Low growth, institutions and the need for a new regional policy

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Sustained low growth

Sustained low employment growth
Tendency to underperform in the national context

Weaker institutions
From 2000 to 2011, Italy received more than $60 billion in the European Union financing to underwrite a wide array of programs, in areas including agriculture and infrastructure, most of it directed to the south, with little but a half-completed highway to show for it. Spain, which was given a little more than US$100 billion, at least built a world-class high-speed rail network. (Greece received 50 billion, an enormous amount in per capita terms, also to a clear effect.)

Rachel Donadio, NYT, Oct. 7, 2012
The middle income-trap conundrum

- Regions can enjoy high growth rates for a certain number of years
- Before experiencing a long-term slowdown
  - Labour costs rise to a point where other regions become more attractive for labour-intensive, low-skill activities
  - But they lack the advantages of richer regions in terms of:
    - Productivity
    - Organisations and business ecosystems
    - Inventiveness and skills
- Stuck between a rock and a hard place
- And increasingly representing one of the hardest challenges for policy
Has nothing been done for these areas?

- No
- **National level**
  - Welfare transfers
  - Public employment
- **Regional level**
  - Past industrial policy
  - White elephants
- The real economic potential of these areas has not been mobilised
  - Policies have often promoted collusion, corruption and poor government
  - Perpetuating the impression that there is no future
    - This is massively resented
Has nothing been done for these areas?

- Policies for regions in this middle-income trap need to move up the policy agenda
  - In order to generate more opportunities in middle-income trap regions
  - To tap into untapped economic potential at European level
  - And to preserve and enhance the development potential elsewhere in Europe
- We need more, not less policy
  - But a different policy
    - Away from simply providing welfare
    - Away from sheltering less developed regions
    - Away from big, visible white elephants
Towards a different type of policy

- **Place-sensitive policy**
  - Strongly based on theory and evidence
  - But sensitive to the different conditions of clubs of regions
  - Aimed at tapping local potential
  - And enhancing the opportunities of every territory (entrepreneurship, skills, absorption of innovation)
  - Offering portable skills
  - Tackling institutional inefficiencies and bottlenecks head on

How to go about doing it?
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