

PLEASE SIGN IN IF YOU'RE EXPECTED TO



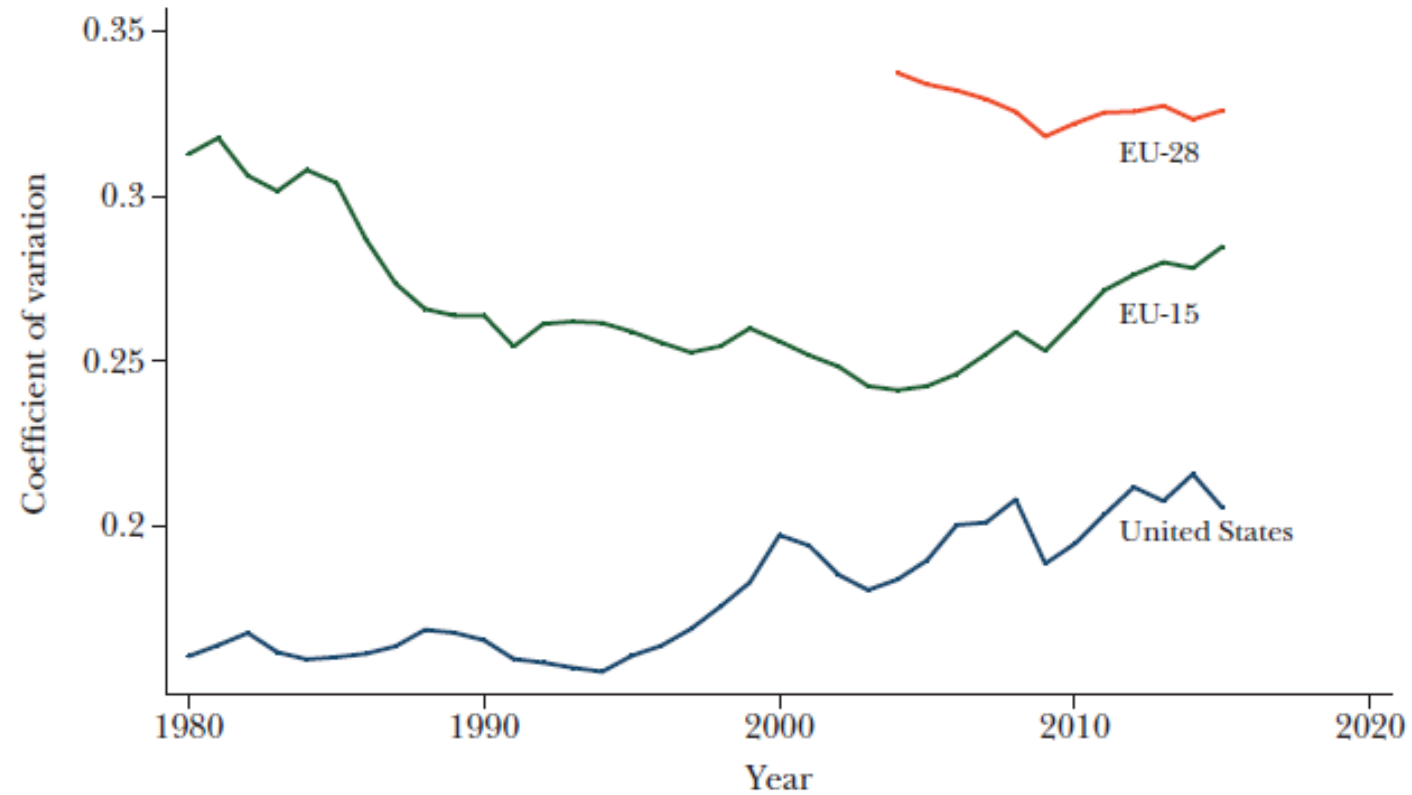
PGR05 – Place-based policy

WEEK 1

Davide Luca
2025
University of Cambridge

Figure 1

Coefficient of Variation of GDP Per Capita: EU-15, EU-28, and US Metros



(Source: von Ehrlich, Overman, 2020)

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

Trump will soon leave office. But the ingredients of homegrown fascism remain
Dale Maharidge

I've spent decades reporting on inequality in America. I'm terrified by the poverty I see - and the rage



▲ 'Tens of millions of the precariat were already living in a de-facto Great Depression before the pandemic, and many working-class jobs will not return in the short term - if ever.' Photograph: Mark Makela/Getty Images

(Source: <https://www.theguardian.com/commentisfree/2021/jan/08/trump-homegrown-fascism-inequality-poverty>)

SHOULD WE CARE ABOUT REGIONAL INEQUALITY?

WHAT ARE THE POLICY SOLUTIONS TO REDRESS IT?

DO THESE POLICIES WORK?

GOALS FOR TODAY

1. **Intro & housekeeping**
2. Quickly recap recent **trends of regional inequality**, connecting to PGR03
3. Explore the **economic efficiency rationales** behind implementing regional policy

1. INTRO & HOUSEKEEPING

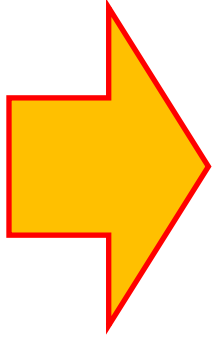
HOW IS THE COURSE STRUCTURED?

- **Block A.** WHY? Theoretical basis for regional development policy
 - Weeks 1, 2
- **Block B.** WHAT? An overview/evaluation of different tools available to policymakers
 - Weeks 3, 4, 5
- **Block C.** HOW? Implementing place-based policies 'on the ground'
 - Weeks 6, 7, 8

HOW IS THE COURSE STRUCTURED?

- **8 lectures**
- Lecture 5 is student-led. You will work in groups and prepare a 5-min verbal policy briefing. The most innovative presentation wins a lollypop
- **4 seminars**
- Digitalisation and firm survival during Covid-19 (Dr Sabine D'Costa, date week 3)
- Regional development in East Anglia (Bennett School research team, week 4)
- Writing a policy op-ed (Davide, week 6)
- Title tbc (Prof. Rodriguez-Pose, week 7)

A NOTE ON READINGS



Main readings:

*Kline P., Moretti E. (2014), People, places, and public policy. Some simple welfare economics of local economic development programs, *Annual Review of Economics*, 6: 629-662.

*Barca F., McCann F., Rodríguez-Pose A. (2012), The case for regional development intervention: place-based versus place-neutral approaches, *Journal of Regional Science*, 52(1), 134-152.

Iammarino S., Rodríguez-Pose A., Storper M. (2019), Regional inequality in Europe: evidence, theory, and policy implications, *Journal of Economic Geography*, 19, 273-298.

Chapple K., Montero S., Sosa O. (2012), Evolving Regionalismos: Latin American regions in the twenty-first century, *Regional Development Dialogue*, 33(1): iii-xv.

Di Cataldo M. (2017), The impact of EU Objective 1 funds on regional development: evidence from the UK and the prospect of Brexit, *Journal of Regional Science*, 57, pp. 814-839.

Becker S.O., Egger P.H., von Ehrlich M. (2013) Absorptive capacity and the growth and investment effects of regional transfers: a regression discontinuity design with heterogeneous treatment effects, *American Economic Journal: Economic Policy*, 5(4), pp. 29-77.

Most relevant

Least relevant

OPTIONAL

#107200335

THE TEXTBOOKS

- Fratesi, U. (2023). *Regional Policy. Theory and Practice*, 1st edition, London: Routledge.
- Martin, R. Gardiner, B., Pike, A., Sunley, P. and Tyler, P. (2021). *Levelling up left behind places: The scale and nature of the economic and policy challenge*. London: Routledge.
- Beer, A., McKenzie, F., Blazek, J., Sotarauta, M. and Ayres, S. (2020) *Every place matters: Towards effective place-based policy*, London: Routledge.
- Collier, P. (2024) *Left behind: A new economics for neglected places*. London: Allen Lane.
- Pike A., Tomaney J., Rodríguez-Pose, A. (2017), *Local and regional* 2nd edition, London: Routledge.



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HOW WILL I BE ASSESSED?

- 4.000-word assignment
- You will have to choose one question out of 3 options
- **Details to be released on Friday 24 April noon**
- **Essay due on Friday 1 May noon**



Questions

2022-23 EXAM

1. The leader of You Keep It – an anti-establishment political party of the United Parallel Kingdom (UPK) – has decided to focus a key section of the new party manifesto on actions to reduce regional inequality. After attending a seminar by Professor R. Chetty, she has become concerned about the growing spatial inequality of opportunities existing in her country. Besides, she believes that focusing on such territorial inequalities might be strategically advantageous for the electoral fortune of her anti-establishment party. Prepare a written report for her: (1) discussing whether there is reason to believe that addressing voters in left-behind regions may pay off electorally; (2) proposing a viable set of policy proposals that could redress the regional divergence in jobs and incomes observed across the UPK. While based in a parallel universe, the UPK has a very similar economic structure and policy history to the United Kingdom.
2. The Parliament of your country is considering passing a bill titled 'Addressing Regional Divergence', which intends to reduce the geographical socioeconomic inequalities of your country. It has set up a parliamentary commission and published a call for written evidence on the following topic: 'Place-based policies: what works and what does not'. All citizens can submit their written views. Preparing your 4000-word report, follow the style and structure used to submit evidence to the UK House of Commons (<https://www.parliament.uk/globalassets/documents/commons-committees/witnessguide.pdf>). While the report needs to be evidence-based and include bibliographic references, try to use an accessible language that can be understood by politicians and general policy-makers.
3. You work for your national Ministry for Territorial Cohesion and Place-based Policies. Focus on EITHER special economic zones OR measures to foster Research & Development (R&D) in targeted regions. Conduct a literature review on your chosen policy, and write an essay explaining the potential benefits of the policy tool, its potential pitfalls, and the empirical evidence about its effectiveness in boosting local economic dynamism. Compare your selected policy with other tools commonly used in place-based policymaking.

All past exams:

<https://universityofcambridgecloud.sharepoint.com/sites/LE/le-intranet/Examination%20Scripts/Forms/AllItems.aspx>

ANY QUESTIONS?



2. RECENT TRENDS OF REGIONAL INEQUALITY

RISE OF SUBNATIONAL SPATIAL INEQUALITY

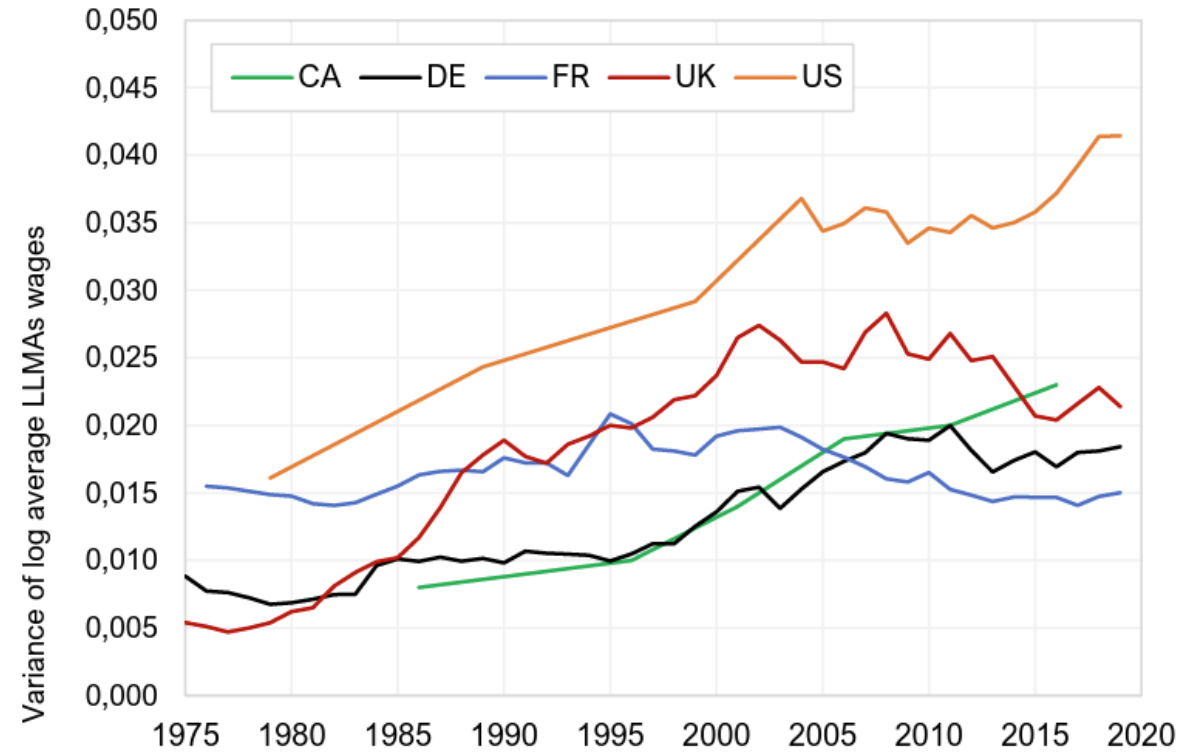


Figure 5: LLMA wage inequality, variance of log mean wage 1975-2019

Note: Full-time workers, 20 +, weekly/daily earnings. Source: CA: CCP; DE: SLAB; FR: DADS; UK: NES/ASHE

(Source: Bauluz et al 2023)

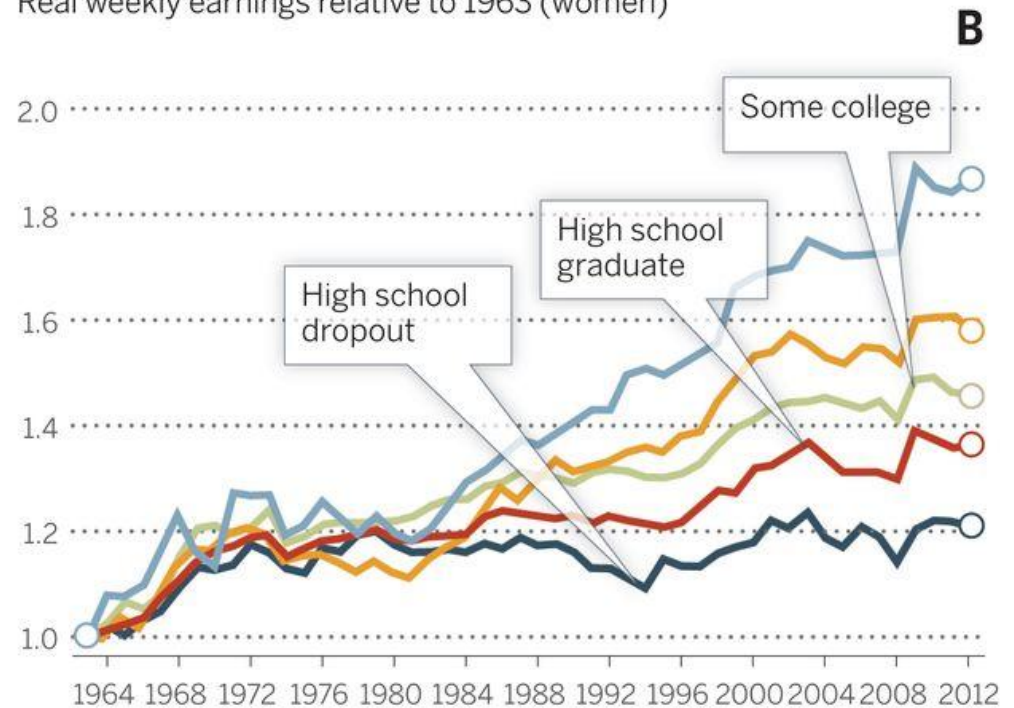
SPATIAL INEQUALITY MIRRORS INTERPERSONAL INEQUALITY

Changes in real wage levels of full-time U.S. workers by sex and education, 1963–2012

Real weekly earnings relative to 1963 (men)



Real weekly earnings relative to 1963 (women)



(Source: Autor, 2014)

RISE OF SUBNATIONAL SPATIAL INEQUALITY

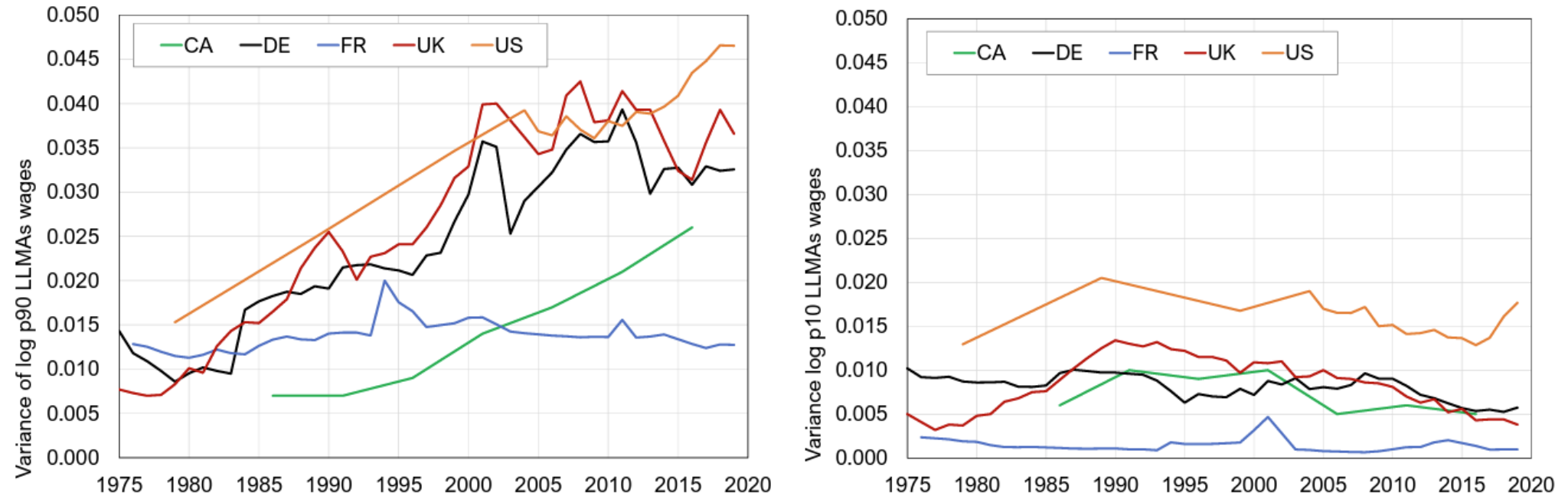


Figure 6: LLMA wage inequality, variance of log p90 (LHS) and log p10 wage (RHS) 1975-2019

Note: Full-time workers, 20 +, weekly/daily earnings. Source: CA: CCP; DE: SIAB; FR: DADS; UK: NES/ASHE

(Source: Bauluz et al 2023)

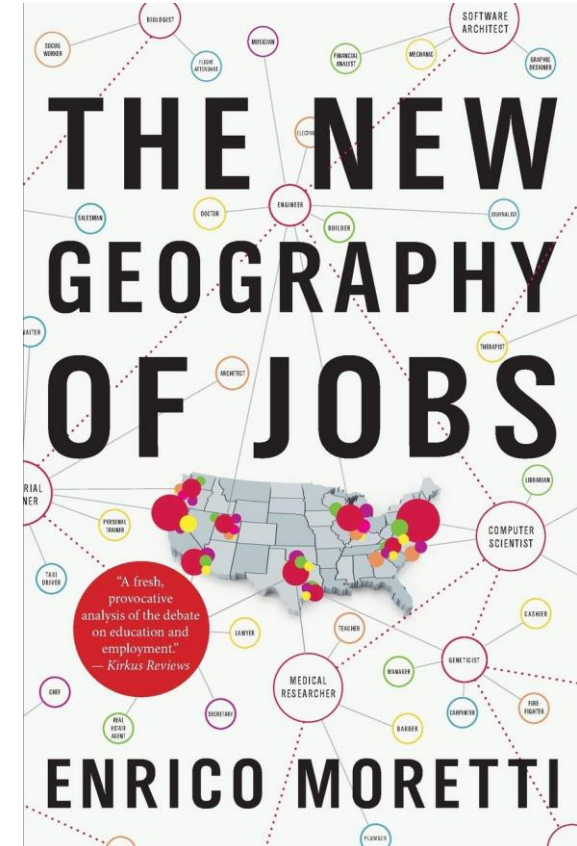
WHY HAS INEQUALITY GROWN SO MUCH?

We will discuss 3 potential explanations:

- Technological change and automation
- Globalisation and trade
- Institutions (declining power of unions, decline in industrial policies, etc.)

1. TECHNOLOGICAL CHANGE: THE 'NEW GEOGRAPHY OF JOBS'

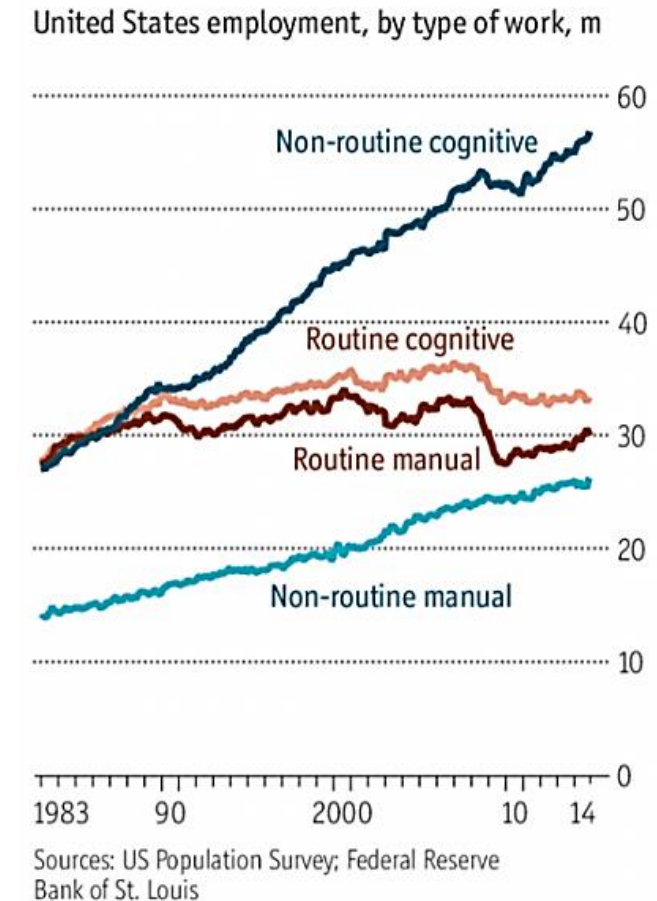
- Shift to knowledge economy,
- which favours high-skill jobs (Moretti, 2012),
- and their concentration in a few core urban regions



THE KNOWLEDGE ECONOMY AND ITS SKILL BIAS: THE US (1970-2007)

The '**knowledge-economy**':

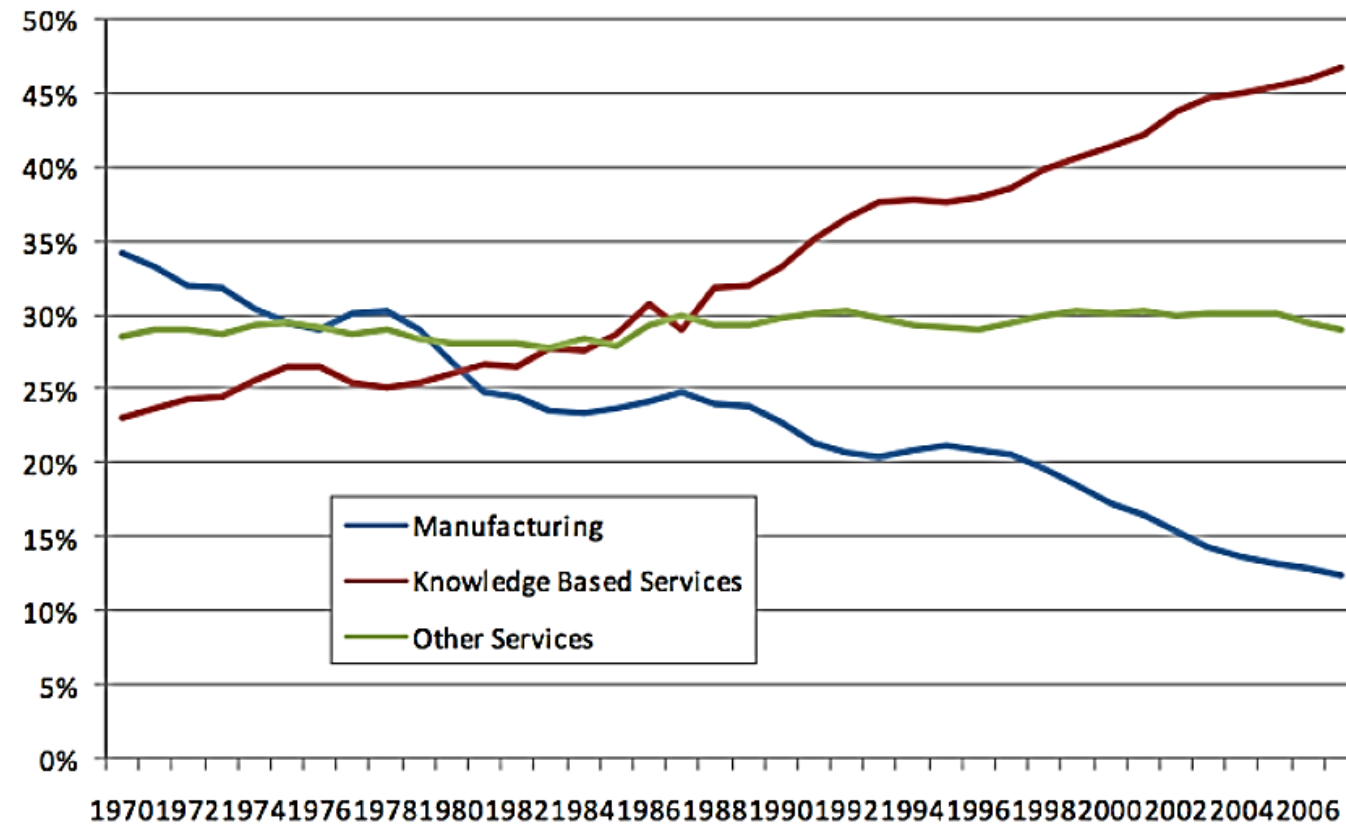
- Automation and globalisation of production
- Value increasingly stemming from creation/dissemination of knowledge
- Decline of routine jobs, and growth of non-routine low/high skills



(Source: The Economist, 25 June 2016)

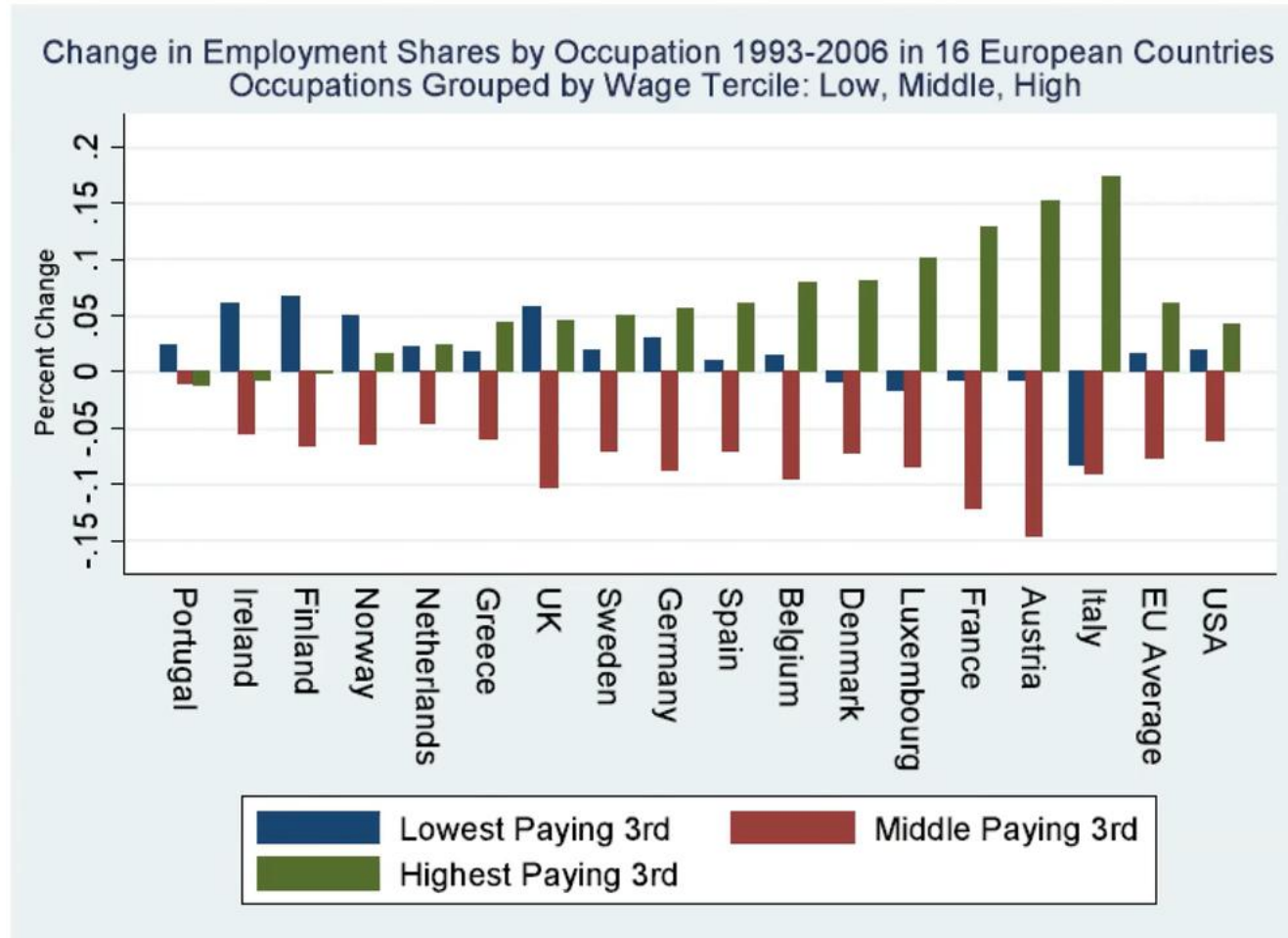
THE KNOWLEDGE ECONOMY AND ITS SKILL BIAS: THE UK

Skill bias in the knowledge economy: the UK (1970-2007)



(Source: Brinkley, 2012)

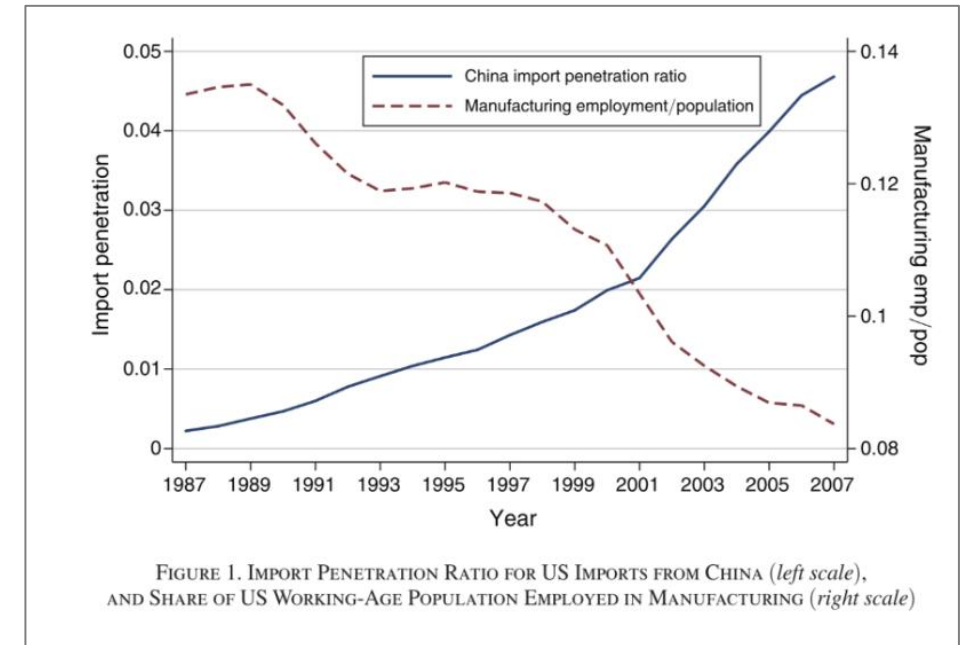
A POLARISATION OF LABOUR MARKETS?



Across many post-industrial countries, routine, middle-paying jobs are shrinking

(Source: Acemoglu, Restrepo, 2019)

2. A SHIFTING GLOBAL ECONOMIC GEOGRAPHY



(Source: Autor, Dorn, Hanson, 2013)

Globalisation has entailed a massive shift in the economic geography of the world

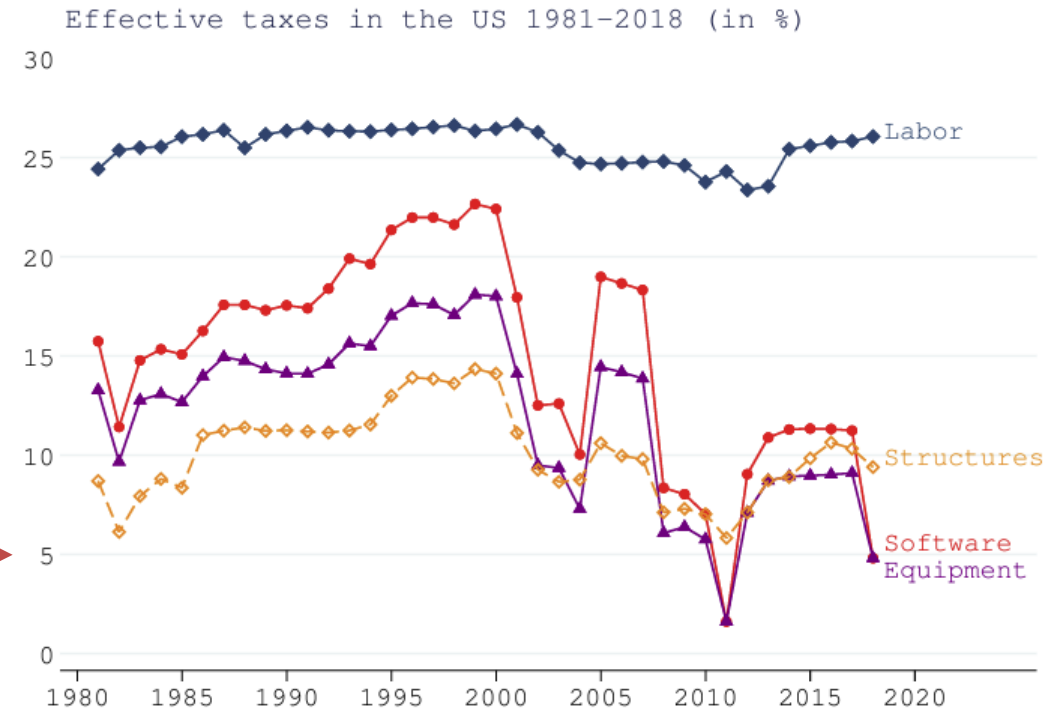
3. INSTITUTIONS

Market factors:

- Technological change
- Global competition

Institutional factors:

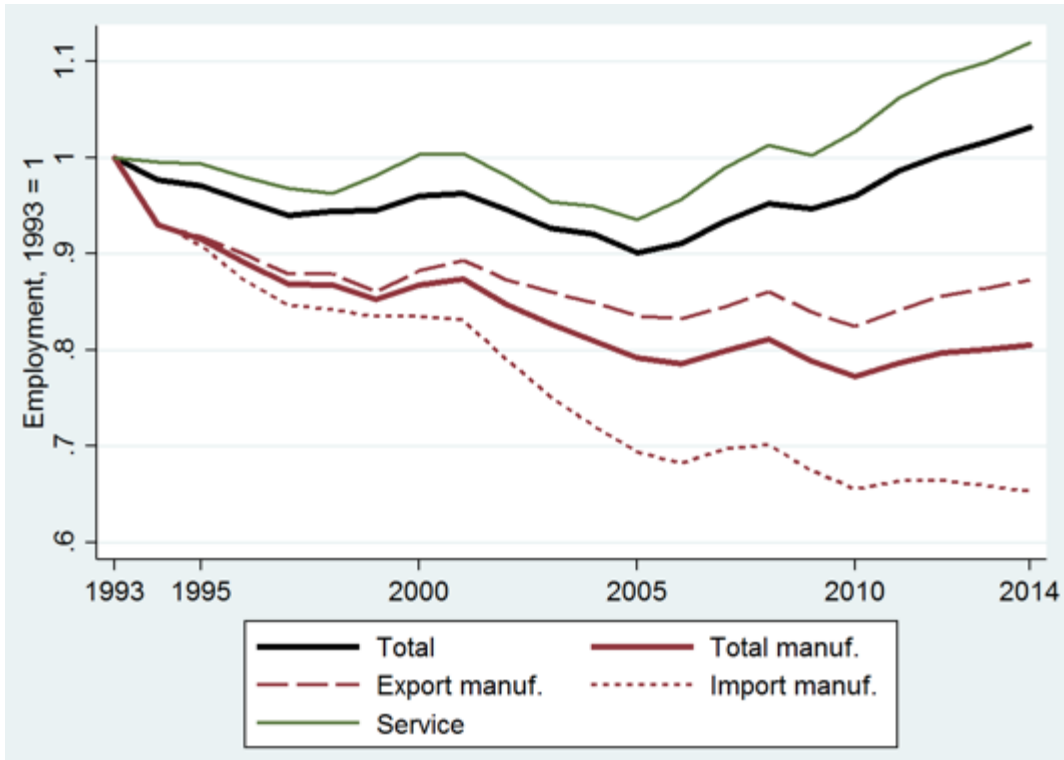
- **Dismantlement of workers power**
- **Subsidies to capital** →
- **Declining industrial policies**



(Source: Acemoglu, Restrepo, 2019)

AN EXAMPLE: MANUFACTURING IN GERMANY

GERMANY (1993-2014)



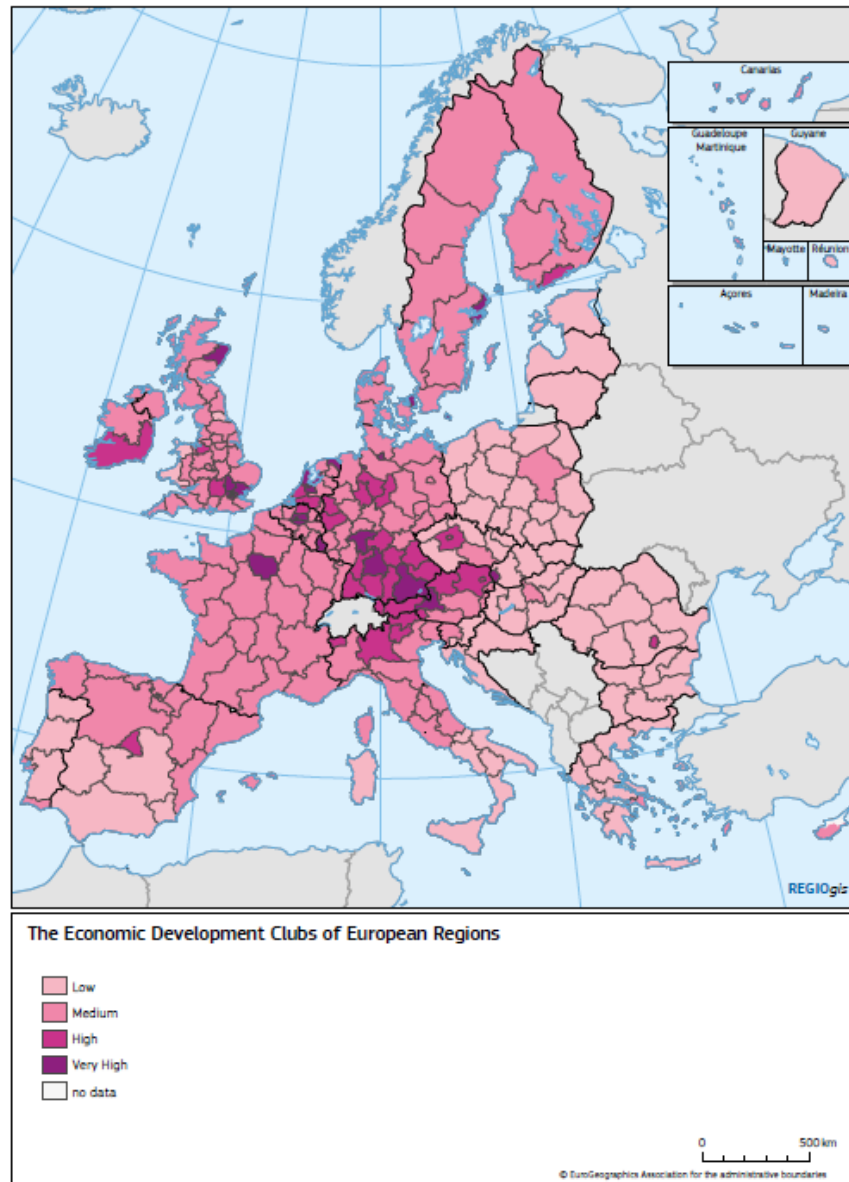
Like the UK, Germany also witnessed a decline in low-skill manufacturing jobs due to globalisation (competition from low-income countries)

However, jobs in knowledge-intensive, export-oriented manufacturing has been more resilient

This is because **the german government has invested in industrial policies**

(Source: Dauth et al., 2017)

THESE JOB MARKET TRENDS ARE REFLECTED IN A SPECIFIC GEOGRAPHY



Europe's 'economic development clubs':

Core regions, often the largest cities, are growing in economic terms and are attracting population.

(Source: Iammarino et al., 2019)

'MOUNTAINS IN A FLAT WORLD'

Countries' economies are converging, but cities and regions are diverging:

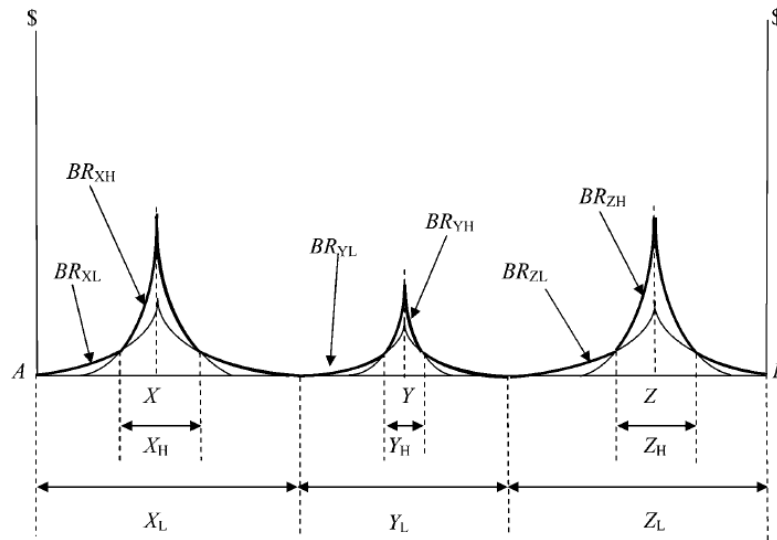


Figure 1. *A three city one-dimensional economic geography.*

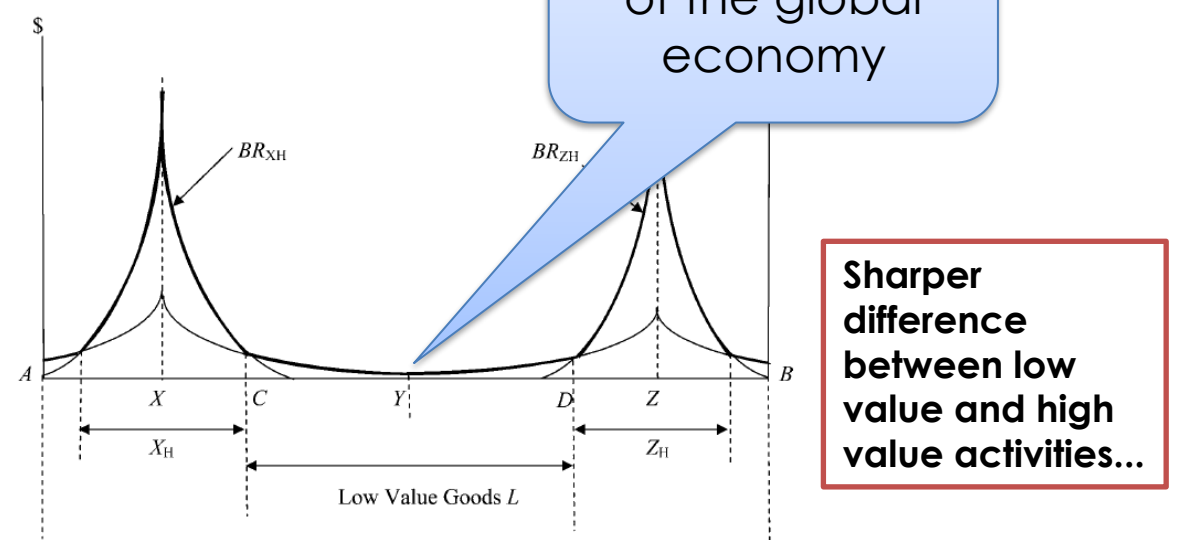


Figure 2. *Globalization, localization and economic geography.*

(Source: McCann, 2008)

REGIONAL DIVERGENCE IS ON THE RISE AGAIN

Divergence (left) across European regions is closely linked to the decline of formerly middle-income industrial areas (right)

Figure 1 Distribution of GDP and population across 173 European regions, 1900-2010

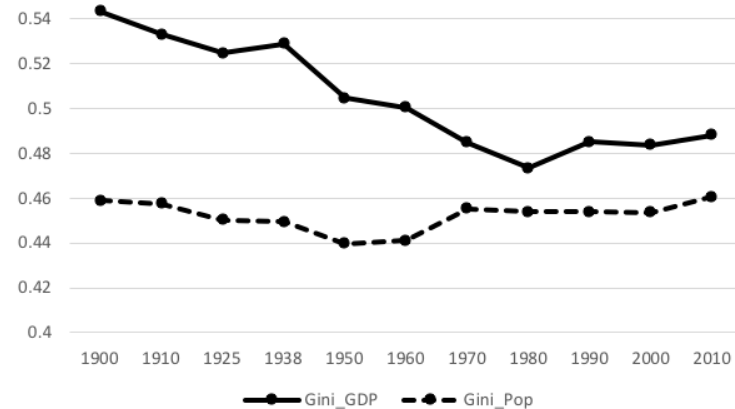


Figure 2b Regional income distribution, 1980 and 2010



Source: Rosés and Wolf (2018).

GERMANY

Relative employment growth, 1993-2019



Relative employment growth, 1993-2019, distinguishing by:

- 'low-skill jobs (Q1) vs high-skill jobs' (Q5)
- dominant cities, towns, rural areas

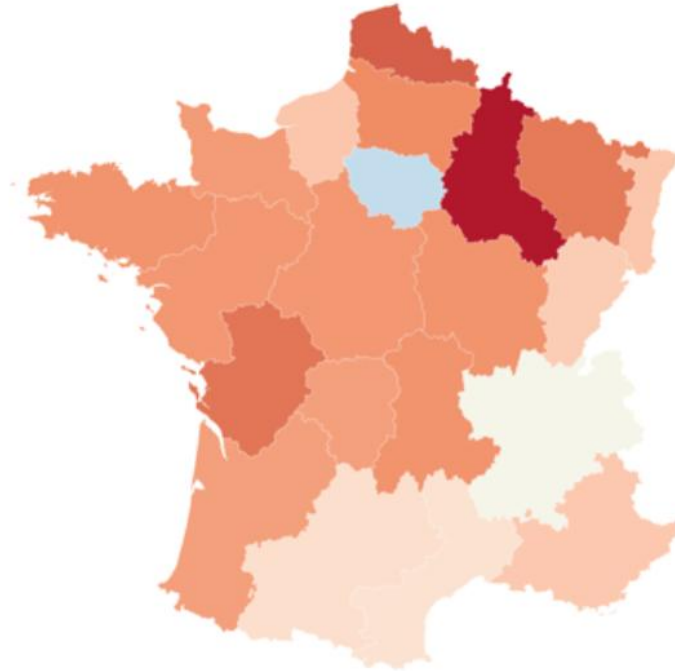
High skills jobs are growing everywhere, but primarily in core cities

(Source: Westenberger, 2023)

FRANCE

France 1992

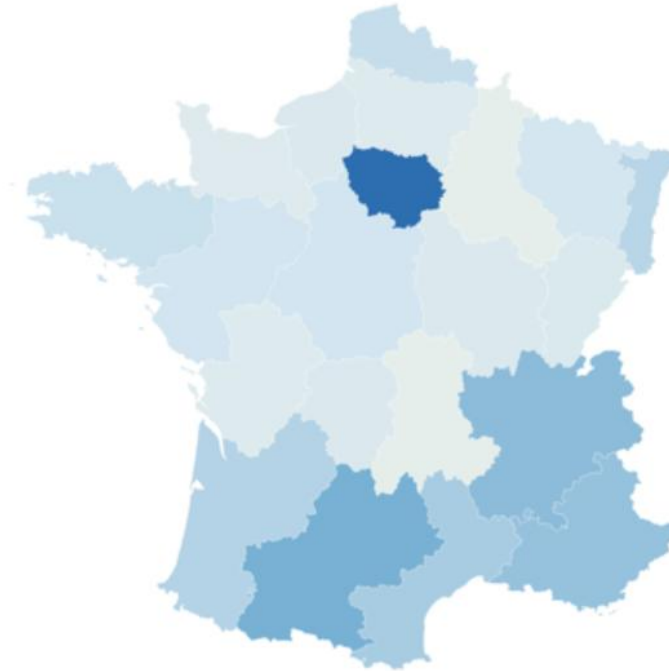
Quintile 5 employment
13.6 20 44.9



Created with Datavrapper

France 2018

Quintile 5 employment
13.6 20 44.9



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Relative employment growth, 1992-2018, distinguishing by 'low-skill vs high-skill jobs' (Q1 to Q5)

As in Germany:

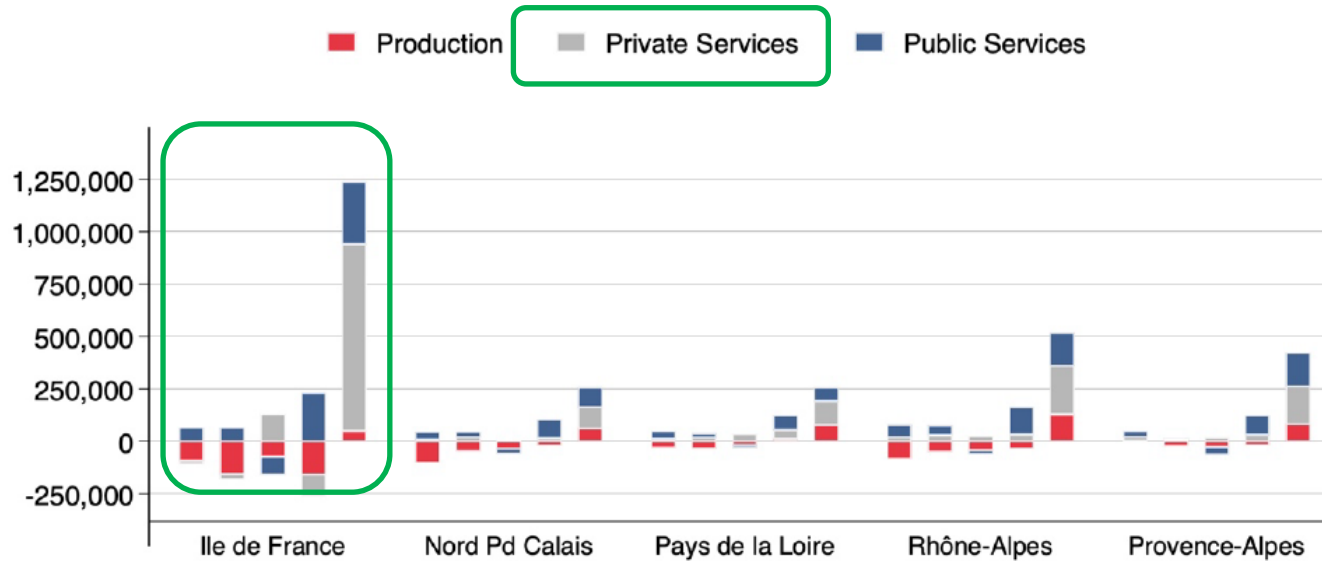
All regions experience growth in Q5 employment

But 'upgrading' is much faster in core urban areas

(Source: Morris & Oesch, 2023)

FRANCE

Figure 5: Absolute employment change across job skill quintiles in large regions by sector, 1992 – 2018



Faster employment growth in the Paris area (Ile-de-France) is **primarily linked to private, high-skill services**

(Source: Morris & Oesch, 2023)

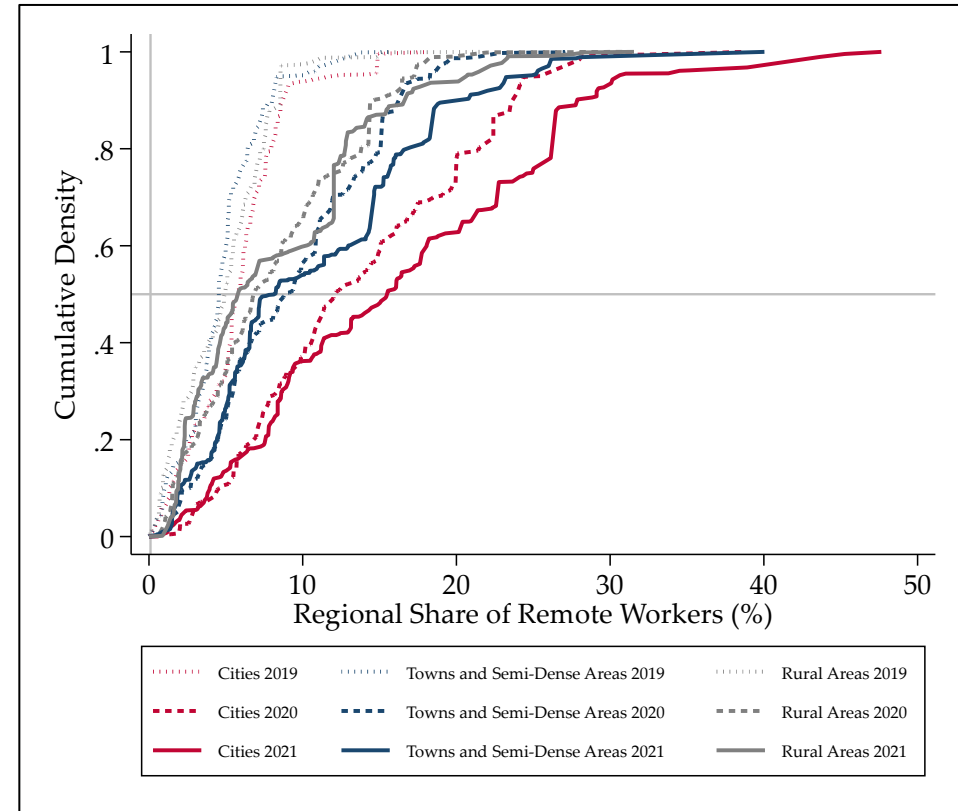
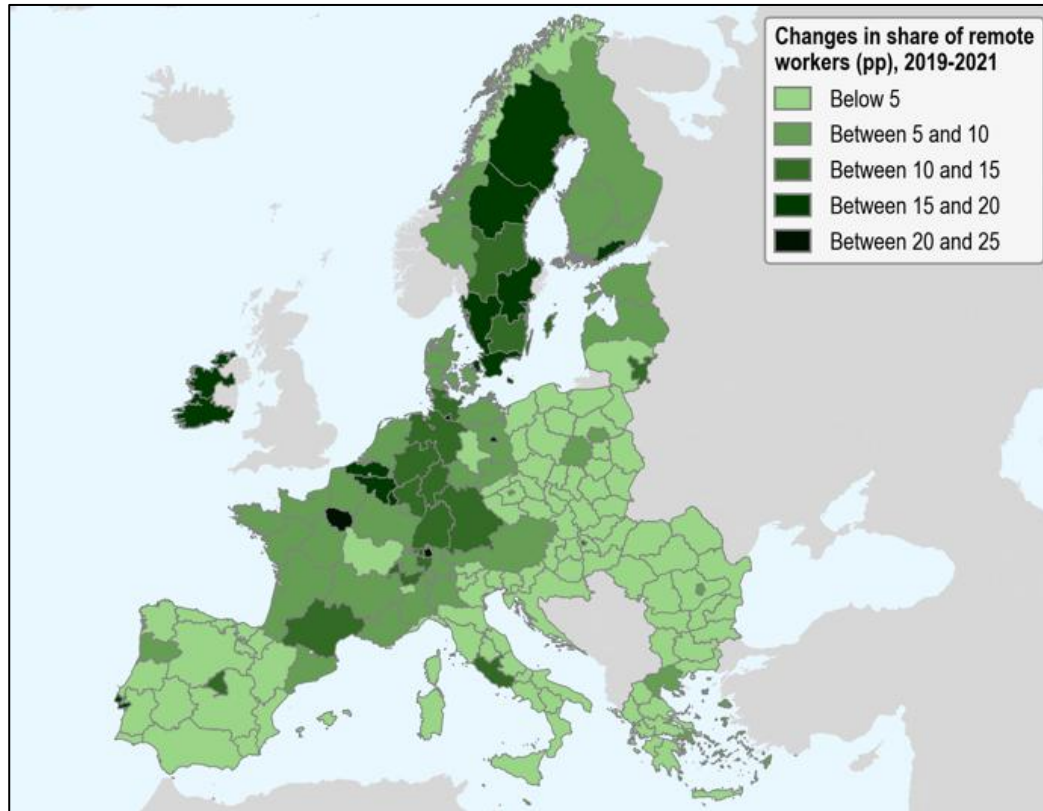
HAS THE PANDEMIC ALTERED THESE AGGLOMERATION TRENDS?

- **Some claim that Covid-19 has dramatically altered trends of agglomeration, as people may be leaving cities to move to previously peripheral or rural areas**
- E.g. Remote work may affect the geography of jobs, and long-term patterns of regional inequality



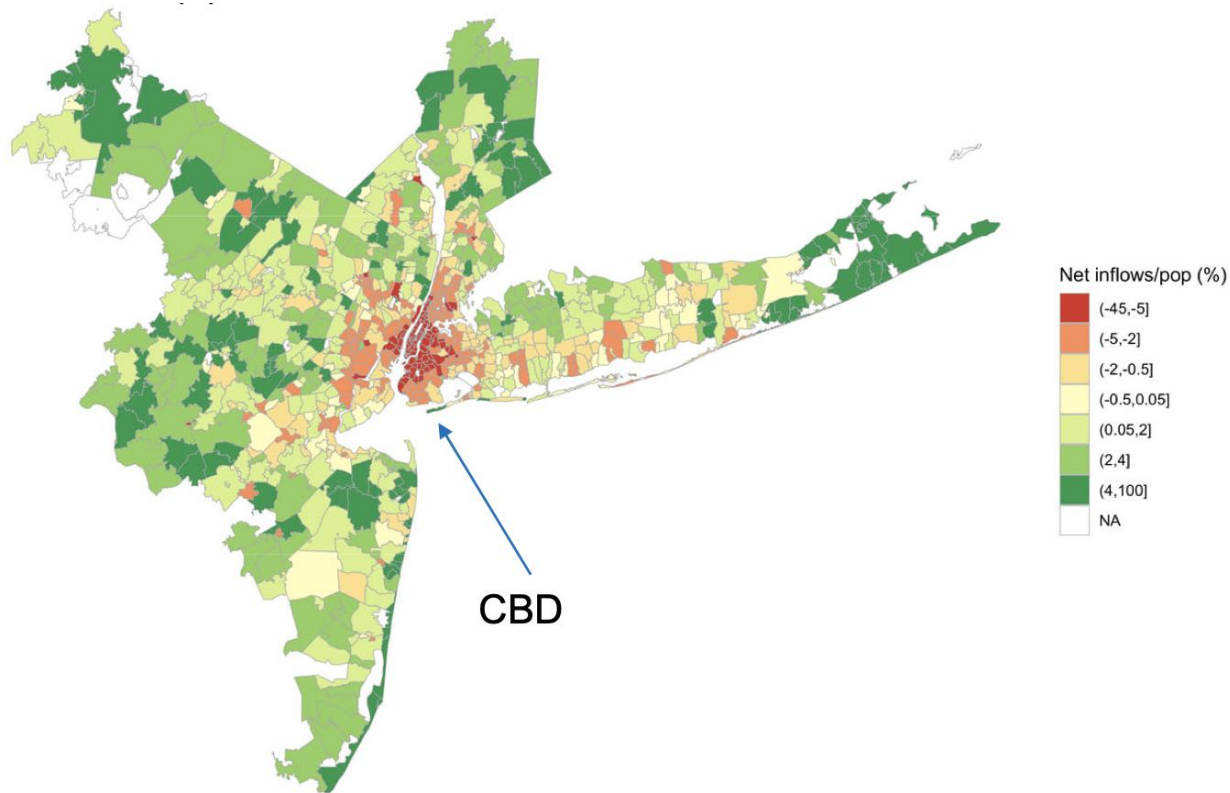
IN EUROPE?

Remote work has been primarily taken up in cites, not elsewhere



(Source: Luca et al., 2023)

THE NEW GEOGRAPHY OF JOBS: DOUGHNUTS...



- **Working from home, and the pandemic more generally, has not caused cities/agglomerations to decline**
- **'doughnut effect'** (Ramani, Bloom, 2021)
- People flow from city centre to the suburbs, but not to peripheral or rural areas

(Source: Ramani and Bloom, 2021)

... AND SHADOWS

- **WFH is actually leading to shadows of large cities over medium-sized cities**
- **Smaller cities become 'consumption cities'**: they attract more higher skilled workers on higher jobs, but production moves out towards largest cities
- **Differences between US and European countries**
 - Shadow effects become visible in densely populated countries
 - In Europe all land has been developed, while in the US MSA have empty land around them. Plus, land supply elasticity in the US is much higher both because of land availability and planning

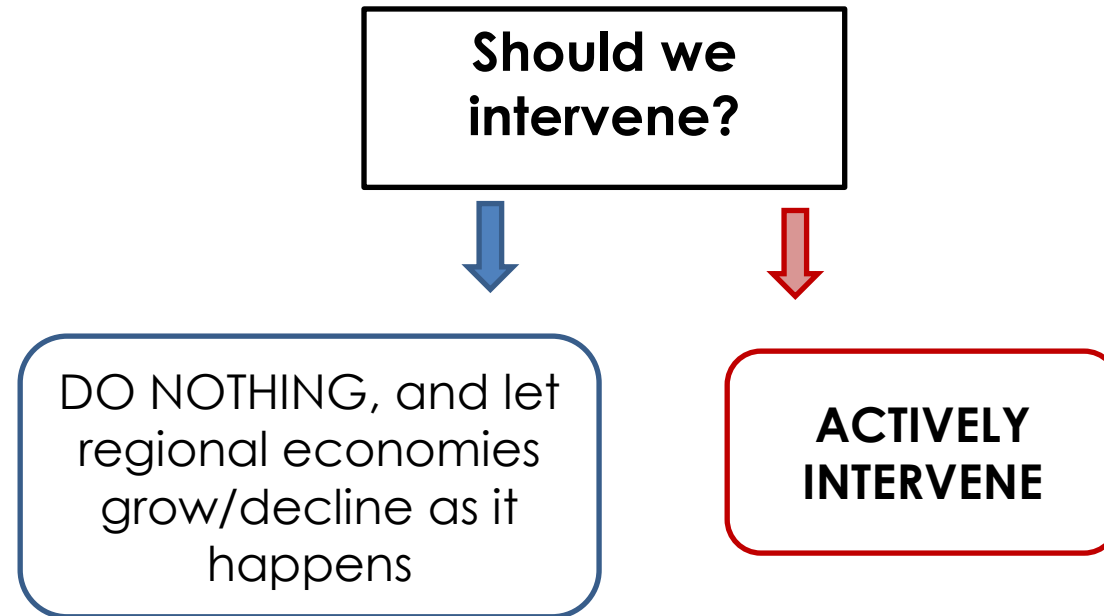
ANY QUESTIONS?



5 MINS BREAK!



SHOULD WE INTERVENE?

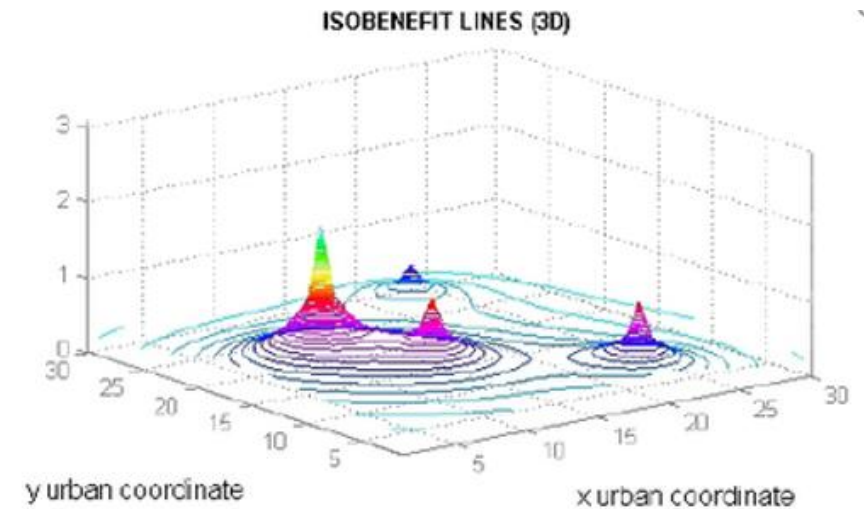


3. SHOULD WE IMPLEMENT PLACE-BASED POLICIES AIMED AT REDUCING REGIONAL INEQUALITY?

THE ECONOMIC RATIONALES

SPATIAL EQUILIBRIUM MODELS

- **The argument: there's 'no need for regional development policies, because spatial markets are already efficient (i.e. tend to equilibrium)'**
- 'In equilibrium, firms/individuals will move and, at the end, equalise their utilities across space'
- 'Differences in income that we observe across space are linked to preferences for amenities' (i.e. for where we want to live)



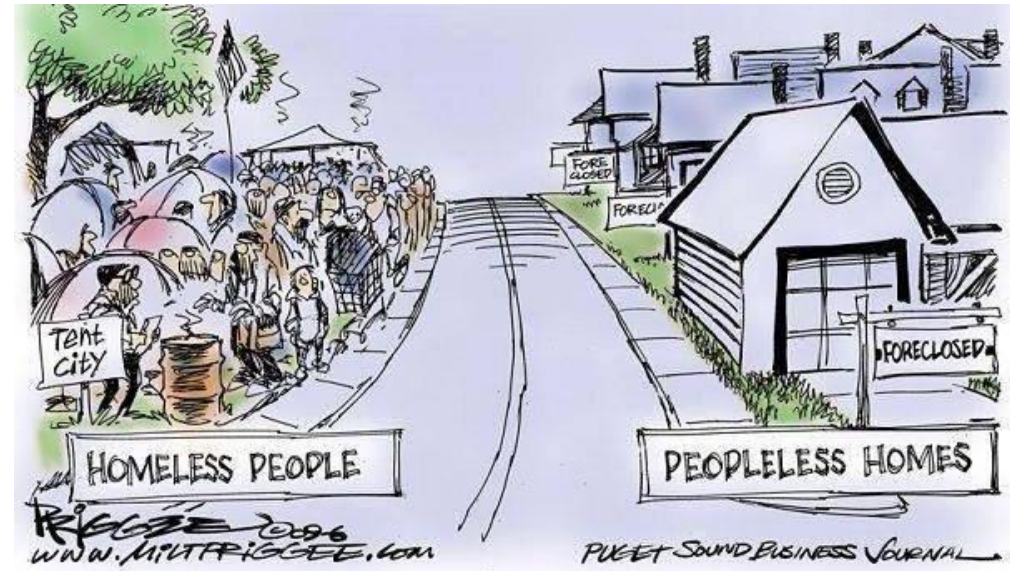
(Source: Partidge et al., 2015)

Note: spatial equilibrium (SE) models of regional economies assume perfectly competitive labour and land markets and perfectly mobile factors of production

SPATIAL EQUILIBRIUM FAILURES

SHOCK, HORROR!

MARKETS DO FAIL



Markets fail when they do not achieve an efficient allocation of resources, i.e. it is possible to achieve further welfare-enhancing improvements

4 BROAD CLASSES OF LOCALISED MARKET FAILURES

- **Insufficient provision of public goods**
 - (e.g. roads) and public amenities (e.g. safety)

- **Lack of agglomeration economies**

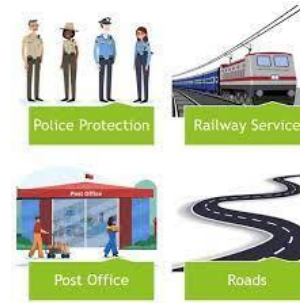
- Multiple equilibria can arise, and policy intervention can be efficient by helping shift to a better equilibrium
- A large-enough temporary intervention can have positive permanent effects on a local economy

- **Labour market rigidities and other policy distortions**

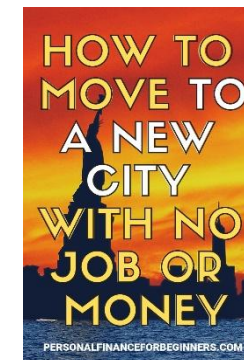
- Labour market institutions and rigidities may keep regional unemployment involuntarily high

- **Workers' credit constraints**

- Workers with resource constraints may not have resources to move where jobs are



If there are spatial equilibrium failures and policy can fix them, then there's room for government intervention



(Kline, Moretti, 2014)

ECONOMIC RATIONALES FOR INTERVENTION: CAVEATS

Not all scholars agree on the idea that there are economic rationales for place-based policies

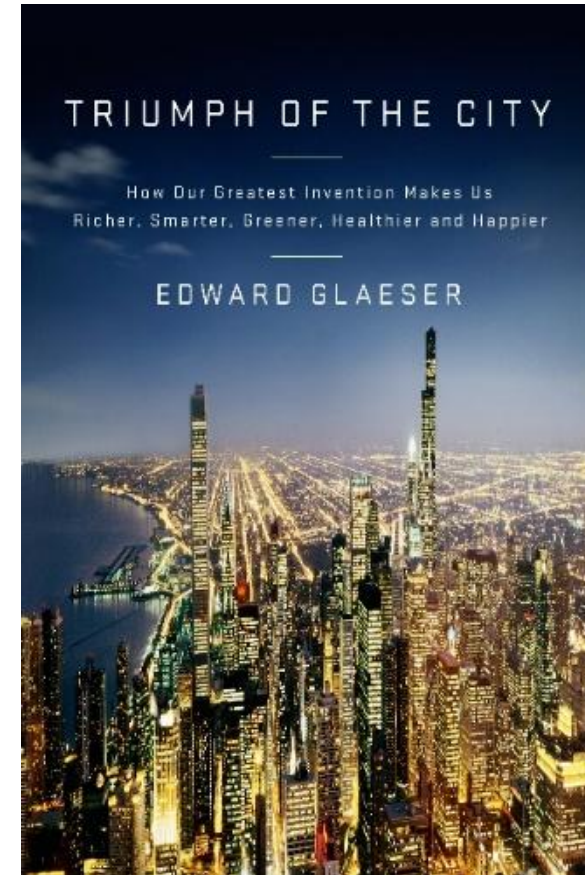
2 main types of critiques

- **Neoclassical economics:** no room for government action
- **'Agglomeration economics':** regional inequality as the price to pay for national efficiency



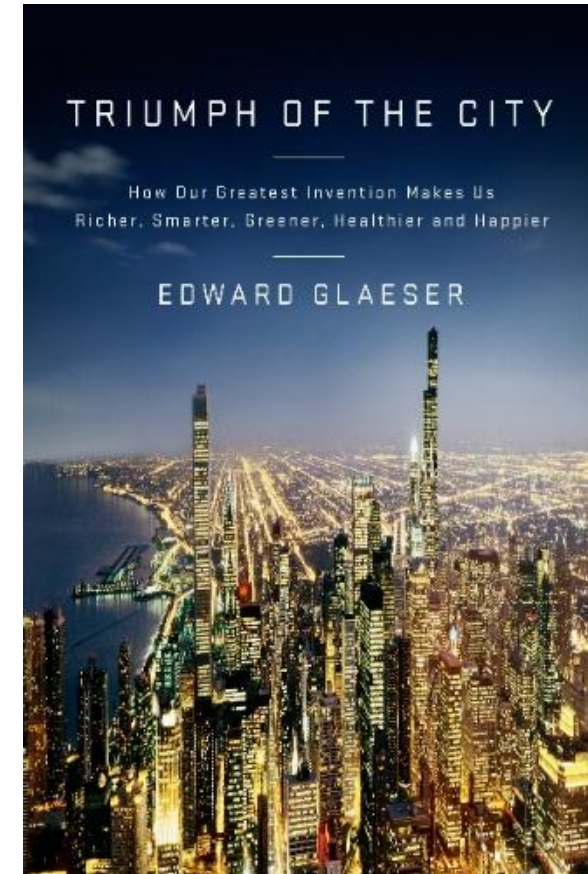
'AGGLOMERATION ECONOMICS'

- Agglomeration effects lie behind the economic dynamism of large cities and regions
- NEG economists: **regional inequality 'as the price to pay' for economy-wide productivity maximisation**
- Argument: better national economic gains will 'trickle down' to less-favoured regions
 - Knowledge spillovers from cores to lagging areas
 - Migration from poor regions to cores ones



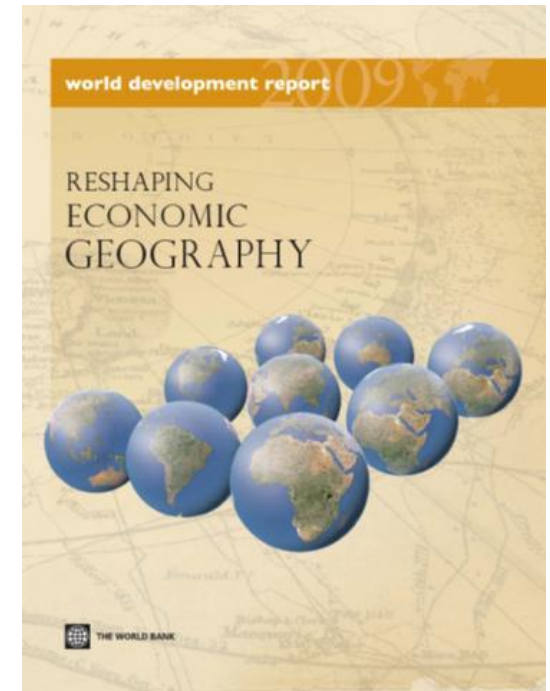
THE ARGUMENT: "THERE'S A TRADE-OFF BETWEEN EFFICIENCY AND EQUITY"

- **“Any place-based policy that attempts to redress regional inequality i.e. counters agglomeration, will be inefficient”**
- Glaeser (2011): move people to core cities.
“Urban density provides the clearest path from poverty to prosperity”
- Overman, Midelfart-Knarvit (2002): policies going against agglomeration forces e.g., place-based ones are inefficient or, worse, ineffective



World Development Report 2009

- Policies "should integrate [i.e. connect] lagging with leading areas
- In lagging areas, emphasize investment in people that stimulate mobility [**i.e. let people move to core centres**]
- The answer is to invest in activities that produce the highest economic and social returns **nationally**" (WDR, p. 231)



World Development Report 2009



A CRITIQUE OF THE TRADE-OFF THINKING



Two main critiques:

- "Weak theoretical foundations" (Martin, 1999)
- Mixed empirical evidence

A CRITIQUE OF THE TRADE-OFF THINKING

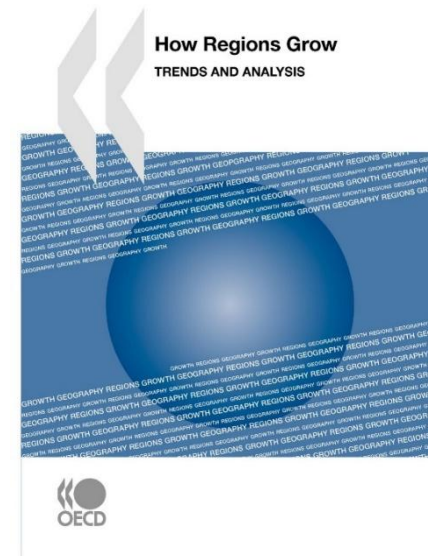
Two key policy reports:

- EU (2009), 'Barca Report'
- OECD (2009), How regions grow

AN AGENDA FOR A REFORMED COHESION POLICY

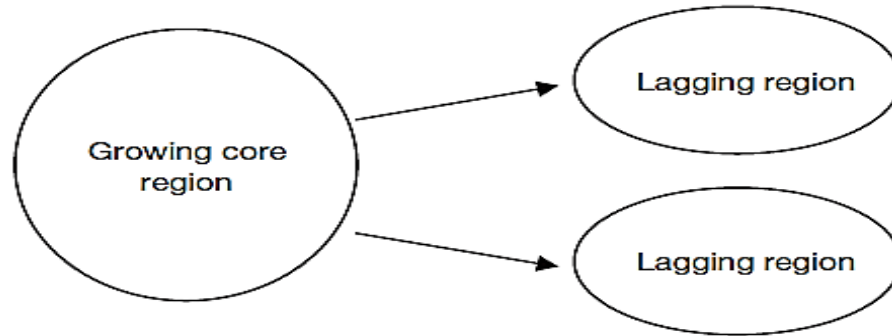
*Independent Report prepared at the request of
Danuta Hübner, Commissioner for Regional Policy*

by Fabrizio Barca

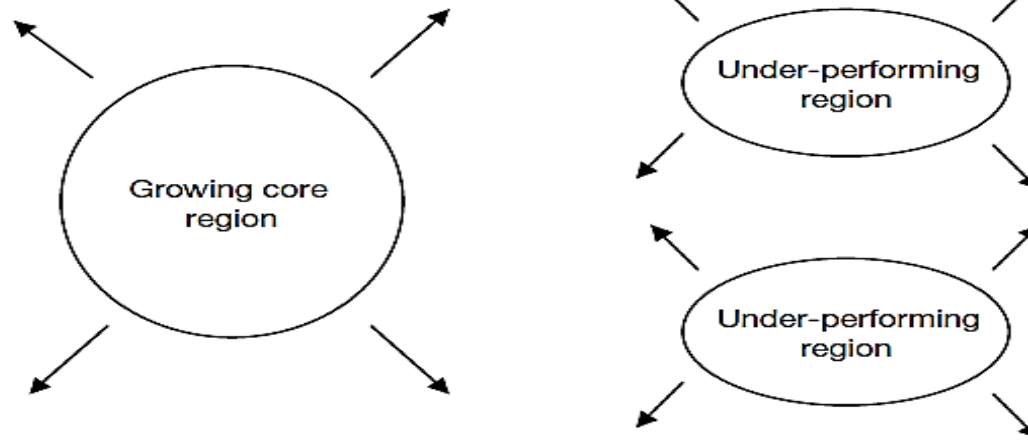


ALL PLACES HAVE UNEXPLOITED POTENTIAL

The donor-recipient model

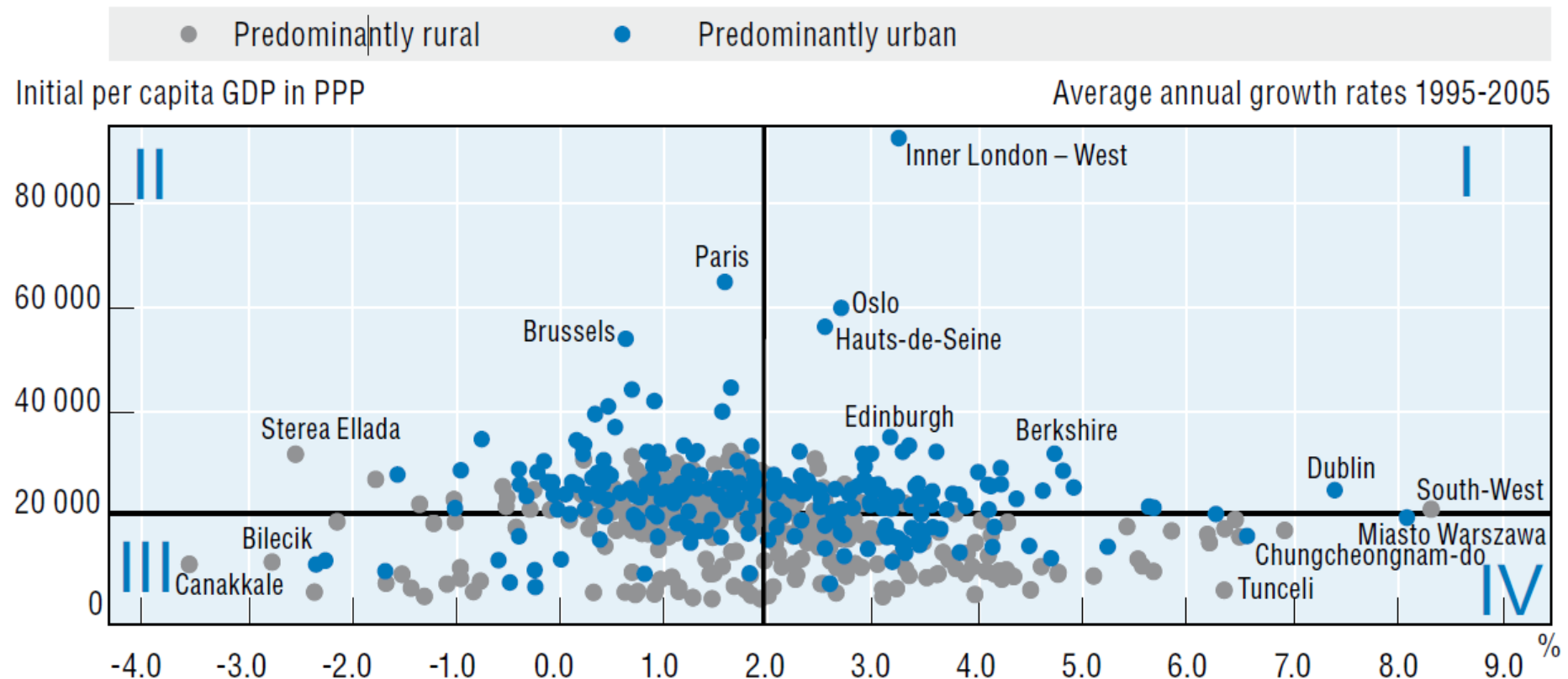


The growth-oriented model



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

MIXED EMPIRICAL EVIDENCE: CITY SIZE AND GROWTH



(Source: OECD, 2009)

MIXED EMPIRICAL EVIDENCE: THE UK

- **NEG frameworks assume that larger cities are more productive. Is this true all the time, everywhere?**
- <https://economy2030.resolutionfoundation.org/reports/a-tale-of-two-cities-part-1/>
- <https://economy2030.resolutionfoundation.org/reports/a-tale-of-two-cities-part-2/>
- Skim through the reports. What do you take away about the question above?

TRENDS OF REGIONAL INEQUALITY AROUND THE WORLD: A CAVEAT

- There is a caveat to the narrative I have told you so far
- **Not all countries experience the same patterns of regional divergence**
- These patterns are **distinct at different levels of development**



TRENDS OF REGIONAL INEQUALITY AROUND THE WORLD: A CAVEAT

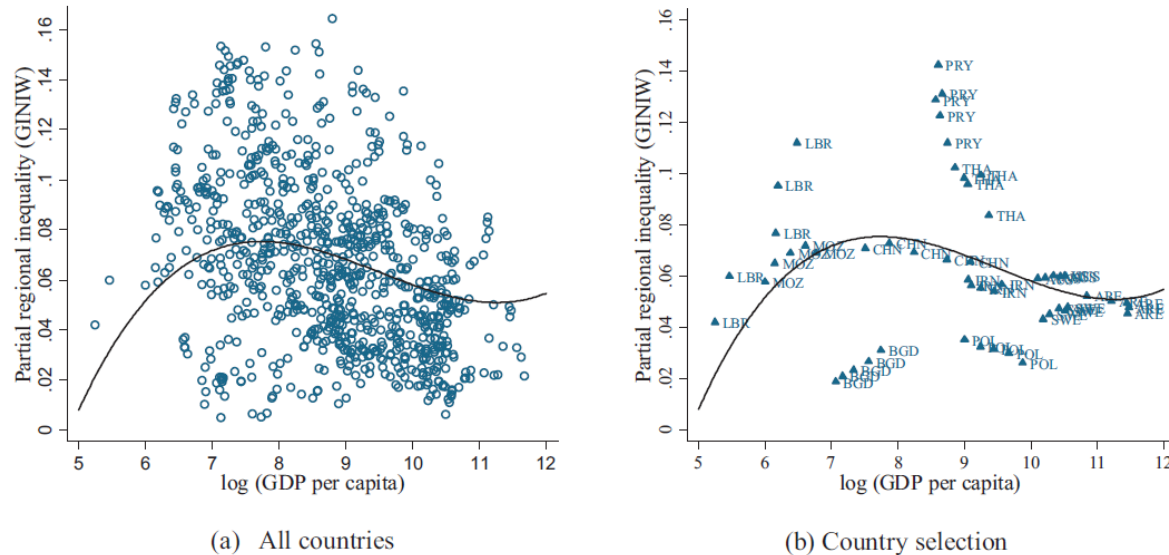


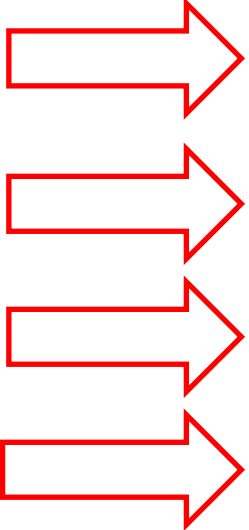
Fig. 4. Regional inequality and development Adjusted spatial inequality versus log observed GDP per capita at the national level. The points in the graph are partial residuals for spatial inequality; the inequality measure has been adjusted for the effects of the other explanatory variables in the model as specified in column (3) Table 3. The plot represents the N-shaped relationship between economic development and regional inequality. (a) All countries (b) Country selection.

- **N-shaped relationship between countries' level of economic growth and regional inequality**
- Very poor countries: high reg inequality
- Middle income countries: convergence
- High-income countries: divergence

(Source: Lessman, Seidel, 2017)

TO CONCLUDE

4 broad classes of market failures justifying place-based policies:

- 
- **Insufficient provision of public goods** (e.g. roads and public amenities)
 - **Agglomeration economies**
 - **Labour market rigidities** (also called spatial mismatches)
 - **Workers' credit constraints**

(Kline, Moretti, 2014)

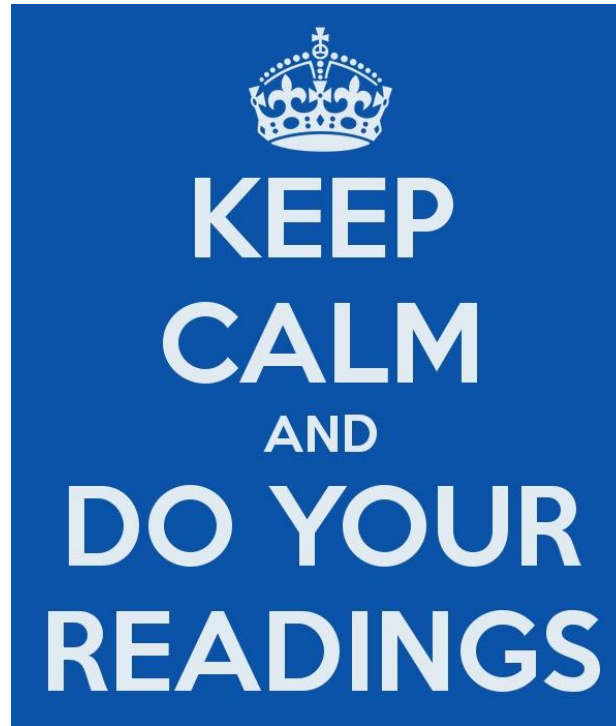


**THESE ARE KEY TO
JUSTIFY PLACE-BASED
POLICIES!**

TO CONCLUDE

- **Most theories suggest that market forces lead to the concentration of economic activities in core regions**, at the expense of peripheral ones
- **This leads to spatial equilibrium failures.** If spatial equilibria fail, regional development policies CAN BE efficient and hence useful
- The key issue is... HOW?

SEE YOU NEXT WEEK



References cited in the slides

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