

Institute for Systemic Management  
and Public Governance



University of St.Gallen

# **The impact of the residential economy on the regional economy**

## **The case of Appenzel 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

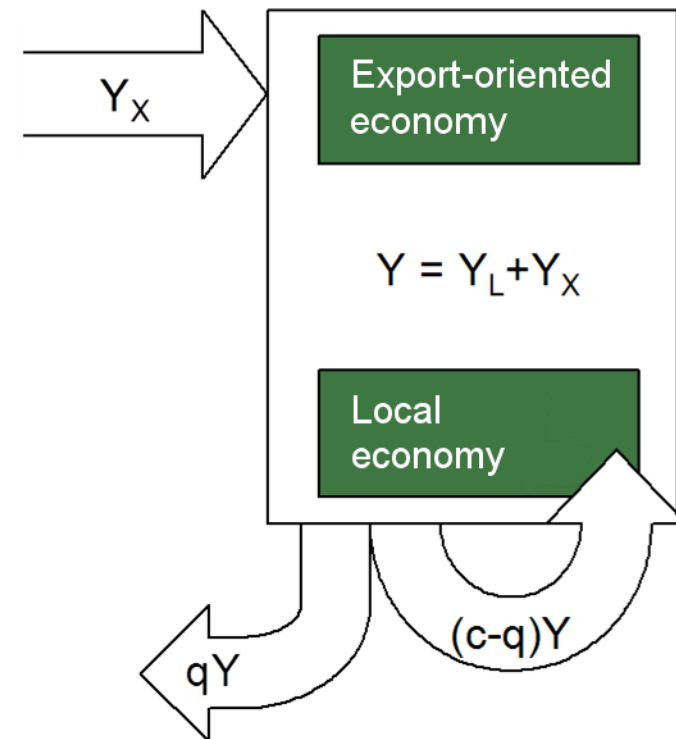
# Exportation as the base of the economy

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

(Alain Minc, French economist)

# The “law of gravitation” of regional development (according to the economic base concept)

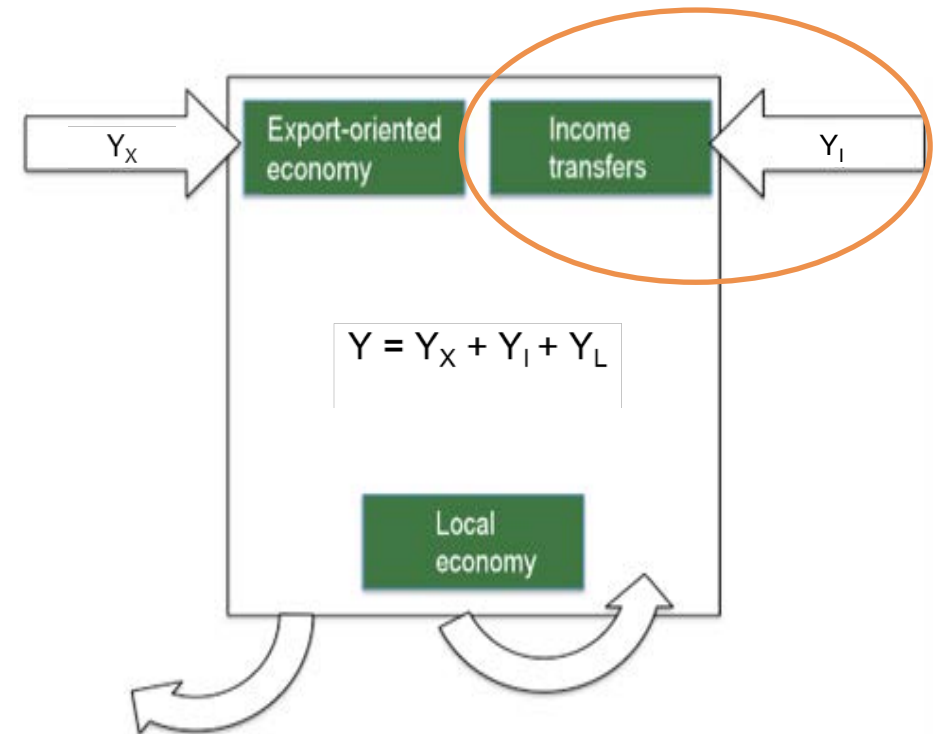
Regional development is only possible if a region exports goods and services across its regional borders. The sum of these exports must exceed the sum of goods and services imported.



# The residential economy: In opposition/addition to the economic base?

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

|                                                                                                       |                                                         |                  |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------|------------------|
| Basic sector<br><br> | Residential economy                                     | Residential base |
|                                                                                                       |                                                         | Public base      |
|                                                                                                       |                                                         | Social base      |
|                                                                                                       | Export-oriented base                                    |                  |
| Non-basic sector                                                                                      | Downstream firms dependant on local business conditions |                  |

Source: Segesseemann & 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

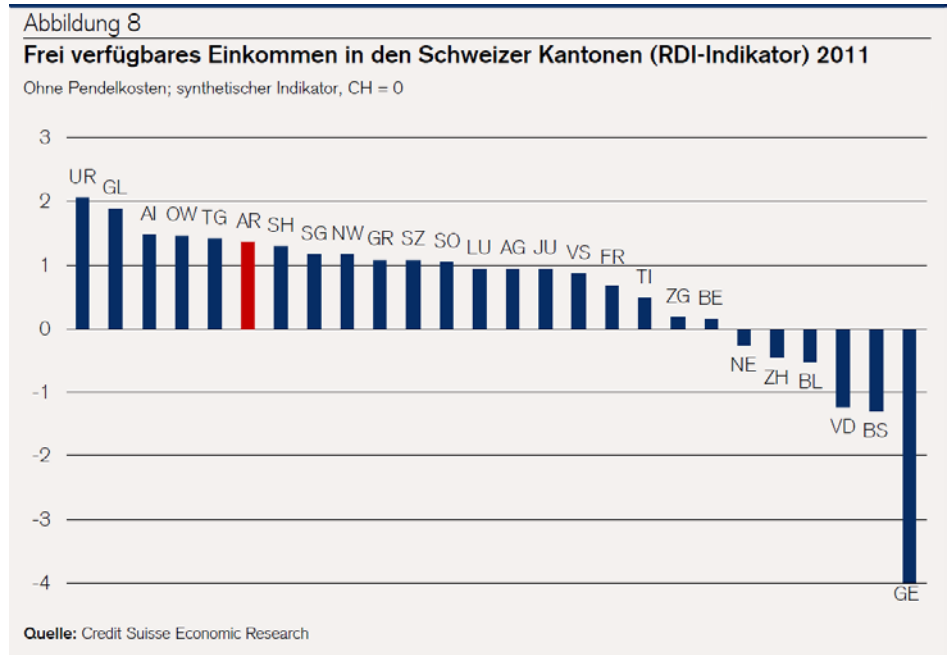
# The case of Appenzell Ausserrhoden



# 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)

High discretionary income (after taxes and fix payments)



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

|                          | Appenzell Ausserrhoden | St. Gallen<br>(economic center) |
|--------------------------|------------------------|---------------------------------|
| Export sector            | +++                    | -                               |
| Urban residential sector | ---                    | +                               |
| Residential sector       | +                      | -                               |

Source: Segesseemann & 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.
- Davezies (2008) La République et ses territoires: la circulation invisible des richesses.
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