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

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Productivity and jobs: the regional diffusion challenge

What supports “catching up”?

What can policy do to leverage the potential of all regions?
PRODUCTIVITY AND JOBS: THE REGIONAL DIFFUSION CHALLENGE
Long-term decline in productivity growth rates: not just the crisis

Aggregate trends of labour productivity growth, 2000-2016

Source: OECD Productivity database; moving averages (t, t-1, t-2)
Productivity gaps have narrowed in the EU and the OECD since 2000

**Convergence** in per capita GDP and labour productivity in the OECD/EU

**Frontier** regions
- most productive regions accounting for 10% of total employment

**Catching up/Diverging**
- Productivity growth is 5% higher/lower than in the frontier over a 13 year period


But gaps within some countries are widening

Countries follow two growth models

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

**Concentrated growth** model:
The “frontier” dominates growth
- BGR, DNK, FIN, FRA, GBR, GRC, HUN, NLD, SVK, SWE

The result: Inequality across European regions declined, but not within countries

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
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) through urban-rural linkages
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.

Source: Adapted from OECD (2016) OECD Regional Outlook 2016: Productive Regions for Inclusive Societies
Traded clusters: Contrast between urban and rural regions

Average wage in 2010 EUR

Percentage of FTE in mostly urban areas, %

Space matters: proximity to cities benefits surrounding rural & intermediate regions

Economic growth increases with nearness to large cities
Yearly growth rates of GDP per head (1995-2010) and driving time to the closest large metropolitan area of 2 million or more inhabitants in OECD countries

Source: Ahrend and Schumann (2014) “Does regional economic growth depend on proximity to urban centres?”

More than 300 minutes (MN): 0.87%
WHAT SUPPORTS CATCHING UP?

TRADABLE SECTORS
What supports catching up?

• ** 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 nature of tradable sectors is changing … but not in all parts of Europe

Low-income: <50% of EU-average per capita GDP; low-growth: <90% per capita GDP and below average growth
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-fueled 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.
WHAT CAN POLICY DO TO LEVERAGE THE POTENTIAL OF ALL REGIONS?
Reigniting (public) investment

Structural reforms (accompanied by complementary policies at the local level)

Multi-level governance and territorial reforms

Strategies to promote catching up and employment growth

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

• Identifying and 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
Thank you

OECD (2018)
Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit

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