INCLUSIVE GROWTH: A PLACE-BASED PERSPECTIVE

OECD-DG JOINT RESEARCH CENTRE- AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH
"A SYSTEMS APPROACH TO SOCIALLY AND ENVIRONMENTALLY SUSTAINABLE GROWTH"
OECD, 3 MAY 2017

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Inclusive Growth needs to be constructed through an appropriate governance system
Figure 1.2. New Development Paradigm: A Policy Complementarity Matrix

Constructing a supermodular policy matrix for Well-Being

Source: OECD Regional Outlook, 2011
Well-being is a place-based concept

<table>
<thead>
<tr>
<th></th>
<th>CITIES</th>
<th>RURAL AREAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EFFICIENCY/INCOME</strong></td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td><strong>ENVIRONMENTAL QUALITY</strong></td>
<td>–</td>
<td>+</td>
</tr>
<tr>
<td><strong>SOCIAL DIMENSIONS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public goods (e.g. Health, Education)</td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td><strong>SOCIAL DIMENSIONS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community produced goods (e.g. Trust, Security)</td>
<td>–</td>
<td>+</td>
</tr>
</tbody>
</table>

Well-being is the outcome of the different local dimensions
OECD place-based policy paradigm

The OECD place-based policy paradigm is basically made of good structural economic policy with two main differences:

- It allows for *spatial differentiation*
- Calls for a specific investment in *Governance* to coordinate policies across levels of government, sectors and administrative boundaries

Accordingly, the OECD ‘place-based’ approach is based on:

- Identification of **regional specific assets** (or create absolute advantages to stimulate competition & experimentation across regions)
- **Complementarities among sector policies** at the regional (or local) level
- **Multi-level governance mechanisms** for aligning objectives & implementation
Increasing regional disparities may hinder national productivity performance.
OECD economies have converged but, within countries, regions have diverged.

GDP per capita dispersion is now greater within countries than between countries.
Disparities of household income are also large *within* regions

Gini index of disposable income, 2011 (in selected OECD countries and their regions)

Source: OECD Income Distribution Database and OECD Regional Well-being database
Well-being outcomes amplify the regional disparities

Differences across regions in multidimensional living standards are larger (MLS index: income, jobs, health and inequality)

The productivity gap between frontier and lagging regions has increased

Notes: Average of top 10% and bottom 10% TL2 regions, selected for each year. Top and bottom regions are the aggregation of regions with the highest and lowest GDP per worker and representing 10% of national employment. 19 countries with data included.
Regional productivity catching-up could have a strong contribution to aggregate growth

<table>
<thead>
<tr>
<th>Type of regions</th>
<th>Employment share in 2000</th>
<th>GDP share in 2000</th>
<th>Annual avg. GDP growth, 2000-13</th>
<th>GDP growth contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frontier</td>
<td>16.1%</td>
<td>20.1%</td>
<td>1.7%</td>
<td>21.9%</td>
</tr>
<tr>
<td>Catching up</td>
<td>20.3%</td>
<td>18.2%</td>
<td>2.2%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Stable productivity gap</td>
<td>38.9%</td>
<td>39.1%</td>
<td>1.3%</td>
<td>30.4%</td>
</tr>
<tr>
<td>Diverging</td>
<td>24.6%</td>
<td>22.6%</td>
<td>1.6%</td>
<td>22.4%</td>
</tr>
</tbody>
</table>

OECD average 1.6%

Note: Frontier regions are fixed for the 2000-13 period. In four countries the values for 2000 or 2013 were extrapolated from growth rates over a shorter time period as data for 2000 or 2013 were not available. The countries are FIN (2000-12), HUN (2000-12), NLD (2001-13) and KOR (2004-13).
Fat tails matter: regional contributions to aggregate OECD growth

1. A few big regional hubs are main drivers of growth, but many big cities are also making little growth contribution.
2. Most economic growth occurs outside the hubs in a largely distributed way.
3. The notion of an “average region” is meaningless.

Contributions to OECD-wide growth, TL2 regions

Distribution of the contributions to aggregate growth of OECD metropolitan areas

Source: OECD (2013), Regions at Glance

35% of growth driven by 12 metropolitan areas (5% of the metropolitan areas)...

...65% of growth driven by the remaining 95% of the metropolitan areas
What could make cities more productive and more inclusive?
Only 1/5 of OECD metro areas have grown inclusively

Change in GDP per capita and in Gini coefficient of household disposable income, 2000-13

Productivity increases with City size even after controlling for sorting

Doubling the size of a city ≈ 3-5% productivity increase

But administrative fragmentation is correlated with lower city productivity

Income inequalities also tend to increase with city size

Metropolitan population and income inequality, circa 2014
(controlled for income levels and country effect)
But administrative fragmentation is correlated with higher segregation of people

*Hypothesis:* Fragmented metropolitan governance can facilitate segregation at the level of local units.

Controlling for country fixed effects and other city characteristics (i.e. income, population, spatial structure), higher administrative fragmentation is associated to higher spatial segregation by income in different municipalities (cf. Brezzi, Boulant & Veneri, 2016)
Overly restrictive land use policies can harm inclusiveness via rising housing costs

- Land use regulations should aim to prevent sprawl...
- ...but have to provide sufficient space to construct housing for growing populations
- Otherwise, housing costs rise
Incentives matter: make planning more flexible and foster good land use

<table>
<thead>
<tr>
<th>How land is used</th>
<th>How individuals and businesses want to use land</th>
</tr>
</thead>
</table>

Public policies aimed at steering land use
- Spatial planning
- Transport planning
- Land use planning
- Environmental regulations
- Building code regulations

Public policies *not* targeted at land use
- Tax policies
- Transport taxes and subsidies
- Fiscal systems and inter-governmental transfers
- Agricultural policies
- Energy policies

How land is permitted to be used

How land is used
Policies for inclusive growth in cities and regions
# Policy shift towards Inclusive Growth

## Objectives

<table>
<thead>
<tr>
<th>Cohesion-oriented urban &amp; regional policy</th>
<th>Growth-oriented urban &amp; regional policy</th>
<th>Inclusive growth policy in cities &amp; regions</th>
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<tr>
<td>Compensating temporarily for location disadvantages of lagging areas</td>
<td>Tapping <strong>underutilised potential</strong> in all areas for enhancing urban &amp; regional competitiveness</td>
<td>Fostering both equity &amp; growth in cities &amp; regions</td>
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## Unit of intervention

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<tr>
<td>Administrative regions/cities &amp; firms</td>
<td><strong>Functional</strong> economic areas</td>
<td><strong>Functional urban areas</strong> (of all sizes) that reflect the reality of where people live and work</td>
</tr>
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## Strategies

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<td>Sectoral approach</td>
<td><strong>Integrated</strong> development projects for economic growth</td>
<td>Multi-dimensional well-being</td>
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## Tools

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<td>Subsidies &amp; state aids</td>
<td><strong>Investment</strong> in infrastructure to exploit competitive advantages of different places</td>
<td><strong>Integrated policy packages</strong> that address both physical/environmental capital and human/social capital</td>
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## Key actors

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<td>Mainly <strong>central governments</strong></td>
<td>Different <strong>levels of government &amp; business sector</strong></td>
<td><strong>Partnerships</strong> across levels of government, as well as between public and private spheres, and civil society</td>
</tr>
</tbody>
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Bottom-line

- Positive Economics (what to do?) need to be combined with Governance (How to do it?) in order to provide a better set of policies to deal with inclusive growth.
- Place-based policies help introducing a systems approach to inclusive growth.
- Place-based policies also support the construction of a more integrated structural policy package.
THANK YOU!