Preface

With this book, I would like to introduce the reader to local development economics and policy, with a special focus on the place-based paradigm. We examine why it is justified, what difficulties it creates, and what kind of public interventions it suggests.

Chapter 1 starts by stressing that the Washington Consensus doctrine has failed to provide a general recipe for economic development, as the World Bank itself admitted in 2005. Economic improvements took place, most often, where the requirements for fiscal austerity, privatization, and market liberalization were not met. Wherever this recipe was applied, economic development did not take off, or very little progress was recorded, while serious imbalances occurred in their place. The current view that a more "humble" search for paths to development is needed has replaced the claim that a general recipe or the best practices can be applied anywhere. The failure of the Washington Consensus gave a notable boost to a spatial perspective. If there are no general recipes, then opportunities and constraints must be considered on a case-by-case basis. Dealing with development policies, therefore, involves dealing with regional policies, where the debate is unresolved. Is it better to invest in people regardless of where they live, or should we support the development of places to help people more effectively? Should all regions grow simultaneously or could just a few drag the others? Is the goal of developing backward regions unnecessary or unattainable? A debate is emerging between people-based (spatially blind) policies and place-based policies. The World Bank supports spatially-blind policies, while European Cohesion Programs are conceived as place-based interventions. In the last part of Chap. 1, we review the 2014 European Cohesion Policy reform and outline its merits and weaknesses.

In Chap. 2, we present the rationale behind the place-based approach. Development processes are spatially uneven. In advanced regions, congestion costs reduce returns. However, there are also factors that lead to increasing returns: economies of specialization, economies of scale, and external economies. Opening markets might thus bring about regional divergence as a result of a cumulative inflow of mobile resources to the more advanced regions. In lagging regions, however, there may be untapped immobile resources, and their valorization justifies place-based policies. Current profitability may be in favor of a certain spatial distribution of activities, but potential profitability may be in favor of a different distribution. The possible movements that may arise will depend on the formation of ex ante expectations. It is therefore reasonable to think that intentional actions such as place-based policies—supporting the best exploitation of untapped, immobile resources where they exist—are justified and may produce significant results. It is thus necessary to examine whether and how realistic it is to assume that these resources are untapped, taking into account a strong objection: if resources are available, they will be spontaneously exploited in a market capitalism system.

Chapter 3 discusses this subject. Taking cues from the most recent debate in the field of economic geography, we will see that local resources can remain untapped because of the consolidation of routines and narratives that are against change even when it improves everyone's situation. We will also see that changing narratives and changing private actors' routines in order to use local untapped resources is possible if identified obstacles—mainly the lack of mutual experience between actors of innovation—are overcome. The experience of change, which would support both a change of routines and a change of narratives, is apparently possible only as a result of previous experience. This is a trap.

In Chap. 4, a trap model is presented and two apparently possible ways out are illustrated: a "big push" and a wage drop. In the big push hypothesis, the State was required to intervene for as long as necessary (and nobody knew for how long). The wage flexibility hypothesis called for a drop in wages to the level required in order to get out of the trap, no matter how low. We will see that both these solutions have severe limits.

Considering the nature of the problem at stake, we could propose a third remedy offered by the financial system. In a trap situation, after all, there are always expected future gains, even though firms have no idea how many of them are required to take action. It would be natural to think that these firms could pay a bank to anticipate future revenues, thus sharing the risk among all the firms that are individually unable to deal with it. The solution would be as simple as buying the information needed.

Chapter 5 examines this solution. We will see that, when uncertainty arises from lack of information about both the state of the world and the agents' behavior, a remedy to a lack of information cannot be bought. We will introduce, then, a more complex trap model assuming that innovation (a way out of the trap) can occur through a process that is unsure and made up of small steps, by way of experiment.

Some general indications emerge regarding the policy design required to get out of the trap of under-valorized local resources. Intervention should not entail direct public involvement in starting and managing productive activities, nor should it entail providing boundless grants and incentives to private agents. Wage reduction is not a good approach neither. If forced, it may bring about negative consequences on productivity and on the overexploitation of renewable resources. Intervention should be designed with the goal of increasing the difference between the net return of new risky activities and the safe return of traditional ones. This requires new activities to be selected carefully. The ability to choose the most promising project, however, is not very realistic. The outcome of any new project is uncertain. If this were not the case, there would be no traps to deal with.

This leads to the use of cost as a lever rather than a selection. Public policies should aim primarily to reduce the value and uncertainty of the cost of new activities in order to support the difference between their expected uncertain revenues and their expected costs. Policy makers should provide public goods and services selected from those best able with certainty to reduce costs to those actors who are engaging in new activities. A strong indication emerges in favor of local public goods and services of general utility: health, security, justice, housing, school, transport, and communication. There are two reasons why these services, if they are efficient and of good quality, serve the purpose of supporting new activities that use local resources better. The first is that agents of innovation are particularly exposed to the risk of losses, since their activities may or may not go well. Thus, public welfare services that effectively guarantee against general risks have a higher value for these agents than it does for agents that engage in risk free activities. The second reason is that these agents often come from other places and do not have the same network of social relations as the locals do.

The public utility services recommended in the spatially-blind perspective are the basic ones needed to contain the mobility costs of people without a job, or with a poorly-paid job, who move in order to seek a job or a better-paid job. The implicit idea is that once these general basic services have been provided, government intervention has fulfilled its task. By contrast, in the place-based perspective—here intended as measures to increase the net return of innovative activities by lowering the cost of living for innovators—the condition is necessarily dynamic. Required public services will grow in quantity and quality as they are used to support a growing volume and an increasing value of innovative activities. The place-based perspective also accentuates specificities in public service provision. In this paradigm they should be tailored to the peculiar conditions and needs of a specific place, whereas spatially-blind services, by contrast, are generalized and the same whatever the place.

Acknowledgments

I would like to thank Clarissa Botsford, Alba Bonelli, and Lidia Seravalli for the invaluable help they provided, as well as an anonymous referee whose criticisms on an early version allowed me to improve the text. I would also like to thank the Ph.D. students of GSSI in Urban Economics to whom I presented some parts of the work in the lectures I held in March 2014. Their reactions and comments have been truly helpful.

http://www.springer.com/978-3-319-15376-6

An Introduction to Place-Based Development
Economics and Policy
Seravalli, G.
2015, X, 144 p. 46 illus., Hardcover
ISBN: 978-3-319-15376-6