawa
KOR	Capital Region (KR)
KOR	Gyeongnam Region
KOR	Gyeonbuk Region
KOR	Jeolla Region
KOR	Chungcheong Region
KOR	Gangwon Region
KOR	Jeju
LUX	Luxembourg
MEX	Aguascalientes
MEX	Baja California Norte
MEX	Baja California Sur
MEX	Campeche
MEX	Coahuila
MEX	Colima
MEX	Chiapas
MEX	Chihuahua
MEX	Federal District (MX)
MEX	Durango
MEX	Guanajuato
MEX	Guerrero
MEX	Hidalgo
MEX	Jalisco
MEX	Mexico
MEX	Michoacán
MEX	Morelos
MEX	Nayarit
MEX	Nuevo León
MEX	Oaxaca
MEX	Puebla
MEX	Queretaro
MEX	Quintana Roo
MEX	San Luis Potosí

ISO	Region
MEX	Sinaloa
MEX	Sonora
MEX	Tabasco
MEX	Tamaulipas
MEX	Tlaxcala
MEX	Veracruz
MEX	Yucatán
MEX	Zacatecas
NLD	North Netherlands
NLD	East Netherlands
NLD	West Netherlands
NLD	South Netherlands
NOR	Oslo and Akershus
NOR	Hedmark and Oppland
NOR	South-Eastern Norway
NOR	Agder and Rogaland
NOR	Western Norway
NOR	Trøndelag
NOR	Northern Norway
NZL	North Island (NZ)
NZL	South Island (NZ)
POL	Lódźkie
POL	Mazovia
POL	Lesser Poland
POL	Silesia
POL	Lublin Province
POL	Podkarpacia
POL	Swiętokrzyskie
POL	Podlaskie
POL	Greater Poland
POL	West Pomerania
POL	Lubusz
POL	Lower Silesia
POL	Opole region
POL	Kuyavian-Pomerania
POL	Warmian-Masuria
POL	Pomerania
PRT	North (PT)
PRT	Algarve
PRT	Central Portugal
PRT	Lisbon
PRT	Alentejo
PRT	Azores (PT)
PRT	Madeira (PT)
SWE	Stockholm
SWE	East Middle Sweden
SWE	Småland with Islands
SWE	South Sweden

ISO	Region
SWE	West Sweden
SWE	North Middle Sweden
SWE	Central Norrland
SWE	Upper Norrland
SVN	Eastern Slovenia
SVN	Western Slovenia
SVK	Bratislava Region
SVK	West Slovakia
SVK	Central Slovakia
SVK	East Slovakia
TUR	Istanbul
TUR	Tekirdag, Edirne, Kirklareli
TUR	Balikesir, Çanakkale
TUR	Izmir
TUR	Aydin, Denizli, Mugla
TUR	Manisa, Afyonkarahisar, Kütahya, Usak
TUR	Bursa, Eskişehir, Bilecik
TUR	Kocaeli, Sakarya, Düzce, Bolu, Yalova
TUR	Ankara
TUR	Konya, Karaman
TUR	Antalya, Isparta, Burdur
TUR	Adana, Mersin
TUR	Hatay, Kahramanmaras, Osmaniye
TUR	Kirikkale, Aksaray, Nigde, Nevşehir, Kirşehir
TUR	Kayseri, Sivas, Yozgat
TUR	Zonguldak, Karabük, Bartin
TUR	Kastamonu, Çankiri, Sinop
TUR	Samsun, Tokat, Çorum, Amasya
TUR	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüshane
TUR	Erzurum, Erzincan, Bayburt
TUR	Agri, Kars, Igdir, Ardahan
TUR	Malatya, Elazig, Bingöl, Tunceli
TUR	Van, Mus, Bitlis, Hakkari
TUR	Gaziantep, Adiyaman, Kilis
TUR	Sanliurfa, Diyarbakir
TUR	Mardin, Batman, Sirnak, Siirt
GBR	North East England
GBR	North West England
GBR	Yorkshire and the Humber
GBR	East Midlands
GBR	West Midlands
GBR	East of England
GBR	Greater London
GBR	South East England
GBR	South West England
GBR	Wales
GBR	Scotland
GBR	Northern Ireland
USA	Alabama
USA	Alaska
USA	Arizona
USA	Arkansas
USA	California
USA	Colorado
USA	Connecticut
USA	Delaware
USA	District of Columbia
USA	Florida
USA	Georgia
USA	Hawaii
USA	Idaho
USA	Illinois
USA	Indiana
USA	Iowa
USA	Kansas
USA	Kentucky
USA	Louisiana
USA	Maine
USA	Maryland
USA	Massachusetts
USA	Michigan
USA	Minnesota
USA	Mississippi
USA	Missouri
USA	Montana
USA	Nebraska
USA	Nevada
USA	New Hampshire
USA	New Jersey
USA	New Mexico
USA	New York
USA	North Carolina
USA	North Dakota
USA	Ohio
USA	Oklahoma
USA	Oregon
USA	Pennsylvania
USA	Rhode Island
USA	South Carolina
USA	South Dakota
USA	Tennessee
USA	Texas
USA	Utah
USA	Vermont
USA	Virginia
USA	Washington
USA	West Virginia
USA	Wisconsin
USA	Wyoming

Acronyms and abbreviations

BRT	Bus rapid transit
BSOL	Budgetary Stability and Financial Sustainability (Spain)
CAF	Council for the Australian Federation
CBA	Cost-benefit analysis
CO_2	Carbon dioxide
COAG	Council of Australian Governments
DATAR	*Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale* Inter-ministerial delegation to promote regional attractiveness and development (France)
DOT	Department of Transportation (United States)
EC	European Commission
EPA	Environmental Protection Agency (United States)
ERDF	European Regional Development Fund
EU	European Union
EUR	Euros
FUA	Functional urban area
GBP	British pound sterling
GDP	Gross domestic product
GFCF	Gross fixed capital formation
GHG	Greenhouse gas
GIACC	Global Infrastructure Anti-Corruption Centre
GNOCDC	Greater New Orleans Community Data Center (United States)
GVA	Gross value added
HDI	Human Development Index
HHS	Department of Health and Human Services (United States)
HUD	Department of Housing and Urban Development (United States)
HVHR	High value high risk
IAB	Institute for Employment Research (Germany)
IN	Intermediate (region)
INEGI	National Institute of Statistics and Geography (Mexico)
LDR	Less developed regions
LEED	Leadership in Energy and Environmental Design
LIHTC	Low Income Housing Tax Credit (United States)
M&E	Monitoring and evaluation
MDR	More developed regions
MOT	*Mission Opérationnelle Transfrontalière* Service to cross-border region areas (France)
MPO	Metropolitan planning organization (United States)
NGO	Non-governmental organisation
PIMP	Public Investment Management Performance
PISA	Programme for International Student Assessment
PM_{10}/ $PM_{2.5}$	Particulate matter (concentration of fine particles in the air)
PMR	Product market regulation
PPP	Public-private partnerships
PR	Predominantly rural (region)
PRC	Predominantly rural (region) close to a city

PRR	Predominantly rural remote (region)
PU	Predominantly urban (region)
R&D	Research and development
S&L	State and local
SMEs	Small and medium enterprises
SNCF	*Société nationale des chemins de fer français* French national railway company
SNG	Sub-national government
SUBDERE	Sub-secretariat for Regional and Administrative Development (Chile)
TDPC	Territorial Development Policy Committee
TFP	Total-factor productivity
TGV	*Train à Grande Vitesse* French high-speed train
TIGER	Transportation Investment Generating Economic Recovery (United States)
TL2	Territorial level 2
TL3	Territorial level 3
TODs	Transit-oriented developments
URGD	Urban-rural growth differential
USD	American dollar
USPLS	US Public Land Survey
WHO	World Health Organisation
WUP	World Urbanization Prospects

Editorial

Get cities right! The new policy imperative

This issue of the *Regional Outlook* has a special focus on cities. And for a good reason: in OECD countries, two out of three people live in cities with populations of 50 000 and above. This share reaches 90% for a country such as Korea. And nearly half of OECD residents live in cities of 500 000 or more. At global level, the trend is even stronger: over half of the world's population now lives in urban areas, and the United Nations estimates the global urbanisation rate will reach 60% by 2030 and 70% by 2050.

If we focus on the geographical and economic dimensions of cities, independently of administrative boundaries, we can observe that a large share of the so-called "rural" population actually lives in close proximity to cities. These urban spaces, of different sizes and including both dense urban settlements and low-density but highly connected intermediate and rural regions, shape our countries, our economies and our ways of living. These are the places where policies and people meet.

The implications for policies are significant, in some ways even dramatic. In the wealthier OECD countries, most of the potential for growth does not lie, as it used to, in the increase of capital and labour, but rather in a better use of existing production factors – what economists call "total-factor productivity" or TFP. One might imagine that TFP must be closely related to the way economies are organised, including the way they are organised across space.

Surprisingly, though, most structural policies intended to boost the TFP potential of our economies are often "blind" to geography. How can cities and regions contribute to increase productivity in our economies? Establishing greater visibility for this policy agenda is one of the main contributions of the OECD *Regional Outlook 2014*.

Newly available urban data and new approaches to data analysis presented in this *Regional Outlook* now allow for a better understanding of how cities work as engines for innovation, prosperity and growth. Productivity is higher in cities, and so are wages. Larger cities serve as hubs or service centres through which trade, financial and other flows are channelled. OECD estimates suggest that the so-called "agglomeration benefits" of cities in the form of higher productivity and the resulting wage premia are of the order of 2%-5% for a doubling in population size. Thus, between a city of, say, 100 000 inhabitants, and a city of 6 million, the productivity gap could reach 20%-30%. As we learn more about the impact of cities on national economies and people's lives, we have an unparalleled opportunity to plan ahead and promote safe, sustainable and inclusive living environments for future generations.

Cities can boost prosperity if they are well organised

Cities are major contributors to national economic performance. Between 2000 and 2010, 270 OECD "metropolitan areas" of more than 500 000 inhabitants generated more than 60% of OECD countries' overall economic growth. Cities also have positive spill-over effects on the areas around them. In OECD countries, regions close to large metropolitan areas grew more than a half of a percentage point faster on average between 1995 and 2010, compared with regions farther away from such big cities – roughly equivalent to a ten percentage point difference in cumulative growth over the period.

But cities also have costs. Just as wages tend to be higher in cities, so do prices. Housing and food generally cost more, and there are other non-monetary costs such as air pollution, noise levels and the time taken to travel from home to work. Well-organised cities can reduce some of these costs, for example by efficient public transport to reduce travelling time and pollution from cars.

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 produce synergies and complementarities.

Poorly organised cities lose potential agglomeration benefits, as demonstrated by some of the data presented in the *Regional Outlook 2014*. Mexico City, for example, could have higher levels of productivity given the size of its population. London's productivity premium is outstanding, but more striking still is the weak performance of most other UK metropolitan areas. Few other cities appear to benefit from agglomeration economies or possible positive spill-overs from London. This suggests room to improve policies, starting at the national government level, but also addressing sub-national levels.

City governance needs to be re-evaluated

Effective urban and regional policy calls for co-ordination among many different actors, an area in which, until recently, many OECD 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 a wide range of national policies affecting cities can eliminate tensions between various strands of national policies and give clearer signals to city leaders, empowering them to work more effectively with each other, with higher levels of government, and with the private sector.

Empowering cities will in many cases require more efficient city governance. This is a major challenge facing governments in OECD countries and elsewhere. Indeed, most OECD countries have rather fragmented systems of city governance, particularly for large metropolitan areas. Across the OECD there are around 140 000 municipalities and local governments (for example, around 1 700 for Chicago; 1 400 in Paris). The system is outdated, as many administrative boundaries reflect historical settlement patterns and socio-political realities that are no longer relevant to today's world. The system is also inefficient. Municipal fragmentation adds to costs and puts a brake on growth. As the data presented in this *Regional Outlook* show, less fragmented metropolitan areas have experienced on average stronger economic growth than more fragmented metropolitan areas over the past decade. Metropolitan areas with appropriate governance systems experience less sprawl and result in greater citizen satisfaction, particularly with transport systems.

Reducing municipal fragmentation may boost city productivity just as much as increasing the size of the urban agglomeration. Better governance systems can help smaller or intermediate cities replicate the scale effect of large metropolitan areas. By extension, failure to address metropolitan governance challenges can effectively offset the economic benefits of agglomeration – cities can suffer the costs of size and density while forgoing many of the advantages.

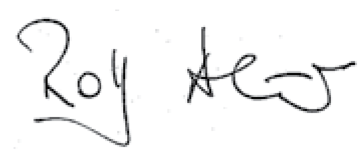
Preparing cities for the future

The OECD *Regional Outlook 2014* describes initiatives already taken in OECD countries in response to these challenges and offers ideas for the way ahead. Adapting cities for the future, in many OECD countries, will mainly be a task of improvement and reinforcement.

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. The basic structures are largely already in place, leaving less room for major changes.

In developing countries, by contrast, there is still everything to play for. Existing cities will need to be modified and expanded, and new cities will need to be built. Preparing to house several billion more people over the next century is a task that neither city authorities nor national governments can take on alone. The choices made for cities today by governments at both national and sub-national levels will have consequences far into the future.

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 work together to "get cities right".



Rolf Alter
Director, OECD Public Governance
and Territorial Development Directorate

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.

PART I

Trends in regions and cities: Evidence, policies and reforms

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

PART I

Chapter 1

Regional trends across the OECD

This chapter reviews recent trends in regional and city performance and their impact on inclusive growth. While many regions and cities are on the road to recovery, lingering traces of the crisis remain, in terms of jobs, economic growth and public finances. The crisis has also exacerbated inequality between people and places. Some common growth drivers and bottlenecks can be found across OECD regions, but only a place-based approach can fully do justice to a region's geographical challenges and opportunities.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Key issues

- The economic crisis of 2008 has widened disparities in wealth between regions in half of OECD countries. Where they have increased, this is generally due to a greater drop in performance in the poorest regions relative to the wealthiest regions. Where they have declined, this is generally due to poorer performance in wealthier regions, rather than poorer regions' ability to catch up. Regional disparities in access to jobs remain one of the biggest development challenges. The crisis has also reinforced regional disparities in unemployment, particularly for the most vulnerable (the youth and long-term unemployed).
- Fiscal pressures from social expenditures have reduced public investment and increased sub-national debt. In real terms, the annual volume of sub-national investment was 4% lower in 2012 than in 2007. Sub-national gross debt per capita rose by 14% between 2007 and 2012, an increase equivalent to around USD 1 000 per capita.
- Well-being considerations, which go beyond income, show stark variations at localised levels, such as in terms of health, infant mortality and air pollution. For example, life expectancy in one country varies by 18 years between the region with the highest life expectancy and the region with the lowest life expectancy. Access to hospital beds can vary by a factor of three between regions in many countries.
- The crisis affected urban and rural regions in different ways. Regions classified as predominantly rural experienced a lower decrease in gross domestic product (GDP) per capita than regions classified as predominantly urban (a -0.2% compared to -0.6% decrease per year for the period 2008-10). The growth patterns of rural regions are more varied than those of their urban and intermediate counterparts. Rural areas closer to cities have a greater variability in growth patterns. Their fate is often driven by their economic and demographic linkages with urban areas.

Moving towards more inclusive growth

As OECD member countries strive to return to a growth path, they are under increasing pressures from citizens for greater inclusiveness. Many of the macroeconomic and structural tools at governments' disposal have hit their limits. Trust in government has also suffered. Public budgets in many countries, regions and cities are still under strain, and sub-national governments face tough choices for spending cuts, whether by reducing teaching staff, closing hospitals or deferring maintenance of ageing infrastructure. The responses to these choices today will determine the growth opportunities of tomorrow.

National governments need to better exploit the growth potential of their regions and cities. The opportunities for growth are often unevenly distributed across a country. Service-intensive capitals face a different set of issues from manufacturing cities that are undergoing restructuring. Some cities facing common challenges have found paths to reconversion, but others, like Detroit, continue to stumble. Among rural areas, some are booming thanks to their natural resources, while others benefit from the expansion of urban areas. Meanwhile, others continue to suffer because of the loss of a major employer, their shallow labour markets or their remote location.

By getting cities right (Table 1.1), governments can serve a greater share of the population and economy. Cities are an important policy target for national economies. Cities of all sizes have a vital role to play in their respective regional and national contexts. The urban experience depends on size and settlement patterns. Many economic, social and environmental challenges can best be addressed at the urban level.

Table 1.1. **Getting cities right: The OECD perspective**

Moving from	Towards
An administrative logic, where cities are seen as administrative entities, solving problems within boundaries, even if the impact extends beyond	A functional logic, where cities are seen as functional economic areas, and solutions need to be adapted to the area of impact
Problem-driven, with a focus on issues such as air pollution, congestion, poor economic performance, failing neighbourhoods	Strategic, with a focus on opportunities (e.g. how cities of all sizes can grow and contribute to national policy objectives)
A narrowly defined urban agenda (e.g. national urban policies limited to one or two urban issues, such as infrastructure provision or revitalising distressed neighbourhoods)	A holistic approach (with national government awareness of the full range of policies that can profoundly shape urban development)
A silo approach, with sectoral, fragmented responses to specific challenges (e.g. transport, land use, water, waste, economic development)	Integrated approaches to cross-cutting urban challenges, based on co-ordinating economic, social and environmental policies (e.g. improving the quality of life and citizens' well-being, and green growth strategies)

Note: See Chapters 2 and 5 for more information regarding governance of urban systems.

New tools for a new vision of cities

Policy makers need to view these economic and social realities through the lens of the right geographic scale to identify appropriate policy packages. National policy is typically based on national averages that do not represent any particular region or city. Once the viewing lens is adjusted to the right scale, it becomes easier to understand the most pressing challenges of different places and how to best to address them. While some issues may be shared across a country, others require complementary policies that vary from place to place. While this may sound self-explanatory, from a national policy perspective it is not easy to implement, and requires relevant data and indicators, policy approaches, and co-ordinated responses with sub-national governments. For example, policies to target high school drop-outs in cities may need to be related to social considerations, rather than physical accessibility, while in rural areas, the large distances from high school may discourage school attendance and call for additional transport solutions.

New tools are needed to understand what influences well-being in the places where people live and work. Typically, data for policy is gathered within traditional administrative units, but functional regions do not always fit neatly into these borders. Without fine-grained data, governments are not as well equipped to provide transportation that reduces commuting time and environmental impact. Schools and hospitals may not be optimally located. Well-being depends on individuals, but also on the conditions in the location where they live. To distinguish the important issues, policy makers need to consider what people view as most important. While well-being is an individual determination, people generally prefer to have access to jobs without enduring a two-hour commute or living in a location with high crime. What matters for well-being is a key issue for sub-national governments, which are closer to their residents, and can address and thereby inform national policy.

The continued impact of the crisis on OECD cities and regions

The crisis affected urban and rural regions in different ways. Rural areas, particularly those farthest from cities, suffered most in terms of unemployment, while urban regions had to deal with output (GDP). Regions classified as predominantly rural experienced a lower decrease in GDP per capita than regions classified as predominantly urban (a -0.2% compared to -0.6% decrease per year for the period 2008-10).[1]

Resilience to the crisis was also not uniform across all types of region or cities in a country (Table 1.2). For example, in Denmark, the regions that have recovered the most relative to pre-crisis levels are those near the capital, Copenhagen. In other countries as well, the crisis has reinforced existing inequalities, as reported in France, Luxembourg and Poland, for example. In Chile, an analysis by city reveals that within a region, some cities experienced less of an impact from the crisis than their respective region, and in other cases, a region's recovery was stronger than that of the city. In yet other countries, such as Germany, Switzerland and Sweden, no clear regional pattern exists among the best-performing regions, with both urban and rural areas being among the most resilient.

Increased disparities in GDP per capita among regions

The GDP per capita gap among regions has grown in half of OECD countries since the crisis. Inter-regional disparities in GDP per capita increased in 20 out of 33 OECD countries during 1995-2010, as measured by the Gini index of inequality among regions.[2] During 2007-10, as the crisis unfolded, the gap between the top and bottom 10% of regions grew most in the Slovak Republic, Denmark, Australia and Poland (between 6 and 15 percentage points) (Figure 1.1). Strikingly, this group includes both countries severely affected by the downturn and countries that largely escaped it (Australia and Poland did not experience recessions). The crisis did bring about a reduction in the inter-regional decline ratio in a substantial number of OECD countries, including some where it had been rising before 2007/8. However, as is clear from Figure 1.1, the most common source of convergence was an even sharper slowdown in wealthier regions, rather than an improvement in the performance of the poorer ones.

Only in developing countries such as India and the People's Republic of China are both richer and poorer regions growing and the poorer truly catching up.

Increased regional unemployment

Unemployment remains one of the biggest regional development challenges. The overall unemployment rate in the OECD area grew from 5.6% in 2007 to 8% in 2013. The range between rates among regions in the OECD was 32 percentage points, almost twice as high as the difference in rates across OECD countries (18 percentage points). The crisis has actually decreased the Gini index of regional unemployment, but this is not necessarily positive news, in the sense that it is often due to the worsening situation even in the leading regions (OECD, 2013b).

Inter-regional differences for the most vulnerable of the unemployed (youth and long-term) are larger than for unemployment more generally (Figure 1.2). In almost half of OECD regions considered, one-third of the unemployed were long-term unemployed, meaning that they had been looking for work for more than a year (OECD, 2013b). Overall rates for youth unemployment[3] are around double the rates of overall unemployment (12.2% in 2007 and over 16% in 2012). Spain has among the highest inter-regional variation in youth unemployment rates, with a gap of 30 percentage points between the best and worst-off regions. Andalusia

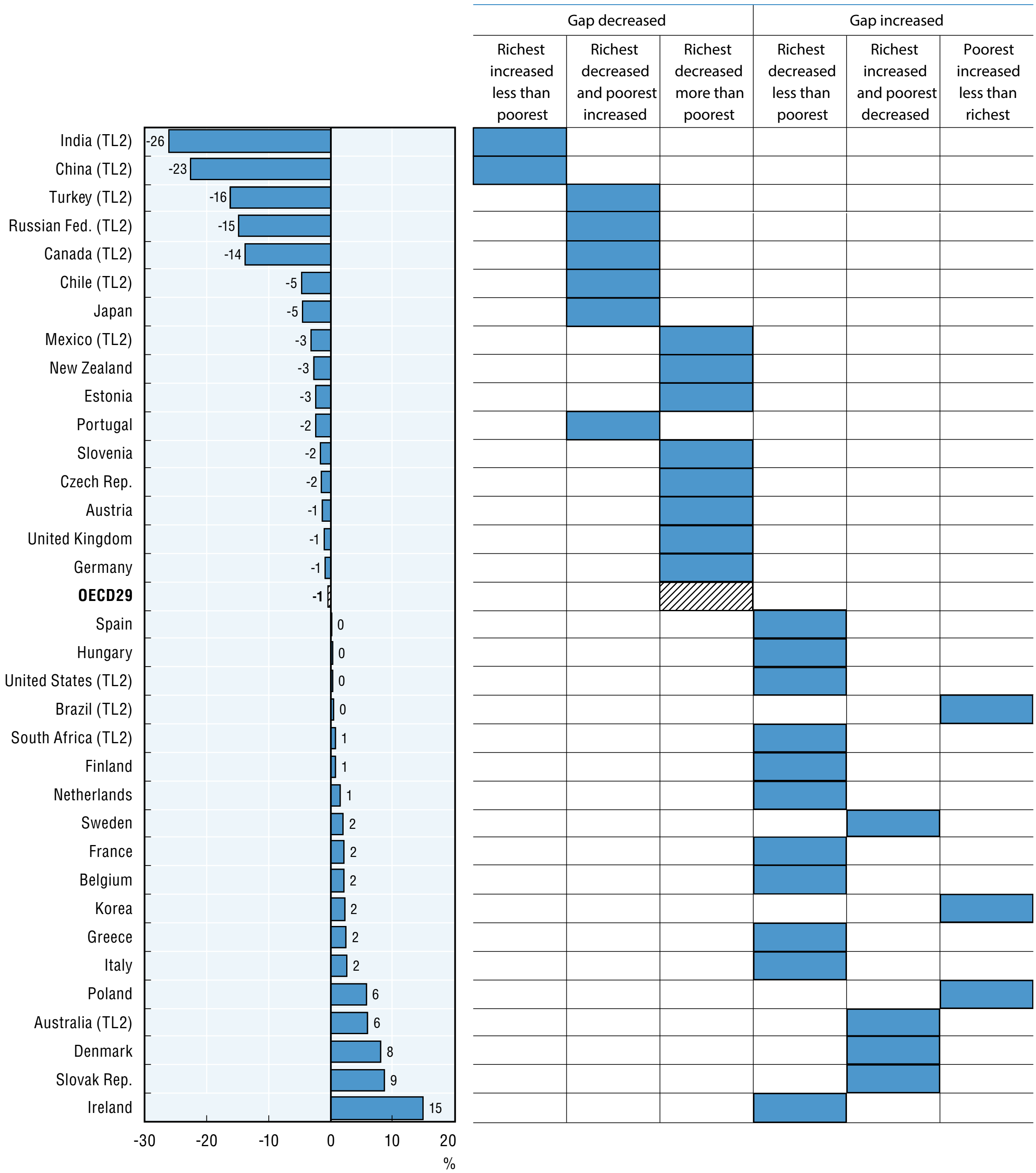
Table 1.2. **Regional effects of the crisis: Country by country**

Country	Variations in response to the crisis across regions and cities
Chile	Most regions in the north of the country suffered an economic contraction of greater magnitude than the national average in 2008-09. However, in 2009-10, most regions had positive growth rates, with the exception of a region with intensive copper mining and a region affected by natural disaster (earthquake, tsunami). In 2010-11, the recovery was most difficult for regions with economies based on copper mining, since they experienced negative growth rates.
Denmark	Denmark's regions have shown significant variations in their ability to recover to 2007 levels of GDP. Those that recovered the fastest are those that had the highest initial level of GDP per capita. In employment, the differences are less pronounced. Peripheral areas, both urban and rural, experienced a greater decline in employment compared to those in central locations.
Estonia	After a period of strong growth from 2004-08, the crisis revealed important regional disparities, notably in GDP. However, the aftermath of the crisis has somewhat dampened the inter-regional imbalances, given a drop in the performance of the regions that performed the best before the crisis.
France	The crisis hit all of France, and reinforced structural disparities in the labour market, hitting hardest the regions that were already performing poorly. Industrial employment has suffered, and the areas that have weathered the crisis best are those with an over-representation of high-skilled workers, generally in metropolitan areas. Only four French regions have seen their GDP bounce back to above 2007 levels.
Germany	Germany's cities and counties have responded unevenly to the crisis. Around 12% of counties and cities saw no negative developments in 2008, 2009 or 2010, but 6% had a steady drop in GDP. In between the two extremes, other cities and counties had varying degrees of recovery. Those with a strong automotive sector appear to have recovered well, accounting for five of the top seven performing counties as measured by the ratio of GDP in 2010 to GDP in 2008.
Greece	Greece has generally suffered acutely from the crisis, but clear inter-regional differences remain. Based on a range of indicators, its continental regions appear more vulnerable to recessionary shocks, including metropolitan areas such as Athens and Thessaloniki. Certain islands, as well as northern and northwestern Greece, appear more resilient.
Italy	The employment situation varies considerably across Italy, some areas maintaining a sound performance and others strongly affected by the crisis. This is largely due to different contexts and sectorial specialisations, even within the same region.
Luxembourg	Despite Luxembourg's small size, regional disparities in employment have increased. The municipalities most affected by unemployment in 2006 have suffered the greatest increase in unemployment in the last five years. Generally, the southern part of the country and the urban areas have been the most affected.
Mexico	Mexico's GDP and global index of labour productivity declined during the crisis, but have since exceeded pre-crisis levels. Mexico's strong ties with the US market and the associated decline in remittances have mainly hurt rural regions, with a consequent increase in child labour and a drop in school attendance.
Norway	Regional impacts in Norway were less notable in the recent crisis than in the stronger downturn in the first half of the 1990s. There is no clear rural-urban pattern, (using the OECD typology) in the differential impacts of the 2008 crisis.
Poland	The highest growth in GDP per capita has occurred in areas with a higher level of economic development, including major metropolitan areas. Urban areas and large cities continue to have higher levels of income, education and health outcomes, although rural and less-developed regions did experience significant improvement from 2007 to 2010.
Portugal	The crisis brought a drop in investment and substantial increases in unemployment across Portugal. However, the relative position of the regions changed significantly with respect to unemployment. The highest unemployment is noted in the Algarve (tourism) and Lisbon. These changes are closely related to regional specialisation of economic activity.
Spain	The drop in GDP was not uniform across different regions (autonomous communities). Between 2008 and 2012, GDP fell more than 2% in three regions, between 1% and 2% in eight regions and less than 1% in six regions.
Sweden	Of Sweden's 21 small regions (counties), only 2 did not suffer a decline in GDP after 2008, and only 4 counties failed to register a drop in GDP per employee. By 2010, 18 of the 21 had recovered their 2008 GDP levels, but only 4 were at or above the pre-crisis GDP trend. No clear pattern to regional success can be discerned. Of the 10 counties with the highest ratio of 2010 regional GDP to that of 2008, some are densely populated, with industrial diversification, and some have a small, scattered population and a relative dependency on raw materials industries.
Switzerland	Between 2008 and 2009, changes in GDP at the level of Switzerland's cantons (small regions) varied from -6.5% to +2.5%. Unemployment, low by international standards, shows no clear urban-rural divide across large regions for the period 2002-12.
Turkey	From 2008 to 2011, the fall in gross value added (GVA) per capita was more pronounced in exporting regions such as TR10 (Istanbul) and TR41 (Bursa, Eskisehir, Bilecik). By contrast, some lagging regions of Eastern and Southeastern Anatolia managed to increase per capita GVA during the crisis.
United Kingdom	From 2007 to 2011, London's GVA grew by a nominal 12.4%, as compared to between 2.3% and 6.8% in other UK regions. London has also seen the largest increase in jobs, with an increase of 449 000 workforce jobs (9.4%) in London between June 2007 and June 2013. For the rest of England over the same period, the increase was only 1.4%. Areas of the devolved administrations (Northern Ireland, Scotland and Wales), however, all experienced a drop in the number of workforce jobs.

Source: Individual country information provided by country sources as citied in OECD (2013), "The economic crisis and recovery in OECD regions and cities", a note prepared for the Territorial Development Policy Committee (TDPC) Ministerial Meeting, 5-6 December, Marseille, France, *www.oecd.org/regional/ministerial/Monitoring-the-Crisis.pdf*.

Figure 1.1. **The crisis has increased the gap between the richest and poorest regions in half of OECD countries**

Percentage change in the ratio between GDP per capita of the 10% richest and 10% poorest regions, 2008 and 2010

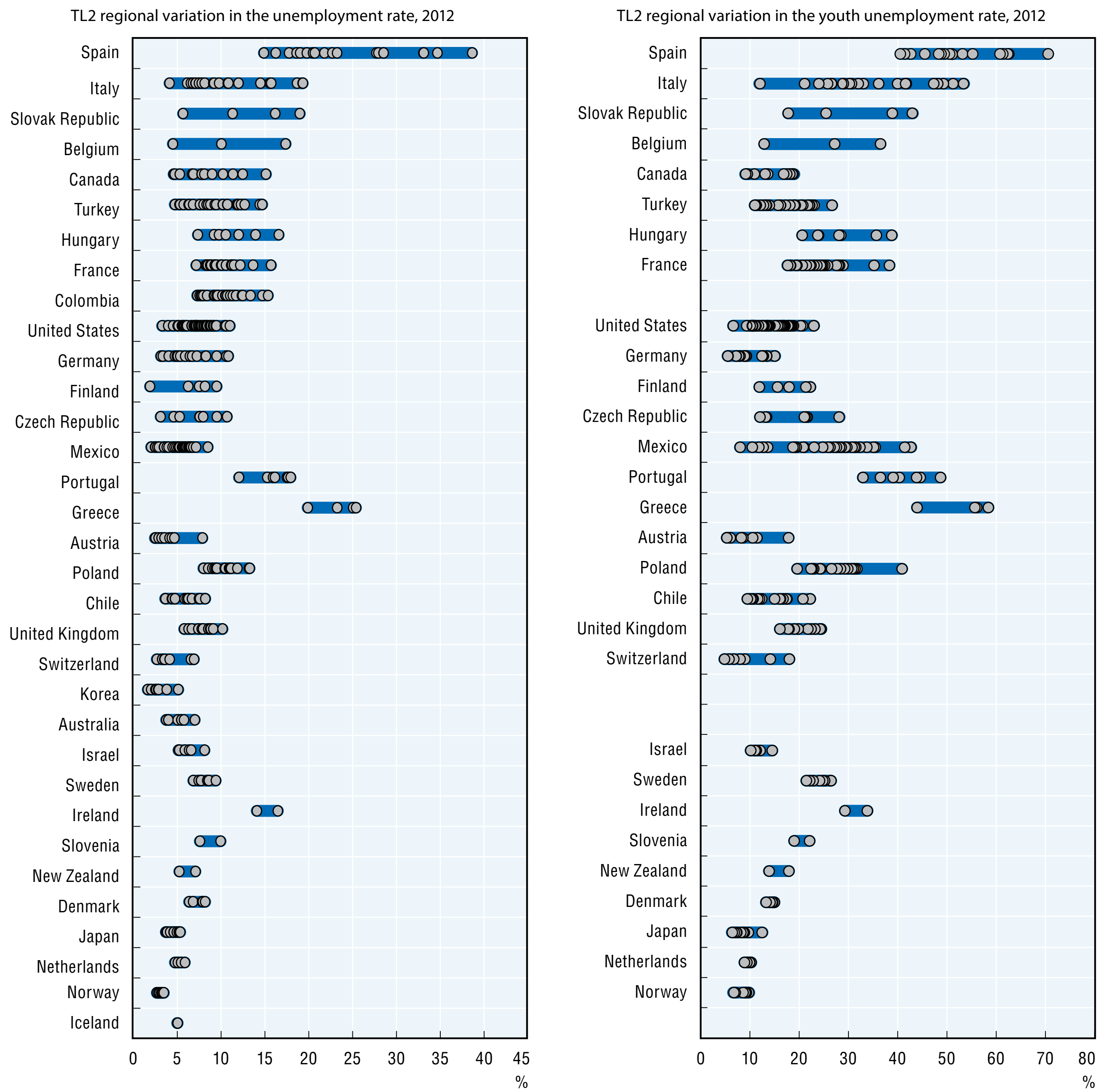


Notes: Beginning year: India, China, Mexico, Brazil: 2007. Regional GVA data for Turkey. Regional GDP is not available for Iceland and Israel. Regions are at TL3 level (second level down from national level), unless otherwise noted.

Source: *OECD (2013), OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink http://dx.doi.org/10.1787/888933106249

Figure 1.2. **Unemployment rate differences call for adapted regional solutions**



Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en.*

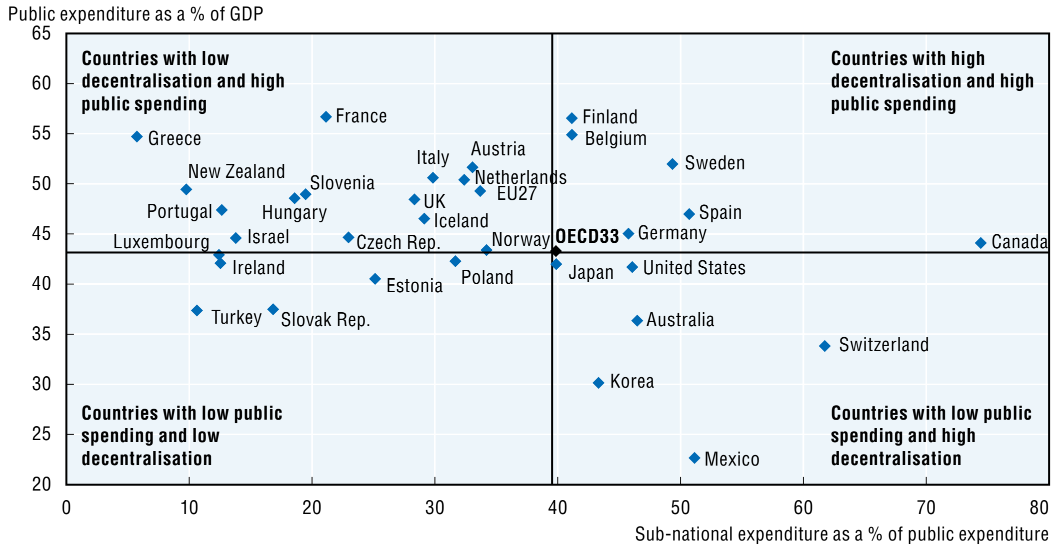
StatLink http://dx.doi.org/10.1787/888933106268

and Catalonia alone contributed over 40% of the increase in the population of unemployed youth over the period 2007-12. Catalonia stands out for its notably greater share of new youth unemployment relative to the size of its youth population.

Fewer resources for public investment

Sub-national governments play a significant role in public finance (Figure 1.3). Public expenditure accounts for a large share of many OECD economies, at 43.2% of GDP, and the sub-national share of that expenditure is around 40%. Sub-national governments are

Figure 1.3. **Public spending versus decentralisation: Importance of sub-national governments in the economy, country by country**



Source: Based on data from OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy.*

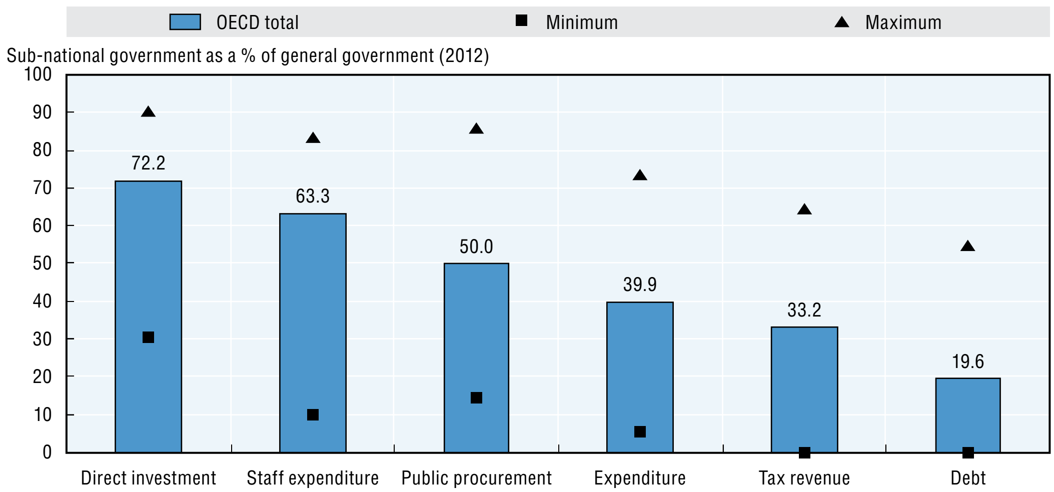
StatLink http://dx.doi.org/10.1787/888933106287

responsible for significant shares of different aspects of public finance. Totals of public spending, and the share shouldered by sub-national governments, vary considerably. For example, public spending in Greece and Belgium accounts for about the same share of the economy, around 55%. However, sub-national governments in Greece account for only 5.6% of public spending, while in a federal context like Belgium's, the figure is 41%. In Mexico, 51.8% of public expenditures are the responsibility of state and local governments, but overall public spending is only 22.8% of GDP. By contrast, Spanish regional and local governments are also responsible for just over half of all public expenditures (50.7%) but public spending represents 47% of GDP, more than double what it is in Mexico. There are also differences in discretionary expenditure for sub-national governments. In some cases, this is mandated, earmarked or passed through from a central government. As a result, the degree of sub-national autonomy in actual spending choices varies by country and sector.[4]

Beyond public expenditure, sub-national governments are also responsible for half of public procurement, collecting one-third of tax revenue (33.2%), and accounting for around one-fifth of public debt (19.6%) (Figure 1.4). The majority of public sector workers are employed at the sub-national level, with 63.3% of government personnel expenditure borne by sub-national governments. This has important implications for the quality and efficiency of public services and investment. In addition, of the almost USD 1.2 trillion in direct public investment across the OECD area, 72.2% was borne by sub-national governments in 2012.[5] This sub-national share represents 1.9% of OECD GDP. While public investment is a smaller share of the economy than public spending more generally, it is an area of expenditure subject to more discretion. Furthermore, it requires greater consideration of the specific needs of a region and has many short- and long-term consequences for regional competitiveness and individual well-being.

Figure 1.4. **Sub-national governments play a key role in public finances**

Share of sub-national government in total government



Source: Based on data from OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy* and OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 10 September 2013).

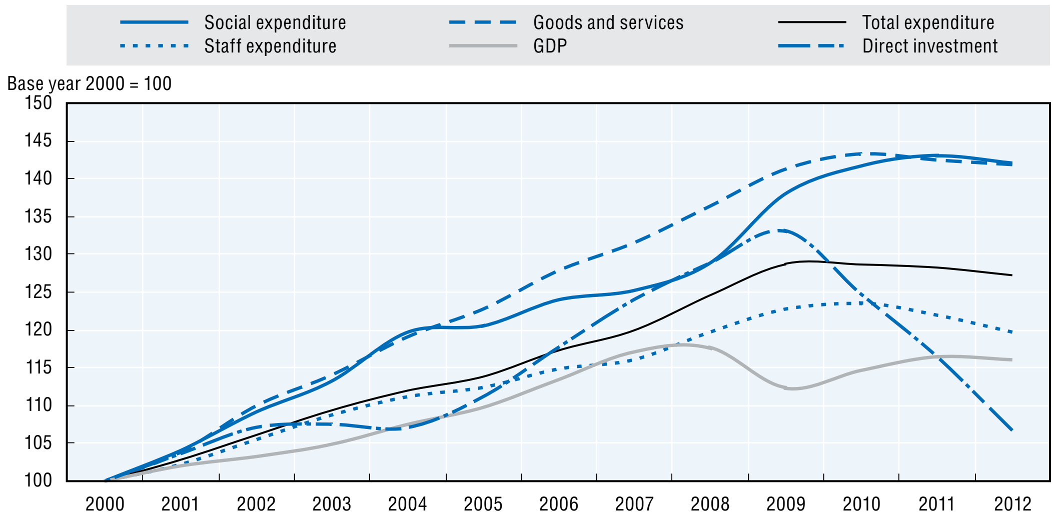
StatLink http://dx.doi.org/10.1787/888933106306

As sub-national budgets have been squeezed, discretionary public investment has dropped in the OECD area (Figure 1.5). Sub-national governments seek to maintain current expenditures that support basic services such as education and health, which together account for around 44% of sub-national expenditure across the OECD. Increases in such expenditure have outpaced revenue increases, limiting the fiscal space for sub-national governments to make public investments. The annual volume of sub-national investment declined by 4% in 2012 relative to 2007 in real terms, and by 13% from its peak in 2009. On a per capita basis, the change is more pronounced, down 7% in 2012 relative to 2007 levels in real terms and down 15% from the 2009 peak. In addition, both public and private investment, which usually show opposite trends, have both dropped since 2010 (Figure 1.6).

At the same time, sub-national debt has been on the rise, reaching 22% of GDP in 2012. Sub-national gross debt per capita has risen 14% from 2007-12, representing an increase of around USD 1 000 per capita. At the regional level in federal or quasi-federal countries, debt shares of GDP range from 6% of GDP in Austria to 21% in Spain, 27% in Germany and up to 52% in Canada (Figure 1.7). At the local level, this figure is less than 2% in Greece and up to 38% in Japan. Sub-national government debt per capita thus ranges from USD 340 in Greece to USD 18 250 for Canadian provinces. Higher levels of sub-national debt are associated with a greater degree of sub-national authority over revenue and expenditure levels. Most sub-national governments (SNGs) are financed through loans, but federal entities typically rely more on financial markets. These markets are increasingly differentiating between high- and low-risk sub-national debt, as observed in bond yields by credit rating. Sub-national governments are also subject to credit downgrades as a result of downgrades at the national level (sovereign debt ratings) (for more information, see Vammalle and Hulbert, 2013). Some governments have taken action to limit sub-national public debt after the crisis, as in Spain (Box 1.1).

Figure 1.5. **Overall sub-national public investment has not yet recovered to pre-crisis levels**

Change in sub-national public sector direct investment in the EU27 in real terms from 2000-12



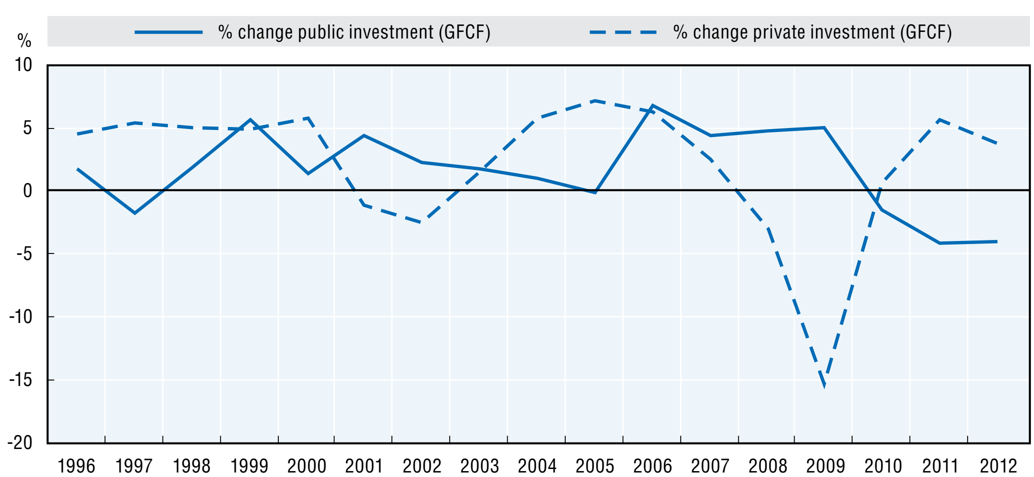
Notes: Total expenditure is comprised of the following categories: Goods and services, social expenditure, staff expenditure, subsidies and other current transfers, interest charges, taxes, direct investment and capital transfers.

Source: OECD calculations based on data from OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 13 September 2013).

StatLink http://dx.doi.org/10.1787/888933106325

Figure 1.6. **Public and private investment often counter-balance each other, but both have fallen**

Annual changes in public and private investment (gross fixed capital formation [GFCF]) in real terms in the OECD 27 (1996-2012)



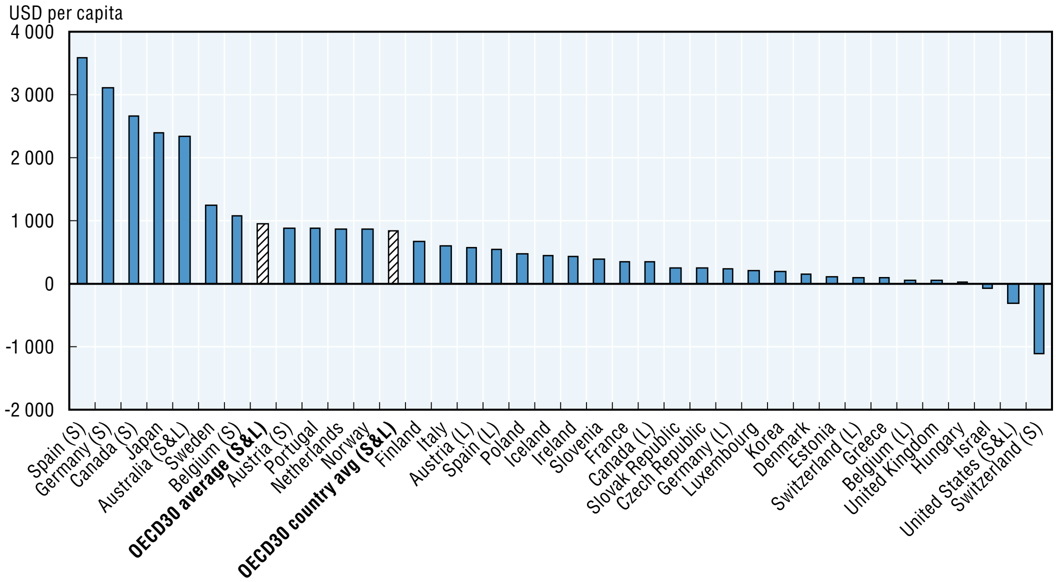
Notes: No data for Chile, Greece, Israel, Japan, Mexico, New Zealand and Turkey. Estimate for Public GFCF for Korea in 2012.

Source: OECD calculations based on data from OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 13 September 2013).

StatLink http://dx.doi.org/10.1787/888933106344

Figure 1.7. **Per capita sub-national debt increased in the vast majority of OECD countries**

Gross debt, difference between 2012 and 2007 (USD constant 2005)



Notes: (L) refer to local governments. (S) refer to state governments in federal countries. For unitary countries, the value refers only to sub-national government. For Australia and the United States, the value includes both states and local governments (S&L). Data for Israel, Canada, Japan and Iceland, 2011; Switzerland, 2010.

Source: OECD (2013), OECD *Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933106363*

Box 1.1. **Reducing sub-national deficits post-crisis: The case of Spain**

One of the consequences of the economic crisis in Spain is an increase in the deficit and public indebtedness. In September 2011, the amendment of Article 135 of the Spanish Constitution provided a balanced budget provision and a strict limit on the indebtedness that all levels of government may incur. This was implemented under Organic Law 2/2012 on Budgetary Stability and Financial Sustainability (BSOL), which entered into force as of 1 May 2012.

This law regulates the budget stability and debt targets for all levels of government, their implementation and the consequences of noncompliance, providing for preventive, corrective and enforcement mechanisms. It creates additional funding mechanisms (Regional Liquidity Fund and Suppliers Payment Mechanism) to inject liquidity into the autonomous communities (regions) and local governments. These mechanisms have improved payments at the due date. This new regulation and the fiscal effort undertaken at all government levels have had significant positive results in fiscal consolidation. Thus, the deficit (as a percentage of GDP) in the autonomous communities was reduced by 46% from 2011 to 2012, and the deviation from the budget stability target was reduced from 2.1 percentage points of GDP in 2011 to 0.34 percentage points of GDP in 2012. For example, Castilla-La Mancha's deficit of 8.11% in 2011 fell substantially, to 1.57% in 2012 (a drop of over 80%).

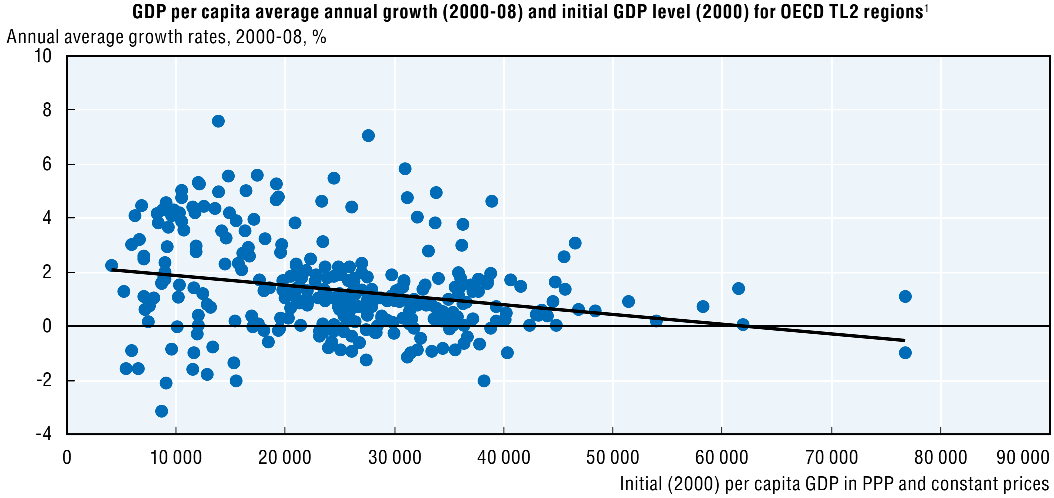
Source: Information provided by the Dirección General Coordinación de Competencias con las Comunidades Autónomas y las Entitades Locales of the Ministerio de la Hacienda y Administraciones Públicas, as found in OECD (2013), "The economic crisis and recovery in OECD regions and cities", a note prepared for the Territorial Development Policy Committee (TDPC) Ministerial Meeting, 5-6 December, Marseille, France. *www.oecd.org/regional/ministerial/Monitoring-the-Crisis.pdf.*

The drivers of regional growth

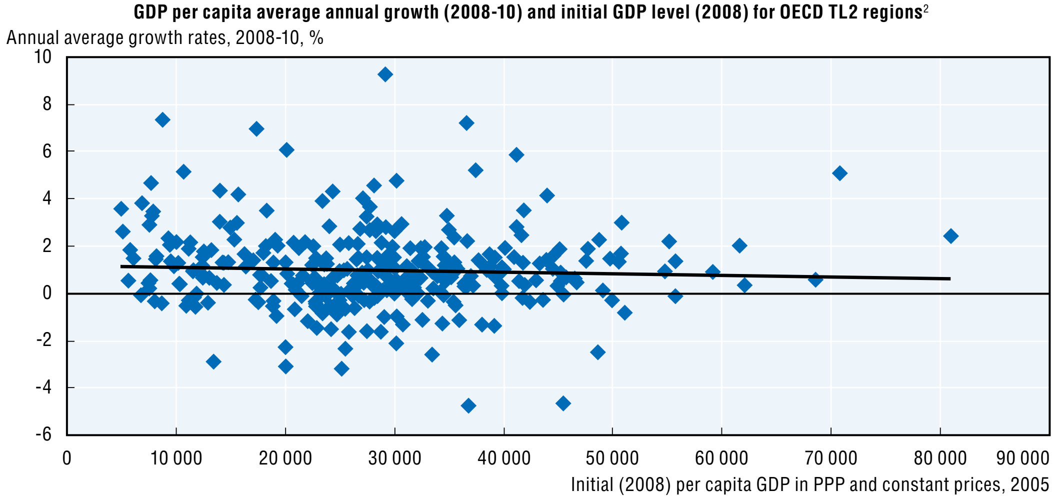
Growth patterns vary among different types of OECD regions (among urban, intermediate and rural) and also among regions from within each type. In broad terms, the performance of cities and urban regions is more dependent on forces of agglomeration and the service economy, in contrast to rural regions, which are more dependent on primary and tradable activities. The effects of the recent global financial crisis have not been symmetrical among OECD regions. Indeed the pattern of conditional convergence during the years 2000-08 appears to disappear in the period after the crisis (Figure 1.8).

Figure 1.8. **Regional convergence across the OECD has stalled post-crisis**

GDP per capita average annual growth (2000-08) and initial GDP level (2000) for OECD TL2 regions[1]



GDP per capita average annual growth (2008-10) and initial GDP level (2008) for OECD TL2 regions[2]



Notes:
1. Region Nunavut, Canada, and Los Rios and Arica y Parinacota, Chile, are excluded for lack of data on comparable years. Denmark, Iceland, Israel, Norway, Switzerland and Turkey are excluded for lack of data on comparable years. Available years: Japan (2001-08); Mexico (2003-08). District of Columbia (United States) is excluded from this figure for display purposes, as the GDP per capita value in 2000 was around USD 114 815.
2. Iceland, Israel and Turkey are excluded for lack of data on comparable years. The District of Columbia (United States) is excluded from this figure for display purposes, as the GDP per capita value in 2008 was around USD 153 651.

Source: OECD (2014), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en* (accessed 10 July 2013).

StatLink http://dx.doi.org/10.1787/888933106382

To counteract these trends, recent OECD work on cross-border regions reveals a way to promote regional growth through innovation policy (OECD, 2013d) (Box 1.2).

The growth patterns of rural regions are more varied than those of their urban and intermediate counterparts. Rural areas closer to cities have a greater variability in growth patterns (Figure 1.9). Their fate is often driven by their economic and demographic linkages

Box 1.2. **Benefitting from cross-border spillovers to promote regional growth**

Innovation policy is a field where regional governments would benefit from collaborating instead of competing. To be globally competitive, regions need to keep evolving and find unique new niches for tradable goods and services. Collaboration that brings together complementary assets in terms of research areas, industrial specialisations or other areas of expertise is the most likely to create gains for all sides if they engage in some form of collaboration. Innovation policy, however, unlike other fields such as transport policy, does not allow for an easy calculation of costs and benefits. A main challenge is that some of the benefits and costs from innovation co-operation remain unknown.

One of the main co-operation challenges is that public money stops at the regional or national administrative border. National, regional or local politicians face difficulties explaining to their constituents why funding from their jurisdiction was allocated to another jurisdiction. The arguments about *juste retour*, or getting back what one puts in, are often discussed for every project. If collaboration requires considerable negotiations for an equal return on every project, the transaction costs are high for all. Efforts are required to build a long-term relationship for collaboration that has value for all parties. The opportunities for finding these areas of value are also revealed over time and with experience of working together.

Local and regional authorities need to identify the opportunities to collaborate. The effects of collaboration are generally felt most strongly at the local level. Municipalities on the border of a region or country are at the heart of the day-to-day efforts to address issues associated with movements across administrative boundaries. It is they who see the benefits and costs associated with cross-border movements, and they need to work together to find concrete solutions. The potential for cross-border governance approaches in innovation depends on the regional competences for developing and implementing innovation policy instruments. Regions that have considerable competences can themselves choose to devote budgets to cross-border-related efforts. Other regions may have the ability to identify collaboration potential, but have no funding or instruments to implement them. In those instances, the role of national governments becomes even more important.

National policy makers can help and/or hinder cross-border collaboration for innovation. For example, the Dutch Ministry of Economic Affairs has financed cross-border efforts around one of its national technology hotspots, Eindhoven, which has strong innovation ties with neighbouring areas. The French government supports the *Mission Opérationnelle Transfrontalière* (MOT) that provides services to its areas that are part of a cross-border region. Hungary, which borders seven countries, has supported initiatives that seek to build on such cross-border ties.

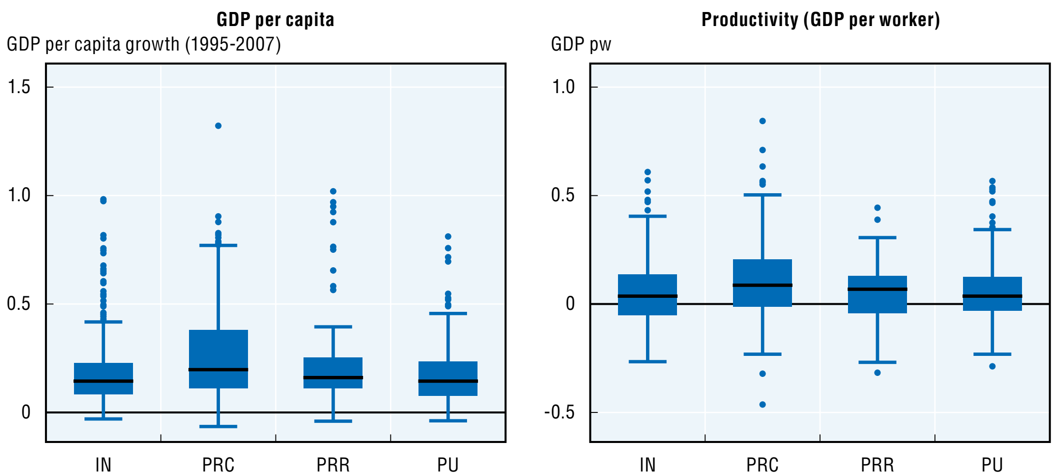
National regulatory and administrative barriers can hamper collaboration. National governments determine the nature, priorities, funding levels and eligibility rules for many innovation-related programmes. Such rules can either facilitate or render difficult to impossible the participation of actors from different jurisdictions. Efforts to mainstream the cross-border dimension in national programmes is a way to tap these much larger funding sources for the benefit of a border region's development.

Source: OECD (2013), *Regions and Innovation: Collaborating across Borders*, OECD Reviews of Regional Innovation, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264205307-en.*

with urban areas. This is observed pre-crisis (1995-2007) both in terms of growth in GDP per capita and in GDP per worker (Figure 1.9). The average and medium growth rates for rural regions are comparable to those of other types of regions, but there is greater variation in the performance of predominantly rural regions. At the same time, in rural remote regions, the regions of lowest growth are at particular risk, given their greater dependence on local assets (OECD, 2014c) (Box 1.3). Overall, rural regions have growth potential but are also more vulnerable to shocks in general or in their sectors of specialisation, which can be particularly sensitive to fluctuations in commodity prices.

Figure 1.9. **Rural regions display a wider range of growth rates**

Average annual growth rates by TL3 extended typology, 1995-2007



Note: The boxplot displays a visual representation of the distribution. The black line inside the box represents the median value and the lower and upper values of the boxes the 25th (Q1) and 75th (Q3) percentile values. The whiskers are the upper and lower adjacent values, which are the most extreme values in the distribution computed as Q1-1.5*(Q3-Q1) and Q3+1.5*(Q3-Q1) respectively. GDP data for Turkey are only available for 1995-2001 and regions from Australia, Canada, Iceland, Mexico, New Zealand, Switzerland and the United States are missing due to lack of GDP data at TL3. PU: predominantly urban; IN: intermediate regions; PRC: predominantly rural close to a city; PRR: predominantly rural remote.

Source: Garcilazo, E. (2013), "Growth trends and characteristics of OECD rural regions", *OECD Regional Development Working Papers*, No. 2013/10, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k4522x3qk9q-en*.

Box 1.3. **Fostering economic growth in rural regions: Important considerations for policy**

Economic growth is driven by a combination of increased employment and increased worker productivity. OECD rural regions are highly connected to global markets and open to trade. Their growth potential depends on their capacity to produce goods and services that can be sold at a profit in local and in international markets, and to introduce new sectors and new products. Rural regions cannot grow in the same way as urban regions. This suggests that a better grasp of their strengths and weaknesses is essential to improving their prospects for growth. For example:

- Given their low population density, high commuting costs and small populations, rural regions rely almost exclusively on SMEs. Large establishments cannot assemble enough

Box 1.3. **Fostering economic growth in rural regions: Important considerations for policy** *(cont.)*

workers to become viable in rural areas. In urban areas, multiple firms in a single industry can survive because the home market is large enough, but rural areas can typically support only one, or at most a few, firms that provide the same type of goods or services. This reduces competition, opportunities for information spillovers and the potential for developing pools of specialised labour. Distance and the small home market can also make it harder for firms to grow, as new market opportunities may be hard to identify.

- Rural regions have an absolute advantage in the production of natural resources. These remain essential to the economy of OECD countries. However, even in regions where natural resources are abundant and sufficient investment has been made in production and transport to allow for efficient supply, the natural resource sector may not be able to drive sustainable rural economic growth. In part because the steady substitution of capital for labour in the natural resource industries makes them a minor source of employment, even in regions where they represent a major share of output.

Virtually all rural regions in OECD countries experience high rates of out-migration. In addition, these regions have been relatively unsuccessful in attracting foreign immigrants. One consequence of demographic decline is that economic growth, or even maintaining the current level of economic output, will require significant increases in productivity. If rural regions have fewer workers, these workers will have to produce a higher output. If productivity in rural regions continues to lag behind that of urban areas, then out-migration will continue and rural decline will accelerate as workers leave for better-paid jobs in cities. National and local development policies searching for ways to foster economic growth in rural regions should consider:

- Moving from increasing the number of jobs to increasing the quality of jobs.
- Maximising the opportunities presented by small local markets to create opportunities for entrepreneurs, especially start-ups, clusters and collaborations.
- Identifying regions with a strong entrepreneurial culture and seeking ways to replicate them elsewhere.
- Investing in new ways to prepare and train staff and explore the new opportunities presented by training. Fewer workers means that employers will increasingly have to pay more for training.
- Identifying new ways to stimulate competition. Mobility from rural to urban areas creates competition, even if there is only one firm in the rural market.
- Recognising and understanding the different types of innovation in rural areas and supporting them. Rural firms typically develop new products and processes, because they are rarely in a position to purchase solutions that have been developed elsewhere.
- Allowing rural regions, rather than national governments, to drive their own economic development. Here the suggestion is to focus more on rural strategies that identify and mobilise local assets to improve economic performance.

Source: OECD (2014), *Innovation and Modernising the Rural Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264205390-en*.

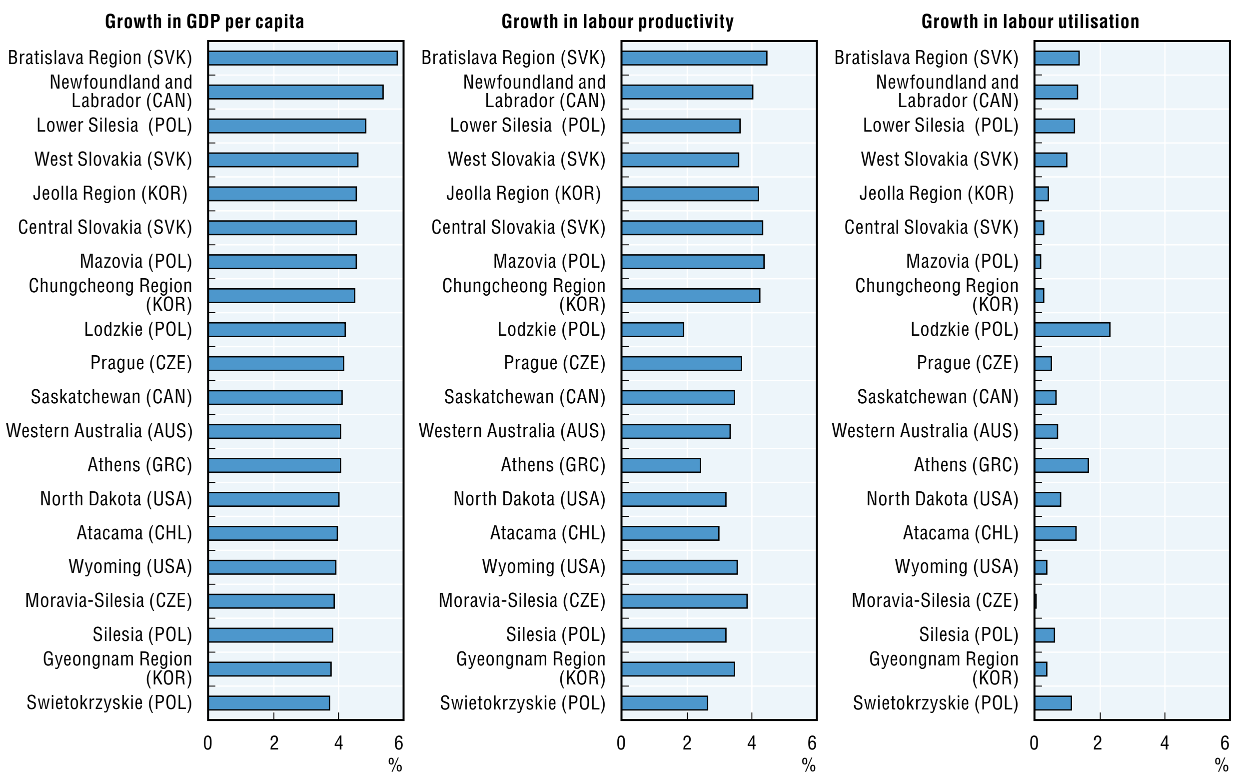
Labour productivity is a key component of regional growth

Growth in regional GDP per capita can be due to several factors (Figure 1.10). For example, people can be more productive in their work (measured in this case as GDP per worker). Or, more people can work (measured as the ratio between employment at place of work and population).[6] Among the 20 OECD regions with the highest GDP per capita growth rate during the decade 2000-10, increased labour productivity was the main factor for growth. In 17 of the 20 regions, labour productivity growth accounted for 70% or more of the increase in GDP per capita. Only in the region of Łódzkie (Poland) was an increase in the share of the population working (labour utilisation) the main explanation for GDP per capita growth (OECD, 2013b).

For the top 20 regions with the biggest drop in GDP per capita growth, the explanations are more varied (Figure 1.11). In two Spanish regions (Balearic and Canary Islands) and some of the US states (Georgia, South Carolina and Ohio), the growth in labour productivity was offset by the sharp decline in labour utilisation. On the other hand, nine Italian regions, four regions in France and Michigan (United States) have seen a decrease in their productivity, with no compensating increase in the share of the population working (OECD, 2013b).

Figure 1.10. **Explaining GDP per capita growth in the top 20 OECD regions**

2000-10, percentage change



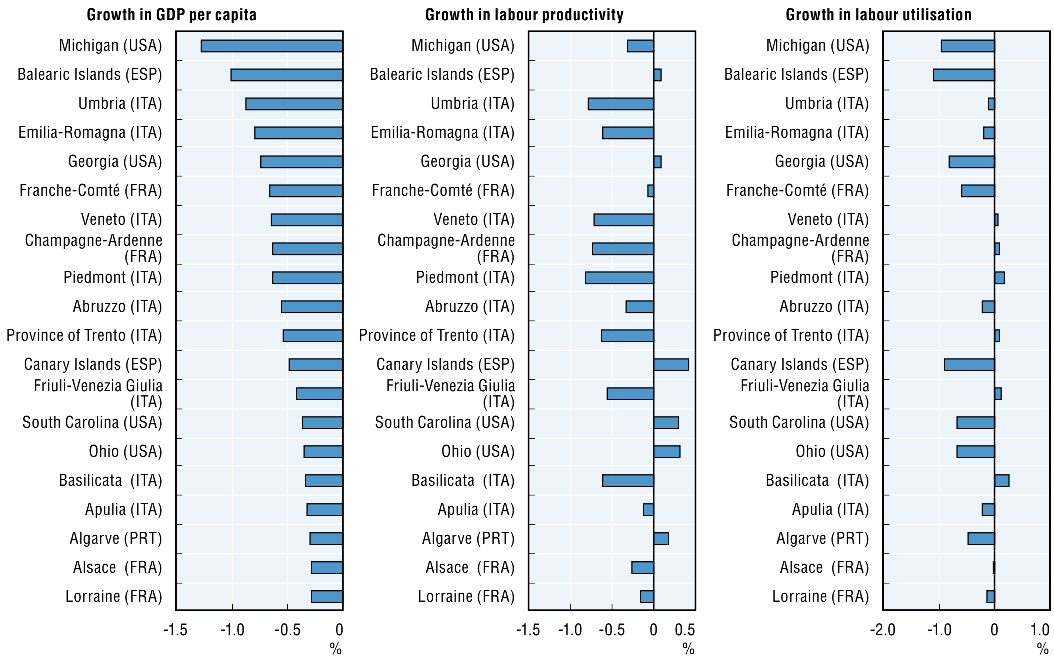
Notes: Labour productivity is GDP per worker. Labour utilisation is the ratio between employment at place of work and population. Denmark, Finland, Mexico, Spain, Switzerland and Turkey are excluded due to lack of regional data on comparable years. New Zealand, Norway and Switzerland are excluded due to lack of data on comparable years. Regional GDP is not available for Iceland and Israel. First available year for Korea is 2004.

Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933106401*

Figure 1.11. **Explaining GDP per capita growth in the bottom 20 OECD regions**

2000-10, percentage change



Notes: Labour productivity is GDP per worker. Labour utilisation is the ratio between employment at place of work and population. Denmark, Finland, Mexico, Spain, Switzerland and Turkey are excluded due to lack of regional data on comparable years. New Zealand, Norway and Switzerland are excluded due to lack of data on comparable years. Regional GDP is not available for Iceland and Israel. First available year for Korea is 2004.

Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink http://dx.doi.org/10.1787/888933134882

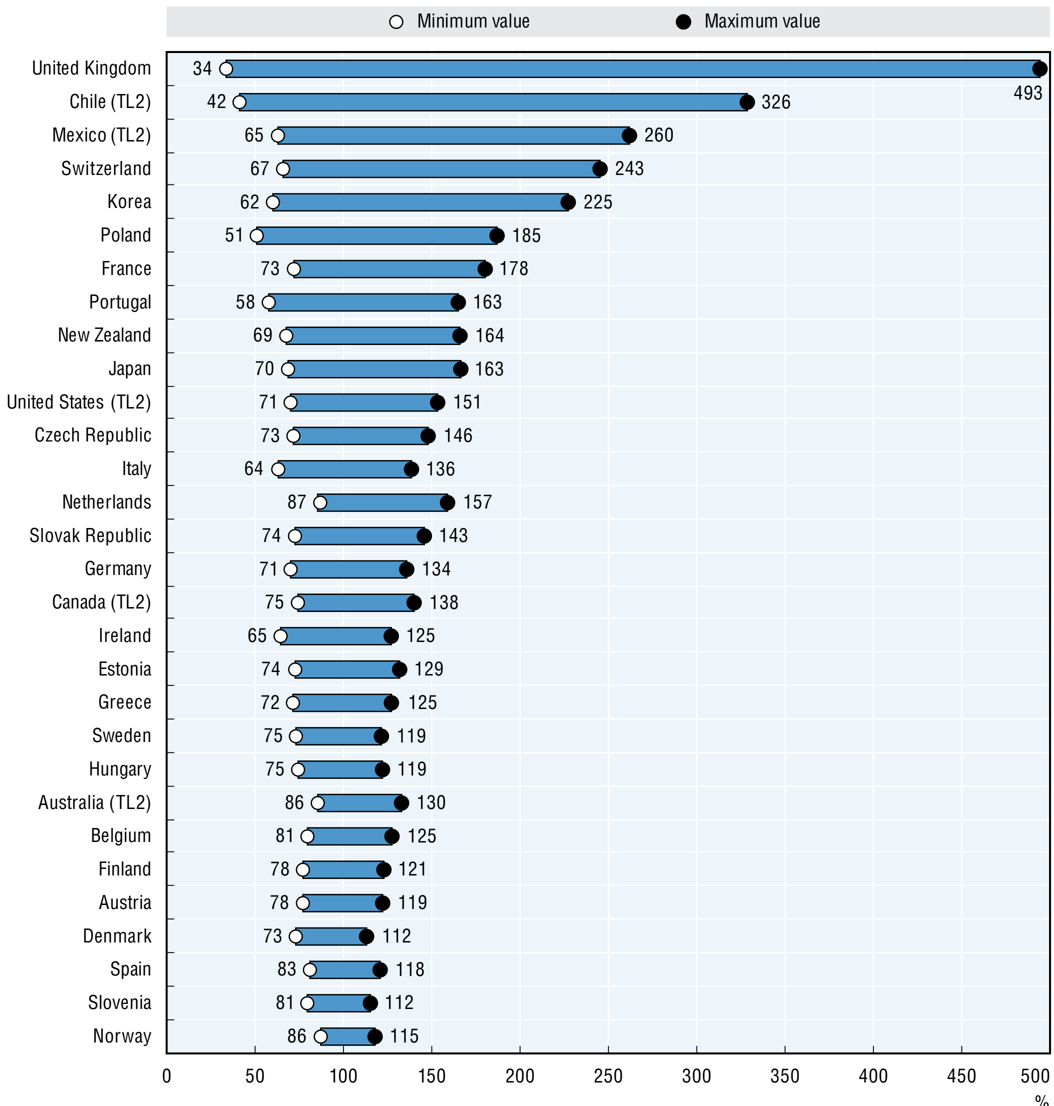
Labour productivity varies significantly, which means that the regions display different levels of productivity and different levels of performance. The inter-regional range in labour productivity in 2010, as measured by GDP per worker, partly explains these different growth patterns. For example, in Norway (the country with the least disparities), the inter-regional range is between 86% and 115% of the national average. Inter-regional variations in productivity are much higher in countries like the United Kingdom, Chile, Mexico, Switzerland, Korea and Poland (Figure 1.12). In these countries, the GDP per worker in the leading region was more than twice the national average (OECD, 2013b).

Human capital is a key determinant of labour productivity in regions

Despite the variation among all types of regions, labour productivity is key, fostering growth in successful regions but also acting as a bottleneck in less successful regions. Because human capital is important for productivity, it too is a core growth driver, but it is the share of low-skilled workers that appears to matter most (Box 1.4). Many policies focus on attracting high-skilled workers to a region and increasing tertiary education rates. Nevertheless, a high share of workers with no more than a primary school education generally entails a drag on growth that exceeds the potential boost associated with a higher share of workers with a college education. As the low-skilled are often less mobile, locally tailored solutions may help improve their employment opportunities and individual well-being, as well as remove one of the bottlenecks to regional growth more generally (OECD, 2012a).

Figure 1.12. **Striking differences in regional productivity levels**

GDP per worker as a % of national average, 2010



Note: Regions are at TL3 level (second level down from national level), unless otherwise noted.

Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink http://dx.doi.org/10.1787/888933106420

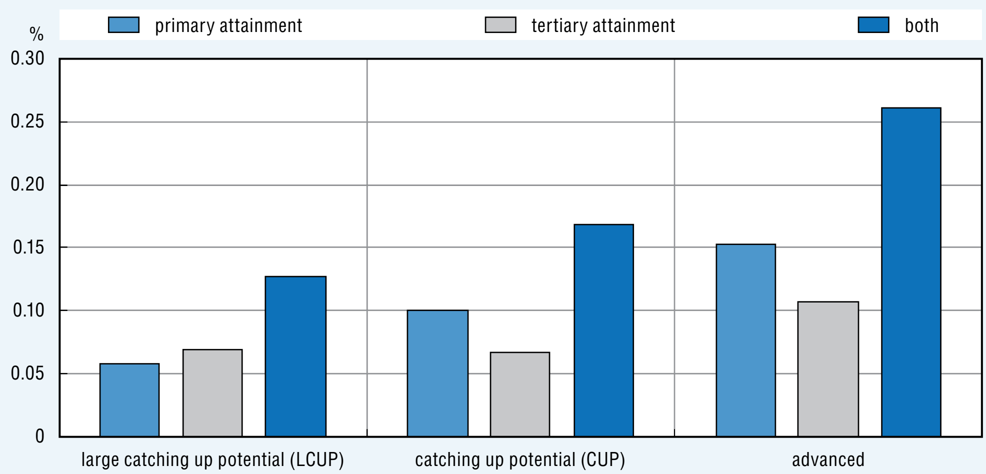
Assessing regional performance on the basis of well-being: The way forward

It is important to go beyond economic trends and growth and assess regional performance on the basis of well-being. Indeed, national averages often mask large inter-regional differences in the well-being dimensions. For example, the difference in the median household income between the wealthiest and the poorest region was around 50% or higher in nine OECD countries. Even within a city or its metropolitan area, there are often stark inequalities that contribute to differences in well-being. For example, in the Chicago region, school districts

Box 1.4. **Human capital: Impact on growth in 23 regions**

The OECD *Promoting Growth in All Regions* work included an analysis of the impact on regional GDP per capita growth when human capital stock in the regions is increased by 10%. This was simulated by increasing and decreasing the stock of high and low-skilled workers – measured by primary and tertiary attainment rates – in the labour force by 10%. The results, reflected in the figure below, suggest that a 10% improvement in primary and tertiary attainment could increase annual per capita growth rates on average in advanced regions by one-quarter (0.26) of a percentage point; in CUP regions by 0.17 percentage points and in LCUP regions by 0.13 percentage points.

Impacts on growth rates of a 10% improvement of human capital



Note: LCUP are regions with large catching-up potential. CUP are regions with catching-up potential.

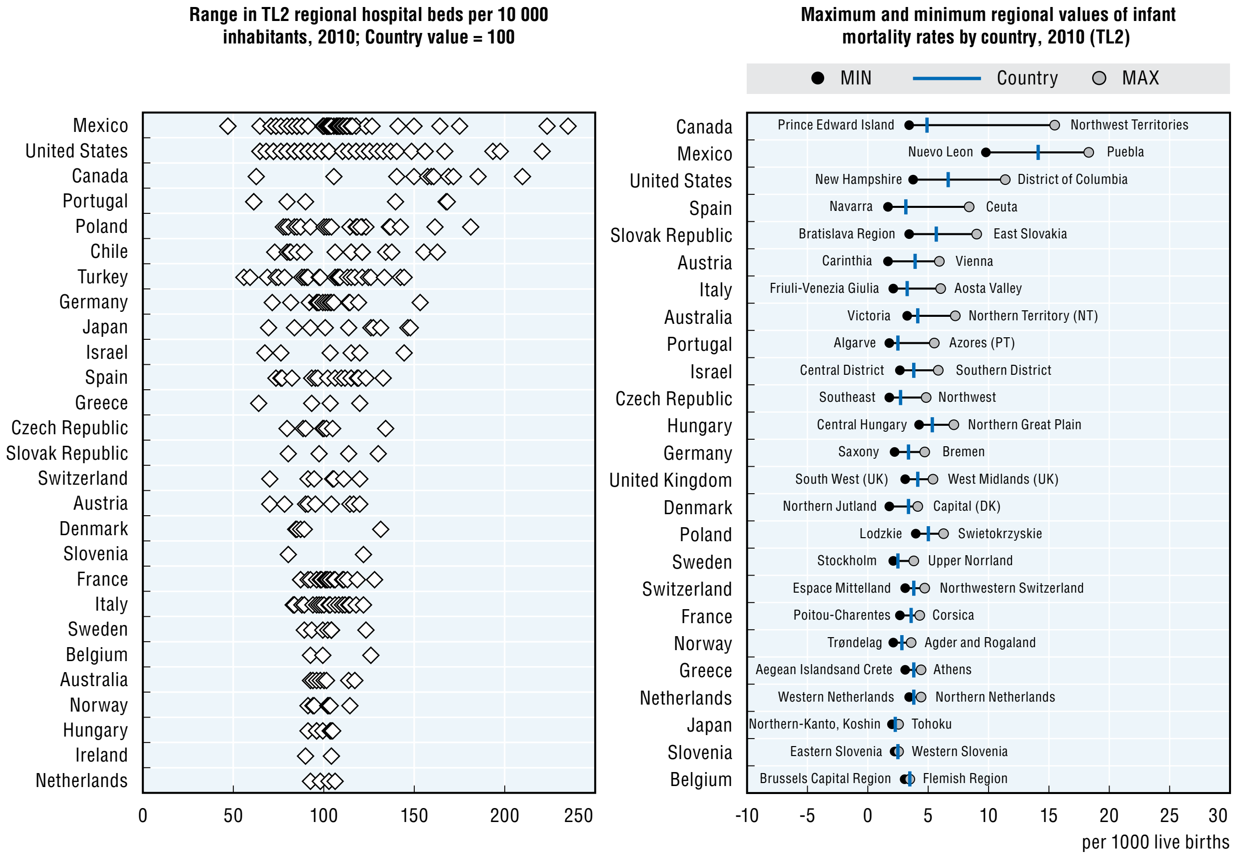
Source: OECD (2012), *Promoting Growth in All Regions*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174634-en*.

StatLink http://dx.doi.org/10.1787/888933106439

record high school graduation rates ranging from a low of 57% in the city of Chicago to over 95% in suburban areas (OECD, 2012c). In Aix-Marseille, the share of the working-age population without a diploma range from 39% in neighbourhoods in northern Marseille to 14% in Aix-en-Provence (OECD, 2013e). Finally, in Puebla-Tlaxcala, Mexico's fourth-largest region, peripheral areas exhibit lower education levels than the metropolitan core; in some census tracts, more than 65% of the population has not completed secondary education, compared to incompletion rates of less than 20% in the core (OECD, 2013f).

When a determination of well-being is made based solely on the availability of a service this could yield a less than full picture of well-being outcomes. The case of the health care system in the United States offers an interesting example. When the presence of hospital beds per population is the measure, the implication is that Washington, DC, with its high rate of hospital beds per capita, has excellent well-being outcomes. However, it is the region of the United States with the highest infant mortality rate (Figure 1.13). This contradiction illustrates the importance of the different forms of accessibility, as well as the combination of both place and individual considerations.

Figure 1.13. **Health services in a place do not always translate into good health outcomes for people**



Notes: Graph on the left: Each observation (point) represents a TL2 region of the countries shown in the vertical axis. Regional values are expressed as a multiple of the country value. Graph on the right: Higher rates in Canada and the United States may be partly due to differences in reporting practices concerning newborns weighing less than 500 g, compared to other OECD countries.

Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink *http://dx.doi.org/10.1787/888933106458*

Key policy implications

- Continued inter-regional disparities call for more robust data and for urban, rural and regional development policies to support national growth that is inclusive.
- The impact of the crisis on public investment and the shared financing responsibility between national, regional and local governments call for more strategic investment across levels of government.
- The crisis exacerbated regional disparities and confirmed the need for a place-based policy approach, particularly for rural areas, as these regions were more affected by the crisis.

Notes

1. Note that these figures do not control for country effects but consider only OECD regions.
2. A Gini index is a measure of inequality among all regions, in this case TL3 level according to the OECD classification, for a given country. The index takes on values between 0 and 1, with zero interpreted as no disparity. It assigns equal weight to each region regardless of its size; therefore differences in the values of the index among countries may be partially due to differences in the average size of regions in each country. For further details, see Annex C in OECD (2013b).
3. The youth unemployment rate is defined as the ratio between unemployed persons aged between 15 and 24 and the labour force in the same age class.
4. Per Bach, Blöchliger and Wallau (2009) based on Bell et al. (2007), different measures of sub-national spending autonomy include: *i)* policy autonomy: to what extent sub-central governments exert control over main policy objectives and main aspects of service delivery; *ii)* budget autonomy: to what extent sub-central governments exert control over the budget; *iii)* input autonomy: to what extent sub-central governments exert control over the civil service and other input-side aspects of a service; *iv)* output autonomy: to what extent sub-central governments exert control over standards such as quality and quantity of services delivered; and *v)* monitoring and evaluation: to what extent sub-central governments exert control over evaluation, monitoring and benchmarking.
5. Direct investment is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period. It is a subset of public investment that comprises, in addition to direct investment, indirect investment, i.e. capital transfers (investment grants and subsidies in cash or in kind made by sub-national governments to other institutional units).
6. Existing workers can also work more hours, which is why the metric for productivity often considers GDP per hours worked. Unfortunately, this level of detail is not available in sub-national data.

Bibliography

Ahrend, R. and A.C. Lembcke (forthcoming), "Economic and demographic trends in cities", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R., C. Gamper and A. Schumann (forthcoming), "The OECD Metropolitan Governance Database: A quantitative description of governance structures in large urban areas", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R., M. Curto-Grau and C. Vammalle (2013), "Passing the buck? Central and sub-national governments in times of fiscal stress", *OECD Regional Development Working Papers,* No. 2013/05, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49df1kr95l-en*.

Bach, S., H. Blöchliger and D. Wallau (2009), "The spending power of sub-central governments: A pilot study", *OECD Economics Department Working Papers*, No. 705, OECD Publishing, Paris, *http://dx.doi.org/10.1787/223123781022*.

Baum-Snow, N. and R. Pavan (2012), "Understanding the city size wage gap", *Review of Economic Studies*, Vol. 79(1), Oxford University Press, pp. 88-127.

Bell, M. et al. (2007), *Measuring Fiscal Decentralisation: A New Perspective*, The World Bank, Washington, DC.

Combes, P.-P., G. Duranton and L. Gobillon (2012), "The costs of agglomeration: Land prices in French cities", *CEPR Discussion Papers*, No. 9240, Centre for Economic Policy Research, London.

Duranton, G. and D. Puga (2004), "Micro-foundations of urban agglomeration economies", in V. Henderson and J.F. Thisse (eds.), *Handbook of Regional and Urban Economics: Cities and Geography*, Vol. 4, Elsevier, Amsterdam, pp. 2063-2117.

Florida, R. and C. Mellander (2013), "The geography of inequality: Difference and determinants of wage and income inequality across US metros", *Working Paper Series in Economics and Institutions of Innovation*, No. 304, Royal Institute of Technology, CESIS, Stockholm.

Garcilazo, E. (2013), "Growth trends and characteristics of OECD rural regions", *OECD Regional Development Working Papers*, No. 2013/10, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k4522x3qk9q-en*.

Gibbons, S., H.G. Overman and G. Resende (2011), "Real earnings disparities in Britain", *Spatial Economics Research Centre Discussion Papers*, No. 0065, The London School of Economics and Political Science, London.

Glaeser, E.L. and D.C. Maré (2001), "Cities and skills", *Journal of Labor Economics*, Vol. 19(2), University of Chicago Press, pp. 316-342.

Henderson, J.V. and H.G. Wang (2007), "Urbanization and city growth: The role of institutions", *Regional Science and Urban Economics*, Vol. 37(3), Elsevier, pp. 283–313.

Kim, S.-J., A. Schumann and R. Ahrend (forthcoming), "What governance for metropolitan areas?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

OECD (2014a), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en*.

OECD (2014b), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en*.

OECD (2014c), *Innovation and Modernising the Rural Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264205390-en*.

OECD (2014d), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en*.

OECD (2013a), "The economic crisis and recovery in OECD regions and cities", a note prepared for the TDPC Ministerial Meeting, 5-6 December, Marseille, France, *www.oecd.org/regional/ministerial/Monitoring-the-Crisis.pdf*.

OECD (2013b), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

OECD (2013c), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy*.

OECD (2013d), *Regions and Innovation: Collaborating across Borders*, OECD Reviews of Regional Innovation, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264205307-en*

OECD (2013e), "Towards more inclusive growth in the metropolitan area of Aix-Marseille", OECD, Paris, *www.oecd.org/france/aix-marseille.htm*.

OECD (2013f), *OECD Territorial Reviews: Puebla-Tlaxcala, Mexico 2013*, OECD Publishing, *http://dx.doi.org/10.1787/9789264203464-en*.

OECD (2012a), *Promoting Growth in All Regions*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174634-en*.

OECD (2012b), *Compact City Policies: A Comparative Assessment*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264167865-en*.

OECD (2012c), *OECD Territorial Reviews: The Chicago Tri-State Metropolitan Area, United States 2012*, OECD Publishing, *http://dx.doi.org/10.1787/9789264170315-en*.

Partridge, M., et al. (2008), "Lost in space: Population growth in the American hinterlands and small cities", *Journal of Economic Geography*, Vol. 8(6), Oxford University Press, pp. 727-757.

Vammalle, C. and C. Hulbert (2013), "Sub-national finances and fiscal consolidation: Walking on thin ice", *OECD Regional Development Working Papers*, No. 2013/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49m8cqkcf3-en*.

Vammalle, C., C. Hulbert and R. Ahrend (2014), "Creating fiscal space for investment by sub-national governments: The role of institutions", *OECD Regional Development Working Papers*, No. 2014/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5j1qk8fhg-en*.

Veneri P. (forthcoming), "Urban spatial structure in OECD cities: Is urban population decentralising or clustering?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Veneri, P. and V. Ruiz (2013), "Urban-to-rural population growth linkages: Evidence from OECD TL3 regions", *OECD Regional Development Working Papers*, No. 2013/03, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49lcrq88g7-en*.

Wölfl, A., et al. (2009), "Ten years of product market reform in OECD countries: Insights from a revised PMR indicator", *OECD Economics Department Working Papers*, No. 695, OECD Publishing, Paris, *http://dx.doi.org/10.1787/224255001640*.

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

PART I

Chapter 2

Drivers of city performance: The evidence

The chapter provides an overview of the drivers of city performance. Cities have enormous potential for job creation, innovation and green growth. They are hubs and gateways for global networks such as trade. They often also constitute the locus for citizen engagement. However, cities face challenges for sustainable and inclusive growth. Understanding cities and their sphere of influence as functional urban areas requires data to "see" places that do not always map onto local administrative boundaries. Urban areas account for most of the OECD population, and are essential testing grounds for national economic, social and environmental goals. By "getting cities right", governments can create conditions for a better life for most citizens.

Key issues

- Two-thirds of OECD residents (67%) live in urban areas of 50 000 inhabitants or more, and just under half (49%) live in metropolitan areas of 500 000 or more. The largest metropolitan areas have high levels of productivity (higher gross domestic product [GDP] per worker, higher wages) but the contributions that they make to national growth are due more to population growth than productivity growth.
- The influence of cities goes beyond the region in which they are located. There is evidence that cities can "cash in" on the benefits of size by being tightly connected to their neighbours.
- The borders of regions, counties, cities and other administrative units often determine how policies are implemented. But they do not always adequately reflect today's realities.
- Cities have costs for their residents and the environment. How cities are designed and how they operate play a critical role in determining the level of these costs.

"Getting cities right" can have considerable economic, social and environmental benefits

National governments need to think more strategically about cities. In many countries, urban policy is narrowly defined and limited to one or two issues, such as infrastructure provision or the revitalisation of distressed neighbourhoods. Nonetheless, a growing number of national governments are adopting more integrated urban policy agendas, reflecting an awareness of the range of policies that can shape urban development. "Getting cities right" implies that governments take a more strategic, holistic approach through the design and implementation of policies that enable cities to become more competitive, environmentally sustainable and socially inclusive (Box 2.1). There is no "right" or "green" or "sustainable" city. Rather, these concepts should be perceived as continua along which cities can move, with progress or steps backward depending in part on changing conditions. Cities face challenges ranging from suburban sprawl, traffic congestion and deteriorating inner cities to fiscal constraints associated with an ageing population and the need to ensure sustainable growth. Understanding the drivers of city performance will help national governments adopt a more integrated urban policy agenda. This chapter sets out some common issues that must be addressed and important pillars to consider.

Better data helps us to understand what a "city" is

The borders of regions, counties, cities and other administrative units often determine how policies are implemented. But do they reflect today's realities? Patterns of living and working, facilitated by transport systems and the Internet, are very different today from what they were 200 years ago. Yet many of the administrative borders that determine the organisation of public services are still based on old definitions. The OECD has developed a methodology

Box 2.1. **Defining inclusive growth**

Inclusive growth is defined by the OECD as a combination of strong economic growth and improvements in living standards and outcomes that enhance people's quality of life, such as good health, jobs and skills, a clean environment and community support. Measuring such growth aggregates household disposable income, as traditionally measured, with income equivalents for additions or losses in the non-income dimensions of such areas as health, education and the environment. The concept is based on the recognition that economic growth, while important, is not sufficient on its own to generate sustained improvements in welfare. By making explicit the relative importance of the components of living standards, it allows the assessment of policy synergies and trade-offs that can optimise resources, so that the gap between the rich and the poor becomes less pronounced and the "growth dividend" is shared in a more equitable way.

Source: See the Annex to OECD/Ford Foundation (2014), *All on Board: Making Inclusive Growth Happen*, *www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf.*

for mapping the boundaries of a functional urban area, conceived as the geographical area that is most relevant for economic growth and its residents' well-being (OECD, 2012a). A comparison of the map of such an area with the administrative map based on local administrative boundaries helps shed light on the mismatches that can exist (Figure 2.1). Recent or expected reforms to local and regional government boundaries in many countries aim both to rationalise public expenditure and to adapt to new realities. However, there are still almost 8 000 local government bodies in the top 20 metropolitan areas[1] (Figure 2.2).

The economic benefits of cities

Urban areas account for most of the OECD's population and economic activity. Roughly two-thirds (67%) of people in the OECD live in cities of more than 50 000 inhabitants (Figure 2.3). Metropolitan areas (defined as having above 500 000 inhabitants) cover only 4% of OECD countries' total land area, but they account for roughly half of the OECD's population and close to 55% of OECD countries' combined GDP. Their economic weight is thus significant.

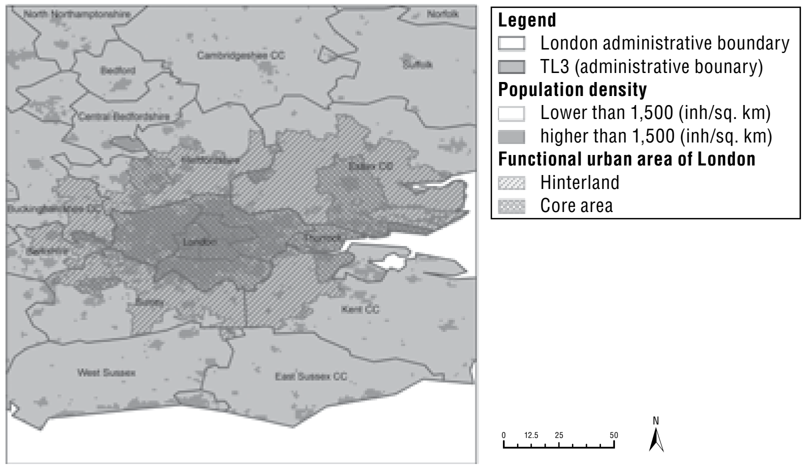
Countries with the largest share of their population living in cities of more than 50 000 include Korea (87%), Luxembourg (83%) and Japan (78%).[2] Countries with less than half of their population living in such urban areas include Greece (49%), Norway (48%) and several Eastern European countries, such as the Czech Republic (47%), Slovenia (40%) or the Slovak Republic (37%). Within individual countries, metropolitan areas often account for a large slice of the urban population. In Greece, for example, although only just under half of the population lives in an urban area, 64% of those urban residents are actually in an urban area of over 1.5 million inhabitants. Other countries with a large share (65% or more) of the urban population in such large metropolitan areas include Denmark, Japan and Korea.

Higher labour productivity

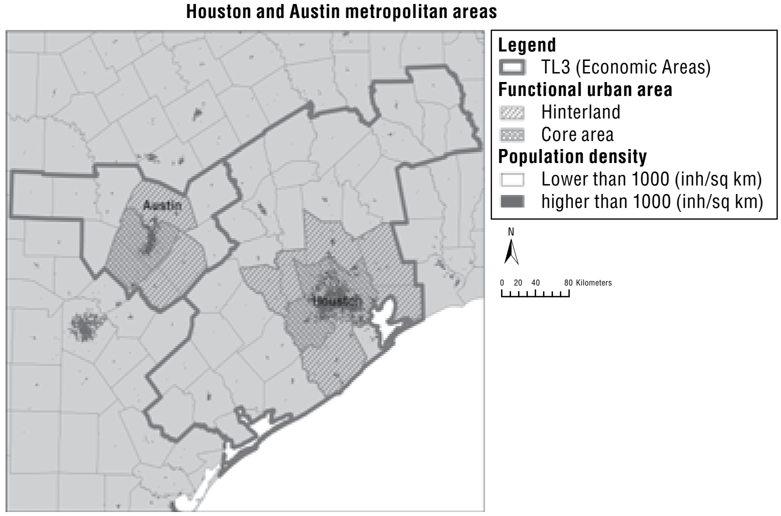
Metropolitan areas and dynamic medium-sized cities have enormous potential for job creation and innovation, as they are hubs and gateways for global networks such as trade or transportation. In many OECD countries, labour productivity (measured in terms of GDP per worker) and wages can be observed to increase with city size (Figure 2.4 and

Figure 2.1. **What is a metropolitan area for London? Houston? Paris?**

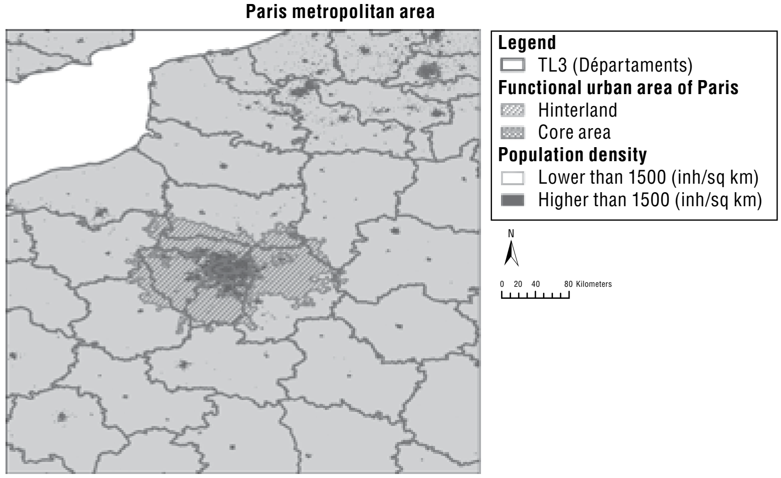
London metropolitan area



Houston and Austin metropolitan areas



Paris metropolitan area

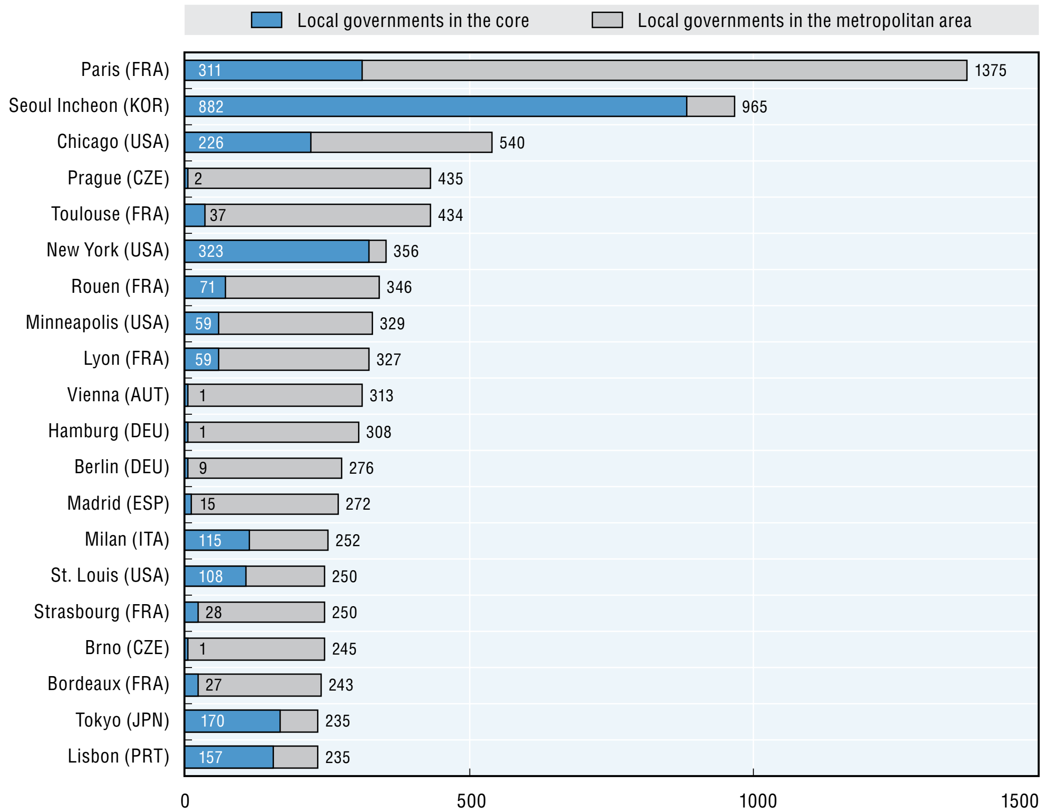


Note: These maps are for illustrative purposes and are without prejudice to the status of or sovereignty over any territory covered by these maps. Regions are at territorial level 3, the level below the country level. See OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en* for methodology.

Source: OECD calculations based on population density as disaggregated with Corine Land Cover, Joint Research Centre for the European Environmental Agency.

Figure 2.2. **Metropolitan areas can include hundreds of municipalities**

Top 20 metropolitan areas for the number of local governments, 2008



Source: OECD (2014), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 2 July 2013).

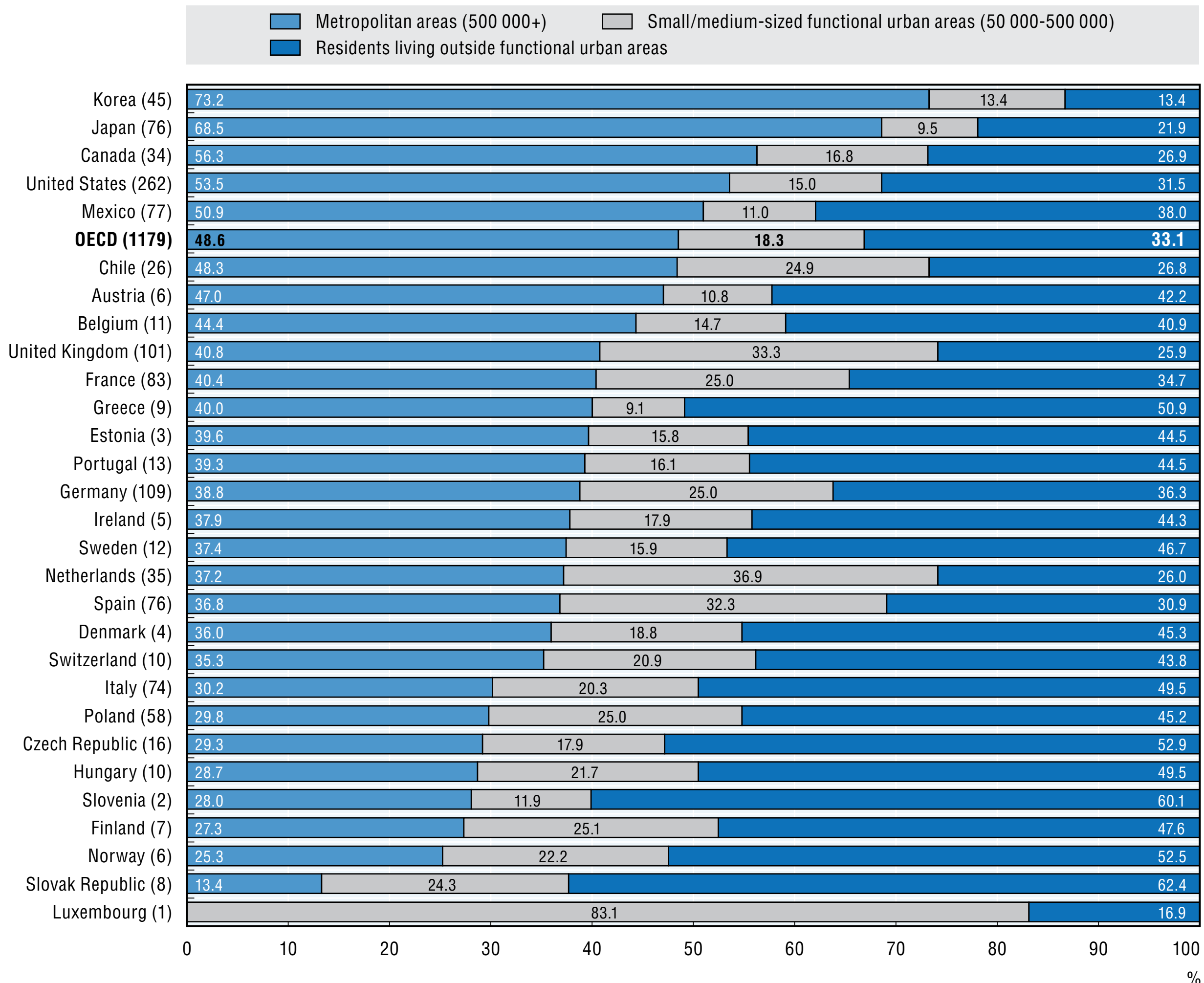
StatLink http://dx.doi.org/10.1787/888933106477

Box 2.2). In Latin American OECD countries, however, the pattern is affected by lower levels of productivity in Mexico City than would be expected given its size (Figure 2.5 and Box 2.2). In Asian OECD countries, meanwhile, the relationship between city size and productivity is less clear from the available data and requires further investigation (Figure 2.5).

Stronger productivity levels are a reflection of a bonus intrinsic to being in a city, known as the agglomeration benefit. On average, a worker's wage increases with the size of the city where he/she works, even after controlling for worker attributes such as education level. OECD estimates suggest that the agglomeration benefit in the form of a wage premium rises by 2%-5% for a doubling of population size (Ahrend et al., 2014), which is in line with comparable studies for individual countries (Combes, Duranton and Gobillon, 2012). However, agglomeration benefits do not accrue homogeneously across cities, and they show sizeable variations within countries.

Higher productivity is due in part to the quality of the workforce and the industrial mix. Larger cities on average have a more educated population, with the shares of both very high skilled and low skilled workers increasing with city size. A 10 percentage-point increase in the share of university-educated workers in a city raises the productivity of other workers in that city by 3%-4% (Ahrend et al., 2014). Larger cities typically have a higher proportion of sectors

Figure 2.3. **Most people across the OECD live in cities of varying sizes**



Source: OECD (2014), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 2 July 2013).

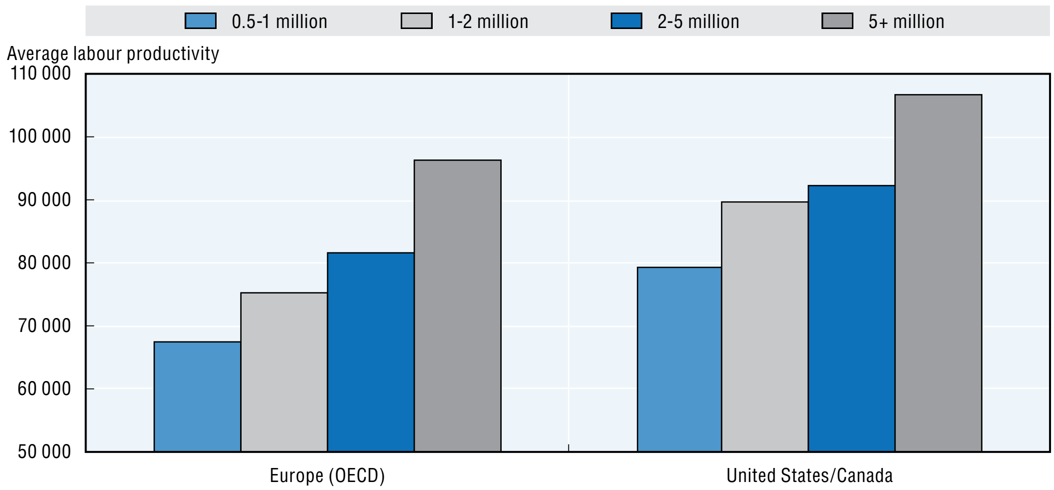
StatLink *http://dx.doi.org/10.1787/888933106496*

with higher productivity, such as consulting, legal or financial services, etc. They are also more likely to be hubs or service centres through which trade flows and financial and other flows are channelled. These flows typically require the provision of high-value added services.

Metropolitan areas are major contributors to national GDP growth. They accounted for 50% of national GDP growth between 2000 and 2010 in 23 OECD countries for which relevant data are available and more than 70% of growth during that period in Greece, Japan, France and Hungary (Figure 2.6).

Contributions to national GDP growth of metropolitan areas have been driven more by population growth than productivity growth, however. While labour productivity levels in metropolitan areas (as measured by GDP per worker) are far above country averages, they generally grew between 2000 and 2010 at rates below the average for their country (Figure 2.7). This is to be expected, as opportunities for productivity growth are lower the higher the existing level of productivity, and higher average growth rates elsewhere are part of the catching-up process of other regions. The growth contribution of cities is often

Figure 2.4. **Labour productivity by city size: Europe, United States and Canada**

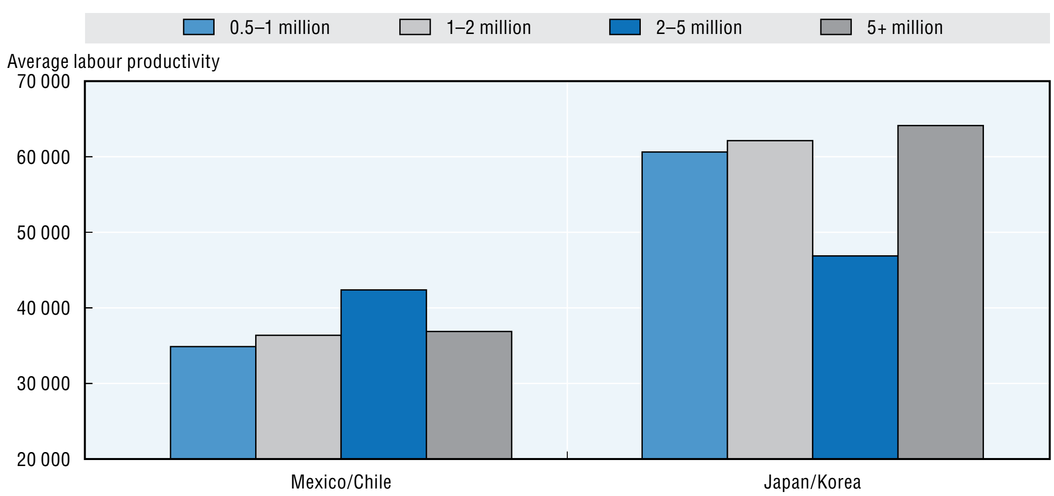


Notes: Labour productivity is measured by GDP per worker.

Source: OECD (2014), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 26 July 2013).

StatLink *http://dx.doi.org/10.1787/888933106515*

Figure 2.5. **Labour productivity by city size: Mexico, Chile, Japan and Korea**



Notes: Labour productivity is measured by GDP per worker.

Source: OECD (2014), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 26 July 2013).

StatLink *http://dx.doi.org/10.1787/888933106534*

a result of increases in population, as those migrating to larger cities are, on average, more productive there. However, large population increases may also moderate the rate of productivity growth, as the productivity of those moving to them – while higher than in other places – is initially often below the average city level.[3]

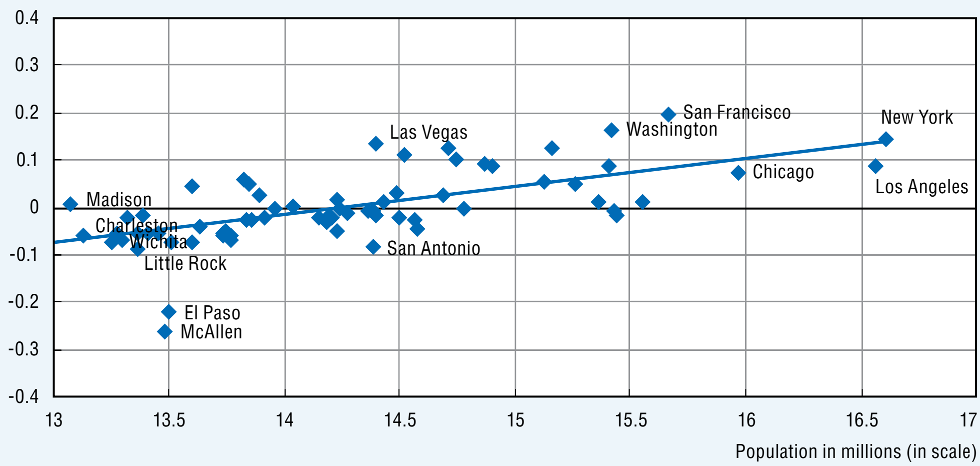
Between 1970 and 2000, the share of metropolitan areas in the overall population of OECD countries only increased for metropolitan areas up to 2 million inhabitants. Metropolitan areas above this threshold just kept up with the pace of population growth in the country (Figure 2.7). In contrast, since 2000, the population share of metropolitan

Box 2.2. **Productivity increases with city size, but patterns differ between countries**

The figures below present, for the United States, the United Kingdom and Mexico respectively, the levels of city productivity premiums on the vertical axes and plot these against the city size. These figures confirm that for all of these countries, productivity is higher in larger cities. In contrast, countries differ in the extent to which productivity varies across cities of similar size.

In the United States, the wage premium in Washington, DC, and San Francisco is higher than would be expected given the size of these cities. By contrast, underperforming cities, including Chicago and Los Angeles, are often relatively sprawling cities with low employment densities and relatively fragmented labour markets. Other negative outliers include cities close to the US-Mexico border.

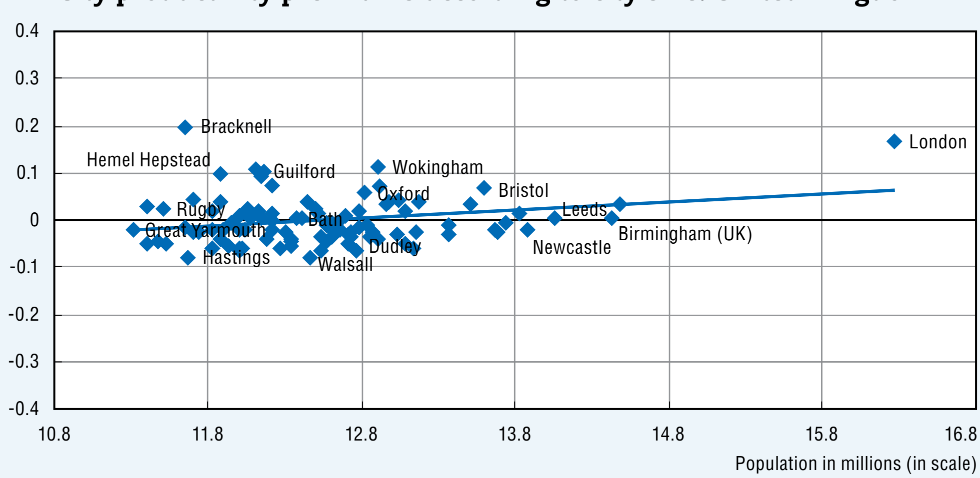
City productivity premiums according to city size: United States



StatLink http://dx.doi.org/10.1787/888933106553

In the United Kingdom, city productivity premiums in London are larger than would be expected given its size. In contrast, after abstracting London and its surroundings, productivity in the United Kingdom barely increases with city size. As for within-country variation, alongside human capital, proximity to London appears to account for much of the performance of the positive outliers. Bracknell, Wokingham, High Wycombe and Guildford – all with high levels of tertiary education – are all within a 50-kilometre radius of London, while Basingstoke is less than 80 km from London. In contrast, there is no specific geographical pattern among the negative outliers, although all have education levels below the UK average.

City productivity premiums according to city size: United Kingdom

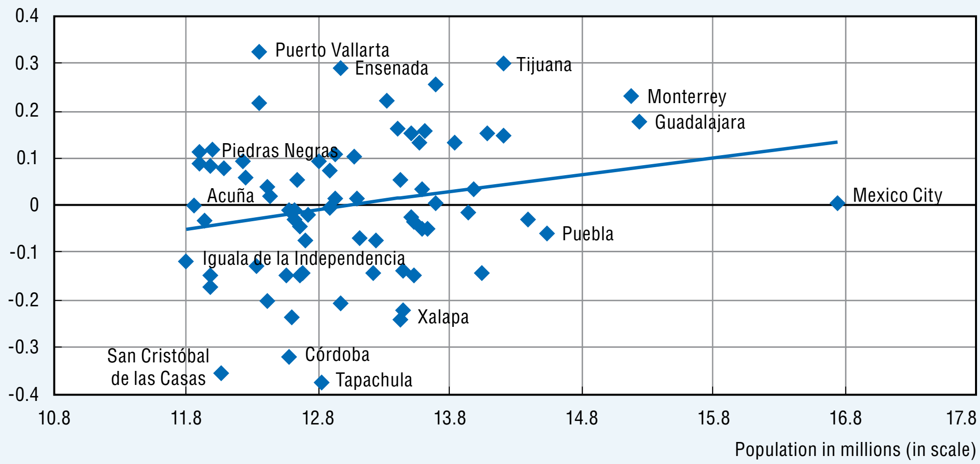


StatLink http://dx.doi.org/10.1787/888933106572

Box 2.2. **Productivity increases with city size, but patterns differ between countries** (*cont.*)

In Mexico, there is a clear north-south divide. Negative outliers are mostly agglomerations in the south of the country, whereas positive outliers are generally located in the north, on or close to the US border. (In contrast, as noted above, some of the negative outliers in the United States are located on or close to the Mexican border.)

City productivity premiums according to city size: Mexico



StatLink http://dx.doi.org/10.1787/888933106591

Notes: City productivity is defined as a wage premium associated with each city once the characteristics of the city workforce are taken into account. Individual wage regressions are estimated with controls for the individual characteristics of the workforce, in order to account for sorting of individuals to cities. The city is defined at the functional urban area (FUA) level, so that it allows comparison of meaningful spatial entities based on functional economic criteria rather than on administrative boundaries.

Source: Ahrend, R., et al. (2014), "What makes cities more productive? Evidence on the role of urban governance from five OECD countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz432cf2d8p-en*.

areas has increased for metropolitan areas of all sizes, with smaller cities in the 450 000 to 750 000 population range showing the largest increase, and even the largest metropolitan areas experiencing significant population inflows (Figure 2.8).

While city performance certainly depends on many factors unique to a particular city, some general trends can be established:

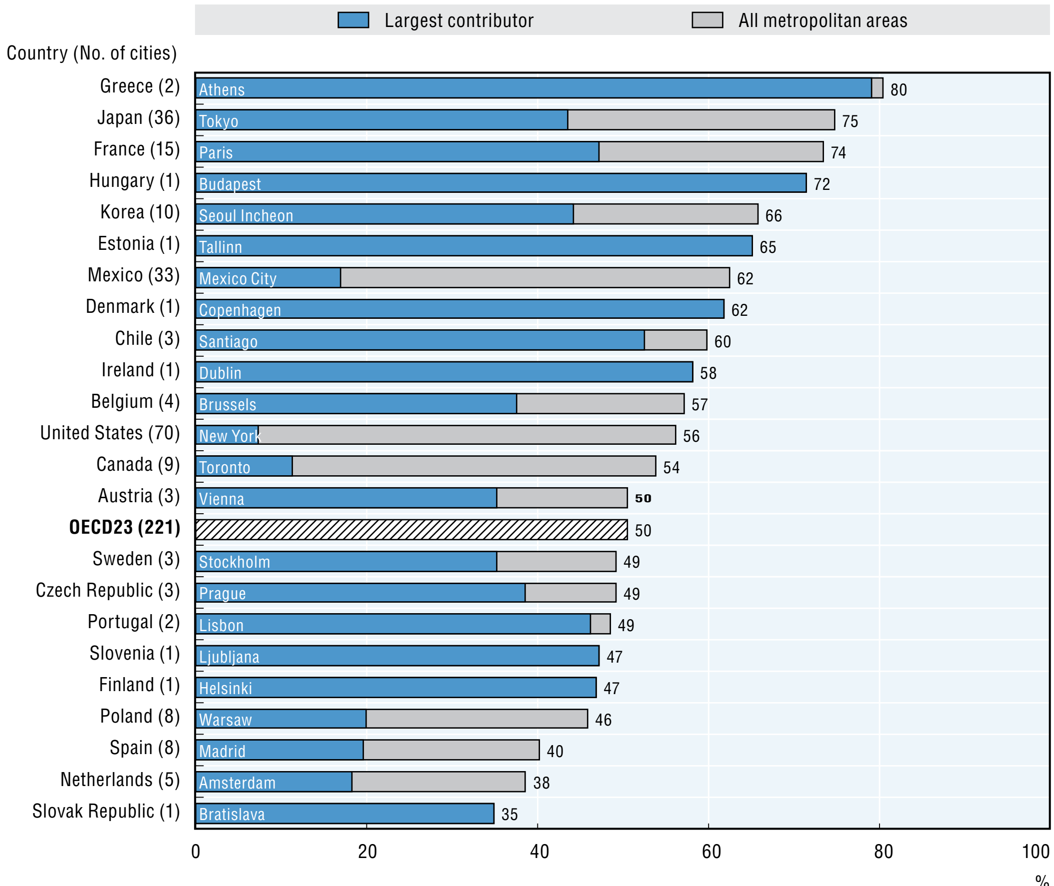
- Economic convergence (i.e. initially less productive cities growing faster than more productive ones) is observed among metropolitan areas (500 000+).
- Mirroring economic convergence across countries, metropolitan areas in richer countries experienced slower GDP per capita growth than those in less rich countries.

Proximity to a large city matters for regional growth

The benefits of living in urban areas are not only confined to their residents. They also contribute to prosperity and well-being for the wider region. With their high levels of productivity (often at the productivity frontier), metropolitan areas serve as icebreakers leading the way for smaller cities that are often market towns and centres of service provision for surrounding rural areas. Regions that include large metropolitan areas of more than half a million inhabitants grew roughly a quarter of a percentage point faster per year between 1995 and 2010, compared with regions lacking such metropolitan areas.

Figure 2.6. **Metropolitan areas account for half of growth or more in most OECD countries**

Percent of national GDP growth contributed by metropolitan areas (over 500 000), 2000-10



Notes: GDP values in metropolitan areas are estimates based on GDP data at TL3 level. Available years: Mexico, 2003-10; Japan, 2001-10; Germany, Italy, Norway, Switzerland and the United Kingdom are excluded for lack of data on comparable years.

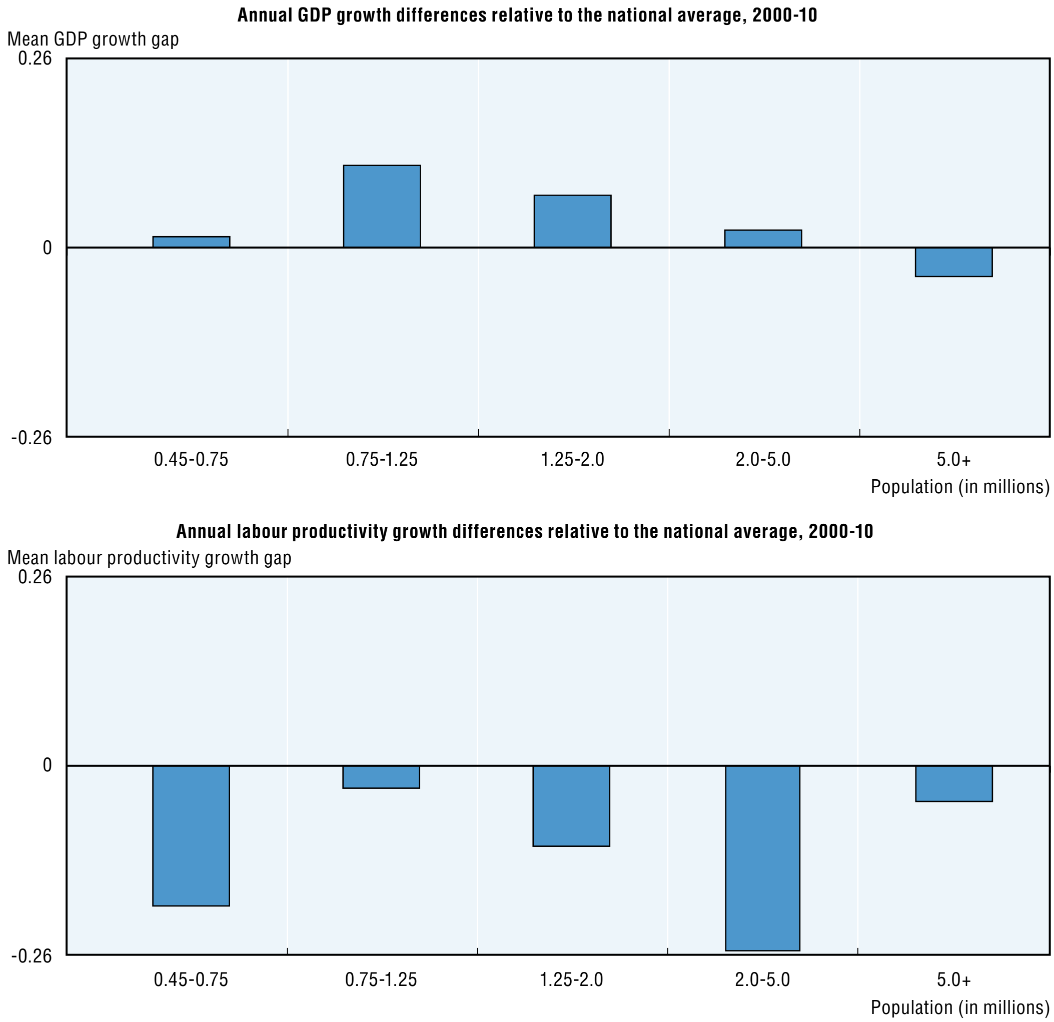
Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink http://dx.doi.org/10.1787/888933106610

The influence of cities can even extend beyond the region in which they are located. Regions closer to cities (especially larger cities) are more prosperous, and have experienced higher economic growth than regions that are more remote (Figure 2.9). While these positive benefits decline with distance, large cities of, for example, more than 2 million inhabitants are found to have benefited from the economic performance of rural areas as far as 200-300 km away. Regions closer to cities have also experienced faster population growth (Partridge et al., 2008; Veneri and Ruiz, 2013).

Moreover, there is evidence that cities can "cash in" on the benefits of size by being tightly connected to their neighbours. This is a particular advantage for smaller cities in Europe, as they can simply "borrow" agglomeration from neighbouring cities. By contrast, larger distances between cities in the United States make this benefit more difficult to achieve there (Ahrend et al., 2014). A more dispersed structure of cities appears to be associated with lower GDP per capita at the regional level. Having one large city in a region rather than a network of small cities may thus be economically more beneficial (Brezzi and Veneri, 2014).

Figure 2.7. **Metropolitan area economic growth is *not* typically driven by productivity growth**



Source: OECD calculations based on OECD (2014), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 2 July 2013).

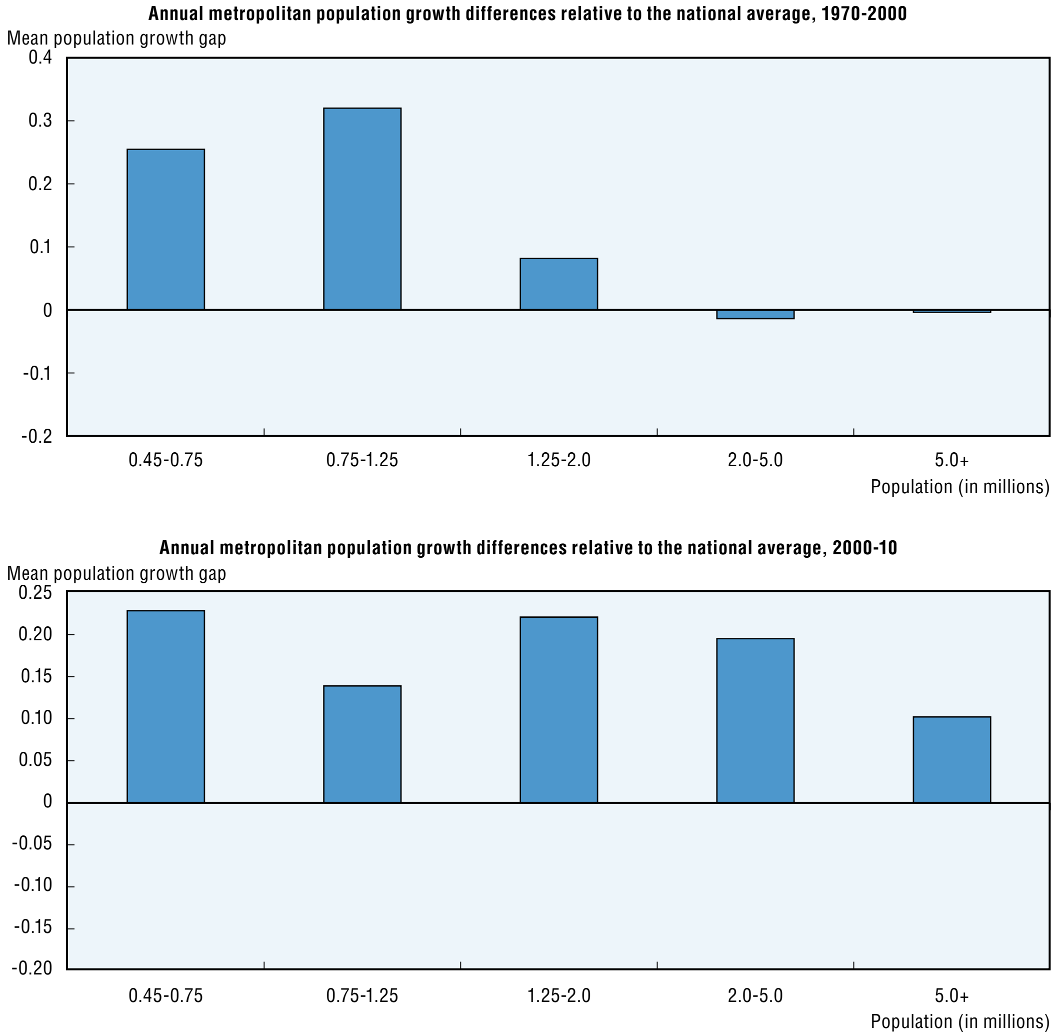
StatLink *http://dx.doi.org/10.1787/888933106629*

The economic and environmental costs of cities

Pollution and congestion

Living in large cities does provide benefits, but it also has disadvantages (Figure 2.10). While productivity, wages and the availability of many amenities generally increase with city size, so do what are generally referred to as agglomeration costs. Some agglomeration costs are financial: for example, housing prices/rents and, more generally, price levels are typically higher in larger cities. In addition, a number of non-pecuniary costs, such as pollution, congestion, inequality and crime, typically also increase with city size, while trust and similar measures of social capital often decline. Survey data from European cities confirm that citizens in larger cities – despite valuing the increased amenities – are generally less satisfied with the other aspects mentioned, notably air pollution.

Figure 2.8. **Annual population growth in metropolitan areas accelerated in the last decade**



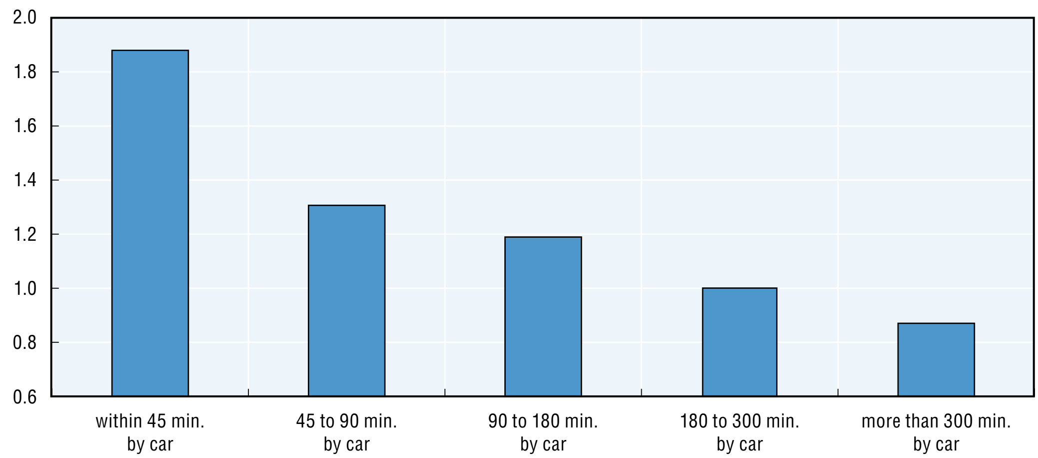
Sources: OECD calculations based on 1970 census data for Mexico, *www3.inegi.org.mx/sistemas/tabuladosbasicos/LeerArchivo.aspx?ct=953&c=16763&s=est&f=1* (accessed 30 May 2014) and the United States, *www.census.gov/popest/data/counties/asrh/pre-1980/tables/co-asr-1970.xls* (accessed 14 June 2013); Henderson, J.V. and H.G. Wang (2007), "Urbanization and city growth: The role of institutions", *Regional Science and Urban Economics*, Vol. 37(3), Elsevier, pp. 283-313, for Canada, Chile, Japan, and Korea; aggregates provided by the European Commission, DG Regional and Urban Policy based on Gløersen, E. and C. Lüer (2013), "Population data collection for European Local Administrative Units from 1960 onwards – Final report", Contract No. 2012.CE.16.BAT.054, for Europe; and OECD (2014), "Metropolitan areas", OECD Regional Statistics (database), *http://dx.doi.org/10.1787/data-00531-en* (accessed 11 March 2014).

StatLink http://dx.doi.org/10.1787/888933106648

To some extent, city size is the outcome of a trade-off between these benefits and costs. Mobility across and within cities implies that – at least in the medium to long term – wage levels, commuting costs and other urban (dis)amenities are reflected in land prices, and more generally in a city's cost of living. This is supported by findings suggesting that for increasing population size, these agglomeration benefits and costs go up at a broadly comparable pace (see Combes, Duranton and Gobillon, 2012, for evidence on France, and Gibbons, Overman and Resende, 2011, for the United Kingdom). A similar picture emerges when looking directly at cities' productivity and price levels. Evidence from Germany shows that, on average, increases in a city's productivity, and hence wages, are matched by similar increases in local price levels (see Box 2.3).

Figure 2.9. **Economic growth increases with proximity to large cities**

Yearly growth rates of GDP per capita in TL3 regions (1995-2010) and driving time to the closest large metropolitan area of 2 million or more inhabitants

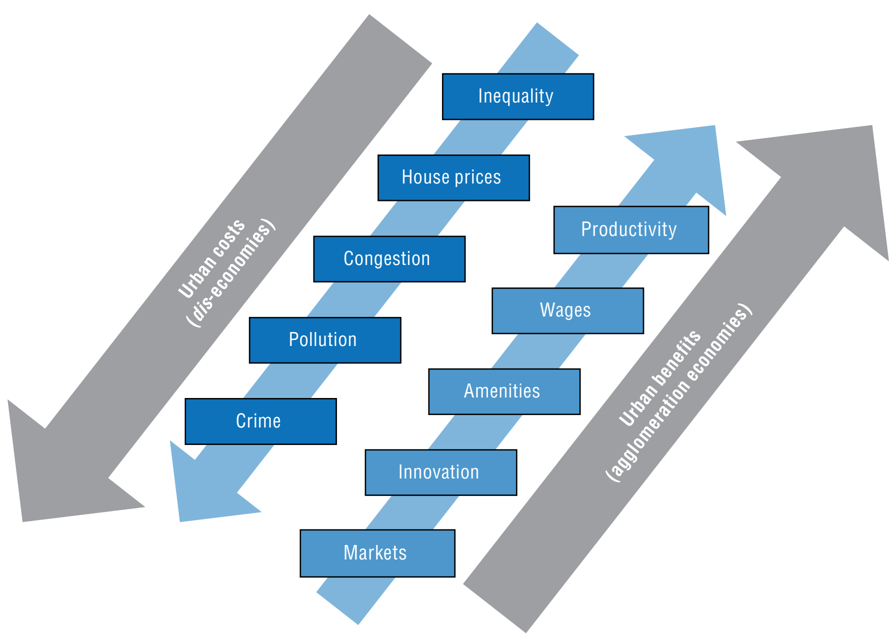


Note: Yearly growth rates controlling for country fixed effects and initial GDP. Eighteen OECD countries are included.

Source: Ahrend, R and A. Schumann (forthcoming), "Does regional growth depend on closeness to urban centres? The role of economic and geographic distance", *OECD Regional Development Working* Papers, OECD Publishing, Paris.

StatLink *http://dx.doi.org/10.1787/888933106667*

Figure 2.10. **Large cities have benefits but also costs**



Metropolitan area sprawl

Well-planned city organisation and operating structures can reduce the costs of city size. Compact cities have dense development patterns, are linked by public transport systems and maintain accessibility to local services and jobs (OECD, 2012b). Currently, however, metropolitan areas in most OECD countries are showing an increase in sprawl rather than a decrease (Figure 2.11). Cities in many countries have policies in such areas as taxes and regulation, which – usually as an unintended side effect – promote sprawl, pushing people further apart from each other than they would otherwise wish. Correcting such policies could make an important contribution towards achieving more compact development.

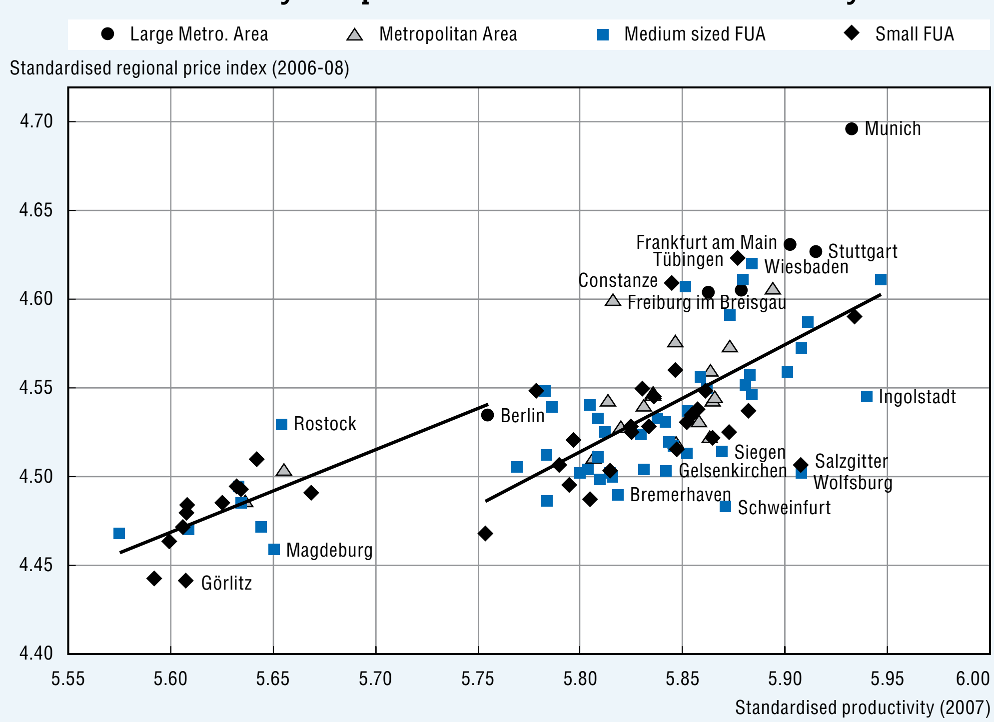
City morphology has important implications for access to jobs

In a local labour market, workers' access to jobs is highly dependent on the city structure and transport networks. This is particularly important for low-income workers, who may not be able to afford to live closer to the jobs or along transport lines that facilitate access.

Box 2.3. **Urban living costs and economic benefits: A tale of two cities (Munich and Ingolstadt, Germany)**

Both productivity and price levels generally increase with city size. As a result, higher wages are – on average - neutralised by higher living costs (see figure below). But there are huge variations across cities: some cities are more, and others less expensive relative to earnings. These deviations can in large part be explained by the positive benefits (amenities) or negative features (e.g. pollution) associated with certain cities. In a sense, people accept lower real incomes (earnings relative to price levels) in exchange for more attractive features of a city, such as access to large lakes or green space, cultural activities as exemplified by theatres, or lower levels of air pollution. This willingness to pay appears to be particularly marked among the better educated.

Productivity and price levels in East and West Germany



StatLink http://dx.doi.org/10.1787/888933106686

Take, for example, the cities of Munich and Ingolstadt, which have similar wage and productivity but different price levels. The fact that many people prefer to live in Munich despite a much higher price level can at least in large part be explained by the benefits they draw from using the amenities Munich offers (see below). Estimates show that up to half of the deviation of wages from price levels can be explained by some of these measurable amenities.

Box 2.3. **Urban living costs and economic benefits: A tale of two cities (Munich and Ingolstadt, Germany)** *(cont.)*

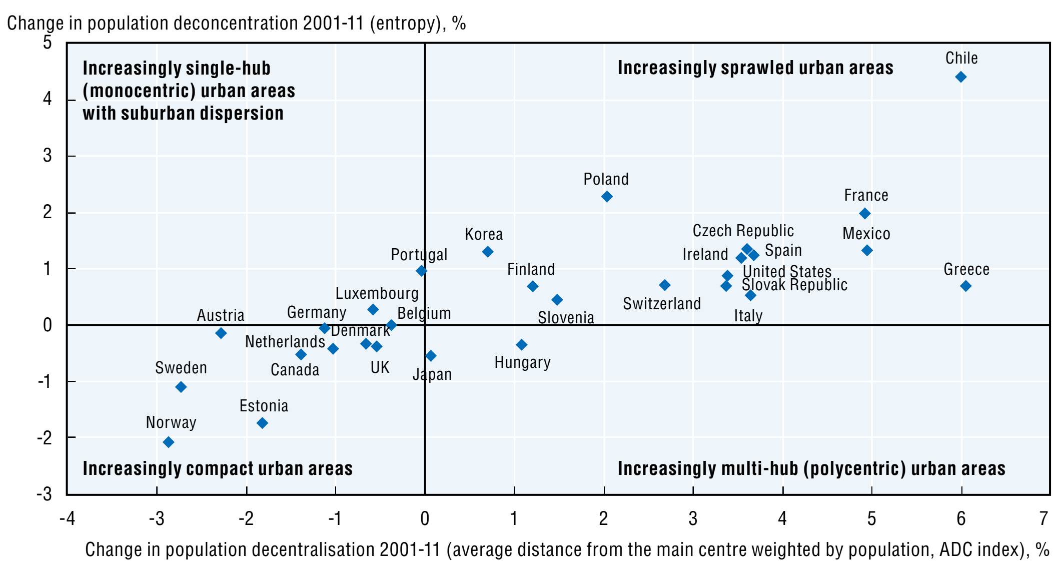
Urban amenities in Munich and Ingolstadt

Urban conditions	Munich	Ingolstadt
Population of functional urban area (OECD definition)	2.8 million	336 370
Large lake within functional urban area	yes	no
Natural reserves (green spaces) as a % of total area	1.2%	0.5%
Hotels	1 079	238
Visitors (with hotel stays)	7.4 million	712 000
Air quality (annual average normalised PM_{10} level)	1.31	0.59
Sites for plays, operas, other performances (central city only)	41	6
Registered theatres and orchestras	11	1
Number of universities (PhD granting)	15 (6)	2 (1)
Share of workers with university education (tertiary degree)	23.6%	11.5 %

Notes: OECD calculations based on the following definitions and data sources: functional urban area definition: OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*; population estimate and share of workers with tertiary education: IAB Employment Panel (2007), *www.iab.de/en/erhebungen/iab-betriebspanel.aspx*; lakes: VMap0 (2000); natural reserves: World Database on Protected Areas (2013), *www.protectedplanet.net/* (accessed 15 February 2014); hotels and visitors: Regionaldatenbank Deutschland (*www.regionalstatistik.de*) (2008); PM_{10} level: Umweltbundesamt (*www.umweltbundesamt.de/themen/luft/luftschadstoffe/feinstaub*) (2007); theatres: Deutscher Bühnenverein: Theaterstatistik (2007) and *www.buehnenverein.de* (2014), universities: *www.hs-kompass2.de/kompass/xml/download/hs_liste.txt*.

Source: Ahrend, R. and A.C. Lembcke (forthcoming), "Gross- and net- agglomeration benefits: Cross-city disparities in Germany", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Figure 2.11. **Metropolitan area sprawl is increasing in many countries, but some are becoming more compact**



Note: The vertical axis measures the average change in the degree of spatial deconcentration of population within functional urban areas. Spatial deconcentration is measured through an entropy index, where higher values suggest a low degree of clustering (higher dispersion) of people in space. On the horizontal axis, the ADC index measures the extent to which population is located far from the main urban centre. Higher values indicate higher distances, on average, from the centre (higher decentralisation). Country values are obtained as averages of values for functional urban areas.

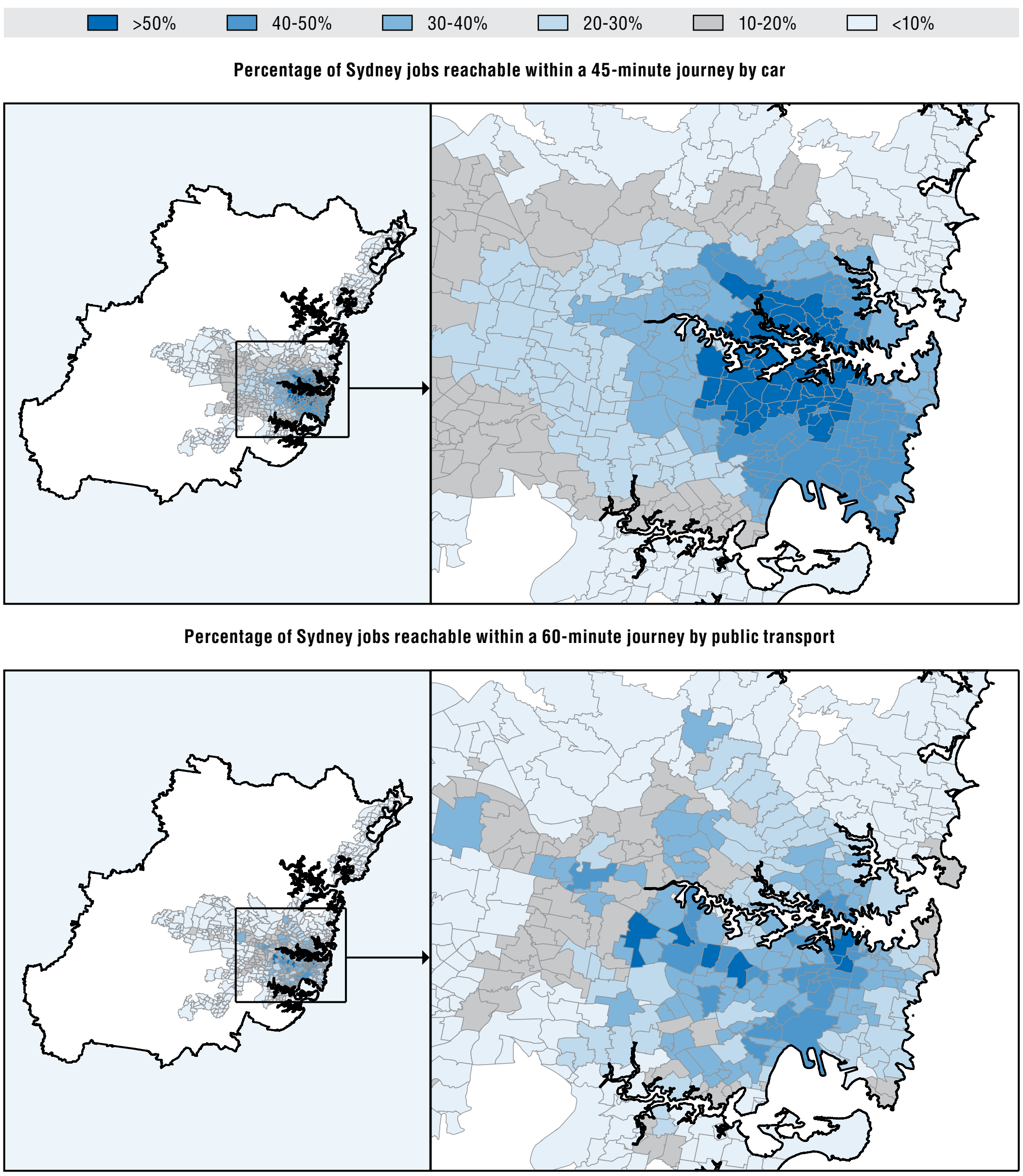
Source: Veneri P. (forthcoming), "Urban spatial structure in OECD cities: Is urban population decentralising or clustering?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933106705

The "effective" labour market may therefore be much smaller than it appears. The example of Sydney (Australia), for example, shows that, depending on a resident's location, fewer than 10% of the jobs in the city are accessible within 45 minutes by car or 60 minutes by public transport, in what would otherwise be considered the metropolitan area (Figure 2.12).

The environmental consequences of the way cities are organised and of the activities conducted in them are considerable. In comparison with national rates, some cities emit much more CO_2 per capita than others. In Italy, for example, Venice emits over 10 times more CO_2 per capita than Palermo. In the United States, Baton Rouge emits over five times

Figure 2.12. **Urban morphology and public transport: Access to jobs in Sydney (Australia)**



Note: These maps are for illustrative purposes and are without prejudice to the status of or sovereignty over any territory covered by these maps.

Source: Kelly, J.-F. et al. (2012), *Productive Cities*, Grattan Institute.

more than Raleigh. In cities such as Cleveland (United States) or Mexico City (Mexico), the transport sector accounts for half of CO_2 emissions. In other locations, such as Cincinnati (United States) or Cologne (Germany), it is the energy sector that contributes around half of CO_2 emissions (OECD, 2013b). Because the source of these CO_2 emissions is not the same in each context, the mitigation strategy will vary. Compact cities can make intra-urban trips shorter, contributing to lower pollution from automobiles and fewer CO_2 emissions, an indicator that is important not only for the citizens of the urban area in question, but also for global performance.

Key policy implications

- Identifying and promoting links between economic, environmental and social goals is critical to "getting cities right".
- Policy makers need to consider both the places and the issues that matter for people's daily lives. This means looking beyond administrative boundaries to consider "functional" areas. These can relate to such issues as service delivery at a metropolitan scale, links between rural and urban areas within a region, or policies for sectors that affect growth, such as innovation, or that affect well-being, such as water resource management.
- The significance of urban areas for national economic, social and environmental performance calls for greater attention to be paid to urban policy frameworks, covering both policies that are explicitly labelled as "urban" and other national policies that have significant urban impact.

Notes

1. As ranked in order of the number of local governments.
2. Turkey is not included in the *OECD Metropolitan Database*; however estimates are that approximately 80% of its population lives in metropolitan areas.
3. See, for example, Glaeser and Maré (2001) for findings in the United States.

Bibliography

Ahrend, R. and A.C. Lembcke (forthcoming), "Economic and demographic trends in cities", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R. and A.C. Lembcke (forthcoming), "Gross- and net-agglomeration benefits: Cross-city disparities in Germany", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R. and A. Schumann (forthcoming), "Does regional growth depend on closeness to urban centres? The role of economic and geographic distance", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R., et al. (2014), "What makes cities more productive? Evidence on the role of urban governance from five OECD countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz432cf2d8p-en*.

Baum-Snow, N. and R. Pavan (2012), "Understanding the City Size Wage Gap", *Review of Economic Studies*, Vol. 79(1), Oxford University Press, pp. 88-127.

Brezzi, M. and P. Veneri (2014), "Assessing polycentric urban systems in the OECD: Country, regional and metropolitan perspectives", *OECD Regional Development Working Papers*, No. 2014/01, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5mpdkmvnr-en*.

Combes, P.-P., G. Duranton and L. Gobillon (2012), "The costs of agglomeration: Land prices in French cities", *CEPR Discussion Papers*, No. 9240, Centre for Economic Policy Research, London.

Combes, P.-P., G. Duranton and L. Gobillon (2011), "The identification of agglomeration economies", *Journal of Economic Geography*, Vol. 11(2), pp. 253-266.

D'Costa, S., E. Garcilazo and J. Oliveira Martins (2013), "The impact of structural and macroeconomic factors on regional growth", *OECD Regional Development Working Papers,* No. 2013/11, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k451mplq9lw-en*.

Garcilazo, E., F. Mouradian and J. Oliveira Martins (2013), "Patterns and trends in services-related activities in OECD regions", in J. Quadrado-Roura (ed.), *Service Industries in Regions*, Springer.

Gibbons, S., H.G. Overman and G. Resende (2011), "Real earnings disparities in Britain", *Spatial Economics Research Centre Discussion Papers*, No. 0065, London School of Economics and Political Science, London.

Gløersen, E. and C. Lüer (2013), "Population data collection for European Local Administrative Units from 1960 onwards – Final report", Contract No. 2012.CE.16.BAT.054.

Henderson, J.V. and H.G. Wang (2007), "Urbanization and city growth: The role of institutions", *Regional Science and Urban Economics*, Vol. 37, No. 3, Elsevier, pp. 283-313.

IAB Employment Panel (2007), *www.iab.de/en/erhebungen/iab-betriebspanel.aspx*.

Kelly, J.-F. et al. (2012), *Productive Cities*, Grattan Institute.

OECD (2014a), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en*.

OECD (2014b), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en*.

OECD (2014c), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en*.

OECD (2013a), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

OECD (2013b), *Green Growth in Cities*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264195325-en*.

OECD (2012a), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*.

OECD (2012b), *Compact City Policies: A Comparative Assessment*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264167865-en*.

OECD/Ford Foundation (2014), *All on Board: Making Inclusive Growth Happen*, *www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf*.

Partridge, M., et al. (2008), "Lost in space: Population growth in the American hinterlands and small cities", *Journal of Economic Geography*, Vol. 8, No. 6, Oxford University Press, pp. 727-757.

Veneri, P. (forthcoming), "Urban spatial structure in OECD cities: Is urban population decentralising or clustering?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Veneri, P. and V. Ruiz (2013), "Urban-to-rural population growth linkages: Evidence from OECD TL3 regions", *OECD Regional Development Working Papers*, No. 2013/03, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49lcrq88g7-en*.

World Database on Protected Areas (2013), *www.protectedplanet.net/* (accessed 15 February 2014).

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

PART I

Chapter 3

Regional governance: Policies, institutional arrangements and municipal reforms

This chapter gives an overview of how regional development policies are managed by national governments. It considers some of the issues associated with both rural and urban development, including the increasing recognition of the importance of cities for regional development and the elements that help build a modern rural development policy. The chapter also addresses the importance of reforms modifying the size and responsibilities of different levels of sub-national government. Such reforms generally seek to reduce the number of local government bodies and are often associated with increases in their areas of responsibility.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Key issues

- Approaches to regional development in a given country depend in part on which ministerial portfolio(s) is managing them. A regional development ministry, with regional development as its specific mission, is the exception, rather than the rule, in most OECD countries. In over a third of OECD countries, regional development policy is handled by economics, commerce or related ministries. In other countries, it is managed by ministries that focus on interior affairs or local government, or by those with a strong emphasis on infrastructure. Many inter-governmental arrangements also address regional development objectives.
- Urban development often forms part of the portfolios of ministries not concerned with regional development more generally. The increasing use of cross-ministry committees and broader frameworks demonstrates an awareness of the fact that the needs of cities go beyond traditional social policy or infrastructure.
- Rural development policy is almost always managed by ministries with a focus on agriculture and/or natural resources. However, many countries have been seeking to take a more modern approach to rural development, particularly in light of the increasing recognition of the ties between rural regions and cities.
- The pace of institutional reform at the level of sub-national governments has accelerated in the last few years, partly to achieve greater cost savings but also to delegate additional responsibilities. Around one half of OECD countries have had a municipal-level reform in the last several years, including reforms designed to overcome governance challenges across metropolitan areas.

Regional policy is influenced by how it is organised

Policies to promote regional development over the last several decades have gone through many phases (Box 3.1). Such policies began with a focus on subsidies and redistribution, and gradually moved towards efforts to attract companies through financial incentives. Today, there is a focus in many countries on supporting regional growth drivers such as skills and education, business development and innovation. There is also increasing attention to questions of environmental sustainability and well-being. The capacity of sub-national governments to make the right investments and deliver public services for both growth and inclusion remains a core issue in regional development efforts (OECD, 2009; OECD, 2011).

Policies to support regions are managed by different types of national ministries (Table 3.1), which can influence the ways in which regional development policy is approached. The most common practice is to house policy support in ministries with a focus on economic development or commerce, rather than in ministries explicitly designed to support regional development. In federal countries, regional development support is often devolved to the regional/state level, with a range of strategies for national intervention. Elsewhere, responsibility for supporting regional development is often split across different types of ministries and co-ordinated through a committee.

Box 3.1. **A brief history of OECD country regional development policy approaches**

Regional policy began in most OECD member countries in the 1950s and 1960s, a period of relatively strong economic growth, fiscal expansion and low unemployment. The principal objectives of regional policy were greater equity and balanced development in an environment of rapid industrialisation where regional disparities were increasing. Theoretically, it was assumed that government intervention could alter **demand** conditions in the lagging regions, and that the national government could redistribute wealth by financial transfers accompanied by large-scale public investments.

During the 1970s and early 1980s, successive economic shocks and changes in the global economy led to geographical concentrations of unemployment in many OECD member countries. Regional policy evolved rapidly to address this new challenge. The focus was extended from reducing disparities in income and infrastructure to reducing disparities in employment. The theoretical assumption guiding policy at that time was that public policy could alter **supply** conditions, essentially by changing production cost factors through production subsidies and incentives. This in turn could influence where firms chose to locate industry, attracting new jobs and investment to unemployment black spots.

However, despite long-term government efforts, regional disparities were not significantly reduced, and since the 1980s, economies have had to contend with increasing globalisation, decentralisation and budget strain. Large allocations for regional programmes have become unsustainable, after successive economic recessions, generalised higher levels of unemployment and increasing pressure on public expenditures. In response, regional policy, originally a top-down, subsidy-based group of interventions designed to reduce regional disparities, now typically involves much broader policies designed to improve "regional competitiveness".

Today, national governments increasingly favour regional growth over redistribution, in pursuit of national or regional competitiveness and balanced national development. Territorial development instruments have become broader in scope, even in the supported areas, and have adapted to the requirements of individual regions. This policy approach has been accompanied by a growing trend of decentralisation to the regional levels. Regional strategic programmes and programming have grown in prominence, reflecting a general policy shift towards support for endogenous development and the business environment, building on regional potential and capabilities, and aiming to foster innovation-oriented initiatives.

Source: OECD (2010), *Regional Development Policies in OECD Countries*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264087255-en.*

Over one-third of OECD countries channel their regional development approaches through a ministry that focuses on economics, commerce or development. This reflects in part the more recent trends for regional development policies to focus on drivers of innovation and productivity. For example, in Denmark, one of the countries where the greatest share of EU Structural Funds has been dedicated to innovation, deployment of these funds is overseen by the Ministry of Business and Growth. Finland, meanwhile, has traditionally supported Centres of Expertise, as a platform for regional development with a cluster/specialisation focus.

Increased attention on cities for regional development

Urban policies in many OECD countries have grown out of a tradition of tackling specific problems. For example, in the United States, the initial focus was on access to housing and

Table 3.1. **Regional development policy: Lead actors by country**

Country	Regional development ministry	Economics/ commerce/ development ministry	Infrastructure/ spatial planning/ construction ministry	Public administration/ interior/local government ministry	Other (central level agency, committee or regional development agency)
Australia			■		
Austria					■
Belgium*					
Canada					■
Chile				■	
Czech Republic	■				
Denmark		■			
Estonia				■	
Finland		■			
France					■
Germany		■			
Greece		■			
Hungary		■			
Iceland		■			
Ireland					
Israel			■		
Italy		■			
Japan			■		
Korea			■		
Luxembourg			■		
Mexico	■				
Netherlands		■			
New Zealand		■			
Norway				■	
Poland			■		
Portugal					■
Slovak Republic			■		
Slovenia		■			
Spain				■	
Sweden		■			
Switzerland		■			
Turkey		■			
United Kingdom		■			
United States		■			

Note: * In Belgium, regional policy is managed directly at the regional (Flanders, Wallonia, and Brussels-Capital Region) and linguistic community levels.

social issues. In Japan and Korea, the initial focus was on infrastructure, reflecting the highly urbanised character of these countries. In countries where urban policies still have a relatively narrow focus, the result can be missed opportunities, as policy makers neglect the needs of cities as engines of growth.

In some countries, urban population is more concentrated in relatively large metropolitan areas, while in others there is a significant share of population in medium- and small-sized cities. Many cities, while big and productive, are not dynamic in terms of productivity growth. Policies that address these differences may help to cultivate growth. Policies that do not take these factors into account, by contrast, may hold back the potential of cities, putting a drag on national growth.

The impact of a city's performance extends beyond its immediate boundaries and its broader urban area, contributing to regional development. In a large country, a more dispersed network of cities helps to ensure greater linkages between cities and less populated locations. To a large extent, a region's performance depends on its urban areas. In recognition of this fact, the European Commission has changed the name of its Directorate General for Regional Policy to the Directorate General for Regional and Urban Policy.

Modernising rural development policies to better adapt to today's realities

It has long been established that rural communities no longer depend solely on the agricultural sector. To better tap a complex economic system, sometimes encompassing large territorial networks including urban areas, a more nuanced approach is needed. This involves policy frameworks focused on investment and growth, and interventions that both take into account the features of territories (a "place-based" approach) and increase the coherence and efficiency of public expenditures in rural areas (OECD, 2006).

The discussion about how to construct modern rural development policies is really about introducing policies more in sync with the changing rural context. Rural development is a wide and complex topic requiring action that goes beyond general prescriptions or blanket policies. The OECD report *Innovation and Modernising the Rural Economy* (OECD, 2014a) offers policy makers the following broad lessons for consideration when developing policies to meet today's rural challenges:

- **Reframe the narrative on rural areas** from a discussion of their assumed shortcomings to a discussion of their advantages, and explore how best to maximise the existing opportunities in rural areas. This would include not only obvious opportunities that can boost local economic development (e.g. renewable energy, tourism, forestry and local foods) but also less obvious solutions, such as cultivating small markets that facilitate greater collaboration across firms, and using non-traditional service providers to deliver services.
- **Adopt a place-based approach,** since the need for a more tailored approach is arguably greater in rural territories. The less densely populated a region is, the more the key determinants of its growth performance tend to be specific to that region. In part, this is because rural economies are more likely to be defined by their natural geography than are cities. Uniform, economy-wide policies – which are designed for the most part in urban environments and for predominantly urban populations – often fail to take account of the specific needs of rural places.
- **Focus on increasing productivity** in rural areas to help improve workforce skills, strengthen capital investment in firms and foster entrepreneurship.
- **Embrace and support strategies that identify and mobilise local assets** – rather than relying on external subsidies and other support – can help improve rural performance.
- **Understand how innovation in rural areas differs from innovation in urban areas** to improve policy support mechanisms. An understanding of how to recognise innovation in rural areas is critical. Innovation is as vital for rural economies as it is for urban economies. It is crucial both for raising productivity and for meeting the challenges of improved public service delivery. Many rural economies are already very innovative. This is often overlooked, because innovation in rural places looks different.

This more nuanced or "modern" approach to rural development should also bridge the divide between urban and rural areas by linking cities with less densely populated areas. This can help exploit spatial complementarities and thereby facilitate service delivery, improve quality of life and support new business opportunities. Such an approach merges the findings of the *New Rural Paradigm* (OECD, 2006) with the knowledge accumulated in case studies and recent thematic research.

- The OECD study *Promoting Growth in all Regions* (OECD, 2012a) highlights the catching-up potential of rural regions and the importance of local competiveness factors alongside institutional factors and the role of policies;
- The OECD study *Rural-Urban Partnerships: An Integrated Approach to Economic Development* (OECD, 2013a) reveals how urban and rural are now highly connected spaces with strong interactions, suggesting that policy makers can no longer address them in isolation if they want to maximise the potential of both.

Table 3.2 summarises the main pillars of a modern rural development approach designed to realise the growth potential of rural regions.

Table 3.2. **Towards modern rural development policies: Ten key pillars**

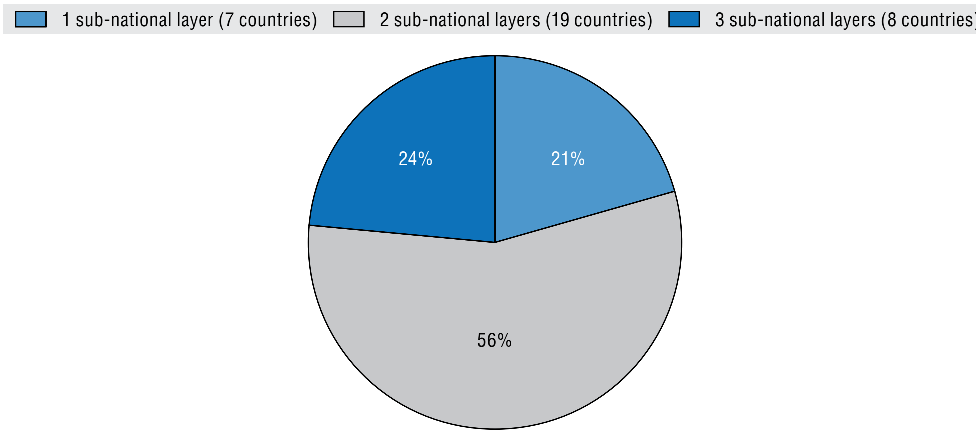
Key OECD work on rural development	Key findings related to rural development	Pillars vital to a modern rural development approach
Promoting Growth in All Regions	• Rural regions have the potential for growth • Density is not a prerequisite for high performance • Predominantly rural regions, on average, enjoyed faster growth than intermediate or predominantly urban regions before the crisis	1. Innovation (adopting a flexible approach to innovation, encouraging entrepreneurial activities and business creation) 2. Human capital (strengthening tertiary education and technical skills, matching human capital to market needs) 3. Infrastructure/connectivity (investments that improve connections to internal and external markets) 4. Policies (promoting pro-growth policies, fewer silos and less fragmentation) 5. Institutions (arrangements that mobilise key actors, strengthening the "rural voice" and supporting economic development)
New Rural Paradigm	An evolution beyond: • Equalisation, farm income, farm competitiveness • Agriculture • Subsidies • National governments and farmers	6. Competitiveness and recognition of rural assets 7. Economic diversity and a holistic approach to development involving different sectors of the rural economy 8. An investment-driven approach to development, rather than a subsidy approach 9. A multi-stakeholder approach involving actors at different levels of government
Rural-urban Linkages	• Rural-urban partnerships can help a region reach its development objectives.	10. Rural regions that are close to urban regions should consider taking an integrated approach to development.

Municipal and territorial reforms are on the agenda in many countries

With the crisis and the accompanying pressure for cost savings, there has been renewed interest in "territorial" reforms that address the form of regional and local governments, in some cases to update structures to today's realities (Box 3.2). Generally, territorial reform goes hand in hand with institutional reform, in particular decentralisation, by increasing sub-national responsibilities in terms of tasks, staffing and financial means. The exceptions are countries that are recentralising certain areas of responsibility.

There are almost 141 000 general-purpose sub-national governments in OECD countries, one, two or three government layers below that of the central government (Figure 3.1 and Table 3.3). While in 8 countries the only sub-national governments are municipalities,[1] a larger number of countries (19) have two levels of sub-national government (municipalities and states/regions). Around one-quarter of OECD countries have an intermediate third layer between municipalities and states/regions, a feature that is notably more common in federal countries. The number of sub-national governments is not necessarily related to

Figure 3.1. **Most OECD countries have multiple layers of sub-national government**



Source: OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy*.

StatLink http://dx.doi.org/10.1787/888933106724

Box 3.2. **Local administrative boundaries are often based on a reality different from that of today**

Political and administrative boundaries are often based on historical settlement patterns. Some sub-national governments thus have deep historical roots.

France: The French *départements* were created by the French Revolution in 1789. While many have been added over time to the list of the first 83 *départements* (101 today) and several changes made, the general principle for defining boundaries was that an individual could reach the central administrative city (*chef-lieu*) by horseback and return within the same day from every corner of the territory. The cantons were also created during this period as an electoral subdivision of the *département*. A canton is a territory of around 16 to 20 km^2 whose boundaries were determined along the same lines as those of the *département*, i.e. within a single day's journey from the central city, but on foot. The names of the *départements* were derived from rivers and mountains situated on the territory, in a radical departure from the names of the provinces of the *Ancien Régime*.

Netherlands: The provinces are one of the Netherlands' oldest institutions, predating its establishment as a country in 1839. With the exception of Flevoland, which was created in 1986, their number and size remained constant for centuries.

Belgium: As in the case of the Dutch provinces, the Belgian provinces have long existed in their current boundaries, with the exception of half of the province of Limburg, which became part of the Netherlands in 1839, and the province of Brabant, which was split into two new provinces (Flemish Brabant and Walloon Brabant) and the Brussels-Capital Region in 1995.

Italy: Italian provinces were established by Napoleon Bonaparte on the model of French *départements*. When Italy was unified into a single kingdom in 1861, the provinces remained, their status formalised under the Rattazzi Law in 1865, for a total of 59 provinces. Since then, most provinces have remained the same, although their number grew regularly after further annexations (Friuli, Mantova, Rome, Veneto, etc.). In 1927, a Royal Charter created 19 new provinces. Since 2000, seven new provinces have been established, including four in Sardinia, for a total of 110 provinces today. Most Italian municipalities also have a long history.

Box 3.2. **Local administrative boundaries are often based on a reality different from that of today** *(cont.)*

Spain: The system of provinces was put in place by Javier de Burgos, the secretary of state, through a royal decree of 20 November 1833, based mainly on a previous subdivision in 1822. At that time, 49 provinces were created as a subdivision of the central government, bearing the name of their capital cities, with the exception of four provinces that retained their historic names. The division was made on a set of "rational" criteria including the area (based on the model for French *départements*, i.e. making it possible to reach the provincial capital city by horse and return from any place in the province in a single day), population (a province should include between 100 000 and 400 000 inhabitants) and geographical coherence. Since 1833, the provinces have undergone only minor changes. These include adjustments of boundaries (most notably the division of the Canary Islands into two provinces in 1927) and name changes taking into consideration language and regional identity. When the Spanish Constitution was approved in 1978, the provinces remained as basic decentralised units of territorial organisation, positioned at an intermediary level between the municipalities and "historic regions", now known as "autonomous communities". Spain now has 52 provinces, including the autonomous cities of Ceuta and Melilla.

Sweden: The number of counties is almost the same as it was in 1634, when they were established by the Constitution, superseding the historical provinces of Sweden. Some changes occurred more recently, for example in 1997, when the counties of Kristianstads and Malmöhus merged to create the new county of Skåne ("Skåne" being the historical name of the same territory in the Middle Ages), and in 1998, three counties were amalgamated into one county called Västra Götaland.

Norway: Counties (*Fylker*), and their predecessors, called *Amts*, and the corresponding division of the country, are the oldest of the present administrative units in Norway. They were established during the 1660s as 12 *Amts* (replacing the earlier *Len* and *Sysler*). A further subdivision in the period 1671-1866 increased the number of *Amts* to 20. In 1919, the name was changed from *Amt* to county (*Fylke*). In 1972, the number of counties was reduced from 20 to 19, when the city-county of Bergen was merged with the county of Hordaland. Throughout this period, some minor changes in borders have taken place and a few municipalities have changed *Amt*/county.

Switzerland: The majority of Switzerland's 26 cantons trace their roots back hundreds of years to the Middle Ages. The Swiss Confederation was built up in piecemeal fashion, with additional cantons joining the original three cantons of Uri, Schwyz and Unterwalden. With a few exceptions, the cantonal boundaries have remained unchanged over decades. Created in 1979 as a result of its secession from the Canton of Bern, the Canton of Jura is the most recent.

Portugal: The municipalities are very old and trace their origin to the *Carta de Foral*, a legal document issued by the King of Portugal assigning privileges to a town, establishing a *concelho* (council) and regulating its administration and borders. *Forais* were granted between the 12th and the 16th centuries. The present municipal subdivisions have their origins in the 19th century, when the revolution of 1835-36 abolished more than half the municipalities. As municipalities grew in population and area, their parishes (*freguesias*) were integrated into the municipal administration as sub-municipal units. When Portugal became a republic in 1910, the municipalities remained. They became decentralised entities with the adoption of the Democratic Constitution of 1976.

Box 3.2. **Local administrative boundaries are often based on a reality different from that of today** *(cont.)*

United States: US counties were defined by a variety of systems. In general, those defined later (and, owing to the history of settlement of the continent, further west) have regular shapes, except where they are defined by major rivers or other topographical barriers. The US Public Land Survey (USPLS) tended to prefer the simplicity of straight lines, square corners and so on, wherever possible. Parts of North America that were once French possessions in the New World show traces of the “seigniorial system”, which tended to allocate long, narrow land plots along rivers and other major water courses, to allow everyone access to water. (Remnants of this system can also be seen in the shapes of fields and clearings in some parts of what was once “New France”.) In the British North American colonies, the “metes and bounds system” tended to prevail prior to the USPLS; used in England and in many jurisdictions that operate under common law systems descended from the English, it relies on set distances to landmarks well-known at the time of the boundary definition. In many cases, these landmarks no longer exist, but their influence is preserved in the highly irregular shapes of counties in areas where this system prevailed. In California, New Mexico and Texas, some county lines still reflect land grants awarded to *empresarios* promoting settlement under Spanish or Mexican rule, while others were defined under the USPLS. Hawaii’s still reflect arrangements in the Kingdom of Hawaii prior to its annexation by the United States.

Mexico: The Mexican municipality has its origins in the *calpulli*, indigenous, self-sufficient social and territorial organisations of the pre-Hispanic Mexico governed by a group of elders. When the Spanish *conquistadores* arrived, they organised their new territories on the basis of the established indigenous communities. Where there was no established territorial extension, the “militia”, through contracts with the Spanish crown called *capitulaciones reales*, undertook the territorial division. Later, in the colonial era, provinces were organised around towns, which were required to have a *cabildo* or municipal council, with separate *cabildos* for natives and Spaniards. Municipal administrative structures transplanted from Spain, in turn, combined characteristics inherited from as far back as the Arabs, Visigoths and Romans.

Source: Various sources compiled by OECD research.

Table 3.3. **Numbers of sub-national governments: Country by country, 2012-13**

Country	Municipal-level	Intermediate-level	Regional- or state-level	Total
Federations & quasi-federations				
Australia	565		8	573
Austria	2 354		9	2 363
Belgium	589	10	6	605
Canada[1]	4 147		13	4,160
Germany[2]	11 327	295	16	11 638
Mexico	2 457		32	2 489
Spain[3]	8 116	52	17	8 185
Switzerland	2 408		26	2 434
United States[4]	35 879	3 031	50	38 960
Unitary countries				
Chile	345		15	360
Czech Republic	6 253		14	6 267
Denmark	98		5	103

Table 3.3. **Numbers of sub-national governments: Country by country, 2012-13** (*cont.*)

Country	Municipal-level	Intermediate-level	Regional- or state-level	Total
Estonia[5]	226			226
Finland	320			320
France[6]	36 700	101	27	36 828
Greece	325		13	338
Hungary[7]	3 177		19	3 196
Iceland	74			74
Ireland[8]	114			114
Israel	254			254
Italy	8 092	110	20	8 222
Japan	1 719		47	1 766
Korea[9]	227		17	244
Luxembourg	106			106
Netherlands	408		12	420
New Zealand	67		11	78
Norway[10]	428		18	446
Poland	2 479	380	16	2 875
Portugal[11]	308		2	310
Slovak Republic	2 927		8	2 935
Slovenia	211			211
Sweden	290		21	311
Turkey	2 950		81	3 031
United Kingdom[13]	406	28	3	437
OECD 34	**136 346**	**4 007**	**526**	140 879

Notes:

1. Canada: The municipal level corresponds to «census subdivisions» i.e. cities, districts, villages, regional municipalities, etc. Indian reserves, Indian settlements and unorganised territories (i.e. 1 106 entities in 2011), as well as special-purpose entities such as school boards, are excluded.

2. Germany: The 107 district-free cities have been counted in the municipal level. The intermediary level comprises only the rural districts.

3. Spain: The two autonomous cities of Ceuta and Melilla are included here both in the number of municipalities and provinces.

4. United States: The municipal level here comprises only general-purpose entities, i.e. municipalities, towns and townships. Special-purpose entities i.e. special districts and independent school districts such as school boards (51 146 entities in 2012) are excluded.

5. Estonia: There are 215 municipalities as of October 2013, following a series of mergers.

6. France: Local government figures include local authorities from Corsica and the overseas departments and regions (Guadeloupe, Martinique, Guyane, La Réunion and Mayotte since 31 March 2012). As of January 2013, the total number of municipalities has fallen to 36 681 entities.

7. Hungary: The number of municipalities includes the 23 districts of Budapest. The number of counties excludes Budapest.

8. Ireland: Ongoing local government reform was to be implemented in local elections of May 2014. The 114 local authorities will be replaced by 31 city and county councils through a process of mergers, dissolutions and the establishment of new sub-county governance arrangements in the form of municipal districts.

9. Korea: A structured sub-municipal level has 3 477 municipal subdivisions, called *Eup* and *Myeon* in rural areas and *Dong* in urban areas.

10. Norway: Oslo can be counted both as a municipality and as a county, but as it does not form a *county authority* under the Local Government Act, it is not included in the total number of 18 regions.

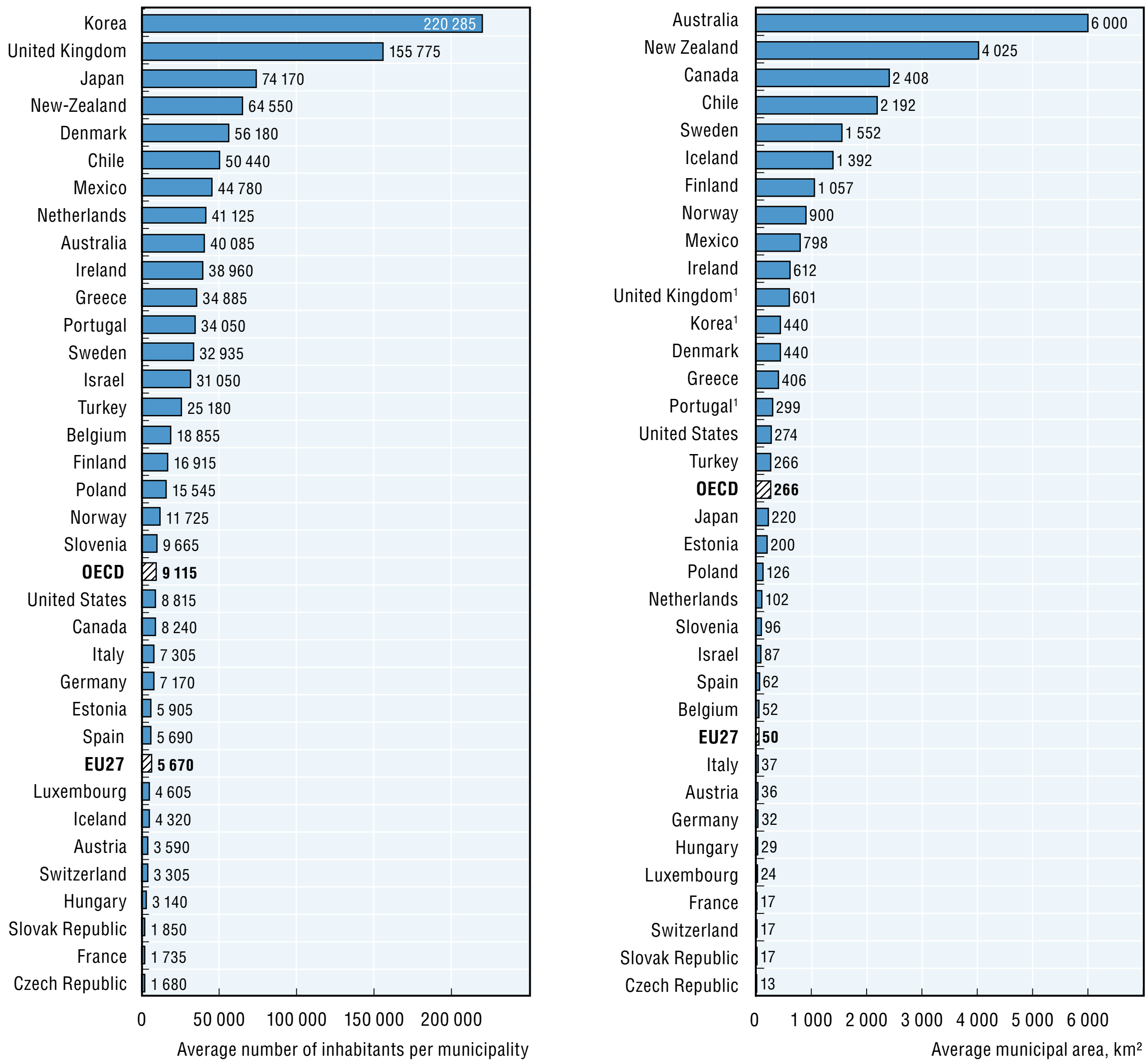
11. Portugal: A structured sub-municipal level (*freguesias*) was reorganised by two laws (November 2012 and January 2013). Their number was reduced by about 27%, from 4 259 to 3 091 in September 2013. The regional level comprises the autonomous regions of the Azores and Madeira.

12. Slovak Republic: The number of municipalities includes city districts of Bratislava and Košice, as well as three military districts.

13. United Kingdom: England in particular has a structured sub-municipal level (10 479 parishes as of December 2010) and Wales has 872 communities, 735 of which currently have a council.

Source: OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy.*

Figure 3.2. **Average population and area of municipalities by country in the OECD, 2012**



Note: Korea, Portugal and the United Kingdom have a sub-municipal level.

Source: OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy.*

StatLink *http://dx.doi.org/10.1787/888933106743*

population size or density. In 2012, the United States (around 39 000) and France (37 000) accounted for 54% of all general-purpose sub-national governments in the OECD. These figures exclude the numerous additional sub-national entities that have a role in public investment and public service delivery. In the United States alone, such special-purpose governments total more than 51 000.[2]

Local government fragmentation hinders economic growth

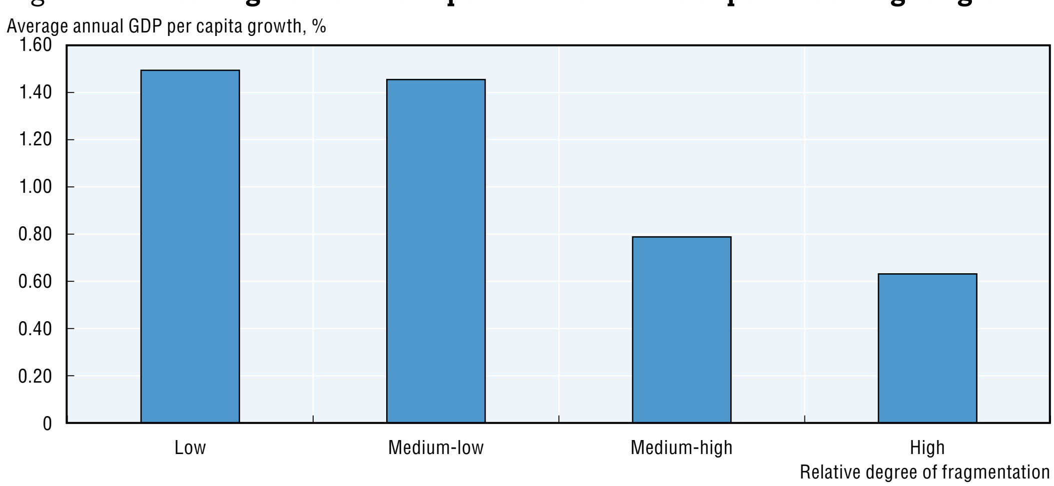
Excessive local government fragmentation hampers growth. But wide differences remain between countries, in terms both of average area and average population. In 2012, municipalities in OECD countries included an average of 9 115 inhabitants, with Korea (220 285 inhabitants per municipality) at the top end of the range, and the Czech Republic (1 680) at the bottom end of the range (Figure 3.4). In terms of size, Australia had the largest average areas (6 000 km²) per municipality, and the Czech Republic the smallest (13 km²).

Municipal fragmentation reduces the economic performance of metropolitan areas. Metropolitan areas typically cross multiple administrative boundaries. For example, the number of local governments is around 1 400 in the Paris and 1 700 in the Chicago metropolitan area. Not surprisingly, this mix of local governments, usually results in a fragmented approach to policy making. Even if different administrative entities could *individually* achieve their short-term political targets, working in isolation, they are more likely to fall short of developing the economic potential of the metropolitan area. In fact, OECD work shows that metropolitan cities in OECD countries with a higher level of governmental fragmentation experienced lower growth of gross domestic product (GDP) per capita over the last decade (Figure 3.3).

Municipal reforms, one response to local government fragmentation

Since 2010 a number of countries have undertaken municipal reforms: Finland (New Municipality Programme), France (Act III of Decentralisation), Greece (Kallikratis reform), Ireland (Action Programme for Effective Local Government: Putting People First), the Netherlands (Building the Bridges Agreement), the United Kingdom (City Deals policy

Figure 3.3. **Less fragmented metropolitan areas have experienced higher growth**



Notes:
Administrative fragmentation is defined as the number of municipalities divided by population in the metropolitan area and is normalised with the fragmentation in the least fragmented metropolitan area in the same country. The four categories of fragmentation are therefore calculated as follows: the low fragmentation group corresponds to the least fragmented metropolitan area in each country and serves as the benchmark for the other three groups; the medium-low fragmentation group includes the metropolitan areas that are up to twice as fragmented as the low fragmentation area; the medium-high fragmentation group includes the metropolitan areas that are between twice and four times as fragmented; and the high fragmentation group those that are at least four times as fragmented.
The growth is calculated for the period 1999-2010, except for Japan and Denmark (2001-10) and Mexico (2003-10). Norway and Switzerland are not included because GDP data for metropolitan areas is only available from 2008 onwards.

Source: Ahrend, R. and A.C. Lembcke (forthcoming), "Economic and demographic trends in cities", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933106762

in England, mergers in Northern Ireland), Estonia, Hungary, Spain, Turkey, Australia (Western Australia), Canada (Manitoba) and Luxembourg. Three common types of approach to municipal reform can be observed as occurring with increasing frequency (see Annex 3.A2 on municipal and metropolitan reforms):

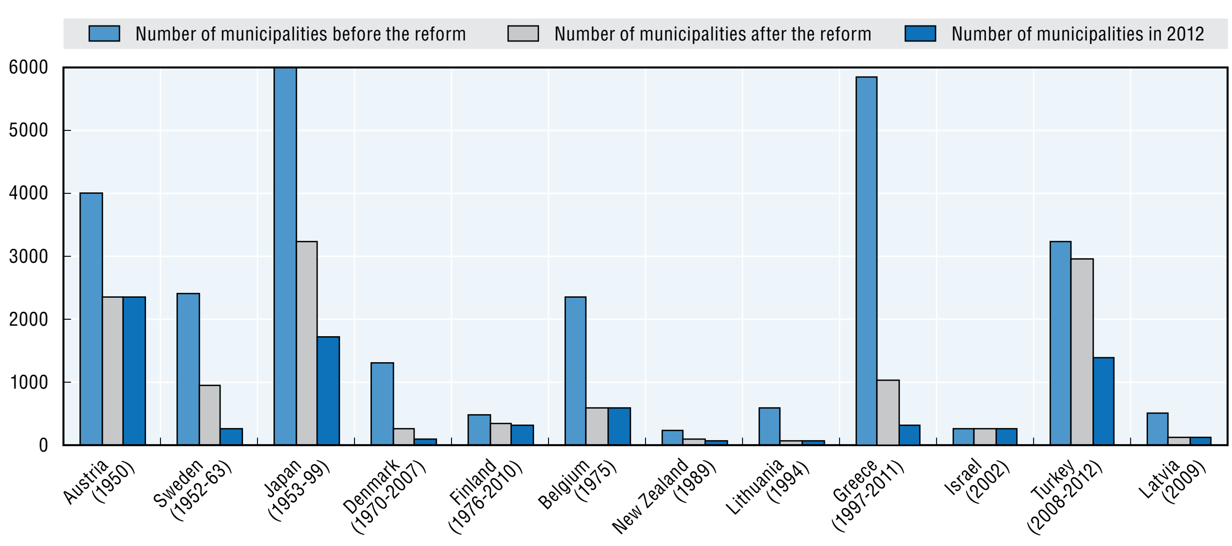
- **Municipal mergers:** to reduce the number of municipalities and increase their scale in terms of geography and population.
- **Inter-municipal co-operation:** to encourage arrangements that allow local jurisdictions to work together for certain common services or investments.
- **Metropolitan governance:** to address the special needs of larger cities and surrounding areas. These arrangements may take different forms but are specifically focused on metropolitan areas, as opposed to municipalities.

Municipal mergers have been planned or completed in half of OECD countries in the last 15 years (Annex 3.A2). Such reforms of sub-national governments may involve top-down decisions or bottom-up choices for merging or associating, either all at once or progressively. The national government may require all municipalities or other levels to merge according to a predetermined plan.

Alternatively, national governments may also require mergers but allow individual municipalities, intermediate layers or regions to choose their own partners, sometimes at their own pace and sometimes with a pre-set deadline.

Some countries have had successive waves of reforms. For example, Japan undertook mergers in 1953 (the great Shōwa mergers), 1999 (*Heisei no Daigappei*) and 2005-06, with two new laws strongly encouraging municipalities to merge, revised in 2010 (Figure 3.4). In federal countries, it is often the states/regions that have jurisdiction over the promotion of municipal mergers. The state of Western Australia initiated mergers in 2013 to reduce the number of metropolitan councils from 30 to 15 in 2015.

Figure 3.4. **Municipal merger reforms reduce the number of local governments: Country examples**



Notes: Japan: 9 868 municipalities in 1953; Turkey: 2012 law, effective after the March 2014 elections.

StatLink http://dx.doi.org/10.1787/888933106781

Municipal amalgamations in Finland, Iceland, the Netherlands and Norway, and have followed a relatively bottom-up approach, often relying on referenda. In Norway, the amalgamation reform reduced the number of municipalities first in the 1950s and then in 2003, when the government proposed a drastic reduction in the number of Norwegian municipalities. Following a referendum on the government proposal, only a small number of municipalities agreed to merge, but others have done so since then, reducing the overall number of municipalities from 744 in 1957 to 428 in 2012. In Finland, the 2007 PARAS reform encouraged voluntary mergers between municipalities through financial incentives. A new plan for municipal reforms, starting in 2014, is also based on voluntary mergers, with proposals to be provided by July 2014 and with the possibility that for the bigger urban areas, mergers may be imposed.

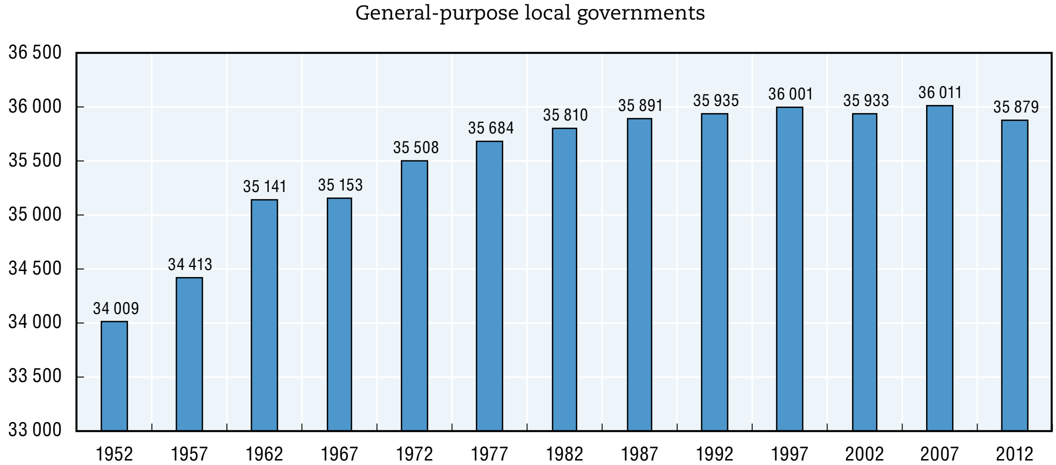
In other countries, including Denmark, Greece, Sweden and Turkey, forced amalgamations have been carried out. Under the 2007 reform in Denmark, compulsory mergers were carried out to create municipalities of at least 20 000 inhabitants; local authorities were free to choose the neighbouring municipalities with which they merged. To provide incentives for mergers, the responsibilities of the counties that were eliminated were transferred to municipalities. In Ireland, the local government programme underway (Local Government Reform Act 2014) will see structures reduced from 114 to 31. Through the merger of a number of city and county councils and the replacement of 80 town councils (an outdated town council system that was not fully representative of sub-county areas), a nationally representative system of sub-county governance, the municipal districts, will be established.

Elsewhere, however, the number of municipalities has remained relatively stable over the last few decades (Austria, Belgium) or even increased. In several Eastern European countries, the number of municipalities increased in the 1990s after the democratic transition from the Communist era, during which municipalities had been absorbed into larger units, with the Czech Republic (1993), Hungary (1992), Slovak Republic (1998) and Slovenia (2001) re-establishing historical municipalities. Today, to contend with municipal fragmentation, these countries tend to prefer inter-municipal co-operation to amalgamations.

In the United States, the number of municipalities, including towns and townships, increased by 5.5% between the 1952 census and 2012 (Figure 3.5). A small reduction in

Figure 3.5. **Number of municipalities, towns and townships in the United States**

General-purpose local governments



Source: Based on data from the US Census Bureau (2012), "Census", *www.census.gov/govs/cog2012* (accessed 19 March 2014).

StatLink http://dx.doi.org/10.1787/888933106800

numbers since 2007 has been mainly due to the elimination of 86 municipalities in Kansas and 37 in Nebraska. At the same time, the number of local special-purpose entities has decreased by 36%, due mainly to the consolidation of school districts.

In addition to reducing the sheer number of municipalities, these reforms also change the scale of the municipalities affected in geographic and population terms. As municipalities increase in size, there have been efforts to preserve a sense of proximity through a sub-municipal level. In some countries, sub-municipal bodies have legal status, such as the 3 091 *freguesias* in Portugal, which are active in providing public services. The examples of the 12 086 parishes in the United Kingdom and the 3 477 *Eup*, *Myeon* and *Dong* in Korea also show how a sense of local accountability can be preserved, despite a comparatively large average municipal size in terms of population. This additional institutional layer, not captured in the above statistics, is often a necessary counterpart to an increase in the size of a municipality, to ensure citizen acceptance.

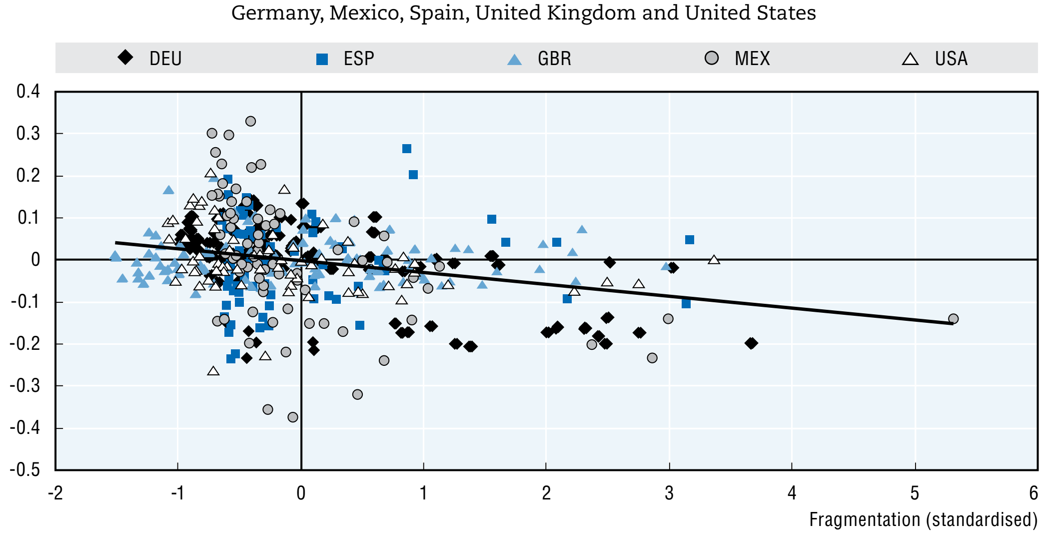
Studies on the actual cost savings associated with municipal mergers offer mixed results. Even though the motive for municipal amalgamation is often thought to be economies of scale – a larger municipality should be able to provide public services at a lesser unitary cost, thanks to greater negotiating power and the elimination of redundant functions of pre-merger municipalities – in practice, the main rationale is usually to improve the quality of services, effectively resulting in no cost savings. There may also be a transfer of responsibilities that requires more spending, rather than less, after the merger. Cost savings may not be realised until several years after the reform.

Large cities and metropolitan governance bodies

The prominence of cities is also quite evident in the reform process. In Finland, a law seeks to grant Helsinki and ten other urban areas a special status within the framework of the municipal reforms. In France, a 2014 law created new governance structures for the top

Figure 3.6. **Administration fragmentation and lower productivity**

Germany, Mexico, Spain, United Kingdom and United States



Source: Ahrend, R., C. Gamper and A. Schumann (2014), "The OECD Metropolitan Governance Survey: A quantitative description of governance structures in large urban agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz43zldh08p-en*.

StatLink http://dx.doi.org/10.1787/888933106819

three metropolitan areas of Paris-Île-de-France, Grand Lyon and Aix-Marseille-Provence, along with 11 others with more than 400 000 inhabitants throughout the country. In Italy, the metropolitan cities (*Città metropolitane*) will replace provinces in 10 urban centres from 2015. In Greece, several metropolitan responsibilities were transferred to the regions of Attica and Thessaloniki, as mandated by the Kallikratis reform. However, the Netherlands, within the framework of its 2012 decentralisation reform (Building the Bridges Agreement), has decided to abolish the eight city-regions created on a compulsory basis in 1995 through the WGR+ Act. The increased use of metropolitan governance as a tool for improving national performance reflects the growing recognition that large cities and their sphere of influence (metropolitan areas) require greater co-operation on a metropolitan-wide basis.

OECD analysis of the impact of horizontal fragmentation in metropolitan areas reveals lower productivity levels in cities with fragmented governance structures (Ahrend et al., 2014). The analysis of five OECD countries (Germany, Mexico, Spain, United Kingdom, and the United States) shows that for a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity (Figure 3.6). However, this negative effect on economic efficiency is mitigated by almost half when a governance body at the metropolitan level exists. In fact, the larger a city gets, the more likely it is to address fragmentation by setting up a metropolitan governance body: a 10% increase in population is associated with a 0.8% increase in the likelihood of having a metropolitan governance body (Ahrend, Gamper and Schumann, 2014).

Metropolitan governance bodies – broadly defined as bodies organising responsibilities among public authorities in metropolitan areas, including voluntary associations of municipalities, with few or no legal powers – are thus extremely common in OECD countries and exist in around two-thirds of OECD metropolitan areas. The number of metropolitan governance authorities created, of all types, has increased considerably in recent years. Among the 275 metropolitan entities with 500 000 or more inhabitants in OECD countries, 49 were created in the 2000s, and at least 15 more have been created in the first three years of this decade (Figure 3.7).

Around two-thirds of the metropolitan areas in the OECD now have a metropolitan governance body. Four common approaches to metropolitan governance range from soft co-ordination to formal metropolitan arrangements (Table 3.4). Two or more such metropolitan arrangements may coexist in the same country, and occasionally within the same region. In some instances, they can also encompass rural-urban partnerships within metropolitan areas. Such arrangements may be the result of a bottom-up choice on the part of municipalities, which are generally the administrative level (or policy unit) closest to citizens and the most comparable unit in cross-country analysis, or they may be chosen by upper levels of government. Both options may be promoted by national (or in federal countries, regional) level reforms.

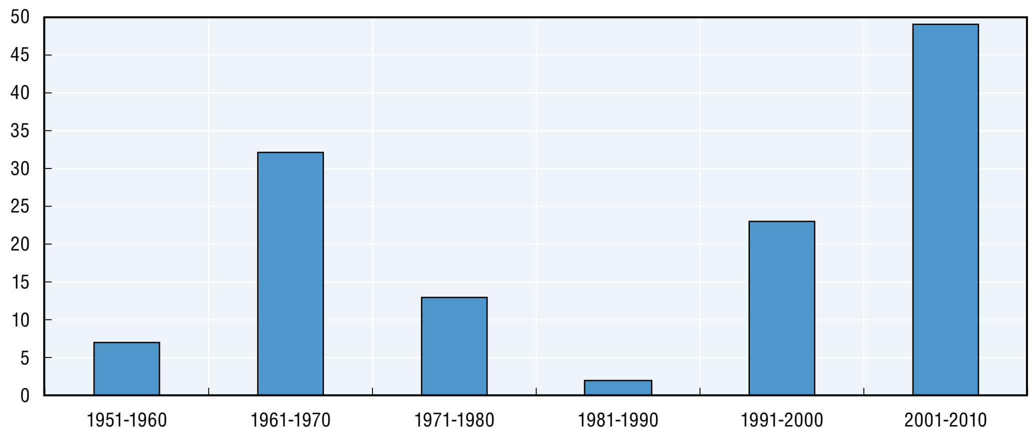
Different factors can guide the choice of a metropolitan governance model

Different countries establish varying patterns of metropolitan governance (Table 3.5), and a model that works in one metropolitan area may not be easily replicable in another. Identifying the most relevant arrangement for individual metropolitan areas remains a matter of political and social choice. It is conditioned by factors that vary from one country to another, and sometimes across metropolitan areas within the same country.

This variety of institutional contexts and local considerations must to be addressed on a case-by-case basis. Each type of arrangement carries its own set of strengths and

Figure 3.7. **Growing interest in metropolitan governance bodies**

Average number of metropolitan governance bodies created or reformed in OECD countries per decade



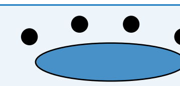
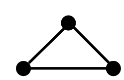
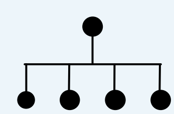
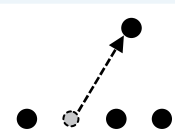
Note: See Annex 3.A1 for a definition of metropolitan governance institutions. See OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*, for the methodology of defining OECD metropolitan areas.

Source: Kim, S.-J., A. Schumann and R. Ahrend, (forthcoming), "What governance for metropolitan areas?" *OECD Regional Development Working Papers*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933106838

Table 3.4. **Four common approaches to metropolitan governance**

Dots represent a municipality or other form of local government

Informal/soft co-ordination. Often found in metropolitan areas with multiple urban centres, lightly institutionalised platforms for information sharing and consultation are relatively easy both to implement and to undo. They typically lack enforcement tools, and their relationship with other levels of government tends to remain minimal.	
Inter-municipal authorities. When established for a *single purpose*, such authorities aim at sharing costs and responsibilities across member municipalities – sometimes with the participation of other levels of government and sectorial organisations. *Multi-purpose* authorities embrace a defined range of key policies for urban development such as land use, transport and infrastructure.	
Supra-municipal authorities. An additional layer above municipalities can be introduced either by creating a directly elected metropolitan government, or with the upper governments setting down a non-elected metropolitan structure. The extent of municipal involvement and financial capacity often determine the effectiveness of a supra-municipal authority.	
Special status of "metropolitan cities". Cities that exceed a legally defined population threshold can be upgraded into a special status as "metropolitan cities", which puts them on the same footing as the next tier of government and gives them broader competences.	

Source: Kim, S.-J., A. Schumann and R. Ahrend, (forthcoming), "What governance for metropolitan areas?" *OECD Regional Development Working Papers*, OECD Publishing, Paris.

challenges, which need to be assessed relative to the national and metropolitan context. However, lessons on the *process* adopted to implement metropolitan reform can guide policy makers engaged in a similar path elsewhere – even if the ultimate objective is a different arrangement. Observations from OECD experience suggest a number of guidelines for effective metropolitan governance reform (Table 3.6).

Table 3.5. **Metropolitan governance models: Country by country**

Country	OECD defined metro areas	Overview
Australia	n.a.	No metropolitan area governance bodies exist, but states in some cases appear to take over some of the co-ordination functions often performed by dedicated metropolitan area governance bodies.
Austria	3	In two cases, associations of local governments exist, one with a planning orientation and another with a wider remit. In the third, there is no governance body.
Belgium	4	There are no dedicated metropolitan area governance bodies.
Canada	9	At least four different approaches to metropolitan governance are observed: *i)* none; *ii)* voluntary associations of local governments that serve only as policy exchange forums; *iii)* associations of local governments that serve as a planning organisation; and *iv)* governance bodies with far-reaching powers in service delivery and spatial planning (e.g. Vancouver and Montreal).
Chile	3	There are no dedicated metropolitan area governance bodies.
France	15	Compared to many other OECD countries, France has an institutionalised and relatively uniform approach to metropolitan area governance (the *communauté urbaine*), although Paris is an exception. Reforms to reinforce metropolitan governance around the largest cities are in progress.
Germany	24	Germany is characterised by an unusual diversity in the governance structures for metropolitan areas. Most common are associations of local governments (*Kommunalverbände)* found in 19 out of 24 cases. If they do have formal powers, it is most often in the field of spatial planning. In other examples, the primary city of the region has been merged with the surrounding counties to form so-called regional counties. In addition, Berlin, Hamburg and Bremen are all cities with state powers in the German federal system, even though two of them are also in an association. Another defining characteristic of German metropolitan governance is the universal presence of regionally integrated public transport systems.
Ireland	1	The Dublin Regional Authority is one of eight regional authorities in Ireland that were created in 1994. It serves as a policy exchange forum for municipalities and proposes regional planning guidelines.
Italy	11	Italy does not have dedicated metropolitan area governance bodies. The entity most closely approximating this function is the second level of sub-national government, the provinces. There are currently ongoing attempts to reform Italy's metropolitan area governance, notably for what is termed a metropolitan city (*Città Metropolitana).* In contrast to many other OECD countries, sectorial authorities for transport are relatively rare in Italian metropolitan areas.
Japan	36	Metropolitan governance bodies in Japan tend to be voluntary associations of local governments. In many aspects, they are comparable to voluntary associations of local governments in other OECD countries. However, they tend to play only a minor part in the governance of metropolitan areas in Japan.
Korea	10	Metropolitan area governance in Korea is primarily based on the concept of metropolitan city (광역시 / *gwangyeok-si*). The seven metropolitan cities have the status of a province, the highest level of sub-national government.
Mexico	33	Most metropolitan areas in Mexico are covered by metropolitan governance bodies. They were created in response to financial incentives from the federal government, which allocates special funds for metropolitan areas to them. Mexico has almost no sectorial authorities that are active across metropolitan areas.
Netherlands	5	Metropolitan governance is currently organised through *Plusregios*, a region in which municipalities are obliged to co-operate closely on a wide range of topics. They include, for example, transport and infrastructure provision, regional economic development, land use planning and housing. A reform that will abolish all mandatory co-operation within *Plusregios* is in progress, with their responsibilities passing mostly to the provinces (*provincies*).
New Zealand	n.a.	A merger of eight independent municipalities (territorial authorities) in 2010 created Auckland Council. Wellington and Christchurch do not have dedicated metropolitan area governance bodies, but regional councils – the highest level of local government in New Zealand – assume many of the typical functions of dedicated metropolitan governance bodies.
Poland	8	Dedicated metropolitan area governance is common in Poland. Four of the eight metropolitan areas have governance bodies through associations of local governments that serve primarily as forums of policy exchange. In other metropolitan areas, the first level of sub-national government (*voivodeship)* provides some of the functions of a typical governance body.
Portugal	2	The two metropolitan areas of Portugal, *Area Metropolitana de Lisboa* and *Area Metropolitana de Porto*, are covered by metropolitan area governance bodies. They were established in 1991 through a national law and are organised as associations of local governments.
Spain	8	Only the two biggest Spanish metropolitan areas have dedicated metropolitan area governance bodies. In the case of Madrid, the autonomous community of Madrid (*Comunidad de Madrid*) corresponds closely to the borders of the metropolitan area. Barcelona's metropolitan area governance body was founded with the explicit aim of creating a metropolitan area governance body. It is an association of municipalities and fulfils a wide range of tasks that are typically the responsibility of individual municipalities. There are no governance bodies in the remaining metropolitan areas in Spain.
Sweden	3	In all three metropolitan areas (Stockholm, Gothenburg and Malmö), voluntary associations of local governments exist. For Stockholm and Malmö, the respective counties (*Län*) correspond closely to the extent of the metropolitan areas and assume some of the functions of dedicated metropolitan area governance bodies.

Table 3.5. **Metropolitan governance models: Country by country** (*cont.*)

Country	OECD defined metro areas	Overview
Switzerland	3	Three metropolitan areas have voluntary associations of local governments that can be considered governance bodies. Those for Geneva and Basel are based on co-operation between cantons. The association of local governments for the region Zurich includes both cantons and municipalities as its members.
United Kingdom	15	Only four of its 15 metropolitan areas have governance bodies. Among them are the two Scottish metropolitan areas, Edinburgh and Glasgow, that have associations of local governments and focus on strategic spatial planning and regional development. The other two are the Greater London Authority, with a directly elected mayor, and the Greater Manchester Combined Authority.
United States	70	The structure of local governance is determined by the states, and the degree of local autonomy varies considerably. The governance of metropolitan areas in the United States revolves mainly around two pillars. The first consists of Councils of Governments, voluntary associations of local governments that function as a forum for regional policy exchange. The second is the Metropolitan Planning Organization (MPO).

Notes: See Annex 3.A1 for a definition of metropolitan governance institutions. With the exception of Australia and New Zealand, the definition of a metropolitan area is the one developed in OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*, for the methodology of defining OECD metropolitan areas.

Source: Ahrend, R. and A. Schumann (2014), "Approaches to metropolitan area governance: A country overview", *OECD Regional Development Working Papers*, No. 2014/03, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5j1q7s128-en*.

Reform of metropolitan governance is a long, multi-stage process. It takes time to create institutions and trust, and even once they are up and running, governance structures may need to be further adapted. Based on experience to date in OECD metropolitan areas, three main stages of reform need to be considered (Figure 3.8). First, the framework conditions relating to the economic, fiscal, political and social contexts need to shape the enabling environment for metropolitan governance reforms. In a second stage, to build the reform, its rationale, purpose and design need to be carefully integrated. Finally, in the implementation phase, the reform needs to be managed and sustained to ensure that it remains useful over time.

Metropolitan governance improves quality of life

Metropolitan governance bodies generally work on regional development, transport and spatial planning. However, considerable diversity persists in their legal status, composition, power, budget and staff, and hence in their impact on policy design and implementation. Of the two-thirds of metro areas with a governance body, more than half use informal/soft co-ordination arrangements (Figure 3.9 and Annex 3.A1).

Over 80% of metropolitan governance bodies address regional development, over 70% address transport and over 60% address spatial planning (Figure 3.10). More than half of metropolitan governance bodies are active in all three fields at the same time. This is probably due to the fact that in these fields, the demand from residents for a metropolitan-wide approach is higher. Furthermore, positive impacts (i.e. externalities) for working together are most obvious in these areas. Finally, these are fields where municipalities may find it easier to co-operate than in policy areas where they more actively compete, such as to attract firms or specialised public infrastructure.

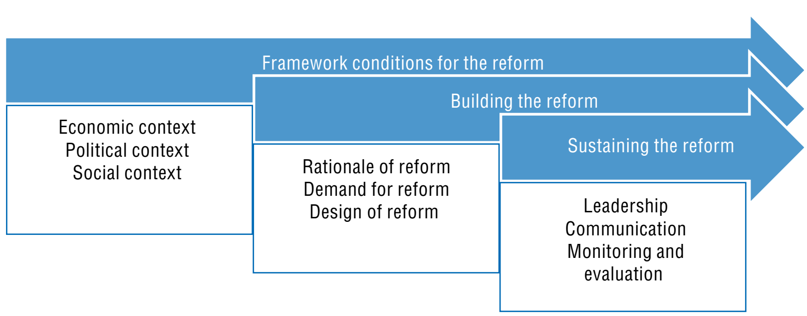
Around 60% of metropolitan areas analysed have a dedicated public transport authority. Metropolitan areas with public transport authorities report levels of air pollution that are approximately 8% lower than in those without them (as measured by levels of particulate matter, $PM_{2.5}$). Residents are also more satisfied with the public transport system in metropolitan areas with a public transport authority (Figure 3.11).

Table 3.6. **Effective metropolitan governance reforms: Lessons from OECD countries**

Lesson	Description	Example
Identify a common cause for collaboration and build on (as well as communicate) successful collaboration outcomes.	Starting with small-scale and concrete projects can sometimes help rally forces and progressively lead to setting a "big picture", as success breeds success and trust.	In Barcelona, three sectorial inter-municipal authorities (transport, environment and planning) were created in 1987. After participating in the formulation of a metropolitan strategic plan with the municipality of Barcelona in 1999, a metropolitan authority of Barcelona was set up in 2011.
Develop metropolitan leadership and/or ownership.	A relevant personality and/or institution often plays a pivotal role in steering change and creating and maintaining momentum for reform. The reform needs a strong advocate as the engine of the process. Clear demand for reform may stem from different constituencies.	In France, impetus towards governance reforms in the three largest metropolitan areas has been largely (if not exclusively) driven by the central government in Paris; local governments in Lyon (municipalities and *département*); and the private sector, as well as the central government in Marseille.
Empower and engage stakeholders at an early stage, and ensure accountability and transparency.	Those who are the ultimate recipients of governance/policy (and have the continuity that political bodies do not), such as citizens, businesses and universities, need to be brought on board at the very beginning of the process. Policy makers, citizens and relevant parties require clear information both on short-term and long-term gains/losses.	The Montreal Metropolitan Community created a mixed committee of elected officials and citizens to jointly organise a biennial set of debates among elected officials and civil society to discuss the implementation of the Strategic Metropolitan Plan 2031. The first series of debates took place in February and March 2013.
Strengthen the evidence base and track progress.	Solid background research and scrutiny from unbiased experts can help create and sustain credibility for the reform. Strong, reliable instruments for monitoring and evaluation contribute to fostering continuous improvement.	In Canada, the Greater Toronto CivicAction Alliance convened all three levels of government with business, labour, academic and non-profit sectors after its diagnostic report "Enough Talk: An Action Plan for the Toronto Region" (2003). It convenes a Greater Toronto Summit every four years to lead collective action on pressing issues such as transport, energy and socio-economic inclusion.
Provide (or secure) sources of financing.	Metropolitan public finance is often the nexus of political resistance, as governments are torn between the search for fiscal autonomy and dissuasive taxation. Securing an appropriate stream of financial resources helps to avoid unfunded mandates and often determines effective collaboration. In addition to traditional fiscal tools (e.g. own taxes, grants and transfers, fees), strategic partnerships with the business and financial community can be instrumental in gathering additional resources for public investment.	Former Mayor of London Ken Livingstone built a close relationship with the London Chamber of Commerce and Industry, the local branch of the Confederation of Business Industry and London First – inviting them to sit on the newly created London Business Board (2000), which convened frequently.
Balance clear time frames and flexibility.	Providing visibility in the short and long term will allow actors to anticipate the next steps of the process, while leaving room for trial and error, as well as midway adjustments.	In Sweden, governance reforms have first been tested in a few pilot regions (Västra Götaland around Gothenburg, and Skåne around Malmö) with a multi-annual timeline and evaluation mechanisms, before extending the formula to other interested regions.).

Source: Kim, S.-J., A. Schumann and R. Ahrend, (forthcoming), "What governance for metropolitan areas?" *OECD Regional Development Working Papers*, OECD Publishing, Paris.

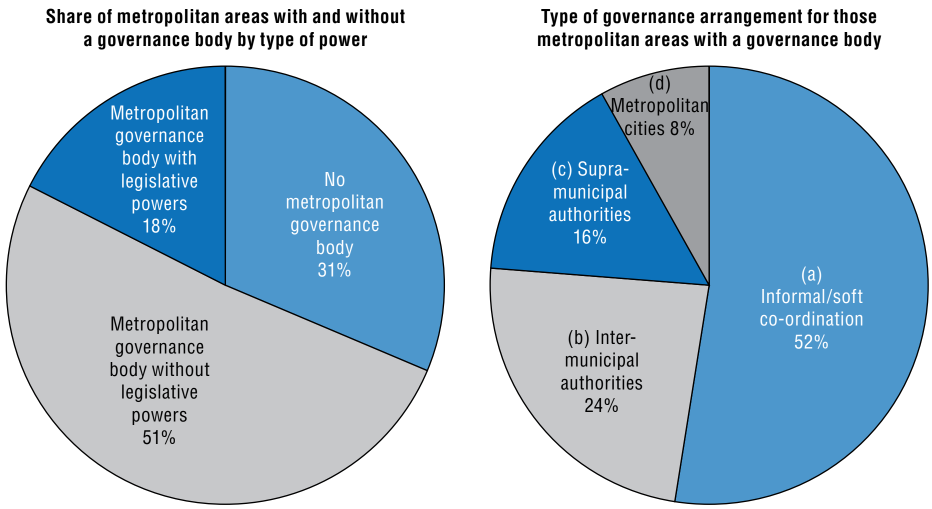
Figure 3.8. **Metropolitan governance reform involves three steps**



Source: Kim, S.-J., A. Schumann and R. Ahrend (forthcoming), "What governance for metropolitan areas?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Figure 3.9. **When metropolitan governance exists, it is often informal/soft co-ordination**

Breakdown of metropolitan areas by type of governance arrangement



Notes: Based on a sample of 263 metropolitan areas of 500 000 inhabitants or more in the OECD.
Source: Kim, S.-J., A. Schumann and R. Ahrend (forthcoming), "What governance for metropolitan areas?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

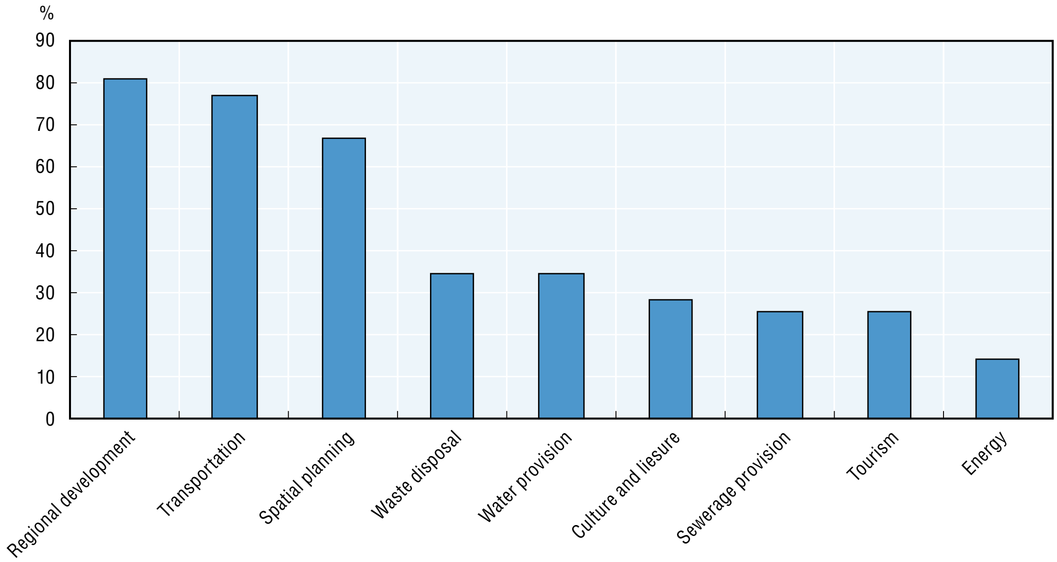
StatLink http://dx.doi.org/10.1787/888933106857

Spatial planning for appropriate land management is the next most common field of work for metropolitan governance bodies. Inter-municipal co-ordination in spatial planning helps to avoid duplication of investment and wasted public resources, at a time when resources are increasingly scarce. Taking a metropolitan-wide approach to transport and spatial planning helps to avoid challenges that may otherwise be accentuated in metropolitan areas:

- **Strategic metropolitan impact versus individual municipal decisions.** The sum of individual municipal decisions in transport and spatial planning does not form a coherent metropolitan development plan. Failures in co-ordinating individual municipalities' transport and spatial planning policies generate substantial costs at the metropolitan scale in terms of congestion, duplication of investment and under-use or misuse of land.
- **Public sector versus private sector leadership.** Transport systems are an important tool for public authorities to shape urban development. Land development, however, is often largely driven by private sector development, as the market indicates land use preferences. The influence of public regulations on market choices may sometimes be marginal. The disconnection between publicly provided transport infrastructure and privately led land development is even more evident at the metropolitan level, calling for more effective, metropolitan-wide co-ordination.
- **Long-term versus short-term time horizons.** Land use decisions may sometimes be implemented rapidly, whereas large-scale transport projects are typically carried out over a medium- to long-term period and are often hard to reverse. The benefits of strategic integration between transport and land use are frequently not visible until ten or more years have elapsed, in contrast with political mandates that are likely to require visible short-term gains, such as for job creation.

Figure 3.10. **Regional development, transport and spatial planning are the core responsibilities of metropolitan governance bodies**

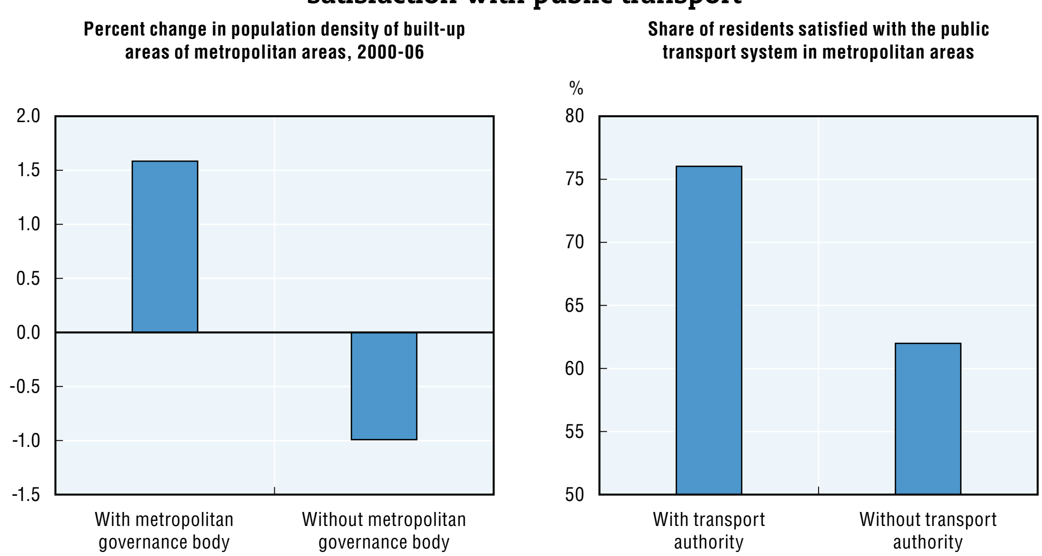
Share of metropolitan governance bodies active in a policy field



Note: An authority may cover several policy areas simultaneously.
Source: Ahrend, R., C. Gamper and A. Schumann (2014), "The OECD Metropolitan Governance Survey: A quantitative description of governance structures in large urban agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz43zldh08p-en*.

StatLink *http://dx.doi.org/10.1787/888933106876*

Figure 3.11. **Metropolitan-wide planning leads to less urban sprawl and greater satisfaction with public transport**



Notes: An increase in population density of built-up areas is interpreted as an indicator of densification of the metropolitan area, whereas a decrease of population density suggests sprawl. Right graph refers to OECD-defined metropolitan areas found in European Union countries.
Source: Ahrend, R., C. Gamper and A. Schumann (2014), "The OECD Metropolitan Governance Survey: A quantitative description of governance structures in large urban agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz43zldh08p-en* and OECD calculations.

StatLink *http://dx.doi.org/10.1787/888933106895*

Newly created metro authorities face challenges

While the factors that guide the choice of a specific metropolitan governance model will vary, a newly created metropolitan authority will need to:

- **co-ordinate**, both horizontally between municipalities and across policy sectors, and vertically with upper levels of government.
- **act** institutionally and financially, in terms of staff, budget and power.
- generate **trust** to be perceived as legitimate by citizens, non-governmental organisations (NGOs), other levels of government and the private sector.

The presence of a metropolitan authority does not necessarily guarantee policy co-ordination

Identifying the incentives that shape the behaviour of people and institutions is critical to making co-ordination effective (Bartolini, 2013). While large metropolitan areas are typically wealthier than smaller regions, they also face greater spending needs. The core city often must finance public infrastructure for commuting workers who pay taxes elsewhere. Consideration must be given to how best to develop incentives to co-operate, particularly financial incentives.

The structure of fiscal systems in metropolitan areas will play a role in supporting or constraining joint growth goals. Municipal tax revenues can be designed to encourage economic development. They can be associated with revenue sources that are more, rather than less, diversified to avoid volatility and ensure stability in financing. Inter-governmental grants can be designed to promote solidarity and responsible fiscal behaviour rather than over-reliance on transfers. User fees such as congestion taxes can be used to address the negative spillovers of metropolitan areas. The ability of municipalities in a metropolitan area to borrow in a responsible manner will support their financial capacity to carry out necessary large-scale investments together.

Budgets and staff of metropolitan governance bodies reflect variation in their powers

The powers of metropolitan governance bodies vary greatly across the OECD. Fewer than one out of five OECD metropolitan areas have a governance body that can impose regulations. These bodies tend to be supra-municipal bodies or metropolitan cities, the arrangements associated with the larger metropolitan areas on average. A metropolitan authority with fewer formal powers will be obliged to rely on the willingness of the actors involved to co-ordinate and compromise. Metropolitan authorities with few or no formal powers can facilitate information exchange and foster compromise, but they cannot force them. For a metropolitan project to be successful in the long run, actors must be willing to continue co-operation without regard to personal or political affiliations.

Faced with complex fiscal challenges, metropolitan areas often struggle to translate a sometimes painfully achieved co-ordination consensus into concrete fiscal arrangements for joint action. Municipalities and higher levels of government may concur on the need to set up a metropolitan co-ordination mechanism, but disagree on how to finance it. Even when a metropolitan governance body has been created with a clearly defined mandate for co-ordination, it may remain underfunded and/or understaffed.

Such challenges explain the dominance of the "softest" types of metropolitan governance arrangements, which involve only minimal disruption in existing institutions and financing. Informal/soft co-ordination bodies and supra-municipal authorities, however varied they may be, typically have annual budgets of around USD 10 per capita or less (Figure 3.12). Inter-municipal bodies usually have budgets of intermediate size, around USD 200 per capita. All three categories are dwarfed by the budgets of metropolitan cities, whose functions are usually close to those of the superior level of government. Staff numbers roughly follow budgets, with somewhat greater variation.

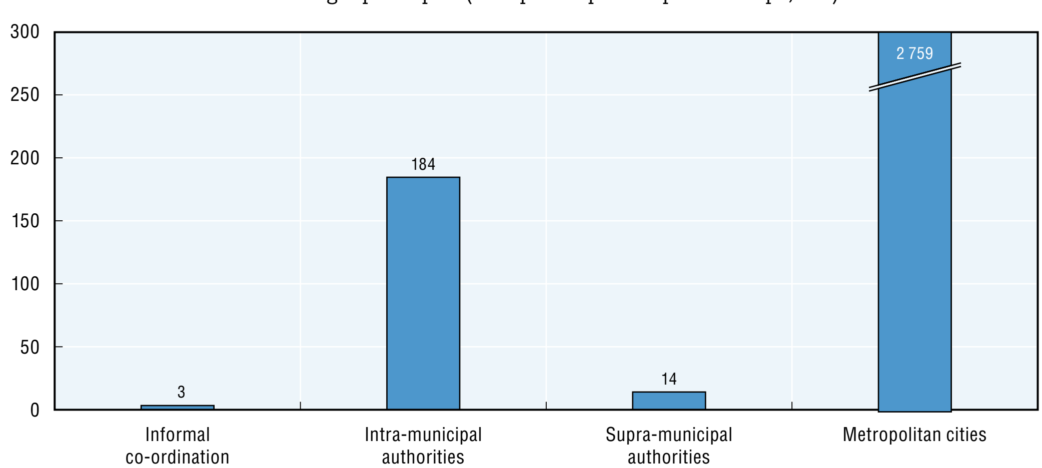
Large metropolitan governance authorities are not always understood by residents

Taking account of citizens' concerns and preferences in decision-making processes at an early stage and through more systematic consultation can contribute to building trust in metropolitan authorities. In general, the level of trust that people have in their neighbours, other residents of the city and their city administration declines as city size increases (Figure 3.13). Economic efficiency arguments in favour of greater metropolitan integration are often not enough to gain trust. About 65% of metropolitan governance bodies are composed of elected local government officials (e.g. mayors of municipalities). Nonetheless, only 10% of metropolitan governance bodies are themselves directly elected, and they typically correspond to the most formalised types of governance, such as supra-municipal authorities[3] or metropolitan cities.

Civil society and the private sector are key partners in the development of metropolitan areas, but are rarely formally involved in governance. Beyond purely electoral considerations, metropolitan governance bodies have increasing difficulty engaging non-governmental actors who can voice the needs of an economically, socially and culturally more diverse population. However, only 9% of metropolitan governance bodies include representatives of the private sector or other interest groups. Moreover, these bodies tend to have the fewest responsibilities compared to bodies that do not include civil society representation.

Figure 3.12. **Budgets of metropolitan governance bodies vary significantly**

Median budget per capita (USD public-private partnerships, PPP)

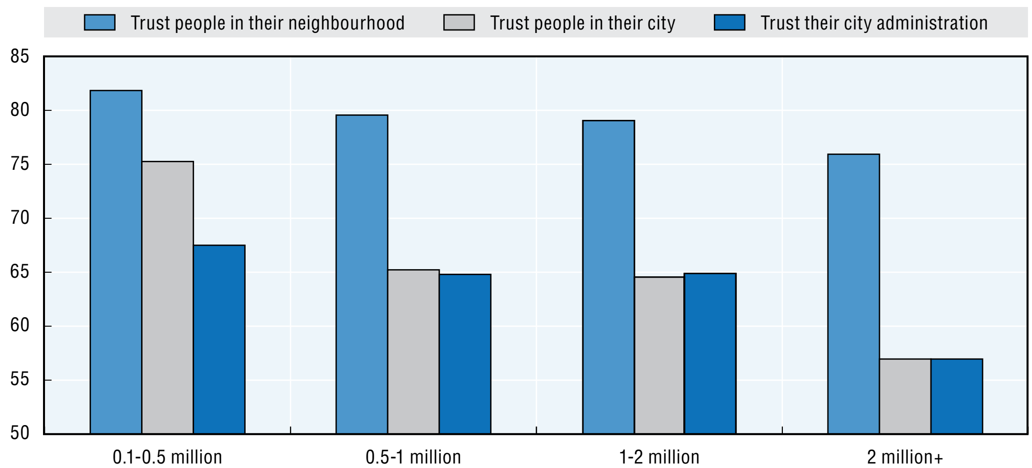


Source: Ahrend, R., C. Gamper and A. Schumann (2014), "The OECD Metropolitan Governance Survey: A quantitative description of governance structures in large urban agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz43zldh08p-en.*

StatLink *http://dx.doi.org/10.1787/888933106914*

Figure 3.13. **The larger the city, the lower the level of trust**

% of residents who trust people in their neighbourhood, people in their city and their city government, by population size



Notes: Data refer to OECD-defined metropolitan areas found in European Union countries.
Source: OECD calculations based on Eurostat (2012), Urban Audit: Perception Survey, *http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/city_urban/perception_surveys*.

StatLink http://dx.doi.org/10.1787/888933106933

Key policy implications

- National governments should carefully review the range of policies that have an impact on cities to ensure the development of urban areas as places with their own character and development potential.
- Promote modern rural development policies that recognise growth factors and ties to urban areas.
- Accelerate institutional reforms of sub-national governments to achieve greater cost savings but also to delegate certain additional responsibilities.
- Introduce reform at the municipal level to reduce fragmentation with a special focus on improving the governance of large metropolitan areas.

Notes

1. Those countries are Estonia, Finland, Iceland, Ireland, Israel, Luxembourg, Slovenia and Portugal.
2. According to the 2012 Census of the US Census Bureau, that figure was 51 146.
3. One exception to this rule is the practice of supra-municipal bodies in Mexico (OECD, 2013c).

Bibliography

Ahrend, R. and A.C. Lembcke (forthcoming), "Economic and demographic trends in cities", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R. and A.C. Lembcke (forthcoming), "Gross- and net-agglomeration benefits: Cross-city disparities in Germany", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Ahrend, R. and A. Schumann (2014), "Approaches to metropolitan area governance: A country overview", *OECD Regional Development Working Papers*, No. 2014/03, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz5j1q7s128-en*.

Ahrend, R., C. Gamper and A. Schumann (2014), "The OECD Metropolitan Governance Survey: A quantitative description of governance structures in large urban agglomerations", *OECD Regional Development Working Papers*, No. 2014/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz43zldh08p-en*.

Bartolini, D. (2013), "The role of incentives in co-operation failures", *OECD Regional Development Working Papers*, No. 2013/09, OECD Publishing, *http://dx.doi.org/10.1787/5k46bj4t4nxs-en*.

Dexia (2008), *Sub-national Governments in the European Union: Organisation, Responsibilities and Finance*, Dexia Editions, Paris.

Dexia-Council of European Municipalities and Regions (CEMR) and I. Chatry (2012), *Sub-national Public Finance in the European Union*, Dexia Crédit Local.

Eurostat (2012), Urban Audit: Perception Survey, *http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/city_urban/perception_surveys*.

Glaeser, E.L. and D.C. Maré (2001), "Cities and skills", *Journal of Labor Economics*, Vol. 19, No. 2, University of Chicago Press, pp. 316-342.

Greater Toronto CivicAction Alliance (2003), "Enough Talk: An Action Plan for the Toronto Region".

Hurricane Sandy Rebuilding Taskforce (2013), *Hurricane Sandy Rebuilding Strategy: Stronger Communities, A Resilient Region*, report presented to the President of the United States, August 2013, *http://portal.hud.gov/hudportal/HUD?src=/sandyrebuilding*

Kim, S.-J., A. Schumann and R. Ahrend (forthcoming), "What governance for metropolitan areas?", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

OECD (2014a), *Innovation and Modernising the Rural Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264205390-en*.

OECD (2014b), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en*.

OECD (2014c), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en*.

OECD (2014d), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en*.

OECD (2014e), *Water Governance in the Netherlands: Fit for the Future?*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264102637-en*.

OECD (2013a), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204812-en*.

OECD (2013b), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy*.

OECD (2013c), *OECD Reviews of Risk Management Policies: Mexico 2013: Review of the Mexican National Civil Protection System*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264192294-en*.

OECD (2013d), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264197022-en*.

OECD (2013e), *Policy Making after Disasters: Helping Regions Become Resilient – The Case of Post-Earthquake Abruzzo*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264189577-en*.

OECD (2012a), *Promoting Growth in All Regions*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174634-en*.

OECD (2012b), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*.

OECD (2010), *Regional Development Policies in OECD Countries*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264087255-en*.

OECD (2006), *The New Rural Paradigm: Policies and Governance*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264023918-en*.

US Census Bureau (2012), "Census", *www.census.gov/govs/cog2012* (accessed 19 March 2014).

ANNEX 3.A1

Methodological note on metropolitan governance

Definition of metropolitan governance bodies

For statistical purposes, an organisation is classified as a metropolitan governance body (Ahrend, Gamper and Schumann, 2014) when it meets the following four criteria:

i) Geographical scope: The organisation must cover the central city and a large share of the remaining parts of the metropolitan area. If its geographical scope extends beyond the metropolitan area, the metropolitan area must constitute the predominant part of its sphere of responsibility.

The geographical focus of an organisation has to lie in the metropolitan area in order to be considered its governance body. In particular, both the central city and the surrounding areas must be represented in it.

In practice, it rarely happens that the geographical extent of a governance body coincides perfectly with the geographical extent of the metropolitan area. Furthermore, in many countries, there is no official definition of metropolitan area. Therefore, the geographical scope can be somewhat different from the metropolitan area, as long as it shows a clear focus on the metropolitan area.

ii) Involved actors: National or sub-national governments must be dominant actors within the organisation, or the organisation itself must have the status of a sub-national government.

National and sub-national governments are the most important actors in metropolitan area governance. This has to be reflected in the composition of the governance body, which must be predominantly composed of representatives of such governments. While governments are the most important actors in metropolitan area governance, they are not the only ones. Therefore, the condition does not rule out other actors, such as the business community or representatives of civil society, for representation on the governance body.

In some countries, organisations that were created explicitly for the purpose of metropolitan area governance have the status of a full local government. These organisations typically present the most integrated approach to metropolitan area governance and are also considered governance bodies.

iii) Thematic focus: The organisation must primarily deal with issues that are directly and predominantly relevant to metropolitan area governance.

Metropolitan governance concerns a wide range of topics. While it is not possible to provide an exhaustive list, all concern policy fields that require co-ordination between parts of the metropolitan area. Often, these are issues where decisions in one part of the metropolitan area have spillover effects on other parts. Furthermore, the issues should be directly relevant for metropolitan areas. They should appear more frequently or have a higher relevance in metropolitan areas than in other areas.

In practice, the jurisdictions of many sub-national governments coincide with metropolitan areas. Usually, such sub-national governments were not created with metropolitan area governance in mind and do not focus on it. Instead, they fulfil functions that are similar to other sub-national governments of the same level that do not cover metropolitan areas. They are consequently not considered governance bodies as long as they have not received particular powers or responsibilities that strengthen their role as a metropolitan area governance body.

iv) Thematic breadth: An organisation must have a mandate that allows it to work on more than one issue related to metropolitan area governance.

This criterion serves to distinguish metropolitan area governance bodies from single-issue bodies and sectorial authorities. Metropolitan area governance concerns issues that can rarely be viewed in isolation, because they tend to interact with each other. To be considered a metropolitan area governance body, an organisation must be able to address this complexity.

Transport authorities in metropolitan areas

Among sectorial authorities in metropolitan areas, public transportation authorities are by far the most common and often the ones that have the highest budgets. An organisation was considered a transport authority if it focuses exclusively on public transport in a metropolitan area and is responsible for its strategic planning, independently of whether or not it has the authority to make strategic decisions. This definition distinguishes transport authorities from other public organisations or from private companies that operate the public transport systems in metropolitan areas but have little influence on their general design.

There is a large variety of transport authorities among OECD metropolitan areas. At one end of the spectrum, some organisations are only responsible for strategic public transportation planning and employ a staff in the low double digits. At the other end of the spectrum, other organisations plan and operate the entire public transport system of a metropolitan area themselves and employ several tens of thousands of employees. No attempt was made to distinguish between those sectorial authorities, as the amount of information available is fairly limited, and the organisational structures tend to be complex and difficult to compare across countries.

Data on metropolitan governance bodies

The results presented here are based on information collected from publicly available sources on the Internet between May and December 2013. For most metropolitan areas, comprehensive information on governance structures can be found online. If no mention of a governance body or a transport authority is found at all, it is assumed that they do not exist. Generally, the information on governance bodies appears up to date and has a reasonably high level of detail. As most information comes from official websites of governance bodies and local governments, its accuracy can be trusted with a high degree of confidence. However, it can never be ruled out that there are individual cases in which the information is inaccurate, incomplete or out of date. In particular, when no information on a governance arrangement could be found online, there is always a small possibility that such an arrangement exists nevertheless.

The data covers 263 areas, which are divided as follows: 252 out of the 275 metropolitan areas in OECD countries that have been identified using the methodology described in OECD (2012a); and 11 large city-regions from Australia and New Zealand (two OECD countries where no metropolitan areas have yet been defined). In order to be classified as a metropolitan area, an urban area needs to have at least 500 000 inhabitants. The average population per metropolitan area is slightly below 2 million, and the median population is slightly above 1 million people. The smallest metropolitan areas in the sample have populations of roughly 500 000, whereas the largest one, Seoul, has more than 20 million inhabitants.

Table 3.A1.1. **Number of OECD metropolitan areas in the "Metropolitan Area Governance Survey", by country, 2013**

Australia	Austria	Belgium	Canada	Chile	France	Germany
8	3	4	9	3	15	24
Ireland	Italy	Japan	South Korea	Mexico	Netherlands	New Zealand
1	11	35	10	26	5	3
Poland	Portugal	Spain	Sweden	Switzerland	UK	United States
8	2	8	3	3	14	68

The information from the *Metropolitan Area Governance Survey* has been merged with other data sources, including the *OECD Metropolitan Database*, which contains 44 indicators for the 275 metropolitan areas that have been identified. In addition, perception surveys from Eurostat's Urban Audit have been used.

ANNEX 3.A2

Municipal and metropolitan reforms

Table 3.A2.1. **Municipal and metropolitan reforms have picked up pace in recent years**

	Municipal mergers		Inter-municipal co-operation	Metropolitan governance	Comments
	One-shot	Progressive			
Australia	Territorial reforms designed and implemented by individual states (mergers, inter-municipal co-operation).				• From 1992 to 1998, several states initiated merger policies: South Australia (reducing 119 municipalities to 69), Tasmania (from 46 to 29), Victoria (from 210 to 79) and Queensland, and more recently: New South Wales (2004) and Western Australia (2013). Overall, the number of municipalities fell from 869 in 1980 to 565 today (-35%). • Various states have launched metropolitan reforms, creating metropolitan authorities such as Brisbane.
Austria	Territorial reforms designed and implemented by individual *Länder* (mergers, inter-municipal co-operation). However, a Constitutional law, adopted in 2011, reinforced inter-municipal co-operation at a federal level.				• Several *Länder* reduced the number of municipalities in the 1960 and 1970s, e.g. Lower Austria (from 1 652 municipalities to 673). • Inter-municipal co-operation is strongly supported (under the Constitutional Law).
Belgium	1975		X		• In 1975, municipalities were reduced from 2 359 to 596 and later to the present total of 589. • Territorial reforms have been under regional jurisdiction since the Special Act of 13 July 2001.
Canada	Territorial reforms designed and implemented by individual provinces (mergers, inter-municipal co-operation).				• Municipal merger policies initiated by the provinces of Nova Scotia (1995-96), Ontario (1996-2002), New Brunswick (progressive), Quebec (2000-06) and Manitoba (2013). • Several metropolitan cities have been created: Toronto, Ottawa, Montreal, Vancouver, Halifax, etc.
Czech Republic			X		• A territorial reform has been planned since 2000-02, including incentives for closer inter-municipal (Act 128/2000 Coll. on Municipalities) co-operation. Municipal mergers are possible. They depend on municipalities if they decide to merge, but little impetus for such reform exists at present.
Denmark	1970 and 2007			Special status given by 2007 reform to Greater Copenhagen	• 1970: from 1 386 boroughs and municipalities to 275 • 2007: from 271 to 98
Estonia	2014-17		X		• A municipal merger policy planned for 2014-17 would merge the current total of 215 municipalities (since October 2013) into a total of 30 to 50 municipalities.
Finland	2014	X		Planned reform for Helsinki Metropolitan Area and other urban areas	• 2014: A new municipal merger policy is planned on a bottom-up basis, excluding 10 municipalities in urban areas.

Table 3.A2.1. **Municipal and metropolitan reforms have picked up pace in recent years** (*cont.*)

	Municipal mergers		Inter-municipal co-operation	Metropolitan governance	Comments
	One-shot	Progressive			
France	1971 and 2010		X	New metropolitan status (2013)	• Failure of the 1971 merger policy (Marcellin law) as well as of the 2010 territorial reform creating the status of "new municipality" (*commune nouvelle* for the merged entity). • Law December 2013: new metropolitan status for 14 metropolitan areas. • Act III of decentralisation (2014-15) could encourage further municipal mergers.
Germany	Territorial reforms designed and implemented by individual *Länder* (mergers, inter-municipal co-operation).				• Several municipal mergers were carried out by the *Länder* in the 1970s (Baden-Württemberg, Hessen, North Rhine-Westphalia), after 1990 in the former East Germany (e.g. in Brandenburg in 2003) and, more recently, in Land Saxony-Anhalt (from 1 015 municipalities in 2008 to 222 in 2012). Mergers are planned in Rhineland Palatinate for 2014. • Overall, the number of German municipalities decreased from 16 216 in 1990 to 11 327 in 2012 (a drop of 30%). • Inter-municipal co-operation is also strongly encouraged by the *Länder*.
Greece	1997 and 2011			New status for Attica and Thessaloniki.	• 1997 (Capodistrias plan): from 5 825 to 1 033 municipalities and communities • 2011 (Kallikratis reform): from 1 033 municipalities and communities to 325 municipalities and regional status for the metropolitan areas of Attica and Thessaloniki
Hungary		X	X		• The Cardinal (Implementing) Act on Local Government (December 2011) stipulates that small municipalities (under 2 000 inhabitants) must regroup their administrative services within local government offices. Around 85% of all municipalities arranged their administrative services in 545 joint offices as of April 2014.
Iceland		X			• Voluntary mergers have reduced 229 municipalities in 1950 to 170 in 1995 and to 74 today.
Ireland	June 2014		Shared services programme		• After the local elections of May 2014, the 114 local governments were to be replaced by 31 city and county councils including two new merged "city and county councils," and municipal districts will also be established.
Israel	2002				• 2002 reform has reduced the number of municipalities from 264 to 253.
Italy			X	2014 law creating a new status for the 10 *Città metropolitane*	• 2011: The plan to eliminate small municipalities of under 1 000 inhabitants seems to have been abandoned. • Law 53/2014: Ten Italian provinces will become "metropolitan cities" by 31 December 2014, with the approval of the Statute of each metropolitan city (10 major Italian metropolitan areas). • Inter-municipal co-operation is encouraged, in particular for municipalities with fewer than 5 000 inhabitants.
Japan	1953 and 1999	X (since 2005-06 laws)			• 1953 (Great Shōwa): from 9 868 to 3 232 • 1999 (*Heisei no Daigappei*): from 3 232 to 2 190 • 2005-2006 (new laws): from 2 190 to 1 719 today • Today: The objective is to reach around 1 000 municipalities, but no timetable has been established.
Korea				1995: special status	• 1995: Seoul and the six metropolitan areas with more than 1 million inhabitants have provincial status.
Luxembourg		2009-17	Formal agreements		• The number of municipalities is planned to be cut from 116 in 2009, to 71 in 2017 (there were 106 in 2012). • Inter-municipal co-operation: a number of cities and adjacent municipalities have signed formal agreements or "conventions" with the ministry, aiming at safeguarding more sustainable development.
Netherlands		X	X	Plan to abolish city-regions	• The current policy framework favours municipal mergers (May 2013). • Inter-municipal co-operation is encouraged, for instance through shared services centres (e.g. for social services). • 2014: Bill abolishing the eight city-regions (WGR+ regions) by January 2015.

Table 3.A2.1. **Municipal and metropolitan reforms have picked up pace in recent years** (*cont.*)

	Municipal mergers		Inter-municipal co-operation	Metropolitan governance	Comments
	One-shot	Progressive			
New Zealand	1989		X	2010: creation of the Auckland Council	• 1989: around 850 municipalities and special-purpose bodies were consolidated into 86 local authorities. • Inter-municipal co-operation: 2013 Local Government Act 2002 Amendment Bill encourages more collaboration and shared services between local authorities. • 2010: amalgamation of eight regional, city and district councils to include the full metropolitan area and form the Auckland Council.
Norway	1957-67	X			• 1957-1967: reduction of the number of municipalities from 744 to 454. • 1974-1977: the number increased by 11, followed by a period of relative stability. • Between 1988 and 2014, the number of municipalities gradually decreased to 428.
Poland			X		• Fiscal incentives for voluntary amalgamations have been proposed. • Introduction of the “territorial contracts” was intended to strengthen partnership and improve co-ordination of territorially oriented activities of various stakeholders.
Portugal			X	2003: special status for metropolitan areas of Lisbon and Porto	• The number of parishes (sub-municipal entities) was reduced under the laws of November 2012 and January 2013 by 30%, from 4 259 to 3 091. • Since 2003, the metropolitan areas of Lisbon and Porto have enjoyed special status.
Slovak Republic			X		• Municipalities co-operate in the framework of municipal joint offices.
Slovenia					• The government proposal to abolish municipalities with less than 5 000 inhabitants was postponed until 2018.
Spain			X		• The Project of Law for Rationalisation and Sustainability of Local Administration, currently under discussion at the Parliament, envisages mergers of small municipalities (less than 5 000 inhabitants).
Sweden	1952	1962-86			• Municipal one-shot reform in 1952 (from 2 414 to 949), then progressive reform from 1962-86.
Switzerland	Territorial reforms designed and implemented by individual cantons (mergers, inter-municipal co-operation).				Progressive reduction of municipalities by cantons. Overall, a decrease of 20% between 1990 and 2012.
Turkey	2008 and 2012			Metropolitan cities status	• 2008: “Scale Reform Act”: compulsory amalgamation for municipalities with fewer than 2 000 inhabitants. Reduction from 3 225 to 2 950 municipalities. • 2012: a law published in December 2012 reduced the number of municipalities from 2 950 to 1 395, as of March 2014 elections. • 14 new “metropolitan cities” will be established in addition to the existing 16 after the March 2014 elections, under the 2012 Law.
United Kingdom	1992 (Scotland); 2009 (England); 2015 (Northern Ireland)	X	England: Shared Service Agreements	• Greater London Authority special status • England: launch of the City Deals	• Scotland (1992): since 1992, 32 unitary councils have replaced regional and district councils. • England (2009): A new round of local government reorganisation through “unitary councils,” initially created in 1996-98, has consolidated county and district council functions into a new single Authority; 35 councils were abolished. • Northern Ireland (2015): The Local Government Reform will reduce the number of county councils from 26 to 11.
United States	Territorial reforms designed and implemented by individual states (mergers, inter-municipal co-operation).				• From 1952 to 2012, the number of municipalities (including towns and townships) has increased by 5.5%. Over the same period, the number of local special-purpose entities, e.g. school districts, has decreased by 36%.

Source: Various sources compiled by OECD, Dexia (2008), *Sub-national Governments in the European Union: Organisation, Responsibilities and Finance*, Dexia Editions, Paris, and Dexia-Council of European Municipalities and Regions (CEMR) and I. Chatry (2012), *Sub-national Public Finance in the European Union*, Dexia Crédit Local.

PART II

Special focus: Tools for more inclusive growth in regions and cities

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

PART II

Chapter 4

Public investment: Smart, co-ordinated and efficient

This chapter highlights the importance of sub-national investment for the competitiveness of regions and cities and the well-being of their residents. Public investment serves to leverage private investment, needs to be tailored to the specific conditions in the region, and often involves different levels of government. Three sets of challenges and the associated 12 principles for smarter investing are discussed. Co-ordination challenges need to be addressed at several levels (among national ministries, between national and sub-national governments, and across local jurisdictions), to obtain better results and avoid wasted spending or investments that work at cross-purposes. Capacity at sub-national level is also needed to make these critical investment choices in a transparent manner. Finally, helpful framework conditions, regarding financing and procurement practices as well as the regulatory environment, set the stage for making smarter investments.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Key issues

- Sub-national governments were responsible for 72% of the USD 1.2 trillion in direct public investment in 2012 (equivalent to 2% of gross domestic product [GDP]) across the OECD. Overall, public investment amounts to 15% of total direct public and private investment and serves to leverage private investment. However, the annual level of sub-national investment has not yet recovered to pre-crisis levels. In OECD countries, the bulk of investment spending is on operation and maintenance of past investments, which for EU countries was around 70%.
- Sub-national public investment influences future competitiveness. Around 37% of sub-national public investment is allocated to economic affairs (transport, communications, economic development, energy, construction, etc.). Approximately 23% is used for education, and a further 11% is allocated to housing and community amenities.
- Effective public investment requires co-ordination between national and sub-national levels of government, which helps explain why almost half of OECD countries use incentives to cultivate co-operation across sub-national governments. The chances of long-term sustainable growth are maximised by encouraging and integrating complementarities across investment priorities (e.g. infrastructure development, skills, innovation, etc.).
- Empirical evidence shows that public investment and growth are correlated with the quality of government, including at the sub-national level. Strengthening regional and local governance capacity, from the selection of projects to their execution, enhances the potential of investment, the priority being to address the most binding capacity constraints.

Public investment is a significant lever for regional development

Public investment plays a critical role in addressing inequalities, rebuilding trust, restoring growth and enhancing well-being. Its impact depends to a significant extent on how governments manage their shared investment responsibilities across levels of government. As public investment is one of the most discretionary and flexible budget items, policy choices are particularly important, especially in a context of scarce fiscal resources. If it is well managed, public investment, as one of a range of options for public expenditure, can offer the greatest potential for growth. By contrast, poor investment choices waste resources, erode public trust and impede growth opportunities.

Regional and local authorities are on the front lines in building resilient economies, and supporting or detracting from effective investment. They shoulder an important part of the burden for welfare, education and environmental issues across OECD countries, as well as for infrastructure development. These responsibilities account for almost three-quarters of the volume of sub-national direct public investment across the OECD.[1] Effective public investment requires substantial co-ordination across levels of government to bridge information, policy or fiscal gaps that may arise, as well as critical governance capacities at different levels to design and implement public investment projects.

To help countries address these challenges, the OECD developed a set of Principles on Effective Public Investment Across Levels of Government, which were adopted in March 2014 as an official OECD recommendation[2] (see Annex 4.A1). The purpose of the OECD Principles is to help governments at all levels assess the strengths and weaknesses of their public investment capacity, using a whole-of-government approach, and to set priorities for improvement. The principles are grouped into three pillars, which represent systemic multi-level governance challenges for public investment:

- **Co-ordination challenges**: Cross-sector, cross-jurisdictional and intergovernmental co-ordination is necessary, but difficult in practice. Moreover, the constellation of actors involved in public investment is large, and the interests of the different parties may need to be aligned.
- **Capacity challenges:** Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests that public investment and growth outcomes are correlated with the quality of government, including at the sub-national level.
- **Challenges in framework conditions:** Good practices in budgeting, procurement and regulatory quality are integral to successful investment, but not always robust or consistent across levels of government.

Public investments matter for growth, sustainable development and well-being

In 2012, OECD countries spent USD 1.17 trillion in public investment, accounting for 2.7% of OECD GDP and 15% of total public and private investment. These overall figures mask variation across and within countries. For example, regional variation in terms of public investment as a percentage of regional GDP can range from less than 2% to up to 15% in certain regions.

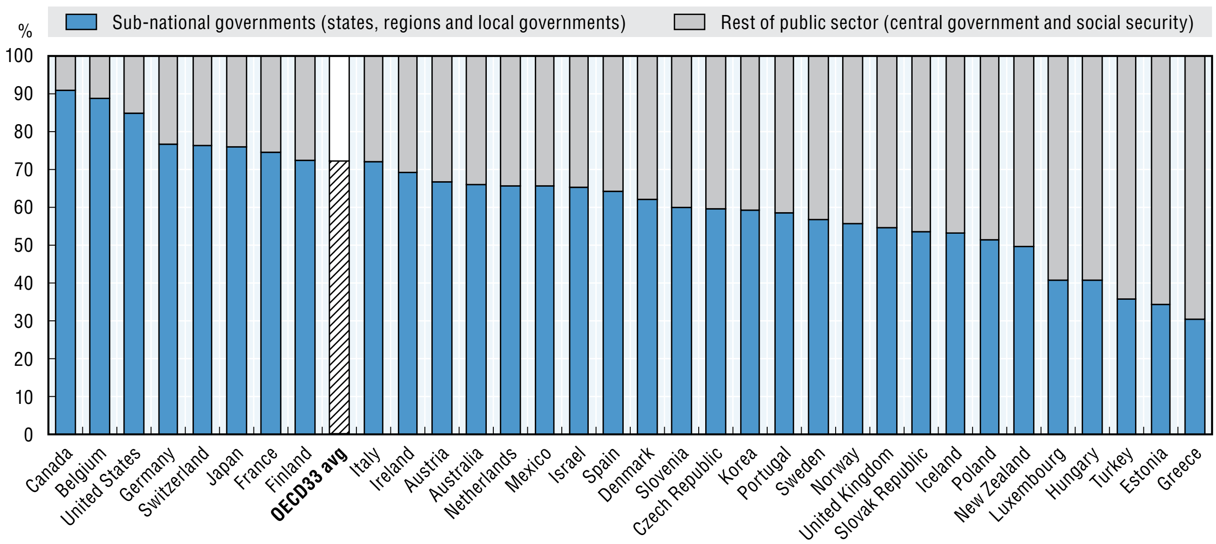
Overall, regional and local governments play a significant – and increasing – role in public investment. Sub-national governments undertook 72% of total public investment in 2012 across the OECD area in terms of volume (Figure 4.1). This ratio tends to be higher in federal countries (such as Belgium, Canada, Germany, Switzerland and United States,) where it represents a combination of investments by the federated states and from local government. However, in some unitary countries, such as France and Japan, local government investments also represent a major share of public investment.

Most of the sub-national public investment goes to areas of critical importance for future economic growth, sustainable development and citizens' well-being (Figure 4.2). In terms of total investment by sub-national governments across the OECD, 37% is allocated to economic affairs (transport, communications, economic development, energy, construction, etc.). Approximately 23% of public investment is used for education, which helps determine the quality of the future labour force. A further 11% is dedicated to housing and community amenities. Health care and environmental protection are also major areas of investment for sub-national governments.

Public investments also have a direct impact today, given the large share spent on maintaining existing infrastructure. In EU countries, around 70% of public investment is spent on maintenance costs associated with past infrastructure investments.[3] The United States' transport and water sectors account for 52% of public spending, with

Figure 4.1. **Sub-national governments are responsible for most direct public investment**

Sub-national share of country's public investment, 2012

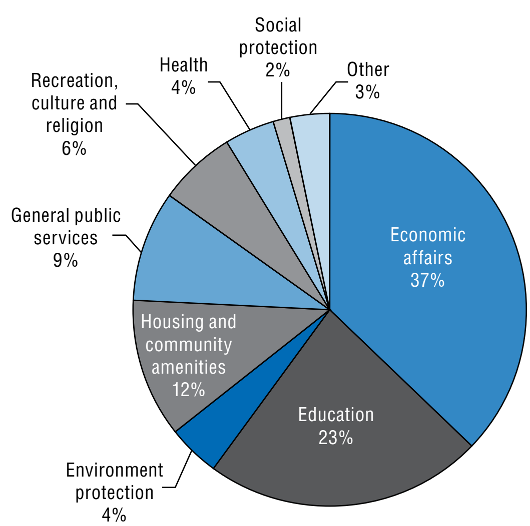


Source: OECD (2013), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy* based on data from OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 20 July 2012).

StatLink http://dx.doi.org/10.1787/888933106952

Figure 4.2. **Sub-national public investment is a potential driver of competitiveness**

Share of direct public investment by economic function undertaken by sub-national governments, 2011



Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en.*

StatLink http://dx.doi.org/10.1787/888933106971

sub-national governments responsible for nearly 90% of that maintenance expenditure (US Congressional Budget Office, 2010). Deferred maintenance is a common strategy in times of budget pressure, but it can erode the quality of critical public infrastructure, resulting in unusable school buildings and hospital facilities, as well as closed bridges and road congestion. Not only can long-term disinvestment and scrimping on maintenance erode the value of assets, but they also have negative consequences for well-being and competitiveness.

Public investment has been the adjustment variable in a tight fiscal context

Fiscal consolidation has recently put public investment under pressure. As one of the most flexible items in the budget, public investment has been used as an adjustment variable. Investments peaked in 2009, with stimulus packages, but the annual level across the OECD has not yet recovered to pre-crisis levels. As compared with 2007 levels, public investment per capita in 2012 had fallen in 15 out of 33 OECD countries. In a majority of countries, public investment was cut back in order to reduce sub-national budget deficits and preserve current expenditure on welfare, health and education. This decline was particularly acute in such countries as Iceland, Ireland, Italy, Portugal and Spain. In Spain, the volume of sub-national public investment has decreased by 30% on average per year since a peak in 2009 in real terms, from EUR 35 billion to EUR 12 billion in 2012. In the 27 countries of European Union, the drop in public investment was over 7% annually from 2009-12, more than one-fifth in three years. A few countries did substantially increase their sub-national public investment per capita in 2012 relative to 2007 levels, as in Canada, Denmark, Finland and Sweden. A sustained contraction in public investment at a time of sluggish growth may have negative long-term consequences for national growth and societal well-being.

Given that public budgets across the OECD are likely to remain tight for an extended period, all levels of government will have to do better with less, by spending smarter. The challenges are much broader than just *financing* investment. Even when investment funding is available, different levels of government may lack the appropriate governance tools to make the best use of investment funds (OECD, 2011a).

Co-ordination helps avoid duplication and find joint interests for investment

The first pillar of the principles addresses co-ordination challenges for effective public investment and focuses on three main recommendations: *i)* investing, using an integrated strategy tailored to different places; *ii)* adopting effective co-ordination instruments across national and sub-national governments; and *iii)* co-ordinating among sub-national governments to invest at the relevant scale. Many challenges for co-ordination ("multi-level governance gaps") across levels of government are not unique to public investment. However, the prospects for investment are complicated by other factors, including long time horizons or limited information about likely (or feasible) outcomes.

Co-ordination is difficult because it implies different types of costs

Collaboration for public investment strategies across sub-national governments and levels of government is difficult, even in situations where the actors involved recognise the need for it. Transaction costs, competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided, can all impede efforts to bring governments together. While many of the challenges identified in responses to the OECD questionnaires in 2012 concern classic co-ordination failures, issues concerning the flow of information in both directions were particularly prominent.

The disincentives and impediments to collaboration are numerous, such as inter-jurisdictional competition. Fiscal frameworks often promote certain tax or spending practices that provide disincentives for collaboration. Regulatory and other policy impediments may also render co-ordination less attractive. Eligibility criteria for certain programmes may enable spending in one of the jurisdictions due to investment criteria, but not in another (such as with EU Structural Funds).

Collaboration across jurisdictions and levels of government takes time, has a learning curve and has different types of costs, which tend to rise as the number of jurisdictions rises. Different mechanisms can help limit costs and maximise benefits of co-ordination: these include defining targets of co-ordination *ex ante*; establishing credible co-ordination mechanisms, with incentives and clear political engagement; allowing flexibility in their implementation, and avoiding too many instances of co-ordination, which can be counterproductive. Important factors include a high degree of transparency and trust among actors, as well as information-sharing mechanisms with citizens, private actors, non-governmental organisations (NGOs) and local actors. Leadership, which can be found at all levels of government, is also critical in resolving the collective problems that co-ordination poses.

Vertical and horizontal co-ordination maximise the impact of investments

Investments should be tailored to the needs of the places they aim to serve

To make the most of any investment, mutually reinforcing policies are needed to help facilitate its success. OECD analyses have noted that infrastructure investment alone has little impact on regional growth unless it is associated with human capital and innovation (OECD, 2009a). Growth effects are likely to appear only when positive externalities exist in the region; otherwise the economic returns from investment may be negative. If a region is to benefit from a new road, school or any other type of public investment, certain conditions in terms of complementary local infrastructure or services must be met. Such complementarities are easier to identify at the regional and local levels, so sub-national governments have a key role to play to construct and combine these complementarities into integrated strategies.

Differentiated investment strategies are required to tailor investment to local needs and the competitive advantages of individual regions. Opportunities for growth exist everywhere, but the way forward is different for different places (OECD, 2012a) and investment needs differ depending on their density, economic structure and level of development (Box 4.1). Governments should therefore design and implement investment strategies tailored to the place the investments aim to serve.

There are several elements of a good investment strategy. It should be results-oriented, and have clearly defined policy goals. It should also be realistic and well-informed, based on evidence that points to the region's ability to make fruitful use of investments. However, as conditions change, strategies need to be forward-looking, with investments that can position regions for competitiveness and sustainable development in the context of global trends. Good data is also needed to underpin good decisions. Governments should encourage the production of data at the right sub-national scale to inform investment strategies and produce evidence for decision making. Such data may be collected by statistical agencies but also through administrative records, other data sources and citizens themselves.

Box 4.1. **Building and analysing data to support public investment strategies**

France: DATAR, the French inter-ministerial delegation to promote regional attractiveness and development, developed a good practice guide and worked with regions to develop custom-built regional innovation strategies. DATAR has also supported efforts to collect data at sub-national scale, including support to the EuroLIO (*l'Observatoire Européen des Données Localisées de l'Innovation*), which brings together several French research centres for sub-national data and analysis on innovation. It also supports efforts to understand cross-border regions with neighbouring countries.

Chile: The Sub-secretariat for Regional and Administrative Development (SUBDERE) has established a Regional Observatory, which provides comparative statistics on each region. Three categories of statistics are available: *i)* economic variables, *ii)* social variables and *iii)* territorial environment variables. The system is used to produce a quarterly publication, with data for each region. The platform is open to comments and inquiries from users to help meet their specific needs for information.

Mexico: The National Institute of Statistics and Geography (INEGI) has developed an integrated system of geo-referenced data, matching information coming from different sources and at different geographical detail. For example, georeferencing provides data on criminal offenses and links them with other information for strategic decision making. Budgeting based on indicators links budget allocations to regional socio-economic variables, to provide simulations for future funding, based on policy objectives such as fighting poverty.

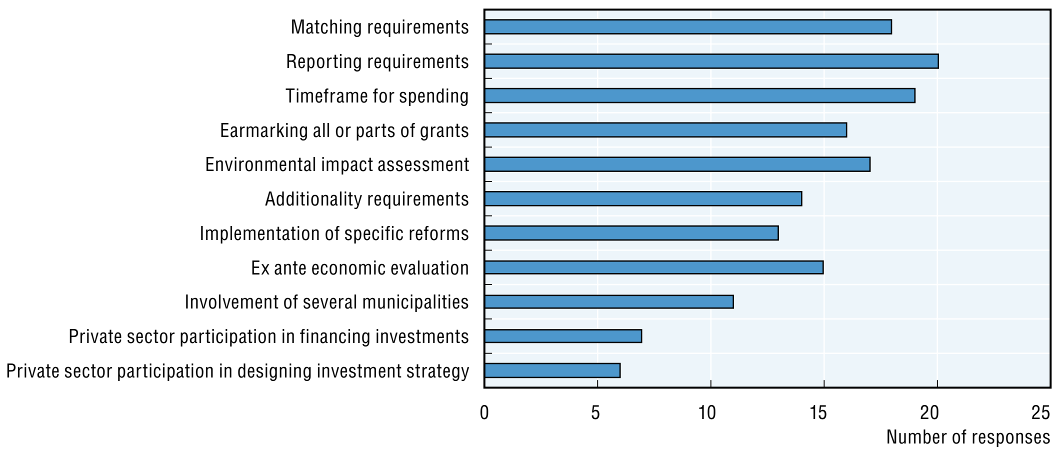
Tools for co-ordination across national and sub-national governments

OECD member countries employ various mechanisms for strengthening vertical co-ordination across levels of government. These include national strategies with clearly defined goals for public investment, national territorial representatives, nationally funded regional development agencies, contracts and formal agreements between levels of government (OECD, 2013c), co-financing, formal consultation processes, platforms for regular intergovernmental dialogue and *ad hoc* co-ordination arrangements. Approaches can be used individually or in combination (OECD, 2013c). Their application depends on the national context, the issues to be addressed and the objectives targeted.

Co-financing of public investment is among the most basic forms of national/sub-national co-ordination. This helps secure the commitment of national and sub-national actors to the success of a project. National co-financing can ensure that national priorities are reflected in regional development projects, and conversely, that regional priorities are reflected in projects undertaken by the national government. It can also be an important mechanism for risk sharing on investment projects. A prerequisite is, of course, that there be ample funds at the sub-national level to co-finance.

Special conditions ("conditionalities") are often associated with co-ordination for public investment. There may be conflicting or complementary agendas for the investment, depending on the perspective at each level of government. For example, the construction of major new transport infrastructure may be seen by the national government as a tool to facilitate trade flows. The region, by contrast, may be more concerned with using its procurement activities associated with the project to promote the development of local small- and medium-sized enterprises (SMEs). Local authorities may be chiefly concerned with minimising the noise and other negative local externalities. That is why higher levels of government often include specific conditions in the financing or co-financing of public investments (Figure 4.3).

Figure 4.3. **Different types of conditions associated with co-financed public investment**



Note: Countries were able to list more than one condition.

Source: OECD (2012), "Multi-level governance of public investment", national and regional case study questionnaires, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

StatLink http://dx.doi.org/10.1787/888933106990

Contracts are formalised arrangements generally used to co-ordinate investment between national and sub-national governments. In most cases, this implies some form of co-financing and stipulated conditions. These instruments for cross-governmental co-ordination are frequently agreed upon by high-level political actors and often include earmarked budgets to ensure implementation, as well as clearly defined mechanisms to resolve any conflicts that arise.[4] They are used in around half of OECD countries (OECD, 2013c) and are common in federal as well as unitary countries (e.g. Canada, France, Italy, Portugal, Spain). Contracts are often designed with high-level engagement and specifically earmarked multi year budgets. They can help foster partnership rather than a top-down approach, and contribute to capacity building. They can also provide a flexible, tailor-made framework that can clarify the assignment of responsibilities across levels of government that are otherwise often imperfect (Box 4.2 and Table 4.1)

National bodies in charge of sub-national co-ordination are one common tool for co-ordinating policies for regional development across different levels of government. Another is the use of forums where sub-national representatives can meet. In Italy, political dialogue is ensured through the State-Regions Conference, a permanent negotiating arena. The Council of Australian Governments (COAG) is well known across the OECD as an effective forum for such federal-state policy dialogue (Box 4.2). In Germany, there are so-called "conferences" or "joint tasks" in specific sectors, like science or regional development, in which different levels of government regularly gather to determine policy priorities. In the United States, several bodies exist, including the White House Rural Council and regional commissions. In addition, national-level investment planning relies on investment plans drawn up at the sub-national level. In Canada, the provinces meet among themselves to determine investment priorities, while federal arms of the government are represented in the provinces, through structures such as the regional federal councils or the regional development agencies. Their interests lie not only in representing the central government's priorities in the provinces but also in conveying provincial preferences to the federal authorities.

Box 4.2. **Council of Australian Governments (COAG): National-regional dialogue**

The COAG is the main forum for the development and implementation of inter-jurisdictional policy. With the Australian prime minister as its chair, it includes state premiers, chief ministers of each territory and the president of the Australian Local Government Association.

The COAG was established in May 1992, but since 2007, the implementation of the COAG reform agenda has been boosted by new Commonwealth leadership and new working arrangements at COAG, including the use of working groups of senior state officials chaired by a Commonwealth minister, to identify areas for reform and develop implementation plans.

Under the auspices of the COAG, ministerial councils facilitate consultation and co-operation between the Australian government and state and territory governments in specific policy areas, and take joint action in the resolution of issues that arise between governments. In particular, ministerial councils develop policy reforms for consideration by COAG and oversee the implementation of policy reforms agreed upon by COAG.

In 2006, the states established a Council for the Australian Federation (CAF), comprising all the states' premiers and territory chief ministers. The CAF aims to facilitate COAG-based agreements with the Commonwealth by working towards a common position among the states, as well as common learning and sharing of experiences across states.

COAG meetings have displayed a high degree of collaboration among state, territory and Commonwealth political leadership as well as agency officials, who participate in COAG decision making through heads of government meetings, ministerial councils and working groups.

Source: OECD (2010), *OECD Reviews of Regulatory Reform: Australia 2010: Towards a Seamless National Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264067189-en*.

Table 4.1. **Examples of inter-governmental contractual arrangements to implement regional development policy**

	Austria	Netherlands	Poland	Sweden	United Kingdom
Contract name (year established)	Territorial Employment Contracts (1997)	Rural Contracts (2006)	Regional Contracts (2001)	Regional Growth Agreements (2000)	Local Strategic Partnerships
Contract objective	Increase the co-ordination of employment policies across levels of government to enhance labour market performance	Increase the co-ordination of rural policy between levels of government by shifting competences to the provincial level	In theory, a tool for co-ordinating regional development policy across levels of government	Increase cross-level co-ordination, while stimulating reflection on regional priorities at the sub-national level and introducing "regional lens" for a range of sectorial policies of the central government	Increase co-ordination for local development priorities through the design of a Sustainable Community Strategy (and local/multi-area agreements)
Contract description	Co-ordinate co-operation between labour policy actors: improve the flow of information and harmonise strategic and operative labour market policies between the federal, Land and district authorities; includes the development of a strategy as well as joint programme development and financial co-ordination	Instrument for translating the goals of the central government's Agenda for a Living Countryside into measurable targets at the provincial level; negotiating financial allocations for rural policy interventions by provincial authorities. Strong monitoring of compliance with the targets, based on negative sanctions rather than performance rewards	Instrument for co-ordinating regional policy and regional public investment across levels of government, with a strong bias towards the use of EU Structural Funds	Instrument for enhancing horizontal and cross-level co-ordination, by aligning the priorities of the regional strategic programmes to the central government's overarching goals; aligned with the EU Structural Funds framework; emphasis on strategic co-ordination; little attention paid to implementation and monitoring	Local strategies and agreements for implementation should consolidate efforts at the local level through the development of joint priorities, as well as targets and indicators against which they are measured – and subsequently rewarded – based on performance

Source: OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264197022-en*.

Incentives can help sub-national governments co-ordinate investment at the relevant scale

Co-ordination on all aspects of public investment is not necessarily feasible, but at a minimum, the aim is not to work at cross-purposes across jurisdictions or levels of government. Spillovers and efficiencies of scale are key drivers for planning and implementing investment projects co-operatively. Policy making that reflects functional economies, rather than administrative boundaries, will consider these issues. The water sector provides an interesting example of the difficulty of co-ordinating a public investment (Box 4.3). Water policies intersect with a wide array of sectors and are implemented at various geographical scales. Fragmentation across places is due to a mismatch between water basins and local boundaries.

Better co-ordination across municipalities and regions is essential in the approximately 141 000 general-purpose sub-national governments across the OECD. In metropolitan areas, the challenge is particularly striking. In some cases, the number of local governments may be in the hundreds or over a thousand. Sub-national horizontal co-ordination is essential to encourage investment in the presence of positive spillovers, to increase efficiency through economies of scale, and to enhance synergies among policies of neighbouring (or otherwise linked) jurisdictions, such as localities, cities, counties or regions.[5] It is important for physical infrastructure provision, where the efficient scale often extends beyond the administrative boundaries of individual regions or localities, and for investments in human capital development and innovation, where administrative and functional boundaries may not coincide.

To help, governments can offer incentives and/or seek opportunities for co-ordination across regional and local jurisdictions, to match public investment with the right geographical scale. Almost half of OECD countries have mechanisms in place to foster cross-regional and cross-local government collaboration for public investment (Figure 4.4). Some encourage both. Federal or quasi-federal countries virtually all report the existence of such mechanisms across federal units. Some traditionally centralised countries tend, as a rule, to put less emphasis on horizontal collaboration, although there are some important exceptions, such as Finland and France. The mechanisms employed to foster inter-jurisdictional collaboration vary widely, from "harder" legal or financial incentives, to

Box 4.3. **Water policy: The challenge of co-ordination**

Water policy is a particularly fragmented area of natural resource infrastructure and requires effective co-ordination across institutions, policies and places. Indeed, institutions in the water sector are both governmental and non-governmental, and also involve other stakeholders including the water users themselves. The relevant policies for water management do not only involve the water sector, and may concern other policies such as land use, transport planning, etc. In addition, the types of places include both urbanised and rural areas.

Responsibility for water policy is distributed across many different institutions. Water policy involves a range of stakeholders at various levels of government and requires adopting a "systemic" approach for effective implementation on the ground. This implies managing the explicit or implicit sharing of policy-making authority, responsibility, development and implementation at different levels of government. The relationships involved include: *i)* across different ministries and/or public agencies at central government level (upper horizontal co-ordination); *ii)* across different actors at the sub-national level (lower horizontal co-ordination); and *iii)* between different layers of government at local, regional, provincial/state, national and supranational levels (vertical co-ordination).

Box 4.3. **Water policy: The co-ordination challenge** *(cont.)*

The water sector highlights the need to align interests across different types of places. The urbanisation trend will affect the way water is managed across administrative boundaries and water-related policy areas, generating strong dependencies between urban cores and their rural hinterlands. There are different categories of cities (size, spatial patterns, governance structures and demographic patterns), which have important implications on their capacities to cope with water management challenges (infrastructure investment needs, managing resources and services at the relevant scale, engaging partnerships with their hinterlands, fostering inter-sectorial complementarities). Several governance tools can be used to manage these challenges. Policy fragmentation isolates water policy from areas such as economic development and land use. Water policies intersect with a wide array of sectors and are implemented at various geographical scales. For policy coherence, and to deal with fragmentation and failures of co-ordination, it is essential to identify synergies across policy areas. Co-ordination is needed across water management functions (drinking water supply, wastewater management, drainage, flood protection) and beyond the water chain (mainly in the domains of economic development, land use, spatial planning, biodiversity, ecosystems and energy).

Regional and local actors can play a crucial role in identifying policy complementarities in the water sector and in finding innovative solutions. In general, municipal and regional authorities are well situated to develop new policies and programmes for specific geographic, climatic, economic and cultural conditions. They are equally well placed to develop innovative policy solutions that can be scaled up into regional or national programmes, or to provide incubators for national pilot programmes at the urban level. Local governments respond to a variety of water policy issues, from reducing water consumption to preventing disruption to the water system, in connection with other policy fields such as environment, spatial planning and agriculture. In addition, they are more likely to influence popular water habits than higher levels of government and to adjust policies to adapt to changing behaviour.

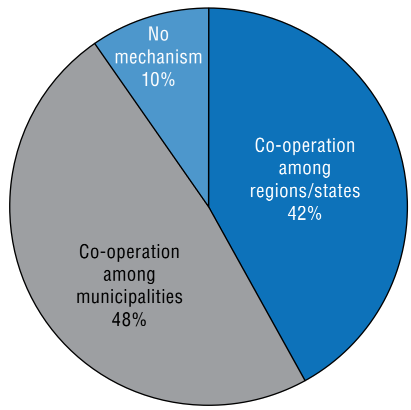
Aligning objectives and incentives can help deal with the fragmentation of policies beyond the water chain. Typically, water management shows linkages with environmental and agricultural policy, given the harmful consequences of the use of fertilizers and pesticides; with spatial planning and land use, because territorial developments and infrastructure projects might have a negative impact on water systems; and with energy, as different uses of water might raise the question of disparities among people and places. In many OECD countries, contradictory interests often hinder the adoption of convergent targets across sectors, while pursuing policy objectives independently often leads to incoherence. Policy coherence can be achieved by exploiting win-win situations, avoiding conflicts and managing trade-offs (OECD, 2012c). In Singapore, lowering water consumption through conservation makes it possible to pursue multiple objectives at the same time.[1] In Israel, there is an explicit co-ordination between policies for water allocation and energy.[2] In the Netherlands, legal instruments, such as "space for water", enhance the co-ordination of water management and spatial planning, while local taxation of regional water authorities can provide useful information about the potential costs of specific land-use proposals (OECD, 2014b).

The example of the 2011 Administrative Agreement on Water Affairs in the Netherlands illustrates the potential cost savings from greater co-ordination between national and sub-national governments. Water management in the Netherlands is carried out at all government levels. Central government, provinces (of which there are 12), regional water authorities (24) and municipalities (408) all have concrete tasks and responsibilities in this policy area, though for municipalities, the responsibilities have more to do with public works in general, including urban drainage, than with strictly water-related activities. The 2011 Administrative Agreement on Water Affairs emphasises the common necessity to get the water system in order, and specifies responsibilities and instruments that can lead to efficiency gains and better co-ordination across the different authorities involved.

Notes: 1. See, for example, Singapore Ministry of the Environment and Water Resources (2010); Onn (2005); and Public Utilities Board (2010). 2. Per the Israeli Water Authority's 2010 Master Plan for National Water and Wastewater Management.

Source: OECD (2014), *Water Governance in the Netherlands. Fit for the Future?*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264102637-en*; OECD (2013), *Making Water Reform Happen in Mexico*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264187894-en*; OECD (2011), *Water Governance in OECD Countries: A Multi-Level Approach*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119284-en*.

Figure 4.4. **Incentives may be offered for co-operation across sub-national governments**



Source: OECD (2012), "Multi-level governance of public investment", national and regional case study questionnaires, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm.*

StatLink *http://dx.doi.org/10.1787/888933107009*

"softer" collaborative mechanisms. The provision of financial preferences at the national level for joint sub-national public investment proposals, such as practised in Estonia, Norway and Spain, are another example. In Slovenia, a reimbursement by the central government of 50% of staff costs for joint municipal management bodies has led to a significant increase in the number of such ventures. In Switzerland, one-third of sub-national funding from the central government is reserved for inter-cantonal investment projects. There are many reforms to promote this in general for sub-national governments and metropolitan areas specifically.

Strengthening sub-national capacities can help get more from public investments

The second pillar of the principles focuses on core capacities for public investment, notably at sub-national level, to bolster conditions for effective investment and to promote continuous improvement from the strategic selection of investment to its execution and monitoring. Those capacities are: *i)* assess upfront long-term impacts and risks of public investment; *ii)* encourage stakeholder involvement throughout the investment cycle; *iii)* mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities; *iv)* reinforce the expertise of public officials and institutions throughout the investment cycle; and *v)* focus on results and promote learning. Indeed, where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives – even if co-ordination mechanisms are in place.

The quality of government and cities matter for public investment

The quality of government is an indicator of the capacity for public authorities to select and implement effective public investments. It can be defined as the ability of a public administration to carry out the tasks assigned to it. There has been a great deal of work in recent years on measuring the quality of institutions and the variation across countries, and the relationship between institutional quality and economic performance. It is now fairly widely accepted that there is a link between the two, but controversy remains over whether, how and to what extent one can posit a causal link between them. Better institutions contribute to better economic performance, institutional quality may also be a product of economic performance, or both may be driven by some third factor, such as human capital.[6]

There is considerable variation in the quality of government within countries that can influence investment impact. Variations on many indicators of disparities across regions in the OECD are greater than those variations across countries. This has led to renewed interest in the regional dimension of the debate over institutional quality and economic performance, as most studies have focused on the national level.

For Europe, at least, a perception-based composite indicator of the quality of government has been developed.[7] Using this new indicator, Charron, Lapuente and Dijkstra (2012) find that there is large variation in the perceived quality of government both within and across countries in Europe. Greece, Italy and Portugal, in particular, show significant within-country variation. More important, they show that 60% of the variation in the regional Human Development Index (HDI) is explained by this quality of governance variation. Interestingly, they, like Filipetti and Reggi (2012), find that the degree of political centralisation or decentralisation of a country does not imply more or less variation in the quality of government within it (see more developments on these points in OECD, 2013c).

Empirical evidence shows that public investment and growth outcomes are correlated with the quality of government, including at the sub-national level. Several studies considering quality of government have explored the links between quality of government, public investment impact and regional growth, and have concluded that a positive relationship exists. This is notably the case for EU Structural Funds, the main source of investment funding throughout the European Union. Recent empirical research has shown that higher levels of institutional quality at the sub-national level are associated with greater effectiveness of EU funds. The importance of quality of government appears to increase as the level of cohesion expenditure rises (Rodríguez-Pose and Garcilazo, 2013). Above a certain threshold of expenditure, disbursing more funds is likely to be futile, unless there is a significant improvement in the quality of government of the region receiving the funds. High levels of corruption appear to have a particularly deleterious effect on the returns to cohesion spending in places that receive large Cohesion Funds.

Sub-national capacities represent bottlenecks for effective public investment, whatever the country, region of the world or context. Capacity challenges can also vary by type of region and level of development. All regions can bolster capacity – not only lagging ones. What differ are the type of capacity challenges, and the sequencing of priorities that need to be addressed. Contrary to widespread perception, improving governance capacities for public investment should be a priority for all countries and types of regions. Even in regions that are performing well, there may be scope for strengthening capacities, in particular for challenges linked to better exploiting complementarities across investment priorities.

Challenges also vary with a country's institutional framework and degree of decentralisation. Co-financing requirements, the integration of sectorial priorities into a balanced investment mix and the involvement of the private sector present challenges for sub-national authorities in countries where they have less autonomy and where levels of fiscal decentralisation[8] are low. By contrast, insufficient resources at sub-national level and lack of fiscal discipline are reported to be more problematic in federal/regionalised countries. This is not to suggest that there is an optimal institutional design. Rather, it underscores the importance of assessing the decentralisation context in which public investment occurs in order to properly understand the capacity challenges.

Individual capacities differ across sectors. Large, complex and multi year investments are likely to require a greater range and depth of technical skills over a longer period of time than a relatively short-term project. Large infrastructure projects are likely to be more demanding in terms of upfront appraisal, sophistication of financing arrangements, engagement of the private sector, and monitoring and evaluation. Capital-intensive projects are also likely to make greater demands on the integrity and efficiency of procurement processes. For some sub-national governments, existing capacities may be more advanced for designing and delivering traditional infrastructure projects (and sectors that have long been a focus for regional development, such as transport) than for innovation-oriented ones.

Develop the capacity to reduce bottlenecks

All levels of government should be able to better assess their capacity needs and address the most binding constraints. Building capacities goes well beyond training or workforce improvement activities; a whole-government approach is needed for the different stages of the investment cycle (Mizell and Allain-Dupré, 2013). Few countries do self-assessment of their capacity challenges or needs: only 8 countries out of 22 surveyed in 2012 reported in the OECD questionnaire that they had recently conducted an assessment of sub-national capacities.

Upfront appraisals of long-term investment impacts and risks

Comprehensive, long-term assessments can help clarify goals and reveal information to refine investment selection. These upfront assessments are critical for sound project selection, as they drive investment decisions. They should therefore be technically sound, with larger projects requiring more rigorous analysis (Dabla-Norris et al., 2011). They should also enable a selection of investments based on economic value, after considering alternatives to investment for attaining particular goals, as well as the efficient use of existing stocks to reach particular goals (see, for example, Posner, 2009, and Laursen and Myers, 2009). Such assessments should also take account of possible policy and project complementarities. High-quality upfront assessments offer considerable benefits as part of the decision-making process.[9] Upfront assessment tools for investment projects include cost-benefit analysis (CBA), economic impact assessment, cost-effectiveness analysis and risk assessment. However, it is important to identify the range of social, environmental and economic impacts, beyond a basic cost-benefit analysis.

The challenges associated with such assessments are numerous, including uncertainty, optimism bias, strategic misrepresentation or simply poor quality. CBA is most effective where there is a great deal of information about the project, the context and the risks involved over the investment cycle. For example, it might be relatively straightforward to assess the potential gains from reducing congestion on a well-travelled route. By contrast, far greater analysis is required for major new infrastructure, altering existing traffic flows or generating new ones. The state of Victoria in Australia has developed an innovative "High Value High Risk" process, which reflects the importance (and difficulty) of sound assessments for certain investments (Box 4.4). There are cases of "strategic misrepresentation" at the project selection stage, whereby costs and benefits are altered to ensure that a project is selected. There is also potential for an "optimism bias" that leads to an overestimation of the benefits and an underestimation of costs in selection of large projects (Flyvbjerg, 2009). Electoral cycles can also influence public investments, potentially leading to sub-optimal allocations (Sutherland et al., 2009). Assessments may simply not be of sufficient quality, as documented in both the United States and Europe.[10] Furthermore, countries may face the incentive to finance projects that are suboptimal but ready to go, in order to avoid losing funds (World Bank, 2009). Independent review of the assessment can, and should, be employed in order to improve quality assurance (as noted in World Bank, 2009; Rajaram et al., 2010; and Dabla-Norris et al., 2011). Sub-national governments can also strengthen the quality of implementation through regular review of their practices and by paying constant attention to specific risks and "red flags".

Box 4.4. **The "High Value High Risk" process in Victoria, Australia**

The Department of Treasury and Finance in the state of Victoria has more direct accountability for ensuring the quality of major public investment proposals. The Victorian government recently established a "High Value High Risk" (HVHR) process. Under this process, for investment projects that have a value above a defined threshold, or which are deemed to be high risk even if they fall under the monetary threshold, the treasurer (i.e. the minister) must personally verify and approve the investment proposal at crucial points before it is presented for final decision. In contrast with its former role of *ex post* review of spending proposals, this process engages the Department of Treasury and Finance in the decision-making process directly and in "real time". The focus of the new central quality assurance arrangements is on enhanced *ex ante* control – improving the business cases for major investments. These now require much more effort and expertise from the ministry responsible, and are subjected to rigorous scrutiny both at a technical level and in terms of their wider assumptions. The HVHR process has reduced one important source of investment failure – the tendency for the scope of investment projects to increase as they are developed, without express approval.

Source: Bounds, G. (2012), "Public investment across levels of government: The case of Victoria, Australia", report for the 28th OECD Territorial Development Policy Committee, 4-5 December 2012, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

The utility of these assessments also depends on the technical capacity of the organisations and individuals undertaking them. Even when conducted, they are not necessarily systematically used for decision making. Assessing the availability of in-house technical skills among public servants can be helpful in this regard, as well as formal guidance such as provided by the EU's "Guide to Cost-Benefit Analysis of Investment Projects".[11] For major projects where assessment is particularly complex, it is also important to consider the availability of technical expertise in organisations or units (public or private) with independence and experience. This is one factor that encourages governments to establish special-purpose arm's-length public bodies outside the core public service.

Capacity to engage with public and private stakeholders

The selection and implementation of an investment can be more successful if stakeholders are engaged throughout the investment cycle. Public, private and civil society actors all have a stake in and a critical role to play in developing a vision and strategy for the economic future of a region or locality. Stakeholders can be involved in priority setting and needs assessment at early stages of the investment cycle, and feedback and evaluation at later stages. At a minimum, this involves identifying relevant stakeholders, designing sound consultation processes, communicating processes and results and managing grievances. Moreover, public investment information, such as expenditure data, should be exposed to public scrutiny to promote transparency and accountability.

Involving stakeholders, such as citizens, universities and the private sector, can thus improve the quality of planning efforts. Stakeholder involvement serves to establish a shared vision for development, improve the assessment of investment needs, reveal the importance of inter-jurisdictional linkages, strengthen trust in government and cultivate support for specific investment projects. It can also lead to demand-driven improvements in public investment management capacity. In practical terms, this means that sub-national governments should have the capacity to engage in processes of stakeholder involvement in policy development and needs assessment in the early stages of the investment cycle, and feedback and evaluation in later stages. Capacities for effective stakeholder involvement include, but are not limited to: *i)* identifying stakeholders, understanding their "stake" and their right to and capacity for engagement; *ii)* designing outreach to and consultation opportunities for stakeholder groups; *iii)* selecting the right technique to involve stakeholders; *iv)* developing a stakeholder communication strategy (e.g. accessible public reporting of investment plans, implementation progress and results); and *v)* managing grievances.[12]

Box 4.5. **An example of stakeholder engagement: Denmark**

In 2007, 14 counties in Denmark were restructured into 5 regions, and 271 municipalities reduced to 98. As part of the process, each region needed to appoint at least one Regional Growth Forum to guide regional business development strategies and the use of regional and EU Structural Funds. The 20-member public-private boards include regional and municipal elected officials, business people, trade unions and representatives of the higher education and research community.

Source: Mizell, L. and D. Allain-Dupré (2013), "Creating conditions for effective public investment: Sub-national capacities in a multi-level governance context", *OECD Regional Development Working Papers*, No. 2013/04, OECD Publishing, *http://dx.doi.org/10.1787/5k49j2cjv5mq-en*.

Private sector actors can play different roles at different stages of the public investment cycle, but risks of capture by specific interest groups need to be managed. As stakeholders in public investment decisions, private actors can contribute important information to regional development planning and the implementation of investment strategies. However, undue influence ("capture") can be an issue, particularly where firms prioritise the creation of future markets for themselves rather than the formulation of the best strategies for the particular region (OECD, 2009c). Once private contracts have been awarded, private partners can also contribute to strategies for communicating and consulting with the public. Public authorities can encourage them to adopt a high degree of transparency, provide comprehensive information regarding the project's parameters and the state of infrastructure operations, and actively engage around the environmental and social impacts of their activities (OECD, 2007). Governments can take steps to prevent this capture by special interest groups, such as anticipating the long-term results of investment decisions, seeking balance when incorporating stakeholder views, ensuring consultation processes are inclusive, open and transparent, and promoting transparency and integrity in lobbying.

Mobilise private actors and diversify sources of funding

Mobilisation of private actors and financing institutions can diversify sources of funding and strengthen capacities. While public sector financing is at the core of investment efforts, the need for private financing is undeniable (see, for example, OECD, 2008a, and World Economic Forum, 2010). The capacity to understand, secure and maximise the value of private financing is therefore integral for governments in general and in particular for sub-national ones managing an investment portfolio with commercial appeal. Sub-national governments need the capacity to assess the worth of and best approach to private sector involvement. Private sector participation should be undertaken after careful consideration of alternative modes of financing and delivery, and risk allocation should be based on an assessment of the public interest. This includes the capacity to demonstrate that public-private partnerships[13] (PPPs), for example, provide greater benefit than purely public investment (World Bank, 2009). Governments should look to private actors, financing institutions and banks for more than just financing. Their involvement can strengthen capacities of governments and bring expertise through better upfront assessment of projects, improved analysis of the market and credit risks, and identification of cost-effective projects. In Greece, for example, the involvement of the European Investment Bank has helped Greece to develop projects, but most importantly to develop the *right* projects (OECD, 2014d).

Despite the potential benefits, private sector involvement in sub-national public investment remains relatively limited. Involving private actors in public investment projects is viewed as a challenge by most case study regions and by more than three-quarters of the national governments (OECD, 2013c). Difficulties may arise, in part, from the financial constraints currently facing potential private sector partners, as well as the limited capacity of some sub-national actors to evaluate the role of and engage the private sector. Sub-national governments can consider a number of important factors when crafting an environment conducive to attracting private financing. These include clear investment policy, transparent and competitive procurement policy, a pipeline of opportunities, a well-crafted regulatory environment, pathfinder projects, sizeable opportunities, credible project timetables, political support and sufficient administrative capacity (World Economic Forum, 2010).

Innovative solutions to finance investment are also needed, but their complexity may require capacities that some governments lack. Sub-national governments need to be able to make the most of traditional instruments (e.g. collection efficiency, technical skills for accessing grants, sufficient regulatory authority and political will to raise rates/fees), as well as newer forms of financing (such the use of technologies to improve user fees, value-capture taxes or carbon financing for green investments). An understanding of the pros and cons of different financing vehicles and what they require in terms of the local financial situation, risk management, transaction costs and the market is important (Chan et al., 2009). The regions in greatest difficulty may therefore be the least able to use these new financial instruments.

Careful consideration of private engagement includes informed consideration of PPPs at sub-national levels of government. Decisions regarding PPPs should be co-ordinated with the budget process and based on their potential value for money. PPPs should not be a way for governments to bypass spending ceilings and fiscal rules. They must be treated soundly in the budget process, with proper accounting and disclosure of all costs, guarantees and other contingent liabilities. The weak capabilities of sub-national governments to manage PPPs have been highlighted as a "challenge" or "key challenge" in most OECD countries.[14] Benchmarking, targeted training, creation of dedicated PPP units and promulgation of good practices can strengthen sub-national capacity. National governments can also support sub-national capacities through training and dedicated PPP units (such as those in Australia, Belgium, Canada and Germany, which have PPP units at the state/provincial level; see OECD, 2010a).[15]

The expertise of those involved in investment management also needs to be bolstered

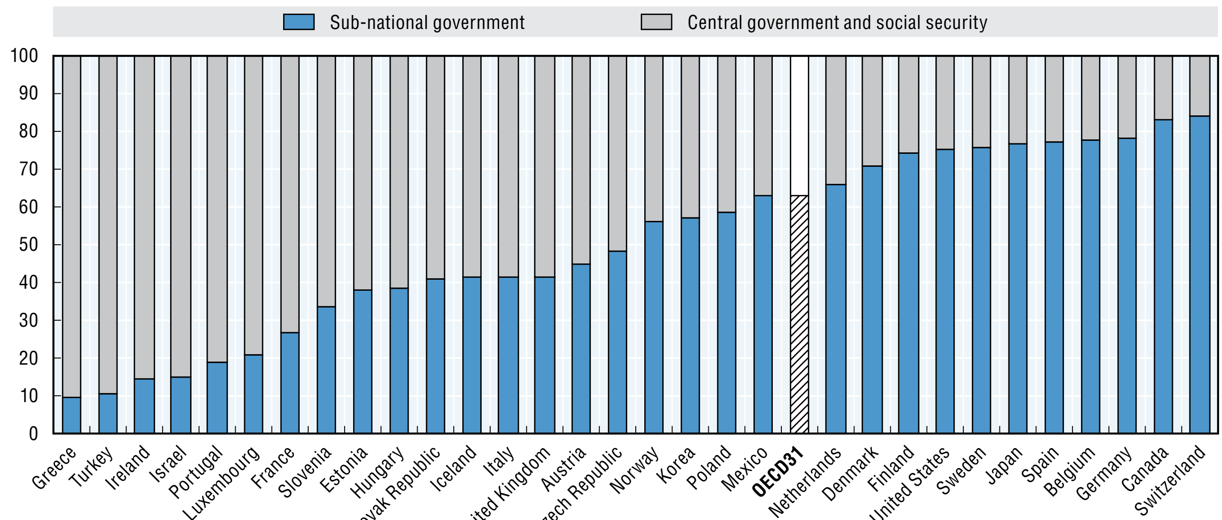
The expertise of public officials and institutions involved in public investment is a core capacity that governments should reinforce. Capacity building includes recruiting well-qualified staff and training those involved with public investment, as well as ensuring that institutions have sufficient capacity in areas such as, but not limited to, financial resources, mechanisms for collaborating across sectors and levels of government, stakeholder engagement, regulatory quality, etc. Due attention should be given to sub-national capacity, where sufficient resources, professional skills or institutional quality may be lacking. The greater the sub-national governments' authority throughout the investment cycle, the better developed their capacities must be. Importantly, not all capacities can be strengthened at the same time. It is therefore valuable to identify binding constraints and the proper sequence of reforms.

Building sub-national expertise is particularly important given that, in many countries, the majority of investments and civil servants are actually at sub-national level. Indeed, most of public investment (almost three-quarters) and the bulk of the public sector workforce are at the sub-national level. Sub-national government staff expenditure represents 63.3% of general government expenditure (Figure 4.5). In some countries, decentralisation has made sub-national governments responsible for areas where they may lack expertise. The types of tasks, such as supporting innovation, addressing social challenges like climate change, or engaging in more complex financial instruments, all require new skills. The nature of governance approaches requires more networking capacity, including the capability of individuals to consult, negotiate and co-ordinate with different levels of government as well as with non-governmental partners. Large regions, particularly established ones with substantial autonomy and significant numbers of staff, can tap a diverse range of professional skills. The same is not necessarily true for small regions, municipalities, newly created regions or sub-national governments, where decentralisation has outpaced corresponding development of administrative capacity. Such challenges can also hit rural areas, which can have greater challenges in attracting skilled civil servants, particularly hard.[16]

There are unique human resources management challenges for sub-national governments to meet technical capacity needs in the public sector (see, for example, OECD, 2008b). Attracting needed skills to the public sector is a challenge for many regions, given that salary scales may not be competitive with the private sector, resulting in excessive turnover. Local governments also compete with each other and central governments for qualified staff. Solutions for filling skills gaps range from recruitment, training and workforce planning to use of external sources. Strategic workforce planning and management help organisations get the right people in the right job at the right time. They allow for a more effective and efficient use of workers and for organisations to prepare for restructuring, reducing or expanding their workforces.[17] For sub-national governments, in addition to their own capacity, their access to skills wherever they may

Figure 4.5. **Most civil servants are employed in regional and local governments**

Share of staff expenditure by level of government, 2012



Notes: 2011 data for Japan, Korea and Turkey. No data for Australia, Chile and New Zealand.

Source: OECD calculations based on OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 7 July 2013).

StatLink http://dx.doi.org/10.1787/888933107028

be found is critical as well. They may be available through other governmental entities or outside government, through universities, technical consultants, quasi-public agencies and others that have the expertise in-house or can more easily employ such experts. This is particularly relevant for sophisticated projects, "mega-projects" or projects with network characteristics, as technical requirements may extend beyond standard project appraisal skills and require specific types of expertise (e.g. engineering).[18] However, there are examples where constant outsourcing can be detrimental to maintaining a minimum of internal capacity to understand and read the reports with a critical eye, and a consideration for competency management.

Results-oriented investments involve learning from experience

Investment processes that focus on results can enhance the impact of investment. Governments at all levels should focus on investment outcome goals and pursue them throughout the investment cycle. Mechanisms to do so include, but are not limited to, investment strategies with well-defined policy goals, performance budgeting, well-designed tendering procedures and performance monitoring of procurement, technically sound project appraisals, effective investment monitoring systems and high-quality *ex post* evaluation.

Monitoring and evaluation support a results-oriented culture. These tools are important for strengthening accountability and for bridging information gaps that inevitably emerge between levels of government. Monitoring can include inputs, outputs and even outcomes. Indicator systems should balance comprehensiveness, usefulness and administrative burden. Evaluation addresses the goals of investment, assessing if the intended outcomes were achieved and the role played by investment activities. Information that emerges from monitoring and evaluation systems should feed into decisions regarding investment in subsequent investment cycles.

Designing and managing a results-oriented investment portfolio also requires that sub-national governments set performance targets subject to monitoring.[19] This involves identifying which indicators should be associated with which targets, establishing baseline values, setting targets, establishing the time frame for measurement and reporting, and determining how accountability for achieving targets will be enforced – with an eye to minimising distortions often created by performance systems. Monitoring is not limited to financial information; it involves performance indicators, since it extends far beyond mere financial audit.

A well-designed monitoring system has a limited number of indicators that contribute to credible and timely reporting of expenditure and performance. The menu of indicators can allow for some common indicators across investments and others that may vary according to the nature of the investments needed. Indicators should be relevant (linked to national and regional objectives), valid (measure the constructs of interest), reliable and useful (provide actionable information for administrators and policy makers). A monitoring system for public investment has the potential to be unwieldy, and as a result, time-consuming and costly to manage. It is thus important to underscore the value of a focused set of indicators that provides actionable information. To strengthen the understanding of and commitment to monitoring, the menu of input, output and outcome measures indicators should be developed jointly by the sub-national, national and supranational actors that will report, monitor and use the results of the indicator system.[20]

Feedback mechanisms are important for monitoring and evaluation (M&E) to promote learning and enhance the quality of public investment. A well-designed M&E system will yield nothing if the information it produces goes unused. Learning happens only if information produced in a first step is used in a subsequent one. It is critical to use the information generated from these efforts productively. Potential users of M&E information include programme administrators, policy makers at all levels of government, firms and citizens. Importantly, the availability of information does not necessarily lead to productive use. Evidence should exist that performance information is both available to stakeholders and used in decision making. Evaluation is less well-established than monitoring. This implies that the potential for such indicators to inform policy and improve outcomes over time is not being realised in many, perhaps most, places in the OECD.

Sound framework conditions promote better investment outcomes

The third pillar of the principles provides a macro perspective on the key framework governance conditions for public investment. The principles in this pillar include: *i)* a fiscal framework adapted to the investment objectives pursued; *ii)* sound, transparent financial management; *iii)* transparency and strategic use of public procurement; and *iv)* quality and consistency in regulatory systems. Strong framework conditions are prerequisites for good investments. If framework conditions are weak, efforts to strengthen co-ordination and (sub-national) capacities may miss part of their targets. Many of the framework conditions for effective public investment are usually largely the responsibility of national governments, but not solely, as in many cases sub-national governments have an explicit role.

The relevance of sound fiscal frameworks and financial management

An adapted fiscal framework and access to finance are prerequisites for making investments

The ability of sub-national governments to act on their mandate for public investment depends on the fiscal framework that determines their finances. Intergovernmental fiscal arrangements to a large extent determine sub-national governments' financial capacity to invest. While these arrangements differ among countries, all countries should pursue a fiscal framework adapted to the objectives pursued. Choices regarding sub-national transfers, own revenues and borrowing should reflect good practice, fit a country's institutional context and align with policy objectives. Higher levels of government should set enabling conditions for sub-national governments to be able to exploit their own revenue-raising potential to finance investment, to ensure financing for long-term operations and maintenance, and to participate in co-financing arrangements.

Co-financing investments is a way for sub-national governments to secure not only funds but also greater impact of investments. A joint approach can help to ensure the commitment of different actors to the success of a project. It is also a tool to align investment priorities across levels of government. In some cases, this co-financing can be used to give incentives to sub-national authorities to engage in projects with positive spillover effects in other jurisdictions, in addition to simply pooling resources with neighbours.

Sub-national governments can make better use of traditional financing sources for public investment (own revenue, intergovernmental transfers and borrowing). Own revenue is important not only for self-financing and co-financing of investments, but also for encouraging regional governments to spend more on growth-enhancing (economic) infrastructure as compared to redistributive (social) infrastructure – an incentive potentially undermined by capital grants (Kappeler et al., 2012).[21] Inter-governmental grants play a crucial role in sub-national public investment, but in some countries, the financial crisis has caused a contraction in transfers. Even in good times, some of the neediest governments are the least able to access such transfers, due to lack of co-financing resources or strong grant-writing skills. Fiscal capacity for investment can be increased through borrowing, although borrowing may be constrained by fiscal rules and the general economic situation. In addition to limits placed on sub-national borrowing, factors affecting borrowing capacity include a sub-national government's own strengths and weaknesses, the country where it is located (i.e. its general economic situation or its credit rating) and the general health of banks and the financial sector affect access to credit. Presently, even fiscally sound, top-rated sub-national governments encounter difficulty acquiring bank loans because of the weak state of the banking system in a number of countries (e.g. Spain, among others).

Sound financial management and budgeting practices facilitate investment management

Budgeting is the critical link between planning and resources. Public investment plans need to be accurately and fully costed, including the often underestimated future operating and maintenance costs. The absence of discipline around costing and budgeting undermines a government's capacity to prioritise its investment programme. It can also lead to chronic underfunding of individual investment projects. Fitting public investment plans into a medium-term budget framework helps provide visibility regarding resource availability and predictability (see, for example, Rajaram et al., 2010, and World Bank, 2009).

This is particularly true for long-term projects that may need to survive changes of government. Multi-year budgeting requires, among other factors, stable and predictable revenue streams and expenditure obligations, which may depend on the national budget system. In the United States, most states use some form of biennial budgeting, which establishes revenues and expenditures for two years. Local governments often use multi-annual projections as part of the budgeting process (Boex et al., 1998). In the European Union, the seven-year programming cycle of Structural and Cohesion Funds has been a major incentive for European regions to move to more multi year budgeting.

Prudent and transparent financial management at all levels of government supports more effective investments. Proper costing and budgeting serve to prioritise and execute investment programmes effectively. Robust financial controls bolster accountability. Good practices in favour of budgeting and financial accountability include accurately costing public investment plans, reflecting them in budget strategies and allocation processes, fitting them into a medium-term budget framework and duly considering long-term operating and maintenance costs. This includes proper budgetary treatment of PPPs, local public enterprises and any associated contingent liabilities.

Integrity in procurement and good regulatory systems minimise investment costs

Quality public procurement is a critical factor for ensuring integrity in investment processes

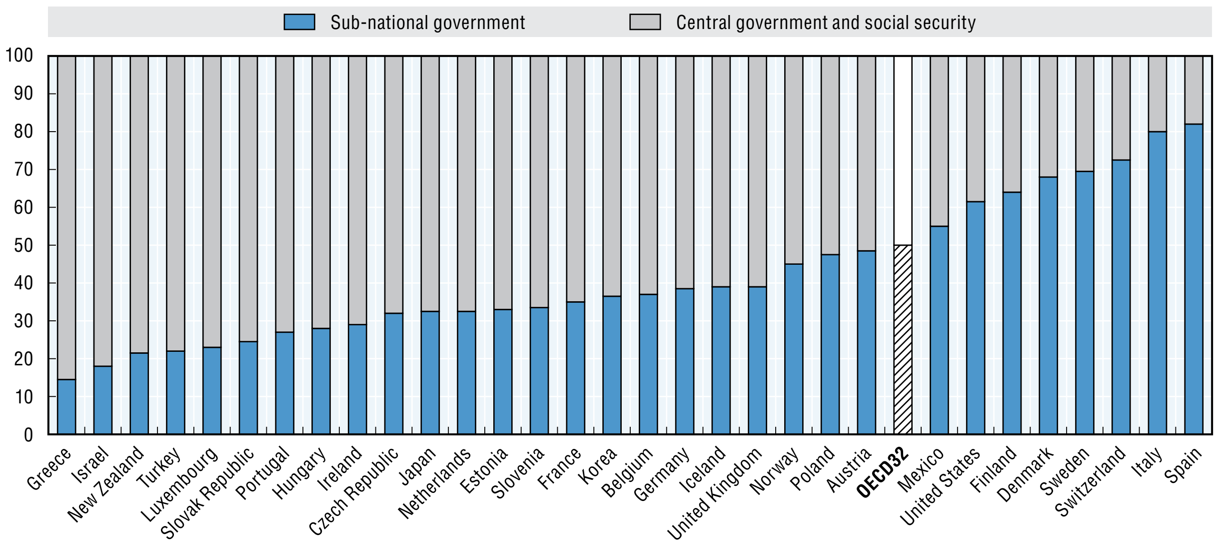
Public procurement procedures, an integral part of the public investment process, are therefore an important consideration for sub-national governments. On average, general government procurement accounts for 13% of GDP and nearly a third of government expenditures in OECD countries. Half (50%) of public procurement is undertaken at sub-national level (Figure 4.6). It is also the government activity most vulnerable to waste, fraud and corruption.

Transparency and strategic use of public procurement is relevant for sub-national governments as well as national governments. However, sub-national governments often lack procurement know-how or specialised personnel. Problematic systems can compromise the integrity of the investment process, deter investors and impede the achievement of policy objectives. Transparency throughout the procurement cycle, professionalisation of the procurement function, and clear accountability and control mechanisms are all required. In addition, procurement can be used to ensure effective public service delivery while pursuing strategic government objectives, securing not only value for money and integrity, but also wider objectives, such as greening public infrastructure, innovation or SME development.

There are risks to integrity throughout the investment cycle that can undermine the effectiveness of sub-national investment. Public investment is at significant risk of corruption, as it involves large sums of money for projects that are often unique and unprecedented, making it difficult for outsiders to assess costs, technical details, etc. Corruption can originate with both public and private actors and can cause substantial political, economic and social costs (Table 4.2). Not all threats to integrity are unlawful. Private companies, for example, can influence policy decisions, legislation and regulations, which shape the environment in which they operate. They may sometimes do so legally through lobbying, large campaign contributions and the so-called “revolving door” (see,

Figure 4.6. **Half of public procurement is undertaken by sub-national governments**

Share of public procurement by level of government in 2012



Note: 2011 data for Japan, Korea, New Zealand and Turkey. No data for Australia and Chile.

Source: OECD calculations based on OECD (2014), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en* (accessed 7 July 2013).

StatLink http://dx.doi.org/10.1787/888933107047

for example, Svensson, 2005, and Kaufmann, 2005). In other instances, the behaviours are decidedly unlawful.

Different forms of corruption cost billions, even trillions, annually across levels of government. Financially, bribery is estimated to cost approximately USD 1 trillion annually worldwide in direct payouts, not to mention the other costs not included in this figure.[22] Within the European Union, corruption costs an estimated EUR 120 billion per year (Malmström, 2013). Corruption can include, but is not limited to, bribes, kickbacks, embezzlement, theft, nepotism, patronage, state or elite capture and extortion.[23] Some examples of these types of corruption can be found in Table 4.2. These figures and examples refer to all levels of government, including the sub-national level. The 2014 EU anti-corruption report indicates that the majority (76%) of Europeans think that corruption is widespread in their own country. According to the 2013 flash Eurobarometer survey on corruption relevant to businesses, more than half of all companies say that corruption in public procurement managed by national (56%) or regional/local authorities (60%) is widespread (European Commission, 2014).

Sound procurement processes can therefore minimise costly waste, fraud and corruption associated with investment and encourage private investment. Weak and corrupt practices at sub-national levels can reduce trust, deter external investment, increase the costs of borrowing and investment, potentially compromise investment quality, and disrupt the utilisation of funds. For example, the principal errors for the absorption of EU funds are associated with public procurement (41% of cumulative quantifiable errors in 2006-09) and they are concentrated in a relatively small number of (regional) programmes

Table 4.2. **Different types of corruption and fraud may exist throughout the investment cycle**

Stage of the investment cycle	Types of corruption
Planning	● Bribes (gifts) for policy makers to orient public expenditure in a particular way ● Bribes/kick-backs for a project design favouring a specific firm ● False justification for investment ● "Capture" leads to investment choices that confer benefits to specific interests/groups rather than to society more broadly
Financing and budgeting	● Embezzlement, theft
Project selection	● Firms offer bribes (commissions) to secure a government contract ● Public officials violate zoning laws to ensure that projects move forward ● Public officials demand bribes in the issuance of licences and authorisations ● Public officials and/or firms are party to bid-rigging, contract splitting, unjustified by-passing of competitive bidding, leaking information to a favoured bidder ● Bidders collude to share the market ● Supply firms collude to keep material costs artificially high ● Strategic misrepresentation of costs and benefits to secure a contract
Project implementation	● Falsifying documents to misrepresent cost, quality or quantity ● Substituting materials or services of lesser quality than those specified in the contract ● Firms certify or pay bribes to ensure approval of poor quality, defective, incomplete or non-existent work ● Illegitimate modifications to the terms or value of awarded contracts ● "Capture" leads to implementation choices that confer benefits on specific groups rather than on society as a whole ● Employment of illegal workers ● False or exaggerated claims against a contractor in order to withhold or reduce the payment of a contract
Project operation and maintenance	● Private operator overcharges for end service (e.g. electricity) ● Bribes to secure operation and maintenance contracts, possibly from the building contractor ● Operators may demand bribes from customers for accessing services

Sources: Based on Global Infrastructure Anti-Corruption Centre (GIACC) (2013), "How corruption occurs", GIACC website, *www.giaccentre.org/how_corruption_occurs.php* and Chartered Institute of Building (CIOB) (2006), "Corruption in the UK construction industry, Survey 2006", CIOB, Ascot, Berkshire, United Kingdom, *www.ciob.org.uk/sites/ciob.org.uk/files/WEB-INF/files/documents/CIOBCorruption.pdf*.

in a limited number of member countries (European Commission, 2011). Good practices are needed throughout the procurement cycle, from project design through contract award until contract management. Comprehensible and transparent procurement processes, conducted in a timely and efficient manner, are also an important factor for attracting private finance (World Economic Forum, 2010).

Several strategies can help small regions or municipalities at a particular disadvantage for implementing sound and strategic public procurement. Many sub-national governments may have only a small or no specific office in charge of procurement or a lack of trained officials for procurement issues. Procurement is too often viewed as an administrative task, instead of a strategic one. This has led to administrations repeating award procedures across subject matters, creating risks of collusion of economic operators and restricting sub-national markets. At the sub-national level, small procurement units may not be equipped with the necessary specialisation or the legal, economical and technical skills needed for procurement. New juridical, technical and electronic tools can be employed at the sub-national level. Joint procurement can favour both rationalisation and streamlining of the entire supply chain, from the definition of requirements to final delivery, in addition to cost savings and greater specialisation. Collaborative procurement across levels of government as well as at the regional level may include: purchasing alliances, networks and framework agreements as well as central purchasing bodies. The central purchasing body can support the local level with market analysis, procurement strategy and negotiation of framework contracts with economic operators.

Quality regulatory frameworks requires national and sub-national action

Well-designed and well-implemented regulatory systems at all levels of government can facilitate investment and reduce unnecessary costs. Divergent, overlapping, contradictory or constantly changing regulations are counterproductive. They can impose compliance costs, particularly for sub-national governments, reduce efficiency and deter investors (Rodrigo and Allio, 2012). An important step to encourage coherence is for governments to evaluate the regulatory framework when establishing investment priorities and programmes. This can reveal potential obstacles to the efficient use of public funds. In addition, mechanisms should exist to co-ordinate regulatory policy across levels of government. Importantly, sub-national governments should possess capacity for regulatory quality. They should be able to implement regulation from higher levels of government effectively, as well as to define and implement their own strategy for regulatory management, including the assessment of regulatory impact and reforms needed. Higher levels of government can help to foster this capacity.

Efforts to reduce the administrative burden for sub-national governments can be helpful – particularly for small ones where the proportion of resources dedicated to administrative functions is greater than for their larger counterparts. In the Netherlands, the Association of Municipalities has proposed that each ministry appoint a co-ordinating lawyer for new regulation that will affect the local level. In 2010, France established a moratorium on costly norms imposed on sub-national governments. Indeed, in France, inflationary regulation is estimated to have cost EUR 1 billion between 2009 and 2010 (French Senate, 2011.). A 2011 report indicated that more than 55% of the articles of the *Code Général des Collectivités Territoriales* have been modified in less than ten years (French Senate, 2011.). Slovenia recently reduced its stock of regulation – a priority in a country with frequent changes in the regulation for spatial planning, which made it almost impossible for municipalities to stay up to date.

While sub-national actors are not the sole masters of the regulatory environment and its quality, they can make an important contribution to it. In addition to minimising unnecessary product market regulation at the sub-national level and increasing the transparency of sub-national regulations (de Mello, 2010), sub-national governments can put a number of good practices in place. They include, but are not limited to, reducing administrative burdens (with a focus on small and medium-sized enterprises), assessing upfront the costs and benefits of regulation (using tools such as regulatory impact assessment, regulatory checklists, small business impact assessments or deliberative committees) and carrying out formal consultation processes (such as informal inquiries, circulation of regulatory proposals for public comment, public notice and comment, hearings and advisory bodies) (García Villarreal, 2010). The capacity for "better regulation" differs across countries and sub-national governments. Few OECD countries have well-developed capacities for regulatory management at all levels of government (Rodrigo and Allio, 2012). Where the pace of decentralisation has outpaced the acquisition of corresponding capacities, sub-national governments may find themselves ill-equipped for regulatory responsibilities.

Key policy implications

The Principles on Effective Public Investment Across Levels of Government adopted by the OECD in March 2014 provide the key recommendations to strengthen the effectiveness of public investment, at all levels of government (see Annex 4.A1). They emphasise that:

- Effective public investment requires substantial co-ordination among national and sub-national levels of government.
- An integrated combination of investments in hard and soft infrastructure is needed to maximise long-term sustainable growth.
- Co-ordination across sub-national governments is essential to adopt and implement investment strategies at the relevant scale.
- Strengthening regional and local governance capacities from the selection of projects to their execution is particularly crucial to enhance investment outcomes.
- Building capacities for regional development goes beyond workforce training: a whole-government approach is needed to support people and institutions throughout the public investment cycle.
- All regions can bolster capacity, not only lagging ones: the variables are the challenges to be addressed. All levels of government should seek to identify their most binding capacity constraints and prioritise reforms.

Notes

1. Public investment comprises both direct and indirect investment. Direct investment is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period. Indirect investment is defined as capital transfers, i.e. investment grants and subsidies in cash or in kind made by sub-national governments to other institutional units. In this chapter, the focus is on direct investment, and all figures refer to direct investment, unless otherwise specified.
2. A Recommendation is an OECD instrument adopted by the Council. Recommendations are not legally binding, but practice accords them great moral force as representing the political will of member states.
3. Per communications with Dexia, July 2012.
4. The typology of contracts identified in earlier OECD work lends itself to distinguishing contracts according to their programme or project nature. "Transactional" contracting involves an *ex ante* determination of the complete set of binding and enforceable rights and duties of the parties. By contrast, "relational" contracting involves parties committing to co-operate (after the signing of the agreement) and supervision of compliance with the agreement tends to be project-based, bilateral, relying on a co-operative spirit. In practice, most contracts are characterised by both transactional and relational elements and fall somewhere on a continuum from being pure transactional to pure relational contracts (OECD, 2007).
5. Research finds the performance of neighbouring regions to be strongly correlated with a given region's performance (OECD, 2009a).
6. Advocates of the first view emphasise the establishment of stable institutions as a requirement for economic development, suggesting that institutions do affect growth (for instance, Acemoglu, Johnson and Robinson, 2005; Rodrik, Subramanian and Trebbi, 2004. A number of identification strategies have been employed in an attempt to overcome the endogeneity problem, i.e. a potential reverse causality, associated with this argument.
7. In an attempt to gather data on the sub-national quality of government, Charron, Lapuente and Dijkstra (2012) conducted a regional representative survey across 27 EU countries asking respondents about the perceived quality of their sub-national government. The survey data were then used to construct a composite index of the Quality of Government for 172 European regions. The indicator is based on public perceptions of four components of governance: *i)* the rule of law;

ii) corruption; *iii)* the quality of the bureaucracy; and *iv)* democracy and the strength of electoral institutions. The data were collected in a single survey year (2009) from some 34 000 respondents in 18 EU countries.

8. The degree of fiscal decentralisation is measured using OECD (2014c), *OECD Network on Fiscal Relations across Levels of Government* (database), sub-national revenue and expenditure indicators, *www.oecd.org/ctp/federalism/oecdfiscaldecentralisationdatabase.htm* (accessed 29 April 2014).
9. As Florio and Myles (2011) note, "serious scrutiny of investment decisions can counteract distortions induced by budget constraints and poor institutional environment".
10. In the United States, for example, the General Accounting Office (GAO) reports that although some assessment of costs and/or benefits is generally undertaken, "many state and local transportation agencies are not consistently using formal economic analysis as part of their investment decision-making process to evaluate project alternatives [for highway and transit investments]" (US General Accounting Office, 2005). Even within the EU, where regulations require CBAs of major investment projects financed with Cohesion Funds, the incentives to initiate new projects or to absorb EU funds can overshadow the incentives to achieve value for money in public investment.
11. *http://ec.europa.eu/regional_policy/sources/docgener/guides/cost/guide2008_en.pdf.*
12. For more on consultation processes, citizen engagement and stakeholder involvement, see OECD (2009b) and International Finance Corporation (2007).
13. PPPs are long-term contractual agreements between private actors and a public entity used to finance investment, share risk and improve the efficiency of investment. The varying types of PPPs differ in the roles and responsibilities of public and private partners, ranging from build-transfer models (where the public sector retains responsibility) to divestiture, where the government transfers all or part of an asset to the private sector.
14. In 16 countries (out of 19 that responded to the question) in the OECD national questionnaire.
15. SNGs can also review and adopt the recent OECD Council Recommendation on Principles for Public Governance of Public-Private Partnerships (OECD, 2012d).
16. Hall (2008) notes, in reference to the United States, that "insufficient economic development capacity is most prevalent in rural and small communities", and that the "more rural the area, the wider the capacity gap in terms of financial resources, expertise, and professionalism".
17. OECD (2012e) based on discussions of a symposium of the same name held on 11-12 June 2012, OECD Headquarters, Paris.
18. The complexity of good *ex ante* appraisal has led some to suggest "dedicated institutional units for project analysis and assessment and network design and management" at the central government level, with similar units at sub-national levels "to assess and judge projects according to nationally set technical guidelines" (United Nations Conference on Trade and Development, 2009).
19. For a discussion of key considerations for target setting, see OECD (2009a).
20. See, for example, suggestions in OECD (2009b), as well as Barca and McCann (2011a; 2011b; 2011c) for recommendations of indicators.
21. This finding concerns "revenue decentrali[s]ation, measured as the budget share of locally generated tax revenues".
22. Per World Bank (2004) and Kaufmann (2005). This figure is an estimate of bribes paid worldwide. This is only part of the cost of corruption. The figure does not incorporate other direct costs, such as embezzlement of public funds, or indirect costs such as the opportunity cost of tainted expenditures, environmental degradation due to lack of regulatory enforcement, etc. (see Kaufmann, 2005, for a discussion of methodology).
23. For definitions of corruption, refer to Svensson (2005); Chêne (2009) and the UN Office for Drug Control and Crime Prevention (2002).

Bibliography

Acemoglu, D., S. Johnson and J.A. Robinson (2005), "Institutions as the fundamental cause of long-run growth: A model of personal rule", *CEPR Discussion Paper*, No. 4059, September.

Ahrend, R. et al. (2014), "What makes cities more productive? Evidence on the role of urban governance from five OECD countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jz432cf2d8p-en.*

Allain-Dupré, D. (2011), "Multi-level governance of public investment: Lessons from the crisis", *OECD Regional Development Working Papers*, No. 2011/5, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kg87n3bp6jb-en*.

Barca, F. and P. McCann (2011a), "Outcome indicators and targets – Towards a performance oriented EU Cohesion Policy", High Level Group reflecting on future Cohesion Policy, Outcome Indicators and Targets, methodological note, meeting number 8, 15 February 2011, *http://ec.europa.eu/regional_policy/what/future/hlg_documents_en.cfm*.

Barca, F. and P. McCann (2011b), "Outcome indicators for the thematic priorities addressing the Europe 2020 – Objective 'improving the conditions for innovation, research and development' examples", High Level Group reflecting on future Cohesion Policy, Outcome Indicators, complementary note 1, meeting number 8, 15 February 2011, *http://ec.europa.eu/regional_policy/what/future/hlg_documents_en.cfm*.

Barca, F. and P. McCann (2011c), "Outcome indicators for the thematic priorities addressing the Europe 2020 – Objective 'meeting climate change and energy objectives', examples", High Level Group reflecting on future Cohesion Policy, Outcome Indicators, complementary note 2, meeting number 8, 15 February 2011, *http://ec.europa.eu/regional_policy/what/future/hlg_documents_en.cfm*.

Boex, J. et al. (1998), "Multi-year budgeting: A review of international practices and lessons for developing and transitional economies", International Center for Public Policy, *ISP Working Paper 98-4*, Andrew Young School of Policy Studies, Georgia State University, *http://aysps.gsu.edu/isp/files/ispwp9804.pdf*.

Bounds, G. (2012), "Public investment across levels of government: The case of Victoria, Australia", report for the 28th OECD Territorial Development Policy Committee, 4-5 December 2012, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

Chan, C. et al. (2009), "Public infrastructure financing: An international perspective", *Staff Working Paper*, Australia Government Productivity Commission, Canberra, *www.pc.gov.au/__data/assets/pdf_file/0008/86930/public-infrastructure-financing.pdf*.

Charbit, C. and C. Gamper (forthcoming), "Co-ordination of infrastructure investment across levels of government", *OECD Regional Development Working Papers*, OECD Publishing, Paris.

Charbit, C. (2011), "Governance of public policies in decentralised contexts: The multi-level approach", *OECD Regional Development Working Papers*, No. 2011/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kg883pkxkhc-en*.

Charron, N., V. Lapuente and L. Dijkstra (2012), "Regional governance matters: A study on regional variation in quality of government within the EU", *European Commission Working Papers*, No. 01/2012, Directorate for Regional Policy, Brussels.

Chartered Institute of Building (CIOB) (2006), "Corruption in the UK Construction Industry, Survey 2006", CIOB, Ascot, Berkshire, United Kingdom, *www.ciob.org.uk/sites/ciob.org.uk/files/WEB-INF/files/documents/CIOBCorruption.pdf*.

Chêne, M. (2010), "Sub-national corruption measurement tools", U4 Expert Answer No. 241, U4 Anti-Corruption Resource Centre, *www.transparency.org/files/content/corruptionqas/241_Sub_national_corruption_measurement_tools.pdf*

Chêne, M. (2009), "Measuring international trends in corruption", U4 Expert Answer, U4 Anti-Corruption Resource Centre, *www.u4.no/publications/measuring-international-trends-in-corruption*.

Collier, P. and A. Hoeffler (2005), "The economic costs of corruption in infrastructure", *Global Corruption Report 2005*, Transparency International, Berlin.

Dabla-Norris, E. et al. (2011), "Investing in public investment: An index of public investment efficiency", *IMF Working Paper 11/37*, *www.imf.org/external/pubs/ft/wp/2011/wp1137.pdf*.

Dabrowski, M. and D. Allain-Dupré (2012), "Public investment across levels of government: The case of Wiekopolska, Poland", report for the 28th OECD Territorial Development Policy Committee, 4-5 December 2012, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

de Mello, L. (2010), "Fiscal decentralisation and public investment: The experience of Latin America", *OECD Economics Department Working Papers*, No. 824, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5km347r2hhbp-en*.

Deloitte Research (2007), "Closing America's infrastructure gap: The role of public-private partnerships", *www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_ps_PPPUS_final(1).pdf*.

Dexia (2012), "Quelles solutions de financement de l'investissement public local en contexte de crise?", presentation to OECD staff, 11 July 2012, unpublished.

Dorotinksy, B. (2008), "Capital budgeting and public financial management – Part II: A primer on systems and issues: Capital budgeting process", blog post at the Public Financial Management Blog, 3 March 2008.

D'Costa, S., J.E. Garcilazo and J. Oliveira Martins (2013), "The impact of structural and macroeconomic factors on regional growth", *OECD Regional Development Working Papers*, No. 2013/11, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k451mplq9lw-en*.

European Commission (EC) (2014), "Anti-corruption report", February 2014, Brussels, *http://ec.europa.eu/dgs/home-affairs/e-library/documents/policies/organized-crime-and-human-trafficking/corruption/docs/acr_2014_en.pdf.*

European Commission (2011), "Analysis of errors in Cohesion Policy for the years 2006-2009: Actions taken by the Commission and the way forward", SEC(2011)1179 Final, Brussels, *http://ec.europa.eu/regional_policy/sources/docgener/presenta/errors2011/sec_errors2011_en.pdf.*

European Parliament (2011), "Report on absorption of Structural and Cohesion Funds: Lessons learnt for the Future Cohesion Policy of the EU", 2010/2305(INI), plenary sitting, A7-0287/2011, Brussels, *www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2011-0287+0+DOC+PDF+V0//EN*.

Filipetti, A. and L. Reggi (2012), "Multi-level governance in European Union Cohesion Policy and the quality of regional governments", paper prepared for the IACFS (International Association of Centres for Federal Studies) conference "Federalism, Regionalism and Territory", 19-21 September.

Fjeldstad, O-H. (2004), "Decentralisation and corruption: A review of the literature", *CMI Working Paper*, No. 2004:10, Chr. Michelsen Institute, Bergen, *http://bora.cmi.no/dspace/bitstream/10202/130/1/Working%20paper%20WP%202004-10.pdf.*

Flyjvberg, B. (2009), "Survival of the unfittest: Why the worst infrastructure gets built – and what we can do about it", *Oxford Review of Economic Policy*, Vol. 25, No. 3.

Florio, M. and G. Myles (2011), "Public investment and cost-benefit analysis in the European Union", *Fiscal Studies*, Vol. 32, No. 1.

French Senate (2011), "La simplification des normes applicables aux collectivités locales", Parlimentary mission statement of Senator Eric Doligé, June 2011, Paris.

García Villarreal, J. P. (2010), "Successful practices and policies to promote regulatory reform and entrepreneurship at the sub-national level", *OECD Working Papers on Public Governance*, No. 18, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kmh2r7qpstj-en.*

Global Infrastructure Anti-Corruption Centre (GIACC) (2013), "How corruption occurs", GIACC website, *www.giaccentre.org/how_corruption_occurs.php*.

Hall, J.L. (2008), "The forgotten regional organisations: Creating capacity for economic development", *Public Administration Review*, Vol. 68, No. 1.

Hooghe, L. et al. (2010), *The Rise of Regional Authority: A Comparative Study of 42 Democracies*, Routledge, London.

Hulbert, C. (2012), "Public investment across levels of government: The case of Galicia, Spain", report for the 28th OECD Territorial Development Policy Committee, 4-5 December 2012, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

International Finance Corporation (IFC) (2007), "Stakeholder engagement: A good practice handbook for companies doing business in emerging markets", International Finance Corporation, Washington, DC, *www.ifc.org/wps/wcm/connect/938f1a0048855805beacfe6a6515bb18/IFC_StakeholderEngagement.pdf?MOD=AJPERES*.

Kappeler, A. et al. (2012), "Does fiscal decentralisation foster regional investment in productive infrastructure?", *DIW Berlin Discussion Paper*, No. 1 204, *http://dx.doi.org/10.2139/ssrn.2050355*.

Kaufmann, D. (2005), "Myths and realities of governance and corruption", World Economic Forum (2005), *Global Competitiveness Report 2005-06*, *http://dx.doi.org/10.2139/ssrn.829244*.

Laursen, T. and B. Myers (2009), *Public Investment Management in the New EU Member States: Strengthening Planning and Implementation of Transport Infrastructure Investments*, World Bank, Washington, DC.

Milio, S. (2007), "Can administrative capacity explain differences in implantation performances?", *Regional Studies*, Vol. 41, No. 4.

Mizell, L. and D. Allain-Dupré (2013), "Creating conditions for effective public investment: Sub-national capacities in a multi-level governance context", *OECD Regional Development Working Papers*, No. 2013/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49j2cjv5mq-en*.

Mizell, L. (2009), "Building future scenarios for regional development in Northeast England, United Kingdom", in OECD (2009), *Focus on Citizens: Public Engagement for Better Policy and Services*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264048874-10-en*.

OECD (2014a), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en*.

OECD (2014b), *Water Governance in the Netherlands: Fit for the Future?*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264102637-en*.

OECD (2014c), *OECD Network on Fiscal Relations across Levels of Government* (database), sub-national revenue and expenditure indicators, *www.oecd.org/ctp/federalism/oecdfiscaldecentralisationdatabase.htm*.

OECD (2014d), Synopsis: Third Ministerial Meeting of the OECD Territorial Development Policy Committee: "Regions and Cities: Where Policies and People Meet", 5-6 December 2013, Marseille, *www.oecd.org/regional/ministerial/TDPC-MINISTERIAL-SYNOPSIS.pdf*.

OECD (2014e), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en*.

OECD (2014f), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en*.

OECD (2013a), "Sub-national governments in OECD countries: Key data" (brochure), OECD, Paris, *www.oecd.org/regional/regional-policy*.

OECD (2013b), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

OECD (2013c), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264197022-en*.

OECD (2013d), *Making Water Reform Happen in Mexico*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264187894-en*.

OECD (2013e), *Government at a Glance*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2013-en*.

OECD (2012a), *Promoting Growth in All Regions*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174634-en*.

OECD (2012b) "Multi-level governance of public investment", national and regional case study questionnaires, *www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm*.

OECD (2012c), *Meeting the Water Reform Challenge*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264170001-en*.

OECD (2012d), "Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships", *C(2012)86*, OECD, Paris, 4 May 2012.

OECD (2012e), "Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement", OECD, Paris, *www.oecd.org/gov/ethics/combined%20files.pdf*.

OECD (2012f), "Recommendation of the Council on Regulatory Policy and Governance", *C(2012)37*, OECD, Paris, 22 March 2012.

OECD (2011a), *Making the Most of Public Investment in a Tight Fiscal Environment: Multilevel Governance Lessons from the Crisis*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/10.1787/9789264114470-en*.

OECD (2011b), *Water Governance in OECD Countries: A Multi-Level Approach*, OECD Studies on Water, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119284-en*.

OECD (2011c), *Government at a Glance*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2011-en*.

OECD (2011d), *OECD Territorial Reviews: Slovenia 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264120587-en*.

OECD (2010a), *OECD Reviews of Regulatory Reform: Australia 2010: Towards a Seamless National Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264067189-en*.

OECD (2010b), "OECD Reviews of Regulatory Reform: Multi-level Regulatory Capacity in Australia", background report, *www.oecd.org/dataoecd/63/60/44529899.pdf*.

OECD (2009a), *How Regions Grow: Trends and Analysis*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264039469-en*.

OECD (2009b), *Focus on Citizens: Public Engagement for Better Policy and Services*, OECD Studies on Public Engagement, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264048874-en*.

OECD (2009c), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264076525-en*.

OECD (2008a), "Infrastructure to 2030", *OECD Policy Brief*, OECD Publishing, Paris, *www.oecd.org/dataoecd/24/1/39996026.pdf*.

OECD (2008b), "Challenges of human resource management for multi-level government", *GOV/PGC/PEM(2008)6*, OECD, Paris.

OECD (2007), "The OECD Principles for Private Sector Participation in Infrastructure", OECD, Paris, *www.oecd.org/daf/internationalinvestment/investmentpolicy/38309896.pdf*.

Oftelie, A. (2010), "Cross-jurisdiction collaboration: A formula for the future", report from the Harvard University "Shared Services in the Public Sector Summit", 2010, Harvard University, "Leadership for a Networked World and Accenture", *www.accenture.com/SiteCollectionDocuments/PDF/Accenture_Cross-Jurisdiction_Collaboration_A_Formula_for_the_Future.pdf*.

Onn, L.P. (2005), "Water management issues in Singapore", Institute of Southeast Asian Studies, Singapore, *http://khmerstudies.org/download-files/events/Water/Lee%20Nov%202005.pdf*.

Posner, P. (2009), "Infrastructure: Policy challenges facing the nation", white paper, Miller Center of Public Affairs, University of Virginia, *http://web1.millercenter.org/debates/whitepaper/deb_2009_0221_infrastructure.pdf*.

Public Utilities Board (PUB) (2010), "NEWater: The 3rd National Tap", Public Utilities Board of the Singapore Government, 20 April.

Rajaram, A. et al. (2010), "Framework for reviewing public investment efficiency", *World Bank Policy Working Paper*, No. 5397(August), Washington, DC.

Rodrigo, D. and L. Allio (2012), "Regulatory capacities at sub-national level for the implementation of public investment strategies related to the absorption of EU Structural Funds", paper prepared for the OECD workshop "Effective Public Investment At Sub-National Levels in Times of Fiscal Constraints: Meeting The Co-ordination and Capacity Challenges", 21 June 2012, Paris.

Rodrik, D., A. Subramanian and F. Trebbi (2004), "Institutions rule: The primacy of institutions over geography and integration in economic development", *Journal of Economic Growth*, Vol. 9, No. 2, pp. 131-165.

Rodríguez-Pose, A. and J.E. Garcilazo (2013), "Quality of government and the returns of investment: Examining the impact of cohesion expenditure in European regions", *OECD Regional Development Working Papers*, No. 2013/12, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k43n1zv02g0-en*.

Shah, A. (2006), "Corruption and decentralized public governance", *World Bank Policy Research Working Paper, No. 3824, www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2006/01/13/000016406_20060113145401/Rendered/PDF/wps3824.pdf*.

Singapore Ministry of the Environment and Water Resources (MEWR) (2010), "Policies: Conserve, value and enjoy", Singapore Government Ministry of the Environment and Water Resources, 29 April.

Sutherland, D. et al. (2009), "Infrastructure investment: Links to growth and the role of public policies", *OECD Economics Department Working Paper*, No. 686, OECD Publishing, Paris, *http://dx.doi.org/10.1787/225678178357*.

Svensson, J. (2005), "Eight questions about corruption," *Journal of Economic Perspectives*, Vol. 19, *www1.worldbank.org/publicsector/anticorrupt/Svensson%20Eight%20Questions%20About%20Corruption%20(JEP%20Vol%2019,%20No%203%202005).pdf*.

Tanzi, V. and H. Davoodi (1997), "Corruption, public investment, and growth", *IMF Working Paper*, No. WP/97/139, *www.imf.org/external/pubs/ft/wp/wp97139.pdf*.

United Nations Conference on Trade and Development (UNCTAD) (2009), "Public investment: Vital for growth and renewal, but should it be a countercyclical instrument?", UNCTAD/WEB/DIAE/2009/1, background paper prepared for UNCTAD by the Centennial Group for the "High-Level Seminar on the Role of Public Investment in Social and Economic Development", 13-14 July, Rio de Janeiro, Brazil, *http://archive.unctad.org/Templates/Meeting.asp?intItemID=2068&lang=1&m=17717&year=2009&month=7*.

UN Office for Drug Control and Crime Prevention (UNODCCP) (2002), "Anti-Corruption Tool Kit", CICP-15, Vol. 1, Vienna, *www.unodc.org/pdf/crime/toolkit/f1tof7.pdf*.

US Congressional Budget Office (2010), "Public spending on transportation and water infrastructure", November 2010, *www.cbo.gov/sites/default/files/cbofiles/ftpdocs/119xx/doc11940/11-17-infrastructure.pdf* (accessed 20 August 2012).

US General Accounting Office (GAO) (2005), "Options for improving information on projects' benefits and costs and increasing accountability for results", GAO-05-172, GAO, Washington, DC, *www.gao.gov/assets/250/245114.pdf*.

US State of Illinois (2011), "Illinois State Rail Plan – Stakeholder Involvement Plan", Illinois Department of Transportation, *www.dot.il.gov/ilrailplan/PDF/State%20Rail%20Plan%20Stakeholder%20Involvement%20Plan_v1.pdf*.

Vammalle, C. and C. Hulbert (2013), "Sub-national finances and fiscal consolidation: Walking on thin ice", *OECD Regional Development Working Papers*, No. 2013/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49m8cqkcf3-en*.

Weingast, B. (2007), "Second generation fiscal federalism: Implications for decentralized democratic governance and economic development", background paper for the "Initiative for Policy Dialogue Decentralization Task Force" meeting, 10-11 June 2009, Columbia University, New York, NY, *http://policydialogue.org/files/events/Weingast_Second_Generation_Fiscal_Federalism.pdf*.

Wilson, D.A. et al. (2011), "Joining forces", *Outlook 2011*, No. 1, Accenture, *www.accenture.com/SiteCollectionDocuments/PDF/Accenture_Outlook_Joining_forces_Government.pdf* (accessed 15 October 2012).

World Bank (2004), "The costs of corruption", World Bank, *http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20190187~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html*.

World Bank (2009), "Review of Public Investment Management Performance (PIMP) in an economic crisis", *Global Expert Team Brief*, World Bank, Washington, DC, *http://documents.worldbank.org/curated/en/2009/08/11936794/review-public-investment-management-performance-pimp-economic-crisis* (accessed 8 May 2012).

World Bank (n.d.), "Most common red flags of fraud and corruption in procurement", pamphlet, Operations Policy and Country Services, Integrity Vice Presidency, Washington, DC. *http://siteresources.worldbank.org/INTDOII/Resources/Red_flags_reader_friendly.p*.

World Economic Forum (WEF) (2010), "Paving the way: Maximizing the value of private finance in infrastructure", prepared in collaboration with PriceWaterhouseCoopers, New York, NY, *http://www3.weforum.org/docs/WEF_IV_PavingTheWay_Report_2010.pdf*.

ANNEX 4.A1

OECD Recommendation from the Council on Effective Public Investment Across Levels of Government

Recommendations are acts of the Organisation, adopted by the OECD Council, which are not legally binding. However, practice accords them great moral force, as representing the political will of member countries. The expectation is that member countries will do their utmost to fully implement a recommendation. Member countries that do not intend to implement a recommendation thus usually abstain when it is adopted. The implementation of recommendations is regularly monitored. The full text of the recommendation is available on the OECD web site[1].

OECD Principles on Effective Public Investment Across Levels of Government

The Council,

On the proposal of the Territorial Development Policy Committee:

RECOMMENDS that Members implement the following Principles to strengthen the effectiveness of public investment across all levels of government:

Pillar I: Co-ordinate public investment across levels of government and policies

- Invest using an integrated strategy tailored to different places.
- Adopt effective instruments for co-ordinating across national and sub-national levels of government.
- Co-ordinate horizontally among sub-national governments to invest at the relevant scale

Pillar II: Strengthen capacities for public investment and promote policy learning at all levels of government

- Assess upfront long-term impacts and risks of public investment.
- Engage with stakeholders throughout the investment cycle.
- Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities.
- Reinforce the expertise of public officials and institutions involved in public investment.
- Focus on results and promote learning from experience.

Pillar III: Ensure proper framework conditions for public investment at all levels of government

- Develop a fiscal framework adapted to the investment objectives pursued.
- Require sound and transparent financial management at all levels of government.
- Promote transparency and strategic use of public procurement at all levels of government.
- Strive for quality and consistency in regulatory systems across levels of government.

1. *www.oecd.org/gov/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm.*

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

PART II

Chapter 5

A national strategy for cities: Taking ownership of urban policy

This chapter explores the need for cross-cutting national urban policy frameworks to help governments achieve an evidence-based, whole-of-government approach to policies with a major impact on urban development. It presents the elements to be considered in designing such a framework, as well as questions that can be used to assess the degree of policy coherence with respect to five areas: i) *money (urban finances);* ii) *places (spatial planning and land use);* iii) *connectivity (within and across urban areas);* iv) *people (policies responding to demographic, economic and social change);* v) *institutions (structures for urban development policy co-ordination across sectors, jurisdictions and levels of government).*

Key issues

- Many important cities, such as Porto (Portugal) and Berlin (Germany), were underperforming even prior to the crisis. Since the crisis, the share of large metropolitan areas with unemployment rates above the national average has risen to almost 50%.
- Explicit national urban policies, when they do exist, are often narrowly drawn and focus on problems rather than on potential. Since cities account for a large share of growth and the population in most country contexts, this results in many missed opportunities.
- Many policy areas not typically considered part of the urban policy portfolio have major impacts on urban development. In addition, many ministries have specific urban policy functions. The average OECD member country government had 6.7 ministries or national-level departments or agencies with explicit urban policy functions in mid-2013, and many had 8 or more.
- A growing number of OECD countries are adopting national frameworks, visions or strategies for cities to better co-ordinate policies. While 18 OECD countries still had no overall framework in place in mid-2013, a number were under preparation and in a number of other countries, urban policy was rolled into broader regional or spatial development strategies. Other countries were in the process of creating new co-ordination mechanisms.

Urban policy is a national concern

Many policies with major implications for cities are never really seen through an "urban lens". Although a wide range of national policies can have a profound effect on urban development, most national governments have rarely reviewed this impact systematically. This is changing, however, and a growing number of governments are expanding their vision of urban policy and seeking to improve the co-ordination of different strands of policy that have significant urban impacts. Achieving policy coherence for urban development often requires governments not only to enhance communication among those charged with explicitly "urban" dossiers, but also to consider a wider range of sectorial policies than they have tended to see as "urban". This should facilitate better co-ordination across national sectorial policies and contribute to better alignment of national and city-level initiatives, thereby strengthening the impact of both.

A diagnostic framework can help to assess the scope and coherence of national urban policies. Such a framework is not highly prescriptive. Given the diversity of conditions across the OECD and beyond, it is appropriate to formulate such a framework as a diagnostic tool rather than a long set of specific recommendations. It encompasses two analytically distinct, albeit partially overlapping, types of policies:

- policies where a degree of national government involvement is necessary (e.g. environmental policies or national transport infrastructure planning)

- policy domains that could, in principle, be left entirely to cities or other sub-national governments but in which national governments in virtually all countries do intervene, usually for reasons of efficiency and/or equity (e.g. housing).

This chapter begins by explaining why governments need to think about cross-cutting urban policy frameworks. It then explores the interactions within and among five major areas of policy that are not always thought of as "urban policy" but which deeply affect urban development: money, place, people, connections and institutions. In each domain, it identifies questions that may help governments to assess the degree to which their current institutional and policy settings are coherent with their overall policy objectives.

Successful cities face major economic, social and environmental challenges

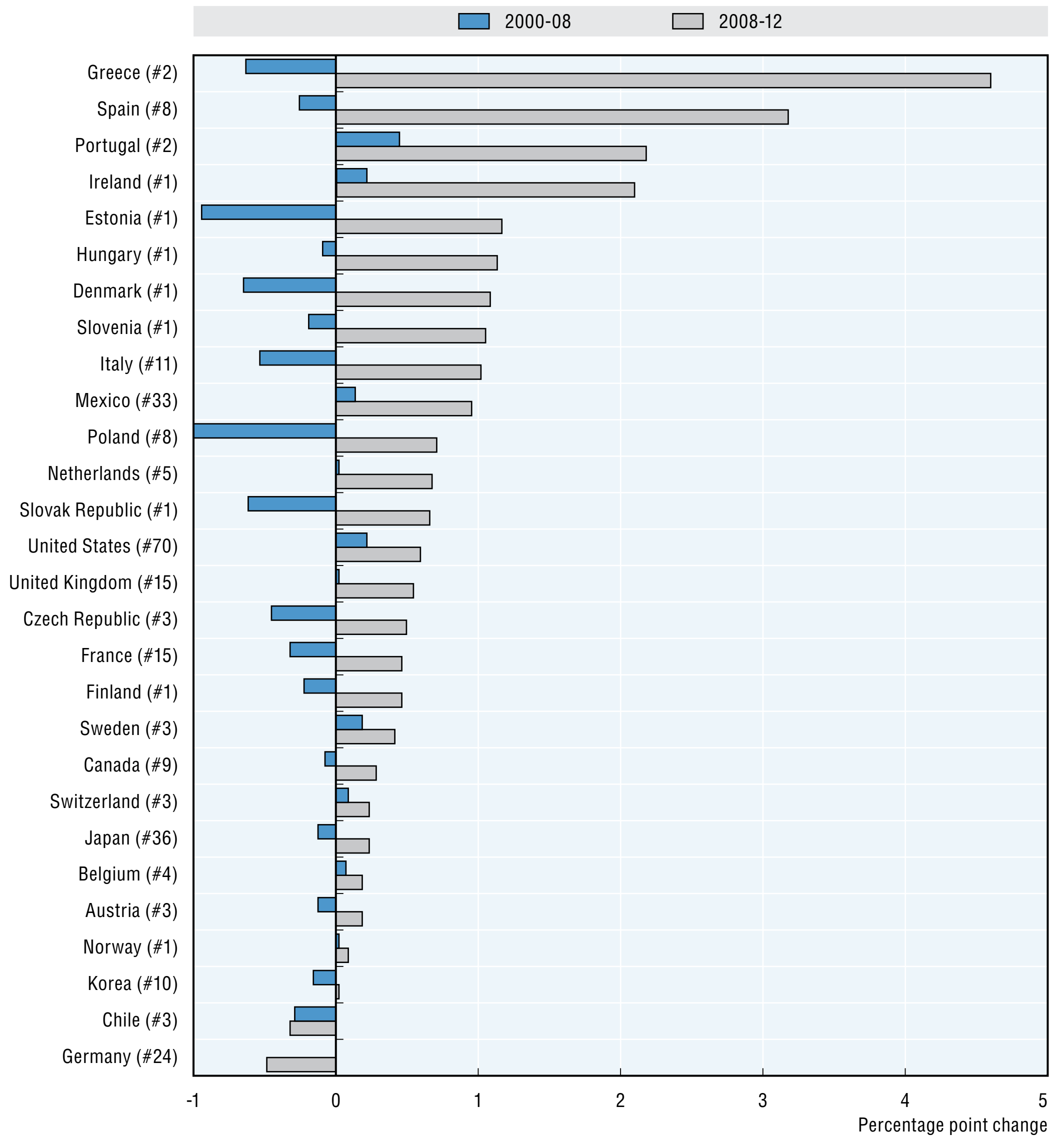
Many OECD cities struggle to realise their potential as generators of prosperity, innovation and well-being. While major cities tend to be large contributors to growth, many large cities in the OECD area continue to underperform national economies. During the dozen years up to the global crisis, 15 of the worst-performing OECD regions in terms of growth were predominantly urban, with a combined population of over 16 million people. Those regions included cities such as Porto (Portugal), Hainaut (Belgium), Hyogo (Japan) and Berlin (Germany). For policy makers, the performance of these and similar regions is a major challenge as well as an untapped opportunity. Enhancing the dynamism of underperforming cities could, on its own, have a visible effect on the aggregate performance of the countries concerned and would also be likely to generate positive spillovers for the surrounding regions.

Since the crisis, moreover, many more metropolitan areas have been struggling. Unemployment has increased in metropolitan areas in almost all OECD countries (Figure 5.1). Over the period 2007-11, the total number of unemployed in 207 large OECD metropolitan areas for which data are available rose by over 56% (with a peak at over 60% in 2010). Over the same period, total unemployment in the 25 countries where those metropolitan areas are situated rose by just under 49% (with a peak in 2010 at 53% above the pre-crisis low of 2007). In 2012, the situation reversed a bit, as metropolitan unemployment across the OECD fell, while aggregate unemployment in the countries concerned rose slightly. Nevertheless, the proportion of large OECD metropolitan areas with unemployment rates above their national averages rose from about 40% in 2007 to 48% in 2011-12. The metros' share of aggregate unemployment rose OECD-wide and in 18 OECD countries, including 6 of the G7 countries (France was the exception). The concentration of unemployment in large cities reflected not only the shocks that hit them but also, in some instances, migration of unemployed workers from elsewhere to the cities in search of jobs. Either way, the fallout from the crisis was increasingly felt in big cities. For national economies, stagnant metropolitan labour markets are a serious problem, given that large metro areas accounted for over half of all net employment growth in the OECD since 2000 (OECD, 2013a).[1]

Yet, policy needs to do more than respond to the needs of underperforming cities or poor neighbourhoods. Many of the most successful metro areas also face daunting problems, including growing congestion, increasing social disparities and environmental degradation. For example, even in developed countries, where air quality overall has improved considerably over recent decades, there are a large number of cities in which particulate matter levels exceed its guideline values, often by a considerable margin. This is true for PM_{10} and the great majority of European cities with populations above 100 000 (World Health Organization, 2013). In the fast-growing cities of the People's Republic of

Figure 5.1. **Unemployment rates in metropolitan areas post-crisis have risen in almost all OECD countries**

Annual average change in unemployment rates in functional urban areas with populations of 500 000 or more



Note: Unemployment values in metropolitan areas are estimates based on employment data at TL2 level. Available years: Denmark, 2007-12; Finland, 2000-11; Japan, 2000-11; Slovenia, 2001-12; Switzerland, 2001-12; Mexico, 2000-10.

Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

StatLink http://dx.doi.org/10.1787/888933107066

China and Southeast Asia (SEA), air pollution is even more acute: a study of PM_{10} levels in 243 major Asian cities over 1994-2010 found the *average* level to be more than four times higher than the World Health Organization (WHO) guidelines for almost the entire period (Clean Air Asia, 2013).

Another challenge facing even economically dynamic cities across the OECD is rising inequality. Wage and income inequality in cities tends to be greater than in non-urban places. Inequality in cities appears to have risen faster than overall inequality across regions and countries in recent decades (Glaeser et al., 2008; Rodríguez-Pose and Lee, 2013). In 2009, for example, 17 of the top 25 US metros had estimated Gini coefficients above the US national average, in some cases far above it (Fiscal Policy Institute, 2012). The most recent data, covering the 2007-12 period, confirm that inequality in the 50 largest US cities continued to rise throughout the crisis (Berube, 2014).

Many of the factors that underlie rising inequality overall, such as skill-biased technical change,[2] are simply more pronounced in cities (Table 5.1). Skill distributions, for example, tend to be more dispersed in cities, and many cities are specialised in sectors where wage dispersion is relatively large (Lee et al., 2013; Florida, 2002). Other cities specialise in sectors like non-market services or construction, where growth in the past five years was slowest. However, there is also evidence that inadequate urban policies and planning – particularly when they result in major disparities in service quality and delivery – can exacerbate spatial segregation and inequalities within cities. This segregation makes it harder for vulnerable groups to improve their lives (Kamal-Chaoui and Sanchez-Reaza, 2012). Poorer households tend to cluster in poorer neighbourhoods, where housing costs are lower, but these are often areas with poorer amenities and poorer access to education and other public and private services. Where the transport network is spotty, such spatial segregation can aggravate existing labour-market disadvantages. This, in turn, may contribute to the observed negative relationship between citizen trust and city size.

Table 5.1. **Potential drivers of rising inequality in OECD cities and regions**

Wage inequality	Income inequality
1. Globalisation: the impact of **trade opening and offshoring**	1. Rising **wage inequality** (see left column).
2. "**Skill-biased technical change**" and the returns to skill. Skill inequality in turn reflects:	2. Patterns of **employment**, especially working hours (increasing part-time work).
– historical schooling patterns	3. Increasing concentration of **non-wage income**.
– immigration.	4. Changing patterns of **family formation and breakdown**.
3. **Regulatory changes**: product- and labour-market regulation – contrasting impacts on employment and wages?	5. Changes to **social policy**, particularly tax and benefit systems.
4. Changes to **labour-market institutions** (collective bargaining, unionisation).	

Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119536-en*.

In many countries, there appears to be a relatively new and positive relationship between city size and inequality: larger cities tend to be richer but also more unequal. This holds true even after controlling for things like industrial structure and the skill composition of the workforce (Baum-Snow and Pavan, 2013; Bolton and Breau, 2012). This is a relatively new phenomenon: as late as the 1970s, there was virtually no relationship between city size and inequality. There now appears to be a strong and positive relationship between the two, which holds up even when different measures of inequality are used and which has been increasing decade by decade (Baum-Snow and Pavan, 2013). Such a development gives particular cause for concern when seen against the backdrop of the long-standing demographic trend across much of the OECD area towards greater concentration of population and activity in larger cities. This shift may reflect the changing specialisations of urban economies. Very large cities are increasingly specialised along functional lines (in business services and management), while smaller cities still tend to specialise sectorially (Duranton and Puga, 2005). This may imply greater dispersion in income in very large cities, owing to the concentration of corporate headquarters and very high-value business services there. Skill distributions are more dispersed in larger cities and inequality within skill groups has grown faster in larger cities (Baum-Snow and Pavan, 2013). Both of these observations would be consistent with the Duranton-Puga hypothesis concerning specialisation and inequality.

National policies shape cities, often in unexpected ways

The co-location of many people and activities within cities creates tremendous innovation potential but also a greater need for policy co-ordination – across sectors, jurisdictions and levels of government. This is particularly important in periods of dynamic change. The actions of households and firms, as well as the interactions among different strands of public policy, typically have larger positive or negative spillover effects in cities than in less dense places. In cities, governments at all levels therefore need to address the interrelated problems of economic growth, environmental sustainability and social inclusion in an integrated way. Well-designed national policy frameworks are needed to achieve this, for several reasons.

First, to a great extent, national governments establish the ground rules for cities. National (and in some federal systems, state/provincial) legislation typically defines cities' responsibilities, powers and, crucially, revenue sources. Attention to the basic legislative framework for cities is essential, but it is too often overlooked.

- Tax and budgetary frameworks may create powerful incentives that contradict other national policy priorities, such as promoting urban sprawl. For example, property tax systems can make greenfield development more attractive to cities than infill (Merk et al., 2012). Where property taxes are levied chiefly on buildings and other improvements rather than land values, as is the case across much of the OECD area, those who hold good sites for infill but do not use them are taxed very little, and it is often more profitable for new developments to take place on greenfield sites. A study of the United States found that effective property tax rates across the United States were, on average, highest in central city locations and lowest in more distant areas (e.g. exurbs); they were also lower for single-family homes than multi family dwellings (Center for Urban Policy Research, 2007). Property tax regimes can thus generate incentives that run counter to explicit national or city-level policies to curb urban sprawl.
- Fiscal frameworks can also reinforce urban inequalities. In Chile, for instance, rules governing sub-national governments' access to credit for capital investment projects require municipalities to demonstrate an ability to reimburse the credit within a specified time frame. This favours wealthier municipalities and increases inequalities in service provision within and across metro areas (OECD, 2013b). In Mexico, rules regarding federal transfers can ultimately incentivise poorer, more socially marginalised municipalities to remain underdeveloped in order to continue receiving federal funds (OECD, forthcoming a). More generally, mechanisms like performance-based grants, which are used in many OECD countries, can reinforce inter-municipal inequalities by ensuring that those with more resources and better capacities are better able to "play the game" (Steffensen, 2010). The advantages of performance criteria in allocating funds can be considerable, but they must be set against their potential to aggravate territorial inequalities (OECD, 2013c).

- National policies also define to a great extent the terms on which inter-jurisdictional competition takes place. Some forms of competition are healthy and can drive cities to improve services and amenities in an effort to attract firms and households (Tiebout, 1956). Others, though, are undesirable and can encourage attempts to externalise tax burdens, to entrench spatial inequalities or to engage in a regulatory "race to the bottom" (Spink, Ward and Wilson, 2012). For example, heavy reliance on consumption taxes, especially sales taxes, tends to distort markets and divert taxes among jurisdictions (see below). In the environmental sphere, many city-level green initiatives may be undercut in the absence of supportive national environmental standards and policies (OECD, 2013d). Where national frameworks are lacking, city-level actions may simply encourage firms or households to seek less-stringent regulatory environments elsewhere.

Secondly, much national urban policy focuses on problems rather than on potential. National governments intervene in almost all policy domains that affect cities, but explicit "urban policies" are often missing or narrowly framed at national level. They are frequently conceived in response to specific urban problems, such as social exclusion, infrastructure bottlenecks or a deliberate desire to steer settlement patterns across the national territory (Le Galès, 2007). The broader needs of cities are thus overlooked by a problem-focused concept of urban policies and a lack of recognition of other policies with important urban impacts.

- Much urban policy is basically spatially targeted social policy. France's urban policy (*la politique de la ville*), for instance, specifically targets "urban areas in difficulty", with the objective of reducing territorial inequality.[3] Historically, explicit urban policy in many OECD countries (e.g. the Netherlands, the United Kingdom and the United States) has likewise been focused largely on specific social problems in large cities.
- In some countries undergoing very fast urbanisation, national urban policies have tended to focus more on the physical aspects of urbanisation. This includes infrastructure development, construction standards, etc. Until the recent adoption of a new urban policy, the *Politica de Desarrollo Urbano*, this was the approach that prevailed in Chile, for example (OECD, 2013b).
- In some countries with high concentrations of urban population, there is a desire to achieve more balanced development patterns. Korea, for example, is using national policies to "spread" settlement and economic activity across the national territory, fostering the growth of new poles in an effort to avoid over-concentration in the main metropolitan area. Korea's Fourth Comprehensive National Land Plan, for example, outlines a three-tiered approach to economic development that divides the country into 7 mega-regional economic zones, which are linked to and complemented by 4 supra-economic "belts", and 161 basic residential zones (OECD, 2012a). Furthermore, the government has consistently placed the capital region under legal and regulatory restrictions in relation to the construction of new factories, offices and universities, and has relocated certain public administrations outside the capital.[4]

Thirdly, inter-municipal co-ordination typically requires support from higher levels of government. There has been increasing attention in recent years to the benefits of governing cities as functional economies rather than administrative units. The greater Chicago tri-state area in the United States, for example, is home to no fewer than 1 700 municipalities and other special-purpose governmental authorities. Even relatively modest-sized urban agglomerations are often quite fragmented. The evidence suggests that leadership from higher levels of government is often required to bring about the cross-jurisdictional co-operation among municipalities that is needed in complex metropolitan areas (OECD, 2013c).

The pursuit of cross-cutting urban policy objectives requires an integrated approach

Identifying and promoting links between economic, environmental and social goals is both possible and crucial to building cities that work. Sustainability must be pursued in all three of its dimensions: economic, social and environmental (OECD, 2011a).

- Public transport solutions can improve the functioning of labour markets and reduce commuting time and costs for workers (productivity and well-being), reduce greenhouse gas emissions (environmental sustainability) and increase access to jobs, education, health care and recreation (social sustainability) – all of which serve to enhance liveability.
- Smarter infrastructure can reduce business costs and speed up transactions (productivity), reduce transport-related carbon emissions (environmental sustainability), and widen access to educational, social and cultural opportunities (inclusion and liveability).
- Enhancing a city's innovation potential (higher productivity) may require it to improve environmental quality (sustainability) and local amenities (liveability) so as to attract and retain individuals with very high levels of human capital.

Almost all domestic policies involve both national and sub-national governments in some form. Although many policy domains were exclusively under national jurisdictions in the past, nowadays most public policy involves areas of shared responsibility across levels of government (Hooghe and Marks, 2009). This implies that capacity and vertical co-ordination issues are pervasive. Policies affecting cities are no exception.

Neither cities nor national governments alone can address competitiveness challenges. In a globalised world, the largest cities compete across international borders for trade, investment and skilled labour. Yet most labour markets are local. Responses to labour-market problems thus require significant local input, even where programmes are national in scope. Effective co-ordination of labour-market policies among national and urban-level governments is therefore important. Similarly, aspects of skills development and infrastructure provision that affect the economic attractiveness of cities can only be addressed via co-ordinated action across levels of government.

Environmental sustainability requires a multi-level approach. While economy-wide measures (e.g. carbon pricing) are critical to the response to climate change and other environmental threats, policies affecting urban morphology, infrastructure and service provision (e.g. public transport) can reduce the cost of addressing environmental challenges. Yet, what cities can and cannot do to tackle environmental problems depends greatly on national policy settings; where policies are not aligned, city-level initiatives can achieve poor results. For example, the economic and environmental pay-off to building retrofits and other city-level undertakings in the field of energy efficiency, as well as efforts to develop green-tech clusters, depend crucially on national policies that affect energy and carbon prices (OECD, 2013d). A strong national framework based on a carbon tax or price will broaden the range of environmentally effective options available to cities.[5]

Inclusive growth requires both economy-wide and place-based measures. Many cities host large concentrations of people who suffer from various forms of discrimination or exclusion. Social exclusion is not only about income inequality but also about barriers to opportunity that affect specific groups. It is a multi-dimensional phenomenon requiring a multi-dimensional response. Much of the policy response may indeed need to be national (i.e. economy-wide) in scope. However, there is a clear spatial dimension to exclusion, suggesting that place-based initiatives also need to be part of the solution, particularly for access to services and jobs, skills, housing and intra-urban mobility.

The right policy mix requires a holistic view of the potential synergies among different strands of policy. These policy instruments range from moral suasion, educational campaigns, voluntary schemes and codes of practice ("soft" instruments) to taxes, fees and market-based mechanisms, direct regulation, technology promotion and public investment in the provision of key infrastructure and services. The right policy mix is not merely a condition for effectiveness; it is also, in many contexts, a condition for acceptance, determining the extent to which different actors bear the cost of a policy. For instance, even if a problem can be addressed by a range of urban policy instruments, the *choice* of instruments often implies distributional consequences, determined by the extent to which different actors bear the costs of a policy. For example, policies to raise the cost of fossil fuels can have undesirable distributional effects and may need to be accompanied by other measures, such as support for energy efficiency retrofits of low-income housing.

Governments often find it difficult to pursue integrated policies

In practice, many policies and levels of government work at cross-purposes, making policy coherence for cities extremely difficult. For example, property tax systems in much of the OECD still favour single-family homes over multi-occupancy dwellings or owner-occupied housing over rental accommodation.[6] The preference for single-family units constitutes stimulus to sprawl, while privileging home ownership tends to reduce labour-market efficiency. Both are questionable on equity grounds. Yet, such tax arrangements coexist with national and city-level policies intended to curb sprawl, improve labour mobility and reduce interpersonal inequalities. Similarly, efforts to reduce congestion in many places – and thus to enhance efficiency, environmental quality and urban liveability – meet resistance because transport and land-use policies are not aligned. Moreover, many of the problems associated with covering the cost of urban mobility result from the allocation of most revenues from taxes on individual motor vehicles to central budgets, with only a small portion retained for local governments (OECD/ITF, 2008). Consequently, local authorities are often overly dependent on parking revenues and may therefore be *threatened* by policies that aim to restrict the flow of traffic or reduce the availability of city-centre parking.

Despite the need for whole-of-government approaches, cross-cutting policy challenges are frequently addressed by fragmented, narrowly sectorial responses. For instance, transport planning has often measured success in terms of reduced travel times, confusing "accessibility" with "mobility". This, in turn, results in transport-oriented solutions (e.g. increasing road capacity), even when changes in land-use planning (e.g. mixed-use development or relocation of some facilities and services) might generate better outcomes over the long term (Martínez and Viegas, 2013). The transport-driven approach, in turn, can contribute to sprawl and congestion. Paradoxically, it can also increase the segmentation of the urban space: large transport arteries can link distant places while simultaneously impeding transversal flows between places that are closer together. In a similar fashion, public intervention in housing markets has often had unintended and undesirable effects on labour markets, chiefly by reducing labour mobility; this is true of policies to promote home ownership as well as many social housing policies (see below).

Achieving real co-ordination across sectorial policies is a challenge for most national governments, given the number of institutions involved. The average government had between 6 and 7 ministries or national-level departments or agencies with explicit urban policy functions in mid-2013; many had 8 or more. Not surprisingly in view of the large number of ministries and departments with identifiable urban functions, as of mid-2013 some 20 OECD countries had clearly designated "lead" ministries for urban policies. Fourteen had some sort of national-level co-ordinating body for urban issues, though the remits, composition and powers of such bodies varied widely. However, there was some overlap between these groups: 11 countries had both co-ordinating organs and lead ministries, but a further 11 had neither.[7]

In many cases, co-ordination is weakened by the failure to recognise the full range of national bodies that are engaged, implicitly or explicitly, in shaping urban policy. In Poland, for example, many sections of the national administration contained policies with important implications for urban development, but only one of the 34 sections included urban policy as a subset (Section Ia on Construction, Spatial and Housing Management) (OECD, 2011b). By contrast, both a Rural Development Section (XVII) and a Regional Development Section (XVIIa) existed. However, the National Spatial Development Strategy Concept 2030 provides for the formulation of an explicit integrated urban policy.

Governments need to think across policy sectors when designing urban policy frameworks

A growing number of OECD countries are adopting national frameworks, visions or strategies for cities. This reflects increasing awareness of the need for policy co-ordination for cities. While 18 OECD countries still had no overall framework in place in mid-2013, a number were in preparation and urban policy in a number of other countries was encompassed in broader regional or spatial development strategies. Others were in the process of creating new co-ordination mechanisms for urban policy, such as the urban mandate being assigned to the new Observatory of Territorial Development created under Portugal's Directorate-General of Territorial Development. Moreover, many of the national-level co-ordinating bodies referred to above have been created in the last few years, a further indication of governments' desire for a more integrated, coherent approach to urban policies.

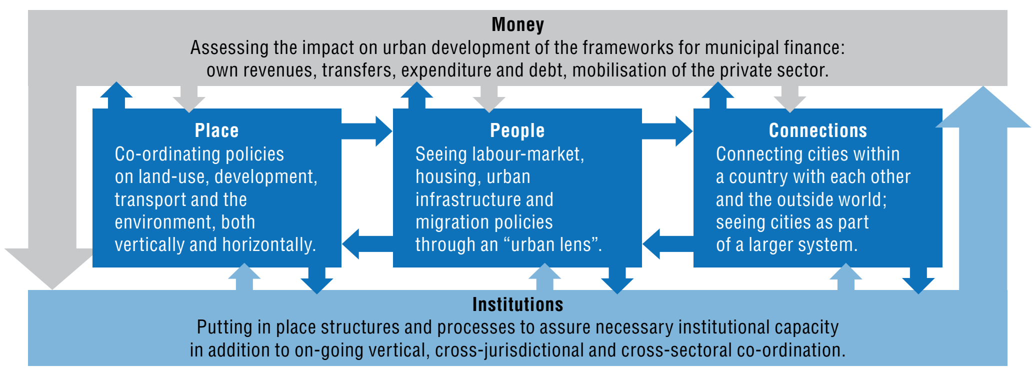
The breadth of these national initiatives varies widely: many focus heavily on social policy, but a growing number are increasingly transversal in scope. Australia, for example, has adopted a policy framework that encompasses productivity, sustainability, liveability and governance and touches on a wide range of domestic policy issues, including human capital formation, infrastructure provision, housing, environmental quality and social cohesion (Australian Government, 2011). Chile's National Urban Development Policy was approved in 2013, with the overarching objective of developing sustainable cities and improving urban quality of life. Its five thematic areas include social integration, economic development, environmental balance, cultural heritage and governance (Ministry of Housing and Urban Planning, 2013). More recently still, Colombia and Mexico have also been working on the design of evidence-based transversal strategies for cities to guide national-level actions in a range of policy sectors. Colombia's strategy places particular emphasis on connective infrastructure, while Mexico's focuses on housing policies, as these are seen, respectively, as the central challenges facing those two countries, but both strategies encompass a far wider range of policy issues and instruments (Perfetti, 2013; OECD, forthcoming a).

Designing national urban policy frameworks to improve co-ordination and policy coherence requires:

- identifying policies that have a particularly strong effect on urban development, even if they are not explicitly designated as "urban"
- analysing the interactions between these policies with a view to avoiding incoherence and, where possible, identifying potential synergies among them.

An assessment of national urban policies should consider five broad issues: money, place, connections, people and institutions. These areas should be considered as a system, rather than as policy "silos" to be managed in isolation. The critical question is: to what extent are the approaches adopted in the five domains coherent with one another? Two of the five, money and institutions, are effectively transversal, influencing all of the others. The other three concern the central issues around which sectorial policies must cohere (Figure 5.2).

Figure 5.2. **Five broad issues for assessing urban policy**



A diagnostic tool for assessing urban policies should focus on asking the right questions. Based on dozens of reviews of countries, urban policies and metropolitan areas, the discussion below offers a general framework and questions for such an assessment, highlighting relevant experiences in OECD countries. While most questions will be relevant to all countries, the relative importance of different issues is likely to vary considerably across countries, depending on, among other things, a country's pace of urbanisation, constitutional framework, settlement patterns and level of economic development.

Money: Fiscal systems are the foundation of urban policy

Most governments do not explicitly include the fiscal system as a key element of their urban strategies, yet it is in many ways one of the foundations of urban governance. The fiscal system structures to a great extent shape what cities can and cannot do – and what they have incentives to do or not to do (Box 5.1). Systems of municipal finance must therefore be designed with a balance of efficiency, equity and environmental goals in mind. Thus, a review of urban policies should begin with a rigorous analysis of four facets of the fiscal framework as it affects cities: own revenues, expenditures, transfers and debt. The fiscal capacity of lower levels of government and the control exercised by local governments over their own revenues and expenditures are especially important in countries in which urban development decisions are primarily local. In addition to these basic elements of the fiscal framework, a serious review should also explore the potential – both in terms of legal competences and actual capacities – for cities to work with the private sector when financing service provision and investment.

Box 5.1. **Urban finance and urban sprawl in the People's Republic of China**

The recent experiences of a rapidly urbanising People's Republic of China illustrate well the way in which distorted fiscal incentives facing cities can lead to urban outcomes that contradict national policy goals. City revenues in the People's Republic of China depend heavily on land-related income, such as land leases, land auctions and land development rights. This has contributed to unchecked urban sprawl and generated an oversupply of land available for industrial development. Moreover, the financing mechanisms employed typically encourage cities to make large tracts available for industrial development in an effort to attract investment, while restricting, sometimes quite severely, the supply of land for the residential and services sectors. Rapid spatial expansion of Chinese cities is thus combined with very high densities for housing, constraints on the development of services and very inefficient use of land by industrial producers. A tradition of functional separation in zoning, in turn, leads to longer commutes and more congestion.

Sources: Tian, L. and W. Ma (2009), "Government intervention in city development of China: A tool of land supply", *Land Use Policy*, Vol. 26; Peterson, G. (2006), "Land leasing and land sale as an infrastructure-financing option", *World Bank Policy Research Working Paper*, No. 4043, Washington, DC; OECD (2010), *Cities and Climate Change*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264091375-en*; OECD (2013), *OECD Economic Surveys: China 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-chn-2013-en*.

Revenues

Greater revenue autonomy gives sub-national governments more control over investment decisions but can also lead to a "race to the bottom" tax competition with neighbours. In the United States, the state of Indiana's "Illinoyed" campaign, designed to attract Illinois-based firms with Indiana's lower tax rates, has been an obstacle to a more co-operative approach to shared, region-wide challenges, such as: attracting and retaining high-skilled labour, upgrading ageing infrastructure and taking advantage of the region's innovative potential (OECD, 2012b). In Mexico, while states have been successful at attracting foreign direct investment and large multinational firms, less effort has been made to build the knowledge-based infrastructure needed to retain them (OECD, 2009). Tax competition among states and municipalities in Brazil, for example, distorts trade flows between states and influences firms' decisions over where to locate (OECD, 2013f). Governments seeking to better frame tax competition can, in addition to shifting taxation towards immovable property (see below), harmonise the tax base horizontally (across municipalities) and vertically (across levels of government) and use fiscal equalisation systems to offset "excessive" differences in local revenues.

Rules governing property taxes can have a significant impact on urban development and the capacity of municipal governments to deliver public services effectively. Property taxes constitute one of the largest revenue sources for local governments across the OECD. In most countries, property taxes favour single-family residences over multi-family properties (Bird and Slack, 2004), as well as ownership over rental tenure in three ways: *i)* an under-assessment of single-family residential properties relative to comparable multi-family residential or commercial properties; *ii)* lower tax rates for single-family homes; or *iii)* property tax relief (tax credits, homeowner grants or tax deferrals) for residential property (Haveman and Sexton, 2008 in Merk et al., 2012). In Toronto, for instance, multi-residential properties are taxed at 2.6 times the residential rate (Bird et al., 2012), while in New York City, the ratio of assessed value to market value is significantly more advantageous for low-density residential properties (Merk et al., 2012). Cities may also suffer from distortions that arise in the case of very large differences between property tax rates for different uses (commercial, residential, industrial) (OECD, 2010b).

A number of general criteria can aid in the design of growth-friendly local taxes (Box 5.2). However, these principles constitute only a baseline for policy. Specific features of municipal taxes – particularly the design of property taxes – can alter significantly the way they affect urban development, including not only growth but environmental outcomes and quality of life. Moreover, despite the virtues of the property tax, the experiences of a number of cities point to the need for some diversity of revenues and for revenues sources that are more directly linked to economic development (OECD, 2003; 2004; 2010b).

Box 5.2. **Principles for the design of growth-friendly local tax systems**

In general, the criteria for a growth-friendly national tax also apply at lower levels, but there are some additional constraints (Johansson et al., 2008):

- As a basic principle, local authorities should rely on taxes that provide, for households or firms, a link between taxes paid and public services received (Oates and Schwab, 1988).
- Because firms and households are mobile, such taxes should be relatively non-redistributive and applied to less mobile tax bases (to avoid base erosion); interpersonal redistribution is probably better addressed at a higher level.
- Local tax bases should not be highly sensitive to business cycles, since local governments lack the capacity to run counter-cyclical policies.
- They should not encourage localities to try to "export" the tax burden to other jurisdictions, as this distorts markets and breaks the basic link between taxation and benefits.
- The tax base should be evenly distributed across jurisdictions (to avoid strong disparities and/or the need for huge fiscal equalisation systems).

These criteria point to the attractiveness of the property tax as a revenue source for local governments. Over-reliance on personal or corporate income taxes risks distorting the location decisions of households and firms and/or encouraging undesirable forms of tax competition, particularly if local authorities have discretion to adjust rates or offer tax breaks and other incentives. Corporate tax revenues are, in any case mobile, highly cyclical, geographically concentrated and prone to shift the tax burden onto non-residents. Too heavy a reliance on consumption taxes, especially sales taxes, would tend to divert revenues and distort markets.

Sources: Blöchliger, H. and O. Petzold (2009), "Taxes and grants: On the revenue mix of sub-central governments", *OECD Working Papers on Fiscal Federalism*, No. 7, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k97b11972bn-en*; Johansson, Å., et al. (2008), "Taxes and economic growth", *OECD Economics Department Working Papers*, No. 620, OECD Publishing, Paris, *http://dx.doi.org/10.1787/241216205486*; Oates, W. and R. Schwab (1988), "Economic competition among jurisdictions: Efficiency-enhancing or distortion-inducing?" *Journal of Public Economics*, Vol. 35.

Expenditure

National governments may impose implicitly or explicitly particular expenditures on sub-national governments without the compensatory financing sources. Few governments will admit to shifting costs onto subordinate governments via the use of "unfunded mandates". However, with public finances under stress since the crisis, a number of countries inside and outside the OECD are doing just that (OECD, 2010c). Even before the crisis there was evidence of increased national mandates and cost-shifting (Shah, 2008). These mandates take the form of intergovernmental regulations, grant conditions, prohibition of actions contrary to national policy (so-called "pre-emptions") and, in some cases, significant under-estimates of the true costs of (in principle) funded mandates. Reforms to curb or eliminate unfunded mandates are often limited in scope and may erode over time as new cost-shifting mechanisms are employed (OECD, 2010c). While mandates are often legitimate tools of policy and may help curtail harmful forms of inter-jurisdictional competition, address spillovers that go beyond the jurisdiction (externalities) or ensure conformity with national priorities, they can also distort local government spending priorities and put local budgets (and thus service provision and investment) under strain. Closely linked to this is the question of the degree of control that local governments have over their own spending: in many countries, the share of "mandatory spending" based on national legislation is rather high.

National policies may also provide incentives for over- or under-spending in areas that may generate (positive or negative) spillovers beyond the jurisdiction. This, indeed, is one of the main justifications for the imposition of different forms of mandate by higher-level governments. Local authorities are likely to underspend on services or investments that generate benefits for the wider region (positive spillovers) and may be too ready to pursue development or other investment choices that generate negative externalities for their neighbours. Collaboration in such circumstances is one of the major reasons why public investment, in particular, may require a multi-level approach, with a degree of leadership from more senior levels of government (OECD, 2013c). The use of European Union Structural Funds in Slovenia, for example, illustrates how too much local control can lead to a focus on local amenities and needs, to the neglect of wider regional growth objectives (OECD, 2011c).

Transfers

Reliance on transfers from higher levels of government often limits cities' medium- to long-term planning and renders them vulnerable in times of economic difficulty. This can make it difficult for cities to budget and plan effectively, to ensure public service delivery and maintenance, and to invest in more strategic long-term priorities. In Antofagasta (Chile), for example, local projects are often designed with little certainty as to whether or not funding will be available, making it difficult to manage funding flows, and ultimately, discouraging potential investors (OECD, 2013g). Over-reliance on transfers may also undermine incentives for efficiency and accountability in local spending (OECD, 2012c; 2013b).

In any case, local governments across the world tend to be highly dependent on transfers from higher levels of government. Own revenues are virtually never sufficient to cover their expenditure obligations, which are often determined by the delegation of responsibilities from above. The full range of different types of grants and transfers used by senior governments goes beyond this discussion, but OECD work points to a number of basic guidelines for central governments to keep in mind (Box 5.3). These represent only a starting point, however, as much depends on the specific rules applied to grant use – such as, for example, the ease or difficulty with which municipalities or other local authorities can combine grants from different sources and/or pool grants across administrative boundaries in order to pursue service provision or investment at a larger territorial scale. One advantage of general-purpose grants is that the conditions attached to earmarked grants often make it harder to adopt solutions that cut across policy sectors or administrative jurisdictions. This is an area where the United States, for example, has been making a particular effort: its Partnership for Sustainable Communities is largely designed to facilitate better co-ordination at the local level of federal funds emanating from different sources (OECD, 2013c).[8]

Box 5.3. **Guidelines for the reform of intergovernmental grants**

The table below summarises the efficient use of the various types of grants. The concrete aims are classified in terms of the general purposes of subsidisation, equalisation and financing. These, in turn, can be distinguished according to whether: *i)* the central government takes the initiative to impose or influence sub-national service provision or investment (e.g. delegation of functions); or *ii)* the sub-national government itself takes the initiative. The instrument column indicates the various types of grant instruments available, as well as some regulatory instruments that may achieve more efficiently the aims for which grants are often used. Discretionary grants are mentioned as a possible instrument for co-funding purposes. Co-funding arrangements are used in some countries to finance projects with objectives that are hard to achieve using matching grants and where both central and sub-national governments have to be committed. The table should not be seen as a prescriptive blueprint, since much depends on institutional architecture and country context. Nonetheless, it provides a framework that can serve as a starting point for thinking about the way grants are designed and used.

Lessons for efficient use of grant instruments

Purposes and types of grant or regulatory instrument	Central government initiative			Sub-national government initiative	
	Imposed programmes or standards	Compensation of spill-overs	Temporary projects and programmes	Basic services	Fringe services
Financing					
Extension of sub-national tax base	X			X	X
Non-earmarked general purpose grants	X			X	
Non-earmarked block grants	X				
Earmarked discretionary grants			X (co-funding)		
Earmarked matching and non-matching grants	(X)		X (risk sharing)		
Subsidisation					
Earmarked matching grants		X (national spillovers)	X (experiments)		
Imposition of co-operation		X (regional spillovers)			
Equalisation					
Imposition of horizontal grants	X			X	
Non-earmarked general purpose grants	X			X	

Source: Bergvall, D. et al. (2006), "Intergovernmental transfers and decentralised public spending", *OECD Journal on Budgeting*, Vol. 5, No. 4, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v5-art24-en.*

Finally, equalisation systems need to be carefully designed to avoid creating perverse incentives for municipalities – either to spend too much or to tax too little. The precise design of such systems depends to a great extent on municipal competences – when local governments must deliver services where equity considerations loom particularly large (e.g. health care, education), the importance of fiscal equalisation will be all the greater. It is also important that the system takes account of expenditure needs (which may vary on account of demographic or other conditions) as well as revenue potential. In Poland, for example, the decision to base transfers on revenue potential alone meant that areas with higher service costs were penalised (OECD, 2011b). Other elements of the design matter. In Slovenia, the equalisation system was well-designed to ensure that municipalities could fund essential services, but it actually *rewarded* municipal fragmentation (OECD, 2011c). Overly complex equalisation formulae can also undermine local accountability (OECD, 2013h).

Debt

When monitoring municipal debt, national (or in federal systems, state or regional) governments face a trade-off. On the one hand, cities often provide essential public services and invest in projects important for future growth; they need room for manoeuvre, especially in times of financial stress. On the other hand, many countries have run into difficulties over sub-national government debt, arousing justified concern that cities and other subordinate governments may operate under soft budget constraints if they are perceived to enjoy implicit or explicit sovereign guarantees. The main challenge, therefore, is to create mechanisms that ensure economic stability and sound fiscal management. Meanwhile, the lower levels of government must be granted sufficient flexibility to cope with unforeseen events, as well as sufficient financial capacity to deliver public services and finance essential investment (Vammalle and Hulbert, 2013).

Senior governments therefore need to think carefully about the design and implementation of local finance monitoring mechanisms. This requires that they set objectives, create reporting mechanisms and fiscal rules, audit and monitor cities' finances, and eventually, take corrective measures if necessary. The design of such systems is likely to vary a great deal from country to country as a result of the enormous differences in fiscal systems, municipal competences and constitutional architecture. There is great diversity of practices across OECD countries, though some common features can be observed (Vammalle and Hulbert, 2013):

- Federal and quasi-federal countries tend to rely more on market discipline or self-imposed fiscal rules than unitary countries. Since states/provinces/regions are usually responsible for setting fiscal rules and monitoring local governments' finances in federal and quasi-federal countries, there can even be differences within them.
- There has been an increase in the control of subordinate governments' debts by central governments since the beginning of the decade.
- Enforcement mechanisms have been tightened since 2010.
- There has been a move towards sophisticated rather than simple rules.

Working with the private sector

Complex as they are, the financial relationships between levels of government are only part of the story, the other part being private finance. There has been increasing acknowledgement that purely public intervention has its limits, and this has opened the way for greater co-operation between the public and the private sector in both infrastructure investment and service delivery. Public-private partnerships (PPPs) and other frameworks for private participation in the supply of local public goods and services are increasingly important in many OECD cities. However, experience with PPPs across the OECD has been mixed, and many national and sub-national policy makers remain wary of them. While they can, in some situations, deliver better value for money than traditional procurement, they have on occasion been used to finance expenditures that would not otherwise have been approved in a given budgetary situation and they have sometimes been embraced by public authorities with insufficient understanding of how they work and where the potential pitfalls lie. In addition, in many places, they have been understood solely as an alternative financing instrument – albeit one that is burdensome in terms of administration and more expensive than some alternatives (e.g. in Germany and Sweden). They are more likely to make sense where they help address other issues, including risk sharing, technical expertise, and project design and management. Several OECD instruments offer good practice examples as a source of guidance for urban areas.[9]

PPPs are also technically demanding in terms of management, suggesting that capacity gaps, especially at sub-national level, contribute to their slow uptake. A recent OECD survey found that the lack of adequate capacity for sub-national governments to manage PPPs was seen as a significant challenge by 16 of 19 responding OECD country governments (OECD, 2013c). Governments wishing to expand the role of private finance in urban public investment may therefore need to address these capacity issues before proceeding very far – for example, by establishing dedicated PPP units that can work with local authorities (OECD, 2010d). They may also establish guidelines for lower-level governments. Australia, for example, has adopted its National Public Private Partnership Policy and Guidelines (OECD, 2011d). National policies may also create explicit incentives or disincentives to engage the private sector. In Germany, for instance, the share of public funds provided by the central government for regional public infrastructure projects may drop from 80% to 20% if private sector financing is provided. This rule results in a typical model of public construction and ownership combined with, in many cases, operation by private firms under contract. In the United States, by contrast, private sector financing has increasingly been a *requirement* for federal support (OECD, 2013c).

Place: National policies help shape urban morphologies

How cities develop spatially and how people and goods move through urban areas help to determine whether the economic benefits of agglomeration outweigh the costs. Spatial planning decisions also affect citizens' quality of life directly, including ease of access to jobs, services and amenities. National and sub-national governments across the OECD are involved to varying degrees in policies pertaining to "place" (e.g. land-use policies and planning, property rights, land development and redevelopment, land registries, urban transport and environmental performance in urban areas). They have at their disposal a range of policy instruments (e.g. regulation, standard-setting, technical assistance). The assessment of national policies affecting the spatial dimension of urban development should focus on the coherence of different aspects of spatial policy and the flexibility of policy instruments.

Land-use planning

In most OECD countries, national governments are involved to some degree in local land-use planning. National involvement in land-use planning can provide a means of ensuring that municipal plans meet broader policy targets for economic, social and environmental performance. The provisions set out in the French government's *Grenelle* *de l'environnement*, for example, injected a much stronger environmental dimension into the objectives and instruments of the urban planning system, particularly via higher density targets and the introduction of building standards linked to energy efficiency (Kamal-Chaoui and Plouin, 2012). In Korea, the national government set out guidelines for local development plans to ensure alignment with national competitiveness objectives (OECD, 2012a). Some OECD governments go further, seeking to direct growth to particular regions (e.g. outside a capital city) or to particular areas within a city (e.g. inner-city development). Korea, for instance, has attempted to address regional disparities by directing growth to less-developed regions and alleviating agglomeration pressures on major population and industrial centres.

Growth management tools are widely used to direct growth to specific areas within a region, aligning urban growth, infrastructure and natural resource protection. While most often implemented by lower levels of government, these tools often require legitimation through national legislation, and may be motivated by national strategies for sustainable urban development. They can include the public acquisition of land, regulation (e.g. zoning provisions, development moratoria, urban growth boundaries, green belts) and fiscal policies (e.g. development impact fees, infill or redevelopment incentives). Green belts have been implemented across the OECD, albeit with decidedly mixed results: as part of national urban policy in the United Kingdom or national spatial planning in the Netherlands, as well as around numerous cities, including Vienna; Barcelona; Budapest; Berlin; Hong Kong; Seoul; Tokyo; Toronto; Vancouver; Chicago; Sydney; and Melbourne (Kamal-Chaoui and Sanchez-Reaza, 2012). In both Japan and Korea, the national government defines zoning categories for municipalities that orient the form and intensity of local land uses; in Korea, for instance, zoning reform in 2008 included revisions to encourage mixed-use and transit-oriented development (OECD, 2012a).

At times, national oversight may render the planning process needlessly rigid, burdensome or even – in the worst cases – useless. A global survey of planning practices in the mid-2000s found almost universal acceptance of comprehensive master planning or its equivalent (Friedmann, 2005). Typically, cities are mandated by national governments to produce master plans that specify future land uses and circulation patterns. Often, these must be approved by senior governments as well as local authorities. Once approved, they are supposed to serve as a guide for land-use and location decisions. In practice, such forms of planning are largely obsolete and are often recognised as such by the municipalities engaged in them. However, they are bound by law to comply. In Chile, for example, the approval process for municipal plans averages seven years, resulting in plans that are obsolete by the time they are approved (OECD, 2013b; 2013 g). Moreover, national regulations have left little room for Chile's many coastal cities to capitalise on one of the country's most important assets in terms of quality of life and tourism development: the coastline (OECD, 2013 g). Similar rigidities in the national framework for spatial planning affect cities in many other countries, as well (OECD, forthcoming a; 2011c).

A number of problems with traditional approaches to physical planning include (Friedmann, 2007):

- planning units are usually defined by administrative rather than functional criteria (i.e. municipalities rather than functional urban areas or regions)
- they are often concerned exclusively with land use and divorced from such closely linked urban policy issues as transport planning, environmental policy and economic development

- they have historically been highly technocratic, drawn up by specialised units of municipal governments rather than through a wider process of collaborative deliberation and citizen participation
- they are usually out of date by the time they become effective, because their preparation and adoption can take a long time – and they are most likely to be outdated where they are most needed – in rapidly changing places
- they are frequently set aside anyway, to allow for major projects unforeseen by the planners.

The traditional approaches to physical planning are changing – and, in some places, changing fast. A growing number of countries and cities are adopting more sophisticated approaches to strategic urban planning. This involves a broader remit (integrating different dimensions of urban development into the planning process), a more flexible and inclusive process (i.e. participatory rather than technocratic) and a shift in focus from concern with plans, as such, to an understanding of planning as a co-ordination device (United Cities and Local Governments, 2010).[10] Arguably, the *process* of planning is more important than the plans that result. A truly dynamic, participatory planning process can strengthen communication among public and private sector stakeholders, reveal information and promote economic self-discovery. Any plans that are prepared along the way are understood to be provisional documents, snapshots of an ongoing dynamic. The problem remains that national legislation in many countries means that cities are obliged to maintain the traditional practice of urban master planning, even if they seek also to adapt more flexible, dynamic approaches. In Portugal, for example, the planning regime remains rather static and organised around administrative rather than functional territories. Moreover, in the view of the central government, provisions for integrated planning of land use, transport, economic and infrastructure development exist in theory but are rarely applied in practice.[11]

Real estate markets

Higher levels of government are also responsible for the basic legal and institutional infrastructure underpinning the land market. This includes protection of property rights, a litigation system and a land registry (cadastre) (Kamal-Chaoui and Sanchez-Reaza, 2012). Effective protection of property rights and transparent land registries are critical in reducing transaction costs and protecting the rights of landholders. Unregistered communal property and illegal tenure can reduce local tax bases and increase the vulnerability of residents. Informal land ownership, which is still common in a small number of OECD countries, may also lead to costly and inefficient patterns of infrastructure provision, with additional negative effects on environmental and social cohesion (OECD, 2008). National governments can also assist lower levels of government in improving land information systems, for instance through land surveys, which can help inform urban development and infrastructure investment. The Japanese government, for instance, funds a percentage of the cost for municipalities to conduct land surveys.

Many OECD countries have transitioned from directly supplying affordable housing to mandatory quotas or voluntary targets for privately developed affordable housing. Recent national legislation in France, for example, increases from 20% to 25% the minimum level of public social housing within municipalities of over 3 500 inhabitants and imposes stricter financial penalties for non-compliance (Institut d'aménagement et d'urbanisme, 2013). Other countries have sought to increase the supply of affordable housing by facilitating housing production by nonprofit developers (e.g. provision of matching funds, increasing their access to credit and reserving a share of national housing grants for non-profit developers). In the United States, the Low Income Housing Tax Credit (LIHTC) programme awards federal tax credits to developers of qualified affordable rental housing projects for low-income households (US Department of Housing and Urban Development, n.d.). Still other countries have attempted to set aside land for the development of affordable housing (e.g. Ireland, United Kingdom) (Kamal-Chaoui and Sanchez-Reaza, 2012). In Mexico, the allocation of federal housing subsidies to formal-sector workers has resulted in inefficient urban development patterns with substantial economic, social and environmental costs (e.g. high rate of urban sprawl, irregular settlement patterns, development in risk zones, a high rate of abandoned houses, etc.). Federal reforms introduced in 2013 outline an ambitious agenda for sustainable housing and urban development, including new rules governing the allocation of subsidies (OECD, forthcoming a).

Environmental quality

As noted above, how cities are planned and developed has implications for both global environmental outcomes (e.g. climate change) and more localised environmental externalities (e.g. particulate matter). Since urban planning decisions tend to last, they can lock cities into positive or negative development paths that may last for decades. Where local action focuses on local externalities, the impact on human health can be positive and rapid, delivering a palpable benefit in terms of quality of life that may help build support for other green growth measures. While many environmental standards and policies can and should be uniform at an economy-wide level – in particular, to avoid displacement rather than reduction of environmentally damaging activities – local-level urban planning decisions can affect energy consumption and tendencies to sprawl, in particular (OECD, 2010a; 2013d).

Cities are responding to both global and local environmental problems, but their actions need to be co-ordinated with those of national governments to have maximum impact. In particular, national governments may need to ensure that economy-wide environmental standards avoid a “race to the bottom” among cities as regards environmental regulation in fields like sanitation and waste management, while still leaving them the flexibility needed to adopt least-cost solutions that reflect local conditions. For example, national guidelines for spatial planning may leave many decisions to local actors while strengthening the incentives to avoid excessive sprawl and pursue more compact development (Box 5.4). A number of OECD countries have begun to see compact urban development as a central element of urban sustainability. However, compact city policies adopted in particular places may, in the absence of appropriate national policy settings, merely prompt households and firms seeking more space to relocate to less restrictive jurisdictions (Gaigné et al., 2012). Similarly, national policies with respect to things like fossil-fuel subsidies can affect urban traffic and air quality quite directly and may also affect the success of urban policies promoting public transport. Above all, a carbon price or carbon tax can create a myriad opportunities for urban-level initiatives that will make little sense without one (OECD, 2013d).

Co-ordination across metropolitan areas

There is a need for increased co-ordination of land-use decisions, infrastructure and service provision between adjoining municipalities in the same urban area. These are fields where the need to govern cities as functional rather than administrative entities is especially acute, since unco-ordinated land-use decisions by adjoining municipalities can lead to very bad outcomes. An absence of inter-municipal co-ordination over urban development decisions among the 39 municipalities of Mexico's Puebla-Tlaxcala metropolitan zone contributed to the region's rapid urban expansion and acute service delivery shortages in suburban areas (OECD, 2013h). Many other OECD metros suffer from similar fragmentation

Box 5.4. **Compact city policies**

In recent years, compact city policies have increasingly been part of urban strategies. While the compact city concept still generates debate, proponents argue that it can enhance the environmental and economic sustainability of cities. Although cities differ and different cities take different compact city forms, the key characteristics of a compact city are considered as follows:

- **Dense and proximate development patterns.** Density involves how intensively urban land is utilised, and proximity concerns the location of urban agglomerations in a metropolitan area. In a compact city, urban land is intensively used; urban agglomerations are contiguous or close together. The border between urban and rural land use at the urban fringe is clear. However, public spaces, including squares, streets and parks, are also essential elements. Density and proximity are two major physical (or morphological) elements of the compact city. Simple morphological models can help clarify these two characteristics.
- **Urban areas linked by public transport systems.** These indicate how effectively urban land is utilised. Public transport systems facilitate mobility in urban areas and enable urban areas to function effectively.
- **Accessibility to local services and jobs.** This concerns how easily residents can reach local services such as grocery stores, restaurants and clinics as well as neighbourhood jobs. In a compact city, land use is mixed and most residents have access to these services either on foot or using public transport.

Functional urban areas are the units generally used for discussing compact city policies. They identify cities as functional economic units characterised by a densely inhabited "urban core" and a "hinterland" whose labour market is closely integrated with the core. Compact city policies make sense on this scale since in most cases, the commuting patterns relevant to a city's urban areas extend beyond municipal administrative boundaries.

It is important to stress that there is more to compact city policies than mere densification. On the contrary, for compact development to work, policies must encourage density that functions effectively. This implies a need to consider not only such issues as housing affordability and transport-oriented development, but infill and densification. Moreover, the research suggests that good urban design has a role to play: high density is often associated with a lower quality of life, but there a variety of ways of achieving density, and good urban design can often deliver higher density of settlement and activity while ensuring access to green space, limiting congestion and paying attention to urban aesthetics. In introducing minimum density requirements, it is also useful to provide design guidelines to alleviate negative perceptions of density.

The table below illustrates the ways in which an integrated package of compact city policies can help deliver better environmental, economic and social outcomes.

Box 5.4. **Compact city policies** *(cont.)*

Potential contributions of compact development to urban sustainability

	Contribution to urban sustainability		
	Environmental benefits	Social benefits	Economic benefits
1. Shorter intra-urban travel distances	– Fewer CO2 emissions – Less pollution from automobiles	– Greater accessibility due to lower cost	– Higher productivity due to shorter travel time for workers
2. Less automobile dependency	– Fewer CO2 emissions – Less pollution from automobiles	– Lower transport costs – Higher mobility for people without access to a car – Improved human health due to more cycling and walking	– Development of green jobs/ technologies
3. More district-wide energy utilisation and local energy generation	– Less energy consumption per capita, fewer CO2 emissions		– Development of green jobs/ technologies – More energy independence
4. Optimum use of land resources and more opportunity for rural-urban linkage	– Conservation of farmlands and natural biodiversity – Fewer CO2 emissions due to shorter food travel mileage	– Higher quality of life due to more recreational activities	– Rural economic development (urban agriculture, renewable energy, etc.)
5. More efficient public service delivery		– Public service level for social welfare maintained by improved efficiency	– Lower infrastructure investments and cost of maintenance
6. Better access to a diversity of local services and jobs		– Higher quality of life due to access to local services (shops, hospitals, etc.)	– Skilled labour force attracted by high quality of life – Greater productivity due to more diversity, vitality, innovation and creativity

Sources: OECD (2012), *Compact City Policies: A Comparative Assessment*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264167865-en*; OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*.

of governance, including Chicago (OECD, 2012b) and Marseille (OECD, 2013i), with similar consequences.

Yet governance at a more functional urban scale is hard to implement. The legislative framework for local governance in Italy, for example, has been in constant flux for two decades. While a 2012 reform intended to reconcile the discrepancy between municipal administrative and functional delineations, greater institutional integration has been slow to take hold, thanks to the fact that only marginal changes have been instituted in local governance systems, despite the reforms, and thanks to a political climate favouring local policy making over a broader regional vision (OECD, 2013j). In Mexico, the Constitution prohibits a formal metropolitan level of government. Inter-municipal co-operation might fill the void, but it has often been stymied by weak municipal capacities and, until recently, a three-year, non-renewable term for mayors (OECD, 2013h). Many OECD countries have set up metropolitan governance bodies to address the needs of functional urban areas.

Instruments

Lower levels of government may have scope within national legislation to make greater use of economic instruments to shape more sustainable land-use patterns. Municipalities across the OECD make use of one-time development charges or impact fees to help cover the cost of the infrastructure required by new development. For developer fees to take into account the externalities of new urban development and discourage urban sprawl, the charges must be differentiated by location to reflect the different infrastructure costs. For example, charges should be higher for developments located further away from major facilities and for lower-density developments, where the cost of service provision is higher (Merk et al., 2012). This has been hard to implement in practice, however, as uniform charges – which do not distinguish between greenfield and infill development, or between low- and high-intensity land uses – continue to predominate. Moreover, in the United States, a 2013 Supreme Court decision may limit cities' use of development fees by requiring local governments to demonstrate that the fees reasonably reflect the cost of infrastructure or service provision to the new development (Echeverria, 2013).

Connections: Cities' connectivity depends on national decisions

Because cities do not exist in isolation, connectivity at all scales is increasingly important to the performance of national urban systems. This, too, is an area where national policies matter. A number of national governments have considered improving transport both within and between metropolitan areas, to boost development potential. National decisions about major infrastructure networks can have a tremendous impact on cities' competitiveness and growth potential, particularly in countries where decision-making authority over national infrastructure is held tightly at central government level. In many OECD countries, for example, the location of airports remains a matter for national governments. Inter-city road and rail networks are likewise generally planned by senior governments. Much depends on how governments assess potential investments in new infrastructure. In the United Kingdom, for example, critics have long argued that the kinds of cost-benefit analysis typically employed focus too much on resolving immediate constraints and too little on growth potential. The result is that in the most recent period, as much as 80% of major transport infrastructure spending was earmarked for London and south-east England, compared to just 6% for the north of England (NEFC, 2012; HM Treasury, 2011).

National governments also play a major role in intra-urban transport. This is partly because their financial support is often required for major infrastructure investments and partly because higher-level governments sometimes have to step in to assure co-ordination of transport networks at metropolitan or regional scales, which extend beyond the boundaries of individual municipalities.

Some governments foster systems of cities by establishing stronger links between cities of varying sizes, particularly through transport. Governments may set targets for cities to fulfil different roles (e.g. "Innovation Cities", "Enterprise Cities", "Eco-Towns") or increase linkages between metropolitan areas and smaller cities within a larger region (e.g. proposals for the Seine valley axis between Paris and Le Havre). National governments can also support the development of urban transport networks in metropolitan areas. In 2008, the French government's proposal to boost the economic competitiveness of the Paris metro region through the Greater Paris Plan (*Grand Paris*) centred on the development of a new high-speed underground transport line to connect Paris' suburbs (Kamal-Chaoui and Plouin, 2012).

Poor inter-city connectivity can be a major drag on urban growth and requires senior governments to act, since cities cannot handle it alone. Apart from the often prohibitive costs involved, cities are rarely able to tackle regional or national infrastructure projects that extend far beyond their borders. As noted above, even the location of airports is often a national decision, in part to avoid inefficient duplication of infrastructure investments. One of the constraints on Poland's development, for example, is a poorly developed transport infrastructure that fails to connect the nation's urban system or to integrate neighbourhoods within urban agglomerations. Poor connectivity also limits the growth-enhancing effect that cities can exert on surrounding regions. According to the World Economic Forum's *Global Competitiveness Report*, Poland's quality of road infrastructure ranks 105th among the 148 countries surveyed. It is not only last in the OECD, but also inferior to that of many non-OECD countries, such as Argentina or the People's Republic of China (World Economic Forum, 2013). Colombia, which ranks 130th on the same indicator, has identified poor connectivity among its major cities as the primary challenge for urban policy – at present, its two main metropoles trade less with each other than with the rest of the world and are poorly connected to the country's ports. Thus, the country's *mision de ciudades* stresses connecting up Colombian cities and improving their international connectivity (Perfetti, 2013).

Co-ordinating the investment and planning of urban infrastructure across levels of government can be difficult, however. In Portugal, for example, there is co-ordination between the institutions responsible for road networks and public transport, but little in the way of multi-modal planning or co-ordination.[12] In the case of the development of Puebla-Tlaxcala's bus rapid transit (BRT) network in Mexico, institutional fragmentation within the transport sector, misalignments in the decision-making process and limited consultation between levels of government may have resulted in suboptimal siting of some BRT routes and a missed opportunity to leverage the development potential of the transport investment (OECD, 2013h). Public transport systems of poor quality or limited geographic reach may also disproportionately affect poorer urban populations, which lack affordable alternatives that can, in turn, limit their labour mobility. The Chicago tri-state area has a high concentration of low-income housing in neighbourhoods with low-quality services and poor connections to employment opportunities via public transport (OECD, 2012c).

People: National governments and cities need to co-operate to address the well-being of urban residents

A wide range of national policies are aimed directly at improving the economic prospects, well-being and opportunities of people. Many of these have significant implications for cities, not simply because most of the intended beneficiaries live in urban areas but also because national policies can impose additional, sometimes unforeseen, service demands on cities (e.g. immigration). This is not to suggest that national governments should cede such responsibilities to regions and cities. Rather, it implies that a lively dialogue across levels of government is needed and that national governments should be sensitive to the local implications – intended or not – of their policies. In other cases, national policies may simply need local adaptation to achieve maximum impact (e.g. active labour-market policies). Other dimensions of demographic change (particularly population ageing) may not result from national action, but will still require a high degree of national-local co-ordination, as is increasingly clear in the ongoing OECD work on cities and ageing; the examples of countries as diverse as Korea and Poland underscore the importance of ageing for urban policy (OECD, 2011b; 2012a). In a number of spheres, the key issue for governments to consider is this balance between national standards and local adaptations.

Labour markets

Certain aspects of labour-market policies should remain uniform across national economies (i.e. spatially blind), but other aspects can be highly place-based.

In some cases, the answer is clearer than in others. Policies concerned with mobility, for example, should probably remain with national governments. Labour migration that is good for aggregate performance and beneficial for those involved is often not appealing to the affected cities and regions, because it may entail loss of skilled labour or a reduction in the tax base.

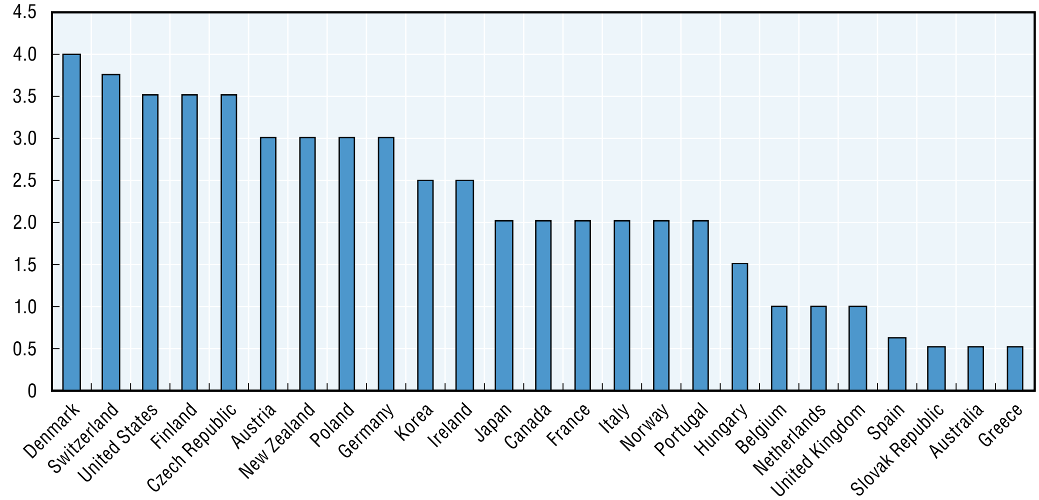
In contrast, policies concerned with improving information about labour-market conditions, better matching training and/or subsidies to employers are probably best designed at the level of functional urban areas. This is because information about local conditions can be crucial to the effectiveness of such efforts. Moreover, measures that have little impact on national aggregates may still have significant local effects, including some positive effects that go beyond pure employment effects (e.g. retention of population and tax base, contributing to an increased ability to provide key services locally).

A number of empirical studies suggest that one-size-fits-all active labour-market policies can have very different effects in different places, which may be one reason why evaluations of such programmes vary so widely.[13] Yet in practice, many OECD countries have tended to treat labour-market interventions as a national prerogative and to design programmes with little local flexibility (Figure 5.3). While overall employment outcomes owe more to macroeconomic variables like aggregate demand than to local action, such flexibility can make a big difference in specific places, particularly when the issue concerns labour-market mismatches rather than weak demand. Otherwise, it is possible for pockets of unemployment to exist alongside labour-market shortages (OECD, 2012b). This is true at many different territorial scales, but it is especially true for cities, since they tend to constitute relatively deep, diversified labour markets and also because, as seen above, they often have a disproportionate share of unemployment. The need for flexibility in cities also reflects their role as the primary destinations for international migrants, who tend to concentrate in cities, particularly large ones: integrating immigrants into labour markets is a critical challenge and one that is often easiest to address where there is scope for adapting public programmes to meet their specific needs (OECD, 2012f).

National governments can help cities integrate workers into the labour market – or, following the global crisis, to *re*-integrate them. Mexico, for example, has developed a certification system to recognise skills obtained on the job, which provides new opportunities for "up-skilling" the workforce in both formal and informal sectors. A number of OECD governments have also taken steps to promote local policy innovation by allowing some relaxation of national rules that may impede the implementation of local solutions to local problems (e.g. the Department of Labor's waiver system in the United States or the French government's financing of social innovation in French cities and regions). But all too often, flexibility is not the norm (Figure 5.3). When it comes to immigrants, better assessment and recognition of foreign qualifications can help, and this, in many countries, depends on national regulatory standards and guidelines. In Sweden, for example, national agencies map the qualifications of new immigrants in order to improve their labour-market perspectives and better customise public integration programmes; in its 2013 budget bill,

Figure 5.3. **Limited local flexibility to manage labour-market policy**

Flexibility index at local level in 25 OECD countries, 2007-08



Note: Estimates of flexibility in the management of labour-market policy draw on the results of an OECD questionnaire to the Employment, Labour and Social Affairs Committee on Activation of Labour Market Policy in 2007 and further research in 2008. The indicator is based on a six-point scale of flexibility with respect to six criteria: programme design, financing, identification of target groups, goals and performance management, collaboration and outsourcing.

Source: Giguère, S. and F. Froy (eds.) (2009), *Flexible Policy for More and Better Jobs*, Local Economic Employment and Development (LEED), OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264059528-en*.

StatLink *http://dx.doi.org/10.1787/888933107085*

the country also took a number of measures to encourage employers to hire newly arrived immigrants, which included enhancing flexibility and extending eligibility in integration programmes (OECD, 2013k).

Housing

As noted above, many national policies that favour home ownership over rental (e.g. in France, Mexico and the United States, among others) serve to reduce labour mobility. Across the OECD, income from owner-occupied dwellings enjoys preferential tax treatment relative to investment in rental housing, which may limit labour mobility.

Frequently, national policies to stimulate housing demand clash with local policies that effectively restrict housing supply. National policies typically address housing demand, such as by making single-family home ownership more attractive financially, while local policies can have a huge impact on the supply side (OECD, 2011a). For example, local growth control policies may restrict the space available for new development or impose other requirements (maximum densities, minimum housing size, bans on multi-family dwellings) that are intended to make housing more expensive and thereby exclude lower-income families (Kamal-Chaoui and Sanchez-Reaza, 2012). They also restrict the responsiveness of housing supply. As noted above, the allocation of federal housing subsidies in Mexico has contributed to excessive sprawl, irregular settlement patterns and urban development in risk zones. Municipal decisions can thus be crucial in giving national targets for the provision of affordable housing, and yet national targets are sometimes adopted without any concrete vision of their spatial implications (such as breaking out the targets by region or city) or mechanisms for persuading municipalities to accept affordable housing. In Portugal, for example, national targets seldom have teeth except in the case of projects financed by specific national/regional authorities or EU funds.[14]

Contradictions among national policies can have the same effect, even in the absence of local action. For example, policies that seek to control sprawl by establishing urban growth boundaries (which in many countries are established by higher levels of government, rather than cities) can drive up housing prices and reduce housing supply by increasing residential development costs. Some critics even claim that urban growth restrictions intended to prevent urban sprawl are incompatible with policies to promote affordable housing. Urban growth management policies that aim to reduce sprawl demand must therefore also incorporate measures to increase housing affordability and avoid potentially dangerous distortions in housing markets (OECD, 2011a).

Institutions: Strengthening the multi-level governance approach

Institutions can facilitate or hinder the kind of policy co-ordination needed to achieve more competitive, sustainable, inclusive cities. To understand the impact of national policies on urban development, policy makers need to assess how institutional capacity can be strengthened and how co-ordination can be improved to achieve greater coherence between national economic, social and environmental objectives and urban-level policies. Given that urban policies affect multiple sectors and levels of government, they require both horizontal and vertical co-ordination among institutions.

Horizontal co-ordination at national level

Policy co-ordination is particularly complex in trying to identify investment policy complementarities across sectors, which are required for place-based urban policies. Policy complementarities refer to the mutually reinforcing impact of different actions on a given policy outcome, as exemplified in Table 5.2. In other words, to maximise the effect of the policies undertaken, the institutions responsible for different strands of national sectorial policy have to co-ordinate their policies for specified territories. In Japan, for example, the 2012 Act to Promote the Low-Carbon City encourages local governments to develop a place-based, cross-sectorial Low-Carbon City Development Plan that is supported by three different line ministries, identifying low-carbon projects across sectors (health, transport, public housing, etc.) to be financed by the central government. Even highly decentralised federal systems have been shown to work in a deeply sectorial entrenched way, making not only central cross-sectorial co-ordination difficult, but intergovernmental and cross-sectorial co-ordination as well. Without co-ordination, the potential benefits of any given policy may not be realised, and otherwise desirable investments may have unanticipated and negative consequences (OECD, 2011d).

Cross-sectorial co-ordination remains weak in many OECD countries, which is particularly problematic for urban areas. In Poland, for example, information on the government's decisions on investment in various sectors impacting regional spatial planning is dispersed across the sectorial ministries; regional actors have to work hard to find and collect the information necessary for co-ordination with the national plans. This makes it harder to realise potential synergies among a wide range of urban policies, such as transport, the environment and water. Regional authorities also need to liaise with each of the sectorial ministries when designing their spatial development plans. Examples of good practice do, however, exist. The White House Council on Strong Cities, Strong Communities is an example of cross-sectorial collaboration to ensure the long-term economic development of cities. The initiative has brought together a significant number of federal government sectorial ministries to develop the programme in six pilot cities. The initiative has had a budget of USD 11 million, which it aims to increase by cutting red

Table 5.2. **Complementarities among selected policies in urban areas**

Policy	Impact		
	Land-use zoning	Transport	Natural resources
Land-use zoning Land-use zoning determines the density, height of buildings and proportion of undeveloped land on each property.	–	Segregation of land uses affects travel distances and frequency; transit-oriented development zones encourage use of mass transport.	Zoning designates natural resource areas that may be set aside to reduce vulnerability to flooding or urban heat island effects.
Transport Transport policies determine the development and extension of road and mass transport networks.	Transport infrastructure policies shape demand for land and acceptance of density increases.	–	Transport systems impact natural resource and preserved zones.
Natural resources Natural resource policies determine which areas are preserved from development and what uses are acceptable on them.	Natural resource policies determine the limits of developed land-use zones and can improve quality of high-density zones.	Natural resource policies affect the placement of road and mass transport infrastructure.	–

Source: Based on Kamal-Chaoui, L. and A. Robert (2009), "Competitive cities and climate change", *OECD Regional Development Working Papers*, No. 2009/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/218830433146*.

tape, reducing transaction times and leveraging additional funds from the federal level (US Economic Development Administration, 2012). Horizontal co-ordination at the national level among ministries responsible for urban-relevant policies can range from informal co-ordinating bodies to formal agencies with regulatory authority. As noted above, a growing number of OECD countries have lead ministries designated for urban policy and/or co-ordinating bodies that bring together various ministries and departments to consider the interactions among policies that affect urban development.

Inter-municipal co-ordination

Local governments in the same urban area may co-ordinate using a range of mechanisms, from voluntary arrangements to elected authorities with regulatory powers. There are pros and cons to the various approaches to metropolitan governance. However, such co-ordination typically requires a degree of intervention from high-level governments (OECD, 2013c). National action is often needed to overcome the number of impediments to collaboration across jurisdictional boundaries at metropolitan scale, some of which may be rooted in national policies and all of which may be easier to correct if the high-level governments are involved:

1. There are collective action problems to be overcome. 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 incentive to take on the costs of gathering the necessary information, mobilising others, etc. In some cases, municipalities may lack the capacities needed to engage in co-operation: a lack of strategic planning capabilities at the local level has impeded inter-municipal collaboration in such diverse country settings as Canada and Slovenia (OECD, 2013c).
2. Big differences in capacity and resources across jurisdictions may aggravate the problem by undermining trust or weakening incentives to collaborate. Differences in size, wealth and priorities can make it difficult for neighbouring municipalities to agree, particularly where very large cities are engaged with much smaller municipalities. The former are likely to question how much they need their smaller neighbours and

may be wary of carrying their burdens, whereas smaller municipalities often doubt their ability to uphold their interests in such an unequal partnership. Co-operation can also be difficult where there are significant differences in income levels between adjacent jurisdictions, as the wealthier jurisdiction will often fear subsidising its poorer neighbour (OECD, 2013b).

3. Inter-jurisdictional competition is another obstacle to fostering horizontal collaboration at the local level in many places. Competition between municipalities often tends to trump collaboration incentives, as municipalities compete to obtain funding from higher levels of government. Where indivisible assets like schools and hospitals are concerned, collaboration can be harder still. Municipalities may be reluctant to participate in scaling up major infrastructure projects if this would mean locating key facilities (and jobs) in other jurisdictions. Potential economies of scale notwithstanding, individual local authorities may prefer less-efficient local provision. For example, in low-density places like Slovenia (OECD, 2011c) or south-eastern Sweden (OECD, 2012f), municipalities readily see the scale economies to be realised by collaborating in fields like education and health care, but fear that their own long-term viability and attractiveness depend in part on ensuring that the key facilities (and related employment) are located within their own borders.[15] That is why it is often easier to co-operate in fields like public transport or waste disposal than on new infrastructure projects (OECD, 2013c).
4. Finally, regulatory impediments may exist. For example, the statutory obligations imposed on municipalities may make it impossible for them to "contract out" certain functions to neighbouring municipalities or joint bodies, even where this would be more efficient. National legislation may also raise the costs associated with organising joint undertakings among municipalities (OECD, 2011c; 2012f). Administrative rules at national or even supranational level, such as in EU Structural Funds, can prevent joint action, as is noted in attempts to collaborate between the city region of Berlin and the surrounding region of Brandenburg (Germany).

There has been growing interest in metropolitan governance in the OECD countries in recent years, though solutions have varied from country to country. In 2013, for example, the French government passed legislation to create new administrative metropolitan-scale entities with strategic competencies for several of the country's largest metropolitan areas (OECD, 2013i). Italy has also passed numerous reforms for local governance in the past decade, with the ambition of fostering greater inter-municipal integration. It is currently working on the creation of ten "metropolitan cities" (*città metropolitane*) in an effort to improve the governance of its largest urban areas.

Vertical co-ordination

Co-ordination among the levels of government requires mechanisms for managing different sets of relationships. There are three sets of vertical relations: between the national and municipal levels, the regional and municipal levels, and the national and regional levels. Three issues merit consideration when national governments think about how to ensure proper vertical co-ordination of national policies:

- First, different governmental institutions need to ensure the efficient exchange of **information** about their respective challenges, policy preferences and implementation arrangements. Too often, different levels complain that their needs and opportunities are poorly understood by the other levels (OECD, 2013c).

- Secondly, mechanisms are sometimes needed to ensure real commitment to co-operation among partners in public policy initiatives and real **accountability** among them, to one another and to the citizens (e.g. co-financing).
- Thirdly, the evidence suggests that these arrangements work better when based upon **consent** rather than top-down enforcement.

Clearly, the challenge lies in overcoming the tensions that can arise between these three objectives. The potential conflict between accountability and consent is obvious in vertical co-ordination, particularly if the higher level of government operates on a strongly hierarchical basis. Yet tensions can also arise between information and accountability (the former being crucial to the latter), particularly where governments face multiple channels of accountability – to higher levels of government but also to their citizens.

Institutional capacity

It is also critical to assess the impact of the capacity and capability of different levels of government on urban outcomes. Many capacities are required, particularly at the sub-national level for the various stages of the public investment cycle (Mizell and Allain-Dupré, 2013). For instance, the relatively weak fiscal, technical and human capacity of many Mexican municipalities has, in some cases, resulted in urban development determined largely by private sector developers. This has been one factor in facilitating the country's rapid rate of urban sprawl (OECD, forthcoming a).

Key policy implications

A diagnostic tool to assess urban policy frameworks suggests the following recommendations under its five thematic pillars:

- **Money:** Fiscal systems that determine urban finance are typically overlooked in the consideration of urban policy and governance. Policy makers need to carefully examine the incentives provided by their fiscal systems in terms of their impact for actions taken at the level of cities and their surroundings.
- **Places:** Spatial planning and land use have far-reaching consequences for the way cities and their hinterlands develop. It is particularly important to co-ordinate policies that help to determine the structure and functioning of a functional urban area, in order to avoid the risk that such policies work at cross-purposes.
- **Connectivity:** The nature of transport systems for people and goods both within and between urban areas, has implications for economic growth, as well as environmental and social consequences. Policy makers need to consider these important connections as part of the urban policy framework.
- **People:** Many urban policies are actually social policies. Policy makers need to consider a wide range of policies for people that have a particularly important impact on cities, such as labour market policy, affordable housing policy or policies for specific demographic groups, such as immigrants.
- **Institutions:** The need for greater alignment of policy approaches implies adapting governance arrangements to ensure that existing or new structures can sustain policy co-ordination for urban development across sectors, jurisdictions and levels of government.

Notes

1. Some 232 metro areas in 22 countries accounted for 56% of employment creation. Denmark, Greece, Japan and Portugal are excluded from this figure, as they experienced net job destruction over the period. Hungary and Slovenia are excluded for a very different reason: employment creation in the metropolitan areas exceeded that for the country (in other words, employment in non-metropolitan places fell).
2. On the broader phenomenon of skill-biased technical change, see Acemoglu (1998, 2002, 2007); Acemoglu and Autor (2011); Blackburn et al. (1990); and OECD (2011a). For sceptical views, see Goos and Manning (2007); and Card and DiNardo (2002).
3. *www.ville.gouv.fr/?ol-essentiel-de-la-politique-de-la*.
4. For more information on the measures to reduce concentration in the Seoul area, see OECD (2005).
5. Outcomes in the absence of appropriate national policy settings may even be perverse: enhanced energy efficiency may actually lead to increased fossil-fuel use (the so-called "Jevons paradox"; Sorrel, 2009; Helm, 2012), which thwarts the goal of reducing emissions, and the financial returns to energy efficiency will be much reduced.
6. For examples, see Center for Urban Policy Research (2007); Haveman and Sexton (2008); and Kamal-Chaoui and Sanchez-Reaza (2012).
7. OECD assessment based on information available as of mid-2013.
8. See also the contribution from US Secretary for Housing and Urban Development Shaun Donovan in Part III of this *Outlook*.
9. OECD instruments that offer guidance here include the OECD Principles for Public Governance of Public-Private Partnerships and the OECD Principles for Effective Public Investment across Levels of Government.
10. Planners' professional expertise is still needed, but they work as members of teams alongside experts in other fields.
11. Communication to the OECD Secretariat from the Direção-Geral do Território of the Ministry for Agriculture, the Sea, the Environment and Spatial Planning, July 2013.
12. Communication to the OECD Secretariat from the Direção-Geral do Território of the Ministry for Agriculture, the Sea, the Environment and Spatial Planning, July 2013.
13. See, e.g. Calmfors et al. (2001) on Sweden; Hujer and Caliendo (2000) on Germany; and Altavilla and Caroleo (2009) on Italy.
14. Communication to the OECD Secretariat from the Direção-Geral do Território of the Ministry for Agriculture, the Sea, the Environment and Spatial Planning, July 2013.
15. Small municipalities may thus be rightly afraid of losing, for example, their own secondary schools or health care facilities, even if the burden of maintaining them may be a problem.

Bibliography

Acemoglu, D. (2007), "Equilibrium bias in technology", *Econometrica*, Vol. 75, No. 5, pp. 1 371-1 409.

Acemoglu, D. (2002), "Technical change, inequality and the labor market", *Journal of Economic Literature*, No. 40, pp. 7-72.

Acemoglu, D. (1998), "Why do new technologies complement skills? Directed technical change and wage inequality", *Quarterly Journal of Economics*, No. 113, pp. 1 055-1 090.

Acemoglu, D. and D. Autor (2011), "Skills, tasks and technologies: Implications for employment and earnings", in: O. Ashenfelter and D. Card (eds.), *Handbook of Economics*, Vol. 4, Elsevier, Amsterdam.

Altavilla, C. and F. Caroleo (2009), "Unintended effects of national-based active labour market policies", *IZA Discussion Paper*, No. 4 045, Institute for the Study of Labour, Bonn, Germany.

Australian Government (2011), *Our Cities, Our Future: A National Urban Policy for a Productive, Sustainable and Liveable Future*, Department of Infrastructure and Transport, Canberra, May.

Baum-Snow, N. and R. Pavan (2013), "Inequality and city size", *The Review of Economics and Statistics*, Vol. 95, No. 5, pp. 1 535-1 548, December.

Bergvall, D. et al. (2006), "Intergovernmental transfers and decentralised public spending", *OECD Journal on Budgeting*, Vol. 5, No. 4, OECD Publishing, Paris, *http://dx.doi.org/10.1787/budget-v5-art24-en*.

Berube, A. (2014), "All cities are not created unequal", Brookings Metropolitan Opportunity Series, No. 52, 20 February, *www.brookings.edu/research/papers/2014/02/cities-unequal-berube*.

Bird, R. and E. Slack (2004), *International Handbook on Land and Property Taxation*, Edward Elgar, Cheltenham, United Kingdom.

Bird, R., E. Slack and M. Tassonyi (2012), *A Tale of Two Taxes: Property Tax Reform in Ontario*, Lincoln Institute of Land Policy, Cambridge, MA.

Blackburn, M., D. Bloom and R. Freeman (1990), "The declining economic position of less skilled American men", in: G. Burtless (ed.), *A Future of Lousy Jobs? The Changing Structure of U.S. Wages*, Brookings Institution, Washington DC.

Blöchliger, H. and O. Petzold (2009), "Taxes and grants: On the revenue mix of sub-central governments", *OECD Working Papers on Fiscal Federalism*, No. 7, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k97b11972bn-en*.

Blöchliger, H. and J. Pinero-Campos (2011), "Tax competition between sub-central governments", *OECD Working Papers on Fiscal Federalism*, No. 13, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k97b1120t6b-en*.

Bolton, K. and S. Breau (2012), "Growing unequal? Changes in the distribution of earnings across Canadian cities", *Urban Studies*, Vol. 49, No. 6, pp. 1 377-1 396, May.

Calmfors, L., A. Forslund and M. Hemstrom (2001), "Does active labour market policy work?", *Swedish Economic Policy Review*, No. 85, pp. 61-124.

Card, D. and J.E. DiNardo (2002), "Skill-biased technological change and rising wage inequality: Some problems and puzzles", *Journal of Labor Economics*, Vol. 20, No. 4, pp. 733-783.

Center for Urban Policy Research (CUPR) (2007), "Infill development standards and policy guide", CUPR, Edward J. Bloustein School of Planning and Public Policy, Rutgers, State University of New Jersey, New Brunswick, April.

Clean Air Asia (2013), "Air quality in Asia, status and trends, 2013 update", Pasig City, Philippines.

Duranton, G. and D. Puga (2005), "From sectoral to functional urban specialisation", *Journal of Urban Economics*, Vol. 57, No. 2, pp. 343-370.

Duranton, G. and D. Puga (2004), "Micro-foundations of urban agglomeration economies", in: V. Henderson and J.F. Thisse (eds.), *Handbook of Regional and Urban Economics: Cities and Geography*, Vol. 4, Elsevier, Amsterdam, pp. 2 063-2 117.

Echeverria, J. (2013), "A legal blow to sustainable development", *New York Times*, 26 June, *www.nytimes.com/2013/06/27/opinion/a-legal-blow-to-sustainable-development.html*.

Fiscal Policy Institute (FPI) (2012), "Pulling apart: The continuing impact of income polarization in New York State", Fiscal Policy Institute Report.

Fiscal Policy Institute (FPI) (2010), "Grow together or pull further apart? Income concentration trends in New York", Fiscal Policy Institute Report, 13 December, *www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf*.

Florida, R. (2002). *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life*, Basic Books, New York.

Florida, R. and C. Mellander (2013), "The geography of inequality: Difference and determinants of wage and income inequality across US metros", *Working Paper Series in Economics and Institutions of Innovation*, No. 304, Royal Institute of Technology, CESIS, Stockholm.

Florida, R. and C. Mellander (2012), "The inequality of cities: Differences and determinants of wage and income inequity across US metros" *Martin Prosperity Research Working Paper*, MPIWP-003, January.

Friedmann, J. (2007), "A spatial framework for urban policy: New directions, new challenges", in: OECD, *What Policies for Globalising Cities? Rethinking the Urban Policy Agenda*, OECD Publishing, Paris.

Friedmann, J. (2005), "Globalization and the emerging culture of planning", *Progress in Planning*, Vol. 64, No. 3, pp. 183-234.

Gaigné, S., S. Riou and J-F. Thisse (2012), "Are compact cities environmentally friendly?", *Journal of Urban Economics*, No. 72, pp. 123-136.

Giguère, S. and F. Froy (eds.) (2009), *Flexible Policy for More and Better Jobs*, Local Economic and Employment Development (LEED), OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264059528-en*.

Glaeser, E.L. and D.C. Maré (2001), "Cities and skills", *Journal of Labor Economics*, Vol. 19, No. 2, University of Chicago Press, pp. 316-342.

Glaeser, E., M. Resseger and K. Tobio (2008), "Urban inequality", *NBER Working Paper*, No. 14 419, October.

Goos, M. and A. Manning (2007), "Lousy and lovely jobs: The rising polarization of work in Britain", *The Review of Economics and Statistics*, Vol. 89, No. 1, pp. 118-133, February.

Haveman, M. and T. Sexton (2008), *Property Tax Assessment Limits: Lessons from Thirty Years of Experience*, Lincoln Institute of Land Policy, Cambridge, MA.

Helm, D. (2012), *The Carbon Crunch: How We're Getting Climate Change Wrong – and How to Fix it*, Yale University Press, New Haven, CT.

HM Treasury (2011), *National Infrastructure Plan*, The Stationery Office, London.

Hooghe, L. and G. Marks (2009), "Does efficiency shape the territorial structure of government?", *Annual Review of Political Science*, No. 12.

Hujer, R. and M. Caliendo (2000), "Evaluation of active labour market policy: Methodological concepts and empirical estimates", *IZA Discussion Paper*, No. 236, Institute for the Study of Labour, Bonn, Germany.

Institut d'aménagement et d'urbanisme (IAU) (2013), "La loi Duflot 1, une dynamique renforcée pour le logement social en Ile-de-France", Note rapide n° 619, April, available at: *www.iau-idf.fr/fileadmin/Etudes/etude_988/NR_619_6_P_WEB.pdf*.

Johansson, Å., et al. (2008), "Taxes and economic growth", *OECD Economics Department Working Paper*, No. 620, OECD Publishing, Paris, *http://dx.doi.org/10.1787/241216205486*.

Kamal-Chaoui, L. and M. Plouin (2012), "Cities and green growth: Case study of the Paris/Ile-de-France region", *OECD Regional Development Working Papers*, No. 2012/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9fd0fg78bs-en*.

Kamal-Chaoui, L. and A. Robert (2009), "Competitive cities and climate change", *OECD Regional Development Working Papers*, No. 2009/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/218830433146*.

Kamal-Chaoui, L. and J. Sanchez-Reaza (2012) "Urban trends and policies in OECD countries", *OECD Regional Development Working Papers*, No. 2012/1, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9fhn1ctjr8-en*.

Lee, N., P. Sissons and K. Jones (2013), *Wage Inequality and Employment Polarisation in British Cities*, The Work Foundation, Lancaster, May.

Le Galés, P. (2007), "Governing globalising cities, reshaping urban policies", in: OECD, *What Policies for Globalising Cities? Rethinking the Urban Policy Agenda*, OECD Publishing, Paris.

Martínez, L.M. and J.M. Viegas (2013), "A new approach to modelling distance-decay functions for accessibility assessment in transport studies", *Journal of Transport Geography*, Vol. 26, No. 1.

Merk, O., et al. (2012), "Financing green urban infrastructure", *OECD Regional Development Working Papers*, No. 2012/10, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k92p0c6j6r0-en*.

Ministry of Housing and Urban Planning (2013), *Politica Nacional de Desarollo Urbano*, Ministerio de Vivienda y Urbanismo, Santiago.

Mizell, L. and D. Allain-Dupré (2013), "Creating conditions for effective public investment: Sub-national capacities in a multi-level governance context", *OECD Regional Development Working Papers*, No. 2013/04, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49j2cjv5mq-en*.

NEFC (2012), *Northern Prosperity is National Prosperity: A Strategy for Revitalising the UK Economy*, IPPR North and the Northern Economic Futures Commission, November.

Oates, W. and R. Schwab (1988), "Economic competition among jurisdictions: Efficiency-enhancing or distortion-inducing?" *Journal of Public Economics*, Vol. 35.

OECD (forthcoming a), *OECD National Urban and Housing Policy Review: Mexico*, OECD Publishing, Paris.

OECD (forthcoming b), *OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russia*, OECD Publishing, Paris.

OECD (2014a), "Metropolitan areas", *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/data-00531-en*.

OECD (2014b), *OECD National Accounts Statistics* (database), *http://dx.doi.org/10.1787/na-data-en*.

OECD (2014c), *OECD Regional Statistics* (database), *http://dx.doi.org/10.1787/region-data-en*.

OECD (2013a), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/reg_glance-2013-en*.

OECD (2013b), *OECD Urban Policy Reviews, Chile 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264191808-en*.

OECD (2013c), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264197022-en*.

OECD (2013d), *Green Growth in Cities*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264195325-en*.

OECD (2013e), *OECD Economic Surveys: China 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-chn-2013-en*.

OECD (2013f), *OECD Territorial Reviews: Brazil 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264123229-en*.

OECD (2013 g), *OECD Territorial Reviews: Antofagasta, Chile 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264203914-en*.

OECD (2013h), *OECD Territorial Reviews: Puebla-Tlaxcala, Mexico 2013*, OECD Publishing, *http://dx.doi.org/10.1787/9789264203464-en*.

OECD (2013i), "Towards more inclusive growth in the metropolitan area of Aix-Marseille", OECD, Paris, *www.oecd.org/france/aix-marseille.htm*.

OECD (2013j), *Policy Making after Disasters: Helping Regions Become Resilient – The Case of Post-Earthquake Abruzzo*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264189577-en*.

OECD (2013k), *International Migration Outlook 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/migr_outlook-2013-en*.

OECD (2013l), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264204812-en*.

OECD (2012a), *OECD Urban Policy Reviews, Korea 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174153-en*.

OECD (2012b), *OECD Territorial Reviews: The Chicago Tri-State Metropolitan Area, United States 2012*, OECD Publishing, *http://dx.doi.org/10.1787/9789264170315-en*.

OECD (2012c), *OECD Territorial Reviews: Chihuahua, Mexico 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264168985-en*.

OECD (2012d), *Compact City Policies: A Comparative Assessment*, OECD Green Growth Studies, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264167865-en*.

OECD (2012e), *Redefining Urban: A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264174108-en*.

OECD (2012f), *OECD Territorial Reviews: Skåne, Sweden 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264177741-en*.

OECD (2012 g), *OECD Territorial Reviews: Småland-Blekinge, Sweden 2012*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264169517-en*.

OECD (2011a), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119536-en*.

OECD (2011b), *OECD Urban Policy Reviews, Poland 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264097834-en*.

OECD (2011c), *OECD Territorial Reviews: Slovenia 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264120587-en*.

OECD (2011d), *OECD Regional Outlook 2011: Building Resilient Regions for Stronger Economies*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264120983-en*.

OECD (2011e), *OECD Rural Policy Reviews: England, United Kingdom 2011*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264094444-en*.

OECD (2010a), *Cities and Climate Change*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264091375-en*.

OECD (2010b), *OECD Territorial Reviews: Toronto, Canada 2009*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264079410-en*.

OECD (2010c), "Mandates: Fiscal accountability issues", paper for the 31st Meeting of Senior Budget Officials, 31 May, Athens.

OECD (2010d), *Dedicated PPP Units in OECD Countries: A Survey of Institutional and Governance Structures*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264064843-en*.

OECD (2009), *OECD Reviews of Regional Innovation: 15 Mexican States 2009*, OECD Reviews of Regional Innovation, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264060135-en*.

OECD (2008), *OECD Territorial Reviews: Istanbul, Turkey 2008*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264043831-en*.

OECD (2005), *OECD Territorial Reviews: Seoul, Korea 2005*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264012660-en*

OECD (2004), *OECD Territorial Reviews: Montreal, Canada 2004*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264105980-en*.

OECD/ITF (2008), *Privatisation and Regulation of Urban Transit Systems*, ITF Round Tables, No. 141, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789282102008-en*.

Perfetti, M. (2013), "Colombia's government mission to strengthen the system of cities", Departamento Nacional de Planeación, Bogotá, August.

Peterson, G. (2006), "Land leasing and land sale as an infrastructure-financing option", *World Bank Policy Research Working Paper*, No. 4043, Washington, DC.

Rodríguez-Pose, A. and N. Lee (2013), "Innovation and Spatial Inequality in Europe and USA", *Journal of Economic Geography*, Vol. 13, No. 1, pp. 1–22, January.

Shah, A. (2008), *Globalization, the Information Revolution and Emerging Imperatives to Rethink Fiscal Federalism*, The World Bank, Washington, DC.

Sorrel, S. (2009), "Jevons' Paradox revisited: The evidence for backfire from improved energy efficiency", *Energy Policy*, Vol. 37, No. 4, pp. 1456-1469, *http://dx.doi.org/10.1016/j.enpol.2008.12.003*.

Spink, P., P. Ward and R. Wilson (eds.) (2012), *Metropolitan Governance in the Federalist Americas: Strategies for Equitable and Integrated Development*, University of Notre Dame Press, South Bend.

Steffensen, J. (2010), "Performance-based grant systems: Concept and international experience", United Nations Capital Development Fund, *www.delog.org/cms/upload/pdf-fd/pgbs.pdf*.

Tian, L. and W. Ma (2009), "Government intervention in city development of China: A tool of land supply", *Land Use Policy*, Vol. 26.

Tiebout, C.M. (1956), "A pure theory of local expenditures", *Journal of Political Economy*, Vol. 64, No. 5, The University of Chicago Press, pp. 416-424, *www.jstor.org/stable/1826343*.

United Cities and Local Governments (UCLG) (2010), *Local Leaders Preparing for the Future of Our Cities: Policy Paper on Urban Strategic Planning*, United Cities and Local Governments, November.

US Department of Housing and Urban Development (HUD) (n.d.), "How do housing tax credits work?", LIHTC Basics, US Department of Housing and Urban Development, Washington DC, *http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/training/web/lihtc/basics/work*.

US Economic Development Administration (EDA) (2012), "Obama administration announces winners of Strong Cities, Strong Communities challenge to spur economic growth", press release, US Economic Development Administration, Department of Commerce, Washington DC, 20 September.

Vammalle, C. and C. Hulbert (2013), "Sub-national finances and fiscal consolidation: Walking on thin ice", *OECD Regional Development Working Papers*, No. 2013/02, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k49m8cqkcf3-en*.

World Economic Forum (WEF) (2013), *Global Competitiveness Report 2013-2014*, WEF, Geneva.

World Health Organization (2013), "Health effects of particulate matter: Policy implications for countries in Eastern Europe, Caucasus and Central Asia (EECCA)", World Health Organization Regional Office for Europe, *www.euro.who.int/__data/assets/pdf_file/0006/189051/Health-effects-of-particulate-matter-final-Eng.pdf?ua=1*.

PART III

The future of cities: A policy forum

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

PART III

Chapter 6

Urbanisation as opportunity

Brandon Fuller,
Deputy Director of the NYU Stern Urbanisation Project,
Paul Romer,
Professor and Director of the NYU Stern Urbanisation Project

This chapter explores the implications of the fact that humanity's "urbanisation project" is likely to be largely completed by the end of this century, implying that the coming decades will see urban growth that is without precedent in history in terms of its scale and speed. The authors explore both the challenges and opportunities associated with this process, arguing that, if well-managed, the coming wave of urbanisation will enable people to build cities that will be sustainable and liveable for a very long time to come. However, the consequences of wrong choices could be equally enduring. Rather than trying to anticipate a single model of urbanisation that governments should purse, they argue for experimentation and a fairly decentralised approach, albeit one rooted in a few basic principles of urban planning. Since much urban growth is expected in countries with weak institutional capacity, such simplicity is seen as an advantage.

We gratefully acknowledge permission by the authors and the World Bank to reproduce this paper, first published under the following reference: World Bank (2014), "Urbanization as Opportunity", *World Bank Policy Research Working Paper*, No. 6874, World Bank Group, Washington, DC.

Some 10 000 years ago, humans started reorganising their social and physical worlds, beginning what Shlomo Angel (2012) calls the urbanisation project. Like any project, it reflects human intention. Building dense settlements was something we decided to do. Like any project, it also has a beginning and an end. An almost incomprehensible amount of work remains; nevertheless, the end is near.

Urbanisation deserves urgent attention from policy makers, academics, entrepreneurs and social reformers of all stripes. Nothing else will create as many opportunities for rapid social and economic progress. And although it is hard to comprehend how much work remains, it is even harder to comprehend how quickly the work is being done. This means that the unique opportunities created by rapid growth in the urban population will soon pass.

Human history seems to suggest that we have a lot of time. The urbanisation project got started in the 1 000 years after the transition from the Pleistocene epoch to the milder and more stable Holocene interglacial period (Richerson, Boyd and Bettinger, 2001). As the climate began to favour sedentary agriculture, humans started building dense settlements. It took until 2010 for the urban share of the world's population to reach 50% (3.5 billion people).

The global population is likely to stabilise between 10 billion and 11 billion. The limiting value of the urban population is likely to exceed 8.5 billion. If it took 100 centuries to get to 3.5 billion urban residents, is it not safe to assume that it will take many centuries to make room for another 5 billion?

Actually, no. The urban population is growing at a pace that has reached 60 million people a year and is still increasing. The calculations that follow show that we could add more than 5 billion new urban residents in the next 100 years. In all the centuries that follow, we may add at most another billion.

It is not just today's incredible growth that challenges the imagination; it is also the rapid slowdown that is soon to follow. In our lifetimes, we have to build urban accommodation faster than ever before. We also have to prepare for a near future with a stable urban population in which it will be much more difficult to undertake reform or change the configuration of the transit corridors and other public spaces that define urban life.

In developed countries, the urbanisation project is basically complete. The remaining urban growth will play out almost entirely in developing countries. In 2010, the urban population in the regions that the United Nations classifies as less developed stood at 2.6 billion. In 100 years, it is likely to be three times larger. Moreover, as Angel (2012) shows, the historical pattern of urban growth suggests that over this time horizon, urban population density in developing cities could easily fall by half.

The developing world can accommodate this urban population growth and declining urban density in many ways. One is to have a threefold increase in the average population of its existing cities and a sixfold increase in their average built area. Another, which would leave the built area of existing cities unchanged, would be to develop 625 new cities of 10 million people – 500 new cities to accommodate the net increase in the urban population and another 125 to accommodate the 1.25 billion people who would have to leave existing cities as average density falls by half. These bracketing extremes, and all the intermediate alternatives they suggest, have strikingly different implications for the size distribution of cities and the possibilities for social innovation and reform. We know that a city can expand its built-up area dramatically and successfully. During the 19th century, the built-up area of Manhattan expanded sevenfold along a street grid established in 1811 (Angel, 2012).

We also know that new cities can grow dramatically and successfully. Shenzhen, China, has grown from a tiny fishing village in 1980 to a metropolis of more than 10 million today. If Shenzhen were a city-state, it would show the fastest rate of growth of GDP ever recorded (Zeng, 2010). Because it was a new city that started with new rules, Shenzhen pioneered a model based on exports, market incentives, entry-level jobs in manufacturing and incoming direct foreign investment. After Shenzhen's success, this model spread across the country.

These two large-scale projects show how influential human intention can be. In each case, a few people looked decades ahead and made a plan. No invisible hand guided Manhattan toward rectangular blocks of private property embedded in a public grid of avenues and streets. A real hand did – that of John Randel Jr., the engineer hired by a state commission to survey the island (Ballon, 2012).

Nor did an invisible hand bring foreign firms into China. Deng Xiaoping carried out a clear plan for reform designed to make it socially acceptable for workers raised on Mao's Little Red Book to be hired by foreign "running dog capitalists." The representatives of official multilateral agencies that brought the Washington Consensus to China still criticise his deviation from their orthodoxy. They were certain that the best path for reform was to implement it uniformly across the entire nation. Deng had a different and arguably more realistic model of how to undertake durable social reform in a society that had just emerged from the convulsions of the Cultural Revolution:

> *In the beginning opinions were divided about the reform and the open policy. That was normal. … In carrying out the line, principles and policies adopted since the Third Plenary Session of the Eleventh Central Committee, we did not resort to compulsion or mass movements. People were allowed to follow the line on a voluntary basis, doing as much or as little as they wished. In this way, others gradually followed suit. It was my idea to discourage contention, so as to have more time for action. Once disputes begin, they complicate matters and waste a lot of time. As a result, nothing is accomplished. Don't argue; try bold experiments and blaze new trails. That's the way it was with rural reform, and that's the way it should be with urban reform. (Deng, 1992)*

In creating an entirely new city, Deng's strategy harnessed the same start-up dynamic that brings new technology into many industries. Of the four initial special economic zones in China, Shenzhen was the only overwhelming success. For some reason, a one-in-four success rate is viewed as a total failure for policy start-ups, but it would be an astounding success compared to the one-in-ten success rate claimed for business start-ups. The low success rate for start-up firms clearly does not imply that it is a mistake to allow start-ups. No one claims that because most start-up firms fail, the only reliable way to raise productivity in industry is to aim only for across-the-board improvement at all incumbent firms. As Deng showed with his famous southern tour, one very visible success in Shenzhen was all it took to sustain the momentum of reform after reactionaries counterattacked and the future of the market reform process hung in the balance (Zhao, 1993).

The prospect of creating large new cities in coming decades presents the world with unprecedented opportunities for reforms of all types. To cite just one example, at the lower prices for natural gas made possible by new techniques for oil and gas extraction, it would be cost-effective to use existing technology for gas-powered vehicles and power generation to build new cities that use neither liquid fossil fuels nor coal. For existing cities, switching costs would make this strategy for reducing the enormous health costs imposed by air pollution more expensive. A switch will also be contentious because of the inevitable disputes that will arise about who should bear the much smaller cost of reducing existing levels of pollution. People living in existing cities may be doomed to endure the long wait for local governments to develop both a political consensus around reductions in air pollution and the sophisticated capacity needed to regulate emissions from coal-burning plants and large numbers of gasoline- or diesel oil- burning vehicles. In a new city, a government with little administrative capacity could impose a limit on the allowed types of fuel before people move there and enforce this limit after they arrive. By demonstrating the feasibility and benefits of clean air, a few such cities might speed the development of a consensus for change in existing cities, much as success in Shenzhen spurred reform in the rest of China.

Many other policies, such as transit and pricing systems that enhance mobility without generating congestion, will be less costly and less contentious if they are implemented in the expansion area for a growing city rather than in its existing core. When New York City planned for expansion in 1811, it was already too late to fix the street grid in lower Manhattan. It remains as it was then. Nevertheless, it was possible at very low cost to keep from extending a dysfunctional grid to the rest of Manhattan.

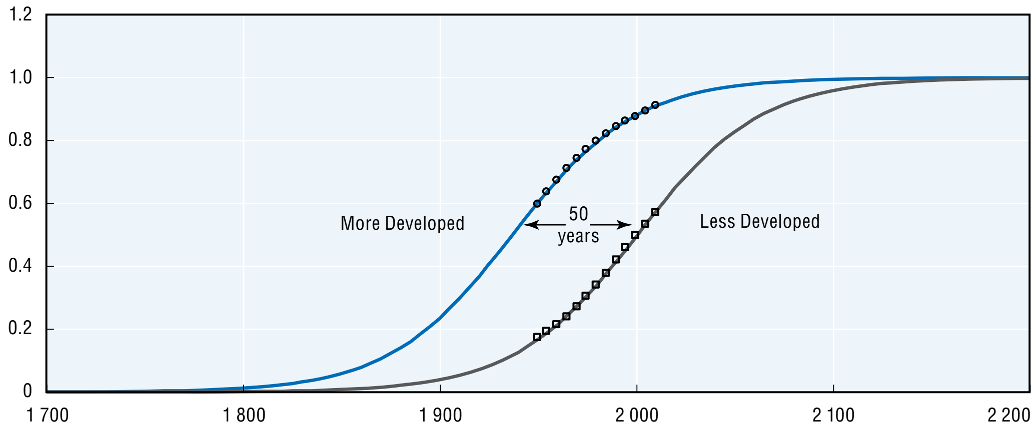
We live in a time when humans can plan both for expansions of urban area that are as ambitious as the commissioners' plan for Manhattan in 1811 and for new cities that could be as influential as Shenzhen. Hundreds of cities could expand, as New York did, or emerge out of nowhere, as Shenzhen did. But the window of opportunity will not stay open forever. In 100 years, it will be too late. And because the spatial patterns in cities are so durable, the choices we make through intention or inattention will have lasting consequences. Countless generations will live with the layouts and policy defaults that we leave for them in 2110.

The next 100 years

To estimate how long it will take to complete the urbanisation project, it makes no sense to base projections on the type of exponential curve that we use for such measures as income per capita. To estimate the dynamics of growth in the face of an upper bound, the logistic is the natural alternative. A variable x that follows a logistic is constrained to lie between 0 and 1 and grows at the rate $g^*(1 - x)$. One advantage of the logistic is that for two curves with similar initial growth rates g, it is a simple matter to calculate the number of years by which one lags behind the other.

The UN publishes data on the total population and the urban population for 1950–2010 (United Nations Department of Economic and Social Affairs, 2012). It also groups the data into two broad aggregates: more developed regions (MDRs) and less developed regions (LDRs). For population, Figure 6.1 shows the observed data as hollow points and a fitted logistic as a solid or dashed line. The observation for a given year is the population in

Figure 6.1. **Observed and projected normalised population for more developed and less developed regions, 1700–2200**



Source: Authors' calculations based on United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Population Prospects: The 2011 Revision, http://esa.un.org/unpd/wpp/index.htm.*

StatLink http://dx.doi.org/10.1787/888933107104

each region as a fraction of the estimated terminal population for that region. The logistic curves fitted here imply a terminal population of 1.35 billion (standard error 0.023 billion) for MDRs and 9.91 billion (standard error 0.37 billion) for LDRs, roughly in line with the medium fertility variant of the UN's world population projections to 2100.

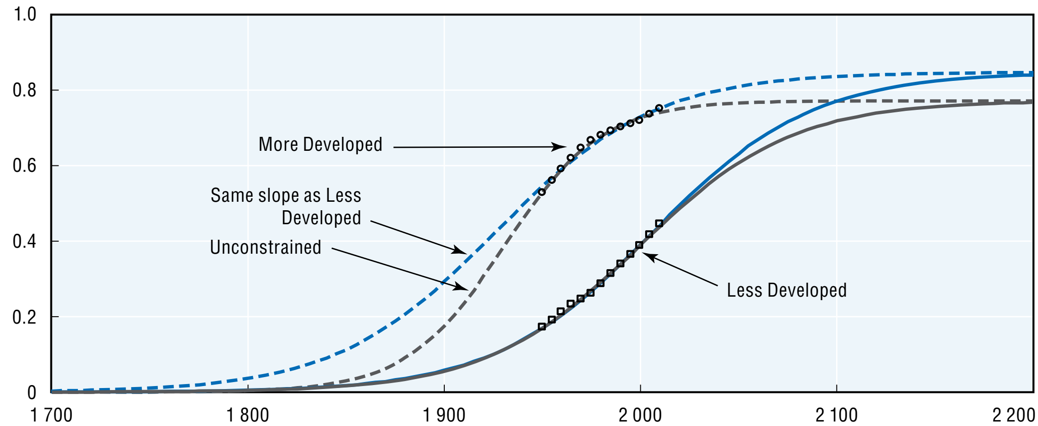
Appearances notwithstanding, there is nothing especially impressive about the fit here. Many functional forms for distributions, including a standard normal, could generate a good-looking fit. The advantage of the logistic is that its three key parameters – the terminal population, initial rate of growth, and lag between two curves – have a natural interpretation.

At conventional significance levels, the data easily accept the restriction that the initial growth rate is the same for the two regions, 3.17% per year (standard error 0.08). The curve for the LDRs lags by 63.5 years (standard error 3.3). This is consistent with other more granular data on health and demographics. For example, today's life expectancy in the low- and middle-income countries that correspond to the LDRs is about the same as in 1960 in the high-income countries that correspond to the MDRs (World Bank, 2012).

Figure 6.2 shows two pairs of logistic curves for the urban share of the population in each region. For each pair, the model forces the terminal share to be the same in the two regions. The data for the LDRs alone do not pin down a precise value for the terminal share, so the constraint that the terminal shares are the same in the two regions is easily accepted. Our preferred model also forces the initial growth rate to be the same in the two regions. A less restrictive model lets the two growth rates differ. If we assumed that the errors are independent and identically distributed draws from a normal distribution, the data would reject the restriction that the growth rates are the same. Figure 6.3 suggests that the errors for the MRDs are *not* independent and identically distributed. Instead, they show an oscillation around the underlying trend predicted by the logistic.

One should not put too much faith in any estimate of a limiting value derived solely from a procedure that relies heavily on an *ad hoc* functional form assumption. We prefer the estimates from the restricted model, with its higher limiting share parameter of 0.87

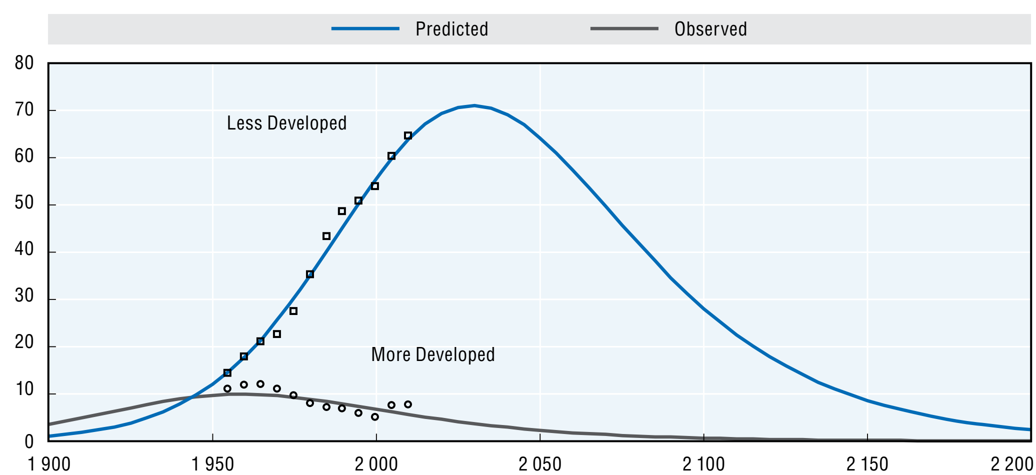
Figure 6.2. **Observed and projected urban share of the population in more developed and less developed regions, 1700–2200**



Source: Authors' calculations based on United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Population Prospects: The 2011 Revision, http://esa.un.org/unpd/wpp/index.htm.*

StatLink http://dx.doi.org/10.1787/888933107123

Figure 6.3. **Observed and projected number of new urban residents in more developed and less developed regions, 1900–2200**



Source: Authors' calculations based on United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Population Prospects: The 2011 Revision, http://esa.un.org/unpd/wpp/index.htm.*

StatLink http://dx.doi.org/10.1787/888933107142

(standard error, 0.01), mainly because the urban share continues to increase in almost all countries and already exceeds this value in a diverse group of countries that includes Argentina, Australia, Belgium, Chile, Israel, Japan and Lebanon. Also, for the period when they overlap, the projections from the restricted model of the total urban population are somewhat closer to the ones that result from the detailed country-by-country forecasting procedure that the UN follows than they are to the projections from the unrestricted model. For 2050, the last year for which the UN provides projections, our preferred model suggests a slightly higher share for the LDRs (65.1%) than does the UN projection (64.1%). The unconstrained estimate (62.6%) undershoots to a larger extent. With the restriction that the growth rate *g* is the same in the two regions, its estimated value is 2.46% per year (standard error 0.08). The urban share in the LDRs lags farther behind the MDRs (80.0 years, standard error 1.6) than does the curve for total population (63.5 years, standard error 3.3).

The estimates for the two logistic curves imply values for the total urban population in each region, as well as annual increases. Figure 6.3 plots the annual increase in millions of new urban residents per year. If Figures 6.1 and 6.2 are like plots of a fitted probability distribution function, Figure 6.3 is like a plot of an implied probability density function. As always, the deviations from the fitted curve, including the oscillation they induce for the MDRs, are more evident using the density rather than the distribution.

By putting the two curves on a single axis, Figure 6.3 shows the extent to which the remaining process of urbanisation is overwhelmingly a phenomenon of the LDRs, and overwhelmingly a phenomenon of this century. These projections imply that the annual increase in the number of urban residents in the LDRs must soon peak and begin to fall. We are already well past the peak in the MDRs.

Table 6.1 shows the effect of the cumulative influx of new urban residents over 100-year time intervals marked by three years, defined relative to the milestone year of 2010: 1910, 2110 and 2210. In each reference year, the table shows the urban population and total population for each region. In the 100 years leading up to 2010, the total worldwide urban population increased by 3.4 billion people. In the next 100 years, the projected increase is 5.2 billion in the LDRs and 0.2 billion in the MDRs. In the 100 years that follow, the projected increase is a mere 800 million, all of it in the LDRs.

Table 6.1. **Urban residents and population**

Urban residents and population (billions)				
Year	Urban residents			Population
	Less developed	More developed	World	World
1910	0.04	0.15	0.19	0.9
2010	2.5	1.0	3.5	6.9
2110	7.3	1.2	8.5	10.1
2210	8.0	1.2	9.2	10.3

Source: Authors' calculations based on United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Population Prospects: The 2011 Revision. http://esa.un.org/unpd/wpp/index.htm.*

Interpreting the lags

The persistent lag in the dynamics of population growth and urbanisation are a reflection of the puzzling result first noted in the empirical literature on growth in GDP per capita – an absence of unconditional convergence between the MDRs and the LDRs (see Barro, 2012, for a recent overview of the evidence on convergence). For measures that are bounded, it makes more sense to base any inference about unconditional convergence on estimates of logistic curves than on the trend in the ratio of the values in the two regions. This ratio can diminish even when the gap between the two curves remains constant. For example, the ratio of life expectancy in LDRs relative to the MDRs has been increasing (Bourguignon and Morrison, 2002), but this is precisely what we would expect to observe for two variables that follow the same logistic and are separated by a fixed time lag. Here, the ratio of the urbanisation rate in the LDRs relative to the MDRs increases from 0.32 to 0.59, yet the estimated lag either remains constant (for the constrained estimates) or increases (for the unconstrained estimates).

These persistent lags are puzzling because LDRs today can use technologies that already exist in the MDRs, so growth in the LDRs is catch-up growth rather than growth at the technological frontier. All else being equal, the LDRs should grow faster at any stage of development than the MDRs did at the same level of development, and the lags associated with development should shrink. This has happened in many notable countries, but averaging across countries, the lag for the LDRs shows no sign of falling. This is what one might expect if the advantages presented by the potential for catch-up growth based on MDR technology are offset by a limited capacity for providing the government services that complement these technologies.

Under this interpretation, the relative magnitudes of these lags are suggestive. If development were a one-factor process, we would expect the lag in the behaviour of demographics, urbanisation, and income per capita between the LDRs and the MDRs to be all the same. Instead, we see that population in the LDRs lags by 63.5 years (standard error 3.3) and remains constant. Under the preferred model, urbanisation lags by 80.2 years (standard error 1.6) and remains constant (under the unconstrained model, the lag starts at 70 and grows).

A rough calculation based on Angus Maddison's data (2012) suggests that the lag in GDP per capita is longer still. To approximate the UN definition of the MDRs, we created an aggregate consisting of Western Europe, Western offshoots and Japan. In 1870, GDP per capita in our MDR aggregate was about $1 900 (measured in Maddison's unit, 1990 International Geary-Khamis dollars). In the rest of the world, which corresponds roughly to the LDRs, GDP per capita did not reach $1 900 until 1970 – a lag of 100 years. In 1900, GDP per capita in the MDR aggregate was $2 950. The LDR aggregate reached this level in 1995 – a lag of 95 years. So, GDP per capita lags even farther behind the demographic measures than does urbanisation.

Assuming then that government capacity is the limiting factor in the LDRs, the variation in the lags suggests that complementarity with government services is strongest for the private activities that generate rapid GDP growth through technological inflows, weaker for the private activities that drive urbanisation, and weakest for the health technologies that influence demographics. People can still urbanise, albeit less efficiently, even if few government services are available (e.g. slums and favelas). When it comes to the spread of health technologies that lengthen lives and reduce fertility, government services may be even less relevant.

This suggests that at the same level of urbanisation, the LDRs will have more access to technology but fewer government services than did the MDRs.

Peak urbanisation, weak capacity

These arguments suggest that urbanisation is peaking in the developing world at a time when the capacity to govern is still in short supply. Despite all the lip service to capacity building in the LDRs, there is little indication that government capacity will be able to increase in time to manage urban life in anything like the way it is managed in rich countries now. A quip attributed to Gordon Brown suggests how far off the time scales might be: "In establishing the rule of law, the first five centuries are always the hardest."

If governance is indeed the scarce factor, one response would be to find ways to let more people move from places with weaker governance to places with better governance (Clemens, Montenegro and Pritchett, 2008). A parallel strategy would be to export government services from places where the capacity for governance is well developed, to places where it is not. The potential gains from either strategy are much larger than those to be had from further reducing trade barriers to flows of only privately provided goods and services (Clemens, 2011).

Much of the finance and expertise needed to develop new cities in the LDRs could come from the private sector in the MDRs, but these private services depend on complementary government services. For example, new cities might opt to outsource the provision of utility regulation to jurisdictions with more experience in this area. Both the private firms that could provide municipal water and the consumers who could consume it might find it easier to reach an arrangement that benefits both, if an independent regulator could prevent the dual risks of *ex post* monopoly pricing by the water company and the pressure for expropriation that unregulated monopoly pricing can foment. A policy of outsourcing utility regulation might be controversial if it were forced on the residents of an existing city, but might not be a deterrent to migrants who consider moving to a new city committed from the beginning to such an arrangement. After all, if large numbers of migrants are willing to move to a city in a developed country where the voters from the developed country control utility regulation and the migrants have no say, it is possible that large numbers of migrants might also be willing to move to a city located somewhere in the developing world where voters from the same developed country control utility regulation. To be sure, it would be complicated to set up this kind of arrangement, but perhaps no more complicated than setting up yet another free-trade area, and the benefits would arguably be much greater.

Building new cities ought therefore to be an important goal alongside the inescapable need to expand existing cities. New cities may offer the best opportunity for experimenting with new solutions to the problem that holds back the potential implicit in catch-up growth: insufficient capacity of local government. Yet even if many new cities are built, most existing cities in the LDRs will also need to expand by a very large factor. With even the most optimistic increase in international trade in government services, severe capacity constraints will force the developing countries that are urbanising rapidly to prioritise as they manage this expansion. Governments will therefore have to be narrow in the sense of not trying to do too many things, but strong in the sense of doing those few things well.

For most rapidly urbanising cities, Manhattan's 1811 plan is a good starting point for a feasible model of strong but narrow urban planning. The plan was narrow in that it did not designate densities, land uses, or locations for specific types of cultural, social, and economic development – tasks that even high-capacity governments have trouble getting right. It was also narrow in that it built and financed the streets on a just-in-time basis that took nearly 100 years to complete.

The plan was strong because the government used eminent domain to take, from the beginning, the land that would eventually be needed for those streets. It was strong because it forced landowners to cover the costs of the road construction adjacent to their properties, road construction that increased the value of their land by much more than the levies they paid. Crucially, it was strong in the sense that public land designated for streets was protected for decades from squatting and informal settlement.

As Angel (2008) points out, governments in rapidly urbanising areas today have the capacity to do what Manhattan did in 1811. These governments can focus first on setting aside the public space for parklands and an arterial grid of dirt roads. Angel refers explicitly to "dirt roads" to emphasise that public space can be taken and protected without the high spending necessary for building all the infrastructure that this public space will eventually support. This spending can be put off until the city expands and new residents begin to demand services. At that time, the arterial road network will sustain a trunk infrastructure capable of delivering needed services. Pilot programmes for undertaking this kind of construction in Ethiopia have already shown that planning and setting aside land for an effective arterial grid is a manageable task for existing local governments (Angel et al., 2013).

An approach to planning that is strong in this sense could also be narrow, in the sense that it does not place any constraints on what private developers can do inside a superblock defined by the arterial grid. As long as there is some diversity in the private developers working on superblocks, bad development practices in any one block need not limit the city's overall development. As land becomes more valuable, any mistakes in the superblocks will eventually be torn down and redeveloped. In contrast, because any adjustment to the arterial grid would require co-ordinated change on a much larger scale, it is unlikely that the grid itself will ever change. As a result, setting aside the public space for the logistic and utility corridors that can sew a city into a single market for labour and goods is a much higher priority than enforcing building codes on structures, imposing limits on density, or dictating the details of what private actors can do with the superblocks.

A development goal for this century

Humans have done something unique in the animal kingdom. We have shifted from one type of social structure – mobile bands with at most a few hundred members – to a radically different social structure based on stationary urban nests of a complexity and scale that not even the social insects can match. More striking still, these nests have developed into a system of hubs linked by high-volume logistic spokes. The urbanisation project is building an integrated social system in which 10 billion or 11 billion people, spread across the globe, can co-operate. In this system, cities are both locations that facilitate local co-operation and nodes that channel the flows of goods and people that facilitate global co-operation.

Humans have made progress by discovering new technologies that are nonrival, and hence can be shared with anyone else on the planet. The potential for discovering new nonrival goods lies at the heart of technological progress. It also explains why the gains that come from increases in the extent of the market will continue until everyone is part of a single co-operative network of the sort that we are now building.

Because cities are essential to the development of this network, it is critical that people adopt the new social rules that are required to structure the dense interactions of city life. Moreover, it is not enough to strive for rules that are reasonably efficient now. We must also create a dynamic that lets the rules evolve to keep up with changes in our social and technological environment. In a small town, "Go on green" is an efficient rule for managing traffic in an intersection controlled by a stoplight. As the population in the town increases, "Go on green" can become very inefficient. It must be supplemented by a new rule, "Don't block the box".

In this broad dynamic of new technologies and ever denser and broader interactions structured by evolving sets of rules, it is typically the rules that hold us back. Rules that may once have been efficient can become wildly inefficient, yet still be frighteningly persistent.

Because an unprecedented amount of urban area will be built during the 21st century, we have two main ways to establish cities that can work reasonably well for the foreseeable future. First, whenever possible, as urbanisation takes place, people should delineate the public space of the logistics network, utility corridors and parklands before the surrounding private space is occupied. Because the social rules for converting valuable private land into public space are so inefficient after people have occupied the land, it pays to establish the public space before large numbers of private claimants show up. A government that protects a grid of public space in an area that can accommodate large-scale urban expansion can then use the power of individual incentives to build the urban structures in which people will live and work. Even if the government does not, in its early decades, have the capacity either to build out such basics as a municipal water and sewage system, or even to encourage private investors to build such systems, these can be retrofitted later if the arteries are available as utility corridors.

Second, at least in this century, developing countries can create new cities that let people opt in to new systems of rules. A new city like Shenzhen can help a society escape from rules that hold the society back. Using new cities to implement reform makes it easier to strike the right balance between protecting the interests of the community, which often requires changes in rules, and allowing individual freedom, which can ensure that few people are forced to follow new rules that they think are illegitimate. New cities that compete for residents make it possible for a nation, a region, or the entire world to let new political entities try different types of rules and subject them to a market test based on the decision to opt in. This additional dynamic in the space of rules, one based on entry and exit, can operate alongside the more familiar dynamic based on voice. Moreover, exit and entry are as likely to reinforce the power of voice as they are to undermine it.

To be sure, some new cities will be disappointments, perhaps even failures, just as some new firms are disappointments or failures. Nevertheless, start-ups of both types still create value because the cost of the failures is so small compared to the benefit of even one roaring success. Together, New York and Shenzhen are models that show how humans can achieve an increase in supply on the required scale. But the market alone cannot replicate their success. Even in the early stages of development, a city requires a local government that is strong enough to protect the public space required for free mobility of goods and people. Instead of hobbling governments out of a fear that they might use even a modicum of strength in some counterproductive way, it would be far better to increase competition between cities.

If we take full advantage of the opportunity we now face and plan both for new cities and the dramatic expansion of existing cities, we can break free from the admission of failure implicit in the Millennium Development Goals – from the sad belief that the only hope for the world's poor is to shame governments into providing more services out of a sense of charitable obligation. The best hope for achieving the intention behind those goals is to shift focus to a single overarching goal: every family in the world should be able to choose between several cities that compete to attract its members as permanent residents.

Bibliography

Angel, S. (2008), "An arterial grid of dirt roads", *Cities*, Vol. 25, No. 1.

Angel, S. (2012), *Making Room for a Planet of Cities*, Lincoln Institute of Land Policy, Cambridge.

Angel, S. et al. (2013), "The Ethiopia Urban Expansion Initiative: interim report 2", *NYU-Stern Urban Expansion Project Working Paper*, *http://urbanisationproject.org/uploads/blog/Ethiopia_Interim_Report.pdf.*

Ballon, H. (ed.) (2012), *The Greatest Grid: The Master Plan of Manhattan, 1811-2011*, Columbia University Press, New York.

Barro, R. (2012), "Convergence and modernisation revisited", *NBER Working Paper*, No. 18295.

Bourguignon, F. and C. Morrison (2002), "Inequality among world citizens: 1920-92", *American Economic Review*, Vol. 92, No. 4, September.

Clemens, M. (2011) "Economics and emigration: Trillion dollar bills on the sidewalk?", *The Journal of Economic Perspectives*, Vol. 25, No. 3.

Clemens, M., C. Montenegro and L. Pritchett (2008), "The place premium: Wage differences for identical workers across the US border", *World Bank Policy Research Working Paper*, No. 4671.

Deng, Xiaoping (1992), "Excerpts from talks given in Wuchang, Shenzhen, and Shanghai", in *The Selected Works of Deng Xiaoping*, Vol. 3. *www.archive.org/details/SelectedWorksOfDengXiaopingVol.3*.

Maddison, A. (2012), "Statistics on world population, GDP, and GDP per capita", *www.ggdc.net/MADDISON/oriindex.htm* (accessed November 2012).

Richerson, P., R. Boyd, and R. Bettinger (2001), "Was agriculture impossible during the Pleistocene but mandatory during the Holocene? A climate change hypothesis", *American Antiquity*, Vol. 66, No. 3.

United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Population Prospects: The 2011 Revision*, *http://esa.un.org/unpd/wpp/index.htm.*

World Bank (2012), *World Development Indicators* (database), *http://data.worldbank.org/data-catalog/world-development-indicators*, Washington, DC.

Zeng, D. (2010), *Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Clusters*, The World Bank, Washington, DC.

Zhao, S. (1993), "Deng Xiaoping's southern tour: Elite politics in post-Tiananmen China", *Asian Survey*, Vol. 33, No. 8.

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

PART III

Chapter 7

Urbanisation and economic development in Asia

Amitabh Kundu,
Professor of Economics at the Centre for the Study of Regional Development and Dean of the School of Social Sciences, Jawaharlal Nehru University, New Delhi

This chapter challenges some of the conventional wisdom concerning urbanisation in the world's largest and most populous continent, Asia. It argues that recent projections have exaggerated the likely pace of urbanisation in much of Asia and that it is likely to be rapid over the next decades only in less urbanised and less developed countries. The relatively developed and larger countries in the continent are likely to limit migration in order to have more orderly urbanisation and create well-governed cities. The chapter suggests that these overly ambitious projections have had policy implications for some countries, particularly those trying actively to inhibit rural-to-urban migration. It further argues that the much-discussed link between urbanisation and income is more complex than is often supposed and that it depends to a significant extent on a country's level of development.

Will there be an urban avalanche in the global south?

The map of the expected rates of economic growth across the countries of the globe from 2010 to 2030, as projected by the development-cum-banking institutions of the world, is very different from the map of current levels of economic development or per capita income. This is because the developed countries are predicted to grow at less than 3% per annum, well below the global average, while less developed countries like those in Asia are expected to grow at 6-7% per annum in real terms. Assuming some relationship between urbanisation and economic development, on which I shall dwell further below, one would expect that the spatial pattern of urban growth will also be different from current levels of urbanisation or the percentage of urban population. Understandably, the coming four decades are being envisaged as a period that will see a progressive shift of the epicentre of urbanisation from the predominantly northern latitudes of developed countries to the southern ones of developing countries, with predictions of an "urban avalanche" in Asia.

It must be noted that the speed of urbanisation in Latin America (including the Caribbean) during the second half of the last century was spectacular. The urban share of the population rose from 41% to 75% in 50 years (here and elsewhere, urbanisation data are taken from UNDESA, 2012). Africa, too, registered a similar rate of urban growth, but only during 1950-70, after which the urbanisation process slowed. It is argued by several international organisations that Asia will replicate the experience of Latin America.

Several countries in Asia reported acceleration in the growth in the number of migrants and urban population from the 1950s until the 1990s. As a result, the share of Asia in the global urban population rose from 33% in 1950 to 38% in 1970. Currently it stands at 53% and it is projected to remain almost unchanged through 2050. All these figures have often been quoted to support an alarmist view of urbanisation for Asia.

These projection exercises often tend to ignore the impact of Asia's pure demographic weight, which is often interpreted or confused with urban dynamics. Many researchers, planners and administrators have derived their perspectives on migration and urbanisation based on absolute magnitudes or the absolute changes in relation to corresponding global figures. That Asia's urban population is more than half of the world's urban population and that this would exceed that of the rest of the world's population by 11% in 2050 are simple milestones and not significant landmarks. The large shares of Asia in total or incremental urban population or total number of migrants – now or as projected for 2050 by the United Nations Population Division – can largely be attributed to Asia's massive (over 60%) share in total population, which affects the increments in urban population. Similar are the assertions regarding the number of cities above, say, 1 million or 5 million people. The number of such cities has increased dramatically in the recent past and is projected to increase further by 2050; perhaps 22 out of 37 cities of 10-million-plus inhabitants will be in Asia. These projections only indicate that a number of these cities existed just below that cut-off point and that their population growth will have been higher than the cities in other parts of the world, due to natural and socio-cultural factors that have little to do with urbanisation. These are clearly not evidence of an urban explosion in Asia. If one looks at the incremental figures for Asian urban population in relation to the countries of the OECD, there does appear to be an explosion, but in relation to total Asian population, this is simply not the case.

As far as the urbanisation scenario is concerned, Asia's share of world urban population will possibly go *down* by one or two percentage points. More importantly, the growth rate of the urban population will go down from 3.22% a year in the period 1970-2011 to about 1% for 2030-50, and this can only marginally be attributed to a projected decline in fertility. Of all the continents, Asia shows the sharpest decline in UN projections of urban growth rates for 2030-50.

In the 1990s, the UN Population Division alerted us to expect the global urban population to reach the 50% level by 2006-7. With some hiccups, this threshold was finally achieved in 2009. The delay reflected the fact that the actual growth rate of urban populations in the developing world, particularly in Asia, was a little less than projected. Indeed, the UN projections for Asia were on the high side. The 1994 Revision of the World Urbanization Prospects (WUP), for example, projected the urban population in Asia to reach 2.72 billion in 2025. The 2009 Revision lowered the estimate to 2.38 billion, down by 440 million for the same year. The annual growth rate of urban population was projected in the 1994 Revision at 2.19%, while the latest Revision, for 2011, anticipates a growth rate of only 1.46%.

The method for projecting the urban population by the Population Division of the United Nations for less developed countries is based on the modified logistic model. Its basic assumption is that countries with less than half of their population in urban centres would experience an increase in their urban-rural growth differential (URGD), until they reached an urbanisation level of 50%. Unfortunately, the model, which in a way incorporates *ex ante* an anticipation of hyper-urbanisation in Asian countries, was adopted by most international agencies and also national governments. Given the discrepancies between the projected and actual values, the Population Division subsequently came up with several modifications for estimating the URGD, based on a regression equation. Yet the projections still tend to be on the higher side, as is evident from the fact that the figures have been revised downwards several times in the recent past.

The methodology for projecting urban population and future growth rates based on the URGD and the percentage of the urban population should not go unchallenged. Contrary to the stipulations of the model and its variants, urban growth depends on a host of region- and country-specific factors, particularly for several less developed countries in Asia. Unfortunately, the model has no provision for bringing in country-specific socio-economic factors as explanatory variables within the predictive framework.

The most recent period for which there are reliable UN data on the growth rates of urban populations is 2000-05. Strikingly, the growth rate for Asia is the second-lowest, behind Africa. The current Asian urban growth rate is even lower (2.4) when the People's Republic of China is excluded from the computation (urban population figures for China are a subject of controversy even among Chinese scholars). More importantly, the growth rate for Asia has fallen dramatically from the 1980-85 period to 2000-05, as indicated in Tables 7.1 and 7.2. Given this declining trend, it becomes difficult to accept that the URGD, the critical figure in making the projections, will be the highest for 2025-30. Researchers and policy makers must question the empirical basis of this over-ambitious urban scenario for Asia.

Table 7.1. **Annual exponential urban population growth rates for major regions of the world**

Period	World	Developed	Less developed	Less developed excluding China	Latin America and the Caribbean	South America	North America	Africa	Asia
1980-1985	2.66	0.93	3.86	3.72	2.98	3.09	1.23	4.3	3.81
2000-2005	**2.07**	**0.61**	**2.68**	**2.56**	**1.86**	**1.95**	**1.42**	**3.38**	**2.62**
Difference	**0.59**	**0.32**	**1.18**	**1.16**	**1.12**	**1.14**	**-0.19**	**0.92**	**1.19**
2025-2030	1.6	0.42	1.91	2.08	0.98	0.91	0.86	2.87	1.79

Source: United Nations Department of Economic and Social Affairs (2012), *World Urbanisation Prospects: The 2011 Revision*, United Nations, New York.

Table 7.2. **Urban-rural growth differentials for major regions of the world**

Period	World	More developed	Less developed	Less developed excluding China	Latin America and the Caribbean	South America	North America	Africa	Asia
1980-1985	1.54	1.14	2.56	2	2.66	3.09	0.79	1.98	2.66
2000-2005	**1.59**	**0.95**	**2.11**	**1.48**	**2.41**	**2.98**	**1.98**	**1.68**	**2.27**
2025-2030	2.03	1.92	2.26	2.15	1.7	1.69	1.7	2.26	2.46

Source: United Nations Department of Economic and Social Affairs (2012), *World Urbanisation Prospects: The 2011 Revision*, United Nations, New York.

Why is it, then, that administrators and policy makers at global and national levels in Asia have almost uncritically accepted the proposition of an urban explosion? This could be due the fact that such projections provide a rationale for policies to control rural migration and to slow the growth of large cities. Interestingly, even the critics of such anti-migration initiatives accept assertions regarding the high rates of migration and urbanisation, often based on anecdotal and fragmentary evidence, in order to make a case for larger allocations of funds for migrants on humanitarian grounds and to mobilise the mass media, rather than cleaning up the data and questioning the alarmist perspective itself and the anti-migrant stance of numerous state and non-state actors.

There is no evidence from global statistical sources that rural migration and international migration into cities have accelerated or that they account for a larger share of urban growth in Asian countries. Detailed analysis of the data for 49 countries considered to be part of Asia by the UN Population Division reveals that urban growth in 38 countries has declined and that 34 of these countries record a decline in the URGD as well, which suggests that the rural-to-urban migration in these countries has fallen (Kundu, 2009).

This information begs another look at the very basis of the urbanisation projection exercise and a recalculation of the figures, in view of the following:

- Urban growth in the past half-century in Asia has been modest and slower than on most continents.
- Urban growth rates have declined significantly in the past one-and-a-half decades.
- The current URGD in Asia is lower than on most continents and lower than the rest of the world, if the OECD countries are excluded (since the possibilities of further urbanisation there are limited).

There is already an excessive concentration of population in large cities in Asia. Policies encouraging further concentration of economic activities in these cities, thereby reshaping economic geography, must be revisited. The concentration in large cities can be seen clearly in Table 7.3. This gives the percentage of population in cities with 5 million or more people in relation to the total urban population in the country. The figure is 9.5% for Europe, by comparison with a global figure of 15%. However, Asia records the highest figure, of 18%.

Table 7.3. **Percentage of population in cities with population above five million to total urban population**

Europe	Africa	Less developed countries	World average	Developed countries	Asia	South Central Asia	India
7.5	9.0	15.0	15.5	16.0	18.0	23.0	23.5

Source: United Nations Department of Economic and Social Affairs (2012), *World Urbanisation Prospects: The 2011 Revision*, United Nations, New York.

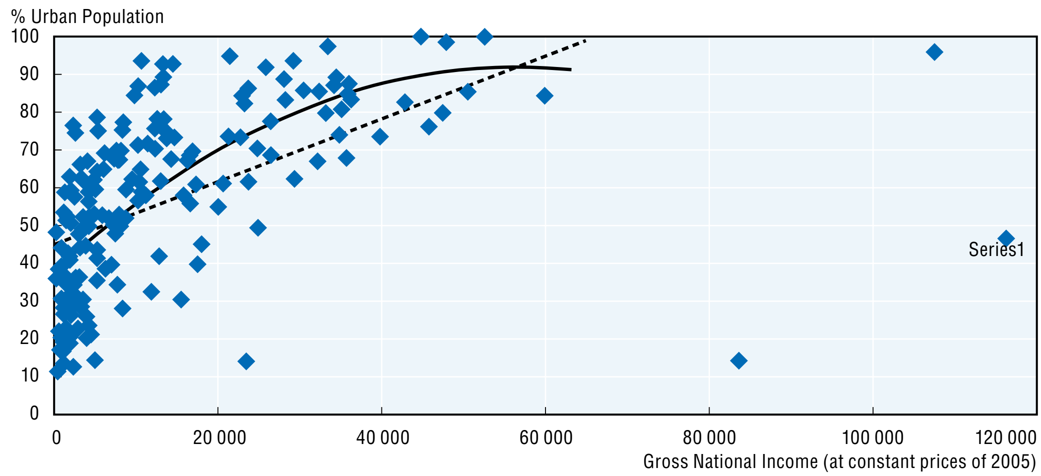
We can question the possibility of further concentration of population and economic activities by looking at the present trends. There has been no increase in the number of 10 million-plus cities in Asia in the last two decades. The growth rate of population in these cities has been 1.7% per annum – much lower than that of cities in the range of 5-10 million. The real growth in Asia, however, has shifted into the category of 1-5 million. These third-tier cities are expected to grow faster than all other categories. They will attract much of the financial and industrial capital from the global market and from the European Union. The number of million-plus cities increased from 113 in 1990 to 168 in 2000 to 226 in 2010. In China, the number has risen from 63 to 94, and in India from 23 to 52, over the past two decades. Despite this shift of urban dynamics, a large number of small and medium towns of less than one hundred thousand inhabitants report economic stagnation and deceleration in population growth in the majority of Asian countries. The emergence of new towns has been few and far between, resulting in top heavy urbanisation, except in SEA.

Let us now turn to the explanatory factors for urbanisation and the dependent variables. The correlation of urban growth with economic growth, level of per capita income, growth in manufacturing and growth of modern service sectors turns out to be low and statistically insignificant among the Asian countries. The pace of urban growth in several countries has been high not because of their high economic growth but because of the composition of growth, the labour intensity of the technology and the growth of the informal sector.

Interestingly, in the international literature, relationships are discussed not so much in terms of urban growth and economic growth as in terms of the *levels* of urbanisation and economic development. Indeed, the correlation between per capita income and the percentage of urban population turns out to be positive but not very high. The explanation provided for urbanisation by economic development is just 30%. Taking the logarithm of per capita income on the *x*-axis improves the explanation with an additional 15%.

Presented in Figure 7.1 are a few interesting statistical relationships without the boredom of econometric rigour. Figure 7.1 presents the plot of per capita income at purchasing power parity and percentage of urban population for the 187 countries for which the data are available from the UNDP's 2011 *Human Development Report*. A straight line shows a positive relationship, but it is not very steep. The relationship turns out to be statistically significant due to the large number of countries considered. Fitting a second-degree polynomial (the curved line), the explanatory power of the model goes up from 30% to 45%.

Figure 7.1. **Linear and quadratic functions relating urbanisation and per capita income**



Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

StatLink http://dx.doi.org/10.1787/888933107161

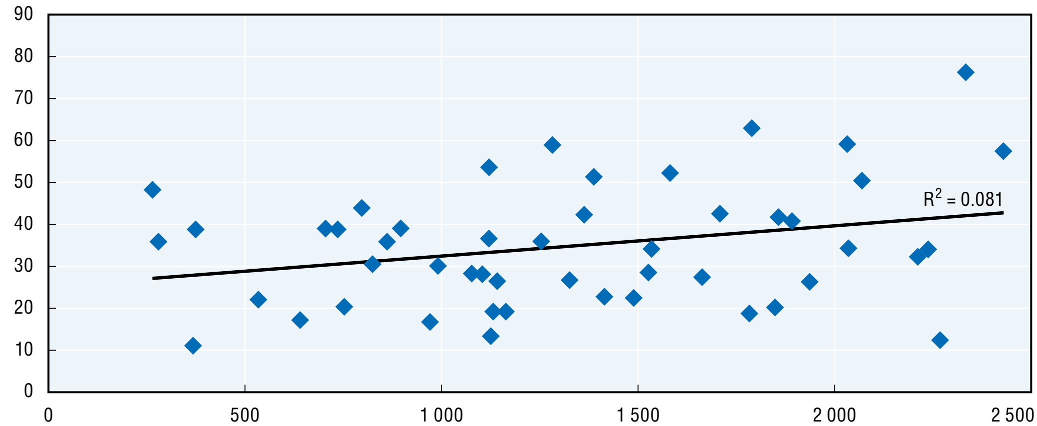
However, the relationship obtained at the global level is not suitable for guiding policies concerning urbanisation or industrialisation in developing countries in Asia and Africa. Different relationships emerge from the data for the least developed countries, less developed countries, middle and then highly developed countries. The discussion that follows divides the 187 countries into four categories based on per capita annual income: less than $2 500; between $2 500 and $7 500; between $7 500 and $20 000: and above $20 000.

The first category includes most of the African countries, and three from Asia. Here, the explanation of urbanisation from economic development is only 8% (Figure 7.2). In the second category, which includes most of the Asian countries, including India, the relationship is even weaker (Figure 7.3). In the middle category, the link disappears altogether (Figure 7.4). It is only in the case of developed countries that the relationship strengthens and the explanation goes up to 14% (Figure 7.5). Using the logarithm of per capita income improves the correlation, but unfortunately, does not make the relationship statistically significant.

As noted above, the relationship is far stronger when all the countries of the world are taken together. However, this combines history with the geography of urbanisation, comparing countries that have 300 or more years of urban history with those that have 50 and with countries where urbanisation has just begun. The results from the global data may be of limited policy relevance for the less developed countries in Asia and Africa. Similarly, regression equations based on temporal data on urbanisation and per capita income, taking one country at a time, yield greater explanatory power, which is to be expected. Actually, there is a problem of serial correlation, as both the indicators are affected by exogenous factors that are associated with time. Also, the number of observations on urbanisation for many countries is less than four, as comparable data are not available. Consequently, computation of regression equations for individual countries has been avoided.

To conclude, one would argue that if you consider countries at a low level of economic development in Asia and Africa, no positive correlation can be seen between economic development and urbanisation. This is the case whether one looks at levels or at growth. One cannot, therefore, hold that urbanisation in general is being sustained by economic

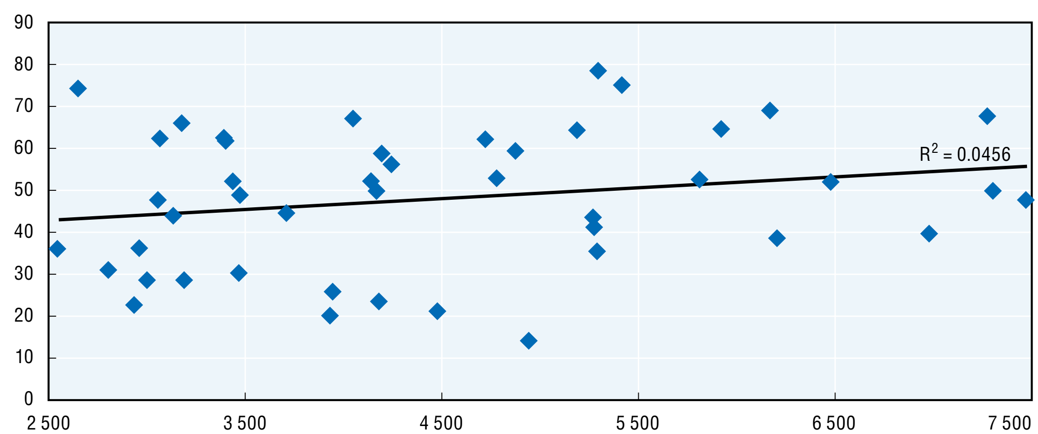
Figure 7.2. **Linear function relating level of urbanisation with per capita income for countries with income below $2 500 per annum**



Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

StatLink http://dx.doi.org/10.1787/888933107180

Figure 7.3. **Linear function relating level of urbanisation with per capita income for countries with income between $2 500 and $7 500 per annum**

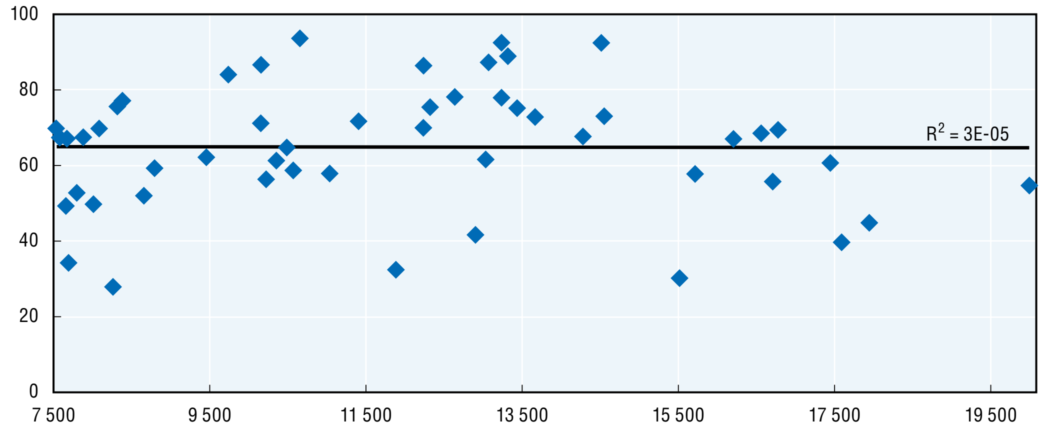


Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

StatLink http://dx.doi.org/10.1787/888933107199

growth. Nonetheless, neither is there any evidence that urbanisation is associated with the destabilisation of agrarian economies, poverty and immiserisation, despite the fact that globalisation has contributed to increasing regional imbalances. Several governments have taken major initiatives to tackle the problem by promoting rural development, creating satellite towns in an effort to slow down rural-to-urban migration and reduce pressure on infrastructure, particularly in the globalising cities. These regional development measures, in a sense, have been complementary to city-level interventions that have encouraged only selective migration into central areas and the "sanitisation of the cities". The low rate of urbanisation can therefore be linked to some extent to the capture of urban space by the upper and middle classes, resulting in exclusion of the poor from the migration

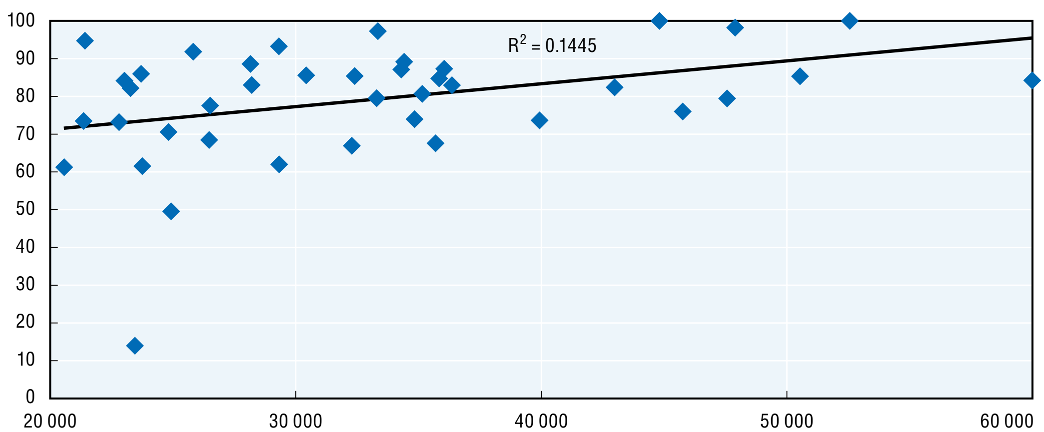
Figure 7.4. **Linear function relating level of urbanisation with per capita income for countries with income between $7 500 and $20 000 per annum**



Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

StatLink http://dx.doi.org/10.1787/888933107218

Figure 7.5. **Linear function relating level of urbanisation with per capita income for countries with income above $20 000 per annum**



Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

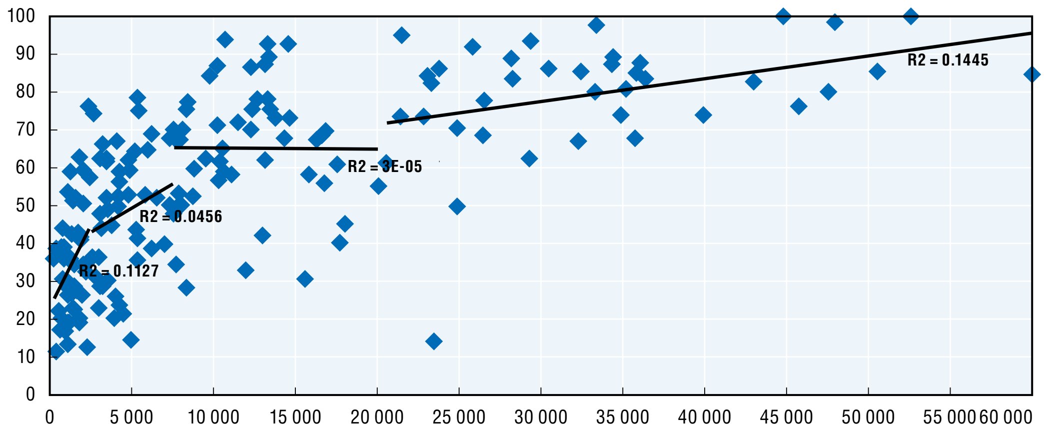
StatLink http://dx.doi.org/10.1787/888933107237

stream. Many of them have moved to the outskirts of these cities, creating degenerated peripheries. Rural welfare and poverty alleviation programmes have also contributed to the decline in rural-to-urban migration. All this questions the proposition that urban dynamics will shift to Asia in the next few decades, notwithstanding the magnitude of the absolute figures of increment, which reflect the demographic weight of the region.

A few smaller countries, apart from China and India, may be able to emerge on the urban scene, because a small international investment here will make a huge difference to urban growth. This could alter the geopolitical balance in the region.

It may nonetheless be noted that most of the countries in Asia host small numbers of international migrants – mostly less than 1% of their population. An exception are the west Asian countries that experienced rapid economic growth from 1950 to 1990, linked

Figure 7.6. **Linear functions relating level of urbanisation with per capita income**



Source: Author's calculations, based on data in United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

StatLink http://dx.doi.org/10.1787/888933107256

to their oil and construction booms. The share of refugees who face serious problems of rehabilitation, as a percentage of total immigrants, has increased in Asia, from 2.3% in 1960 to 14.6% in 2005. In contrast, the corresponding figure for the world has gone up only marginally, from 3% to 7%. Further, Asian migration tends to be more male-selective than in the rest of the world. The female share of total migrants in Asia was 45% in 2005, compared to the global figure of 50%. For the world as a whole, this figure has increased, but in Asia, it has declined marginally in recent years.

The pace of urbanisation in the next few decades is likely to be rapid only in less urbanised and less developed countries. The relatively developed and larger countries on the continent are likely to limit migration in order to have more orderly urbanisation and to create well-governed cities. Positive results in terms of macroeconomic growth, with the upper and middle classes grabbing much of the benefit, are likely to encourage governments to push reform measures in land, capital and labour markets, giving greater freedom to market-based actors. This would manifest itself in policies and programmes adopted by state and city governments to restrict the entry of poor and unskilled migrants from rural areas and outside the country, especially those coming with their dependents. This would strengthen the process of exclusionary urban growth.

Bibliography

Kundu, A. (2009), "Urbanisation and migration: An analysis of trend, pattern and policies in Asia", *UNDP Human Development Research Paper*, No. 2009/16, April.

United Nations Department of Economic and Social Affairs (UNDESA) (2012), *World Urbanisation Prospects: The 2011 Revision*, United Nations, New York.

United Nations Development Programme (2011), *Human Development Report*, United Nations, New York.

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

PART III

Chapter 8

The future of US cities: Addressing social, economic, and environmental resilience

Shaun Donovan, Secretary
US Housing and Urban Development

This chapter addresses three key priorities which the US administration sees as critical to the future of cities. The first is adapting to climate change and rebuilding after disasters. The emphasis on climate change is on energy efficiency and greening American homes, while the discussion of post-disaster action looks at two related priorities for reconstruction: ensuring bottom-up community involvement in the reconstruction process and adopting approaches to rebuilding that reduce vulnerability in the future – not least by factoring climate change mitigation and adaptation into the decision-making process. The second priority is regional planning for the future of cities. Over the last few years, the US Department of Housing and Urban Development (HUD), the US Department of Transportation (DOT) and the US Environmental Protection Agency (EPA) have been co-ordinating their work with local communities. They aim not only to better co-ordinate federal initiatives in three areas with strong urban impact (housing, transport and the environment), but also to help connect communities and cities with the wider regional economies around them. Finally, Secretary Donovan turns to social and economic resilience. As with policies on climate change, resilience and mitigation, one key aim is to break down silos between departments and between cities, to encourage regional co-ordination in support of policies to achieve social and economic resilience. The White House Council on Strong Cities, Strong Communities takes a place-based approach and a broad perspective on resilience to the city level.

Introduction

The future of cities is not simply a question or conversation, but also a profound and ongoing challenge. How best can we prepare our communities for tomorrow? How can we lead our cities, regions and countries towards a strong and healthy future? In exploring this challenge, it has become increasingly clear that when we discuss the future of cities, we are in fact addressing the resilience of regions. In the face of increasing economic and environmental crises across the globe, we must broaden our understanding of both the role of cities and the inestimable importance of resilience. At the US Department of Housing and Urban Development (HUD), we are in the business of strengthening regions through resilience. And while resilience lends itself naturally to a conversation about climate change and disaster recovery, we understand that it is equally important to address economic crisis and concentrated poverty.

In a time of such significant crisis, it is natural and necessary to reflect on our role and responsibility in a changing world. The increasingly visible impacts of economic crises and climate change have demanded an entirely different set of choices both for individuals and for governments as we look to the future. Through the deep challenges of the economic and environmental crisis we have faced in the past several years, we have been presented with a significant opportunity to rebuild better and stronger. We have used broad-reaching, place-based policies to address a range of infrastructural, political and social challenges.

Climate adaptation and responding to natural disasters

As President Barack Obama said in his Inaugural Address in 2013, we must "respond to the threat of climate change, knowing that failure to do so would betray our children and future generations." Under President Obama's leadership, the United States generates more renewable energy than ever; it has doubled its use of wind, solar and geothermal, and it has raised fuel standards so that by the middle of the next decade, cars will get double the mileage per gallon of gasoline.

Within HUD, which is charged with building decent housing and a suitable living environment for every American, we have worked tirelessly to advance this agenda. For example, we partnered with the US Department of Transportation and the US Environmental Protection Agency to create the Partnership for Sustainable Communities, the first-ever federal-level sustainability partnership. In just a few short years, this interagency initiative has provided planning grants to communities that are home to nearly a half of the American people – helping them meet their housing, transport, economic development and energy goals. In total, the Obama administration's work is making a real difference. Despite loud voices of opposition, carbon emissions in the United States are at their lowest levels in two decades.

While we have been reducing our carbon footprint, the US economy has been growing and we are proving that those who say helping the environment hurts the economy are presenting a false choice. We can do both. And that is why the Obama administration is committed to working to fulfil the goals of the president's new Climate Action Plan. Released in June 2013, the plan represents the most aggressive initiative ever taken by a US president to address climate change. It has three main goals:

- to reverse the trends of climate change by cutting carbon pollution in America.
- to work with our international friends to address this global challenge with global solutions.
- to prepare communities for the impacts that extreme weather are already having on people and places.

Hurricane Sandy, the super-storm that devastated the north-east region in the United States in 2012, presents enormous challenges and opportunities to address these three goals and to rethink our approach to the future of cities. Across the New York region, 650 000 homes were damaged or destroyed, with USD 65 billion in damages and economic losses, and more than 9 million people lost power. From such a devastating storm, it was clear that the road to recovery would be long and difficult. The president then asked me to chair his Hurricane Sandy Task Force – and help rebuild my home area.

In addition to getting immediate assistance to communities in need, we also set another objective: ensuring that the region rebuilds stronger and smarter than before so that it is better equipped to deal with future storms. We began with something the president has always believed: that when it comes to our environment and protecting our cities, we need to put science first. That is why the task force partnered with the best scientists to develop recommendations that empower local governments, businesses and citizens with the tools they need for the future. For example, we have designed a sea level rise tool that allows users to go to the Web, click on a map and see projections of rising sea levels for their community as far as 100 years forward. This helps policy makers, homeowners and businesses plan and build for the future. With this knowledge in hand, communities can take the measures necessary to protect themselves from future floods.

To complement this work, the Obama administration took action to ensure that all projects using funding from the USD 50 billion Hurricane Sandy supplemental package take into account future flood risks – the first time the federal government has ever done so. The Administration has now committed to using this approach nationally, taking future flood risks into account with all infrastructure investments. And HUD is already helping communities integrate climate adaptation into their own plans. For example, in Mississippi, on the Gulf Coast, HUD grants have funded an assessment of the shoreline to determine the areas at greatest risk of natural disaster, fundamentally changing how they execute projects like housing for the elderly or shopping districts. When regional development keeps resilience as a guiding principle, cities across the nation stand to be stronger and more successful.

Cities also stand stronger when they incorporate the most innovative ideas from around the world. We launched *Rebuild by Design*, a groundbreaking competition to develop innovative projects that protect and enhance Sandy-affected communities. We launched this effort because great challenges often inspire groundbreaking solutions. And as we looked to the future, we wanted to maximise our rebuilding efforts by attracting the best thinking from across the globe. So we put out an international call for ideas, and the response led to incredibly imaginative ideas – ranging from infrastructure to green spaces. As we evaluated them, we were not just looking for creative abstract concepts, we wanted ideas that we could implement and fund so they could strengthen communities.

Design teams then met with leaders on the ground to determine how these proposals could be implemented. These innovations are the way forward as we think about the future of cities. Finding the most innovative ways to strengthen cities and sharing those lessons and applying them locally, will not only save lives and protect communities, it could guide communities across the globe as they prepare for the future.

With its community focus, the Hurricane Sandy Task Force represents a fundamental shift in the way American cities can approach disaster recovery and prevention, as well as catalyse future development. In the wake of tragedy and at a time of rebuilding, Hurricane Sandy reminds us that those hardest hit in climate disasters are also those facing challenges beyond that of global warming. Vulnerable communities face significant challenges of economic disparity and growing income inequality brought on by another global concern: economic crisis. While "vulnerability" and "resilience" are terms that abound in discussions of climate change, many of the same resilience strategies and perspectives are useful and strategic for high-poverty communities.

The most important lessons from this work have been that cities and governments must all consider the following:

- that science should be a part of all planning,
- that the federal government must empower local leaders with the tools they need,
- that the most effective way to build resilient communities is with a regional approach,
- that we must connect communities with the best ideas from around the world to attract the most innovative solutions.

Climate change is real and putting communities at risk. Resilience should be a part of all community planning. The Obama administration is open to the best ideas from around the world to make this development safer and smarter. We also need to work to reverse the trends of global warming by thinking differently. Currently, the residential sector accounts for one-fifth of the energy consumption, and associated emissions, in the United States; if we are going to tackle climate change, we need to find new solutions.

To meet this challenge, HUD's Office of Sustainable Housing and Communities has made an unprecedented commitment to greening American homes. In partnership with the Department of Energy, HUD worked to retrofit 1.4 million homes from 2009-13. We worked with the El Paso Housing Authority in Texas to complete the first net zero energy Leadership in Energy and Environmental Design (LEED) Platinum public housing development in the nation. We joined with the Denver Housing Authority in Colorado on an ambitious 2.3 megawatt renewable energy project that installed 10 000 solar panels across nearly 400 rooftops. To build on this work, we have launched initiatives that are designed to decrease waste and increase use of renewable energy. Launched in 2011, the Better Buildings challenge urges that commercial and industrial buildings become 20% more energy efficient by 2020. In 2013, we extended this challenge to the multi-family sector, asking multi-family owners to commit to a 20% portfolio-wide energy reduction over the next decade.

These plans represent an opportunity to reshape our cities for the better, while providing an opportunity for owners to reduce costs, an opportunity to support the innovative industries of the future and create good jobs, and an opportunity to shape healthier neighbourhoods – especially in vulnerable communities that are more likely to be affected by asthma and other medical conditions. Partners across the nation have recognised this opportunity and seized it. In just a few short months, we already have commitments from multi-family owners, representing 200 000 apartments, including some of the largest affordable housing and market-rate developers in the country.

A significant strategy of our community-level approach is to bolster federal-local collaboration, in which communities in crisis are connected directly with resources and staff at the federal level. In the same way that HUD operates as a provider of resources and funding, we have also come to see the advantage of our central role as one of guidance and information dissemination, as innovation and profound new developments occur all around us.

Climate change and economic crises have prompted an era of significant engagement at the international level, and we have positioned ourselves to convey important international frameworks and practices to the local level. We have developed new and strategic procedures for developing federal-local relationships that enable us to dispatch resources and information through efficient networks, and to engage with on-the-ground knowledge and innovation directly. We have also worked with international counterparts, including Chile, observing its post-2010 earthquake reconstruction efforts, and the Netherlands, to collaborate on a wide variety of climate-related issues and initiatives. This kind of engagement is happening at all levels and in all areas of the Obama administration, and with the president's Climate Action Plan. While disaster recovery requires an immediate and targeted response, we assert that a long-term vision for prevention on a regional and global scale is equally critical to fostering resilience.

Regional planning for the future of cities

To ensure the health and success of all our communities, we also need to ensure that housing is linked to comprehensive community and regional development. In 2009, President Obama challenged HUD, DOT and the EPA to improve the ways in which our agencies worked together to help communities around the country better meet their housing, transport and environmental goals, laying the groundwork for an economy that provides good jobs now and creates a strong foundation for long-term prosperity.

Americans have made it clear they are ready for a new vision for their communities – one that cleans up and reuses neglected brownfields for economic development, reduces traffic congestion and provides affordable transport and housing choices that have been missing during these tough times. DOT, HUD and EPA have forged a partnership to streamline resources, better collaborate with local stakeholders and achieve superior results for communities. By co-ordinating federal investments and technical assistance, we are meeting economic, environmental and community objectives with each dollar spent.

For more than four years, our agencies have been co-ordinating their work through the Partnership for Sustainable Communities. The partnership has funded 744 projects in 50 states, the District of Columbia and Puerto Rico, with approximately USD 3.7 billion in assistance, and demand for partnership assistance has been extraordinary. These efforts are making a real difference in communities and neighbourhoods. In Bridgeport, Connecticut, the partnership agencies are working together to help meet sustainability goals. In 2010, Bridgeport received USD 11 million in Transportation Investment Generating Economic Recovery (TIGER) multi-modal transport funding from DOT, to upgrade roads around the East Side's Steel Point Peninsula in preparation for redevelopment. These funds build on an EPA Environmental Justice Showcase Community Grant, which led to many improvements in Bridgeport's distressed East End and East Side neighbourhoods, including a new fishing pier and renewed access for residents, who had been unable to get to the waterfront.

As the partnership has helped residents and neighbourhoods in Bridgeport better connect to one another, it has also helped Bridgeport connect to the broader regional economy. Indeed, Bridgeport is also a partner in the New York-Connecticut Sustainable Communities Consortium, a large stakeholder group of city, county and regional representatives that received a 2010 HUD Regional Planning Grant. As part of this grant, the consortium is studying whether Barnum Station, a proposed rail station in Bridgeport's East End, can anchor the redevelopment of the city's East Side, leading to new business investment, mixed-use, transit-oriented development and affordable housing.

What makes the partnership unique is that it allows communities to use these funds in ways that best fit their needs and visions – not what the federal government thinks is best. HUD, DOT and EPA are now working to align our efforts for localities even further – by streamlining the application process for our grants and identifying other grant programmes that can be part of the partnership for the future. And we will continue to encourage further collaboration with each other and other partners to consider housing, transport and environmental policy as they exist in the real world – inextricably connected.

All this work is based on a simple idea: when agencies talk regularly and listen to localities, we can help communities address some of their toughest challenges and create an economy built not on individual projects, but on collaboration and a shared vision. An economy built to last.

Localities throughout the United States need the federal government to provide tools and resources to align their efforts and to work regionally. By encouraging localities to support regional planning efforts that integrate housing, land-use, economic and workforce development and transport and infrastructure developments, regions are now increasingly able to consider how all of these factors work together to bring economic competitiveness and revitalisation to a community. With a priority on partnerships, including the collaboration of arts and culture, philanthropy and innovative ideas in the regional planning process, we can remove the traditional silos that exist between federal departments and strategically target federal and local transport, land use, environmental, housing and community development resources to provide communities the resources they need to build more liveable, sustainable communities.

New tools to help cities achieve societal and economic resilience

Utilising similar methodology behind our approaches to climate change, resilience and mitigation, and breaking down silos to encourage regional co-ordination, we have developed targeted, place-based interventions and overarching methodologies of inclusive growth to achieve societal and economic resilience to prepare cities for the future. The White House Council on Strong Cities, Strong Communities (SC2) takes the commitment of place-based planning and a broad perspective on resilience to the city level. Consistent with the ideals of place-based planning and inclusive growth, SC2 has created a network of broad-reaching partnerships and federal-local collaboration. SC2 was launched in 2011 to help local communities facing economic distress achieve their goals, while also improving the way they implement federal policies and programmes. At the heart of SC2 is a unique partnership between mayors and the federal government to foster economic growth.

Through the SC2 initiative, Community Solutions Teams composed of federal employees work with their local counterparts to break down silos and slash red tape to achieve each city's economic development and job creation goals. By focusing on each community's priorities, the SC2 teams have, among other achievements, helped develop studies and planning efforts for downtown revitalisation, assisted with transport planning, contributed national expertise on public health and public safety issues, and resolved regulatory barriers that threatened the availability of federal funds.

This initiative to develop capacity has already shown remarkable results. The initiative helped the pilot cities better leverage federal resources and understands their own unique challenges and opportunities. Notable accomplishments include the following:

- In New Orleans, SC2 helped save nearly USD 20 million by preventing the recapture of housing funds. The city partnered with HUD to reconcile poorly kept records dating back to 1996 and clarify the city's home project spending. The process kept the city in compliance with federal regulations and forestalled the need to repay the funds or forfeit future funding. By addressing these issues, federal and city officials provided a solid foundation for avoiding future challenges to this important funding stream.
- In Detroit, SC2 worked with the city and M-1 Rail investors to advance the construction of a light rail system along the Woodward Corridor. M-1 Rail is a consortium of Detroit-area corporate business ventures, foundations and public and private institutions that are committing more than USD 100 million to build and operate a 3.3-mile modern streetcar system on Woodward Avenue, the region's primary north-south thoroughfare. The US Department of Transportation has also pledged USD 25 million towards the project's construction. The light rail line will link downtown Detroit, the region's largest employment centre, with the rapidly developing Midtown and New Center neighbourhoods to the north.
- In Memphis, SC2, led by the US Department of Health and Human Services (HHS), provided customised technical assistance to Memphis area health officials. The team created a comprehensive profile of the health status of Memphis residents and a profile of the city's uninsured. Together, these profiles identify opportunities available through the Affordable Care Act and support the city's Healthy Shelby program, both of which help improve the health outcomes of Memphis residents.

SC2 teams are helping each city generate creative approaches to achieving their goals, and they are learning lessons and testing new approaches that can be applied nationally. The development of the SC2 network recognises the diversity of cities and communities and acknowledges the expertise and decision-making ability of urban leaders. SC2 places the federal government as a central focal point for the convening of resources, additional perspective and shared learning. Local leadership is central to the SC2, built out of recognition that our urban centres form an important part of our national identity, and that place-based strategies succeed with the partnering of local authority and innovation and the support of federal resources, guidance and networking.

Zip codes should not determine futures

In the United States, we have observed that in many instances, statistics show that young people's futures are determined by the Zip codes they grow up in, rather than by their potential, no matter how hard they or their parents work. The concentration of poverty that exists in many of our communities is a moral failure and an economic calamity for our cities and our nation. Every year, the United States loses half a trillion dollars because of kids growing up in poverty. Most of these costs are obvious, including the costs of crime and health care. But the single most harmful cost is the lost productivity and potential of kids. That is why the Obama administration has made providing ladders of opportunity to all communities a top priority.

The mid-20th century federal government approach to urban renewal and cities did not work, and we need to learn from our mistakes. In previous decades, Washington officials would often look at a community in distress and see only the problems. They would take the arrogant view that they knew best, while ignoring the assets on the ground. They would come in and wipe out entire neighbourhoods. In many cases, these efforts made the problems worse, because when families choose a home, they are choosing more than just shelter. They are choosing job opportunities, schools, public safety, transport and more. To ensure a prosperous future for our cities and better lives for their residents, the federal government is now taking a fundamentally different view of development:

- by taking a comprehensive approach to community revitalisation instead of addressing problems in isolation,
- by working with local leaders to support their vision for their communities; and by embracing creative new solutions to old problems, especially in the current fiscal environment.

The first step in this work is to ensure that federal bodies are working well together. Of course, this is common sense, but government does not always do "common sense" well. In the past, agencies tended to "stay in their lanes". HUD worked on housing. The US Department of Education worked on schools. The US Department of Justice worked on safety. Even though these issues are connected within our cities, there was often little co-ordination between agencies to maximise impact. That is why the Obama administration has made this practice a thing of the past with efforts like the Neighborhood Revitalization Initiative. Launched early in the president's first term, this interagency effort between HUD and HHS, the US Departments of Education, Justice and Treasury eliminated many of the silos that hindered progress. Our agencies are working to support local leaders who are transforming distressed communities into sustainable, mixed-income neighbourhoods.

At the centre of this initiative is Choice Neighborhoods – a competitive grant programme that enables communities to transform struggling neighbourhoods with distressed public housing or HUD-assisted housing. Local leaders, along with residents, public housing authorities, cities, schools, police, business owners, nonprofits and private developers, create a plan that revitalises HUD housing and addresses neighbourhood challenges. Choice Neighborhoods grants then leverage funding for mixed-income housing, critical neighbourhood improvements and services to create access to all the critical tools that families need to thrive. Since 2010, competitive grants have been awarded to 8 Implementation Grantees and 56 Planning Grantees across the country. Grantees have leveraged over eight times their total grant award, amounting to over USD 2 billion in additional private and public investments. Through Choice Neighborhoods, communities are replacing obsolete, distressed housing with vibrant mixed-income communities, leveraging investments to develop new retail and businesses, turning around failing schools, preventing crime, improving transportation and increasing access to jobs.

This work is literally changing lives.

The role that communities took under Choice Neighborhoods to build partnerships and break down silos, along with the strong belief that we can do more when we work together, and create ladders of opportunity, is now the foundation of the president's Promise Zones effort, launched in January 2014. The effort is designed to revitalise the hardest-hit neighbourhoods in the country, accelerate the progress of community leaders who are working together with a commitment to results and help struggling Americans join the middle class.

Working with local partners in each designated Promise Zone, the federal government's goals are to:

- transform housing so everyone has an affordable and decent place to call home
- ensure that every child gets the educational support they need to succeed, from the cradle to college to their career,
- improve public safety so residents do not have to live in fear in their own neighbourhood,
- create jobs and increase economic activity to help hard-working families get a leg up into the middle class.

Given that this initiative has only just been launched, we cannot yet evaluate it, but it is emblematic of the way we are thinking of the future of cities. These Promise Zones will benefit from a comprehensive approach to development that will enhance and connect local assets ranging from schools to housing to jobs. The first five Promise Zones – located in San Antonio, Philadelphia, Los Angeles, south-eastern Kentucky and the Choctaw Nation of Oklahoma – have each put forward a plan on how they will leverage federal partnerships and resources in the most effective ways possible to improve their communities. In exchange, these designees will be able to access federal investments in order to achieve their goals.

The Promise Zones effort represents a partnership for progress. Federal agencies will be working with each other and with local leaders, as never before, to give distressed communities – urban, rural and tribal – the assets they need to succeed, like good schools, safe streets and quality housing. Working together, we are going to give families what every American deserves: a fair chance to succeed. These unique partnerships support local goals and strategies with:

- **Accountability for clear goals:** Each Promise Zone has identified clear outcomes to pursue to revitalise their community, with a focus on creating jobs, increasing economic security, expanding access to educational opportunities and quality, affordable housing and improving public safety.
- **Intensive federal partnership:** Each Promise Zone will receive federal staff that will work on the ground, side by side with local staff, to help communities break down regulatory barriers, use existing funds more effectively and implement their economic visions.
- **Help accessing resources:** Where necessary to achieve their goals, Promise Zones will be able to access federal investments that further the goals of job creation, additional private investment, increased economic activity, improved access to educational opportunities and quality, affordable housing and reduction in violent crime.
- **Investing in what works:** In order to be designated as a Promise Zone, these five communities have already demonstrated that they are pursuing evidence-based strategies to improve identified goals and outcomes, and have realigned their own state and local resources to meet these goals and outcomes.
- **Cutting taxes for businesses:** President Obama has proposed cutting taxes on hiring and investment in areas designated as Promise Zones – based upon the proven models of tax credits to attract businesses and create jobs.

The designated Promise Zone communities are an important example of federal work at the local level with place-based strategies. The Promise Zones recognise important business and philanthropic partnerships and ensure that partners are integrated into planning to open up new opportunities for innovation. The success of such public-private partnerships demonstrate that a broad range of partners have the future of our cities on their minds and are in need of significant federal support to ensure success. In a time of deepening crisis, both economic and environmental, all committed partners are needed and welcomed to the conversation.

The work of the Promise Zones embodies a significant political priority of the Obama administration and aligns with a globally recognised objective: to reduce growing inequality in our most vulnerable communities. While Promise Zones have a focus on some urban areas, recipients are also rural and tribal lands, recognising that inequality affects a broad range of the population, which is critical when we consider the future of our cities.

Conclusion

Our work on the global scale in combating climate change, the regional scale to address resilience, natural disasters and sustainable planning, and our efforts to build capacity in our cities and address the needs of our neighbourhoods are all integral to finding the right balance to ensure the health and wealth of our cities for generations to come. Without this integrated approach that rethinks the ways in which we have succeeded, failed or come up short in the past, we will not be able to meet the demands of the future. This race to the top to achieve balanced, inclusive growth for the world's cities is not a competition, as much as it is a way in which we can all learn from each other to ensure that no one gets left behind.

As climate crises and disasters such as Hurricane Sandy have prompted a strategic rebuilding at the community level, so too has economic crisis, and federal initiatives now reflect the best international practices for fostering economic resilience at the community, urban and regional level. As we commit to the future of our cities with practical and targeted strategies, we are engaging an understanding of resilience that will ensure a strong and healthy future for our communities of tomorrow.

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

PART III

Chapter 9

Cities are key to the sustainable development of the European Union

Johannes Hahn,
European Commissioner for Regional and Urban Policy

Focusing on the future of European cities in the context of European Union (EU) policies, this chapter offers a broad vision for urban development in Europe and on the contribution European policies and instruments can make to the realisation of that vision. The challenges presented in this paper are daunting, as Europe struggles with sluggish economic and demographic dynamics, as well as processes that have to some extent decoupled economic growth from social progress. In response, the European Commission has put forward a holistic model of urban development, with a strong emphasis on policy co-ordination across both sectors and levels of government. In developing this theme of policy integration, the chapter highlights the need to give cities a greater role in the implementation not only of EU regional policies, but of a wide range of European policies in such diverse fields as transport, the environment, energy and IT.

Introduction

Europe is one of the most urbanised continents in the world. Today, more than two-thirds of the European population – approximately 350 million people – lives in urban agglomerations of more than 5 000 inhabitants, and this share continues to grow. The development of our cities will thus determine the future economic, social and territorial development of the European Union.

Cities are at the same time places of great opportunities and great challenges.

They play a crucial role as motors of the economy, as places of connectivity, creativity and innovation, and as service centres for their surrounding areas. Cities are also the places with sufficient concentration and critical mass to have the potential to put Europe on a more sustainable development trajectory.

But cities are also places where problems such as pollution, unemployment, segregation and poverty are concentrated. The highest unemployment rates are found in cities. Globalisation has led to a loss of jobs – especially in the manufacturing sector – and this has been amplified by the economic crisis.

Indeed, Europe is no longer in a situation of continuous economic growth. Many cities, especially non-capital cities in Central and Eastern Europe, but also old industrial cities in Western Europe, face the serious threat of economic stagnation or decline. Our economies in their current form are unable to provide jobs for all. Weakening links between economic growth, employment and social progress have pushed a larger share of the population out of the labour market or towards low-skilled and low-wage jobs in the service sector.

In some neighbourhoods, local populations suffer from a concentration of inequalities in terms of poor housing, low-quality education, unemployment and difficulties or inabilities to access certain basic services (health, transport, ICT). Social polarisation and segregation are increasing. The recent economic crisis has further amplified the effects of market processes and the gradual retreat of the welfare state in most European countries. In even the richest of our cities, social and spatial segregation are growing problems. Spatial segregation processes in turn – as an effect of social polarisation – make it increasingly difficult for low-income or marginalised groups to find decent housing at affordable prices.

These processes are compounded by demographic change, which gives rise to a series of challenges that differ from one city to another, such as ageing populations, shrinking cities or intense processes of suburbanisation. Urban sprawl and the spread of low-density settlements have in fact become one of the main threats to sustainable territorial development: public services are more costly and difficult to provide, natural resources are overexploited, public transport networks are insufficient and reliance on cars has increased congestion in and around cities.

All this has also an impact on the way public authorities govern these challenges.

Social, economic and environmental challenges have to be addressed both at neighbourhood level and in broader territorial contexts. Cities can no longer be defined solely by their administrative boundaries, nor can urban policies target only city-level administrative units. Attention has to be paid to the necessary complementarities between functional approaches, at the level of larger agglomerations and metropolises – and social and cultural approaches involving citizens' engagement and empowerment – at the level of neighbourhoods. Both the broader territorial reality and the internal urban form have to be taken into account. Urban policies will have to ensure coherence between sectorial initiatives with spatial impacts and place-based initiatives.

To fulfil such objectives, fixed co-ordination mechanisms have to be complemented by flexible mechanisms to ensure dialogue and co-operation between territorial and governmental levels, as well as between sectors concerned by urban development. Tensions between different interests will have to be overcome. Compromises will have to be negotiated between competing objectives and conflicting development models. A shared vision is important to sustain such dialogue.

Envisioning the future of cities

This is why, in 2010, I initiated a reflection process to better understand the future challenges that our European cities are facing. The reflection process culminated in October 2011 with the publication of a far-reaching report, *Cities of Tomorrow: Challenges, Visions, Ways Forward* (European Commission, 2011). The report presents a forward-looking vision of the opportunities and potential of European cities. It points to the role that cities themselves can play in finding solutions based on their specific potential and thereby contributing to the goals of the Europe 2020 strategy. And it put forward ideas on how to govern this process. It proposes a vision of cities as places of advanced social progress, with a high degree of social cohesion, with socially balanced housing as well as social, health and "education for all" services. They should also be platforms for democracy, cultural dialogue and diversity; places of environmental regeneration; and engines for growth.

The report clearly acknowledges that European cities follow different development trajectories and that their diversity has to be recognised and exploited. Competitiveness in the global economy has to be combined with sustainable local economies by anchoring key competences and resources in the local economic structure and supporting social participation and innovation. Strategies will have to take into account the diversity of cities: their development paths, their size, their demographic and social contexts, and their cultural and economic assets.

Innovation will have to be fostered to support a transition towards the cities of tomorrow. These should be diverse, cohesive and attractive, they should be green and healthy, and they should be places for a resilient and inclusive economy. The potential of socio-economic, cultural, generational and ethnic diversity should be fully exploited as a source of innovation. Innovation strategies have to be manifold, addressing services and technology as well as institutional and social innovation. Innovation will also have to address organisational and institutional issues, as new forms of governance will be required to tackle the complexity of the challenges ahead.

Inclusive growth strategies will have to overcome the negative consequences of the decoupling of economic growth from social development and address vicious circles of demographic and economic decline that an increasing number of European cities will face in the coming years. A coherent approach to smart, inclusive and green growth strategies must be adopted so that conflicts and contradictions between these different objectives can be overcome and so that accomplishment of one objective is not detrimental to meeting others.

Lack of financial resources, low fiscal or regulatory power and insufficient endogenous development potential make it difficult for many European cities to develop in a harmonious and sustainable way, following the ideal model of attractiveness and growth. Shrinking cities may have to redefine their economic basis and manage transitions towards new forms of economic, social and spatial organisation. In addition, if current trends continue, social exclusion and increasing spatial segregation will affect a growing number of regions and cities, including the richer ones. Pockets of poverty and deprivation already exist in the wealthiest of European cities, and "energy poverty" hits the most vulnerable groups, especially in cities with poor or obsolescent housing stock.

There is a strong political rationale for paying special attention to deprived neighbourhoods within the context of the city and larger territory as a whole. Education and training play a crucial role in permitting social and spatial mobility and stimulating employment and entrepreneurship. But social inclusion should not be an aim only for "people-based" policies; people-based approaches need to be combined with place-based ones. Addressing only "people" can help people to move away from problems and further impoverish disadvantaged neighbourhoods; addressing only "place" may either displace the problem or produce lock-in effects on local communities.

Cities of Tomorrow also points to the strategic role of integrated urban regeneration, framed in the broader concept of integrated urban development, as one important perspective for achieving a series of objectives. These include ensuring citizens' participation and stakeholders' involvement in working towards a "more sustainable and socially inclusive model in the whole built environment and in all the social fabrics of the existing city"; addressing climate change, demographic change and mobility as major urban challenges; ensuring greater coherence between territorial and urban issues; and promoting a common understanding of the integrated approach to urban development.

In addition, one of the challenges in a harmonious territorial development of Europe is the rapid pace of land takeover, due to the spread of low-density settlements, i.e. urban sprawl. Strategies for recycling land (urban regeneration, redevelopment or reuse of abandoned, derelict or unused areas) have already been developed in many cities and may play a key role in the future. So may other green strategies, such as the development of green belts and/or corridors, the greening of the city and fostering of family- and elderly-friendly cities via public spaces and services for all. Meanwhile, the management of energy and material resources and flows in the city can be improved, through urban metabolism, recycling and local energy solutions.

Finally, governance systems need to be adapted to evolving circumstances and take account of various territorial (e.g. supra-urban as well as infra-urban) and temporal scales. Cities have to work across sectors and not let "mono-sectorial" visions set the agenda of what urban life should be like. Horizontal and vertical co-ordination is required. Cities have to work with other governance levels and reinforce their co-operation and networking with other cities, in order to share investments and services required at a larger territorial scale. New governance modes are needed, based on citizens' empowerment, participation of all relevant stakeholders and innovative use of social capital. In the context of weakened links between economic growth and social progress, social innovation offers an opportunity to widen the public space for civic engagement, creativity, innovation and cohesion.

The report also emphasises the need for territorial integration in cross-border and transnational functional regions and highlights the importance of improving territorial connectivity and co-operation between European cities. Making cities "green and healthy" goes far beyond simply reducing CO_2 emissions. A holistic approach to environmental and energy issues has to be adopted, as the many components of the natural ecosystem are interwoven with those of the social, economic, cultural and political urban system in a unique manner.

In a nutshell, the vision that is emerging is one of a holistic model of sustainable development where the cities of tomorrow have to:

- deal with challenges in an integrated, holistic way,
- match place- and people-based approaches,
- combine formal government structures with flexible informal governance structures that correspond to the scale at which the challenges exist,
- develop governance systems capable of building shared visions reconciling competing objectives and conflicting development models and
- co-operate in order to ensure coherent spatial development and an efficient use of resources.

EU Regional Policy and Europe's cities

EU Regional Policy is the biggest investment policy of the EU. But many other sectorial policy areas are also investing in the development of our cities or are proposing directives that affect our cities. I have been asked to take the leadership within the European Commission in ensuring more synergy and coherence between the various urban initiatives. Greater co-ordination should help us to achieve more with less. A significant part of EU Regional Policy investments are already going to urban areas. These sectorial investments are focused on meeting different sectorial policy objectives at regional or national level, in areas such as waste-water, energy efficiency, mobility, innovation and climate change adaptation. The challenge is to better align these sectorial investments with city-level strategies, to avoid conflicting results of unco-ordinated interventions and to achieve better and more effective spending. A lot has already been done.

The urban dimension is already a main part of the programming period that has just come to an end. All member states and regions had the possibility to design, programme and implement tailor-made, integrated development operations in their cities. A study recently published with 50 good practice examples illustrates what can be achieved with the help of our funding. The cases range from intervention at the neighbourhood level up to metropolitan area, also including polycentric urban areas and co-operation at regional level.

A key finding is that **good practice is synonymous with a minimum level of integration of policies.** In the most advanced cases, physical regeneration is a driver for more comprehensive and integrated approaches to rethinking the future of an area or of an entire city. The most interesting examples are those in which horizontal and vertical integration have been combined, and smart, sustainable and inclusive growth dimensions are intertwined. For example, the Halle 14 project in Leipzig is part of a large brownfield regeneration project, the reconversion of what was once Europe's largest cotton mill complex. It is an excellent example of how brownfield development and creative industries can be used as impetus in a wider urban regeneration context. The approach of using derelict land and widely abandoned buildings for new, sustainable growth ties this project to the Europe 2020 flagship initiative for a resource-efficient Europe, which identifies the recycling of land as one of the pathways for greater resource efficiency.

Overall, it is clear that EU funding has created an added value. On one hand, it has inspired local practices, by insisting on the principle of a sustainable and integrated approach. On the other hand, it has financially sustained the implementation of the projects. EU funding has helped to move forward ideas or projects that have already shown success on the ground, to encourage other new partners and stakeholders to engage in local projects and to experiment with new forms of governance. Individual municipalities have demonstrated that they are capable of good practices. Scaling up the support to cities will integrate the actions in wider territorial development frameworks.

Looking ahead to 2020

My proposal for future cohesion policy for the 2014-20 programming period places a special focus on sustainable urban development, especially in terms of integration and innovation. The urban dimension of the future EU Regional Policy is about urban-specific investment priorities, flexible tools to promote integrated actions and participation, increased opportunity for experiencing and networking, financial instruments and greater involvement of our cities in our policy implementation.

The first proposal is a set of urban-related investment priorities aligning public funding in urban areas with the core strategic priorities of the EU. These investment priorities include the promotion of a more resource-efficient, greener and more competitive economy, through low-carbon strategies for urban areas, energy efficiency measures in public buildings and the housing sector, as well as sustainable urban mobility and support for physical and economic regeneration of deprived urban communities.

However, these and other sectorial interventions should be better aligned with cities' integrated urban development strategies. This can be achieved through the greater involvement of cities in the co-ordination of policy interventions of the different levels targeting urban areas. Cities are best placed to combine different investments in an integrated way. A deeper partnership is proposed, involving cities in the elaboration of the new programmes, to take better account of urban development needs and challenges. Cities should be invited to participate in the monitoring committees of the relevant programmes, to review the implementation of a programme and help achieve its objectives.

To ensure that the development needs of urban areas are addressed in an integrated way, the proposal is that in each member state, at least 5% of the resources of the European Regional Development Fund (ERDF) should be allocated to integrated actions for sustainable urban development. These resources should support integrated territorial strategies fully or partly managed by the cities or functional urban areas concerned – cities should not merely be places of investment but actors responsible for how investments are used. After decades of positive experiences of community-led local development approach in rural areas, member states may now introduce this method in urban areas to empower urban communities. Also provided is an urban development platform for direct and intensive dialogue between cities and the Commission on the integrated approach for sustainable urban development in EU Regional Policy.

Cities should likewise be in the front line for innovation. Dedicating approximately EUR 370 million to Urban Innovative Action will support this action item. These actions will foster new and innovative ways of dealing with urban challenges and will act as pilot or demonstration projects of European interest.

But regional policy is not the only EU policy targeting urban areas. The Lisbon Treaty has given multi-level governance and subsidiarity a more prominent role and increased the importance of the sub-regional and local-level. More and more EU policies explicitly target urban areas; the Directorates-General for Transport, Energy, Information Society, Environment, Climate Change, etc. support initiatives such as Smart Cities and Communities, the Green Capital Award and the Covenant of Mayors. Many other EU initiatives or directives implicitly target urban areas, e.g. noise and air quality directives and migration policies, which, although not urban *per se*, chiefly affect urban areas. As the urban focus has become stronger, so has the need for coherence and transparency of the different urban EU initiatives.

In recognition of the importance of the local level and the need for more co-ordination of EU policies targeting urban areas, the Directorate-General for Regional Policy was renamed Directorate-General for Regional *and Urban* Policy in 2012. This change is an acknowledgement of my service's lead role within the Commission in urban matters. It is also a reminder to the outside world not only to focus on regions and rural areas, but to see cities and urban areas as important targets for investments.

Conclusion: Empowering cities to take greater control of their futures

In conclusion, the development of our cities will determine the future economic, social and territorial development of the EU. Cities' role in the implementation of the Europe 2020 strategy has been emphasised both at the European level and by the cities themselves. This role cannot be overstated. Not only are cities the best-placed actors to implement sustainable solutions to reduce CO_2 emissions or to ensure that growth is inclusive, they are also the actors that have to reconcile the contradictions and tensions between economic, environmental and social objectives.

Cities cannot do this in isolation. European and national regulation and policies must acknowledge and facilitate the economic, social, environmental and, not least, the territorial role of cities. Without multi-level governance frameworks and strong higher-level urban policies conducive to an integrated territorial approach, cities will be hard-pressed to effectively tackle the challenges ahead.

The European level can act as a facilitator and make sure that the territorial dimension is fully taken into account by its policies. There are two major challenges ahead at the European level in relation to sustainable urban development. One is immediate; to ensure that the new generation of EU Regional Policy programmes responds to urban and territorial needs and potential so as to maximise its effectiveness in contributing to Europe 2020 objectives. The second major challenge is to ensure that the EU develops its own coherent urban agenda, with clear and transparent objectives that can guide our different services. There is a need to ensure that the initiatives, investments and directives that affect urban development are coherent and provide synergies rather than tensions and conflicts. A shared European vision of sustainable urban development that promotes all the assets and potential of our cities is demonstrated in our *Cities of Tomorrow* report. But there is a need to ensure a full ownership of this vision – ownership by all concerned stakeholders, including the inhabitants of our cities.

Our immediate task is to translate Europe 2020 into clear urban objectives. Ensuring that the specificities and potentials of our cities are fully taken into account in our smart growth strategies is of utmost importance. Our environmental targets must not be achieved at the detriment of the social fabric and the architectural heritage of our cities. Inclusion policies must be informed by urban realities.

I think it is crucial to establish regular bridges between research and practice in the field of urban governance. Urban research, in particular, should enrich the knowledge of those who make decisions on the ground. It should enrich the vision of cities of today as well as of cities of tomorrow.

I am committed to an urban agenda that lets our cities play a more prominent role in the implementation of our European policies, in which cities are empowered to better develop their own potential and better equipped to deal with their own pressing challenges. I would like our cities to have more influence over their own future.

Bibliography

European Commission (2011), *Cities of Tomorrow – Challenges, Visions, Ways Forward*, *http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/citiesoftomorrow/citiesoftomorrow_final.pdf.*

European Commission (2013), Urban Development in the EU: 50 Projects supported by the European Regional Development Fund during the 2007-13 Period, *http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/50_projects/urban_dev_erdf50.pdf.*

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

PART III

Chapter 10

Creating transport corridors: Refreshing the places other transport hasn't reached

Sir Peter Hall,
Bartlett Professor of Urban Regeneration and Planning, University College, London

This paper explores the ways in which a number of places are starting to tackle a public transport challenge facing cities across the world. The main challenge is to extend efficient, effective public transport beyond the urban core into the peri-urban hinterlands of cities. Across the OECD there has been increasing discussion of the need to reduce reliance on private cars for a variety of reasons, above all environmental, and to increase reliance on public transport. This can be expensive in central cities, but it is relatively straightforward. Yet even where cities have been extremely successful in pursuing public transport-oriented development, the "peri-urban peripheries" beyond the termini of their public transport systems remain highly dependent on automobiles. As the paper shows, a growing number of cities across Europe and the Americas are using transport solutions like tram-trains and bus rapid transit, in conjunction with new approaches to economic development planning, to create public transport-oriented developments that extend deep into the hinterland of cities. This reduces the reliance on private cars in the places where they have hitherto been most prevalent.

Introduction

Many are familiar with being told that, on a global scale, the rural world is going to town. In the developing world, in the Middle East and in much of the Far East and in Latin America, that is undoubtedly true. Throughout the world, people are coming together on a vast scale. Travelling on the London Underground and listening to the many tongues people are using as they talk on their mobile phones, you could well believe that latter-day Towers of Babel exist in some of our great European cities.

But there is a paradox here, because just as people are coming into cities, others are leaving them – as they have been doing for a very long time. The late Martin Mogridge showed some time ago that for 200 years, London had been exporting population to its immediately surrounding ring, and then into increasingly distant rings. That process of decentralisation, repeated widely elsewhere, is continuing, and it has generally resulted in a shift from more to less sustainable forms of transport, especially automobile dependence.

However, many of the cities themselves are busy building sustainable public transport networks – and here London can pat itself on the back, as it now has a superb public transport system. It was not always superb, but it is now running at perhaps the highest efficiency ever experienced, with, for example, the Docklands Light Railway running an impressive 99.2% of trains on time.

This improvement is happening very widely, especially in Europe, which is taking a lead in sustainable public transport, extending from the core cities into the surrounding metropolitan areas. But, crucially, the "peri-urban peripheries" beyond the termini of these metro, tram or light rail systems remain highly auto-dependent. Here, the answer (although perhaps not a complete answer) is something that can be called the "Heineken model". A generation ago, Heineken famously advertised itself as the lager that "refreshes the parts other beers cannot reach". Today, transports solutions are needed that refresh parts that public transport hitherto has not successfully reached. That means developing innovative transport options – tram-trains and bus rapid transit – and using them to form transport-oriented corridors, as the basis for new planned urban extensions.

Urban dynamics

First, the facts: what is happening in our cities? In the United States, there has been huge excitement over a report from William Frey at the Brookings Institution, published in March of 2012, which found that the primary cities in the largest metropolitan areas have been growing faster than their suburbs (Frey, 2012) – not very much faster, but there is a significant shift. Frey's report shows that this reverses a 90-year trend. US cities have not grown faster than their suburbs since the 1920s. Frey thinks that part of the explanation is the drastic drop in suburban house construction after the 2008 crisis – but he also thinks that it represents a lifestyle change: young people are reacting against the suburban lifestyles of their parents and seeking a life in the city.

In the United Kingdom, the 2011 Census shows that there, too, cities are growing. London's population has increased by 1.1 million in ten years. Even if that figure is not totally reliable (many demographers believe the 2001 Census was an under-count), there has undoubtedly been a huge increase. This was driven by immigration from abroad, both from EU and non-EU countries. But growth has occurred elsewhere: in Manchester, Milton Keynes, Leicester and Peterborough. Most are in the south of England, including many smaller places in what is thought of as an extended London mega-city region. Nonetheless, there does seem to be a reversal of a long observable trend in the UK, too. However, equally importantly, many other cities are declining, typically the old industrial cities in the rust-belt areas of the Midlands and the north of England. Emerging now is an "archipelago economy", a term invented by a French urbanist, Pierre Veltz, in 1996 and recently borrowed by Professor Danny Dorling, a geographer at the University of Sheffield (Veltz, 1996; Dorling and Thomas, 2004), whereby a very big global city, such as London, grows into a "mega-city region", with only isolated islands of growth outside it (in the UK mainly in core cites such as Manchester and Leeds), surrounded by vast seas of decline.

It needs to be stressed that growth and decline can happen simultaneously. Research has shown that in the EU there is a pervasive phenomenon of relative decentralising: both the core city and the wider urban area are growing, but the growth is higher in the outer areas than in the core city.

Transport trends

Why is this important? Two transport research reports are relevant here. One report, from the UK Office for National Statistics, published in 2008, reveals the high degree of car dependence in areas of the south-east of England beyond about 80 kilometres from the centre of London (Littlefield and Nash, 2008). It shows that the only areas in the south-east that have a significant dependence on public transport are London (especially) and the cores of a few other areas, with arms of public transport dependence going out along the main railway lines. But those areas where the car rules are precisely the areas to which people are moving out from London.

The second report, *On the Move* (Le Vine and Jones, 2012), published in December 2012, is a response to a thesis developed by Professor Phil Goodwin, who has argued very persuasively that in the UK car use peaked around ten years ago and is actually now in decline. The new research finds that the "peak car" theory is a myth, with cars continuing to account for no less than 79% of total movements. The big exception is London, where car use has indeed been declining – back to that superb public transport system – but London is out of line with the rest of the United Kingdom. Even in London, the picture is not straightforward, as the Mayor's Outer London Commission report in 2010 showed (Mayor of London, 2010). Although Inner London is highly public transport-dependent, the outer areas – the suburbs developed between the two world wars, which also have excellent public transport – are largely car-dependent. Public transport, even in London, is not at all universal.

The importance of this is that all over Europe, there is a tendency for people to move farther and farther out, even if many of them continue to hold jobs in the central city. This is demonstrated in a graphic report from Sweden, showing how a mega-city region has developed in the Mälar region around Stockholm in the last 25 years. Intelligent investments in rail-based public transport have brought surrounding smaller cities like Eskilstuna and Örebro into closer daily connection with jobs in the centre of Stockholm

(Hall, 2013), but the result has been increasingly longer journeys – a general feature throughout Europe.

Exemplars of sustainable urban transport

Some European cities have been setting splendid examples of how to develop more sustainable urban public transport systems that do serve places well beyond the urban core (Hall, 2012). In Freiburg, a small city of 200 000 people in the south-west corner of Germany, the eco-movement that grew up in opposition to nuclear power in the 1970s has in effect been running the city, very effectively and often in coalition, for some 30 years, supported by a splendid city planning office run by the well-known urban planner Wulf Daseking (now retired and an Honorary Professor at University College, London). Here the new suburb of Vauban, built at moderate densities and connected by a 15 minute tram ride from the centre of the city, has the tram running along the central axis of the new suburb with new residential development on either side. Vauban features an extraordinary massing of built blocks in moderate densities – typically three- to five-story houses and apartments around open space, built to designs finalised, within city guidelines, by the residents themselves in so-called building groups.

Ypenburg, just outside The Hague in the Netherlands, is, as the Dutch call it, an urban extension to The Hague, recently completed and again developed at moderately but not exceedingly high densities. Separated from the built-up mass of The Hague only by a motorway (which surrounds it on two sides – not quite as sustainable as one would like), it is served by two tram lines, one of which in turn is connected to a new tram-train system, the RandstadRail, on the edge of the development – an enviable level of public transport service.

Vauban and Ypenburg are remarkable developments, but equally remarkable things are happening elsewhere. Montpellier, the fastest-growing French city over the last half-century, has opened three long tram lines running from edge to edge and now outside the city altogether, plus a fourth line which acts as a circular line connecting them up around the city-centre (Desjardins, 2012). These lines promote urban development and regeneration within the Montpellier agglomeration on a large scale, including a new – now the main – university campus to the east of the city-centre, in an area previously almost undeveloped, causing it to become a large-scale extension of the historic medieval city-centre. Moreover, the tram then runs on to terminate at a development called Odysseum, a combination of leisure shopping and entertainment facilities – in effect, a second city-centre. And this will be the location of a new Train à Grande Vitesse (TGV) or French high-speed train station on the main line from Paris to Barcelona.

Most striking is line 3, which opened in April 2012, served by trams in a somewhat surreal livery designed by dress designer Christian Lacroix. Built as part of a deliberate exercise in image creation, it will serve as basis for a new growth corridor – 5 kilometres long, and eventually perhaps 25 kilometres long, if and when it gets as far as the 1970s seaside resort development of La Grande-Motte – with huge plans for new homes, offices and public buildings, all largely outside the Montpellier city limits. This is possible because, as long as 40 years ago, France created bodies that united the often small *communes* in French urban areas into new agglomeration communities, of which this is one. Not merely in Montpellier but also in other places in France, such as Strasbourg, these are the vehicles for creating new transport links and, in particular, for bringing together investment in tramways and new investment in urban development.

Transport options for peri-urban areas

The Montpellier tram lines may eventually run 25 kilometres beyond the city, but the key questions are: what is the limit to which systems like this can extend? And can extensive systems be replicated on a widespread scale? New research by Xavier Desjardins, a geographer at the Panthéon-*Sorbonne* University in Paris, shows that in three French tramway cities – Strasbourg, Amiens and Rennes – the so-called peri-urban belt is now an important part of the whole agglomeration (Desjardins, 2012). Furthermore, in all these cities, to varying degrees, a large proportion of the people living in these peri-urban belts are outside the range of easy access by rail. In other words, they are car-dependent.

Desjardins' research shows that between the most recent two French censuses, in Amiens and Rennes, the population in the areas outside the rail corridors grew much faster than the population inside them. In other words, in Amiens and in Rennes, the people outside the central city are becoming ever more car-dependent. Strasbourg provides a contrast: there is growth in the population outside the rail corridor, but the growth inside the rail corridors is much more significant. This is due to a conscious effort on Strasbourg's part, or rather on the part of the *communes* outside Strasbourg, which are granting a higher share of building permits inside the rail corridors compared with the other two cities. Amiens and Rennes do not seem to care very much about this – or rather, their often small *communes* do not seem to care very much.

This brings us back to the "Heineken model". Transport planners need to ask: "How to refresh the parts that other transport cannot reach?" In other words, how to develop transport options that reach peri-urban places? There are two key options: *tram-train* and *bus rapid transit*.

First, tram-trains. Here, the pioneer was Karlsruhe, not far from Freiburg in south-west Germany, which pioneered tram-trains in 1992 and has developed an extensive inter-urban network, with a longest line of 230 kilometres – the S4 tram connecting Baden-Baden, Karlsruhe and Heilbronn, some 83 kilometres away. It is one of the most unusual inter-urban transit systems in the world today, and because it has been such a huge success it has become the model for systems in cities elsewhere in Germany and Europe.

One of these is Kassel, an industrial city of 170 000 people in central Germany, which created on the Karlsruhe model a tram-train system linking a new railway station, opened in 1991 to serve Germany's first high-speed line (opened the same year) and the old station in the city-centre. It also serves as an inter-urban system going far out into the surrounding countryside, on tracks shared with the heavy-rail trains of the regional rail system. The system opened in August 2007, under the marketing slogan "RegioTram" (Holzapfel, 2012). It is perhaps the ultimate example of what could and should be done in many areas around European medium-sized cities, which are particularly suited to this kind of tram transportation.

In Strasbourg, this is going to happen. It is interesting that in the corner of Europe where east-central France meets south-western Germany and north-central Switzerland, there is a series of cities – Strasbourg in France, Basel in Switzerland, Freiburg and Karlsruhe in Germany – which have proved to be highly innovative in different ways, and all of which seem to be learning from each other. Strasbourg was a pioneer in creating an impressive network of trams, similar to the Montpellier system; and now it is due to start construction of a tram-train line operating on Karlsruhe/Kassel principles and running onto the rail track of the Société Nationale des Chemins de Fer Français (SNCF) or French

Railways and out into the surrounding countryside, the foothills of the Vosges. Another line may eventually take these tram-trains across the Rhine into Germany, forming an international tram-train system.

This brings us back to Desjardins' work. Comparing Kassel with the French cases studied by Desjardins, it is notable that Kassel has consciously developed its land-use policies (not merely in the city of Kassel but also in the surrounding *Gemeinden*), in terms of density, size distribution and rail connectivity, to make the RegioTram a possibility – and also to make regional railways a possibility, through an integrated system of tram-trains and regional railways. The French cities are not yet doing this, with the possible exception of Strasbourg – an important lesson of Desjardins' work.

The second "Heineken" option, bus rapid transit (BRT), has so far received less attention in Europe, but it has revolutionised urban transit in other parts of the world, especially in Latin America and also to some degree in Australia. In these places, metro systems were developed less often, partly due to cost, and BRT was used instead, first some 40 years ago in Curitiba in Brazil, one of the most innovative cities in the world. Curitiba's example has been widely imitated in Latin America, and now the lesson is being learned in many other places.

In some ways, Bogotá, capital of Colombia, with a population of 7 million, is the most interesting case of all. It has no metro but is served by 1 100 red express buses, each carrying up to 270 passengers, linked to green feeder buses, and running along expressways (Hall, 2009). It is an amazing system, created at top speed in time for the millennium – hence the name, "TransMilenio". It serves large areas of the city, it is unsubsidised, it is franchised (as in London, although all painted the same colours, the buses are run by private companies), and the density of traffic on the busiest routes equals or exceeds that of many metro systems. An electronic touch-card system is used on the red express buses, and the green feeder buses all run free of charge in the neighbourhoods. The TransMilenio is a model for the rest of the world, and it is a model now being followed.

One of the earliest cities to adopt BRT was Adelaide in South Australia, 25 years ago. Its guided busway system has now been adopted in Cambridge, England. But in many ways more interesting is the unguided busway operating in Brisbane, a medium-sized Australian city, very fast-growing and setting a remarkable example. Buses run out from the central bus station in the city-centre on special bus lanes, often carved out of former dual-carriageways, through intermediate stations offering rail transfer, and onwards, running parallel to the freeways, to termini beyond the city, making it a truly regional system.

BRT can thus serve very wide areas, not only of the built-up agglomeration but also of the entire surrounding region. Curitiba and Bogotá demonstrate that the capacity of these systems approaches that of metros, and that these systems have been cheaper to set up and run. Like tram-based cities, bus-based cities can work and deliver a good high-volume service at low cost. While in the UK, the Cambridge guided busway initially suffered terrible cost escalation, it is now showing traffic figures far in excess of the forecasts – something that does not often happen in public transport forecasting.

But the big question remains: can tram-trains and BRT services perform the miracle of extending good public transport into wider and wider peripheral areas? The answer is probably not, but there is still a solution here, emerging from work some seven years ago in an EU-funded study called POLYNET (Hall and Pain, 2006), which focused on the larger urban regions across north-western Europe, including the south-east of England as well as, among others, the Randstad in the Netherlands and the Rhine-Main area of Germany. In southeast England – a region of some 19 million–20 million people centred on London, with 50 other much smaller functional urban regions extending out as far as 130 kilometres from the centre of London – there had been widespread decentralisation, of homes, of people and of jobs out from London. Many of the other city-regions in the area had grown even faster than in London itself. But there were some interesting surprises. North and west of London, there has long been growth in commuter journeys – often journeys of as much as 130 kilometres, from places like Peterborough and Bournemouth into Central London – but there has also been a huge growth in criss-cross commuting between the other smaller units. To the east of London, there were a few equally long journeys, but almost none of these criss-cross trips. In other words, the area west of London is turning into a complex mega-city region of its own. However, as well as being increasingly dependent on long trips to London, it is also developing what one could call a life of its own.

The other surprise is that beyond a "magic circle" of about 40–50 kilometres from Central London, places become increasingly self-contained, even though a minority of people are making long daily commutes into London. This is probably a pattern that is developing widely across Europe – certainly, one observes it in the Stockholm region, as noted above.

Maybe it will be enough to allow the market to work – or better still, helping the market through planning policies that encourage more development along strong public transport corridors (inter-city rail corridors). Meanwhile, it will be necessary to cater for those longer-distance minority journeys, while creating a pattern in which most people are able to live and work locally. However, this would leave one remaining problem: those peripheral urban areas, as discussed above.

In summary: a pattern of growth plus deconcentration seems to be a fact of life in Europe and in other OECD countries. The key challenge is to serve the periphery, the peri-urban areas, with sustainable public transport. One answer is tram-trains and BRT, along strong transport and land-use corridors, or what the Californian urban planner Peter Calthorpe calls transit-oriented developments (TODs). The second is in the largest metropolitan areas – the mega-city regions that are growing up around cities like London, Paris, Amsterdam and Frankfurt – to develop more distant cities through urban extensions and encourage self-containment in those areas. This would still leave the problem of the sometimes long journeys between those other 50 places in southeast England and their equivalents in other parts of Europe. Perhaps the S4 tram in Karlsruhe does provide an eventual answer for those places, too. But that could take quite few years to achieve.

Bibliography

Desjardins, X. (2012), "About the territorial conditions of regional tram systems: Some case studies in France", SINTROPHER Workshop Presentation, Kassel, Germany, *www.sintropher.eu/sites/default/files/images/editors/Workshops/Kassel_2012/WP2/Xavier%20Desjardins.pptx*.

Dorling, D. and B. Thomas (2004), *People and Place 2001: A Census Atlas*, Policy Press.

Frey, W.H. (2012), *Population Growth in Metro America since 1980: Putting the Volatile 2000s in Perspective*, Metropolitan Policy Program, Brookings Institution, Washington, DC, *www.brookings.edu/~/media/research/files/papers/2012/3/20%20population%20frey/0320_population_frey.pdf*.

Hall, P. (2013), *Good Cities, Better Lives: How Europe Discovered the Lost Art of Urbanism*, Routledge.

Hall, P. (2012), "Lifestyle lines and dynamic decentralisation", *Town & Country Planning*, Vol. 81.

Hall, P. (2009), "A regional metro in the mountains", *Town & Country Planning*, Vol. 78.

Hall, P. and K. Pain (eds.) (2006), *The Polycentric Metropolis: Learning from the Mega-City Regions in Europe*, Earthscan.

Holzapfel, H. (2012), "The city that came out of the shadows", *Town & Country Planning*, Vol. 81.

Le Vine, S. and P. Jones (2012), *On the Move: Making Sense of Car and Train Travel Trends in Britain*, RAC Foundation/Office of Rail Regulation/Independent Transport Commission/Transport Scotland, *www.racfoundation.org/assets/rac_foundation/content/downloadables/on_the_move-le_vine_&_jonesdec2012.pdf*.

Littlefield, M. and A. Nash (2008), *Commuting Patterns as at the 2001 Census, and their Relationship with Modes of Transport and Types of Occupation*, Office for National Statistics, *http://neighborhood.statistics.gov.uk/HTMLDocs/images/Commuting%20by%20Occupation%20and%20Transport%20-%20Final%20for%20pdf_tcm97-70153.pdf*.

Mayor of London (2010), The Mayor's Outer London Commission Report.

Veltz, P. (1996), « Mondialisation, villes et territoires: l'économie d'archipel », Presses Universitaires de France, Paris.

PART IV

Country Notes

Sources:

OECD (2014), “Metropolitan areas”, *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/data-00 531-en.

OECD (2014), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en.

OECD (2014), *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Data are also supplied by Eurostat Eurostat (2014), *National Accounts* (database), http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database and national statistical institutes for some countries or indicators.

Further information

OECD (2013), “Sub-national governments in OECD countries: Key data” (brochure), OECD, Paris, www.oecd.org/regional/regional-policy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Australia

Recent policy developments

- In September 2013, with the change of government, a new ministry responsible for regional development was created: the Department of Infrastructure and Regional Development, absorbing the regional development tasks of the previous ministry, the Department of Regional Australia, Local Government, Arts and Sport. The new ministry is responsible for infrastructure, regional development, local government, territories and administration of the National Disaster Recovery Taskforce.
- Given that more than three-quarters of Australia's population lives in urban centres of 100 000 inhabitants or more, there has been an increasing interest in an urban agenda. This has resulted in the 2011 National Urban Policy, which recognises the critical roles that governments, the private sector and individuals play in planning, managing and investing in cities, and also in the recently created Urban Transportation Strategy (2013), focusing on the urban transport infrastructure needs of Australian cities.
- The Corporate Plan 2012-17 of the Rural Industries Research and Development Corporation (RIRDC) focuses on productivity growth, research capacity and supporting rural industries.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	565		8

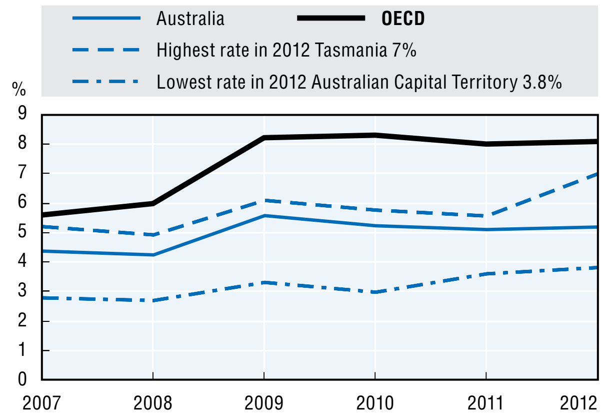
Regional development policy	
Lead ministry(ies) or committees	Department of Infrastructure and Regional Development
Regional development framework	While state governments have their own regional development initiatives, the federal government supports community development and engagement.

Urban development policy	
Lead ministry(ies) or committees	Department of Infrastructure and Regional Development
Urban policy framework or strategy	The 2011 National Urban Policy defines three goals of productivity, sustainability and liveability for major urban centres.

Rural development policy	
Lead ministry(ies) or committees	Department of Infrastructure and Regional Development
Rural policy framework or strategy	The rural/regional agenda includes improving the well-being of rural areas through the construction, expansion and enhancement of economic infrastructure.

Note: The functional urban areas have not been identified in Australia.

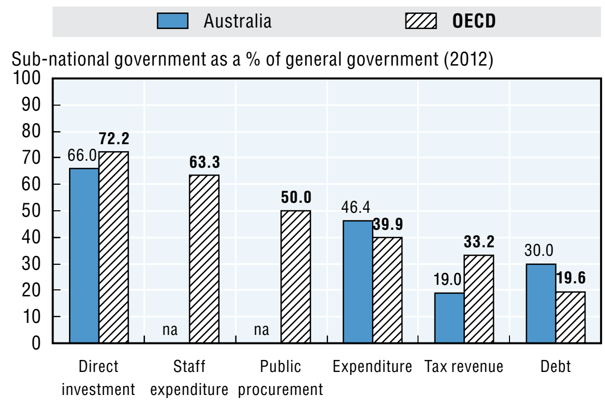
Regional disparities in unemployment trends



In recent years, Australia has maintained a low rate of unemployment, and regional disparities in unemployment were among the lowest in OECD countries (24th out of 34 countries).

StatLink http://dx.doi.org/10.1787/888933107275

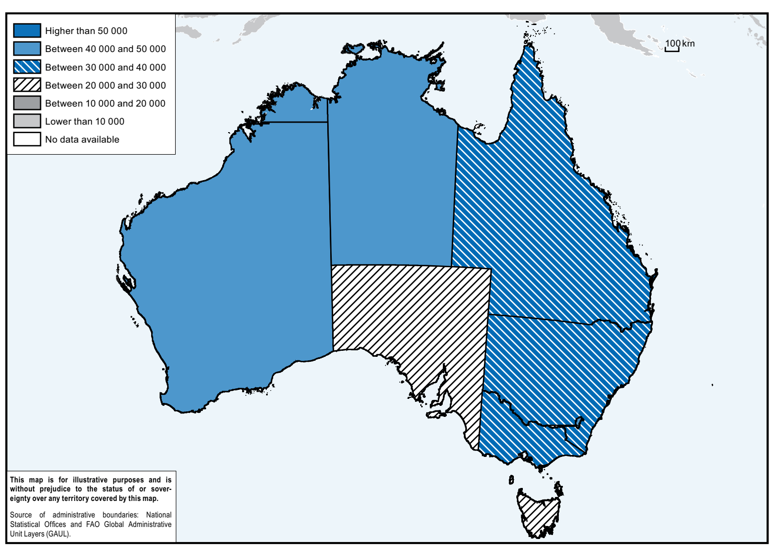
The role of sub-national governments in public finance



In Australia, 66% of total public investment was undertaken by sub-national governments (SNG), as compared to 72% in the OECD area as a whole. In recent years, despite the economic downturn, SNG investment in Australia increased from USD 964 per capita in 2007 to USD 1 047 per capita in 2011, whereas it decreased in the OECD area by around USD 46 per capita.

StatLink http://dx.doi.org/10.1787/888933107294

Regional differences in GDP per capita levels



In the previous decade, GDP growth in all Australian regions was above the OECD average; regional growth varied from +6.2% annually in Western Australia to +1.5% in New South Wales, the 5th largest regional range among OECD countries.

Austria

Recent policy developments

- The ten-year strategic orientation for regional policy, ÖREK 2011, is the latest Austrian Spatial Development Concept framework. The four pillars include: *i*) regional and national competitiveness; *ii*) social diversity and solidarity; *iii*) climate change, adaptation and resource efficiency; and *iv*) co-operative and efficient governance.
- ÖREK 2011 also highlights the importance of compact settlement patterns, a "point-axial" system, polycentric structures, urban-rural functional spatial integration and networks of small- and medium-sized centres.
- STRAT.AT 2020 is the strategy for using European Union (EU25) funds for regional development, rural development and employment.
- Nearly half of Austria's total Cohesion Policy allocation for the 2007-13 period went to research and development (R&D). This is one of the highest shares of any country in the EU in relative terms (the EU average is 25%). This was used to fund R&D centres and small- and medium-sized enterprise (SME) networks, and to boost innovation in eco-technologies and renewable energy technologies.

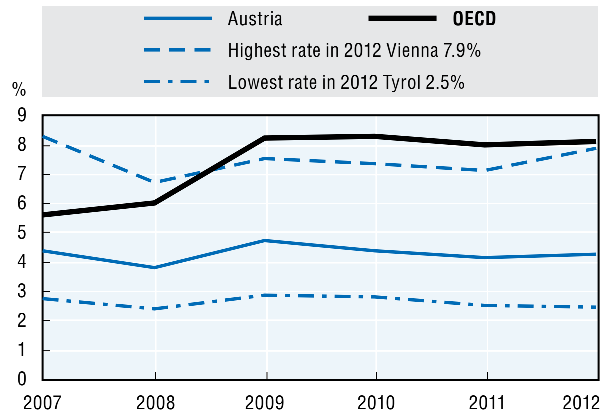
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	2 354		9

Regional development policy	
Lead ministry(ies) or committees	Federal Chancellery (Directorate for Territorial Co-operation)
Regional development framework	Regional development is a responsibility of the regions (*Länder*). The Austrian Conference on Spatial Planning (ÖROK) includes the Federal Chancellery and the *Länder*. The ÖREK 2011 is the latest ten-year Austrian Spatial Development Concept framework. STRAT.AT 2020 is the partnership agreement for EU Cohesion Policy and rural development.

Urban development policy	
Lead ministry(ies) or committees	Federal Chancellery (Directorate for Territorial Co-operation)
Urban policy framework or strategy	There is no explicit urban strategy at the federal level, but the Austrian Spatial Development Concept covers urban areas, and includes the development of an Austrian agglomeration policy.

Rural development policy	
Lead ministry(ies) or committees	Federal Chancellery (Directorate for Territorial Co-operation); Ministry of Agriculture, Forestry, Environment and Water Management (including the Federal Institute for Less-Favoured and Mountainous Areas, BABF)
Rural policy framework or strategy	The Austrian National Strategy Plan (NSP) for Rural Development and a single Rural Development Programme (RDP) aim to deliver multi-functional, sustainable and competitive agriculture and forestry in thriving rural areas.

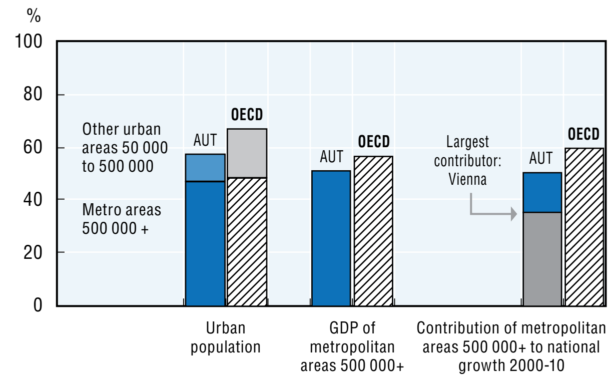
Regional disparities in unemployment trends



Unemployment rates vary between 2.5% in Tyrol and 7.9% in Vienna. The youth unemployment rate in Vienna reached 18% in 2012, twice the national average but, below the OECD average of 22%.

StatLink http://dx.doi.org/10.1787/888933107313

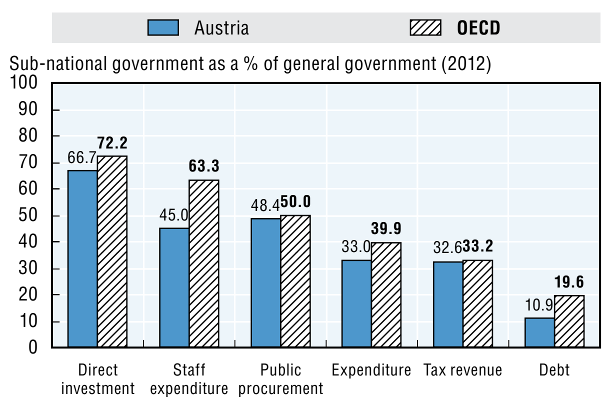
The importance of urban areas



In Austria, 58% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 47%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107332

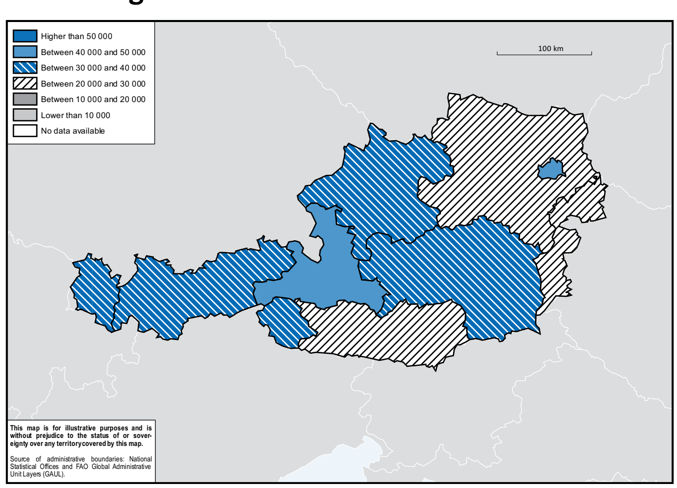
The role of sub-national governments in public finance



Health and social protection are the two largest spending items for SNGs in Austria: together they represent 42% of sub-national expenditure, compared to 30% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107351

Regional differences in income levels



Between 2000 and 2010, Austria was the 2nd best OECD country in reduction of GDP per capita gap between the highest and the lowest region. In the previous decade, GDP growth in Austrian regions was above the OECD average, with the largest difference observed between Vorarlberg (+1.9% annually) and Carinthia (+1.2% annually).

Belgium

Recent policy developments

- Belgian federal "sustainable city contracts" seek to strengthen the social cohesion of deprived neighbourhoods, reduce their ecological footprint and promote city attractiveness.
- Wallonia's latest version of its regional development plan is the Marshall Plan 2.Green, covering the period 2009-14 and focusing on: *i*) human capital; *ii*) competitiveness clusters and company networks; *iii*) scientific research; *iv*) a framework conducive to the creation of activities and quality jobs; *v*) Employment-Environment Alliance; and *vi*) combining employment and social well-being.
- The latest version of the Flanders in Action/Pact 2020 is the overarching development strategy that serves as the basis for the Coalition Agreement of the Flemish Government 2009-2014. The three pillars of Flanders in Action are to: *i*) live better; *ii*) work smarter; and *iii*) be more sustainable. The Pact 2020, signed with social and private partners, promotes projects that address 13 societal challenges.
- A reform enacted in 2011 has increased the fiscal autonomy of the three Belgian regions.

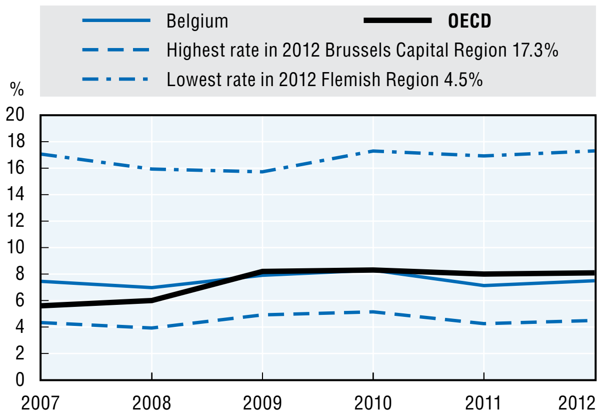
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	589	10	6

Regional development policy	
Lead ministry(ies) or committees	No federal lead ministry, as responsibility is delegated to the regions: Brussels-Capital Region, Flanders and Wallonia
Regional development framework	No federal framework exists. Each region has its own overarching development strategy, such as Flanders in Action or Wallonia's Marshall Plan.

Urban development policy	
Lead ministry(ies) or committees	Federal Public Service (Urban Policy Service)
Urban policy framework or strategy	Big City Policy (*Politique des Grandes Villes/Grootstedenbelaid*) programme was launched in 1999/2000. The focus of programmes is generally on social cohesion, sustainable development and urban regeneration.

Rural development policy	
Lead ministry(ies) or committees	No federal lead ministry, as responsibility is delegated to the regions: General Directorate of Agriculture (Flanders) and Department of Agriculture and Fisheries (Wallonia)
Rural policy framework or strategy	Regions have individual rural development programmes.

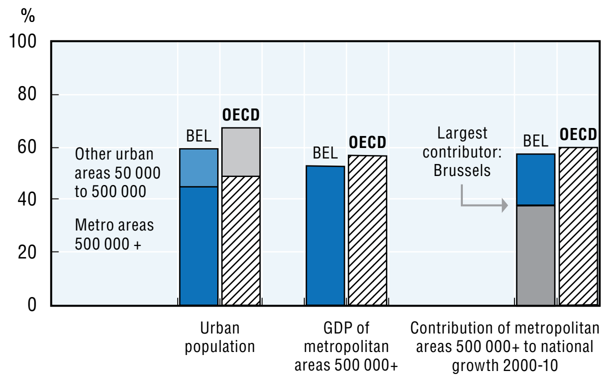
Regional disparities in unemployment trends



In 2012, unemployment rates varied between 4.5% in Flanders and 17% in the Brussels-Capital Region, where the youth unemployment rate reached 36%, or 14 points higher than the OECD average.

StatLink http://dx.doi.org/10.1787/888933107370

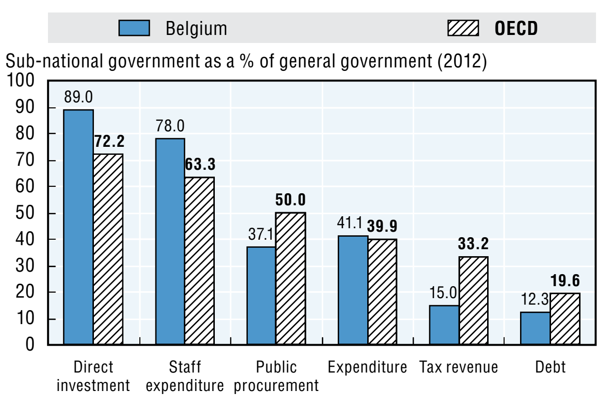
The importance of urban areas



In Belgium, 59% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas of more than 500 000 inhabitants) is 44%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107389

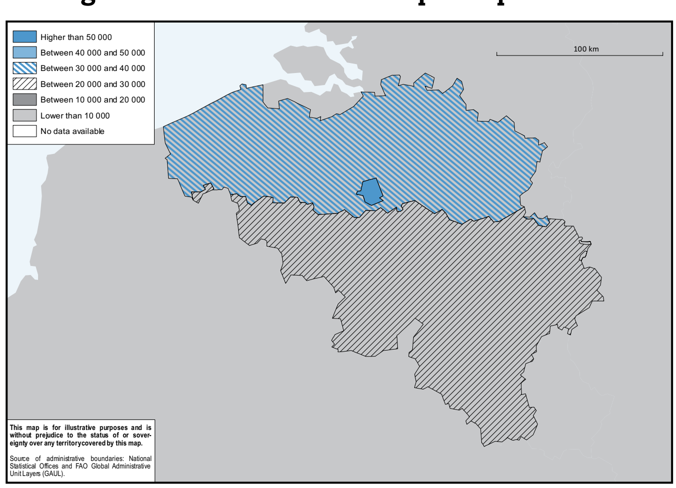
The role of sub-national governments in public finance



Education and social protection are the two largest spending items for SNGs in Belgium: together they represent 51% of sub-national expenditure, compared to 39% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107408

Regional differences in GDP per capita levels



Belgium had the 5th largest regional disparities in GDP per capita in OECD countries in 2010. GDP growth rates were nevertheless very similar among Belgian regions during the period 2000-10: between +1.5% annually for Wallonia and +1.4% in Flanders.

Canada

Recent policy developments

- The latest wave of federal regional development agencies includes the addition in 2009 of two more (for a total of six): the Federal Economic Development Agency for Southern Ontario and the Canada Northern Economic Development Agency.
- The Regional Development Agencies (RDAs), along with national innovation policy, continue to promote the importance of innovation and skills for regional development. For example:
  - ❖ Western Economic Diversification Canada launched the Western Innovation Initiative (WINN) a CAD 100 million five-year federal initiative that offers repayable contributions for SMEs to move their new and innovative technologies from the later stages of research and development to the marketplace.
  - ❖ Federal Economic Development Agency for Southern Ontario's (FedDev Ontario) Southern Ontario Prosperity Initiatives focus on innovation, productivity and economic diversification; additionally, the Agency's Advanced Manufacturing Fund is a $200-million fund to support product and process innovation in the manufacturing sector.
  - ❖ Atlantic Canada Opportunities Agency provides approximately CAD 90 million annually to support innovation and commercialization under its current programmes, including the Atlantic Innovation Fund and the Business Development Program.
- A renewed focus on rural development in Canada, as the federal government has ended funding to the Rural Secretariat within the Department of Agriculture and Agri-Food Canada. Providing support to the development of rural businesses, the federal Community Futures program has been made more robust in recent years. Community Futures has become part of the RDA's core programming, recognizing the existing rural development expertise found in the country's federal RDA network.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional or state level governments
Federation	4 147		13

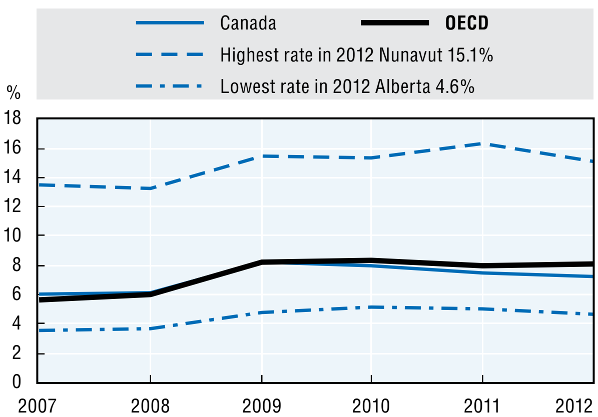
* The municipal level corresponds to "census subdivisions", i.e. cities, districts, villages, regional municipalities, etc. Indian reserves, Indian settlements and unorganised territories (i.e. 1 106 entities in 2011) as well as special purpose entities such as school boards are excluded.

Regional development policy	
Lead ministry(ies) or committees	Six federal regional development agencies (RDAs) support regional development policy in addition to the actions delegated to provinces/ localities: • Atlantic Canada Opportunities Agency • The Economic Development Agency of Canada for the Regions of Quebec • Federal Economic Development Initiative in Northern Ontario • Federal Economic Development Agency for Southern Ontario • Western Economic Diversification Canada • Canada Northern Economic Development Agency
Regional development framework	Federal RDAs focus on supporting innovation, trade and investment, business development, and community/ local economic development.

Urban development policy	
Lead ministry(ies) or committees	Shared responsibilities, including federal RDAs and their place-based investments.
Urban policy framework or strategy	No general federal framework for urban policy.

Rural development policy	
Lead ministry(ies) or committees	Shared responsibilities, with the Community Futures program part of the core mandate of federal RDAs.
Rural policy framework or strategy	No general federal framework for rural policy.

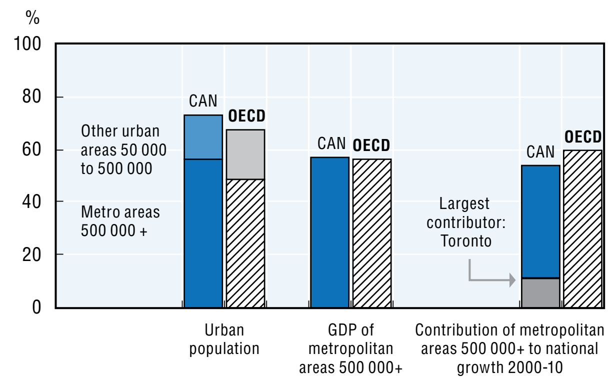
Regional disparities in unemployment trends



In 2012, the unemployment rate was the highest in Nunavut (15%) and the lowest in Alberta (4.6%). The youth unemployment rate was below the OECD average but it remained high in Newfoundland and Labrador (19%).

StatLink http://dx.doi.org/10.1787/888933107427

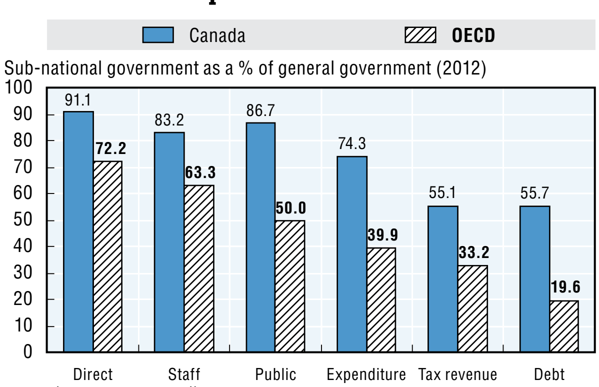
The importance of urban areas



In Canada, 73% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 people) is 56% compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107446

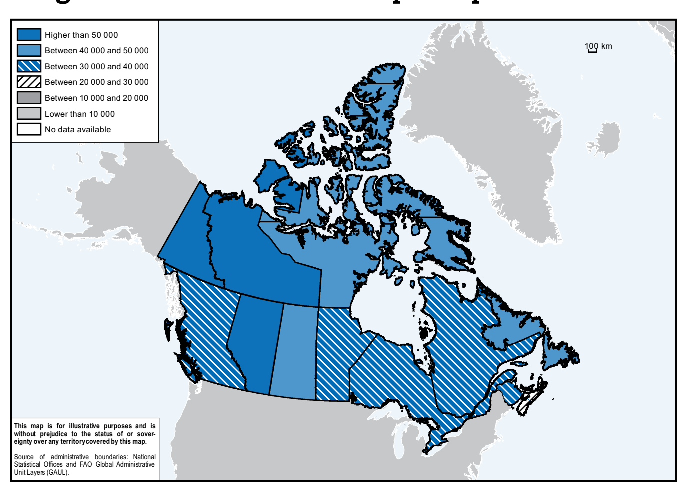
The role of sub-national governments in public finance



In Canada, 91% of the total public investment was carried out by sub-national governments (SNG) the highest among OECD countries, compared to 72% in the OECD area. SNG investment has increased in Canada from USD 1 129 per capita in 2007 to USD 1 474 per capita in 2012.

StatLink http://dx.doi.org/10.1787/888933107465

Regional differences in GDP per capita levels



Canada had the 3rd largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +7.1% annually in Nunavut to +1.2% in Ontario.

Chile

Recent policy developments

- The National Rural Development Policy was approved by the City and Territorial Ministries Committees and by the president in February 2014.
- On 11 March 2014, Michelle Bachelet assumed the presidency of Chile. The president aims to reduce inequities and inequalities in rural and urban territories and will promote the approved National Policy for Rural Development by presidential decree and incorporate matters considered in the new Government Programme.
- Chile approved its first-ever National Urban Development Policy in 2013, with the overarching objective of developing sustainable cities and improving urban quality of life. Its five thematic areas include social integration, economic development, environmental balance, cultural heritage and governance. To implement this policy, the government recently approved the creation of the National Council for Urban Development (*Consejo Nacional de Desarrollo Urbano*).
- Regional council members will be directly elected (rather than elected by municipal councillors of the region's municipalities) as of the 2014 election cycle.
- 2013: the Sub-secretariat for Regional Development and Administration (SUBDERE) is developing a National Regional Policy.

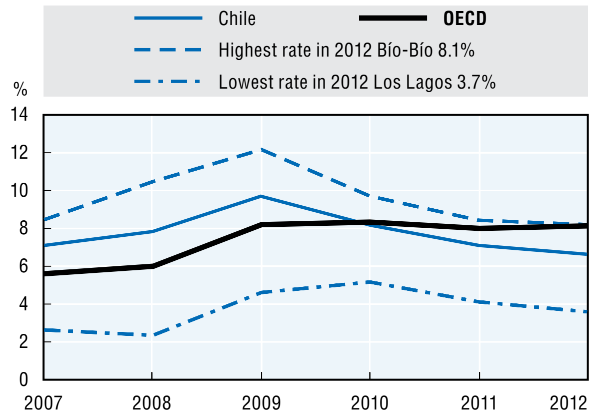
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	345		15

Regional development policy	
Lead ministry(ies) or committees	Ministry of Interior (Sub-secretariat for Regional Development and Administration, SUBDERE)
Regional development framework	Framework under development

Urban development policy	
Lead ministry(ies) or committees	Ministry of Housing and Urbanism; Ministry of Interior (SUBDERE)
Urban policy framework or strategy	The 2013 National Urban Development Policy (*Política Nacional de Desarrollo Urbano*, PNDU) has a focus on sustainability and quality of urban life.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture; Ministry of Interior (SUBDERE)
Rural policy framework or strategy	SUBDERE and the Ministry for Agriculture developed a National Rural Policy based on four pillars: economic opportunities, environmental sustainability, culture and identity, and social well-being.

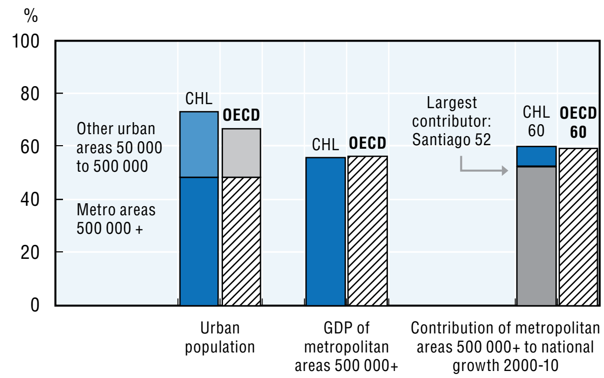
Regional disparities in unemployment trends



From 2010 to 2012, the unemployment rate decreased in all regions. In the OECD, Chile shows the 9th lowest youth unemployment rate, which varied from 9.3% to 22% across regions.

StatLink http://dx.doi.org/10.1787/888933107484

The importance of urban areas



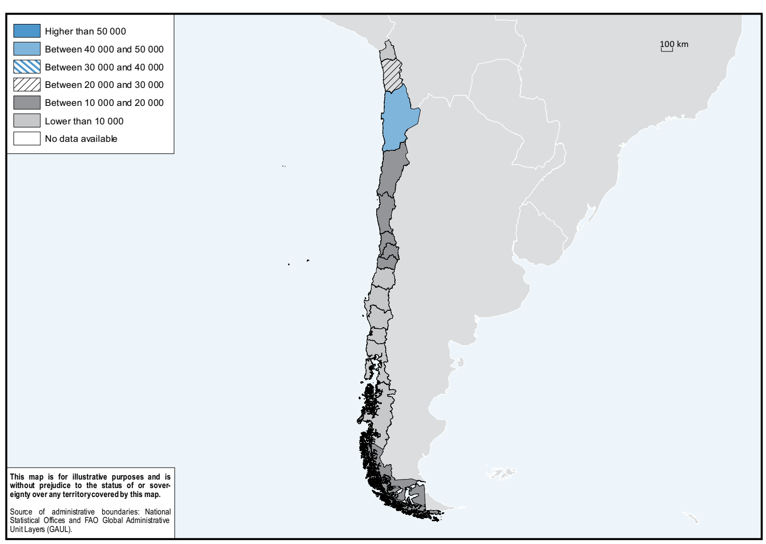
In Chile, 73% of the population lives in cities of different sizes. The share of population living in metropolitan areas (urban areas with over 500 000 inhabitants) is 48%.

StatLink http://dx.doi.org/10.1787/888933107503

The role of sub-national governments in public finance

Data on sub-national government finance are not available from OECD (2014), *OECD National Accounts Statistics* (database), http://dx.doi.org/10.1787/na-data-en.

Regional differences in GDP per capita levels



Chile had the 4th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from 5.2% annually in Los Rios to 0.8% in Magallanes and Chilean Antarctica.

Czech Republic

Recent policy developments

- The National Development Priorities to guide the use of European Cohesion Policy for the 2014-2020 period include: *i)* increasing the competitiveness of the economy (e.g. reducing the gap with the EU average); *ii)* developing core infrastructure; *iii)* improving the quality and efficiency of public administration; *iv)* promoting social inclusion, the fight against poverty and the health care system; *v)* integrated regional development.
- The urban dimensions to the 2014-2020 Regional Development Strategy highlight the importance of considering cities in the context of functional urban areas, including the concept of urban-rural linkages.
- The 2010 Principles of Urban Policy note the importance of urban policy for regional development in a holistic manner (multisectoral), the use of towns as development poles in a territory, and attention to the environment and sustainable urban development.
- There is an increasing focus on improving capacity at sub-national level, as well as in improving the use of information technologies for monitoring and evaluation processes of regional policy.

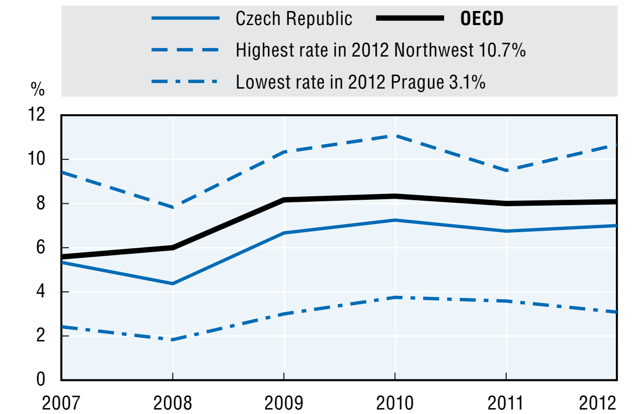
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	6 253		14

Regional development policy	
Lead ministry(ies) or committees	Ministry of Regional Development
Regional development framework	The 2014 National Development Priorities of the Czech Republic guide the use of EU25 Cohesion Policy.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Regional Development
Urban policy framework or strategy	The first urban policy framework, the Principles of Urban Policy (*Zásady Urbánní Politiky*) from 2010, outlines several goals for urban development and its role in regional development.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture; Ministry of Regional Development
Rural policy framework or strategy	Rural development policy is defined in the Czech National Strategy Plan (NSP) for Rural Development, with a single Rural Development Programme (RDP) covering the whole country. The strategy for rural development is based on increasing economic growth, job creation and sustainable economic development.

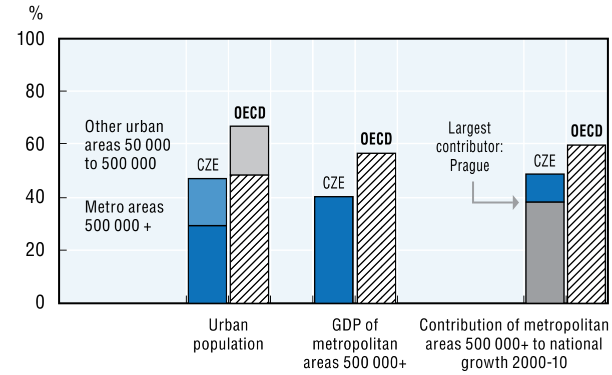
Regional disparities in unemployment trends



Unemployment rates varied from 3% in the region of Prague to 11% in Northwest. Since 2008, the youth unemployment rate has increased in all regions, reaching 28% in Northwest.

StatLink http://dx.doi.org/10.1787/888933107522

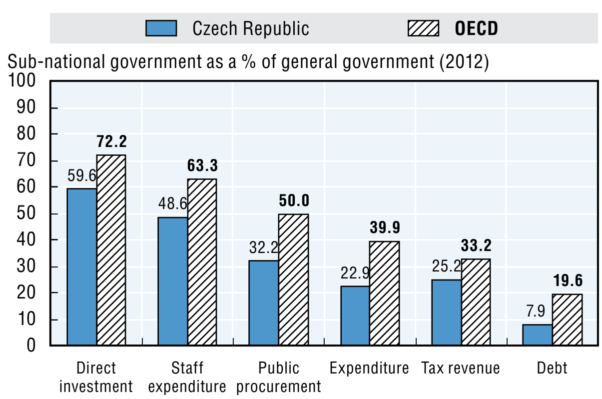
The importance of urban areas



In the Czech Republic, 47% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 29%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107541

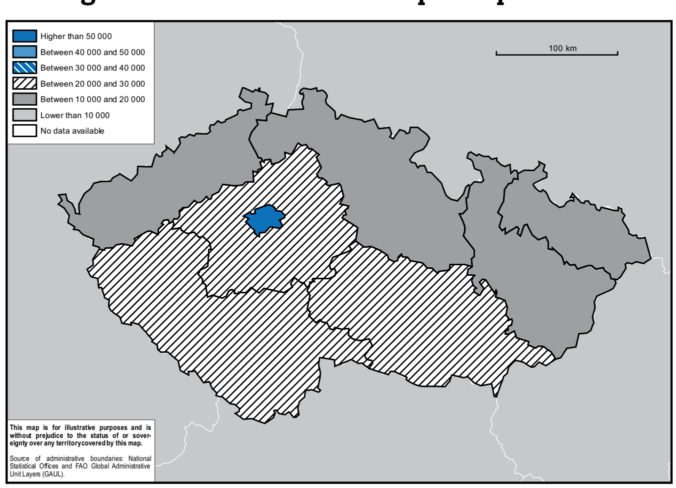
The role of sub-national governments in public finance



Education and economic affairs are the two largest spending items for SNGs in the Czech Republic: together they represent 40% of sub-national expenditure, compared to 41% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107560

Regional differences in GDP per capita levels



The Czech Republic had the 8th largest regional disparities in GDP per capita in OECD countries in 2010. All regions in the Czech Republic grew in the previous decade at higher rates than the OECD average. Regional growth varied from +4.8% annually in Prague to +2.2% in Northeast.

Denmark

Recent policy developments

- The Ministry of Housing, Urban and Rural Affairs was established in 2011 and, among other tasks, seeks to better promote both urban and rural development, and improve the interaction between urban and rural areas.
- The Danish government has commissioned eight "growth teams" with members from industry and has made specific growth plans for each of the following eight areas: The Blue Denmark; creative industries and design; water, bio and environmental solutions; health and care solutions; energy and climate; food sector; ICT and digital growth; tourism and experience economy (www.evm.dk/English/publications).
- Several initiatives have been taken to address the depopulation of rural and remote areas and agglomeration in large cities, including: introducing growth plans for tourism (2014) and food products (2013); reserving EUR 3.7 billion to improve railway connections between large cities and to reduce travel time from the areas; and adjusting the redistribution system between municipalities to better reflect the challenges in rural and remote areas.
- After a recent evaluation of the 2007 regional reform, the Business Development Act has been adjusted: the number of regional growth forums, which bring together representatives of the business community, knowledge and educational establishments, the labour market parties as well as local and regional authorities, has been sustained. Furthermore, the role of the Danish Growth Council has been strengthened with regard to benchmarking and measuring the performance of the regional effort for regional growth.

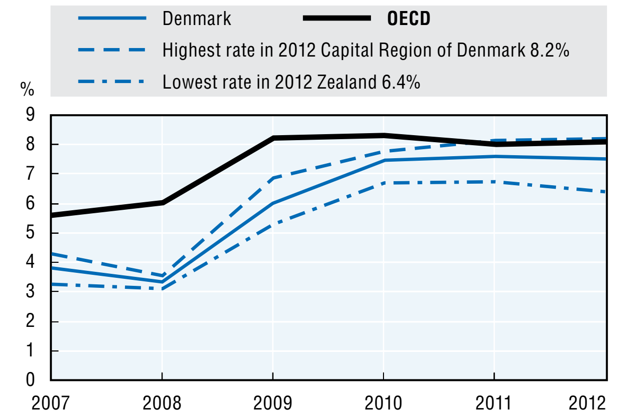
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	98		5

Regional development policy	
Lead ministry(ies) or committees	Ministry of Business and Growth; Ministry of Housing, Urban and Rural Affairs
Regional development framework	The 2005 Business Development Act sets the framework for a growth-oriented approach towards regional development, including the creation of the public-private Regional Growth Forums.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Housing, Urban and Rural Affairs
Urban policy framework or strategy	No single framework. The Danish Act on Urban Renewal and Urban Development serves as a tool for the Danish municipalities to make targeted efforts in urban and housing policy.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Food, Agriculture and Fisheries; Ministry of Housing, Urban and Rural Affairs
Rural policy framework or strategy	The partnership agreement 2014-2020 between Denmark and the European Commission provides the common strategic framework for the implementation of the European Structural Investment Funds in Denmark, including the overall framework for rural development policy.

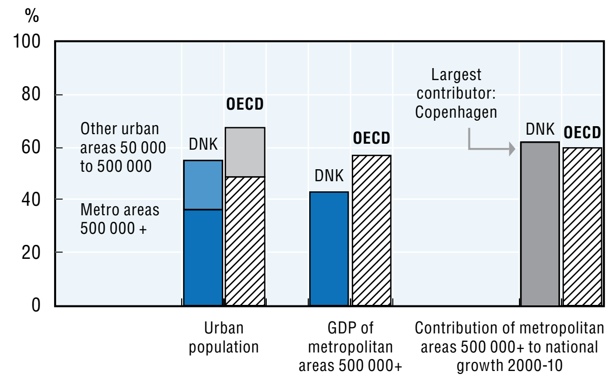
Regional disparities in unemployment trends



In Denmark, the Capital Region had the highest unemployment rate (8.2%) in 2012. As for the OECD average trend, the youth unemployment rate has increased and reached 15% in Region Zealand in 2012

StatLink http://dx.doi.org/10.1787/888933107579

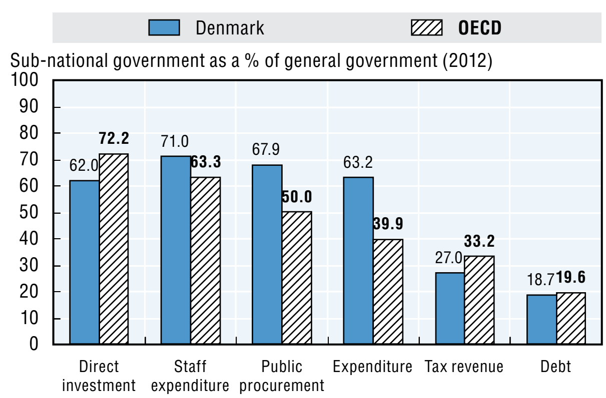
The importance of urban areas



In Denmark, 55% of the population lives in cities of different sizes. The share of population in the metropolitan area of Copenhagen (the only urban area with more than 500 000 inhabitants) is 36%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/ 10.1787/888933107598

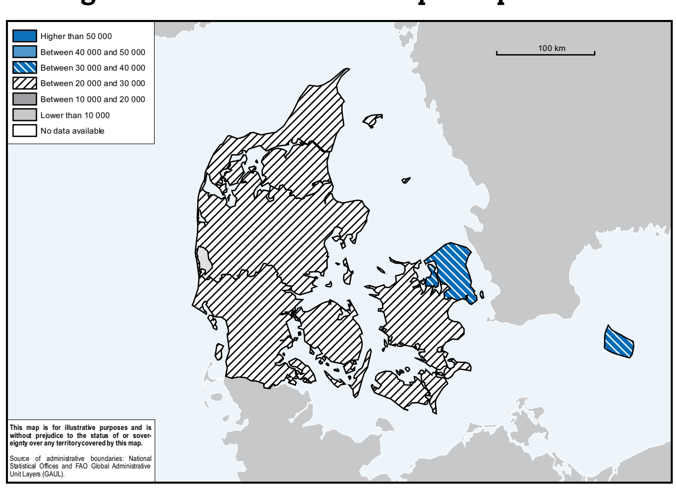
The role of sub-national governments in public finance



Social protection and health are the two largest spending items for SNGs in Denmark: together, they represent 78% of sub-national expenditure, compared to 30% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107617

Regional differences in GDP per capita levels



Denmark had the 19th largest regional disparities in GDP per capita in the OECD in 2010. In the previous decade, regional growth was below the OECD average and varied from +0.9% annually in the Capital Region to +0.1% in Northern Jutland.

Estonia

Recent policy developments

- A new National Spatial Plan "Estonia 2030+" was enacted in August 2012. The plan aims to improve the quality of the environment both in cities and in sparsely populated areas, ensuring the functioning and accessibility of the daily activity spaces, supported by multimodal mobility solutions, good external connections, wider use of renewable energy and energy-saving measures, and balanced by the vitality of the green networks.
- The former Minister for Regional Affairs[1] proposed a new territorial administrative organisational model based on hubs, and which will merge the current 215 municipalities into a total of 30-50 municipalities. The expectation is that the local elections in 2017 will be held within the context of this new administrative division based on a hub model.
- Besides plans for national territorial administrative reform, greater co-operation between municipalities in service provision and development planning is also promoted.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	215[2]		

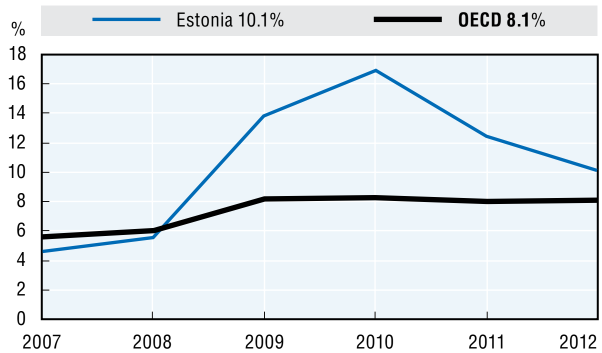
Regional development policy	
Lead ministry(ies) or committees	Ministry of the Interior (Regional Development Department)
Regional development framework	Regional development is governed by the National Regional Development Policy Strategy 2014-2020.

Urban development policy	
Lead ministry(ies) or committees	No distinctive urban development policy at the national level. A strategy and incentives for urban development are handled by the national regional development policy in Estonia, which is under the jurisdiction of the Ministry of the Interior.
Urban policy framework or strategy	

Rural development policy	
Lead ministry(ies) or committees	Ministry of the Interior; Ministry of Agriculture
Rural policy framework or strategy	Estonian National Regional Development Strategy 2014-2020; Estonian Rural Development Strategy 2014-2020 (focused on the development of agriculture, rural economies and rural life in Estonia, for utilisation of the European Agricultural Fund for Rural Development, EAFRD).

1. Since the change in national government in March 2014, a new Minister of Internal and Regional Affairs acquired the responsibilities of the former Minister of Regional Affairs.
2. As of October 2013.

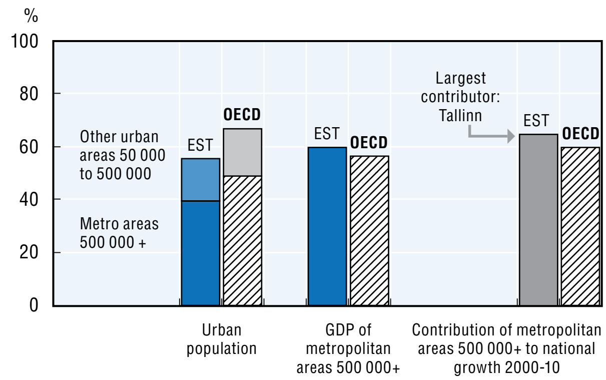
Regional disparities in unemployment trends



Compared to the other OECD regions, Estonia had a higher unemployment rate (10.1%) than that observed on average in the OECD area (8.1%). In 2012, the youth unemployment rate in Estonia was 20.9%, slightly below the OECD average.

StatLink http://dx.doi.org/10.1787/888933107636

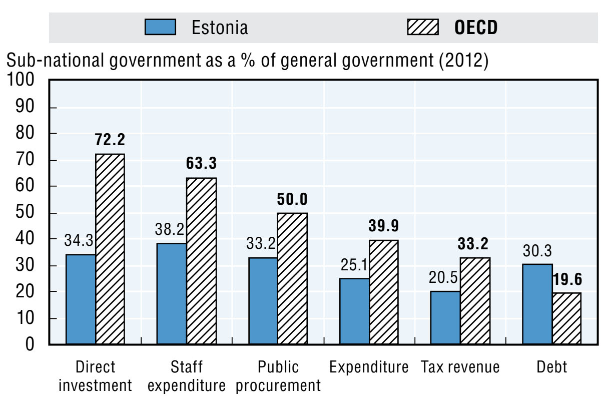
The importance of urban areas



In Estonia, 55% of the population lives in cities of different sizes. The share of population in the metropolitan area of Tallinn (the only urban area with more than 500 000 inhabitants) is 40%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107655

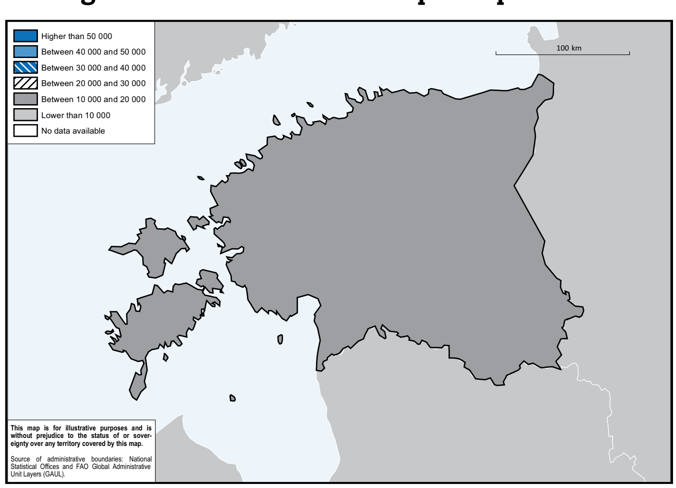
The role of sub-national governments in public finance



Education and health are the two largest spending items for SNGs in Estonia: together they represent 54% of sub-national expenditure, compared to 44% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107674

Regional differences in GDP per capita levels



In the years 2000 10, the growth rate of GDP per capita in Estonia was 3.6%, higher than the average growth rate in OECD regions.

Finland

Recent policy developments

- Growth agreements (focusing on competitiveness and resilience) between state and major cities defining key actions for long-standing development of city-regions have been created. Thematic scope of these growth agreements lies in competitiveness and resilience.
- For regional development, the government targets for the 2011-15 period focus on three policy guidelines: strengthening the competitiveness and vitality of the regions; promoting the welfare of the population and securing a good living environment; and sustainable regional structure.
- The municipal reforms aim to build economically robust municipalities through voluntary mergers (although municipalities facing strong economic difficulties may be forced to merge). The Municipal Structure Act came into force in July 2013, obliging municipalities to present decisions for mergers by July 2014. Previous mergers had reduced the number of municipalities from 431 in 2006 to 336 in 2011; with additional mergers in 2013.
- The metropolitan area of Helsinki is granted a specific statute within the context of municipal reforms. The government could impose municipal mergers in other large urban areas.
- The government has stopped the Kainuu experiment in regionalisation, a test case for possible generalisation of regionalisation of the whole country.
- Finland has launched the Strategy for the Arctic Region (Government Resolution 2013).
- In 2014, ministries will introduce a long-term development of spatial structure and traffic system in Finland. The aim is to give these a sustainable direction by supporting Finland's competitiveness and eco-efficiency, as well as citizens' well-being.

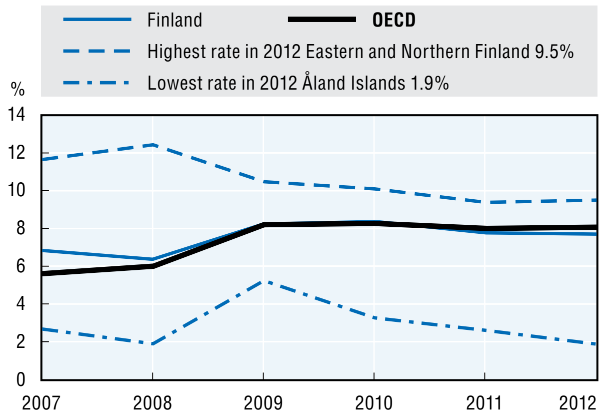
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	320		

Regional development policy	
Lead ministry(ies) or committees	Ministry of Employment and the Economy
Regional development framework	The 2014 Act on Regional Development set out the broad objectives for regional development, notably the potential for economic growth and employment, a reduction in inter-regional disparities, balanced regional development and quality of living conditions.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Employment and Economy; Urban Policy Committee
Urban policy framework or strategy	The Urban Policy Operational Programme (2012-15) set some common objectives for developing urban areas.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture and Forestry; Ministry of Employment and the Economy; Rural Policy Committee
Rural policy framework or strategy	The Rural Policy Operational Programme (2012-15) and the Rural Policy Programme 2014-2020 outline the policies applied in developing its rural regions.

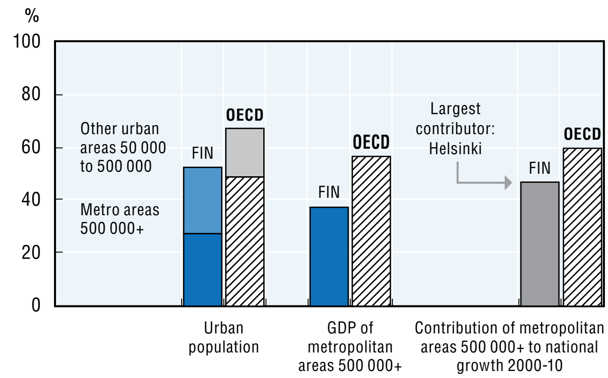
Regional disparities in unemployment trends



In 2012, the highest unemployment rate is found in Eastern and Northern Finland (9.5%), the region with the highest youth unemployment rate (22.2%).

StatLink http://dx.doi.org/10.1787/888933107693

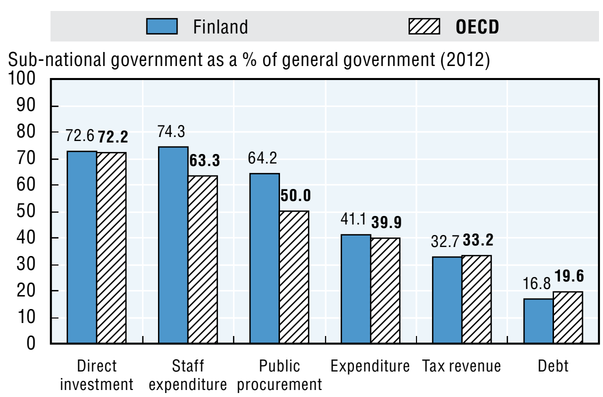
The importance of urban areas



In Finland, 52% of the population lives in cities of different sizes. The share of population in the metropolitan area of Helsinki (the only urban area with more than 500 000 inhabitants) is 27%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107712

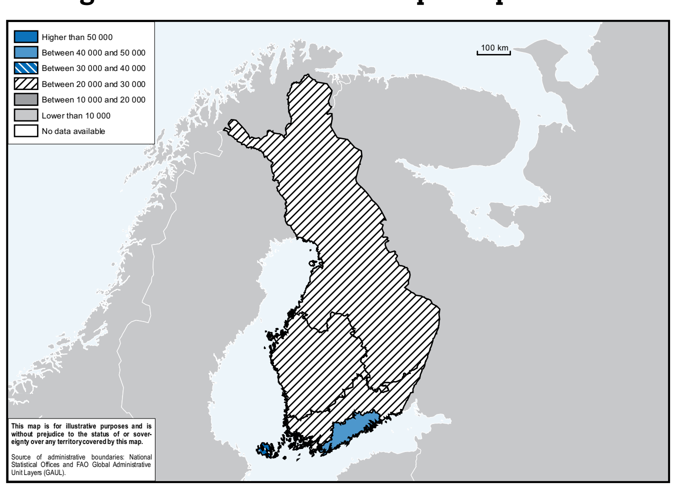
The role of sub-national governments in public finance



Health and social protection are the two largest spending items for SNGs in Finland: together they represent 54% of sub-national expenditure, compared to 30% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107731

Regional differences in GDP per capita levels



Finland had the 17th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +2.2% annually in Helsinki-Uusimaa to +0.6% in Southern Finland.

France

Recent policy developments

- A law to promote metropolitan governance was adopted in December 2013, creating new governance structures for the top three metropolitan areas (around Paris, Lyon and Aix-Marseille), as well as for 11 other urban areas of more than 400 000 inhabitants on a voluntary basis. They will be granted greater responsibilities in certain fields, such as economic development, housing, environment, roads and social action.
- Regional government competencies and structures are also being revisited in the framework of the Act III of decentralisation. A draft law devolves additional responsibilities to regions in economic development, subsidies to enterprises, employment and youth policy. Moreover, regions may be granted responsibilities for professional training and apprenticeship. The competencies of the intermediate level, *départements*, may be modified, and mergers among them and among regions considered.
- The City Policy (*Politique de la ville*), the Law on City Programming and Urban Cohesion, was adopted in early 2014. This provides for new urban contracts, the abolition of "multi-zoning" approaches to avoid the dispersion of financial resources, the promotion of multi-level governance, of the participation of inhabitants and "territorialisation of public policies".
- A new generation of state-region planning contracts 2014-2020 is under way.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional or state-level governments
Unitary	36 700	101	27

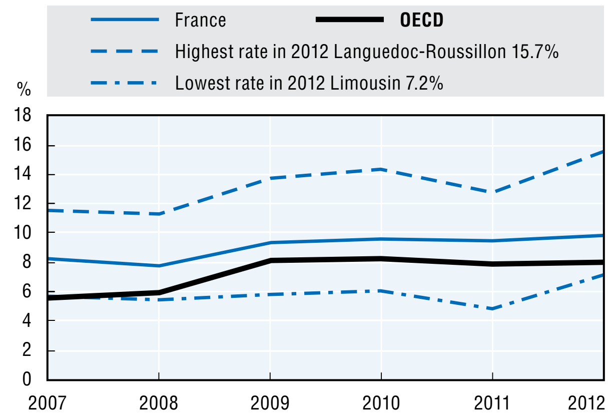
* Local government figures include local authorities from Corsica and the five overseas departments and regions.

Regional development policy	
Lead ministry(ies) or committees	Inter-Ministerial Delegation for Spatial Planning and Regional Attractiveness (DATAR); currently under the Ministry of Housing and Equal Territorial Rights; Ministry of Administrative Reform, Decentralisation and Civil Service
Regional development framework	The Framework Law on Regional Planning and Sustainable Development (1995, modified 1999) highlights the need to define a better balance between rural and urban areas and to encourage local governments to come together to develop "territorial development projects".

Urban development policy	
Lead ministry(ies) or committees	Inter-Ministerial Delegation for Spatial Planning and Regional Attractiveness (DATAR); Ministry of Housing and Equal Territorial Rights (Deputy Minister for Cities); Inter-Ministerial Committee on Cities; Ministry of Administrative Reform, Decentralisation and Civil Service (in charge of the 2013 Law on Metropolitan Areas)
Urban policy framework or strategy	City Policy (*Politique de la ville*)

Rural development policy	
Lead ministry(ies) or committees	Inter-Ministerial Delegation for Spatial Planning and Regional Attractiveness (DATAR); Ministry of Agriculture and Fisheries (MAP); Ministry of Administrative Reform, Decentralisation and Civil Service
Rural policy framework or strategy	The National Plan for Rural Development and the Rural Revitalisation Act (2005) focus on reinforcing the appeal of rural areas through economic development, employment, housing and public services. A 2006 decree set new criteria to define "rural regeneration zones" and provides new social and fiscal support.

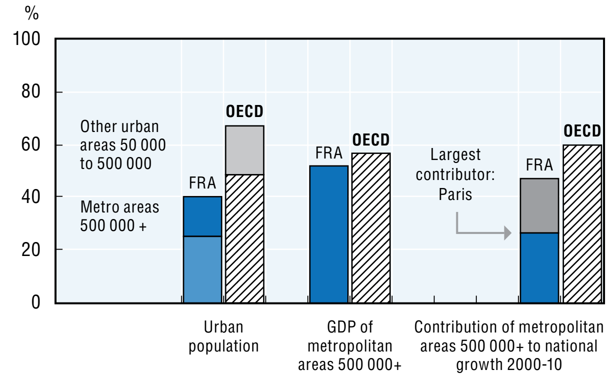
Regional disparities in unemployment trends



In 2012, the unemployment rate varied from 7.2% in the Limousin region to 15.7% in Languedoc-Roussillon, where the youth unemployment rate reached 38%, or 16 percentage points higher than the OECD average.

StatLink http://dx.doi.org/10.1787/888933107750

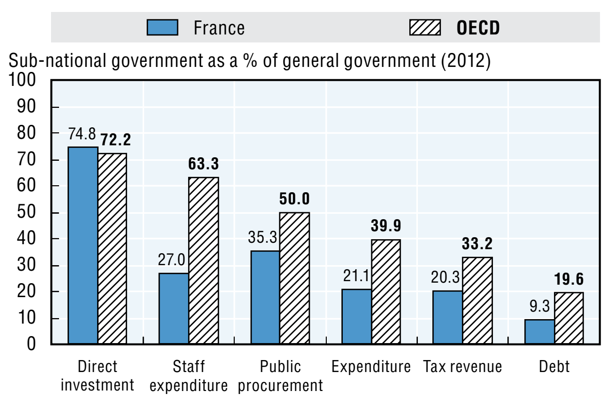
The importance of urban areas



In France, 65% of the population lives in cities of different sizes. The share of the population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 40%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107769

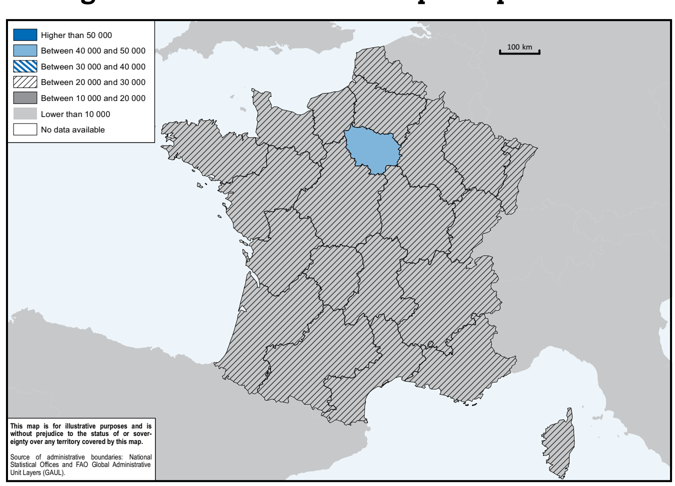
The role of sub-national governments in public finance



Social protection and general services expenses are the two largest spending items for SNGs in France: they represent 35% of sub-national expenditure, compared to 26% for the OECD.

StatLink http://dx.doi.org/10.1787/888933107788

Regional differences in GDP per capita levels



France had the 10th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +3.1% per year in Corsica to -0.7% in Champagne-Ardenne.

Germany

Recent policy developments

- The Joint Task for the Improvement of Regional Economic Structure (GRW) between the federal government and the regions is expected to increase in importance due to the reduction of investment subsidies in 2013.
- For the new funding period 2014-20, Germany will receive EUR 19.3 billion from EU Structural Funds (EFRD, ESF and ETC) under the revised legislative framework for EU Cohesion Policy. The EU Structural Funds remain the most important source for structural measures in Germany and its regions.
- Municipal mergers are a responsibility of the regions. The *Land* of Saxony-Anhalt reduced the number of its municipalities from 814 to 220 in 2010 and 2011.

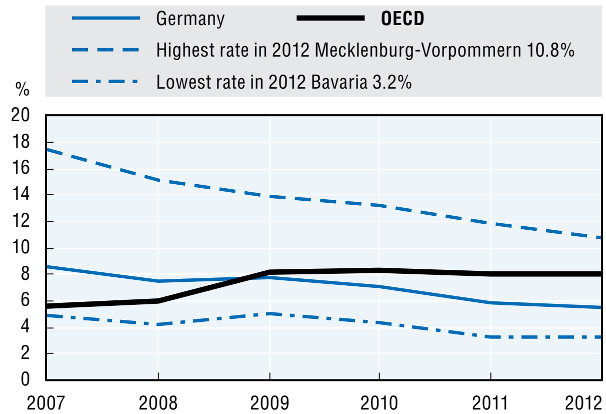
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	11 327	295	16

Regional development policy	
Lead ministry(ies) or committees	Federal Ministry for Economy and Technology (BMWI)
Regional development framework	Most tasks are delegated to the regions (*Länder*). The Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework as well as EU Structural Funds are the basis for regional development at the national level.

Urban development policy	
Lead ministry(ies) or committees	Federal Ministry for Transport, Building and Urban Development (BMVBS), Federal Office for Building and Regional Planning (BBR)
Urban policy framework or strategy	The 2007 National Urban Development Policy (*Nationale Stadtentwicklungspolitik*, NSP) serves mainly as a platform for bringing relevant actors together on city issues and urban trends with different specific topics, as well as an exchange of experiences.

Rural development policy	
Lead ministry(ies) or committees	Federal Ministry of Food and Agriculture (BMEL); Federal Ministry of Justice and Consumer Protection (BMJV)
Rural policy framework or strategy	Rural development programmes (RDP) are established at the regional level (*Länder*). Fourteen regional programmes support the National Strategy Plan for rural development.

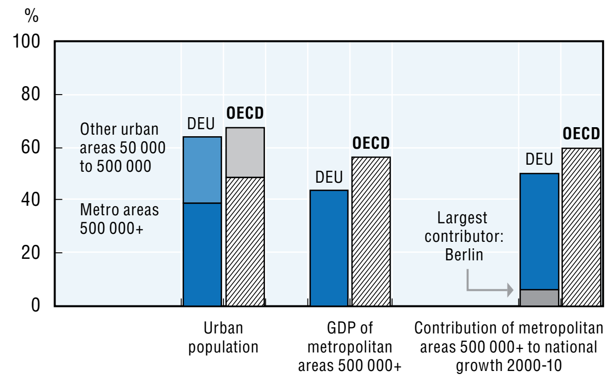
Regional disparities in unemployment trends



In recent years, the unemployment rate has declined, with the highest rate in Mecklenburg-Vorpommern (10.8%), and for youth unemployment, a high in Berlin that declined to 14.9% in 2012.

StatLink http://dx.doi.org/10.1787/888933107807

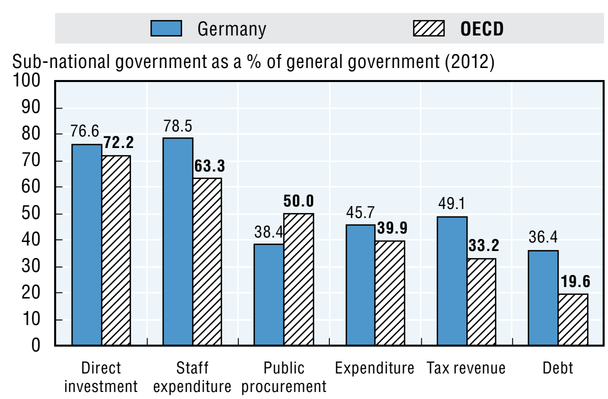
The importance of urban areas



In Germany, 64% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 39%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107826

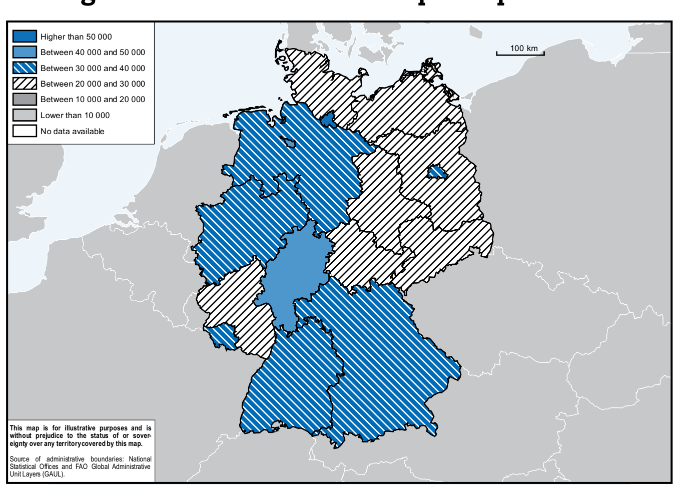
The role of sub-national governments in public finance



Social protection and general public services are the two largest spending items for SNGs in Germany: together they represent 47% of sub-national expenditure, compared to 26% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107845

Regional differences in GDP per capita levels



Germany had the 7th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +1.6% annually in Hamburg to +0.1% in Schleswig-Holstein.

Greece

Recent policy developments

- There have been increasing decentralisation efforts in recent years. The regions have acquired more powers, starting with the 1997 Kapodistrias reform of local and regional government, transforming into fully separate entities under the 2010 Kallikratis plan (Law 3852/2010; effective from 1 January 2011). Thirteen regional governors and councils are now popularly elected (for a five-year term). Their mandate is to plan and implement policies at a regional level, according to the principles of sustainable development and social cohesion, taking into account national and European policies. Still, many responsibilities remain within the central government's secretariats and the regions rely on transfers for funding. Some metropolitan functions have been allocated to Attica and Thessaloniki (Central Macedonia) within their corresponding regions. The Kallikratis reform reduced the number of municipalities from 1 033 to 325.
- The Kallikratis reform set up seven decentralised administrations that maintain functions that the state decided to retain under its jurisdiction rather than to devolve to the regions. They are governed by a general secretary, who is appointed by the Ministry of Interior, and are mainly responsible for implementing and monitoring central government legislation at the local level in areas like immigration, public property, environment and spatial planning. As the intermediary between the central government and the municipalities, they have a supervisory and monitoring role for the municipalities.
- Currently, the relevant ministries conduct the national regional plan and the regional operational programmes, in the framework of Cohesion Policy for 2014-2020. The emphasis is on boosting competitiveness and entrepreneurship and implementing specific sectoral policies to assist the economic recovery.

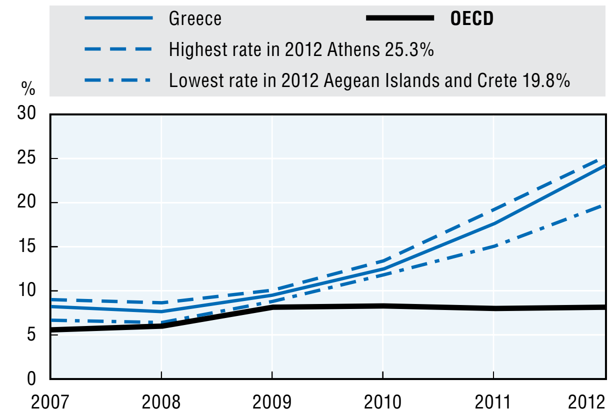
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	325	7 decentralised administrations, appointed by the Ministry of Interior	13

Regional development policy	
Lead ministry(ies) or committees	Ministry for Development and Competitiveness
Regional development framework	National Strategic Reference Framework; regional operational programmes (in correspondence with the 13 Hellenic regions). Regional development measures have been strongly aligned with EU Cohesion Policy and are codified under different development laws.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Environment, Energy and Climate Change
Urban policy framework or strategy	National Spatial Planning and Sustainable Development Framework; regional frameworks for spatial planning and sustainable development; Master Plan of Region of Athens/Attica; Master Plan of Thessaloniki

Rural development policy	
Lead ministry(ies) or committees	Ministry of Rural Development and Food
Rural policy framework or strategy	The Rural Development Law (2005) sets the framework, and the National Strategy Plan (NSP) for Rural Development provides policy guidance.

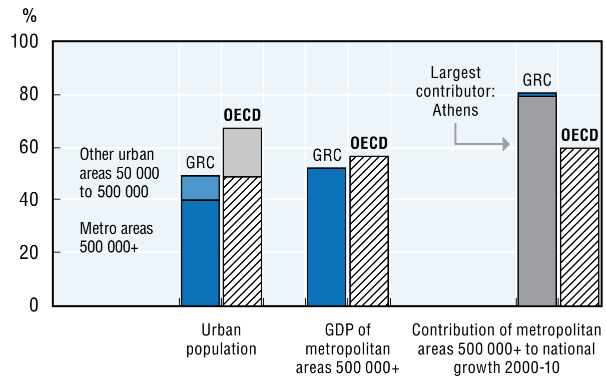
Regional disparities in unemployment trends



In recent years, the unemployment rate has soared in Greek regions such as Athens (25%), and the youth unemployment rate reached 58% in Northern Greece in 2012.

StatLink http://dx.doi.org/10.1787/888933107864

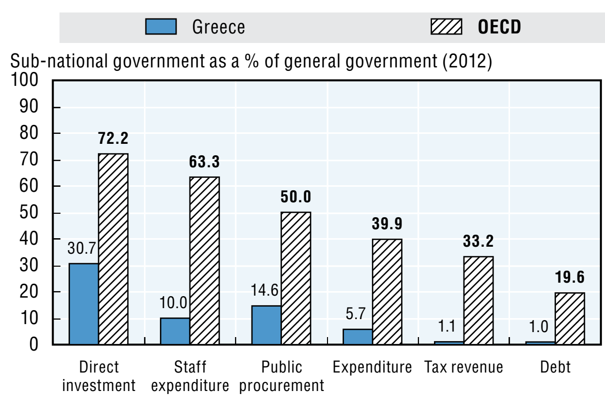
The importance of urban areas



In Greece, 49% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 40%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107883

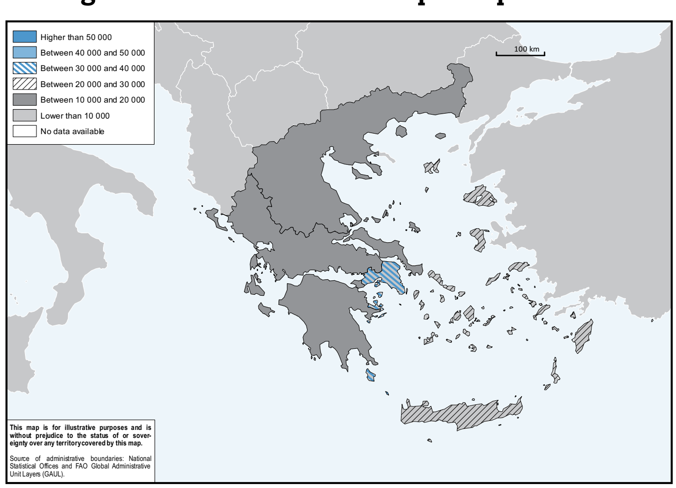
The role of sub-national governments in public finance



General public services and social protection are two of the largest spending items for SNGs in Greece: they represent 50% of sub-national expenditure, compared to 26% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107902

Regional differences in GDP per capita levels



Greece had the 6th lowest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +3.7% annually in Athens to no growth (0%) in Central Greece.

Hungary

Recent policy developments

- The new Constitution, which came into force in January 2012, states that sectoral laws may force municipalities to merge or co-operate. The Cardinal Act of December 2011 sets a threshold of 2 000 inhabitants for local administration. Local authorities under 2 000 inhabitants have to regroup their administrative services.
- A recentralisation of many of the responsibilities of counties and municipalities (e.g. in connection with education, health care, disaster recovery and public administration) has been put into effect. Moreover, counties take over the responsibilities of the regions set for managing European funding (seven regions for "statistical purposes").
- Cohesion Policy investments for the 2007-13 period totalled nearly EUR 600 million for R&D; EUR 192 million to promote entrepreneurship and SMEs; over EUR 300 million to help adjust to demographic change; and created more inclusive labour markets.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	3 177	20*	0

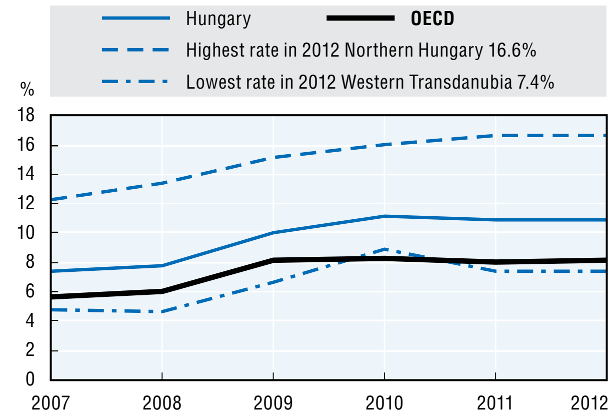
* Nineteen county-level governments and an intermediate-level municipality for the capital city, Budapest.

Regional development policy	
Lead ministry(ies) or committees	Ministry of National Economy
Regional development framework	Act on Territorial Development and Spatial Planning (XXI/1996); National Development 2030 – National Development and Territorial Development Concept (adopted in December 2013)

Urban development policy	
Lead ministry(ies) or committees	Prime Minister's Office
Urban policy framework or strategy	National guidelines on sustainable and integrated urban development have been drawn up, but no single national urban policy document exists. However, the general principles governing policy have been integrated into the National Development Concept 2030.

Rural development policy	
Lead ministry(ies) or committees	Prime Minister's Office
Rural policy framework or strategy	The Hungary Rural Development Programme and the Darányi Ignác Plan serve to implement the National Rural Development Strategy, with a focus on population retention, employment and an improved quality of rural life.

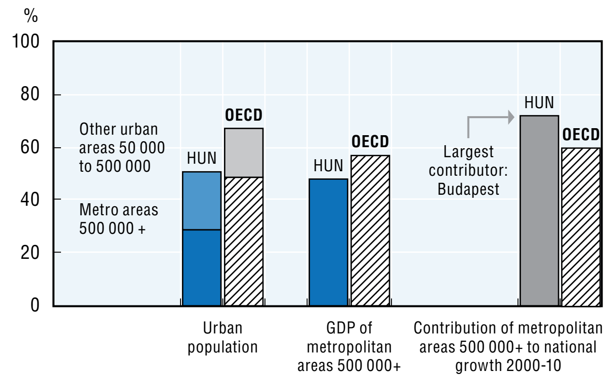
Regional disparities in unemployment trends



In recent years, the unemployment rate has increased in Hungarian regions such as Northern Hungary (16.6%), where the youth unemployment rate reached almost 39% in 2012.

StatLink http://dx.doi.org/10.1787/888933107921

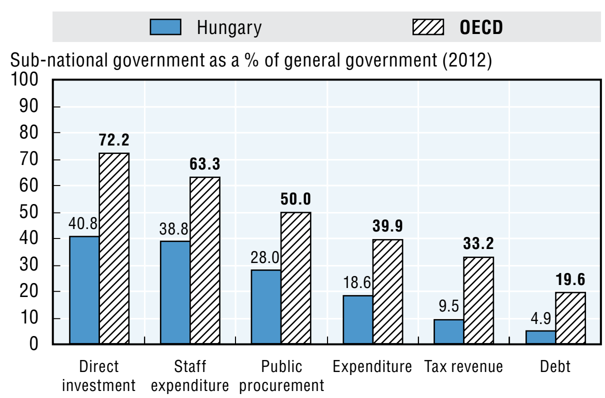
The importance of urban areas



In Hungary, 50% of the population lives in cities of different sizes. The share of population in the metropolitan area of Budapest (the only urban area with more than 500 000 inhabitants) is 28%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107940

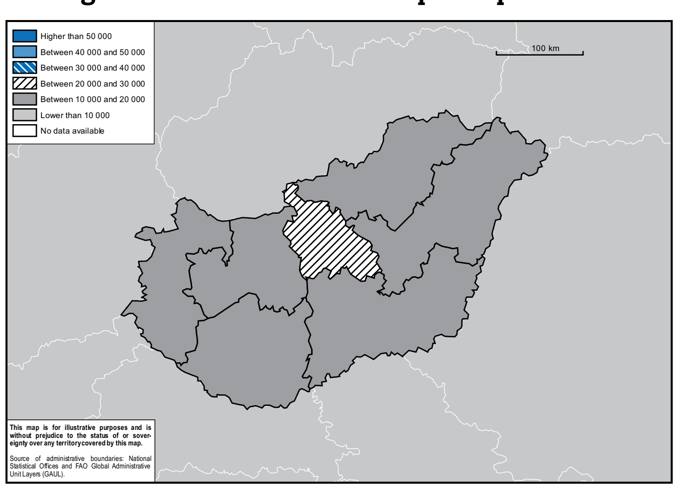
The role of sub-national governments in public finance



Education and general public services are the two largest spending items for SNGs in Hungary: together they represent 45% of sub-national expenditure, compared to 41% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107959

Regional differences in GDP per capita levels



Hungary had the 16th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +3.4% annually in Central Hungary to +0.3% in the Southern Great Plain.

Iceland

Recent policy developments

- An integrated development plan, Iceland 2020, which was launched in 2011, addresses social and economic development and provides a framework for regional support.
- The Icelandic Regional Development Institute continues to support regions (all rural areas) through financial assistance and loans, regional strategy development to implement government goals and a network of eight industrial regional development agencies whose goal is to promote innovation.
- A reform of the public administration is under way, based on service areas defined under Moving Iceland Forward. Streamlining the public sector, multi-functional state and local services (one-stop-shops), and strengthening local government will be considered.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	74		

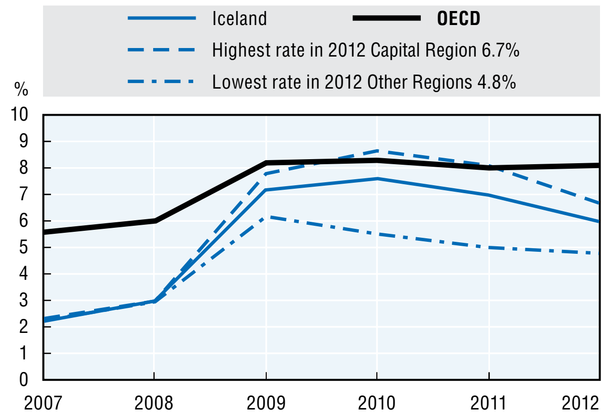
Regional development policy	
Lead ministry(ies) or committees	Ministry of Industries and Innovation
Regional development framework	Regional plans are developed on a periodic basis to support regions so as to avoid depopulation and minimise regional disparities.

Urban development policy	
Lead ministry(ies) or committees	None
Urban policy framework or strategy	There is no general urban policy framework.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Industries and Innovation (Minister of Fisheries and Agriculture)
Rural policy framework or strategy	Regional plans are developed on a periodic basis to support regions so as to avoid depopulation and minimise regional disparities.

Note: The functional urban areas have not been identified in Iceland. Data on GDP per capita at regional level are not available for Iceland.

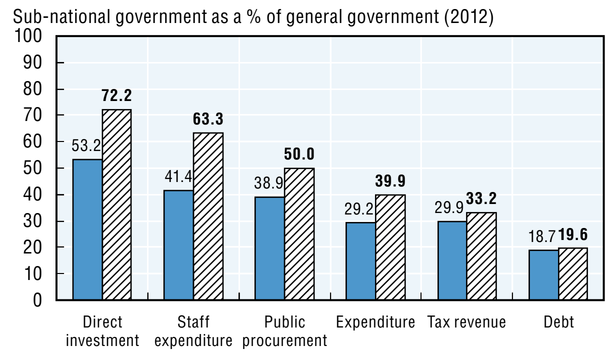
Regional disparities in unemployment trends



In recent years, the unemployment rate increased in Icelandic regions, reaching 8.1% in the Capital Region. In the same region, the youth unemployment rate has reached 14.8%.

StatLink http://dx.doi.org/10.1787/888933107978

The role of sub-national governments in public finance



Education and social protection are the two largest spending items for SNGs in Iceland: together they represent 59% of sub-national expenditure, compared to 39% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933107997

Ireland

Recent policy developments

- A review of the National Spatial Strategy, and an associated pause in its implementation pending the formulation of a replacement strategy.
- Abolition of 80 town councils in all urban areas outside the major cities – announced in October 2012 and due to take effect in May 2014.
- Increased centralisation, with a transfer of funds from local government to central quangos (e.g. water infrastructure becomes the responsibility of a new public utility called "Irish Water").
- Reducing the territorial approach to development as endogenous partnerships become subject to local authority co-ordinating controls. Details are currently being formulated by an "Alignment Working Group", which includes civil society, local development, local authority and civil service representatives.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional** or state-level governments
Unitary	114	2 regional authorities; 2 regional assemblies	

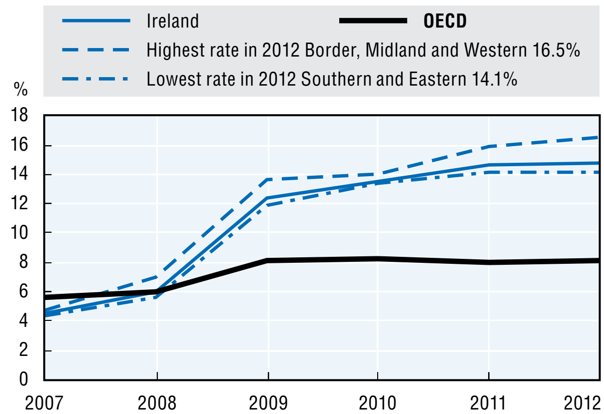
* Ongoing local government reform will be implemented as of the local elections of May 2014: the 114 local authorities will be replaced by 31 new entities.
** As a result of a process of centralisation, which is in part associated with restoring fiscal solvency, the regional tier of government (in the form of the eight regional authorities) is due to be abolished and the two regional assemblies, which up to now have been responsible for the co-ordination of EU-funded programmes, are to be reconfigured and will increase to three (from two).

Regional development policy	
Lead ministry(ies) or committees	Department of Environment, Community and Local Government
Regional development framework	The eight regional authorities have formulated and revised regional planning guidelines so as to ensure the co-ordination of municipal (county and city) level plans and the contribution of all planning tiers to the objectives of the National Spatial Strategy (2002-20).

Urban development policy	
Lead ministry(ies) or committees	
Urban policy framework or strategy	

Rural development policy	
Lead ministry(ies) or committees	Department of Agriculture, Food and the Marine (including CAP Pillar II) and Department of Environment, Community and Local Government
Rural policy framework or strategy	White Paper on Rural Development (1999)

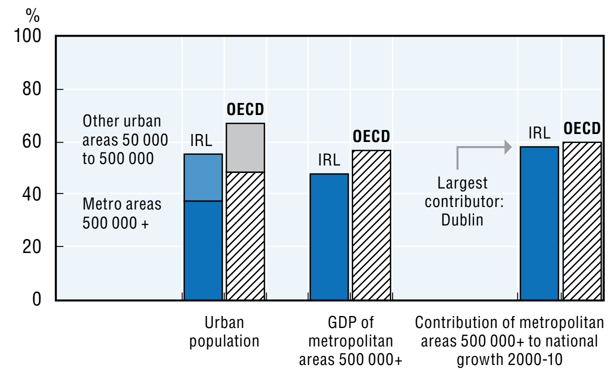
Regional disparities in unemployment trends



In recent years, the unemployment rate has soared in Irish regions such as Border, Midland and Western (16.5%), where the youth unemployment rate reached 33.9% in 2012.

StatLink http://dx.doi.org/10.1787/888933108016

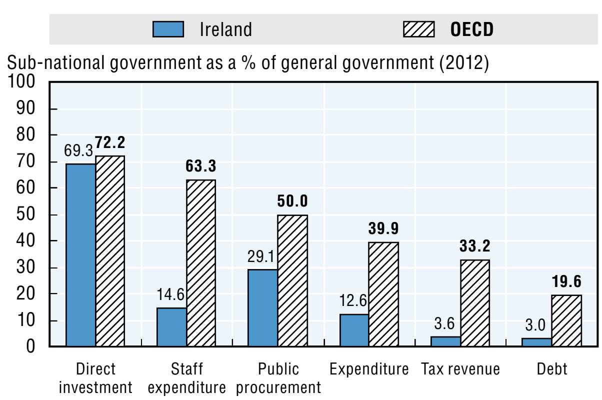
The importance of urban areas



In Ireland, 56% of the population lives in cities of different sizes. The share of population in the metropolitan area of Dublin (the only urban area with more than 500 000 inhabitants) is 38%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108035

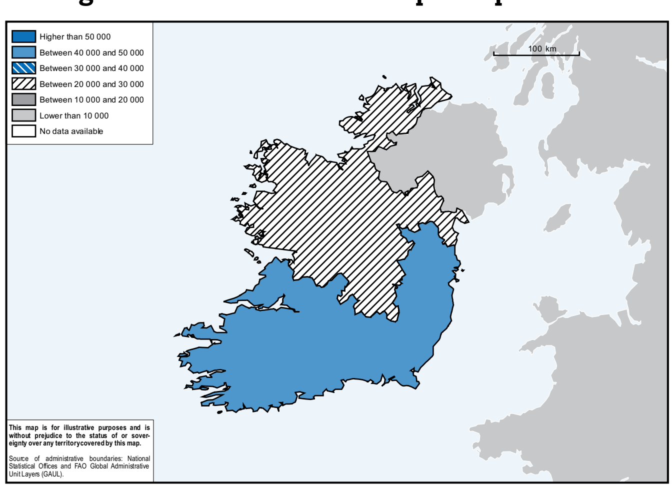
The role of sub-national governments in public finance



Education and general public services are the two largest spending items for SNGs in Ireland: together they represent 50% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108054

Regional differences in GDP per capita levels



Ireland had the 12th smallest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +2.8% annually in Southern and Eastern to +2.2% in Border, Midland and Western.

Israel

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	254		

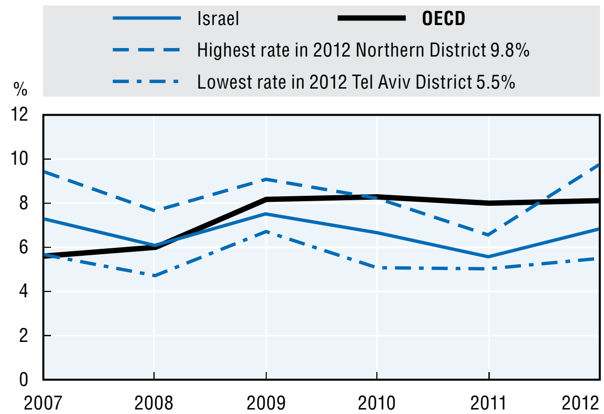
Regional development policy	
Lead ministry(ies) or committees	Ministry of Construction and Housing
Regional development framework	

Urban development policy	
Lead ministry(ies) or committees	Ministry of Construction and Housing
Urban policy framework or strategy	Urban Renewal: The “Clearance and Construction” programme, the “Taxation” programme and the “Increased Building Rights” programme. A concentrated effort to improve the existing physical infrastructure.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Construction and Housing, Ministry of Economy; Center for International Agricultural Development Co-operation (CINADCO) in the Ministry of Agriculture and Rural Development; Ministry for the Development of the Negev and Galilee
Rural policy framework or strategy	The Regional Council serves as the statutory body for the areas of jurisdiction, including defined borders for the built-up communities, inter-community employment areas, institutions, infrastructure installations and inter-community infrastructure systems.

Note: The functional urban areas have not been identified in Israel. Data on GDP per capita at regional level are not available for Israel.

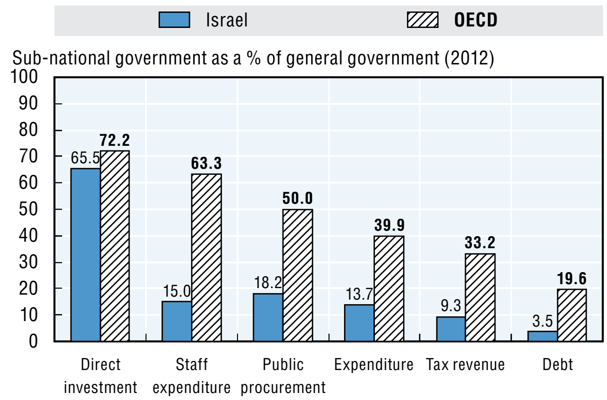
Regional disparities in unemployment trends



In recent years, Israel maintained a low unemployment rate and regional disparities in unemployment were among the lowest of OECD countries. The highest youth unemployment rate is found in the Southern District, 15% in 2011.

StatLink http://dx.doi.org/10.1787/888933108073

The role of sub-national governments in public finance



Education and general public services are the two largest spending items for SNGs in Israel: together they represent 50% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108092

Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Italy

Recent policy developments

- In 2013, the Italian government, through Law 255/2013, created a new agency for territorial cohesion. The agency's mission is technical support for the use of European Union Cohesion Policy funds in Italy.
- Law 95/2012 proposes to reduce the number of Italian provinces from the current 86 to 51 through the merging of small contiguous provinces within the same region until they include at least 350 000 inhabitants or 200-500 inhabitants/km^2. The provinces will maintain responsibility for territorial planning, transport and schools. The political governments will be abolished and substituted by the appointment of three councillors. The reform of the provinces is currently under discussion in parliament.
- Ten of the 51 provinces will have a special institutional organisation as metropolitan areas (*Città metropolitan*): Rome, Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples and Reggio Calabria. Metropolitan cities have been planned since 1990 but have not yet been put into effect. Their creation was delayed until 2015 by the 2013 National Stability Law.
- In 2012, the prime minister created an Inter-Ministerial Committee for Urban Policy that addresses three main issues. First, the committee addresses the sometimes conflicting relationship between institutional boundaries and planning activities to increase effectiveness in policy making. Second, it addresses the phenomenon of urban sprawl, territorial congestion and the need for efficient infrastructure. Third, it looks at the maintenance and strategic management of the process of recovery and renewal of housing stock.

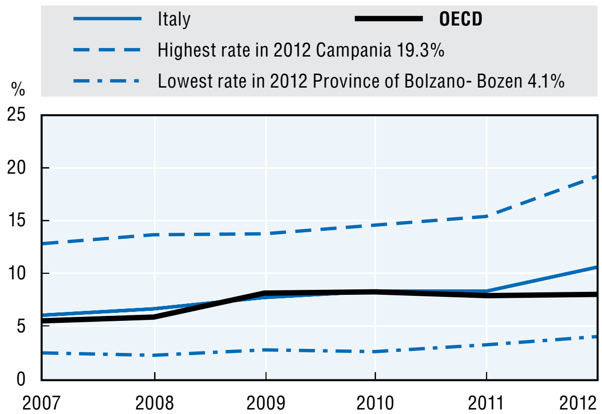
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	8 092	110	20

Regional development policy	
Lead ministry(ies) or committees	Ministry for Economic Development (Department for Development and Economic Cohesion)
Regional development framework	National Strategic Framework 2014-2020 combines both EU and domestic regional policy budgets.

Urban development policy	
Lead ministry(ies) or committees	Inter-Ministerial Committee for Urban Policy (under the Prime Minister)
Urban policy framework or strategy	No general framework (some continuing programmes for urban renewal)

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agricultural, Food and Forestry Policies (MIPAAF); Ministry of Economic Development
Rural policy framework or strategy	The National Strategy Plan for Rural Development (NSP) for Italy provides the overall policy framework for rural development in the country. Each administrative region has a rural development programme in place.

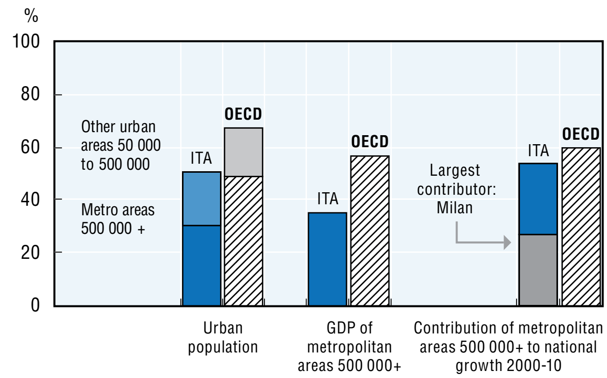
Regional disparities in unemployment trends



In recent years, the unemployment rate has soared in Italian regions such as Campania (19.3%), and the youth unemployment rate reached 53.4% in Calabria.

StatLink http://dx.doi.org/10.1787/888933108111

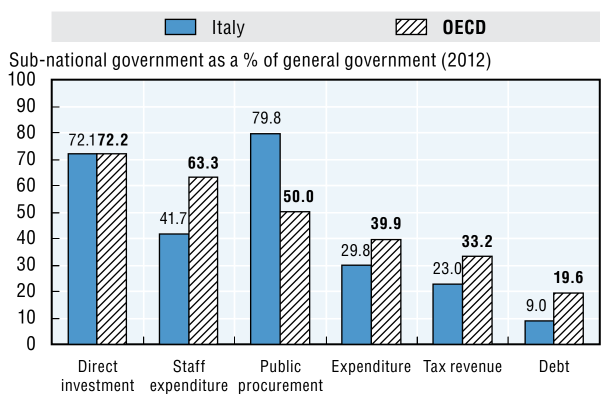
The importance of urban areas



In Italy, 51% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 30%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108130

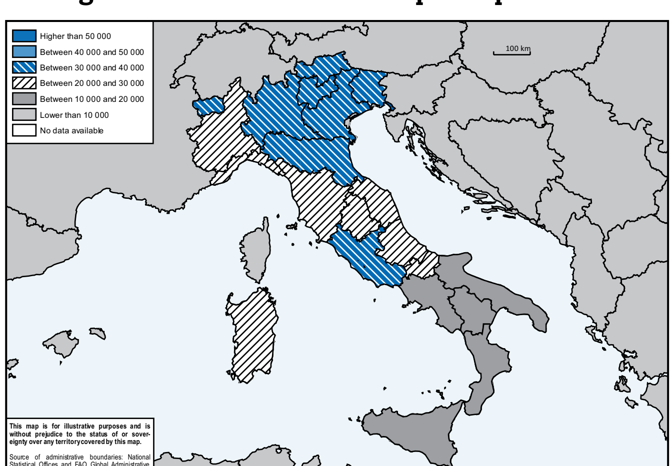
The role of sub-national governments in public finance



Health and economic affairs are the two largest spending items for SNGs in Italy: together they represent 61% of sub-national expenditure, compared to 32% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108149

Regional differences in GDP per capita levels



Italy has the 12th largest regional disparities in GDP per capita. In the previous decade, regional growth varied from +1.3% annually in the Aosta Valley to -0.5% in Basilicata.

Japan

Recent policy developments

- Japan is encouraging reforms in local government autonomy to strengthen local governments, including through mergers. Mergers of local governments were strongly supported by the so-called merger in the Heisei era (the current period, which started in 1989), and the number of municipalities decreased from 3 232 in 1999 to 1 718 in 2014.
- The budget FY2014 highlights for regional policy: *i)* acceleration of recovery from the 2011 earthquake; *ii)* ensuring the safety and security of citizens through disaster prevention and mitigation; *iii)* revitalisation of regions through enhancing international competitiveness, promotion of private investment, and response to aging societies and energy issues.
- The "Future City" initiative by the Cabinet Secretariat provides a comprehensive approach to building sustainable cities. It provides a network of cities that have overcome key regional challenges, including environmental issues and ageing, by sharing experiences of leading cities.
- A Grand Design for National Spatial Policy towards 2050 was published in July 2014, and the review process of the statutory national spatial plan will be launched.

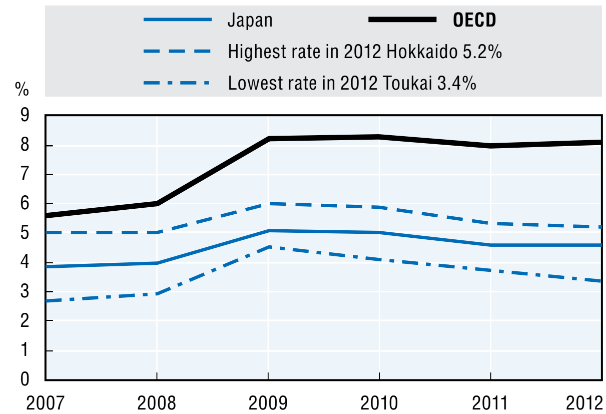
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	1 718		47

Regional development policy	
Lead ministry(ies) or committees	Ministry of Land, Infrastructure, Transport and Tourism (National Spatial Planning and Regional Policy Bureau)
Regional development framework	The National Plan of the National Spatial Strategies defines the grand designs for approximately 10 years at national level, whilst the eight regional plans present those of the individual regions, as stipulated by National Spatial Planning Act. In addition, a series of laws targeting specific types of regions have been enacted, which provide cross-sectoral frameworks of development.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Land, Infrastructure, Transport and Tourism (City Bureau)
Urban policy framework or strategy	The Urban Planning Act stipulates the framework of urban planning at the city government level, including elements of urban planning, decision procedures, restrictions and key projects. National urban policy frameworks are pronounced in policy guidelines, which have recently focused on building sustainable, attractive and competitive cities; compact city policies; co-ordination with efficient transport system; private sector participation; mitigating environmental impact, ageing societies and disaster management.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture, Forestry and Fisheries
Rural policy framework or strategy	The Basic Plan on Food, Agriculture and Rural Development (2010) targeting 2020 promotes the revitalisation of rural economies based on regional assets, rural-urban linkages and the independence of depopulated areas.

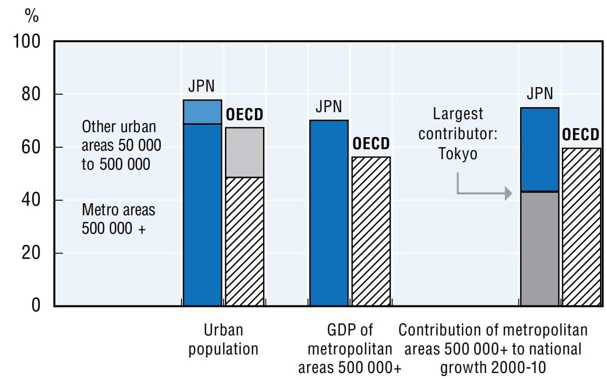
Regional disparities in unemployment trends



In recent years, Japan has maintained a low unemployment rate, and regional disparities in unemployment were the lowest among OECD countries. The highest youth unemployment rate in 2011 was found in Tohoku (12.5%), representing twice the rate in Chugoku, but almost 40% less than the OECD average.

StatLink http://dx.doi.org/10.1787/888933108168

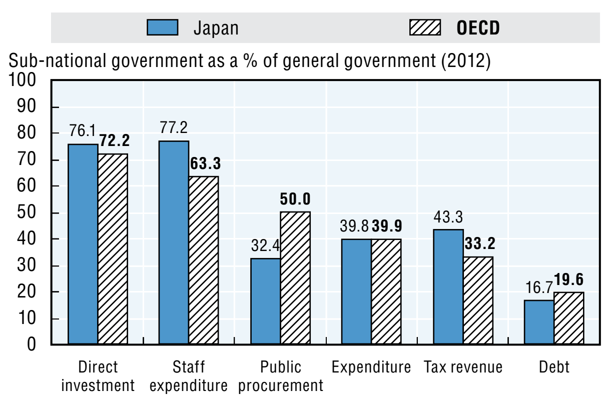
The importance of urban areas



In Japan, 78% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 68%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108187

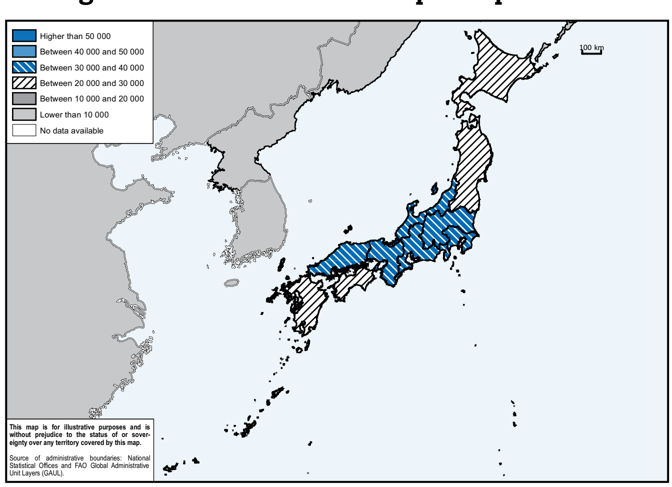
The role of sub-national governments in public finance



In Japan, 76% of the total public investment was carried out by sub-national governments (SNG), compared to 72% in the OECD area. SNG investment has increased in Japan from USD 804 per capita in 2007 to USD 892 per capita in 2011.

StatLink http://dx.doi.org/10.1787/888933108206

Regional differences in GDP per capita levels



Japan had the 5th lowest regional disparities in GDP per capita. In the previous decade, regional growth range from +1.2% annually in Kyushu, Okinawa to +0.1% in Hokkaido.

Korea

Recent policy developments

- The second revision of the Fourth Comprehensive National Territorial Plan (2011-20) proposes a new, three-layer structure for stimulating regional development potential, by dividing the country into seven "mega-regional economic zones" with priority industrial specialisations, complemented by supra-economic regions (belts) and 161 basic residential zones.
- Following several attempts to delocalise capital city functions, a "special self-governing city" called Sejong opened officially in July 2012, about 120 kilometres south of Seoul. By 2015, it is expected to host 36 government agencies and 500 000 inhabitants.
- The new administration (2013) announced stronger support for prioritising development in existing built-up areas over new towns to better connect land use and urban plans with environmental programmes. Recent initiatives attempt to redefine the direction of land policy through urban regeneration rather than by the expansion of suburbs and to support organised land planning through spatial analysis techniques.
- The central government encourages municipal mergers in the hopes of achieving economies of scale. The first example (2010) was the merger of three cities (Masan, Jinhae and Changwon).

Government structure	**Municipal-level governments***	**Intermediate-level governments**	**Regional or state-level governments**
Unitary	227		17

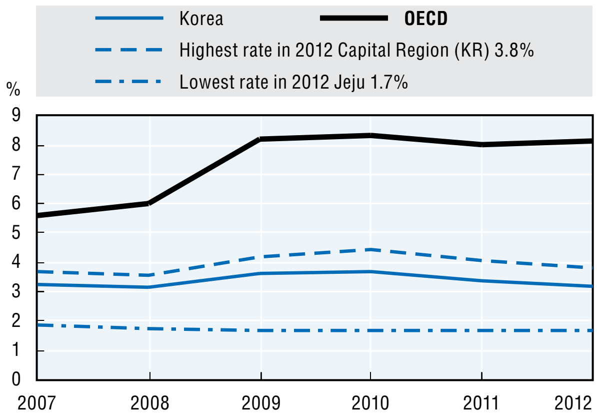
* Existence of a structured sub-municipal-level (3 477 municipal subdivisions, called *Eup* and *Myeon* in rural areas and *Dong* in urban areas).

Regional development policy	
Lead ministry(ies) or committees	Ministry of Land, Infrastructure and Transport
Regional development framework	The Comprehensive National Territorial Plan 2000-2020, with five-year updates, establishes broad spatial planning goals. Five-year regional development plans (per the five-year Balanced National Development Plan) focus on global industrial competitiveness and improving living standards.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Land, Infrastructure and Transport; Presidential Committee for Regional Development (PCRD)
Urban policy framework or strategy	The Urban Vision for 2020 (formulated in 2008) sets four main goals for urban policy: nurturing growth engines, improving urban living conditions, establishing urban identity and restoring the national environment.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture, Food and Rural Affairs
Rural policy framework or strategy	The 2013-2017 Development Plan for Agriculture, Rural Areas and Food Industries published in October 2013 focuses on three strategic axes: competitiveness, income and welfare/quality of life.

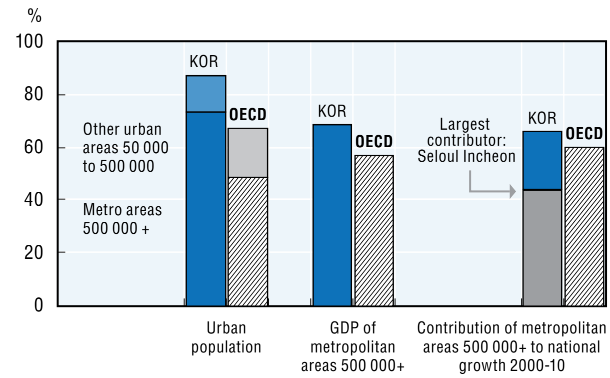
Regional disparities in unemployment trends



In 2012, Korea had the 7th lowest regional disparities in unemployment rate among OECD countries. The highest unemployment rate was in the Capital Region (3.8%) and the lowest in Jeju (1.7%).

StatLink http://dx.doi.org/10.1787/888933108225

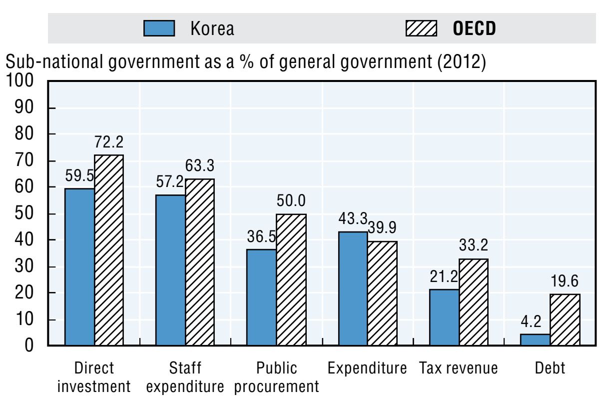
The importance of urban areas



In Korea, 87% of the population lives in cities of different sizes, the highest value among OECD countries. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 73%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108244

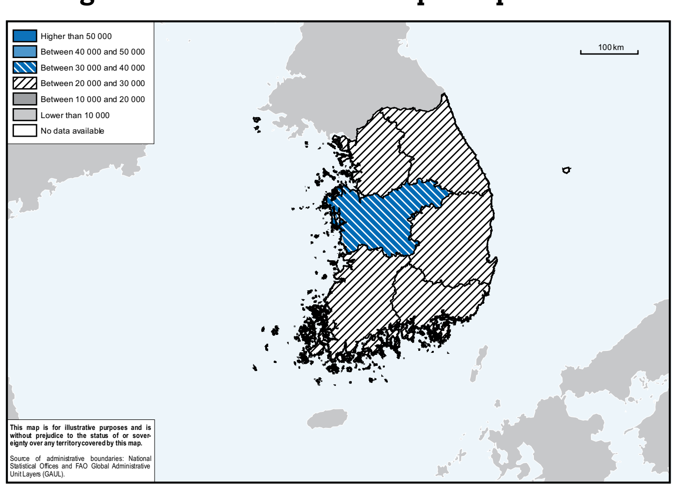
The role of sub-national governments in public finance



Education and economic affairs are the two largest spending items for SNGs in Korea: together they represent 48% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108263

Regional differences in GDP per capita levels



Korea had the 3rd lowest regional disparities in GDP per capita across OECD countries. In the previous decade, regional growth varied from +5.5% annually in Chungcheong to +2.8% in Gangwon.

Luxembourg

Recent policy developments

- The Master Programme for Territorial Planning (PDAT) is the key instrument of national spatial planning. It determines the government's general guidelines and priority objectives for the sustainable development of the living environment. An update of the PDAT is planned for 2018. The Integrated Transport and Spatial Planning Concept (IVL), developed in 2004, furthered progression towards the implementation of the essential targets set out in the PDAT and defines more precisely the polycentric urban spatial model of Luxembourg.
- The primary sectoral plans for transport, housing, landscape and economic activity zones were submitted to the Chamber of Deputies in May 2014. These plans will underpin the IVL with legally binding instruments, making it easier to implement the government's plans concerning sustainable spatial development.
- At inter-communal level, a number of cities and adjacent municipalities have signed formal agreements or "conventions" with the Ministry of Spatial Planning, aiming to: commit to safeguarding more sustainable development, implement the objectives of the PDAT and the IVL by ensuring a polycentric and more balanced development of the country, and co-ordinate and integrate the territorial development of the municipalities involved.

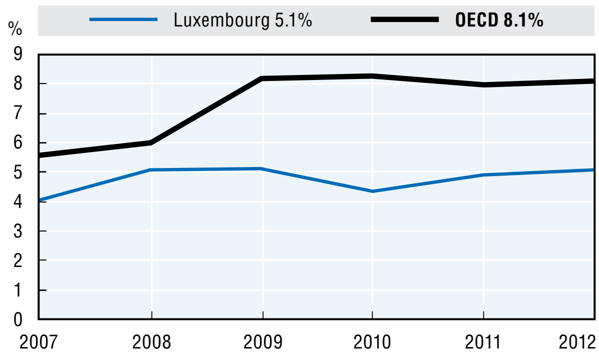
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	106		

Regional development policy	
Lead ministry(ies) or committees	Ministry of Sustainable Development and Infrastructure (Department of Spatial Planning)
Regional development framework	The Master Programme for Territorial Planning is updated periodically and supported by guidance and sectoral plans developed with the relevant local authorities.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Sustainable Development and Infrastructure (Department of Spatial Planning)
Urban policy framework or strategy	Formal agreements or "conventions" are signed between the ministry and local urban authorities to encourage an integrated urban planning process.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture, Viticulture and Rural Development
Rural policy framework or strategy	The National Strategic Plan for Luxembourg is the main rural policy for the countryside; there is no overall Luxembourg rural strategy.

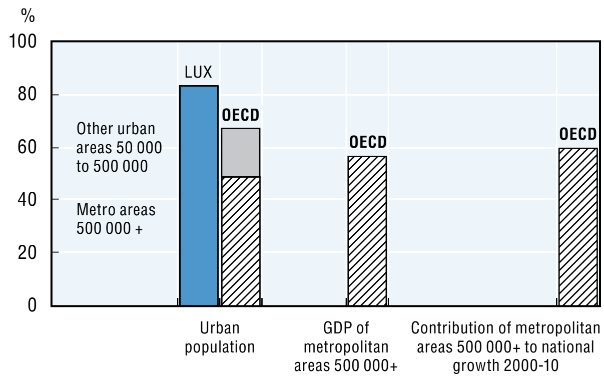
Regional disparities in unemployment trends



In 2012, the unemployment rate of Luxembourg was 5%, compared to 8% in the OECD area. During the period 2007-12, Luxembourg's youth unemployment rate varied from 14% to 19%.

StatLink http://dx.doi.org/10.1787/888933108282

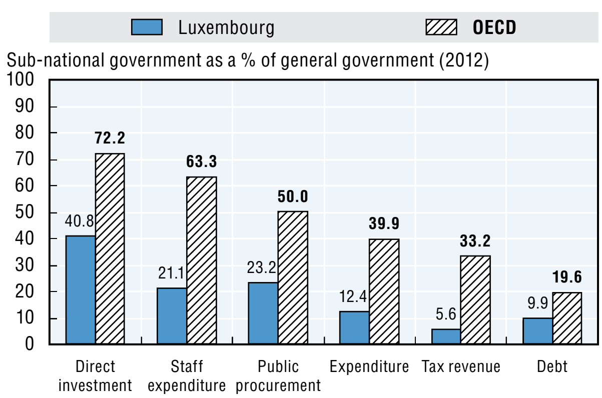
The importance of urban areas



In Luxembourg, 83% of the population lives in the urban area of Luxembourg.

StatLink http://dx.doi.org/10.1787/888933108301

The role of sub-national governments in public finance



General public services and education are the two largest spending items for SNGs in Luxembourg: together they represent 42% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108320

Regional differences in GDP per capita levels

After a yearly average growth rate of 2.7%, Luxembourg's GDP per capita reached USD 69 348 in 2010, more than twice the OECD average.

Mexico

Recent policy developments

- In 2013, the new administration created the Ministry of Agrarian, Territorial and Urban Development (SEDATU).
- SEDATU (as the head of the sector) has been assigned the task of leading, on a federal level, all issues related to urban and housing development. Its New Urban and Housing National Policy will focus on: the development of orderly urban growth; reducing the housing gap; and promoting more loans and subsidies to improve the quality and availability of housing in both urban and rural areas. It seeks to promote a more compact, dense and vertical city model. This new federal policy operates as an umbrella governing many other policies at lower levels of government, including, for example, housing policy.
- The National Development Plan 2013-2018 covers several areas relevant to regional development. For example, one strategic area is "transition towards a model of sustainable urban development" with measures related to housing, urban renewal, transport and land use.
- Public investment will seek to develop states and municipalities. These subsidies will be prioritised to those governments which have signed The Coordination Framework Agreements with the Federation. The selection criteria will focus on those projects which offer solutions to Mexican federal priorities, as well as the capacity to leverage competitiveness and show innovation in its execution.

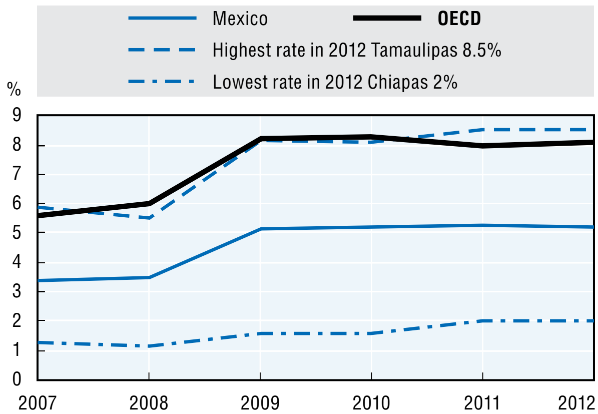
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	2 457		32

Regional development policy	
Lead ministry(ies) or committees	Ministry of Agrarian, Territorial and Urban Development (SEDATU)
Regional development framework	The main objectives and initiatives in the fields of regional, urban and rural development are set out in the National Development Plan for 2013-2018, which envisages both transversal programmes for these areas and territorially focused programmes for distressed regions.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Agrarian, Territorial and Urban Development (SEDATU); Institute of National Housing Fund for Workers (INFONAVIT)
Urban policy framework or strategy	None, but the National Development Plan 2013-2018 anticipates the development of an urban framework.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agrarian, Territorial and Urban Development (SEDATU); Ministry of Social Development (SEDESOL); Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA)
Rural policy framework or strategy	Law on Sustainable Rural Development (LSRD) (2001) and the Special Concerted Rural Development Programme (PEC)

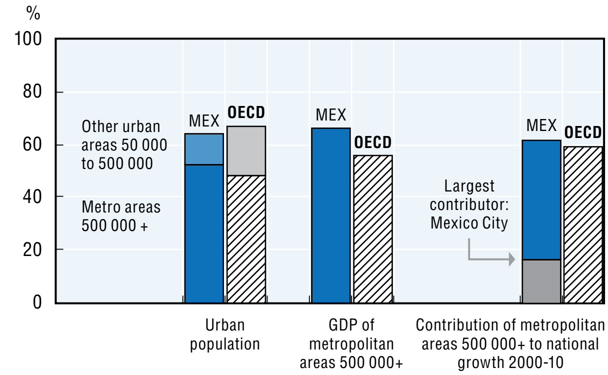
Regional disparities in unemployment trends



In 2011, the unemployment rate was the highest in Tamaulipas (8.5%) and the lowest in Chiapas (2%). The youth unemployment rate is the highest in Tamaulipas (42.9%) and lowest in Chiapas (8%).

StatLink http://dx.doi.org/10.1787/888933108339

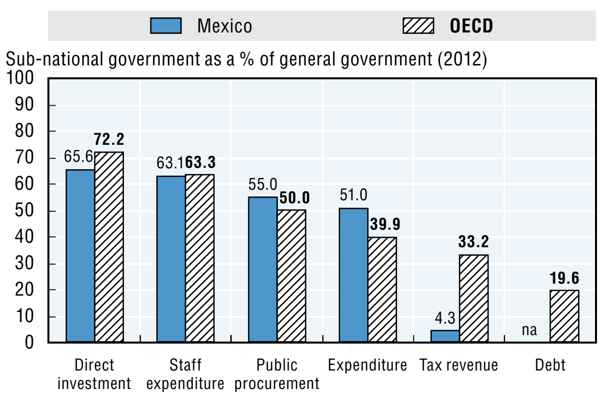
The importance of urban areas



In Mexico, 65% of population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 53%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108358

The role of sub-national governments in public finance



In Mexico, 66% of total public investment was carried out by sub-national governments (SNG), compared to 72% in the OECD area. SNG investment has increased in Mexico from USD 298 per capita in 2007 to USD 322 per capita in 2011.

StatLink http://dx.doi.org/10.1787/888933108377

Regional differences in GDP per capita levels

Mexico had the 2nd largest regional disparities in GDP per capita. In the previous decade, regional growth varied from +9.3% annually in Tabasco to +0.5% in Morelos.

Netherlands

Recent policy developments

- The Top Sector policy, in operation since 2012, seeks to focus support on the sectors that make the most significant contribution to the Netherlands' economic performance.
- Since June 2012, the National Policy Strategy for Infrastructure and Spatial Planning (SVIR) represents a strategic agenda for spatial planning policies, setting out a list of national priorities to be followed by the central administration. The recent decentralisation of functions to sub-national government tiers reinforced the role of the provincial governments in spatial planning, regional development, traffic and transport, and the environment.
- Territorial reforms are under way to reduce the number of provinces and municipalities and eliminate any intermediate administrative entity between the provinces and the municipalities. As a consequence, the former "city regions" are to be abolished by January 2015. In Amsterdam and Rotterdam, the former city regions will be replaced by two transport authorities. The "old" city regions can elect to continue their co-operation – possibly with modifications – on a voluntary basis.

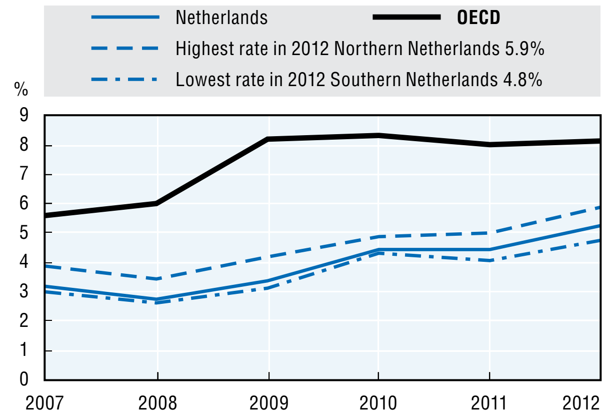
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	408		12

Regional development policy	
Lead ministry(ies) or committees	Ministry of Economic Affairs (Spatial Economic Policy Directorate); Ministry of Infrastructure and the Environment; Ministry of Interior and Kingdom Relations
Regional development framework	There is no explicit regional development framework.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Interior and Kingdom Relations; Ministry of Infrastructure and Environment
Urban policy framework or strategy	There is no explicit national urban policy framework. Within urban policy, the Strong Communities Action Plan focuses on 40 deprived neighbourhoods in 18 cities.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Economic Affairs (Minister for Agriculture)
Rural policy framework or strategy	The third Rural Development Program for 2014-2020 is focused on innovation and sustainability.

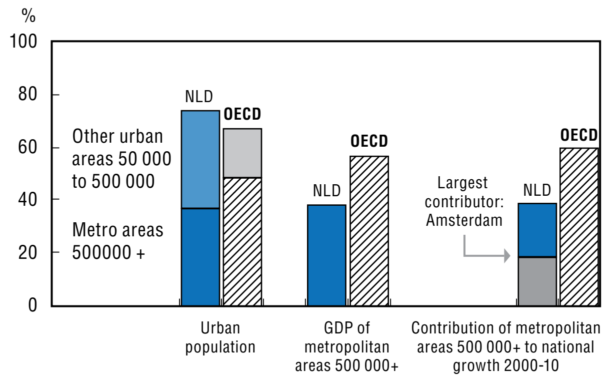
Regional disparities in unemployment trends



In 2012, the unemployment rate was the highest in Northern Netherlands (5.9%) and the lowest in Southern Netherlands (4.8%). The Netherlands has the lowest regional disparities in the youth unemployment rate in the OECD.

StatLink http://dx.doi.org/10.1787/888933108396

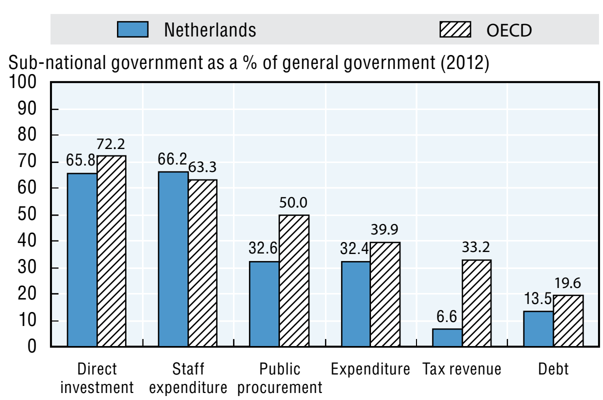
The importance of urban areas



In the Netherlands, 74% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 37%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108415

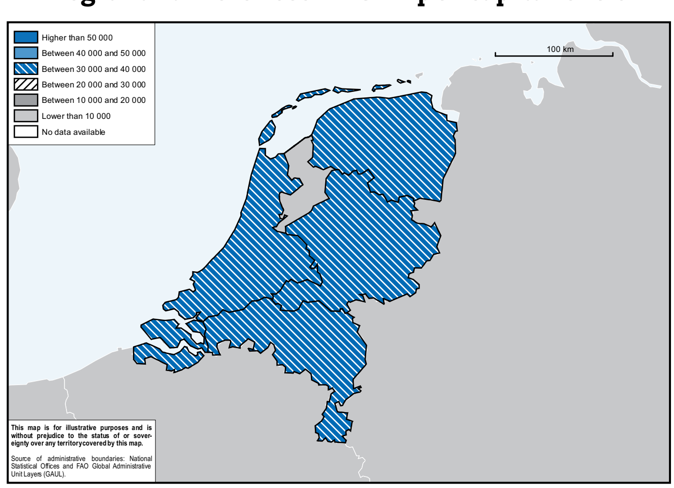
The role of sub-national governments in public finance



Education and economic affairs are the two largest spending items for SNGs in the Netherlands: together they represent 46% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108434

Regional differences in GDP per capita levels



Among OECD countries, the Netherlands had the 2nd lowest regional disparities in GDP per capita. In the previous decade, regional growth varied from +1.9% annually in Northern Netherlands to +1% in Southern Netherlands.

New Zealand

Recent policy developments

- The central government's Regional Strategy Fund, which supported the regional economic development plan, was brought to an end in 2010.
- Eight regional, city and district councils were amalgamated to form the Auckland Council in 2010. A Unitary Plan was established for the new entity, which stipulates development policies and replaces the previous seven district plans.
- In 2012, the government announced an eight-point reform programme for local government. This is part of the government's broader programme for building a more productive, competitive economy and better public services. The first points of the programme, passed in 2012, provide for: *i)* a new purpose statement; *ii)* new financial prudence requirements; *iii)* changes in the way councils are governed; and *iv)* changes in the process for reorganising local government.
- On 4 November 2013, the government passed the Local Government Act 2002 Amendment Bill (No. 3). The amendments in the bill include: *i)* encouraging more collaboration and shared services between local authorities; *ii)* facilitating more efficient and focused consultation on long-term plans and annual plans; *iii)* removing unnecessary duplication between annual plans and long-term plans; *iv)* enabling elected members to use technology to participate in council meetings, rather than attending in person. The bill also includes provisions that enable the Local Government Commission to establish local boards as part of new unitary authorities, and in existing unitary authorities, and create council-controlled organisations and joint committees as part of a reorganisation scheme.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	67		11

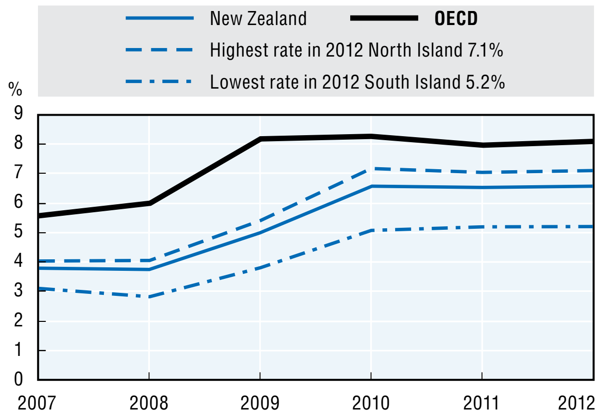
Regional development policy	
Lead ministry(ies) or committees	Ministry of Business, Innovation and Employment
Regional development framework	There is no general framework, but regions develop, implement, monitor and communicate regional economic development strategies.

Urban development policy	
Lead ministry(ies) or committees	
Urban policy framework or strategy	No general framework exists.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture, Fisheries, Forestry and Rural Development
Rural policy framework or strategy	

Note: The functional urban areas have not been identified in New Zealand.

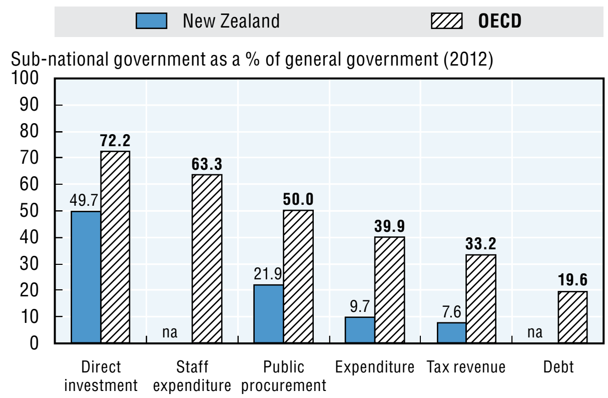
Regional disparities in unemployment trends



Since 2007, the unemployment rate has increased in both regions. In 2012, the highest unemployment rate was in North Island (7.1%). In 2012, the youth unemployment rate reached 17.8% in North Island and 13.7% in South Island.

StatLink *http://dx.doi.org/10.1787/888933108453*

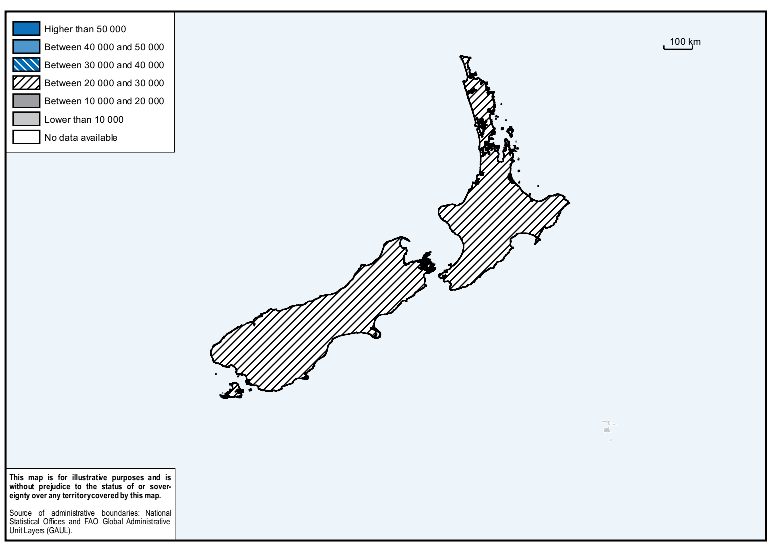
The role of sub-national governments in public finance



In New Zealand, 50% of the total public investment was carried out by sub-national governments (SNG), compared to 72% in the OECD area. SNG investment has slightly decreased in New Zealand, from USD 515 per capita in 2007 to USD 499 per capita in 2010.

StatLink *http://dx.doi.org/10.1787/888933108472*

Regional differences in GDP per capita levels



New Zealand had the lowest regional disparities in GDP per capita in OECD countries.

Norway

Recent policy developments

- The new government's state budget has put a greater emphasis on the business sector's conditions for economic growth to create new and economically sustainable jobs. In particular, the new government prioritises communication infrastructure, soft infrastructure (e.g. within education) and growth-enhancing tax reductions. The new government plans to present a new White Paper on regional policy in 2017.
- The 2013 White Paper "On Rural and Regional Policy" is the latest regional policy framework, continuing the goal of preserving the distinctive features of Norway's settlement pattern by using human and natural resources throughout the country for the greatest possible national prosperity and equal living conditions.
- Innovation Norway adopted an innovative governance approach to supporting regional development by becoming a jointly owned institution in 2010: 49% is co-owned by the county municipalities and 51% by the national level.
- Norway is not a member of the European Union (EU), but has been a partner of the EU through the Agreement on the European Economic Area (EEA) since 1992. This has made possible the free movement of goods, services, people and capital in the internal market, and participation in European Territorial Co-operation programmes to support regional development.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	428		18[1]

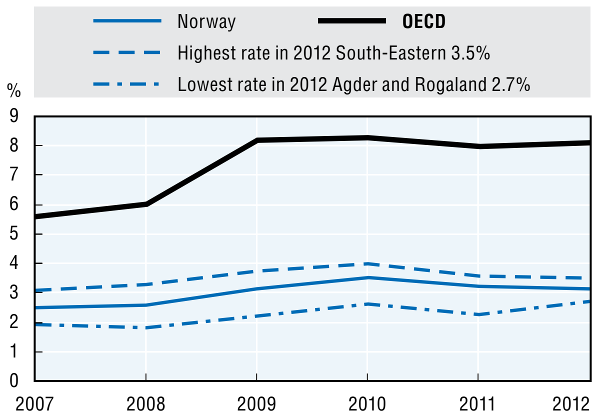
Regional development policy	
Lead ministry(ies) or committees	Ministry of Local Government and Modernisation
Regional development framework	The 2013 White Paper "On Rural and Regional Policy" with a focus on equal living conditions throughout the country. Norwegian rural and regional policy supports innovation, entrepreneurship and municipal business development funds.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Local Government and Modernisation
Urban policy framework or strategy	No general framework; 2007 White Paper for long-term co-operation with Oslo "A Tolerant, Secure and Creative Oslo Region: Report on the Capital Region of Norway".

Rural development policy	
Lead ministry(ies) or committees	Ministry of Local Government and Modernisation
Rural policy framework or strategy	The 2013 White Paper "On Rural and Regional Policy" with a focus on equal living conditions throughout the country. Norwegian rural and regional policy supports innovation, entrepreneurship and municipal business development funds.

1. Excluding Oslo.

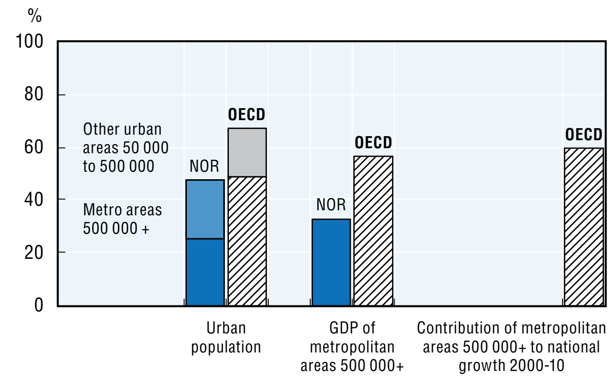
Regional disparities in unemployment trends



The unemployment rates in Norway were the lowest among OECD countries, with 3.5% as the highest value in South-Eastern Norway; this region had a youth unemployment rate of 9.8% in 2012, far below the OECD average.

StatLink http://dx.doi.org/10.1787/888933108491

The importance of urban areas

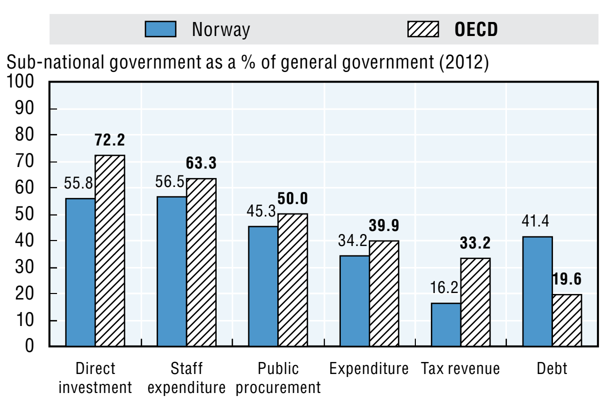


In Norway, 48% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 25%, compared to 49% in the OECD area.

Contribution to national GDP growth for Norway does not appear in the figure due to lack of comparable time series over the period 2000-10.

StatLink http://dx.doi.org/10.1787/888933108510

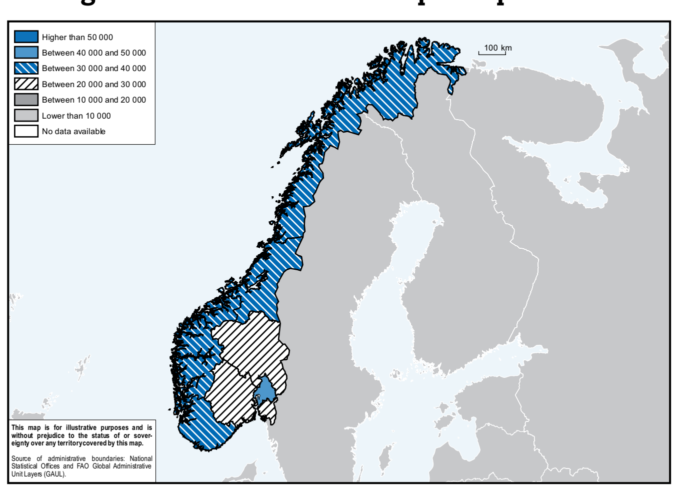
The role of sub-national governments in public finance



Social protection and education are the two largest spending items for SNGs in Norway: together they represent 52% of sub-national expenditure, compared to 39% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108529

Regional differences in GDP per capita levels



Norway had the 11th largest regional disparities in GDP per capita. In 2010, regional GDP per capita was the highest in Oslo and Akershus, and the lowest in Hedmark and Oppland.

Poland

Recent policy developments

- At the end of 2013, the Ministry of Regional Development and the Ministry of Transport, Construction and Marine Economy were merged to create the Ministry of Infrastructure and Development.
- In 2010, Poland developed a new National Strategy of Regional Development 2010 20: Regions, Cities, Rural Areas (NSRD). The strategy sets out the objectives of regional policy in reference to individual territories of the country, including, in particular, urban and rural areas. Its main goals include: *i)* support for the competitive growth of the regions; *ii)* establishment of territorial cohesion and prevention of the marginalisation of problem areas; and *iii)* establishment of conditions for efficient, effective and partnership implementation of development measures targeted at territories.
- To strengthen partnership and improve co–ordination of territorially oriented activities at different levels of development management, the NSRD introduces "territorial contracts" between the government and regional self-governments on the most important undertakings to be implemented in a given territory. This instrument aims to create synergies among all policy instruments having a territorial dimension.
- The National Concept of Spatial Development 2030, approved by the Council of Ministers in December 2011, sets out a spatial policy of Poland for the next 20 years.
- Political discussions are underway to increase local engagement in development processes, provide financial incentives to encourage voluntary amalgamations and decentralise new functions to municipalities. The organisation of metropolitan areas is still being discussed.
- Poland is currently elaborating its National Urban Policy (NUP). The NUP will be a separate document dedicated only to cities and their functional areas.

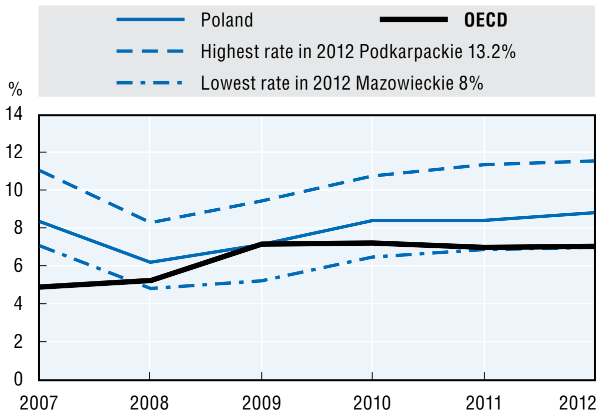
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	2 479	380	16

Regional development policy	
Lead ministry(ies) or committees	Ministry of Infrastructure and Development
Regional development framework	The National Strategy of Regional Development (NSRD) 2010 20 promotes functional areas building on cities, revitalisation of lagging areas, institutional capacity building and increasing spatial accessibility.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Infrastructure and Development
Urban policy framework or strategy	A National Urban Policy framework is being developed. Some important themes for urban policy in Poland include: i) clarifying national priorities for cities; ii) working to improve inter-municipal co-ordination and co-operation across levels of government; and iii) designing policies to reflect the challenges of Polish cities of various sizes and to connect them better in a system of cities.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture and Rural Development; Ministry of Infrastructure and Development
Rural policy framework or strategy	Rural Development Strategy; National Concept of Spatial Development 2030

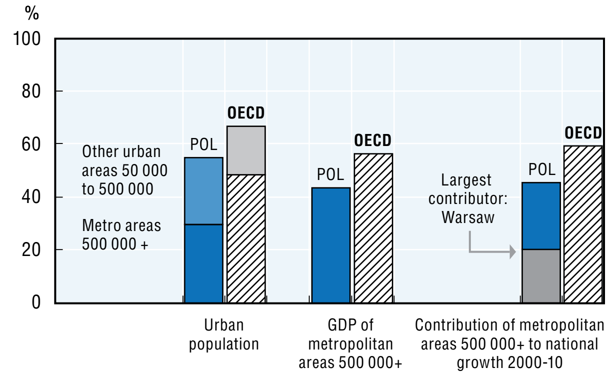
Regional disparities in recent unemployment trends



In 2012, the highest unemployment rate is found in Podkarpackie (13.2%) which also has the highest youth unemployment rate (40.8%).

StatLink http://dx.doi.org/10.1787/888933108548

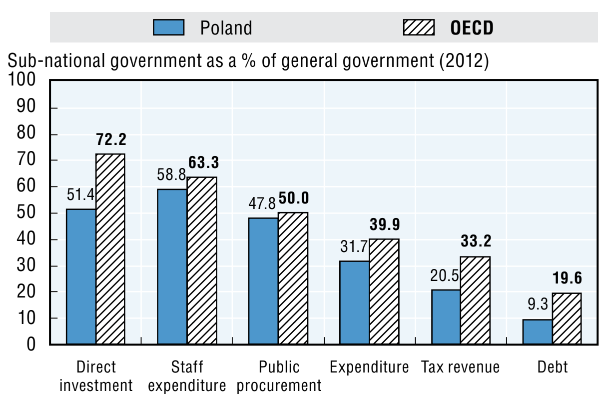
The importance of urban areas



In Poland, 55% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 30%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108567

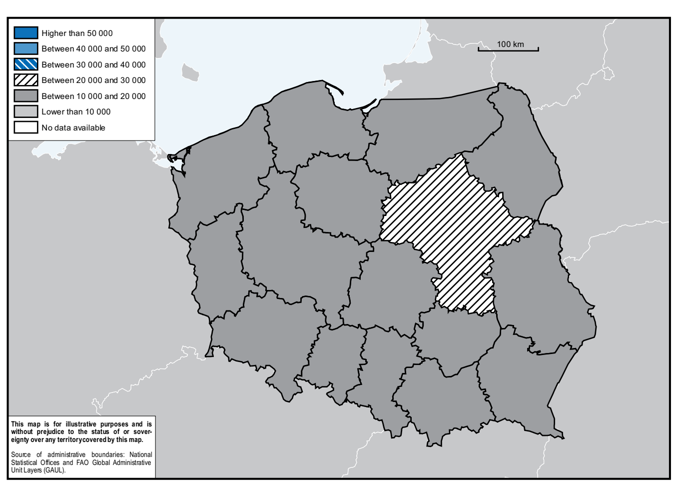
The role of sub-national governments in public finance



Education and economic affairs are the two largest spending items for SNGs in Poland: together they represent 45% of sub-national expenditure, which is in line with the OECD average (40%).

StatLink http://dx.doi.org/10.1787/888933108586

Regional differences in GDP per capita levels



Poland had the 8th smallest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, regional growth varied from +4.8% annually in Mazowieckie to +2.4% in Zachodniopomorskie.

Portugal

Recent policy developments

- The number of *freguesias* (parishes) has been reduced. The sub-municipal-level was reorganised by two laws, one adopted in November 2012 and the other in January 2013. The laws reduced the number of parishes by about 27%, from 4 259 entities to 3 091 as of September 2013.
- The revision of local and regional finance laws was passed in September 2013. It establishes a multiyear budget plan; spells out expenditure rules, budget balance and the debt by setting stricter debt limits; and, finally, it gives the state greater fiscal oversight. The regulations governing transfers from the state to local authorities were reviewed, as was property taxation. The autonomous regions' authority over tax exonerations was reduced.
- A new agency for development and cohesion was created in 2013, with responsibility for co-ordinating EU structural and investment funds, and regional policy.
- A new Land Act was passed in April 2014. Among other issues, it covers the right to transform land that has not been developed. If this right has not been exercised, it will remain rural.
- The Partnership Agreement with the EC will be used to promote inter-municipal co-operation, using EU funds as an incentive, following a positive experience in the previous programming cycle. The aim is to rationalize fragmented and/or overlapping municipal-level investments.
- The government is contemplating improving the metropolitan governance of the metropolitan area and adapting the government to the functional urban areas.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional or state-level governments
Unitary	308		2

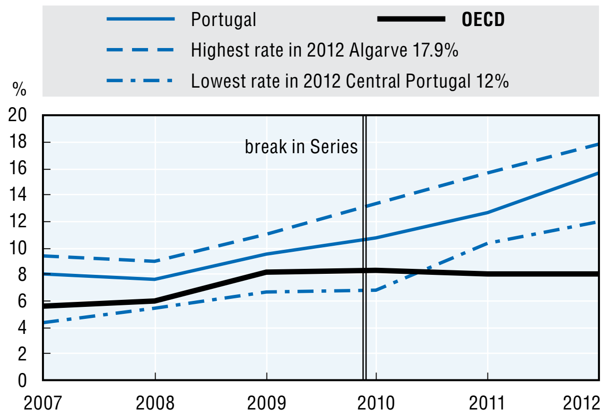
* Existence of a structured sub-municipal level (*freguesias*), which was reorganised under two laws (one in November 2012 and the other in January 2013). Their number was reduced by about 27%, from 4 259 entities to 3 091 as of September 2013.

Regional development policy	
Lead ministry(ies) or committees	Minister in the Cabinet of the Prime Minister for Regional Development
Regional development framework	EU Partnership Agreement for the use of EU structural and investment funds

Urban development policy	
Lead ministry(ies) or committees	Ministry of Environment, Spatial Planning and Energy
Urban policy framework or strategy	The component of sustainable urban development, notably Sustainable Cities 2020, within the EU Partnership Agreement for the use of EU structural and investment funds.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture and Sea
Rural policy framework or strategy	The component of rural development within the EU Partnership Agreement for the use of EU structural and investment funds.

Regional disparities in unemployment trends

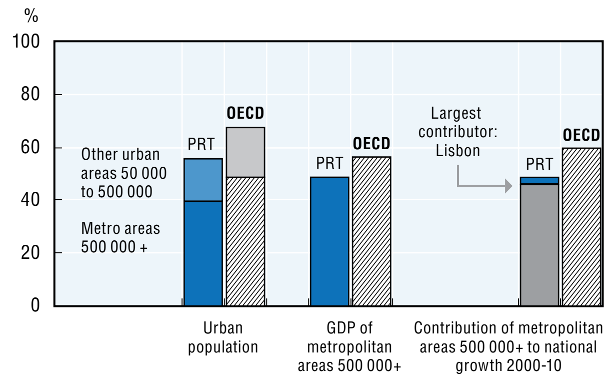


Note: Estimates from 2011 onwards are not directly comparable.

In 2012, the unemployment rate in Portugal was highest in Algarve (17.9%) and lowest in Central Portugal (12%). Since 2010, the youth unemployment rate has soared in Portuguese regions, reaching 49% in Madeira.

StatLink http://dx.doi.org/10.1787/888933108605

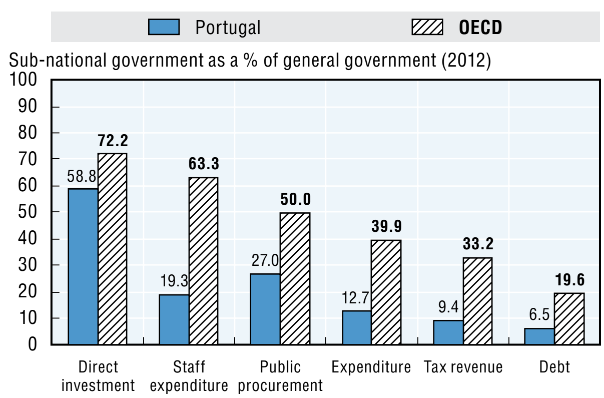
The importance of urban areas



In Portugal, 55% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 39%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108624

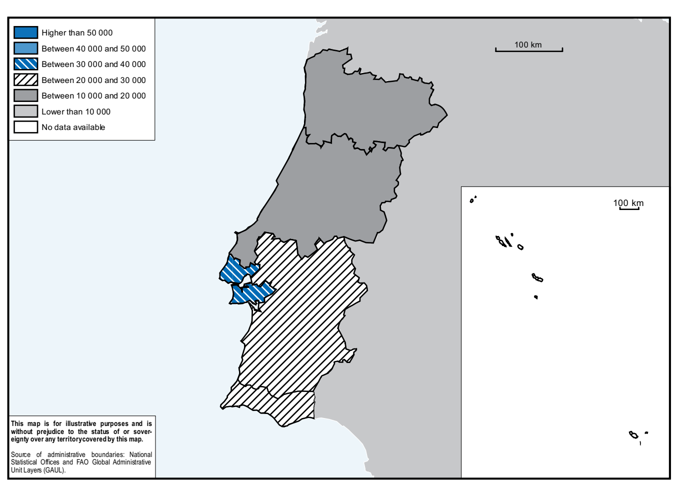
The role of sub-national governments in public finance



General public services and economic affairs are the two largest spending items for SNGs in Portugal: together they represent 48% of sub-national expenditure, almost double the OECD average (28%).

StatLink http://dx.doi.org/10.1787/888933108643

Regional differences in GDP per capita levels



Portugal had the 7th largest regional disparities in GDP per capita. In the previous decade, regional growth was the highest in Madeira (2.1%) and the lowest in Alentejo (0.2%).

Slovak Republic

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	2 927[1]		8

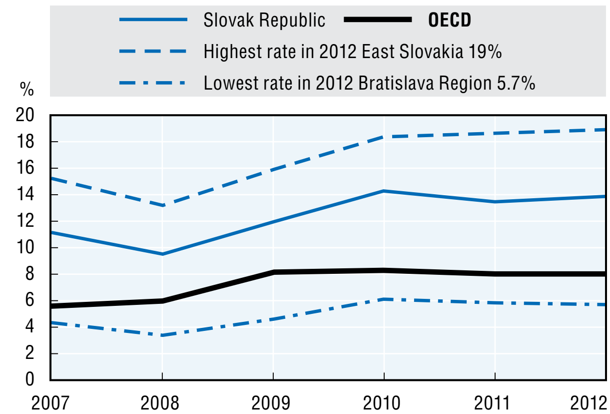
Regional development policy	
Lead ministry(ies) or committees	Ministry of Transport, Construction and Regional Development
Regional development framework	National Regional Development Strategy 2020

Urban development policy	
Lead ministry(ies) or committees	Ministry of Transport, Construction and Regional Development
Urban policy framework or strategy	No urban policy framework exists, but urban issues are addressed in the National Regional Development Strategy 2020.

Rural development policy	
Lead ministry(ies) or committees	Minister of Agriculture and Rural Development; Ministry of Transport, Construction and Regional Development
Rural policy framework or strategy	

1. Including city parts in Bratislava and Košice; three military districts are also included.

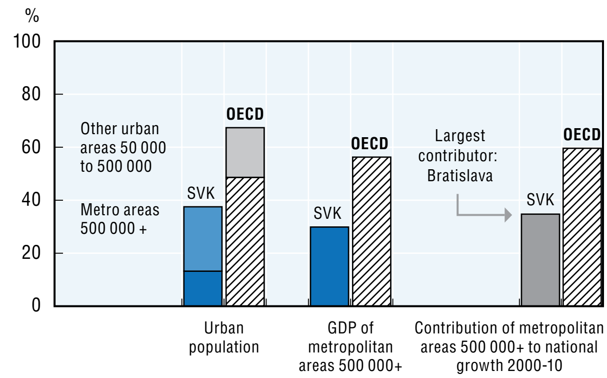
Regional disparities in unemployment trends



In 2012, East Slovakia records the highest unemployment rate (19%) as well as the highest youth unemployment rate (43%).

StatLink http://dx.doi.org/10.1787/888933108662

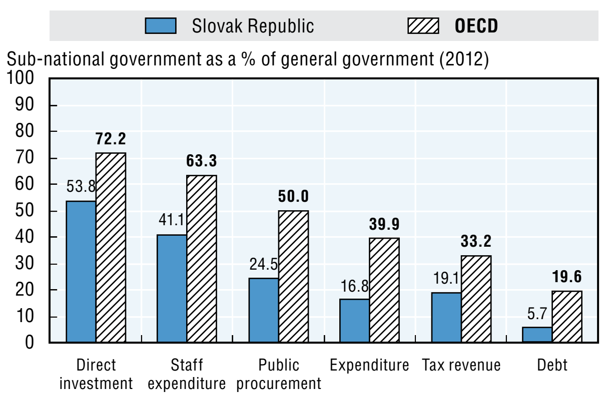
The importance of urban areas



In the Slovak Republic, 38% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 13%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108681

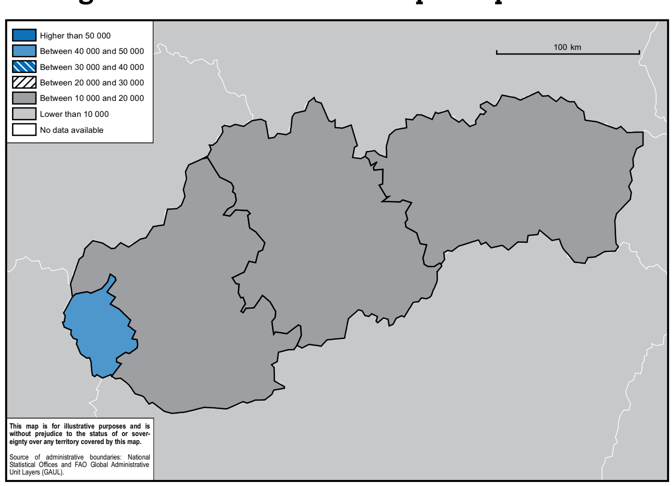
The role of sub-national governments in public finance



Education and economic affairs are the two largest spending items for SNGs in the Slovak Republic: together they represent 53% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108700

Regional differences in GDP per capita levels



The Slovak Republic had the 6th largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, GDP growth in Slovak regions was above the OECD average, and varied from 6% annually in the Bratislava Region to +3.9% in East Slovakia.

Slovenia

- Low inter-regional disparities are partly the result of long-standing policies aimed at ensuring polycentric and balanced regional development. While the recent crisis hit Slovenia hard, its aggregate impact on labour markets has been in line with the OECD average. However, it was geographically quite concentrated: more than half of job losses (60%) occurred in only 2 of Slovenia's 12 regions.
- In 2007 13, Slovenia earmarked around 66% of total funds for projects initiated under the EU's so-called "Lisbon Agenda" for sustainable growth, innovation and jobs; one of the highest rates among the ten new member countries.
- The Law on Stimulating Balanced Regional Development, adopted in March 2011, is intended to make regional development policy more predictable and transparent, as well as fairer and more efficient. One of its main innovations is the creation of a mechanism to avoid the need for *ad hoc* measures and region-specific legislation in response to shocks. Greater reliance on contractual arrangements for the national co-financing of regional projects, and emphasis on improving monitoring and evaluation, should also strengthen accountability and co-ordination.
- The 2011 law reorganised regional development councils and regional councils, which are combined to form a Development Region Council in order to rationalise their activities and costs. Membership consists of representatives of municipalities (40%), economic associations – such as chambers of commerce or craft (30%) – and non-governmental organisations (30%). To promote horizontal co-ordination, the law encourages co-operation among regions and ministries in order to prepare inter-regional projects or common development programmes.
- The number of municipalities in Slovenia has grown over the last 20 years. This trend toward fragmentation has been particularly visible in the less-developed parts of the country. At present, there are 211 municipalities for a country of just about 2 million inhabitants. Recently, fragmentation has started to slow, thanks in part to changes in the criteria for establishing municipalities, an increase in the number of competences transferred to municipalities since the late 1990s, deterioration in the ability of the fiscal equalisation system to close the fiscal gap, and the adverse effects of the recent financial crisis.

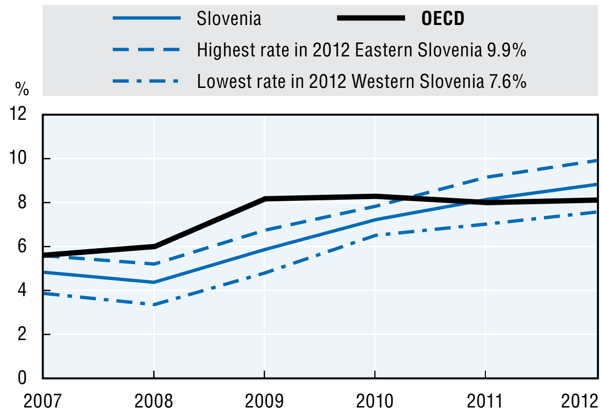
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	211		

Regional development policy	
Lead ministry(ies) or committees	Minister of Economic Development and Technology (Regional Development and European Territorial Co-operation Directorate)
Regional development framework	The Promotion of Balanced Regional Development Act covers regional development policy with a focus on the least-developed regions, lagging municipalities, border areas and areas with ethnic minorities.

Urban development policy	
Lead ministry(ies) or committees	Minister of Infrastructure and Urban Planning
Urban policy framework or strategy	

Rural development policy	
Lead ministry(ies) or committees	Government Office for Local Self-Government and Regional Policy; Minister of Agriculture and Environment
Rural policy framework or strategy	

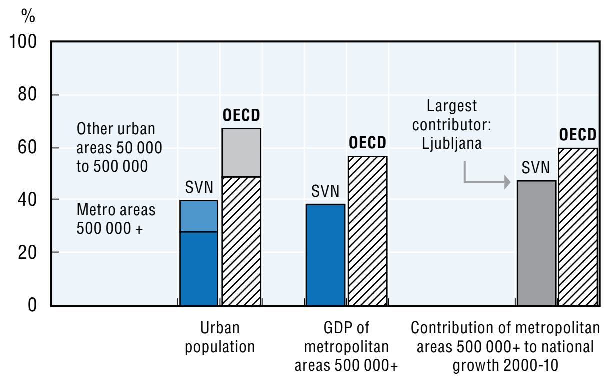
Regional disparities in unemployment trends



In 2012, the unemployment rate reached 9.9% in Eastern Slovenia and 7.6% in Western Slovenia. The youth unemployment rate soared in the past five years, reaching 22% in Eastern Slovenia, the same value as the OECD average.

StatLink http://dx.doi.org/10.1787/888933108719

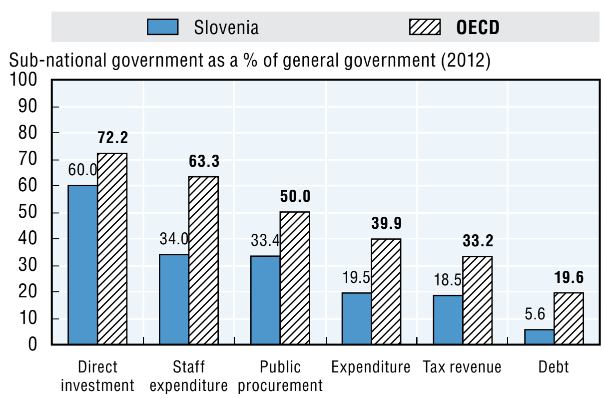
The importance of urban areas



In Slovenia, 40% of the population lives in cities of different sizes: the share of population in the metropolitan area of Ljubljana (the only urban area with more than 500 000 inhabitants) is 28%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108738

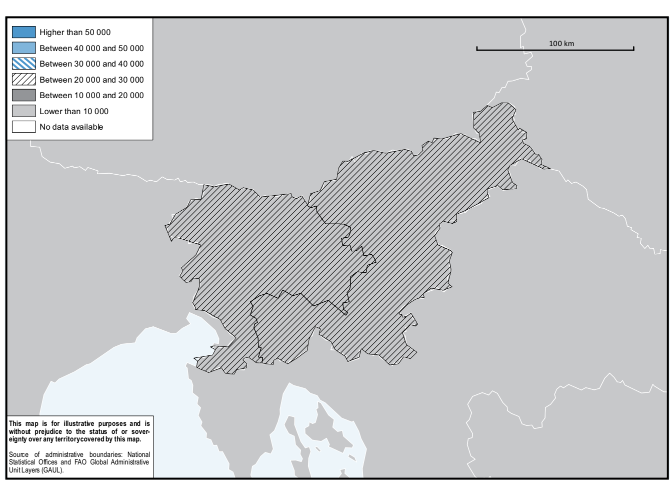
The role of sub-national governments in public finance



Education and economic affairs are the largest spending items for SNGs in Slovenia; they represent 49% of sub-national expenditure, compared to 40% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108757

Regional differences in GDP per capita levels



Slovenia had the 4th lowest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade, GDP growth in Slovenian regions was above the OECD average; the highest growth occurred in Western Slovenia (+3.1%).

Spain

Recent policy developments

- The Commission for the Reform of Public Administrations (CORA) process was launched by the Council of Ministers on 26 October 2012. The focus is administrative streamlining, simplification of legislation and procedures, and avoiding duplication between central state and autonomous communities (AC). The CORA also proposes a code of best practices to rationalise public expenditure and increase the efficiency of public services by optimising the use of new technologies.
- The CORA proposals focus on duplications between the central government and the ACs. Of the 217 proposals presented in the reform, 118 relate to eliminating duplications: at the national level and between national and sub-national levels.
- The Law on the Streamlining and Sustainability of Local Governments (December 2013) aims at streamlining the services offered by the local public sector and increasing the responsibilities granted to provinces. As a result, provinces could be in charge of co-ordinating specific municipal minimum services to municipalities under 20 000 inhabitants. Local councils will be under an obligation to publish the cost of each public service. They will then determine whether services should be joint or concentrated under the umbrella of the provincial council, if the council can offer them under better conditions at an effectively lower cost. This reform is in line with the central authorities' aim of reaching a sufficient size for service provision, ultimately generating savings.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Quasi-federation	8 117	50[1]	17

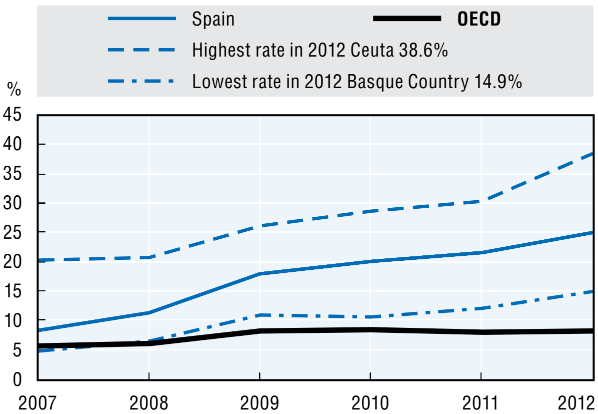
Regional development policy	
Lead ministry(ies) or committees	Ministry of Finance and Public Administrations
Regional development framework	No explicit framework beyond EU Structural Funds; regional development is a main competency of the regions (autonomous communities).

Urban development policy	
Lead ministry(ies) or committees	Ministry of Public Works and Transport and Ministry of Agriculture, Food and the Environment
Urban policy framework or strategy	In Spain's Urban and Local Sustainability Strategy, the focus is on: the urban and territorial development dimension; urban planning instruments; accessibility, mobility and transport; urban governance; housing; climate change.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Agriculture, Food and the Environment
Rural policy framework or strategy	Law on Sustainable Development of Rural Areas from 2007 created a multi-sectoral and place-based rural policy in Spain based on four pillars: support of territorial agriculture, promotion of economic activity in rural areas, infrastructure investment and environmental planning.

1. Excluding the two autonomous cities of Ceuta and Melilla

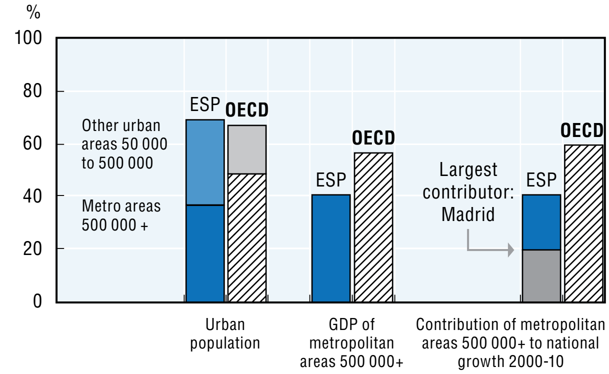
Regional disparities in unemployment trends



In recent years, the unemployment rate has soared in Spanish regions, reaching almost 40% in Ceuta. The youth unemployment rate exceeded 70% in the same region.

StatLink http://dx.doi.org/10.1787/888933108776

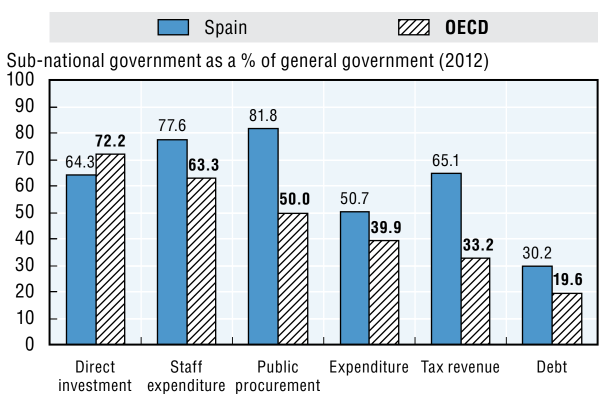
The importance of urban areas



In Spain, 69% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 37%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108795

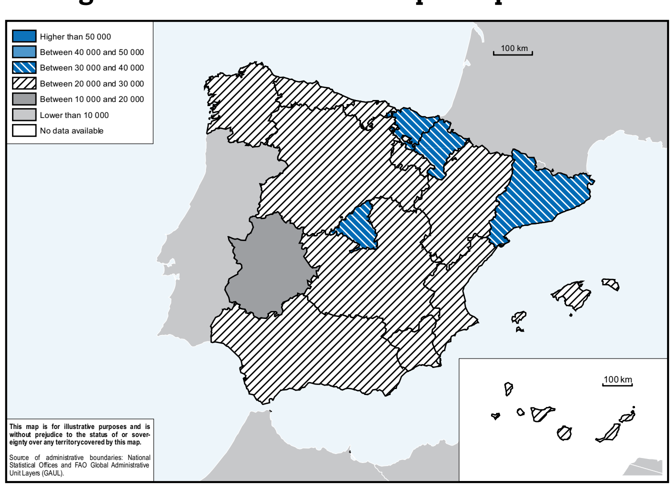
The role of sub-national governments in public finance



Health and general public services are the two largest spending items for SNGs in Spain: together they represent 48% of sub-national expenditure, compared to 32% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108814

Regional differences in GDP per capita levels



Spain had the 9th lowest regional disparities in GDP per capita in OECD countries in 2010. Between 2000 and 2010, regional growth rates were above the OECD average and varied from +3% annually in Murcia to +1.5% in Melilla.

Sweden

Recent policy developments

- A pilot project in Skåne and Västra-Götaland merging counties with a directly elected regional assembly and responsibility for regional development was made permanent in 2011. In the spring of 2014, the parliament reallocated the responsibility for regional development in six more counties. From January 2015, the county councils (directly elected regional assemblies) in Jönköping, Örebro, Gävleborg, Östergötland, Jämtland and Kronoberg will gain responsibility for regional development from the county administrative boards (national government agencies at the regional level).
- From 2015, there will be 10 county councils out of 21 responsible for regional development. In the rest of the country, county administrative boards are responsible for regional development in four counties, and regional development councils (assemblies indirectly elected by municipalities and county councils) in seven counties. The government has announced that further changes will not be implemented before the general election in September 2014.
- Part of the Swedish government and government agencies relating to regional development have undergone a substantial overhaul during recent years. The Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*) and the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) were created in 2009. The Ministry of Agriculture was transformed into the Ministry for Rural Affairs in 2011.
- A National Strategy for Regional Growth and Attractiveness 2014-2020 was launched in June 2014, with a broader scope than the previous National Strategy for Regional Competitiveness, Entrepreneurship and Employment 2007-2013. The new strategy adopts a cross-sectoral approach and will rely on multi-level governance mechanisms for dialogue and learning.

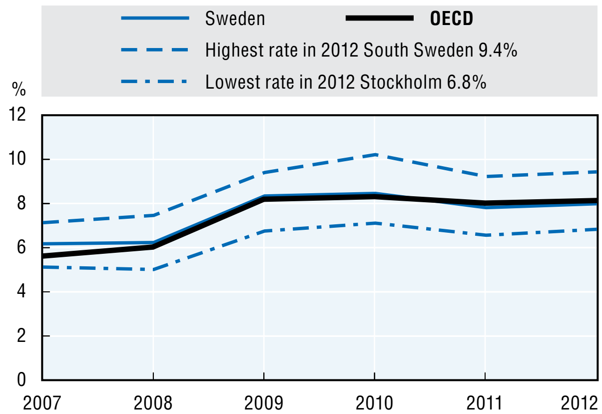
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	290		21

Regional development policy	
Lead ministry(ies) or committees	Ministry of Enterprise, Energy and Communication
Regional development framework	The National Strategy for Regional Growth and Attractiveness 2014-2020 scheduled to be launched in June 2014, in line with the Europe 2020 strategy for smart, sustainable and inclusive growth, and complemented with priorities such as physical/spatial planning and regional attractiveness for regional sustainable growth.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Health and Social Affairs
Urban policy framework or strategy	A National Platform for Sustainable Urban Development

Rural development policy	
Lead ministry(ies) or committees	Ministry for Rural Affairs; Swedish Board of Agriculture
Rural policy framework or strategy	Rural Development Programme

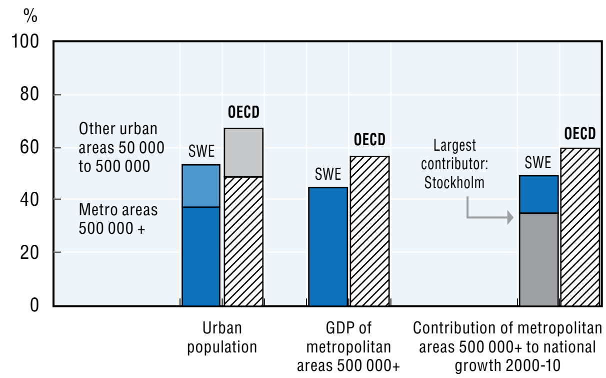
Regional disparities in unemployment trends



In 2012, South Sweden recorded the highest unemployment rate (9.4%), as well as the highest youth unemployment rate (26.3%).

StatLink http://dx.doi.org/10.1787/888933108833

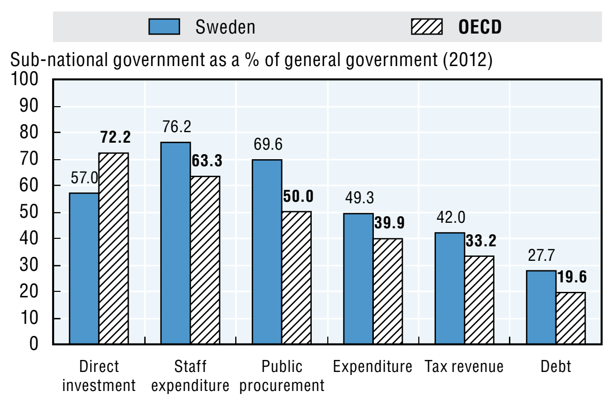
The importance of urban areas



In Sweden, 53% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 37%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108852

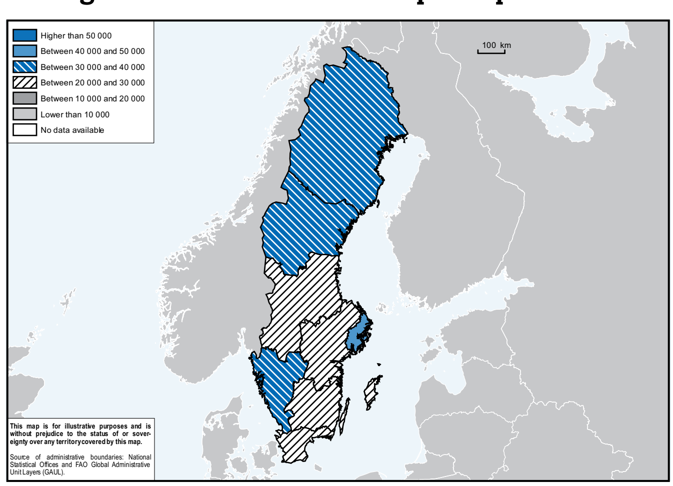
The role of sub-national governments in public finance



Health and social protection are the two largest spending items for SNGs in Sweden: together they represent 54% of sub-national expenditure, compared to 30% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108871

Regional differences in GDP per capita levels



GDP per capita levels in Swedish regions were above the OECD average in 2010. In the previous decade, GDP growth in Swedish regions was above the OECD average, with the largest difference observed between Upper Norrland (3.2% annually) and Småland (1.4% annually).

Switzerland

Recent policy developments

- The New Regional Policy (NRP) was launched in 2008. A working group called "NPR 2016+" was created in 2012 with representatives from the Confederation and cantons, to evaluate the impact of the NRP for the first programming period 2008-15 in view of the preparation of the new multi-year programme 2016-23.
- There have been efforts to promote further inter-cantonal collaboration. Existing inter-cantonal concordats have tended to be mostly bilateral tax treaties aimed at eliminating double taxation, or focused on joint initiatives for physical infrastructure. Around 25% of the NRP funds are set aside for these projects, although cantons frequently do not make full use of the funds.
- In 2011, the Federal Council decided to continue the Federal Agglomeration Policy. It asked the Federal Office for Spatial Development (ARE) and the Federal Secretariat for Economic Affairs (SECO) to submit, in 2014, a framework proposal for the agglomeration policy for 2016-19. There are 50 statistically defined agglomeration areas, but each agglomeration area is free to establish its own perimeter and develop an agglomeration programme. Agglomeration areas benefit from an infrastructure fund, largely for transport infrastructure projects, and from a fund for model projects.

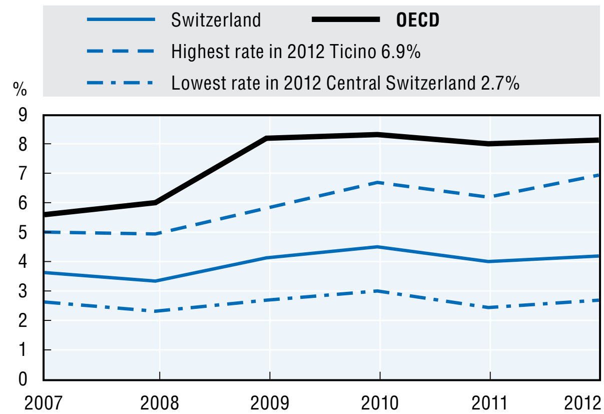
Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Federation	2 408		26

Regional development policy	
Lead ministry(ies) or committees	Federal Secretariat for Economic Affairs (SECO)
Regional development framework	The Federal Law on Regional Policy (2006) set the stage for the New Regional Policy (NRP) 2008-15 period, with a focus on economic development and inter-cantonal co-operation in targeted areas that include: rural and mountainous areas; border regions; and areas with specific structures.

Urban development policy	
Lead ministry(ies) or committees	Federal Office for Spatial Development (ARE); SECO
Urban policy framework or strategy	The Federal Agglomeration Policy (*Agglomerationspolitik des Bundes*, initially 2001, to be renewed in 2014), focuses on city economic attractiveness, quality of life, limiting urban sprawl and maintaining a network of urban areas (polycentrism).

Rural development policy	
Lead ministry(ies) or committees	SECO; Federal Office for Agriculture (OFAG)
Rural policy framework or strategy	The Federal Law on Regional Policy (2006) set the stage for the New Regional Policy (NRP) 2008-15 period, with a focus on economic development and inter-cantonal co-operation in targeted areas that include: rural and mountainous areas; border regions; and areas with specific structures.

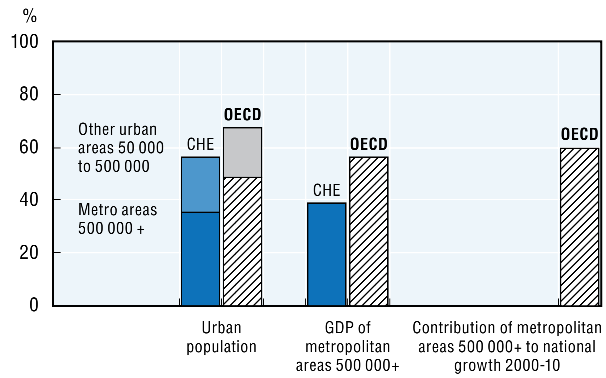
Regional disparities in unemployment trends



The unemployment rate in Swiss regions varied from 6.9% in Ticino to 2.7% in Central Switzerland. The youth unemployment rate reached almost 18% in Ticino.

StatLink http://dx.doi.org/10.1787/888933108890

The importance of urban areas

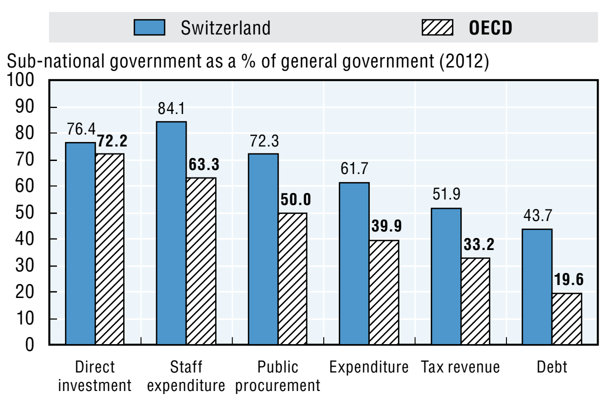


In Switzerland, 56% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 35%, compared to 49% in the OECD area.

Contribution to national GDP growth for Switzerland does not appear in the figure, due to lack of comparable time series over the period 2000-10.

StatLink http://dx.doi.org/10.1787/888933108909

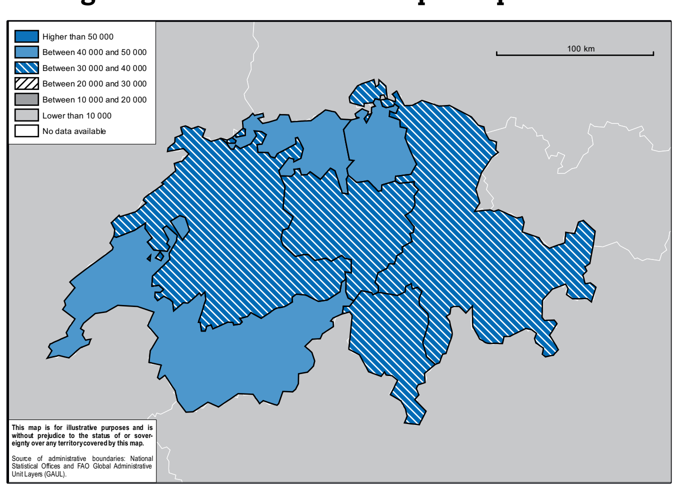
The role of sub-national governments in public finance



Education and social protection are the two largest spending items for SNGs in Switzerland: together they represent 47% of sub-national expenditure, compared to 39% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933108928

Regional differences in GDP per capita levels



Switzerland had the 10th lowest regional disparities in GDP per capita. The Swiss national average of GDP per capita is more than 30% higher than the OECD average.

Turkey

Recent policy developments

- The Tenth National Development Plan (2014-18) has recently been published and establishes the medium-term priorities of Turkey in terms of regional policy. Under the plan, regional development policies will contribute to national development, competitiveness and employment by increasing the productivity of regions, while addressing the basic objective of reducing regional and rural-urban disparities. Priority areas include: increasing the consistency and effectiveness of policies at the central level, creating a development environment based on local dynamics, increasing institutional capacity at the local level and accelerating rural development.
- The draft National Strategy for Regional Development (2014-23) seeks to: ensure national level co-ordination for regional development and regional competitiveness, strengthen the linkages between spatial and socio-economic development policies and establish a general framework for sub-scale plans. Regional plans for the period of 2014-23 for all 26 NUTS 2 regions within the framework of the National Strategy for Regional Development and regional planning guidelines are being produced under the co-ordination of regional development agencies.
- Turkey has institutionalised the 26 development agencies of its regions, now fully operational.
- The Supreme Regional Development Council (chaired by the Prime Minister with participation of related ministers) and Regional Development Committee (technical consultation by under-secretaries of related ministries) were established to support greater central government co-ordination on regional development issues.

Government structure	Municipal-level governments	Intermediate-level governments	Regional or state-level governments
Unitary	2 950		81

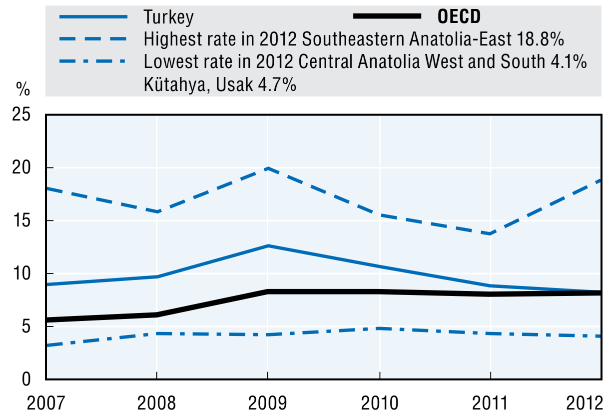
Regional development policy	
Lead ministry(ies) or committees	Ministry of Development; Supreme Regional Development Council
Regional development framework	The Tenth National Development Plan (2014-18) and the draft National Strategy for Regional Development (2014-23) determine the medium-term priorities for regional policy.

Urban development policy	
Lead ministry(ies) or committees	Ministry of Environment and Urbanisation
Urban policy framework or strategy	The Integrated Urban Development Strategy and Action Plan (*Kentsel Gelişme Stratejisi ve Eylem Planı*, KENTGES) of 2010 focuses on a wide range of issues, from infrastructure, housing and disaster management to social policies and economic development.

Rural development policy	
Lead ministry(ies) or committees	Ministry of Development
Rural policy framework or strategy	Rural Development Plan (2010-13)

Note: The functional urban areas have not been identified in Turkey.

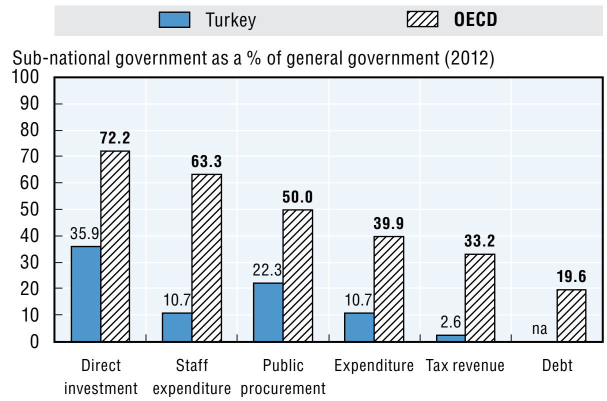
Regional disparities in unemployment trends



The difference of 10 percentage points between the highest unemployment rate in Izmir (14.7%) and the lowest (4.7%) places Turkey in the top 10 OECD countries with the highest regional disparities.

StatLink http://dx.doi.org/10.1787/888933108947

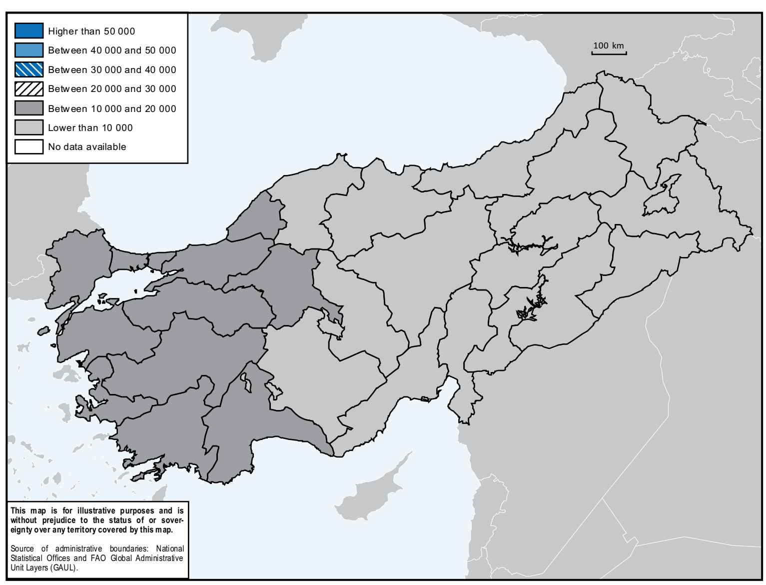
The role of sub-national governments in public finance



In Turkey, 36% of the total public investment was carried out by SNGs, compared to 72% in the OECD area. SNG investment has decreased in Turkey from USD 262 per capita in 2007 to USD 182 per capita in 2011.

StatLink http://dx.doi.org/10.1787/888933108966

Regional differences in GVA per capita levels



Regional GVA for Turkey corresponds to reference year 2001.

United Kingdom

Recent policy developments

- Since its election in 2010, the United Kingdom government has abolished the nine regional development agencies (RDAs) across England, which were created between 1998 and 2000.
- The government has thus shifted focus to functional economic areas by launching local enterprise partnerships (LEPs). These partnerships between local authorities and businesses decide on local priorities for investment in roads, buildings and facilities. In addition, 24 enterprise zones have been awarded with tax incentives and simplified local planning regulations.
- Since late 2011, urban policy has been centred on a growing number of city deals in England that are being implemented in waves. These deals allow a degree of "tailored" devolution of responsibility to English cities. City deals require better horizontal (across departments) and vertical (between the centre and the cities) co-ordination, and local capacity.
- In 2013, the Technology Strategy Board (the UK innovation-promotion agency) created seven catapult centres for innovation in thematic areas, building on regional strengths in some cases.
- In 2013, the government announced measures to allow communities in some parts of England greater scope for locally driven planning and house-building initiatives, in an effort to reduce the top-down nature of the planning process and to protect greenbelt land.
- A Cities Policy Unit was created in 2011 with public, private, central and local stakeholders to help co-ordinate urban policy.
- A referendum on whether Scotland should be an independent country is set for September 2014.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional or state-level governments
Unitary	406	28	3

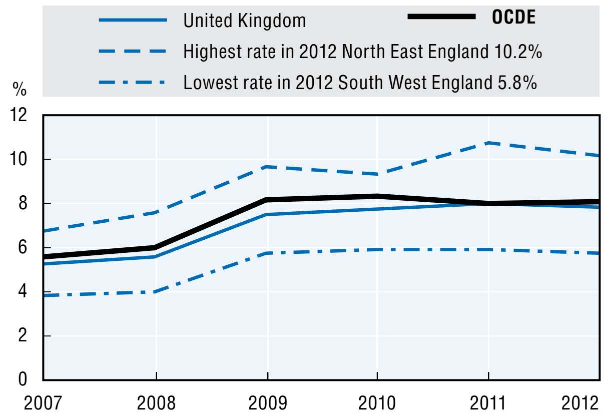
* There is also a structured sub-municipal level, mainly in England (10 479 parishes as of December 2010) and Wales (872 communities, 735 of which currently have a council).

Regional development policy	
Lead ministry(ies) or committees	Department for Business, Innovation and Skills; Department for Communities and Local Government
Regional development framework	No explicit regional development policy framework since the termination of RDAs. Some competencies have been delegated to the devolved administrations of Scotland, Wales and Northern Ireland.

Urban development policy	
Lead ministry(ies) or committees	Department for Communities and Local Government; Cities Policy Unit, Department for Business, Innovation and Skills
Urban policy framework or strategy	The White Paper *Unlocking Growth In Cities* sets the frameworks for the city deals, the main element of UK urban policy.

Rural development policy	
Lead ministry(ies) or committees	Department for Environment, Food and Rural Affairs. The Department for Communities and Local Government is responsible for rural housing and planning policies.
Rural policy framework or strategy	Rural Development Programme for England (RDPE) – consultation document

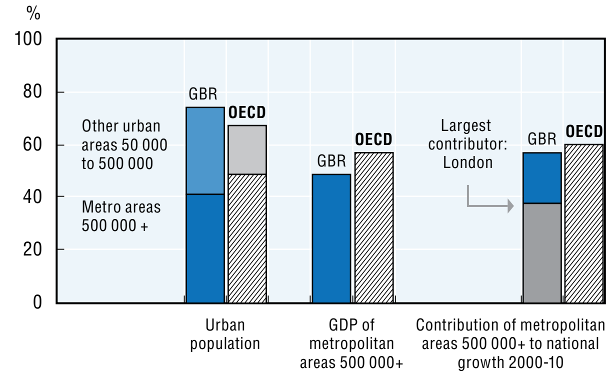
Regional disparities in unemployment trends



The United Kingdom has the 19th and the 9th largest differences between regions in unemployment rates and youth unemployment rates, respectively.

StatLink http://dx.doi.org/10.1787/888933108985

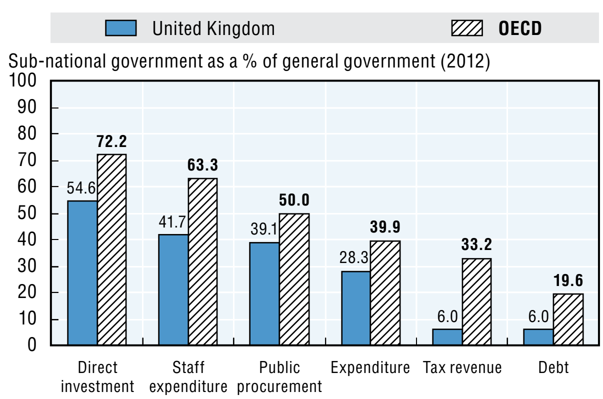
The importance of urban areas



In the United Kingdom, 74% of the population lives in cities of different sizes. The share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 41%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933109004

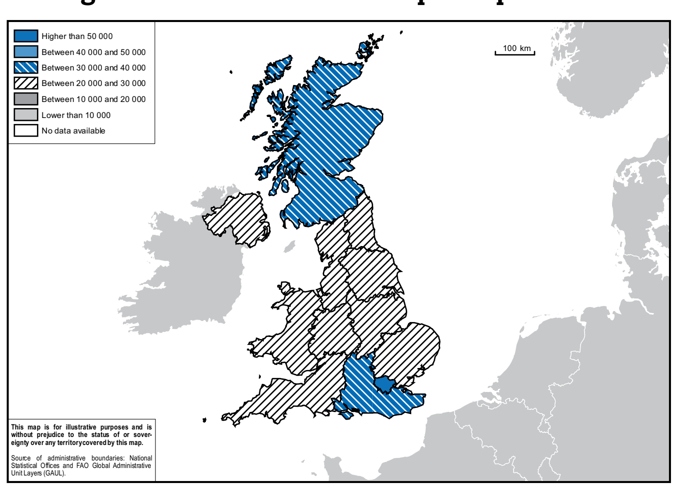
The role of sub-national governments in public finance



Education and social protection are the two largest spending items for SNGs in the United Kingdom: together they represent 64% of sub-national expenditure, compared to 39% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933109023

Regional differences in GDP per capita levels



Among OECD countries, the United Kingdom ranks 9th in terms of regional disparities in GDP per capita. In the previous decade, regional growth varied from +2.8% annually in Greater London to +0.9% in West Midlands.

United States

Recent policy developments

- There are efforts for greater co-ordination and integration of policies for regional development at the federal level, through White House-led councils and task forces (e.g. White House Rural Council, Partnership for Sustainable Communities, etc.).
- This more integrated policy approach has been supported by budget guideline requests to several departments to clarify the "place-based" dimension of their work.
- Regional economic development approaches in several ministries and agencies have increasingly emphasised regional innovation clusters generally, as well as in specific sectors, such as energy and manufacturing.
- Disaster recovery has been a particular focus of several federal departments focused on serving distressed areas.
- Under the White House's Neighbourhood Revitalisation Initiative, promise zones are tools to attract private investment, create jobs and improve affordable housing.

Government structure	Municipal-level governments*	Intermediate-level governments	Regional or state-level governments
Federation	35 879	3 031	50

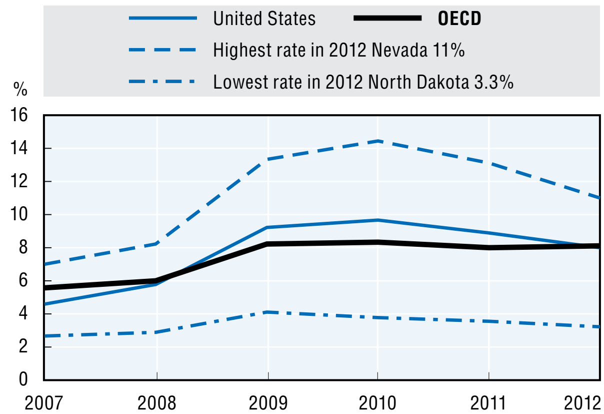
* The municipal level here comprises only general-purpose entities, i.e. municipalities, towns and townships. Special purpose entities, i.e. special districts and independent school districts such as school boards (51 146 entities in 2012) are excluded.

Regional development policy	
Lead ministry(ies) or committees	Department of Commerce (Economic Development Administration)
Regional development framework	There is no over-arching law or strategy document. The mandate is to serve economically distressed areas through regional strategy development and public investments that support regional competitiveness.

Urban development policy	
Lead ministry(ies) or committees	Department of Housing and Urban Development
Urban policy framework or strategy	There is no over-arching law or strategy document. The mandate is to create strong, sustainable, inclusive communities and quality affordable homes for all.

Rural development policy	
Lead ministry(ies) or committees	Department of Agriculture; White House Rural Council
Rural policy framework or strategy	There is no over-arching law or strategy document.

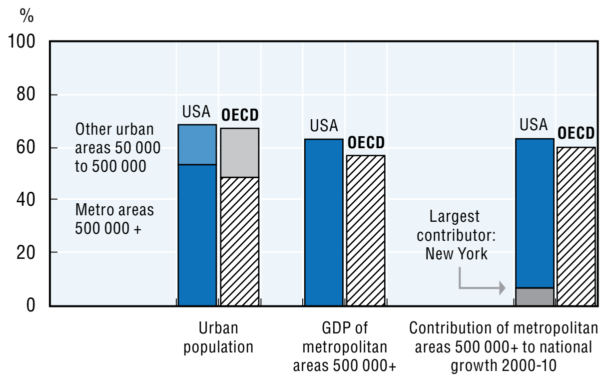
Regional disparities in unemployment trends



In recent years, the unemployment rate has soared in some states such as Nevada (11%), and the youth unemployment rate has reached 23% in South Carolina.

StatLink http://dx.doi.org/10.1787/888933109042

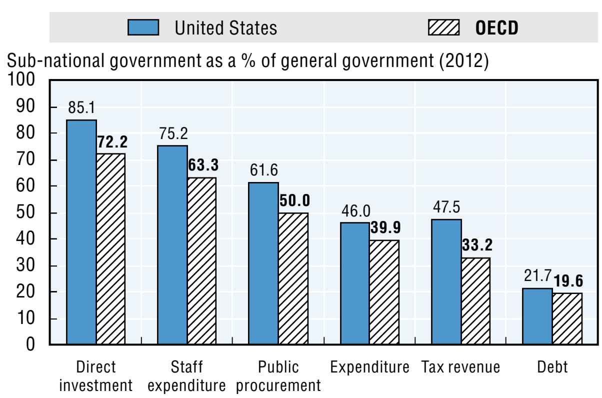
The importance of urban areas



In the United States, 68% of the population lives in cities of different sizes: the share of population in metropolitan areas (urban areas with more than 500 000 inhabitants) is 53%, compared to 49% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933109061

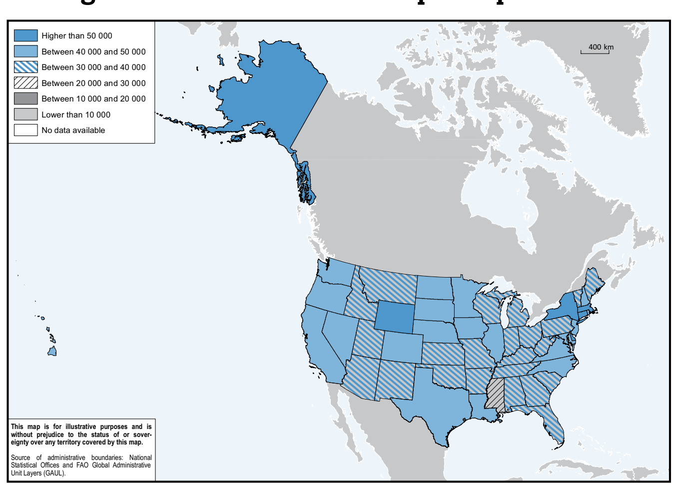
The role of sub-national governments in public finance



Education and health are the two largest spending items for SNGs in the United States: together they represent 54% of sub-national expenditure, compared to 44% in the OECD area.

StatLink http://dx.doi.org/10.1787/888933109080

Regional differences in GDP per capita levels



The United States had the largest regional disparities in GDP per capita in OECD countries in 2010. In the previous decade regional growth was as diverse as +5.3% annually in Wyoming and -1.4% in Michigan.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(04 2013 06 1P) ISBN 978-92-64-20140-8 – 2014

OECD Regional Outlook

REGIONS AND CITIES: WHERE POLICIES AND PEOPLE MEET

Contents

Consult this publication on line at ***http://dx.doi.org/10.1787/9789264201415-en.***

This work is published on the OECD iLibrary, which gathers all OECD books, periodicals and statistical databases. Visit ***www.oecd-ilibrary.org*** for more information.

2014

OECD*publishing*

www.oecd.org/publishing

ISBN 978-92-64-20140-8

04 2013 06 1 P

9 789264 201408