

12. REGIONAL DISPARITIES IN UNEMPLOYMENT RATES

Unemployment rates vary significantly among OECD countries. In 2003, international differences in unemployment rates were as large as 17 percentage points, ranging from 2.5% in Mexico to 19.6% in Poland (Figure 12.1).

Regional unemployment is a significant issue

Significant international differences in unemployment rates hide even larger differences among regions. In Italy, Poland, Spain and Germany, differences in regional unemployment rates in 2003 were over 19 percentage points (Figure 12.2). Only in Mexico, the Netherlands, Korea and Ireland did unemployment rates reflect a more balanced regional pattern (below 3 percentage points).

While the range shows the difference between the region with the lowest and the highest unemployment rates, the Gini index measures disparities among all regions of a given country. The index ranges between 0 and 1: the higher its value, the larger the regional disparities.

In 2003 the countries with the highest Gini index were Italy (.43), Iceland (.34), Germany (.28), Portugal (.25), Canada, Belgium, and Spain (.24), while the Netherlands (.09), Ireland and Japan (0.11), Sweden, the United States and Greece (.12) had the lowest (Figure 12.3).

Almost half of the OECD workforce lives in areas of high unemployment

In 2003, 49% of the OECD labour force was located in regions with unemployment rates above the national average. The percentage was

particularly high in Iceland (75%), Switzerland (74%), Korea (66%), Mexico (65%), Portugal (64%), Turkey (60%), Austria, France and the United States (58%), the Netherlands (57%), and Denmark (56%). Canada and Australia were the countries with the largest share of the labour force living in regions with low unemployment rates (78% and 76%, respectively).

During 1998-2003, the share of the labour force living in regions of high unemployment increased the most in the Netherlands (41 percentage points), the United States (23), Switzerland (16), the Slovak Republic (14), Norway (12), France (11), the Czech Republic and Poland (10). The share declined the most in Greece (-28) and Japan (-18).

Long-term unemployment also varies widely

There are also significant differences in long-term unemployment rates among regions within countries.

In 2003 the country with the highest Gini index for long-term unemployment rates (Figure 12.4) was Italy (0.55), followed by Austria (0.43), Belgium (0.38) and the Czech Republic (0.35). Those with the lowest Gini index were Poland and the Netherlands (0.12), Sweden (0.14) and Ireland (0.15).

In 2003, 57% of the OECD labour force was based in regions with long-term unemployment rates above the national average. The percentage was particularly high in Greece (90%), the Slovak Republic (87%), Canada (79%), Portugal (68%) and Spain (61%). The Netherlands (10%), Germany (22%) and Ireland (25%) had smallest shares of their labour forces living in regions with high long-term unemployment rates.

Definitions

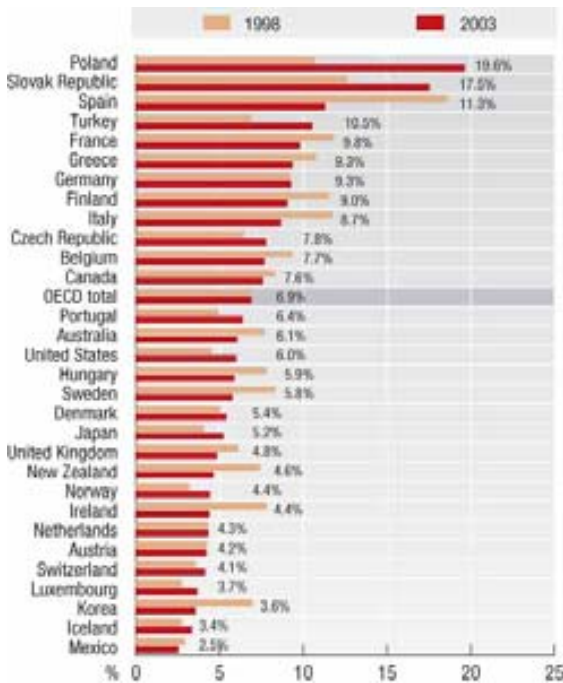
The unemployment rate is the ratio of unemployed people to the total labour force, i.e. unemployed plus employed people. A person is defined as unemployed when he or she is without work, available for work and actively looking for it.

The long-term unemployment rate is the ratio of long-term unemployment to the total labour force. It includes all those who have been unemployed and looking for work for 12 months or more.

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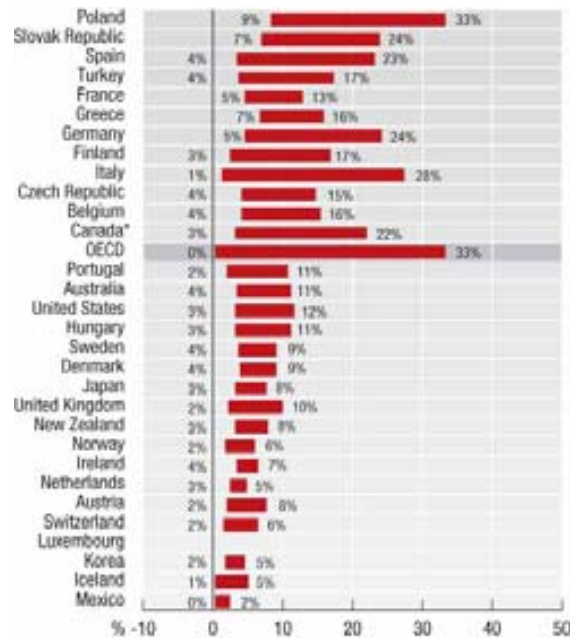
12.1. Unemployment rates vary significantly among OECD countries...

National unemployment rate



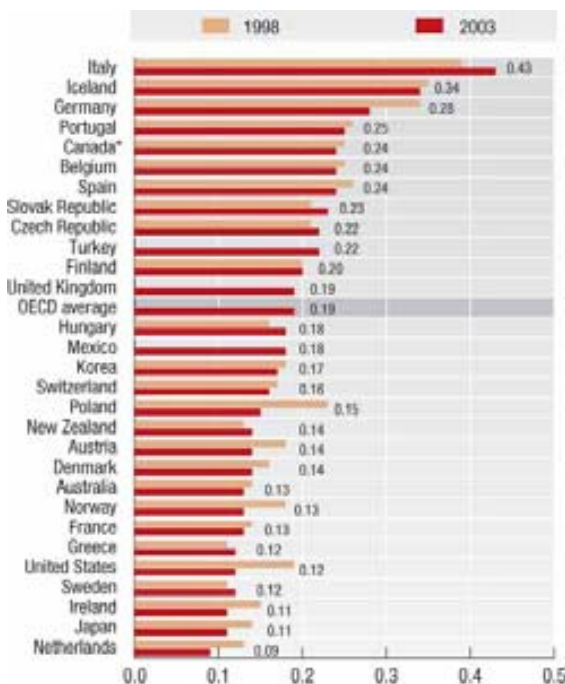
12.2. ... but disparities in unemployment rates are even larger among regions

Range of unemployment rates across regions within each country, 2003 (TL3)



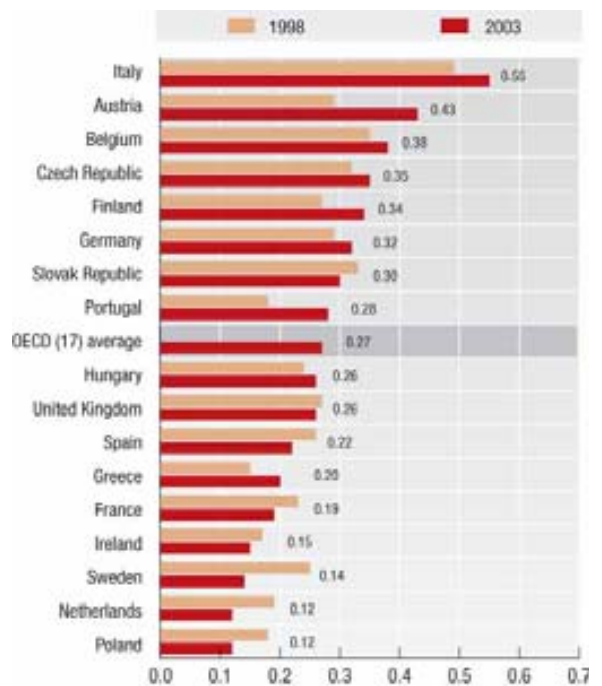
12.3. The largest regional disparities in unemployment rates in 2003 occurred in Italy and Iceland

Gini index of inequality of regional unemployment rates (TL3)



12.4. In 2003, Italy displayed the largest regional disparities in long-term unemployment rates

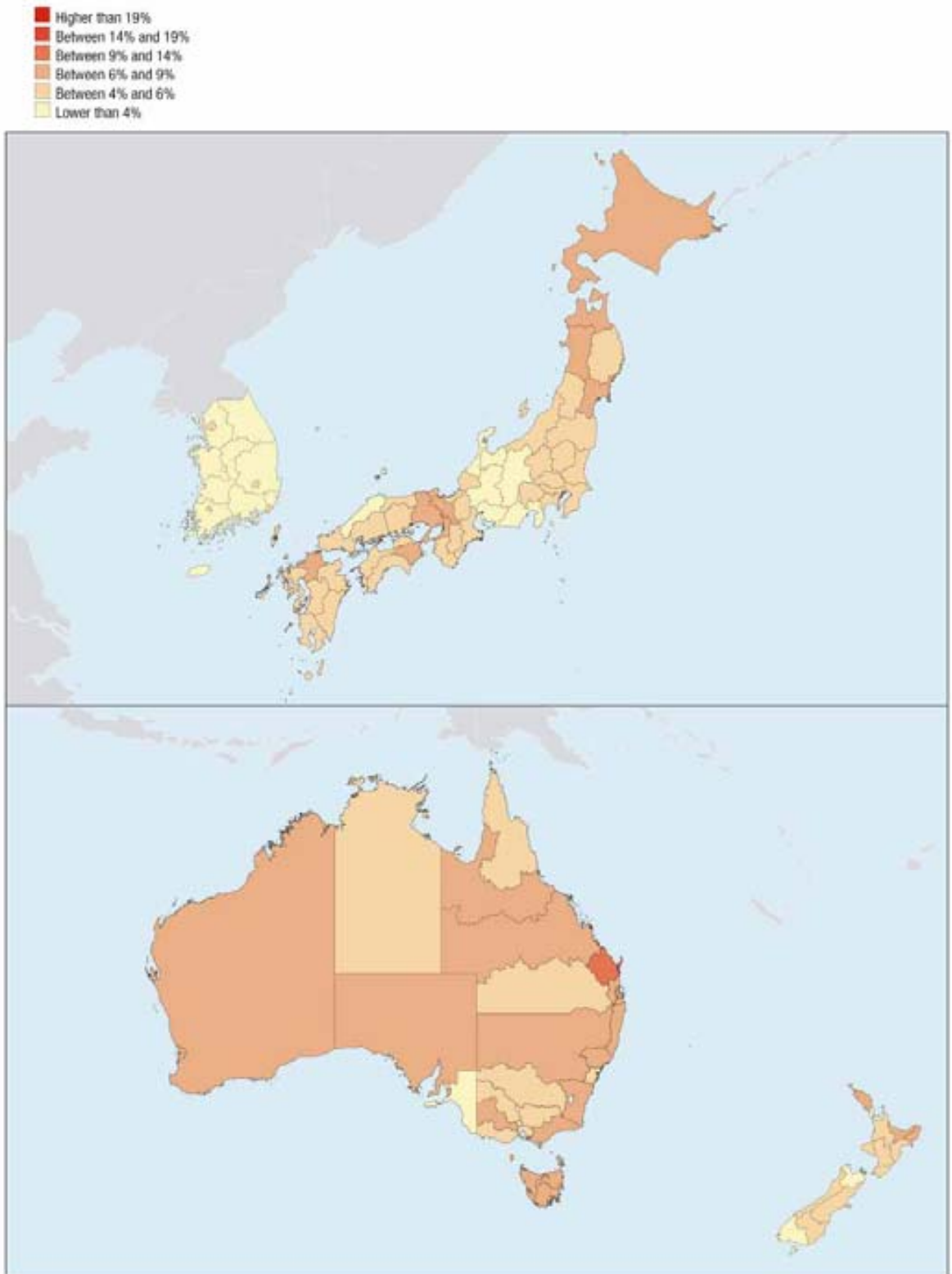
Gini index of inequality in long term unemployment rates (TL2)



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12.5. Regional unemployment rate: Asia and Oceania

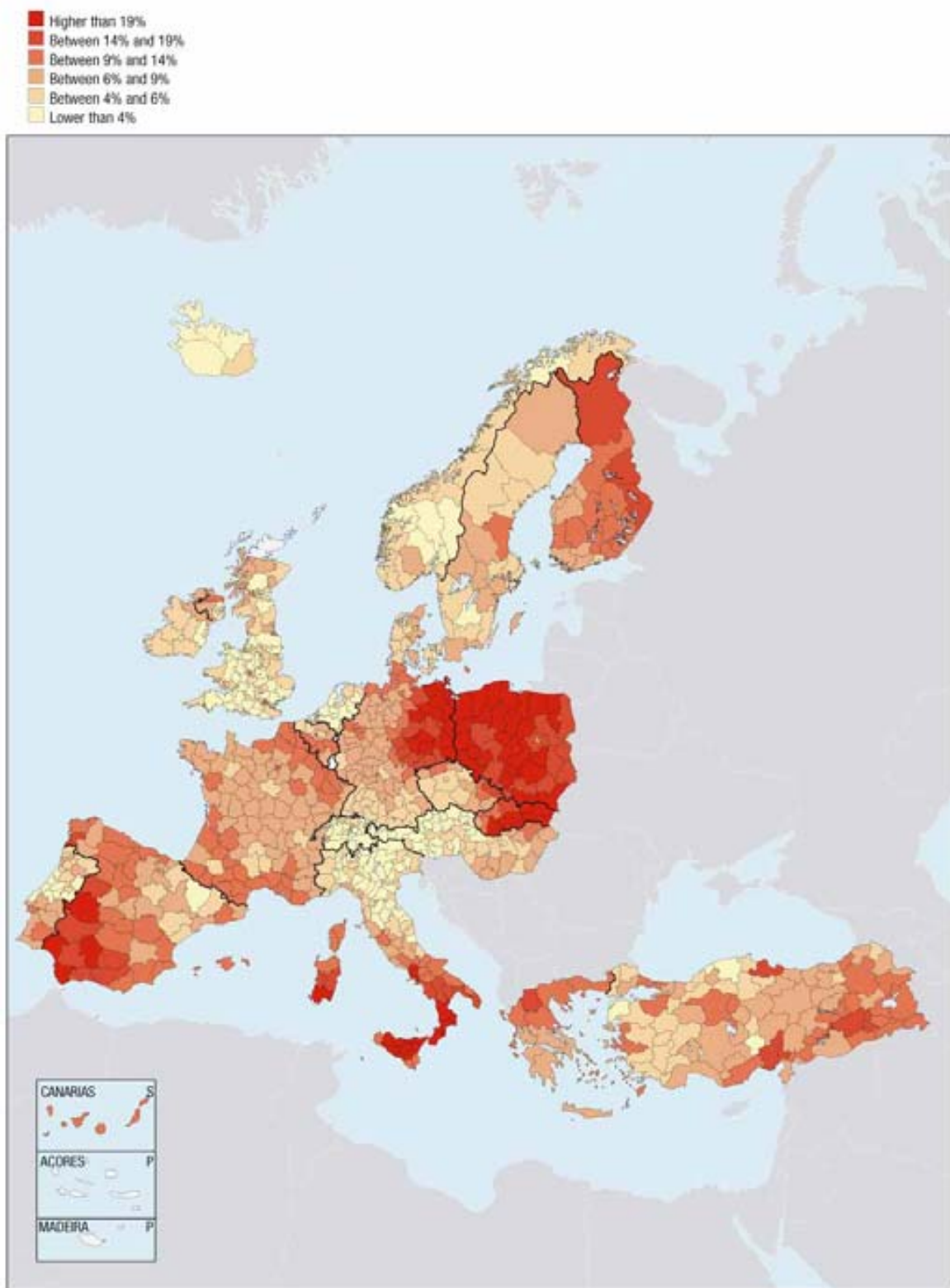
2003




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12.6. Regional unemployment rate: Europe

2003

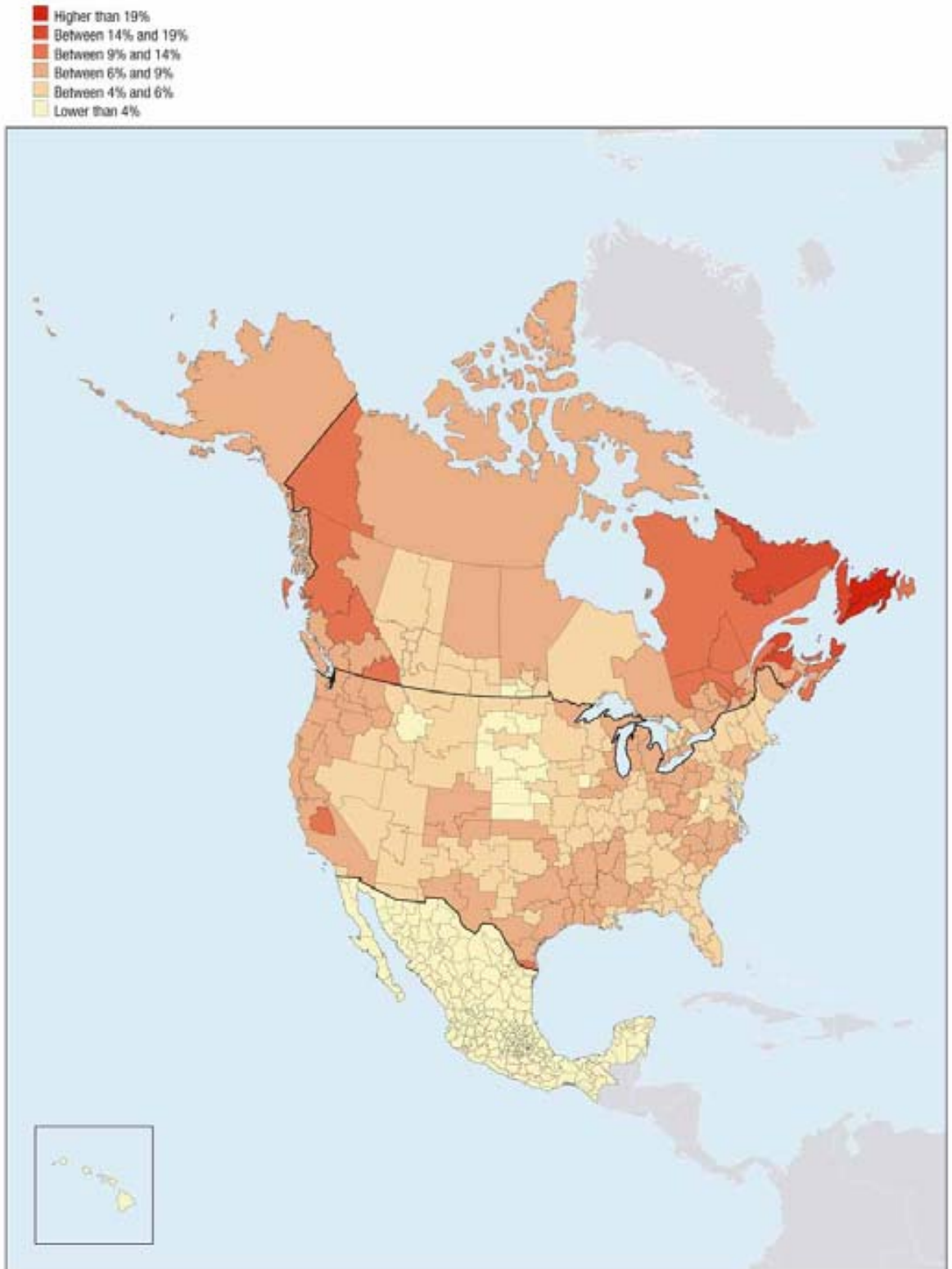


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12. REGIONAL DISPARITIES IN UNEMPLOYMENT RATES

12.7. Regional unemployment rate: North America

2003



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Regional unemployment: market failure or wage inflexibility?

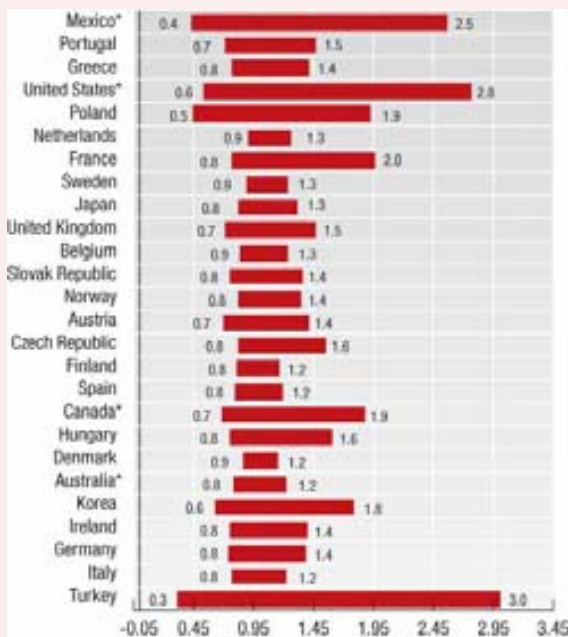
Unemployment rates vary significantly among regions, and, in many countries, regional disparities have persisted over long periods of time. Persistent disparities in unemployment should provide individuals with the incentive to move from regions with high unemployment to regions with low unemployment. Mobility, however, is not without cost, and even if in the long run the monetary return to moving to another region would exceed the monetary costs, imperfect capital markets, risk aversion or social ties may make the net economic plus social returns to mobility insufficient to induce geographic mobility from regions of high unemployment to those with low unemployment.

If some “market failure” prevents adjustment between regions, wage flexibility should ensure labour market clearing within regions. In theory, as long as wages are set according to marginal labour productivity, the demand for labour will always adjust to supply across industrial sectors within regions. This is why wage inflexibility is often considered the main cause of regional disparities in unemployment rates. If wages are set at the national level, regional differences in productivity (Figure 12.8) will translate into higher unemployment rates in regions with low productivity.

Figure 12.9 shows the correlation coefficients between countries’ unemployment rates and productivity. A negative coefficient – indicating that unemployment is high in regions with low productivity – would be consistent with the hypothesis that wage inflexibility or labour immobility between regions is a significant explanation of regional disparities. In 16 out of 25 countries, the correlation is negative; in 11 of these 16 countries, the coefficient is also statistically significant. These results should be interpreted with caution for at least two reasons. First, there are considerable regional differences in price levels but, owing to lack of data, regional productivity is measured at national prices. Second, economic theory predicts a relationship between marginal productivity and wages whereas the correlation is based on average productivity. However, the observed patterns of regional unemployment are still roughly consistent with the hypothesis that unemployment disparities result from wage inflexibility.

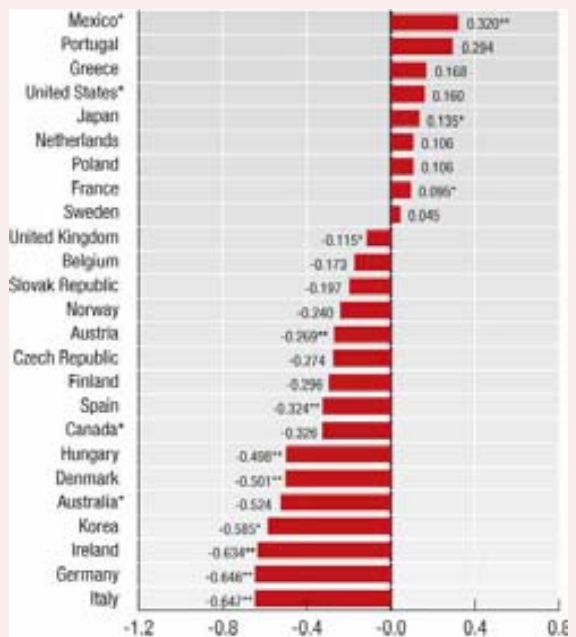
12.8. There are significant differences in labour productivity among regions

Range in labour productivity across regions, as a per cent of the national average, 2003 (TL3)



12.9. In several countries, low-productivity regions tend to have higher unemployment rates

Spearman correlation between regional unemployment rates and regional GDP per worker, 1998-2003 (TL3)



*Significant at 95%. ** Significant at 99%

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Symbols and Abbreviations

OECD (25) average	Unweighted average of 25 OECD countries.
OECD (25) total	Sum over all regions of 25 OECD countries.
OECD (25)	Range of variation over all regions of 25 OECD countries.
TL2	Territorial Level 2.
TL3	Territorial Level 3
NOG	Non Official Grid
*	Differences in the definition of data or regions. Please check the “Sources and Methodology” section.
PU	Predominantly Urban
IN	Intermediate
PR	Predominantly Rural
PPP	Purchasing Power Parity
USD	United States Dollar





I. REGIONS AS ACTORS OF NATIONAL GROWTH

1. GEOGRAPHIC CONCENTRATION OF POPULATION
2. GEOGRAPHIC CONCENTRATION OF THE ELDERLY POPULATION
3. GEOGRAPHIC CONCENTRATION OF GDP
4. REGIONAL CONTRIBUTIONS TO GROWTH IN NATIONAL GDP
5. GEOGRAPHIC CONCENTRATION OF INDUSTRIES
6. REGIONAL CONTRIBUTIONS TO CHANGES IN EMPLOYMENT
7. GEOGRAPHIC CONCENTRATION OF PATENTS

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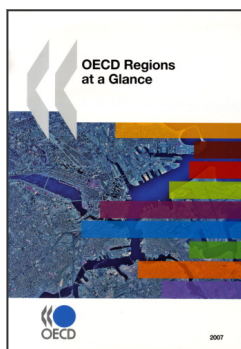
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