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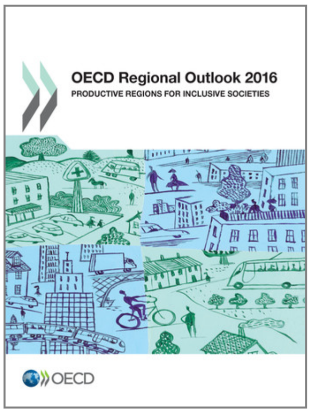
OECD Regional Outlook 2016

Productive Regions for Inclusive Societies

Summary in English



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Regions matter for building productive economies and inclusive societies. This third edition of the OECD Regional Outlook shows that while gaps in GDP per capita across OECD countries have narrowed over the last two decades, within their own borders countries are witnessing increasing income gaps among regions, cities and people. Leading regions and cities are now competing more with global peers than with others in the same country. There will always be interregional gaps, but those regions lagging behind have opportunities to "catch up" in terms of social and economic development. By helping to fuel the catching-up machine, countries can reap a double dividend of both increased aggregate productivity and inclusion.

While the majority of OECD residents live in urban areas, both rural regions close to cities as well as rural remote regions can and do contribute in many ways to national prosperity. This Outlook places a special focus on these low-density regions, and highlights how countries need to rethink rural development to better tap the productivity growth potential of all rural regions.

Cities, regions and place-based national policies also have an important role to play in meeting the ambitious targets of the Sustainable Development Goals (SDGs), the Paris Agreement of COP21 and Habitat III, among others. Greater involvement of regions and cities gives greater voice to their residents in these and other global agendas. Localising targets and their measurement will raise awareness, generate locally adapted solutions, and ensure that no region or city is left behind.

Key findings

- **The average productivity gap across regions has widened over the past two decades as the leaders outpace other regions in their country.** The average GDP per worker gap between the top 10% (frontier) and the bottom 75% regions across OECD countries has grown by almost 60%, from USD 15 200 to 24 000. As a result, one in four persons in the OECD lives in a region that is falling further behind the high-productivity regions in their country.
- **Limited catching up is driven in part by the mixed patterns within countries, showing that high-productivity regions can, but do not always, spur catching up across the economy.** Around three-quarters of these high-productivity regions are urban, but urban areas account for only one-fourth of those that are catching up. Assuming current growth rates, catching-up and high-productivity regions would not have the same productivity levels before 2050. For regions currently diverging, to close the gap in the same period, they would need to increase productivity growth to 2.8%, four times their current growth rate.
- **Among rural regions, those close to cities are more dynamic and resilient since the recent crisis as compared to rural remote regions.** Rural regions close to cities are home to more than 80% of the rural population and their income and productivity growth tend to be more similar to that of urban regions. Prior to the crisis (2000-07), over two-thirds of rural regions registered both productivity and employment growth. Since the crisis (2008-12), remote rural regions have not been able to bounce back in terms of employment and productivity.
- **Tradable sectors appear to be an important productivity driver for catching up in both urban and rural regions, despite their different growth dynamics.** Catching-up regions had a greater share of their economy in these tradable sectors (especially in services, manufacturing or resource

extraction and utilities) and have increased that share over time to nearly 50% of their output, compared to only one third in diverging regions.

- **Good governance practices are also important for productivity performance.** High-productivity regions have higher scores in a European-wide survey on quality of government, and quality improved in the regions that were catching up. Good governance arrangements to manage public investments can reduce the productivity and inclusion penalties associated with fragmentation of local jurisdictions, particularly in metropolitan areas.
- **Interregional gaps are wider when considering multi-dimensional measures of living standards instead of income alone.** A measure combining income, health and employment reveals that some regions may suffer from multiple gaps in terms of well-being.Within cities, which bring together high- and low-skilled jobs ("bankers and baristas"), income inequalities are typically higher than at the national scale. Complementary policies are important to ensure that productivity growth benefits different social groups and places, including within cities themselves.

Key recommendations

There is no simple policy prescription to resolve these regional productivity and inclusion challenges, but several areas for public action may help boost productivity, inclusion, or both:

- **Structural reforms such as for labour and product markets need to be complemented with other place-specific policies to reap the full potential benefits.** Structural reforms can have different repercussions depending on the region. Tighter labour market restrictions, measured by indicators of employment protection, penalise rural regions with smaller labour markets more than cities. Improved transport options increase the effective size of a local labour market that can complement a particular labour market reform to increase its impact.
- **Regional development policies should focus on productivity drivers and growth in all regions through strategic investments, not mere subsidies.** However, as a share of government spending, public investment has declined over the past two decades from 9.5% to 7.7%. Boosting capacity of subnational governments, responsible for 59% of that investment, should be a higher priority. Investments that facilitate the diffusion of innovation and good practices across sectors and firms within and beyond a region are an opportunity to increase productivity. While in many countries policies seek to reduce gaps across regions, they should avoid stifling growth in the highest-productivity regions.
- **Urban development policies should consider how cites are linked together in a "system of cities" within a country.** Several countries report recent or upcoming changes to national urban policies. While these policies typically focus on reducing the social and environmental costs in cities, they can also consider the economic role of cities, their local and interregional links in a national system, and their capacity to generate innovation that should benefit the wider economy.
- **Rural development policies need an upgrade to "Rural Policy 3.0".** Progress has been made to move rural development approaches beyond farm supports to also recognise the diversity of rural regions and the importance of connectivity to dynamic areas. Rural Policy 3.0 puts the focus on enhancing communities' competitive advantages, through integrated investments and appropriate local services, and by encouraging local participation and bottom-up development.
- **For place-based policies, the governance arrangements to implement them (the "how") are critical.** Reforms of subnational government are undertaken in many countries to bring policy to the relevant scale or to achieve economies of scale for investments and service provision. Countries continue to experiment with better ways to manage regional development policy and public investments at all levels of government to join up public action across policy fields so as to leverage complementarities and address trade-offs.

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