Chapter 1
Spatially-Blind Versus Place-Based Policies

Abstract In this chapter we start observing that the Washington Consensus doctrine has failed to provide a general recipe for economic development. Major economic improvements took place where the requirements for fiscal austerity, privatization, and market liberalization were not met. Where this recipe was applied, very little progress was recorded, while serious imbalances occurred. The current view that a more "humble" search for paths to development is needed has replaced the claim that best practices can be applied anywhere. The failure of the Washington Consensus gave a notable boost to a spatial perspective. If there are no general recipes, then opportunities and constraints must be considered on a case by case basis. Dealing with development policies, therefore, involves dealing with regional policies. In the central part of this chapter we review an unresolved debate in this field. Is it better to invest in people regardless of where they live, or should we support the development of places to help people more effectively? Should all regions grow simultaneously or could just a few drag the others? Is the goal of developing backward regions unnecessary or unattainable? A debate is emerging between people-based (spatially blind) policies and place-based policies. The World Bank supports spatially-blind policies, while European Cohesion Programs are conceived as place-based interventions. In the last part of this chapter, we review the 2014 European Cohesion Policy reform and outline its merits and weaknesses.

1.1 Goodbye Washington Consensus

Development policies are at the heart of a vast international debate. Enormous emerging countries are committed to supporting impetuous development processes that are beginning to meet with friction and resistance, while several other countries show no signs of economic and human development. The main concern in the developed world is to survive the biggest economic and political crisis since the 1930s and to stimulate growth. Managing a new, closely inter-connected economic

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and political world that is threatened by depleted natural resources is a problem worldwide. For these reasons there renewed importance has been attributed to places. In short, the debate revolves around a division between people-based and space-based policies. While the origin of this contrast lies in past history, a single recent event became a symbolic turning point. This was the 2005 sanctioning of the end of the Washington Consensus or, at least, the fact that the World Bank—a pivotal actor of the consensus—called it into question.

The term Washington Consensus outlines the economic policy rules dictated twenty-five years ago by three Washington-based institutions: the World Bank, the International Monetary Fund, and the U.S. Treasury. These institutions focused on macroeconomic stabilization, trade liberalization, and privatization. Overall, their imperative was to *get the prices right*, i.e. eliminate interferences in market operations so that the prices of goods, labor, and capital were "right". The ruling economic theory at the time guaranteed that, once these requirements were fulfilled, development would follow everywhere (though at different times), since mobile production factors would move in the right direction (in favor of less rich people and less developed countries and regions), bringing about full employment of local resources, among other advantages. It would put paid to the frustrations of the 1980s caused by another orthodox doctrine of the time. This doctrine called for inflation tolerance, import substitution industrial policy, a leading role of the state through price control, foreign exchange rationing, regulated trade regimes, repressed financial markets, and state ownership of commercial enterprises. This is the traditional meaning of the Washington Consensus, popularized by influential critics, such as Joseph Stiglitz. Nobel Prize in 2001, vice president and chief economist of the World Bank from 1997 to 1999, he was forced to leave his post for having publicly expressed his dissent. «Whatever its original content and intent, the term Washington Consensus […] has come to refer to development strategies that focus on privatization, liberalization, and macro stability (meaning, mostly, price stability). The policies are often referred to as neoliberal policies, because of the emphasis on liberalization, and because, like nineteenth century liberalism, they emphasized the importance of a minimal role of the state» (Stiglitz 2008, 41).

In fact, the original content was more complex when, in 1990, John Williamson published his essay summarizing the doctrine (on which various US government and academic environments in the late 1980s expressed their consensus) in ten actions that were «desirable in just about all the Latin American countries»: (1) Budget deficits should be small enough to be sustained without inflation. (2) Public expenditure should be redirect toward fields with high economic returns and to improve income distribution (primary education and health, infrastructure). (3) Tax reform to broaden the tax base and cut marginal tax rates. (4) Financial liberalization to market-determined interest rates. (5) Exchange rate at a level sufficiently competitive to support nontraditional exports. (6) Quantitative trade restrictions should be replaced by tariffs, progressively reduced to a rate in the range of 10–20 %. (7) Abolition of barriers impeding FDI (foreign direct investment). (8) Privatization of state enterprises. (9) Abolition of regulations that prevent new firms birth and free competition. (10) Secure property rights (Williamson 2005, 196).

This list, inspired by a moderate neoliberalism, included some proposals that could well have been drawn from a social-democratic program: to reduce inequalities in income distribution, make effective use of public spending, maintain some control over foreign capital (liberalizing only direct investments), and maintain an intermediate regime in the exchange rate—neither fixed nor floating. The three Washington institutions later went even further. All concerns with distribution inequality disappeared, and indiscriminate and severe spending cuts on public finance were prescribed. As for the exchange rate, «the Bretton Woods Institutions increasingly came to espouse the so-called bipolar doctrine [...] according to which countries should either float their exchange rate "cleanly" or else fix it firmly» (Williamson 2008, 21). Finally, Williamson's formulation demanded the free entry of foreign direct investment only, although not for all foreign capitals, while the International Monetary Fund, the U.S. Treasury, and the World Bank urged several countries in the developing world to embrace full liberalization in the movement of capital, with negative effects on the stability of their economies.

Williamson distanced himself from this version of the rules: «Those deviations from the original version were in my opinion terrible, with the [latter] one bearing the major responsibility for causing the Asian crisis of 1997» (Ibidem). The affirmation of these drastic rules that scarred a full decade, «associated with market fundamentalism» (Serra and Stiglitz 2008, 3), and referred to as the *Washington Consensus 2*, was determined by ideological and bureaucratic[1] reasons, but especially by a wide range of forces interested more in liberalization and globalization than in equitable growth and sustainable development (Serra and Stiglitz 2008, 6). As a matter of fact, while the years of the Washington Consensus were not a season of growth in the fortunes of the poor and the middle classes, the richest part of the population achieved far better results, both in developed and in developing countries (Krugman 2008).

When the outcomes came to be assessed, the Washington institutions were forced to conclude that a vast majority of people had not benefitted from the promised development results after more than a decade that the recipe had been applied. Where the rules were precisely followed, especially in Latin America and in the former Soviet area countries, development took very few steps forward, while where the recipes were blandly or not applied at all development was substantial. In Latin America, several years of recession followed some years of growth, so that growth under the Washington Consensus was far less marked than in the period between the 1950s and 1970s when countries followed import substitution strategies (Krugman 2008, 4). Berr and Comarnous (2007) calculated an indicator of compliance with the Washington Consensus's rules for 23 countries

[1] «The fact that countries that followed the Washington Consensus policies grew more slowly than those that did not should, by itself, have been enough to lead countries to abandon these strategies. But the International Monetary Fund (IMF) urged patience developing countries were told that growth was just around the corner» (Stiglitz 2008, 44).

in Latin America and the Caribbean and distinguished 12 countries with high and 11 with low indices. The 12 countries that diligently applied the prescriptions, (in the 1990–2003 period) recorded lower income growth, a significant increase in the debt service ratio to GDP and a marked increase in income distribution inequality. The results would be even more blatant, if we considered China and India where the Washington Consensus was not observed and development was outstanding, and if we included the former socialist countries where, by contrast, the doctrine was widely applied, with very poor results.

The World Bank itself recognized its failure. In March 2005, Gobind Nankani, World Bank's Vice President for Africa, wrote a sensational page in the presentation of the Report of the same World Bank: *Learning from a Decade of Reform.*

> "Washington Consensus" […] guided much of the advice by the World Bank and was reflected in the conditionality associated with adjustment loans. […]. The results of these reforms were unexpected. […]. Some countries managed to sustain rapid growth with just modest reforms, and others could not grow even after implementing a wide range of reforms. […]. We need to get away from formulae and the search for elusive "best practices" and rely on deeper economic analysis. […]. The new perspectives also have implications for behavior - in particular the need for more humility. (Nankani 2005, XI, XII, XIII).

The economic crisis in Western countries contributed to condemning the Washington Consensus, boosted by both financial de-regulation and the inequality of income distribution fostered by policies stemming from the same ideology that supported the Washington Consensus 2 (Pressacco and Seravalli 2009; Stiglitz 2010).

Reaching a consensus on development policies is impossible: «If there is a consensus today about what strategies are most likely to promote the development […] it is this: there is no consensus except that the Washington Consensus did not provide the answer» (Stiglitz 2008, 41). «The debate now is not over whether the Washington Consensus is dead or alive, but over what will replace it» (Rodrik 2006, 972). One line of thinking emphasizes humility, policy diversity, selective modest reforms, and experimentation.[2]

If we accept this line of thinking and adopt a case-by-case approach, the *territorial dimension* assumes new importance. A general prescription justified inattention to the territorial specificities within economic systems in order to achieve full employment of resources. Once the full utilization of all resources was secured, it was thought, it did not matter what they were and where they were located. However, what if full employment is no longer guaranteed? Is it not important to know what and where the disposable resources are? Don't different places within national systems require and deserve a specific development strategy?

It is undeniable that regional imbalances are more severe than country imbalances, and they are no longer accepted as inevitable now that a general recipe is no longer prescribed. In Europe, for example, the differences between

[2] «But there are other competing perspectives as well. One (trumpeted elsewhere in Washington) puts faith on extensive institutional reform, and another (exemplified by the U.N. Millennium Report) puts faith on foreign aid» (Rodrik 2006, 973).

regions in terms of gross domestic product per capita increased significantly from 1995 to 2009, while the differences between countries decreased. The Theil index calculated at EU-27 NUTS2 regions level remained almost constant until 2000 and then decreased significantly. Its decomposition to capture the trend of inequality between countries and within countries, however, shows that this reduction is due to a reduction in country difference, while differences between regions increased (Barca 2009, 83).[3]

1.2 Regional Development Strategies

Dealing with development policies, therefore, involves dealing with regional policies, where the debate is similarly unresolved.[4] Is it better to invest in people regardless of where they live, or should we support the development of places to help people more effectively? Should all regions grow simultaneously or could just a few drag the others? Is the goal of developing backward regions unnecessary or unattainable? In just two years, 2009 and 2010, five major reports were published on this and related issues. «Two quite different schools of thought […] have emerged, namely, the space-neutral [*spatially-blind* policies] and the *place-based* approaches» (Barca et al. 2012, 135). The influential World Bank (2009) report supports and adopts spatially blind policies, while place based approached are endorsed by the other documents: the Barca (2009) independent report prepared on behalf of the European Commission, the OECD (2009a, b) reports, the CAF (2010), a report by a Latin American Development Bank.

1.2.1 Spatially Blind Policies

The World Bank supports spatially-blind policies. «In countries where labor and capital are mobile, economic distance between lagging and leading areas should be addressed mainly with spatially blind or universal policies» (World Bank 2009, 230).

According to the authors of the Report, the only case in which spatially targeted place-based policies are justified is when there are linguistic,

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3 The Theil index is $T = \frac{1}{n}\sum_{i=1}^{n} \frac{y_i}{\bar{y}} \lg \frac{y_i}{\bar{y}}$, n = number of regions; y_i = income per capita in each i region; $\bar{y}$ = arithmetic average of per capita all regions' income. The Theil index is zero for a 50:50 distribution (the first half of regions has the 50 % of the total GDP, and the second the 50 %), is 1 for a 82:18 distribution, is 4 for a 98:2 distribution. The Theil index is decomposable (while the Gini index is not) allowing to calculate how much of the index is determined by the inequality of distribution between groups of regions (countries) and within groups.

4 «[…] the debate [regarding regional policies] is far from being settled and requires consideration of a range of fundamental and interrelated issues» (Barca et al. 2012, 135).

political, religious, or ethnic particularities. In all other areas (regions as well as cities), the main way to reduce the gap between major and minor prosperity conditions is for people to move from one place to another. «People seek opportunities» (World Bank 2009, 231). A proper development policy, they claim, should support the generation of these «opportunities» where the process of growth is already strong; facilitate people's influx to these areas so that they can earn better wages and national rates of growth can increase; redistribute the income thus produced in favor of less fortunate people unable to find well-paid work. «Should countries invest in people or in places? The answer is to invest in activities that produce the highest economic and social returns nationally. In leading areas, emphasize investment in places—durable investments that increase national economic growth. In lagging areas, emphasize investment in people—portable investments that stimulate mobility and accelerate poverty reduction» (World Bank 2009, 231).

It is worth noting that the expression *accelerated* poverty reduction and the Report's repeated recommendation in favor of redistributive people-based policies, clearly indicate that its philosophy is not really neo-liberal.

The polices in support of mobility consist in improved infrastructures linking different areas of the country, diffusion of the same *basic* public services and utilities[5] everywhere, and where possible a progressive tax system.[6] This strategy is conceived with the goal of reducing people's mobility costs. Communication and transport infrastructures make exploring and exploiting opportunities easier, no matter where people are. Basic public services and progressive taxation provide support for people living in lagging regions, by allowing them to deal with the cost of relocating to regions that are growing. You can also say that these policies are aimed at increasing *access* to *motility*, using the concepts of motility[7] and access to it[8] proposed by Kaufmann et al. (2004). The result would be fewer people unemployed or employed at low productivity rates in backward areas, and

[5] «Regardless of where people live, they should have affordable access to basic services such as primary health care, education, sanitation and security» (World Bank 2009, 231).

[6] «A progressive federal income tax in the United States has reduced income inequalities among people. An unintended effect has been to reduce income inequalities across states, showing that a spatially blind policy can be a sharp instrument for reducing spatial inequalities» (World Bank 2009, 239). In developing countries and regions, however, it is generally difficult to have an effective progressive taxation, because of the strong opposition it encounters as well as the remarkable capacity of the public administration required, that in general does not really exist.

[7] «Motility as the link between spatial and social mobility […] can be defined as the capacity of […] persons to be mobile in social and geographic space» (Kaufmann et al. 2004, 750).

[8] «Access refers to […] mobilities […] constrained by options and conditions. The options refer to the entire range of means of transportation and communication available, and the entire range of services and equipment accessible at a given time. The conditions refer to the accessibility of the options in terms of location-specific cost, logistics and other constraints» (Kaufmann et al. 2004, 750).

employment growth with higher productivity in advanced areas. Inequalities in people's income would thus be reduced, while inequality between regions would increase.

A way of thinking inspired by NEG (New Economic Geography) models was behind the spatially-blind strategy. NEG considers territorially unevenness, agglomeration of economic activities, and benefits from cumulative process in the densest and richest regions, essential features of economic development. It follows, in this mindset, that if you want to avoid these imbalances, there are only two possible scenarios: either these attempts will be ineffective, or—if they are effective—general development would slow down.[9]

This raises three issues. The first concerns the diagnosis that economic development is a territorially uneven process. The second is whether policies aimed at developing specific areas are as useless or even harmful as they claim. The third regards the assertion that a spatially-blind policy is the only possible strategy.

Andrés Rodriguez-Pose, addressing the first issue, recognizes that the World Bank (2009) report presents an accurate diagnosis of development patterns, with economic activities agglomerated in some regions and urban areas, which have better economic results compared to sparsely populated ones. «Of 42 countries […] only Brazil represents a genuine case of reduction of territorial disparities. In all other cases, the tendency is either toward stability or increasing divergence, with emerging countries in Central and Eastern Europe, Latin America, and parts of Asia—led by China and India—witnessing the steepest rises in territorial polarization» (Rodríguez-Pose 2010, 365). For this reason, the merit of the 2009 Report, also recognized by "proper" otherwise very critical geographers,[10] is to have forcibly placed space at the core of their reflection on development for the first time in fifty years at least (Peck and Sheppard 2010).

The second issue concerns the almost total lack of confidence in measures intended to bring development initiatives to disadvantaged places. Reported examples of failure and waste of resources, both in developing and in developed

[9] «Many countries have offered incentives to create economic mass in lagging areas. […]. Most European countries now focus more on "soft" interventions, such as investing in innovation and supporting research institutes, science and technology parks. […]. The US federal government is also involved in smaller "economic development" programs. […]. No independent evaluation of these programs is available. Area incentives, popular in developing countries, have produced mixed results at best. […]. The evidence […] shows that many such policies have led to waste» (World Bank 2009, 255–257). «The WDR (World Development Report 2009) […] urges policymakers to recognize that economic growth will be spatially unbalanced, and to try to spread out economic activity—too much, too far, or too soon—is to discourage it» (Gill 2011, 29).

[10] Criticisms were especially: «the WDR 2009 ignores the work of economic geographers, […] [it suffers from] simplicity [that] reflects economists' fondness of parsimony, […] [it maintains] a blatant ignorance of the political, social, and environmental dimensions of development, […] it would have been more inclusive (of neglected issues including financial ones)» (Rodriguez-Pose 2010, 364).

countries, while adopting these policies abound. In particular, the World Bank Report highlights two European examples: German reunification, and the Italian Mezzogiorno.

> Despite a vast flow of funds to Eastern Germany - estimated at more than € 1.3 trillion - privately produced GDP per capita is still only 65 percent of Western Germany's. And a lot of this catch-up is not because eastern GDP went up but because more than 1.7 million East Germans left for a better life in the west. […]. Italy's experience in trying to develop the Mezzogiorno - the lagging regions in the south - shows the futility of relying on targeted incentives to integrate lagging regions into the national economy. […]. Indeed, the fall in unemployment between 1950 and 1970 was achieved mainly due to emigration from the South to northern Italy. (Gill 2011, 27 and 29).

These two examples, however, deserve broader analysis. As you can see in the next chapter, Gill's claim does not seem fully justified in the German case. In the case of the Italian Mezzogiorno, the diagnosis should be more cautious, as the Appendix of this chapter shows. In general, it is worth noting that the Report is right to point out that the effects of place-based policies are insufficiently evaluated. However, this cannot be seen as evidence of their general lack of effectiveness. Since until recently impact evaluation of these policies has been lacking there is also no firm evidence to the contrary. For example, available research does not authorize European regional policy to be considered ineffective (Checherita et al. 2009). Conversely, there is some research that shows that this policy may have significantly contributed to economic growth of lagging regions when they are linked to local openness, institutional quality, and good governance (Ederveen et al. 2006). If European Funds had been distributed according to actual need and ability to use them effectively these results would have been even better (Becker et al. 2012). Other research has found the results of cohesion policy more effective in the medium and long term than in the short term. «The analysis has shown there are […] benefits from EU Cohesion Policy spending in the less developed regions of the EU. […]. In the medium term the productivity enhancing effects of infrastructure investment, R&D promoting policies, and human capital investments become gradually stronger and even when the programme is terminated and spending discontinued there are permanent positive output gains» (Varga and in't Veld 2011, 658).

The third issue concerns the World Bank's advice, according to which local targeted policies need to be replaced[11] by national spatially blind people-based policies, aimed at facilitating connection and mobility between backward and

[11] «Prosperity does not come to every place at once, and to some places it does not come at all. This is difficult for caring people to accept, because it is more natural to think that if a place is not prospering, the policy remedies must be incorrect or inadequate» (Gill 2011, 27). «Many countries have offered incentives to create economic mass in lagging areas. The idea is that to attract firms, lagging areas need to offset higher transport and logistics costs, weaker infrastructure, higher factor prices, and lower levels of public services» (World Bank 2009, 255).

advanced regions. This is the most criticized aspect of the Report.[12] One criticism is that the human and social costs of mobility are underestimated. «There are echoes here of former UK Conservative minister, Norman Tebbit, who, during the 1980s recession, famously told unemployed people in the lagging regions of the UK to "get on yer bike" and head off to regions with greater economic activity. Tebbit's speech was infamous because it reflected a complete erasure of histories and injustices, a deprecation of regional cultures and a call for markets to resolve problems of regional politics» (Rigg et al. 2009, 130). It should be noted, however, that the force of this objection depends very much on context. People's willingness and capacity for mobility, and the human and social costs related to the possible need to go elsewhere to find better life conditions depend on several factors (Clark and Withers 2007, 614). Some of them are related to access: infrastructure, public services, private pecuniary costs in relation to income. Others are personal (age, gender, education level). Still others are the result of historical conditions that influence ways of thinking and institutions, while yet others depend on the type of family and social relations, which, in their turn, partially depend on history, culture, and institutions (Lück and Schneider 2010). Although rigorous comparisons are difficult to make, it is widely recognized that spatial mobility is greater in the US than in Europe,[13] and this can be attributed to deep-seated historical reasons (Gill and Raiser 2012, 97). It should be stressed, however, that over the last twenty years spatial mobility has been increasing in Europe.[14] We could thus claim that the spatial mobility lever to reduce income distribution imbalances (as the World Bank Report recommends) is widely considered less forceful and unfair in the U.S., than in today's Europe (though this is destined to change in the future).

A further criticism concerns the fact that spatially-blind policies often turn into non-blind ones, especially benefitting core regions. «Spatially blind policies are rarely spatially neutral, because they typically end up as capital-city promotion policies. Ostensibly, this reflects the economics of agglomeration, but to a great extent it is a product of the national rent-capturing influence of capital-city elites in all areas of public life» (McCann, Rodríguez-Pose 2011, 203). In fact, according to the World Bank Report, concentration of development processes is unavoidable and appropriate. In this logic, it is not so bad if blind policies actually exacerbate this concentration.

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[12] «My main concern with the WDR 2009 lies […] not in its assumptions or in its treatment of agglomeration and distance but in its handling of institutions. This, in turn, leads to what, in my view, is its greatest weakness: the recommendation of spatially blind policies» (Rodriguez-Pose 2010, 367).

[13] «Between 2000 and 2005, about 1 % of the working age population had changed residence each year from one region to another within the EU15 countries, compared to an overall interstate mobility rate of 2.8–3.4 % in the US during the same period of time» (Ester and Krieger 2008, 95). See also Gáková and Dijkstra (2010).

[14] «After decades of being interpreted as the core driving force in transformation processes by sociological theories, mobility recently has become a popular object for empirical research […]. Results confirm at least one assumption of the theories of late modernity: People in Europe have become more mobile over the course of the last two decades» (Lück and Schneider 2010, 135).

Finally, the strongest objection to the spatially-blind strategy concerns the *waste of opportunities*. Specific locations may have untapped resources, which can be discovered and exploited only through an intentional place-based action of internal-external agents. These not yet exploited resources exist because the market and the local elites are unable to overcome discontinuities and thresholds of development processes (traps). «[…] traps that limit and inhibit the growth potential of regions or perpetuate social exclusion […] can only be tackled by new knowledge and ideas: the purpose of development policy is to promote them through the interaction of […] local groups and the external elites involved in the policy» (Barca et al. 2012, 139).

1.2.2 Place-Based Interventions

«Addressing these questions[15] requires a full research programme» (Garcilazo and Oliveira Martins 2013, 3). A good starting point is offered by Paul Krugman author of the NEG founding "Geography and Trade".

> Rereading *Geography and Trade*, I realize that it has something of retro – one might almost say steampunk – feel. […]. Regional specialization peaked sometime around the Wilson administration [1913-1921], and […] it has been downhill since the end of World War II. […]. The word I guess I'd use for regional specialization in the contemporary United States (and, to a somewhat lesser extent, in Europe) is "subtle". There is still extensive specialization […]. But the specialization seems to involve relatively fine distinctions. (Krugman 2010, 11–13).

These «subtler» forms of agglomeration economies spread out growth chances so that they are no longer concentrated in a few areas. Between 1995 and 2005, for example, in the economic growth of 22 large OECD countries, the contribution of TL2 regions with a 1995 GDP per capita below the national average was significant in half of cases. It is true that in Japan, Germany, Italy, Canada, and Finland, the contribution of these regions was lower than that of the rich regions. However, in several other cases, it was higher or similar, as in Australia, the United States, France, Netherlands, Sweden, and Norway. By increasing the level of disaggregation with TL3 regions data, and considering a slightly longer time span (1995–2007), Garcilazo and Oliveira Martins (2013) conclude that: «[…] the possibilities for growth seem to exist in many different types of regions».

Place-based interventions are, therefore, proposed specifically for places, and designed for specific local opportunities. Their purposes do not necessarily include economic convergence, but untapped resources—when they are available—can

[15] «Should economic development policies be space-blind and let market forces alone determine the location of economic activities, or should policies contain 'place-based' elements because regional growth factors can only be fully mobilized in this way?» (Garcilazo and Oliveira Martins 2013, 3).

be discovered and exploited locally. Without place-based interventions those potentialities are wasted.

The debate on the merits of these two paradigms has stated clearly that, if there were no issue of wasted potential, the redistributive people-based policy would be preferable. In 1966, Louis Winnick introduced the term "place-based" for the first time, thus highlighting the dichotomy between policies for places and policies aimed at helping individuals. As Edward Glaeser (2005, 2007) later popularized, place-based policies are flawed where targeting[16] and coverage[17] are concerned. A trade-off appears between static and dynamic efficiency. Adopting a redistribution policy in favor of people makes it possible to help many (coverage) who really need it (targeting). However, it does not usually make them self-reliant. A place-based policy runs the risk, in the short term, of favoring those who do not strictly need it, but, over time, it can allow the whole area—as well as of all its inhabitants—to improve their lot. In essence, place-based policies should be implemented in such a way that really teaches people to fish rather than give them a fish. Of course there must be fish in the river.

Without special care (in ensuring that there are fish in the river), such policies may have perverse effects. There are certain conditions that lead exactly in this direction, such as "pork-barrel politics".[18] Actively involved local authorities are tempted by a direct exchange between votes and favors. Others seek consensus by providing so-called development policies in order to keep up with the neighbors. As a result of these behaviors, there has even been a certain amount of perplexity concerning institutional decentralization. Azfar et al. (1999) and Jütting et al. (2004) argue that empirical research reveals at best highly-variegated outcomes of decentralizing reforms implemented in different countries in terms of efficiency and development. These authors underline that decentralization increases efficiency in allocating resources, as well as the responsibility of institutions

[16] «Targeting refers to the success (or failure) of identifying and truly helping intended beneficiaries. While place-oriented strategies invest resources into distressed places, there is no guarantee that the resources actually reach distressed people. […]. When tax dollars from wealthy areas flow to poorer areas, invariably some poorer people in richer areas pay to help some richer people in poorer areas» (Crane and Manville 2008, 4).

[17] «Coverage is […] referring to the share of the intended beneficiary base reached. […]. A place-based policy that dedicates housing assistance to one poor neighborhood may ignore many individuals in other neighborhoods […] who also cannot afford housing» (Crane and Manville 2008, 4).

[18] «On the southern plantations in slavery days, there was a custom of periodically distributing rations of salt pork among the slaves. As the pork was usually packed in large barrels, the method of distribution was to knock the head out of the barrel and require each slave to come to the barrel and receive his portion. Oftentimes the eagerness of the slaves would result in a rush upon the pork barrel in which each would strive to grab as much as possible for himself. Members of congress in the stampede to get their local appropriation items into the omnibus river and harbor bills behaved so much like negro slaves rushing the pork barrel, that these bills were facetiously styled "pork-barrel" bills, and the system which originated with them has thus become known as the pork-barrel system» (Chester Collins 1919, 693).

(reducing corruption), and the capacity for initiative, but only if rather demanding conditions are satisfied. Looking at these conditions, you might get the feeling that decentralization is a good idea in rich and advanced areas, but not in lagging ones. This objection, however, can be attenuated. Shah (1998), for example, complains that the debate has been too schematic; while Seddon (1999) points out that the requisite conditions have different impacts, and that what counts is the overall design of decentralization. However, the literature on the subject does not allay concerns.

It would appear that the crucial problem to be solved for place-based policies to be effective concerns its *complex design*. It must be able to achieve *integration* between internal and external forces. In fact, the serious limits of the two opposite approaches, top-down or bottom-up—both of which have given poor results—are underlined. Interventions dropped from above have failed to grasp the *real potential* of places and to raise the necessary mobilization of local forces (Barca 2011, 218). However, bottom-up initiatives entirely implemented on the basis of local knowledge and preferences, have also proved ineffective: «local elites being incapable (capacity being path-dependent), unwilling (their aim being to maximize their own share of a given output) or insufficient (centripetal flows of capital and labor occurring due to agglomeration effects) to deliver the appropriate institutions and investments» (Ibidem).

The most successful interventions (Juarez & Associates and Harder+Company 2011), were those that managed to integrate resources and knowledge from above and below. Ultimately, discovery and exploitation of existing distinctive, as-yet untapped resources requires two conditions. First, external assets and capabilities should overcome the backward equilibria of local forces dominated by those who cannot or do not want to change. Second, local forces should be capable and willing to mobilize and accept external challenges. These two conditions are difficult to fulfill. «Implementation of cross-sector, multi-partner place-based initiatives is extraordinarily difficult. The range of issues, actors, relationships, and processes involved are many and complex. They are embedded in historical relations, contexts of inequality and shifting circumstance, and structural constraints that defy pre-planned linear progress and require a combination of strategic opportunism, alliance building, negotiation, flexibility, and significant resources (including money, time, knowledge, leadership, organizational capacity, and political leverage)» (Chaskin 2000). «It is not surprising, then, that weak implementation capacity and ineffective management have been found to undermine many otherwise promising initiatives whose community-level activities may have been well-theorized, well-designed, and well-planned» (Auspos et al. 2009). The position of the World Bank may seem reasonable in this context. If political and administrative capacities are both lacking, they claim, it is better to avoid complicated place-based policies.

However, debate and experience has taught us that, though arduous, the challenge may be successful, provided that the difficulties and the need to learn are fully recognized. To prepare the prerequisites for «*internal and external* *alignment»,* an indispensable tool for the implementation of effective place-based development policies that are especially demanding, its agents must first understand the nature of the problems they are dealing with.

Before beginning this analysis, however, some comments on European cohesion policy, which has been given a new framework of rules since the end of 2013, are necessary. It is worth examining the nature of the reforms implemented and the reasons for a not entirely satisfactory setup.

1.3 European Cohesion Policy

The rationale (and the history) of European cohesion policy are so complicated that many interpretations have been offered, all stressing several features, including substantial differences between what has been said and what has remained unsaid. For example, some interpretations stated that while this policy's formal mission is to reduce regional disparities, its origins were driven by "pork-barrel" politics. In this vein, subsequent reforms appeared as "side-payments" to lubricate EU integration, with the main goal of building direct relationships between European and local institutions to reduce the weight of national governments (Hooghe 1996).

1.3.1 Two Opposite Visions

What is certain is that the cohesion policy budget more than doubled at the end of the 1980s, due to Jacques Delors's reform (Table 1.1).

After this turning point, when the policy occupied one third of the entire budget, the origin of its funding became crucial. In fact, the logic of cohesion policy entails a transfer of resources from some countries to others. The "voice" of those who pay more than they receive has some impact on the functioning of the policy, depending on how individual countries are to negotiate the terms of their contributions. In the EU, the financing frame of the budget gives countries a strong voice.

Table 1.1 EU budget and cohesion policy appropriations

	1975	1980	1985	1988	1993	2000	2007	2014	2014–2020
Cohesion policy % of budget	6.2	11	12.8	17.2	32.3	34.8	36.7	33.2	33.9
UE budget % of GNI	0.53	0.8	0.92	1.12	1.2	1.07	1.04	1	1

Source Table obtained by processing data from Polverari (2013, 16) and from European Commission (2013, 9)

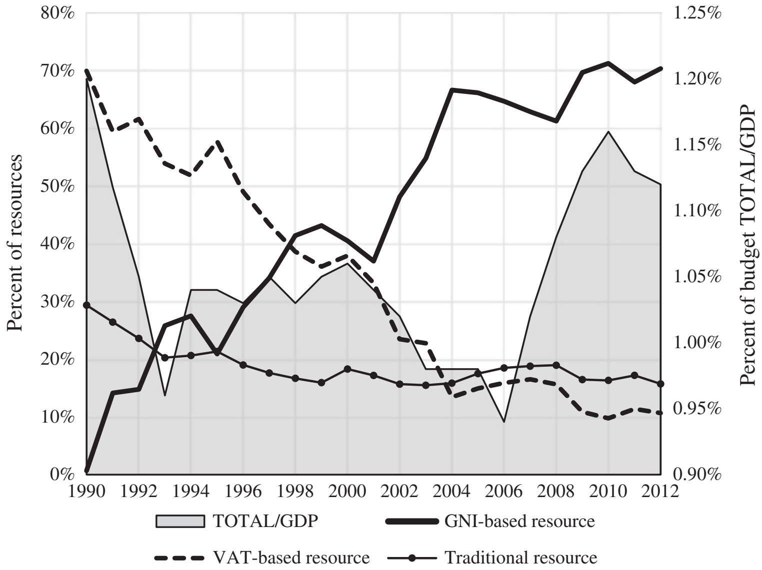

Fig. 1.1 European Union's budget and resources. *Source* Figure obtained by processing data from European Court of Auditors, various reports

The revenue of the EU budget is not genuinely "owned". Despite repeated reports of this anomaly, it still depends entirely on the individual States' contribution. Moreover, the three major categories of revenue (traditional, VAT-based and GNI-based resources) have different psychological and symbolic degrees of autonomy from a States' deliberations. Traditional resources are the most autonomous as they come from customs, agricultural duties, and sugar levies established in a quasi-automatic way. GNI-based resources are the least autonomous, because they are the result of States' deliberations even if established in relation to the per-capita income of the country. VAT-based resources are in-between, being a share (with complicated clauses and calculations) of the value added tax not directly paid by taxpayers but by States.

When cohesion policy doubled, between the end of the 1980s and the 1990s, a long, ongoing process of growth of the GNI-based resources related to the Union budget financing, also took place (Fig. 1.1).

This rise accounts for significant negative consequences. «The greater the share of the GNI contribution is, the more Member States conceive of it as a transfer from their national treasury to Brussels […] and the more importance they attach to what they get in return» (Haug et al. 2011, 2). The *opposition* between net contributors and net receivers as well as the increasing emphasis on the *fair return* concept deserve special attention. The underlying logic «is based on the erroneous assumption that European integration generally, as well as, more specifically, common policies financed by the European budget, are "zero sum games" in which gains on one side necessarily mean losses on the other» (Le Cacheux 2005, 28). This logic poses obstacles to territorial development policies. If those who pay more than they receive immediately in return are convinced that the game is zero-sum, certainly they will try to do everything in their means to pay as little as possible, although in the long-run it is also in their interest to pay more. Without considering important political aspects (domestic and international), even from a strictly financial point of view, Germany and other northern European countries should have a vested interest in the economic growth of lagging regions, so that they become able to pay more. In order to increase the resources available for development policies, while reducing the harsh ongoing debates on their funding, as well as the risk of de-legitimization, it would be necessary for European policy makers to dispose of their own funds, mandatorily provided by citizens. This, however, would require a truly sovereign European Parliament entitled to impose taxes on its citizens, while European institutions and policies are still largely ruled by Member States.

The problems of financing the budget are not the only reasons for opposition—even in Europe—between place-based and people-based policies. Place-based policy is conceived as decentralized and generalist, while people-based policy is seen as state centralistic and sectorial. European cohesion policy has opted for a place-based orientation, but the EU milieu has only acknowledged this paradigm gradually. This is another probable reason why the policy has always been under threat.[19] However, it is not only a matter of path dependency. The indictment that regional policy was not sincerely in favor of regions in need of support has created an opposition between the place-based approach and the redistributive approach. In fact, the pre-final data on 1994–99 and 2000–06 programming periods, indicate that cohesion policy funds grew in favor of rich countries (Wostner and Šlander 2009, 10). Successive stages of EU enlargement increasingly called for an allocation of funds by means of a simple and transparent transfer of resources from rich to poor countries, without all the complicated planning system regional policies.

1.3.2 The 2014 Reform

For the first time since 1988, EU cohesion policy and its legal provisions were profoundly reformed in view of the need to implement regional programs in the 28 Member States during the 2014–2020 programming period. The new rules were

[19] In fact, academics, analysts, practitioners, and European governments continue to be uncertain about its rationale, organization and effectiveness (Manzella and Mendez 2009, 3).

formally endorsed by the Council of the European Union and came into force when the Official Journal of the EU, L 347, published them on December 20, 2013. The Partnership Agreements were adopted in the early months of 2014 as the final stage of a process that had begun five years before.

Between 2008 and 2009, the European Commission's Directorate-General for Regional Policy initiated a far-reaching debate involving academics, international and national institutions concerning cohesion policy's rationale, priorities, and administrative framework. At the same time, however, the European Council called on the European Commission to «undertake a full, wide ranging review covering all aspects of EU spending». Initially planned to be delivered in 2008, the review was finally presented in October 2010. Before this date, several public events, in addition to official and unofficial publications, made it clear that the direction of the reform that was recommended opposed the approach endorsed by the Barca Report. For example, at the Conference on Public Finance in the EU, on 3–4 April, 2008, only two presentations on regional policy were made. The first was introduced by Johannes Becker and Clemens Fuest and dealt with infrastructure, the other by Marisela Montoliu Munoz of the World Bank, who presented an anticipation of the main points contained in the World Bank Report which recommended the spatially-blind approach. The conference proceedings do not report critical comments on the clearly redistributive and sectorial approach of these two contributions.

Another significant event was the approval by the European Parliament of the resolution of March 29, 2009 "On the Mid-Term Review of the 2007–2013 Financial Framework", shortly before the Barca Report was presented (May 14th, 2009). This resolution mentioned cohesion policy only once: «simplify the procedures notably of the Management Control Systems (MCS) in order to accelerate payments». Moreover, its entire approach was sectorial and redistributive and called for a postponement in the start of the new programming period to 2016/2017.[20] The most important obstacle to the cohesion policy revival, was a draft Commission Communication issued in November 2009. Its key proposals on the future EU budget presented a serious threat to cohesion policy by suggesting that funding should focus on the less-developed Member States, instead of regions, with more "flexibility", clearly in a logic of redistribution (COM 2009, 11). In short, it is true that the Commission supported the revival of cohesion policy with the Barca Report and subsequent consultations along with several

[20] Shortly after, the European Parliament asked to switch to a structurally programming five years period, which would have severely damaged the entire cohesion policy's setup. Due to the most recent stances, the European Parliament is considered in favor of cohesion policy as place-based development policy (Mendez et al. 2011). A conversion therefore occurred, or maybe the European Parliament may afford such undulations because it still counts little.

Table 1.2 UE budget for cohesion policy

	2007–2013	2014–2020	2007–2013	2014–2020
	Million € constant prices		Percent	
Convergence and cohesion fund[a]	273,962	232,792	78	71
Transition[b]	24,738	31,972	7	10
Sum	298,700	264,764	85	81
More developed[c] and territorial coop	53,010	60,385	15	19
Total	351,710	325,149	100	100
UE budget total	994,175	959,988		

Source Table obtained by processing data from: http://ec.europa.eu/budget/mff/index_en.cfm, and from Bachtler (2013, 6)
[a]Less developed regions: GDP <75 % of EU-27 average
[b]Transition regions: GDP 75–90 % of EU-27 average
[c]More developed regions: GDP >90 % of EU-27 average

other documents.[21] At the same time, however, the Commission itself impoverished the policy's re-launch with its budget review aimed at downsizing regional policy in order to make room for purely redistributive actions in favor of the new Member States and sectorial actions (Mendez 2013, 651–652).

In terms of figures, despite the attribution of substantial funds to transition regions, the approach supporting redistributive policy did not win. There was, however, some negative impact on cohesion policy (Table 1.2). The cohesion policy budget, in fact, was reduced by 9 %, while the overall budget decreased only 3.5 %. This decrease took place even though the more developed regions increased

[21] June 22, 2009: Seminar on Reform of EU Cohesion Policy in Brussels, organized by the Commission and the Czech EU Presidency. June 25, 2009: The European Commission publishes the 6th Progress Report on economic and Social Cohesion, which includes the results of the public consultation launched in October 2008. April 15, 2010: The Committee of the Regions adopts the text on future Cohesion policy after 2013, drafted by Michael Schneider. 4–7 October 2010: 8th European Week of Regions and Cities (Open Days) on the theme "Europe 2020: Competitiveness, co-operation and cohesion for all regions". October 7, 2010: The European Parliament adopts a resolution on EU Cohesion and regional policy after 2013 proposed by Danuta Hübner, head of the Committee for Regional Development. November 10, 2010: The European Commission publishes the 5th Report on Economic, Social and Territorial Cohesion and launches a public consultation. December 7, 2010: Conference on "Cohesion in Europe: Regions Take up the Challenge" organized by the Assembly of European Regions (AER) in Brussels. January 31, 2011: 5th Cohesion Forum organized by the European Commission in Brussels "Investing in Europe's future: The contribution of Cohesion policy to Europe 2020". April 2011: The European Commission publishes the results of the public consultation on the conclusions of the 5th Report on Cohesion Policy. May 2011: informal meeting of ministers responsible for regional development, organized by the Hungarian Presidency of the EU Council. June 2011: The European Commission presents proposals on the size and shape of the EU budget after 2013 (Multi -annual Financial Framework). July 2011: the European Commission publishes proposals on the structure and rules relating to EU cohesion funds after 2013. 10–13 October 2011: 9th European Week of Regions and Cities (Open Days) in Brussels. Fall 2011: The European Commission presents the new legislative package for cohesion policy.

their share from 15 % in 2007–2013 to 19 % in 2014–2020. The share allocated to the less developed regions is 71 % for the 2014–2020 period against 78 % in the 2007–2013 phase. This "victory" of major contributor countries was duly accompanied by rule changes creating greater severity in the selection and implementation of programs and projects, which were definitely more geared to the priority objectives set by the European Union.

This condition was also accompanied by the symbolic success (but with practical consequences) of the "smart specialization" formula. The idea is natural in a place-based approach, i.e. oriented to avoid the "me too" syndrome. The fear that a policy available to more regions than previously would not be legitimized justifies the attempt to assure, by means of at least a conceptual construct, that funds should not be allocated without good reason.

Unfortunately, despite European rhetoric, there is a significant distance from the recommendations and guidelines set out in the Barca Report, not so much on regulatory issues, but regarding perhaps more important organizational and political aspects.[22] These recommendations called for a much improved, high-level political debate, fuelled by the new information on performance produced by the previous changes. A renewed system of checks and balances among the Commission, the European Parliament and the Council, was to be strengthened by creating a formal Council for cohesion policy, assessing decisions and results and issuing recommendations. The Report also suggested increasing administrative and technical capacities to design, monitor and evaluate programs, both in Member States and in the Commission. These recommendations were not implemented. «While the proposals on *ex-ante* conditionality seek to improve institutional capacity, the main focus is on program implementation issues (e.g. project planning and procurement) rather than strategic capacity» (Mendez et al. 2011, 135). By contrast, the Barca Report guidelines for cohesion policy rules were accepted and even strengthened. For example, the "performance reserve",[23] proposed at 3 %, and established at 5 % (after a first 7 % hypothesis).

[22] Pillar 6: Promoting experimentalism and mobilizing local actors. Pillar 8: Refocusing and strengthening the role of the Commission as a center of competence. Pillar 10: Reinforcing the high-level political system of checks and balances.

[23] «Countries and regions will have to announce upfront what objectives they intend to achieve with the available resources and identify precisely how they will measure progress towards those goals. This will allow regular monitoring and debate on how financial resources are used. It will mean additional funds can be made available to well-performing programmes (through a so called performance reserve of 5 %) towards the end of the period. Ex post conditionality will strengthen the focus on performance and the attainment of Europe 2020 goals. It will be based on the achievement of milestones related to targets linked to Europe 2020, set for programs covered by the Partnership Contract. A total of 5 % of the national allocation of each fund will be set aside and allocated, during a mid-term review, to the Member States for the programs that have fully met their milestones. In addition to the performance reserve, failure to achieve milestones may lead to the suspension of funds, and a serious underachievement in meeting the targets of a programme may lead to cancellation of funds» (European Commission 2013).

It would appear that higher provision for more developed regions have made cohesion policy less easy to sustain. This was offset by stricter rules and a requirement for more specific objectives. The stricter rules and more specific objectives, however, did little to create sympathy for the policy. Indeed, as we have seen, place-based policies are very difficult to design, implement, and evaluate. It is hoped that the 2013 cohesion policy reform will influence the planning of interventions by making the objectives and tools required clearer. This reform deserved a great deal better at the level of organizational resources.

Appendix: The Italian Mezzogiorno

The reduction of unemployment in Southern Italy in the 1960s and 1970s was certainly a consequence of emigration, i.e. the reduction in labor supply, as outlined by the 2009 World Bank's Report. In 1951 the southern population was 24.9 % of the entire national population; in 1971 it decreased to 22.9 %. According to a survey conducted in 1978 by the Center for Economic and Agricultural Research for the South of Portici, between 1951 and 1971, 4,200,000 people, out of a total population of 17,500,000 emigrated from Southern Italy.

At the same time, there was a significant increase both in production and labor demand, which Indermit Gill ignored. Figure 1.2 shows the course of the South/

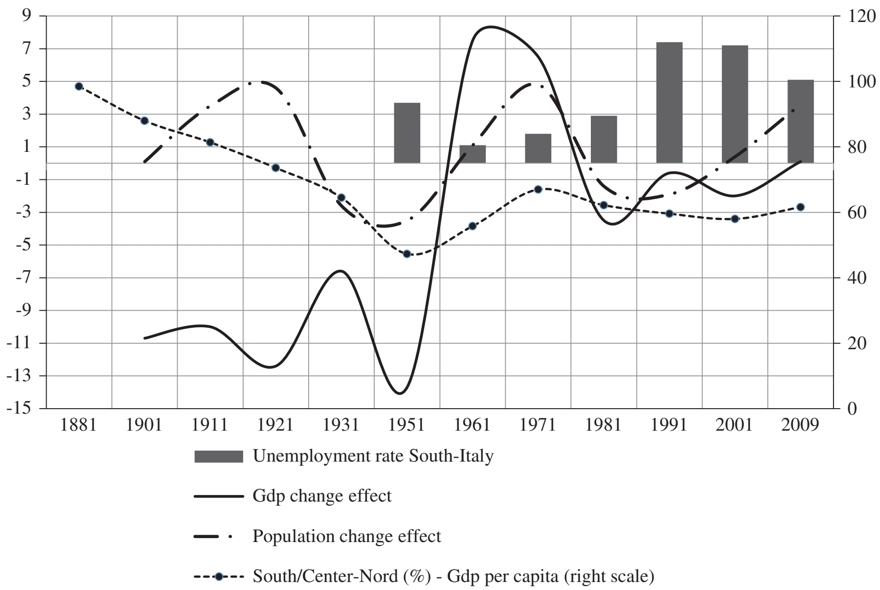

Fig. 1.2 Some figures about the North-South divide in Italy. *Source* Figure obtained by processing data from Iuzzolino et al. (2011, 64–74)

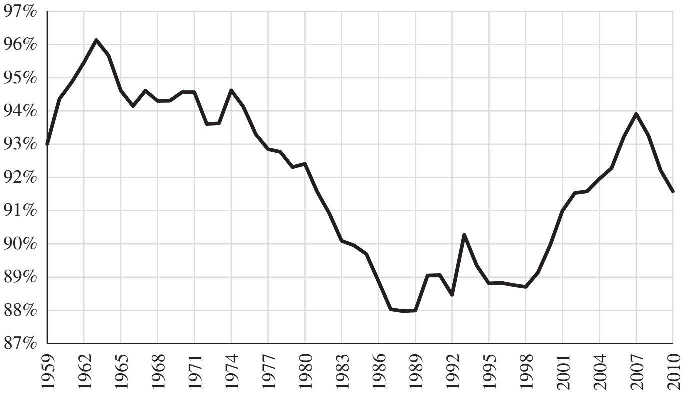

Fig. 1.3 Italian rate of employment (on the labor force). *Source* Figure obtained by processing data from Istat (2011, 474)

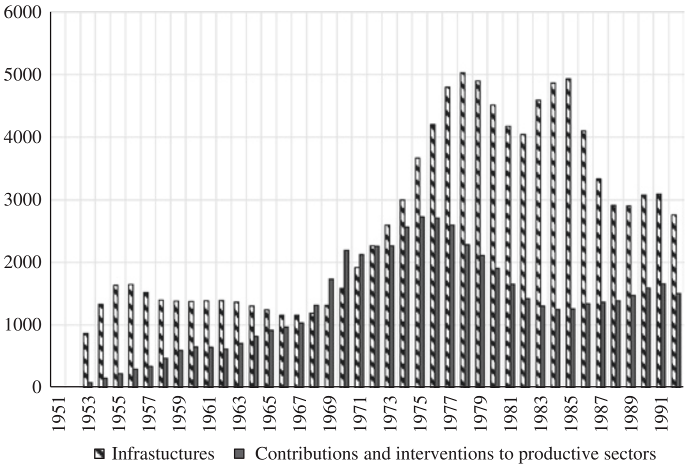

Fig. 1.4 Cassa per il Mezzogiorno, expenses in million euro in constant prices (2008), moving three year averages. *Source* Adapted from Lepore (2012, 101)

Centre-North share of GDP per capita and of its two components, population and GDP change. The share of per capita income in the South decreased constantly from 1881 to 1951. In 1881, twenty years after the Country's unification, there was no gap recorded between North and South because the North-East was very backward. While this gap within the North gradually closed, the North-South gap opened and continued to grow. The 1960s and 1970s were the only period when a significant reduction in the North-South division was achieved. This was the time of the "Italian economic miracle" (1959–1974), as shown in Fig. 1.3, and also the time of a particularly effective development policy implementation in favor of the South, as shown by Lepore (2012).

The Cassa per il Mezzogiorno's intervention in favor of the productive sectors through grants, loans, direct investments (which could be considered in the logic of a place-based paradigm) were particularly relevant in the 1960s and 1970s. The most significant expenditure on infrastructure (sectorial top-down interventions), on the other hand, occurred in the 1970s and 1980s (Fig. 1.4).

The period featuring the most notable place-based action is when there was the greatest growth in the GDP share per capita in the South compared to the Centre-North due to the component of local growth and not to that of emigration. In comparison, the following years witnessed higher expenditure in infrastructures and lower economic growth. In general, although these interventions in favor of the South did not cancel the gap with the Center-North, they are correlated with the interruption of its historical upward trend. Moreover, in their period of greatest intensity, these policies produced a remarkable reduction of the gap, which later stabilized at a significantly lower level compared to the 1950s when the South-oriented policy began.

The Italian Mezzogiorno, therefore, does not demonstrate that regional development policies are inevitably destined to fail. Although the South has not reached the development levels of the Center-North, it is also true that when the policy for the South was very active, significant results were successfully achieved.

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