



BALANCED REGIONAL DEVELOPMENT IN AN AGE OF TRANSITIONS

31 January 2023, 1st meeting of the High-Level Group of Experts on the future of Cohesion Policy

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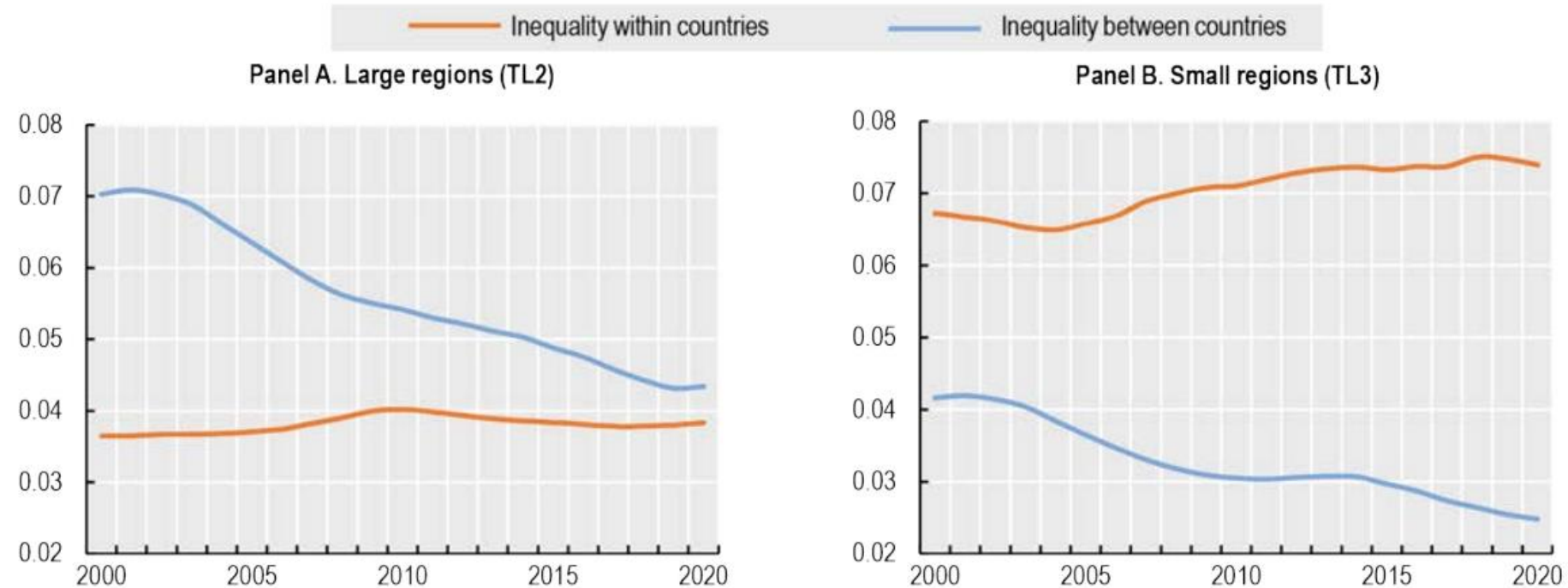


Inequalities between OECD countries have declined but not within-countries

Theil Index of PPP-adjusted GDP per capita, 2000-20*

Source: OECD Cities and Regions at a Glance (2022)

- **Convergence policy**
> A rising tide floating all boats
- **"Dominant" regions pulling ahead**





Crises and megatrend impacts are/will be asymmetric

- Globalisation
- Digitalisation
- Climate change
- Demographic change



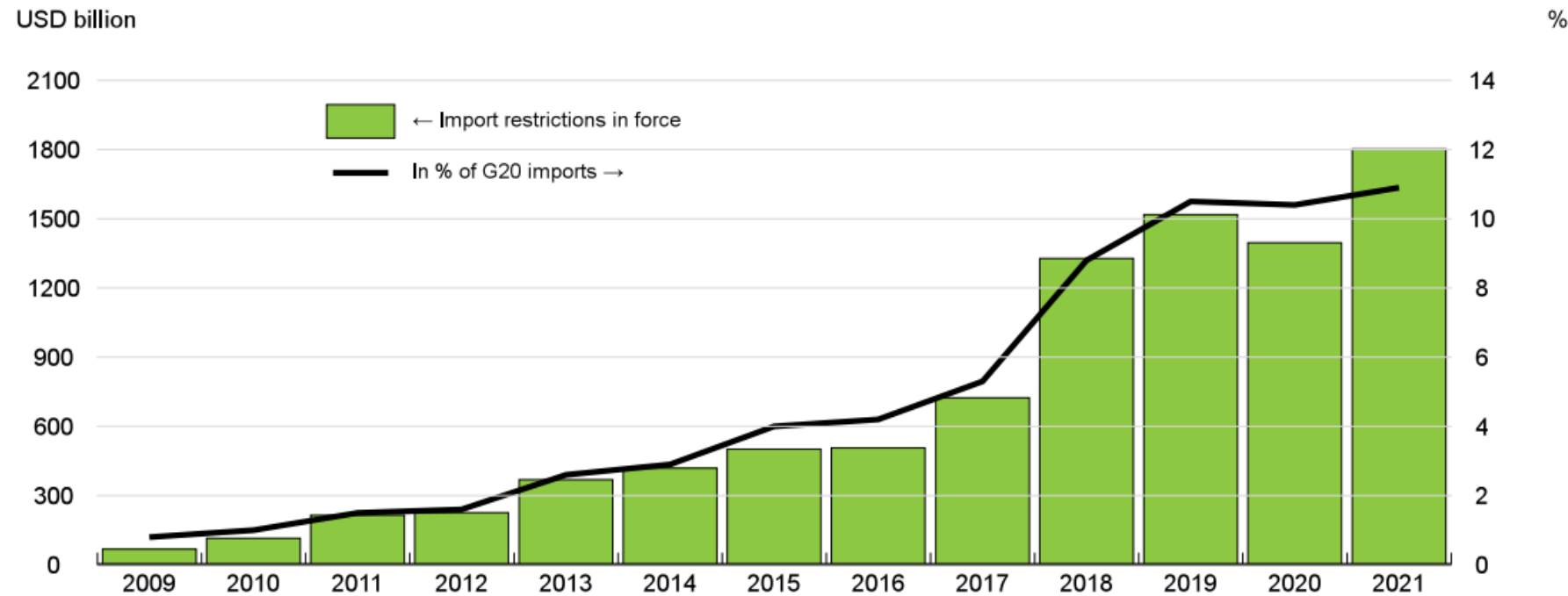
Globalisation



Globalisation is shifting

Cumulative trade coverage of G20 import-restrictive measures on goods in force since 2009

- Trend of trade-restricting measures
- Potential reshoring or near-shoring
- Just-in-time vs Just-in-case
- Geopolitical forces



Source: OECD Economic Outlook, Volume 2022 Issue 2022 / WTO Secretariat



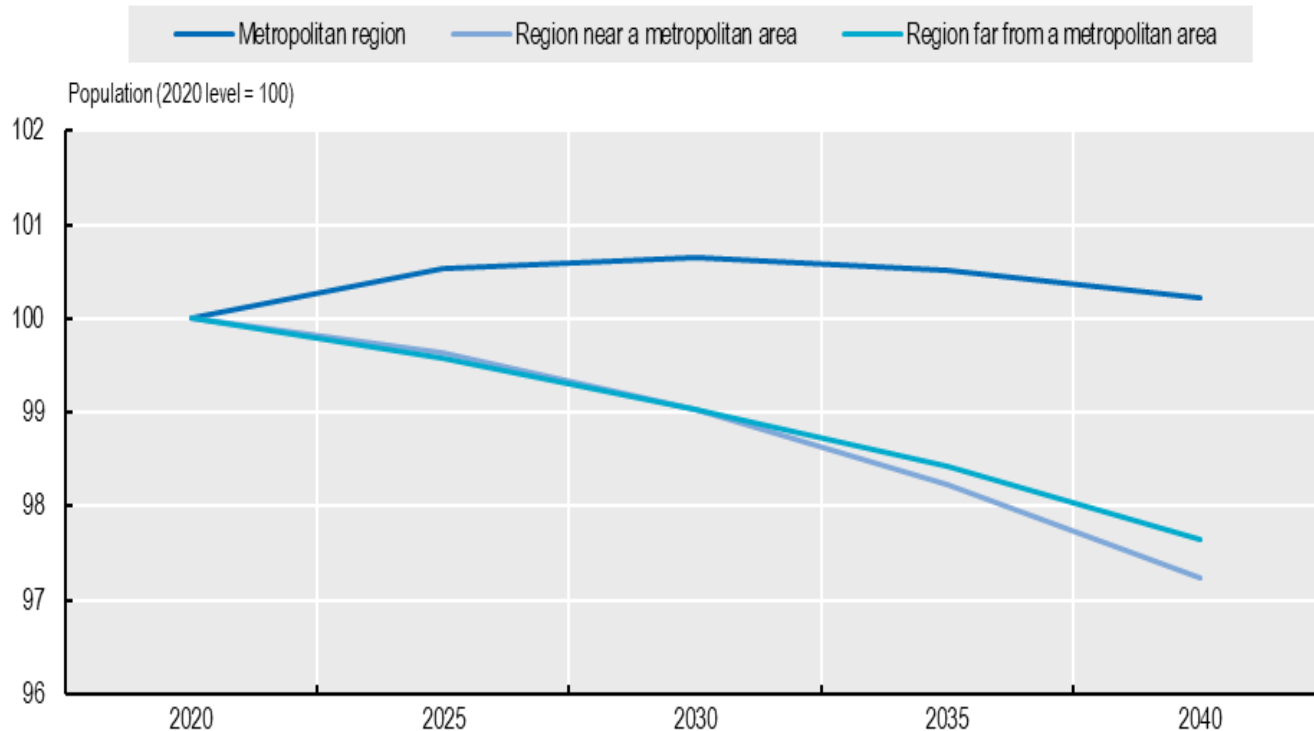
Demographic changes



Shrinking and Urbanisation

Changes in population by type of regions in 27 OECD countries, 2020-2040

Total population relative to levels in 2020



Source: OECD Regions and Cities at a Glance (2022)

- **Population expected to shrink in half of OECD countries**
- Impacting on labour markets, productivity, income, government revenue, pensions
- Non-metropolitan areas at the front-end > increasing relative costs of key services (education and health/long-term care)

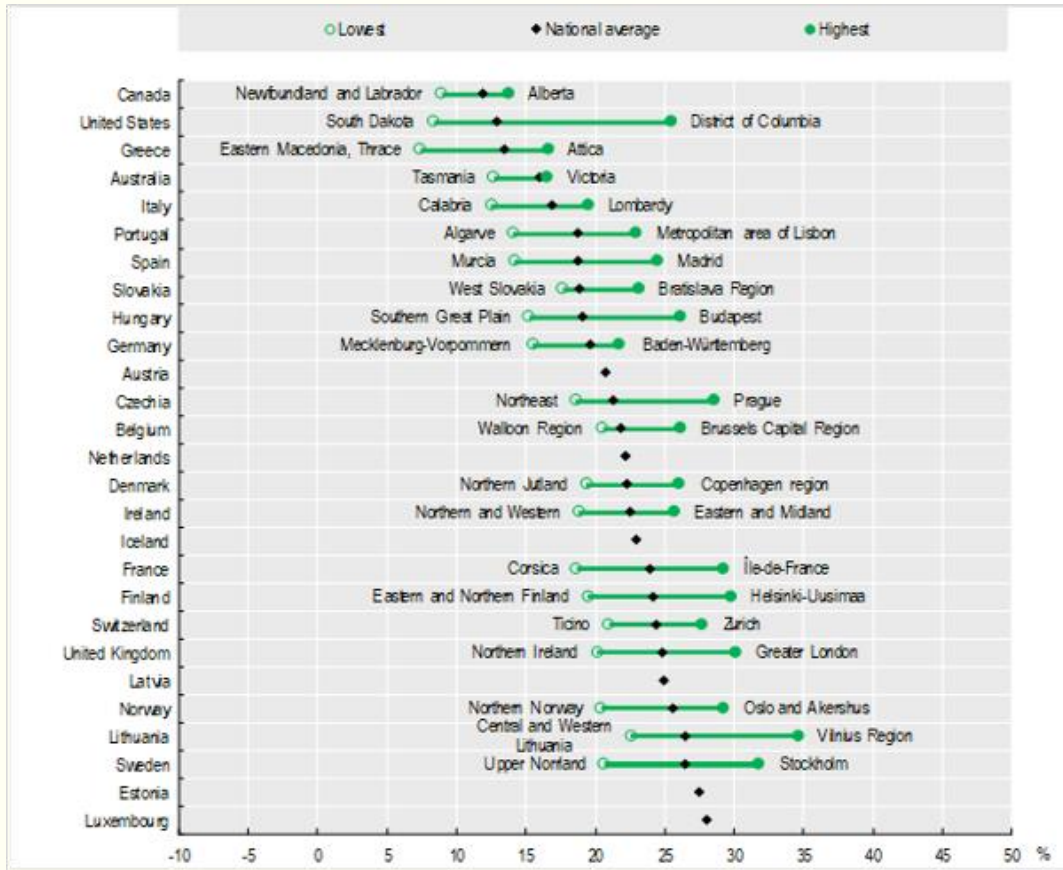


Climate change



Regions in industrial transition are often more vulnerable

Share of green-tasks jobs in regional labour markets



Source: OECD Job Creation and Local Economic Development 2022

- Share of green-tasks jobs differs on average by **9 pp between lagging & leading regions**
- OECD report (forthcoming) shows that most of the **41 European regions most vulnerable to the industrial transition to climate neutrality lag on several socio-economic characteristics**, especially GDP per capita and wages



But there are also opportunities for regional development

- **Rural regions produce 2/3 of renewable energy**

(1/3 from remote places)

Rural regions provide most of the renewable energy in OECD countries

Sources of electricity production, 2017 (%)

■ Renewables ■ Coal ■ Other fossil fuels ■ Nuclear ■ Coal + fossil fuels

Large metropolitan regions (3110 TWh)



Metropolitan regions (2925 TWh)



Regions near a metropolitan area (1584 TWh)



Regions with/near a small-medium city (1003 TWh)



Remote regions (1876 TWh)



OECD (10498 TWh)



0 10 20 30 40 50 60 70 80 90 100

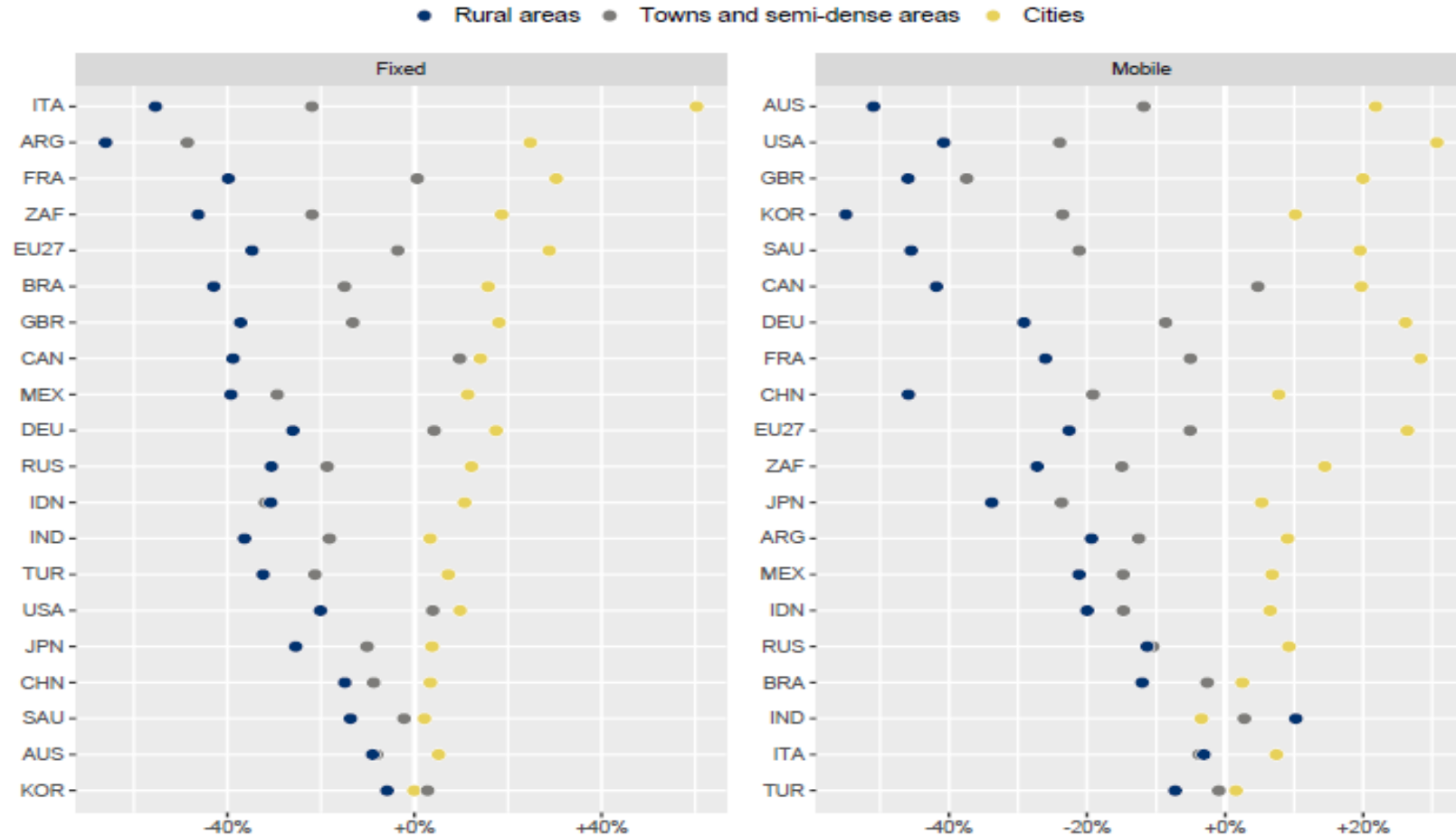
Source: OECD Regional Outlook (2021)



The digital divide



Rural areas could slip further behind due to poor digital infrastructure...



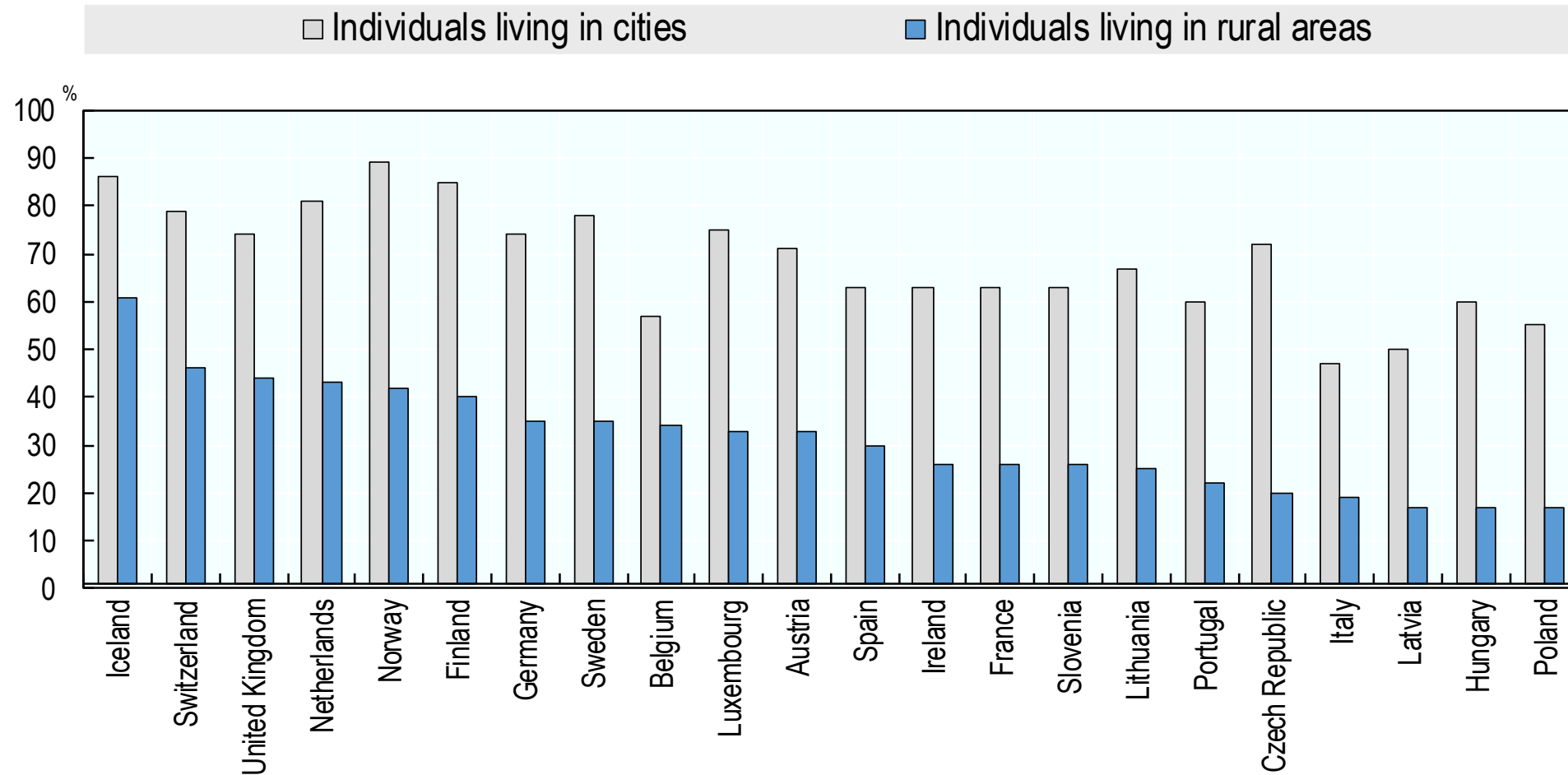
- Download speeds over fixed networks in rural areas: **31 percentage points** below the national average

Gaps in download speeds experienced by users by degree of urbanization

Source: (OECD, 2021) *Implications of Remote Working Adoption on Place Based Policies*



...and skills gaps...



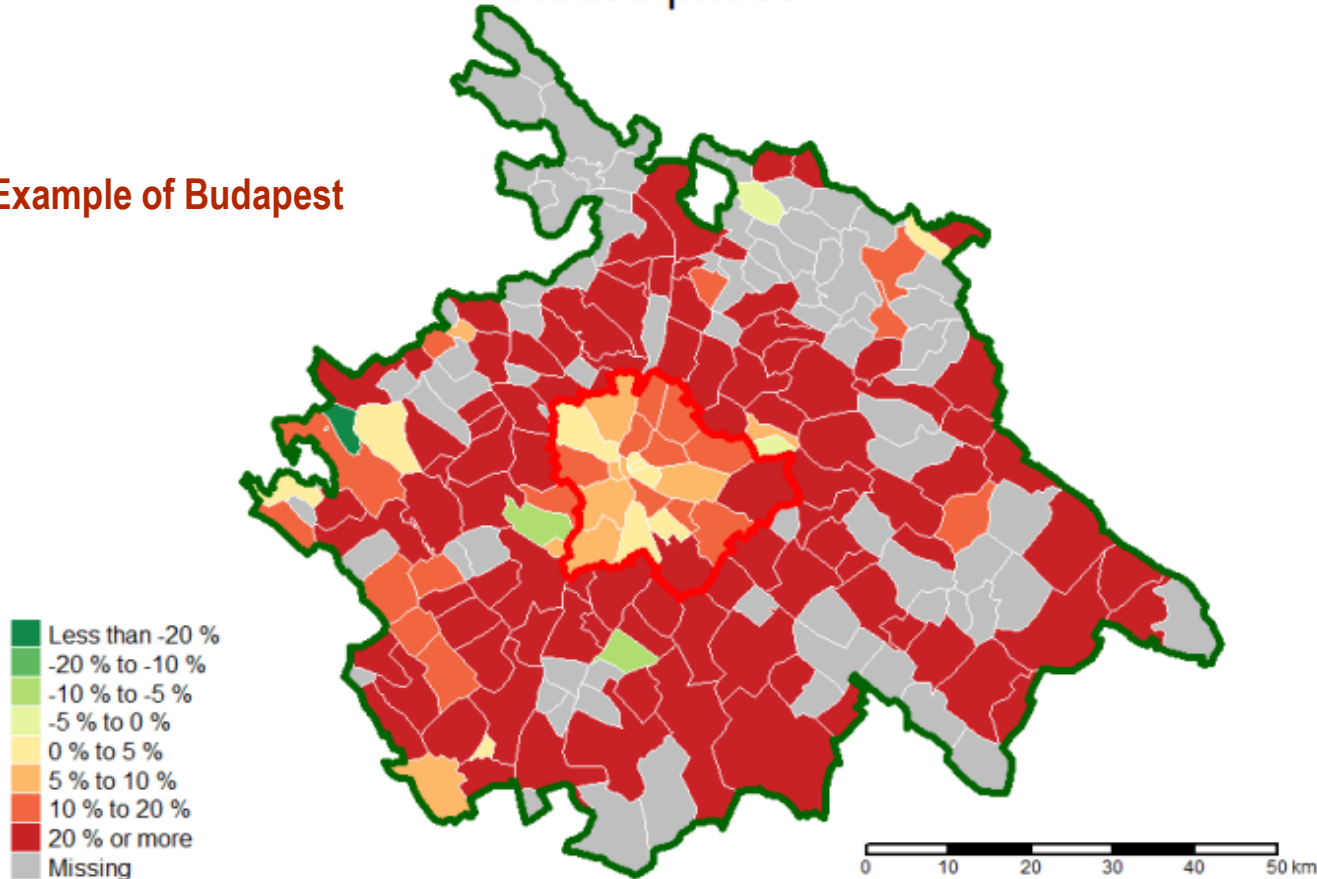
Share of individuals living in rural area and cities with basic or above digital skills, 2019

Source: Eurostat (2020) EU European Social Survey



...which may also lead to missed opportunities from teleworking

Example of Budapest



- Post-pandemic: **move to the suburbs** rather than more remote rural areas.

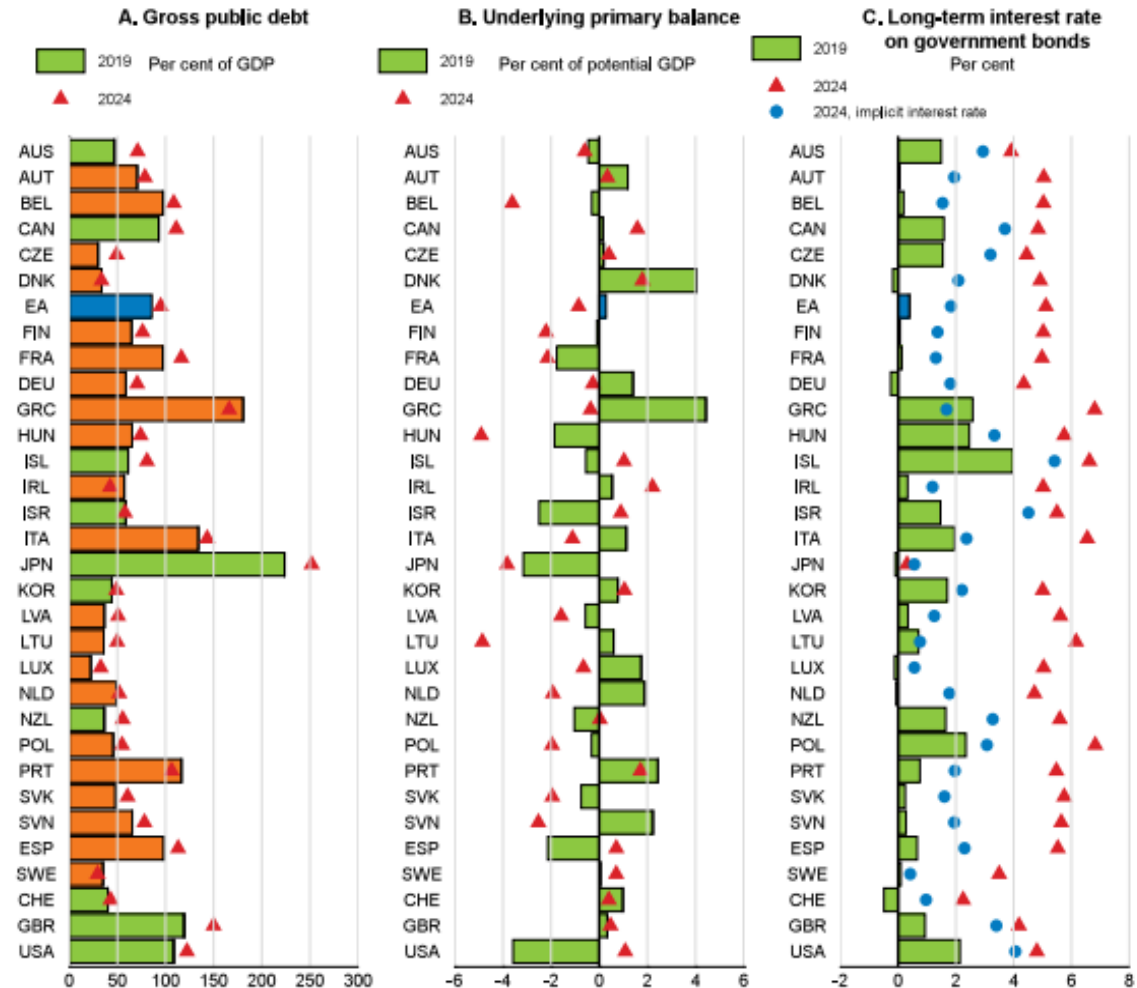
House price changes from the first half of 2019 to the first half of 2021. Black crosshair symbol marks population-weighted centre.

Source: OECD (2021), *Changes in the geography of housing demand after the onset of COVID-19: First results from large metropolitan areas in 13 OECD countries*

The fiscal environment

Public debt has increased and the cost of new debt is rising

- Fiscal space for action is tight
- Global growth projected to decline to 2.2% in 2023 (down from 3.1% in 2022) and bounce back to a relatively modest 2.7% in 2024
- Inflation projected to remain high in 2023 but to eventually moderate



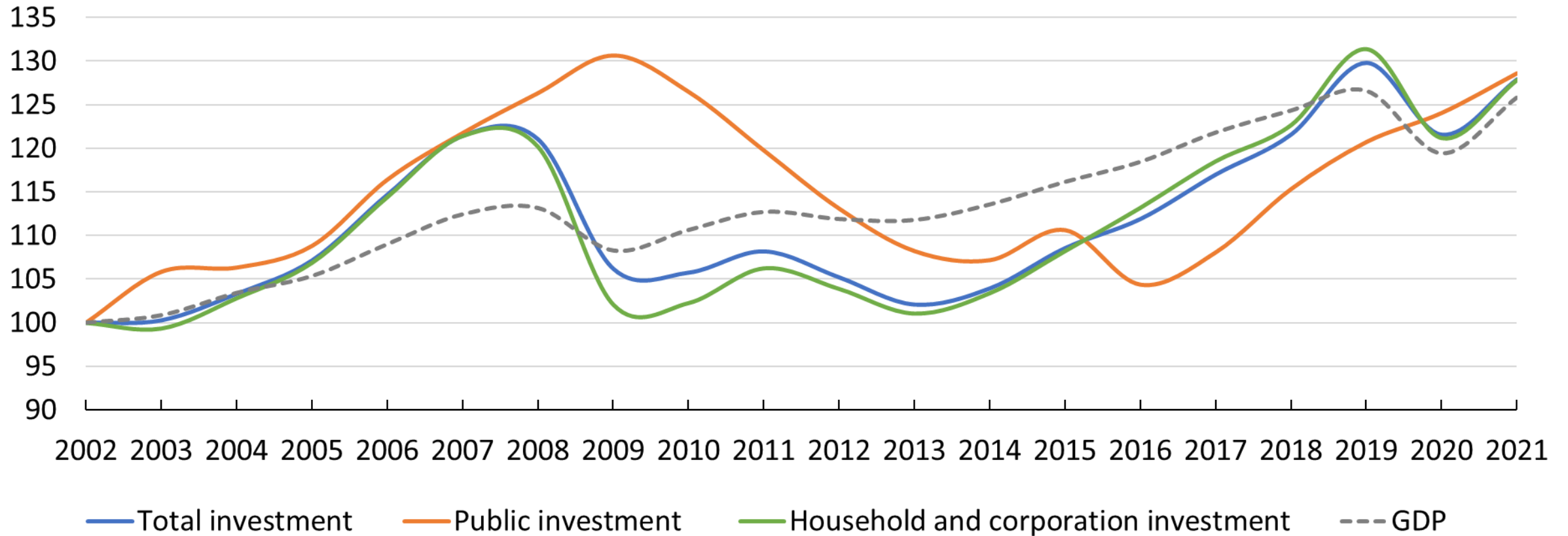
Note: Orange bars correspond to EU countries for which Maastricht debt is used. The implicit interest rate is defined as general government interest payments divided by general government gross financial liabilities at the end of the preceding year.

Source: OECD Economic Outlook 112 database; and OECD calculations.



Public investment remains below 2009 levels

Public and private investment (gross fixed capital formation [GFCF]) in real terms in the EU27 (2002-2021). 2002=100



Source: OECD National Accounts

Notes: Investment is defined as gross fixed capital formation, Public investment = general government investment

The future of Cohesion Policy?



Growth vs Cohesion – A false dichotomy?

- Are there trade-offs between GDP per capita growth and cohesion – almost certainly... **in the short term.**
- But a focus on cohesion provides scope for a **longer-term view**
 - >>> enhancing resilience:
 - strengthening internal EU market capacities, political glue, etc.
- And provides scope to:
 - value activities outside of GDP (quality of life, well-being, social cohesion), and
 - minimise many negative externalities (pollution, over-crowding)

What's needed?

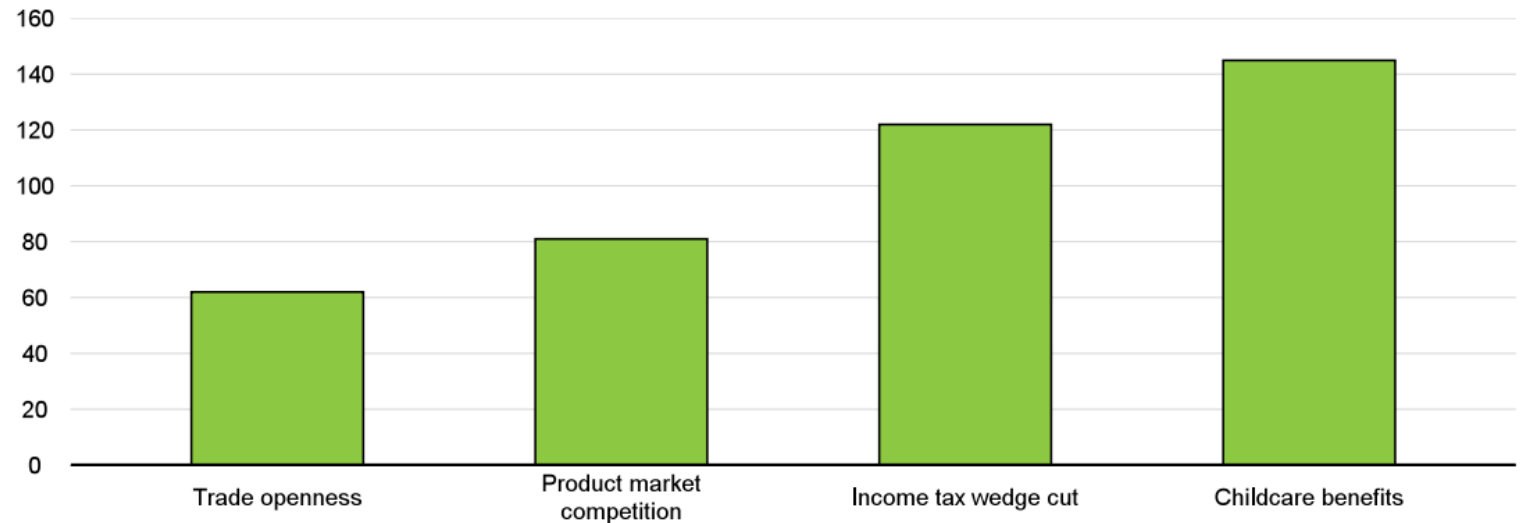


Focus on the structural reforms that pay off over the longer term

- Increased spending on childcare and early childhood education would help reduce longstanding gender gaps in labour market participation and employment
- Raise employment for other demographic groups, including older people

Some structural reforms have larger effects on disposable incomes than GDP

Comparisons between regions with various degrees of rurality, 2000-19



Note: The chart shows the relative effect on household disposable compared to GDP for each policy, computed as the long-run percentage change in household disposable income divided by the long-run percentage change in GDP, with the numbers presented as an index with the long-run change in GDP equal to 100. Thus, if a policy has the same long-run percentage effect on household disposable income as GDP the height of the bar would be 100. Each bar is based on the average of two estimations detailed in Botev et al., (2022).

Source: OECD calculations based on Botev et al., (2022).

Unlock investment opportunities of local governments

Subnational governments in the OECD are responsible for:

37% of total public expenditure (2020)

55% of public investment (2020)

69% of public investment in sectors having a direct impact on climate change and other environmental issues (2019)

Potential to mobilise new sources of funding:

- User charges and fees, Land value capture

And, in turn, **help improve access to private finance**

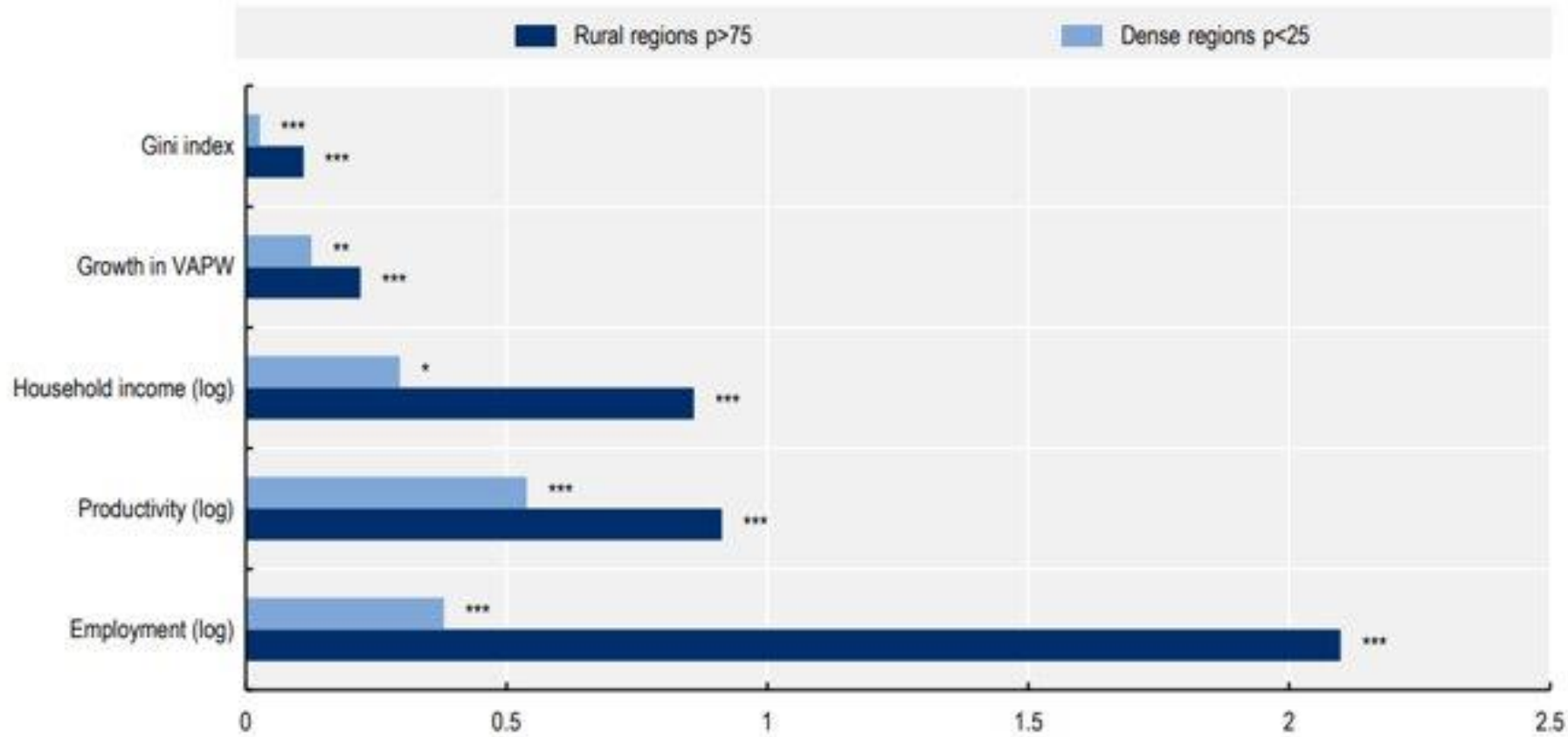




Invest in intangibles too: Innovation and skills

Effects of innovation on inequality, productivity, productivity growth, income and employment

Comparisons between regions with various degrees of rurality, 2000-19

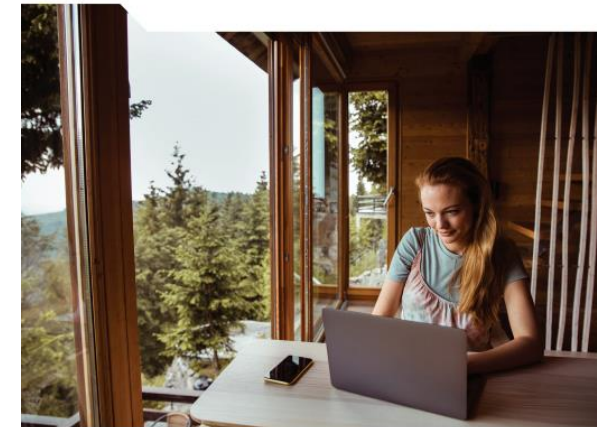


Source: (OECD, 2022) *Unlocking Rural Innovation*



OECD Rural Studies

Unlocking Rural Innovation





... as well as in sub-national government capacities

- Higher quality of local governance can drive **economic growth** and the **efficiency of Cohesion expenditure**
- Better governance may also help to **crowd-in private investment**
- Look to strengthen multi-level governance:
 - Including through municipal mergers and intermunicipal cooperation





Final thoughts on Cohesion policy & the European Growth Model

- **Cohesion policy framed as addressing equalities of opportunity can support the European Growth Model:** ensuring a fair and inclusive economic transformation towards a green, digital, and resilient economy
- **But some areas merit further discussion...**
 - CP's multiplicity of objectives vs "original" focus on addressing territorial disparities
 - Trade-offs between long-term priorities and short-term needs to address crises
 - Links between CP and national structural reforms



Recent OECD publications

- [OECD Regions and Cities at a Glance 2022](#) (2022)
- [Implications of Remote Working Adoption on Place Based Policies](#) (2021)
- [Changes in the geography of housing demand after the onset of COVID-19](#)(2021)
- [Measuring the attractiveness of regions](#) (2022)
- [Regions and globalisation](#) (2021)
- [Making the most of public investment to address regional inequalities, megatrends and future shocks](#) (2022)
- [G20-OECD Policy Toolkit to Mobilise Funding and Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities](#) (2022)
- [Implementation Toolkit of the OECD Principles on Urban Policy](#) (2022)
- [Toolkit to Implement A Territorial Approach to the SDGs](#) (2022)
- [Global State of National Urban Policy](#) (2021)
- [Unlocking Rural Innovation](#) (2022)

Thank you



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