

Executive Summary

International comparisons of economies and societies tend to be undertaken at the country level; statistics refer to gross national product, for example, while health and education levels tend similarly to be measured and debated in national terms. However, economic performance and social indicators can vary within countries every bit as much as they do between countries – think of the contrast between the north and the south of Italy, the dynamism of Silicon Valley and the stagnation of the “Rust Belt” in the United States, or highly urbanised London and the rural Shetland Islands. Understanding the differences and similarities in regional economic structures is essential for designing effective strategies which improve regional competitiveness and in turn increase national growth.

OECD Regions at a Glance aims to make these variations visible, providing region-by-region indicators that help to identify areas that are outperforming or lagging behind their country, as well as the 30-country OECD area. Patterns of growth and the persistence of inequalities are analyzed over time highlighting the factors responsible for them.

This is the third issue of the *OECD Regions at a Glance* series and it contains five parts:

- **Focus on regional innovation** highlights the role of innovation in the regional economy and presents indicators on several aspects from spending on research and development, to patent output and co-operation among regions, to the skills of the regional labour force that make it able to produce new ideas and absorb innovation.
- **Regions as actors of national growth** examines the extent to which national factors of growth, such as population, employment and industry, are concentrated in certain regions and the contribution of regions to national economic growth and employment.
- **Making the most of regional assets** quantifies regional disparities in economic performance and identifies local assets that can be mobilised to improve a region’s competitiveness.
- **Key drivers of regional growth** explores how both national and regional factors determine the way a region grows. Some regions may do well because the overall national economy is doing well (national factors) or because they mobilise their resources to promote growth (regional factors). Or for a mix of both.
- **Competing on the basis of regional well-being** presents regional variations in “quality of life” indicators, such as health resources, education and crime, all of which contribute to the attractiveness of a region for people and firms.

I. Focus on regional innovation

The ability of regions to promote innovation is key not only to their own growth but also to national economic development. In a special feature, this year's *OECD Regions at a Glance* takes a look at a number of innovation-related indicators.

- **Investing in research and development (R&D):** Jobs and spending on research and investment are concentrated in a few regions. For example, in the United States, one of the leading countries in R&D activities, R&D expenditure was almost 6% of Maryland's GDP and less than 0.5% of Wyoming's.
- **Patent applications and co-operation among regions:** The number of patent applications is a key measure of inventive activities in a region. In 2005, 45% of all patent applications in OECD countries were recorded by just 10% of regions. Innovators work most effectively when they co-invent with their peers in near-by regions within their countries.
- **Education attainments:** The skill level of the labour force determines a region's ability to promote innovation, and its future competitiveness will be determined in part by its current student enrolment in higher education. There are large regional differences in higher education attainment rates in most OECD countries; the gap is widest in the Czech Republic, the United States, Portugal and France. In 20 out of 23 OECD countries, there is a positive correlation in regions between the number of students in higher education and the number of skilled workers.
- **Employment in knowledge-oriented sectors:** The process of specialisation towards knowledge-oriented sectors is taking place in many OECD regions. In two-thirds of OECD countries the fastest specialising regions have transformed their production structures in recent years, from traditional manufacturing into more technology-intensive manufacturing.

II. Regions as actors of national growth

The ability of a region to contribute to national economic growth can vary greatly, driven by factors such as its share of the national population and employment, its mix of rural and urban areas, and the amount of industry in the area.

- **Population:** Just 10% of regions account for about 40% of the total population in OECD countries and this density has been increasing in recent years. In 2005, almost half of OECD population lived in urban regions, which accounted for only 6% of OECD area.
- **Economic activity:** Ten per cent of OECD regions generated 38% of total GDP, a key measure of economic activity. This concentration was especially intense in Turkey, Greece and Portugal, where the top 10% of regions in terms of output contributed to at least half of national GDP. National GDP and job creation in recent years (1999-2006) has been driven by a few high-performing regions: in Greece, the United States and Sweden more than 60% of the increase in total employment was recorded in just 10% of regions.

III. Making the most of regional assets

Variations between regions in OECD countries can be very substantial; in recent years (1995-2005) differences in growth of GDP and employment have been greater between regions than those among countries.

While disparities between countries have tended to decline in recent years, those within countries have not: Over the past 10 years, for example, the income gap between rural and urban regions has not narrowed.

What explains such differences? For a large part, they can be attributed to disparities in productivity and in the utilization of the available labour force.

- **Labour productivity:** Across the OECD, labour productivity (as measured by GDP per person working) stood at an average of USD 59 000 in 2005. However, this number conceals large differences between countries, with labour productivity in the United States four times higher than in Turkey and Mexico. Variations between regions were also substantial: In Turkey, Mexico and Poland, labour productivity in the top regions was more than four times higher than in the bottom regions.
- **Unemployment:** In 2006, regional differences in unemployment rates within OECD countries were almost twice as high as those between countries. In Canada, Germany, the Slovak Republic and Spain, unemployment rates ranged from as low as 5% in some regions to above 20% in others. In some regions, unemployment also remained persistently high in the decade leading up to 2006, when national unemployment rates had generally been falling. High regional disparities are not only found in unemployment rates and long-term unemployment rates but also in participation rates of both male and female.

IV. Key drivers of regional growth

Regions grow due to both national factors (*e.g.* the state of the national economy and the overall business cycle) and regional factors (*e.g.* regional policies and local demographic trends such as an influx of migrants into a particular city). If all the regions in a country grow faster than the OECD average, then national factors can be said to be predominant; however, if an individual region grows faster than other regions in the same country and than OECD regions in general, then it is regional factors that are driving growth.

Among the 20 fastest-growing regions in the OECD area is the Irish regions which benefited from strong national growth in the first half of the decade; similarly, some Korean regions were also pushed along by national growth. By contrast, regional factors were the main driver in the Mexican region of Quintana Roo and the Greek region of Attiki.

Regional factors can be very important when studying both the growth and decline of a region's economy. In just over half of the 201 OECD regions where GDP fell between 1995 and 2005, regional factors were responsible for at least 25% of that decline. Some of these are worth looking at in more detail:

- **Population change:** Between 1995 and 2005, 60 of the OECD's 112 fast-growing regions increased their share of GDP largely as a result of regional factors. Among these, population growth was the key driver in only 13 (or 22%) of them. The rest was accounted for by growth in GDP per capita, sometimes combined with population growth.
- **Labour productivity:** This is a vital component of regional growth. Labour productivity was the main source of economic improvement in five out of the seven regions whose share of total OECD GDP rose the most in the 10 years to 2005.

V. Competing on the basis of regional well-being

Economic indicators – such as GDP per capita and employment – do not fully describe a region’s quality of life. Security, health, education and the environment all contribute to a region’s “well-being”. Disparities among OECD regions regarding access to such services are substantial and affect not only people’s quality of life but also a region’s capacity to attract industry and to become competitive.

- **Health:** In Mexico, the United States and Portugal regional variations in the health status, as measured by the age-adjusted mortality rate, are substantial and larger than across OECD countries. Location also matters for access to health services, and rural regions are often disadvantaged compared to urban ones. In 2005, the regional variation in the density of physicians was the widest in the United States and the Czech Republic.
- **Access to education:** Today, the demand for skills is increasing, and a high school diploma is the minimum level to participate in the job market. Still, in 2006 a quarter of the OECD labour force had received only basic education and in some regions in Mexico, Spain, Portugal and Italy, this proportion rose to as high as half.