INVESTIGATING SPATIAL INEQUALITIES

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Mobility, Housing and Employment in Scandinavia and South-East Europe

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INVESTOR IN PEOPLE

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Chapter 1

Introduction: Spatial Inequalities in the Age of Rapid Technological Advances

Helena Bohman, Peter G. Håkansson and Inge Thorsen

Regional inequalities have long been a major concern of EU regional policy. Growing differences between urban and rural regions have recently been used to explain a source of political discontent underlying the election of Trump, Brexit, and the surge of extreme, right-wing, and xenophobic movements across Europe. Whereas many urban areas see their population and economies growing, other, often rural, areas suffer from an ageing and shrinking population – resulting in challenges associated with providing basic services of health, education, and mobility. Not surprisingly, urban populations often report an optimistic view on the future, whereas populations in more rural areas are more pessimistic and sceptic towards politicians and present politics. Understanding the spatial dynamics of economic development is therefore of vital interest. Income inequalities tend to be wider across regions within countries than across countries, but this differs. For example, disparities in income per capita are a lot wider across regions in the European Union than across states in the United States (Puga, 2002). This also applies for unemployment, which has become increasingly polarized in the European Union in the last decades (Puga, 2002). Important reasons for this are the wide-ranging changes that the world economy has experienced during the last decades. Digitalization, globalization, and educational upgrading have, for many, led to increased wages, less routine work, and overall increased wealth. However, there are also less desirable outcomes: divergence between urban and rural locations, labour market polarizations, and increased inequality within countries. One explanation is that regional labour markets have specialized in work that is not equally disposed to technological complexity – reflecting differences in industrial and occupational structures, the skill mix of the work force, organization of work, and the extent to which new technology is already present in the local economy (see, e.g., Berger & Frey, 2016).

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Changes in the occupational structure caused by adopting new technologies seem to have reinforced existing spatial inequality. New jobs are created in cities with high concentration of highly skilled workers, while locations with low density of high-skilled workers experience job losses (Berger & Frey, 2016). When this structural change hits an area negatively, people may lose their jobs, but the overall negative development often also leads to decreased house prices. Hence, people in lagging areas may become 'double losers' when losing both income and the value of their house.

Accordingly, technology's potential to substitute work is an important issue that largely influences different positions and perspectives of the regional labour markets today. Vast literature shows that recent technological change has been skill-, routine-, and capital-biased (see, e.g., Berger & Frey, 2016). Digitalization tends to substitute for workers engaged in routine tasks carried out by well-defined procedures. On the other hand, tasks that require intuition, creativity, complex social interaction, and higher levels of perception and manipulation are still difficult to automate. In many advanced economies, there have been significant expansions of employment at both ends of the skill spectrum, at the expense of employment in middle-skill occupations. The surge in low-skill service jobs can be explained by the fact that higher incomes increase the demand for services requiring low-skilled workers, and the manual, non-routine tasks that are prevalent in service occupations are not easily substitutable by computers (Autor & Dorn, 2013; Berger & Frey, 2016). However, rapid technological advances (artificial intelligence, use of big data, sophisticated algorithms, robotics, etc.) will probably soon enable automatization at an even wider scale, making low-skilled workers even more vulnerable.

Spatial Mobility and Inequality

Numerous studies in recent years have analysed local labour markets, for example, in relation to cultural diversity (Suedekum, Wolf, & Blien, 2014), mobility, over-education and educational mismatch (Croce & Ghignoni, 2015; Ramos & Sanromá, 2013), and trade and technology (Autor, Dorn, & Hanson, 2015). Even though spatial mobility in different forms is central in these studies, researchers often study mobility in isolation. Related issues concerning housing, transport, migration, and commuting decisions that may be central for the mobility of different groups of individuals are rarely analysed comprehensively.

The purpose of this book is to bring new insights into the patterns underlying inequalities across space, with a special focus on mobility and institutional rigidities that affect mobility. The idea that a lack of geographical mobility contributes to inequalities is far from new. Already Beveridge (1944) and Friedman (1968) emphasized the role of mobility. However, what is novel in this book is that it combines employment, mobility, and housing in a major comparative study across Europe and analyses the structural change of the so-called fourth industrial revolution (see, e.g., Schwab, 2016).

This book provides comparative analyses between four countries in Scandinavia and South East Europe (SEE) – Sweden, Norway, Serbia, and Croatia. The choice of countries may seem odd at a first glance; however, they are all countries in the more peripheral parts of Europe, and they all have a history of relatively extensive welfare states and egalitarian ambitions. In terms of differences, Sweden and Norway belong to the richest parts of Europe, whereas Serbia and Croatia belong to the poorer parts. This provides an opportunity to analyse the extent to which some differences may be the outcome of a country's or region's stage of economic development. We consider this a 'most-different' approach. Moreover, selecting two countries from each region allows us to investigate the role of economic structure within the two groups. For example, Sweden and Norway share many characteristics, but their geography and economic base are quite different. The most obvious example of economic difference is perhaps Norway's revenue from oil, but the geographical differences also give quite different preconditions – for example, infrastructure investments. The same argument applies for Serbia and Croatia. Thus, the choice of countries enables analysis using both 'most-different' and 'most-similar' approaches.

Although Europe is quite strong in ICT development, these strengths decline as we move to the Southern and Eastern peripheries of the EU (Leontidou, Afouxenidis, Gialis, & Stringli, 2013). In addition, there are large differences in the share of high-tech employment between regions in Europe: while the regions in Western and Northern Europe generally have higher high-tech intensity, the share is much lower in some Southern and Eastern European regions (Goos, Konings, & Vandeweyer, 2015). Thus, spatial inequality is not only a question for local labour markets; it also concerns the inequality between the North West and the South East of Europe.

The slow pace of convergence reinforces internal migration. A growing literature argues that spatial labour mobility is one of the primary mechanisms through which metropolitan areas adjust to changes in local economic conditions (Blanchard, Katz, Hall, & Eichengreen, 1992; Gallin, 2004; Saks, 2008). In addition, since new technology jobs mostly cluster in high-skilled cities, low-skilled workers will inevitably have to follow – making economic activity increasingly geographically concentrated, increasing housing prices and other living costs, and resulting in increased inequality and risk of poverty in these cities despite the growing GDP per capita. Furthermore, only around 3 per cent of the world's population – about 210 million people – are international migrants (Geddes & Korneev, 2015; World Bank, 2011), and most migratory flows happens within the country (Bell et al., 2015). Therefore, internal migration, which result from labour market polarization and regional development dynamics, is one of the most fundamental responses to technological transformations' effects on employment.

Spatial labour mobility can occur through either migration or commute. The decision to move or commute is connected to the housing market. Both issues will be analysed and described in the book from a socio-economic and gender perspective. Theoretically, the relation between housing prices and distance commuted has well-known trade-offs. Extensive out-migration from a local market

will probably also lead to decreasing house prices, which will affect the migration decision. The relationship between home ownership and unemployment rates, at the individual or regional level, has been extensively discussed (e.g., Blanchflower & Oswald, 2013; Coulson & Fisher, 2009; Dohmen, 2005; Lux & Sunega, 2012; Munch, Rosholm, & Svarer, 2006; Oswald, 1996). This literature was largely propelled by Oswald's argument that reduced mobility associated with home ownership creates labour market inefficiency and higher unemployment rates. Empirical findings indicate that declining home prices are associated with reduced geographic mobility of homeowners (Chan, 2001; Ferreira, Gyourko, & Tracy, 2010). This causes people to become trapped in peripheral, low-income areas – becoming 'double losers' as the loss of the house value prohibits them from adapting and seeking higher income jobs. Similarly, research conducted on the Spanish labour market showed that increasing provincial house prices significantly decreases the probability of migration (Palomares-Linares & van Ham, 2016).

The digitalization of the economy is evidenced by internet use and access, e-governance, individuals' digital skills, and enterprises use of ICT. In all these indicators, Sweden and Norway are ahead of Serbia and Croatia (Eurostat, 2017). When it comes to economic structure, close to 80 per cent of all employees in Sweden and Norway work in the service sector, while the rate is 64 per cent in Croatia and 56 per cent in Serbia (ILO, 2017). Differences in economic structure and wealth create incentives for international migration because of wage gains from emigration. This makes depopulation trends strong in SEE, as opposed to modern Scandinavia. However, Scandinavia experienced depopulation around 100 years ago in the emigration wave to North America. This experience may provide insights into how SEE countries can reverse the tide of emigration. There are also similarities between the two regions. For example, low population density and a positive attitude towards the welfare state.

What Is Inequality?

Inequality is becoming a central topic in economics after decades of, if not being neglected, at least being a peripheral topic. One reason for this previous disinterest is that neoclassical theories have predicted convergence between regions, since poorer countries are supposed to grow at a faster rate than richer countries (Solow, 1956). Although there has been an intense debate on convergence, the expectation that inequality is a temporary problem has minimized interest in the topic. Inequality seems to have increased in popularity again, which is illustrated by the successes of Piketty (2014) and Stiglitz (2012). Concerns about the negative effects of globalization, the uneven benefits of the transition of socialist economies, and the recent financial crisis have renewed the debate (Wei, 2015). However, while economists have paid less attention to individual inequality, regional and spatial inequality have been discussed among economic geographers and others (Wei, 2015). Accordingly, there is a large number of theories, sometimes contradicting, that can be analysed and applied.

But what is inequality? More specifically, what is spatial inequality? Often when we talk about inequality, we mean individual income inequality. However, income is a broad term and inherently difficult to measure. What do we mean by income? Piketty shows, for example, that the result changes if capital gains are included. Income statistics are also prone to different types of measurement errors, as depicted by the large literature on the topic (see, e.g., Deaton, 1997). When it comes to spatial inequality, the definitions become even more blurry since we have to deal both with the spatial dimension and with the unevenly distributed variable. In this book, we use employment, unemployment, population growth, and income (regional GDP) as the variables.

When investigating spatial inequality, it is usually necessary to use geographical aggregations. Aspects of spatial inequality may be subordinate to personal inequality and fairness, and authorities in some countries may not be very concerned about a development involving centralization and depopulation of peripheral rural areas. Centralization and agglomerations arguably promote increased efficiency to the benefit of the society as a whole. However, there are objections against increased centralization. One objection is related to the diseconomies of agglomeration – represented, for instance, by pollution, congestion, and costs of living. Another objection concerns interdependencies in location decisions of firms and households.

However, market incentives are one thing. Another is institutional and political decisions on location that may enhance or slow down agglomeration forces. As Puga (2002) puts it, when firms and households move, they do not take into account possible losses for those left behind. Such network externalities should be accounted for when designing an adequate regional policy. McArthur, Thorsen, and Ubøe (2014) demonstrate that ignoring the effect of negative network externalities may lead to the closure of schools, kindergartens, or the local grocery shop – thereby triggering a self-enforcing depopulation from rural areas. In a spatial general equilibrium framework, McArthur et al. (2014) identify the existence of multiple equilibria and demonstrate how a failure to account for interdependent location decisions may take the economy over a bifurcation point, into an equilibrium state where peripheral areas are more or less totally depopulated. In evaluating aspects of personal fairness, it is important to recognize how individual opportunity sets are influenced by collective decisions on, for instance, the spatial distribution of jobs and the construction of a satisfying transportation infrastructure.

Kanbur and Venables (2005) add other arguments in favour of a balanced regional economic development, stating that 'spatial inequality is a dimension of overall inequality, but it has added significance when spatial and regional divisions align with political and ethnic tensions to undermine social and political stability' (p. 3). In addition to representing an important dimension of individual inequalities, unbalanced regional development has also been fuelling ethnic tensions and forces of segregation – for example, in Catalonia (Spain) and Eastern Ukraine – as Lessmann and Seidel (2017) point out. This is an argument for striving for regional balance and equity in addition to being concerned with inequalities and fairness at an individual level.

According to Puga (2002), 'European regions experienced a clear convergence in income per capita up until the late 1970s, when convergence came to a sudden stop'. He also acknowledges that income inequalities tended to be wider across regions within countries than across different countries. Objective 1 of the European Structural Funds is about 'promoting the development and structural adjustment of regions whose development is lagging behind' (Puga, 2002). A few decades ago, around two-thirds of the EU funding was allocated to this objective; this funding was allocated to the regions with a GDP per capita below 75 per cent of the EU average. Nevertheless, Puga (2002) points out that regional inequalities did not narrow substantially in the 1980s and the 1990s and, by some measures, even widened.

At the same time, many countries exhibited strong forces of political decentralization. According to Rodriguez-Pose and Ezcurra (2010), 'Over the last forty years a decentralizing wave has swept the world'. They claim that elites and regionalist groups have promoted decentralization to attain increased economic efficiency and growth. In Europe, regional autonomy is enhanced in, for instance, Belgium, Italy, and Spain, while countries like Austria, Germany, and Switzerland have been strongly federalized for a longer time. Rodriguez-Pose and Ezcurra (2010) discuss whether more institutional and political federalism leads to improved efficiency, less inequality, and more decentralization in an economic, fiscal, and financial perspective.

Spatial inequalities may also differ according to the general level of economic development in a country. Lessmann and Seidel (2017) refer to Kuznets' (1955) result on the relationship between personal income inequality and the level of economic development: it is in the form of an inverted U-shape. Lessmann and Seidel (2017) hypothesize that this is also the case for a relationship between regional inequalities and economic development. Their findings support this hypothesis to some degree. The development process in very poor countries is typically point-specific in a spatial perspective, for instance, due to the discovery of new resources and the adaption of new technology. Lessmann and Seidel (2017) also find that inequalities stabilize or diminish for an increasing income level but that they increase again at very high income levels. Hence, they suggest that the relationship between regional inequalities and economic development looks N-shaped rather than an inverted U.

Measuring Urbanity and Centrality: A Comparative Approach

In order to make a geographical analysis, it is generally necessary to use data aggregated at different geographical levels. The classification of data into geographical units raises the questions, to what extent do economic patterns actually follow these borders, and how can the relevant and useful borders be determined?

Without entering into a general discussion of such issues in this introduction, this book has adopted the pragmatic approach of using administrative (official) subdivisions of the countries into regions. Administrative levels may be more or

less comparable across the countries of interest for our study through Eurostat, which provides statistics regional classifications at the European level. The first type of classification is the Nomenclature of Territorial Units for Statistics (NUTS), which is available at three different geographical scales (see Table 1.1 for an overview). In addition to the NUTS classification, there is also the classification of Local Administrative Units (LAU), which is also undertaken by Eurostat and compatible within the NUTS system. The LAU 2 level is the lowest level of the administrative subdivision of a country, and its size varies greatly by country. Data availability at the LAU2 level may be limited, and wide variation by countries in that respect can be expected.

This book will often use municipalities (LAU 2 level) as geographical aggregations to analyse markets. We are well aware of that this may be problematic. First, LAU 2 regions differ in size between countries. This makes comparisons between countries difficult. Second, they are divided by administrative borders, not by function. LAU 2 regions may share one common local labour market even if they belong to different municipalities. However, there are also advantages to using LAU 2 level. The first is that it is fairly simple to find official data on this level. The second is that LAU 2 level is the lowest aggregated level and can be clustered into other categorizations – as shown in various chapters in this book.

The Disposition of This Book

The book is divided into three sections. The first section, *Spatial Divergence*, provides an overview of the labour market development in the studied countries. The first chapter in this section, 'Regional Inequalities in Sweden 1985–2014', is written by Peter G. Håkansson and Magnus Andersson and aims to investigate regional inequality and centralization tendencies in Sweden by using official data from Statistics Sweden on house prices and employment. The data is on the municipality level and covers the period 1985–2014. The research question the chapter address is the following: In relation to employment and house prices, which municipalities have gained and which have lost during this period? The time period has been divided into three sub-periods that reflect different phases in the process of economic structural change. Two major economic crises are used to signal the end and the start of new structural phases in the Swedish economy. The study uses two dimensions of local economy: employment rates and house prices in municipalities in relation to the national mean. The results indicate increasing divergence between Swedish municipalities over the period.

The next chapter – 'Centralization and Urbanization Tendencies in Norway', written by Magnus Andersson, Peter G. Håkansson, and Inge Thorsen – moves its focus towards Norway. Small, rural municipalities experienced a favourable population development from 1970 to the mid-1980s, after which the percentage population growth has been strongest in the largest municipalities/cities. This tendency has accelerated during the last 10–15 years. Data post-1970 strongly support the reasonable hypothesis that population growth is positively

Table 1.1. NUTS and LAU Levels, 2013.

Country	NUTS1		NUTS2		NUTS3		LAU1		LAU2	
Croatia	–	1	Regija	2	Županija	21	–		Gradovi i općine	556
Norway	–	1	Landsdeler	7	Fylker	19	Økonomiske regioner	89	Kommuner	431
Sweden	Grupper av riksomraden	3	Riksomraden	8	Län (Counties)	21	–		Kommuner	290
Serbia*	Groups of regions	2	Regioni (Regions)	5	Upravni okrug (Districts)	29	n.a.		Opštine i gradovi	174

Source: Eurostat and Wikipedia for Serbia.

*According to the Eurostat web page, Eurostat and Serbia have not yet agreed on statistical regions for the country. The data in the table are from Wikipedia pages on 'Nomenclature of Territorial Units for Statistics' and 'Teritorijalna organizacija Republike Srbije'.