PRODUCTIVITY AND JOBS IN A GLOBALISED WORLD: (HOW) CAN ALL REGIONS BENEFIT

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Workshop on International trade and globalisation – Implications for regional growth, employment and industrial renewal

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Inequality across European regions declined, but not within countries

Theil index for GDP per capita (European TL2 regions)

Within countries
Across countries
Total inequality

Source for all slides in this presentation (unless otherwise specified) is: OECD (forthcoming) Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit?
Long-term decline in productivity growth rates: not just the crisis

Recent aggregate trends of labour productivity growth, 1997-2014

Source: OECD Productivity database; moving averages (t, t-1, t-2)
Productivity gaps between frontier firms and other firms are widening

Labour productivity (2001 = 0.0), 2001-09

Average labour productivity in the 100 globally most productive “frontier” firms in a sector and all other firms.

European frontier regions tend to be urban, catching-up regions rural or intermediate

Frontier regions are those with the highest labour productivity (per worker GDP) accounting for at least 10% of total employment. Catching-up/diverging regions grew 5% more/less over a 15-year period than their country’s frontier.
Not all regions are diverging

Countries follow 2 models

**Catching up** supports productivity growth
- AUT, CZE, DEU, ESP, ITA, POL, PRT, ROU

The “**frontier**” is pulling away
- BGR, DNK, FIN, FRA, GBR, GRC, HUN, NLD, SVK, SWE
The challenge of combining growth, catching up and inequality reduction

Catching up dominates: AUT, CZE, DEU, ESP, ITA, POL, PRT, ROU

Frontier pulls away: BGR, DNK, FIN, FRA, GBR, GRC, HUN, NLD, SVK, SWE
What supports catching up?

- **Well-functioning cities**
  - Home to knowledge-intensive (traded) sectors
  - Larger markets can support economic diversity and dynamism
  - Agglomeration economies (beyond borders)

- ** Tradable sectors** (that could be traded)
  - Face competition even if they are not traded
  - Might overcome market size and institutional constraints
  - Avoid economic imbalances from excessive expansion of non-tradables
The distinguishing feature of “tradable” sectors is that they are exposed to international competition.

Delineating tradable and non-tradable sectors is not straightforward in practice.

As sectors are highly aggregated in regional data the aim is to find a classification that captures mostly tradable/non-tradable activities.

The OECD Regional Outlook 2016 classifies sectors as:

<table>
<thead>
<tr>
<th>Tradable sectors</th>
<th>Non-tradable sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: agriculture, forestry and fishing</td>
<td>F: construction</td>
</tr>
<tr>
<td>B-E: industry (manufacturing, mining and quarrying, supply of utilities: electricity, gas water, etc.) excluding construction</td>
<td>G-I: wholesale and retail trade, transport, accommodation and food service activities</td>
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<tr>
<td>J: information and communication</td>
<td>L: real estate activities*</td>
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<tr>
<td>K: financial and insurance activities</td>
<td>M-N: professional, scientific and technical activities, administrative and support service activities</td>
</tr>
<tr>
<td>R-U: arts, entertainment and recreation, other service activities, activities of household and extra-territorial organisations and bodies</td>
<td>O-Q: public administration, defence, education, human health and social work activities</td>
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* excluded in parts of the analysis
Expansion and decline in non-tradables, Norte (Portugal)

**2000-07**

- Decline in manufacturing employment, but growth in productivity and output point to significant restructuring
- Low-productivity jobs created in non-tradables were lost following the crisis

**2008-14**
The 2007-08 crisis revealed unsustainable growth models

• Across the OECD real per capita GDP in 2015 remained below 2007-08 levels in 135 out of 350 TL2 regions
• Construction- and consumption-fuelled growth turned out to be unsustainable
Regions with strong pre-crisis increases in non-tradable sectors lost more jobs

Calculations based on 208 OECD TL2 regions. Those regions with the largest shifts towards non-tradable sectors suffered higher employment losses, on average, following the 2007-08 crisis.
The nature of tradable sectors is changing… but not in all parts of Europe
Broad policy responses

• Reigniting (public) **investment**
• **Structural reforms** (accompanied by complementary policies at the local level)
• **Multi-level governance** and territorial reforms

Investment (GFCF in 2005 EUR) in 2014 higher than in 2007-08
- Investment set back by 7 years
- 8 - 12 years
- 13 - 16 years
- 17 - 19 years
- 20 or more years
Strategies to promote catching up and employment growth

- **Strategically diversifying** regional economies
  - Specialised regions are more productive, diversified ones grow faster
  - Manufacturing can be important, but tradable services are gaining

- Building on **local strengths**
  - Linking investment in skills, FDI, and knowledge from the supply chain
  - Taking advantage of opportunities for territorial branding

- **Integration across** actors and policies
  - Skills development for place-based needs is a shared responsibility
  - But skills policies might not be enough: trade shocks vs automation

- ... and more (launch 26 April 2018)
Thank you

- OECD (forthcoming) *Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit*

- OECD (2016) *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*

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Higher paying jobs in traded clusters

Average wage in 2010 EUR

Percentage of FTE in mostly urban areas, %

- Biopharmaceuticals
- Communications Equipment and Services
- Video Production and Distribution
- Business Services
- Financial Services
- Insurance Services
- Marketing, Design, and Publishing
- Music and Sound Recording
- Nonmetal Mining
- Appliances
- Non-traded clusters
- Fishing and Fishing Products
- Leather and Related Products
- Footwear
- Forestry
- Agricultural Inputs and Services
- Apparel