New Trends in Regional Policy: Place-Based Component and Structural Policies

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Abstract

This chapter describes and discusses a regional development policy approach for national productivity and growth based on three regional layers: (i) large metropolitan areas; (ii) rural/intermediate regions close to cities; and (iii) remote rural regions. First, we analyze the trends of tertiarization of OECD economies and their relation to the increased dominance of large cities. Over the long run, the economic space has been progressively structured around these large cities, their hinterlands, rural areas close to cities, and the rural remote areas. The chapter then focuses on the appropriate regional policies for each of the regional layers.

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Against this background, in a final section, the chapter discusses the evolution of the place-based regional policy paradigm in the OECD, in particular its recent focus towards wellbeing.

Keywords

Place-based policies · Regional and urban growth · Lagging regions

1 Introduction: Regional Disparities and Place-Based Policies

Understanding economic and social trends at the national level, their drivers, and bottlenecks has been the focus of much of the economics literature since the post war period and this in turn has dominated much of the policy debates behind economic development. Yet national average figures mask important differences within countries. For instance, the national unemployment rate in Spain, which by 2016 stood at 13%, does not convey any information depicting the important differences in labor market conditions across regions ranging from a low unemployment rate of 4% in Navarra to the highest rate of 25% in Andalucía. These differences reflect a better functioning labor market in Navarra, which will likely lead to higher productivity rates, wages, and quality of life than Andalucía. National or uniform policy responses without understanding the main drivers and bottlenecks behind these differences may fall short in providing efficient responses.

On the theoretical front, advancements in the New Economic Geography (NEG), the urban agenda, and the new trade theory have given important insights on explaining why economic activity and settlement patterns tend to concentrate in specific geographies in countries and not in others. The NEG provides a theory on how and why economic activity concentrates in certain locations, which generates core-periphery spatial patterns. The model is based on a spatial equilibrium between benefits and costs of agglomeration. Over the long run, it can explain how economic divergence may steadily increase. Other effects related to endogenous growth and institutional economics may reinforce these spatial outcomes (Acemoglu and Dell 2010).

At the more normative level, national policy makers have given more attention to territories and better understand regional variations, beyond national averages, their relation to national performance, and their main drivers. In turn, this has triggered motivation in the economic literature to understand and provide a rationale for spatial development policies, which are tailored for specific places (e.g., regions and cities) or geographies. These policies are usually called place-based policies (hereafter, PBPs). They are in contrast to the traditional structural policies (product, labor markets, education, health, etc.) that are designed to increase the aggregate growth potential of an economy and typically have a uniform or national-wide coverage.

The debate about spatially blind or place-neutral policies and PBPs has focused on the degree of optimal concentration of economic activities. According to Barca

et al. (2012), "tapping into unused potential in intermediate and lagging areas is not only detrimental for aggregate growth, but can actually enhance both growth at a local and a national level." Nonetheless, evidence on the actual impact of place-based policy interventions has remained mixed (cf., for example, the recent meta-analysis provided in Dall'Erba and Fang (2017) for the case of EU Structural Funds).

Duranton and Venables (2019) provide a comprehensive discussion on the factors that may justify a place-based approach. According to these authors, they are related to the value of proximity and connectivity; the fact that there is a strong complementarity of the elements determining local or regional performance; and the existence of asymmetric shocks across the regions of the same country. Given the many market failures that may be associated with spatial development, such as excessive concentration of investments or vicious local underdevelopment traps, there may be a role for policy interventions. Focusing on growing regional inequalities and rational for policy intervention, Iammarino et al. (2019) reckon that "both mainstream and heterodox theories have gaps in their ability to explain the existence of these different regional trajectories and the weakness of the convergence processes among them." Given the limited scope for factor mobility to address regional disparities and spread prosperity, they call for a new development policy, which again is "place-sensitive."

To design PBPs and structure our understanding of economic space, an important consideration lies in identifying the right geographic scale for analysis and policy-making. Focusing the level of analysis at a very small scale (e.g., municipal level) might lead to a very complex and fragmented unit of analysis falling short of labor market dynamics and economics of scale necessary for economic development.

Between the local and national scale, there are a wide range of geographies across countries. In order to improve international comparability, the OECD has developed two levels of regional geographies: large regions (Territorial level 2, TL2), which broadly correspond to the first tier of sub-national governments beyond the national scale, and small regions (Territorial level 3, TL3), which stand between TL2 regions and the local level. Small regions in some countries correspond to administrative regions, but largely are statistical regions.

Large regions typically include a mixture of metropolitan cities, peri-urban areas, second tier cities, and rural areas, in contract to smaller regions, which tend to be more differentiated. For international comparability, the OECD developed several taxonomies over the course of the years classifying regions with similar characteristics.

The first taxonomy developed in 1994, labeled as the OECD regional typology, classifies small regions as predominantly urban, intermediate, or predominantly rural according to a population density threshold across local units and total population in the region living in local units with low density. Over the course of the years, this classification expanded by first sub-classifying rural regions into two sub-groups: rural close to cities and rural remote regions based on a driving distance to urban centre criterion (1 h time distance). The second modification to improve comparability changed the arbitrarily defined local units to grid cells.

A second taxonomy focused on defining comparable metropolitan cities and their areas of expansion. This definition labeled as functional urban areas (hereafter, FUAs) classifies cities and their broader area of influence based on commuting patterns. An FUA is constructed by concatenating grid cells with high population density (typically above 1,500 inhabitants per km^2) into an urban core. Then, these cells are connected with surrounding lower density cells when the flows of commuting between the two types of cells exceed a given threshold (typically, at least 15% of the labour force commutes to the urban core). The set of the urban core and the hinterland compose the, so-called, functional urban area.

The two territorial definitions lead to different analytic frameworks. The TL3 and TL2 regions cover the entire territory within countries, while FUAs only capture a sub-sample of the territory. Furthermore, this typology may lead to a certain dichotomy between urban and rural areas. Against this backdrop, the OECD has recently developed an alternative definition introducing some spatial continuity between metropolitan and non-metropolitan areas. It is based on five types of regions based on the share of population living in metropolitan areas and an accessibility criterion. The five definitions include: (i) large metropolitan regions; (ii) metropolitan regions; (iii) non-metropolitan regions close to large cities; (iv) non-metropolitan regions close to medium size cities; and (v) remote regions.

These definitions initially elaborated for international comparability also represent important tools for policymaking purposes. For example, among the most relevant policies for cities are mobility policies, spatial planning, and housing. It is critical to design and coordinate them at the right scale. The FUAs provide a relevant geographic scale to coordinate these three policy areas, as they capture the entire local labor market of cities and their wider area of expansion. The governance system needs to be adapted to this scale, notably through metropolitan governance bodies or other coordinating mechanisms.

The TL3 definition is also relevant for rural polices, since it differentiates amongst different types of rural regions – those close to cities and those that are remote. Rural regions close to cities require a much stronger integration of policies with cities in areas such as transportation, land use labor market, or housing, amongst others. In contrast, rural remote regions may require much differentiated policy responses that address their particularities. Spatial scales thus are critical tools for the design of regional policies.

The subsequent sections are structured as follows. First, we analyze the trends of tertiarization in developed economies and their relation to the increased dominance of large cities. Over the long run, the economic space has been progressively structured around these large cities, their hinterlands, rural areas close to cities, and the rural remote areas. The chapter then focuses on the appropriate regional policies for each of the regional layers. In the final section, we discuss the evolution of the place-based regional policy paradigm, in particular its recent focus towards wellbeing.

2 Three Main Regional Scales and Their Characteristics

National growth and productivity strategies are usually based on macro-structural or sectoral policies. Such structural policy packages often focus on different markets (product, labor, etc.) aiming at increasing the structural flexibility of economies. In developing and emerging countries, growth strategies may also focus on the role of selected sectors, which could act as engines of productivity and job growth. While these policies can be designed in a piecemeal or a multi-dimensional manner, they all have a common characteristic. They are typically undifferentiated to geographies or spatial scales. They are space-blind.

However, policies can be uniform but not spatially neutral. They may produce very asymmetric effects across territories. Think for example of trade liberalization policies. Typically, large cities are dominated by service sectors, which are much less exposed to international competition than agriculture or industries. Therefore, intermediate and rural areas may feel the effect of trade liberalization in a much more acute manner than urban dwellers. At the same time, the capacity to adjust and create new jobs may also be more limited. The perception about the effects of globalization can therefore be dramatically different. The current discussion about the "geography of discontent" can be related to these differences (Los et al. 2017; McCann 2018).

At different degrees, depending on their state of development, all countries are affected by these spatial asymmetries. In particular, the excessive population growth observed in large cities of many developing countries is driven by relative development gaps between rural and urban areas. Maintaining a certain level of development in rural areas is a way of managing the flow of migration to large cities.

Policy-makers could therefore focus on a national spatial productivity strategy. This strategy has mainly three spatial layers. First layer benefits from agglomeration economies in large and dense urban areas, notably in service sectors. Second layer promotes regional productivity catching-up in regions intermediate/rural close to cities. Proximity and tradable sectors play a key role. Third layer addresses the specific problems of remote rural areas, through place-based approaches (e.g., smart specialization). We will discuss now what policies are more adapted to each of these territorial scales.

2.1 Tertiarization of Economies and Competitive Edge of Large Cities

Globalization during the past decades has reshaped global institutions, economic structures, and societies. The offshoring of manufacturing jobs to emerging economies with cheaper labor costs (e.g., China, India) has boosted the relevance of emerging economies and with it new international institutions have come to the forefront in shaping international policy agendas mainly the G20. A growing body of literature has also documented the emergence of global value chains, in which the

production of tradable goods has gradually decoupled from a centralized location into a multiplicity of them. Production tasks have mainly delocalized to emerging economies where labor costs are cheaper, in contrast to capital-intensive ones, including R&D activities and services, remaining in the home base of countries from multinational firms.

The delocalization of industrial activity from developed to developing countries has contributed to the tertiarization of economic activities in OECD countries, in which the relative share of service – both as a proportion of total output and employment – has increased during the past decades. Services nowadays currently represent typically 80% or above of value added across OECD countries representing. This structural transformation has not been neutral in space. The largest share of employment in services is found in large metropolitan areas, as showed in Fig. 1. In this and subsequent figures, the TL3 regions are classified into five regional types, as follows (see Annex A):

- Large metro areas
- Metro areas
- Non-metro areas with access to metro areas
- Non-metro areas with access to a small/medium city
- Non-metro areas remote

Indeed, manufacturing ceased to be the economic base of large cities against service-oriented activities, which require proximity, a pool of specialized labor, access to capital and knowledge networks, all located in cities especially large ones.

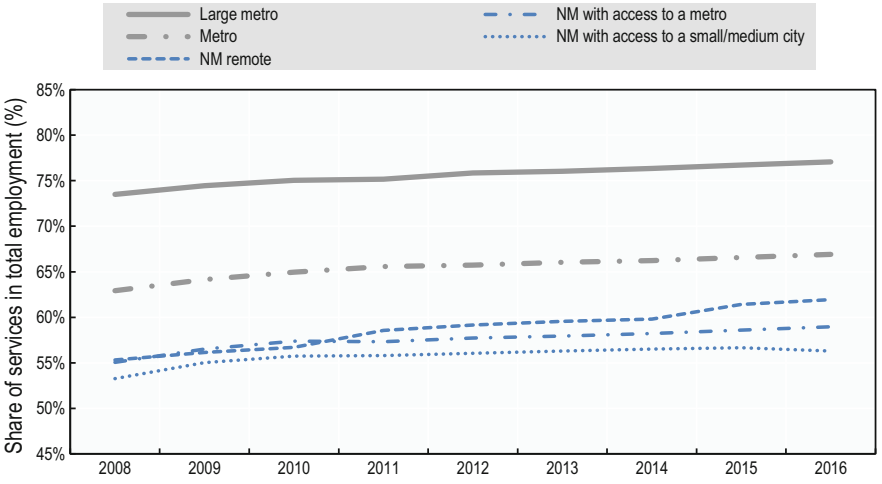

Fig. 1 Share of employment in services by type of TL3 region, OECD 2008–2016. Note: Switzerland, Japan, Norway, Australia, and Korea are not included in the calculation because of data availability. (Source: OECD Regional Statistics Database. https://doi.org/10.1787/region-data-en)

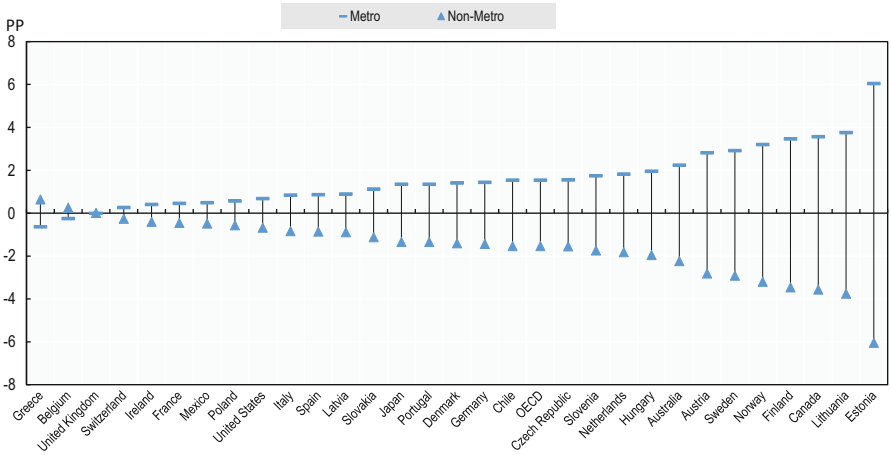

Fig. 2 Population change by type of region, 2001–2017. (Source: OECD Regional Statistics Database. https://doi.org/10.1787/region-data-en)

The concomitant gradual tertiarization of OECD economies and increased competition in tradable goods from emerging economies has favored concentration cities against remote and low-density regions. This tertiarization of the economies has accentuated regional disparities (Odendahl et al. 2019). This continued urbanization is illustrated by the population change, which continues to advantage metropolitan areas (Fig. 2). Cities benefit from a higher capacity to transform the tertiarization of economic activities into productivity gains than low-density economies given that productivity of services crucially depends on density levels (Morikawa 2011).

Furthermore, cities also enjoy from the benefits from economies of agglomeration. Firms tend to locate close to other firms and to densely populated areas due to lower transportation costs, proximity to markets, and wider availability of labor supply. People are also attracted to densely populated areas for the wider availability of job opportunities, goods, and services. These mutually reinforcing forces yield important economic premium for both consumers and firms through economies of scale, a better matching and functioning of labor markets, spillover effects, and more technological intensity (Duranton and Puga 2004). Productivity and, therefore, wages tend to be higher in densely populated areas.

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 (2015) estimates suggest that the agglomeration benefit in the form of a wage premium rises by 2–5% for a doubling of population size.

These benefits also yield higher productivity levels for the broader metropolitan region. On average, output per capita in large metro regions is almost 30% higher than in metro regions, 36% higher than in non-metro regions close to metro, and 50% higher than in remote regions and non-metro regions close the small and medium (Fig. 3).

The main idea behind the New Economic Geography (hereafter, NEG) is to explain why consumers and firms tend to agglomerate together in geographic areas

where other firms and consumers are already located. Simply stated, firms like to locate where other firms and or suppliers are located given the lower transportation costs. They also like to locate where consumers and densities are higher especially service oriented firms. Workers in turn also like to locate close to firms, given the higher job opportunities available. Studies of this phenomenon include Perroux's notion of "growth poles" (Perroux 1955), Myrdal's analysis of "circular and cumulative causation" (Myrdal 1957), and Hirschman's concept of "forward and backward linkages" (Hirschman 1958).

Demographic patterns across OECD countries over the past 16 years confirm these circular and cumulative causation dynamics. The share of populating living in metro regions increased in all but three (Greece, Belgium, and the United Kingdom) OECD countries, against the share of non-metropolitan regions. The increase in the share of metro regions in average is close to two full percentage points amongst 30 OECD countries considered (Fig. 2).

In contrast to this structural trend of tertiarization and the associated benefits brought by cities, low-density economies have faced competitive pressures from low-wage emerging economies in tradable goods over the past years. Low-density regions have thinner and more fragmented internal markets, and thus their productivity gains in services is limited and therefore must export to markets elsewhere to raise their productivity. These forces have consequently led to the creation of new, often higher paid jobs in cities and the destruction of jobs or readjustment of wages in rural areas due to global competition in tradable goods and services.

Beyond this structural transformation, many countries have also faced the shock and the aftermath of the global financial crisis during the last decade, which has not been neutral in space.

Low-density regions which produce a limited range of the goods and services imply greater vulnerability to sector-specific shocks, whether positive or negative. In a very large, dense economy, the greater range of activities typically offers a greater degree of resilience to external shocks.

The effects of the crisis display a negative growth rate in GDP per capita from 2009 to 2015 across all regional categories (e.g., slope in Fig. 3). The negative growth rates are much higher for rural remote regions and non-metro close to medium and small cities than for non-metro close to metro and metro regions. Indeed metro regions and those close to them have weathered the effects of the crisis much better than regions far away from metro areas.

2.2 Rural Regions Close to Cities and Agglomeration Effects

Cities enjoy from the benefits of economies of agglomeration through a productivity premium. The benefits, however, must be weighed against the costs of densely populated areas such as congestion, negative social effects of possible oversupply of labor, higher land and housing prices, rising inequality, and environmental pressures. The net impact varies from one urban area to another. These diseconomies

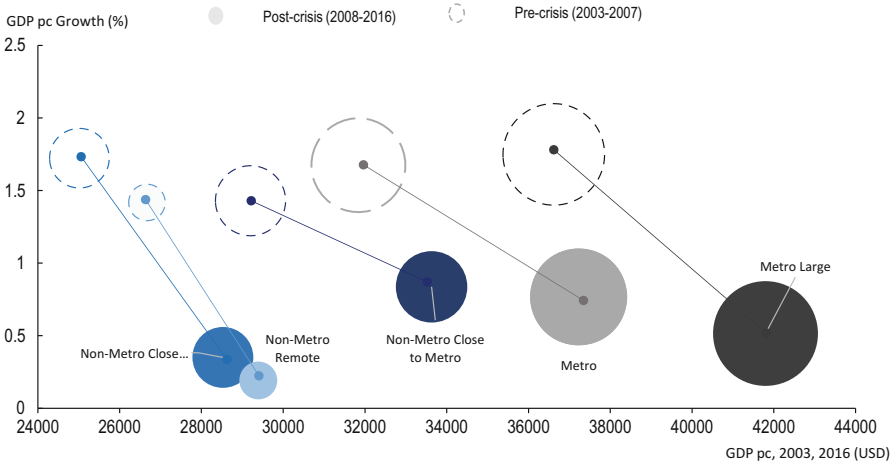

Fig. 3 Performance in GDP per capita in TL3 regions, 2003–2015. (Source: OECD Regional Statistics Database. https://doi.org/10.1787/region-data-en; Rural Policy 3.0, OECD (forthcoming))

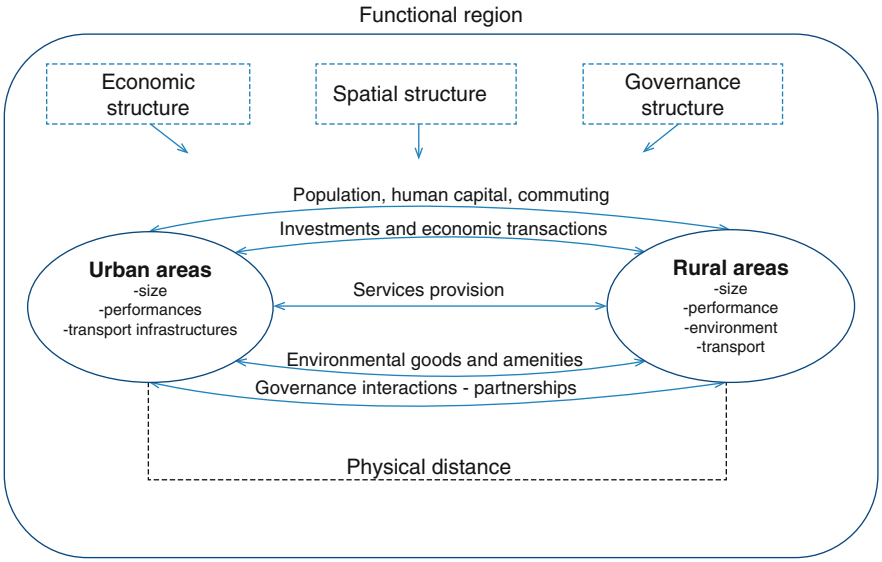

Fig. 4 Linkages between rural and urban regions. (Source: Rural and Urban Partnerships: an integrated approach to economic development, OECD, Paris)

can generate opportunities for lower density areas close to cities. For example, lower housing prices can be traded-off by higher transportation costs.

In rural areas that are closer to cities, the urban and rural spaces can be highly interlinked across economic, social, and environmental dimensions (Fig. 4). Linkages can occur in many dimensions including amongst others in commercial ties,

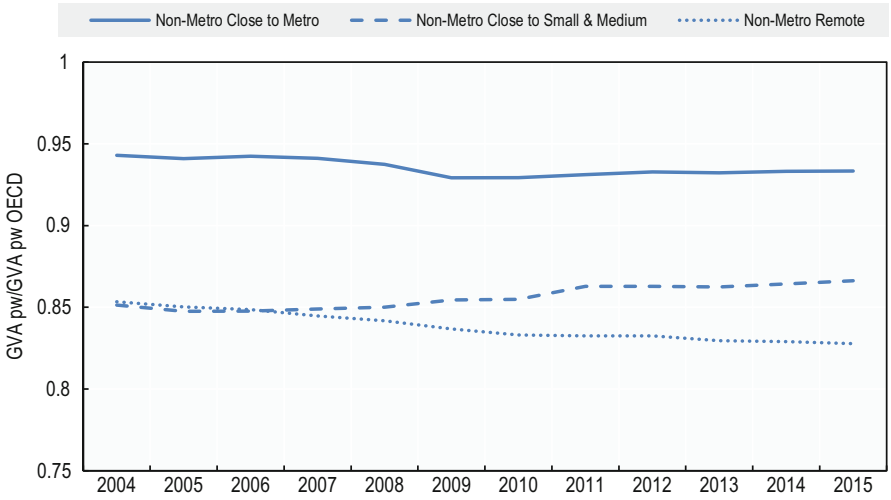

Fig. 5 Labor productivity trends non-remote regions, 2003–2015. (Source: OECD Regional Statistics Database. https://doi.org/10.1787/region-data-en; Rural Policy 3.0, OECD (forthcoming))

environmental goods, and population flows. Rural areas that are in close proximity to cities have much stronger linkages in transportation networks, commuting flows, spatial planning, and the provision of goods and services.

Stronger linkages and the associated benefits are also often referred to as "borrowed" agglomeration effects from neighboring cities. For a doubling of the population living – at a given distance – in urban areas within a 300 km radius, the productivity of the city in the centre increases by between 1% and 1.5% (OECD 2015). This may also explain why productivity in US cities generally increases more strongly with city size than in the European countries. Smaller cities in Europe are not that much disadvantaged, as they can simply "borrow" agglomeration from neighboring cities.

In addition, they can also offer higher environmental amenities than in cities and better services than in rural remote regions. All these dimensions are important elements for quality of life standards and for attracting skilled labor force.

The labor productivity trends across non-metro regions show a clear pattern of convergence in both non-metropolitan regions close to cities to national standards over the past years (2003–2015) against a diverging trend in non-metropolitan remote regions (Fig. 5). The divergence trend present in remote regions can also be driven by their higher vulnerability to the effects of the global financial crisis, as previously described.

2.3 Heterogeneity of Remote Rural Regions and Tradable Activities

Factors associate with economic geography are at the heart of economic development strategies in remote rural places. The geography of a place is effectively

defined by a combination of physical ("first-nature") and human ("second-nature") geographies (Ottaviano and Thisse 2004). The more people inhabit a place, the more it is driven by second-nature geography by human beings and their activities, or economies of agglomeration. In contrast when settlement is sparse, first-nature geography inevitably looms larger, which implies a larger role for natural factors in shaping economic opportunities.

In other words, rural remote regions do not benefit from economies of agglomeration and cannot develop large service sectors. They do not have any internal market and furthermore must face a physical distance to major markets. This increases travel times and shipping costs, which must be borne by the buyer (in the form of higher prices) or seller (in the form of lower margins).

Economic structures of such places however often have very *specific features*. Production is concentrated in relatively few sectors, since it is impossible to achieve "critical mass" in more than a few activities, and these activities must be exported to external markets in other regions or in other countries given the lack of internal markets. These features suggest that productivity in rural remote crucially depends on tradable activities or alternatively and export-oriented economy. Those areas that yield competitive or absolute advantage are the only sources of productivity gains and sustainable development.

Given the higher transportation costs, tradable producers require an edge in terms of efficiency to offset the distance costs. Moreover, the limited scope for pursuing economies of scale in many sectors suggests that producers in the non-resource tradable goods sector need other sources of competitive advantage, e.g., focusing on unique qualities of products, where scarcity can add value.

Remote rural regions specialized in tradable activities, particularly in manufacturing, however have faced competitive pressures from developing countries. Globalization has brought increased competition to the tradable sector and especially to manufacturing, which includes pre-manufacturing services, manufacturing itself, and post-manufacturing services. This exposure to low-cost competition is illustrated in Fig. 6.

Figure 6 shows the relation between the shares of full-time employment of sectors located in mostly urban areas (an indicator of urbanization) and the average wages (a proxy for labor productivity). It can be seen that most sectors of sophisticated manufacturing and services are mainly located in urban areas, whereas low-cost and low-skilled manufacturing and natural resources are in non-urban (rural) areas.

In this context, rural remote regions cannot build their future on low-cost, standardized production; rather they need transition from a standardized to more differentiated, flexible, and customization-oriented types of production. Recent evidence suggests that most value is created in downstream and upstream manufacturing production cycles, implying the importance of product differentiation and innovation to move up in the value chain. This leads to a stepper U-shaped relation between value creation and stages of production compared with traditional manufacturing value chain. This phenomenon was coined by Baldwin and Evenett (2015) as the "smile curve."

In addition to facing competitive pressures, remote rural regions face a narrower economic base, which imply greater vulnerability to sector-specific shocks, whether

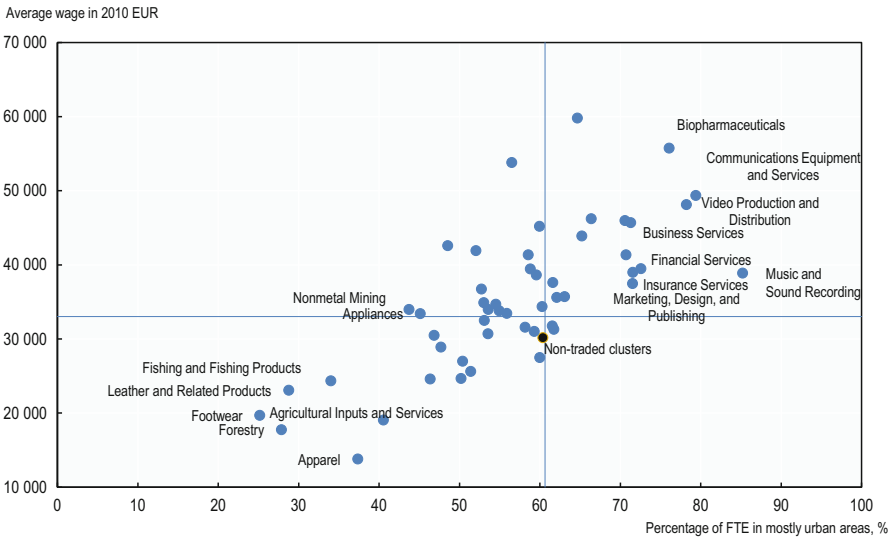

Fig. 6 The specialization of urban versus urban areas. (Source: Productivity and jobs in a globalised world: (how) can all regions benefit? OECD, Paris; FTE stands for full-time employment)

positive or negative. Indeed the trends in GDP per capita from 2003 to 2015 across the three types of non-metropolitan regions reveal an overall trend of convergence in GDP per capita across the three types of non-metro regions, with a stronger pattern in both non-metropolitan regions close to cities (Fig. 7). The data also show the much tighter distribution in non-metro close the metro regions against a higher dispersion in non-metro close to small and medium regions and remote regions. Still, a number of remote regions have performed with the very high growth rates. In some cases, this is due to specific advantages, such as natural resources, natural or cultural assets, from which an economic basis can develop.

In sum, this section depicts the structural transformation towards tertiarization over the medium and long run, which has not been neutral in space favoring cities and densely populated given their ability to transform service activities into higher productivity through economies of agglomeration. Against this backdrop, low-density economies and remote areas, who lack economies of agglomeration, must take the most of tradable activities to raise productivity, and these have faced high competitive pressures from emerging economies with low wages.

Furthermore, the shock of the global financial crisis and its aftermath since 2009 has been more severe on low-densely populated areas, with a narrower economic base. Metro regions display higher rates of productivity than non-metro regions and the level of productivity declines with density. Non-metro regions close to metro are converging to national productivity levels against the divergence present in remote regions. Despite this divergence, remote regions show higher variability in their performance with a number of regions performing very well. Non-metro close to the medium and small cities displays higher variability. Growth in these two categories

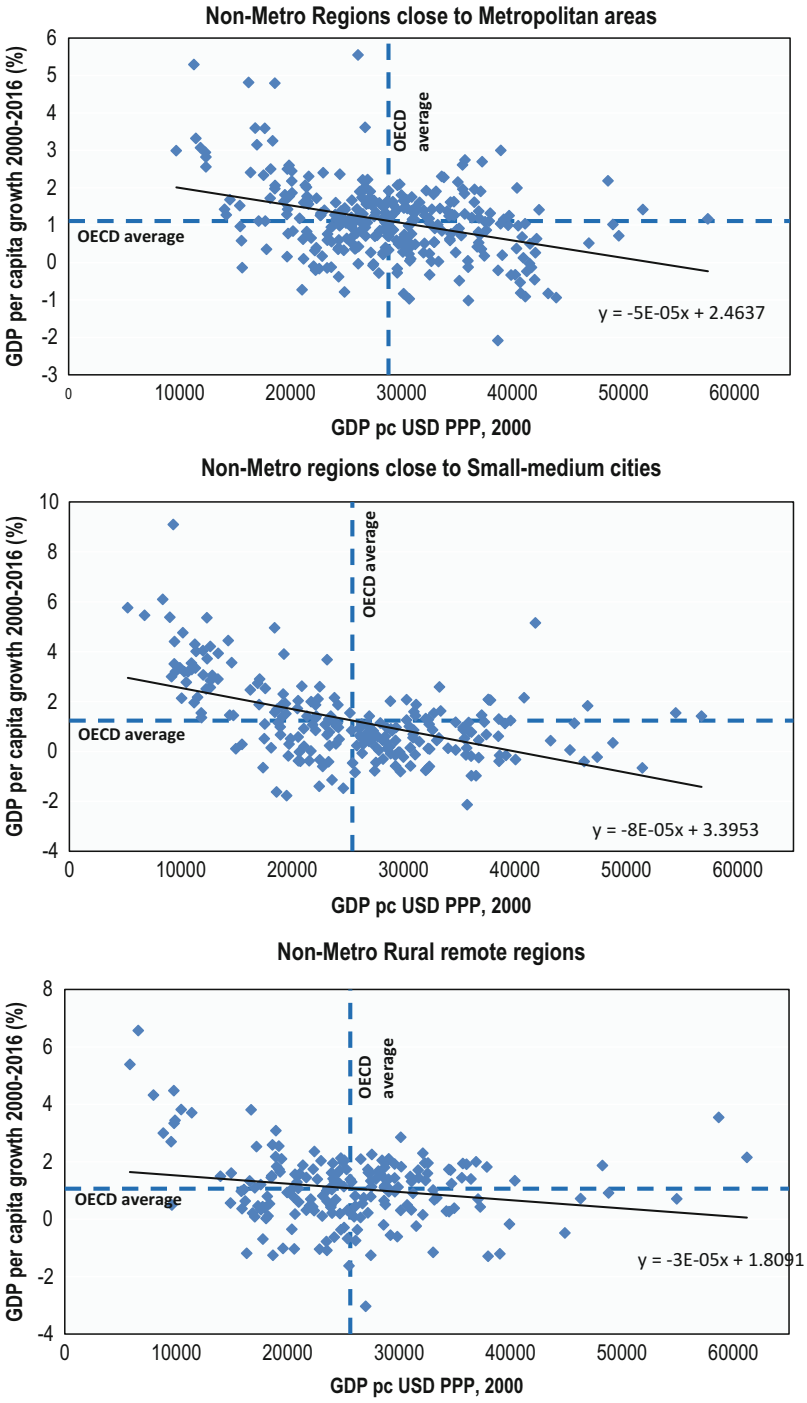

Fig. 7 GDP per capita in non-metro regions, 2000–2016. (Source: OECD Regional Statistics Database. https://doi.org/10.1787/region-data-en; Rural Policy 3.0, OECD (forthcoming))

depends much more on region-specific factors, which randomly varies across the geography.

3 Differentiated Regional and Urban Policy Responses

The previous regional trends convey a number of hints for policy design, in particular how to build a national strategy to raise productivity through a spatial lens. *Cities and functional urban areas* must try to maximize the benefits of economies of agglomeration, and policy can help by mitigating the costs of diseconomies of scale in three key areas: transportation, housing, and spatial planning. *Non-metro regions close the cities* must also try to maximize the benefits of agglomerations by enhancing their linkages with cities, to ensure they can benefit from agglomeration effects while at the same time benefits from their lower diseconomies of scale and higher amenities. In contrast, *remote rural areas* with no weak or linkages to cities require tailored-made policy responses that can address their needs. In this sense, they require perhaps the most demanding form of place-based policies, which can focus on their unique assets with competitive or absolute advantages.

In this regard, the role of decentralization and multi-level governance is crucial. A central government cannot have as many policies as different types of cities and regions! Therefore, designing place-based policies is a too complex task to be fully centralized. However, decentralization also needs to be organized as a partnership and not only as a process of autonomy and devolution of competencies.

Decentralization also works better when it is done in a process allowing for the asymmetry of capacities at the local level and experimentation (learning-by-doing). As discussed above, the question of finding the right territorial scale is key. To avoid excessive fragmentation of the policy decision, two important building blocks are the governance of metropolitan areas and mechanisms to promote supra-municipal cooperation.

3.1 Policy Responses in Cities

Economies of agglomeration bring a productivity premium to cities and urban areas due to scale economies, a better matching and functioning of labor markets, spillover effects, and more technological intensity (Duranton and Puga 2004). This can be a self-reinforcing mechanism. Cities, however, also face a number of costs or diseconomies of scale. These include congestion, pollution, increasing social disparities, and environmental degradation. Policy responses can often be more successful in mitigating these costs rather than accelerating the economic benefits of agglomerations, which occur on their own through market-based mechanisms.

Moreover, the growing inequalities have come to the forefront of the debate around urban policies. For example, in the USA, 17 among top 25 US metros had Gini coefficients above the US national average. Often, the bigger the city the larger

the inequalities. This is driven by several factors. Skill-biased technical change occurs due to a shift in the production technology that favors skilled over unskilled labor by increasing its relative productivity, demand, and wages. Cities attract high-skilled workers in search of high-paid jobs in high-value business services, management, and banking. Cities however also attract low skilled workers looking for employment in low-paid service sector jobs. Skill distributions therefore tend to be more dispersed exacerbating spatial segregation and inequalities. Poorer households tend to cluster in poorer neighborhoods, where housing costs are lower, but these are often areas with poorer amenities and poorer access to education and other public and private services. As cities grow, so does inequality, and this can be sustained over time due to spatial segregation.

Policy responses to address inequality must first focus at the right scale of the city beyond the administrative borders. Integrating policies for transportation, housing, and spatial planning across functional urban areas can be an effective tool not only to reduce inequality but also to increase the performance of cities. In this sense, by offsetting the costs, the net benefits of agglomerations are higher.

Municipal fragmentation may reduce the economic performance of metropolitan areas. Metropolitan areas typically cross multiple administrative boundaries. For example, the number of local governments is around 1400 in the Paris and 1700 in the Chicago metropolitan area. The analysis of the impact of horizontal fragmentation in metropolitan areas reveals lower productivity levels in cities with fragmented governance structures. For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity. These negative effects on economic efficiency can be mitigated by almost half when a metro governance body at the metropolitan level exists (OECD 2015).

Another important area for policies in cities is addressing the pressures of urbanization and built-up area. Cities are expanding more than population growth. At present rates, the world's urban population is expected to double in 43 years while urban land cover will double in only 19 years (Angel et al. 2011). On average, annual growth rate of urban land cover was twice that of the urban population between 1990 and 2000, and most of the cities studied expanded their built-up area more than 16-fold in the twentieth century (Angel et al. 2011).

Policies to address urban sprawl must go beyond mere densification. They must encourage density that functions effectively. This implies a need to consider housing affordability and transport-oriented development in addition to infill and densification. An integrated and coordinate approach is warranted at the scale of functional urban areas. Furthermore, there is a need to align policies that unintentionally may promote sprawl, in areas such as taxes and regulation. For example, property tax rates across the USA are highest in central city locations, and lowest for the more distant areas (e.g., exurbs); they were also lower for single-family homes than multifamily dwellings. In Mexico, the allocation of federal housing subsidies has contributed to excessive sprawl, irregular settlement patterns, and urban development in risk zones. These type of polices unintentionally have pushed people and firms further apart from each other, exactly the contrary that agglomeration is supposed to do.

3.2 Policy Responses in Rural Areas Close to Cities

Rural regions close to cities are increasingly interconnected with cities through a broad set of linkages. These interdependences can affect wellbeing and economic performances of both urban and rural areas. Despite these linkages, urban and rural policies tend to be fragmented addressing their own constituencies. This has been driven by the use of dichotomous definitions, which define explicit urban territories and rural territories, with no common ground for policy integration.

Many countries have been advancing towards redefining their definitions with different shades of urban and rural linkages. For example, in France, the National Institute of Statistics and Economic Studies (INSEE) has developed an indicator that measures the accessibility of services and amenities that are important to daily life for communities of varying population densities. This indicator distinguishes between densely populated towns, intermediately populated towns, sparsely populated municipalities, and very sparsely populated municipalities.

Finland also adopted a classification based on spatial data sets and on seven regional types: inner urban area, outer urban area, peri-urban area, local centers in rural areas, rural areas close to urban areas, rural heartland areas, and sparsely populated rural areas. The framework employs a wide range of variables to capture the diversity of rural places including: population, employment, commuting patterns, construction rates, transport access, and land use data. Collectively these variables are used to construct indicators of economic activity, demographic change, accessibility, intensity of land use, and other attributes for each region.

Interdependences between urban and rural areas can be captured by functional or accessibility to cities criterion. Territories that emerge as self-contained spaces of relationships between urban and rural areas do not correspond with administrative regions. Defining areas with strong interdependencies can help better integrate urban and rural policies in policy domains.

For a rural area close to a city, a critical goal is to increase mobility while at the same time limit sprawl. On the one hand, if population of the rural areas expands into the urban sphere, it will generate traffic congestion, make it difficult and unsustainable to provide and maintain services and infrastructure, and impose pressures on the environment. On the other hand, it is desirable to increase the connections between urban and rural areas so urban dwellers can benefit from natural and cultural amenities in rural areas and rural dwellers can have access to the urban labor market. Increased mobility will also help strengthen the commercial linkages between the two and broaden the benefits of agglomerations. Key policy domains that require integration across urban and rural regions include transportation, land use, and resource use.

Providing locally high quality services in rural areas that are integrated into the adjacent urban capacity is also an important policy area. Rural regions close to cities can benefit from the better available services in urban areas given their lower marginal costs. This requires establishing effective partnerships between rural and urban areas. Many countries are experiencing innovative forms of governing urban-rural relationships through partnerships between urban and rural areas, in order to

deal with several issues of policy beyond the provision of services including economic strategy and spatial planning. These partnerships allow the constraints imposed by local administrative boundaries to be overcome through an integrated approach for economic development. Much attention has been devoted recently at analyzing what governance approaches these partnerships can take and what are the characteristics that make them bringing about benefits to both rural and urban territories.

Beyond partnerships, several countries are also advancing in providing integrated urban and rural policy packages. Examples of these include the ITI (Integrated Territorial Investments) and CLLD (Community Led Local Development) by the European Commission across several European countries or the reciprocity contracts (*contrats de réciprocité*) in France.

3.3 Policy Responses in Remote Rural Regions

Policy responses in rural remote regions must deal with the strong heterogeneity and adapt to the specificities of remote areas. The less densely populated a region is, the more the key determinants of its growth performance tend to be specific to that region. The lack of human settlements and activity necessarily implies a larger role for natural factors, such as the climate or landforms, in shaping economic opportunities.

It also calls for the need to specialize in the tradable sectors of the economy, which concerns with goods and services that are not restricted to local markets. The nature of these low-density economies, including their relative proximity to markets, and sectoral composition leads to very strong diversity. As a result, they require a differentiated policy response to make the most of their assets and opportunities activities.

A very promising domain for rural regions is the opportunities generated by ICT and digitalization. They may permit connecting some of these remote places for the first time and allow for new forms of service provisions. Rural polices that can embrace the digitalization agenda and better understand the opportunities from new technologies is a promising field for the future. Self-driving cars may drastically increase the convenience of travel. Advanced teleconferencing reduces the need for face-to-face meetings enabling the tradability of services. The distributed manufacturing, 3D printing, drones, and autonomous trucks will make it easier to integrate remote places in supply chains. Rural areas will also benefit strongly from digital technologies for public service delivery.

4 Conclusion: An Evolving Regional Policy Paradigm

Regional policies have been evolving throughout the last decades in line the structural challenges observed across countries. In the 1960s, regional policy occurred under a context of strong economic growth, fiscal expansion, and low

unemployment, notably among developed economies. Regional policy was mainly perceived as a tool to balance growth in a period of rapid industrialization. The main objective was wealth re-distribution through financial fiscal transfers by national government and public investments. This vision evolved gradually through the 1970s and 1980, with the emergence of global economic shocks giving rise to pockets of high unemployment within countries. Regional policy expanded from its earlier focus on reducing income disparities to also focusing on altering employment conditions in specific regions with high unemployment. The main tools were fiscal incentives aimed at relocating firms and the creation of public jobs. Overall, the results were disappointingly coming short of reducing disparities and attaining sustainable growth in these target areas despite significant public investment. Many governments also attempted to attract foreign direct investment (FDI) into target regions to boost create employment, but also on the assumption that spillovers would benefit local enterprises, increasing their technological and organizational capacity.

Against this background, regional policy evolved during the 1990s and 2000s from its previous top-down, subsidy-based interventions designed to reduce regional disparities into a much broader "family" of policies designed to improve regional competitiveness. The objectives, unit of intervention, strategies, tools, and actors evolved from redistribution to competiveness focusing more on a development strategy covering a wide range of direct and indirect factors targeting endogenous assets rather than exogenous investments and transfers and an emphasis on opportunities rather than disadvantages.

The policy shift was influenced by the evolution in the New Economic Geography since Krugman's seminal paper (Krugman 1991) setting the foundations of why economic activity concentrates in certain geographies. The OECD Territorial Development Policy Committee (currently denominated the Regional Development Policy Committee) has also contributed to shape this new vision. With the eventual maturity of this literature, regional disparities became to be understood as a natural process of economic development. This literature highlighted the presence of permanent sources of divergence across different types of regions. The focus shifted from trying to balance and correct spatial disparities towards stimulating growth potential of *each* region regardless of its relative position to others. Policies paid special attention to the enabling factors of regional growth including human capital, infrastructure, and innovation. In a sense, this required a differentiated policy response to each region addressing their needs and identifying policy priorities. The availability of data and analysis become a critical tool for diagnosing the priorities and monitoring progress. In order to implement this vision, multilevel governance become a key ingredient in the equation, aligning strategies across levels of government and improving the capacity of local and regional stakeholders.

The debate around regional policies was then largely influenced by the shock of the global financial crisis in 2009. National governments, during its aftermath faced tight fiscal budgets and a subsequent period of fiscal consolidation. Each policy domain came under scrutiny and those that survived were asked to deliver more with fewer resources. Making the most out of public investments became a priority. Against these fiscal pressures, OECD countries developed 12 Principles on Effective

Public Investment Across Levels of Government given that around two-thirds of OECD public investment are undertaken at the sub-national level. In addition, regional policy also focused on making the most of its policy through efficiency gains focusing on policy complementarities. These did not necessarily require additional resources but instead gains were possible through a better coordination and integration across different policy interventions occurring in each territory and better integrating regional policies with other sectoral policies, or in other words better adapting and integrating sectoral policies to the needs of regions. Countries also looked for efficiency gains at the municipal scale and this has given rise to a number of municipal mergers (Denmark, Finland, and Netherlands) and metropolitan governance reforms (France).

A second consequence of the crisis was the elevation in the importance of regional policy. During the aftermath of the crisis, in several EU countries, the structural funds represented the bulk of public investments during times of austerity. In this sense, regional policy became one of several important measures adopted by countries to recover from the shock of the crisis, elevating the role of region policy as part of the structural policy package. Several OECD Economic Surveys, usually focusing on macro-structural issues, have dedicated for the first time full chapters on the regional dimensions and disparities (Slovak Republic, United Kingdom or Italy). More recently, the IMF World Economic Outlook also devoted a structural chapter to regional disparities (IMF 2019).

The effects of the global financial crisis also refocused and broadened the structural policy agenda, from the economics pillar towards wellbeing and including the social and environmental dimension. This meant a rethinking of policy trade-offs and complementarities (OECD 2011). At the countrywide level, this exercise can be quite abstract. In contrast, a more granular approach taking into account the specific conditions in each type of region and city can help understand trade-offs or potential complementarities among the objectives of efficiency, equity, and environmental sustainability in a more concrete manner, as opposed to policies that are "spatially blind" or purely based on sectoral approaches.

The growing gap between metro and non-metro areas may have fuelled a "geography of discontent" (McCann 2019), and this has changed the current debate on regional policies. Under the previous paradigm, regional inequalities were viewed as a necessary by-product of development, which called for compensatory public interventions. However, when the disparities become large and persistent, they may threaten the national system. Accordingly, some countries have changed their focus on addressing these larger inequalities including the new policy for responsible development in Poland or Korea's balanced development approach.

The new debates on regional policy are also shaped by the effects of the, so-called, technological, demographic, and environmental megatrends. These trends may create opportunities, but also tensions on different societal objectives (efficiency, equity, and sustainability). Future considerations for place-based polices will be affected by these megatrends, but their effects will vary from region to region, within the same country. Appropriate policy responses need to consider this diversity into account, and will need to be tailored to each regional-specific trade-offs.

5 Cross-References

► Place-Based Policies: Principles and Developing Country Applications

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Annex: A Typology to Classify TL3 Regions

In this chapter, we use a method to classify TL3 regions into metropolitan and non-metropolitan areas according to the following criteria:

- **Large metro TL3 region (MR-L)**: If more than 50% of its population lives in a functional urban area (FUA) of at least 1.5 million inhabitants.
- **Metro TL3 region (MR-M)**: If the TL3 region is not a large metro region and 50% of its population lives in an FUA of at least 250 thousand inhabitants.
- **Non-metro area with access to a metro TL3 region (NMR-M)**: If more than 50% of its population lives within a 60-minute drive from a metro (an FUA with more than 250 thousand people); or if the TL3 region contains more than 80% of the area of an FUA of at least 250 thousand inhabitants.
- **Non-metro area with access to a small/medium city TL3 region (NMR-S)**: If the TL3 region does not have access to a metro and 50% of its population has access to a small or medium city (an FUA of more than 50 thousand and less than 250 thousand inhabitants) within a 60-minute drive; or if the TL3 region contains more than 80% of the area of a small or medium city.
- **Non-metro remote TL3 region (NMR-R)**: If the TL3 region is not classified as NMR-M or NMR-S, i.e., if 50% of its population does not have access to any FUA within a 60-minute drive.

For further details, see Fadic et al. (2019).

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