

Why places matter: The geography of discontent and the revenge of the places that don't matter

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*2018 SMARTER Conference on Smart Specialisation and Territorial
Development 26th September 2018, CaixaForum Sevilla*

The dominant narrative

What has been the dominant thinking



Tim Leunig

16 October 2008, Liverpool Cathedral

- “Liverpool's time is past”
- “Regeneration spending towns” have slipped back relative to Britain's most successful towns.
- If we really want to give people in Liverpool, Sunderland, opportunities, we need to let many of them move to the south-east.
- We should convert half of the industrial land in the South East into housing: gain 200,000 houses,
- We also need to expand London – making it a mile bigger would create 400,000 new houses.
- And add a million houses in Oxford and Cambridge, along the model of America's Silicon Valley.

Places that matter/not matter



London

Matter



Cambridge



Middlesbrough



Birmingham



Sheffield

~~Don't Matter~~

Cities: the bigger the better

Agglomeration and density

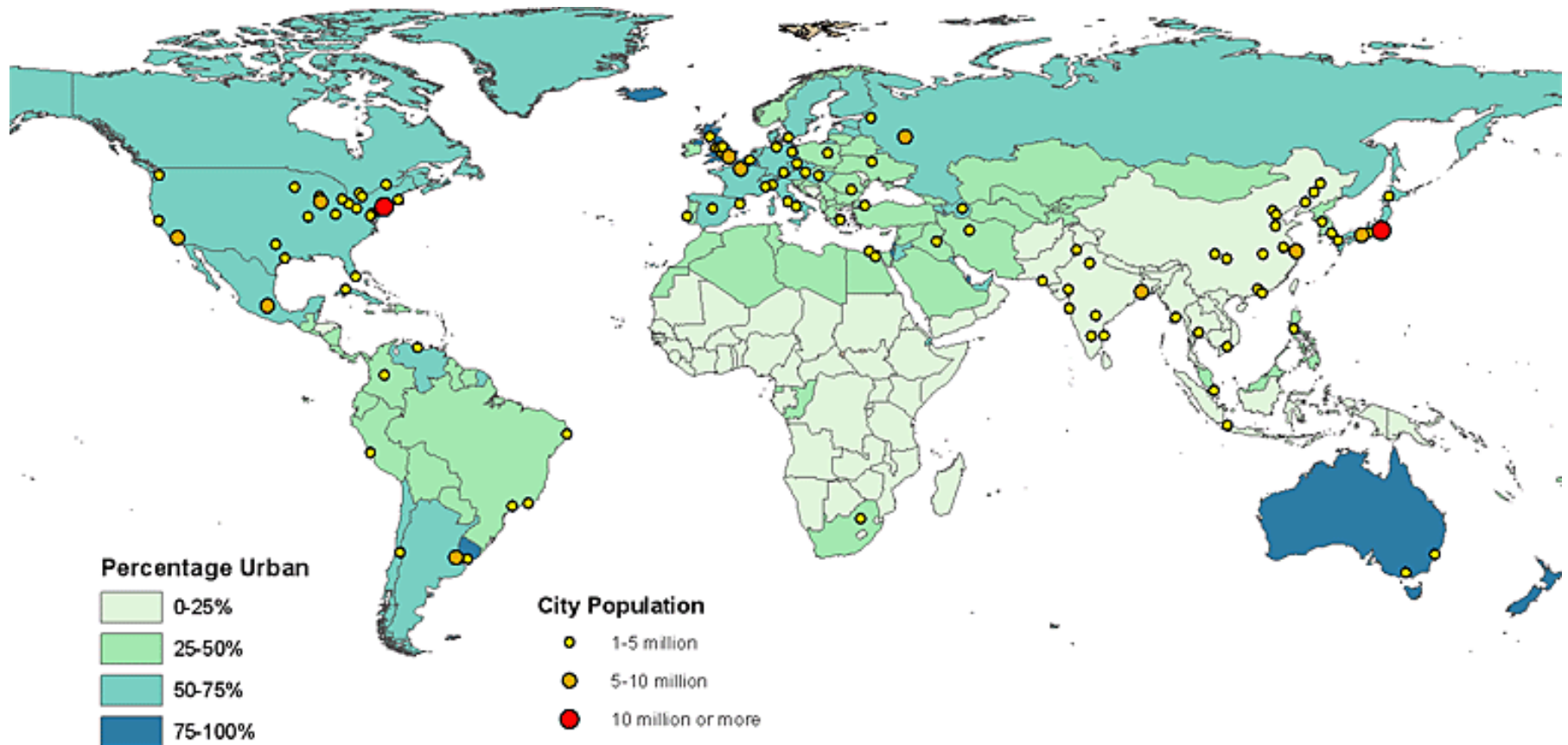
- **Glaeser (2012) Triumph of the City**
 - Subtitle: “How our greatest invention makes us richer, smarter, greener, healthier, and happier”
 - “Urban density provides the clearest path from poverty to prosperity” (page 1)
- **Combes, P.-P., Duranton, G., Gobillon, L., Puga, D. and Roux, S. (2012) The Productivity Advantages of Large Cities: Distinguishing Agglomeration From Firm Selection.** *Econometrica*, 80: 2543–2594. RTD basic for long term growth
 - “There are substantial productivity benefits for all firms in denser areas that are even stronger for more productive firms” (page 2570)
 - “Firms in denser areas are, on average, about 9.7 percent more productive than in less dense areas” (page 2584)

And transport costs

- Decline in transport costs which fuels agglomeration and density

More urbanization and bigger cities

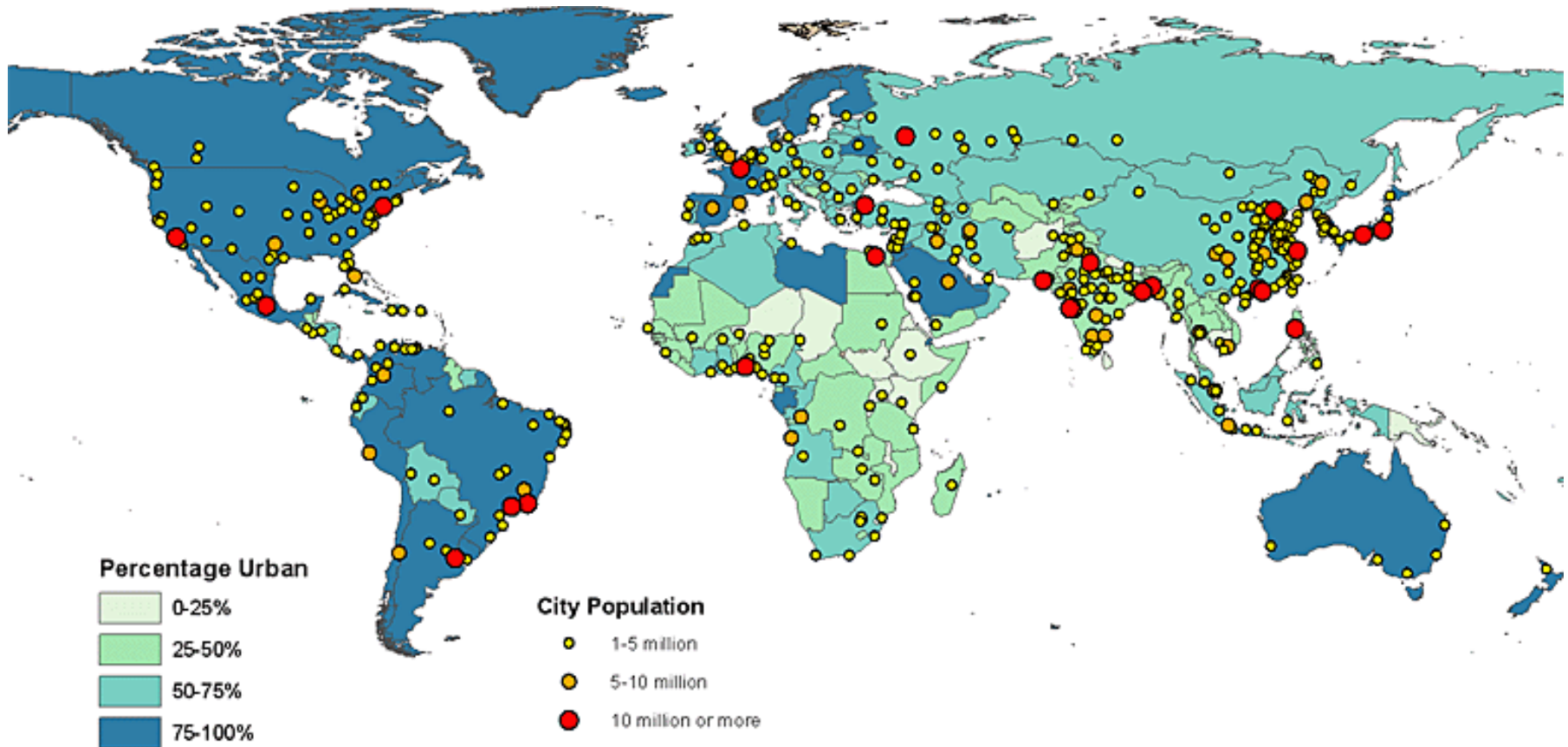
1960



Source: World Urbanization Prospects
2011

More urbanization and bigger cities

2011



Source: World Urbanization Prospects
2011

Big agglomerations drivers of growth



London



Paris



Tokyo



New York

Size matters



London



Paris



Liverpool



Marseille



Newcastle



Lille

Investing in big cities as the future

“No country has grown to high income without vibrant cities. The rush to cities in developing countries seems chaotic, but it is necessary. It seems unprecedented, but it has happened before”

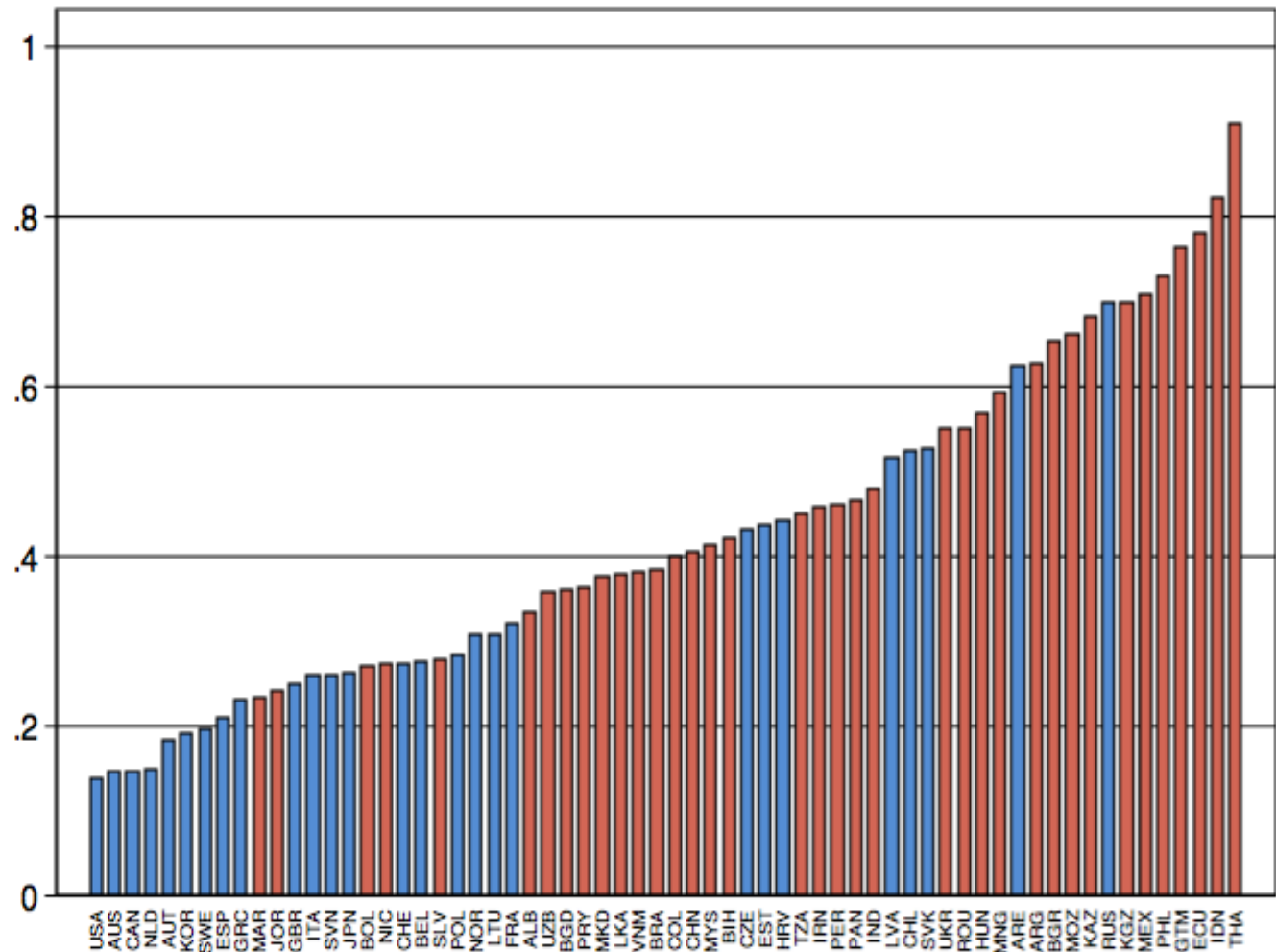
World Development Report 2009



The consequences

Inequality is the norm

Territorial inequality
in the world
(Second Theil Index)



and it is growing: in the emerging world

Changes in regional disparities in emerging countries

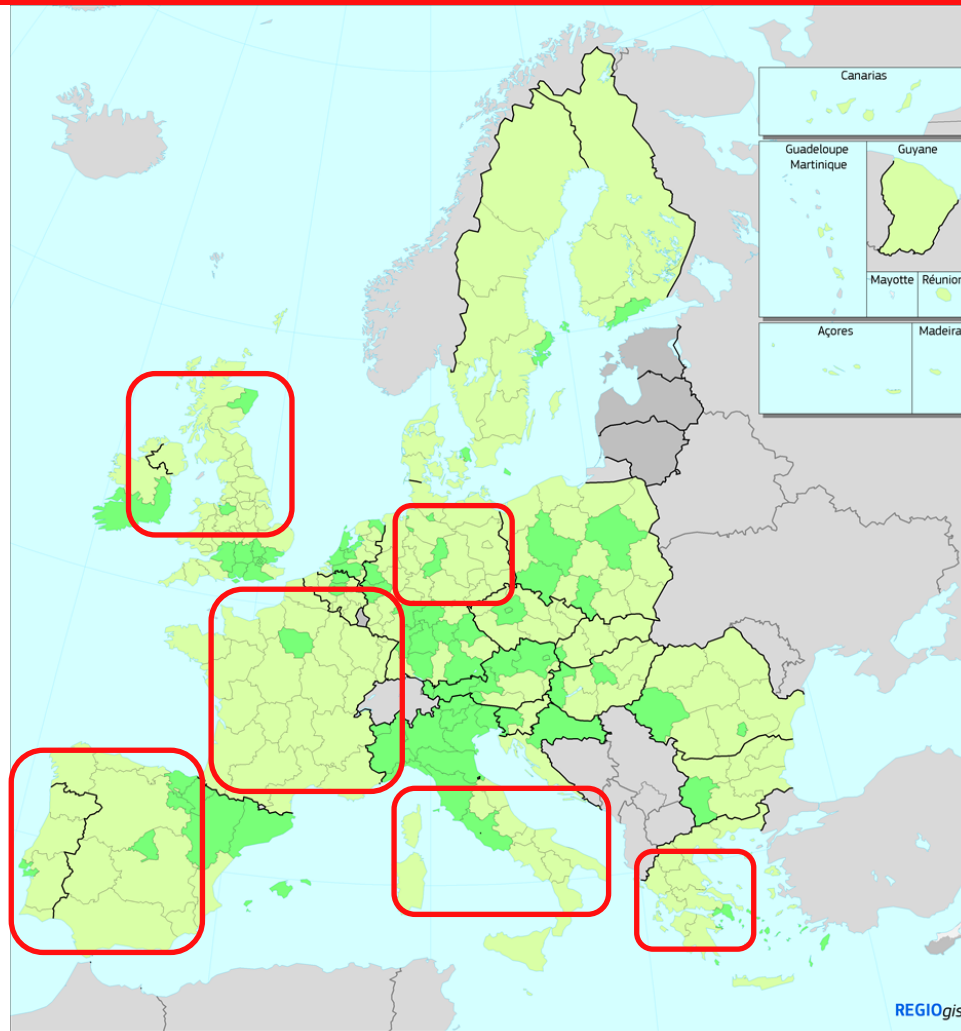
Country	Spatial units	Period	Spatial inequality		
			Initial	Final	Average
Argentina	23	1992-2006	0.040	0.097	0.057
Bolivia	9	1990-2006	0.024	0.050	0.033
Brazil	27	1990-2006	0.102	0.110	0.109
Bulgaria	6	1990-2006	0.049	0.084	0.067
Chile	13	1990-2006	0.066	0.069	0.072
China	31	1990-2005	0.085	0.126	0.123
Colombia	33	1990-2006	0.076	0.052	0.065
Ecuador	21	1993-2006	0.211	0.266	0.250
Estonia	5	1990-2006	0.039	0.088	0.069
India	32	1993-2005	0.059	0.090	0.074
Indonesia	30	2000-2006	0.256	0.223	0.246
Latvia	6	1993-2006	0.030	0.156	0.097
Lithuania	10	1993-2006	0.004	0.049	0.021
Mexico	32	1993-2004	0.143	0.145	0.147
Peru	24	1990-2006	0.140	0.135	0.142
Philippines	16	2005-2006	0.163	0.169	0.166
Poland	16	1990-2006	0.009	0.033	0.021
Romania	8	1990-2006	0.008	0.064	0.030
South Africa	9	1995-2005	0.135	0.114	0.119
Thailand	76	1994-2005	0.439	0.473	0.439
Turkey	26	1990-2001	0.094	0.076	0.081
Venezuela	23	1990-2006	0.006	0.028	0.024

Notes: Spatial inequality is measured using Theil's index. Source: Ezcurra and Rodríguez-Pose, 2013

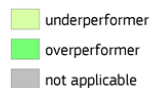
in Europe

Many regions
underperform
in the national
context

Emergence of a
middle income
trap



Over-performers and under-performers

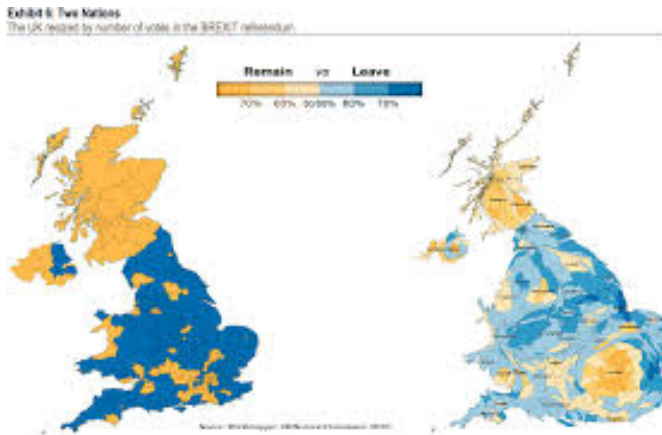


Source: Eurostat, DG REGIO

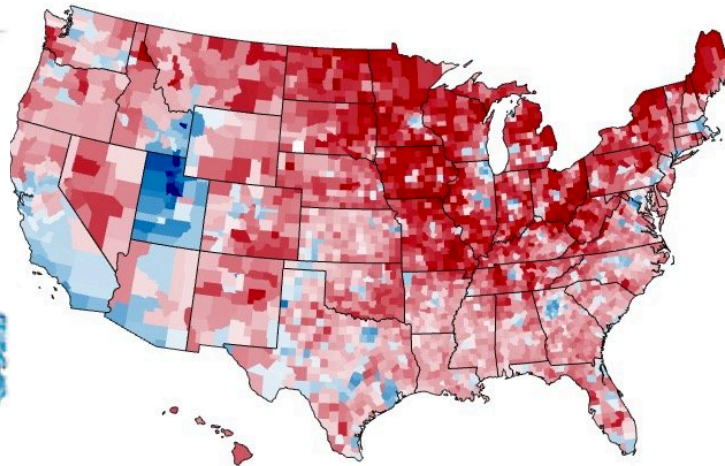
The reaction

A geography of discontent

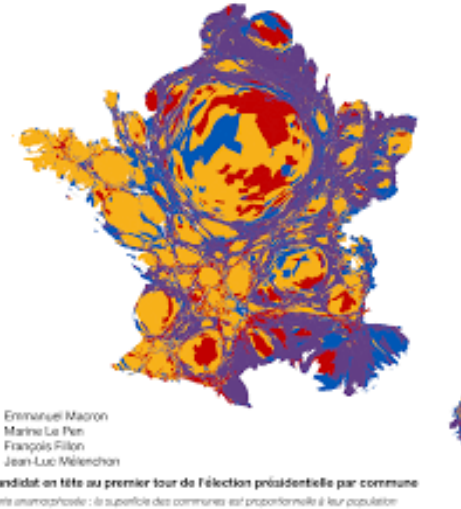
Brexit 2016



USA Trump swing 2016



France first round 2016

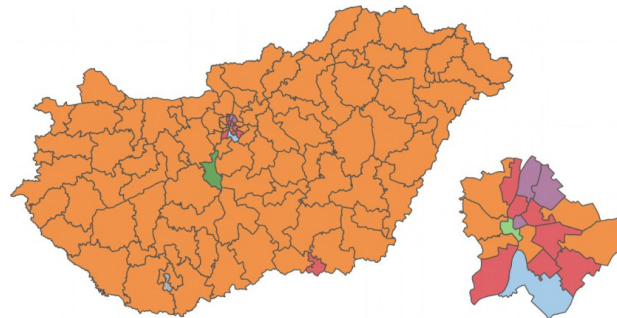


Germany 2017

AfD and Left are strongest in the east



Hungary 2018



Italy 2018

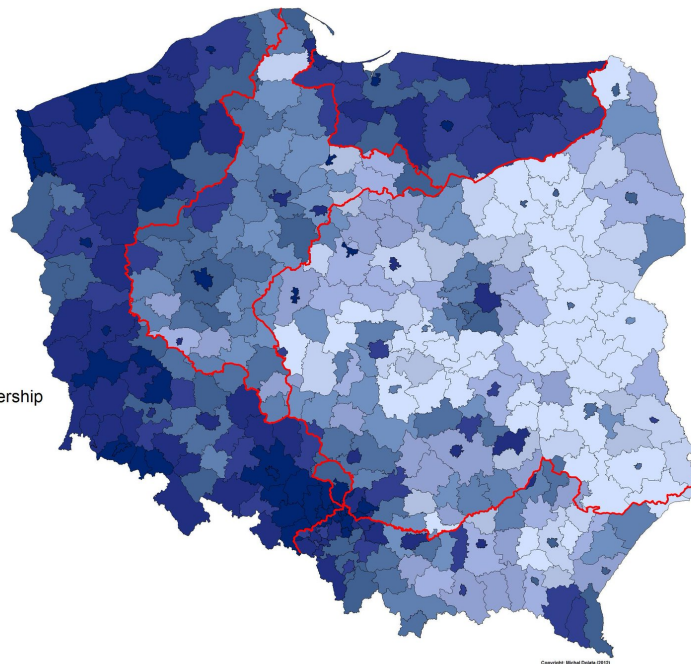
Italy election results

% of votes in the lower chamber*

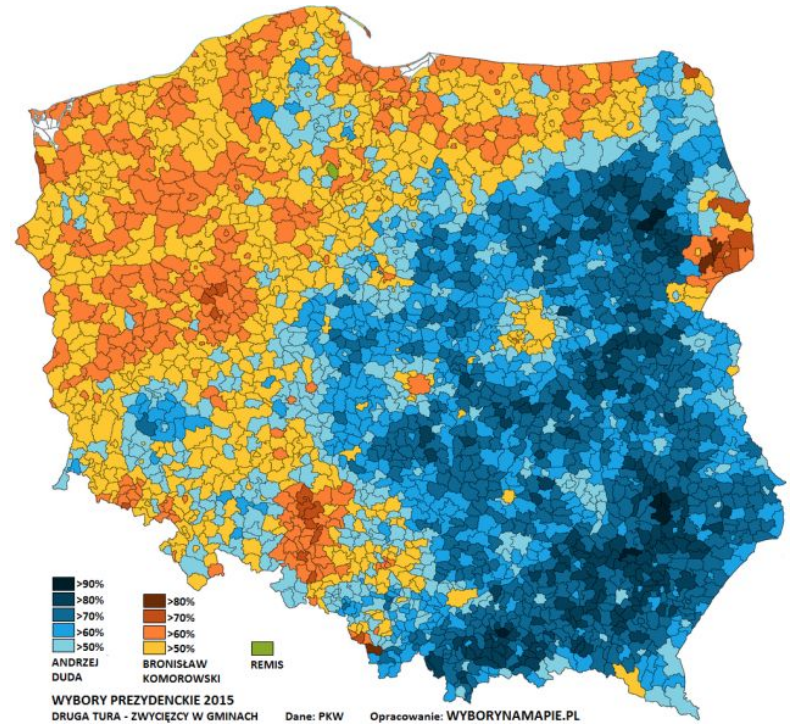


Which is not new

Polish EU referendum 2003



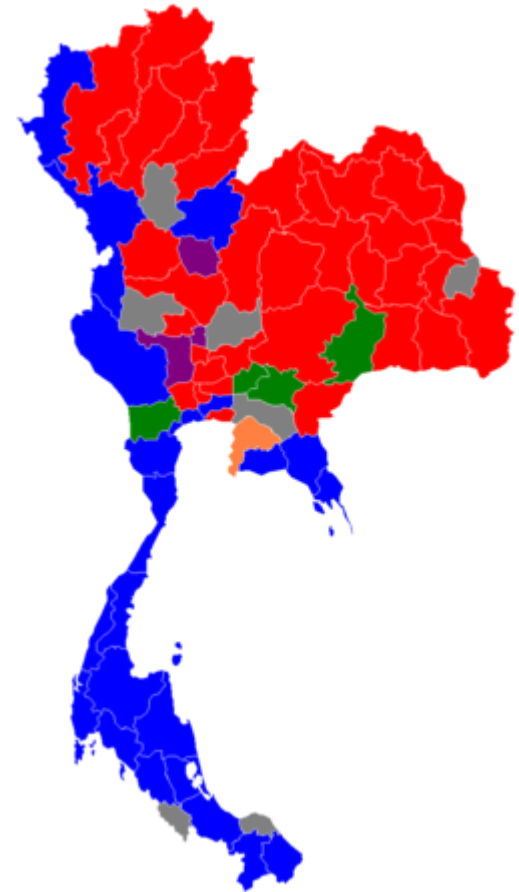
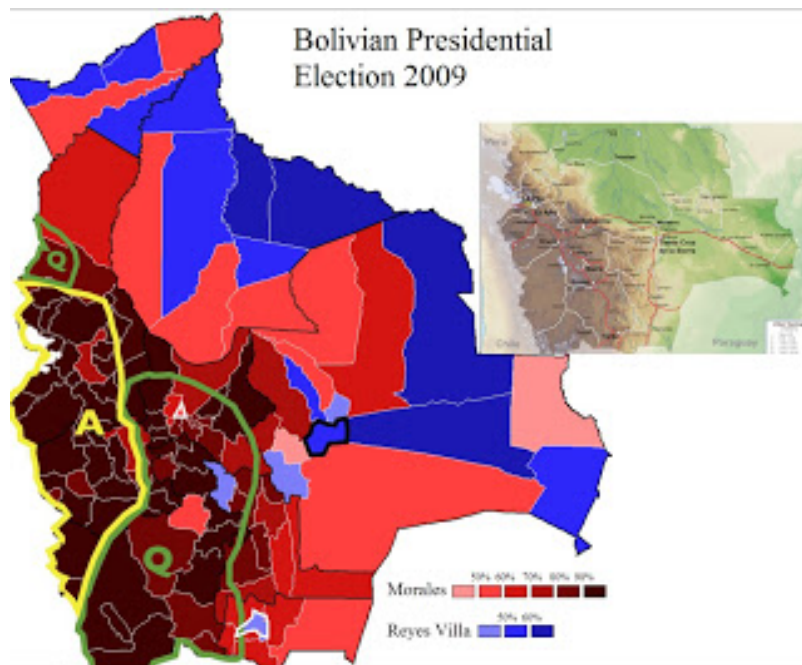
Polish presidential election, second round 2015



A geography of discontent (III)

Thailand 2011

Bolivia 2009



Are we surprised?

Economists got it wrong

Challenge has come from an unexpected source

Told to expect *negative externalities*

- Land rents
- Congestion
- Pollution

Told to expect *Inequality: Interpersonal*

- But the poorest of the poor have not rebelled: Trump and Brexit votes

But a fundamental negative externality overlooked

○ **Territorial inequality**

- Territories left behind
 - Long-periods of low-, no- or negative-growth
 - Industrial and agricultural decline
 - Brain drain
 - **No hope** ➡ Geographies of discontent

Territorial policy more needed
than ever
But, what type of policy?

Has nothing been done for these areas?

No, quite a lot has been done for these areas

- **National level**

- Welfare transfers
- Public employment

- **Regional level**

- Big investments in infrastructure
- White elephants: Big motorways, empty airports, under-used high speed trains

The real economic potential of these areas has not been mobilised

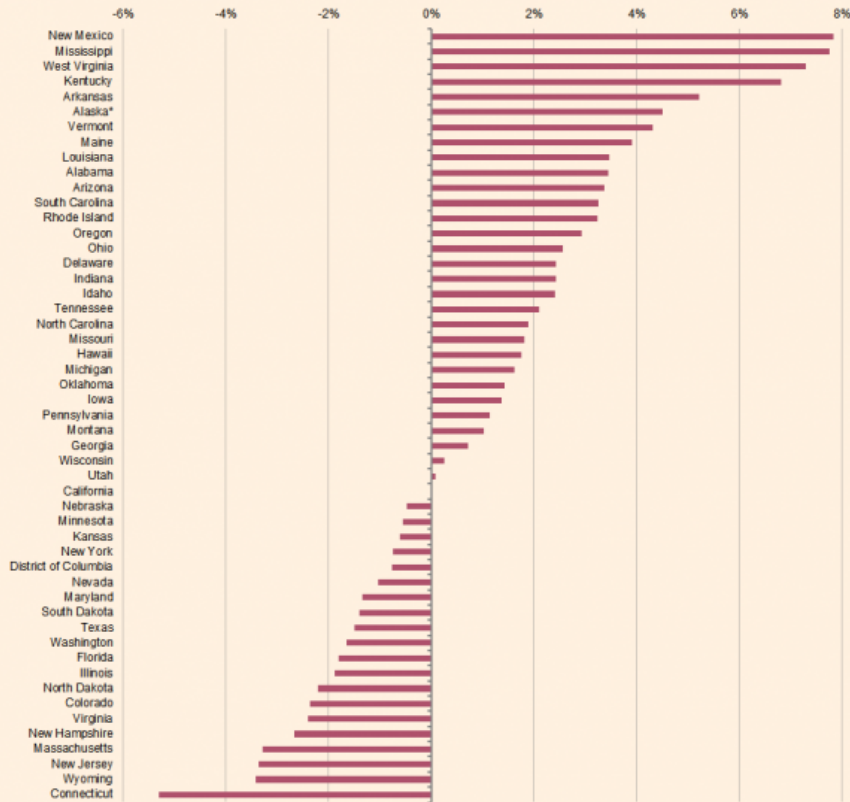
- Policies have often promoted collusion, corruption and poor government
- Perpetuating the impression that there is no future
- Or that the future inevitably passes through big cities
 - This is massively resented

Fiscal transfers

USA

Winners and losers

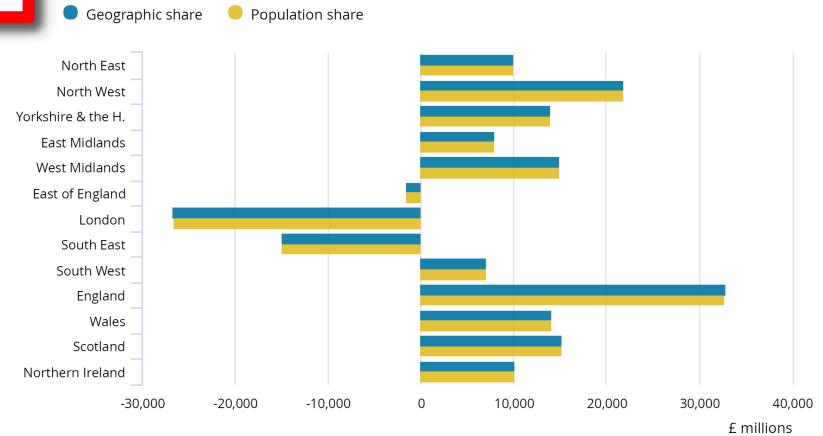
(Disposable income as a share of earned income minus state and local taxes plus SS, Medicare, and veterans' benefits, relative to national average)



Source: Bureau of Economic Analysis, Matthew Klein's calculations

UK

Figure 1: Net Fiscal Balance FYE 2016, by country and region

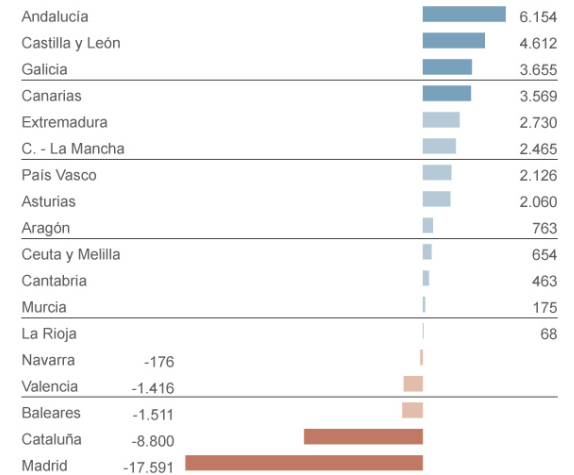


Source: Office for National Statistics

Spain

Las balanzas fiscales en las CCAA

En millones de euros

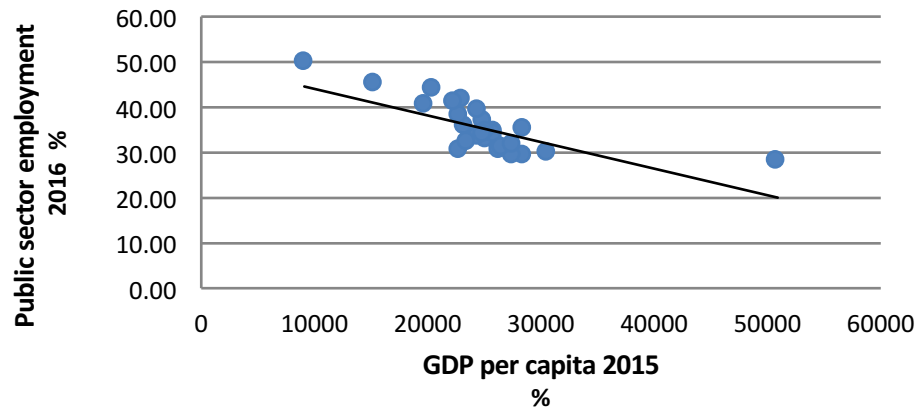


Fuente: M. de Hacienda y AAPP

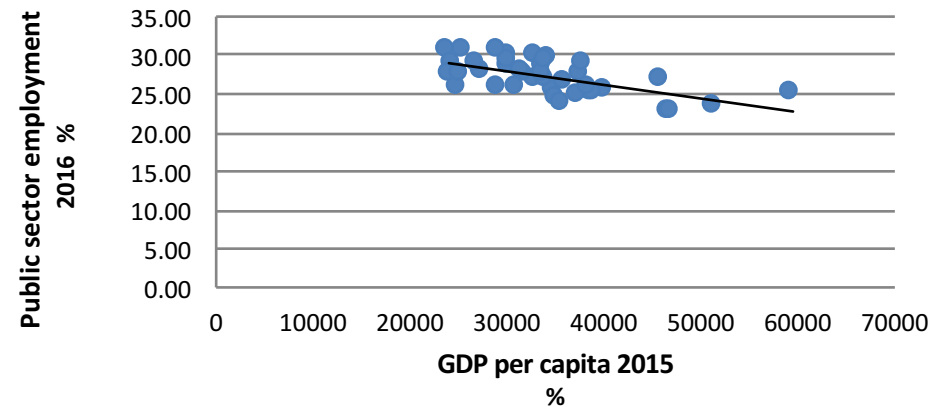
J. Aguirre / EL MUNDO GRÁFICOS

Public employment

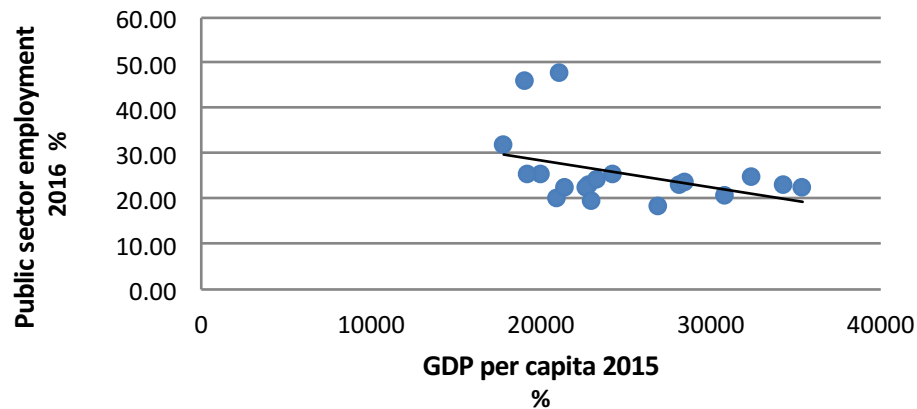
France



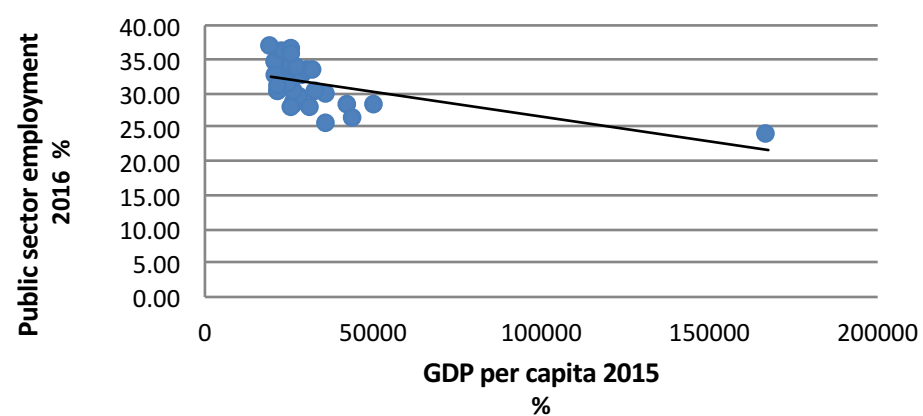
Germany



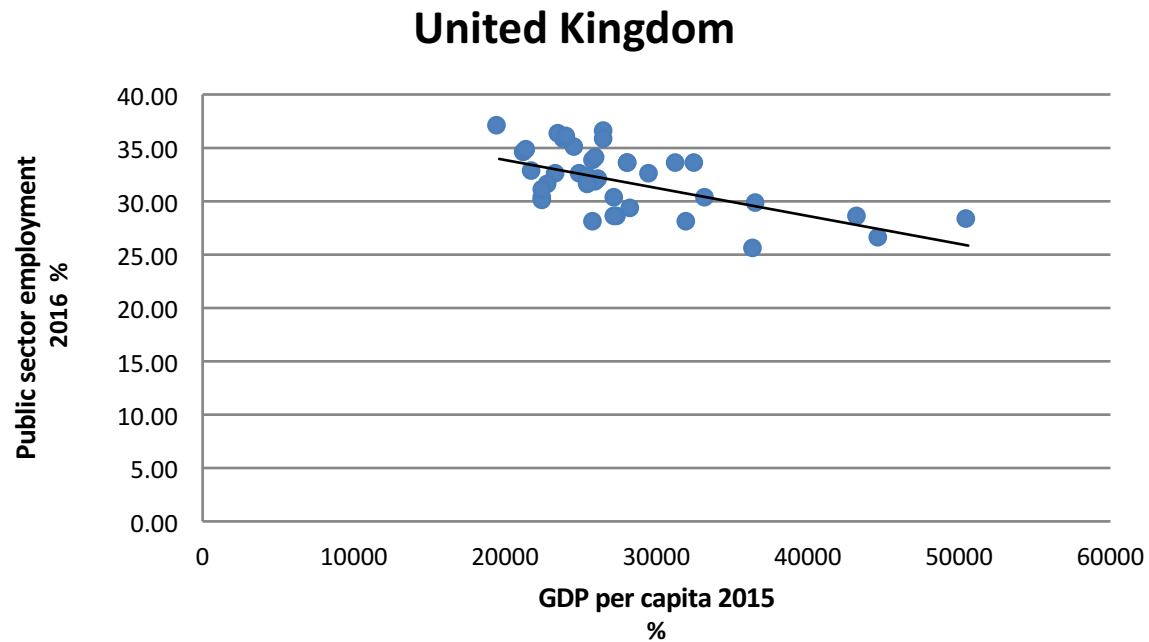
Spain



United Kingdom



Without Inner London



Expo Station, Seville

'Radial' motorways, Madrid



AVE Toledo-Albacete



Castellón Airport



July 17, 2015 5:38 pm
Spanish ghost airport costing €1bn attracts offer of just €10,000

Tobias Buck in Madrid

Ciudad Real Airport

Towards a different policy

Towards a different policy

The problem is territorial/ *Places matter*

We need *better*, not more, not less policy

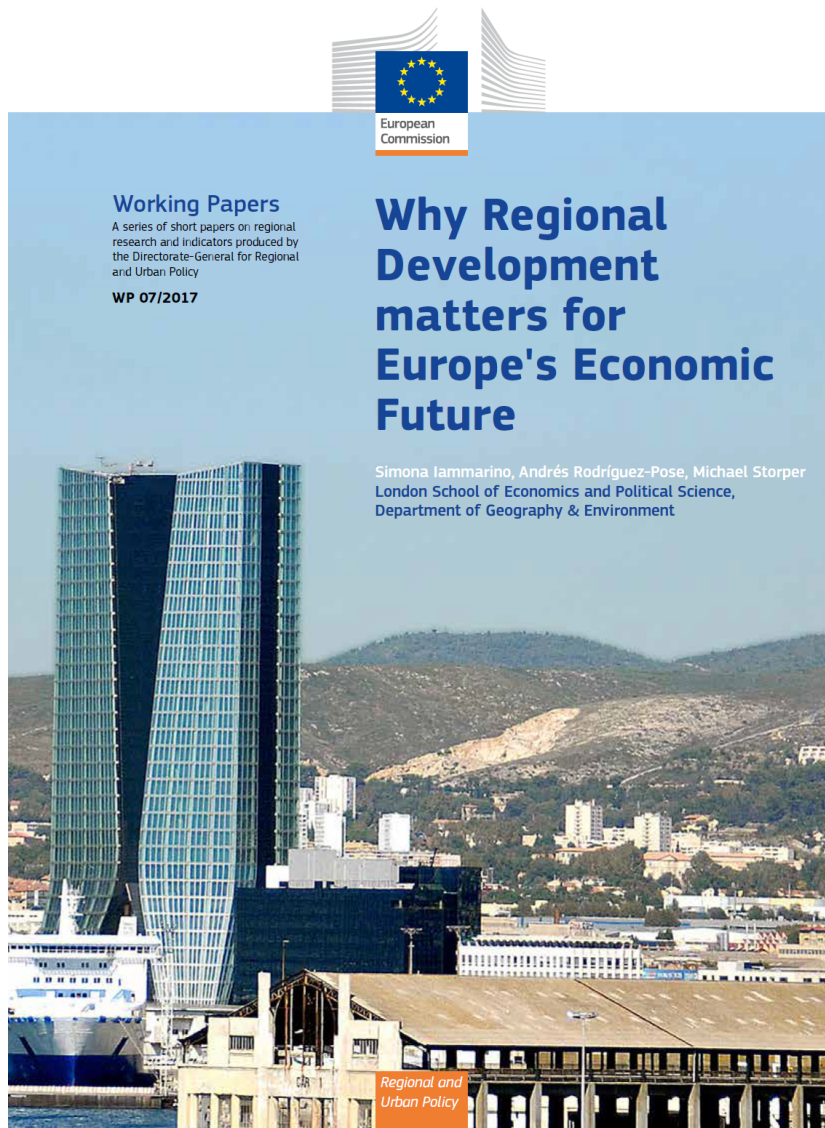
But a different policy

- Away from simply providing welfare
- Away from sheltering less developed regions
- Away from big, visible white elephants

Place-sensitive policy

- Place-sensitive distributed development policies (PSDDP)
 - Strongly based on theory and evidence
 - But sensitive to the different conditions of clubs of regions
 - Aimed at tapping local potential
 - And enhancing the opportunities of every territory (entrepreneurship, skills, absorption of innovation)
 - Offering portable skills
 - Tackling institutional inefficiencies and bottlenecks head on

How to go about doing it?



Journal of Economic Geography (2018) pp. 1–26

doi:10.1093/jeg/lby021

Regional inequality in Europe: evidence, theory and policy implications

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Abstract

Regional economic divergence has become a threat to economic progress, social cohesion and political stability in Europe. Market processes and policies that are supposed to spread prosperity and opportunity are no longer sufficiently effective. The evidence points to the existence of several different modes of regional economic performance in Europe, responding to different development challenges and opportunities. Both mainstream and heterodox theories have gaps in their ability to explain the existence of these different regional trajectories and the weakness of the convergence processes among them. Therefore, a different approach is required, one that strengthens Europe's strongest regions but develops new approaches to promote opportunity in industrial declining and less-developed regions. There is ample new theory and evidence to support such an approach, which we have labelled 'place-sensitive distributed development policy'.

Keywords: Regions, inequality, economic divergence, place-sensitive development, European Union

JEL classifications: R11, R12, R58

Date submitted: 25 August 2017 **Editorial decision:** 25 March 2018

Date accepted: 9 April 2018

1. The challenge

Regional inequality is proving too politically dangerous to ignore.

The Economist, 17 December 2016

In the European Union (EU) in the new millennium, inequality among regions¹ has turned sharply up. This is not uniquely a European problem, but one common to many countries, both developed and developing—for example, the inequality in income per person among US metropolitan areas was 30% higher in 2016 than in 1980 (Ganong and Shoag, 2015).

Since the late 1970s, a combination of globalisation and technological change (and some policy choices) have generated what are known as the 'great inversion' and the

¹ Throughout the paper, the level 2 of the EU Nomenclature of territorial units for statistics (NUTS-2) is used when referring to European regions.

Smart specialisation as a solution

The most negative externality so far has come through the ballot box

The places that don't matter have revolted

- **Those living in declining areas are attacking the very factors on which recent prosperity has been based:**
 - Open markets (goods, services, labour)
 - Migration
 - Access to the single market
 - Membership of the EU
 - Globalisation
- **This will affect**
 - First and foremost them (directly but, especially indirectly) (Los et al. 2017; Chen et al. 2018)
 - Less taxes – less welfare
 - Less inward investment (manufacturing) – less jobs for the medium-skilled
 - But also the foundations of the recent prosperity on the dynamism of agglomerated poles (London and the South East, Paris, Milan, Frankfurt, Munich)

Smart specialisation as a solution (II)

Smart specialisation as a possible solution to the rising discontent in the places that don't

- Place-based/Place sensitive policy
- Identification of strategic areas of intervention – **Mobilising local potential**
- Based on a through analysis of the strengths and potential of every territory
- With a wide involvement of local stakeholders to take ownership of their future
- Outward looking and targeting innovation

Because, far from not mattering, “the places that don't matter” are essential for the prosperity of the whole of Europe and for the well-being of all.

Why places matter: The geography of discontent and the revenge of the places that don't matter

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