THE OECD REGIONAL DEVELOPMENT POLICIES

ERSA Winter School
Trento, 25 January 2019

Joaquim Oliveira Martins

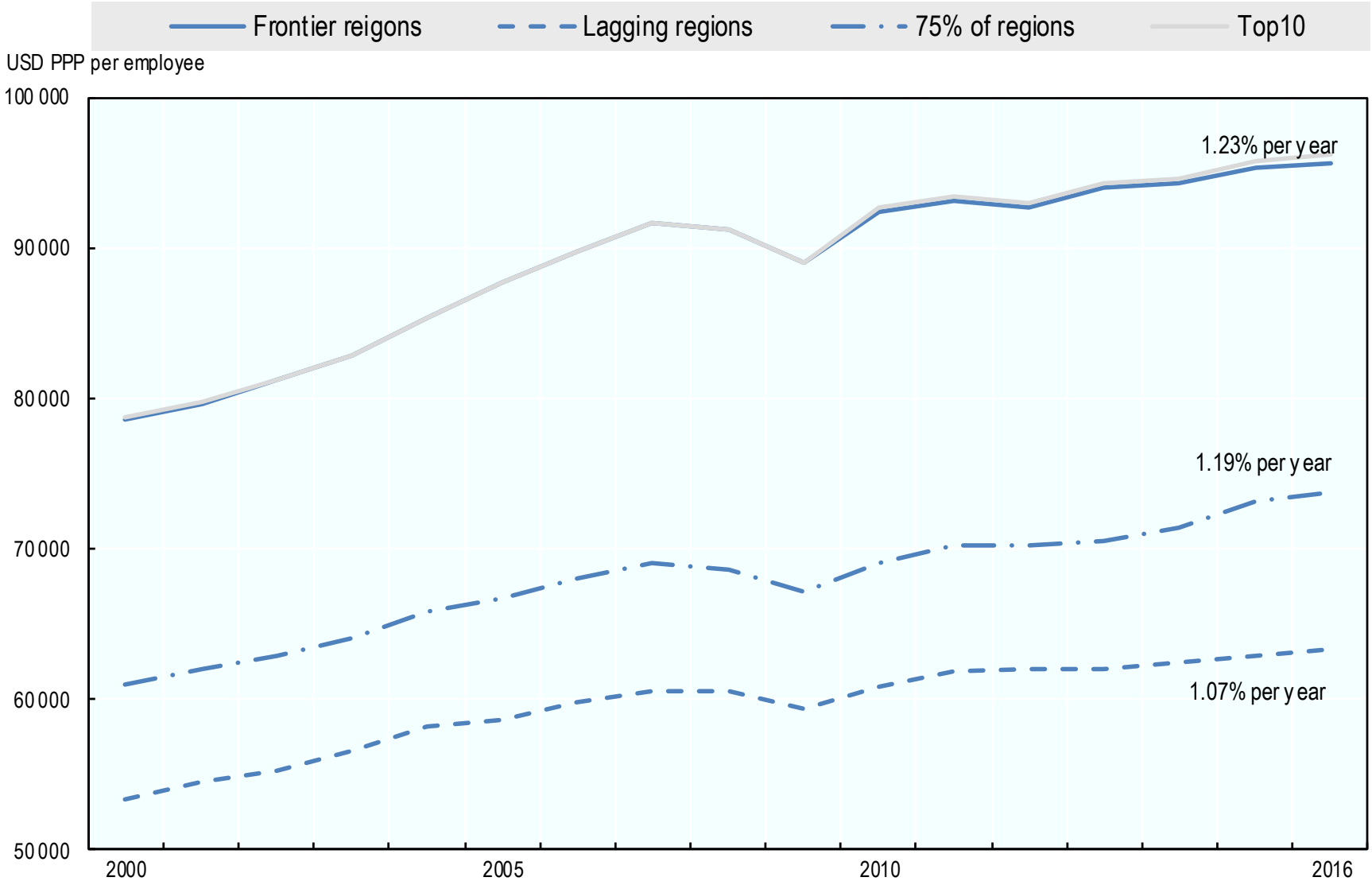
OECD Centre for Entrepreneurship, SMEs, Regions and Cities

OECD
BETTER POLICIES FOR BETTER LIVES

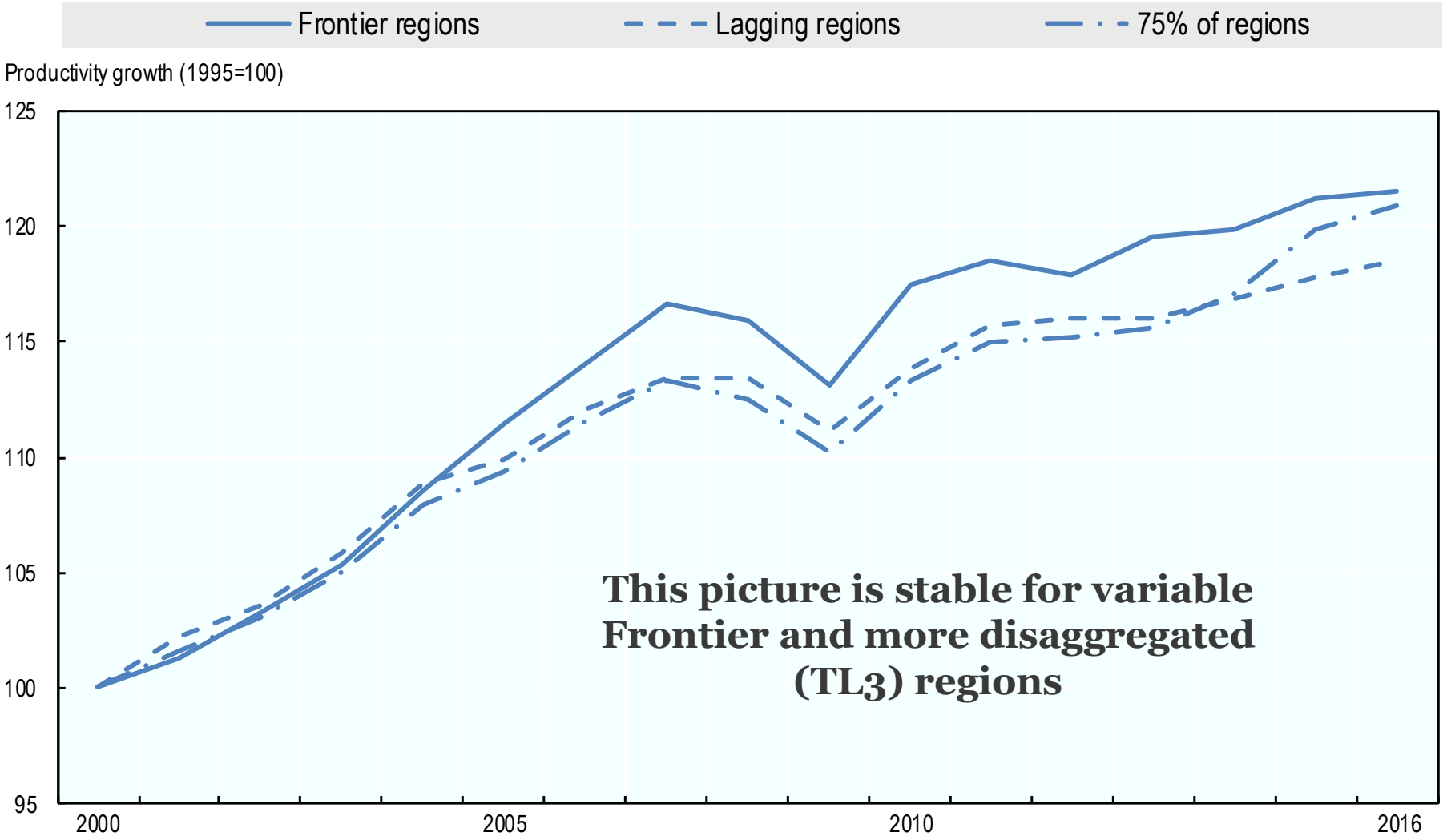
Why regional policy?

Permanent productivity divergence across regions

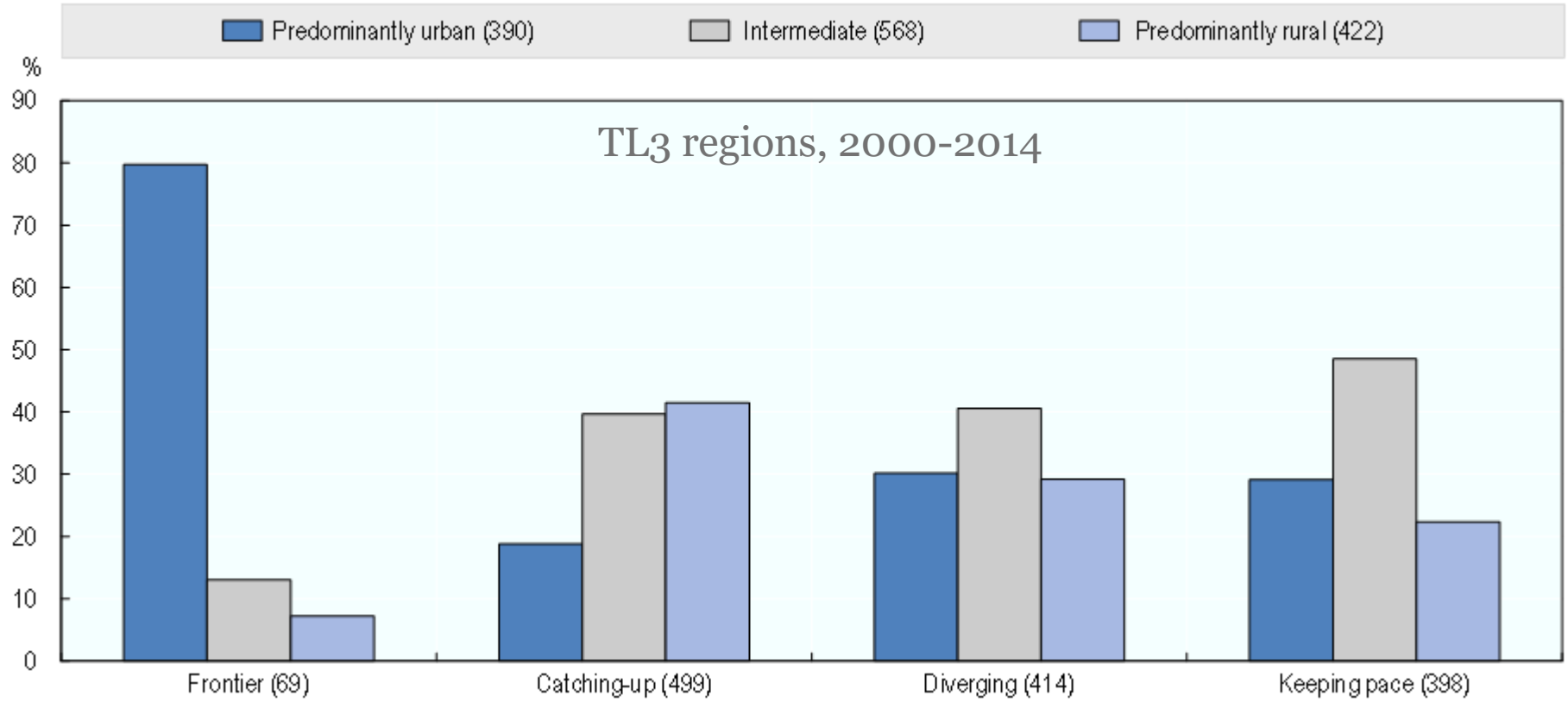
Broad permanent productivity divergence
25 OECD countries, TL2 regions, USD PPP



Broad permanent productivity divergence
25 OECD countries, TL2 regions, 2000=100



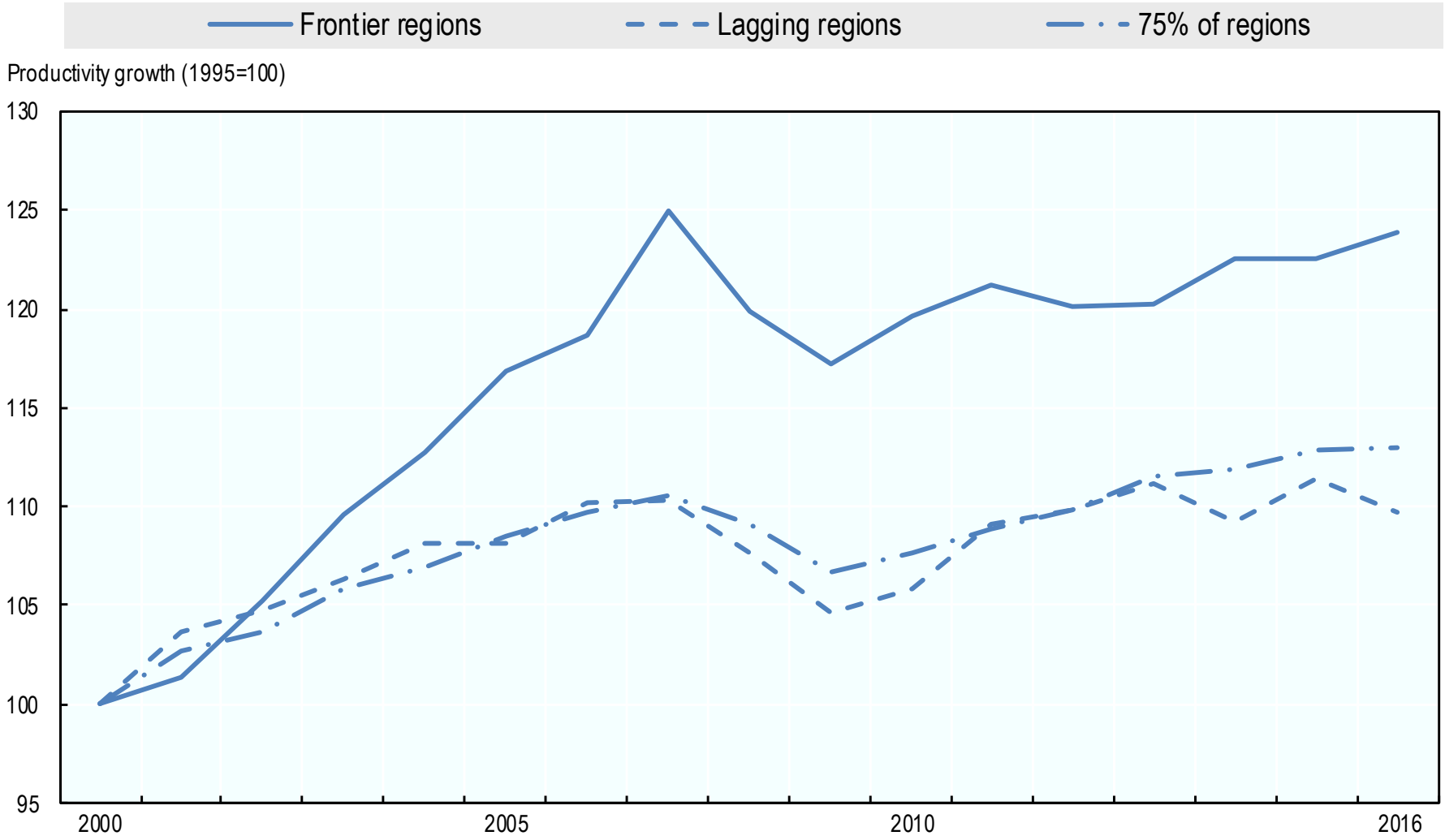
National Frontier regions tend to be urban, catching-up regions are rural or intermediate



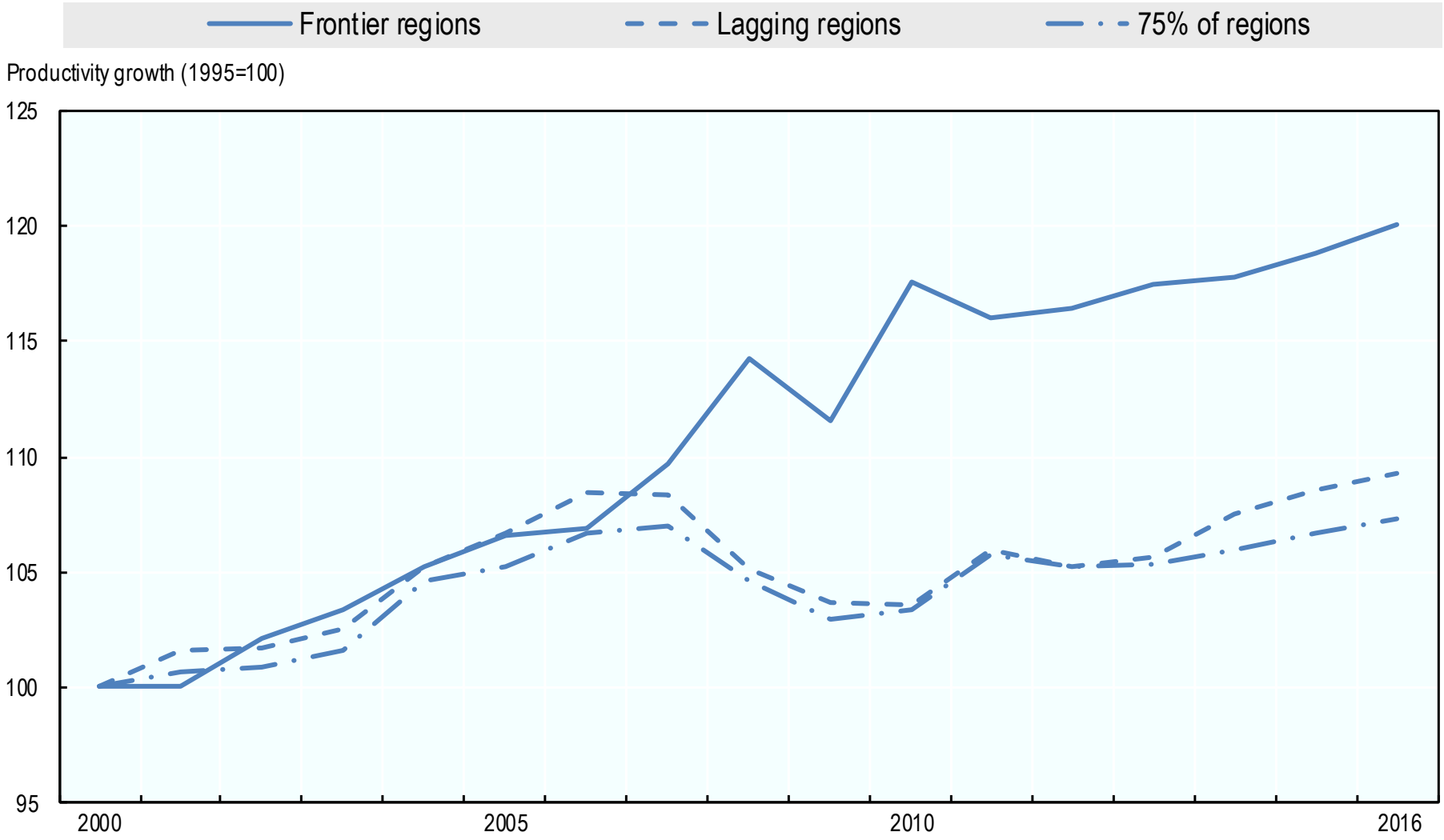
Frontier regions are those with the highest labour productivity (per worker GDP) accounting for at least 10% of total employment.
Catching-up/diverging regions grew 5% more/less over a 15-year period than their country's frontier

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

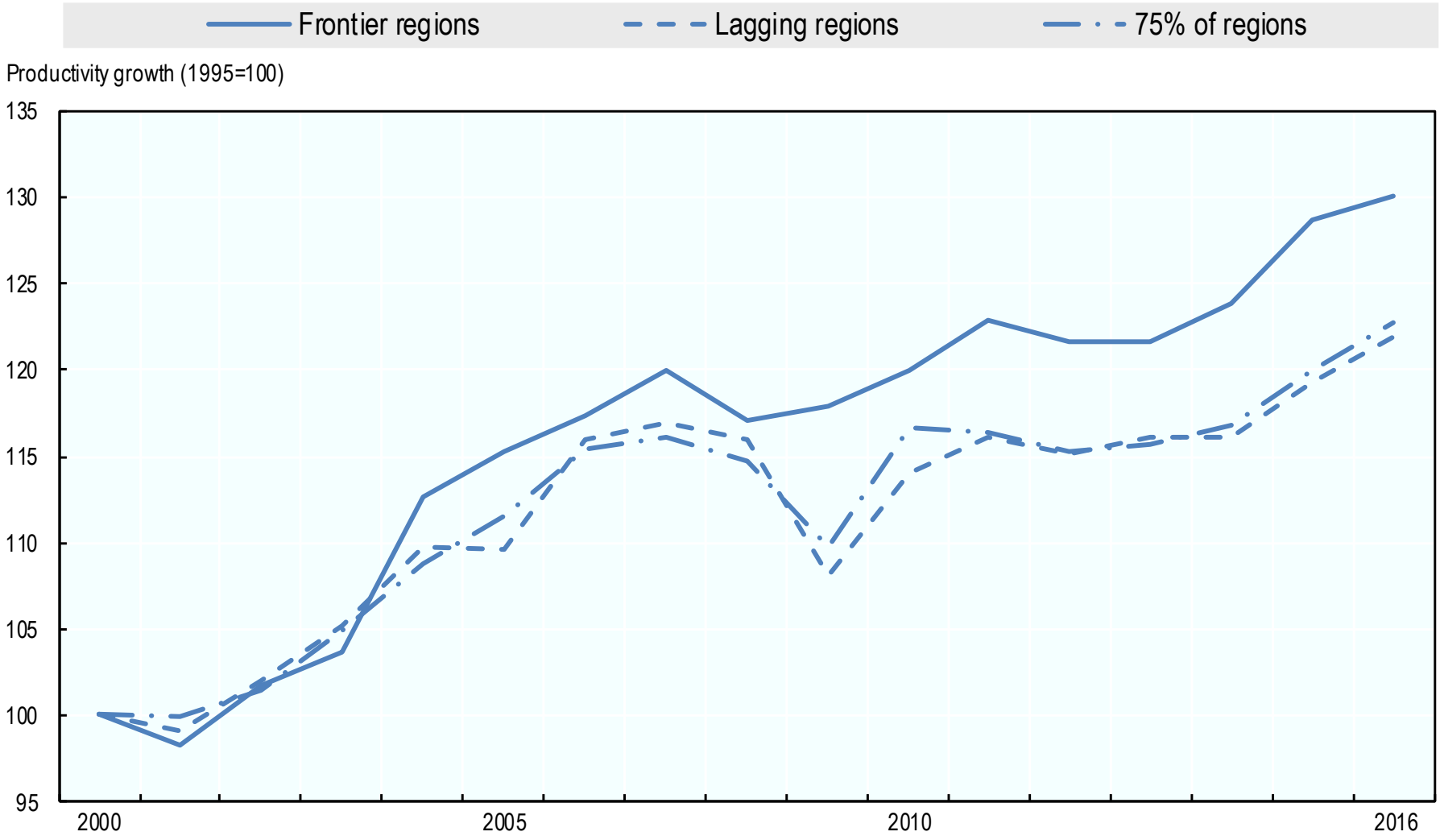
Regional Productivity divergence
UK, TL2 regions, 2000=100



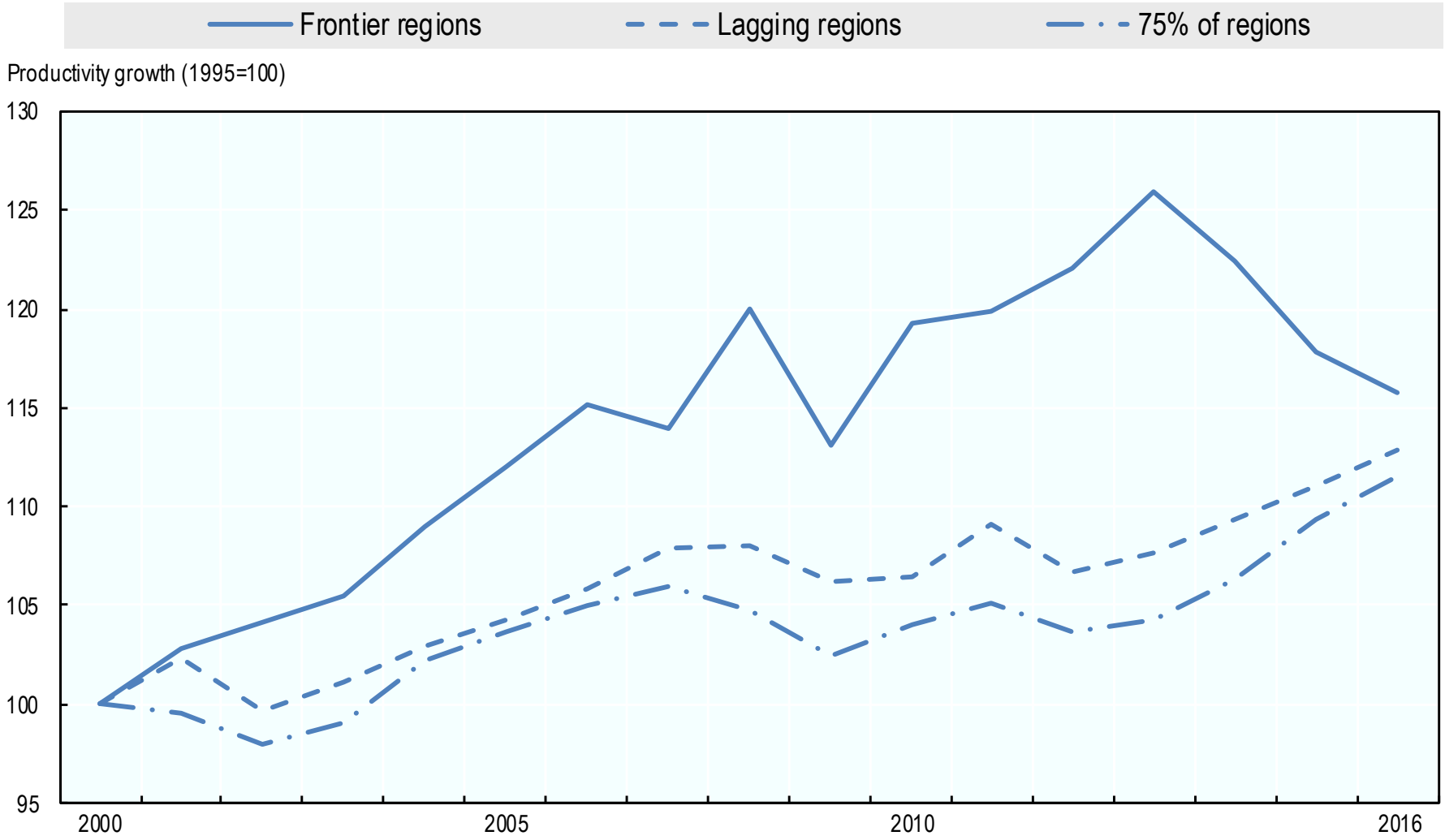
Regional Productivity divergence
France, TL2 regions, 2000=100



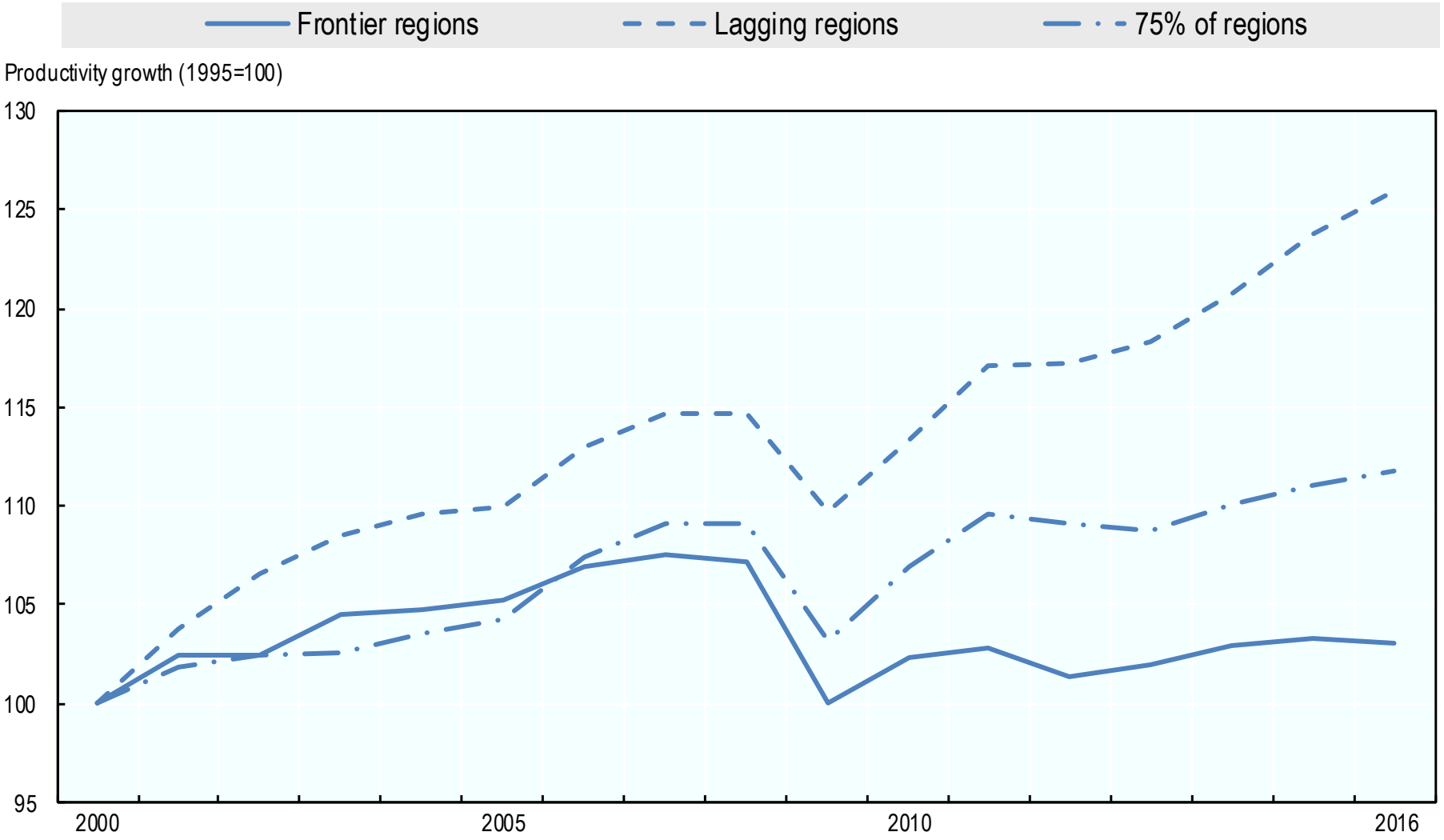
Regional Productivity divergence
Sweden, TL2 regions, 2000=100



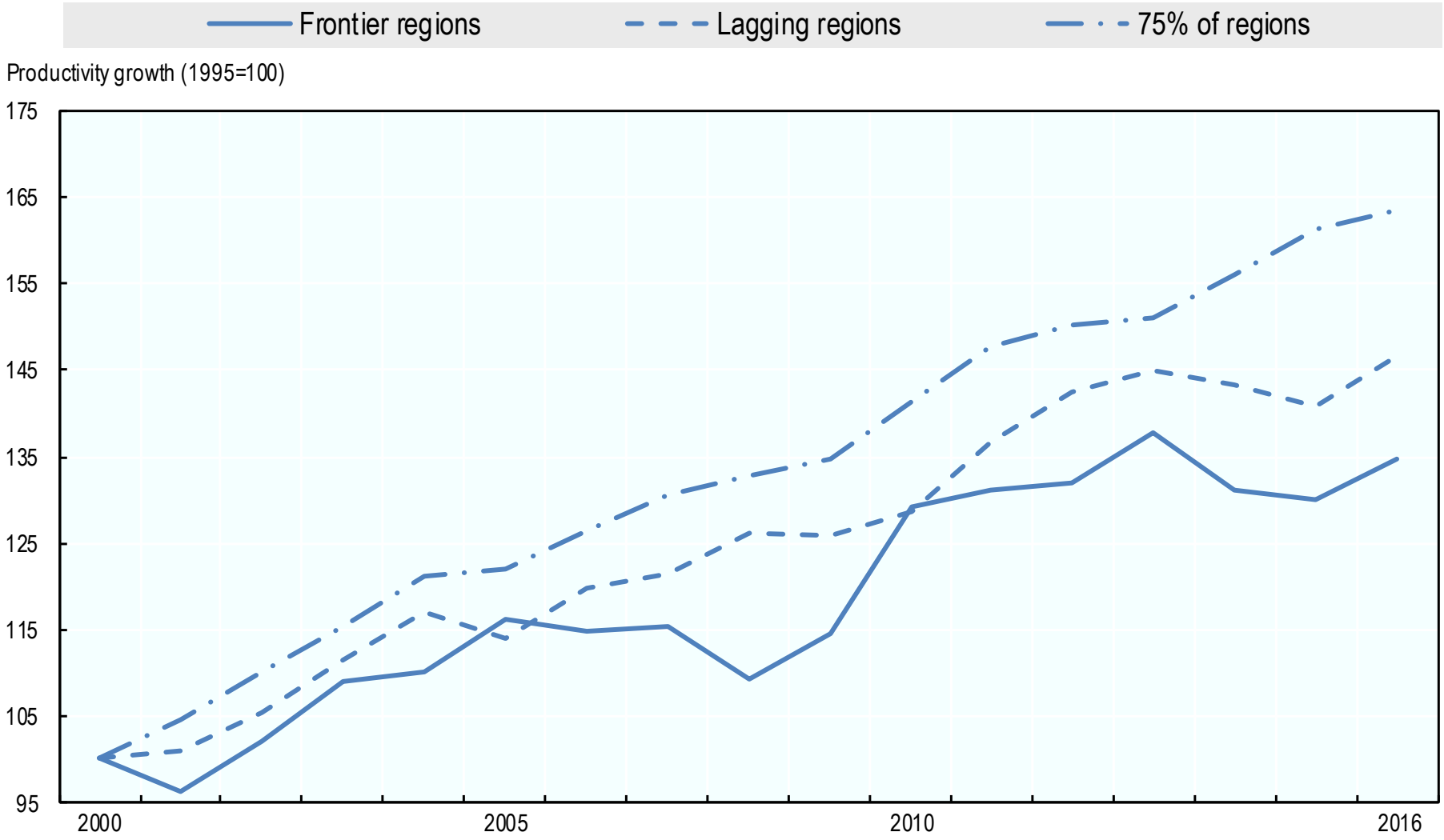
Regional Productivity divergence
Netherlands, TL2 regions, 2000=100



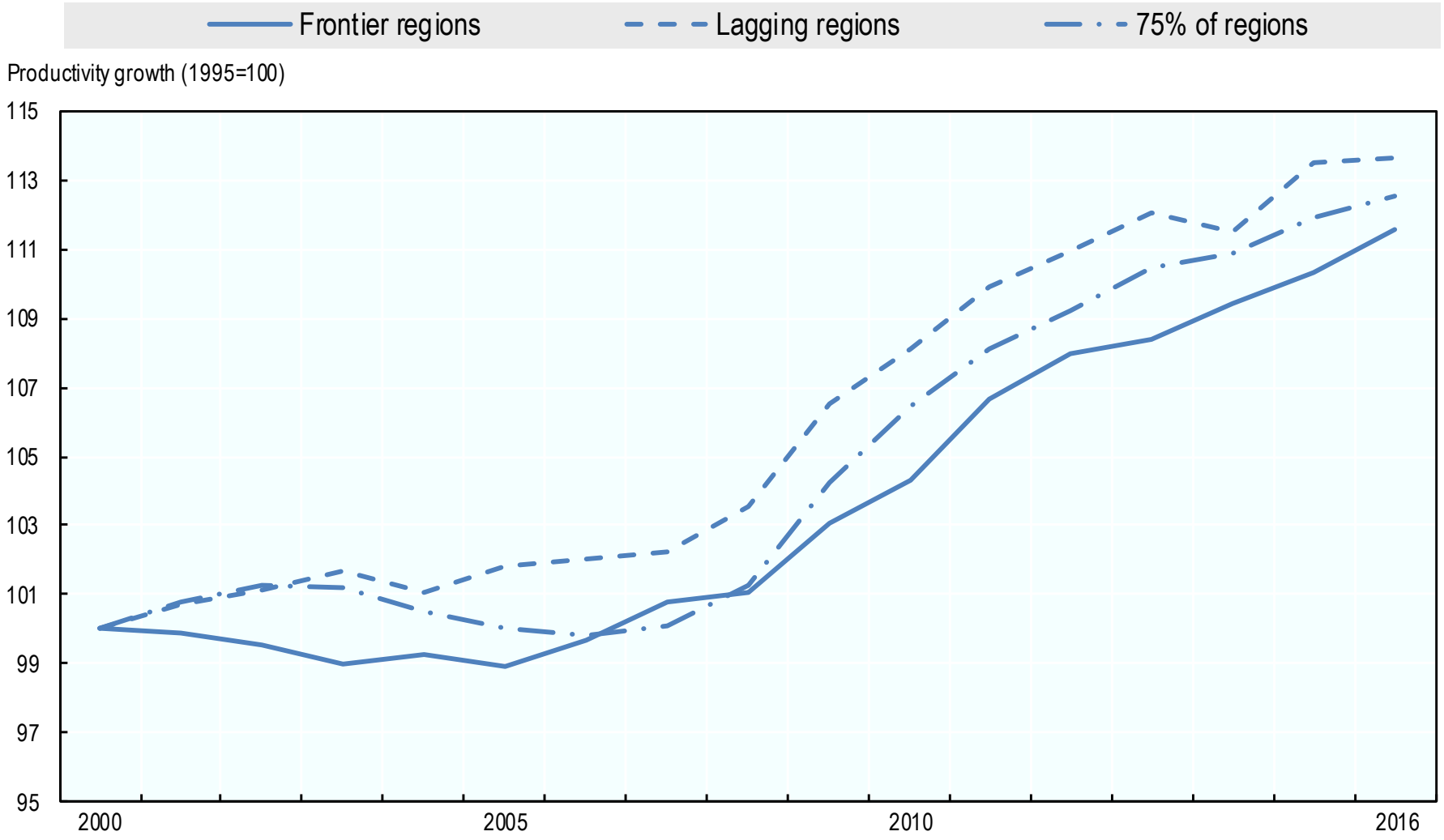
Regional Productivity convergence
Germany, TL2 regions, 2000=100



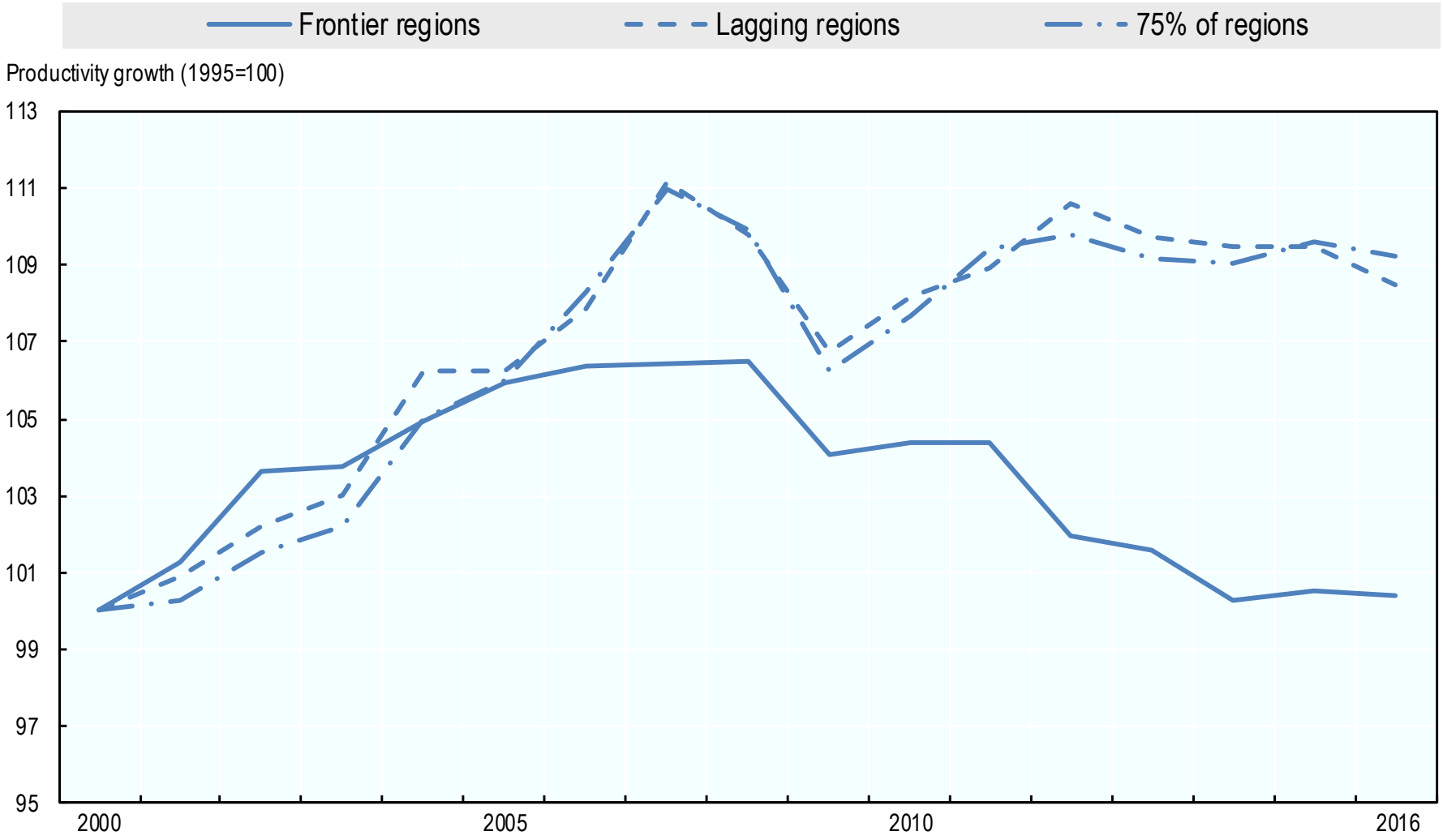
Regional Productivity convergence
Poland, TL2 regions, 2000=100



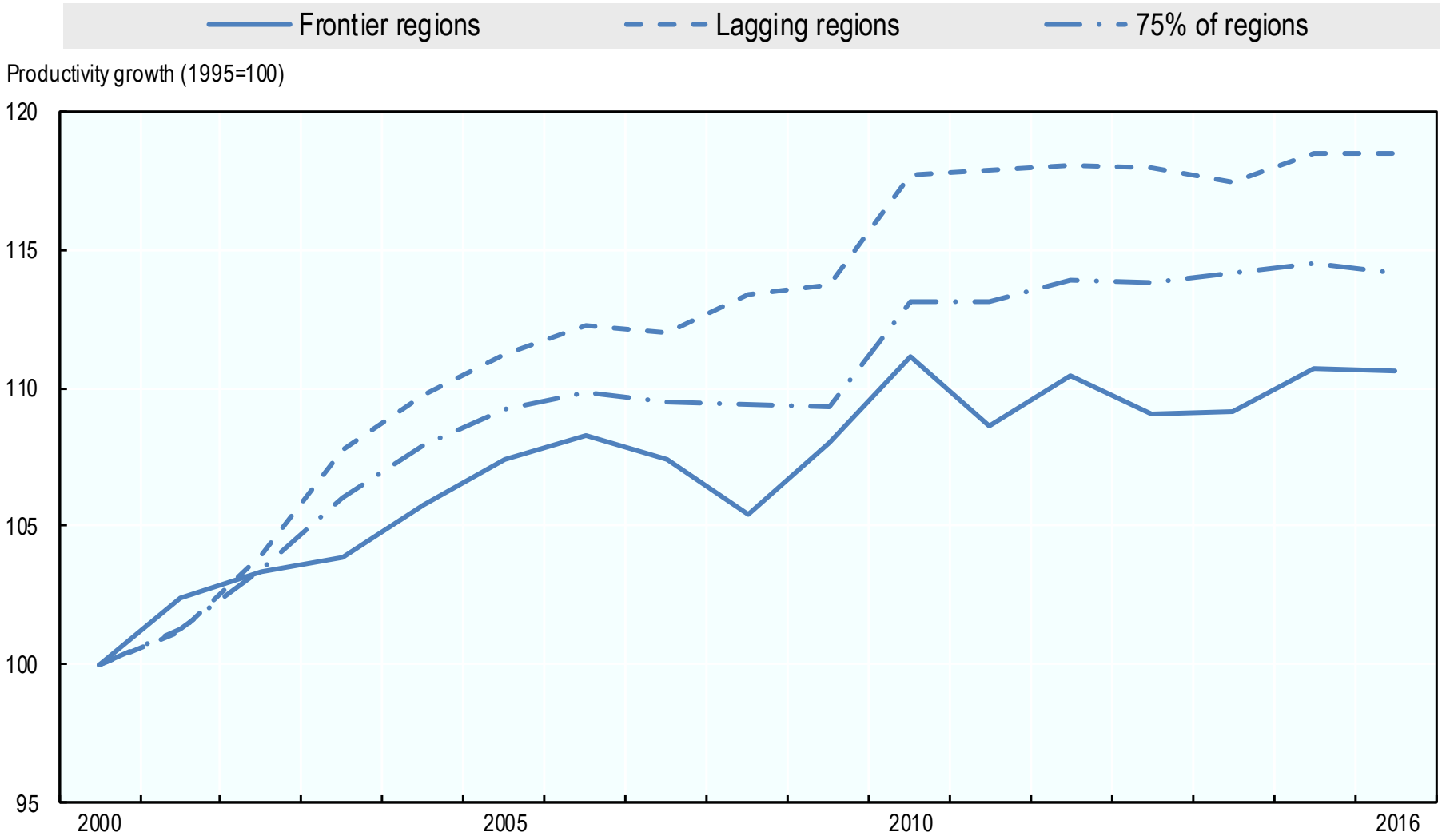
Regional Productivity convergence
Spain, TL2 regions, 2000=100



Regional Productivity convergence
Austria, TL2 regions, 2000=100



Regional Productivity convergence
USA, TL2 regions, 2000=100



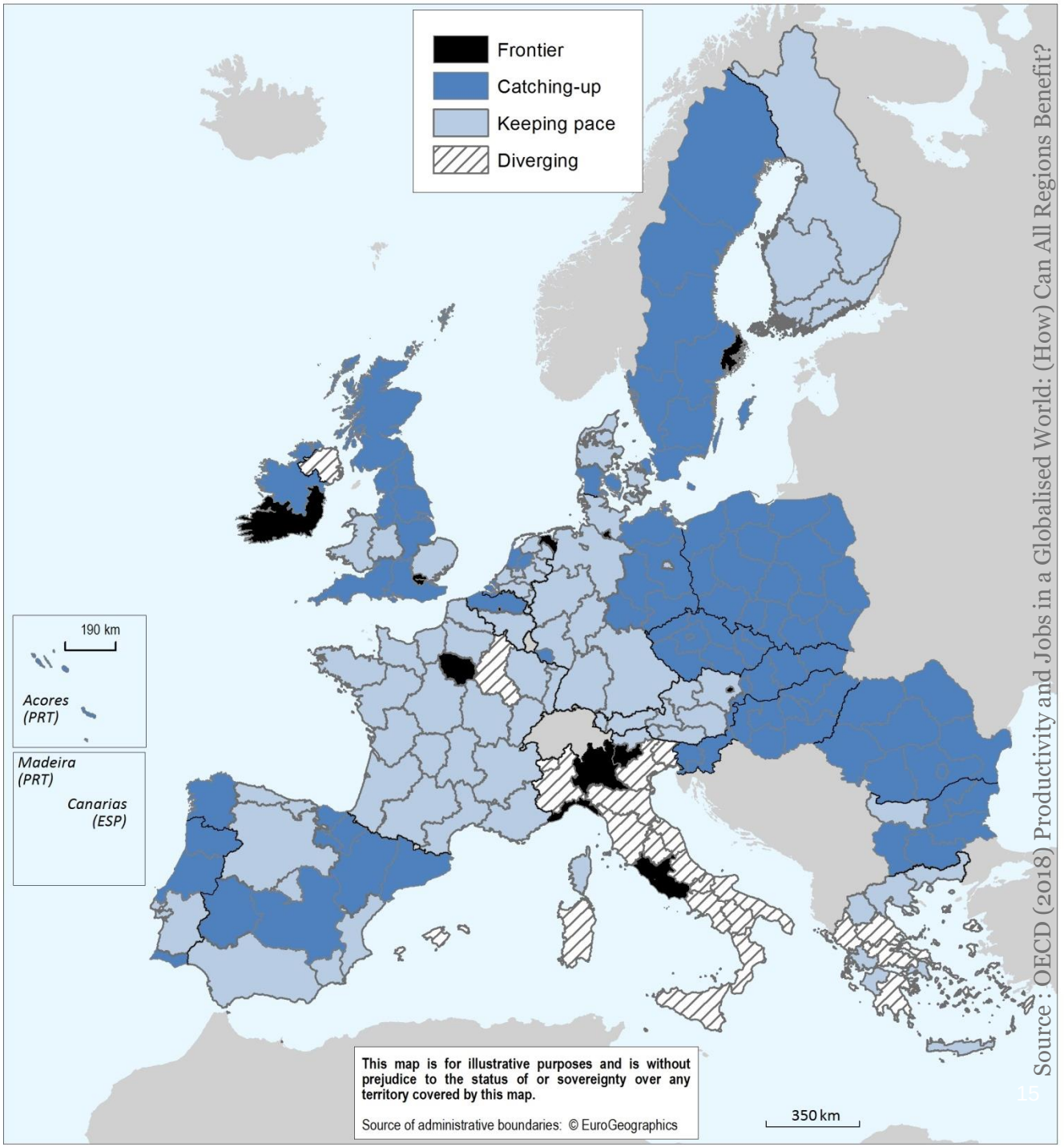
Regional productivity has converged to the EU frontier…

Frontier regions

- Most productive regions accounting for 10% of EU total employment

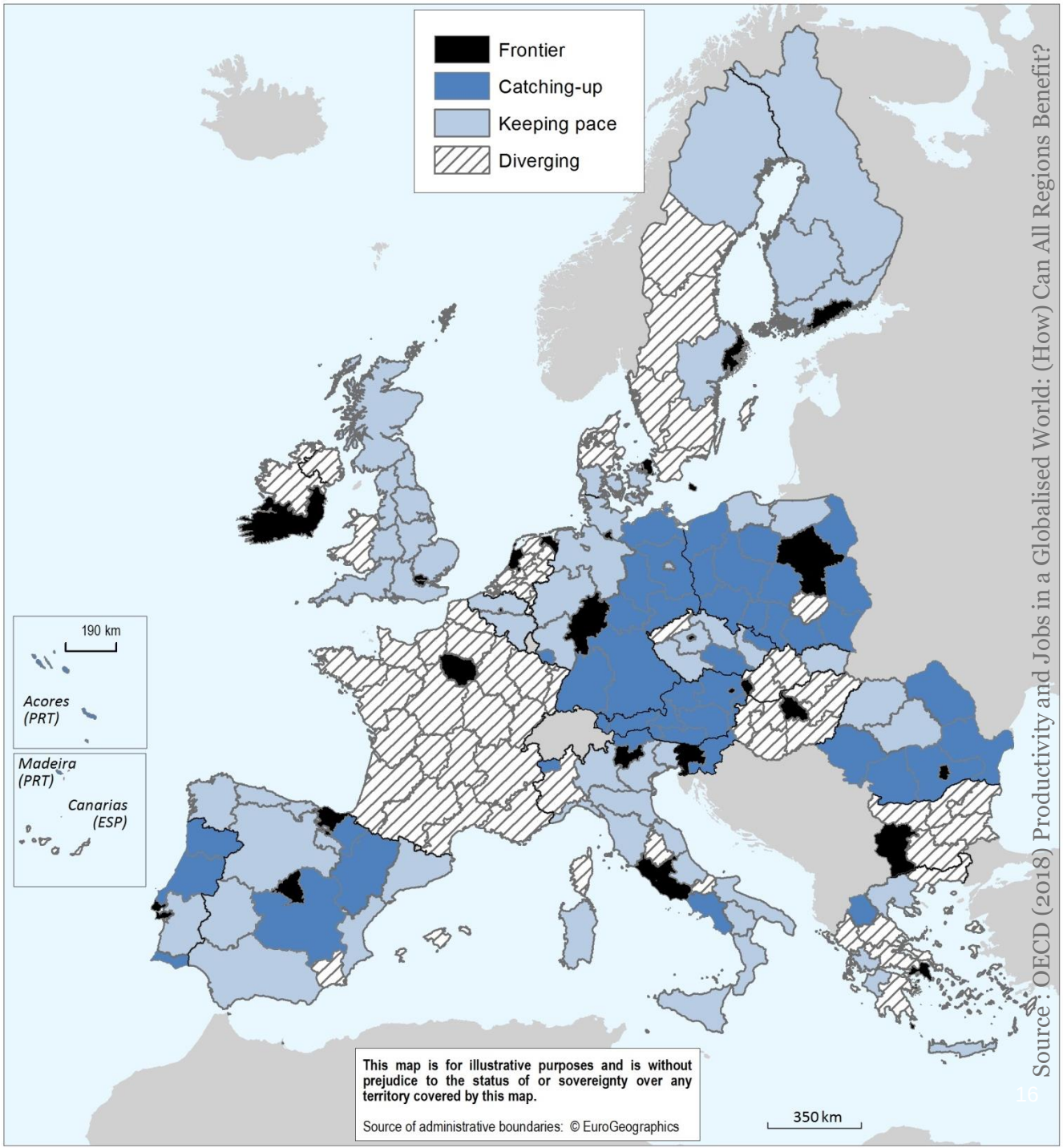
Catching up regions

- Productivity growth is 5% higher than in the frontier over 2000-14



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

…but in some countries has diverged relative to the national frontiers



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

Sum-up: There are roughly two country models of regional productivity

Type-I Distributed:
Aggregate productivity results mainly from the catching-up of the lagging regions:

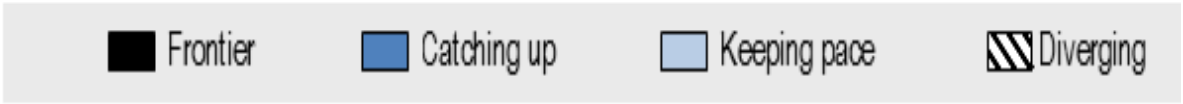
Austria
Czech Republic
Germany
Italy
Norway
Poland
Portugal
Romania
Spain

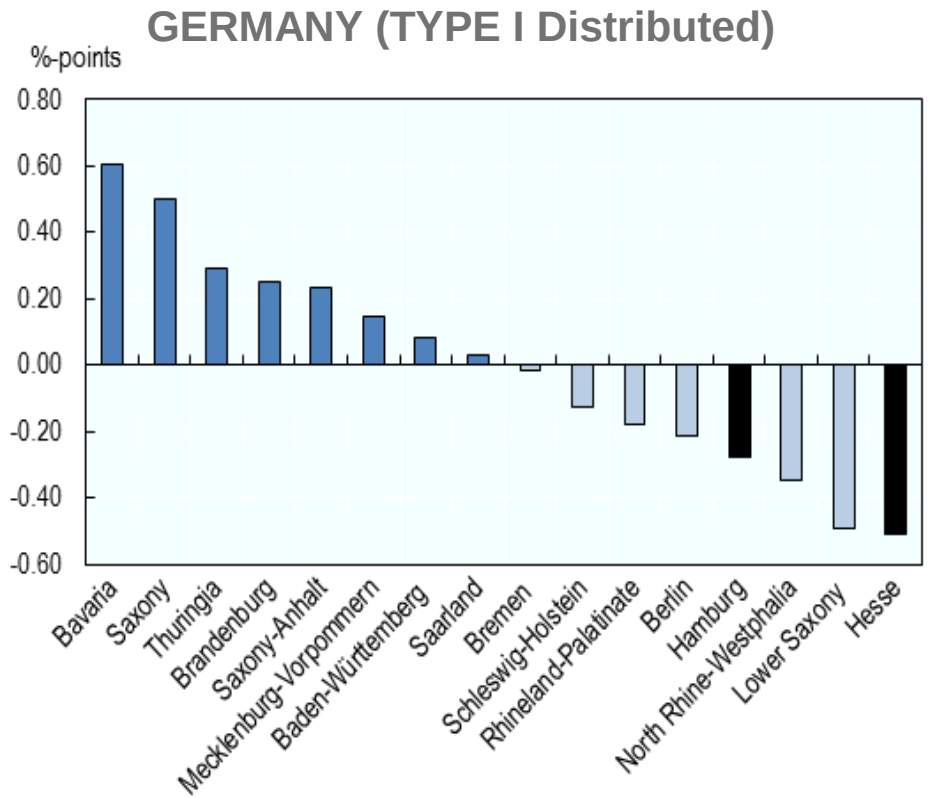
Type-II Concentrated:
Aggregate productivity growth is concentrated at the frontier region:

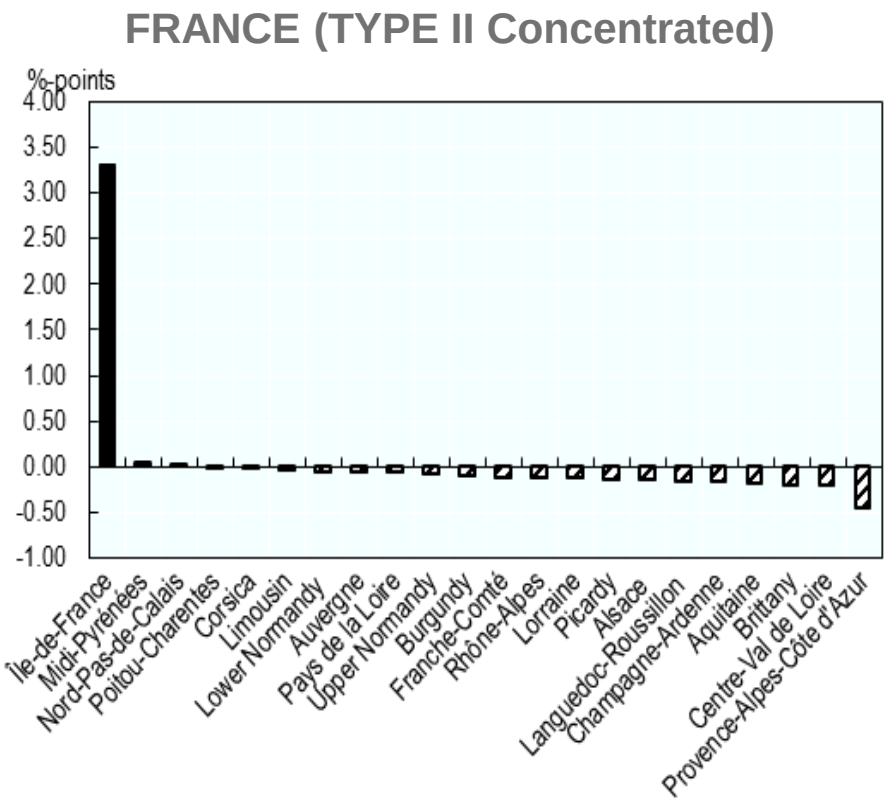
Bulgaria
Denmark
France
Finland
Greece
Hungary
Netherlands
Slovak Republic
Sweden
United Kingdom

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

(pseudo) Contributions of regions to national productivity growth, 2000-2014

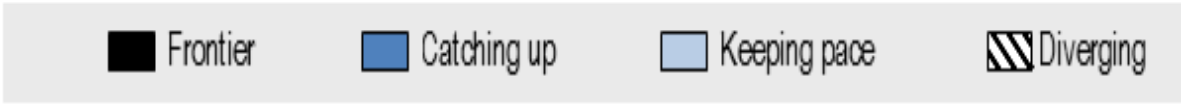


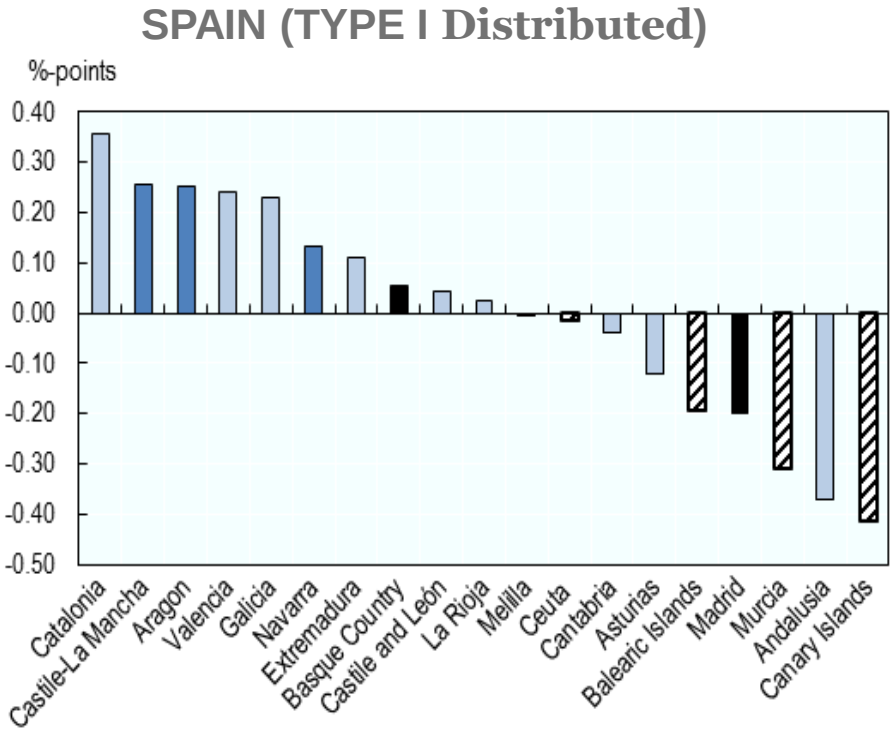


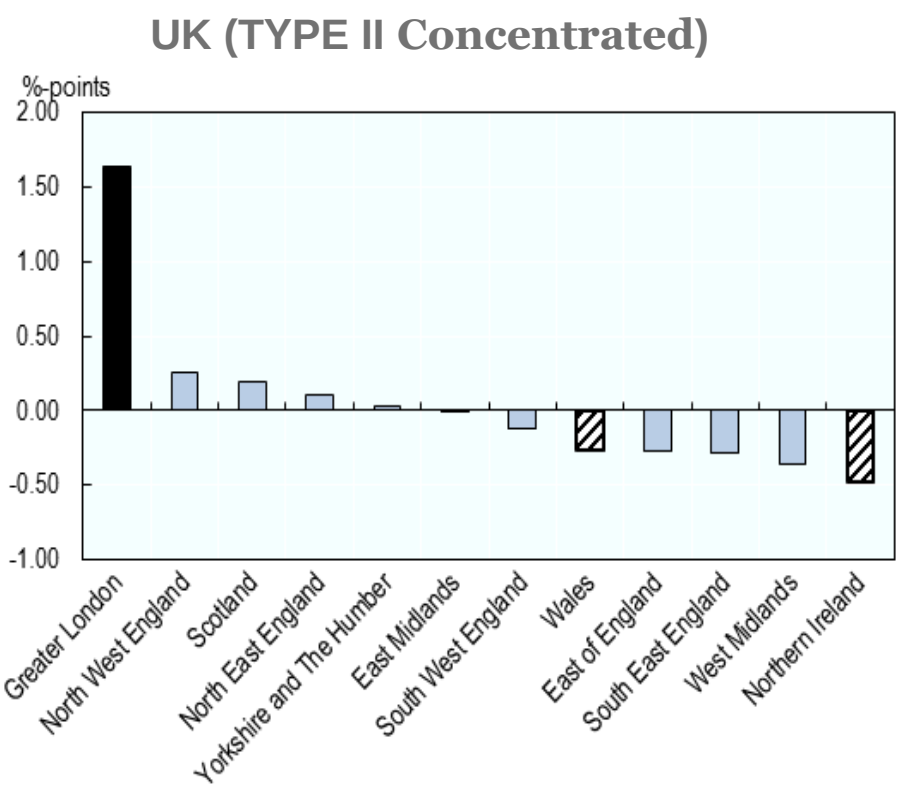


NB: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

(pseudo) Contributions of regions to national productivity growth, 2000-2014



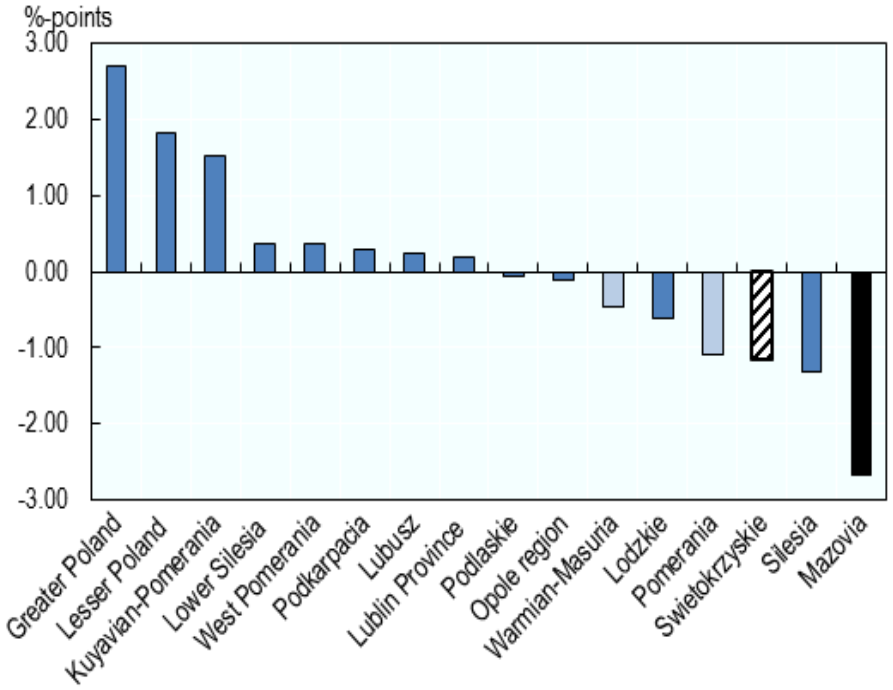




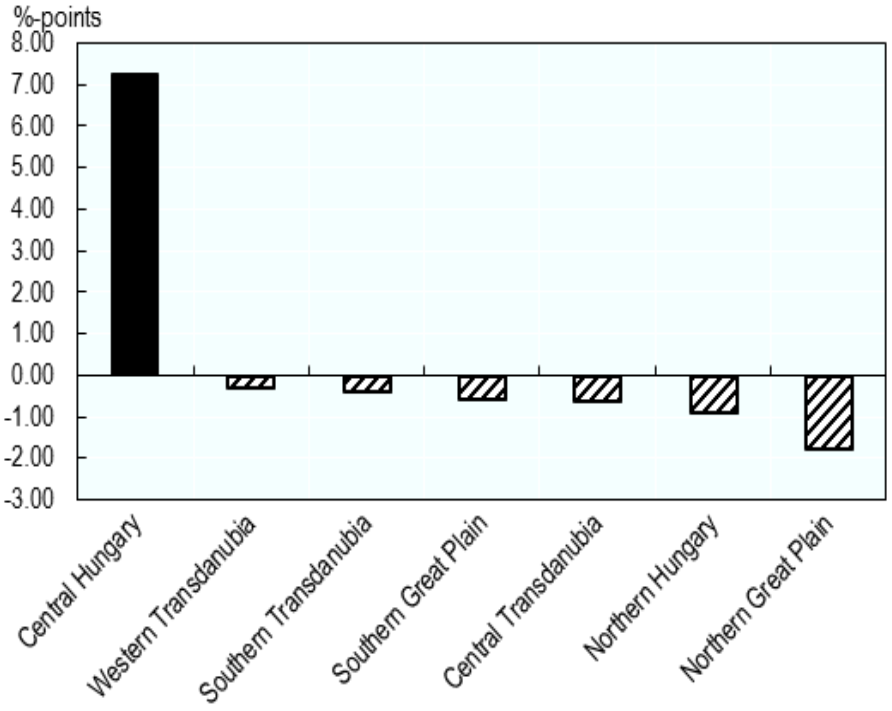
The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

(pseudo) Contributions of regions to national productivity growth, 2000-2014

POLAND (TYPE I Distributed)

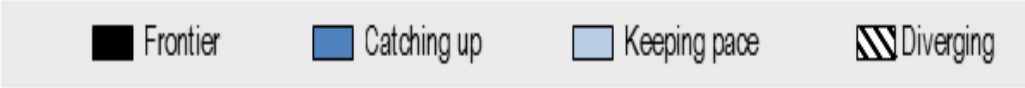


HUNGARY (TYPE II Concentrated)

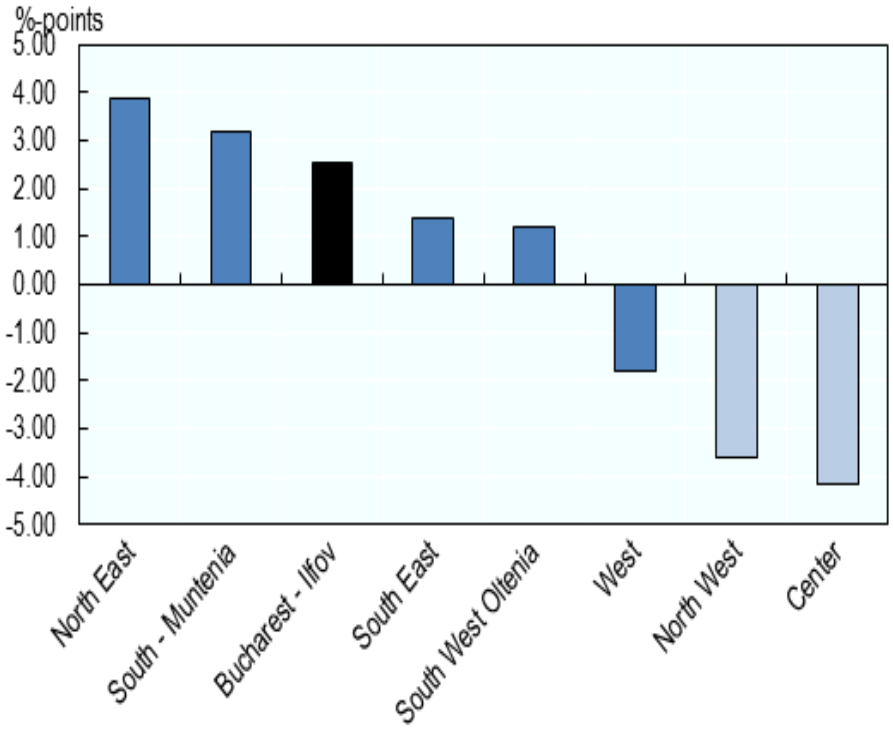


The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

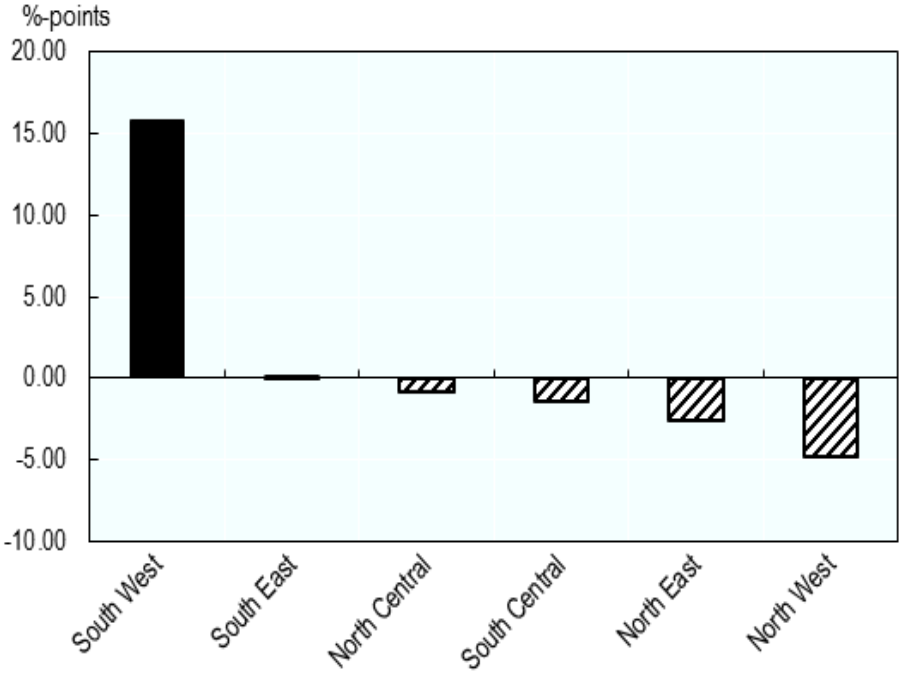
(pseudo) Contributions of regions to national productivity growth, 2000-2014



ROMANIA (TYPE I Distributed)



BULGARIA (TYPE II Concentrated)

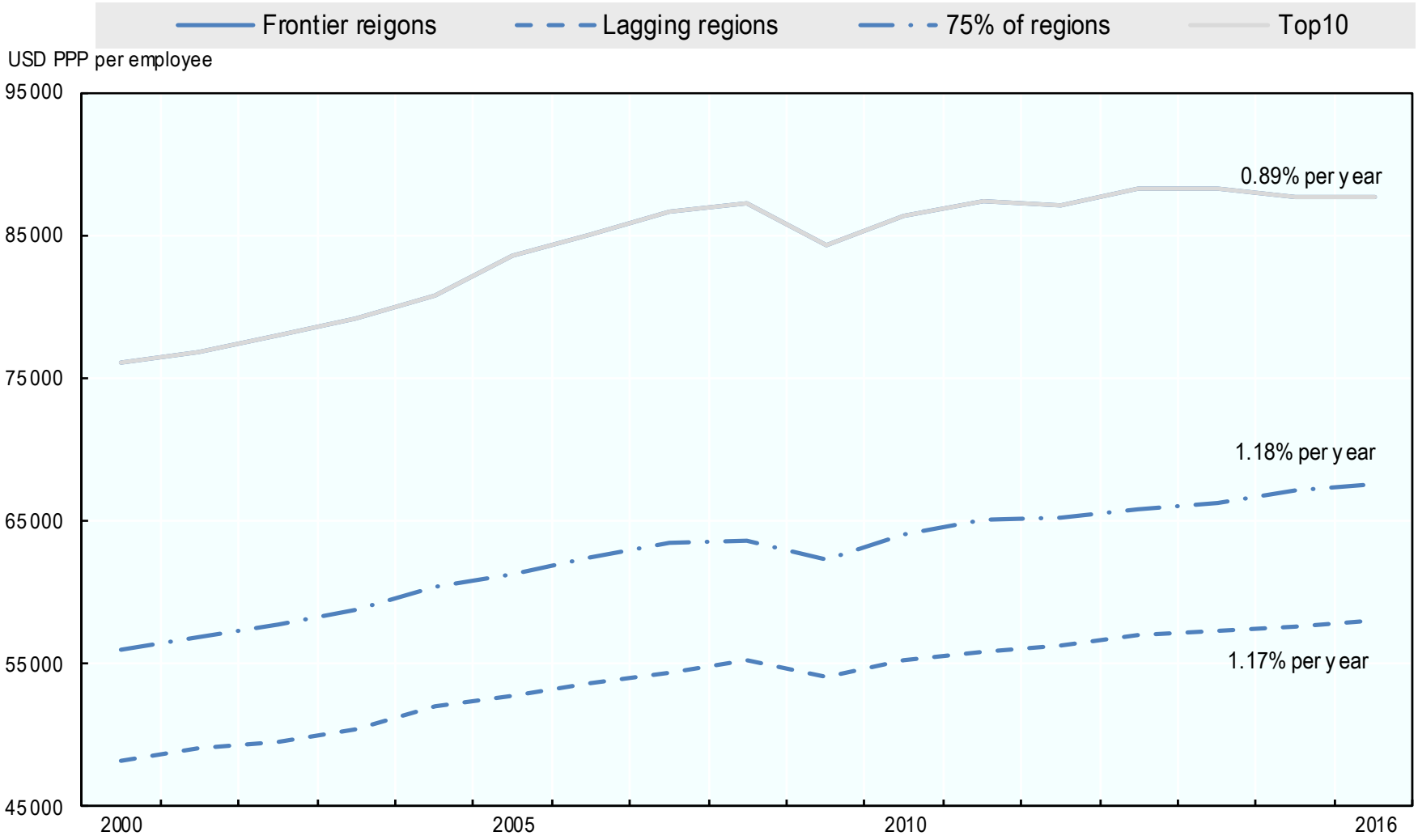


The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

Is there a trade-off between regional disparities and aggregate productivity?

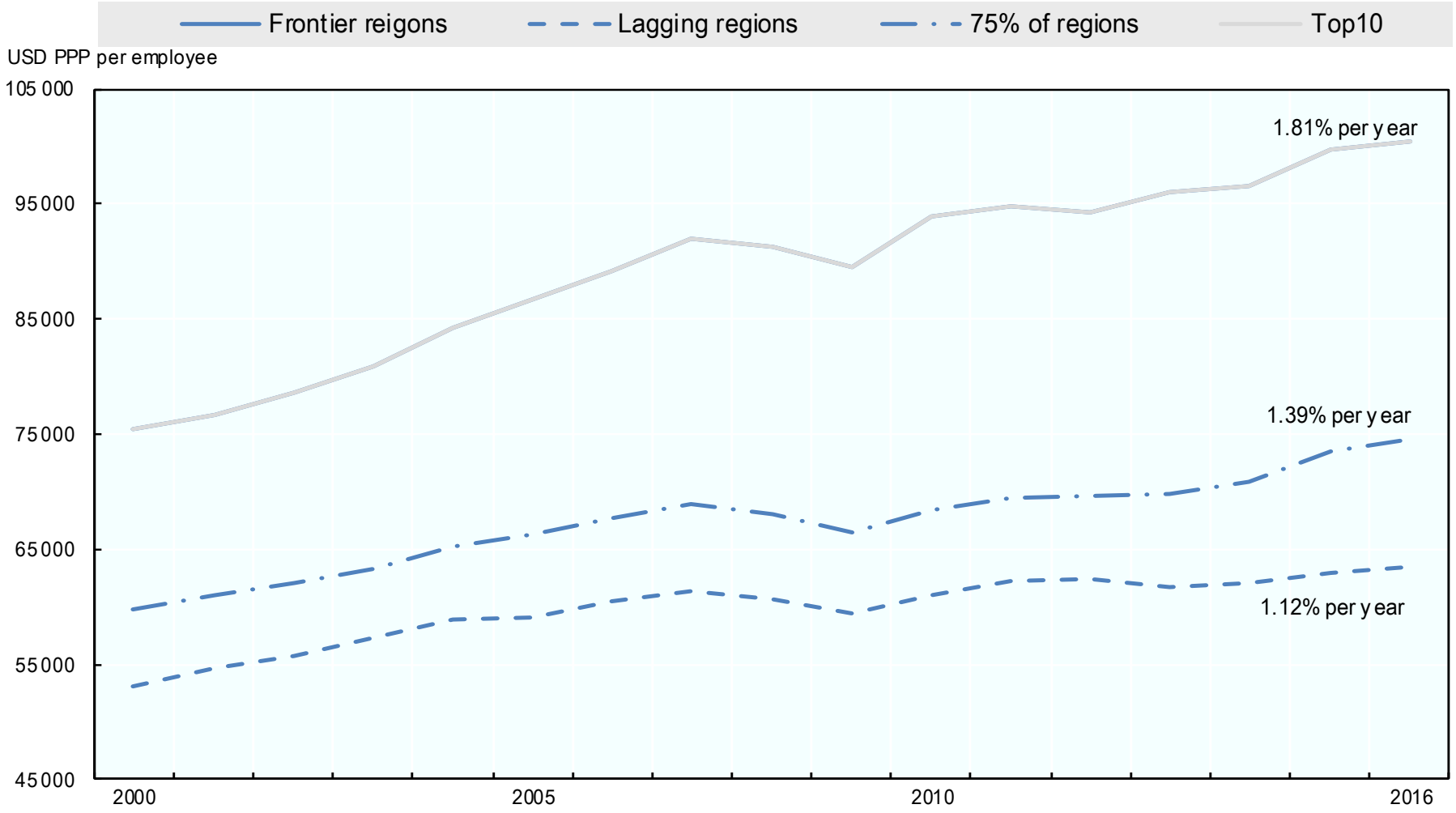
Distributed models tend to generate regional productivity catching-up

Type I (Distributed)



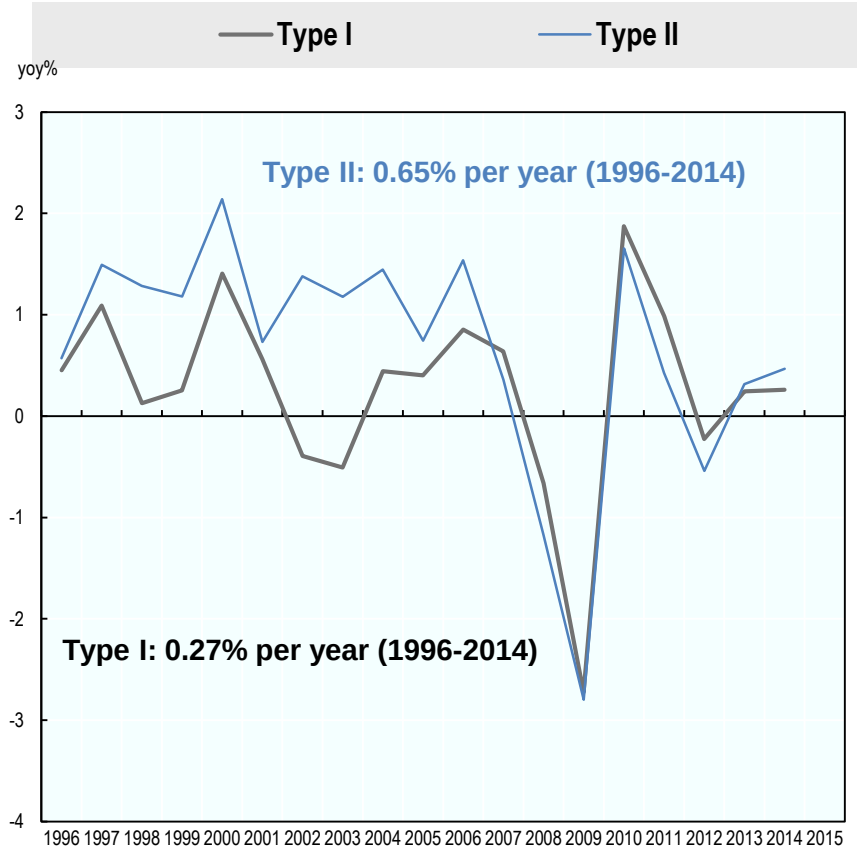
Concentrated models generate higher productivity at the frontier, but less regional catching-up

Type II (Concentrated)

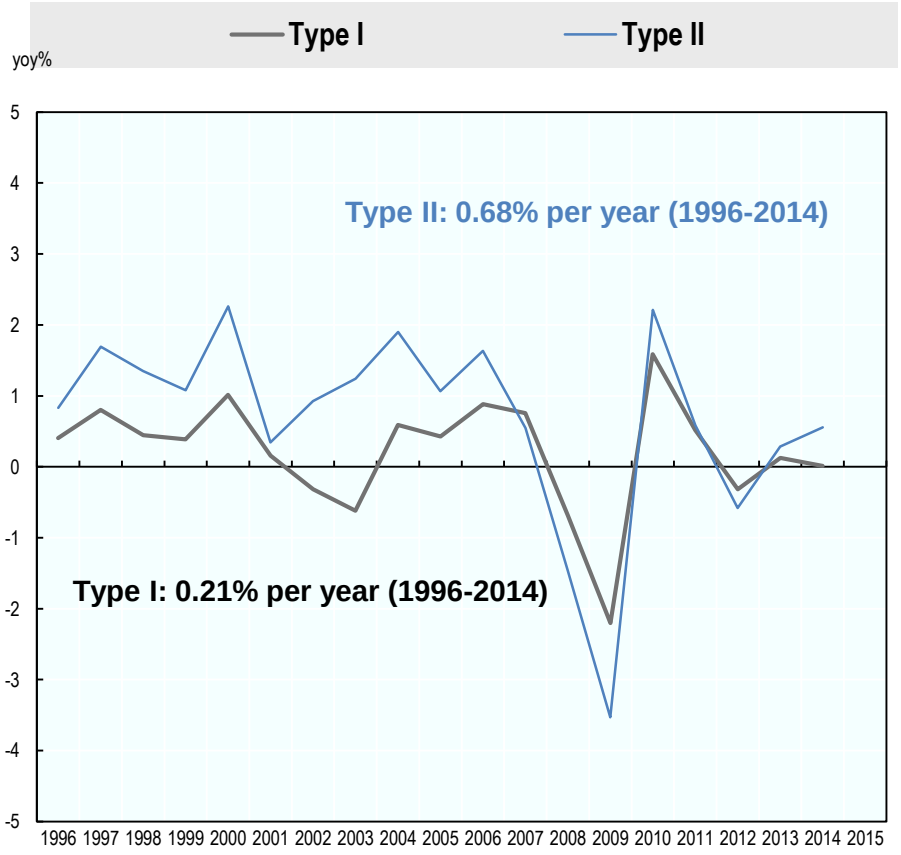


The concentrated model (type II) tends to generate a slightly higher TFP growth (EU)

Weighted averages

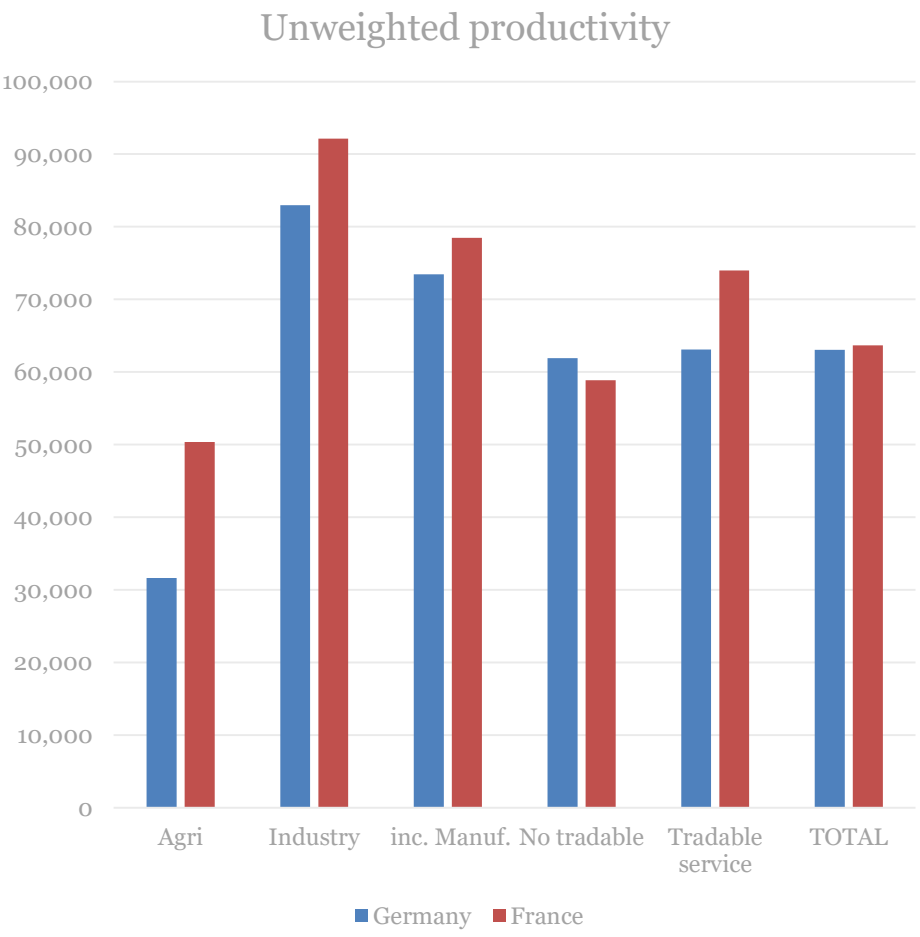


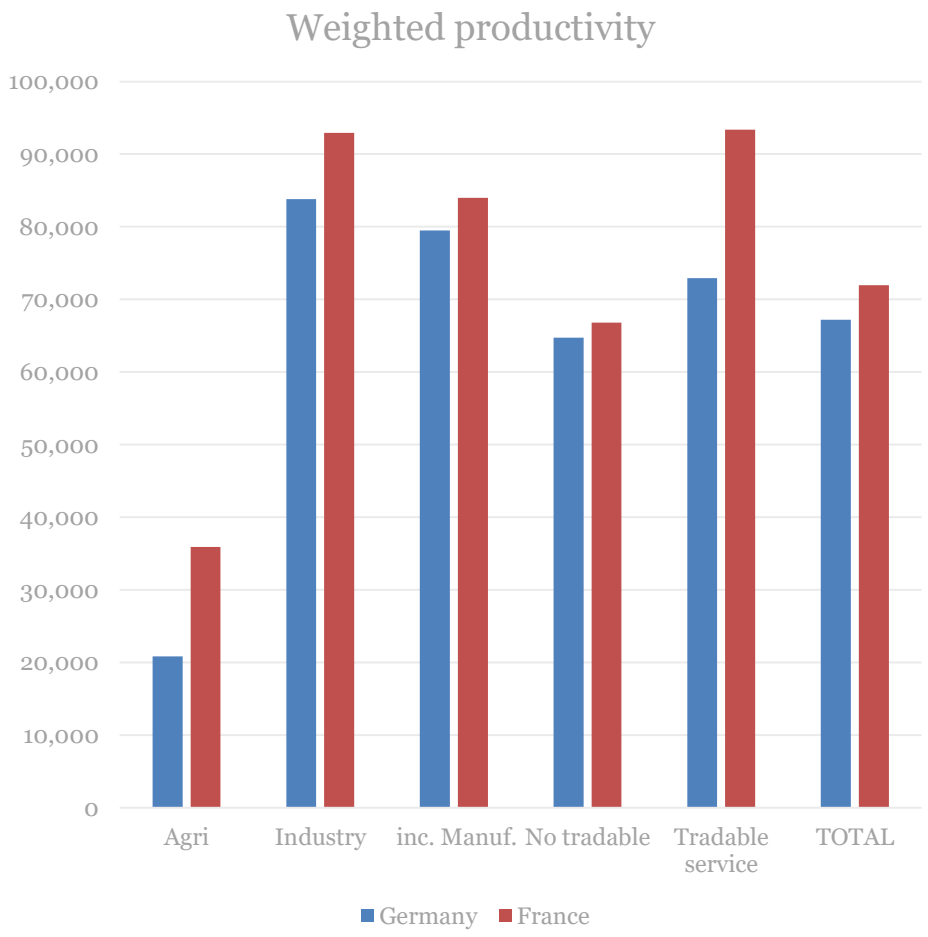
Simple averages



Source: OECD Productivity database

Comparison France vs Germany

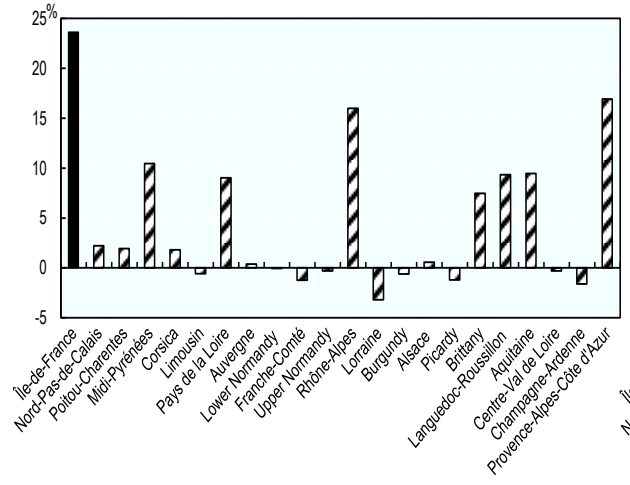




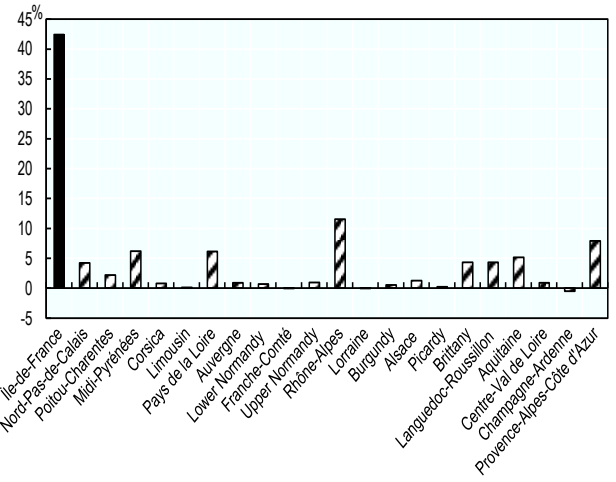
Is there a trade-off between employment and productivity?

France / TL2 / 2000-2015 yearly growth

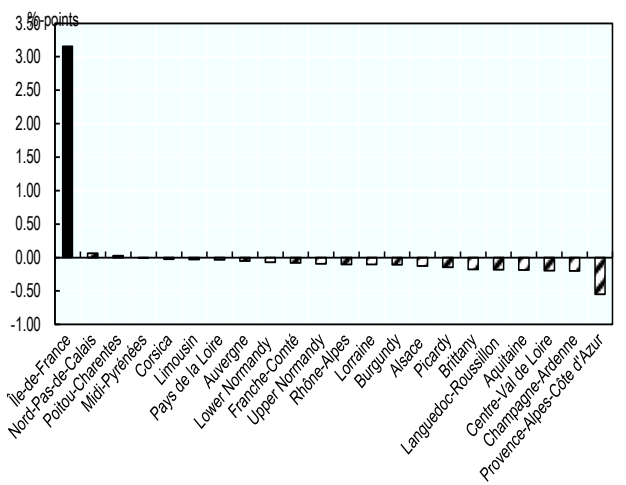
Percentage contribution to national Employment growth



Percentage contribution to national GDP growth

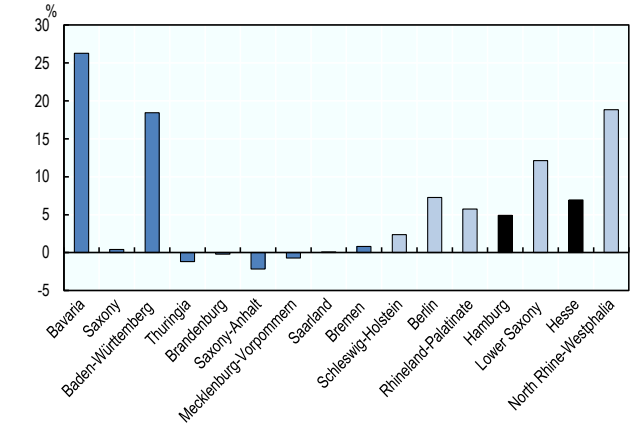


Contribution to national labour productivity growth

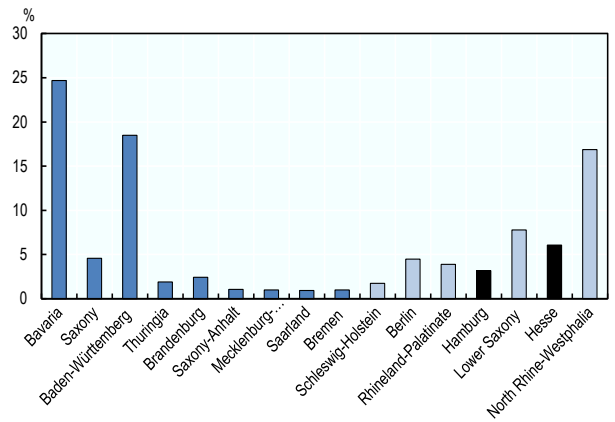


Germany / TL2 / 2000-2015 yearly growth

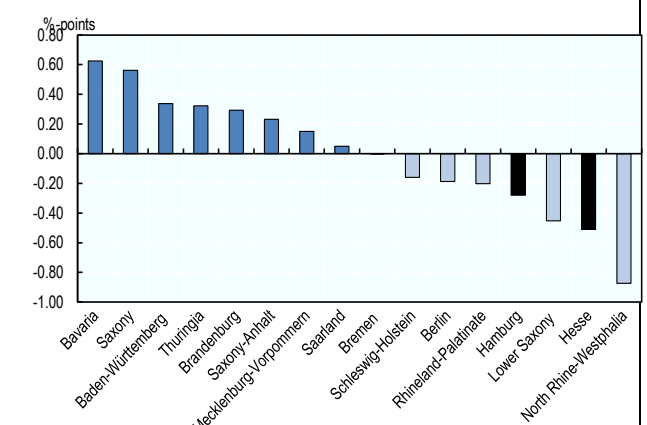
Percentage contribution to national Employment growth



Percentage contribution to national GDP growth



Contribution to national labour productivity growth



The OECD regional development policy paradigm

How to address regional development trade-offs within countries?

There are two polar policy models:

I. ***Compensating*** the lagging regions and promote labour mobility

➔ *This do not seem to work over the long-run and my promote the "geography of discontent" (McCann) or the revenge of places (Rodrigues-Pose)*

II. Adopt a ***place-based*** (or territorial) approach for regional productivity and development

➔ *Quite demanding to adopt tailored development strategies, in particular a strong investment in governance*

Regional Development Policy at the OECD

FIRST WAVE

From redistribution only to competiveness in all regions

- Thematic work on drivers of competitiveness, multi-level governance for regional development, the New Rural Paradigm, metropolitan governance
- Launch of Territorial Reviews, National Rural Policy Reviews, and Regions at a Glance
- Upgraded Regional Database
- **1999** First meeting of the Territorial Development Policy Committee
- **2002** First OECD Rural Development Conference
- **2003** High Level Meeting in Martigny, Switzerland, "Innovation and Effectiveness in Territorial Development Policy"

SECOND WAVE

Beyond regional performance to the resilience of nations

- Thematic work on how regions grow, regional innovation, green growth in regions and cities, service delivery in rural areas
- Launch of Regional Innovation Reviews, National Urban Policy Reviews, and Regional Outlook
- Development of extended regional classification system
- **2006** Launch of the OECD Roundtable of Mayors and Ministers
- **2009** Ministerial Meeting in Paris hosted by Finland, "Investing for Growth: Building Innovative Regions"

THIRD WAVE

Putting regions and cities at the centre of inclusive and sustainable growth

- Thematic work on rural-urban partnerships, regional dimensions of productivity, governance of land use, inequality in cities, migrant integration, indigenous communities
- Launch of Multi-Level Governance reviews
- Launch of Regional Well-Being Database and Metropolitan Database
- New metropolitan / non-metropolitan regional classification system
- New definition of functional urban areas worldwide
- Expansion of topics covered in Regional Database (innovation, migration, business demography, income inequality)
- Adoption of the OECD Recommendation on Effective Public Investment across Levels of Government and the OECD Principles on Water Governance
- **2013** Ministerial Meeting in Marseille, "Regions and Cities: Where Policies and People Meet"
- **2013** Launch of Water Governance Initiative
- **2014-15** MOUs signed with European Committee of the Regions and United Cities and Local Governments
- **2016** Introduction of regional topics in the OECD Ministerial Council Meeting
- **2018** Launch of Observatory on Subnational Government Finance and Investment

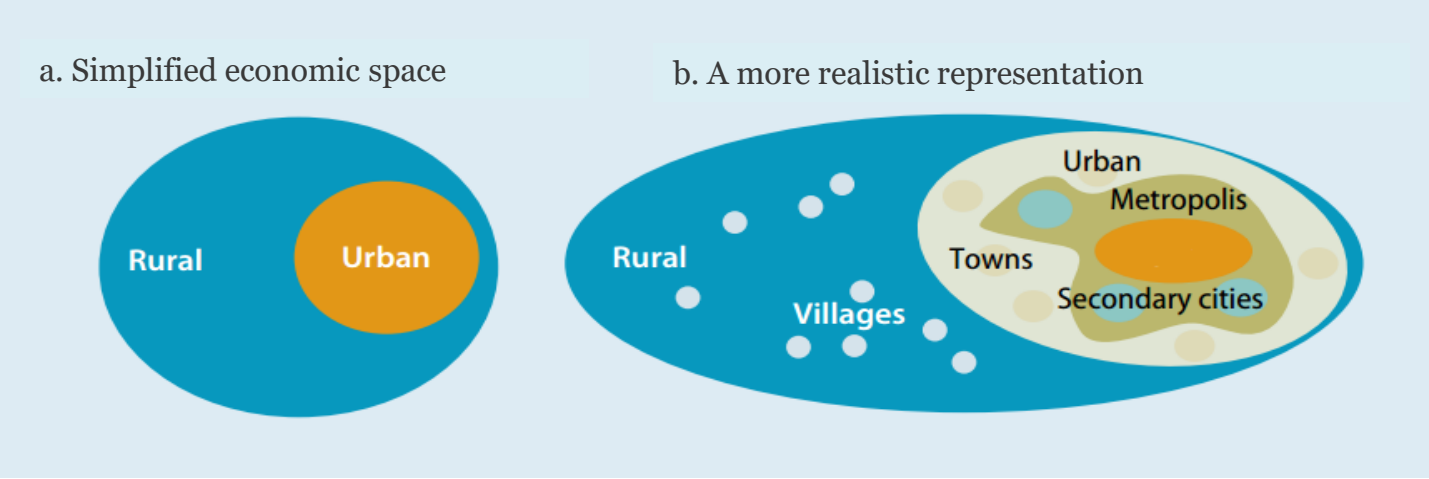
FOURTH WAVE

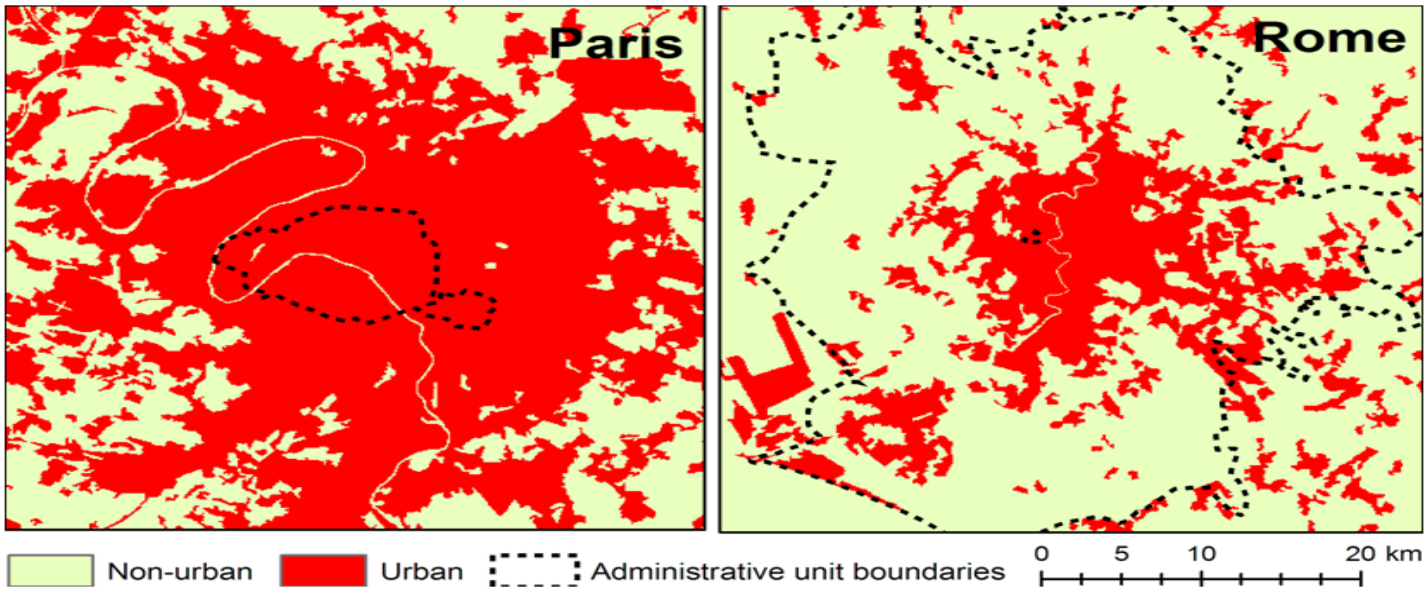
2019 Ministerial Meeting in Athens

"Megatrends: Building better futures for regions, cites and rural areas

Implementation of the place-based policy strategy

A place-based approach requires identification of territorial scales





The spatial context (by Duranton & Venables, "Place-based policies for development, WB 2017"

Proximity matters

Positive: agglomeration economies & clustering

Negative: Externalities of congestion and contagion

Complementarities and coordination failures

Returns to my investment *increasing* in what others do

Location decisions are long run & non-marginal: sunk costs and expectations

➔Hard to start new centres/ clusters

➔Lock in to low-level equilibrium (e.g. excess primacy)

Intra-country price and wage adjustment

Absolute advantage not comparative advantage

Little leverage from variation in prices of immobile factors (i.e. land)

➔ Shocks not damped by price adjustment, but amplified by factor movement

A National Spatial Productivity strategy

1. Benefit from **agglomeration economies** in large and dense urban areas, notably in service sectors

2. Promote **regional productivity catching-up** in regions intermediate/rural close to cities. Proximity and tradable sectors play an important role

3. Address the specific problems of **remote rural areas**, through place-based approaches (e.g. smart specialisation)

The role of decentralisation

- A central government cannot have as many policies as different types of cities and regions. Designing place-based policies is a **too complex task to be centralised**.

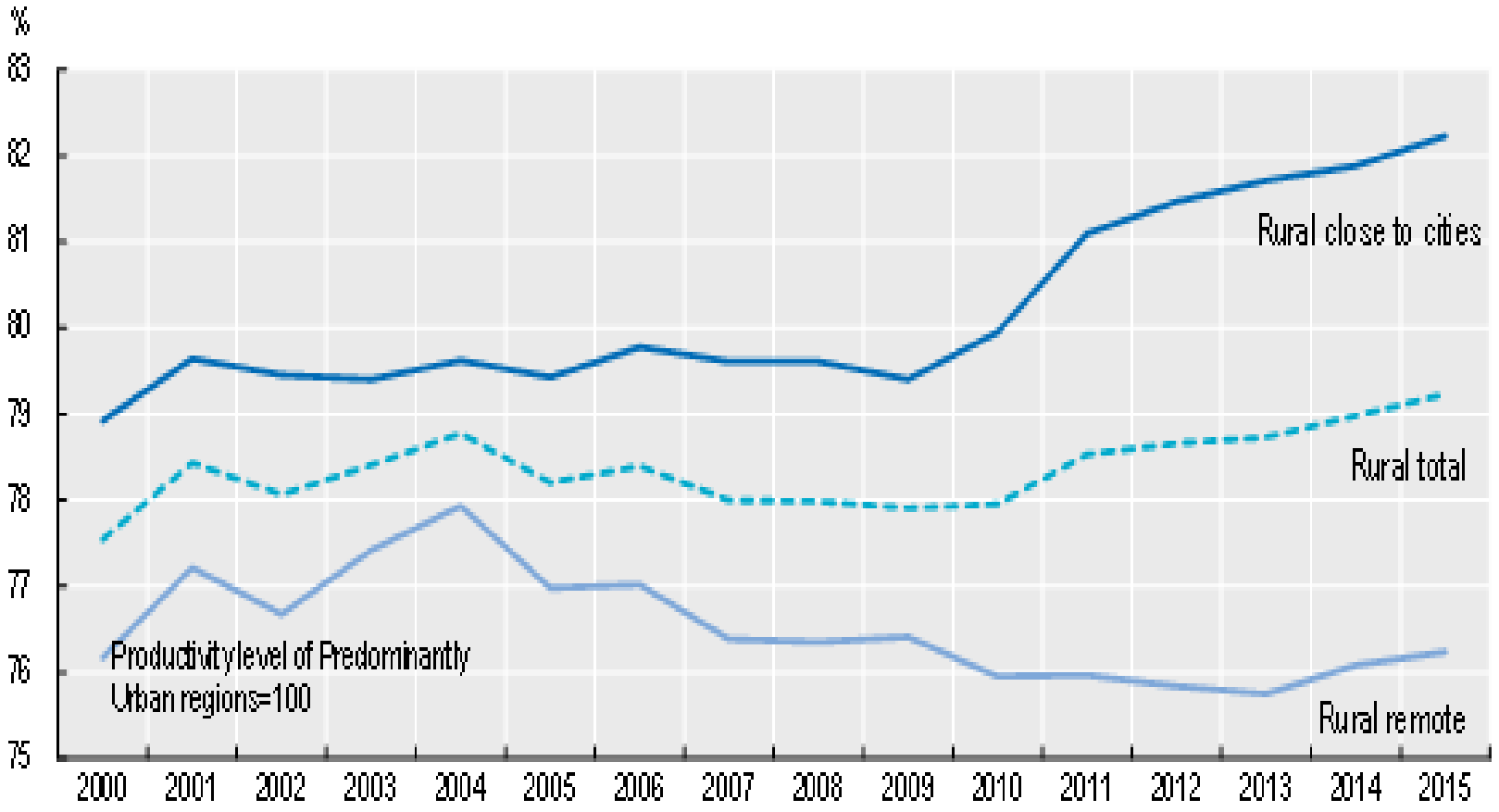
- But decentralisation needs to be organised as a **partnership** and not only as a process of autonomy and devolution of competencies

- Decentralisation works better when it is done in a **process allowing for the asymmetry of capacities at the local level** and experimentation (learning-by-doing)

- **Main areas**: address governance fragmentation of metropolitan areas and promote supra-municipal cooperation

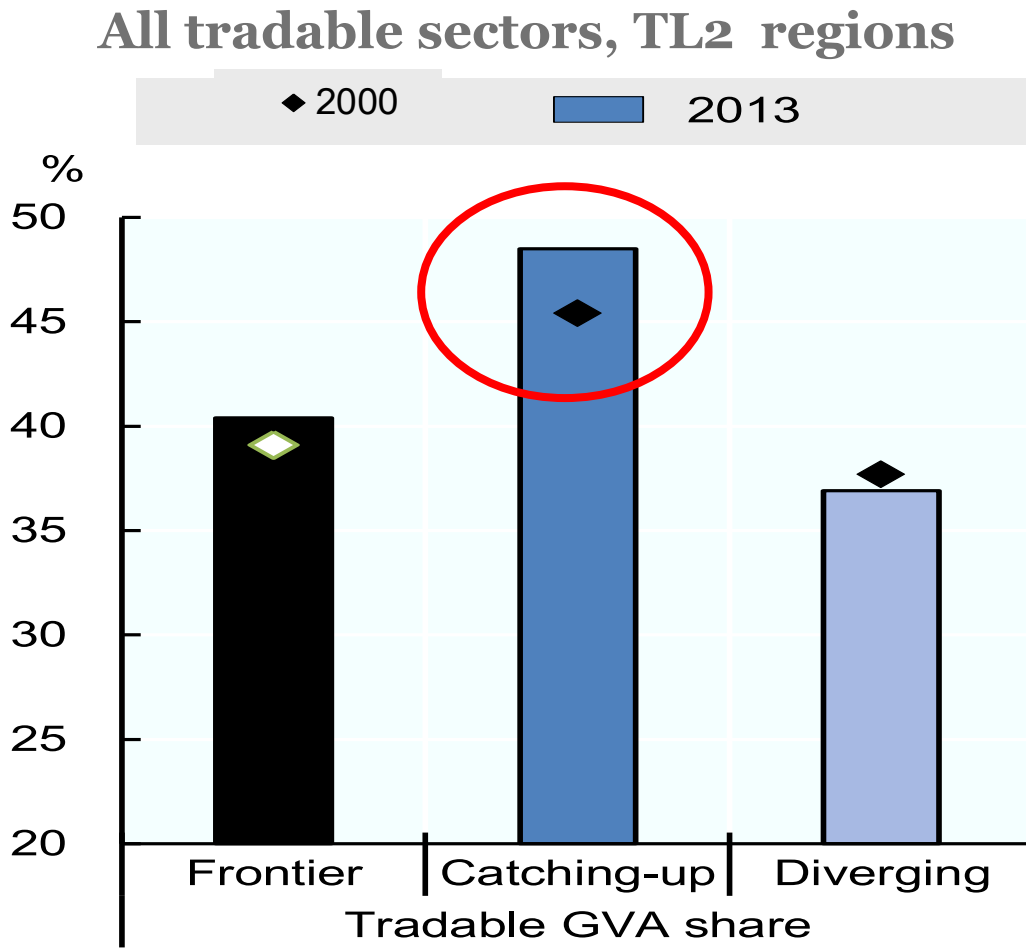
Address underdevelopment traps in rural remote regions

Productivity growth in rural regions, 2000-15 (TL3)



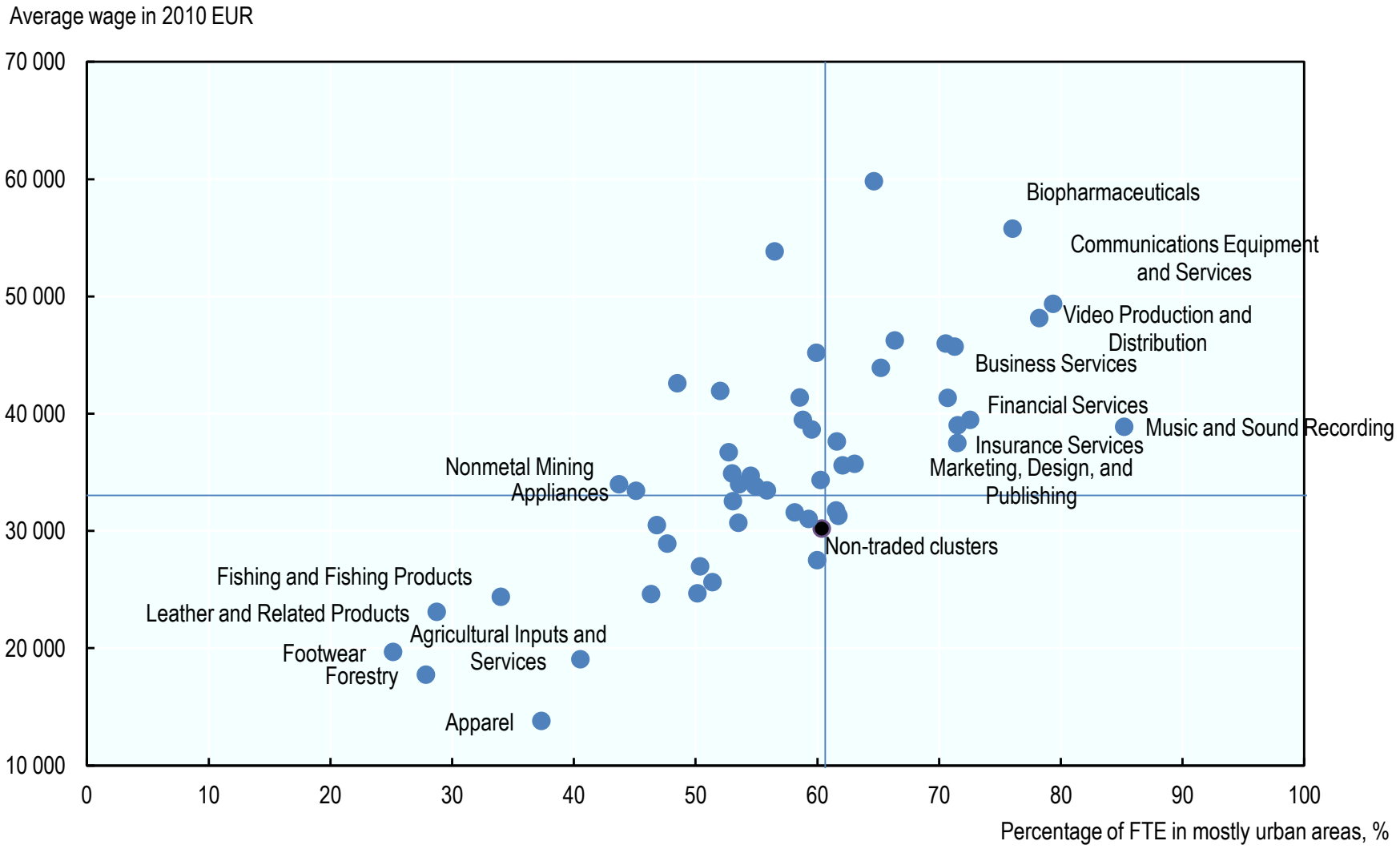
Source: Regions and Cities at a Glance (forthcoming)

Support incentives (or not creating disincentives) for Tradable sectors



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).

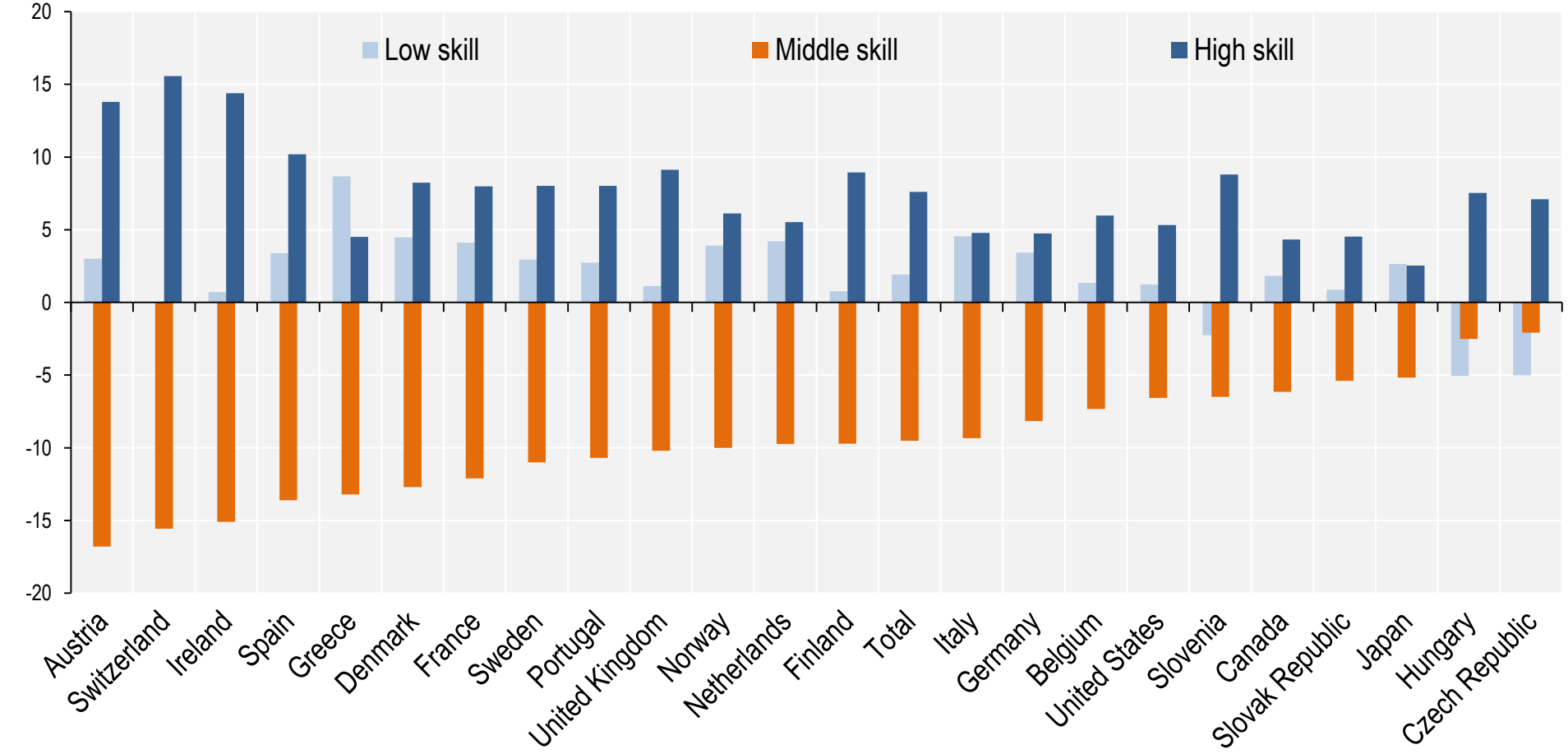
Traded clusters: sharp contrast between urban and rural regions



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

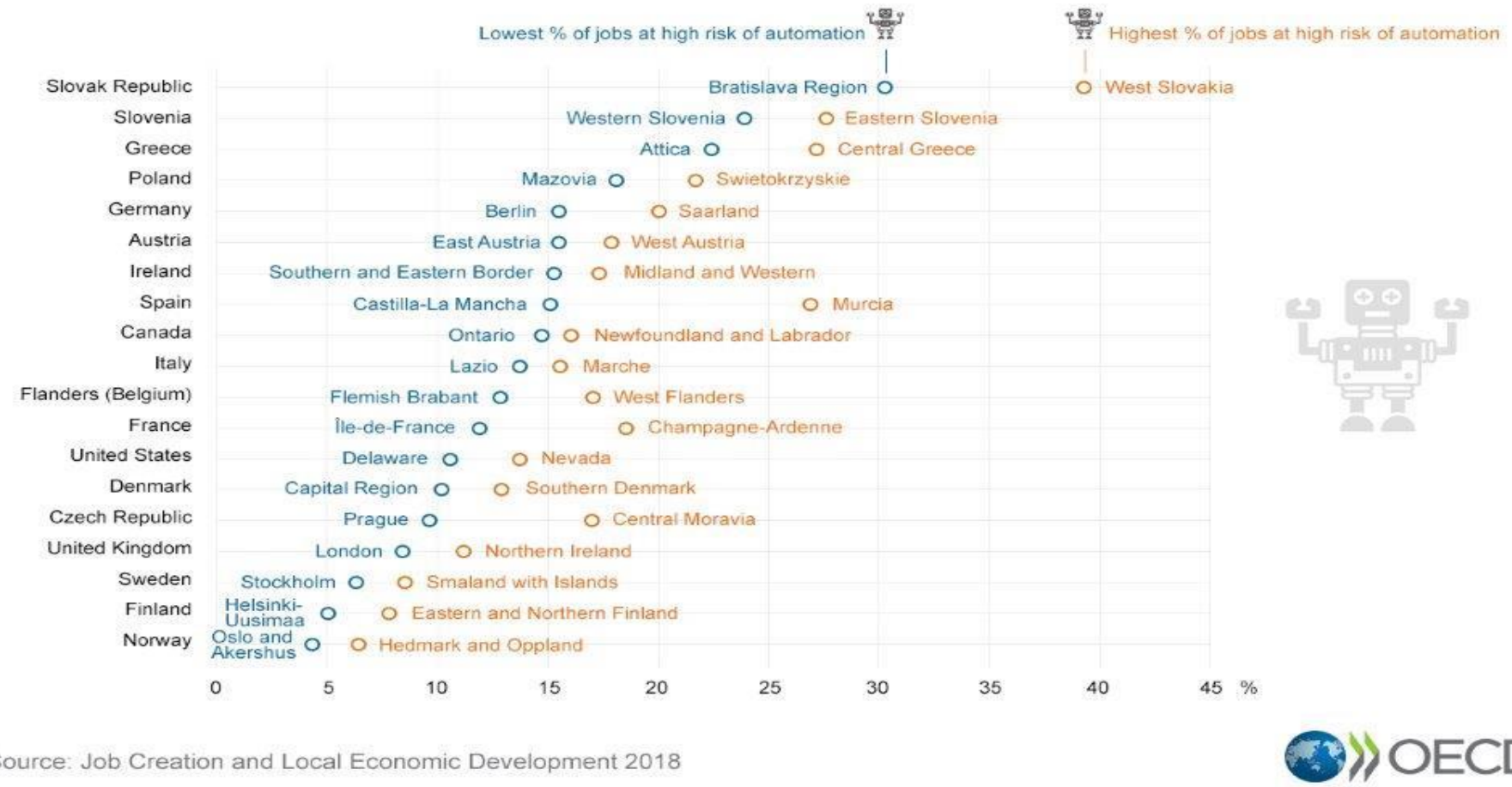
Address polarisation of skills, notably in urban areas

Percentage point change in the share of total employment, 1995-2015



Source: OECD Employment Outlook 2017

Address trade-offs between productivity and risk of automation



Source: Job Creation and Local Economic Development 2018

OECD

Thank you!

Recent OECD references:

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

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

OECD (2018) Rethinking Regional Development Policies, OECD Publishing.

OECD (2018), Regions and Cities at a Glance, OECD Publishing