

theory of local development

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outline

economic development (Blakely and Leigh, 2009, ch3)

national policies Blakely and Leigh (2009, ch. 2)

- BLAKELY, E. AND N. LEIGH (2009): Planning local economic development: Theory and practice, Sage Publications, Inc.
- GREEN, G. AND A. HAINES (2012): Asset building & community development, Sage Publications, Incorporated.
- LINDBECK, A. (1997): "The swedish experiment," Journal of Economic Literature, 35, 1273–1319.
- PIKETTY, T., E. SAEZ, AND S. STANTCHEVA (2011): "Optimal taxation of top labor incomes: A tale of three elasticities," Tech. rep., National Bureau of Economic Research.

problems with economics

◇ the soft(social) side of development...

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national policies Blakely and Leigh (2009, ch. 2)

growth vs development

- ◇ economic growth is about increasing the tax base and creating jobs
- ◇ growth is not the same as development
- ◇ focusing solely on growth results in inequality and pollution
- ◇ pursuing only economic growth can eventually bring an economy to a halt and regardless of things like social justice, etc can be harmful to growth itself
e.g. through the depletion of timber and coal
- ◇ also big economic inequality can destabilize economy and society leading to clashes and violence

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development > growth

- ◇ economic development is a broader concept than economic growth
 - ◇ growth: increase output, jobs, tax base
 - ◇ development:
 - min standard of living for all, and increase it over time
 - reduce inequality
 - promote sustainable resource use and production
- (Blakely and Leigh, 2009, p75)

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definition (?, p 75)

- ◇ “local economic development is achieved when a community’s standard of living can be preserved and increased through a process of human and physical development that is based on principles of equity and sustainability”
- ◇ “First, economic development establishes a minimum standard of living for all and increases the standard over time”
like Jeremy Bentham’s “the greatest happiness for the greatest number”

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definition, cont'd

- ◇ “Second, economic development reduces inequality”
(hmmm... in all cases?...why would you reduce inequality say in Sweden?)
- per recent report in The Economist, Sweden is successful because it decreased regulation, increased competitiveness and inequality
(on the other hand, in the human history, we do have less and less inequality)
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a basic equation

◇ local/regional development = $c * r$

c is area's capacity (economic, social, technological, political) (like [Green and Haines \(2012\)](#) 7 types of assets)

· e.g. low c : cronyism, corruption, disorganization, waste

◇ r is resources (natural resources, location, labor, capital investment, entrepreneurial climate, transport, technology, size, government spending)

◇ economist traditionally focused on r

· for instance r emphasizes being close to markets

· central cities are close to markets, but they lack in c

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neoclassical economic theory (M. Friedman)

- ◇ also called “the invisible hand”, based on Adam Smith
- ◇ equilibrium of economic systems
- ◇ mobility of capital
 - if capital can flow without restrictions, all economic systems will achieve equilibrium
 - it would mean that ghettos would attract capital because of low cost
 - but they don't...
- ◇ if the model worked, all areas would have about the same level of development
- ◇ obviously, it doesn't work
- ◇ but still it influenced deregulation in banking, utilities, etc

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- ◇ reduce market, currency controls
- ◇ and the criticism of that is Stiglitz's "Globalization and its discontents"

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a traditional dilemma

- ◇ deregulation vs regulation...
- ◇ some people would like the the government to be as small as possible
- ◇ and some would like it to take more responsibility...

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- ◇ many people argue that government money produce waste:
if it's not your money you don't care
- ◇ yet, there is a problem with individual incentives, too:
asymmetry of information and market failure
 - e.g. most of us don't know much about car mechanics and medicine, and hence physicians and car repairs have better information and may cheat us...
- ◇ a role for government to provide a “nudge”
(<http://amzn.com/0300122233>)
 - e.g. good defaults at school cafeteria by listing healthy first and junk food last like supermarkets organize aisles to rip you off

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why national policies?

- ◇ externalities, e.g. pollution
- ◇ market failure, asymmetry of information, e.g. healthcare
- ◇ too much information; you cannot pick everything, e.g. electric company, insurance plan, etc etc, government should provide a good default
- ◇ “nudges” can be effective
- ◇ collective action/ free riding

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why national policies?

- ◇ have to enforce safety: e.g hockey players and helmets
<http://amzn.com/0691153191>
- ◇ we need government because people often behave in an (predictably) irrational way: think that income, housing etc would produce more utility than it does; think that giving up smoking is easier than it actually is

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irrational and overwhelmed

◇ people are often irrational !

- and the whole idea of no-government is that people know best what they want
- you want a big house and big car, only to have to work 2 jobs for it and end up depressed; yet, many people do it
- e.g. predictably irrational <http://amzn.com/0061353248>
- ◇ and the more choice, the more paralysis
- hence govt should pick defaults (organ donors, electricity, healthcare, etc) <http://amzn.com/0060005696>
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why not national policies?

- ◇ it may backfire...
 - a part of reason behind 2008 housing disaster was government's policy to increase homeownership
- ◇ an extreme example of only national policy is communism
 - and we know that it does not work
- ◇ organizations and programs have a tendency to grow without limits (like software, just adding and adding features...)
 - especially with welfare it is politically difficult and unpopular to cut it (Lindbeck, 1997), (but they just did it)

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globalization of capital and commerce makes the management of capitalism difficult

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