

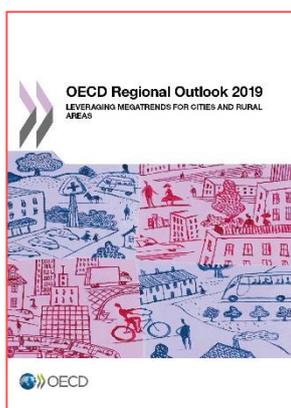
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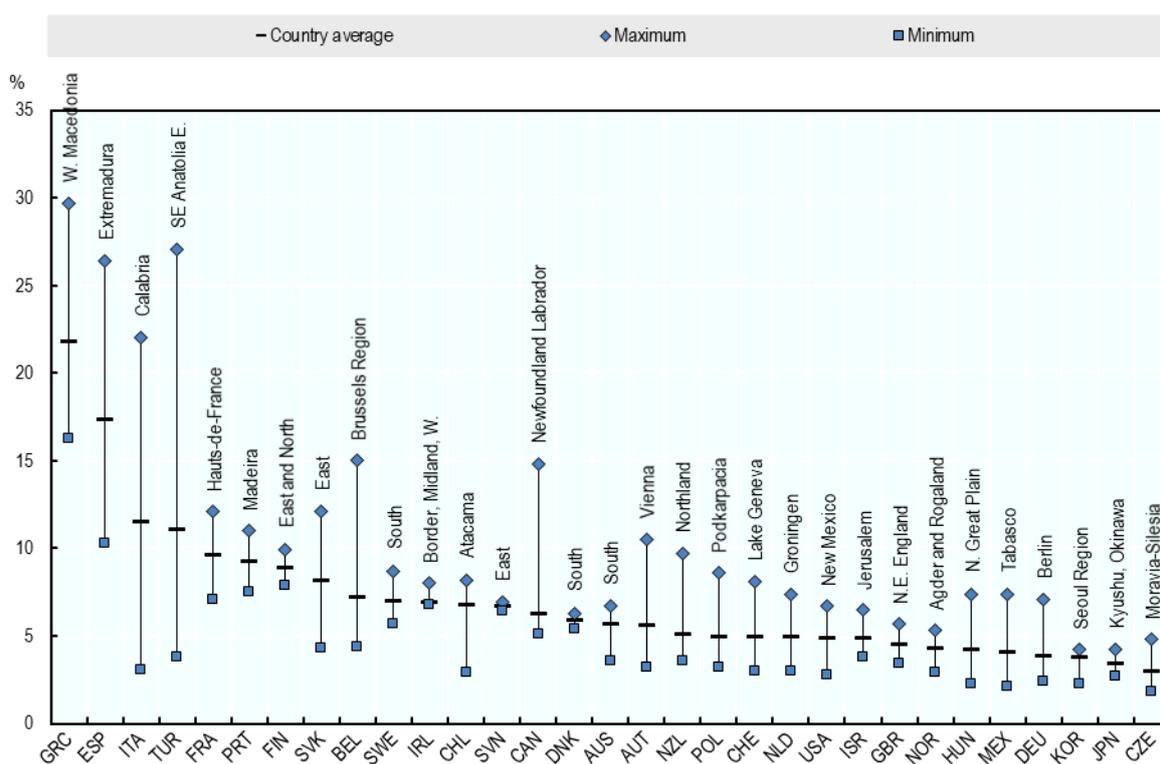
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The geography of inequality requires urgent policy action

High unemployment, low wage growth and other symptoms of poor economic performance have led to a growing public discontent with the political and economic status quo among parts of the population. This discontent is especially strong in regions that have been affected by prolonged economic stagnation, for example due to difficult industrial transitions. As a consequence, a pattern has emerged in which the degree of discontent reflects the economic performance of a region relative to others in the country. With unchanged policies, unfolding megatrends such as automation will further increase the spatial divides that create this pattern of discontent.

Already, unemployment rates in the worst performing region of a country are usually two to three times the unemployment rates of the best performing region within the country. In some countries, the worst and best performing regions even differ by a factor of more than seven (Figure 1). Such disparities would be less of a problem if people moved easily from one region to another. However, labour mobility is often limited, not only because of economic reasons, but also because people are attached to their place of origin and do not want to leave friends and family.

Figure 1. Regional unemployment rates, top and bottom region by country, 2017



Note: The top diamond represents the region with the highest unemployment rate; the bottom square corresponds to the region with the lowest unemployment rate in the country. The horizontal bar shows the national average.

Source: (OECD, 2018_[28])

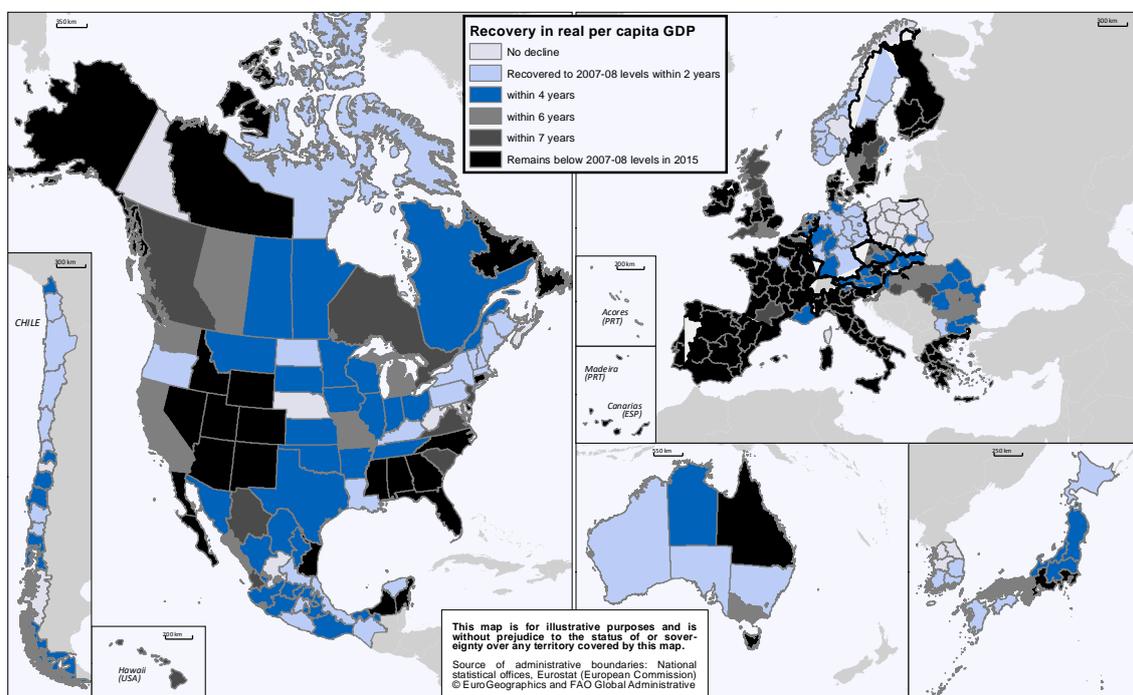
Regional disparities in economic performance are also reflected in productivity levels. On average, productivity in the least productive region of a country is 46% lower than in its most productive region. Moreover, in one third of OECD countries, productivity growth in the

aftermath of the financial crisis has been concentrated in a single, already highly productive, region that is usually home to the country's largest city, further increasing regional imbalances.

Public discontent in economically struggling regions has been reinforced by a slow and an often unbalanced recovery in the aftermath of the financial crisis. It took many regions eight years or more to reach their pre-crisis per capita GDP levels (Figure 2). This stands in contrast with economically successful, often urban, regions. In several OECD countries, the capital region (which is often home to a country's largest city) created more than 50% of all new net jobs since 2006. In some countries, the economic divide is further reinforced by a cultural divide between cities and rural areas. Residents in struggling regions might feel ignored or even disparaged by a successful urban elite that does not understand their concerns.

Figure 2. Economic recovery after the financial crisis

Number of years that regional economies needed to reach their pre-crisis (2007) per capita GDP levels



Source: (OECD, 2018^[8])

The geography of discontent is a symptom of an underlying policy failure. Too many regions struggle because public policy has not responded adequately to their problems. A focus on aggregate performance at the national level has obscured that struggling regions require distinct solutions. Only if policy makers address this fundamental issue will they be able to deal with the cause behind the geography of discontent.

First and foremost, economic opportunities are needed for those living in struggling regions. As discussed below, this requires place-based policies designed for each region. Place-based policies should be complemented by national policies to increase labour mobility for those willing to move to regions that are more dynamic. Yet, labour mobility is not a substitute for more balanced regional development as even during very severe economic crises, only a small share of people is willing or able to move to another region.

Successful place-based policies have the dual advantage that they do not only provide a strategy for economic development, but also recognise the distinct economic and cultural heritage of region. Often, they build on the existing strengths of a region, which are influenced by its industrial history. Existing skills within the population are valorised and economic traditions are updated and reinvented instead of disappearing completely. Such policies are aligned with a desire for cultural continuity because they follow an evolutionary model of economic development, in which the future strengths of a region are built from today's assets. They also help address the feeling of being left behind culturally because they highlight that existing skills and traditions in struggling regions can still be valuable in a changing world.

Without a change towards policies that are more sensitive towards regional conditions, public discontent will only get worse. When another economic shock happens, regions that are already struggling will be hit the hardest. Thus, no action is not an option. The sooner policy makers act, the easier it will be to convince people in all regions that the current political and economic system can deliver lasting improvements to the quality of their lives.

BOX 1. POLICY ACTIONS TO ADDRESS THE GEOGRAPHY OF DISCONTENT

- Provide economic opportunities for people living in struggling regions through place-based policies
- Take into account that struggling regions require distinct solutions that go beyond policies to improve aggregate economic performance at the national level
- Increase labour mobility for those willing to move to regions that are more dynamic without ignoring that even in struggling regions a majority of residents will stay
- Build on existing economic and cultural traditions of a region and use them for economic development

Persistent regional disparities need to be addressed through place-based policies

To improve economic performance in struggling regions, policy makers need to address the underlying causes of weak economic performance. While common challenges can be identified in many regions, the combination of factors that leads to poor economic outcomes is usually unique to a region. They are related to economic, social, political, geographical and cultural factors and are often closely linked to a region's history. As these factors are often closely linked to each other, successfully overcoming them requires multiple parallel policy reforms.



In response, the OECD Regional Development Policy Committee has called for place-based policies since its creation in 1999. In contrast to other policies, place-based policies consist of a set of co-ordinated measures that have been designed for a specific region. They aim to use the endogenous growth potential of a region and can include a broad range of instruments, such as investments in upskilling programmes, financing for innovative start-ups, linkages between universities and businesses, and co-ordination mechanisms among regional stakeholders. Well-designed place-based policies consider functional territories and emphasise the policy co-ordination across sectors, levels of government and jurisdictions (see Table 1).

Place-based policies are an essential complement to traditional structural policies such as tax policies, fiscal policies, regulatory policies, labour market policies and social policies. The latter create the framework for a well-functioning economy, but they are usually identical throughout a country and a structural policy that works well in some parts of a country might work less well in another part of a country. Thus, place-based policies are indispensable to ensure that the policy environment is adequate in all regions of a country.

Table 1. Characteristics of modern place-based regional policy

	TRADITIONAL APPROACH	MODERN REGIONAL DEVELOPMENT POLICY
 OBJECTIVE	Transfers to poorest regions	High levels of well-being in all regions
 KEY INSTRUMENTS	Long-term public subsidies	Strategic public investment
 FOCUS	External interventions not linked to local strategy	Building on local assets and knowledge
 TARGETED REGIONS	Administrative jurisdictions only	Functional areas also considered
 ACTORS	National government only	All levels of government and other public / private stakeholders
 POLICY FIELDS	Place-based policies only	Place-based and place-proofed policies
 IMPLEMENTATION	Collection of individual, one-off programmes	Co-ordinated policy packages

Source: Revised and updated from (OECD, 2010[1]).

Regional disparities are likely to be amplified by some global megatrends

Regional disparities could be further increased by megatrends that will reshape the global policy environment in the coming decades. Technological changes, such as the emergence of artificial intelligence, demographic changes, such as population ageing, and environmental changes, such as global warming, are the most important trends that affect all regions already today and their impact is likely to grow in the future.

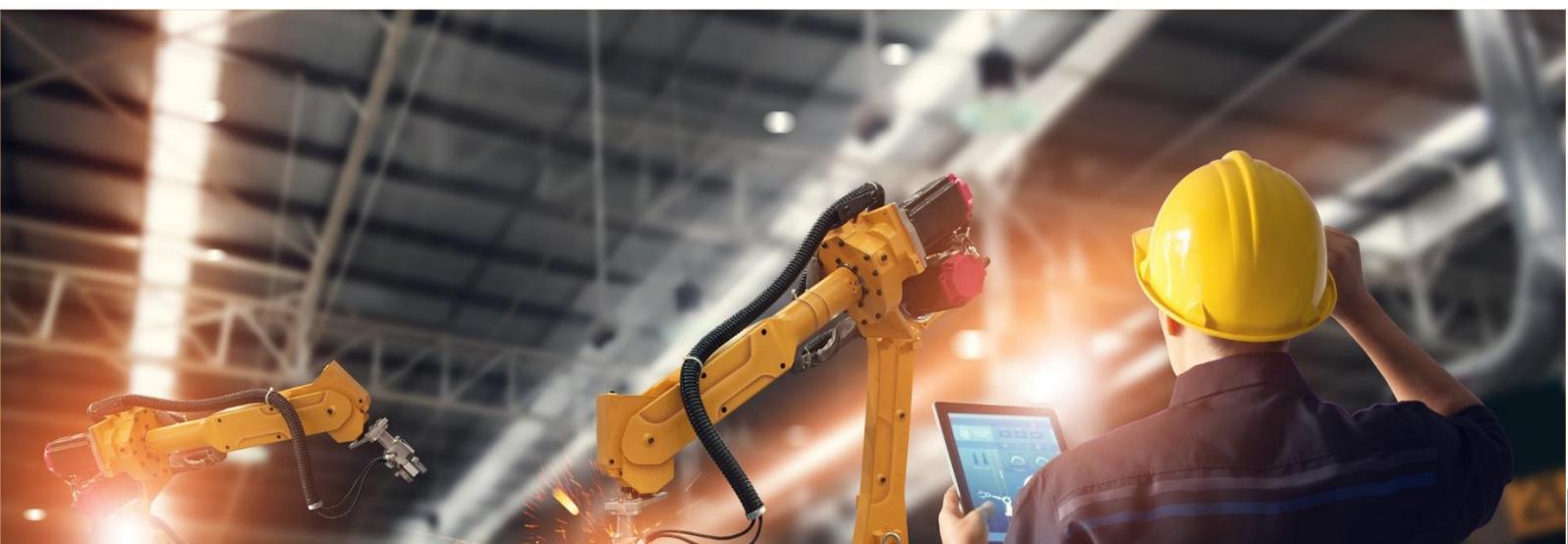
While these megatrends are extensively discussed in public debate, their regional dimensions are much less known. Yet, it is rare that a megatrend has uniform effects across all regions of a country, let alone the globe. For example, new technologies, such as autonomous vehicles, will affect cities differently than rural areas. In most OECD countries, some regions will grow in population while others will shrink. All regions need to contribute to carbon emission reductions, but the effects of climate change will vary from region to region. As a consequence, one-size-fits-all policies will not be enough to manage challenges from global megatrends adequately and allow all regions to benefit from them.

One of the dangers from many global megatrends is that they could amplify existing regional disparities by benefitting already well-performing regions, while harming struggling ones. Technological change and rural-urban migration, for example, has contributed to regional inequality in the past. Without more effective responses, including targeted place-based policies, regional disparities could grow well-beyond the currently observed levels.

The risk of job automation is concentrated in certain regions

One of the most important economic consequences of technological change will be increasing automation of many tasks that are currently done by humans. Automation is a key driver for productivity growth, which is the most important long-term determinant of economic growth, and the most important source of long-term wage growth. However, it also leads to job losses for some workers and can greatly disrupt the business models of firms. Moreover, in contrast to the upsides of automation, the downsides are not evenly distributed and will affect some social groups and some regions more than others.

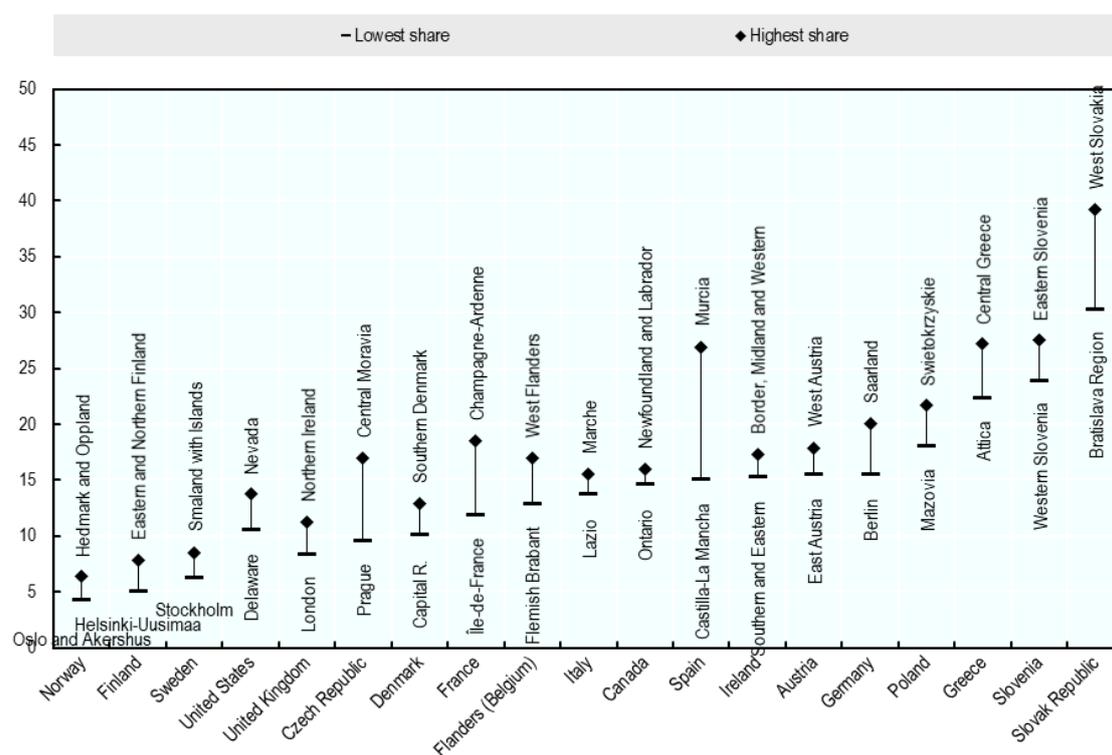
The future consequences of automation for local labour markets depend especially on the evolution of artificial intelligence. Some experts predict that within several years most jobs that exist today could be done by robots guided by artificial intelligence. While such forecasts represent an extreme end of a spectrum of possible scenarios, few experts doubt that artificial intelligence will have a strong impact on labour markets.



OECD estimates based on a consensus scenario on the likely evolution of artificial intelligence show that the share of jobs at risk of automation is unevenly distributed across regions. In 2016, across OECD regions, the share of jobs at high risk of automation varied between 4% (Oslo) and 40% (West Slovakia). Within countries, the differences across regions are smaller, but still considerable. In Spain, for example, the share of jobs at high risk of automation varies by 12 percentage points (Figure 3).

Figure 3. Some countries have wide disparities in terms of risk of automation across regions

Percentage of jobs at high risk of automation, highest and lowest performing TL2 regions, by country, 2016



Note: High risk of automation refers to the share of workers whose jobs face a risk of automation of 70% or above. Data from Germany corresponds to the year 2013. Except for Flanders (Belgium), for which sub-regions are considered (corresponding to NUTS2 level of the European Classification).

Source: OECD (2018^[1]) based on Nedelkoska and Quintini (2018^[9]).

The risk of automation is especially high in many regions that are already struggling with high unemployment. This creates a conundrum for policy makers, who have to encourage automation to facilitate productivity growth, while preventing further job losses. Discouraging firms from adopting new technologies should not be the solution as it creates even bigger risks of automation in the future. Instead, public policy should support skill upgrading for workers and firms. As many jobs at risk of automation are in low value-added activities, policy should facilitate the transition towards higher value-added activities. Where automation and other new technologies lead to the closure of firms that struggle to adapt, programmes to support firm creation are essential, too.

Cities are at risk of becoming victims of their own success

Beyond automation, several emerging technologies have the potential to change the economy as well as daily life in many regions. Among them are new forms of data processing and analysis, virtual and augmented reality technology, 3D printing, autonomous vehicles, and unmanned aerial vehicles.

These technologies will have transformative effects on cities. They will reduce the importance of manual and routine jobs, and will increase the importance of complex knowledge-intensive jobs. Most of these new knowledge-intensive jobs will be created in cities, because cities offer the dense economic ecosystem of related activities that is essential for these jobs. As a consequence, a growing number of well-paying jobs will continue to attract new residents to cities.

While cities might consider themselves lucky to be in this situation, booming urban economies also create significant risks. Already today, many cities are facing high costs-of-living, especially related to housing. These costs can outweigh much of the benefits of higher productivity in urban areas for low- and middle-income households. And as cities become more attractive, costs-of-living are likely to rise further without counteracting measures. To make cities more affordable, policy makers should ensure in particular a sufficient supply of low and middle-income housing for growing populations that are attracted by the success of cities.

Economic changes are not the only consequences of new technologies that have high risks and high rewards for cities. Changing urban mobility exemplifies the dichotomy of outcomes that cities might face in the future. Self-driving cars are in advanced stages of development and it is likely that their widespread commercial introduction will happen during the 2020s. They can revolutionise urban mobility by reducing the costs of on-demand ride hailing and will allow for widespread ride sharing. As autonomous vehicles can park themselves independently outside of cities, they will free-up large amounts of valuable inner-urban parking space that can be put to better uses. Thus, they have the potential to increase quality of life in cities drastically.

Yet, if the technology is badly managed, it could have the opposite effects. There is a risk that autonomous vehicles will lead to increasing congestion and sprawl. The demand for trips could increase beyond sustainable levels and residents might choose to live further in the suburbs if commuting becomes more convenient. To prevent such outcomes requires a mix of tax and regulatory instruments. Since the relevant competencies are usually divided across levels of government, close policy co-ordination is indispensable.



New technologies reduce the disadvantages from long distances for rural economies

At a first glance, rural areas appear to be losers from technological change. New technologies will reduce employment in key sectors of rural economies, such as agriculture, manufacturing and mining. Moreover, as discussed below, rural regions have a much larger share of jobs at high risk of automation than urban economies. Thus, new technologies could lead to a vicious cycle of high unemployment, outmigration and firm closures.

Yet, such a pessimistic view ignores the possibilities that many emerging technologies will offer for rural areas. In fact, many rural areas could be winners from new technologies because they will mitigate the current disadvantages from long distances and low densities. For instance, autonomous vehicles and unmanned aerial vehicles will make the transport of people and goods cheaper and more convenient. Virtual reality and augmented reality technology can mimic face-to-face meetings and could reduce the need for businesses to be close to customers and suppliers. 3D printing improves the economics of decentralised and small-scale production, which could help firms that cater to small markets in rural areas.

Table 2. Selected new technologies with disruptive potential

New technology	Definition
Additive manufacturing (3D-printing)	Manufacturing technique that builds a product by adding material in layers, often using computer-aided design software (OECD, 2016 _[12])
Artificial intelligence (AI)	The ability of machines and systems to acquire and apply knowledge, and to perform intelligent tasks such as cognitive tasks, sensing, processing oral language, reasoning, learning or making decisions (OECD, 2016 _[12])
Autonomous vehicles (AV) ¹	Vehicle capable of driving itself without human intervention; also called driverless car, robot car, or self-driving car
Big data analytics	Set of techniques and tools used to process and interpret large volumes of data generated by the increasing digitisation of content, greater monitoring of human activities and diffusion of the Internet of Things (OECD, 2015 _[13]). Big data can be collected through sensors (incorporated in cars, buildings, streets or infrastructure), social media, large administrative datasets, or large-scale scientific experiments (Kleinman, 2016 _[14])
Blockchain	Shared ledger of transactions that allows the transfer of value between parties in a network, by facilitating trustworthy transactions without a third party (OECD, 2018 _[15])
Civil technology	Technology that facilitates civic engagement and participation, and strengthens the link between citizens and governments by improving citizen communication, public decisions, and government delivery of services and infrastructure
The Internet of Things (IoT)	Devices and objects (computers, smart phones, sensors in the public space, homes, workplaces) whose state can be altered via the Internet, with or without the active involvement of individuals
Unmanned aerial vehicles (drones)	Remote-controlled pilotless aircraft

Source: (OECD, 2016_[12]), (Mohammed et al., 2014_[16])

New technologies could not only be a boon for some rural economies. They also have the potential to improve the quality of public services in rural areas. Already today, some regions have developed sophisticated solutions for telemedicine or remote schooling. These solutions ensure that population in rural areas has immediate access to specialist care and that even small schools in rural areas can offer a wide range of elective courses. In the future, many more solutions for digital service delivery are likely to emerge, but public services in most rural regions could be drastically improved already today if the most innovative existing solution were systematically adopted.

Taken together, new technologies could make the 20-years old prediction of the *Death of Distance* come true. Behind it is the idea that digital communication technologies allow people to live and work in any location. While it has not yet materialised, new technologies could eventually remove the economic needs for face-to-face interactions and high densities. In any case, policy makers in rural areas should encourage the uptake of distance-mitigating technologies, for example by building the required infrastructure and by helping firms to integrate new technologies into their business model.

BOX 2. POLICY ACTIONS TO CAPITALISE ON NEW TECHNOLOGIES IN RURAL AREAS

- Build the digital infrastructure to use virtual reality and augmented reality technologies, which mimic face-to-face meetings and could reduce the need for businesses to be close to customers and suppliers
- Facilitate the use of transport solutions that can mitigate the economic disadvantages of low densities and long distances, including autonomous vehicles and unmanned aerial vehicles
- Use the possibilities that new technologies offer for public service delivery, for example related to telemedicine, remote schooling and e-government
- Help firms and especially SMEs to integrate new technologies into their business model and train workers to use them productively

Demographic changes are transforming regions

Increasing longevity is one of the greatest human achievements. However, despite the immense benefits on well-being, the resulting population ageing also creates new challenges for regional policy, especially if it occurs in combination with low birth rates. Ageing and population decline affects rural regions more strongly than other regions, because the effects of ageing and low birth rates are amplified by outmigration of young people. In contrast, in cities inflows of young people compensate somewhat for longer life expectancies and low birth rates. Between 2000 and 2017, the number of people aged 65 or older per 100 people of working age population has increased from 19.6 to 25.6 in urban areas and from 23.2 to 30.5 in rural areas.

To compensate for the effects of ageing, OECD estimates show that the 20 most affected TL3 regions need 0.7 to 0.8 percentage points in annual labour productivity growth just to sustain current per capita GDP levels. While this might not sound large, in half of these regions average annual labour productivity growth rates since 2006 were below this threshold. Moreover, public services have to be adjusted to the demands of an ageing population. If ageing occurs in parallel with population decline, it can also become difficult to maintain general public services and to prevent widespread abandonment of buildings (Table 3).

Rural-urban migration is common within the OECD, but it is even stronger outside of OECD countries. As a consequence, global urbanisation is progressing. Across the globe, there were 5 799 cities with more than 100 000 inhabitants in 2015, providing a home to approximately three billion people.

Yet, the pattern of urban growth and rural population decline is not universal. By 2030, more than 1 in 5 urban areas in France, Italy, the Netherlands, Slovenia and the Slovak Republic are

expected to lose population and many more will see concentration of population within their urban centres at the expense of population decline in the commuting zones. By 2050, 57% of OECD regions are expected to lose population, including many urban regions. Likewise, there is a considerable number of shrinking cities even in fast urbanising countries outside the OECD, such as China.

Table 3. Possible implications of demographic change

	Potential benefits and opportunities	Potential costs and challenges
Population decline	<ul style="list-style-type: none"> Less congestion will create opportunities for space-intensive activities and flexibility in land use Lower environmental pressure Lower housing costs 	<ul style="list-style-type: none"> Shrinking labour force Smaller domestic market The loss of tax base will create challenges to efficient service delivery Building stock and infrastructure will need to be adjusted to meet lower population levels
Population ageing	<ul style="list-style-type: none"> High life expectancy New demand for goods and services targeted at older people and new market opportunities 	<ul style="list-style-type: none"> Shrinking labour force relative to the total population Rising burden of pensions and age-related services Less demand for "non-silver" goods and services Less entrepreneurship and innovation

Source: OECD (2016^[17]), OECD Territorial Reviews: Japan 2016, OECD Publishing, Paris.

International migration is the fourth major driver of demographic change in addition to ageing, low birth rates and domestic migration. Not surprisingly, migrants chose regions based on their labour market opportunities and regions with more educated natives tend to attract more educated migrants. International migrants are particularly drawn to large cities, and the geographic concentration of migrants has been increasing. Yet, public policy has several levers to attract migrants to areas with ageing and declining population, where they are most valuable. For example, well-functioning dispersal mechanisms allocate refugees to regions based on their skills and regional labour market characteristics.

Yet, the full benefits of migration – for regional economies and for migrants themselves – will only emerge if migrants are well integrated. Integration policies should be adapted to the profile of regions and of local migrant communities and have to involve a wide range of local stakeholders, including businesses and NGOs. Moreover, successful integration strategies are characterised by complementary measures of several levels of government. For example, labour market participation is one of the most important objectives for the integration of migrants. While local governments can work with employers to develop strategies to integrate migrants through trainings and apprenticeships, national or regional governments often have to take steps to facilitate the validation of professional or educational qualification of migrants.

Climate change requires immediate action in all regions

Among all environmental megatrends, climate change requires the most urgent action. In contrast to other megatrends, there are few upsides to climate change, and regional policy has to focus on mitigation and adaptation. To reduce greenhouse gas emissions at the necessary pace, subnational governments need to use their unique position to contribute more strongly to a reduction in carbon emissions. Subnational governments are responsible for 57% of all public investment and 64% of all climate-related public investment. This financial leverage should be used consequently to invest in low-carbon and climate change-resilient infrastructure. Beyond investments, regional and local governments have several other important levers to reduce emissions. Through climate-friendly regulations related to transport, land use and the building code, many of the largest sources of carbon emissions can be directly addressed.

Effective climate change mitigation requires a co-ordinated approach across levels of government. For example, an increase in fuel taxes at the national level requires complementary measures at the regional and local level, such as improving public transport provision or increasing the number of charging points for electric vehicles. To encourage policy makers at all levels of government to contribute to greenhouse gas emission reductions, the contributions of subnational governments to emission reductions should be made more explicit, including in international agreements.



Policies to adapt to climate change will depend strongly on the region. In some regions, the most urgent consequences will be increasing hazards to people's health and safety. For example, many cities can expect more frequent and more severe heat waves that put vulnerable populations at risk, including low-income households, the elderly and the ill. In other regions, the economic consequences of climate change will play a major role. For instance, many regions that rely on winter tourism might experience serious economic disruption from warmer winters with less snow. In even other regions, the preservation of fragile habitats and the threat of loss of biodiversity is a serious concern. In the worst affected regions, all three elements are a serious concern. For example, low-lying coastal regions can expect more frequent flooding that puts lives at risk, creates significant economic damage and destroys vulnerable habitats.

Adapting subnational governance to the challenges of the future

Better policy co-ordination is crucial to meet the challenges for regional policy posed by global megatrends. Due to their systemic nature, no level of government and no single governmental organisation can develop a sufficient response individually. For example, a comprehensive approach to deal with automation requires tax policies (e.g. changes to the taxation of intellectual capital), public investment (e.g. into digital infrastructure), and adult-education policies (e.g. to train workers whose jobs become obsolete) to name just a few of the necessary measures. In most OECD countries, this implies that any effective response will involve all levels of government. Moreover, it also involves multiple local governments within urban areas as well as different departments within a government, whose work needs to be co-ordinated.

Co-ordination has to occur at various scales and among different actors, depending on the problem at hand. Various co-ordination mechanisms championed by the OECD, such as national urban policies, effective metropolitan governance, rural-urban partnerships and the new OECD Rural Policy 3.0, highlight the co-ordination requirements for different geographies. These concepts emphasise the need for different levels of government, different sectoral departments and agencies, as well as different sub-national governments to develop co-ordinated and complementary policies.



Asymmetric decentralisation is a key strategy to respond to diverse challenges across regions within a country. By decentralising responsibilities to some subnational governments, but not to others, national governments can respond to the diversity in needs and capacities across regions. For example, congestion charges or similar taxes will be crucial to manage autonomous vehicles in large cities. Granting the rights to levy such charges to large cities would be a form of asymmetric decentralisation that takes into account that growing congestion will be especially severe in large cities.

Experimental governance is useful to develop better models of governance through trial-and-error processes. By giving local and regional governments space to experiment, new solutions can be tested in a limited environment and, if they turn out to be successful, adopted more broadly. Ideally, such trials are accompanied by monitoring and evaluation to measure their performance and identify causes for success or failure.

Governments should use the possibility that new technologies offer for better regional governance. Tools such as geographic information systems, real time data analysis and big data analysis can help to make policies more responsive and target them better. Moreover, technology will offer new possibilities especially for local governments to interact with citizens and become more responsive to their requests. Already today, many cities, for example, have developed smartphone applications that allow their citizens to report problems in the public space, such as broken streetlights, directly to the public administration. These tools can make administrations more efficient and increase citizen satisfaction with public services.

New technologies will make interactions between citizens or businesses and the public sector more efficient. As discussed above, digital services will be most valuable to citizens in rural areas, where the distances to the nearest public administration are long. Yet, the benefits from e-government will be felt everywhere. For example, permitting processes are increasingly moved online to ease the administrative burden for businesses. Governments should continue these efforts to provide services electronically.

BOX 3. POLICY ACTIONS TO ADAPT SUBNATIONAL GOVERNANCE TO THE CHALLENGES OF THE FUTURE

- Consider greater differentiation and asymmetric decentralisation in subnational responsibilities to respond to the diversity in needs and capacities
- Allow experimental governance solutions to develop better models of governance through trial-and-error processes
- Integrate a broad range of long-term strategic planning and foresight instruments into the policy making and investment process

Scarce financial resources need to be allocated equitably and efficiently

Governments will have to meet ever-greater challenges with scarce resources. Technological changes and the corresponding transformations of the economy will lead to growing fiscal imbalances across regions unless counteracting policy measures are implemented. Personal income tax revenues will increase in successful urban areas, but will decline in rural areas with ageing and shrinking populations. Revenues from business taxes could become even more geographically concentrated, as the profits accrued in the digital economy will likely be reaped by large companies located in big cities. To prevent large disparities in fiscal capacity across regions and municipalities, equalisation mechanisms should be gradually strengthened in response to changing tax bases.

Better budgeting at all levels of government is essential also to respond to global megatrends. This includes improved budgeting frameworks and processes, particularly in terms of timeframes, stakeholder engagement and indicators used. Integrating multi-year forecasting or scenario planning in budgeting processes should be a priority. Local and regional governments should also adopt multi-year budgeting approaches, except in cases where administrative capacity is so low that such efforts would divert efforts required to produce high quality annual budgets.

The current level of total investment is less than half of what is required to prepare for new technologies and address challenges such as ageing and climate change adequately. Subnational governments, which, on average, are responsible for 57% of public investment in OECD countries (Figure 4), will be leading actors in scaling up investments and ensuring a high return on them. To maximise fiscal capacity for investment, subnational governments should also seek external private financing where this option is appropriate.

Beyond investing more, governments at all levels need to work harder to ensure the efficiency and effectiveness of public investment. This requires investing in capacity development within the public administration. As learning-by-doing processes are an essential element in capacity building, it is important to limit excessive rule changes to allow administrations to develop the necessary experience. Moreover, governments should routinely conduct *ex ante* and *ex post* evaluations of infrastructure projects to maximise the expected effectiveness of an investment and learn from the realised outcomes.

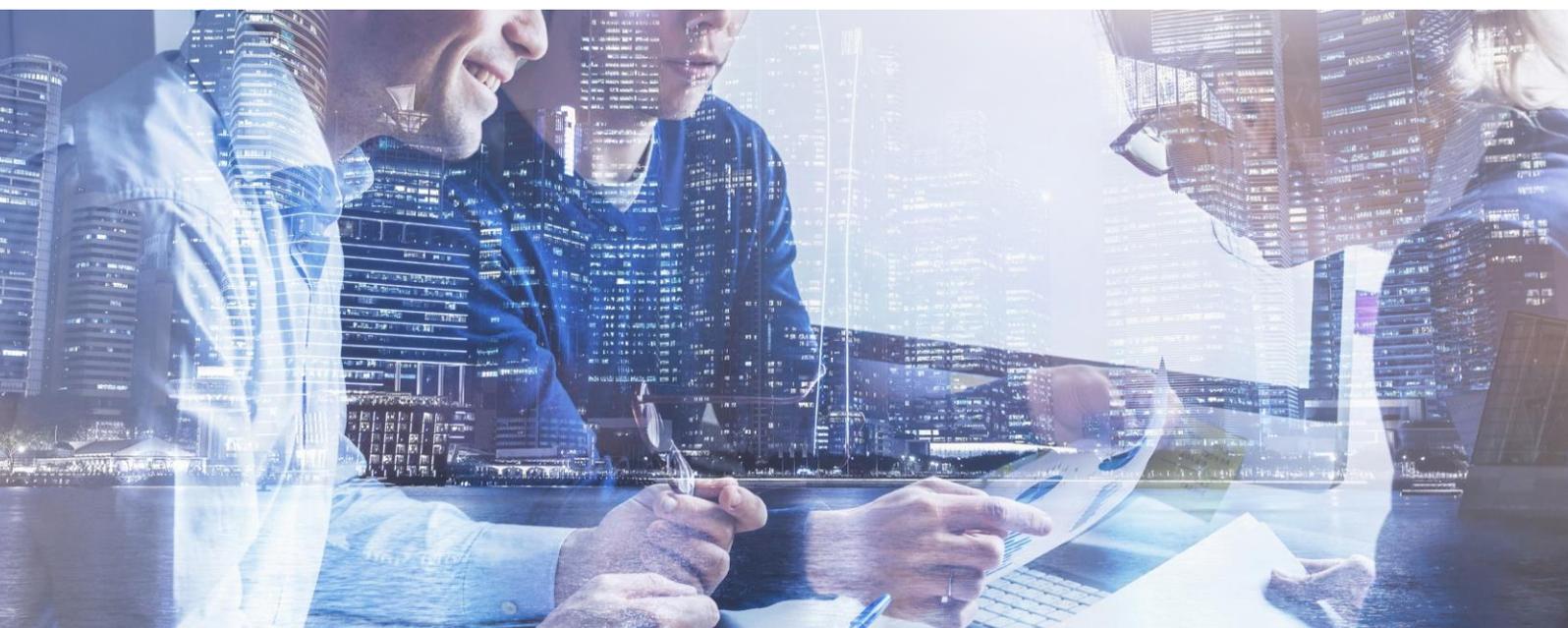
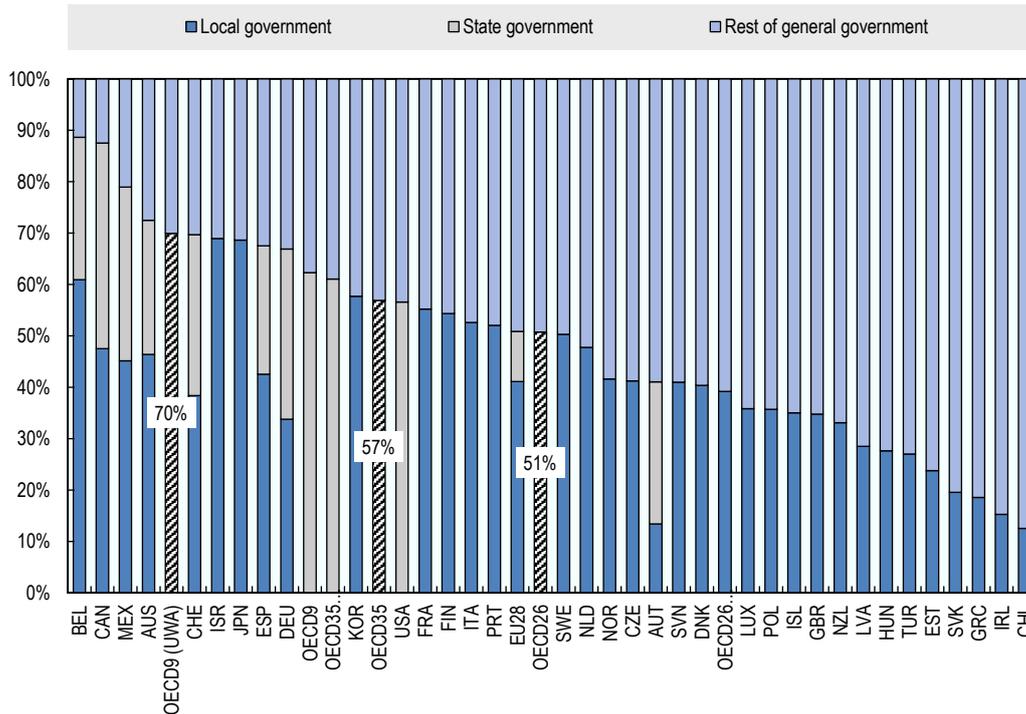


Figure 4. Public investment by levels of government, 2016 (%)



Note: OECD 9 and OECD 26 refer to average for OECD federal countries for OECD unitary countries.
Source: (OECD, 2018_[11])

Strengthening strategic planning and foresight

Understanding future trends concerning budgetary developments and socio-economic conditions is essential to develop good policies. Across the OECD, national and subnational governments use several instruments to future-proof regional policy, ranging from data-driven forecasts to more flexible foresight exercises (Table 4).

Using a broad range of tools is desirable to prepare for a wide range of possible scenarios over different time horizons. Quantitative forecasts, for example, are useful to obtain precise estimates assuming that current trends will continue in the future. However, they cannot capture the wide range of possible scenarios that might occur. To do this, other approaches, such as strategic foresight, are more effective.

Yet, using foresight and strategic planning is not sufficient to future-proof policies. It is equally important that these tools are closely integrated into the policy making process. Otherwise, there is the risk that the insights gained through them are not reflected in policies.

Table 4. Forecasting and strategic foresight tools

Type of planning-oriented process	Planning-oriented process tool	Definition
Monitoring and evaluation	Monitoring	Monitoring is a continuous assessment that aims primarily to provide the management and main stakeholders with indications of progress, or lack thereof, in the achievement of results (UNDP Evaluation Office, 2002 ^[48]).
	Evaluation	Evaluation is the systematic and objective assessment of the design, implementation process and results of an on-going or completed project, programme, or policy. The aim is to determine the relevance and fulfilment of objectives, efficiency, effectiveness, impact, and sustainability (UNDP Evaluation Office, 2002 ^[48]).
Situation analysis	SWOT analysis	SWOT analysis is a framework used to evaluate a body's internal and external environment to identify its present and future strengths, weaknesses, opportunities and threats, before taking action (American Marketing Association, 2017 ^[49]).
Forecasting	Trend analysis	Trend analysis is a method for understanding how and why specific things have changed – or will change – over time. To do that, it collates past and recently observed data to discover patterns, or trends (Rae, 2014 ^[50]).
	Model-based projections	Model-based projections use available historical data as inputs in statistical models to make informed estimates that are predictive in determining a future state.
Strategic foresight	Horizon scanning	Horizon scanning is an ongoing systematic process aimed at detecting early signs of new and different futures and disruptive developments' (Wilkinson, 2017, pp. 15-17 ^[43]).
	Megatrends analysis	Megatrends analysis provides a conceptual framework to think and prepare for inevitable pattern shifts that will occur in a decadal timeframe, where causal relations are complex and cannot be fully known ahead of time (Wilkinson, 2017, pp. 17-19 ^[43]).
	Scenario planning	Scenario planning involves building and using a set of plausible, alternative stories that can be used to reframe the present situation (Wilkinson, 2017, pp. 20-24 ^[43]).

Acting today to avoid further divides tomorrow

The *Regional Outlook 2019* shows the need for immediate action. Already today, regional disparities have had dangerous consequences. Current technological, demographic and environmental trends make actions even more urgent. Without policy responses, they are likely to worsen existing disparities and opening up new ones. If policy makers do not act now, they risk exacerbating the current public discontent with potentially severe consequences for the social and political cohesion of their countries.

Any adequate policy response must consider the regional dimension of these global megatrends. Due to the diversity of consequences that megatrends will have on regions, place-based policies are an indispensable element of each comprehensive policy package to address them. Moreover, a focus on regional governance is crucial. Developing and implementing effective place-based policies requires not only thematic expertise, it also needs appropriate co-ordination mechanisms to align the individual sectoral policies into a comprehensive policy package across all levels of government.

OECD REGIONAL OUTLOOK 2019
LEVERAGING MEGATRENDS FOR CITIES AND
RURAL AREAS
Highlights

Large and persistent inequalities in regional economic performance within countries exist throughout the OECD. The 2019 Regional Outlook discusses the underlying causes of economic disparities across regions and highlights the need for place-based policies to address them. The report makes the case that place-based policies are especially important in light of the growing public discontent with the economic, social and political status quo in many regions. The geographical patterns of public discontent are closely related to the degree of regional inequalities and policies to address public discontent need to have a place-based dimension.

Place-based policies will become even more important in the future due to several technological, demographic and environmental megatrends. This Regional Outlook emphasises that all regions will be affected by these megatrends, but their effects will vary from region to region, even within the same country. Appropriate policy responses need to take this diversity into account and should be tailored to the region-specific impacts of global megatrends. Insofar as possible, this Regional Outlook presents steps that policy makers can take already today to make the next generation of regional policies fit for the future.

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