

Space-Blind and Place-Based Policy: Initiatives for Fostering Innovation and Growth

Philip McCann

Sheffield University Management School

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In particular, the present paper has contributed to Chapter 8 on 'Prospering', which focuses on prosperity as a culturally specific and multi-dimensional concept, including income but not only. The chapter explores key drivers of urban inequality reflected in the scarcity of decent work and in social-spatial disparities in the location of different productive activities within cities. Through the lens of 'prospering', the chapter analyses how local and regional governments can increase decent work opportunities, and, drawing on the impacts of COVID-19, how they can mitigate the effects of future pandemics and of climate change on decent work, urban prosperity and inequality.

This paper has been produced by Philip McCann, Professor of Urban and Regional Economics in the University of Sheffield Management School. Philip is also the Tagliaferri Research Fellow in the Department of Land Economy at the University of Cambridge 2015-2019 and Honorary Professor of Economic Geography in the Faculty of Spatial Sciences at the University of Groningen, The Netherlands, 2017-2022.

1. The Revolution in Regional Policy-Thinking: Space-Blind Versus Place-Based Debates

The whole arena of local and regional development in recent years has been going through a process of reconsideration and re-evaluation in the light of experience of urban, regional and rural growth experiences both prior to, and post the 2008 global financial crisis. Even before the 2008 crisis there were profound conceptual and intellectual challenges arising from around the world as to how to think about local and regional development policy in the context of modern globalisation, and these debates were thrown into sharp relief by the experience of the 2008 crisis. The approaches to local and regional development policy which today are being advocated and experimented with around the world are a direct result of these earlier and ongoing debates, allied with a whole barrage of empirical evidence which has surfaced in the last fifteen years on the basis of new empirical and data-building techniques. **These approaches to local and regional economic development involve new ways of thinking about development, policy design and delivery and also policy assessment. Crucially, they also involve asking new and fundamental questions about governance, and in particular the role of sub-national governance institutions in driving forward modern innovative approaches to policy.** These fundamental debates turn on two crucial issues, namely whether policy should be place-based or space-blind, and how the nature of the relationships between national and sub-national governance institutions shapes what is possible. These questions are obviously interrelated, but conceptually it is necessary to distinguish between them in order to make sense of the emerging empirical evidence over recent years. In order to understand these fundamental conceptual issues, which also have profound implications in terms of how we interpret, and also act upon evidence, it is necessary to consider how the worldwide thinking on these issues has evolved and changed over recent decades, and how these changes themselves are also reshaping the 'nuts and bolts' of policy actions and interventions in many parts of the world.

Across the industrialised countries, for much of the twentieth century, almost all countries had experienced broadly processes of interregional convergence.¹ Apart from some interregional divergence experiences during the inter-war Depression era of the 1930s, interregional convergence was the dominant feature especially of the post Second World War era.² In other words, weaker regions were typically catching up the more prosperous regions within the same countries. These processes of convergence were often very slow, but even slow convergence processes over several decades can fundamentally reshape the economic geography of the country into a more equal interregional system. Not surprisingly, given the observed realities, the major intellectual contributions in the field³ at the time heavily emphasised the economic mechanisms underlying convergence processes. The assumed mechanisms were capital movements towards lower price localities in search of greater returns and labour movements towards higher wage regions. These opposing movement processes will eventually lead to a convergence of the underlying regional production functions in which not only capital returns are equalised across regions but also wages and productivity. Regions will become, in effect, more similar to each other across a broad range of dimensions as economic convergence processes proceed.

In the early 1990s these neo-classical convergence frameworks started to be supplanted and superseded by new insights emerging from the fields of new economic geography,⁴ urban economics⁵ and management⁶ which argued that economies of scale embodied in agglomeration processes were central to understanding both regional growth and development and national growth and development trajectories. This growing understanding on a range of intellectual fronts also coincided with exactly the moment when the impacts of modern globalisation first began to be felt, after the rapid opening up of the BRIICS countries to global trade⁷ and the burgeoning presence of global

1. Barro and Sala-i-Martin, 'Convergence'; Barro and Sala-i-Martin, *Economic Growth*.

2. Carrascal-Incera et al., 'UK Interregional Inequality in a Historical and International Comparative Context'.

3. Borts and Stein, *Economic Growth in a Free Market*; Barro and Sala-i-Martin, 'Convergence'; Barro and Sala-i-Martin, *Economic Growth*.

4. Krugman, *Geography and Trade*; Fujita et al., *The Spatial Economy: Cities, Regions and International Trade*.

5. Glaeser et al., 'Growth in Cities'; Henderson et al., 'Industrial Development in Cities'.

6. Porter, *The Competitive Advantage of Nations*.

7. McCann, 'Globalisation, Multinationals and the BRIICS Countries'.

corporations in these new markets driven by technology-facilitated off-shoring and out-sourcing. The resulting surge in global value-chains exploited the newly-established institutional arrangements such as the EU, NAFTA, WTO, the technological opportunities arising from the invention of the internet in its modern form, and also the rapid growth in bilateral investment and double-taxation treaties.⁸ Importantly, **the economic geography of modern globalisation centred on primal cities which acted as the key global nodes within worldwide networks of connectivity spanning trade, finance, human capital and knowledge flows, and the interregional geography of countries also depended crucially on a region's relationships with these global nodes.**⁹

Economies of agglomeration, as embodied in cities, became understood both conceptually and also empirically as being critical for driving growth and development, as evidenced by the observed geography of such rapid globalising and growth processes. A similar set of insights also arose from within the newly-expanding European Union. As the former transition economies became integrated into the EU, similar patterns linking key cities and trade were seen to dominate both national and regional growth processes.

These modern globalisation growth processes threw new light on how trade and development mechanisms operate. At the same time, however, they also threw up fundamental questions regarding how local and regional economic development policy should be shaped in the modern context. From the 1990s onwards, the worldwide institutional and trade changes had dramatically increased the international and interregional mobility of firms and workers, and heavily redefined the context in which regional policies could operate. International considerations impinged on domestic economic policy-making in a manner not previously experienced, and this both constrained and also reframed what might be possible with local and regional economic policy-making.

Out of this emerged during the early 2000s two quite different visions of what could be achieved with economic development policy and how this might be done, and the fundamental debates between the two different

approaches reached the very highest levels of international policy-making. These two perspectives are broadly known as the *space-blind* approach, and the *place-based* approach.

The thinking which underpinned and promoted these two different approaches had been ongoing throughout the 1990s and early 2000s and culminated in 2009 which coincidentally saw the publication of a series of five very high-level and influential reports, one of which was by the World Bank,¹⁰ one of which was by the European Commission,¹¹ two of which were by the OECD¹² and one of which was from a Latin American development bank.¹³

The space-blind approach to local and regional economic development policy was most clearly articulated in the World Development Report 2009 entitled 'Reshaping Economic Geography'.¹⁴ This document took on board various analytical developments over the previous two decades arising from the fields of urban economics and new economic geography and condensed them into what it argued was the best way for countries to promote development, taking account of the effects on national growth of economic geography.

The report marked an important departure from many prior World Bank reports published over the previous three decades because it explicitly acknowledged that economic geography was central to the growth prospects and pathways for countries, and as such, structural and regulatory changes alone were not sufficient to enhance growth and development prospects. This represented an important intellectual shift away from some of the earlier 'Washington Consensus' positions which had argued that structural, fiscal and regulatory reforms were of themselves, sufficient to foster development.¹⁵

However, the way that the report articulated these issues was in what is known as a space-blind framework, which argues that at the national level, economic development policy should be focussed on the provision of infrastructure and institutions to foster agglomeration processes, without any recourse to the specifics of any particular place. Weaker places should be better connected to stronger places via infrastructure provision.

8. Iammarino and McCann, *Multinationals and Economic Geography: Location, Technology and Innovation*.

9. McCann and Acs, 'Globalisation: Countries, Cities and Multinationals'.

10. World Bank, *World Development Report 2009: Reshaping Economic Geography*.

11. Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

12. OECD, *How Regions Grow: Trends and Analysis*; OECD, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*.

13. CAF, *Desarrollo Local: Hacia un Nuevo Protagonismo de las Ciudades y Regiones*.

14. World Bank, *World Development Report 2009: Reshaping Economic Geography*.

15. Barca et al., 'The Case for Regional Development Intervention: Place-Based versus Place-Neutral Approaches'.

The overall argument here is that while the fostering of agglomeration processes will tend to drive the spatial concentration of activities, thereby favouring households, firms and investors in particular agglomerating places, over time the growth benefits arising from the transformations will then spread out throughout the whole spatial economy, benefitting all parts of the country.¹⁶

The logic underpinning the space-blind approach is also based on a supposed dichotomy between 'people-based' and 'place-based' ways of thinking and acting, whereby 'people-based' policies are those which target human needs and opportunities rather than places while 'place-based' approaches target places rather than people. In the former 'people-based' approach, the migration of people away from lagging regions and towards more prosperous places¹⁷ is to be prioritised in order to allow people to enjoy the economic benefits of growth, and any policies targeted at specific economically lagging localities are deemed to limit such growth and prosperity-enhancing mobility, and as such they should be avoided.¹⁸ Similar arguments apply to neighbourhood mixing.¹⁹

Yet, this purported people-based versus place-based dichotomy, which was so heavily deployed in the space-blind argument, was originally developed prior to the emergence of our more modern understanding of the complex roles played by technology and institutions in shaping the diffusion and dissemination of knowledge, skills and investment between regions. Today we understand that these issues cannot simply be disembodied from physical or human capital, but when these ideas were originally developed in the 1960s, the notion that production factors and technology and institutions could be considered as being largely additive and separable was fairly mainstream thinking in neo-classical economics.

The original view that there was something of a dichotomy between people-based and place-based ways of understanding economic development originally comes from 1960s thinking²⁰ which argued that development funding aimed at places was just as likely to leak into the pockets of the least-needy as to those who were locally the most needy. This

logic was based on the processes of political lobbying in Washington DC which shaped where funding was allocated.²¹ This 'place-based versus people based' argument disappeared for two decades, but the narrative of "place prosperity versus people prosperity" was revived again in the 1980s by the President's Commission for a National Economic Agenda under the Reagan Administration and used as the basis for abolishing many of the federal economic development programmes²² and turning community development programmes at local and state levels into supply-side policies, in what has been called the 'anecdote of devolution',²³ in which apparent devolution in effect undermined the programmes. Unfortunately, this place-based versus people-based logic excluded the important role played by the positive externalities which can be generated on the basis of the local social capital, and which is underpinned by a sense of place and community identity.²⁴ Importantly here, the social networks which places need in order to build institutional capacity and trust in governance systems necessary for facilitating development processes can be depleted or even undermined in those origin regions facing significant out-migration of higher skilled and younger people and increased in the destination regions by the inflows of such people.²⁵ The space-blind approach has little or nothing to say about these issues, although we know nowadays that they are critical for spurring development.

The alternative place-based approach which was advocated at the same time as the space-blind approach was based on four major reports.²⁶ Two of these reports²⁷ provided a barrage of empirical evidence to demonstrate that over recent decades there was no real evidence for the assumed likely spread effects, and indeed, if anything, the evidence pointed in other directions. Part of the reason for this was due to localised institutional and governance traps,²⁸ which can arise, and once they become embedded locally, are almost impossible to dislodge except by external policy shocks.²⁹ These types of institutional and governance traps can take the form, for example, of incumbent firms or institutions in local monopoly or monopsony positions whose rent-seeking behaviour can act as a

¹⁶ World Bank, *World Development Report 2009: Reshaping Economic Geography*; Barca et al., 'The Case for Regional Development Intervention: Place-Based versus Place-Neutral Approaches'.

¹⁷ Glaeser and Gottlieb, *The Economics of Place-Making Policies*.

¹⁸ World Bank, *World Development Report 2009: Reshaping Economic Geography*.

¹⁹ Cheshire, 'Policies for Mixed Communities Faith-Based Displacement Activity?'

²⁰ Winnick, 'Place Prosperity vs People Prosperity: Welfare Considerations in the Geographic Redistribution of Economic Activity', p. 275.

²¹ Akpadock, *City In Transition: Strategies for Economic Regeneration of Inner-City Communities: The Case of Youngstown Ohio*.

²² Akpadock, *City In Transition: Strategies for Economic Regeneration of Inner-City Communities: The Case of Youngstown Ohio*.

²³ Akpadock, *City In Transition: Strategies for Economic Regeneration of Inner-City Communities: The Case of Youngstown Ohio*.

²⁴ Bolton, 'Place Prosperity vs People Prosperity' Revisited: An Old Issue with a New Angle'

²⁵ Putnam, *Bowling Alone: The Collapse and Revival of American Community*.

²⁶ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*; OECD, *How Regions Grow: Trends and Analysis*; OECD, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*; CAF, *Desarrollo Local: Hacia un Nuevo Protagonismo de las Ciudades y Regiones*.

²⁷ OECD, *How Regions Grow: Trends and Analysis*; OECD, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*.

²⁸ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

²⁹ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

blockage to wider local development. If policy design and resource allocation activities are appropriated by such actors then the opportunities for local independent small and medium-sized entrepreneurs (SME) and innovators to drive the development of the local economy become limited, especially if the potentially destabilising impacts of local innovations threaten the dominant position of the incumbents. Similarly, highly centralised, top-down and space-blind governance system can also limit local development opportunities if high level decisions regarding the provision of growth-enhancing investments such as infrastructure, research and development (R&D), and heritage and cultural assets are primarily taken with the needs of the dominant or capital city region in mind, or the needs of key multinational investors, rather than the needs of wider regions. Indeed, in such top-down situations, even where local interventions are developed, locally well-established incumbent actors are typically those who can attract the attention of centralised policy-makers in their policy deliberations, thereby failing to break the cycle. External policy interventions, if well-designed and sufficiently large, can destabilise and unblock these bad local development traps. In some cases, financial, economic, or even pandemic-related crises could have similar effects, although the evidence suggest that the capital shocks associated with financial crises tend to most adversely impact on weaker places.³⁰

Indeed, this institutional argument is central to **the place-based approach, which argues that economic development policies must explicitly take on board the challenges associated with the local context and policies should be tailored specifically for addressing these challenges.**³¹ This is not to imply that local and regional economic development policy thinking should be communitarian in nature and design, but rather that mobilizing local actors is a key part of the solution to unblocking local development traps.³² The reason is that involving a wide array of stakeholders in local development policy approaches increases the chances that a wider range of investors and entrepreneurs will come forward with new policy ideas and suggestions for practical actions and interventions, rather than policy captured by the same 'usual suspects'. As such, **the place-**



San Cristobal de las Casas (source: Gabriel Tovar, www.unsplash.com)

based approach argued that centrally-orchestrated top-down sectoral approaches to regional development, as had been traditionally practiced in many countries, were unlikely to be successful because they ignored the critical roles played by the building of local social capital

and also the problems associated with local monopoly and monopsony incumbents blocking development trajectories. As such, the place-based approach argued that while growing cities and agglomerations were of course extremely important for national growth, at the same time there was no reason why these growth processes, of themselves, would galvanise economically weaker places,³³ because they ignored the effects on the institutional and governance problems faced by weaker places associated with these same growth processes. In other words, place-based approaches consider that top-down, centralised and largely space-blind governance systems and policies were just as likely to promote interregional divergence as they were long-run convergence, because the underlying long-run assumptions about the diffusion patterns of growth are unsubstantiated and largely speculative in nature. In contrast, in order to foster more equal and broadly-based development, the place-based approach recommends that local and regional development policies move away from traditional centralised and top-down sectoral approaches and instead move to much more bottom-up and locally-tailored strategies. The differences between modern place-based approach and traditional top-down regional policy architectures are outlined in Table 1.

³⁰ Daams et al., 'Capital Shocks and the Great Urban Divide'.

³¹ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

³² Barca, Fabrizio. 'Conclusion: Alternative Approaches to Development Policy: Intersections and Divergences'.

³³ McCann and Rodriguez-Pose, 'Why and When Development Policy Should be Place-Based'.

	Traditional Regional Policy	Modern Regional Policy
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping into underutilised potential in all regions to enhance development in all regions
Unit of Intervention	Administrative units	Functional economic areas
Strategies	Sectoral approach	Integrated development project
Tools	Subsidies and state aids Hard capital (infrastructure)	Mix of hard capital (infrastructure) and 'soft' capital (business support, credit availability, networking systems)
Actors	Central government	Multi-level governance involving different tiers or level of local, regional and national government working in partnership and alongside the private and civil society sectors

Table 1 Traditional Regional Policy Versus and Modern Place-Based Approaches to Regional Policy³⁴

The main differences between traditional regional policy, as it was practiced in many countries during the second half of the twentieth century, and modern place-based approaches to regional policy are in terms of the objectives; the units of intervention; the strategies; the tools; and the actors. **In terms of the objectives, traditional regional policy in many countries amounted to temporarily compensating economically weaker regions for locational disadvantages, whereas modern place-based policies emphasise tapping into under-utilised potential in under-performing regions by unblocking and correcting for local institutional development traps.** Traditional regional policy tended to be framed as sectoral policies and deployed according to administrative units. In other words, the policy resources tended to be focused on specific industries or firms in particular places with funding made available for activities such as training, procurement, or capital acquisitions, and the deployment of the resources tended to be channelled via existing local government bodies. In contrast, modern place-based approaches aim to operate at the level of functional economic areas – which may involve different jurisdictional units working together – and to foster integrated development projects in which resources are targeted at a range of actors across different sectors, in order to construct a more realistic development agenda. The emphasis tends to be more on knowledge-transfer activities allied with policy-learning and policy-transfer processes, linking entrepreneurs and innovators to

key knowledge channels, peer-to-peer mentoring, supply chain networking, enhanced financial literacy etc. In order to do this, whereas traditional top-down regional policy was based on sectoral subsidies and state aids, modern place-based approaches aim to deploy a mix of policy tools focussing on the enhancement of both hard and 'soft' capital. Finally, **whereas traditional regional policies were top-down in nature and designed and delivered by central government, modern place-based approaches aim to dovetail both bottom-up and top-down actions initiatives spanning the private, civil society and public sectors, something which can only be done with genuine multi-level governance arrangements.** As such, precisely how the nature and quality of the local institutional set-up is designed to create incentives for bottom-up engagements and initiatives is a critical departure point for modern place-based policies. Where economic development processes are stalled, finding ways to use a range of policy tools to transform the local institutional set-up is critical for place-based policy.

In the early years after the publication of these five reports, the space-blind argument appeared to hold sway in many parts of the world. However, as the fallout from the 2008 global financial crisis started to become evident, and in particular the switch from interregional convergence to divergence processes in many countries and many parts of the world became increasingly clear,³⁵ over time there was a gradual shift away from space-blind thinking and in favour of place-based thinking. Between 2010

³⁴. OECD, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*; McCann, *Modern Urban and Regional Economics*

³⁵. European Union, *Investment for Jobs and Growth - Promoting Development and Good Governance in EU Regions and Cities: Sixth Report on Economic, Social and Territorial Cohesion*; OECD, *Regional Outlook 2011*.

and 2013 this shift was led by Europe, and in particular by the principles governing the re-design of the regional and urban policy of the European Union, namely EU Cohesion Policy, in the wake of the regional shocks associated with the 2008 global financial crisis.³⁶ Subsequently, this shift in thinking away from space-blind approaches toward place-based approaches accelerated from 2016 onwards, in the aftermath of the EU Brexit Referendum in the UK and the 2016 election of President Trump. Growing interregional divergence had led to profound changes in public perceptions and a growing 'geography of discontent',³⁷ especially in so-called 'left behind' places,³⁸ and

this discontent galvanised political shocks emerging from the 'places that don't matter' which threatened established national and institutional orders.³⁹ Since then, almost all parts of the world are now aiming to construct more place-based approaches to local and regional development.⁴⁰ There is now a growing literature considering the role that place-based policies may play, or have played, in different contexts,⁴¹ and even former largely space-blind advocates⁴² are nowadays arguing for certain types of place-based approaches in specific contexts. As such, there is something of a convergence between these formerly quite different lines of thinking.

2. The Place-Based Re-Design of EU Regional Policy

A concrete example of how these lines of thinking have fundamentally reshaped how policies are constructed comes from the case of EU Cohesion Policy. EU Cohesion Policy is the

regional and urban policy of the European Union, and it is the largest explicitly place-based development policy in the world based on one single legal and institutional architecture. The policy had been operating for some for more than three decades, but in its current guise it had been operating for some two decades when its logic and rationale were fundamentally challenged by the new place-based thinking.⁴³ The prevailing policies were primarily of the traditional model of regional policy, as outlined in Table 1, but the new place-based arguments contended that these were entirely out of date with both the changing global and European context. As such, for the policy to continue it needed to be re-considered and re-designed on the basis of a modern place-based regional policy set-up, as described in Table 1, both in order to provide the necessary conceptual and political justification of the policy as well as its operational logic. From this perspective, the prevailing traditional policy logic displayed fundamental flaws which needed to be rectified and updated in order to be fit for purpose in the twenty-first century. In particular, the major criticisms⁴⁴ of the existing traditionally-framed EU Cohesion Policy were that the policy:

- ▶ displayed a lack of focus and explicitly failed to distinguish between the policy goals related to promoting efficiency and those goals related to promoting social cohesion and reducing social exclusion,
- ▶ suffered from a lack of information or data provision,
- ▶ displayed a failure to use the data available to analyse the impacts of the policy at the local level,
- ▶ exhibited a deficit in strategic planning and a lack of any real territorial perspective,
- ▶ was limited by a lack of consideration of the broader issues relating to wellbeing,
- ▶ was severely restricted by an absence of the needed contractual relationships required for ensuring institutional changes appropriate to the locality.

36. McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

37. McCann, 'Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK'; Hendrickson et al., *Countering the Geography of Discontent: Strategies for Left-Behind Places*; OECD, *Productivity and Jobs in a Globalised World: How Can All Regions Benefit?*

38. *The Economist*, 'Left in the Lurch: Globalisation has Marginalised Many Regions in the Rich World'.

39. Rodriguez-Pose, 'The Revenge of the Places that Don't Matter (and What to Do About It)'.

40. Shambaugh and Nunn, *Place-Based Policies for Shared Economic Growth*.

41. Duranton and Venables, *Place Based Policies for Development*; Duranton and Venables, 'Place-Based Policies: Principles and Developing Country Applications'; Kline and Moretti, 'Place Based Policies with Unemployment'; Kline and Moretti, 'Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority'; Garcilazo and Oliveira-Martin, 'New Trends in Regional Policy: Place-Based Component and Structural Policies'; von Ehrlich and Overman, 'Place-Based Policies and Spatial Disparities across European Cities'; Floerkemeier et al., *Regional Disparities, Growth and Inclusiveness*.

42. Austin et al., *Jobs for the Heartland: Place-Based Policies in 21st Century America*; Glaeser and Hausman, *The Spatial Mismatch Between Innovation and Joblessness*.

43. Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

44. Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*; McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

On the first point, all EU Cohesion Policy actions and interventions generated data regarding the programme expenditures, the different project participants, their roles, and the effects on areas such as employment and investment. However, this information was used almost entirely in ensuring the traceability of expenditures, while very little of this information was used in monitoring or assessment activities. The programmes were very well accounted for in terms of expenditures resource allocations, but not in terms of whether the programmes and projects achieved the outcomes they were designed to achieve. As such, on the second point, this also implies that little or no counter-factual assessments were undertaken.

Similarly, on the third point, in terms of the geography of policy interventions, resources were allocated and expenditures were undertaken according primarily to the logic of the sub-national administrative set-up of the country, rather than according to any logical economic principles which took seriously the underlying economic geography features of the country or the policy objectives.

On the fourth point, as well as issues such as employment creation or retention, broader societal issues such as enhancements in productivity, well-being or sustainability were only addressed in very broad and general terms, often making it impossible to assess progress towards these goals.

On the fifth point, in order to achieve the desired objectives of the policy, in many cases there needed to be changes in the local and regional institutional and governance set-up. However, the policy had little or no ability to bring about such needed changes, because there was very limited use of any legal powers and conditionalities in policy architecture.

In response to these severe criticisms, the whole policy architecture and logic were fundamentally overhauled in order to provide an explicit place-based re-framing of the conceptual and intellectual and operational principles underpinning the policy.⁴⁵ In particular, in order to promote local development, it is necessary to develop the clear principles and to deploy appropriate

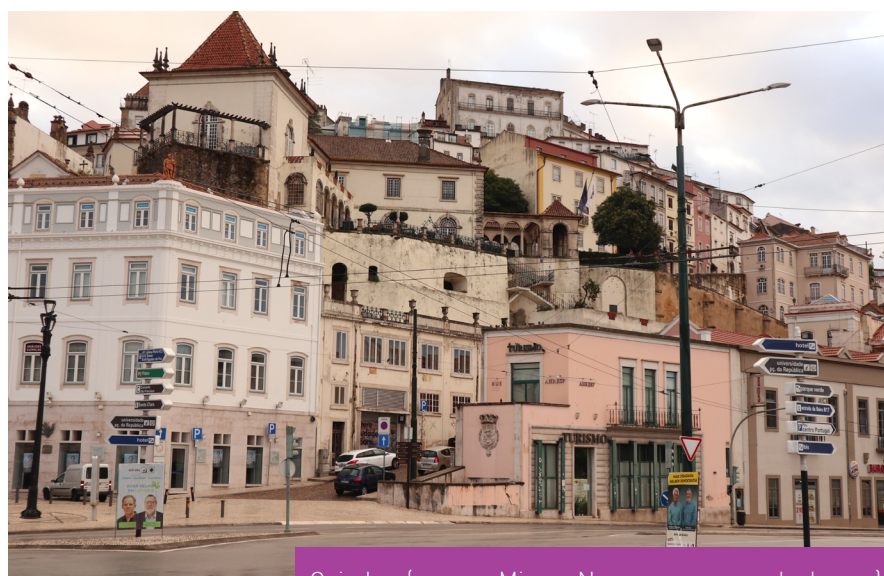
systems of tools and instruments which address bottleneck and under-development problems arising from mis-aligned incentives, information asymmetries, moral hazard, principal-agent problems, conflicting goals, a lack of local institutional and governance capacity, and the monopoly and monopsony positions of local incumbents and networks of elites.

Different localities faced different challenges and EU Cohesion Policy needed to provide a broad suite of potential policy interventions which local decision-makers could choose as they deemed appropriate, along with the appropriate institutional arrangements, to address these challenges. In order to do this, it is essential that the EU Cohesion Policy⁴⁶ must:

- ▶ articulate an explicit place-based logic to the policy to allow for differentiation, heterogeneity and the mobilisation of local knowledge,
- ▶ clarify the need for explicit multilevel governance partnerships between local, regional, national and EU-wide institutions,
- ▶ establish the need for policies to be explicitly results-oriented or outcomes-oriented in nature, with in-built and ongoing (internal and external) monitoring and evaluation systems in order to deal with the learning and incentives issues,
- ▶ prioritise the establishment of clear development priorities and goals distinguishing between efficiency and social inclusions priorities,
- ▶ ensure the use of 'conditionalities' in order to deal the contractual issues.

⁴⁵ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

⁴⁶ McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.



Coimbra [source: Migsar Navarro www.unsplash.com]

As a direct result of the policy reflection and reconsideration set in motion by the various 2009 place-based reports, the explicit place-based reforms to the EU Cohesion Policy schema for the programming period 2013-2020 contained many different elements, most of which are beyond the scope of this discussion here and are discussed in detail elsewhere.⁴⁷ However, two of the issues are not only pertinent, but absolutely central to how policy-makers worldwide nowadays think about local and regional economic development policies. These two issues concern the **challenges of how to ensure that policies are outcomes-oriented and also how local economic development policies can help to galvanise local innovation**. Local and regional policies have in the past often struggled to clarify what the policies are aimed at achieving and also how policy actions are prioritised. EU Cohesion Policy goals at the local or regional scale were often framed in terms of very broad objectives which, while these might be appropriate at the national or the EU-wide level, were often too general to be meaningful at the local level, especially in terms of assessing the effectiveness of the policy actions. As long as both Brussels-based and local policy-makers were focussed on ensuring that the funding streams were accessed and the moneys were properly spent and accounted for, then there was no pressure to change the status quo. However, once the policies were articulated in terms of their intended outcomes at the local and regional level, then the whole logic of the policy-making design and delivery process was fundamentally changed. The intended outcomes of the project actions and interventions become central to the specific design of the actions and interventions, and the logic of how resources are allocated and deployed and moneys are spent depends on the challenges which are prioritised to be addressed. How intended policy outcomes are chosen, and how objectives and resource allocations are prioritised, become central to the design of the policy from the outset. Considerations of assessment, monitoring and evaluation become key to the design of the programmes and the engagement of different actors in the process.

In the specific case of mobilising entrepreneurship and innovation at

the local scale two elements were absolutely key, namely the use of results and outcomes indicators policies in order to ensure that policies were result-oriented and outcomes-oriented and also the adoption of what is known as the 'smart specialisation' strategy.



On the first key element, one of the difficulties of place-based policies is that local sub-national governance authorities are often buffeted and torn between many local pressures and commitments and at the same time they also often face problems of limited information. In such contexts, designing policies can be complex, and policies based on a primarily political logic rather than on economic development needs are often the result.⁴⁸ In some cases, the inability to clarify the policy objectives was a result of these different conflicting political pressures and power relationships at the local level, especially involving incumbent monopoly positions. In such a situation, local incumbents and monopolies will tend to play a dominant role in influencing the nature of the chosen priorities and policies, and resources are unlikely to be well spent in terms of efficiency, effectiveness and additionality. This was exactly one of the key development traps that had been identified⁴⁹ as being central to the place-based case for the reforms to EU Cohesion Policy. However, even without such blockages, the inability to clarify specific policy objectives was still endemic in EU Cohesion Policy, dominated as it was by a culture of correctly accounting for all expenditures.

⁴⁷ McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

⁴⁸ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

⁴⁹ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

In order to counter these pressures, and to help local policy-makers focus on enhancing the endogenous development potential of their localities, **the new regulations for the EU Cohesion Policy period of 2014-2020 contained the need for policy actions and interventions to be results- or outcomes-oriented.**⁵⁰

In order to do this, the policy-makers designing policies had to decide in advance the nature of the outcome variables by which their policies and programmes would be monitored and assessed in the future as the policies were implemented. **Such choices would necessarily have to be undertaken in participation with stakeholders and policy participants as part of a deliberative process, in order to build consensus and agreement across all policy stakeholders as to the specific objectives of the policy actions and the evidence which would need to be marshalled before the effectiveness of any policy could be realistically assessed.** This is essential in order to identify and address agreed priorities. All stakeholders and interested parties will prioritise their own issues, but public policy needs to choose which areas to prioritise, and this can lead to political blockages and rent-seeking. Therefore, making the policy prioritisation process as public as possible, and built on as much stakeholder agreement as possible, helps to underpin the policy. The outcomes-oriented approach using outcome indicators is a critical part of this process. As such, this outcomes-oriented and results-oriented logic, allied with conditionalities, turned the previous strategy and policy-design approaches on their head, with all elements of the policy design from the outset geared to the achievement of measurable results and impacts.⁵¹

Prior to this many EU Cohesion Policy arenas had multiple outcomes and objectives and multiple indicators, but often with very little logic underpinning the specific choice of actions. There was often no real theory of change underlying the policy schema locally and policy monitoring tended to be dominated by accounting for all expenditures. The reforms were intended to move policy-making away from being dominated by accounting for expenditures and instead towards the development objectives to be realised. The use of outcomes indicators or results indicators is necessary, not because the results and outcomes are known in advance, but precisely the opposite, because

they are not known.⁵² Rather, they are essential in order to help us learn about the efficacy of a policy by allowing us to track how the policy is making progress towards the explicit objectives which it was designed to address.⁵³ In particular, outcome indicators help to allow us to monitor the progress of any specific action or intervention towards achieving the particular policy objectives and to consider this progress in the light of the counter-factual case of no policy.⁵⁴ Assessing progress towards policy goals against the counter-factual case of no policy had already been a longstanding principle in regional policy thinking,⁵⁵ but not one which was central to the design or delivery of many traditional regional policy set-ups. The explicit conditionalities articulated in the 2014 reforms to EU Cohesion Policy required the explicit use of outcome indicators in all policies, and as such, put these issues centre stage precisely in order to reorient the whole policy programme towards achieving agreed intended outcomes rather than expenditure. The fact that EU Cohesion Policy has an agreed legal basis which is common all EU member states means that conditionalities are deployed on a common basis in all countries and regions and can be enforced by the EU institutions on an agreed EU-wide set of enforcement principles.

On the second key element, the prioritisation problem, the EU Cohesion Policy reforms also instituted a methodology for choosing policy priorities and actions aimed at fostering local innovation known as the 'smart specialisation' agenda. The smart specialisation agenda is known in EU circles as the RIS3 (Research and Innovation Strategies for Smart Specialisation) agenda.⁵⁶ The smart specialisation agenda originated outside of the field of local and regional economic development but its logic inexorably pointed to regional issues as being crucial.⁵⁷ **The key idea in smart specialisation is to prioritise policy actions and interventions which help to foster local entrepreneurial search activities which if successful would be likely to display the attributes of local embeddedness, relatedness to local strengths, and interregional and international connectivity.**⁵⁸ The principle is that policy support for innovation-related activities must be targeted on SMEs, and in particular, on those innovations which both build on, and connect to, the existing industrial

50. Barca and McCann, 'Outcome Indicators and Targets – Towards a New System of Monitoring and Evaluation in EU Cohesion Policy'; Barca and McCann, 'Complementary Note 1: Outcome Indicators for the Thematic Priorities Addressing the Europe 2020 Objective Improving the conditions for innovation, research and development. Examples'; Barca and McCann, 'Complementary Note 2: Outcome Indicators for the Thematic Priorities Addressing the Europe 2020 Objective Meeting climate change and energy objectives'.

51. McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

52. Rodrik, 'Industrial Policy for the Twenty-First Century'.

53. McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

54. Mouqué, 'What are Counterfactual Impact Evaluations Teaching Us About Enterprise and Innovation Support?'

55. Moore and Rhode, 'Evaluating the Effects of British Regional Economic Policy'; Martin and Tyler, 'Evaluating the Impact of the Structural Funds on Objective 1 Regions: An Exploratory Analysis'.

56. See: <https://s3platform.jrc.ec.europa.eu/>.

57. McCann and Ortega Argilés, 'Smart Specialization, Regional Growth and Applications to EU Cohesion Policy'.

58. McCann and Ortega Argilés, 'Smart Specialization, Regional Growth and Applications to EU Cohesion Policy'.

fabric. In other words, innovations would be built around specialised diversification or diversified specialisation principles,⁵⁹ which empirical evidence from many countries and regions demonstrates are more likely to thrive and scale-up than otherwise would be the case,⁶⁰ because of the ability to leverage local existing assets, technological profiles and skill-sets. In some regions, agglomeration economies or large clusters of activity may play an important role in enhancing these features, whereas in other regions decentralised networks of smaller centres may be just as important for building the characteristics essential for smart specialisation. Similarly, in some regions linking smaller networks of firms to larger institutional firms and actors may be important, whereas in other cases, helping to better align networks of SMEs to each other may be more important rather than enhancing links to larger firms. These issues can only be decided based on detailed evidence gathering and policy debates.

The information requirements of smart specialisation can therefore sometimes be considerable, and the RIS3 agenda has forced local authorities and policy-makers to engage in significant efforts to develop improved local data gathering and data-building exercises, and also to learn from other regions how they develop evidence. The types of data being built include technological mapping, the mapping of trade structures and interdependencies, skills and human capital profiles, industry structures, local entrepreneurship drivers and policy expenditure profiles.⁶¹ Across Europe, much of this work is being undertaken in conjunction with local universities and research institutes. These activities themselves are greatly improving local policy-makers' and local businesses' own understanding of the economic base of their own regions. In addition, proposed projects have to contain data-generating aspects to them in order to facilitate ongoing monitoring and evaluation at later stages. On both a conceptual and an operational level, **the important point about the smart specialisation agenda is that the newly-emerging evidence alongside a set of principles gives local policy-makers a methodology and framework for prioritising policies which is rooted in the capabilities of the local context.** Such priority-setting activities would require collaboration

across a wide range of stakeholders and agreement of different parties, exactly as place-based principles would posit, but in addition, the technological profile of the locality must explicitly be taken into account in order to foster the most realistic opportunities for as many local entrepreneurs and innovators as possible.

In order to implement a smart specialisation process, local policy-making communities must first undertake a detailed analysis of the region's assets and capabilities based on data and evidence. This data gathering activities are required in order to set baselines on all of the key economic development features of the region. Any innovation and entrepreneurship progress which is to be fostered locally must be based on a theory of change which is appropriate for the locality. Such a theory of change will require a detailed articulation of the strengths and weaknesses of the locality, the perceived opportunities and threats, as well as an assessment of the relative emerging technological capabilities in the locality on which the expected growth mechanisms linking policy incentives to firm responses will be based.⁶² For many European regions, such a detailed assessment of the features of a locality, and an explicit framing of policy interventions on the basis of such analyses, was something entirely new. European regions had experience in spending EU Cohesion Policy resources and accounting for these expenditures in minute detail, but building a coherent place-based development strategy based on a detailed ex ante assessment of technological, scale, embeddedness, and connectedness characteristics of the region and the project objectives, with progress to be assessed by milestones already defined a priori and embedded in the strategy as key elements, alongside explicit outcomes and result indicators, was entirely new.⁶³ However, in order to foster European-wide learning in these place-based policy approaches to enhancing innovation and entrepreneurship, the European Commission set up a specialist 'RIS3 Platform' at their Joint Research Centre in Seville,⁶⁴ Spain, in order to act as a focal point and repository of experience and expertise where regions share evidence and ideas and experiences. This mutual learning initiative encourages European-wide policy learning and policy transfer,

59. Foray et al., *Guide to Research and Innovation Strategies for Smart Specialisation (RIS 3)*.

60. Boschma and Iammarin, 'Related Variety, Trade Linkages and Regional Growth'; Boschma and Frenken, 'Technological Relatedness and Regional Branching'.

61. See: <https://s3platform.jrc.ec.europa.eu/en/regional-benchmarking>.

62. Foray et al., *Guide to Research and Innovation Strategies for Smart Specialisation (RIS 3)*.

63. McCann, *The Regional and Urban Policy of the European Union: Cohesion, Results-Oriented and Smart Specialisation*.

64. See: <https://s3platform.jrc.ec.europa.eu/>.

with stronger regions assisting weaker regions in their policy development processes. **Peer review between regions becomes a central mechanism by which governance authorities learn how to improve their policy-making processes across all fronts, including data-building activities, evidence gathering processes, the construction of a locally-appropriate theory of change, the design of policy incentives and conditionalities, the choice of appropriate outcomes indicators and methods of monitoring and assessment.** All of these elements are critical in order to ensure that the policy-prioritisation logic is robust and that the policy-making authorities are enhancing their institutional capabilities.

The smart specialisation challenge for many regions was very real, involving a complete rethinking regarding how development strategies were conceived and framed. Place-based thinking became absolutely core as to how European regional policy was interpreted and understood, not only at the level of the European Commission and the wider European Union's institutions, but most importantly at both the national and sub-national levels. The change in thinking might appear to have been rapid, but actually many of the seeds for the changes were sown long before.⁶⁵ Importantly, the 2008 global financial crisis created

a widespread sense of urgency for changes across the EU and its institutions, given the deteriorating economic conditions in many countries and EU Cohesion Policy's own role in helping to stabilise the fiscal of certain countries.

Smart specialisation policies could only be developed by processes of local deliberation and consultation involving not only many different local actors but also across multi-level governance arenas. **Local and national policy-makers needed to develop serious dialogues in order to push forward the smart specialisation agendas, and the forging of these multi-level governance processes will be key to the success of the smart specialisation agenda.** Although some sceptics initially expected that only already-successful regions with significant knowledge capabilities would be able to successfully drive forward these development approaches, in reality many weaker regions, especially in southern Europe,⁶⁶ have found these approaches to be immensely helpful in improving their governance and strategy-making processes. Other OECD countries and non-OECD countries, especially in parts of Latin America and Asia, have now partnered with the EU in order to develop similar types of approaches for fostering regional innovation amongst their own regions.⁶⁷



Sevilla (source: Eduardo Fernández)

⁶⁵ Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*.

⁶⁶ McCann and Ortega Argilés, 'The Early Experience of Smart Specialisation Implementation in EU Cohesion Policy'.

⁶⁷ See: <https://s3platform.jrc.ec.europa.eu/en/international-cooperation>.

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