THE CONTRIBUTION OF REGIONS & CITIES TO INCLUSIVE GROWTH

ERSA CONGRESS 'SOCIAL PROGRESS FOR RESILIENT REGIONS'
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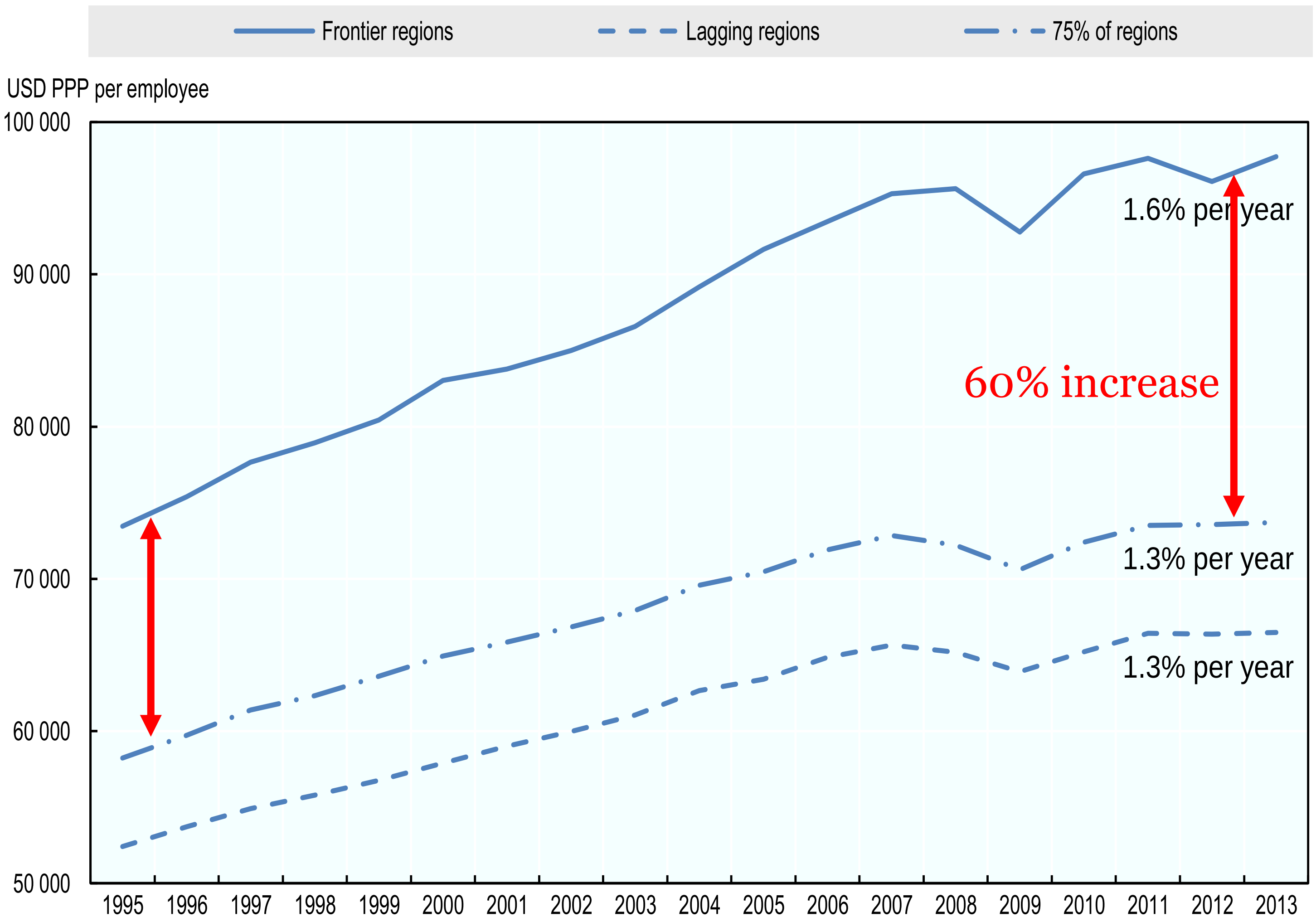
OECD
BETTER POLICIES FOR BETTER LIVES

Regional growth

Regional productivity is diverging in the OECD



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

Notes: Average of top 10% and bottom 10% TL2 regions, selected for each year. Top and bottom regions are the aggregation of regions with the highest and lowest GDP per worker and representing 10% of national employment. 19 countries with data included.

A majority of regions have flat or declining labour productivity catching-up

Type of regions	Employment share in 2000	GDP share in 2000	Annual avg. GDP growth, 2000-13	GDP growth contribution
Frontier	16.1%	20.1%	1.7%	**21.9%**
Catching up	20.3%	18.2%	2.2%	**25.3%**
Keeping pace	38.9%	39.1%	1.3%	**30.4%**
Diverging	24.6%	22.6%	1.6%	**22.4%**
OECD average			1.6%	

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

➔ 62% of OECD GDP is generated in regions were productivity is *Keeping pace* or *Diverging*. They contributed to 53% of GDP growth

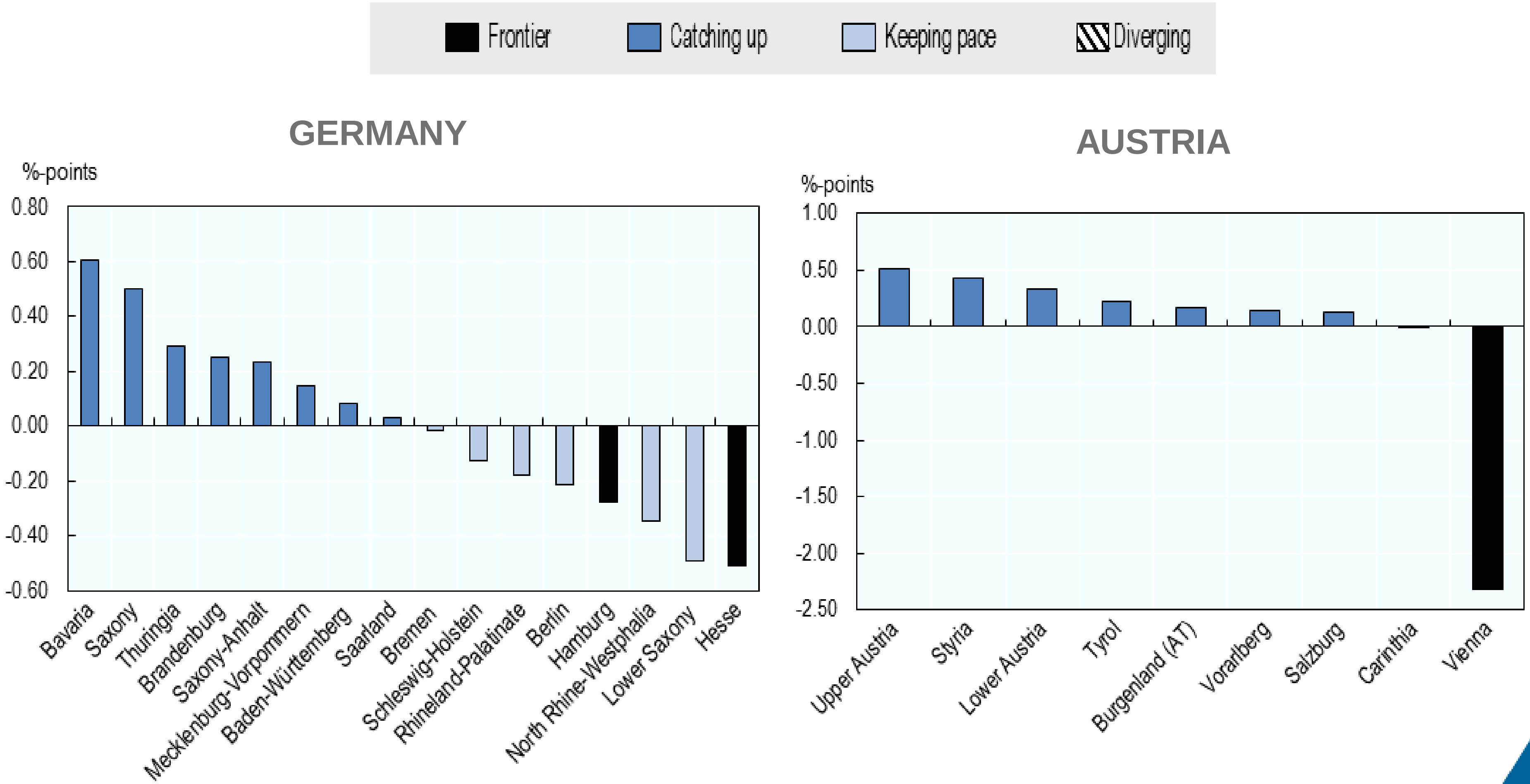
EU Regional Productivity dynamics: two main types of countries

Type-I: **Austria, Germany, Czech Republic, Spain, Italy, Poland, Portugal and Romania**. Most of the productivity performance of these countries is the result of the catching-up of the lagging regions. The frontier regions sustain high productivity levels, but productivity growth dynamics occur elsewhere in the country.

Type-II: **Bulgaria, Denmark, France, United Kingdom, Finland, Greece, Hungary, Netherlands, Slovak Republic and Sweden**. In these countries, most of the productivity dynamics is concentrated at the frontier with limited effects from the catching-up process.

Source: Bachtler, Oliveira Martins, Wostner and Zuber(2017), "TOWARDS COHESION POLICY 4.0", Regional Studies Association.

Region's contributions to national labour productivity growth 2000-2014: **Type I countries**



The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

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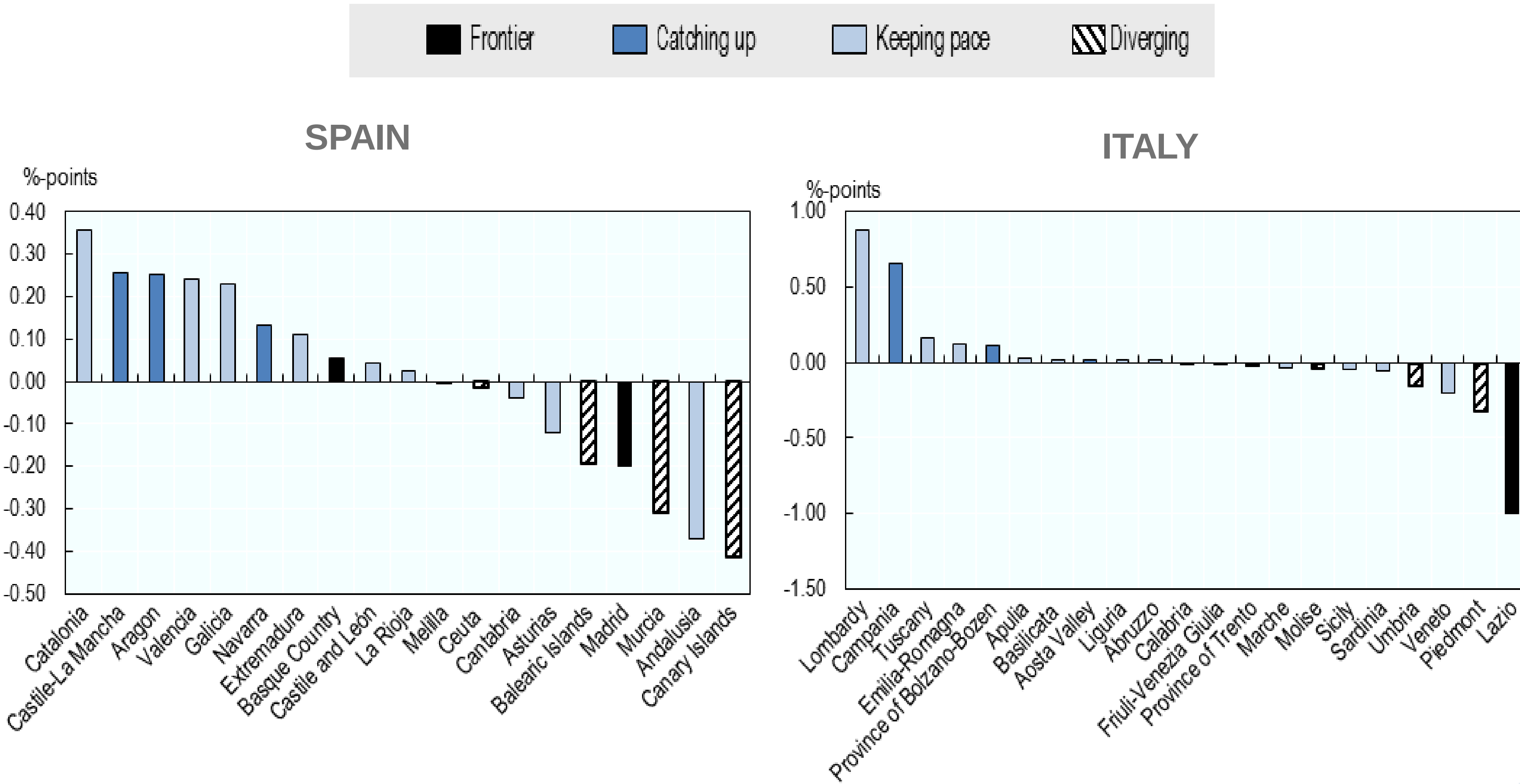

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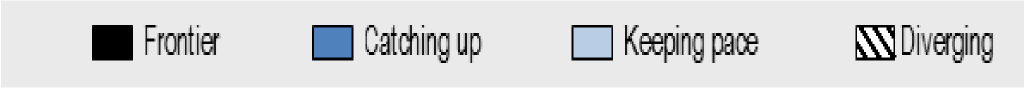
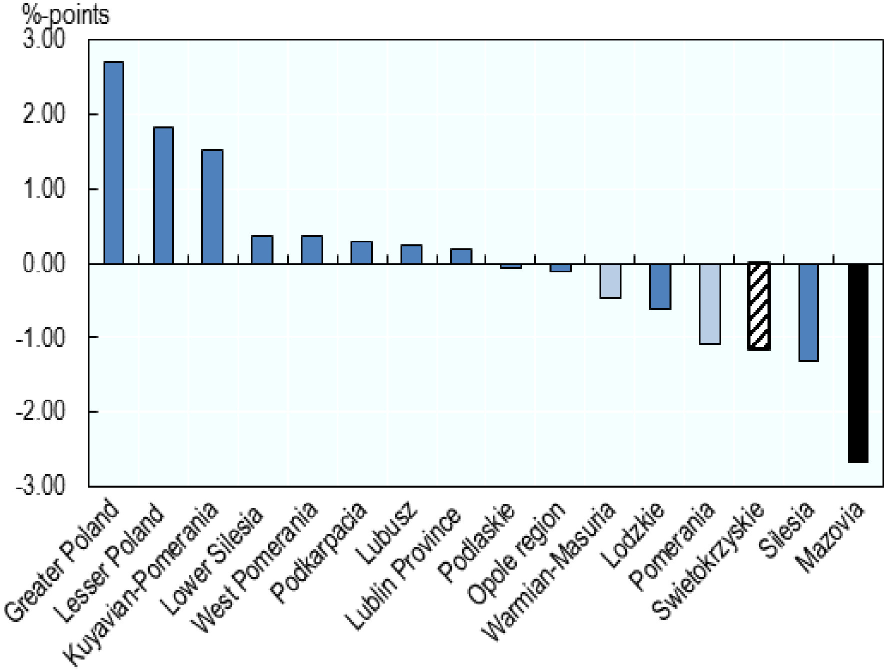
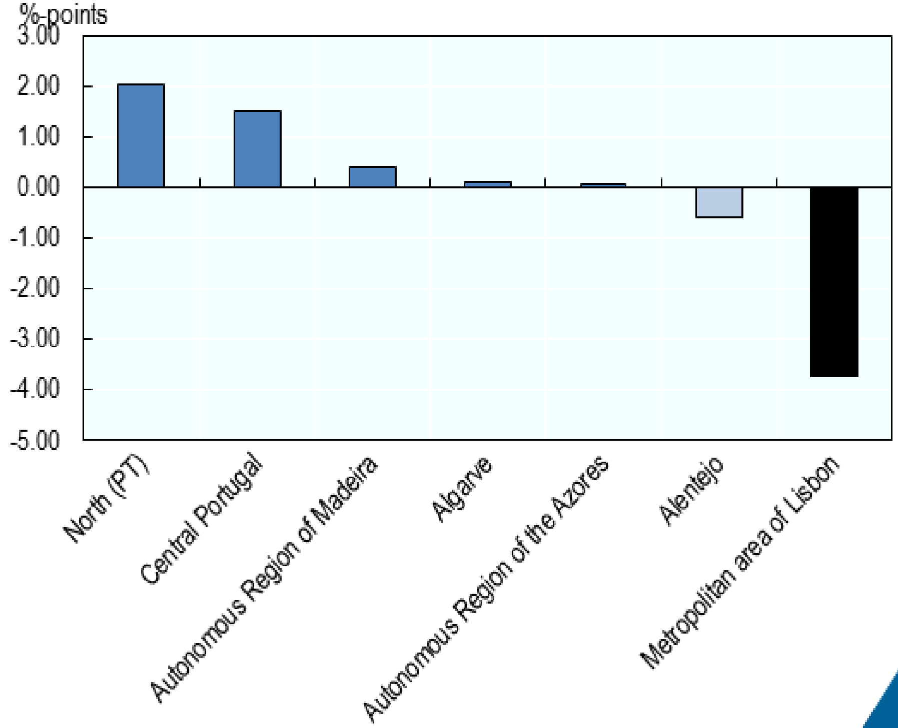


POLAND



PORTUGAL



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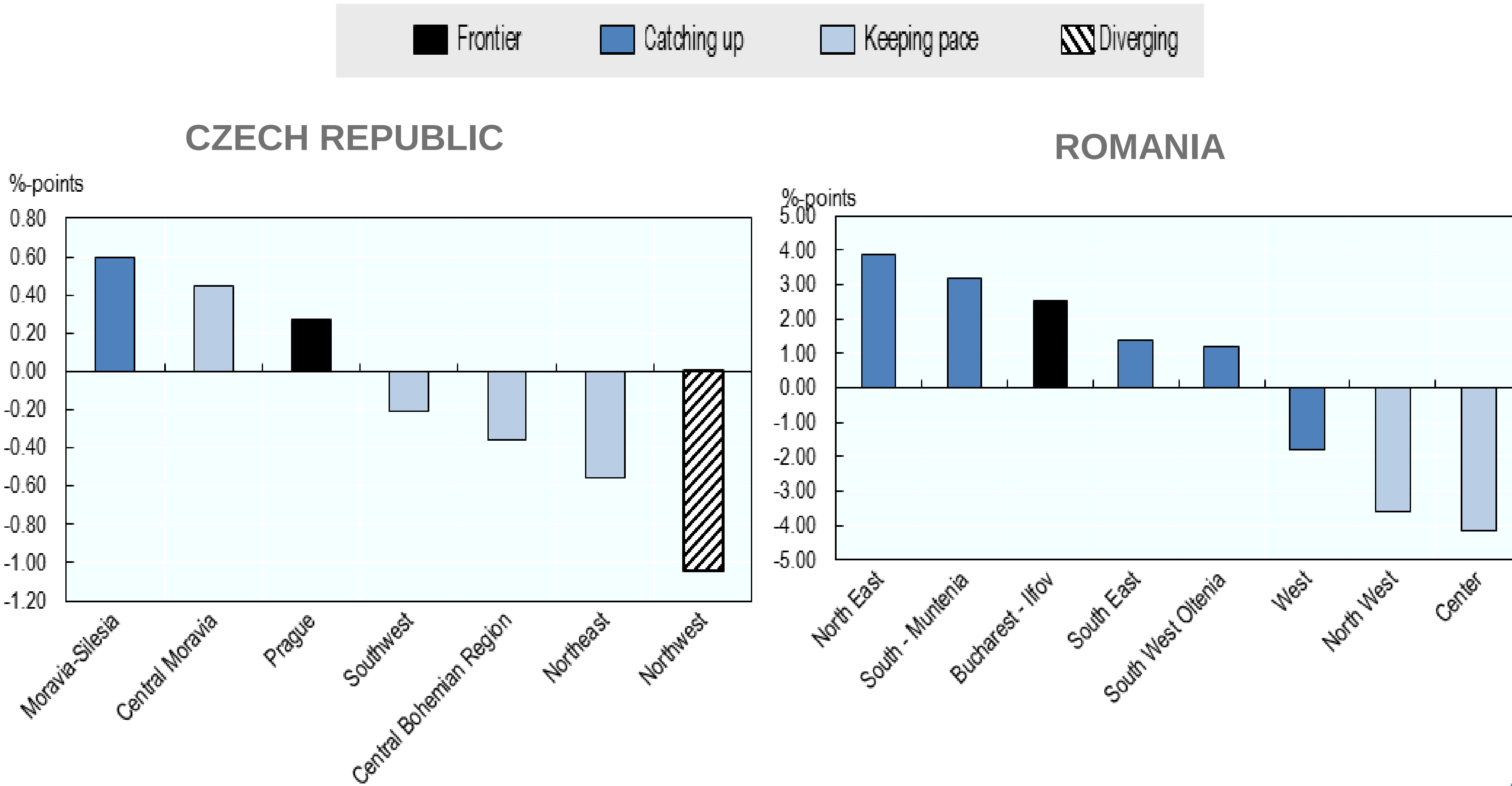

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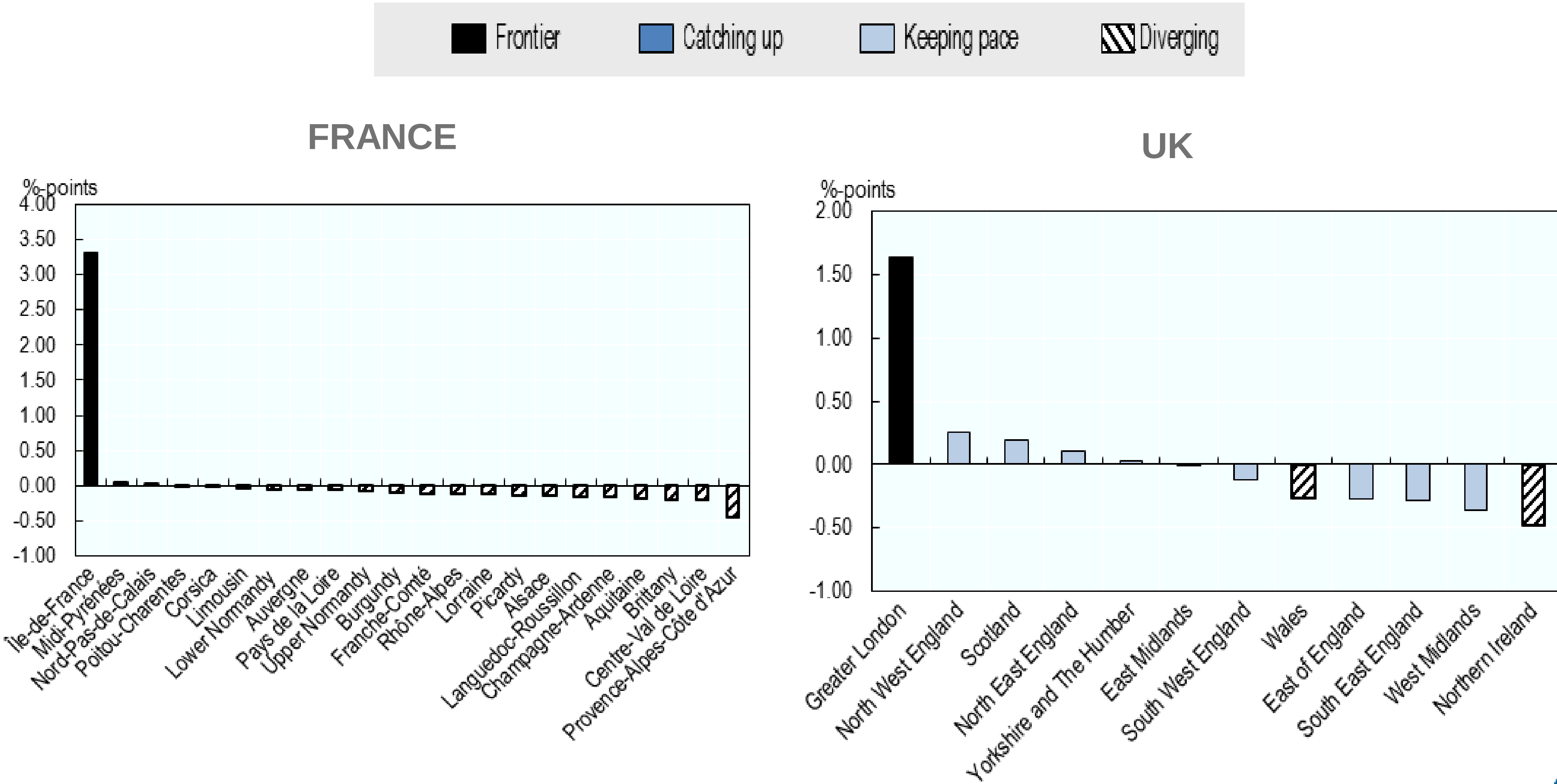
Region's contributions to national labour productivity growth 2000-2014: **Type II countries**



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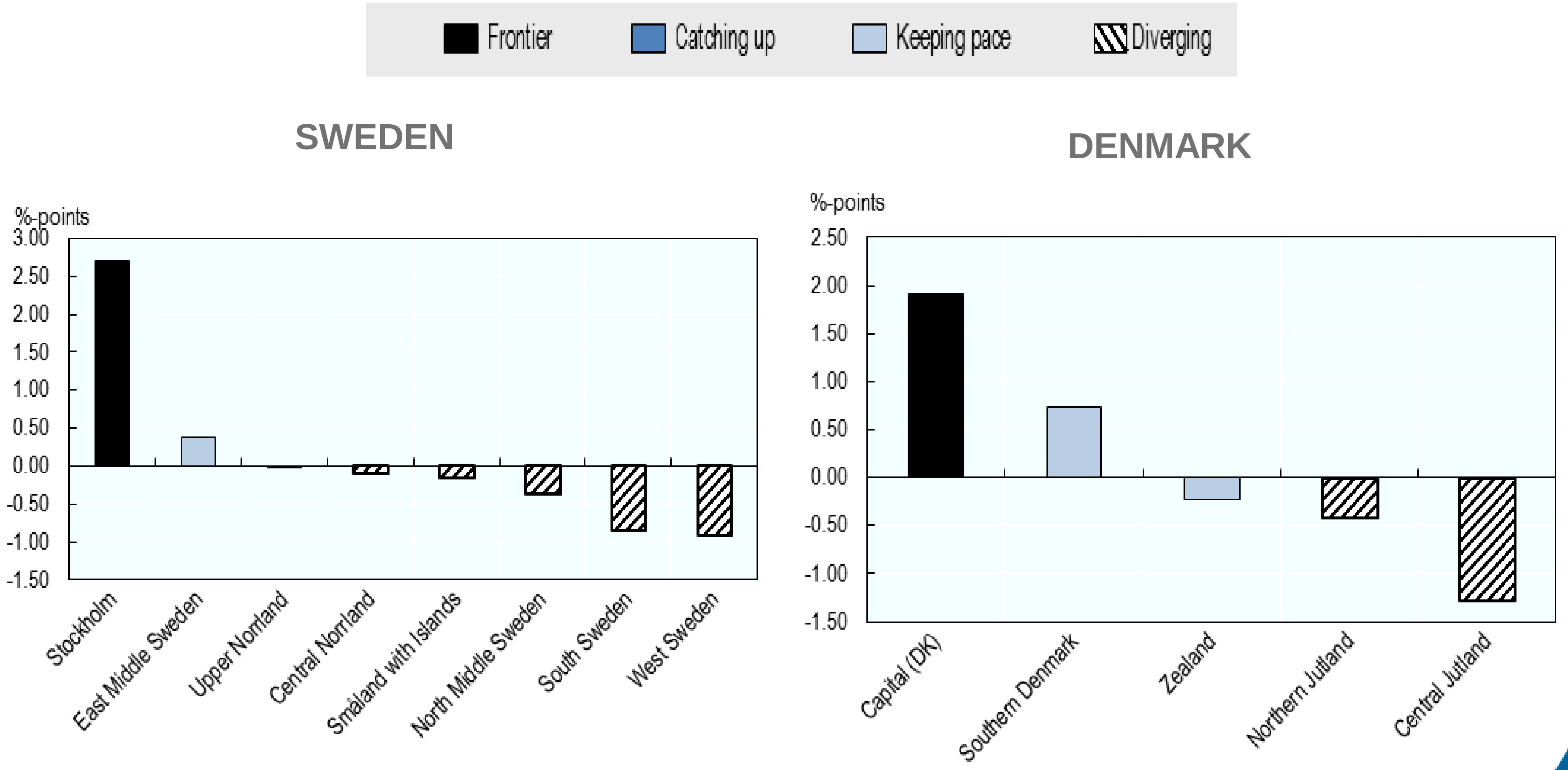

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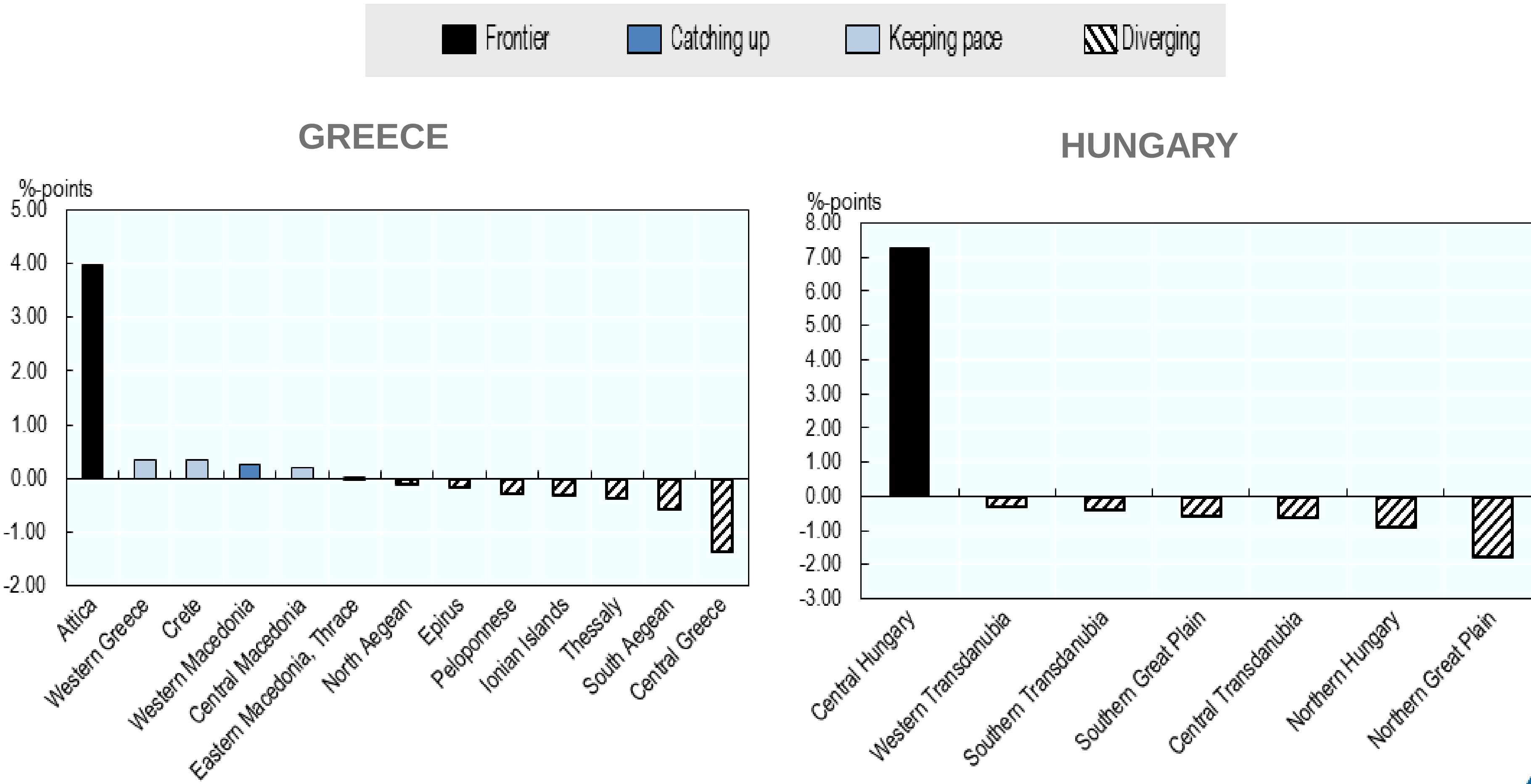

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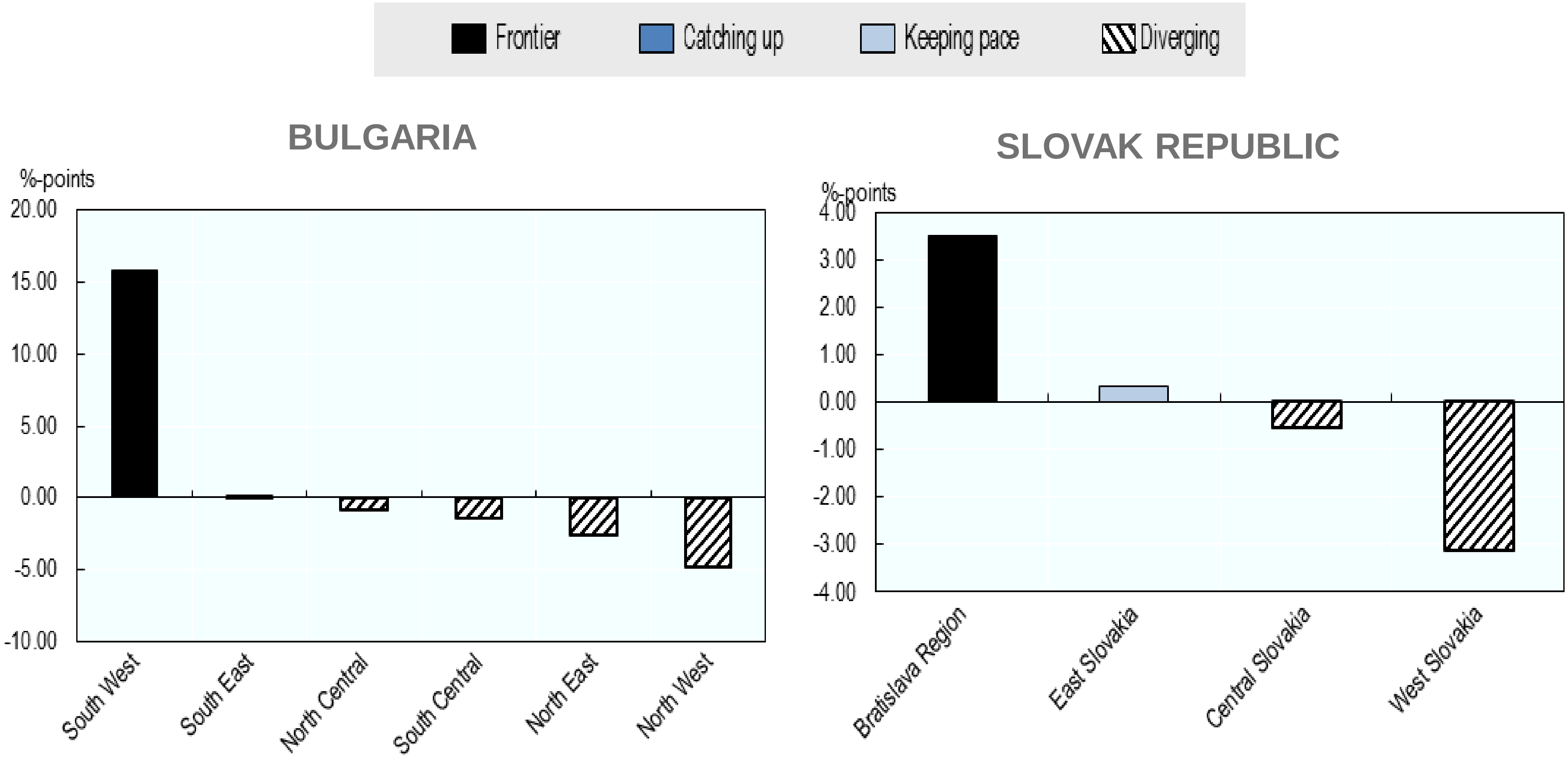

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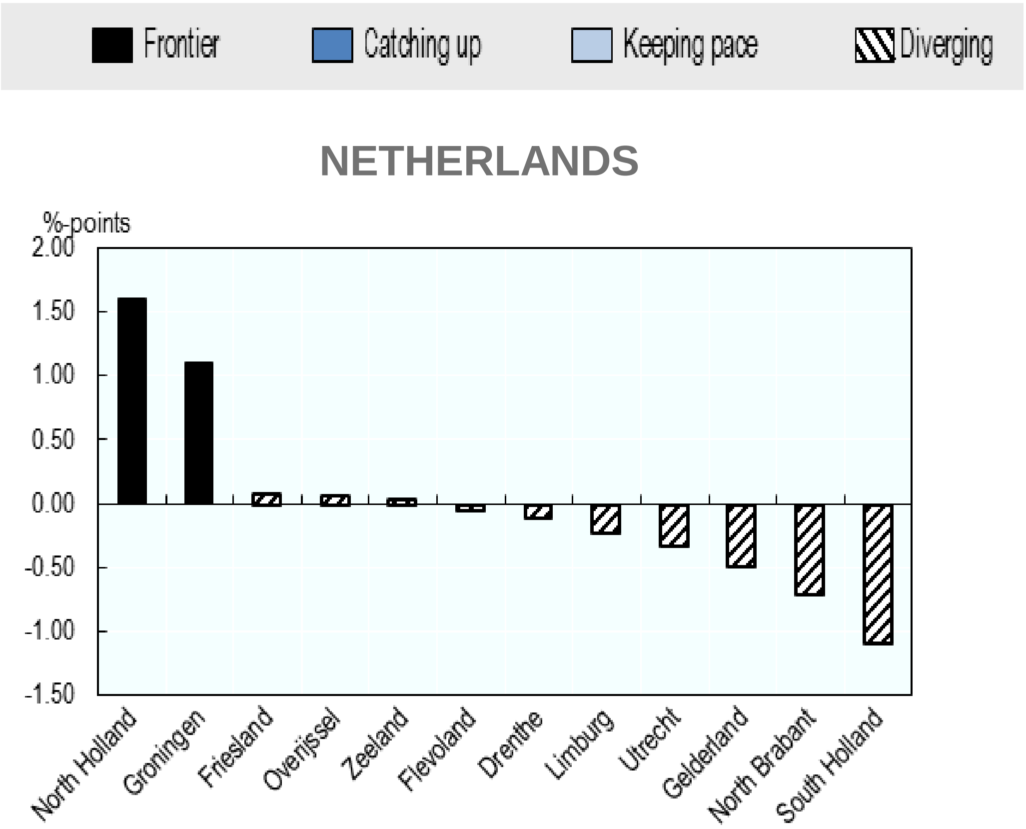

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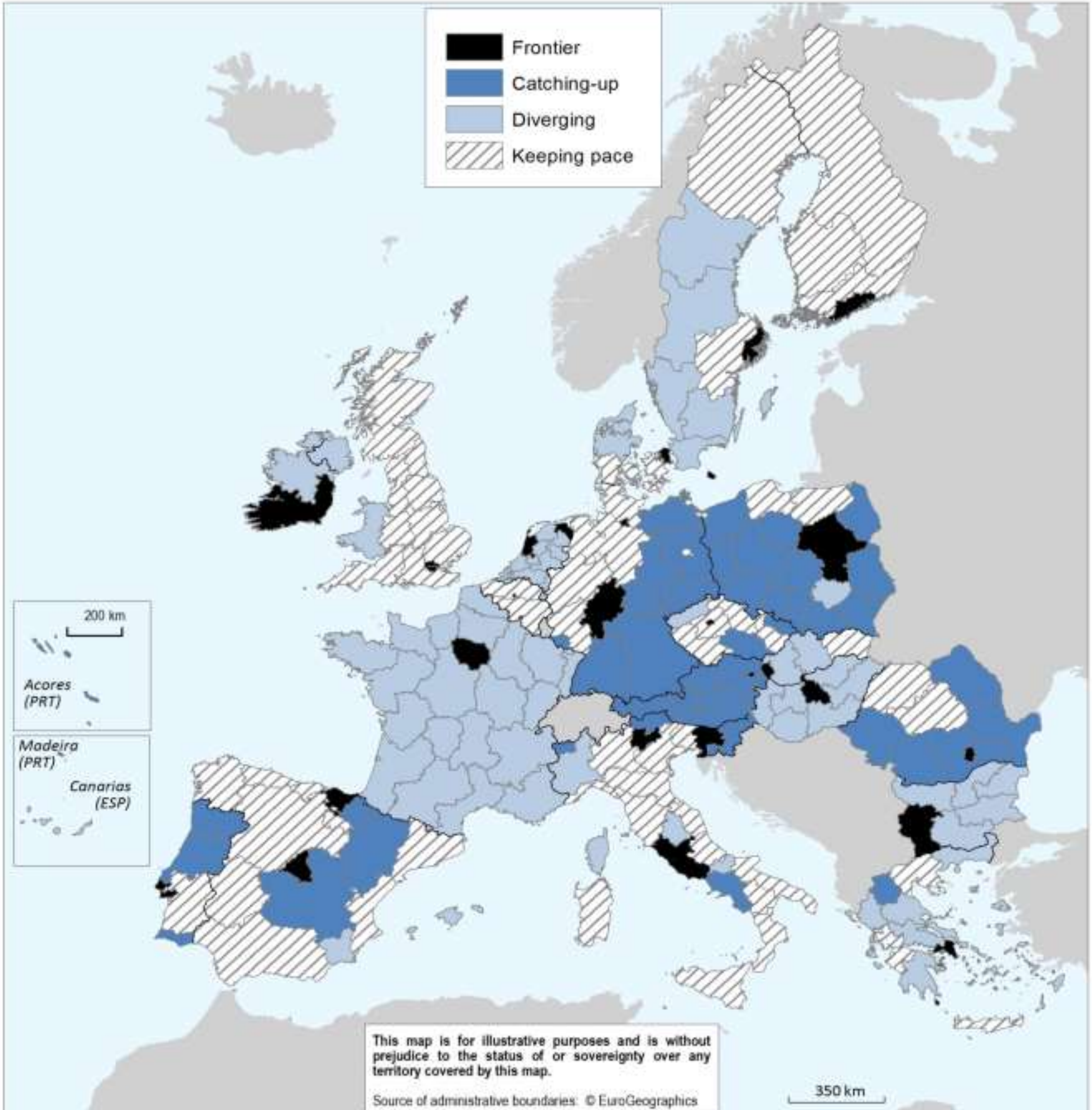
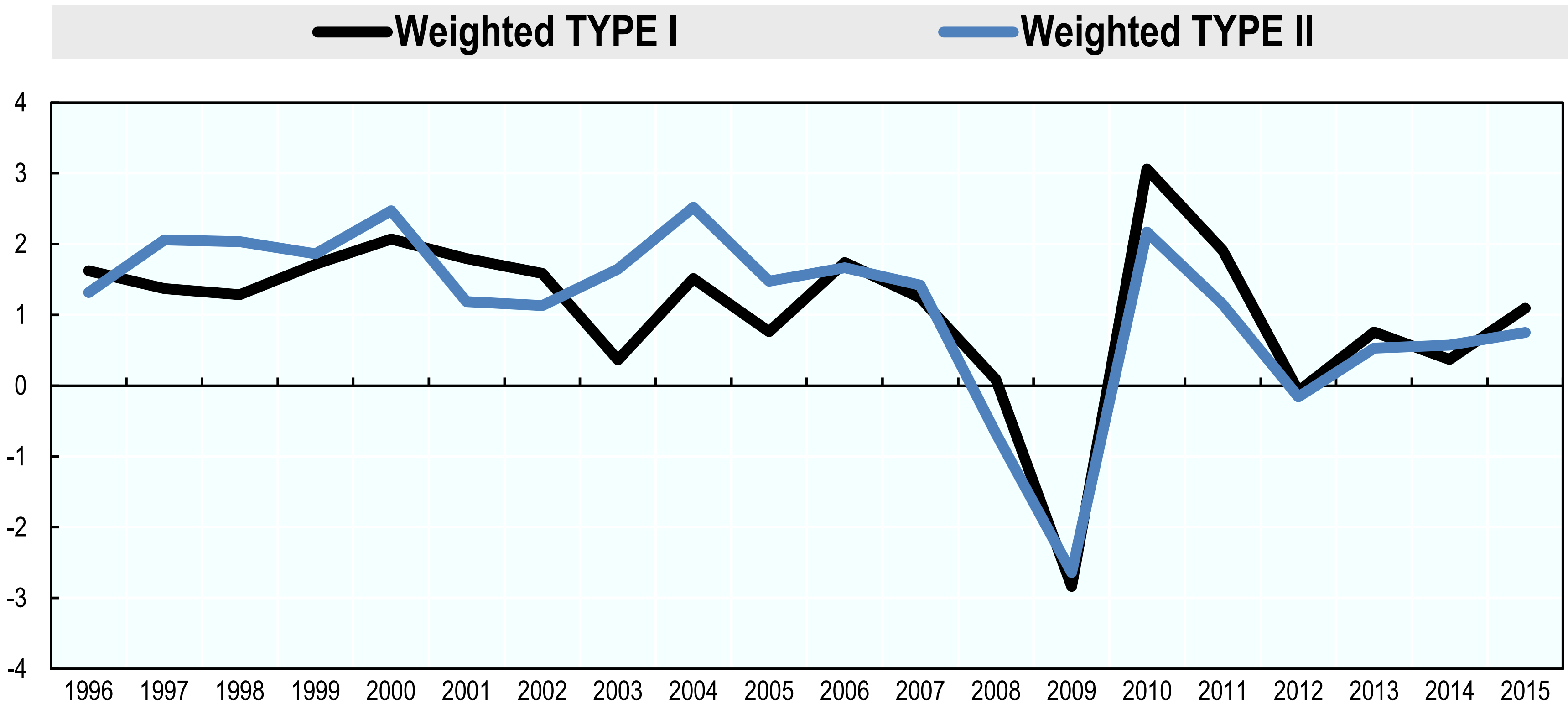


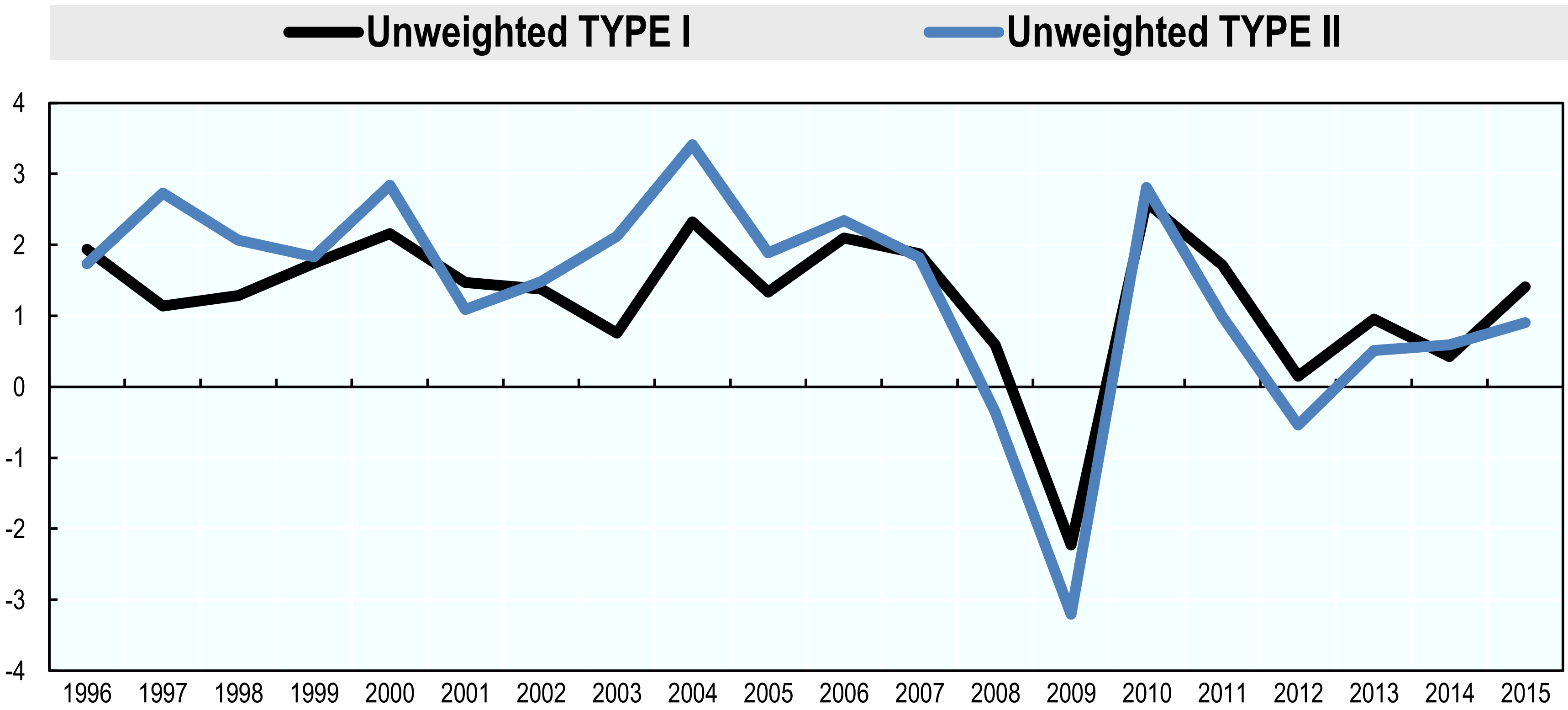
Geography of productivity convergence relative to national frontiers in European regions, 2000-14

Comparison of (weighted) productivity growth for **Type I** and **Type II** countries



Average productivity growth Type I: 1.07%
Average productivity growth Type II: 1.12%

Comparison of (unweighted) productivity growth for **Type I** and **Type II** countries

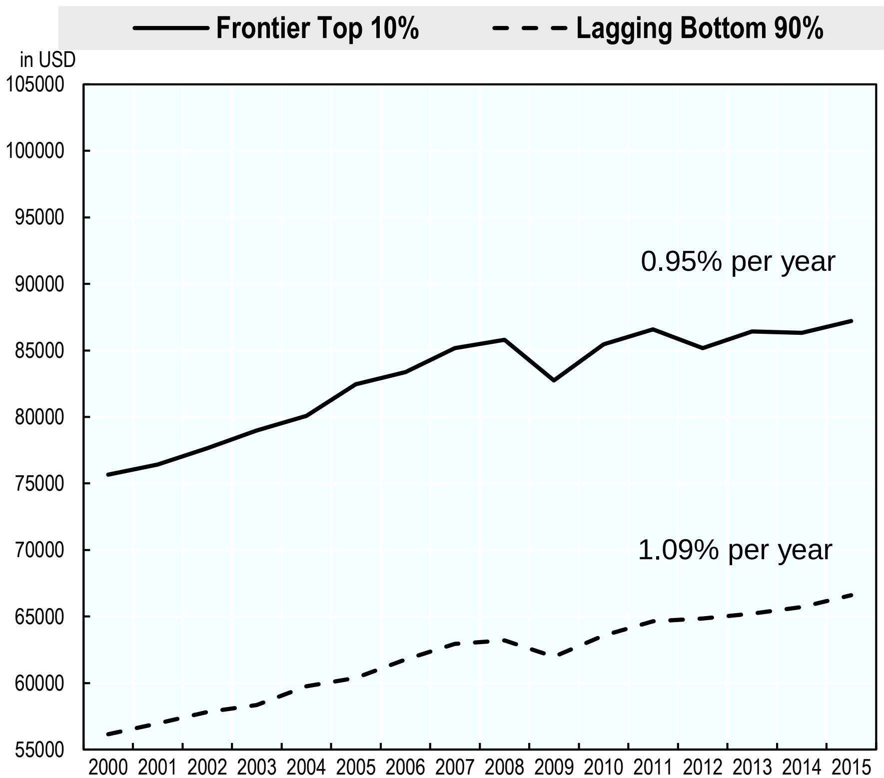


Average productivity growth Type I: 1.25%
Average productivity growth Type II: 1.34%

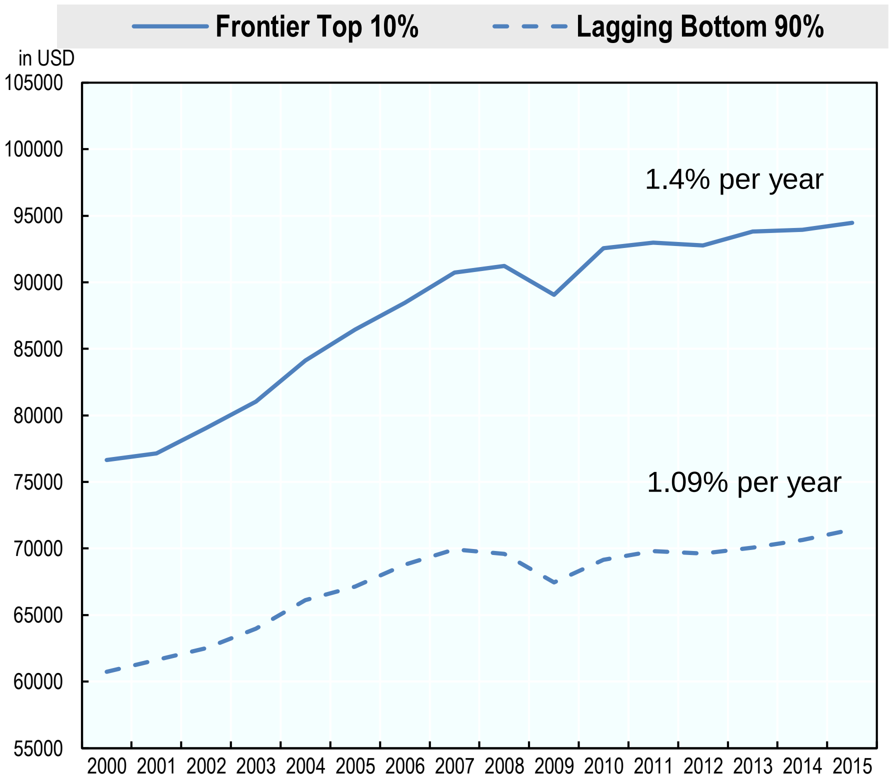
Inclusion of regions

Comparison of Productivity catching-up trends for **Type I** and **Type II** countries (OECD **TL2** regions)

Type I countries



Type II countries

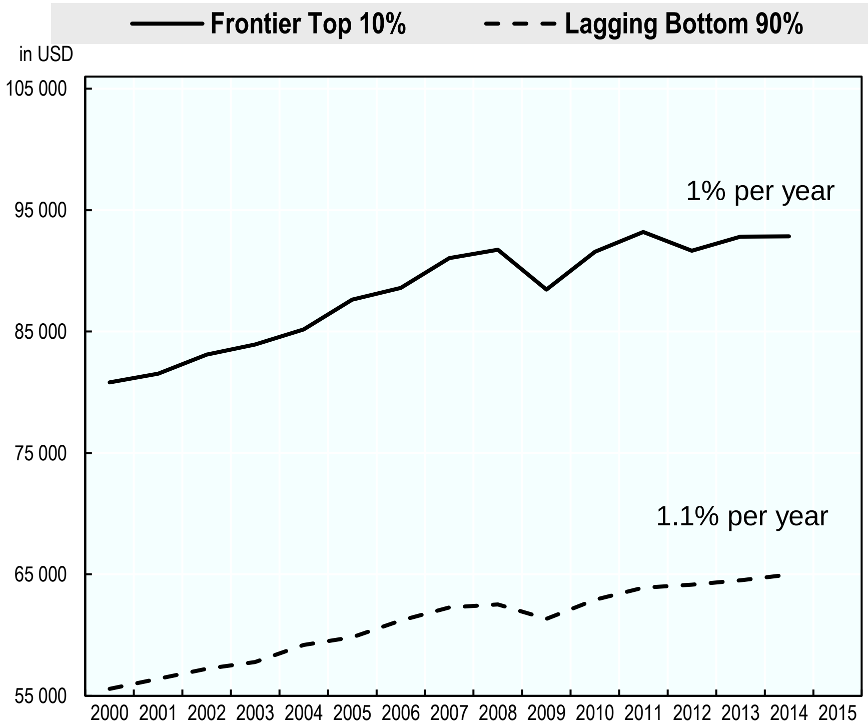


➔ There was less divergence/keeping pace for Type I countries, mainly because of lower productivity performance of the Frontier

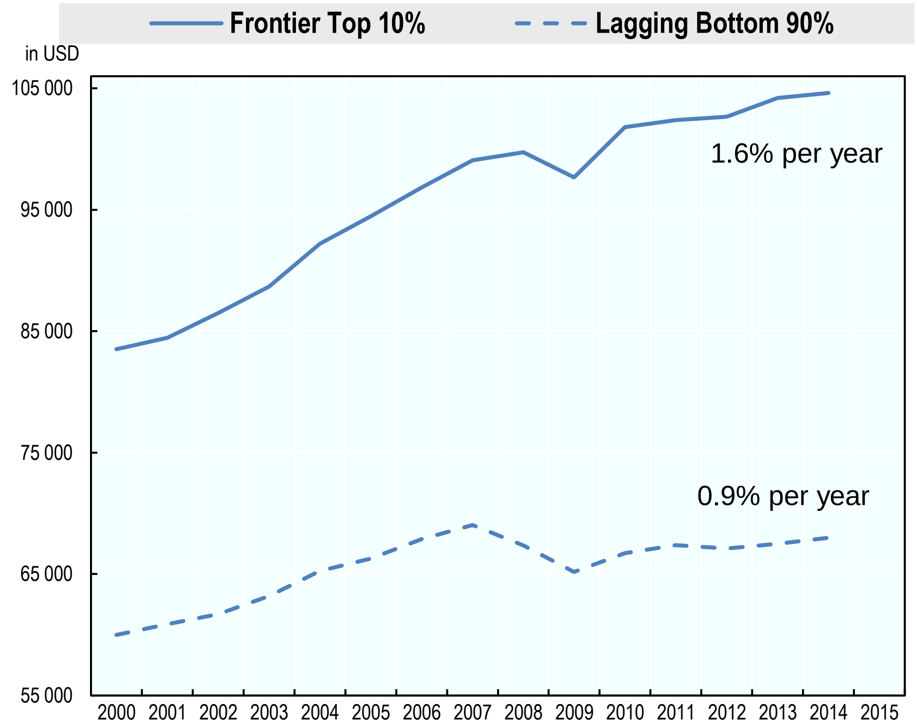
➔ Type II countries displayed productivity divergence

Comparison of Productivity catching-up trends for **Type I** and **Type II** countries (OECD **TL3** regions)

Type I countries



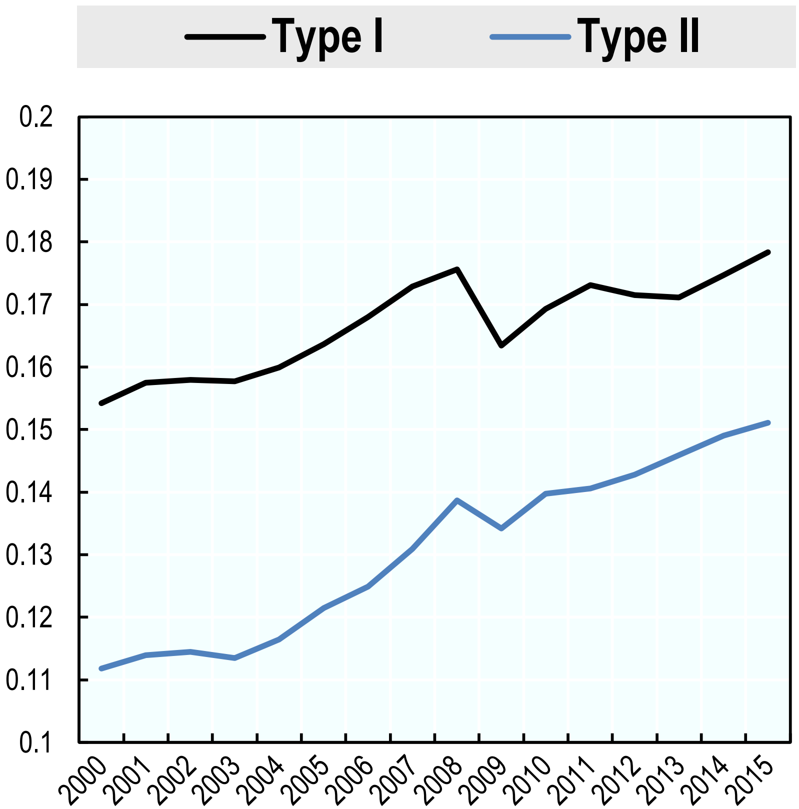
Type II countries



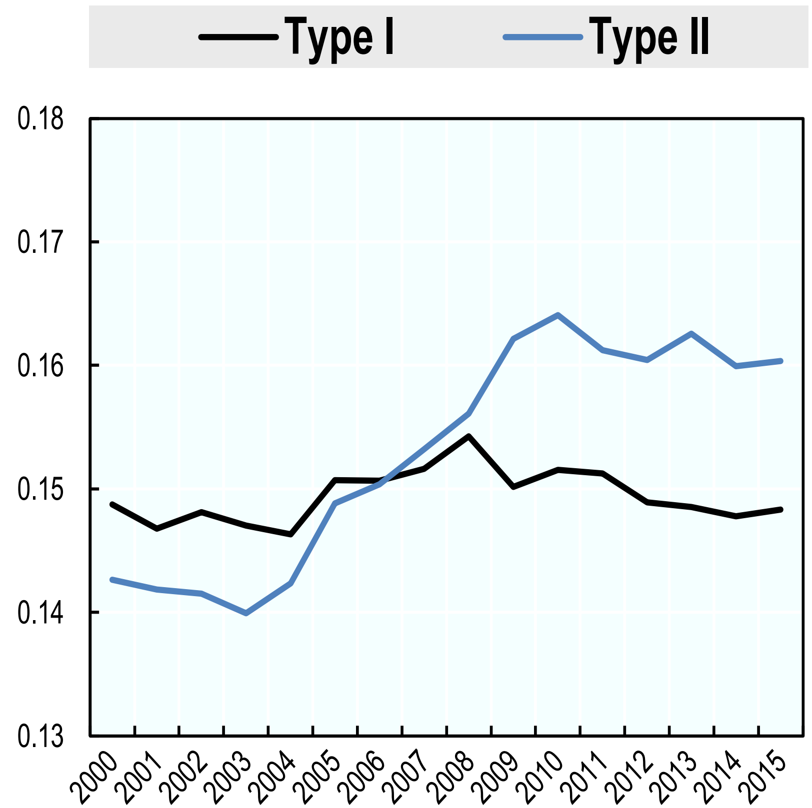
➔ There was productivity convergence for Type I countries
➔ Type II countries displayed productivity divergence

Comparison of Regional inequalities for **Type I** and **Type II** countries (OECD **TL2** regions)

Gini of GDP per capita - weighted averages TL2 regions



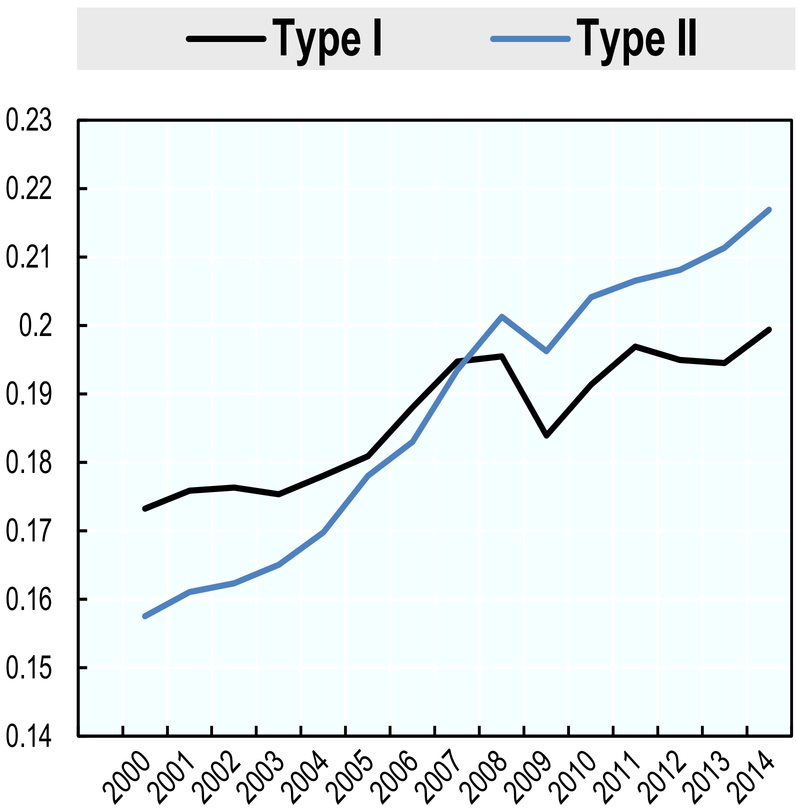
Gini of GDP per capita – simple averages TL2 regions



➔ Type II countries displayed an increase of regional inequality, especially before the crisis

Comparison of Regional inequalities for **Type I** and **Type II** countries (OECD **TL3** regions)

Gini of GDP per capita - weighted averages TL3 regions



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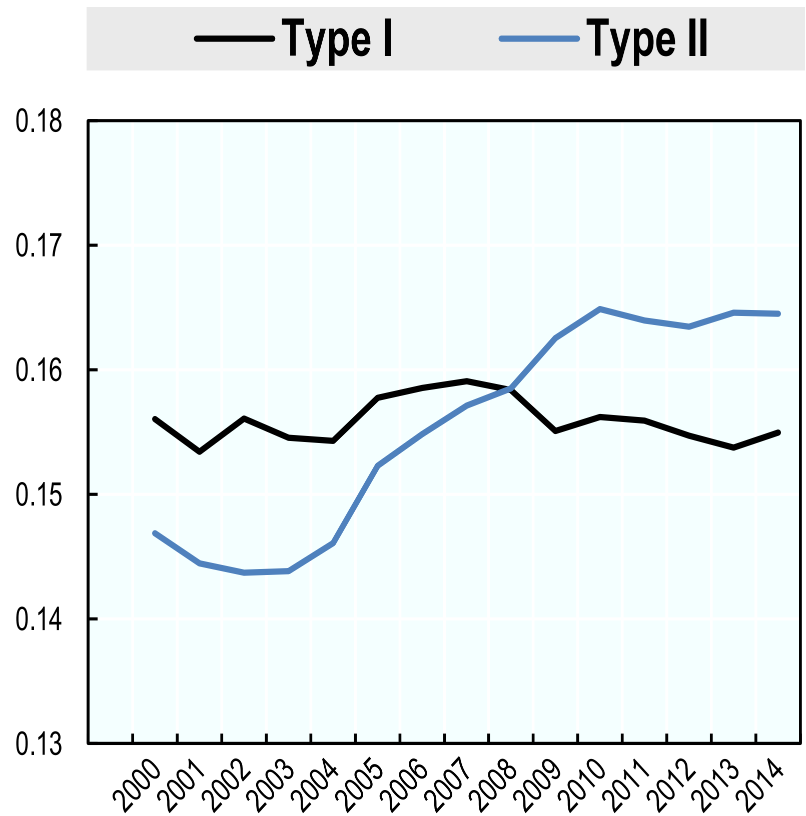
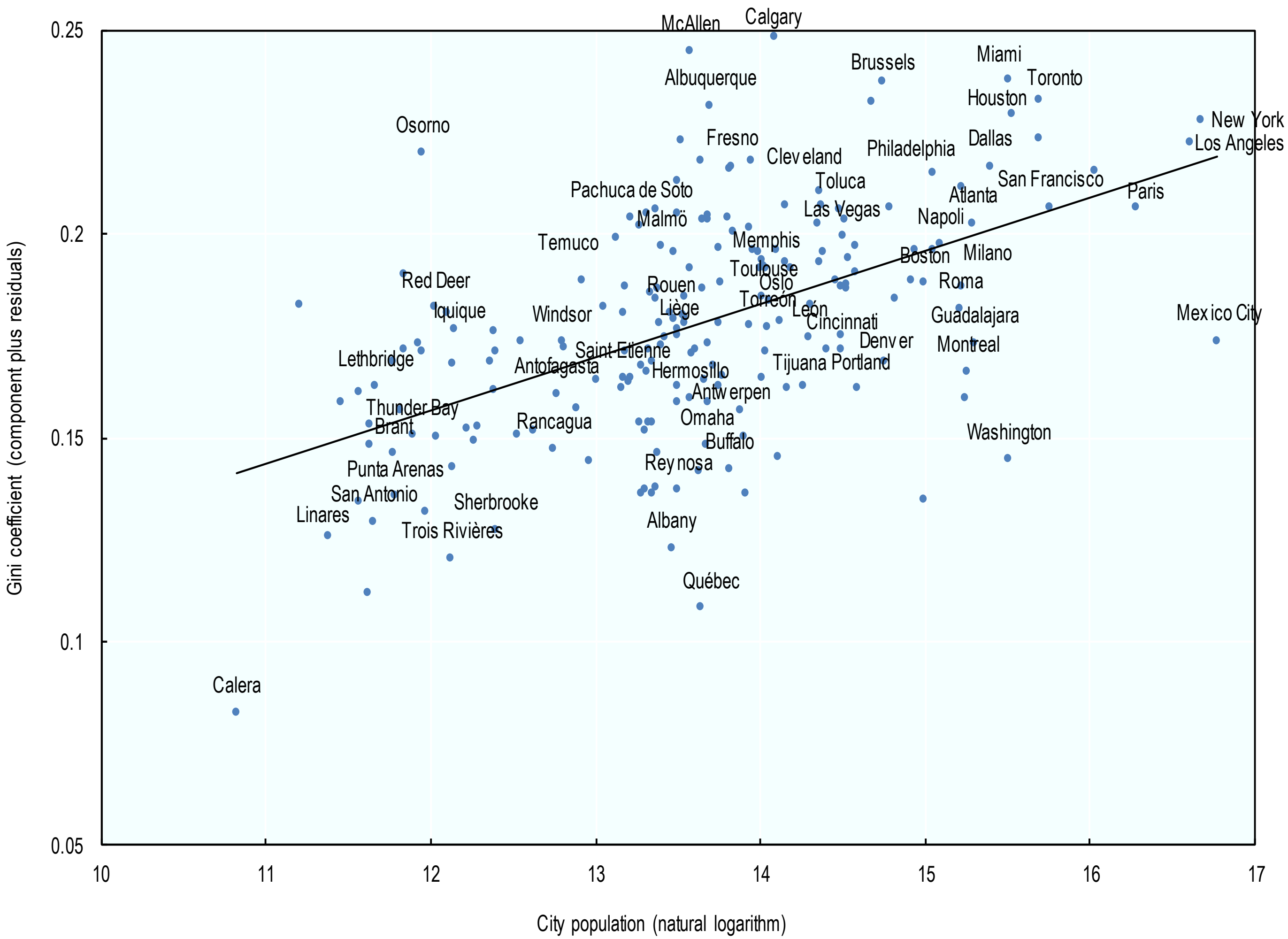


➔ Type II countries displayed an increase of regional inequality, especially before the crisis

The growth/inequality trade-offs also map at the urban/metropolitan scale

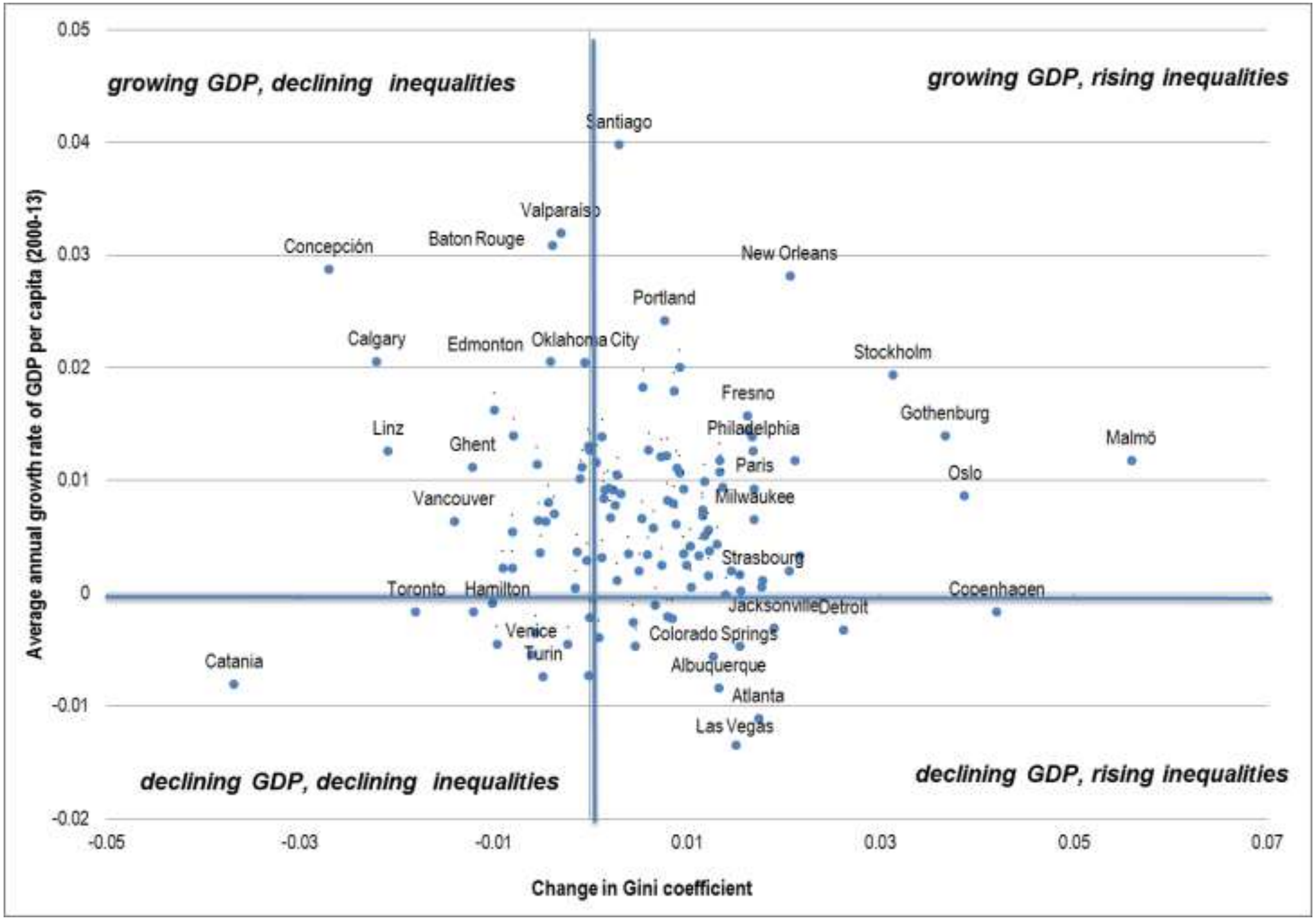
Metropolitan population and income inequality, circa 2014

Metropolitan size and inequality (controlled for income levels and country effects)



Only around 20% of OECD metro areas have grown inclusively

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



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

Key issues

- There seems to be some trade-off between overall productivity performance and regional inequalities. Regional policies should help transform these trade-offs into synergies

- Regional policy favouring the productivity catching-up of lagging regions acts as an important driver of a country-wide growth strategy

- Strong territorial asymmetries may signal that a growth potential exists at the regional level that could be further mobilised.

How can regional and urban policies contribute to inclusive growth?

Rural-urban linkages favours rural productivity catching-up

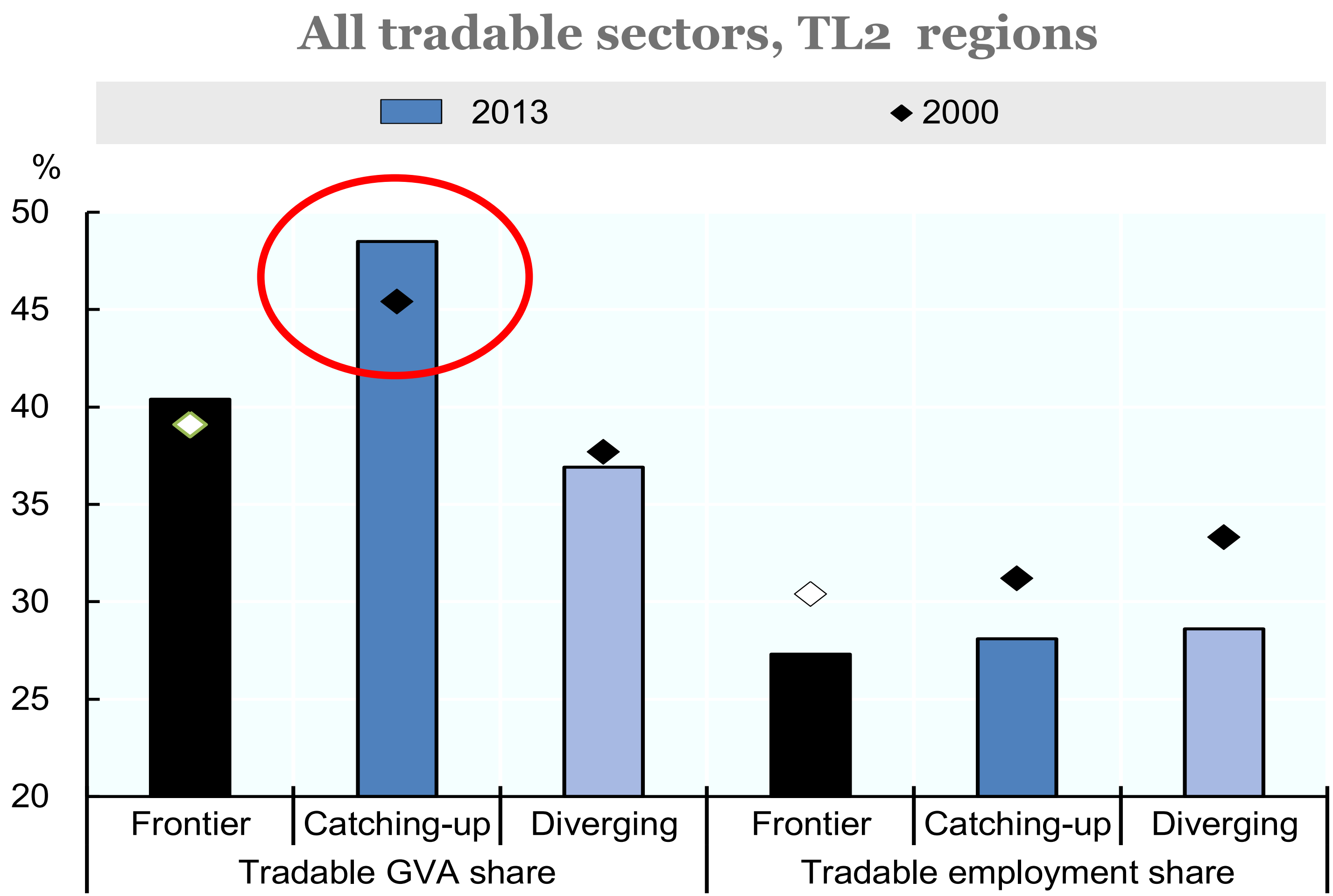
Rural remote regions present a higher variation in productivity growth rates than other types of regions

	Annual average labour productivity growth, 2000-12	Standard deviation	Coefficient of variation
Predominantly urban	1.01%	1.02%	1.019
Intermediate	1.07%	1.09%	1.024
Predominantly rural close to cities	1.36%	1.32%	0.972
Predominantly rural remote	0.70%	1.15%	1.641

Note: Labour productivity is defined as real GDP per employee. GDP is measured at PPP constant 2010 US Dollars, using SNA2008 classification; employment is measured at place of work. The coefficient of variation represents the ratio of the standard deviation over the mean.

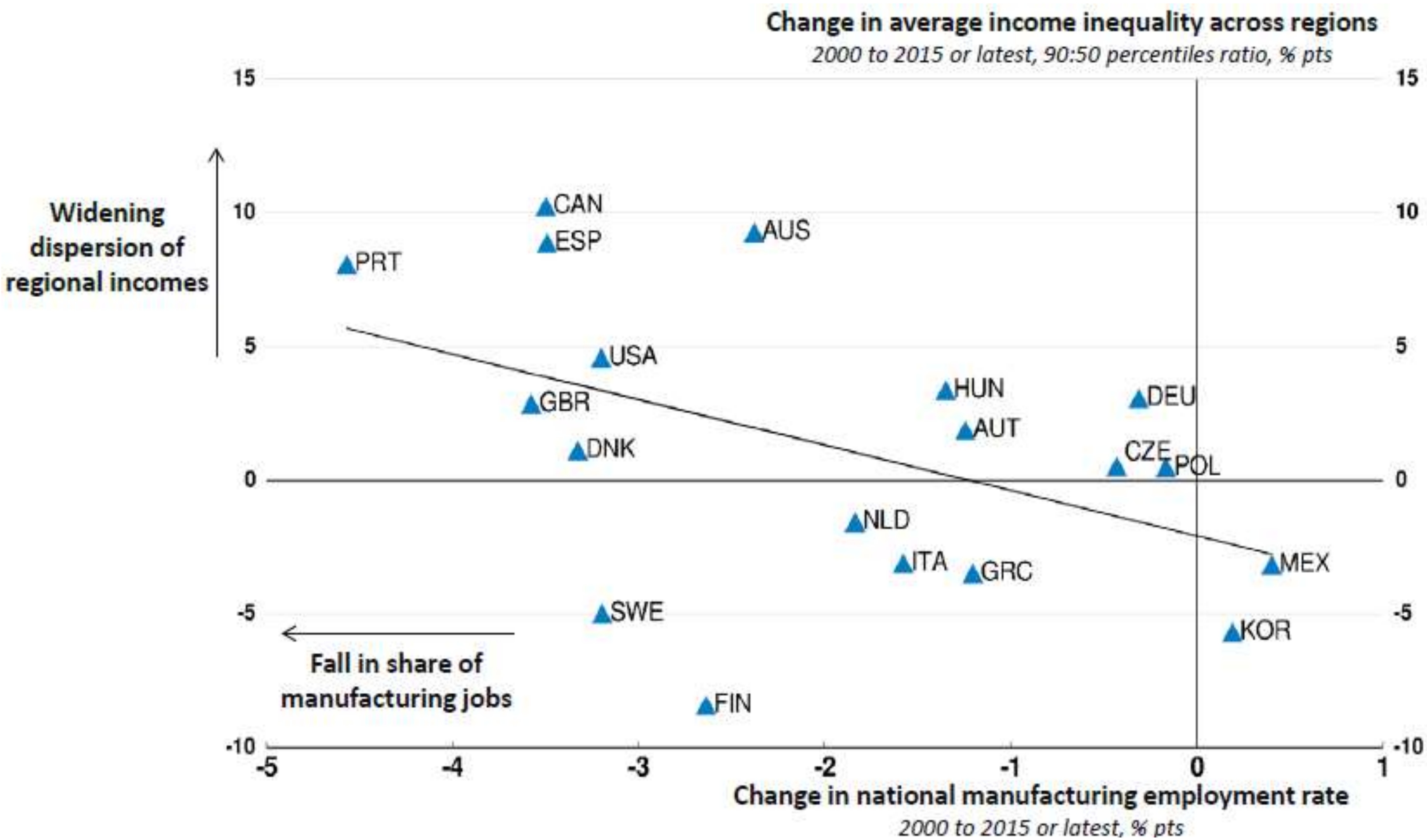
Source: OECD Regional Outlook 2016

Tradable sectors are important for regional productivity catching-up



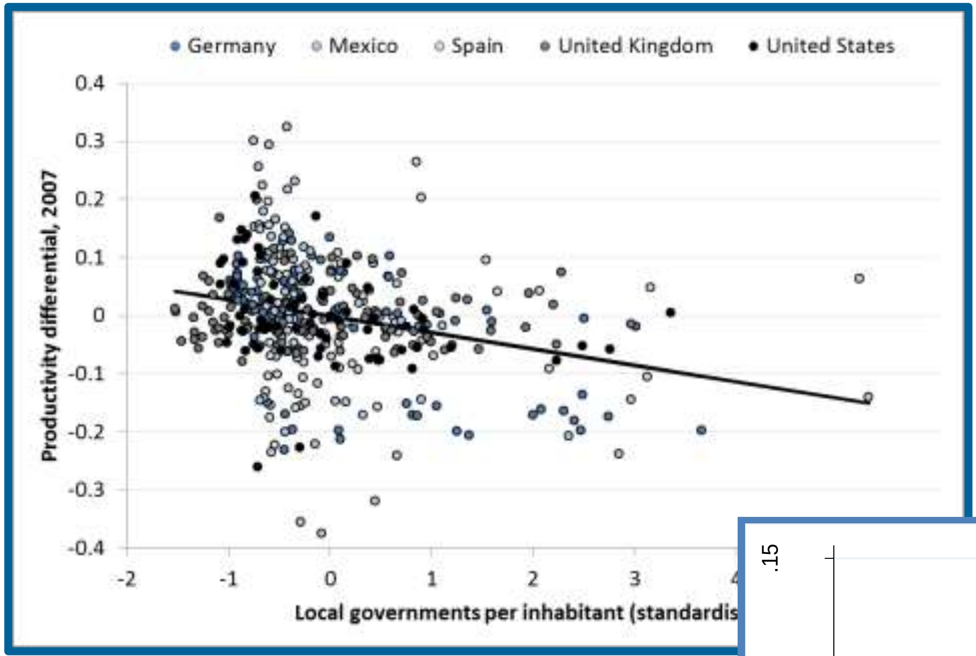
Notes: Tradable sectors are defined by a selection of the 10 industries defined in the SNA 2008. They include: agriculture (A), industry (BCDE), information and communication (J), financial and insurance activities (K), and other services (R to U). Non tradable sectors are composed of construction, distributive trade, repairs, transport, accommodation, food services activities (GHI), real estate activities (L), business services (MN), and public administration (OPQ).

In countries with larger falls in manufacturing jobs regional inequality has increased

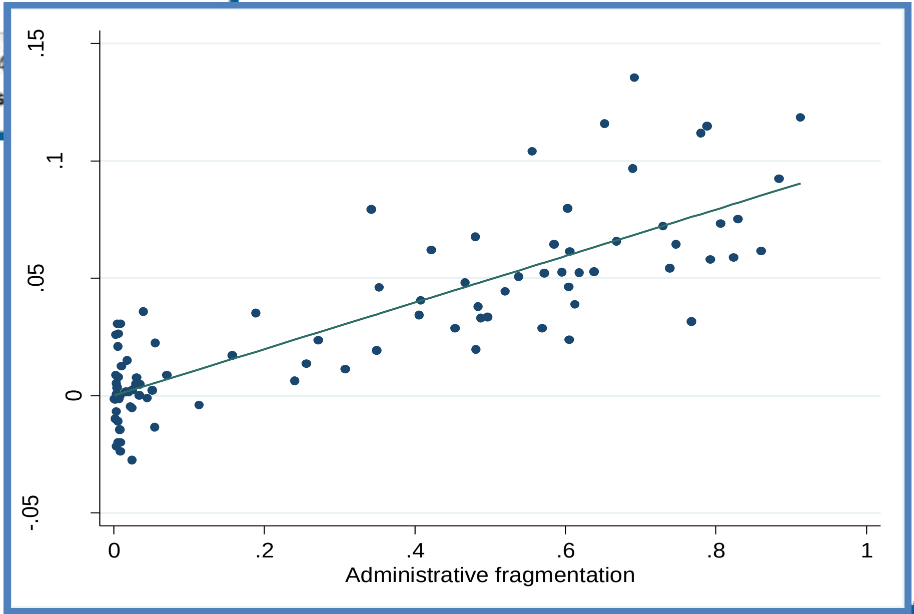


Source: OECD Economic Outlook, 2016

Better Metro governance can improve both agglomeration economies and reduce inequalities



Higher administrative fragmentation reduces city productivity *premia*



Higher administrative fragmentation increases municipal inequality and segregation

Make planning more flexible and better policy coordination may improve housing sectors

Public policies aimed at steering land use

- Spatial planning
- Transport planning
- Land use planning
- Environmental regulations
- Building code regulations

Public policies *not* targeted at land use

- Tax policies
- Transport taxes and subsidies
- Fiscal systems and inter-governmental transfers
- Agricultural policies
- Energy policies

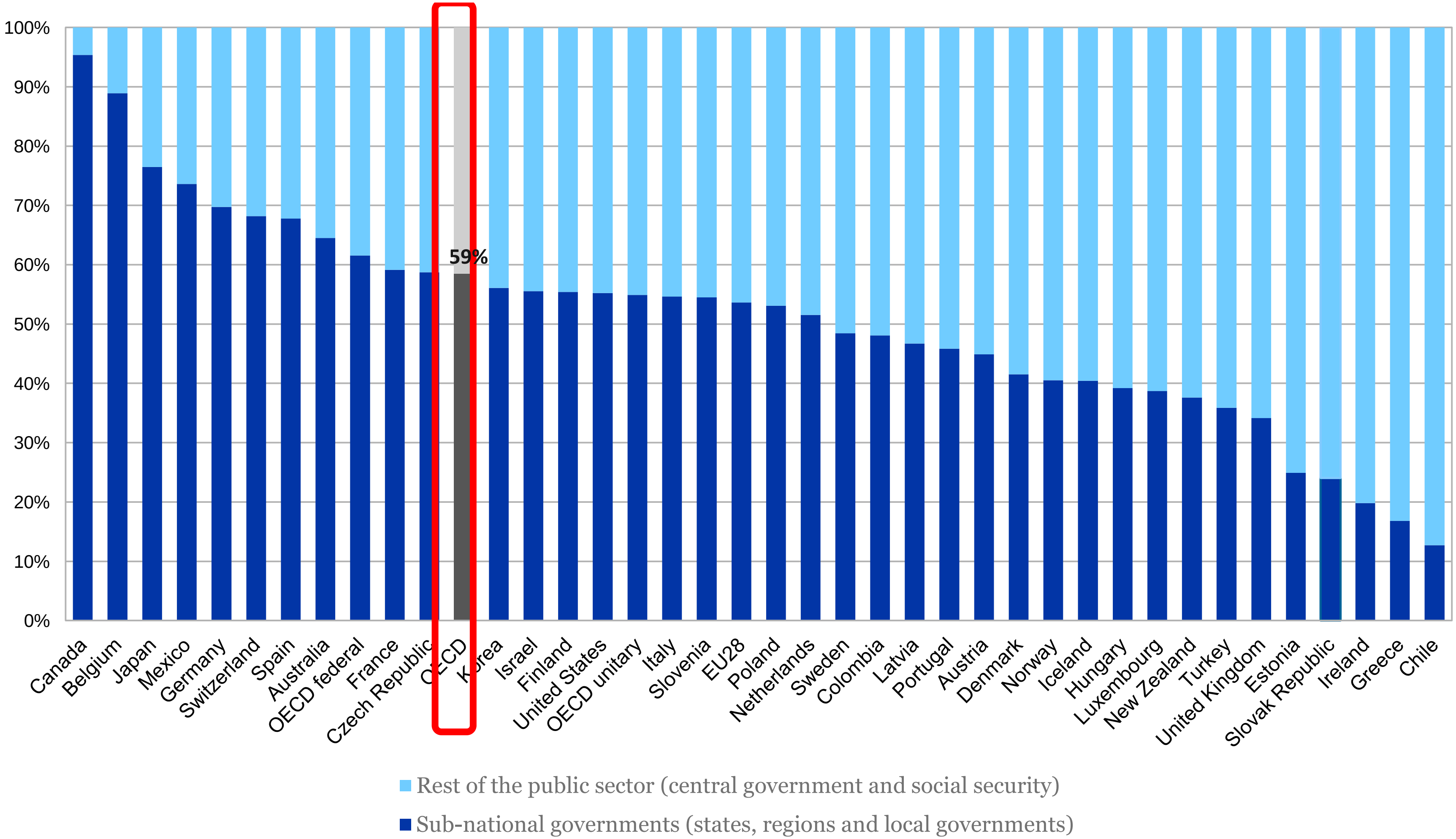
How land is permitted to be used

How individuals and businesses want to use land

How land is used

Public Investment in the OECD is mostly done by subnational governments

➢ Almost 60% of total public investment across the OECD (2014)



Source: OECD National Accounts

The OECD Recommendation on Effective Public Investment across Levels of Government

Pillar 1

Co-ordinate across governments and policy areas

- Invest using an integrated strategy tailored to different places
- Adopt effective co-ordination instruments across levels of government
- Co-ordinate across SNGs to invest at the relevant scale

Pillar 2

Strengthen capacities and promote policy learning across levels of government

- Assess upfront long term impacts and risks
- Encourage stakeholder involvement throughout investment cycle
- Mobilise private actors and financing institutions
- Reinforce the expertise of public officials & institutions
- Focus on results and promote learning

Pillar 3

Ensure sound framework conditions at all levels of government

- Develop a fiscal framework adapted to the objectives pursued
- Require sound, transparent financial management
- Promote transparency and strategic use of procurement
- Strive for quality and consistency in regulatory systems across levels of government

References

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Thank you!

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