Five facts about regional inequalities and what to do about them

Written by: Lamia Kamal-Chaoui, Director, Centre for Entrepreneurship, SMEs, Local Development and Tourism, OECD

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Popular unrest, street protests and calls for a return to protectionism: today's headlines make it crystal clear that too many people feel left behind or simply left out. The economic and social crisis didn't help, and and these divides are visible in our regions. We should have seen it coming, that by concentrating too much on national averages, the needs of too many communities would be overlooked. Our regional blindspots and insufficient place-based efforts are showing. No wonder people's patience has run out. But a closer look at these regional divides shows that by reinvigorating regional development

policies in strategic ways, particularly in our age of digital transformation, today's geographical disadvantages could be turned into tomorrow's opportunities.

Regional economic divides are a fact of life.

Economic activity is very concentrated and spikey, spreading across large cities to remote rural areas. In 20 out of 34 OECD countries with data, the top 20% of regions (many of them with large cities) have more than twice the GDP per capita as the bottom 20%. Only 15 OECD countries have reduced that gap since 2000. These divides are destabilising and costly to address, and many countries have a political goal to make sure they do not get out of hand.

The divides are not as simple as urban versus rural.

Most people in the OECD live in or near a metropolitan area. In fact, 70% live in urban regions with cities of 250 000 or more and another 12% live within an hour's drive of such cities. Given the spillovers of being near a city, thriving cities can help outlying small town and rural areas too. Moreover, rural areas provide critical resources to feed and fuel cities, as well as offer an escape to nature and relaxation for city dwellers.

The trouble is, not all cities are doing well. In fact, while larger cities in the OECD have grown 13% since 2000, almost one in four cities has lost population over the same period, typically medium-sized or formerly industrial cities. Some rural areas are doing well, but others have also suffered, deepening the sense of isolation from being at the periphery.

Meanwhile, cities, especially the large ones, also have their own internal divisions at a smaller, yet often quite intense, scale. Cities attract skills at both ends of the pay scale, from high-paid bankers to the low-paid service sector workers. But these skills are polarising people. Greater residential segregation creates a further spatial divide among communities, and skyrocketing housing prices in many cities are not helping either.

Quality of life matters, wherever people live.

Ultimately, the public policy goal is to ensure the well-being of people everywhere. Do they have a quality job? Is commuting comfortable and affordable? Can they afford decent housing or services such as childcare, good schools or hospitals? Is the air they breathe healthy? Regional differences tend to augment gaps based on household income alone, so policymakers must work harder to close them. While place-based action can cost money, in some cases it is simply about doing things smarter. And the costs of inaction can be even higher– both to public budgets as well as in terms of lower social cohesion and well-being

Ever growing productivity divides are a worrying sign.

Such policies can boost productivity too. In fact, tensions can arise when gaps in regional productivity widen over long periods. In 14 OECD countries, national productivity growth over the last 15 years has been concentrated in the region with the main city–a "winner takes all" dynamic. The upshot is that this fuels further economic concentration, with more regions being edged out or left behind.

However, several other countries have seen a narrowing in the regional productivity gap. In a few cases this is because the main city has lost steam. But the good news is that in eight OECD countries the struggling regions are actually catching up.

Technological change, ageing and the future of work could widen divides.

Today, as much as 39% of jobs in some regions face a high risk of automation. Others are less vulnerable, but all need to prepare policies to address change. Another megatrend to prepare for is ageing, since in half of OECD regions some 30% of populations are already over 65.

Such regions are at a critical juncture. As the OECD Regional Outlook 2019: Leveraging Megatrends in Cities and Rural Areas argues, the ultimate question is whether superstar cities will take all, or are there opportunities to be seized that will bring new life to mid-tier cities and rural areas? While trends such as capital and investment flows favour successful cities, how can policy tilt the balance so that strong cities really can benefit hinterlands and other cities and towns? Could the likes of autonomous vehicles, virtual reality and artificial intelligence help reduce the cost of distance or improve the provision of services? Or will they accelerate concentration towards larger cities. Striking the balance is about getting the public policies right.

So what can we do?

First, we need to invest strategically using smart, place-based policies. For too long, policies have focused on national outcomes, and where they focused on places, it was through compensatory subsidies or programmes for the poorest places. Today, regional development policy is about building on local assets and knowledge, and harnessing investment strategies with the ultimate goal of improving well-being. What is clear is if regions do not have the basics—such as high-speed internet access and a rightly skilled workforce—they will simply not be able to take advantage of future opportunities.

Second, we need to make sure national policies are place-proof, or they do not fly. Only then will we ensure that, say, national guidelines for health and education services respond flexibly to people's needs in cities and rural areas alike. Or that innovation policy focusing on the most advanced research is set up in such a way that also drives activity outside of top technology hubs.

Third, national and local governments need to work in partnership. The right hand needs to know what the left hand is doing. While there are 36 OECD national governments, there are almost 137,000 elected regional and local governments and they are responsible for 57% of public investment and 40% of public spending. Too many conflicting regulations and investments are wasting resources, while too many isolated projects miss out on strategic opportunities. The French call these administrative layers a mille feuille, and just like their multi-layered pastry, it can quite messy. The OECD Recommendation on Effective Public Investment across Levels of Government and a new report Making Decentralisation Work: A Handbook for Policy-Makers highlights how countries can do this better.

Finally, local capacity and leadership will continue to be the heart of successful communities. No national policy can substitute for local initiatives or an entrepreneurial mayor. Capable and motivated leadership, whether in a big city or at rural town council level, brings fresh ideas on what can work for a given community. However, they may need tools to work more effectively, which national policymakers should help provide. Also, while operating locally leaders should be thinking more globally, which includes reaching out to other local leaders at home and abroad for advice and inspiration. This is where the OECD can also play its role as a platform for data, policy dialogue and learning beyond the national level, such as for the OECD Champion Mayors Initiative.

By reaching out and working together, local policymakers can help their regions and their people become more actively involved and less isolated too. It is what place-based policymaking is all about.

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