

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.

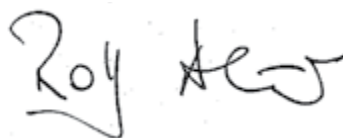
Preparing cities for the future

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.

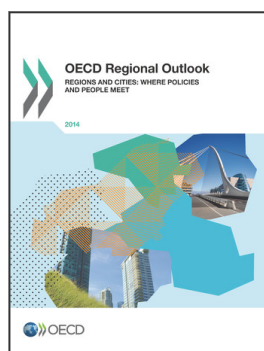
According to the United Nations, urban populations in high-income countries are expected to increase only modestly over the next two decades, from 920 million people to just over 1 billion. The basic structures are largely already in place, leaving less room for major changes.

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".



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