The impact of the residential economy on the regional economy

The case of Appenzell Ausserrhoden, Switzerland

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Agenda

1. The residential economy – a short introduction
2. An overview on the development in Switzerland
3. The potential for Appenzell Ausserrhoden
Exportation as the base of the economy

„Globalization is for our economies, what graviation is for physics. We cannot be for or against the law of graviation – we have to live with it.“

(Alain Minc, French economist)
The “law of gravitation” of regional development (according to the economic base concept)

Regional development is only possible if a region exports goods and services across its regional borders. The sum of these exports must exceed the sum of goods and services imported.
Regional development is possible as well, if there is – besides the income of the export-oriented economy – a transfer of income into the region.

Meaning: If people, who earn/earned their income outside of the region, spend in the region, generate turnover and initiate input procurements (multiplier effect).
“The invisible circulation of wealth”: Urban-rural income flows

- Residential base
  - Temporal income flows (amenity migration)
    - Retirees
      (work in the dynamic regions, spend twilight years in rural area)
  - Spatial income flows
    - Commuters
      (work in the dynamic regions, live and spend in the rural area)
    - Second-home owners
      (temporary residence in the region; borders on tourism)
    - Tourism
- Public base (the government and its employees)
- Social base
  - Redistributive income flows
    - Social welfare benefits
### The residential economy – the demand/income side

<table>
<thead>
<tr>
<th>Basic sector</th>
<th>Residential economy</th>
<th>Residential base</th>
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<tbody>
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<td></td>
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<td>Public base</td>
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<td>Social base</td>
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<td>Export-oriented base</td>
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<thead>
<tr>
<th>Non-basic sector</th>
<th>Downstream firms dependant on local business conditions</th>
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</table>

Source: Segessemann & Crevoisier (2011)
The residential economy – the offer side

• The non-basic sectors
  – Gastronomy
  – Health and care services
  – Retail
  – Transportation of passengers
  – (Local) financial services
  – Leisure services
  – Construction
  – …

➢ Economic activities linked to the residence/presence of people
The case of Appenzell Ausserrhoden
SWOT-Analysis

• Strengths
  – Financial residential & business attractiveness (low taxes, low rents/property prices)
  – Small & efficient government
  – High income
  – Competitive health & care sector
  – Industrial tradition (high-tech sector)

Source: Credit Suisse Economic Research (2013)
SWOT-Analysis

• Weaknesses
  – Accessibility
  – Population: Problematic age structure (low % of economically active population, emigration of the young), stagnant
  – Lack of an own economic center (dependence)
  – Industry structure (relatively large public-oriented and agricultural sector, cluster risks of industrial sector, few high-value services)
  – Value-added (relatively low productivity)
SWOT-Analysis

• Opportunities
  – Attractive place of residence
  – Brand Appenzell (landscape and culture)
  – Public transport: better accessibility
  – International immigration

• Threats
  – World economy / the strong currency
  – Brain-drain
  – Too small scale for effective policies
## Structure of employment

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<th>Appenzell Ausserrhoden</th>
<th>St. Gallen (economic center)</th>
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<tbody>
<tr>
<td>Export sector</td>
<td>+ + +</td>
<td>-</td>
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<tr>
<td>Urban residential sector</td>
<td>- - -</td>
<td>+</td>
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<tr>
<td>Residential sector</td>
<td>+</td>
<td>-</td>
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</tbody>
</table>

Source: Segessemann & Crevoisier (2011)
The strategic goal

• Sustain the region as a living environment, prevent it from slowly drying up
• Raise the resident population in the medium term…
  – by actively establishing the region as an attractive place of residence for
    commuters to the nearby productive center (St. Gallen)
  – by supporting the location of industry of the export and the residential economy
• …to lower the dependence of the regional economy on the few specialized
  high-tech firms
The dangers of a residential economy

• The attractiveness of a region depends on the quality of its landscape ➔ the danger of uncontrolled development

• Rising rents and property prices

• Conflicting interests between the residential and the productive sector

• Trading one dependency for another

• Zero-sum game between the cities and the attractive agglomerations (metropolitan burdens vs. loss of tax base)

“For the promotion of a sustainable economic development the residential and the productive economy within a region need to be combined.” (Beer-Toth, Schubarth & Bleuel, 2009)
Sources

- C. Schubarth, K. Beer-Toth & S. Bleuel (2009). We live here and we work here: Comment l’économie résidentielle peut contribuer aux activités destinées à l’exportation.