Regional Competitiveness Under New Perspectives – A short overview of recent research at WIFO

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**Joint Workshop OECD- DG Joint Research Centre –
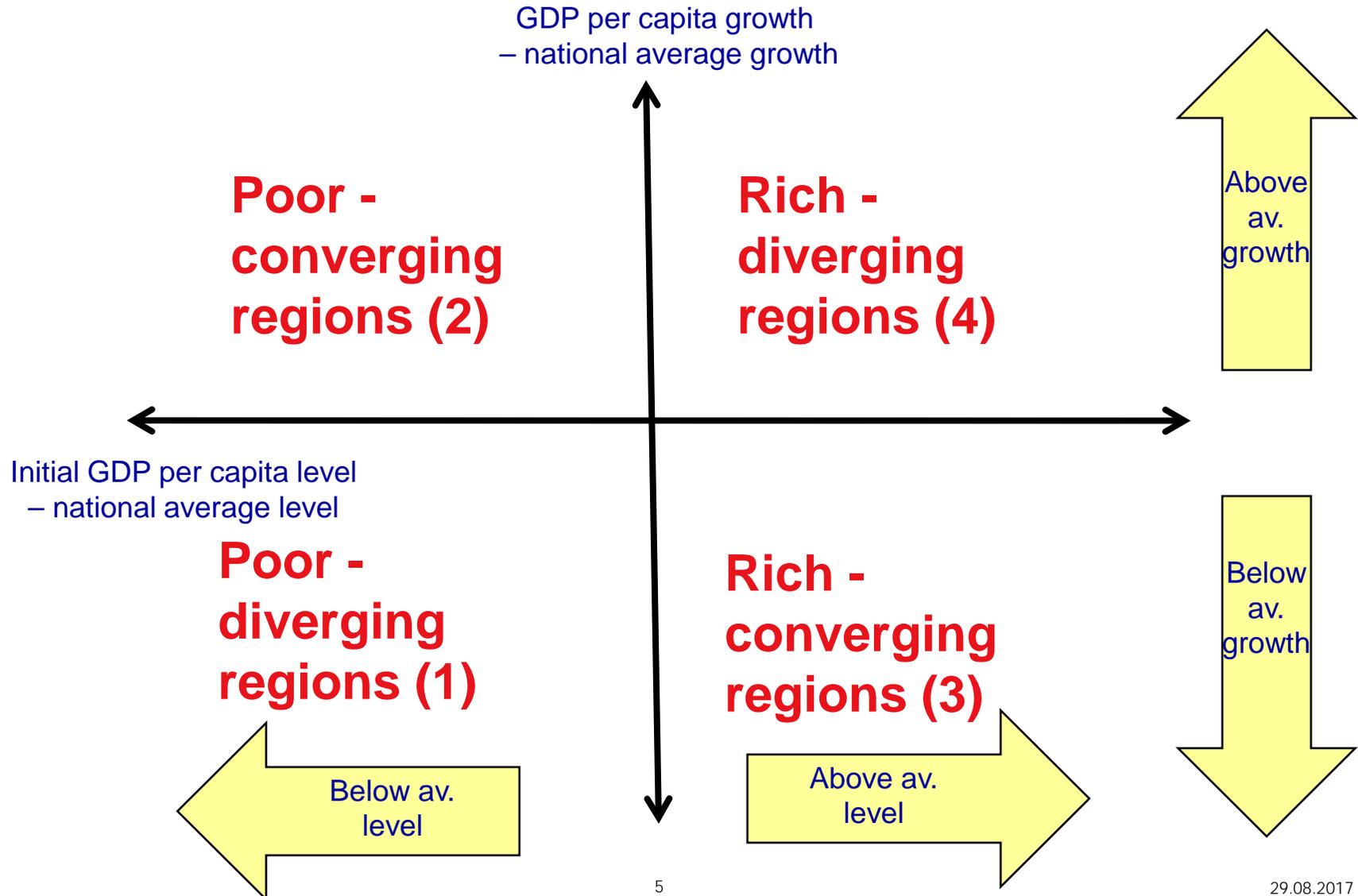Austrian Institute of Economic Research**

4.5.2017

■ **Research topics**

- Policy evaluation

- Sustainable regional development

- Regional structures and structural change

■ **Other tasks**

- Data development

- Maintenance of Models

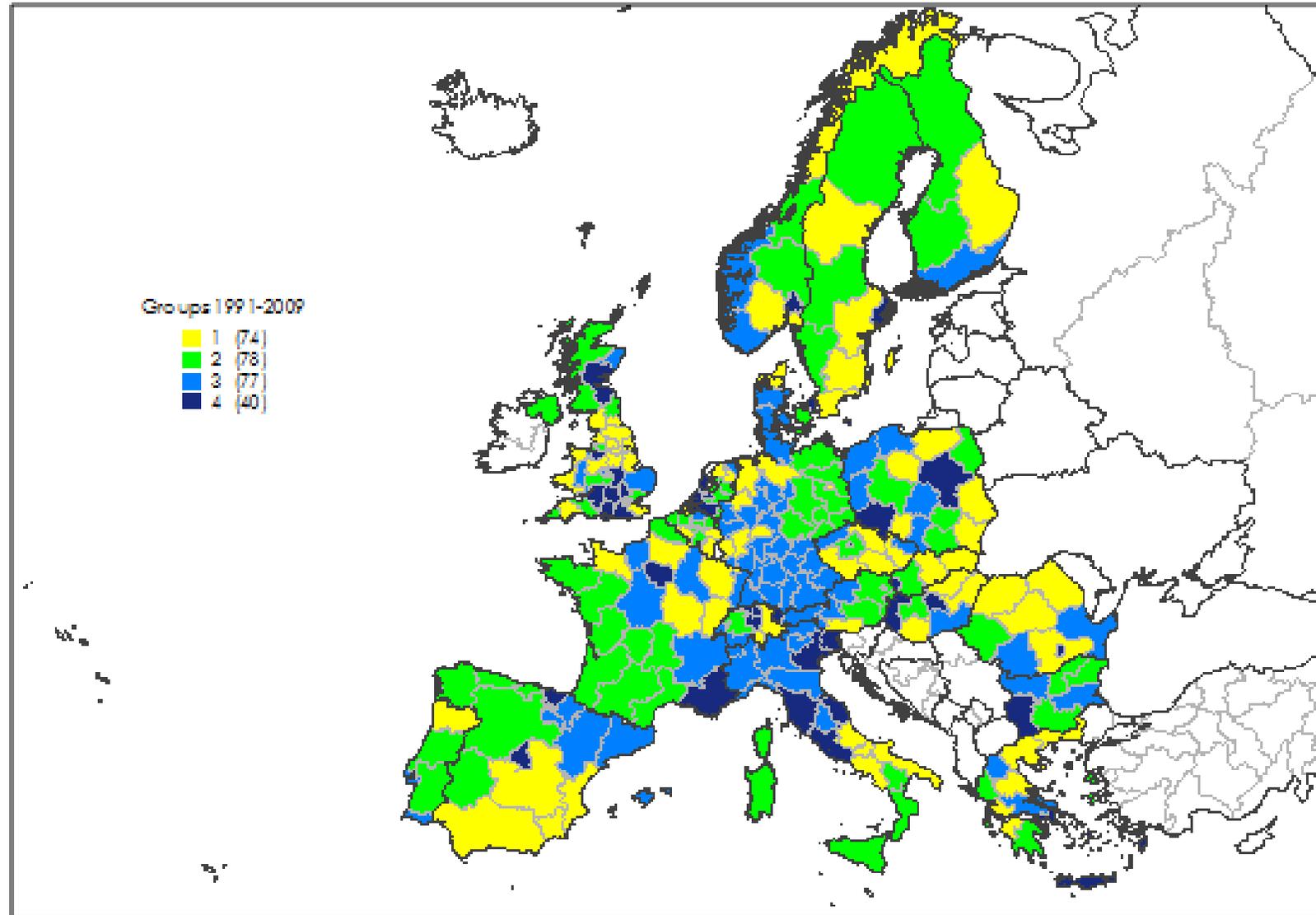- Advising

I will focus on a set of studies in WWWforEurope

1. ### Slightly different look at regional convergence processes

    K. Aiginger & M. Firgo, 2017. Regional competitiveness: connecting an old concept with new goals, in: Handbook of Regions and Competitiveness, chapter 7, pages 155-191 Edward Elgar Publishing.

2. ### Conceptualisation of measuring sustainable regional development

    M. Firgo & P Huber, 2014. "Convergence as a heterogeneous process: what can be learnt about convergence in EMU from regional experiences?," Empirica, vol. 41(2), pages 129-151.

3. ### Institutions and regional unemployment disparities

    P. Huber, 2013. Labour Market Institutions and Regional Unemployment Disparities, WWWforEurope Working Papers series 29,

Convergence as a Heterogenous Process

- Regional disparities are high in the EU:

- Traditional convergence literature is concerned with estimating „average" convergence rates (Baumol 1986, Barro and Sala-i-Martin 1991, 1992) or with intra-distribution dynamics (Magrini, 2004)

- The recent literature on extreme growth events argues that this may „average out the most interesting variation in the data" (Rodrick 2013, Hausman et al. 2005, Easterly 2006, Jones and Olken 2008)

- Paper uses GDP per capita data on 269 NUTS2 region in 21 European countries from 1991 to 2009 to ask:

  - How general/heterogenous is convergence tendency?

  - How persistent is convergence?

  - How concentrated in time is the convergence diveregence?

Poor - converging regions (2)

Rich - diverging regions (4)

Poor - diverging regions (1)

Rich - converging regions (3)

GDP per capita growth – national average growth

Initial GDP per capita level – national average level

Above av. growth

Below av. growth

Below av. level

Above av. level

Groups 1991-2009
- 1 (74)
- 2 (78)
- 3 (77)
- 4 (40)

■ Convergence is discontinous

- Longest spell with above average growth
  2.9 yrs in poor converging regions, 5.8 yrs in rich diverging regions
- Longest spell with above average growth
  3.1 yrs in rich converging regions 5.8 yrs in poor diverging regions

■ Convergence is concentrated in time

- Convergence is concentrated in time: Poor converging regions grew by 0.6 p.p higher than the national average over the 18 years in average. Of this 0.4 pp are accounted for by the year of strong growth.

■ Predicting convergence or divergence

- Poor regions: human capital, patents
- Rich regionss: human captal, density (i.e. capital city) , maufacturing share

⇒ **Convergence is far from automatic and requires active support by economic policy**

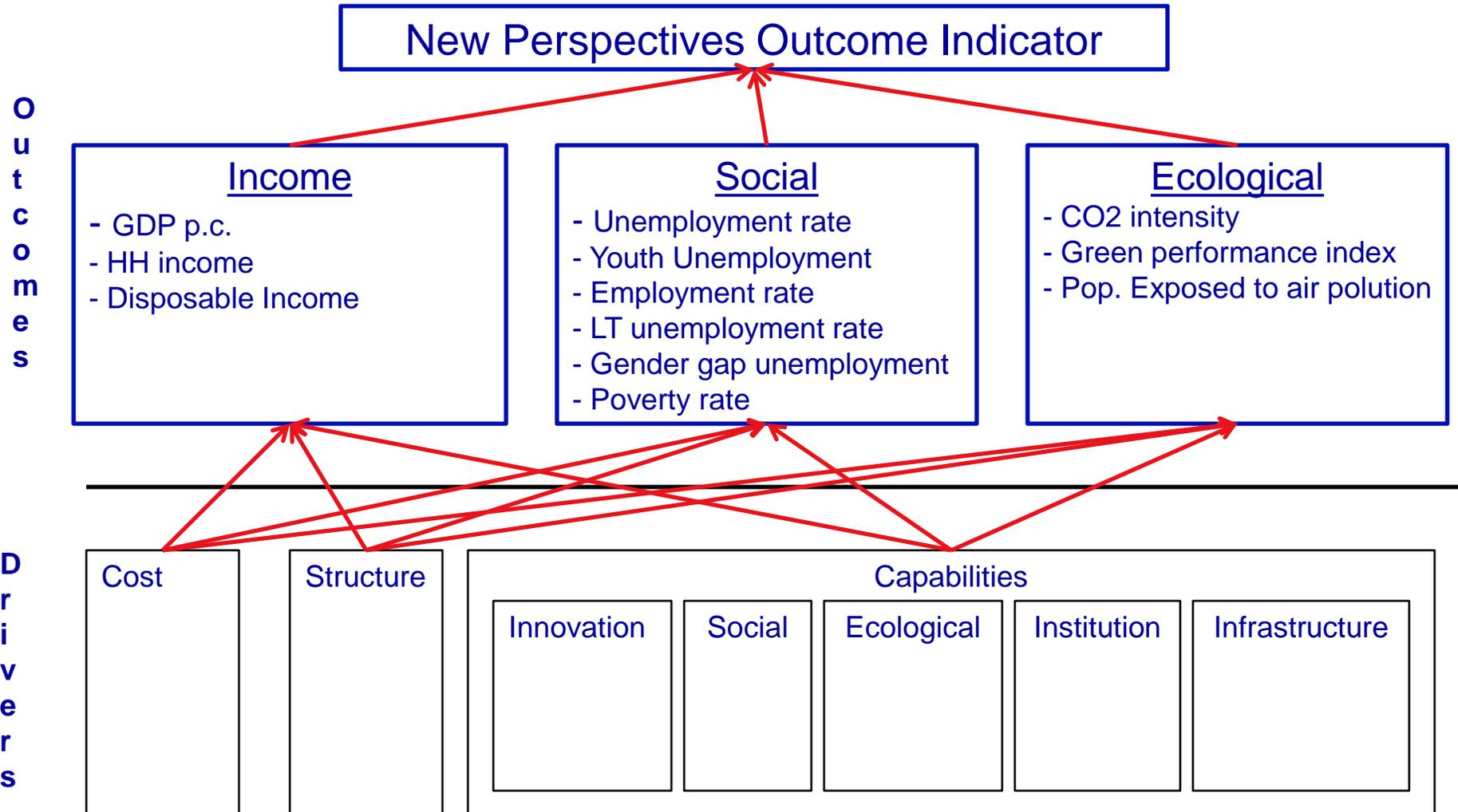⇒ **Little evidence that „cost competitiveness" fosters probability to converge**
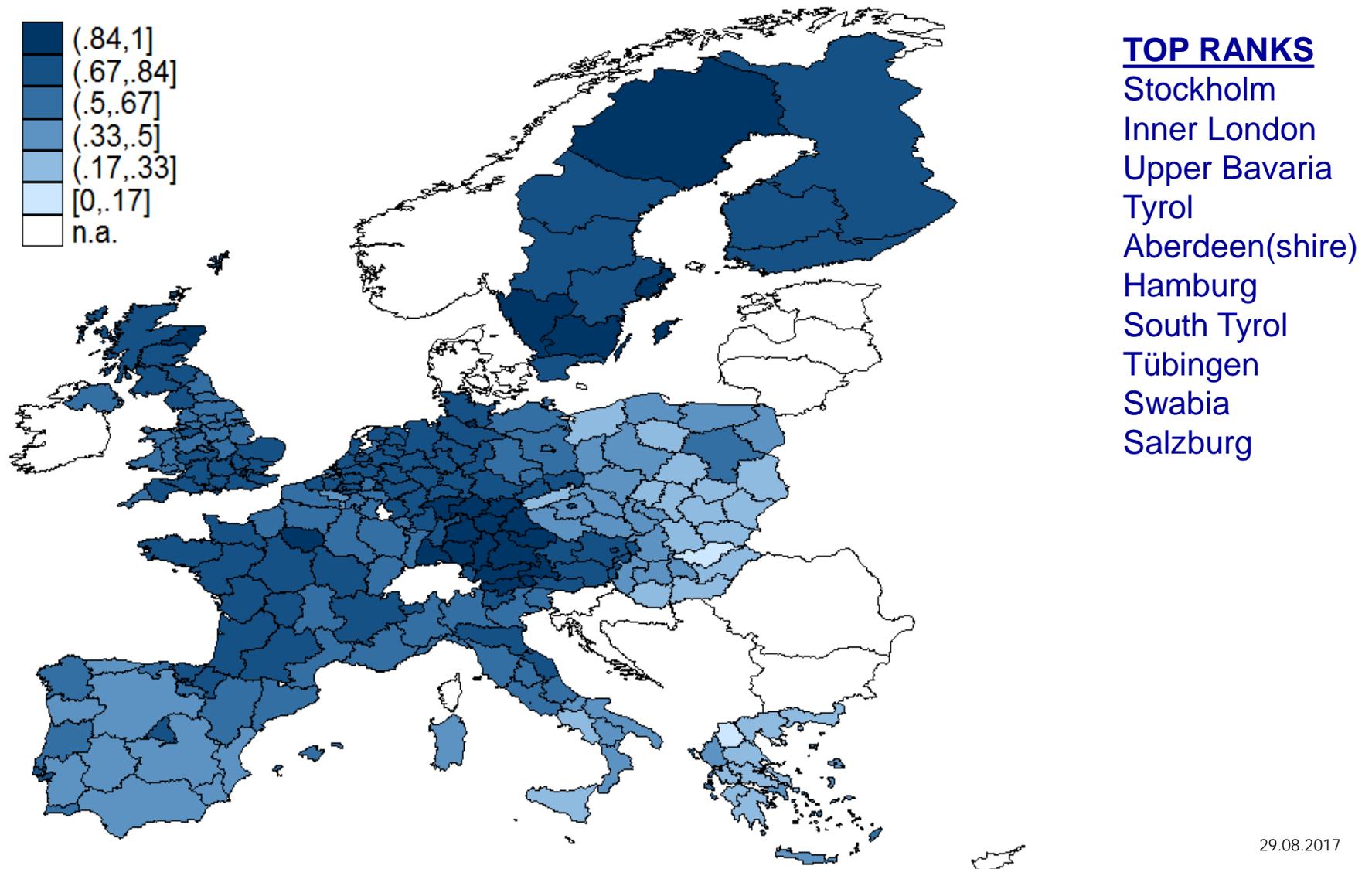
Measuring Regional competitiveness

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Issue

- Quest for competitiveness top agenda for firms, politicians, media

- Discussion constantly reduced to ``cost competitiveness''

- Main argument for low wages, taxes, social/eco standards

- However, bulk of literature emphasizes importance of productivity, technology, and local/regional capabilities

- Current paper contributes to the discussion on how to measure competitiveness

Aims

- Propose a measure that is in line with beyond GDP goals
(i.e. presents outcome competitiveness ``under new perspectives'' including social inclusion and ecological ambition)
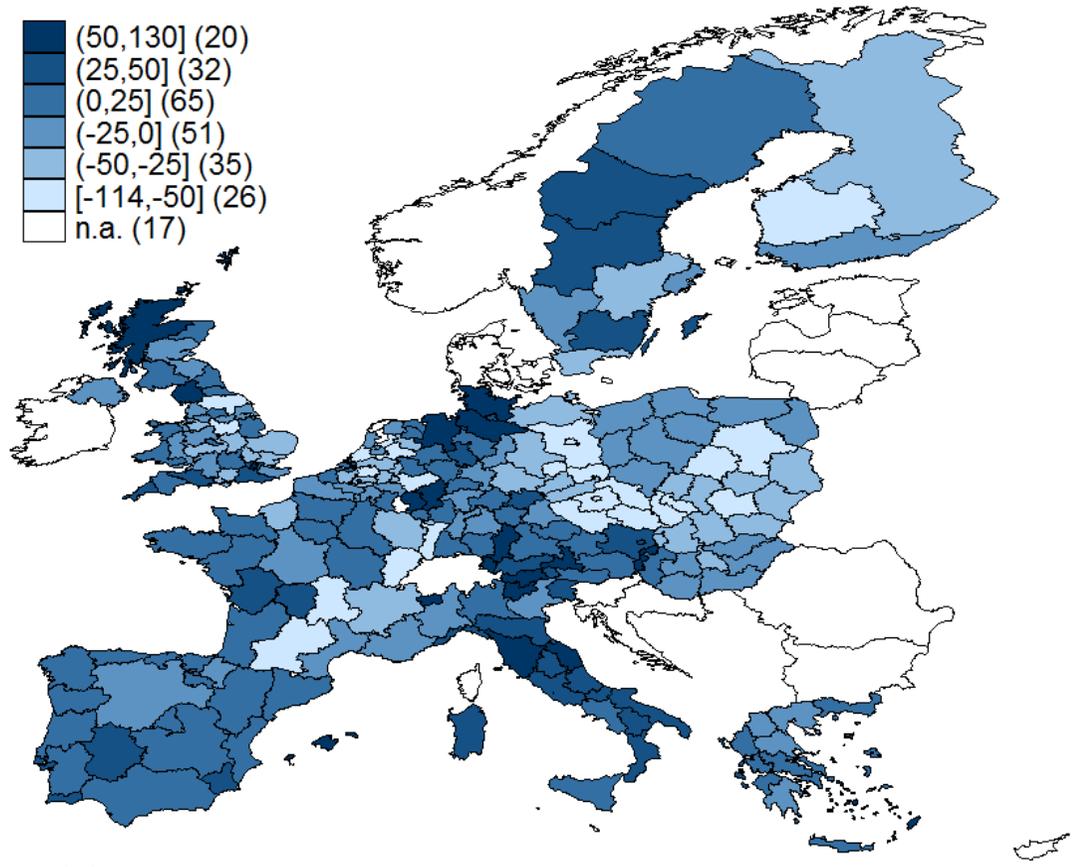
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New Perspectives Outcome Indicator

Outcomes

Income
- GDP p.c.
- HH income
- Disposable Income

Social
- Unemployment rate
- Youth Unemployment
- Employment rate
- LT unemployment rate
- Gender gap unemployment
- Poverty rate

Ecological
- CO2 intensity
- Green performance index
- Pop. Exposed to air polution

Drivers

Cost

Structure

Capabilities

| Innovation | Social | Ecological | Institution | Infrastructure |

Legend:
- (.84,1]
- (.67,.84]
- (.5,.67]
- (.33,.5]
- (.17,.33]
- [0,.17]
- n.a.

TOP RANKS
Stockholm
Inner London
Upper Bavaria
Tyrol
Aberdeen(shire)
Hamburg
South Tyrol
Tübingen
Swabia
Salzburg

29.08.2017

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EU Regional Competitiveness

EU 2020
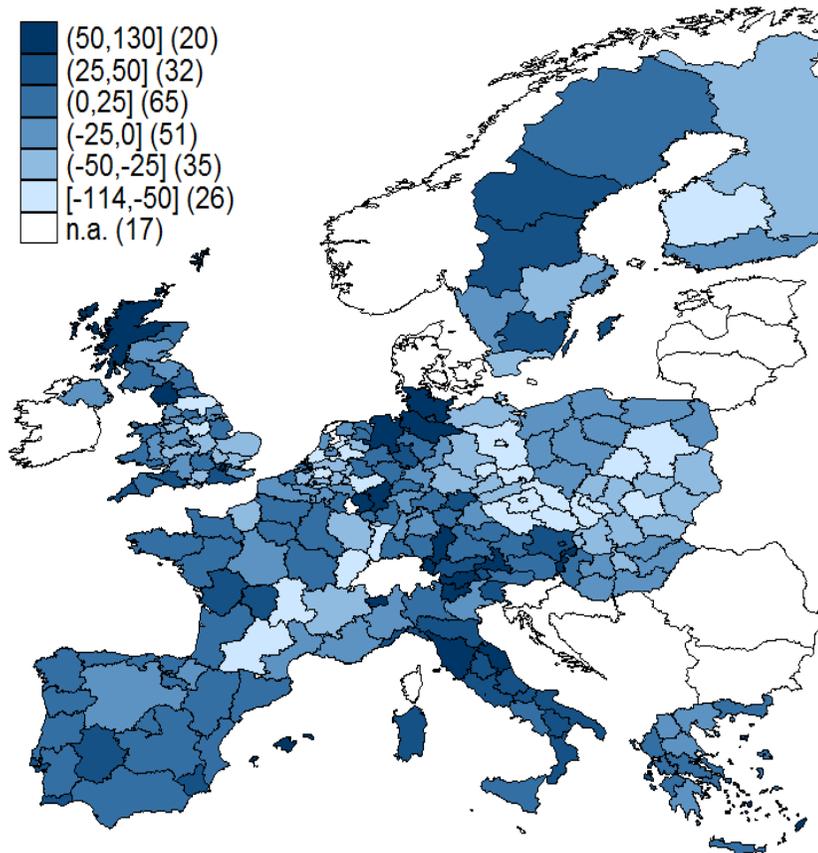
- The drivers of NPO and changes in NPO are innovation and institutional capabilities

- Social and Ecological capabilities are also positively correlated with NPO, but less robust

- Cost competiveness is insignificant predictor of bith the level and changes in NPO

- Regional data on social & eco dimension still extremely scarce

- Focus on indicators that vary at the regional level. Omission of national data may ignore factors relevant at the regional level

Institutions and Regional Unemployment Disparities

Motivation

- Regional unemployment rate disparities are large in the EU

- The literature often states that this has to do with institutions in Europe, which impinge on mobility and wage flexibility

- This may threaten the objective of regional cohesion and may go as far as threatening monetary union

- If this is true question arises: Which institutions are culprits? How should they be reformed

This paper

- Presents a direct test of potential institutional impact on regional unemployment rate disparities. :

- In particular asks is there robust evidence of impact of certain institutions on regional disparities?

- **Regional unemployment rate disparities in a country are linked to institutions**
  - Problem:
    needs country level panel data of many countries => Such data are unavailable
  - Approach Bayesian Averaging
    Estimate all 2^k versions of a model like
    $$\Delta \ln(u_{it}) = \alpha + \beta X_{it} + \varepsilon_{it}$$

- **If an institution increases regional disparities it has to increase (reduce) unemployment in a high unemployment rate region by more (less) than in low unemployment rate regions, opposite applies. If an institution reduces regional disparities the opposite should apply**
  - Estimation can be done by quantile regression

Data sets & Dependent vars

Regional data

- Data on average regional unemployment rates over periods 1998 to 2001, 2002 to 2005 and 2006 to 2011, On 14 EU countries on the country level and 150 regions

Dependent variables

- Country level Bayesian regressions: (Log) Standard deviation of unemployment rates,
- Regional Quantile Regressions Log of regional unemployment rates

Controls

- Population size, education structure, industry structure, age structure, homeownership, amenities,

National Institutions

- Labour market – minimum wages in % of the median wage, the strictness of employment protection legislation, replacement rates including social and housing markets, effective marginal tax, share of GDP spent for active labour market policies (OECD).
- Wage bargaining and trade union organisation – Visser (2011): trade union density, adjusted trade union coverage and centralisation and co-ordination
- Product market regulation (OECD)
- Data on regional autonomy from Hooghe et al. (2010)

- There seems to be a robust correlation between centralisation of wage bargaining , net replacement rates and regional autonomy with the size of regional unemployment rate

- In addition a minimum wages, marginal tax rates, housing market flexibility, employment protection and the costs of overtime contracts in some regressions.

But

- Somewhat in contrast to popular believe however, only the regional autonomy index, and net replacement rates seem to be positively correlated with regional unemployment rate disparities,

- All other robust variables seem to be negatively correlated with regional unemployment rate disparities.

Thank you for your attention!

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https://ideas.repec.org/e/phu175.html