

PLEASE SIGN IN IF YOU'RE EXPECTED TO



PGR05 – Place-based policy

Lent Term - WEEK 2

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2026
University of Cambridge

SOME HOUSEKEEPING: LECTURE 5

Place-based policy and the green transition

Work in **groups of 3: Moodle sign-up**

5-minute presentation to convince EU decision makers to fund your project

Your project needs to **address regional inequality** while at the same time **contribute to achieving climate neutrality**

And it **needs to leverage resources from at least two Cohesion Funds**: European Regional Development Fund, and Just Transition Fund.



PLAN FOR TODAY

1. **Recap from last week**
2. **Equity of opportunities** as an alternative rationale for policy intervention
3. Political rationales: **geographies of political discontent**
 - **3.A. Regional political grievances** (e.g. North vs South of England)
 - **3.B. Urban-rural divides** (e.g. rural vs urban areas)

1. RECAP

RECAP FROM LAST WEEK: SHOULD WE REDRESS TERRITORIAL INEQUALITY?



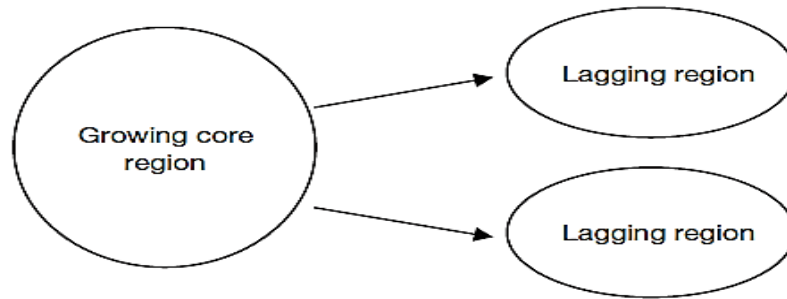
- **NO**
 - **Neoclassical economics:** no room for government action
 - **'Agglomeration economics':** regional inequality is the price to pay for national efficiency (idea of a trade-off between interregional equity and national efficiency)



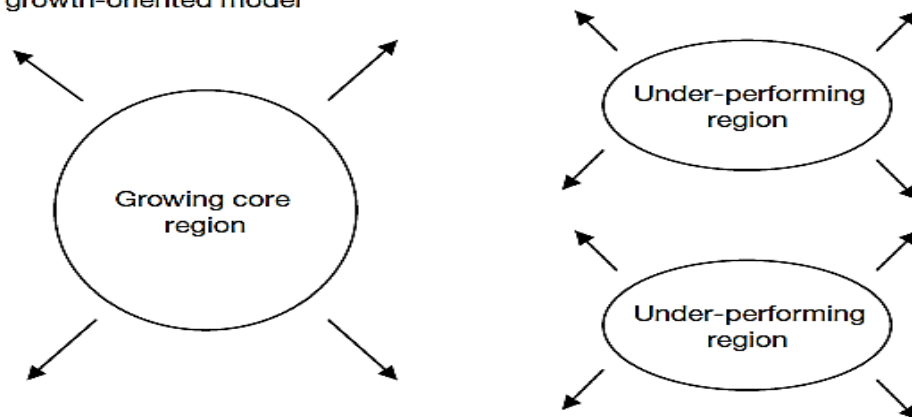
- **YES**
 - To redress local market failures
 - There is no trade-off. Helping lagging-behind regions can be efficiency-maximising

IS THERE A TRADE-OFF BETWEEN NATIONAL GROWTH AND REGIONAL INEQUALITY?

The donor-recipient model



The growth-oriented model



- Key idea: **lagging areas are consistently below their production possibility frontier**
- Regional development policies are efficiency-enhancing if they harness unexploited potential: **"There is hidden potential in all places"**

2. EQUITY, EQUALITY AND MORAL CONSIDERATIONS

GOING BEYOND EFFICIENCY MAXIMISATION

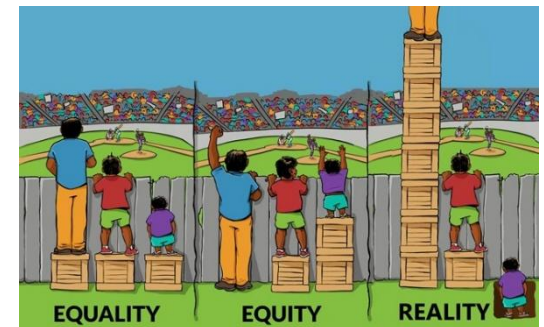
- Economists always think about how to improve aggregate efficiency. This is a **utilitarian view**
- But, sometimes, efficiency may go against other principles such as equity
- For example, we may want to pursue **policies designed to preserve or advance rights** (cf. protecting the rights of minorities, even if this is Pareto inefficient)

GOING BEYOND EFFICIENCY: EQUALITY

What's the balance that a society should choose between efficiency and equality?

Perfect equity is NOT desirable: in part, inequality is linked to self-freedom (e.g. to work more and be wealthier). Most societies value individual self-freedom

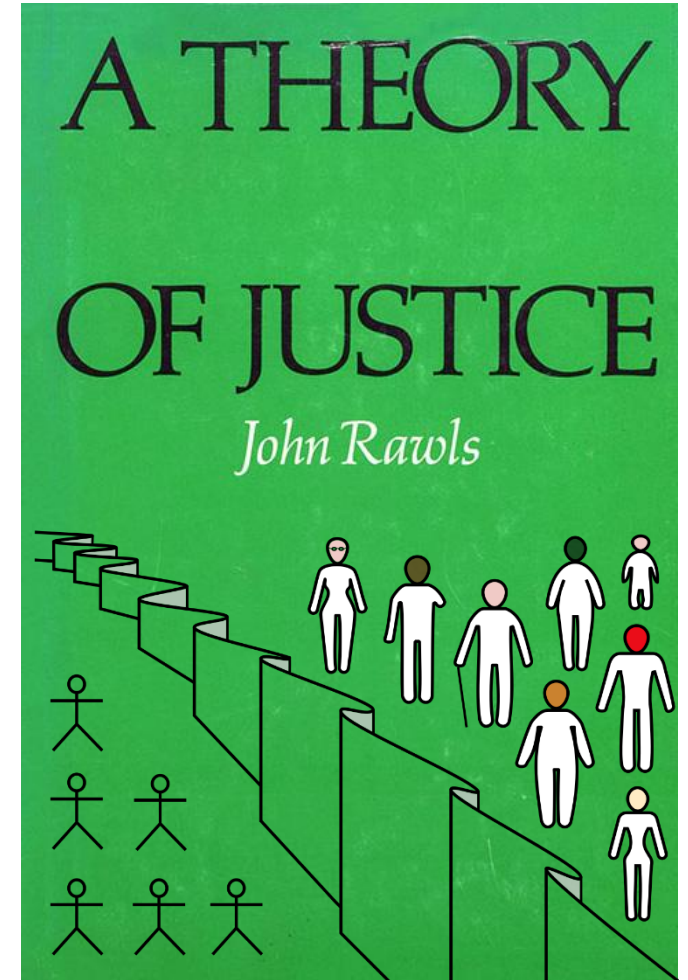
So, what kind of society do we want?



A THEORY OF JUSTICE

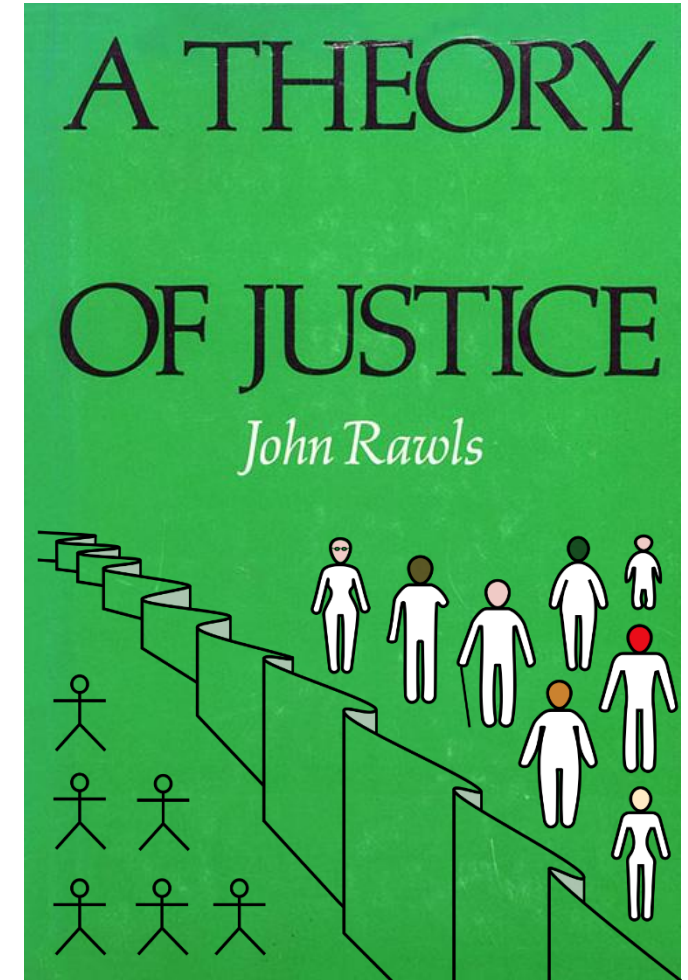
John Rawls (1971): justice as fairness

- When deciding what kind of society we want, we should take an “**original position**”, i.e. not know who/where we will be
- Imagine society gathered in a meeting, but no one knew anything about their class position, social status, fortune in the distribution of assets and abilities, intelligence, strength, etc
- Under this “veil of ignorance”, which principles about equality/inequality would we adopt?



A THEORY OF JUSTICE

- Under this 'veil of ignorance' each of us would aim to improve the position of the worst off, because we may find ourselves in that position
- We would probably pass the **principles of liberalism** (defence of individual freedoms, etc.)... but also:
- (a) everyone has a 'fair share' (**fair equality of opportunities, or equity**)
- (b) **disparities in outcomes** can be justified to the extent they provide material benefit to the least advantaged members of society
- i.e. while differences may exist, the system is structured to uplift those at the bottom

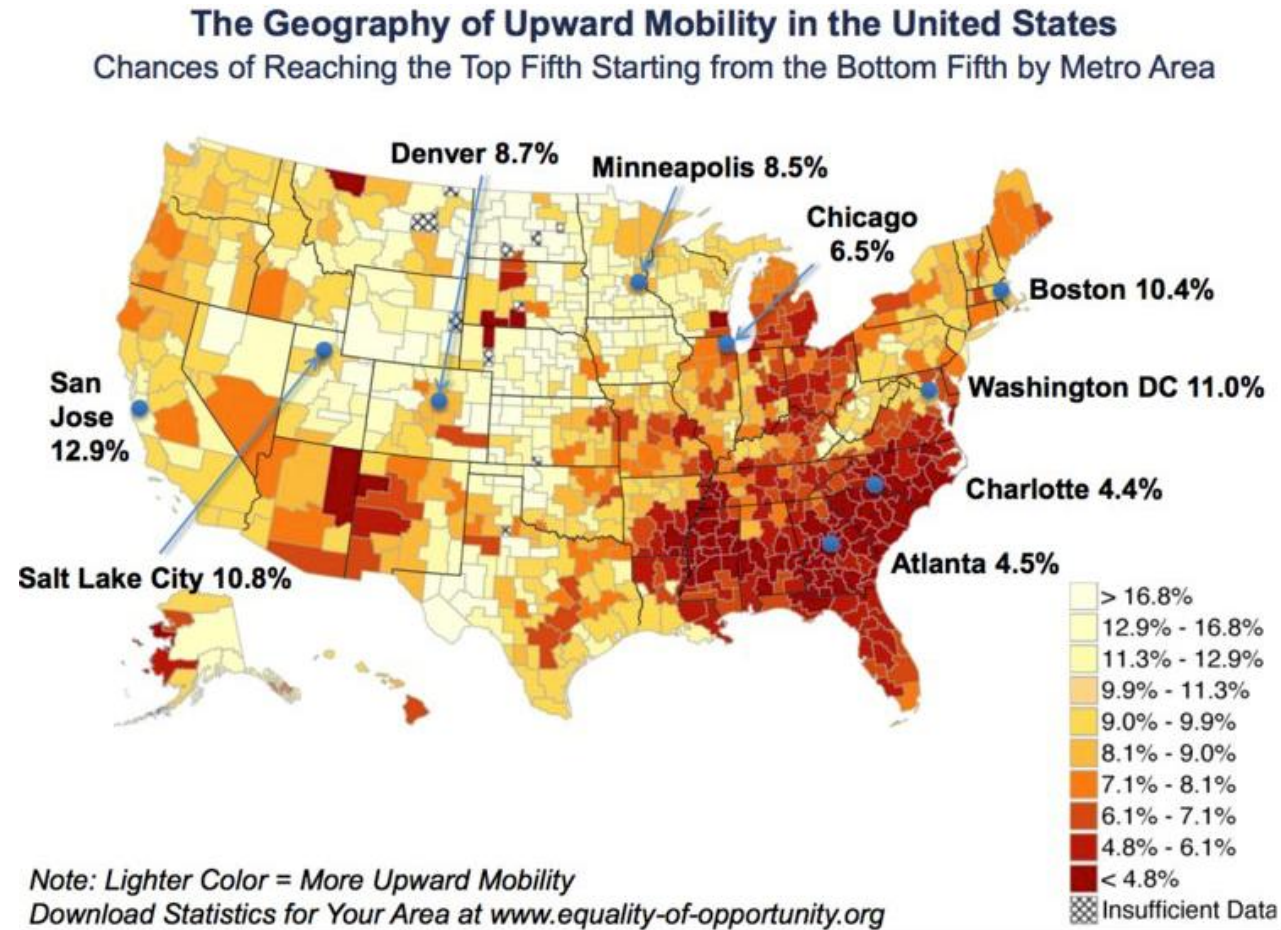


A THEORY OF JUSTICE

- **This is a radically different approach and has implications for our debate on spatial inequality and place-based policy!**
- From utilitarian maximisation of economic outputs (lecture 1)...
- **To seeing policies as a way to ensure that the worst off in a society 'have a fair chance'**
- ...Even if this is not necessarily cost-effective in utilitarian terms

BIRTHPLACE AND SOCIAL MOBILITY

Where you are born is strongly correlated to your chances of social mobility



(Chetty et al., 2014)

THE SCARRING EFFECTS OF GROWING UP IN DEPRIVED AREAS: US

The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment

Raj Chetty

Nathaniel Hendren

Lawrence F. Katz

AMERICAN ECONOMIC REVIEW
VOL. 106, NO. 4, APRIL 2016
(pp. 855-902)

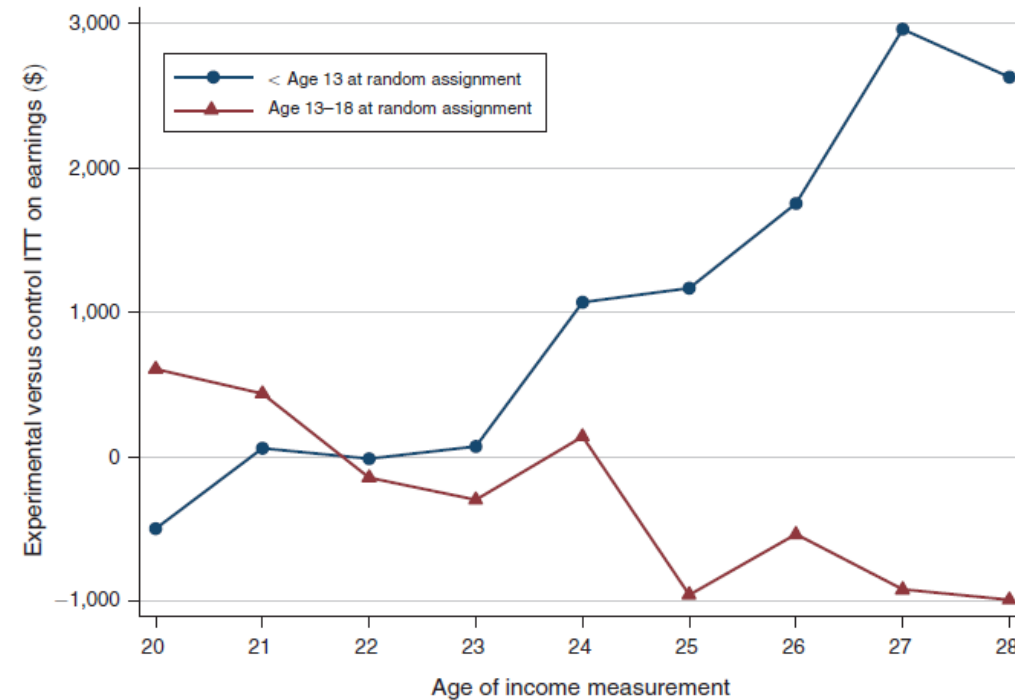


FIGURE 1. IMPACTS OF EXPERIMENTAL VOUCHER BY AGE OF EARNINGS MEASUREMENT

People randomly selected to move from a poor to a rich area while child will have higher education and earnings when adults, and lower chance of single parenthood

BIRTHPLACE UNEMPLOYMENT AND INDIVIDUAL LIFE OUTCOMES IN THE UK



- Being born in the 1970s a high unemployment area is associated with:
- **Decrease in adulthood earnings up to £2.500 per year (close to 16% of average income)**
- **Substantial different outlooks towards government, homosexuality, gender roles, and political party support**

(McNeil et al., 2023)

BIRTHPLACE EFFECTS: POTENTIAL EXPLANATIONS

Five main groups of mechanisms:

1. **Community socialisation** (beyond family): socialisation into different values and sub-cultures
2. **Stigmatisation** from outsiders
3. **Exposure to public services and schooling:** e.g., poor neighbourhoods are likely to have lower quality of public services, schools, etc.
4. **'Weak' vs 'strong' social networks**
5. **Spatial mismatches**

TO CONCLUDE ON EQUITY

- **Trying to redress regional inequality and help lagging behind places may address moral considerations about equality of opportunities**
- So, if society values equity, policies that displace economic activity from rich to poor areas **may increase overall welfare** (even if they were not increasing overall economic output..)

(Open to debate: is this also enhancing economic efficiency? ... By “untapping a sort of ‘hidden economic potential’”...)

REDISTRIBUTIVE JUSTICE VS CONTRIBUTIVE JUSTICE

Read through this short piece about Sandel's contributive justice

<https://www.theguardian.com/books/2020/sep/06/michael-sandel-the-populist-backlash-has-been-a-revolt-against-the-tyranny-of-merit>

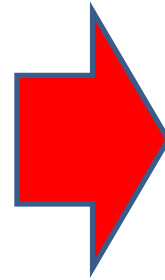
What are the main points raised by Sandel?

Do you agree?

HOMEWORK: SOCIAL MOBILITY IN ENGLAND

Read this report by the UK government:

<https://www.gov.uk/government/publications/the-long-shadow-of-deprivation-differences-in-opportunities>



What are the main findings of the report?

What kind of place-based policy could you propose to tackle some of these issues?

BIRTHPLACE AND SOCIAL MOBILITY

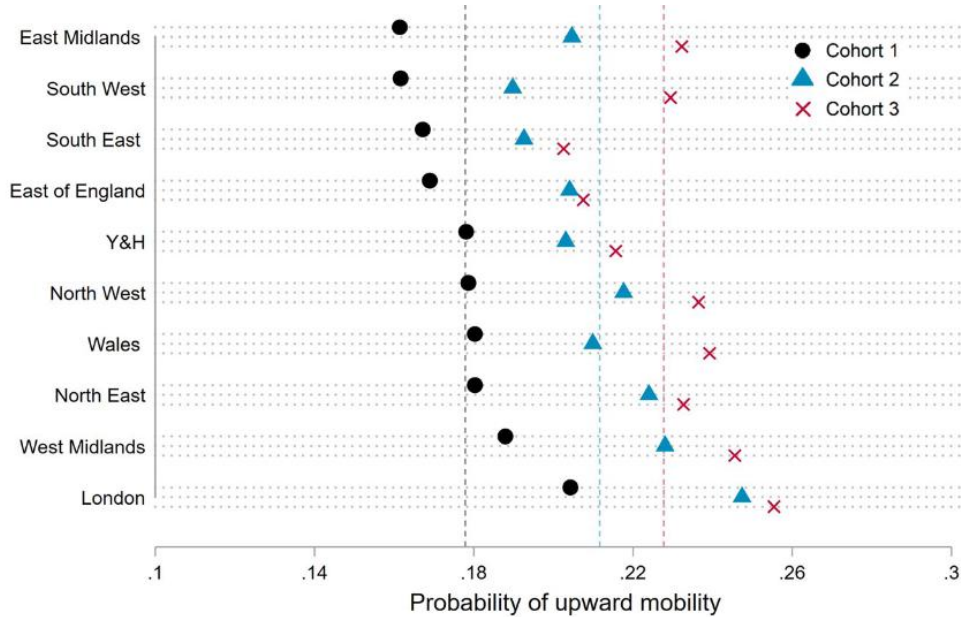


FIGURE 1 Unconditional probability of absolute upward mobility by cohort and region. Data source is the ONS-LS restricted to study members aged 8 to 18 years at origin [Colour figure can be viewed at wileyonlinelibrary.com]

- **Upward mobility is higher in London than elsewhere**
- It's also worth noting that regional averages mask substantial heterogeneity

(Buscha, Gorman, Sturgis, 2021)

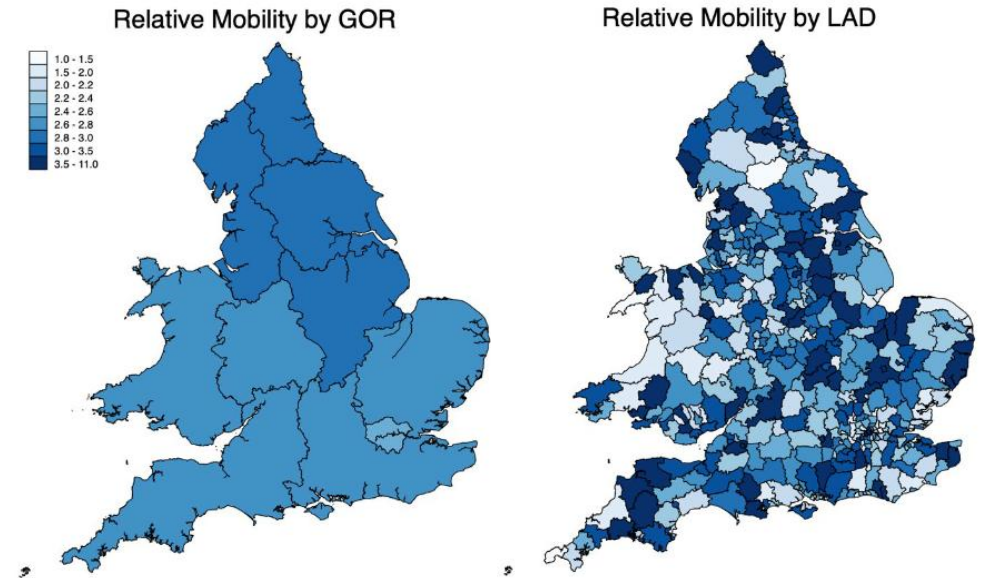


FIGURE 3 Relative mobility map of England and Wales by Government Office Region and Local Authority Districts (pooled over all time periods). Data source is the ONS-LS. No data for City of London due to small cell sizes. Estimates are odds ratios, where a higher value and darker color indicate a stronger link between parental status and child status, and therefore lower social mobility [Colour figure can be viewed at wileyonlinelibrary.com]

ANY QUESTIONS?



3. PLACE, POLITICAL DISCONTENT, POPULISM

POLITICAL DISCONTENT AND ITS GEOGRAPHIES

The rise in political resentment has strong territorial bases:

- The spatial distribution of anti-establishment or populist votes strongly correlates with economic stagnation and decline
- Perception that places have no future leads to resentment: **«The revenge of places that don't matter»** (Rodriguez-Pose, 2018)
- **“Regional inequality is proving too politically dangerous to ignore”** (The Economist, 17 December 2016)



To what extent is this true?

DEFINING POPULISM AND THE GEOGRAPHIES OF POLITICAL DISCONTENT

- The rise in political discontent is complex
- At least **four different types of populism**:
 - Radical right-wing populism eg Germany's AFD, UKIP
 - Left-wing populism eg Spanish Podemos, Greek's SYRIZA
 - Illiberal populism eg Hungary's Fidesz
 - Anti-establishment populism eg Italy's 5S

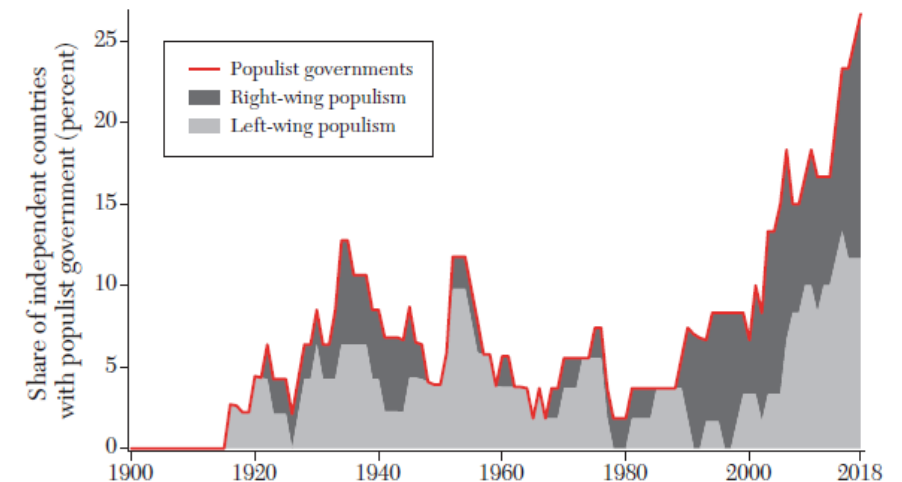
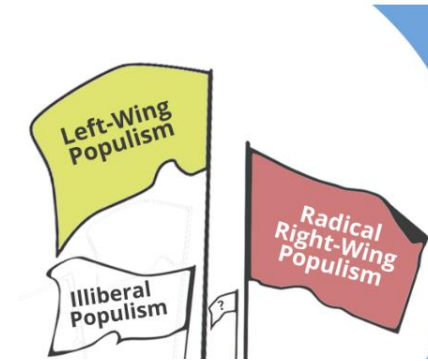
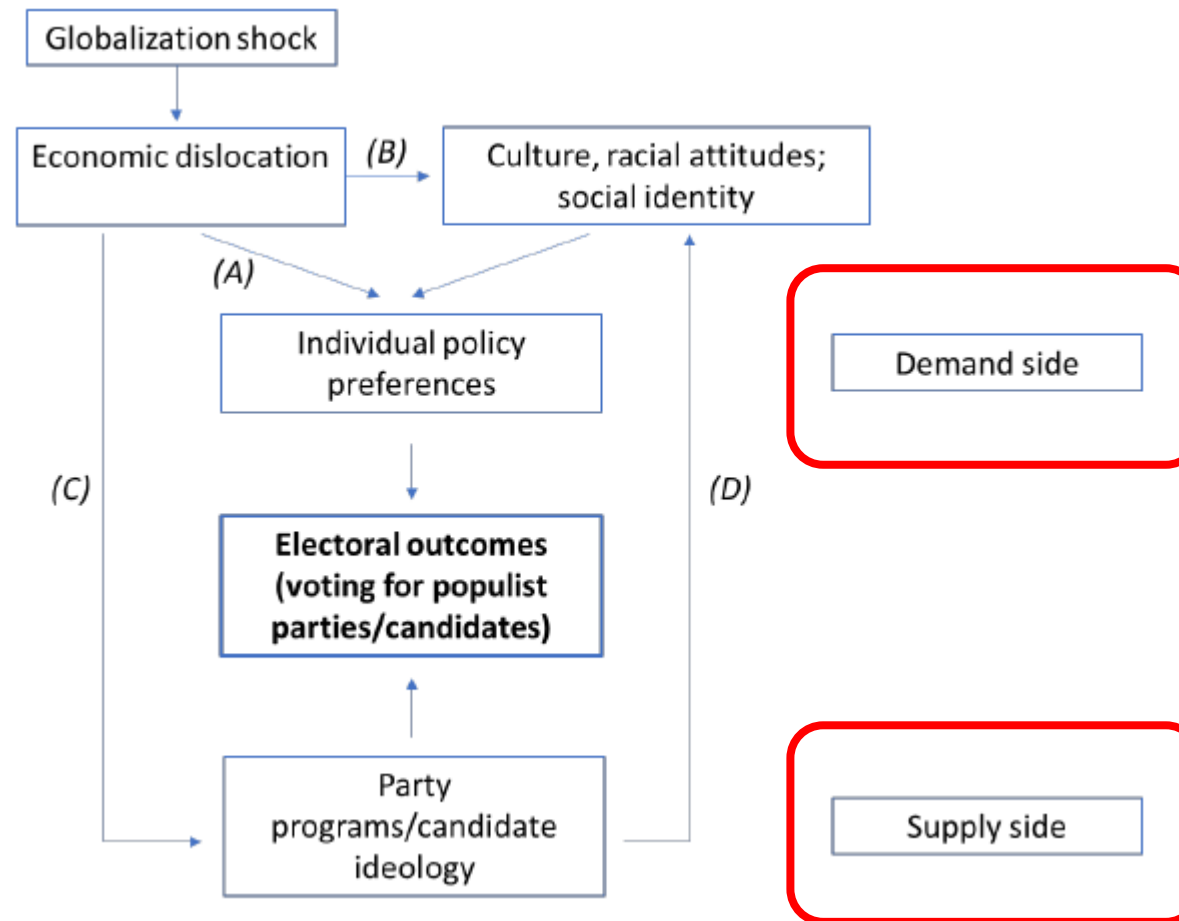


Figure 3. Left-Wing and Right-Wing Populists in Power since 1900

(Source: Guriev and Papaianou, 2022)

DEMAND AND SUPPLY IN POLITICAL DISCONTENT



(Rodrik, 2020)

POLITICS OF RESENTMENT: «SUPPLY SIDE»

- Internet and social media
 - Fake information spreads more easily
 - Information eco-chambers: we are only exposed to those like us. This fosters polarisation
- Political entrepreneurs
 - They see an electoral opportunity in people's dissatisfaction
 - They pick new polarising issues
 - Or frame old ones in a new polarising way



COFFEE BREAK?



3A. REGIONAL INEQUALITY AND POLITICAL DISCONTENT

«DEMAND SIDE»: POLITICS OF RESENTMENT

- **Economic crises** and scandals discrediting governments and 'elites' (e.g., Wikileaks' Panama Papers)
- **Austerity** and welfare state retrenchment
- **Globalisation: trade shocks**
- **Globalisation: migration shocks**



All these factors have a distinctive geography

THE CASE OF BREXIT

- Anti-establishment, populist parties pitch the 'people' against supposedly self-interested and aloof 'elites'
- Brexit was partly a true debate about Britain's relation with the EU (and more broadly its position in the world)

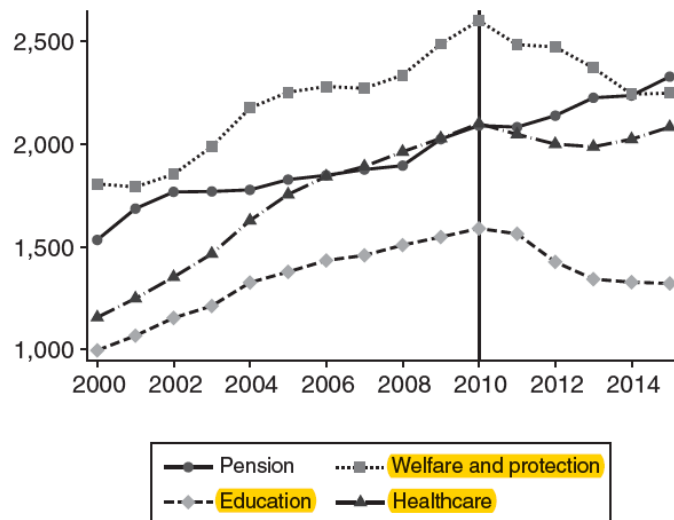


- **Yet, much of it became a protest of disenchanted voters against the status quo, with the EU used as a 'punchbag'**
- **EU as a popular 'punch bag' for many of the problems faced by lagging behind areas – even if these problems aren't caused by Brussels (cf. migration policy)**

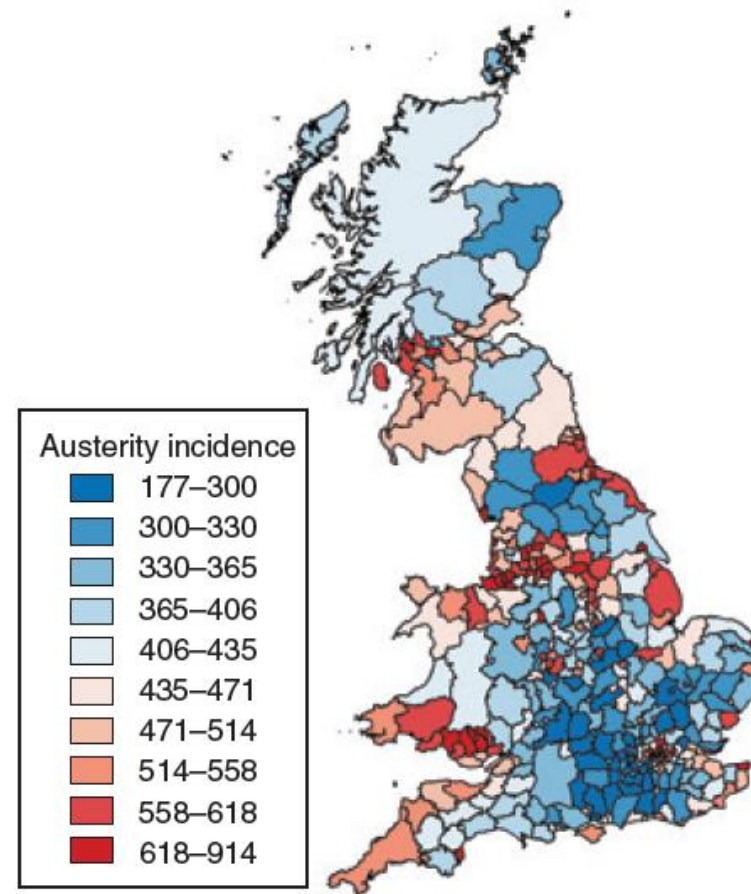
DID AUSTERITY CAUSE BREXIT?

- Austerity welfare cuts post-2008 were deep
- And concentrated in specific areas

Panel A. Composition of government spending



Panel B. Spatial variation in austerity shock



(Source: Fetzer, 2019)

DID AUSTERITY CAUSE BREXIT?

- Areas more exposed to austerity experienced increased support for UKIP
- And higher votes for Brexit in 2016
- **Had not been for austerity, votes for Brexit could have been 6 percent points lower, i.e. Remain could have won**

Panel A. Overall austerity shock

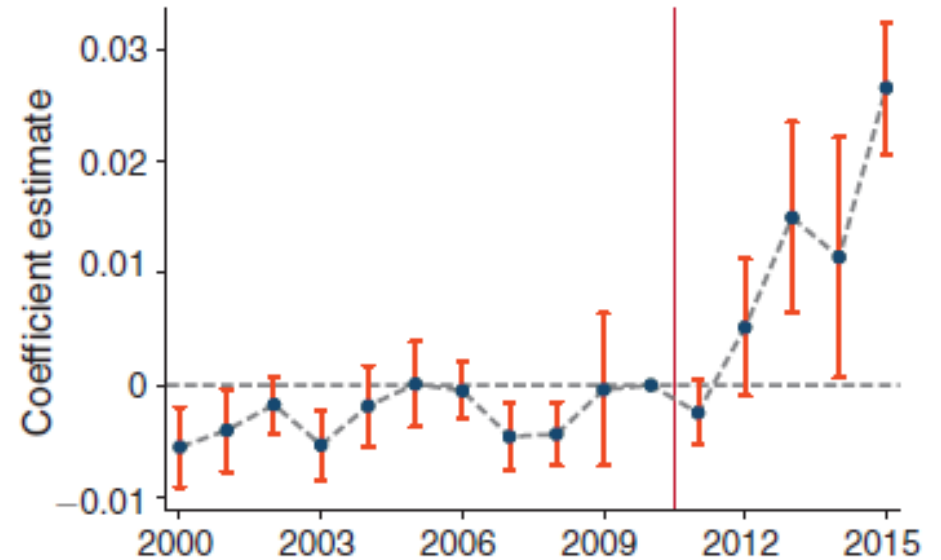


FIGURE 5. NONPARAMETRIC EFFECT OF AUSTERITY ON SUPPORT FOR UKIP

(Source: Fetzer, 2019)

BREXIT ISN'T AN ISOLATED PHEONOMENON

- Disenchantment with the EU has been growing across many European countries
- In fact, in almost every country the distrust towards Brussels has increased
- Continental integration is used as a scapegoat for many subnational social maladies

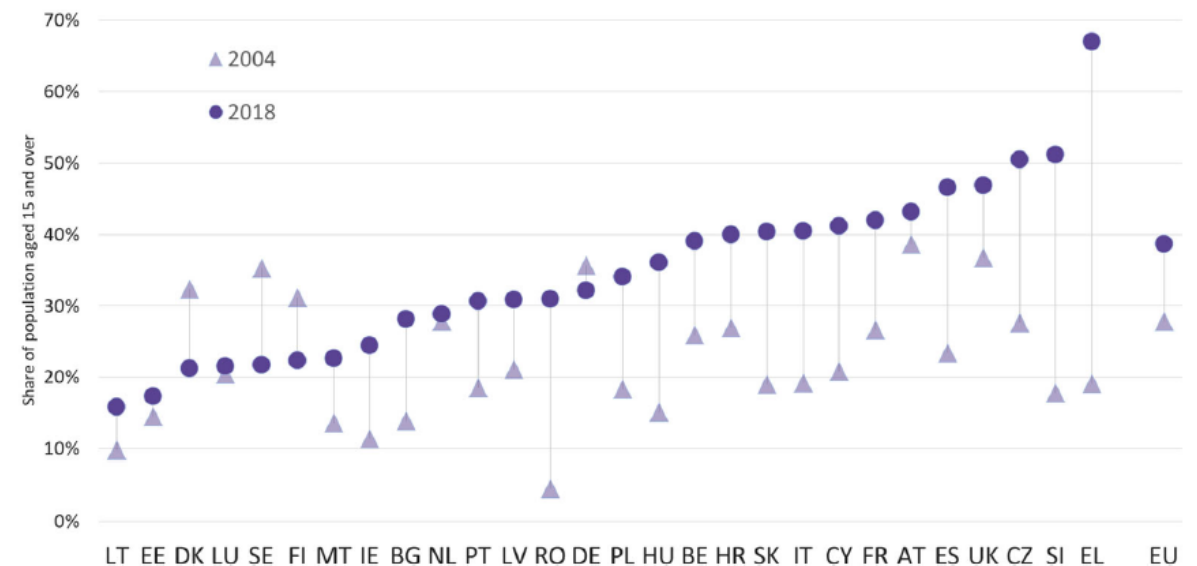


Figure 2. Share of the population that tends not to trust the European Union, 2004–18.

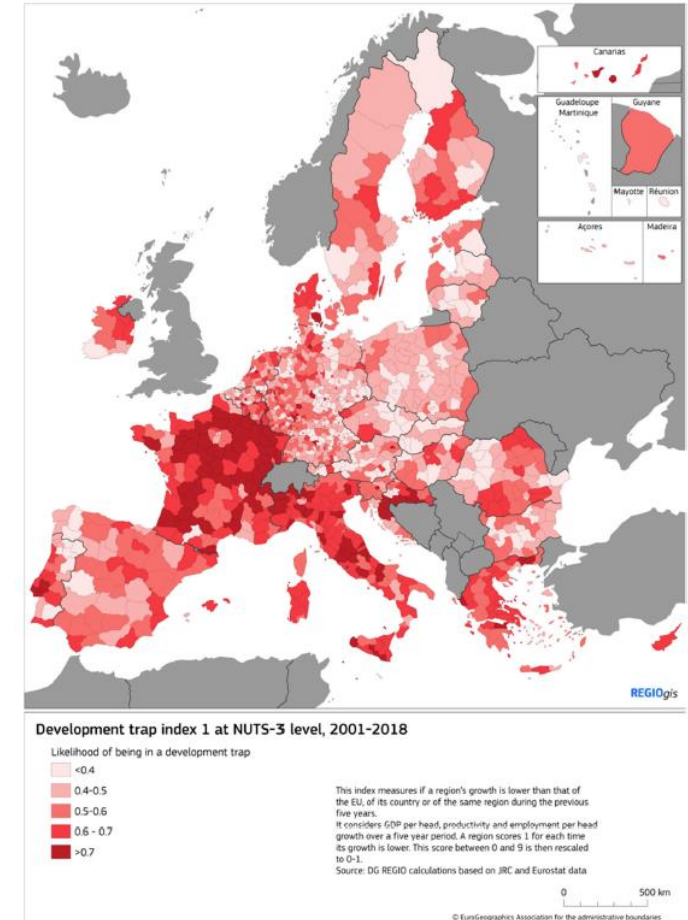
Source: Authors' own elaborations based on Eurobarometer data.

(Source: Dijkstra et al., 2020)

ANTI-EU VOTES, REGIONAL DECLINE, DEVELOPMENT TRAPS

Two types of explanations:

- Individual characteristics (COMPOSITION EFFECTS)
 - Age
 - Education
 - Income (and unemployment)
- Contextual GEOGRAPHICAL FACTORS
 - Immigration
 - Long-term regional economic decline or stagnation
 - Rurality
 - **Relative** decline with respect to national and international trends

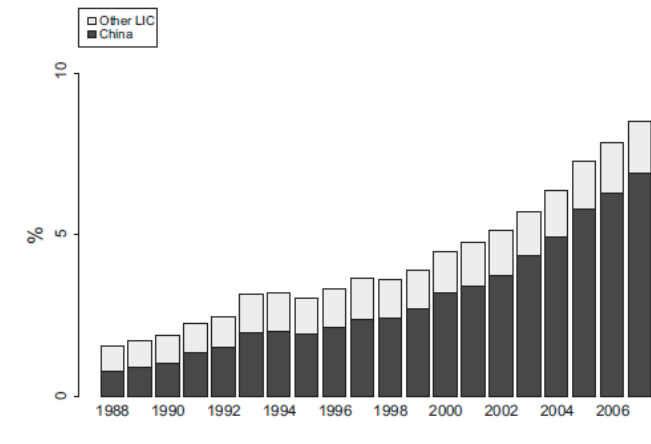


(Source: Rodriguez-Pose et al, 2024)

TRADE SHOCKS: WINNERS AND LOSERS

- According to neoclassical trade theory, **global trade is good because it increases aggregate output**
 - i.e. openness should bring positive economic benefits to all countries
- **Yet, it may create winners and losers**
 - High-skilled workers in rich countries and low-skilled workers in poor countries are winners
 - Low- and middle-skilled workers in rich countries are likely to be the losers

FIGURE 1 Evolution of Imports in Western Europe from China and Other Low-Income Countries as Share of Total Imports



(Source: Colantone and Stanig, 2018)

TRADE SHOCKS: WINNERS AND LOSERS

TABLE 2 District-Level Estimates: Additional Outcomes

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|----------------------|--------------------|--------------------|---------------------|-------------------|---------------------|---------------------------|-----------------------|----------------------|
| Dependent Variable: | Net Autarky | Protectionist Left | Protectionist Right | Liberal Right | Pro-Trade Left | Protectionist Left Proper | Economic Conservatism | Economic Nationalism |
| Import Shock | 0.355** (0.155) | -0.052 (0.047) | 0.278*** (0.094) | -0.017 (0.075) | -0.134** (0.054) | -0.081 (0.042) | 0.648*** (0.204) | 1.003*** (0.293) |
| Estimator | 2SLS | 2SLS | 2SLS | 2SLS | 2SLS | 2SLS | 2SLS | 2SLS |
| Country-Year Effects | yes | yes | yes | yes | yes | yes | yes | yes |
| Observations | 7,782 | 7,782 | 7,782 | 7,782 | 7,782 | 7,782 | 7,782 | 7,782 |
| R ² | 0.72 | 0.72 | 0.77 | 0.90 | 0.88 | 0.73 | 0.76 | 0.54 |

Note: ***p < .01, **p < .05.

(Source: Colantone and Stanig, 2018)

Regional exposure to global trade competition led to a big surge in right-wing, protectionist nationalism

TRADE SHOCKS: WINNERS AND LOSERS

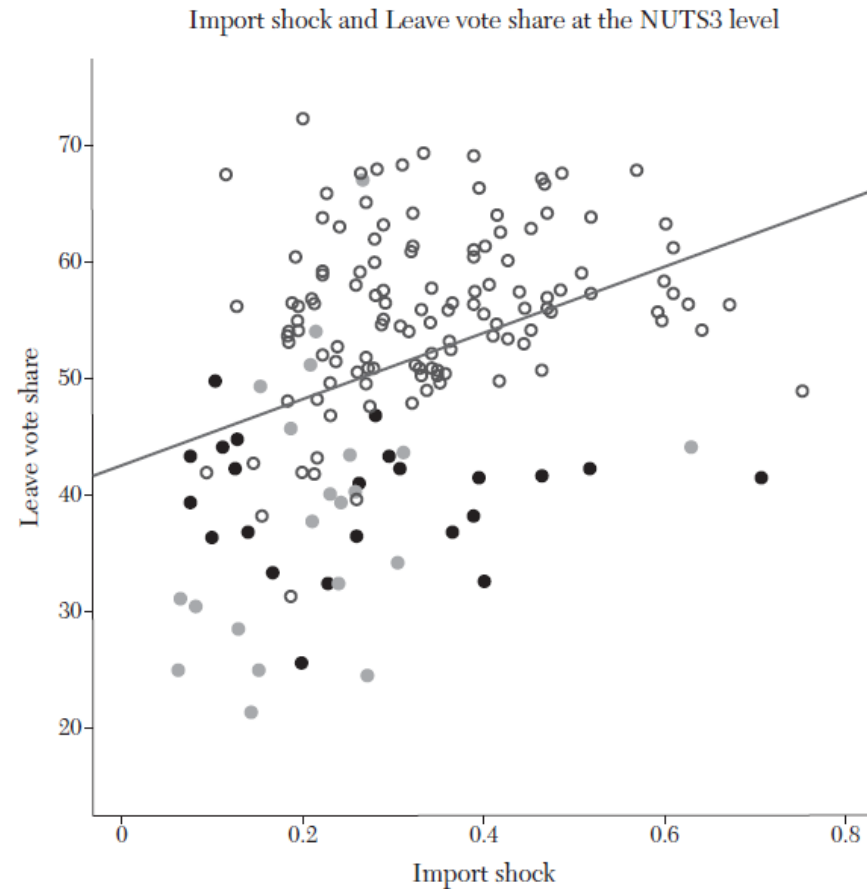


Figure 8. Import Shock and 2016 Leave Vote Share at the NUTS3 Level

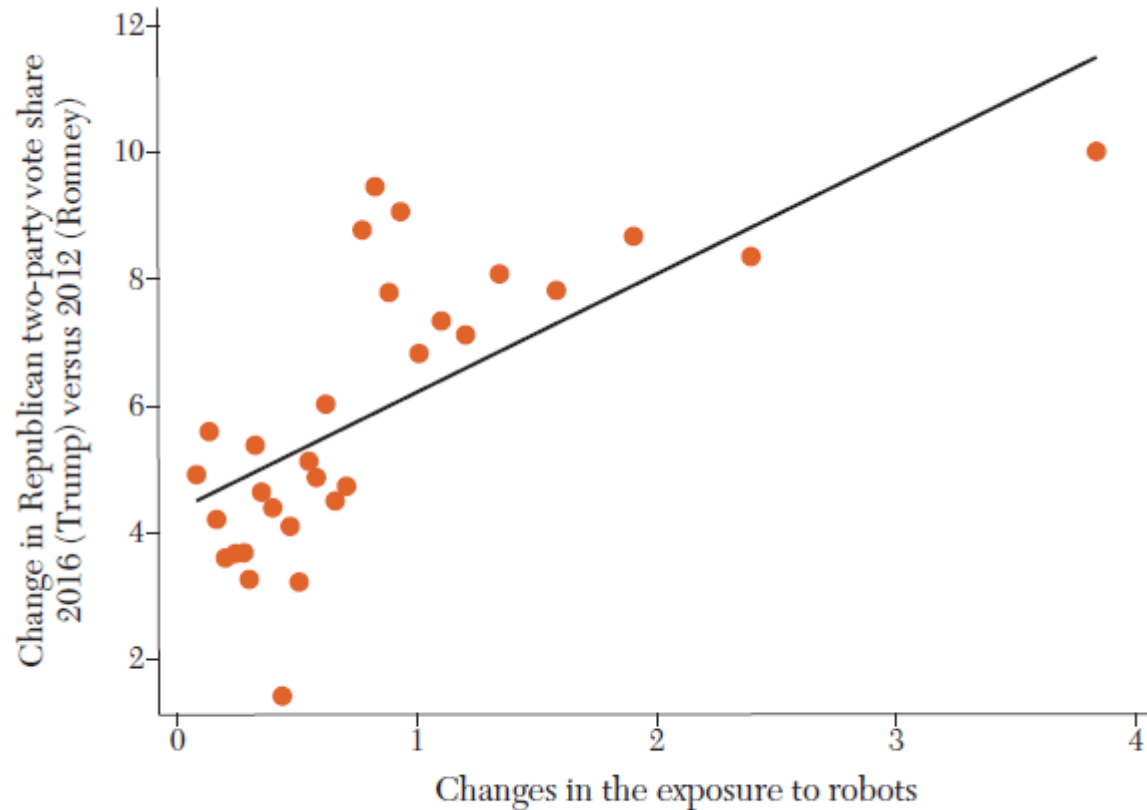
These results also apply to the Brexit referendum:

Chinese import penetration across the UK varied from €60 per worker in Camden to €750 in Leicester

A one-standard-deviation increase in imports from China led to a 2% point increase in Leave voters

(Source: Colantone and Stanig, 2018)

AUTOMATION



Increase in robot penetration has similar effects

In the US, automation has swung the 2016 elections in favour of Trump, especially in key states such as Michigan, Pennsylvania and Wisconsin

Figure 10. Exposure to Robots and the Vote for Trump

(Source: Frey, Berger, Chen, 2018)

THE CRITICAL ROLE OF PERCEPTION

‘Subjective’ perception is often far from ‘objective’ reality

The subjective perception of local economic decline is strongly conditioned by a respondent's personal economic hardship and partisanship

Gaps between perception and reality are crucial for understanding populism and designing solutions

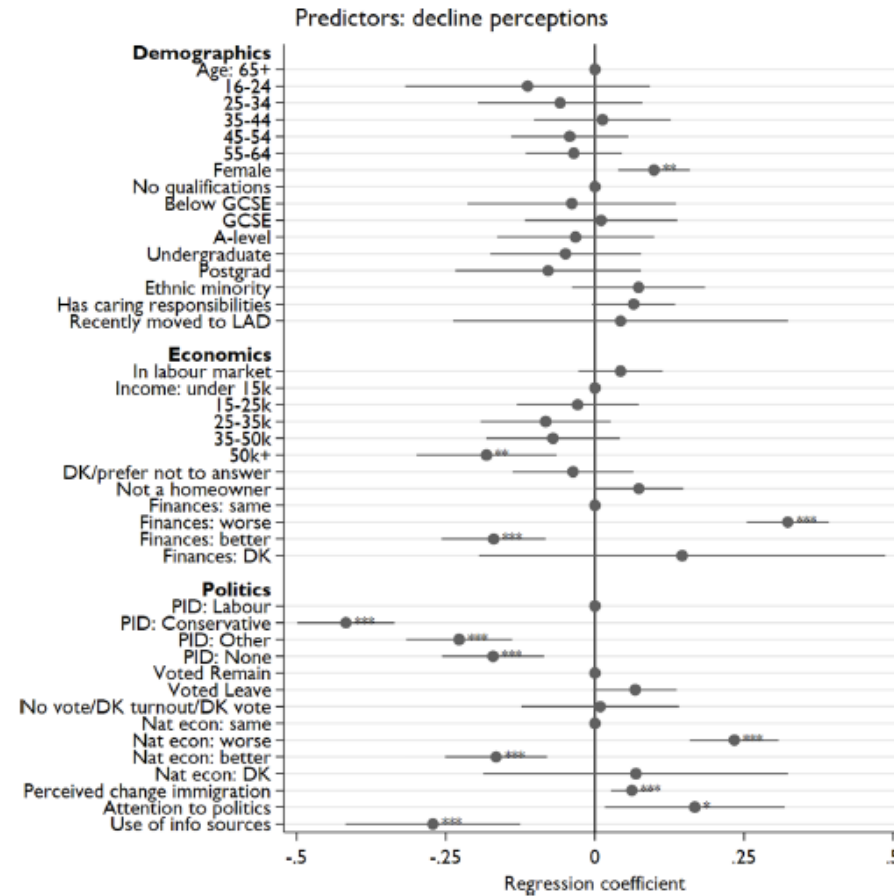


Fig. 2 Coefficient plot of effects of covariates on perceived decline

(Source: Green et al., 2024)

THE CRITICAL ROLE OF PERCEPTION

Perception of local decline:

High-street retail vacancies

Increase in retail vacancies is associated with strong rise of UKIP



(Source: <https://www.dailymail.co.uk/news/article-10979633/Empty-stores-violence-soaring-parking-costs-spark-death-British-High-Street.html>)

Table 1. Association between UKIP support and vacancy rates.

| Model: | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Variables | | | | | | |
| Vacancy rate | 0.174*** (0.040) | 0.197*** (0.070) | 0.201*** (0.070) | 0.201*** (0.070) | 0.202*** (0.070) | 0.195*** (0.070) |
| Region-by-quarter FE | x | x | x | x | x | x |
| Respondent FE | | x | x | x | x | x |
| Age | | | x | x | x | x |
| Receiving any benefit | | | | x | x | x |
| Any health condition | | | | | x | x |
| Occupation | | | | | | x |
| Subj. financial situation | | | | | | x |
| Fit statistics and other information | | | | | | |
| Mean of DV | 0.053 | 0.053 | 0.053 | 0.053 | 0.053 | 0.053 |
| Observations | 64,650 | 64,650 | 64,647 | 64,647 | 64,647 | 64,579 |
| R ² | 0.022 | 0.550 | 0.551 | 0.551 | 0.551 | 0.551 |

Clustered (Code-wave) standard-errors in parentheses

(Source: Fetzer et al. 2025)

THE CRITICAL ROLE OF PERCEPTION

Recent research shows that individual perception is key

Housing values as another proxy for local economic inequality

Environment and Planning A: Economy and Space

Impact Factor: **4.0** / 5-Year Impact Factor: **4.4**

Open access | Research article | First published online February 12, 2023 | [Request permissions](#)

Measuring local, salient economic inequality in the UK

[Joel H Suss](#)  [View all authors and affiliations](#)

[Volume 55, Issue 7](#) | <https://doi.org/10.1177/0308518X231154255>

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Abstract

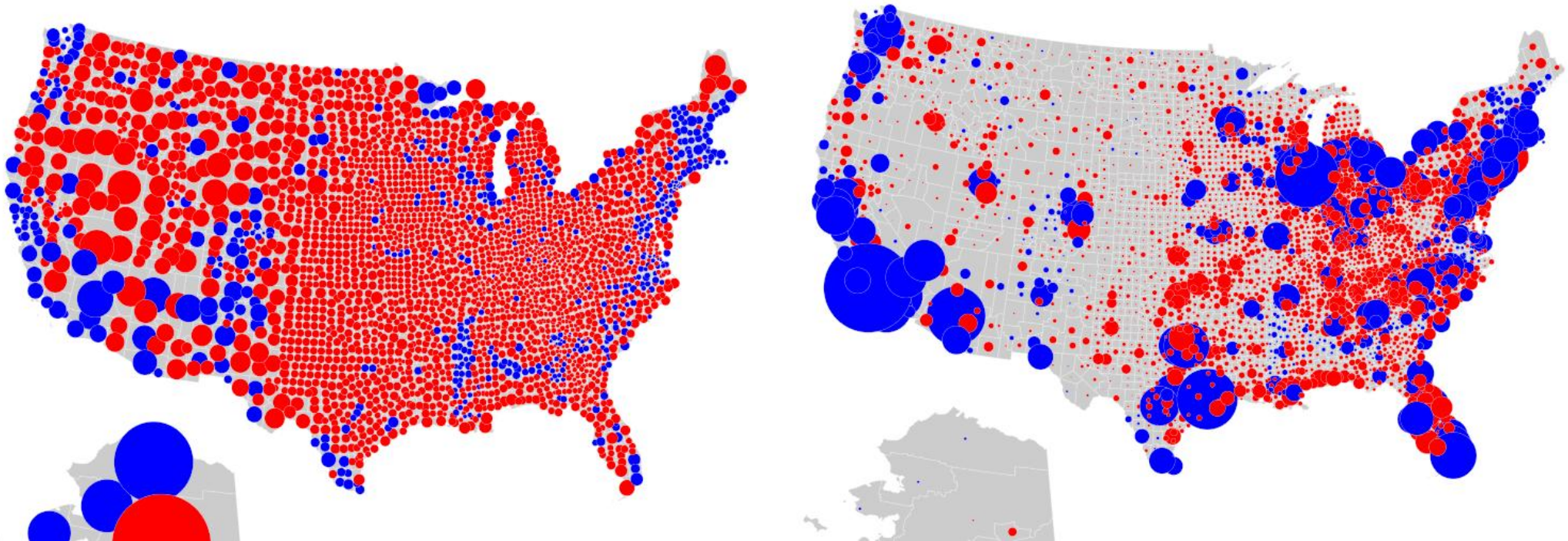
Neighbourhood-level economic inequality is thought to have important implications for social, political, and economic attitudes and behaviours. However, due to a lack of available data, to date it has been impossible to investigate how inequality varies across neighbourhoods in the UK. In this paper, I develop a novel measure of within-neighbourhood inequality in the UK by exploiting data on housing values for over 26.6 million addresses – nearly the universe of residential properties in the UK. Across two surveys, I demonstrate that housing value inequality is perceptually-salient – what people see around them in terms of housing discrepancies is associated with their beliefs about inequality. This new measure of local, salient inequality represents a powerful tool with which to investigate both the anatomy of local inequality in the UK, as well as its attitudinal and behavioural consequences.

(Source: Green et al., 2024)

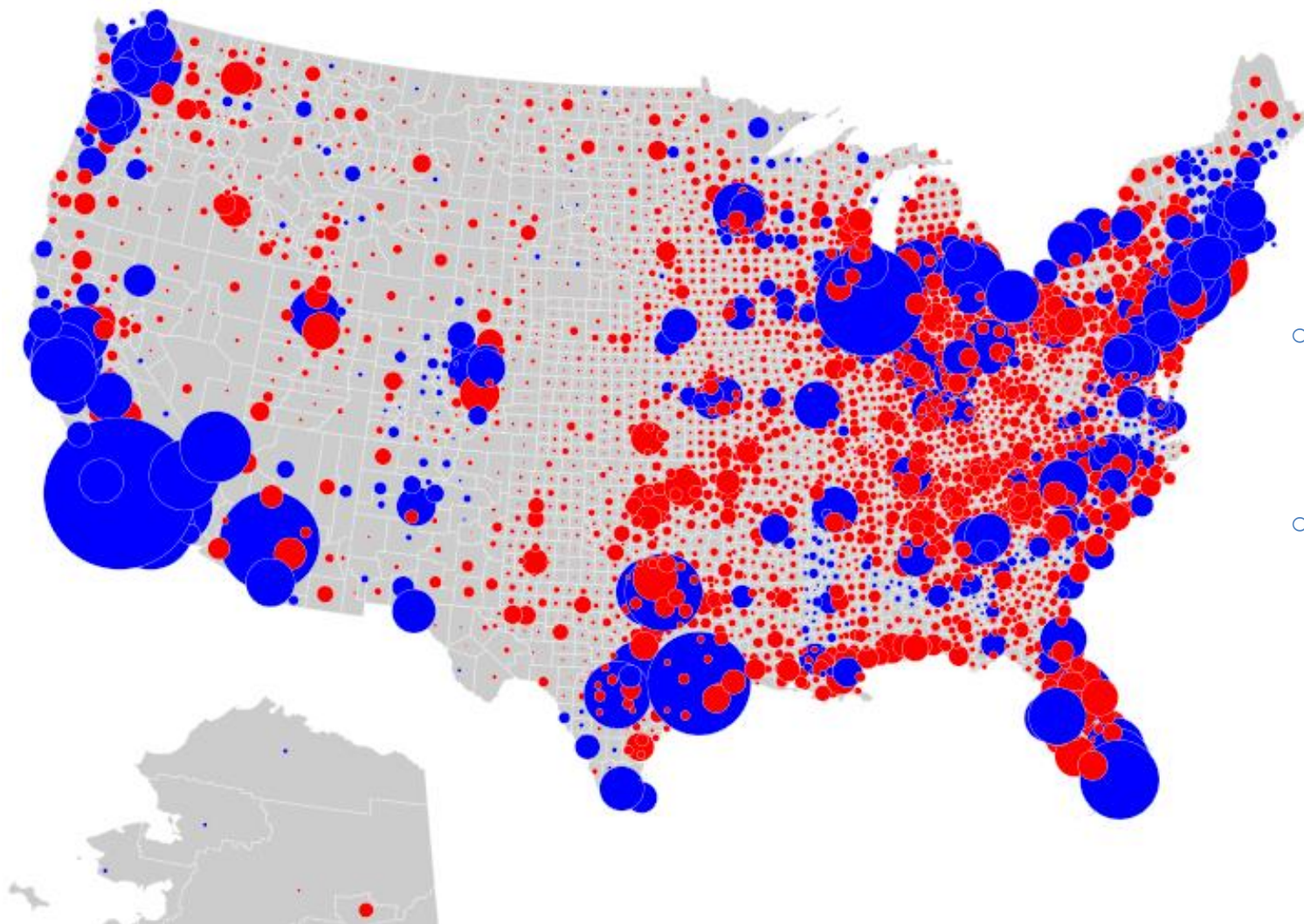
3B. URBAN/RURAL DIVIDES AND POLITICAL DISCONTENT

THE US URBAN-RURAL GAP

US 2020 presidential election results by county, displaying the size of the county by land area (left) or population size (right)



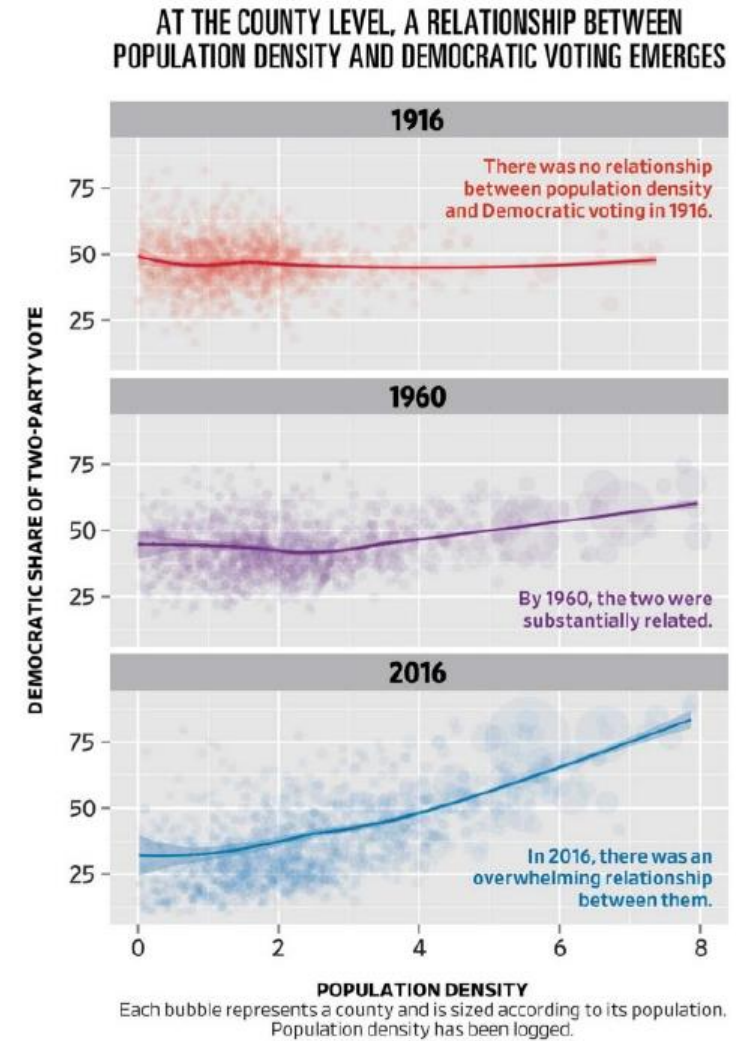
(Source: <https://engaging-data.com/> on data from New York Times Election API)



- Growing spatial patterns: almost all large cities voting Democrats, rural counties voting GOP
- Differences are significant even after controlling for education, income, age, ethnicity, and religion

THE US 'BIG SORT'?

- Differences have grown over the last decades, also because of voters sorting
- Sorting driven by **political homophily**
- Economic sorting driven by the '**new geography of jobs**'



(Wilkinson, 2018, Niskanen Center WP)

IN EUROPE?

Gilet Jaune: «a revolt of the countryside and the suburbs» (Khalaf, in the Financial Times, 2019)



Rural France in Revolt

BY
IVAN BRUNEAU / JULIAN MISCHI / NICOLAS
RENAHY

The gilets jaunes have put the social ills of rural France at the heart of public debate. These areas aren't "backward," they're suffering from decades of attacks on social welfare and living conditions.



The New York Times

TheUpshot

How the Rural-Urban Divide Became America's Political Fault Line

Such a conflict isn't unique to the U.S., but the consequences are far-reaching here.



By Emily Badger

May 21, 2019



Opinion **Populism**

Urban-rural splits have become the great global divider

A political phenomenon is pitting metropolitan elites against small-town populists

GIDEON RACHMAN + Add to myFT



Q Popular Latest

The Atlantic

2016 DISTILLED

The Growing Gap Between Town and Country

As Trump-like views gain strength in rural areas internationally, diverse urban centers p

RONALD BROWNSTEIN SEPTEMBER 22, 2016



MORE

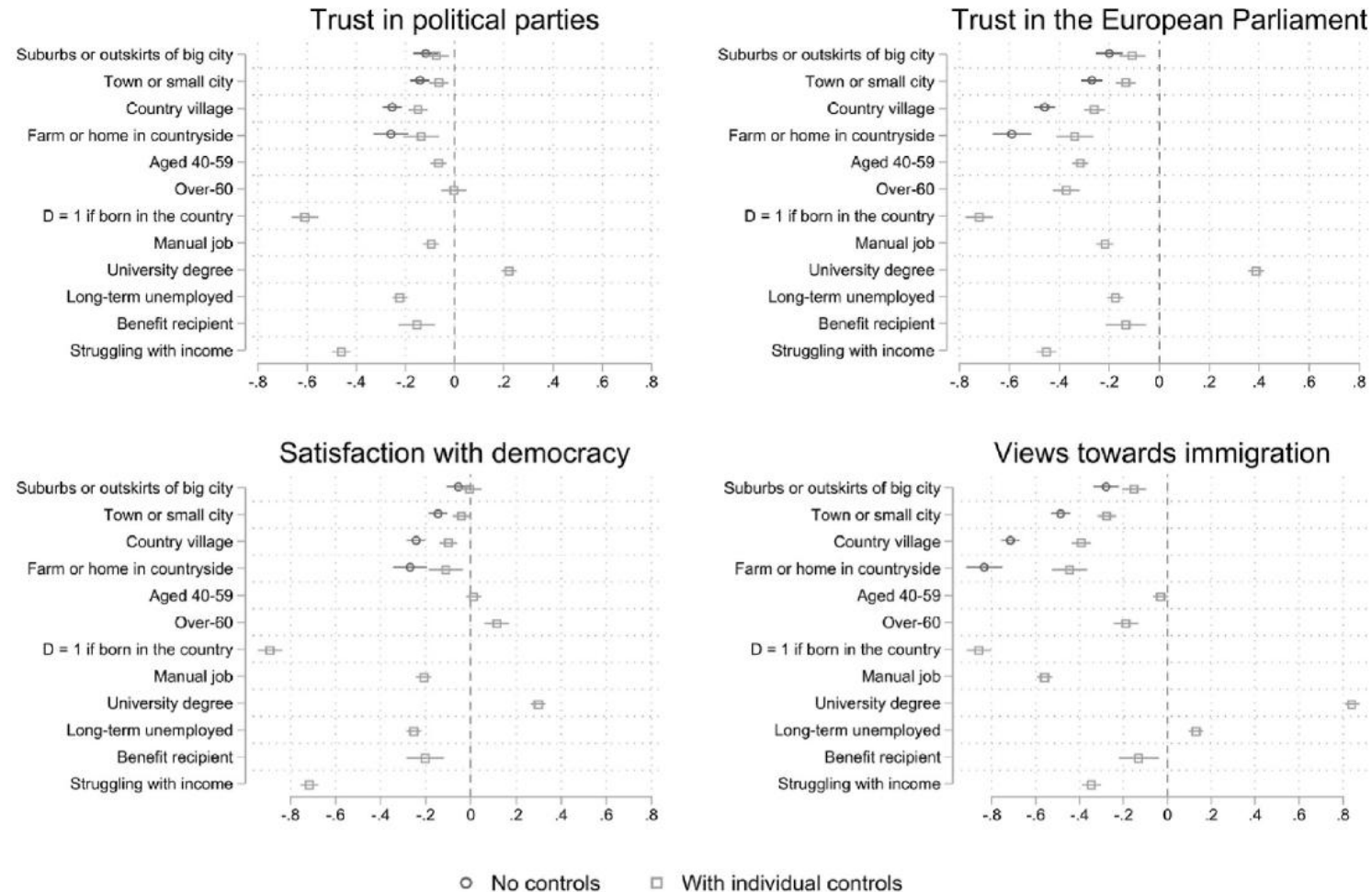
URBAN-RURAL GAPS ACROSS EUROPEAN COUNTRIES

| | (1) Trust in parties | (2) Satisfaction with democracy | (3) Satisfaction with health services | (4) Satisfaction with life | (5) L-R placement | (6) Trust in European Parliament |
|--------------|----------------------------|--|--|----------------------------------|-------------------------|---|
| Suburbs | 0.939** (0.023) | 0.997 (0.024) | 0.939*** (0.022) | 1.077*** (0.026) | 1.140*** (0.028) | 0.888*** (0.021) |
| Town | 0.901*** (0.017) | 0.921*** (0.017) | 0.938*** (0.017) | 1.019 (0.019) | 1.144*** (0.021) | 0.829*** (0.015) |
| Village | 0.839*** (0.015) | 0.863*** (0.015) | 0.934*** (0.016) | 1.124*** (0.020) | 1.306*** (0.024) | 0.745*** (0.013) |
| Rur. house | 0.838*** (0.030) | 0.831*** (0.029) | 0.908*** (0.031) | 1.190*** (0.043) | 1.508*** (0.054) | 0.668*** (0.023) |
| Observations | 197,475 | 216,720 | 216,720 | 216,720 | 216,720 | 216,720 |
| Country FE | yes | yes | yes | yes | yes | yes |
| Year FE | yes | yes | yes | yes | yes | yes |
| Ind. ctrls | no | no | no | no | no | no |
| Econ. status | no | no | no | no | no | no |

- Compared to inner-city dwellers, other residents show significantly different outlooks
- Lower trust in political system and European institutions, less satisfied with democracy and public service provision
- Within-city differences (e.g. Difference between inner cities and suburbs)!

(Source: Kenny and Luca, 2021)

URBAN-RURAL GAPS ACROSS EUROPEAN COUNTRIES



- Urban-rural divides are substantial and comparable to the effects of key individual characteristics such as occupation and education

IMPLICATIONS

- Dominant narrative in the last 15 years has been to grow big cities
- Remember final part of Lecture 1 on 'Agglomeration economics' and Glaeser's «Triumph of the city»?
- The growing urban-rural gap, however, creates **risks for social cohesion** (as is the case with other territorial cleavages)

**The
Guardian**



How the megacities of Europe stole a continent's wealth

While hi-tech cosmopolitan centres like Milan flourish financially and culturally, former industrial towns continue to decline

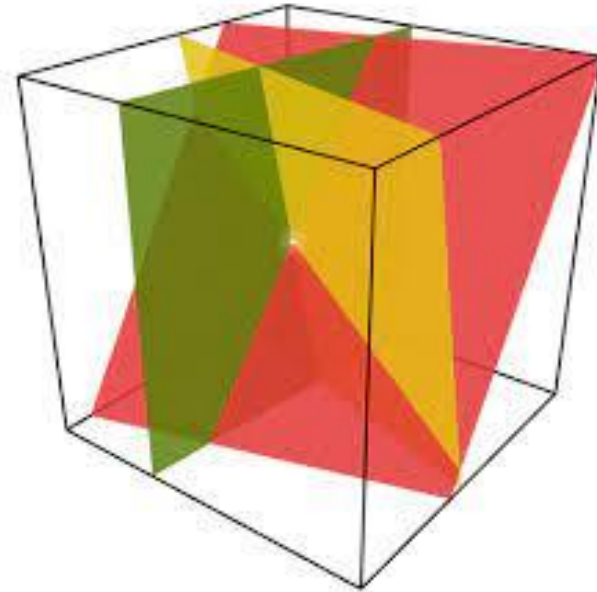
Julian Coman

Sun 10 Nov 2019 09:11 GMT

(Source: Kenny, Luca, 2021)

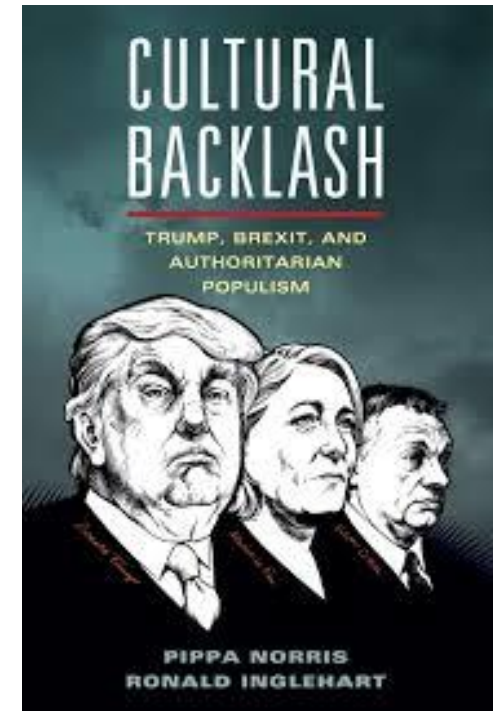
URBAN-RURAL vs REGIONAL INEQUALITY

- The **urban/rural** and **regional** dimensions
- They are not separate phenomena, nor in contraposition to each other
- **Think of them as two intersecting dimensions of territorial cleavages**



CAVEATS: CULTURAL GRIEVANCES

- The whole narrative we explored so far today focuses on some (territorial) economic determinants of political discontent
- Is it really only (territorial) economic insecurity to drive resentment?
- **Cultural backlash**: alternative view is about cultural grievances
- **Older (and native) generations feel alienated by liberal values and diversity, and turn to populist parties** (Norris, Inglehart, 2019)
- BUT note that culture does not change quickly. So, economic stagnation may be the trigger behind the re-emergence of cultural backlashes and identity politics



CAVEATS: CULTURAL GRIEVANCES

Margalit (2019): **outcome significance** vs **explanatory significance**

- (Regional) economic factors tilted many elections in one direction, but aren't enough to explain why voters vote for populist parties
- Individual-level studies of the vote for populist parties find that economic variables capture only a small fraction of the variation in the electoral outcome
- Take immigration: very little evidence that it leads to right-wing populism because seen as an economic threat – rather, it's seen as a cultural threat

YOUR WORK: ECONOMIC VS SOCIAL EXPLANATIONS?

Read through this short piece:

<https://www.economicsobservatory.com/rebuilding-social-infrastructure-how-should-we-invest-in-communities>



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Rebuilding social infrastructure: how should we invest in communities?

What are the main points? Do you agree?

And to what extent do these points influence policy solutions to address political discontent?

TO CONCLUDE THE FIRST BLOCK OF THE COURSE

- **Current market forces are exacerbating territorial inequalities** across many countries
- **Territorial inequality poses a series of risks:** economic inefficiencies, equity grounds, political and social cohesion
- Can public policy address these challenges?

SEE YOU NEXT WEEK

REGIONAL DECLINE AND VOTES FOR TRUMP IN 2016 AMERICA



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