

NATIONAL ECONOMIC DIALOGUE

REGIONAL AND RURAL DEVELOPMENT – ECONOMIC RECOVERY FOR THE WHOLE COUNTRY

16-17 JULY 2015



An Roinn Airgeadais
Department of Finance

Regional and Rural Development

– Economic recovery for the whole country

This paper has been prepared as a contribution to the discussion in the breakout session at the National Economic Dialogue. It should not be seen as prescriptive but rather seeks to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

Key Guiding Questions:

- *What can be done to ensure that the benefits of recovery are fairly distributed throughout the country – urban and rural and throughout all the regions?*
- *How can we maximise the contribution of both regional and rural development to both a strong economy and a fair society?*
- *What are the key environmental and sustainable development challenges?*

BACKGROUND AND REGIONAL SOCIO-ECONOMIC PERFORMANCE

One important measure of the level of regional economic activity is gross value added (GVA) per capita. As is evidenced from Figure 1, in 2012, the Greater Dublin (Dublin and Mid East) and the South West regions had the highest levels of GVA per capita at over €40,000 compared with the Border and Midlands regions which had the lowest at €19,000. On the basis of this measure, which captures differences in various factors including productivity levels, there appears to be a growing divergence with the Greater Dublin region and the South West growing faster than the national average. However, as is also apparent from Figure 1, the effect of redistribution through the fiscal system is to substantially narrow regional disparities in income per capita.

Looking at labour market developments, all regions experienced a reduction in total employment between 2008 and 2010. Since then, the recovery in employment has differed with growth fastest in the South East (8.8%), Midlands (7.9%) and Dublin (5.5%) regions, while the Mid-West witnessed a decrease in employment of 2.9%. Focusing on the unemployment rate, there have been declines across all regions in recent years as the economy recovered. However, regional disparities in unemployment rates persist with the Border and South East regions continuing to experience higher rates. Since the crisis there has been a re-emergence of a greater dispersion in unemployment rates across regions in a pattern that is comparable with spatial differences evident prior to the boom. This appears to indicate that the underlying structural issues contributing to the differences in regional unemployment rates have not been addressed over time.

The most recent census (Census 2011) indicates that 39% of the population live in the Dublin and Mid East region. More granular data available at the electoral district level provides important additional insights on population distribution. Map 1 shows population density and employment density and indicates that employment is more geographically concentrated than the population.

In an international context, Figure 2 shows that over 70% of Ireland's population is living in rural areas compared with the EU 27 average of just over 20%. This spatial distribution of population has implications for the cost efficient provision of infrastructure and other public services.

¹ GVA is similar to the GDP measure used in economy-wide and comparative analyses.

² Employment data is taken from the Quarterly National Household Survey. The employment data are based on individual's place of residence not the location of their employment.

MAP 1. POPULATION AND JOB DENSITIES, 2011 (JOBS SCALED)

Source: Morgenroth (2013) using the Census 2011 Small Area Population Statistics and a special tabulation from the Census travel to work micro-data (POWSCAR). Note: Job numbers have been scaled up to add to the total population to ensure that the patterns are not driven by scale differences

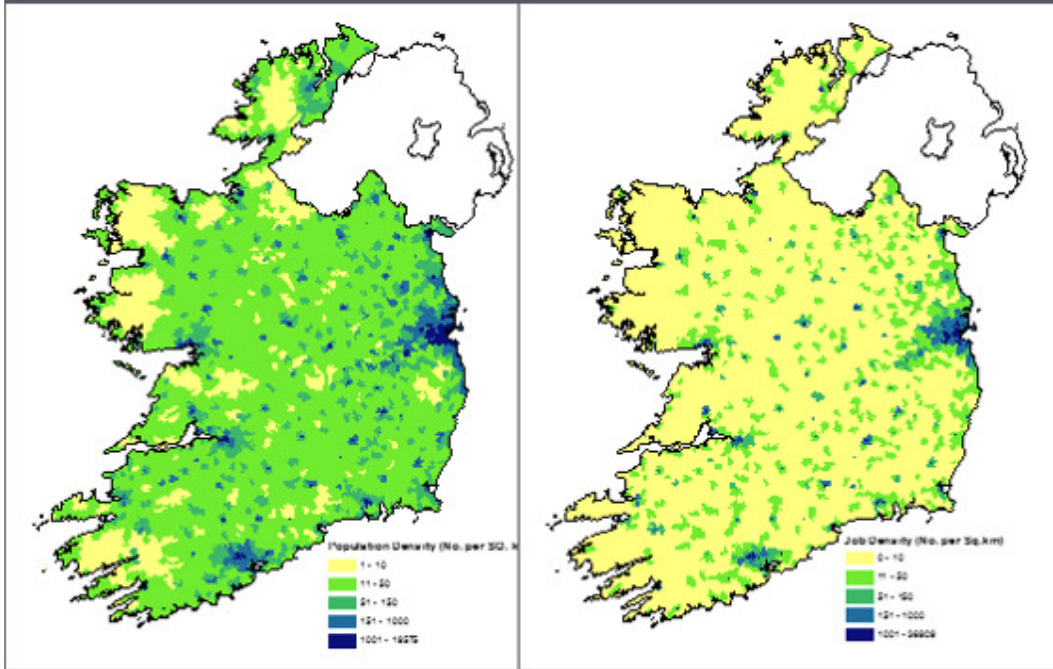
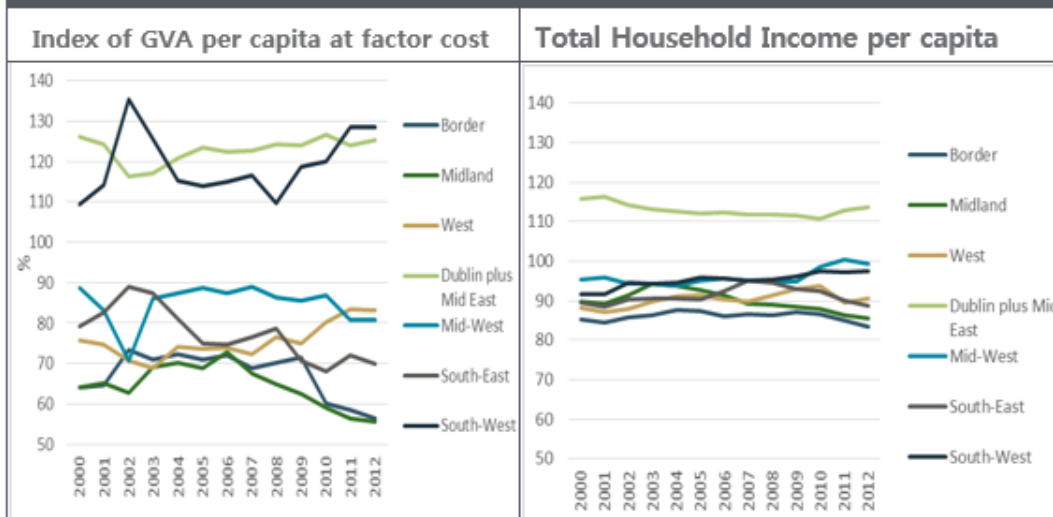
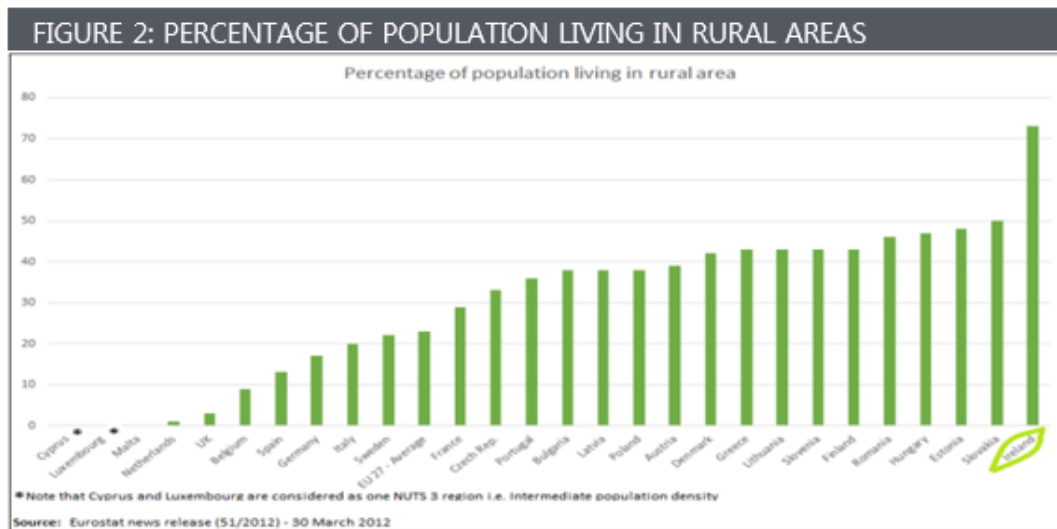


FIGURE 1: ECONOMIC ACTIVITY

Source: CSO Regional accounts and County Incomes, Note: 100% = National Average





FACTORS AFFECTING REGIONAL AND RURAL DEVELOPMENT

Regional economic development is driven by many interacting factors including geography, population, specialisation, productivity, human and physical capital, entrepreneurship and innovation. In addition, social capital, which refers to aspects including governance, leadership and institutions, is important.

International research by OECD (2012) indicates that there are opportunities for growth in all types of regions (i.e. urban, rural or remote areas). For some more developed regions, agglomeration economies that arise from the concentration of firms who benefit from factors such as economies of scale, network linkages and knowledge transfer are important for growth. For regions with lower levels of development, strong “catching-up” opportunities are important. Capitalising on these opportunities in less developed regions can help support broader based growth and contribute to greater equity, and economic and fiscal stability.³

A number of policy conclusions from the OECD (2012) report are worthy of note:

- Policies subsidising lagging regions are largely ineffective, policies should instead focus on building each region’s growth potential.
- To the extent that regions differ it would appear appropriate that place-based approaches as opposed to a “one size fits all” approach should be considered.
- Less developed regions are likely to face multiple constraints. Accordingly, consideration should be given to a coordinated policy approach that integrates simultaneous policy improvements, infrastructural provision and human capital development.

³ OECD (2012), *Promoting Growth in All Regions*, OECD Publishing Paris

The Commission for the Economic Development of Rural Areas (CEDRA) has provided an important analysis of the issues affecting rural development in Ireland. The report identifies a number of key issues:

- There is an apparent lack of coordination in the delivery of support for rural development.
- Successful development of rural areas requires effective strategic planning and coordination, responsibility and oversight of rural development polices. Bottom up approaches that build local community capacity and support development should be aligned with county, regional, and national level economic plans in order to ensure success.
- Key barriers to enterprise development include shortage of skills, poor broadband access and inadequate roads and water infrastructure.
- Industries important for rural development include the agri-food and beverage industries, creative industries, tourism and recreation, marine, and renewable energy.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

In 2012, the Government published *Our Sustainable Future* which set out a medium to long-term framework for advancing sustainable development and the green economy in Ireland. As the economy develops greater pressures will be placed on the environment and Ireland's natural resources. The strategy identifies many challenges to create a sustainable and resource-efficient economy which respects the ecological limits and carrying capacity of the natural environment. It notes there are important trade-offs that must be addressed in providing the policy and regulatory environment in support of environmental objectives while at the same time ensuring that Ireland remains an attractive place to do business.

Some key challenges identified were:

- *Sustainability of Public Finances and Economic Resilience* – Unsustainable public finances undermine the framework for economic prosperity and sustainable development.
- *Sustainable Consumption and Production* – Greater resource efficiency is seen as important for economic growth and employment.
- *Conservation and Management of Natural Resources*
- *Sustainable Transport* – Sustainable transport is central to national efforts to combat climate change, air pollution and other negative environmental and social impacts.
- *Education, Communication and Behaviour Change* – There is a need to educate people about sustainable development at every level of the formal and informal education system.
- *Innovation, Research and Development* – Research and its diffusion has a significant role to play across a range of sectors in supporting sustainable development targets.

The paper notes that sustainable development requires that individual Government policies are not formulated in isolation, but have regard to other policies and priorities. To ensure effective implementation of policies, it identifies a requirement for better coordination and engagement between relevant Government Departments and their agencies at regional and local level.

Another important document that preceded *Our Sustainable Future* is the 2012 EPA report *Ireland's Environment 2012 - An Assessment* which provided an assessment of the overall quality of Ireland's environment, the environmental challenges and priorities being placed on it, and the societal responses to environmental issues. Overall, the assessment indicated that Ireland's environment remains in a good condition. However, four key challenges were identified: valuing and protecting our natural environment; building a resource-efficient, low-carbon economy; implementing environmental legislation and putting the environment at the centre of decision making.

FURTHER GUIDING QUESTIONS:

What policies should be pursued to ensure that the resources and potential of all regions are fully utilised?

Thinking about regional and rural development in Ireland, do the various regions face the same challenges or are specific challenges more associated with some regions than others?

- What challenges are best addressed by means of a national policy approach that is applied to all of the regions?
- What challenges are best addressed by focusing on a particular region?
- What are the most effective ways of addressing each of these challenges?

How can more FDI be attracted into regional areas outside of the larger urban centres (e.g., Dublin and Cork)?

Social capital is an important factor mobilising resources and development at regional and local level. What policy actions could be pursued to incentivise local leadership and co-operation across stakeholders?

Development plans at various spatial levels (regional, county and local levels) play a key role in supporting spatial and economic development over the medium to long term. How can we improve upon previous efforts in this area?

Relative to other European countries, Ireland has the highest proportion of its population living in rural areas. What are the key implications for the cost efficient provision of transport solutions, infrastructure and other services?

There are important trade-offs that must be addressed in providing the policy and regulatory environment in support of environmental objectives and at the same time ensuring that Ireland remains an attractive place to do business. How do we ensure that we get the balance right?

***Department of Finance / Department of Public Expenditure and Reform
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