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Metropolitan governance and economic competitiveness
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Metropolitan governance and economic competitiveness

Lamia Kamal-Chaoui* and Vincenzo Spiezia**

As globalisation progresses, the pursuit of competitiveness in urban regions has become a major local and national policy objective. Government intervention in cities is progressively combining “remedial” actions aimed at combating negative consequences of urbanisation (sprawl, social and environmental problems) and “proactive” actions to strengthen competitiveness. Among policies to strengthen urban competitiveness are: (i) Supporting clustering by enhancing local social capital (networking, forums for exchange, cluster animation), (ii) Developing links between institutions of higher education, research institutions, private industry and government and supply skilled human capital that can operate effectively in the knowledge and information-based industries; and (iii) strengthening communication – roads, airports, railroad links and electronic communications –.

Implementing all these policies requires developing strong leadership and a common strategy. Metropolitan governance emerges as a key issue for the implementation of policy actions and strategies. As major cities in OECD countries expand geographically outward, old administrative boundaries usually remain in place, creating a patchwork of municipalities within the urban area, each with its own vested interests to defend. This creates a complex policy environment in which area-wide consensus is difficult to reach on medium and long-term goals in environmental quality, economic development and competitiveness, social cohesion, equitable public finance, and the level and quality of public services across the urban region.

A bench of experiences of metropolitan governance reforms has been undertaken in different OECD countries. Often, these reforms intend to identify solutions for producing scale economies and addressing

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territorial spillovers between different jurisdictions. Most of the approaches attempt to solve the negative consequences of institutional fragmentation without proposing a “proactive” answer for the design and the implementation of a coordinated economic development strategy for the entire metropolitan region. Metropolitan development agencies emerge as an interesting experiment to respond to such objectives.

Al igual que el avance de la globalización, la búsqueda de la competitividad en las regiones urbanas tiene su origen en los objetivos políticos locales y nacionales. La intervención del gobierno en las ciudades está progresivamente combinando acciones “remedial” con el propósito de combatir las consecuencias negativas de la urbanización –expansión descontrolada de las ciudades, problemas sociales y medioambientales– y “proactive” para reforzar la competitividad. Entre las políticas tendentes a intensificar la competitividad nos encontramos con las siguientes: i) apoyo a la asociación para elevar el capital social local (networking, forum de intercambio, etc.) ii) vínculos de desarrollo entre instituciones de educación de nivel superior, instituciones de investigación, industria privada y gobierno y la provisión de capital humano cualificado que pueda operar efectivamente en el mundo del conocimiento ; iii) reforzar la comunicación –carreteras, aeropuertos, vías ferrocarril y comunicaciones electrónicas–.

La implantación de todas estas políticas requiere un fuerte desarrollo de liderazgos y estrategias comunes. Los gobiernos metropolitanos emergen como una cuestión clave para la implantación de acciones políticas y estratégicas. Las grandes ciudades se expanden geográficamente al exterior, los viejos límites administrativos generalmente permanecen, creando un mosaico de municipalidades dentro de una misma área urbana, cada cual con sus propios intereses que defender. Esto crea un entorno político complejo en cuya extensión es difícil de alcanzar el consenso y, a largo plazo, objetivos de calidad medioambiental, desarrollo económico y competitividad, cohesión social, finanzas públicas equitativas y un nivel de calidad de los servicios públicos a través de las regiones urbanas.

Los países de la OCDE representan un verdadero banco de pruebas de las reformas metropolitanas. A menudo, estas reformulaciones tienen la finalidad de identificar soluciones para alcanzar economías de
escala y reconducir los efectos spillovers territoriales entre diferentes jurisdicciones. Muchas de estas aproximaciones intentan resolver las consecuencias negativas de la fragmentación, sin proponer una respuesta “proactive” para el diseño y la implementación de una estrategia de desarrollo económico coordinado para la región metropolitana en su conjunto. Las agencias metropolitanas de desarrollo emergen, pues, como un experimento interesante para responder a tales objetivos.

Key words: metropolitan governance, metropolitan regions, regional competitiveness, urban competitiveness, regional development, clusters, urban finance.
JEL Classifications: R11, R12, R58

1. A NEW APPROACH FOR URBAN AREAS
Metropolitan areas are important generators of wealth, employment and productivity growth and, often quoted as the engines of their national economies. Productivity levels are generally higher in metropolitan areas and the increased trade and capital flows give rise to increased flows of people, goods, capital, services and ideas. The geographical proximity of enterprises and people is an advantage that contributes to productivity gains and creates an excellent environment for innovation and knowledge exchange. In many OECD countries, metropolitan regions produce a larger percentage of the national GDP than their representative population percentage.

While the links between levels of urbanization and per capita incomes now go without saying, it is more difficult to identify the causal relationship, i.e. whether it is urbanization that brings growth or growth which brings urbanisation (Freire and Polèse, 2003). Moreover, productivity levels are consistently higher in urban than in rural areas, but there is no strong evidence of such differences in terms of productivity level growth. However, two observations can be suggested to justify public intervention in metropolitan regions. The first concerns the presence of negative externalities connected with urbanisation (inequalities and social cohesion, urban sprawl, pollution, declining infrastructure, etc.). At a certain stage these external factors can be an obstacle to a city’s competitiveness. The second reason is related to the concept of competitiveness. Regional competitiveness is quite clearly the engi-
ne of nations’ economic growth, so intervening on regions will increase a nation’s wealth\(^1\). Exploiting existing comparative advantages through the use of local public goods is one of the factors which can enhance regional competitiveness. These goods include both physical infrastructure (transport, telecommunications) and intangible goods (creation of networks, trade forums, stimulation of bunches of enterprises, etc.). However, the market alone cannot always provide these common public goods. The absence of such common goods may even lead to diseconomies of agglomeration.

In this context, traditional urban policies aimed at combating urban sprawl, degradation of certain neighbourhoods, concentration of social and environmental problems are being supplemented by proactive policies in support of regional competitiveness. The objective of which is not simply to solve a problem, but to utilize its comparative advantages to strengthen the region’s growth potential.

2. Assessing metropolitan competitiveness

There is a wide range of indicators developed by international organisations, academics and consulting groups to assess competitiveness of cities, most often utilized to elaborate an international ranking. One of the most widely used indicators is GDP per capita. However its relevance is limited as it does not reflect such factors as quality of life and social cohesion. The OECD has produced a competitiveness ranking based on GDP per capita for 65 metropolitan regions of 2 millions inhabitants and more\(^2\) (27 of which are located in Europe, 23 in the United States, 12 in Asia and 3 in Canada) (Table 1). Competitiveness is regional, and in the cases of cities, it is metropolitan. Therefore, the main advantage of such ranking is that it takes into account the entire metropolitan scale and not just the city scale.

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\(^1\) It was one of the main conclusions of the OECD Territorial Development Policy Meeting in that was held in Martigny in July 2003. www.oecd.org/gov/territorialpolicies/hlm03

\(^2\) The 65 metropolitan regions were selected based on two criteria: 1) their population is larger than one million inhabitants; 2) they are classified as “predominantly urban” in the OECD Territorial Typology. The OECD Territorial Typology classifies regions into three categories: predominantly rural (more than 50% of the population lives in rural communities), intermediate (between 15 and 50%) and predominantly urban (less than 15%).
Figure 1. Competitiveness ranking among selected OECD metropolitan regions, 2000

Source: OECD Territorial Database
To conduct a more in-depth analysis of regional economic performance, the OECD thus developed a pilot exercise of cross-country comparisons, examining which factors explain a given region’s gap in GDP per capita with other OECD metropolitan regions (Annex 1). These factors include productivity per worker, efficiency of the local labour market expressed in terms of employment/unemployment, and the relative size of the labour force with respect to the population, i.e., the activity rate (Table 2). Greater productivity per worker translates to a higher level of GDP per worker, an efficient labour market results into better labour utilisation (more employment, less unemployment), and a larger labour force relative to population implies that more of the region’s human resources are being used in production. The results of this comparison aims at drawing a general framework for analysis.

Table 2. Explanatory factors of regional differences in GDP per capita, 2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Metropolitan Region</th>
<th>Percentage difference in:</th>
<th>Proportion of the difference in GDP per capita due to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Ile de France</td>
<td>24%</td>
<td>-2% -2% -18% 3% 80% 8% 11%</td>
</tr>
<tr>
<td>France</td>
<td>Nord</td>
<td>-17%</td>
<td>-8% -11% 48% 21% 31%</td>
</tr>
<tr>
<td>Germany</td>
<td>Region Berlin</td>
<td>-2%</td>
<td>-15% -17% 7% 44% 50%</td>
</tr>
<tr>
<td>Germany</td>
<td>Region Hamburg</td>
<td>35%</td>
<td>-5% -18% 61% 8% 31%</td>
</tr>
<tr>
<td>Germany</td>
<td>Ruhrgebiet</td>
<td>16%</td>
<td>-10% -32% 28% 17% 55%</td>
</tr>
<tr>
<td>Germany</td>
<td>Rheinland</td>
<td>29%</td>
<td>-5% -21% 53% 9% 38%</td>
</tr>
<tr>
<td>Germany</td>
<td>Detmold</td>
<td>12%</td>
<td>-5% -23% 31% 12% 57%</td>
</tr>
<tr>
<td>Germany</td>
<td>Darmstadt</td>
<td>35%</td>
<td>-2% -14% 68% 4% 28%</td>
</tr>
<tr>
<td>Germany</td>
<td>Rheinhessen-Pfalz</td>
<td>24%</td>
<td>-6% -34% 38% 9% 34%</td>
</tr>
<tr>
<td>Germany</td>
<td>Stuttgart</td>
<td>26%</td>
<td>-1% -17% 60% 2% 39%</td>
</tr>
<tr>
<td>Germany</td>
<td>Karlsruhe</td>
<td>25%</td>
<td>-2% -21% 52% 5% 44%</td>
</tr>
<tr>
<td>Germany</td>
<td>Freiburg</td>
<td>16%</td>
<td>-2% -30% 33% 5% 62%</td>
</tr>
<tr>
<td>Country</td>
<td>Region</td>
<td>44%</td>
<td>1%</td>
</tr>
<tr>
<td>-------------</td>
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<tr>
<td>Germany</td>
<td>Müchen-Ingolstadt</td>
<td></td>
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<tr>
<td>Greece</td>
<td>Attiki</td>
<td>-47%</td>
<td>-6%</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest</td>
<td>-38%</td>
<td>1%</td>
</tr>
<tr>
<td>Italy</td>
<td>Turin</td>
<td>12%</td>
<td>-2%</td>
</tr>
<tr>
<td>Italy</td>
<td>Milan</td>
<td>34%</td>
<td>1%</td>
</tr>
<tr>
<td>Italy</td>
<td>Rome</td>
<td>20%</td>
<td>-6%</td>
</tr>
<tr>
<td>Italy</td>
<td>Naples</td>
<td>-7%</td>
<td>-26%</td>
</tr>
<tr>
<td>Japan</td>
<td>Saitama</td>
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<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>Chiba</td>
<td>-60%</td>
<td>2%</td>
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<tr>
<td>Japan</td>
<td>Tokyo</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>Kanagawa</td>
<td>-46%</td>
<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>Aichi</td>
<td>-23%</td>
<td>2%</td>
</tr>
<tr>
<td>Japan</td>
<td>Osaka</td>
<td>-16%</td>
<td>-1%</td>
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<tr>
<td>Japan</td>
<td>Fukuoka</td>
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<td>1%</td>
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<td>Korea</td>
<td>Seoul</td>
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<td>1%</td>
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<td>Korea</td>
<td>Busan</td>
<td>-92%</td>
<td>-1%</td>
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<tr>
<td>Korea</td>
<td>Daegu</td>
<td>-108%</td>
<td>2%</td>
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<tr>
<td>Korea</td>
<td>Incheon</td>
<td>-83%</td>
<td>1%</td>
</tr>
<tr>
<td>Korea</td>
<td>Gyeonggi</td>
<td>-60%</td>
<td>3%</td>
</tr>
<tr>
<td>Mexico</td>
<td>Mexico City (MAMC)</td>
<td>-66%</td>
<td>5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Noord-Holland</td>
<td>-6%</td>
<td>4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Zuid Holland</td>
<td>-17%</td>
<td>4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Noord-Brabant</td>
<td>-23%</td>
<td>4%</td>
</tr>
<tr>
<td>Spain</td>
<td>Comunidad Madrid</td>
<td>2%</td>
<td>-4%</td>
</tr>
<tr>
<td>Spain</td>
<td>Barcelona</td>
<td>-7%</td>
<td>-3%</td>
</tr>
<tr>
<td>Spain</td>
<td>Valencia</td>
<td>-26%</td>
<td>-7%</td>
</tr>
<tr>
<td>UK</td>
<td>London</td>
<td>16%</td>
<td>-1%</td>
</tr>
<tr>
<td>UK</td>
<td>Greater Manchester</td>
<td>-33%</td>
<td>0%</td>
</tr>
<tr>
<td>USA</td>
<td>Atlanta</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>USA</td>
<td>Baltimore</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>USA</td>
<td>Boston</td>
<td>72%</td>
<td>3%</td>
</tr>
<tr>
<td>USA</td>
<td>Chicago</td>
<td>22%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>Cleveland</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>Dallas</td>
<td>23%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>Denver</td>
<td>22%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>Detroit</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>USA</td>
<td>Houston</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>USA</td>
<td>Los Angeles</td>
<td>18%</td>
<td>1%</td>
</tr>
</tbody>
</table>
This methodology has been applied within the framework of the *OECD Territorial Reviews* to assess the regional competitiveness of some OECD metropolitan regions. Montreal, for instance, one of the leading contributors to Canada’s economy (9.8% of the country’s GDP in 2002), ranks only 44th out of 65 with regards to real GDP per capita when compared with other OECD metropolitan regions. As seen in Table 1, on average nearly two thirds of the difference between Montreal and the comparison regions is explained by lower average productivity. Low labour productivity may have two different causes. It could be the result of a specialisation in low-productivity industries or/and to a low level of complementary factors of production (skills, physical capital, etc). On average, 98% of the productivity gap of Montreal appears to be the result of a lower stock of complementary production factors while the effect of industry specialisation appears to be positive and accounts for 2% of the difference in average productivity. The positive effect of specialisation can be seen in the evolution of Montreal’s industrial mix into high technology industries. Regarding the effect of complementary factors of production, educational attainment plays a significant

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1 By definition, average productivity is a weighted average of sectoral productivity, where weights are given by the employment share of each sector. Therefore, differences in average productivity due to differences in employment shares can be regarded as the effects of specialisation, and differences in average productivity due to sectoral productivity can be interpreted as the result of differences in capital and technology.
Figure 2. Percentage of population with higher education attainment, 2001

Source: OECD Territorial Database
role in explaining low productivity, with only 21% of the population of Montreal having pursued higher education (Figure 2). Further investigation reveals there is ongoing improvement in this area. Lower productivity is however also related to insufficient investment in equipment and research and development (R&D), especially within small and medium-sized enterprises which constitute an important share of the regional fabric (OECD 2004b).

Similar methodology has been applied to Mexico City which ranks at the bottom end, mainly due to lower productivity levels. The region is frequently classified as a global city, offering high level services and attracting in significant amounts of foreign direct investment4. However, the level of productivity of the economy as a whole is relatively low by OECD standards and the functioning of the labour market shows major divergence from OECD averages. Unlike most OECD city-regions with low natural increase and population stability dependent upon immigration, the factor that strongly offsets the lack of fluidity in the Mexico City labour market is the growth in the overall employment base as a result of continuing expansion of the urban population. Although this is an important asset for the metropolitan region alone, it is insufficient to counteract the other factors that inhibit growth in productivity, in particular the low skill level of the working population. In addition to lower educational attainment, the provision for adult education and skills training is hampered by the fact that the economy is largely composed of very small, often informal enterprises. Workers tend to be less likely to engage in on-the-job training and at the same time difficult to reach through public policy programmes to upgrade skills. Despite having the country’s densest research and university networks, there is concern that the output from these institutions is not effectively translated into commercial innovations for local enterprises. Finally, in spite of large absolute amounts of FDI into the region, much of this investment is channelled to production in other locations, thus dispersing the positive linkages between local and foreign firms (OECD 2004b).

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4 The World Cities Study Group and Network (GaWC) ranked it 21st among all world cities in 2000 providing 12 percent relative to the level of service provision in the top-scoring city (close to Brussels, Madrid and Sao Paulo). Mexico City is considered the only Latin American city with a “major global services centre” in the four categories of advanced services, again closely followed by Sao Paulo.
Busan, the second largest metropolitan region in Korea both in terms of population and contribution to national GDP, is emerging as one of the regional poles in Northeast Asia. While it ranks as one of the top five container ports in the world, Busan stands at the bottom end of the OECD ranking. This low performance can be explained by the significant impact of national performances. Korea has a per capita income level of 67% of the OECD average, ranking it in the bottom quartile of OECD countries by this criterion, along with Mexico and the Central European countries. Busan’s low labour productivity again confirms a national pattern, since Korea as a whole has traditionally recorded low labour productivity compared with other OECD countries. Most research undertaken by local economists tends to support the hypothesis of sectoral structure as the main cause of lower labour productivity, though the influence of capital stock should also be taken into consideration. Busan is a typical post-industrial city with many traditional industries undergoing restructuring and few knowledge-based industries able to fuel innovative development in the region. After investing massively in its long-established shipbuilding, logistics, footwear or textile sectors, it confronts the arduous challenge of shifting towards a globally competitive high technology-led region (OECD, forthcoming).

3. Implication for policies

The concept of regional competitiveness provides a rationale for spatial targeting of economic development policies and policymaking, for both traditional policy fields such as infrastructure development, as well as less-tangible assets, such as human and social capital. In each area governments provide collective locally targeted public goods appropriate to the specific needs of regions to encourage and facilitate private initiative and enterprise.

3.1. Strengthening conditions for clusters by enhancing local social capital

Most research studies of advanced urban regions emphasise the importance of clustering in productive activities where a competitive advantage can be derived and maintained. While sectoral mix owes much to chan-

Labour input relative to total population in Korea stands at 21% above the OECD average and total factor productivity, including capital and labour, falls behind many countries, especially neighbouring Asian countries outside the OECD.
nce and path dependency plays a role, dynamic change in world markets and insightful public policy can help both individual firms and sectors harness and develop latent or underexploited comparative advantages. Instead of subsidies to individual firms, targeted, collective measures can be used to promote investment in the soft infrastructure (networking, forums for exchange, cluster animation) to build local social capital, as well as physical infrastructure. The Öresund Region is a good example of a regional network organisation that helps clusters of small firms overcome problems of critical mass. The Medicon Valley Academy (MVA), a membership-based organisation founded in 1997, plays an active role in promoting information sharing and knowledge development among institutions and firms in the bi-national region (OECD 2003b). As there are a number of different varieties of clusters that are found across the OECD, different approaches to clusters policies are being implemented. For instance, in Montreal whose metropolitan economy is based on aerospace, biotechnology and ICT, the emphasis is on building relational assets among local actors, a strength typical of established “classic” clusters.

### 3.2 Mobilising innovation capacity and human capital

Innovation is a key element in regional competitiveness but the different strands that contribute to an innovative environment need to be brought together. This is a key problem within many initiatives as they are rarely integrated into a wider innovation or technology “system”. For instance, entrepreneurship policies are often pursued from an employment creation perspective alone, which underplays the importance of new firms in generating new ideas and practices. Similarly, the impact of foreign direct investment on the innovative capacity of the wider regional economy is not fully exploited; there is rarely a clear strategy to capture the potential impact of FDI on innovation.

As far as research organisations are concerned, public policy incentives for university-industry linkages are increasing almost everywhere, but the division between “pure” basic research and applied research is deeply rooted. Learning regions have emerged, defined as efforts to build human capital by linking learning and innovation in the regional economy by means of a strategic approach involving government, research and educational institutions, and the private sector. The numerous sources of knowledge capital and innovation capacity that can be harnessed in regional systems include building complementarities among research institutes, linking knowledge producers with users as well as the commercialisation
of innovation through specific models such as science parks, technical services centres and technical education institutions.

3.3 Investing in physical infrastructure to improve area accessibility and quality of life
Accessibility remains a key to economic development. Without good connections, cluster development, regional innovation strategies and so on will not have a significant impact on performance. Worse, they will tend to lead policy back towards artificially supporting private sector development without addressing key market failures. Improvements in physical infrastructure will generate productivity gains for local businesses and increase the attractiveness of the area for investment. However, economic growth is not automatically stimulated. Growth effects are likely to appear when positive externalities exist in the region. In the case of Öresund the bridge between Copenhagen and Malmö is only one element of a wider strategy to build on the complementarities that have developed between the two regional economies. Similarly, in Vienna-Bratislava, the accession of Slovakia to the EU is expected to facilitate the creation of a larger and stronger functional economic area that will generate scale and scope advantages for local firms (OECD 2003c). Providing infrastructure to link the opened border is a first step, but then policy challenges relating to economic specialisation, innovation and governance come to the fore.

4. Implementing economic development policies

4.1 Developing a strategic vision that involves all metropolitan constituencies
Regional competitiveness policies are the expression of locally defined economic development goals. An important assumption is that all parts of a metropolitan region, defined as a functional economic area, share some common objectives. Furthermore, notwithstanding inequalities and rivalries, the interdependencies among the different municipalities are a strong argument for co-operation than for competition. In other words, a common strategy/ vision that recognises explicit interdependencies is an added value. This vision needs to take into account the different identities that the city region encompasses: promoting complementarities and interdependencies, but also recognising differences and distinctive characteristics. There might be instances where specific local
interests appear to contradict this, but in the long term there should be a clear collective premium for a region that maximises its “functional” complementarities.

4.2 Adopting a multi-sectoral approach
Major cities across the OECD demonstrate that metro-wide economic growth depends not only on economic interdependencies but also on other factors such as social cohesion and physical environment. In other words, areas that are detached from the economy and labour market of the metropolitan region constitute a drag factor that reduces the competitiveness of the region as a whole and thereby jeopardises the region’s ability to achieve those collective goals. In this context, strategies for economic competitiveness for the metropolitan region should not be viewed separately from other social and environmental objectives. Strategic thinking should also link the inner urban core to the wider functional region based on a comprehensive understanding of the economic, spatial and social implications of policy.

5. Implication for metropolitan governance
The success of the implementation of policies and strategies will depend substantially upon the institutional capacity to mobilize public, private and community resources in the long term. There is widespread agreement that metropolitan areas that have established cooperative arrangements designed to produce collective action at the area-wide level are better equipped to improve regional competitiveness. Similarly, the lack of co-operation between the municipalities where interdependence of problems is high threatens the competitiveness of the whole metropolitan region. While there is a need for area-wide structures with legal capacity and greater authority, it is also clear that a uniform model, even within one single country, is not appropriate. In many metropolitan regions, there are no or very few coordinating mechanisms and competition between municipalities prevails. The status quo is an option which rarely yields positive results. Relying solely on the assumption of mobile citizens, competition between jurisdictions may provide incentives for governments to raise public sector efficiency. However, experiences in some European or North American cities show that competition may lead to declining or less cost-efficient services and wasteful rivalry between areas.

Discussion of how to better manage metropolitan areas revolves principally around a spectrum of models that range from relatively “heavy”
to relatively “light” in terms of the scope of the reform they imply. At the relatively heavy end are the functional models where governance structures are re-shaped to fit or to approximate to the functional economic area of the metropolitan region. Examples include the creation of a metropolitan government (London and Stuttgart) and the amalgamation of municipalities (Montreal, Halifax, Toronto). At the light end are formal and informal co-ordination instruments. Among these instruments are purely fiscal arrangements, whose main purpose is to address fiscal disparities and territorial spillover within the area, such as equalisation mechanisms and tax-base sharing. Other common examples in the OECD include sectoral or multi-sectoral agencies whose main functions include transport, urban planning or economic development (Table 2).

Table 2. Main metropolitan cooperative arrangements

<table>
<thead>
<tr>
<th>Tax-base sharing and redistributive grants</th>
<th>Metropolitan agency</th>
<th>Metropolitan government</th>
<th>Amalgamation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-purpose grants</td>
<td>Multi-purpose</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Administrative boundaries

| No change | Possible creation of a new layer | Creation of a regional tier with elected body | Disappearance of municipalities | Possible creation of sub-local units |

Economies of scale (cost saving)

| No | For one public service only | For certain public services only | For certain public service only | Expected (?) |

Sharing of public services

| In a limited way | Yes, for one public service only | Yes, for certain public services only | Yes, for certain public services only | Common |

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6 This typology is not exhaustive. It includes a selection of different options that are not mutually exclusive, as some metropolitan regions combine several options (e.g., Montreal experienced an amalgamation of 27 municipalities whilst a multi-sectoral agency was created at the wider metropolitan level)
| Specific disadvantage | \begin{tabular}{|c|c|c|c|} \hline Separates & Emergence of & Emergence of & Democratic & Lack of \\
the costs and & sectoral & the funding & cost?? & creative \\
benefits of & constituencies & and legitimacy & & diversity \\
local public & issues & & & Democratic \\
services & & & & cost?? \\
\hline | Specific advantage | \begin{tabular}{|c|c|c|c|} \hline Reduce fiscal & Cost saving & Idem to & Integration and \\
disparities & for a & single- & coordination \\
Still allows & particular & purpose & of certain \\
some variety & service; & + & sectoral policies \\
Better & Integration & Better & Better \\
management & and & equality & equalisation \\
of a & coordination & of costs & \\
metropolitan & function & policies & Stronger \\
of sectoral & & & political \\
policies & & & power \\
\hline | Strategic coordination for economic development | \begin{tabular}{|c|c|c|c|} \hline No & Yes, if it is & Yes & Yes, will depend \\
an economic & an economic & on the & on the \\
development & development & administrative & administrative \\
agency & agency & boundaries & boundaries \\
Risk of overlooking & the new & of the new & \\
the multi-sectoral & structure & structure & \\
aspects of urban & & & \\
competitiveness & & & \\
\hline \end{tabular} |

Most of the existing metropolitan governance arrangements tend to respond to the lack of cooperation among local jurisdictions by focussing on improving economies of scale, reducing fiscal competition and disparities, and internalising territorial spillovers within the area. In other words, they bring a solution to problems that would help improve social and economic conditions but do not explicitly provide a “proactive” approach for an economic development strategy for the entire area. All forms of fiscal arrangements simply ignore the issue. Both the metropolitan model and the amalgamation holds out the promise of increasing the political power of the metropolitan region, vis-à-vis the central government and internationally. However, metropolitan governments and amalgamation are rarely structured to match the functional economic area of the metropolitan region.
This is a pervasive challenge in that the boundaries of a metropolitan area cannot be definitively fixed since the appropriate boundary varies according to the function or goal in question. For instance, promoting the development of clusters and enhanced inter-firm relations may require coordination within a territory whose boundaries differ from the functional region defined by commuting flows.

Due to the large number of actors involved in economic development policies, there is a need for a collaborative framework that will facilitate the development of a clear and coherent strategy for economic development of the whole metropolitan region. Ignoring existing structures and actors by creating an additional body will not solve the problem. One promising way to meet such objectives is the creation of a metropolitan development agency that could ensure both the integration of an area-wide economic development strategy into the wider governance system and the coordination of the existing actors involved in economic development policies by facilitating interactive processes. Such agencies are common in OECD countries and despite great diversity in the details of organization and objectives they generally share some principal features and functions. Overall, they can be described as agencies that coordinate and drive economic development actions in a given geographical area with the following characteristics:

- They are held accountable for the mission and general objectives defined by the sponsoring public agencies;
- They are responsible for translating overall objectives into operational projects and programmes;
- They have a strong labour market and enterprise focus, including responsibility for organising, or at least co-ordinating, regional business support and workforce development programmes;
- They are responsible for, or closely involved in, inward investment promotion and processing, and more generally are responsible for contributing to regional marketing.
- They work with local development agencies or sectoral agencies that deliver outputs that contribute to achieving the general objectives (e.g., they do not necessarily replace specialised bodies)

Generally, such bodies maintain close links with the different government entities of the entire region. In some cases, they are institutionally separate from them, in others they are incorporated in the newly created metropolitan entities. The principal concern is to ensure that they can provide an approach to policy delivery that provides what the public
authorities cannot in terms of flexibility, business-linkages and sensitivity to local needs. In the OECD area, there are a great number of local/regional economic development policies. Two interesting examples deserve to be mentioned as they are linked with a wider metropolitan governance reform process. In Montreal a metro-wide metropolitan agency, called the Metropolitan Community of Montreal (CMM), was created in 2000 responsible for the planning and coordination of a number of metropolitan functions including economic development (OECD 2004b). The CMM has produced an economic development strategy for the whole area and is now planning to establish a metrowide committee under its umbrella to facilitate interactive processes between federal, provincial, metropolitan and municipal agencies as well as chambers of commerce and non-governmental organisations involved in economic development policies. In London responsibility for economic development has been attributed to the London Development Agency (LDA) which reports to the Greater London Authority (GLA), the regional government body created in 2000 with a directly elected mayor7. It produces the Economic Development Strategy on behalf of the Mayor of London and implements economic development policies for the whole metropolitan region, working with a wide range of local agencies (Clark 2001 and Syrett & Bladock 2003).

7 As with other regional development agencies in the United Kingdom, the LDA receives central government funding and has to comply with national policies guidelines.
Appendix 1. Identifying the determinants of regional performances

GDP per capita (in logarithms) can be written as:

\[
\frac{GDP}{Population} = \frac{GDP}{Employment} + \frac{Employment}{Labour\ force} + \frac{Labour\ force}{Population}
\]  (1)

GDP per capita = Productivity + Employment rate + Activity rate

Therefore, the difference in GDP per capita between a given metropolitan region and the average of all metropolitan regions is equal to:

\[
\text{Difference in GDP per capita} = \text{Productivity difference} + \text{Unemployment difference} + \text{Activity rate difference}
\]  (2)

Decomposition of differences in productivity

Average labour productivity in region i is equal to a weighted average of sectoral productivity:

\[
\frac{GDP_i}{E_i} = \sum_j \frac{E_{ij}}{E_i} \cdot \frac{GDP_j}{E_j}
\]  (2)

where j indicates the sector.

From-the-average difference in productivity can be decomposed as (3):

\[
\left( \frac{GDP_i}{E_i} - \frac{GDP}{E} \right) = \sum_j \left( \frac{E_{ij}}{E_i} - \frac{E_j}{E} \right) \cdot \frac{GDP_i}{E_j} + \sum_j \frac{E_{ij}}{E_i} \cdot \left( \frac{GDP_j}{E_j} - \frac{GDP_i}{E_i} \right)
\]

The first term on the right-hand of the equation measures the proportion of the difference in productivity due to regional specialisation.

Decomposition of differences in activity rates

Activity rate in region i is equal to a weighted average of activity rates by age groups:

\[
\frac{LF_i}{P_i} = \sum_j \frac{P_{ij}}{P_i} \cdot \frac{LF_{ij}}{P_{ij}}
\]  (4)

where j indicates the age group.
From-the-average difference in activity rates can be decomposed as:

\[
\left( \frac{LF_i}{P_i} - \frac{LF}{P} \right) = \sum_j \left( \frac{P_j}{P_i} - \frac{P_j}{P} \right) \cdot \frac{LF_j}{P_j} + \sum_j \frac{P_j}{P_i} \cdot \left( \frac{LF_j}{P_j} - \frac{LF_j}{P_j} \right) \quad (5)
\]

The first term on the right-hand of the equation measures the proportion of the difference in activity rates due to the age-profile of the regional labour population.
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