

PART III
Chapter 10

Why and When Development Policy Should Be Place-Based

by

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This chapter argues that “spatially blind” policies are rarely spatially neutral, because they typically end up as capital-city promotion policies. Ostensibly, this reflects the economics of agglomeration, but to a great extent it is a product of the national rent-capturing influence of capital-city elites in all areas of public life. Since the evidence suggests that many core urban centres will grow without the need for significant policy interventions, the chapter raises the question as to whether development objectives should be shifted from promoting efficiency in the core to enhancing the potential for growth and development in every territory. The chapter argues that place-based approaches offer a greater possibility of harnessing untapped potential in all regions in a co-ordinated and systematic way.

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Globalisation and development

The way we think about economic geography has been transformed over the last 20 years by the experience of the modern era of globalisation and by numerous analytical and empirical breakthroughs. This had led to a thorough rethinking of how economic development processes occur and how these processes are related to geography. Endogenous growth theory, new economic geography, institutional economics and development in spatial econometrics and spatial data analysis have brought to the fore issues such as human capital, innovation agglomeration, distance, institutions, and broader notions of capital. The often previously neglected role of space has now become centre stage in many debates, as our understanding of the role played by localities and regions in fostering economic growth and prosperity (Rodríguez-Pose, 2011) has increased. In one sense, space is becoming increasingly “slippery”, inasmuch as capital, goods, people and ideas are seen to travel more easily (Markusen, 1996; Friedman, 2005). In another sense, however, space is becoming increasingly “sticky” and “thick” in that capital, goods, people and ideas tend to remain concentrated – and often in large agglomerations (Markusen, 1996; McCann, 2008; Rodríguez-Pose and Crescenzi, 2008). In spite of many earlier predictions, globalisation has actually made space and place more rather than less important (McCann, 2008).

The unique aspects of a locality and the capacity of territories to root economic activity in the local social, institutional and economic fabric are seen by many scholars as essential for fostering comparative advantage (Storper, 1997). In policy terms, such issues are regarded as critical to enhance the capacity of economic development strategies to promote and achieve sustainable development goals (*e.g.* Storper, 1997). In other words, the specific institutional arrangements and constructs of any space are increasingly regarded as the filter through which economic activity takes hold in different territories (Acemoglu and Robinson, 2000; Rodrik *et al.*, 2004; Acemoglu and Johnson, 2006a, 2006b; Storper, 2011). A serious awareness of the heterogeneity, variety, and specificity of regions and localities is regarded as essential to understanding local growth and the possible policy responses needed to encourage it.

In contrast, however, over the last five or six decades economic development policies all over the world have tended to resemble each other, with little or no consideration given to regional specifics. Development policies have until now generally remained instruments for the provision of “hard” infrastructure such as roads, railways, sanitation, water and the like, under a national sector-based state aid agenda. Such policies are appealing to policy makers and politicians because they are visible, immediate, and their impacts are perceived as being easy to understand (Pike *et al.*, 2006). As we now are increasingly aware, the actual outcomes of these policies are often unintended, unexpected and undesired. Indeed, a growing body of research has demonstrated that even if the aggregate impact of infrastructure policies has sometimes been positive, these types of policies have often led to greater regional polarisation and to an increasing economic marginalisation of many

peripheral regions where significant infrastructure investments have taken place (Roberts *et al.*, 2010; Vanhoudt *et al.*, 2000). Similarly, state aid and industrial intervention have wasted resources on declining industries, lame ducks and big projects (Ulltveit-Moe, 2010). In general, these policies have struggled to cope with the more heterogeneous economic reality emerging from globalisation (Roberts, 1993), often ending up as “strategies of waste” (Rodríguez-Pose and Arbix, 2001).

Changes in development policy thinking

By and large, governments and international organisations involved in development and the design of development policies have been slow to react to the challenges of globalisation, to the increasing regional polarisation in many parts of the world, and also to the changes in growth and development theory. But this has changed in the last two years. After decades of what can be described largely as “business as usual”, five major reports completely rethinking development strategies were published between 2009 and 2010, one of which adopts a “space-neutral” perspective while the other four adopt a “place-based” perspective.

The 2009 *World Development Report: Reshaping Economic Geography* (World Bank, 2008) has been so widely discussed that we need not dwell on the details or specifics of it here, other than to say at this stage that it explicitly calls for a spatially blind approach to economic development.

Of the four major reports advocating place-based policies, perhaps the best known is the independent Barca (2009) report, *An Agenda for a Reformed Cohesion Policy*. This primarily theoretical report posits that place-based policies are the best way to tackle the “persistent underutilisation of potential and reducing persistent social exclusion” (Barca, 2009: V4) in all areas of Europe. The report draws extensively upon an institutional framework and traces underdevelopment traps evident in a given place. These traps are argued to be primarily related to either the (in)capacity or the (un)willingness of its local elite to reform itself when needed, and to the centrifugal effects of agglomeration promoted or seconded by public interventions in other places. From this perspective, exogenous public policy action is seen as a way to trigger endogenous change. A balance is then called for between exogenous and endogenous forces, by which local actors are tasked to set targets and design projects tailored to their localities, while the external “development agency” sets the general conditions that local actors are to follow.

Starting from an empirical and econometric perspective rather than from a theoretical perspective as in the Barca (2009) report, the OECD (2009a) report entitled *How Regions Grow* reaches a remarkably similar conclusion. The conclusion of this report is that the objective of development intervention is to promote growth in all regions, as all regions display growth and development potential (OECD, 2009a). The report posits that synchronised place-based interventions defined as integrated regional policies (OECD, 2009a; Pike *et al.*, 2006), co-ordinating infrastructure provision, with education, business development and the promotion of innovation, is the most effective way of achieving not only greater local development but also, via geographical spill-overs, greater aggregate growth (OECD, 2009a; Farole *et al.*, 2011). A further OECD (2009b) report entitled *Regions Matter* stresses the importance of understanding the individual characteristics of regions and their place specificity. Once again, it underlines that opportunities for growth exist in every region and that the role of development intervention is to mobilise regional assets and to exploit

synergies (OECD, 2009b). This report also proposes that it is necessary to move well beyond the “one-size-fits-all” development approaches typical of those traditionally offered in the past and also by implication the “one-size-fits-all” place-neutral agenda offered by the World Bank (2008).

A final influential report endorsing place-based approaches has been the Corporación Andina de Fomento’s *Desarrollo local: hacia un nuevo protagonismo de las ciudades y regiones* (“Local Development: Towards a New Protagonism of Cities and Regions”) (CAF, 2010). This report looks at development challenges from a Latin American perspective and in this sense the report focuses on a geographic space similar to that which was targeted by the World Bank (2008) report. However, the conclusions of the CAF (2010) report are very different to those of the World Bank (2008) and are largely in the same vein as those in the Barca (2009) and OECD (2009a, 2009b) reports. Specifically, the CAF report argues that one of the answers to development challenges in Latin American countries is the promotion of integrated policies for each territory, with special attention to the needs of cities, city-regions and regions. Consistent with the other place-based reports, the CAF (2010) report emphasises the role of local and regional governments and institutions in development process and emphasises the potential of local governance and “soft” institutions as key factors in promoting sustainable development (CAF, 2010).

While such a proliferation of reports may be just a coincidence, it is more likely reflecting a collective reaction within many academic, institutional and political circles to the growing unease with the way development policies were developed and the consequences of their implementation. That said while the World Bank and the so-called Washington consensus had become a popular target for criticism (Stiglitz, 2002; Fine, 2003; Rodrik, 2006), the European Union’s regional development policy, the largest concerted effort aimed at achieving territorial cohesion, was also not without its critics (Boldrin and Canova, 2001; Rodríguez-Pose and Fratesi, 2004; Dall’Erba and Le Gallo, 2008). A response was therefore definitely long overdue.

Space-neutral versus place-based approaches

The paradox emerging from this sudden burst of interest in the fundamentals of development intervention, however, is that after decades of lack of change, development scholars and practitioners are proposing, and are also now therefore confronted with, two radically different paradigms: spatially blind *versus* place-based approaches.

For those promoting or defending spatially blind approaches (World Bank, 2008; Gill, 2010), their basic position is that intervention, regardless of context, is the best way to resolve what they perceive as the dilemma of whether development should be about places or about people. Advocates of spatially blind approaches underscore that the promotion of agglomeration and the encouraging of interregional migration not only allow individuals to reside where they are economically better off, but such spatial transformations boost incomes and living standards (World Bank, 2008). This basic argument is not new in that it goes back to the seminal work of Borts and Stein (1964), although the novel twist in the recent argument is that, following on new economic geography themes, agglomeration forces are assumed to be largely both all-pervasive and dominant. From this perspective, spatially blind policies are therefore also characterised by their proponents as being “people-based” policies (Gill, 2010), in that they are regarded as representing the best approach for delivering an improvement in people’s livelihoods and employment

opportunities, irrespective of where they actually live. On the basis of a mixture of the arguments derived largely from Rostow (1959) and Williamson (1965), such policies are also assumed by space-neutral advocates to lead to a more even social and geographical distribution of wealth in the long run (World Bank, 2008).

In marked contrast, the assumption that there is a policy trade-off between places and people is rejected by the place-based approach (Barca and McCann 2010; Garcilazo *et al.*, 2010). Also contested by the place-based approach is the assumption that space-neutral policies will best allow for a long-run convergence and a more even distribution of wealth (Barca, 2009).

In and of itself, the place-based approach has a long tradition to it (Bolton, 1992) with many well-rehearsed elements relating to contingent valuations, options values, and the pricing of public goods. However, contemporary place-based arguments are much more sophisticated than earlier ones, in that they interweave traditional arguments with insights from modern institutional economics. The contemporary place-based approach has two fundamental aspects to it:

- First, place-based theories assume that geographical context, as defined by the economic, social, cultural and institutional dimensions of a locality, really matters for all aspects of economic and social behaviour. In particular, the generation, acquisition and exchange of knowledge, the lifeblood of all firms and commercial sectors, are mediated and reflected in geography. The outcomes of all apparently non-spatial activities are almost always spatial, as are their component elements and processes. In particular, sector-based space-neutral policies with little or no recourse to the regional context may have important spatial implications (Hurter and Martinich, 1989) and that context may also end up being a backdoor but, nevertheless, key element of these policies. As such, the place-based approach perceives the space-neutral sector approach to be inappropriate, in that what are apparently space-neutral policies will always have explicit spatial effects. Moreover, if the spatial aspects of the policy are not carefully considered, then many of these spatial implications will often undermine the aims of the policy itself.
- Second, the place-based approach also focuses on the role played by under-development traps in limiting or inhibiting the growth potential of regions, and emphasises the part which policy can play in the provision of public goods in a manner which is appropriately tailored to the requirements of the region. While the space-neutral approach underlines the role of agglomeration, empirical work by the OECD (Garcilazo *et al.*, 2010) demonstrates that urban regions, rural regions and intermediate regions show no differences in their propensity to outperform, underperform or maintain parity in terms of growth rates with OECD regional averages. This is an important observation because it suggests that the agglomeration assumptions of the World Bank (2008) are overplayed in as much as OECD growth is neither necessarily an urban story, nor are the benefits of agglomeration unlimited. In fact, the evidence suggests that in many advanced OECD countries the benefits of urban scale are actually waning (McCann and Acs, 2011). As such, maps showing localised spikes of productivity confuse correlation with causality (OECD, 2009b).

There are several fundamental problems associated with making a leap from the observation of spatial concentration of activity to that of space-neutral policy settings in all countries. In particular, the place-based approach considers that making this leap

uncovers three major internal contradictions and inconsistencies embedded within the space-neutral approach:

1. Today's World Bank analysis of the policy implications of economic geography is completely at odds with the long-term position advocated by the same organisation over several decades. Observations from many of the world's poorest countries suggest that fundamental a-spatial institutional reforms in many of these countries, as has been long advocated by the World Bank itself, are no guarantee whatsoever of development (Barca and McCann, 2010), precisely because of the complex problems associated with economic geography (Venables, 2010). However, to say that massive urban growth should be encouraged acknowledges precisely the opposite, namely that context really does matter, because if context did not matter, then institutional reforms alone would indeed suffice for growth (Rodríguez-Pose, 2010). Where massive urban growth is recommended by the World Bank, the reason is that massive cities are assumed to be a means to try to solve the problems associated with the generation, acquisition and sharing of knowledge and resources. But this assumption is needed precisely because local institutions do not work properly and cannot reasonably be reformed, due to the entrenched and longstanding self-interests of the major urban-political elites.
2. The spatially-blind approach as embodied in the 2009 *World Development Report* assumes that "the state knows best". It presupposes that the state has both the information and knowledge to design, implement and monitor the most adequate a-spatial top-down development strategies through monetary policies, fiscal policies or institutional intervention. But two factors may undermine this presumption:
 - First, the national state lacks a sense of community (Streeck, 1991; Bolton, 1992; Rodríguez-Pose and Storper, 2006; Tabellini, 2010). A sense of community is a critical form of social capital which determines the institutional environment in which development takes place (Streeck, 1991). An absence of this at the national level limits the capacity of national policy makers to generate local consensus and trust between local actors, to resolve any local conflicts and to mobilise local resources (Rodríguez-Pose and Storper, 2006), to determine the optimal provision of local public goods (Tabellini, 2010), and to foster the local willingness to pay for development (Bolton, 1992). The importance of engendering and promoting this type of locally embedded social capital is that it helps to overcome the types of free-rider, rent-seeking and opportunism problems commonplace in the pursuit of development activities (Guiso *et al.*, 2010). The nation-state has little or no capacity to achieve these outcomes, particularly when such policies are designed by the capital city elites.
 - Second, the heterogeneity of place, characterised by the presence of "place-specific market imperfections or externalities" (Bolton, 1992), will weaken the efficiency of spatially blind policies. This "sense of place" is in itself a public good (Bolton, 1992). However, the state has profound limitations in its ability to mobilise local actors due to its lack of local knowledge and its traditional incapacity to adapt its interventions to differences in local institutions. The result of this inability and incapacity is that top-down policies tend to end up being largely the same, with no real regard to local preferences. As such, top-down and place-neutral policies tend to be incapable of responding to the variation in potential across places. As a consequence, untapped local potential often remains exactly that, untapped.

3. The fact that the space-neutral approach assumes that the state knows best is profoundly ironic given that the position of the World Bank for decades has been that the market, and not the state, knows best. Moreover, it is not the state, but the World Bank-advising-the-state, which is presumed to know best. This is questionable at the least, because we know from models of new economic geography and agglomeration that not only are multiple equilibria possible, but we know so little about the transitional dynamics of these models (Thissen and van Oort, 2010) that the predictive empirical power of these models is both very limited and very sensitive to the model specifications (Bosker and Garretsen, 2010).

In marked contrast to these internal contradictions, the place-based approach explicitly acknowledges the limits of the state and does not presume in any way that the “state always knows best”. Nor does the place-based approach accept that there is a simple Rostow-Williamson development trajectory applicable in all cases (Barca, 2009). Rather the place-based strategies accept that places differ, both in space and time, and it is the potential offered by these differences which are to be exploited in development policies. In order to ensure this, the place-based approach therefore recognises the need for participation between different levels of governance, what is often termed multi-level governance, as a key enabler of the interventions. This multi-level governance is based on the establishment of open-ended development principles which can then be specifically tailored to places. These types of interventions are designed in order to reflect the different needs and different preferences of local areas and better marshal local resources and potential. The essential feature of these place-based interventions and governance principles is to extract and build upon locally embedded knowledge and institutional capabilities and align incentives so that all stakeholders can co-operate for the common good.

The elements of appropriate regional development policies

The question that emerges from this discussion is therefore not necessarily whether spatially blind or place-based policies are better in order to deal with spatial problems in an increasingly agglomerated world, but whether these policies are as incompatible as it may seem at first sight. Are these policy approaches mutually exclusive or complementary? There is a need to think about growth and development intervention in a way which pulls together the best parts of both approaches, but also takes into consideration the economic, social, political and institutional diversity that may influence policies. This framework would make intervention closer to place-based policies while trying to draw the best from spatially blind approaches, and implies a considerable departure from many current development practices.

In particular, development intervention will possibly have to focus on efficiency and social inclusion rather than on convergence. Efficiency/competitiveness and social inclusion/equity are the two sides of the same coin and, from an economic theory and social and legal justice perspective, they should both be pursued. Development intervention should be based on “proper” development policies and should not become in any way a mere policy for redistribution across regions, as was previously often the case in earlier generations of regional policies (Farole *et al.*, 2011). Assessing development policy solely on the basis of convergence criteria alone therefore makes little or no sense (Rodríguez-Pose and Fratesi, 2004), since convergence does not capture the aimed improvements on either dimension of developments: efficiency and social inclusion. Moreover, an unintended side-effect of adopting criteria which are too far removed from the policy, as was the case with the EU

Cohesion Policy, is that the redistribution of resources according to convergence criteria may have undermined the capacity of development interventions to deliver both greater efficiency and social equality. Development strategies should therefore focus on mechanisms which build on local capabilities and extract local knowledge from public and private actors in the design and delivery of public policies (Rodrik, 2005; OECD, 2009a, 2009b), creating a multi-sector policy framework involving the provision of different bundles of public goods to different localities.

However, in order to avoid the principal-agent problems of opportunism and rent-seeking on the part of the policy-beneficiaries, the success of place-based policies requires that local and regional actors are mobilised as an essential feature of the policy. This approach to policy design is therefore understood very much as a bottom-up approach rather than a top-down approach (OECD, 2009a; OECD, 2009b; Barca, 2009). However, both horizontal and vertical governance arrangements are required to traverse the traditional demarcation lines between local, regional and national government, in a manner which is appropriate for achieving the development objectives, priorities and intended outcomes.

Two essential features which are also required to make the place-based approach work are conditionality and outcome indicators. Conditionality is codified in binding agreements that govern the principles underpinning the relationships between the different levels of governance and policy makers (Barca, 2009). However, in order for such agreements to work it is necessary to move away from a culture of audit and control to a culture of monitoring and evaluation. This is achieved by making clear right from the start what the *ex ante* aims and intended outcomes of the policy are in terms of well-being and socio-economic progress. Indeed, closeness to policy is one of the key features determining which are the most appropriate outcome indicators to be chosen in order to monitor and guide the policy process and to assess whether the policy goals and outcomes have been reached. The principles on which such outcome indicators are to be chosen are discussed in detail in Barca and McCann (2011), “Methodological Note: Outcome Indicators and Targets – Towards a Performance Oriented EU Cohesion Policy” and examples of such indicators are contained in the two complementary notes on outcome indicators for EU2020 entitled, “Meeting Climate Change and Energy Objectives” and “Improving the Conditions for Innovation, Research and Development”.¹ Conditionality, outcome indicators, stakeholder engagement, multi-level governance reforms, are all themes which were central to the arguments originally developed in the Barca (2009) and OECD (2009a, 2009b) reports, and which have now been emphasised by the European Commission (2010) proposals for reforming EU Cohesion Policy. Recently there is also evidence that US policy-thinking is also moving very much in a similar direction.²

Conclusion

Place-neutral policies may typically end up being capital-city promotion policies, ostensibly because of agglomeration arguments, but in actuality they often end up being so primarily because of the national rent-capturing influence of capital city elites in all areas of public life. As such they are neither space neutral, nor devoid of rent-seeking. Moreover, why such capital-city policies should be promoted is itself questionable. Many core urban centres will grow without the need for significant policy intervention.

This therefore raises the question as to whether development objectives should be shifted from the promotion of efficiency in the core to enhancing the potential for growth and development in every territory. While place-neutral approaches emphasise efficiency in the core, place-based approaches focus on issues of adaptation and transformation to changing conditions in all regions. From a place-based perspective, issues such as convergence are therefore regarded as being an outcome which is too far away from a specific regional development policy to be meaningful. Instead the objective is to tap into untapped potential in all regions in a co-ordinated and systematic way, and the place-based approach argues that this can really only be achieved by taking into consideration the diverse variety of local knowledge, institutional capabilities and competences in different geographical locations which may affect the potential returns of local policy interventions. Importantly, the use of both conditionality and outcome indicators is essential in order to avoid policies drifting into pure context-based strategies, the rents of which then being captured by local elites. This combination of elements will ensure that place-based approaches become the most effective people-centred regional development policies.

Notes

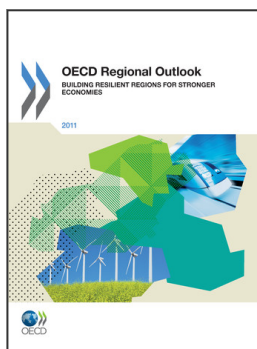
1. See http://ec.europa.eu/regional_policy/sources/docgener/evaluation/performance_en.htm.
2. See www.whitehouse.gov/sites/default/files/omb/assets/memoranda_2010/m10-21.pdf, www.whitehouse.gov/blog/2010/06/30/place-based-investments.

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