



HOW CAN PRODUCTIVITY GAINS BE SHARED AND INCLUSIVE ACROSS SPACE

Global Productivity Forum, Budapest

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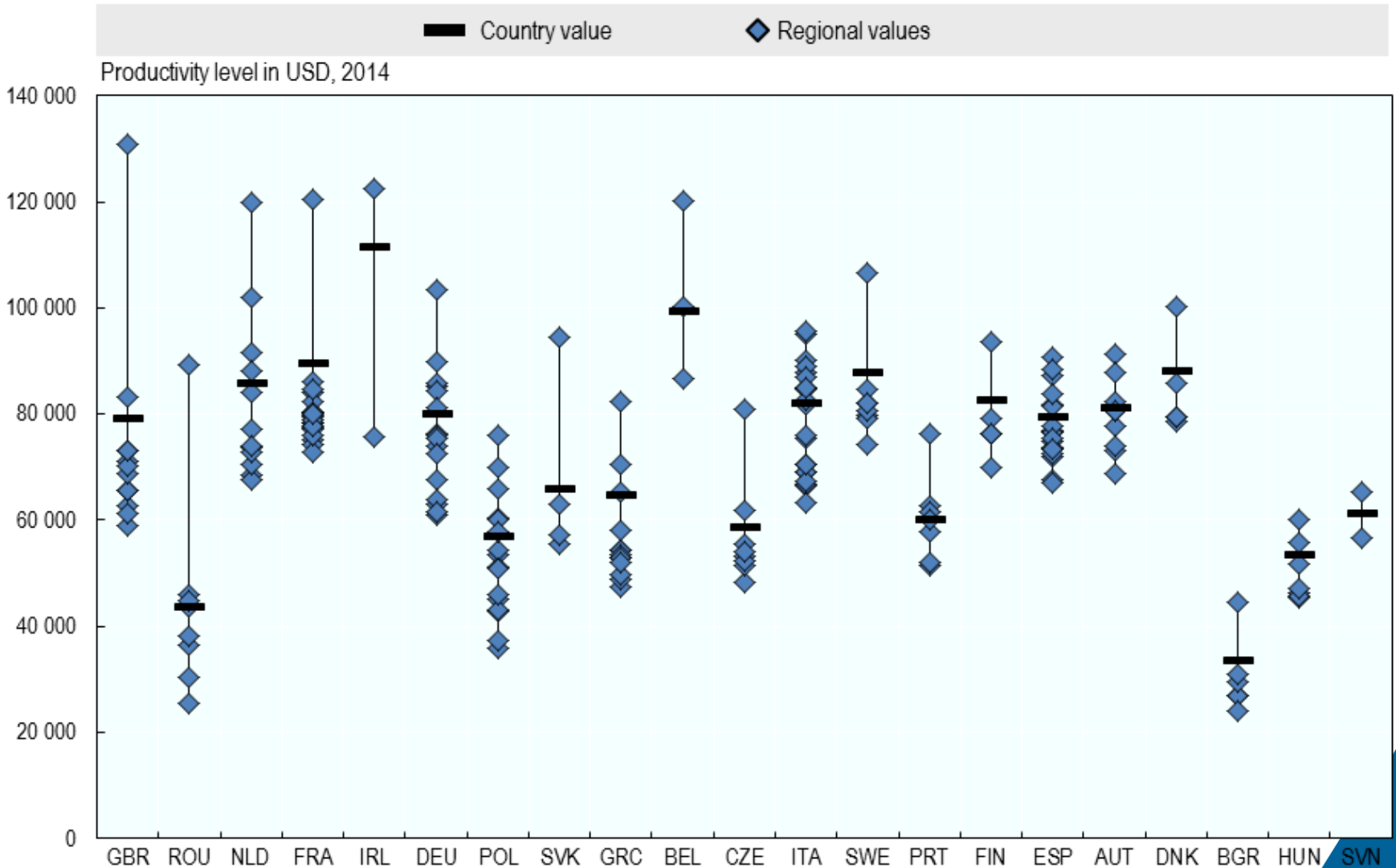
- Productivity
 - Productivity across regions and cities
 - Productivity performance / catching up
 - Drivers of catching-up
 - Territorial aspects of, and strategies for developing the tradable sector
- Inclusiveness
 - Inclusiveness in regions and cities
 - Productivity-inclusiveness nexus across space
- Conclusion: Trade / GVC integration



Productivity across regions and cities

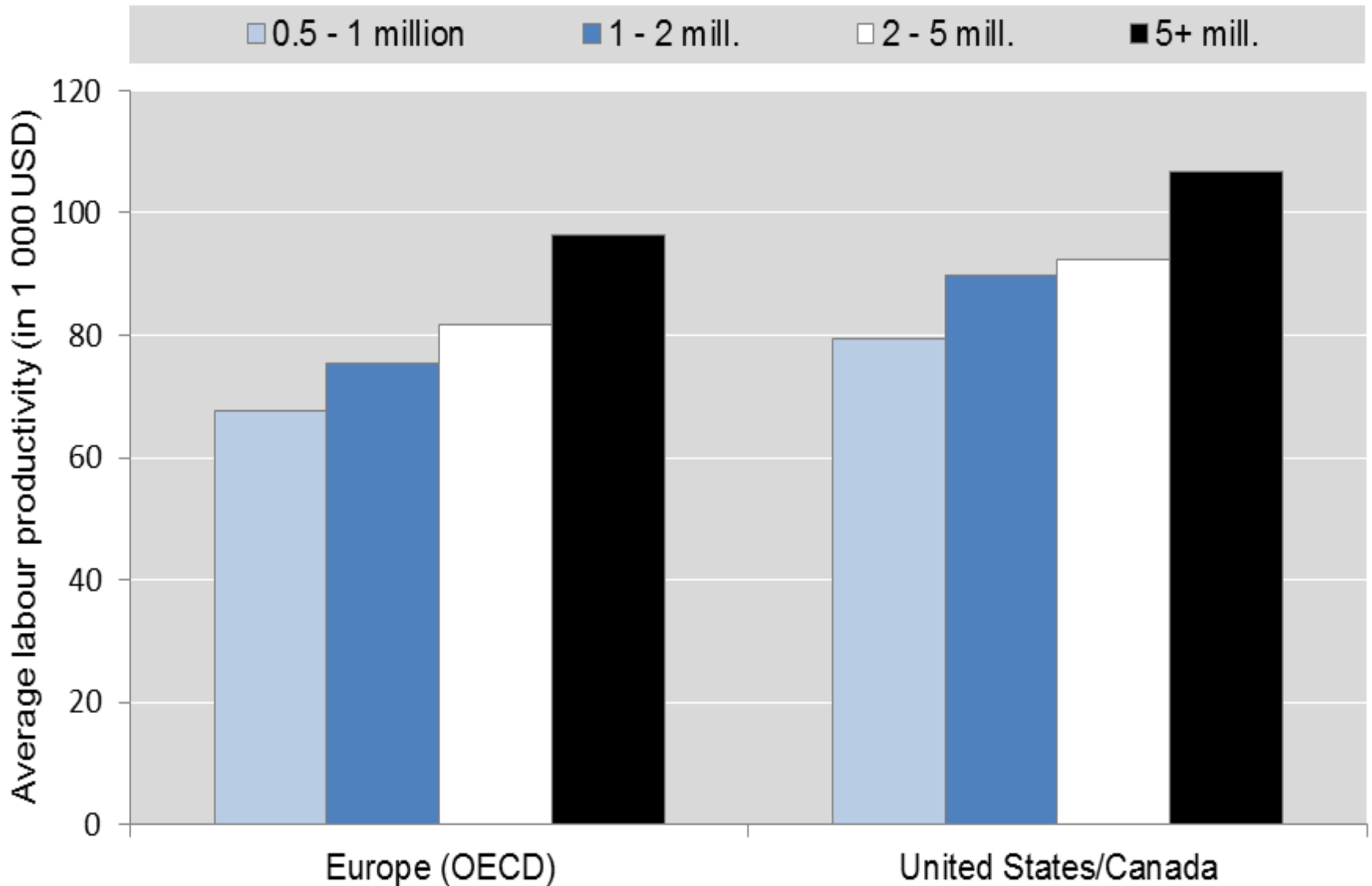


Productivity differs widely within countries



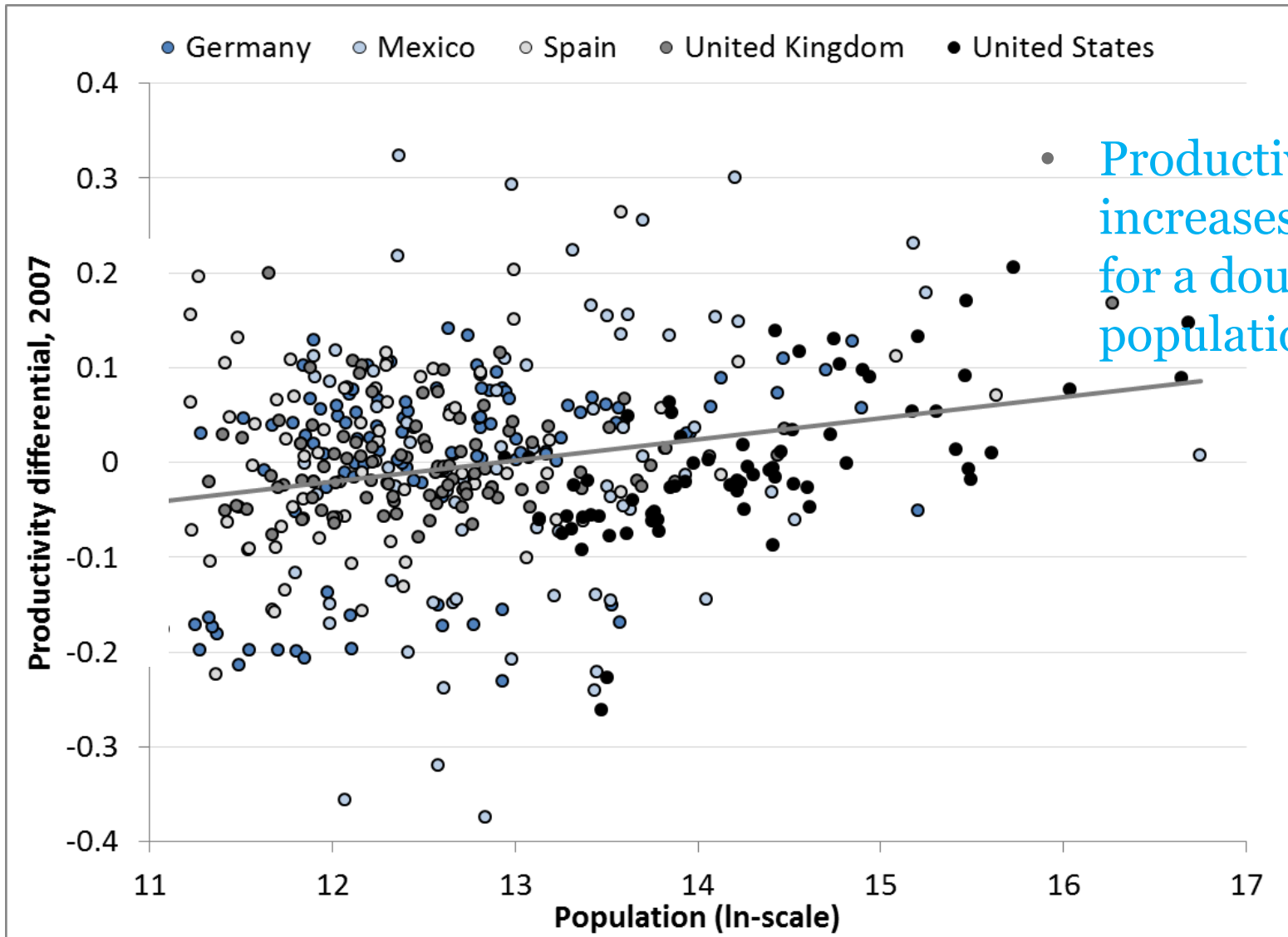


Bigger cities are more productive



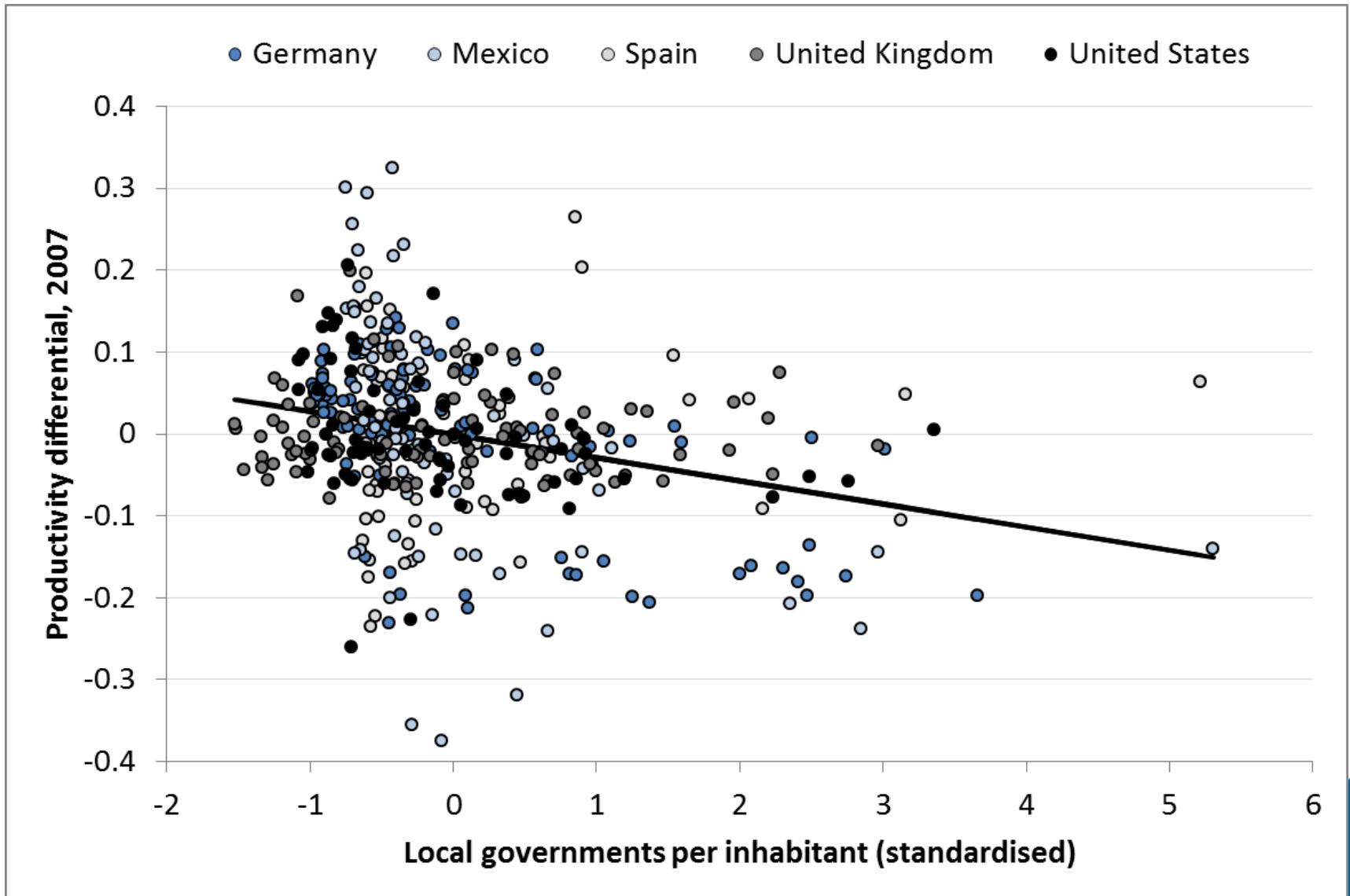


City productivity increases with city size even after controlling for sorting





Administrative fragmentation is correlated with lower city productivity

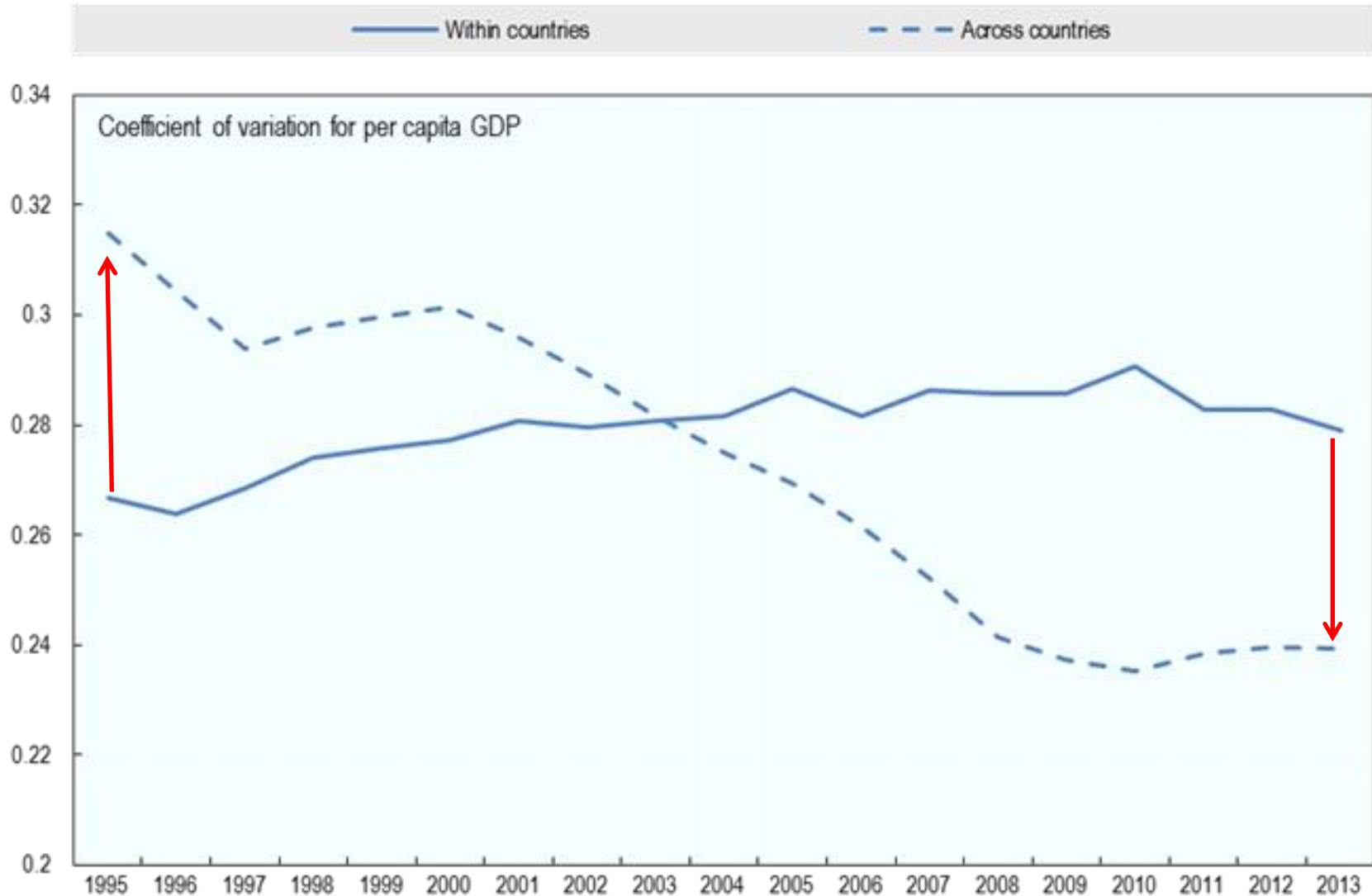




Productivity Performance / Catching up

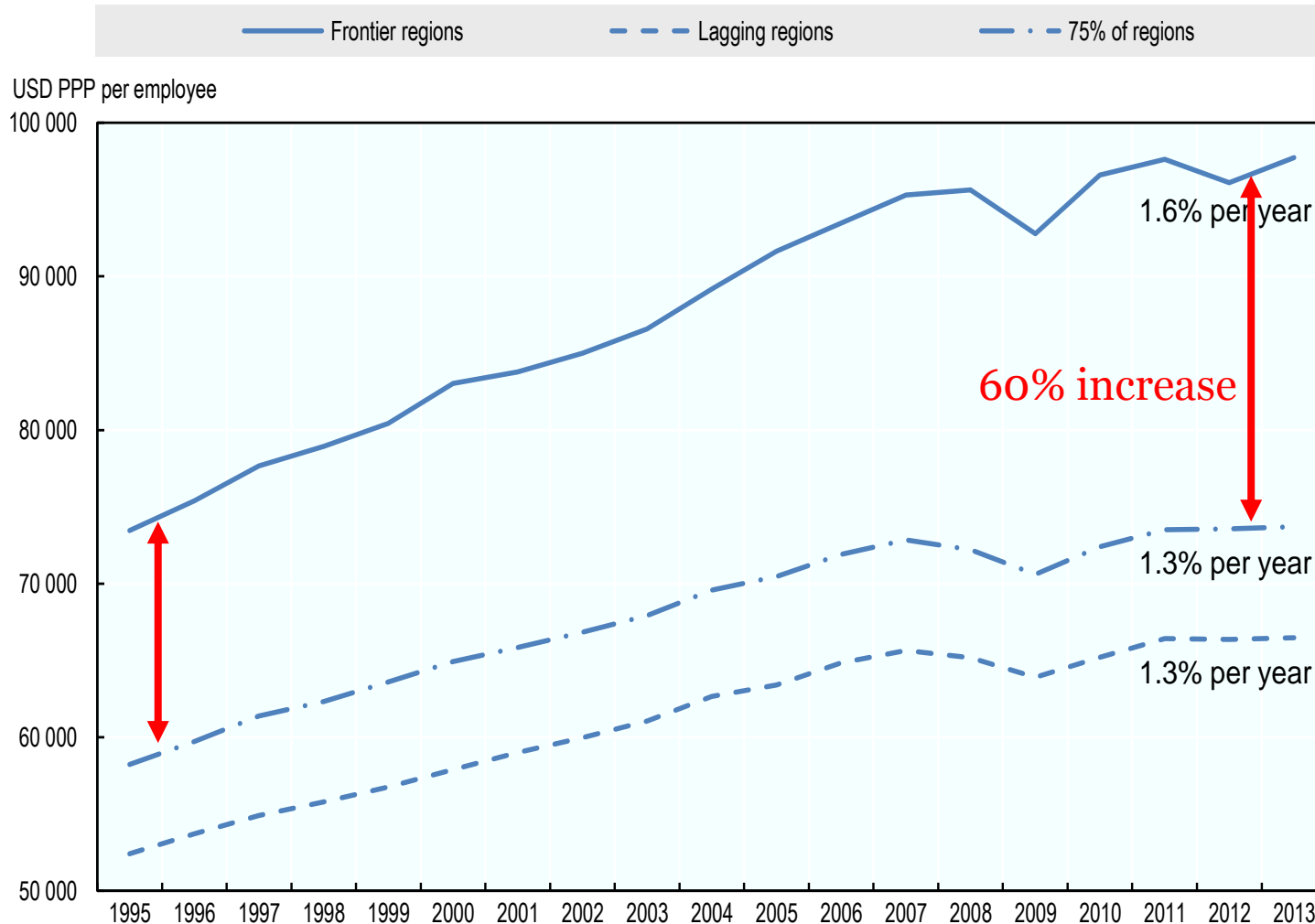


OECD economies have converged - Within countries, regions have diverged



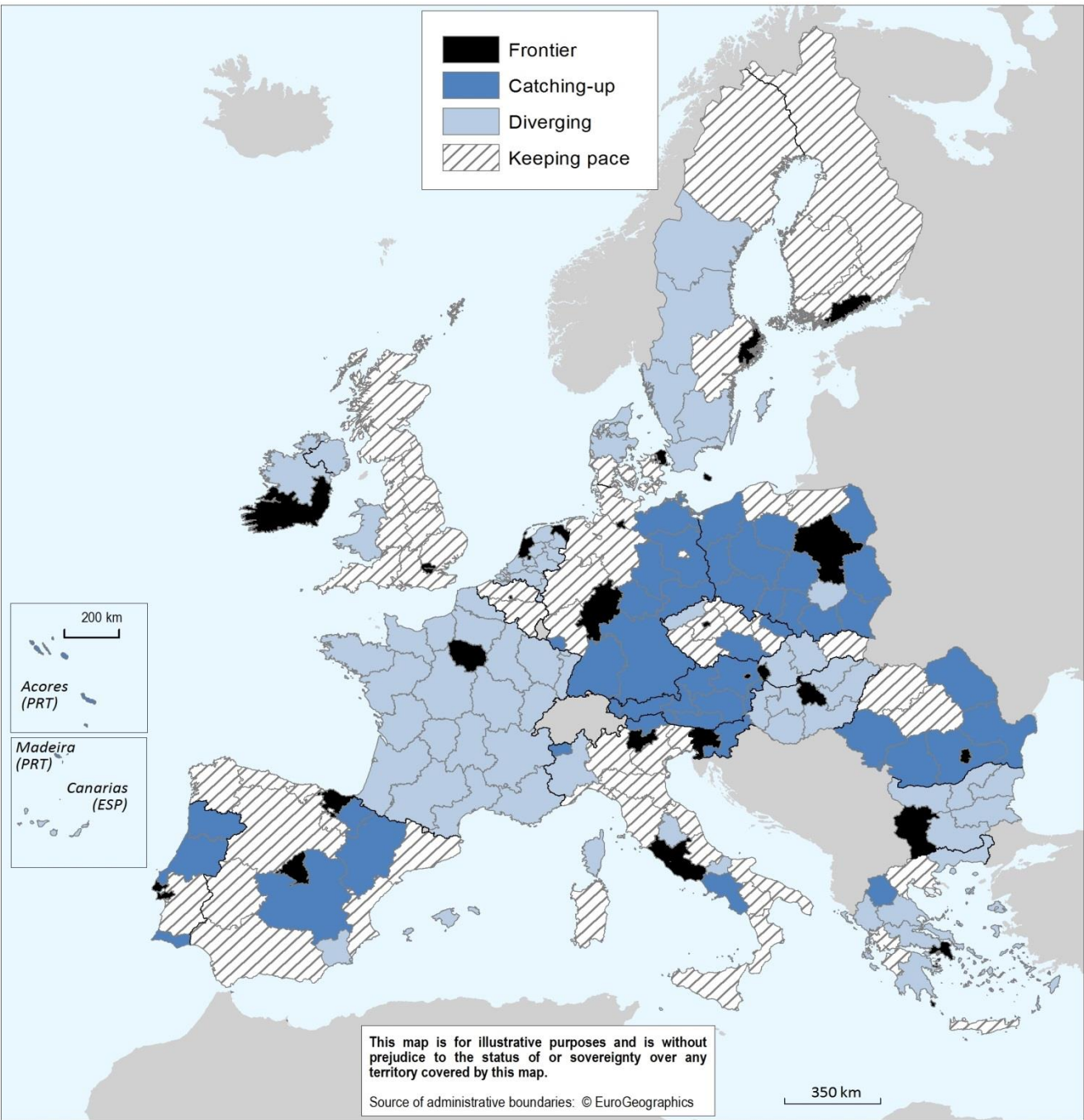
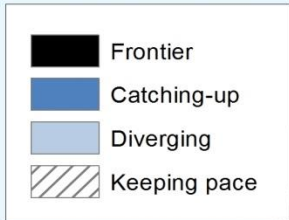


The productivity gap between frontier and lagging regions has increased



Averages of top 10% (frontier), bottom 75%, and bottom 10% (lagging) regional GDP per worker, TL2 regions

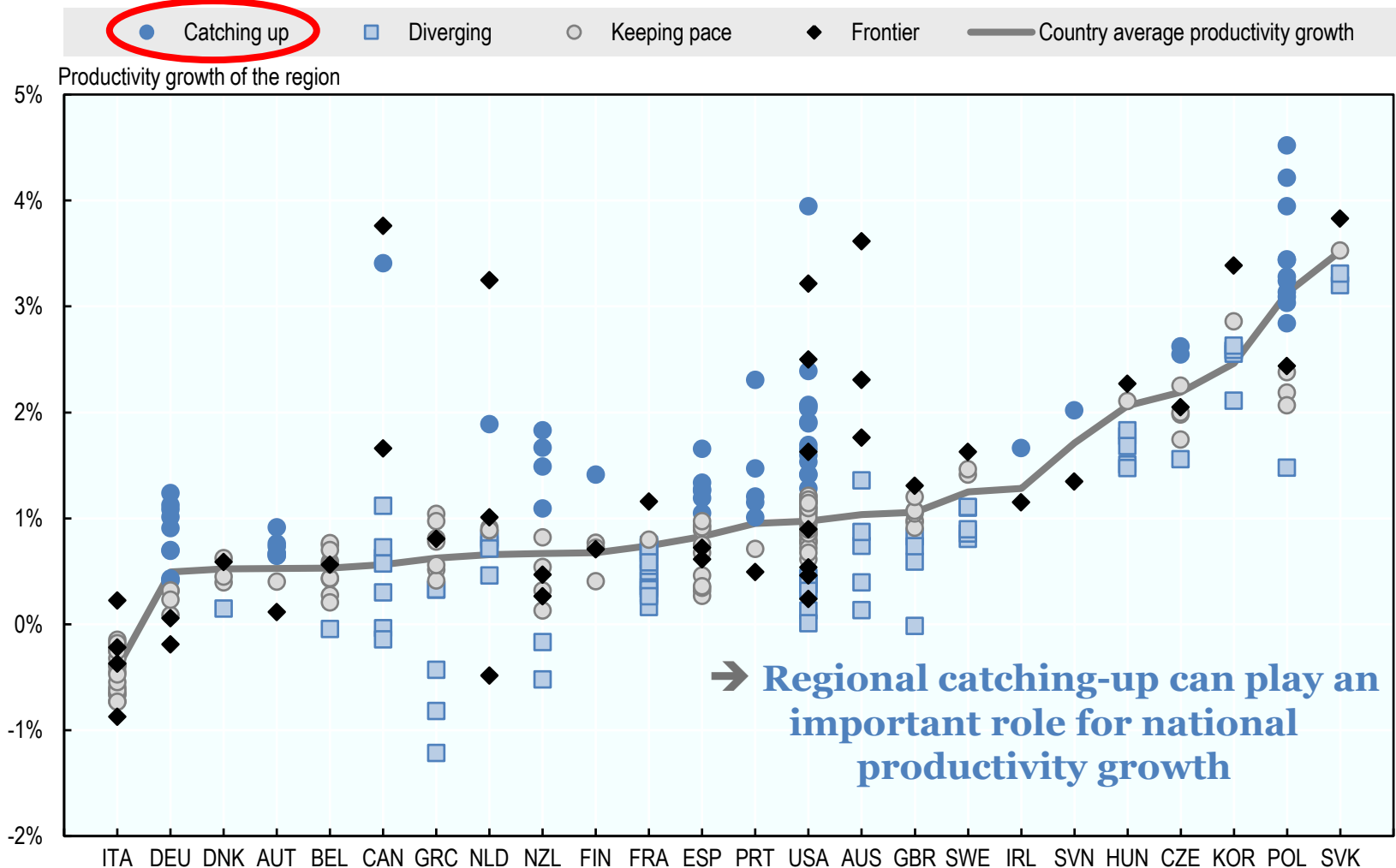
Notes: Average of top 10% and bottom 10% TL2 regions, selected for each year. Top and bottom regions are the aggregation of regions with the highest and lowest GDP per worker and representing 10% of national employment. 19 countries with data included.



Geography of productivity convergence relative to national frontiers in European regions



National labour productivity growth depends on the performance of regions

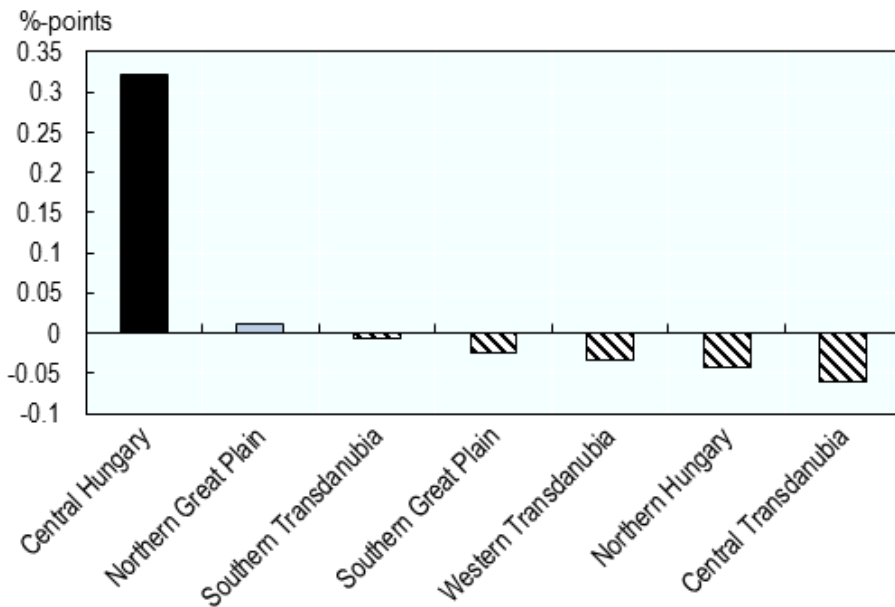




Productivity and “catching up” in Hungary

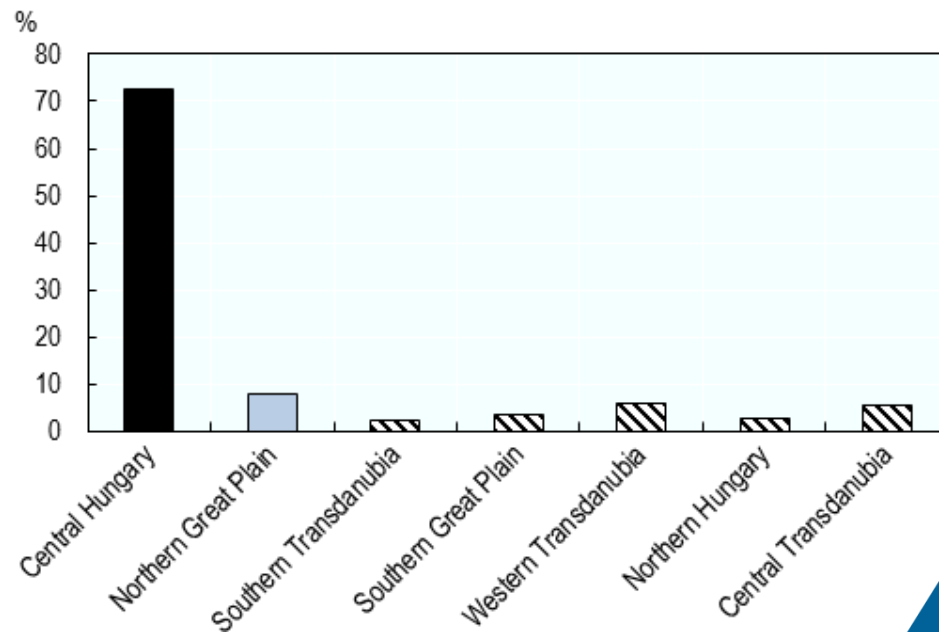
■ Frontier ■ Catching up ■ Keeping pace ■ Diverging

Contribution to national labour productivity growth, 2000-12



Note: Difference between national labour productivity growth as calculated with and without the indicated region.

Percentage contribution to national GDP growth, 2000-2012



Note: The contribution is the product of a region’s GDP growth rate by its initial share of GDP.



Productivity and “catching up” in Austria

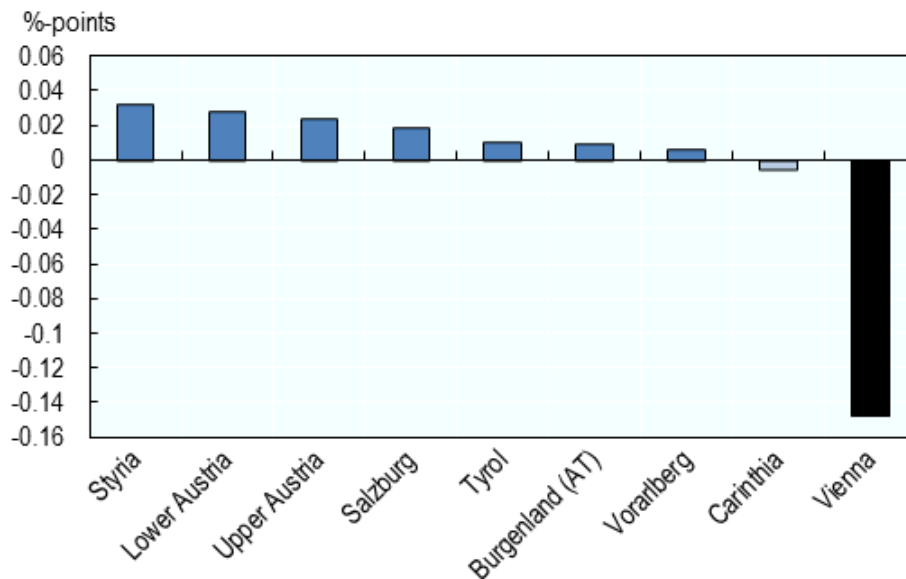
■ Frontier

■ Catching up

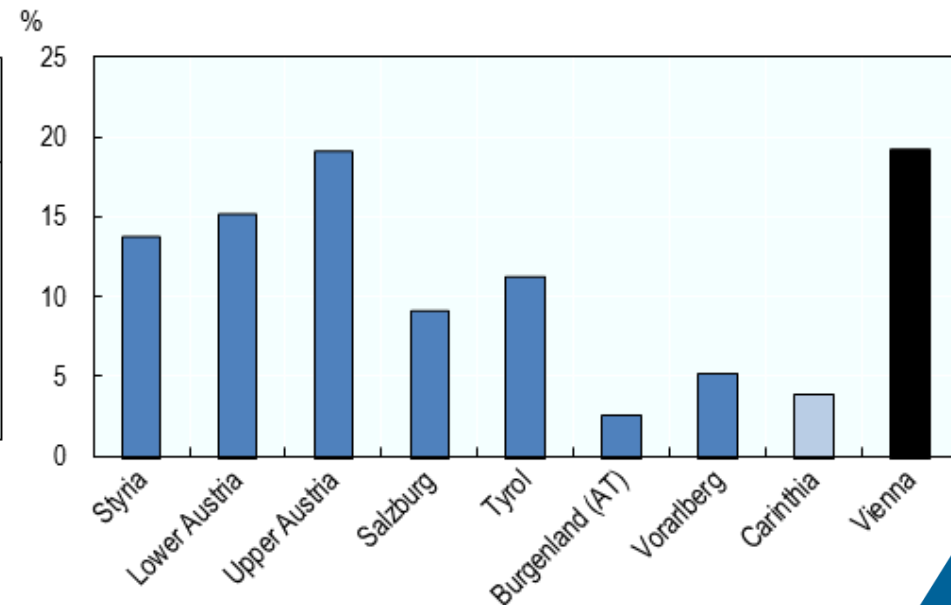
■ Keeping pace

■ Diverging

Contribution to national labour productivity growth, 2000-13



Percentage contribution to national GDP growth, 2000-2013



Note: Difference between national labour productivity growth as calculated with and without the indicated region.

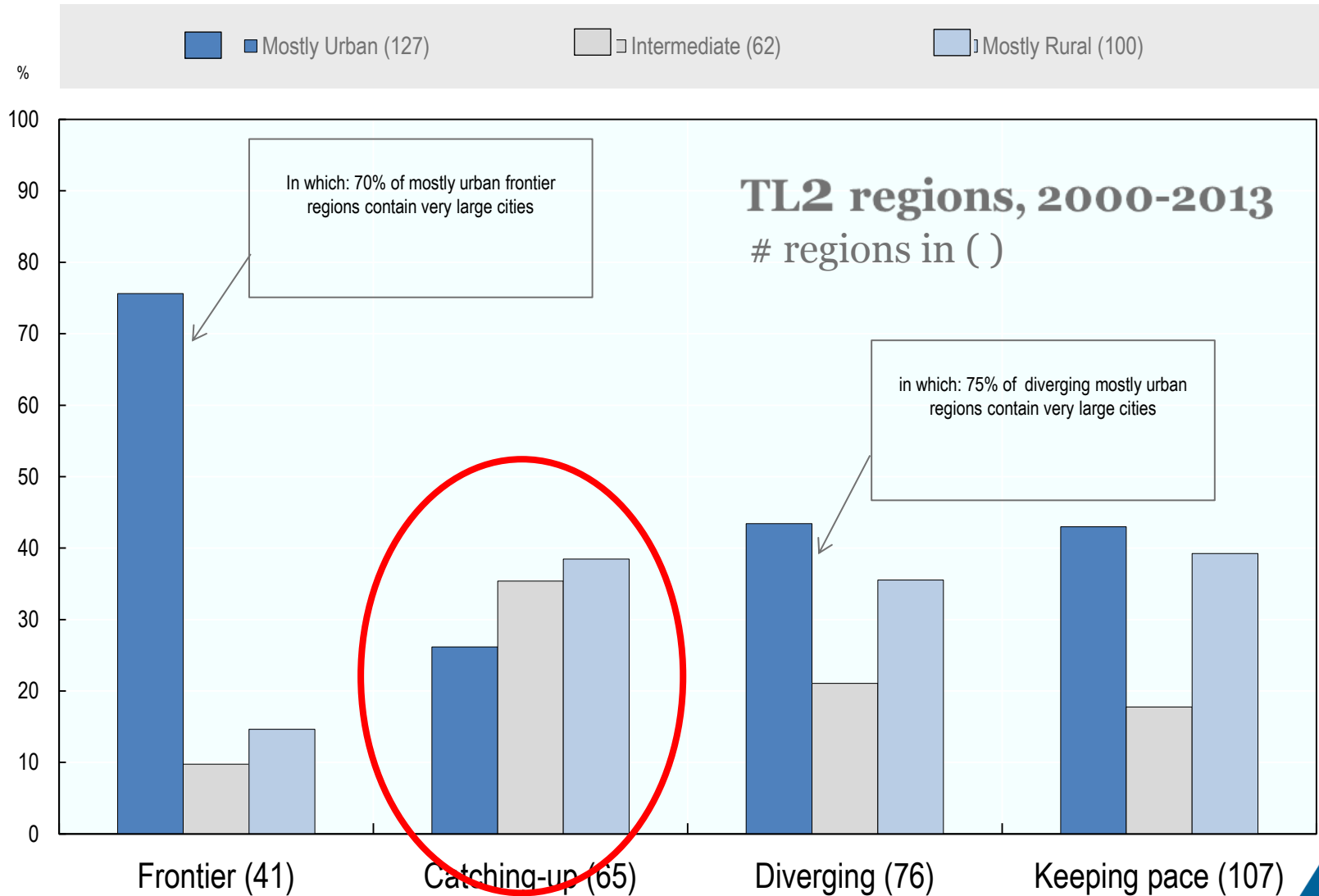
Note: The contribution is the product of a region's GDP growth rate by its initial share of GDP.



The drivers of regional productivity catching-up

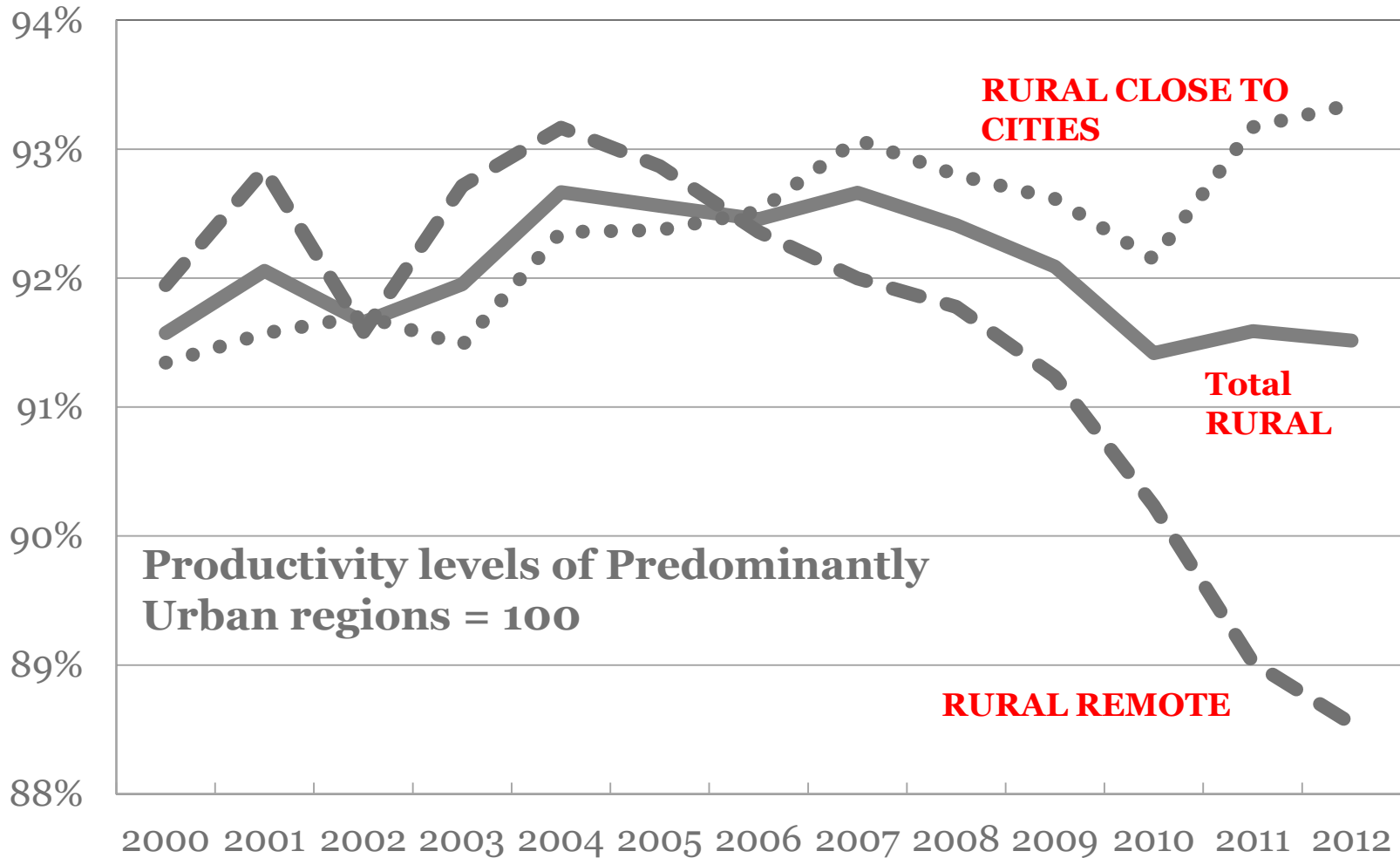


Good or bad productivity performance can be found for all types of regions





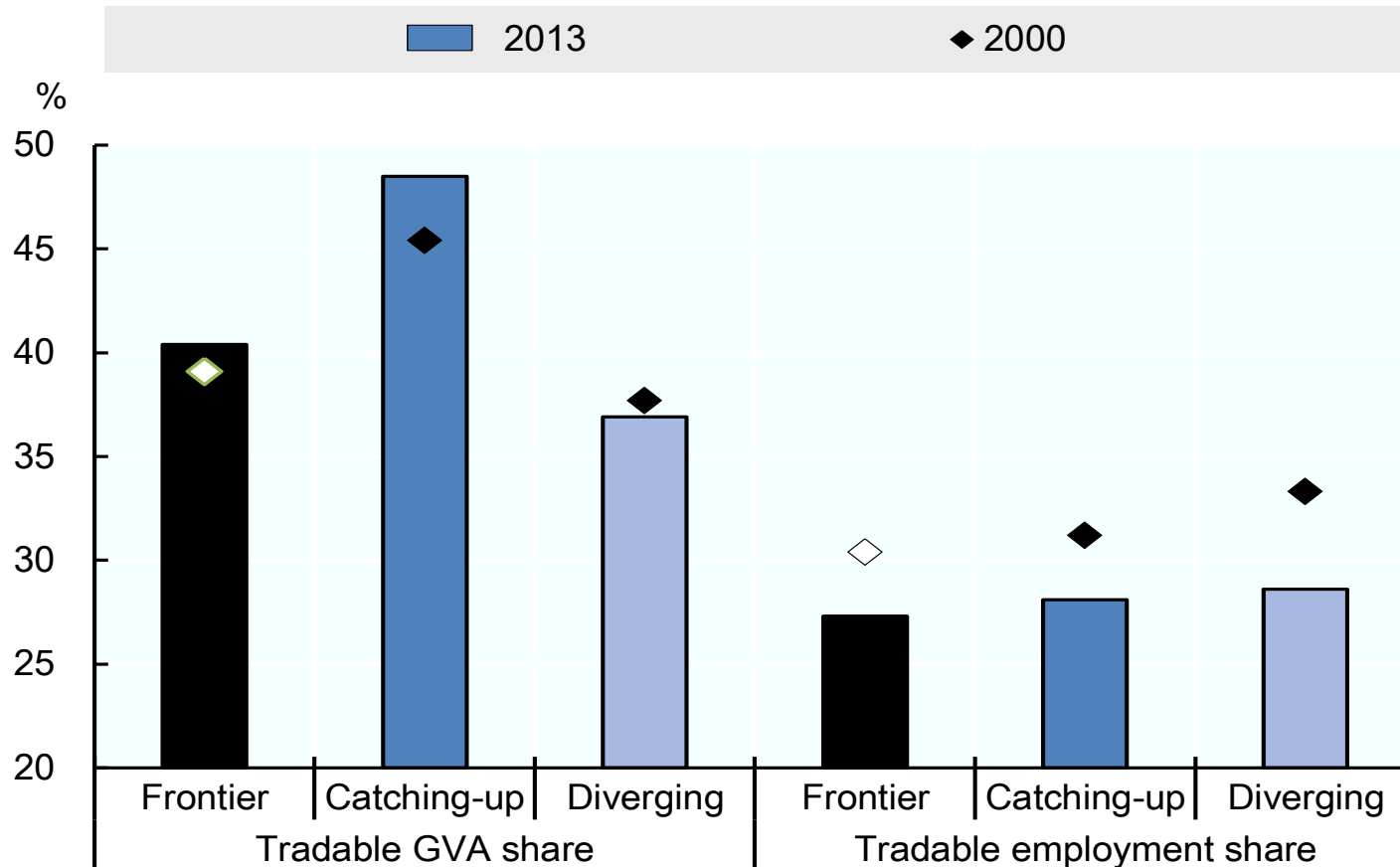
Labour productivity of remote rural areas has recently declined





Stronger intensity of tradable sectors is associated with productivity catching-up

All tradable sectors, TL2 regions



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).



Productivity gains in tradables are mainly within sectors

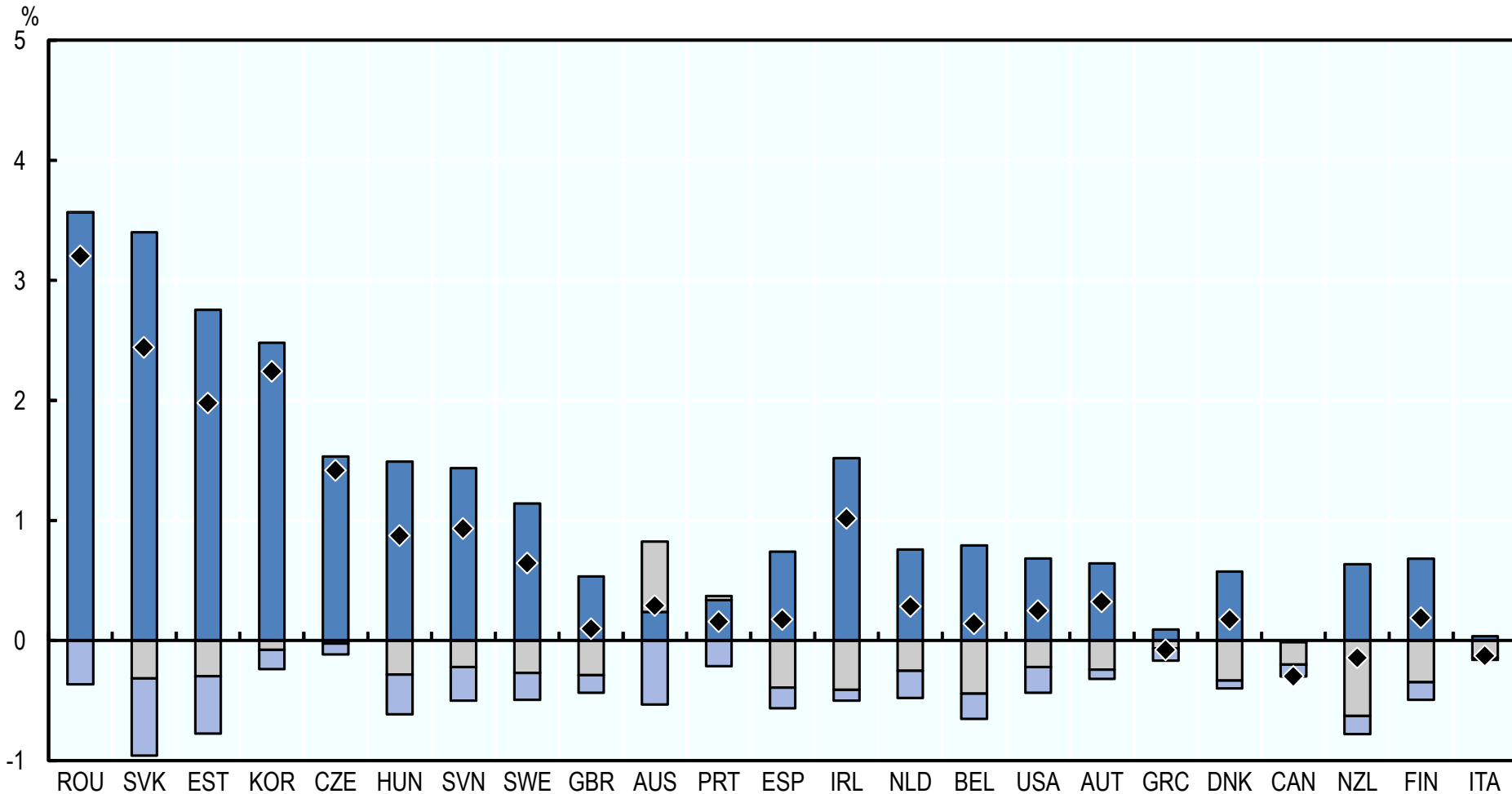
Tradable sectors - contribution to productivity growth

Employment shifts to faster growing sectors

Employment shifts to initially more productive sectors

Sectoral productivity growth

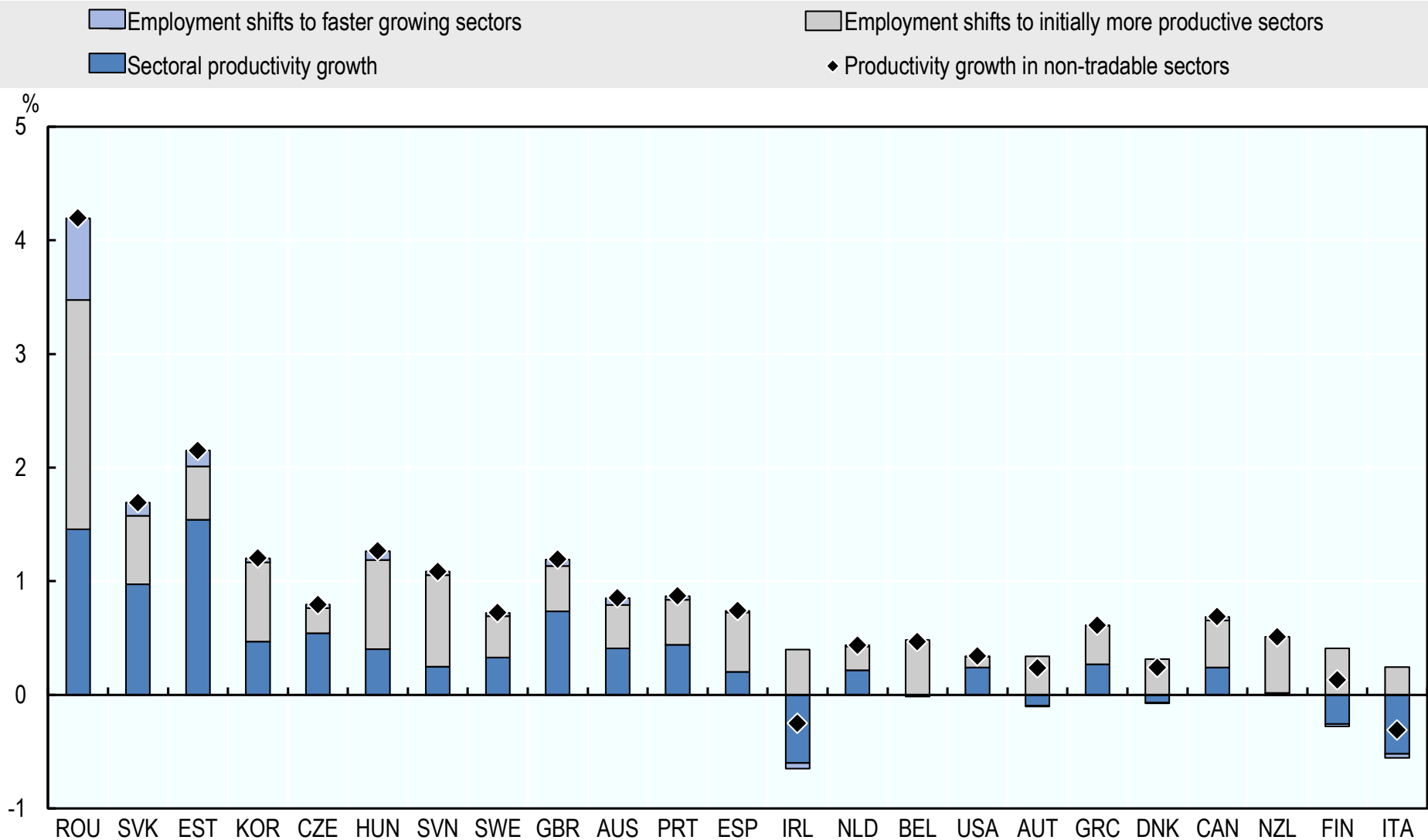
Productivity growth in tradable sectors





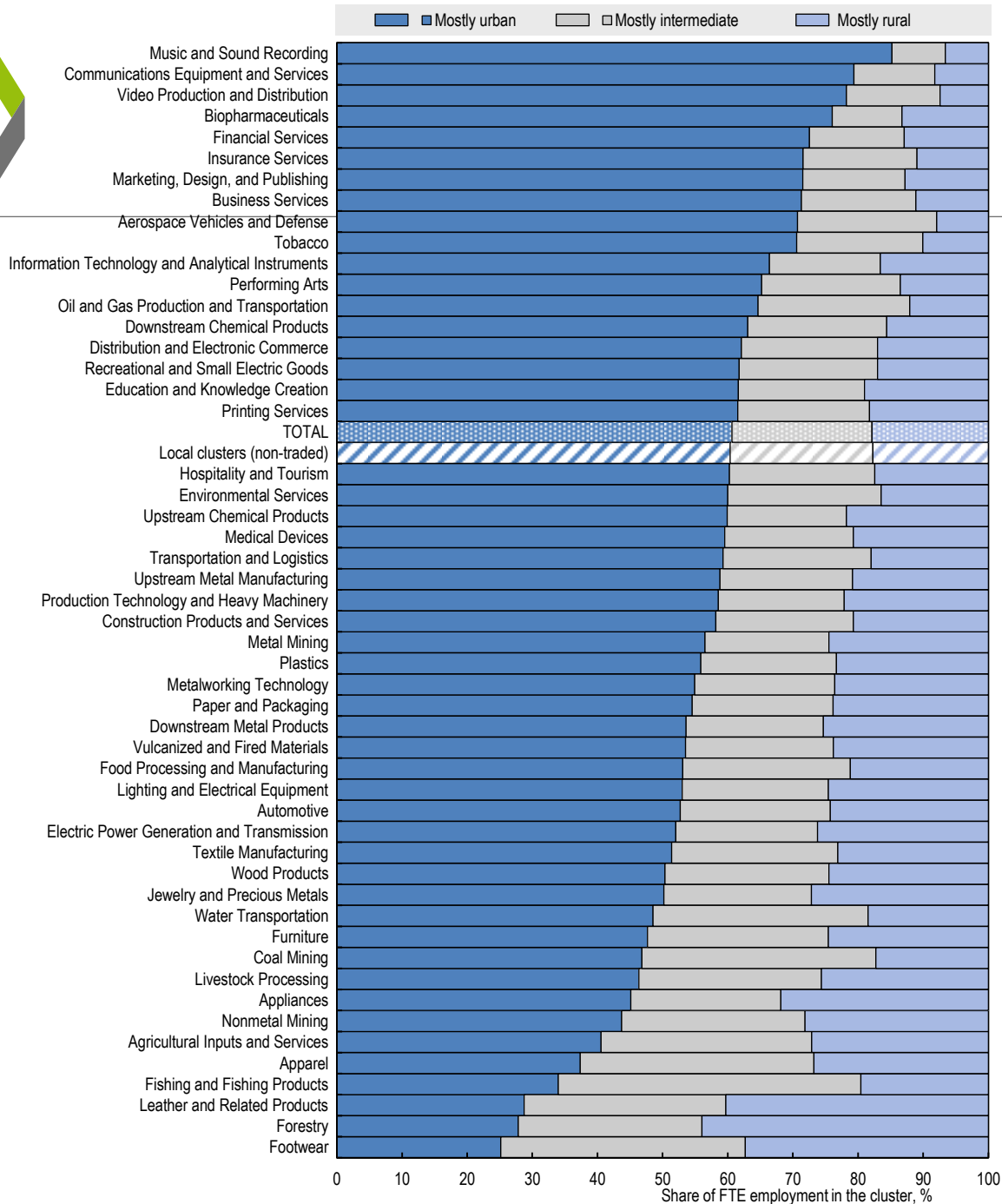
Productivity gains in non tradables are associated with sectoral shifts

Non-tradable sectors - contribution to productivity growth





Territorial aspects of, and strategies for developing the tradable sector



Share of total employment in clusters by type of TL2 region

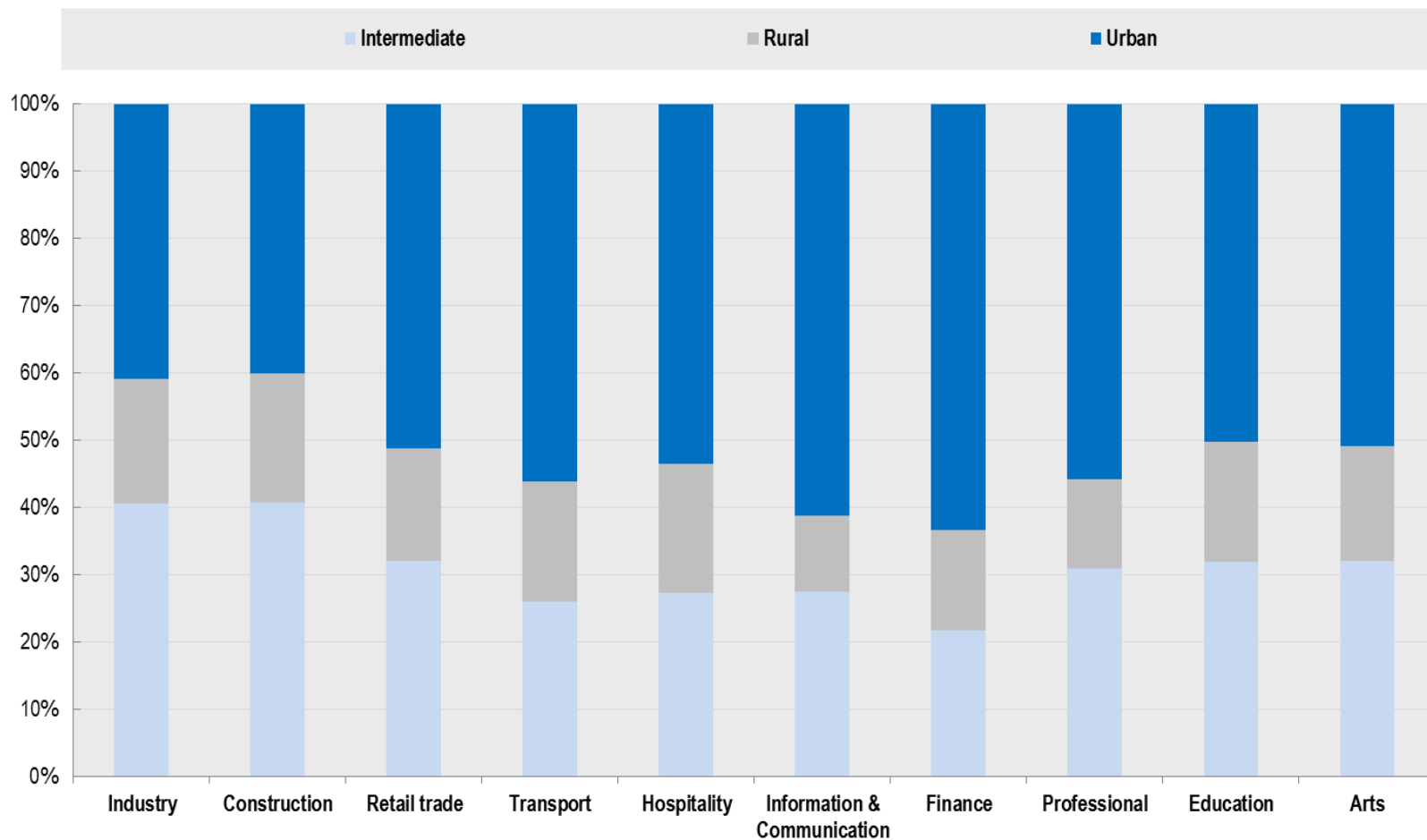
Mostly urban regions are those with at least 70% of its population living in Functional Urban Areas or part of its population living in a large metro area with at least 1.5 million inhabitants. Mostly rural regions have less than 50% of their population living in FUAs

Source: OECD Regional Statistics and Ketels and Protsiv (2016)



Urban areas attract more knowledge-intensive firms

Birth shares by sector (births by sector/total regional births)
TL3 regions (15 OECD countries) 2014





Strategies for developing the tradable sector

To remain competitive in Tradable sectors there are mainly three main options:

1. Continued specialisation in ***Natural resources***. This is typically an option for remote rural regions
2. Be integrated in ***Global Value Chains***. Integration between manufacturing and service sectors is needed. Connectivity and proximity may favour low-density areas close to cities. Without a territorial strategy it may be difficult to benefit from GVCs for regional development. Forward and backward linkages (*re-bundling*) are critical to maximize value-added of FDI and creation of a network of local suppliers.
3. Develop ***Territorially differentiated products & services*** through mobilisation of local assets. Consumers may express preferences for local or traceable products, without subsidies or some form of protection.

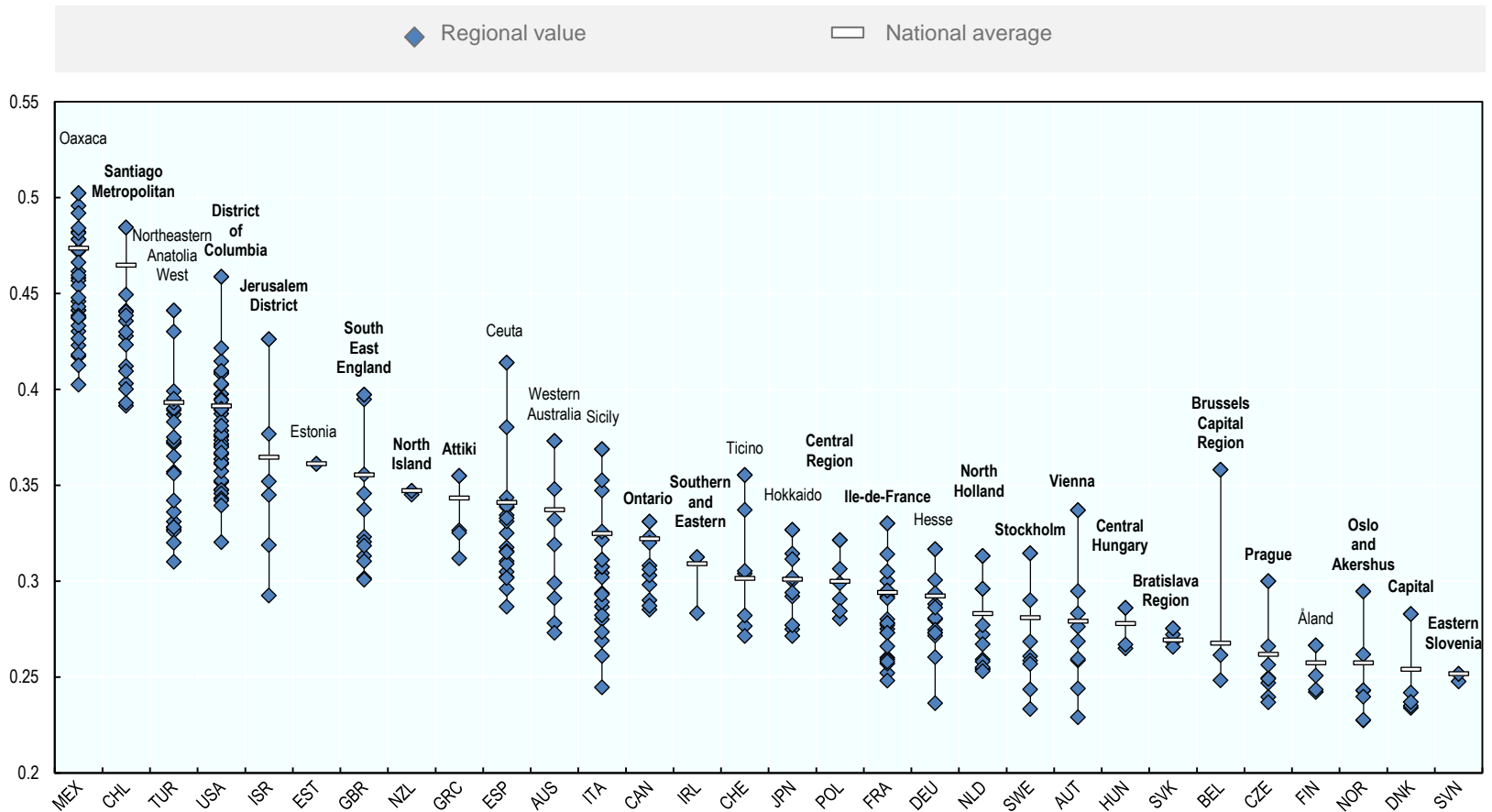


Inclusiveness in regions and cities



Disparities of household income are large *within* regions, mainly in capital cities

Gini index of disposable income (after tax and transfers), 2013

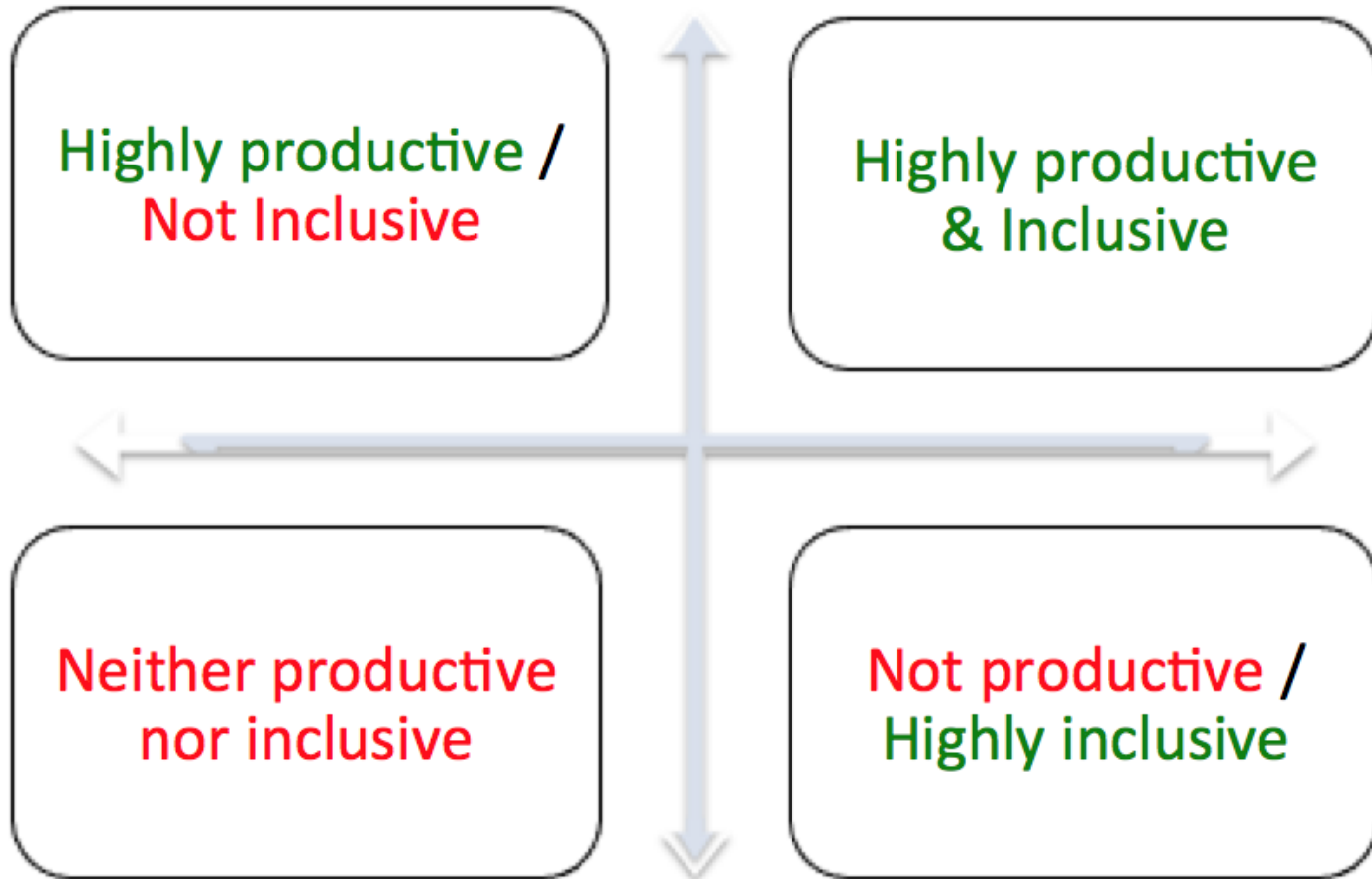




What do we know about the nexus
between productivity and
inclusiveness across space



Towards a topology for regions and cities*



*This section is based on preliminary work that has been prepared by the Program for Local Economic and Employment Development (LEED) and discussed by its Committee



Designing the Inclusiveness Composite Indicator (Work in Progress)

Variables	Weight
Unemployment	Equal weighting was selected after PCA assigned similar weights to all indicators
Long-term unemployment	
Low-work intensity household	
Deprivation rate	
Poverty rate	
NEET rate	
Educational attainment: primary education	



Designing the Inclusiveness Composite Indicator

What it does

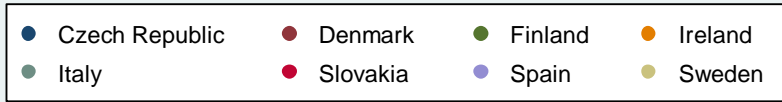
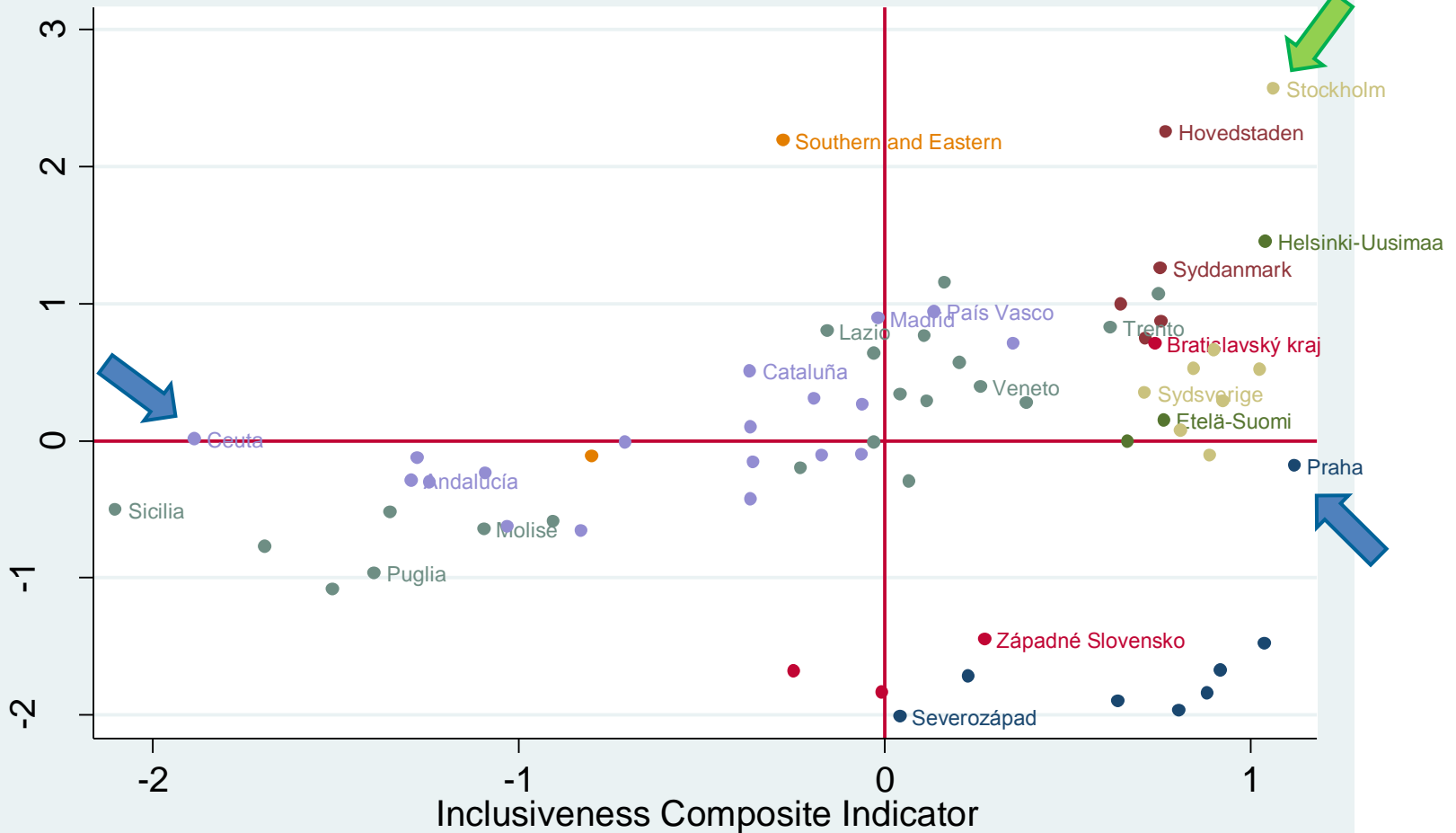
- Reduce the data from a multidimensional frame to a single dimension, *simplifying its interpretation*
- Concentrate on the inclusion of the *most disadvantaged* individuals in society
- Provide a way to measure *regional differences* within the same country and across countries

What it does not do

- Provide a measure of income *inequality*
- Act as an indicator of overall *well-being*
- Include data on *access to basic services* (future development)




Comparing 70 regions across 8 OECD countries





Conclusion: Can integration into global trade (and into GVCs) further spatial inclusiveness?

- Following the evidence presented by the other panellists, integration of regions and cities into global value chains improves various inclusiveness outcomes for them, improving inclusiveness within territories
 - This is coherent with the evidence that by and large productivity and inclusiveness seem to be correlated across space
 - However, it is typically cities and regions sufficiently close to larger urban centers that get integrated into GVCs, given the obvious importance of good transport links
 - For remote (rural) regions such an integration is more difficult, implying that the emergence of GVCs may have contributed to widen spatial gaps between territories
- 



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THANK YOU