



# **INCLUSIVE GROWTH: A PLACE-BASED PERSPECTIVE**

**OECD-DG JOINT RESEARCH CENTRE- AUSTRIAN  
INSTITUTE OF ECONOMIC RESEARCH  
"A SYSTEMS APPROACH TO SOCIALLY AND  
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**Joaquim Oliveira Martins (OECD/CFE)**

***Inclusive Growth needs  
to be constructed  
through an appropriate  
governance system***



# Constructing a supermodular policy matrix for Well-Being

Figure 1.2. New Development Paradigm: A Policy Complementarity Matrix

	<b>E</b> fficiency	<b>E</b> quity	<b>E</b> nvironmental Sustainability
<b>E</b> conomic Policies	<b>Sustained growth</b>	<b>Inclusive Growth</b>	<b>Green Growth</b>
<b>S</b> ocial policies	<b>Inclusive Growth</b>	<b>Social cohesion</b>	<b>Social Ecology</b>
<b>E</b> nvironmental policies	<b>Green Growth</b>	<b>Social Ecology</b>	<b>Sustainable Environment</b>

Source: OECD Regional Outlook, 2011



# Well-being is a place-based concept

	<b>CITIES</b>	<b>RURAL AREAS</b>
<i>EFFICIENCY/INCOME</i>	<b>+</b>	<b>-</b>
<i>ENVIRONMENTAL QUALITY</i>	<b>-</b>	<b>+</b>
<i>SOCIAL DIMENSIONS: Public goods (e.g. Health, Education)</i>	<b>+</b>	<b>-</b>
<i>SOCIAL DIMENSIONS: Community produced goods (e.g. Trust, Security)</i>	<b>-</b>	<b>+</b>

**Well-being is the outcome of the different local dimensions**



# OECD place-based policy paradigm

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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

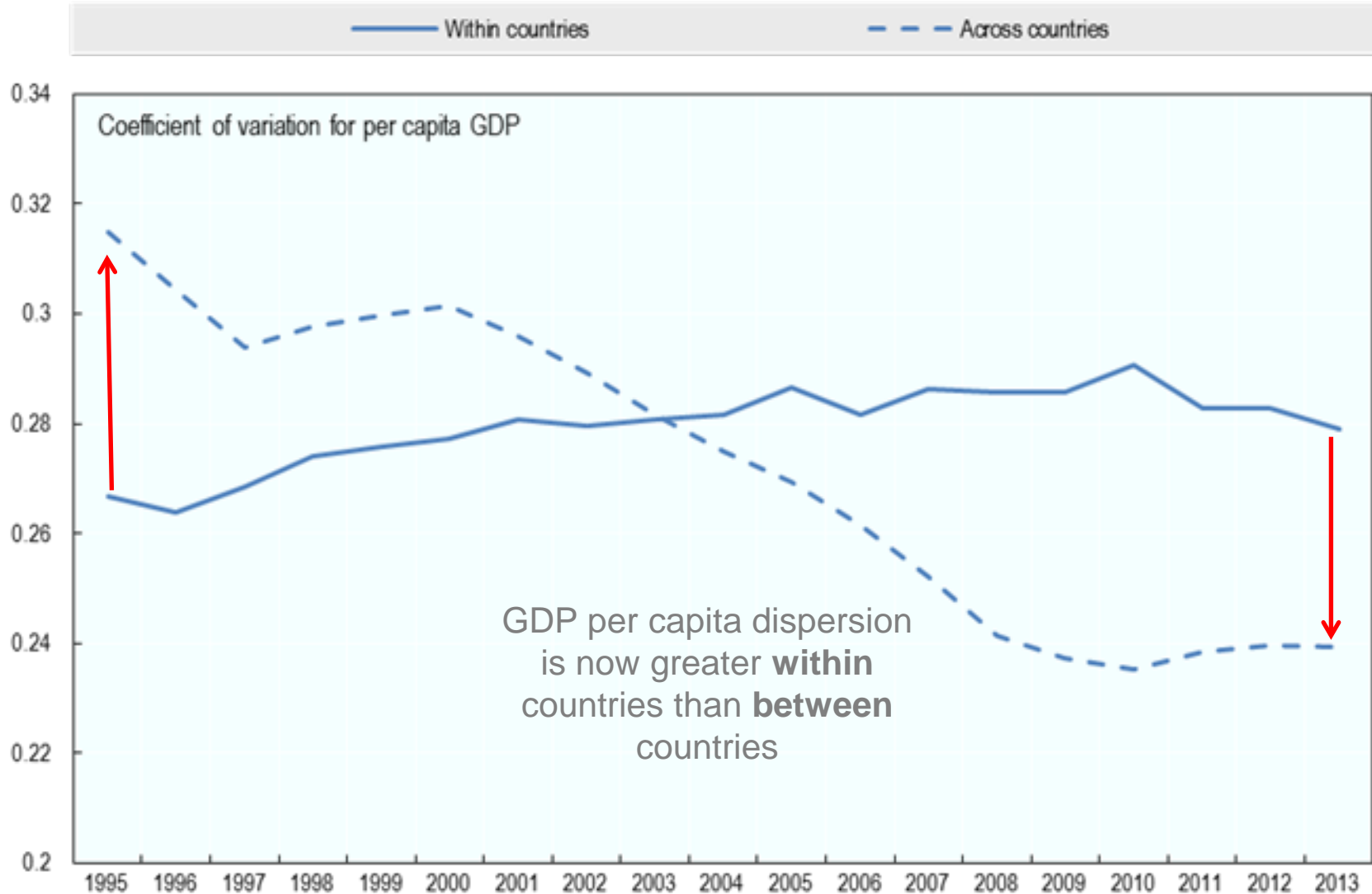
Accordingly, the OECD ‘place-based’ approach is based on:

- 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***



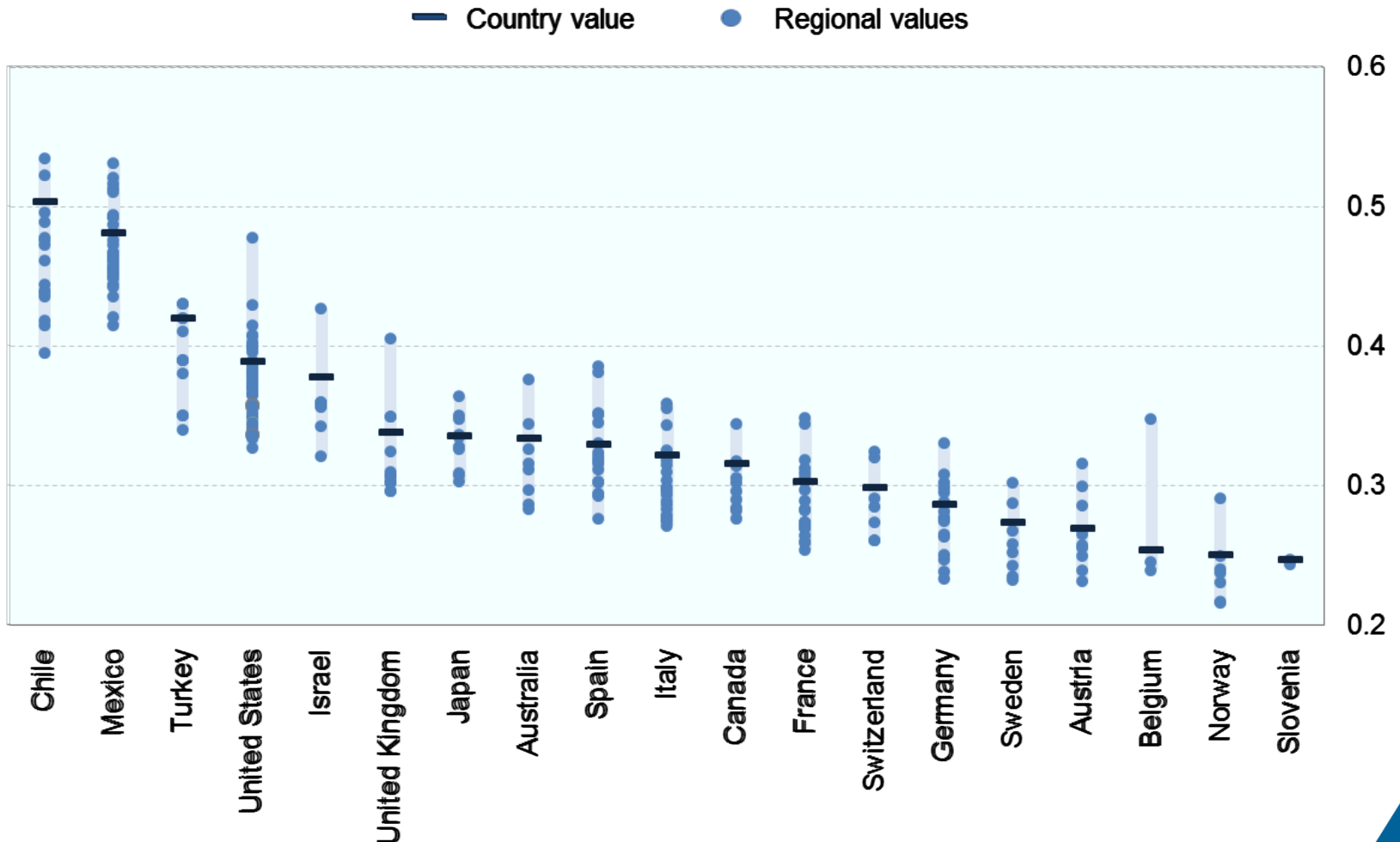
# OECD economies have converged but, within countries, regions have diverged





# Disparities of household income are also large *within* regions

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



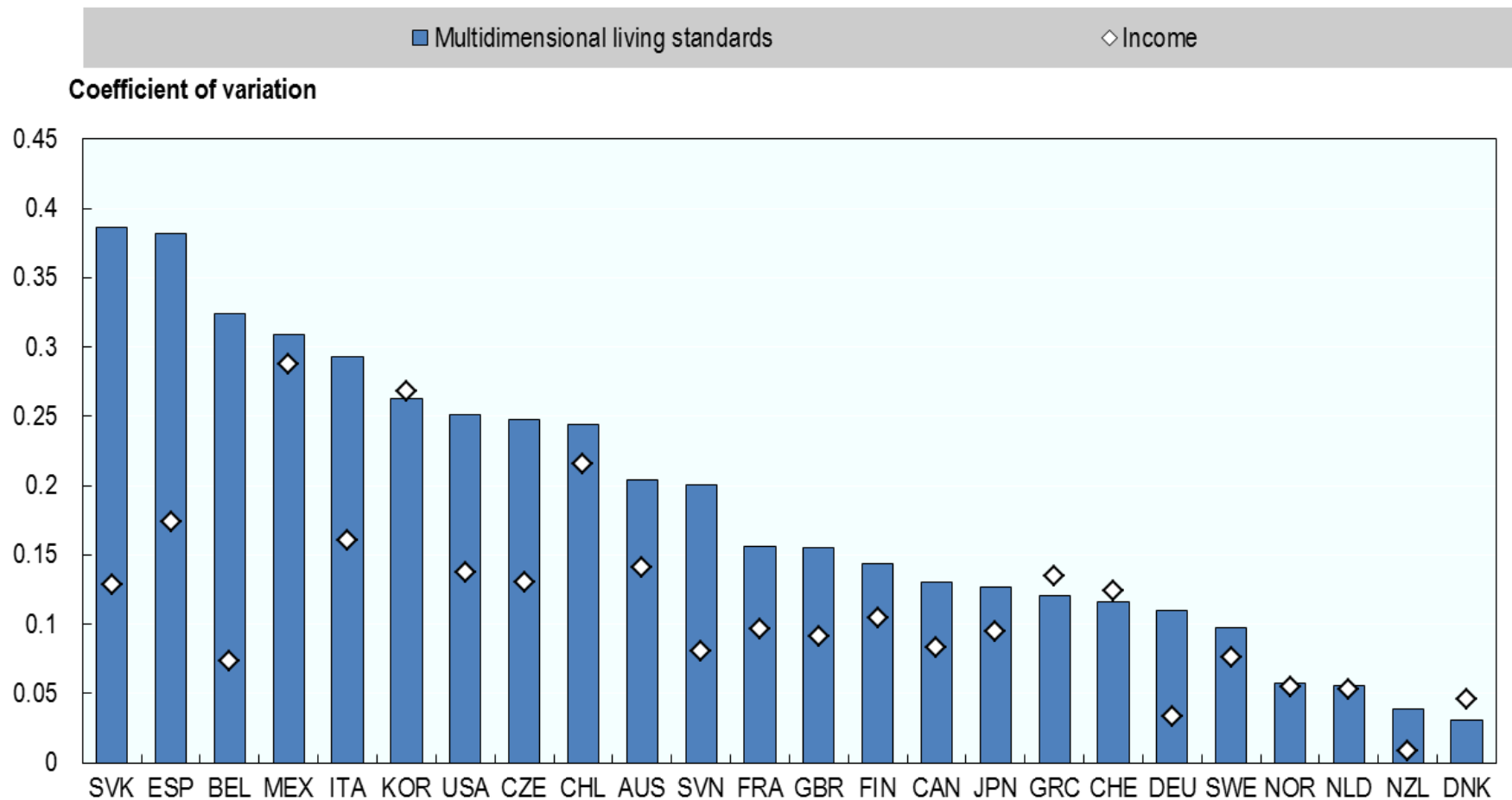
Source: OECD Income Distribution Database and OECD Regional Well-being database





# Well-being outcomes amplify the regional disparities

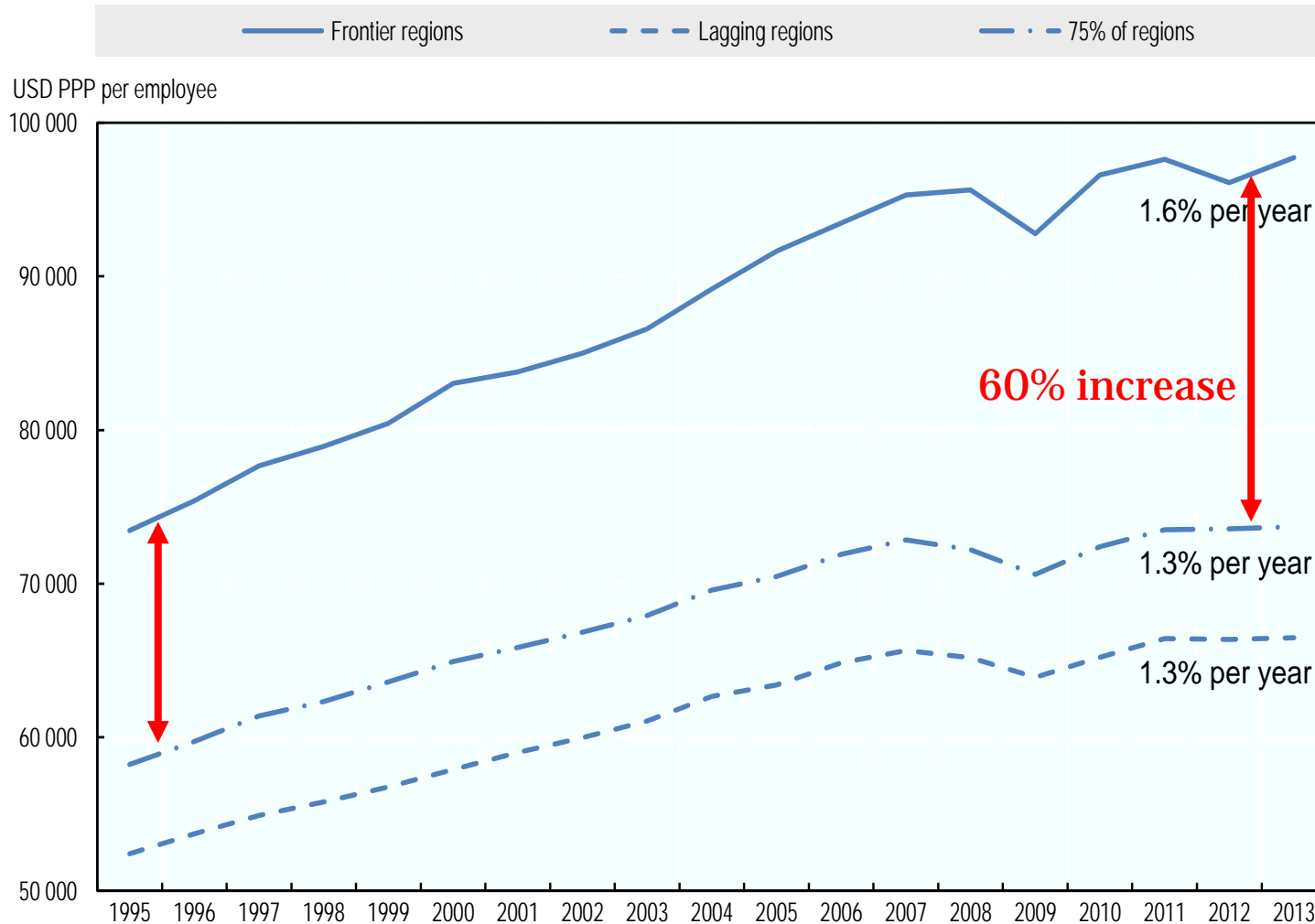
**Differences across regions in multidimensional living standards are larger (MLS index: income, jobs, health and inequality)**



Source: OECD (2016), *Making Cities Work for All*, OECD Publishing, Paris.



# The productivity gap between frontier and lagging regions has increased



Averages of top 10% (frontier), bottom 75%, and bottom 10% (lagging) regional GDP per worker, TL2 regions

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

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

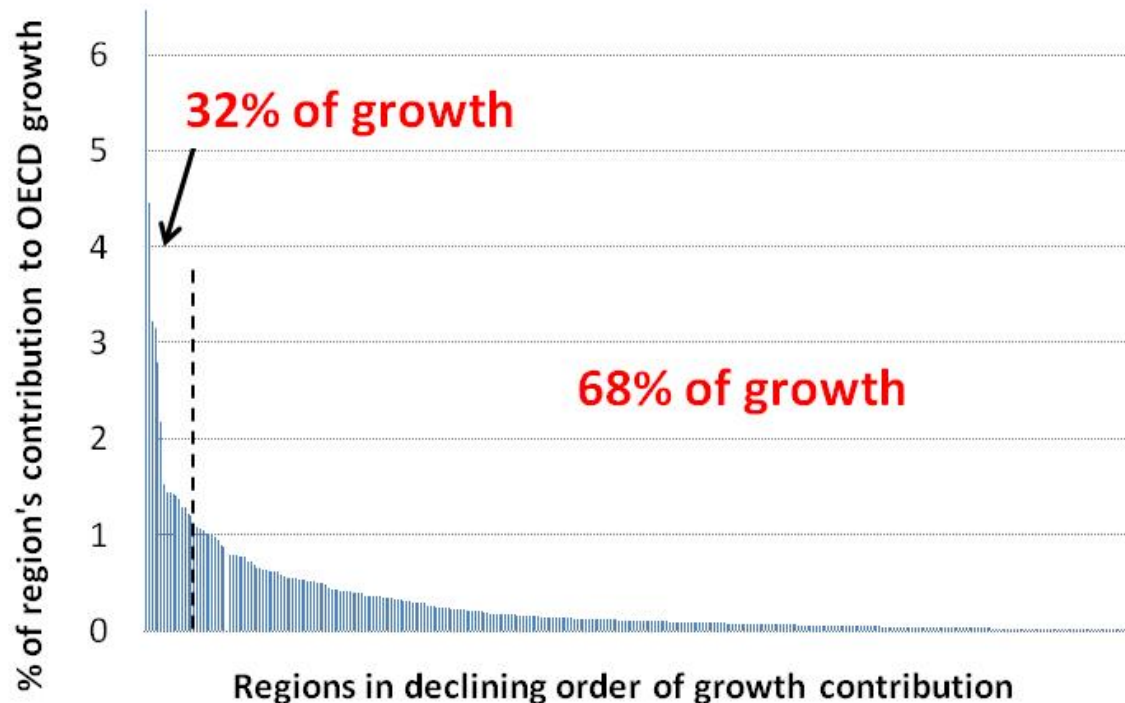
**Note: Frontier regions are fixed for the 2000-13 period. In four countries the values for 2000 or 2013 were extrapolated from growth rates over a shorter time period as data for 2000 or 2013 were not available. The countries are FIN (2000-12), HUN (2000-12), NLD (2001-13) and KOR (2004-13).**



# 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

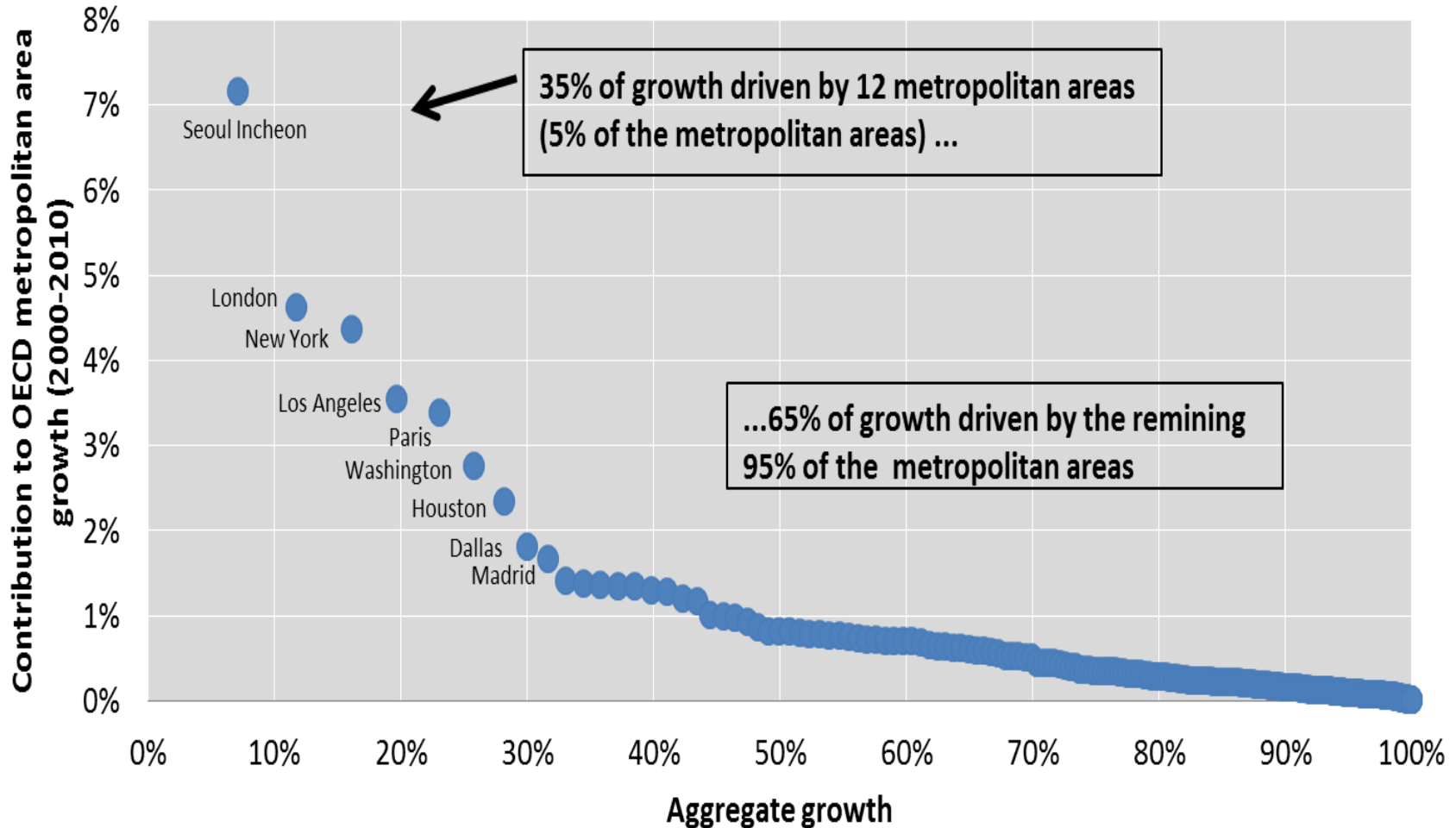
**Contributions to OECD-wide growth, TL2 regions**



Source: OECD (2011) Regional Outlook.



# Distribution of the contributions to aggregate growth of OECD metropolitan areas



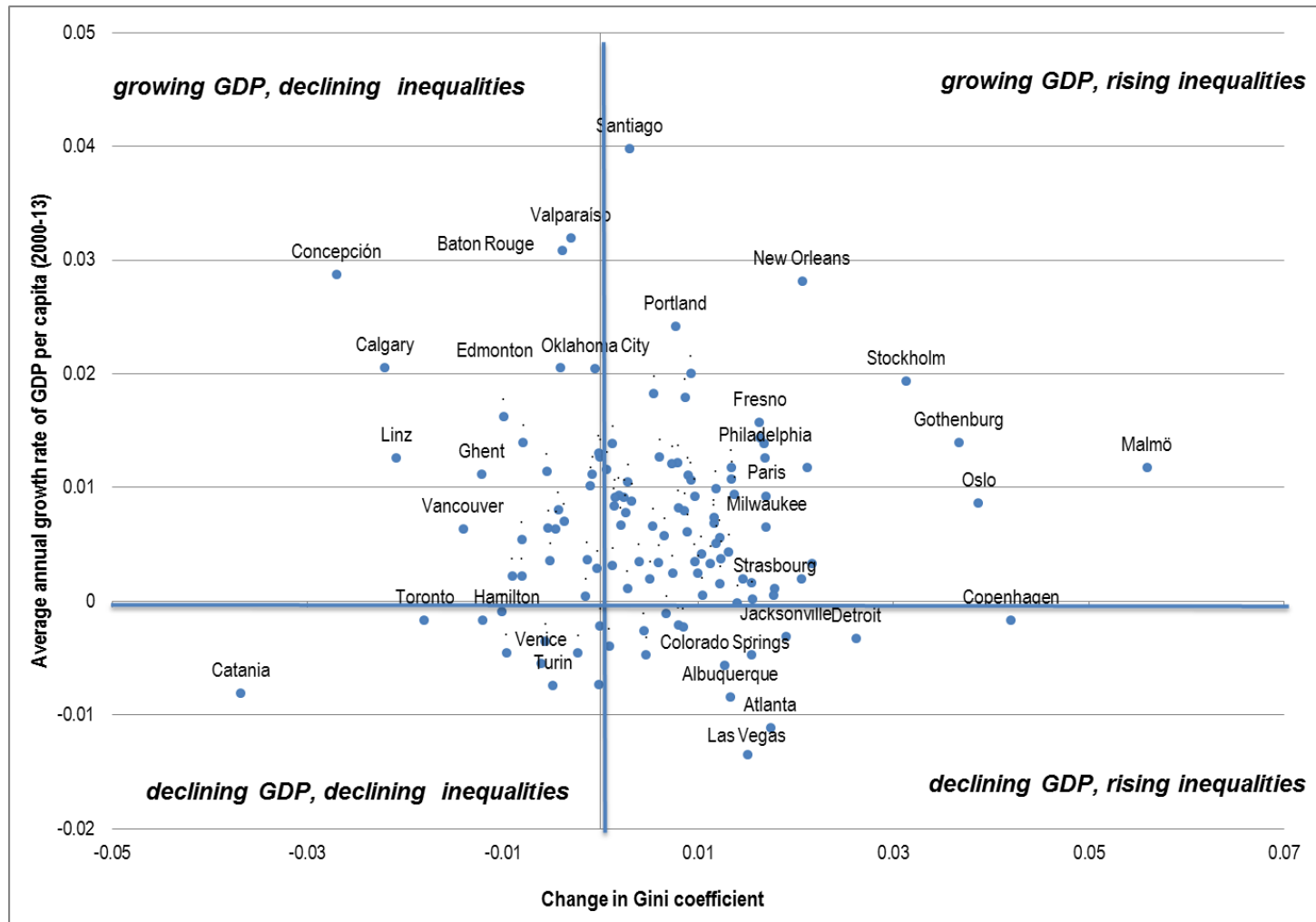
Source: OECD (2013), Regions at Glance

***What could make cities  
more productive and  
more inclusive?***



# Only 1/5 of OECD metro areas have grown inclusively

*Change in GDP pc and in Gini coefficient of household disposable income, 2000-13*

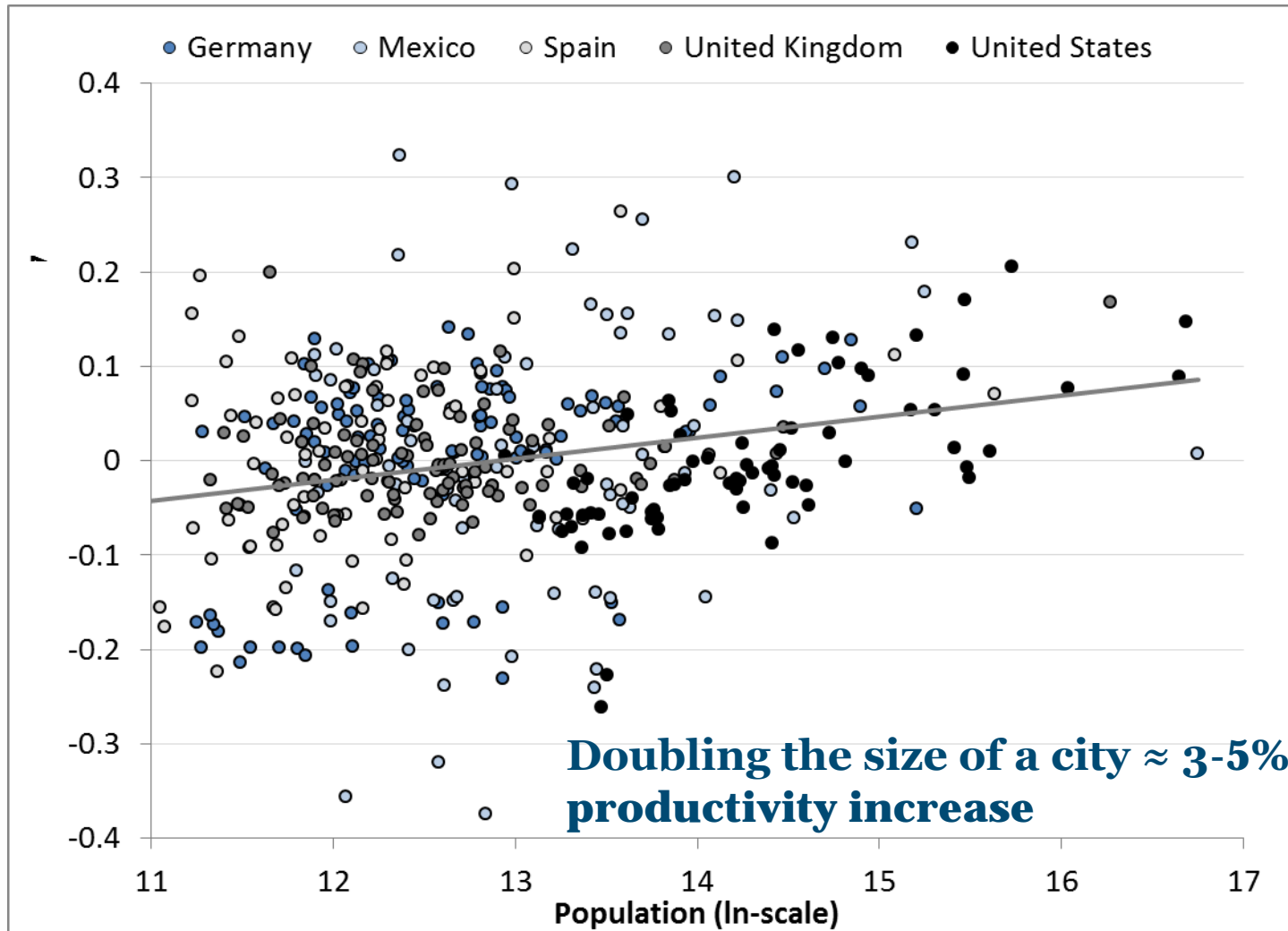


Source: OECD (2016), *Making Cities Work for All*, OECD Publishing, Paris.



# Productivity increases with City size even after controlling for sorting

City productivity (normalised)

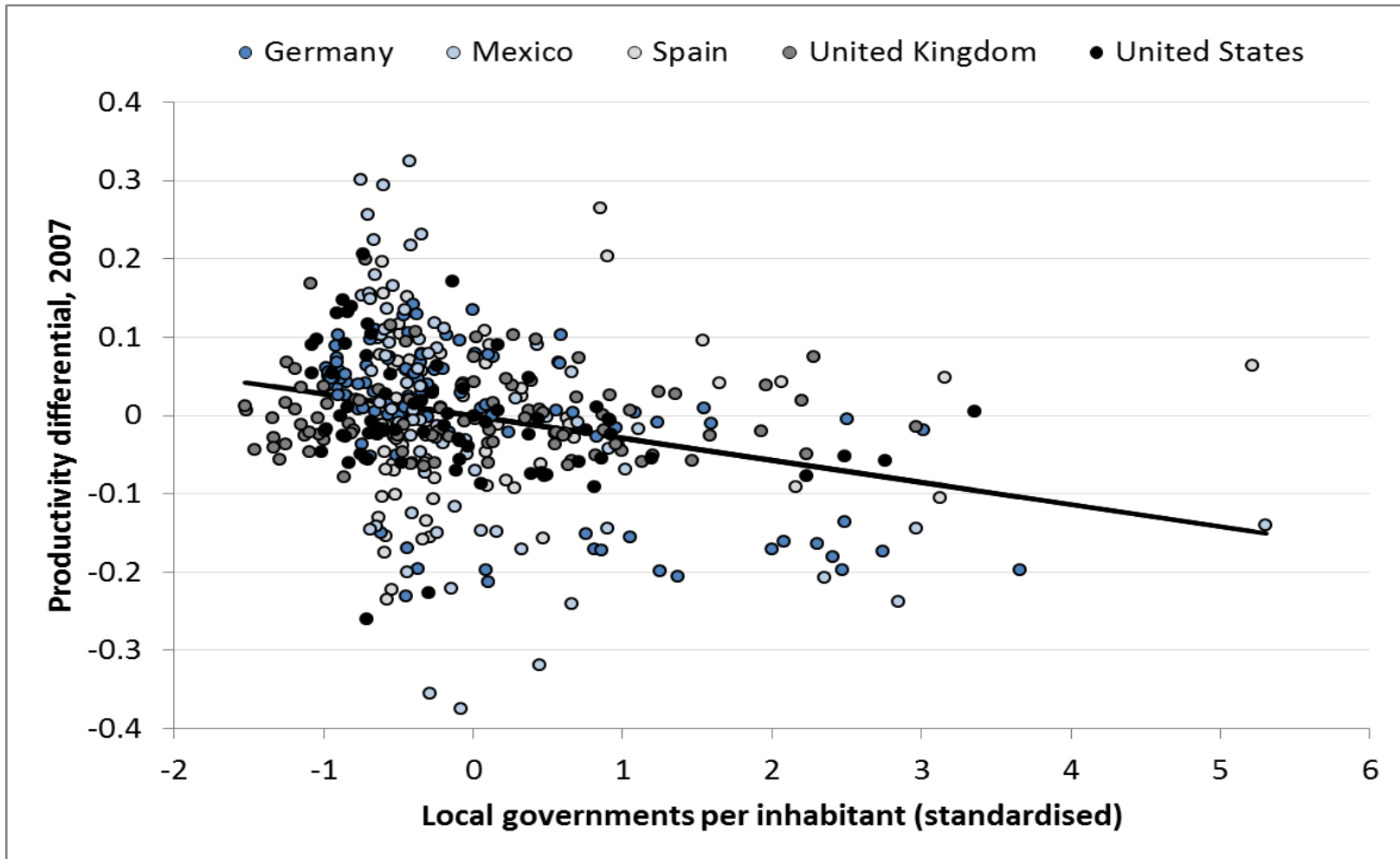


Source: Ahrend, R., E. Farchy, I. Kaplanis, A.C. Lembcke (2014), "What makes cities more productive? Evidence on the role of urban governance from five OECD countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris.





# But administrative fragmentation is correlated with lower city productivity

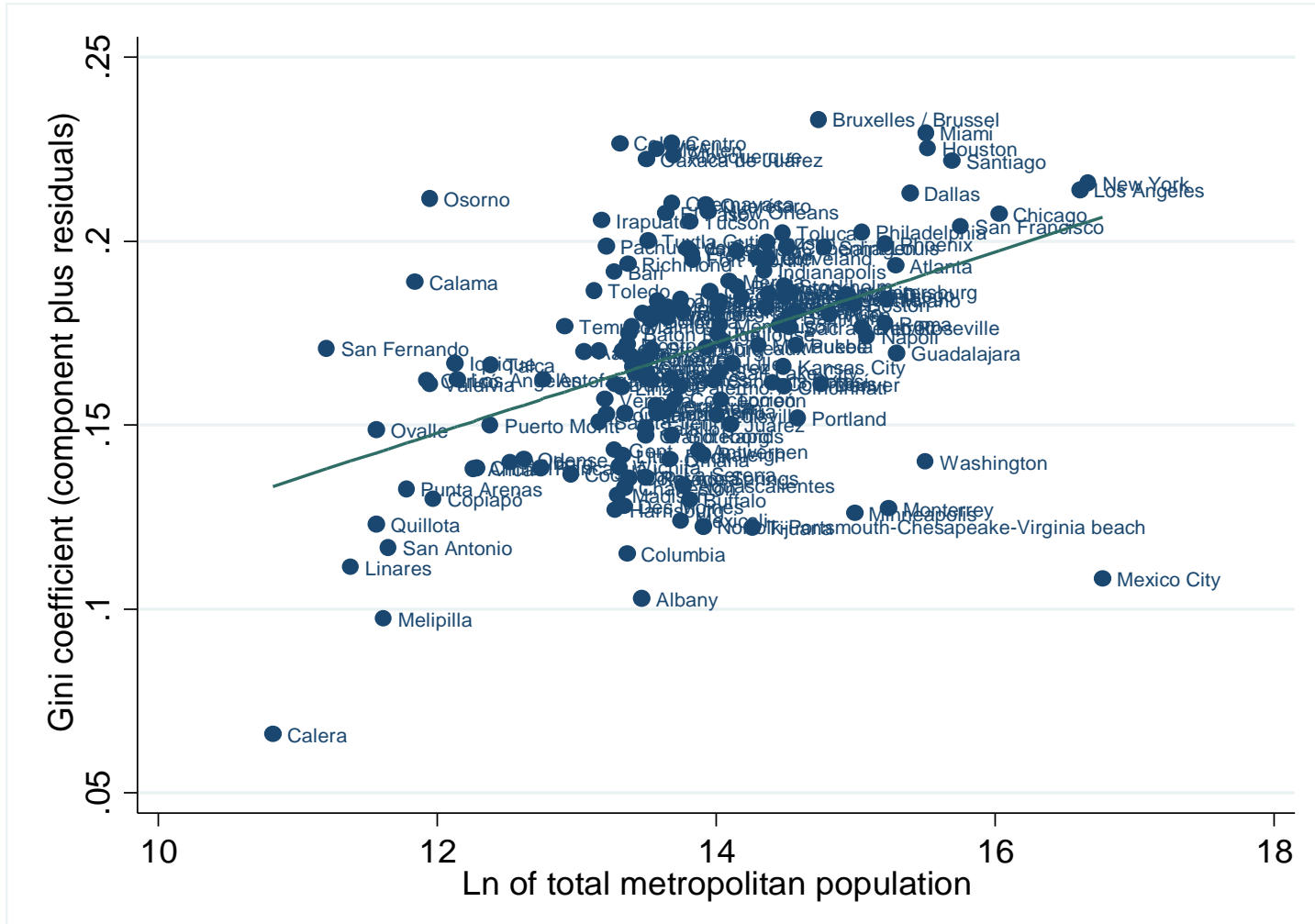


Source: Ahrend, R., E. Farchy, I. Kaplanis, A.C. Lembcke (2014), "What makes cities more productive? Evidence on the role of urban governance from five OECD countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris.



# Income inequalities also tend to increase with city size

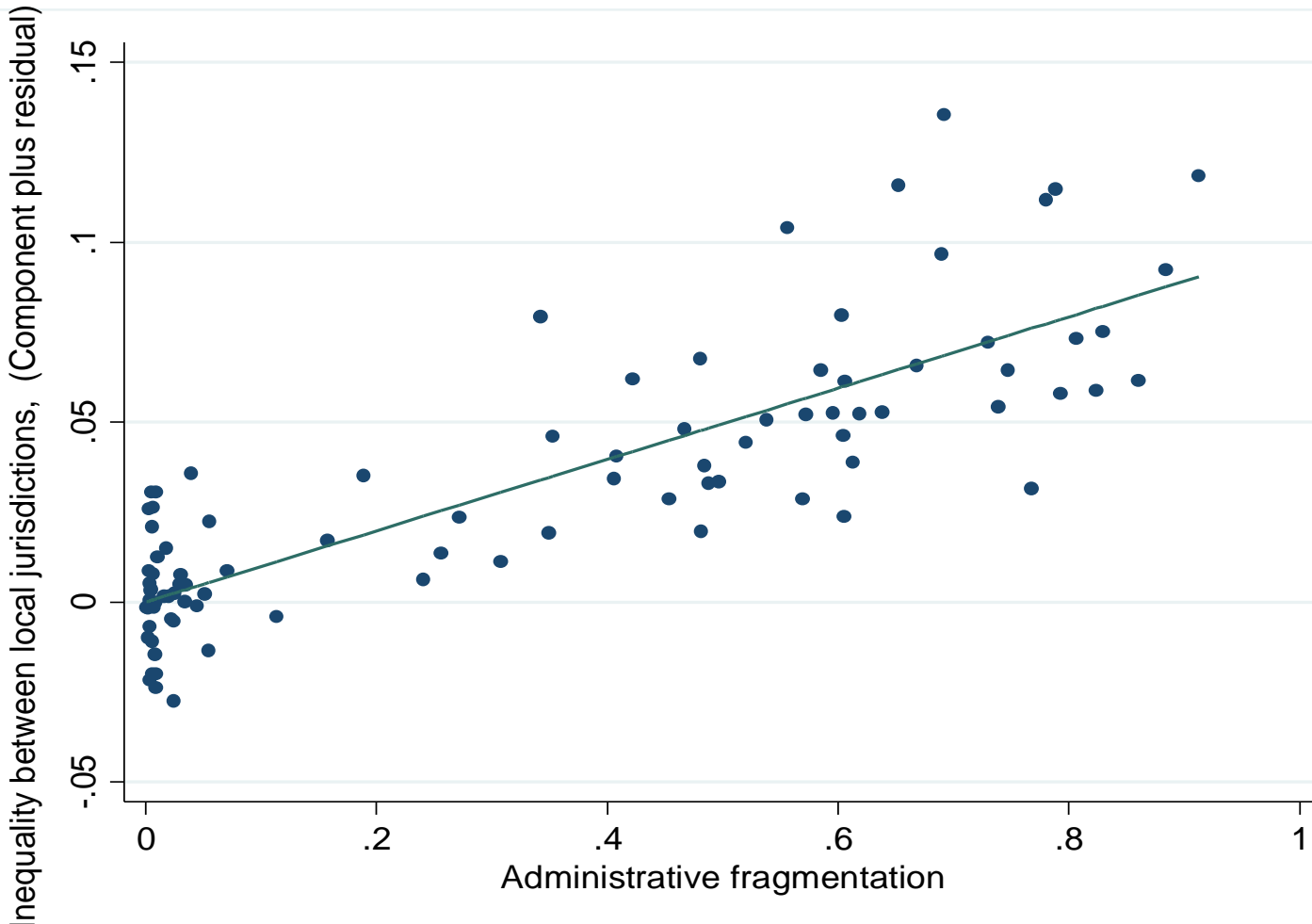
*Metropolitan population and income inequality, circa 2014  
(controlled for income levels and country effect)*





# But administrative fragmentation is correlated with higher segregation of people

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



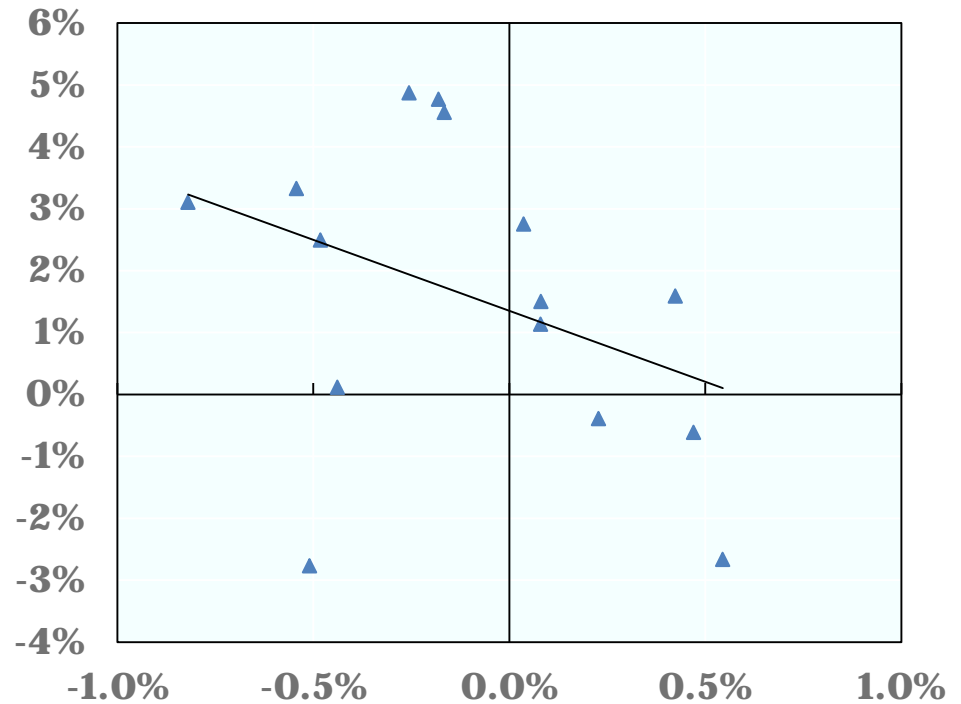
Controlling for country fixed effects and other city characteristics (i.e. income, population, spatial structure), higher administrative fragmentation is associated to higher spatial segregation by income in different municipalities (cf. Brezzi, Boulant & Veneri, 2016)



# 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

Annual change house prices  
(2000-2012)



Annual change in developed  
land per capita (2000-2012)



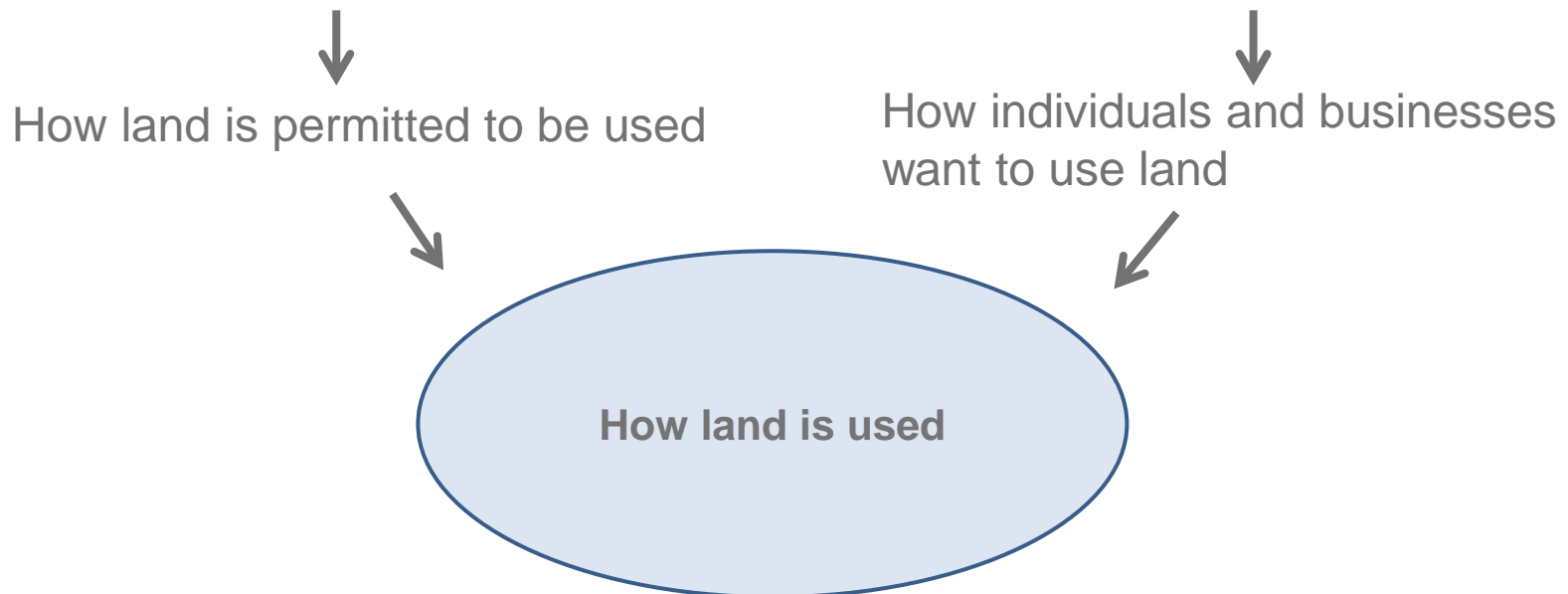
# Incentives matter: make planning more flexible and foster good land use

## 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



***Policies for inclusive  
growth in cities and  
regions***



# Policy shift towards Inclusive Growth



	<b>Cohesion-oriented urban &amp; regional policy</b>	<b>Growth-oriented urban &amp; regional policy</b>	<b>Inclusive growth policy in cities &amp; regions</b>
<b>Objectives</b>	<b>Compensating</b> temporarily for location disadvantages of lagging areas	Tapping <b>underutilised potential</b> in all areas for enhancing urban & regional competitiveness	Fostering both <b>equity &amp; growth</b> in cities & regions
<b>Unit of intervention</b>	<b>Administrative</b> regions/cities & firms	<b>Functional</b> economic areas	<b>Functional urban areas</b> (of all sizes) that reflect the reality of where people live and work
<b>Strategies</b>	<b>Sectoral</b> approach	<b>Integrated</b> development projects for economic growth	<b>Multi-dimensional</b> well-being
<b>Tools</b>	<b>Subsidies</b> & state aids	<b>Investment</b> in infrastructure to exploit competitive advantages of different places	<b>Integrated policy packages</b> that address both physical/ environmental capital and human/social capital
<b>Key actors</b>	Mainly <b>central governments</b>	Different <b>levels of government &amp; business sector</b>	<b>Partnerships</b> across levels of government, as well as between public and private spheres, and civil society



## Bottom-line

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- **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!