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CONCEPTUAL FRAMEWORK FOR NATIONAL URBAN POLICY REVIEWS

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CONCEPTUAL FRAMEWORK FOR NATIONAL URBAN POLICY REVIEWS

1. This note aims to establish a common conceptual framework for the discussion, preparation of results and dissemination of best practices in a new series of specific case studies of urban policy at the national level. This note also tries to identify key policy messages and discussions that have been addressed in past territorial reviews at metropolitan level, taking stock of the wealth of knowledge in each of the 18 case studies that have been presented at TDPC, as well as the policy messages stemming from our recent Ministerial Meeting. Although it draws on the conceptual frameworks for national territorial reviews that TDPC has produced (DT/TDPC(99)2 and DT/TDPC(2002)13), and the Guide to Territorial Reviews (Room Document No. 1-TDPC's 3rd session 2000) has also been taken into account, the focus of this note is to discuss concepts and content that better relate to urban challenges.

2. The ultimate rationale for this approach lies in the fact that national growth depends on the competitiveness of its regions and key players are its cities. That in turn depends on how much cities' environmental, cultural, economic and human resources are used to their full and sustainable potential. Only integrated policies can generally achieve these targets, and their successful design and implementation can only take place through a full command of local knowledge. In addition, cities play a role in connecting other regions locally and regionally; by connecting with each other they enable many activities in the country. Therefore the city in its regional context and the city in its urban system context become key aspects of economic performance.

The role of space

3. Spatial differences in income have triggered much of our interest in growth and development issues. Many research agendas in economics have been set off by the simple observation that progress in well-being differs across countries. In the same vein, asking about the reasons for spatial inequality is also a valid question.

4. Reducing interpersonal inequality is often seen as the main priority and as being in opposition to the goal of reducing spatial inequality. In fact, research on spatial inequality can provide insights into the determinants of social inequality. It has been estimated that around one-third of interpersonal inequality can be explained by spatial inequality across regions within countries (Kanbur and Venables, 2005). For some large countries like Russia, there are periods where total interpersonal inequality is in fact partly due to an increase in spatial inequality. Thus, addressing spatial inequality within countries is one way of partly tackling social inequalities. Similarly, it can also provide insights into spatial inequality across countries.

5. Traditionally, development economics tends to predict a trade-off between equality and efficiency, but when space is considered, policy complementarities make the two objectives non-rival. Space matters for growth and performance. It is well known that just as economic activity tends to concentrate in a few places (OECD Regions at a Glance, 2007), growth potential exists in other places and lagging regions often contribute to a sizable share of national growth (OECD How Regions Grow, 2009). The Background Report of the 2009 OECD Ministerial Meeting "Investing for Growth: Building Innovative Regions" shows that growth can be enhanced when innovation, human capital and infrastructure elements are in place. Policies with a regional focus that integrate sectoral policies into a

comprehensive endogenous growth approach are capable of delivering greater benefits by tapping on unused regional assets. National performance can thus be enhanced by co-ordinating efforts already in place in many lagging regions (OECD Regions Matter, 2009). Therefore, looking for policy complementarities rather than whole new approaches offers the key to delivering regional and national benefits. For instance, strengthening regional economies in lagging areas is not only a way to tackle social and spatial inequality, but also a way to enlarge the internal market and provide consumption –not only production—externalities that lead to higher economic performance (Acemoglu, 2010).

6. To some, the spatial inequality problem can be solved through migration, but the externalities this generates for both origin and host communities are often ignored. It is possible that without networks and even benefiting from face-to-face contact, the social wellbeing of individuals moving to more affluent places can end up marginalising them and with no employment opportunities (Cheshire, forthcoming). Social capital is arguably one of the only forms of capital (among physical, human, public and social capital) present in poorer communities (Attanasio and Székely, 2001). Migration, though often spurred by those networks, not only limits the social capital of newcomers to receiving regions, it also lowers that of the communities they leave behind. Labour mobility is desirable, but it remains in democratic countries a personal decision based not just on expectations of future wages but also on a wide range of social and personal preferences. Thus, we assume labour mobility to be perfect and elastic at our peril.

7. At the same time, the economic determinants of productive potential, such as human capital, innovation and infrastructure, tend to concentrate in space. While economic growth is the result of many other factors, including institutional ones, a number of them are lured into urban areas. Workers seek higher wages and the possibility of accessing wider cultural, personal and entertainment choices that are made possible as a result of consumption externalities. Firms seek to benefit from public goods and intangibles, from a greater choice of intermediate inputs, from specialisation, and from a reduction in the risk of contract defaults and labour shortages. Firms also seek faster (chances of producing matches) and more accurate (the quality of labour market) matches in labour skills (Duranton and Puga, 2004). As firms and workers agglomerate, they also produce knowledge spillovers (skills and ideas being transmitted). Cities, then, concentrate important actors and factors that determine regional and in many cases national economic performance.

The case for place-based policies

8. Regional policy has traditionally been seen as a compensatory instrument aimed at reducing inequality. Few can oppose a regional policy based on social grounds –if equality is the main societal goal. However, the fact that we are unable to estimate the nonlinearities in the process of agglomeration prevents policy from correctly choosing which places to subsidise (Glaeser and Gottlieb, 2008). That is, there is no evidence to show that one particular type of place is better suited to make the best of policy funding.

9. More recently, regional policy has increasingly been related to efficiency objectives. At least two concepts of efficiency are relevant for a discussion of regional policy. First, national performance is determined by regional output, and even lagging regions make a difference. Secondly, efficiency can also mean “realising the full utilisation of the potential of every place or region” (Barca, 2009). The efficient utilisation of regional assets depends, *inter alia*, on good local governance. Regional policy refers not only to policy instruments, but also to the institutions and arrangements across levels of government that produce a particular outcome. These policy impacts may be limited or distorted by government and private agents. As Barca (2009) points out, one of the barriers to effective regional policy stems from the fact that instruments are manipulated by local elites. Entry barriers and factor-price manipulations prevent policies from having an effective impact; this problem cannot be only addressed with yet greater fiscal power for regional governments, as that would increase the value of state capture (Acemoglu, 2010). Therefore, regional policy should not only take into account the instruments, but the institutions in charge of

implementing them. A national framework for regional policy can also help reduce the capacity of local groups to capture the State.

10. Spatial policy can also be justified by market failure. Externalities, imperfect competition, information asymmetries, public goods under-provision and moral hazard in many cases prevent markets from reaching Pareto equilibria –where no possible improvement can be made without making somebody worse off. Under-provision of infrastructure in particular places can be a motivation to provide public goods such as roads and public urban spaces. However, policies built only to resolve a market failure can introduce a government failure, as the instruments can also create inefficiencies. Therefore, place-based policies should be integral to incorporate several growth-enhancing determinants that unleash potential in regions.

11. A national approach to urban and regional policy would generate instruments that would facilitate the strengthening existing urban networks and connect cities with other urban areas and other types of regions. The economy is the result of the interactions of a web comprised of links among individuals, firms and institutions. These links, which evolve over time, generate valuable information, build trust, create synergies, reduce uncertainty and boost learning processes (Pompili, 2006). While local policy in urban areas can benefit from a local approach to better connectedness and awareness of what networks bring about, a national approach to urban and regional networks can produce co-operation among regions and cities to enhance network effects in the urban system. A national policy for urban areas can increase both the benefits of such links, by connecting different cities, and the value and benefits of the networks.

Targets and rationale for a National Urban Policy

12. The general aim of the National Urban Policy Reviews (NUPR) and other TDPC activities with an urban focus is: to understand economic, social, environmental and institutional trends at the urban level; to identify factors of urban economic growth (as well as failure), to better seize unused potentials; and to analyse and promote innovative urban policies and governance practices.

13. The new NUPR can achieve these targets by taking both a territorial perspective that emphasises economic, social, environmental and institutional resources and their spatial context and a sectoral perspective that looks at the ways in which different urban policies can complement each other, whether they concern investment attractiveness, land-use or the environment. In particular, this approach allows these types of Reviews to go beyond the traditional view based exclusively on sectors.

14. Many public policies are designed in such a way that they target sectoral objectives with little or no regard for their profound impact on urban areas. Roads and motorways are often built with the aim of improving transportation costs, but policy-makers often fail to consider that as they improve the exchange of goods, they also facilitate further concentration of economic activity (OECD *How Regions Grow*, 2009); or that roads may also create further social divisions by alienating particular neighbourhoods. Similarly, schooling policies might be put in place in order to boost human capital and to increase social mobility. However, human capital development policies in the absence of integrated approaches often contribute to a brain drain from particular regions and cities and in favour of those offering better salaries or amenities (OECD *Regions Matter*, 2009; OECD *Territorial Review of Busan*, 2004: 49). While the free movement of people is desirable, those more attractive places are often found abroad, and as a result the brain drain becomes a national loss and not merely a local concern. Finally, policies favouring innovation might be desirable, as it increases firm competitiveness, but they can hardly produce local impacts (and their national-level impact will be severely limited) in the absence of appropriate urban infrastructure enabling the exchange of ideas and knowledge spillovers or in places where the corresponding skills are not present.

15. In addition to unintended policy outcomes, ineffectiveness in public service delivery and other policy areas have in part been related to fragmented urban government structures. Many metropolitan areas in OECD countries have experienced problems of co-ordination when delivering services that have led to national government intervention in order to provide incentives for co-ordination (see OECD Territorial Review of Stockholm, 2004: 182). Other policy areas in which co-ordination across municipalities in an urban area is needed in order to render policy more effective and to enhance competitiveness are FDI attraction (see OECD Territorial Review of Helsinki: 207) and the management of environmental resources (see OECD Territorial Review of Randstad: 173). Supra-municipal structures have been employed to foster such co-ordination, as in the case of the French *pôles de compétitivité* (OECD Territorial Review of France). While regional governments can play a co-ordinating role among municipalities in an urban area, the national government is in many cases still in charge of many of the policies that would be the object of co-ordination. Ultimately, a multi-level co-ordination arrangement is necessary to enhance effectiveness.

16. In many cases, the emergence of visions and strategies for competitiveness in urban areas are hindered by lack of co-ordination or by the overwhelming power of particular areas within the wider territorial context. Again, national governments are well placed to put in place incentives to co-operate for greater effectiveness. Although urban partnerships have been created in a number of metropolitan areas to tackle distressed urban areas and to redevelop brownfield sites, the scope for such partnerships can be greatly expanded by the intervention of central governments. National authorities can enhance co-ordination by using an integrated approach, fostering a planning process that is agreed among different levels of government, establishing a binding commitment and pluri-annual implementation process, and setting up financial and legal incentives (OECD Competitive Cities in the Global Economy, 2006).

Objectives of a National Urban Policy Review

17. The objectives of National Urban Policy Reviews can be further articulated as follows:

- Working as a catalyst to spread *information on economic, social, environmental and institutional trends* at urban level, analysing functional rather than administrative areas.
- Identifying *determinants of economic growth and failures to exploit unused potentials* in order to explain the economic and social performance of urban areas and their contribution to national performance.
- Studying *policy strategies and actions* with intended or unintended urban effects.
- Identifying the main features of the institutional organisation through which policy is implemented (*governance*): allocation of competencies, responsibilities and resources; vertical relations among different levels of government and horizontal relations among similar administrative structures; incentive mechanisms to improve accountability; existence and effectiveness of institutional and social partnerships.
- Identifying the national urban system, the different types of cities and possible urban hierarchies and their inter-connections to increase network effects.
- Analysing the role of urban areas in regional development in their hinterland. Urban areas are not only where economic activities take place, but also where activities elsewhere –even in rural areas— are often co-ordinated. Yet urban areas' progress is dissociated from trends in the wider region. In many cases, metropolitan and urban growth has meant widening gaps with respect to rural areas. For an urban network to work, cities need to be connected not only among themselves, but also with their regions of influence (i.e. urban-rural linkages). Therefore, urban

areas and urban policy have a role to play in the successful implementation of an integrated regional development strategy.

The nature of a National Urban Policy Review

18. In order to pursue these targets and make comparisons, NUPRs will follow a common scheme. The focus on specific themes and policy issues will obviously depend on urban specificities and data availability. NUPRs will assess urban policies on the basis of:

1) A diagnosis of urban structure, development trends and competitiveness in a comparative and international framework.

19. Urban areas will be compared to areas that lie within and outside the OECD, making use of internal and external databases, as well as official documents and literature reviews. The diagnosis will include leading socio-economic trends in urban development and the economic importance of cities in the country concerned, as well as intra- and inter-urban disparities in terms of GDP, employment, productivity and a set of social indicators.

2) An assessment of central government strategies towards urban regions.

20. The national urban policy agenda can be assessed in the context of economic development, environmental sustainability and good governance. The main policies of central governments and their historic evolution will be evaluated with specific attention to urban development impacts. In countries with national spatial planning, the degree of adherence to national guidelines at the local level could be assessed and the corresponding challenges identified. NUPRs will particularly explore how a national urban policy can guide key investments in transportation and communications infrastructure, higher education, R&D and competitiveness. Where there is no explicit national urban policy, NUPRs can examine initiatives to guide metropolitan development and give local government officials incentives to develop regional institutions. NUPRs could also help identify the scale of initiatives and how national actions in one sector, such as transportation planning, could have implications for national frameworks on land-use and economic development.

21. Possible aspects to be analysed could include:

2.1) Urban form and social development:

- Urban hierarchy, urban systems and networks
 - Monocentric and polycentric growth
- Urban distressed areas, including urban renewal programmes
- Housing markets, social housing and efforts to make housing affordable
- Public service delivery
- Urban growth management
 - Urban sprawl
 - Congestion and other diseconomies of scale

2.2) Economic competitiveness and employment,

- Transport, accessibility and infrastructure development
- Urban labour market policies
 - Education, integration and training at university and vocational levels
- Migration (rural-urban and urban-urban)
- Human capital development and innovation

2.3) Sustainability and the quality of life

- National environmental policies, including climate change and green growth
- Local initiatives to attract and orient economic growth around “green” industries
- Local efforts to reduce pollution levels and decrease use of energy, water and other natural resources
- Innovative mechanisms to improve environmental quality through urban management
- Strategies for enforcement
- Programs that seek to increase environmental awareness among citizens
- Initiatives that establish benchmark standards for green energy design in buildings

3) An examination of governance issues, in particular:

- Management of urban problems at regional and local levels
- Co-ordination at central government level
- Horizontal and vertical frameworks between tiers of government
- Central government incentives to foster co-operation at the local and regional levels
- Institutional and fiscal intergovernmental framework and its influence on urban areas and, more generally, good governance
- Legislation that fosters metropolitan and regional-level co-operation and/or revenue-sharing
- Specific tools that integrate the community’s input into more inclusive and participatory urban policies
- National policy tools to promote intergovernmental co-operation (fiscal, legal and financial) both vertically (among different tiers of governments) and horizontally (among local governments)
- Policies that build the capacity, skills, and expertise of government officials in urban areas

4) An assessment of the overall coherence of urban policies.

- General assessment of the possibilities, problems encountered when implementing integrative approaches to urban development. The main objective is to find policy incoherencies and/or complementarities.
- It is important to examine the links between a national urban policy (or policies with strong urban effects) and the overall national development strategy, as a national urban policy is an instrument to deliver economic and social development and not a separate sectoral policy.

5) Recommendations for a multi-sectoral comprehensive national urban policy that maximises economic efficiency and fosters sustainable urban development and social cohesion.

- The Reviews take a comparative approach and examine the country vis-à-vis other OECD countries. The analysis seizes existing OECD Territorial Reviews and makes use of a number of OECD databases on metropolitan government, innovation practices, and economic development policies.
- Institutional arrangements to enable a horizontal approach to planning and policy.

Recommendations

22. The approach in National Urban Policy Reviews will be that of Urban Development Strategies and Systems rather than simply Urbanisation Strategies, and their recommendations will make use of experiences in other countries by identifying areas for improvement, possible policy complementarities, as well as weaknesses or risks for the particular country under review. Recommendations will highlight the improvements to be made in order to enable the collection, analysis and dissemination of comparable national urban systems information and policies.