Regional inequalities in Europe

Introduction

There has long been concern about inequalities between European regions, whether they are increasing or decreasing, and the extent to which national government or EU intervention can help to reduce them (see Farole et al. 2011). Reducing regional inequality was one of the key means of promoting the ‘harmonious development’ within Europe envisioned in the EEC Treaty of 1957. This objective remains today, with the pursuit of ‘economic, social and territorial cohesion’ through ever closer regional, and national, harmonisation, as enshrined in the 2007 Lisbon Treaty.

However, deepening European integration has not always been matched with convergence in living standards between sub-national regions within Europe. Over the years a number of econometric studies have examined the development of regional inequalities in Europe, garnering mixed results, often dependent on the selection of methodology (Petrakos 2008: vii).

The expansion of the EU to include 12 new member states in Central and Eastern Europe appears to have increased EU-wide regional inequality dramatically, a situation comparable to that experienced after Greek, Spanish and Portuguese accession. The EU is now comprised of many diverse regions with diverse populations: some are highly urbanised, metropolitan, and geared to knowledge-intensive economic activity; others are rural, relatively undeveloped, and reliant on low-tech and even subsistence agriculture. Regional inequalities are often, therefore, actually more dramatic than inequalities between states. As many policies are delivered at a regional level, they are also important for service delivery.

Regional inequalities can be measured in many ways. In this chapter we map the extent of inequalities in population, demography, income and wealth, labour markets, and education and skills. In particular, we consider the impact of the 2008/09 recession on these trends and the implications of these changes for traditional regional policy.

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Regional demographic trends

Figure 7.1 Population density, by NUTS 2 regions (inhabitants per km²), 2008

Legend

Source: Eurostat (2011q).

Regional agglomeration: benefits and challenges

Demographic density matters for economic activity. Dense regions benefit from wide and deep labour markets, as well as access to specialised suppliers and customers, and these factors allow the exchange of knowledge between economic actors. Such ‘agglomeration economies’ make urban regions more productive than less dense areas (Marshall 1890).

Figure 7.1 gives data on population density across Europe in 2008. Inner London and Brussels are the most densely populated regions with 9,500 and 6,500 people per square kilometre respectively. In contrast, Upper Norrland in Sweden has just 3.3 people per sq.km.

Low rates of internal migration in Europe mean population changes slowly, but there are some stark divides between rapidly growing regions and shrinking ones. The population of Luxembourg increased by 1.5 per cent between 2000 and 2010; by contrast, the population of Severozapaden in Bulgaria decreased by 16 per cent over the same period. While migration decisions are made for many reasons, common reasons include quality of life and economic opportunity (Cheshire and Magrini 2006).

The increasing concentration of European populations in urban centres has implications for infrastructure planning and environmental policy, with growing strain on road and rail services and adding to the ‘hidden cost’ of doing business. The density of urban populations also places strain on supply chains, pushing up the cost of urban living relative to elsewhere.
Previous research has shown an inverse relationship between female labour force status and fertility (Bloom et al. 2007). Figure 7.2 illustrates both the wide regional variation in female participation in the labour market between European NUTS-1 regions and the correlation with regional fertility rates.

There are regions where very few females are economically active. The Turkish region of Güneydoğu Anadolu Bölgesi, in Turkey, has the lowest female labour participation rate in the countries we are considering here, at just 13 per cent, and an extremely high fertility rate equal to 3.5 children for every female head of population. However, many European regions, representing areas of high economic development, have high female participation rates but fertility rates below the so-called ‘replacement rate’ of 2.1 required to stabilise populations. This phenomenon is driving wider demographic and economic change.

In last year’s publication, it was pointed out that many countries’ ‘economic dependency’ ratios will worsen in the coming decades (ETUC and ETUI 2011: 47). An economic dependency ratio expresses the number of individuals in a population who are economically inactive relative to those in work. This is intended to provide a rough measure of how many individuals are theoretically dependent on wealth transfers from the working population for their day-to-day material needs. One ‘economic dependency’ calculator model developed by Josef Wöss and Erik Türk suggests that the EU27 economic dependency ratio could climb as high as 87 per cent by 2050 (1.1 economically active persons for every non-active person) (Wöss and Türk 2011).

One of the key factors in future economic dependency ratios is the relationship between women joining the workforce, fertility rates and demographic change. At the same time as rising female participation improves short-run economic dependency ratios, falling fertility rates accelerate demographic change as fewer births lead to fewer working adults in the future.

It may be easier for policymakers to encourage women into work than to encourage working mothers to have more children. Over the past few decades improvements in working rights, such as statutory maternity and paternity leave, have made it easier for working mothers and fathers to raise young children. If we are to see the economic and demographic gaps between regions closing, it is likely that European governments will have to devote more resources to making pregnancy and child-rearing compatible with working lives.
Income, wealth and lifestyle inequalities

Regional inequalities in Europe

A question mark over regional income inequalities

Regional inequalities tend to follow a procyclical pattern. Developed regions grow faster in periods of expansion and more slowly in periods of recession. However, since the 2008/09 recession this relationship has been less clear. Some regions are stagnating relative to others, both within and between member states, whilst others have benefited from an influx of educated labour.

There are pronounced differences in regional GDP per capita. The leading regions in the ranking of NUTS-2 regional GDP per inhabitant in 2008 were Inner London in the United Kingdom (343% of the average), the Grand Duchy of Luxembourg (279%) and Brussels in Belgium (216%) (Figure 7.3).

Figures for these three regions, however, are artificially inflated by commuters who do not reside within their boundaries; net commuter inflows push up production to a level that could not be achieved by the resident active population on its own. GDP per inhabitant appears higher in these regions and lower in regions with commuter outflows.
Despite some reservations and particularities concerning regional inequalities in GDP per capita mentioned in the previous section, geographical patterns are relatively clear. There is a concentrated area of affluence starting from southern England and stretching through continental Europe to central Italy and northern Spain. Regions in Scandinavia also tend to be affluent.

All of the ‘weakest’ 20 European NUTS-2 regions, as measured by GDP per capita as a percentage of the EU average, are in states that joined in the post-2004 wave of expansion; Hungary and Poland, which joined in 2004, have respectively four and five regions in the bottom 20, whilst Bulgaria and Romania, who joined in 2007, have five and six.

Figure 7.4 illustrates regional GDP dispersion, i.e. the deviation of regional GDP from the national average, where a higher number denotes greater inequality. This measure was falling at European level up until 2008. Though there are no figures yet available for after this period, it could reasonably be expected that this trend will have slowed, or even reversed, as weaker regions stagnated and European governments embarked on implementation of widespread austerity packages.

There are wide disparities in regional incomes
The term ‘digital divide’ describes the gap between those who have ready access to the information and communications technology (ICT) and those who do not. The term includes not only access but also the relevant skills needed to participate in the ‘information society’.

Ensuring comprehensive availability and take-up of fast internet is one of the building blocks of the Digital Agenda for Europe (DAE), part of the Europe 2020 strategy (European Commission 2010). The DAE aims to make basic broadband networks available to all EU citizens by 2013.

Embedding the use of information technology is important for a number of reasons. Employers are increasingly looking for those with expertise in using IT software, and many employees now use the internet and other ICTs in their day-to-day work activities. Widespread familiarity with ICT is also crucial in fostering the ‘innovation union’ envisaged in the Europe 2020 strategy.

National differences in network coverage are by far the most important factor in regional differences. The national variations in household access to broadband internet in 2010 are considerable (Figure 7.5). They range from 33% in Bulgaria to 91% in the Netherlands for household internet connections, and from 23% in Romania to 83% in Norway and Sweden for broadband access.

Access to technology is, of course, highly correlated with higher incomes and wealth. The average annual income per inhabitant in Flevoland (in 2008) was around EUR 22,000, compared to around EUR 3,000 in Muntenia (Eurostat 2008). Underlying these differences will be complex regional factors, including industrial structure, level of urbanisation and the age structure of the population.

The DAE cites further government and private investment in fixed-line internet coverage as a key European priority. While improving fixed-line access should remain a priority for the EC and its member states, devoting too much attention to fixed-line expansion may not actually be the most efficient use of resources when compared with the falling cost of high-speed 3G and even 4G internet access.

**Figure 7.5 Regional disparities in household and individual access to IT**

Data source: Eurostat (2010a).
Regional inequalities in unemployment levels, by some measures, were falling at the EU level up until 2008. However, the financial crisis and ensuing global recession have pushed up unemployment in many European countries (see Chapter 2) and contributed to a change in trend for EU-wide regional dispersion. This is in spite of falls in the measure of unemployment dispersion in many developed EU countries during 2009 and 2010, which has been caused by unemployment in high-performing areas rising disproportionately to converge with low-employment areas.

For example, unemployment rates in Comunidad Foral de Navarra, which, at 4.8%, were the lowest in Spain in 2007, have risen to 11.8% -- a proportional rise of 146%. By contrast, Spain’s region of highest unemployment in 2007, Extremadura, has seen a slightly more modest rise of 75%. In many parts of Europe, high employment regions have moved towards low employment ones, rather than visa versa (compare similar developments on country level in Chapter 2).

As this trend has brought regions within distressed countries closer to high unemployment rates, it has served to increase EU-wide dispersion as regions that were converging on similarly low rates of unemployment in the pre-crisis years have fallen behind their more fortunate peers in less-affected countries. For example, the ratio of unemployment between North Holland (inclusive of Amsterdam) and Comunidad de Madrid has risen from 2.17 in 2007, to 3.83 in 2010, indicating greater inequality.

Issues surrounding post-recession employment levels are considered in more detail in Figure 7.7.

A conflicting story at national and EU level

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Some expected that the European regions with the most entrenched unemployment problems prior to the 2008 financial crisis would see the greatest rise in unemployment in the wake of the crisis (see Lee 2009). However, as mentioned on the previous page, this has not always been true, with some low-unemployment regions, particularly in Spain and Greece, converging towards the economy-wide higher average rate of unemployment.

Some regions do fit the expected pattern: the southern region of Spain (covering Andalusia, Murcia, Ceuta and Melilla) and the Spanish Canary Islands both had very poor initial unemployment rates at the beginning of 2008, and subsequently suffered some of the worst further deterioration in employment. The region of Åland, a small group of islands in the Baltic Sea that is legally part of Finland, had very low initial unemployment (2.2%), and saw only a small rise of 0.9% between 2008 and 2010 (Figure 7.7).

However, there are major exceptions to the rule. The three Baltic states (which are also treated as NUTS 1 regions) are outliers, in that they entered 2008 with moderate unemployment rates but suffered very large proportional increases in unemployment during 2009/10. Estonia’s unemployment rate rose from 5.5% to 16.9% in this period, while that of Lithuania increased the most of all, from 5.8% to 17.8%. This deterioration is probably due to the huge outflows of FDI from the Baltic states during the financial crisis, following a period of high foreign investment in these ‘tiger’ economies.

Another group of outliers are those regions that had relatively high unemployment rates in 2008, but whose situation improved between 2009 and 2010. A total of eight of the nine regions where unemployment was above 9% in 2008, but has since fallen, were in Germany. German regions accounted for a total of 11 out of the 15 NUTS-1 regions where the unemployment situation has improved since 2008, marking Germany as an exceptional case in Europe at present.

Germany’s resilience in the face of the economic crisis has been built on the strengths of its Mittelstand, small manufacturing firms that often have a history of location in a certain town or area, with strong links to local education institutions and government agencies. Germany has also benefited from its membership of the eurozone: despite the currency’s protracted problems, its low trading value relative to the old German Deutsche Mark has helped German exports soar, helping to reduce its dispersion of regional unemployment.

Exceptions and outliers – what can we learn?

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Governments differ in the amount of national resources they expend on intervening in their labour markets. There are different types of labour market policy (LMP), and Eurostat breaks these down into three broad categories, as enumerated below.

The first, labour market ‘support’, accounts for around 64% of current EU-wide LMP spending and refers to interventions that provide financial assistance, directly or indirectly, to individuals for labour market reasons (e.g. out-of-work benefits, redundancy pay). This component of LMP has risen sharply since 2008 as unemployment has increased across the continent.

The second type of LMP, labour market ‘services’, and the third, labour market ‘measures’, are distinct from direct financial support for the unemployed in that they comprise spending on job-search related services or specific interventions that change an individual’s labour market status. These might include state-funded training or work placements, or encouraging people to take up certain forms of employment such as national apprenticeship schemes. Across the EU27, around 0.8% of GDP was spent on these interventions in 2009, up from 0.65% in 2008. While this increase in spending was welcome, even more finance for such interventions was required.

Figure 7.8 illustrates the percentage of national GDP spent on these two latter types of intervention in 2009, thus eliminating the extra public spending that has resulted from increased overall joblessness. This can therefore be seen as a ‘purer’ measure of government activism in promoting specific labour market policies, discounting ‘automatic’ welfare spending that has resulted from rising unemployment.

The spread of each country’s regions along the y-axis illustrates the success or otherwise of labour market interventions in reducing regional variations in unemployment. A closely bunched set of points denotes lower levels of regional inequality in unemployment rates.

There is no clear relationship between spending on labour market interventions and lower regional employment inequality. Indeed, relatively interventionist countries like France and Spain both have a considerable spread between their best and worst performing regions, as well as high national average unemployment rates of respectively 9.8% and 20.1%.

There does, however, appear to be a correlation between high levels of interventionism and lower average rates of unemployment; the average national unemployment rate of the top four spending countries (Denmark, Belgium, Poland and the Netherlands) is 7.9%, compared to an average of 9.5% in the bottom four spending countries (Romania, Greece, Bulgaria and the UK). A more active labour market policy, through both increased job-search-related labour market services and specific government interventions in the labour market may then help to reduce overall unemployment levels, although such an approach will not necessarily reduce regional disparities.
Labour market and employment

More long-term thinking needed

The numbers of long-term unemployed people (those unemployed for 12 months or longer) have increased since 2008 as increasing numbers in certain regions have been searching for work for 12 months or more. Evidence suggests that, once individuals have been out of work for an extended period of time, it is much more difficult for them to find work, as various factors such as skills atrophy and loss of self-confidence impede their search (Tominey and Gregg 2005).

Since 2008 long-term unemployment has often risen proportionally faster than overall levels of unemployment, with many regions seeing rises of between 100 and 500% (Figure 7.9). Lithuania has indeed seen a fivefold increase from 1.23% to 7.38%. In the Spanish regions of Valencia and Murcia the rate is 8.7% and 9.8% respectively (both having risen almost 400% since 2008). This trend is not limited to regions in so-called ‘peripheral’ countries; in Belgium, both the Brussels and Hainaut regions have seen long-term unemployment rise to above 8%.

Youth exposure to long-term unemployment is of particular concern; youngsters who have long spells of joblessness are likely to suffer greater permanent damage to their long-term career prospects (see also Chapters 2 and 3). In many regions of Spain, Greece and Italy there are severe problems with youth unemployment which have the potential to impact on countries’ economies for years to come. While these countries have experienced economic difficulties, they have, at the same time, labour markets with built-in restrictions on young people’s pathways to work.
Education matters

A better educated workforce tends to be engaged in higher-value activities. Figure 7.10 illustrates the relationship between the proportion of regional population with tertiary education, and employment in high-value sectors. High-value sectors are here defined as knowledge-intensive services and high/medium-high technology manufacturing.

Whichever way the direction of causality runs, it is clear that some regions are more successful than others at attracting and retaining educated individuals and high-quality employers.

This is true even within countries. In London, for instance, almost 46% of the working population has tertiary education, and this is reflected in Europe’s highest rate of employment in high-value sectors – almost 60%. In contrast, the northern British region of Yorkshire and the Humber has a much lower proportion with tertiary education, around 30%, and only 47% of the workforce is employed in high-value activities.

Having a local world-class university or higher education institute can benefit a region enormously in terms of attracting high-quality employers. Large firms in areas like high-tech manufacturing, engineering and pharmaceuticals often have strong links with the academic community and may develop ties with local university departments, leading to regional clusters of high-value firms around key universities, acting as a magnet for other firms. This is the case in areas like the Cambridge ‘Silicon Fen’ cluster in the UK (compare also ETUC and ETUI 2011: 70 ff.).

European regions that lack higher education institutions, or whose institutions are not competing on an international level, may find that their brightest and best workers move elsewhere for their education, and may not return. Governments have a large role to play in championing their higher education sector, as it is seen both as a generator of local value, and also as a growing export sector. Yet selective migration – as the highly educated move to education and fail to return – may also exacerbate regional inequalities. We consider this issue in the conclusions.
Growing inequalities require responses

As this chapter has shown, there are pronounced regional disparities across many socio-economic indicators. But should we expect regional disparities to rise or fall? Given the increasing knowledge intensity of the economy, and the importance of dense locations for knowledge-based industries, disparities may be likely to increase. Productive regions, and the cities within them, will develop self-reinforcing growth. In periods of economic strain (as at present) weaker regions may fall further behind as an over-reliance on public sector employment makes them vulnerable to spending cuts. Especially, rural and less developed European regions may find that they lose their most important resource, namely, people, without whom it will be far more difficult to close the development gap.

How can policymakers address these problems? Regional policy will be one answer; directing resources towards distressed geographic regions can help to improve living conditions and prevent further increases in regional inequality. Policies building on local ‘anchor institutions’ such as universities or large companies can be one such strategy (The Work Foundation 2010). Europe’s governments also need to act to prevent the long-term unemployed from becoming a lifelong drain on national resources. Although a lack of private demand, combined with the scaling back of current government spending, has worsened prospects for the younger generation, a major part of the investment that is required is in improving the education and skills of workforces around Europe (Chapter 3) so that they are equipped for higher value work (Figure 7.10).

Yet it is important to think beyond regional policy. Regional disparities reflect differences between people, not just places, insofar as they are actually the result of the different distribution of people over space. ‘Place’ effects, such as the impact of agglomeration on productivity of firms, coupled with ‘person’ effects, that is the characteristics of individuals and where they are located, are the two major components of geographic inequality. Evidence strongly suggests that ‘person’ effects dominate (Gibbons et al. 2011). The underlying problem for most lagging European regions is a lack of workforce skills needed to attract investment and set up a virtuous circle of development. Because of this, some of the best policies to address regional inequality may focus on people, not places.

Conclusions