Real State

The size of cities

Expansión (Spain)

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Edward Glaeser, one of the best economists to study the growth of cities, has called them "humanity's best invention". However, many of us who live in large urban areas are also aware of the negative externalities generated within them. This suggests the possibility that there is an optimal city size, where benefits and detriments can strike a balance. In any case, this size would also be dependent on the policies adopted. In this respect, it is essential that the decisions that are made are supported both by increasing access to information, which allows digitalisation, and by the evaluation of public policies.

Let's look at them one by one. The rise of cities explains much of the growth of the global economy and, therefore, of well-being among people. In Spain, urban areas occupy 23% of the national territory, concentrate more than 60% of the population and employment, and produce almost 70% of GDP. This is compared to Europe, where large urban areas occupy 12% of the surface area, account for 45% of the population and employment, and account for 55% of income.

What explains this relationship between population concentration and income, which is particularly intense in Spain? The accumulation of people around a location allows the use of economies of scale and agglomeration that favour productivity and efficiency. For example, the average cost per user of providing infrastructure and public services is reduced as the population that uses and receives them increases. In addition, the reduction in transport costs allows for greater efficiency in production processes, bringing companies closer to their customers and suppliers, or increasing the probability of a more closely-linked relationship between demand and supply in the labour market. Another advantage of closeness between individuals comes from the knowledge spillover effects that are produced which facilitate the creation and accumulation of human capital. While this is not an exhaustive list, it does give an idea of why cities are centres of wealth creation.

In any case, it is also true that the growth of urban areas creates problems of congestion. For example, the agglomeration of people around city centres increases the price of housing. In Madrid or Barcelona, this cost is up to 4 times higher, on average, than in Lleida, Ávila or Teruel. Also, traffic problems are generated, which increase pollution levels, generate wasted time, etc. For example, in large Spanish cities the average commute to work is 50% longer than in other cities in Spain. Another factor to take into account is the inequality of income that is generated, in part, precisely by the capacity of cities to attract human capital. For example, Madrid has the highest levels of inequality among Spain's large cities, while Soria and Teruel have the lowest.

This existence of benefits and detriments seems to point to the possibility of an optimal city size that can maximise the social and economic returns for its inhabitants. If this were indeed the case, such a scale would be highly dependent on the policies that are implemented. Inefficient cities, with measures that hinder the generation of economies of scale and agglomeration, or that boost their costs, would have a smaller optimal size.

Although it is beyond the scope of this column to offer an exhaustive list of suitable policies to promote orderly growth in cities, I would like to make two regulatory suggestions. The first would be to establish an independent mechanism of evaluation of public policy. These mechanisms could first be implemented in small areas and, once the results of the evaluation are known, either extended to the rest of the city or simply discarded. The second would be to take advantage of the greater availability of the information that is provided by the digitalisation of the economy. The data generated by the inhabitants of cities should increasingly serve as a guide for correct decision-making.

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