

Why Territorial Cohesion Matters?

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Territorial Cohesion

- **What does it mean?**

“People should not be disadvantaged by wherever they happen to live or work in the Union” (3rd. CR).

- **What is its added value?**

- Why, and in what circumstances, should governments intervene in the operation of the free markets?
- Why, and in what circumstances, should policy interventions be place-based?

1. Why policy intervention?

- A framework for justifying policy intervention:
 - Efficiency rationale
 - Equity rationale
 - Environmental rationale

(CLG, 2007)

- 3 pillars of the EU sustainability agenda:
 - **Economic** competitiveness
 - **Social** inclusion
 - **Environmental** protection

The Efficiency Rationale

- Policy intervention is justified if there are market or government failures
- Examples of market failures:
 - Externalities
 - Provision of public goods
- Example of government failures:
 - Unintended consequences of existing policies

The Efficiency Rationale cont.

- A ‘holy grail’ of economics is to achieve *Pareto efficiency*
- It provides the underlying principle for cost-benefit analyses, but ...
- It does not necessarily result in a socially desirable distribution of resources
- “A society or economy can be Pareto optimal but still be perfectly disgusting”.
(Amartya Sen)

The Equity Rationale

- Policy intervention is justified if the market outcomes lead to uneven distribution of resources, and if these disparities are considered to be **‘unfair’**
- 3 types of equality:
 - Equality of **opportunity**
 - Equality of **outcome**
 - Equality of **processes**

The Environmental Rationale

- Policy intervention is justified on the ground of protecting or enhancing environmental resources.
- Environmental rationale has both efficiency and equity dimensions
 - **Efficiency**: the market under-values the environment; resulting in pollution, depletion of natural resources
 - **Equity**: neither access to environmental **goods** nor the distribution of environmental **bads** is universal
- Inter-generational equity and efficiency issues

In applying the 3E Framework

- There are often *tensions* and always *trade-offs* between efficiency, equity and environmental objectives.
- How these tensions and trade-offs are dealt with depends largely on governments' political / ideological stance

2. Why place-based policy intervention?

- Why place matters?
- It matters because of individual identity, social relations, cultural heritage, ...
- It also matters because of the 3E rationales for policy intervention

On efficiency ground, place matters because:

- Market and government failures impact on different places in different ways
- Distribution of economic activities across Europe is path-dependent
- Agglomeration forces interact with place-specific factors and result in different outcomes, leading to:
 - Positive externalities **in some places**, that boost productivity and attracting skilled labour
 - Negative externalities **in others**, that undermine economic performance and people's life chances.
- Place is a **public good** in itself!

On equity ground, place matters because:

- There are limits to people's ability to move
 - Not everyone is perfectly mobile!
- The costs of mobility act as a barrier to people's ability to take advantage of opportunities elsewhere
- Some people will always be left behind!

On environmental ground, place matters because:

- The costs of environmental goods vary in different places (efficiency dimension)
- The distribution of environmental bads is uneven across places (equity dimension)

Place-based policy intervention is justified

- A) When spatial market and government failures undermine economic performance and welfare
- B) If people are disadvantaged by where they live, or constrained from taking advantage of opportunities elsewhere
- C) If there are environmental implications of spatial disparities, or equity issues in the distribution of environmental bads

Territorial Cohesion Matters

- Because, place-based policy intervention is crucial if the aim is to reduce persistent:
 - economic **inefficiencies**
 - social **inequities**
 - environmental **risks and degradations**
- And, achieve “*overall harmonious development*” across Europe. (EU Treaty)

The question of governance

- Why is it justified for the EU to pursue a place-based cohesion policy at the European level?