

February 2024

The case for place-based policy

Anthony J. Venables¹

University of Oxford, Monash University and CEPR

1 INTRODUCTION

The case for place-based policy requires identifying and understanding the fundamental economic reasons for spatial disparities.² If such disparities were just random self-correcting shocks, there would be little case for policy. In this Policy Insight, I make the case that spatial disparities arise and are persistent because of failures of economic adjustment that are inherent to the spatial context. They have negative implications for economic efficiency and for social equity, and therefore require a targeted policy response. I set out recent economic thinking about these failures and about the possibility that a region may become stuck in a 'low-level spatial equilibrium', and I outline the costs of such a trap.

Building the case and tackling the problem requires credible and effective policies. While there are no easy solutions to the problem, I outline recent approaches to the design of policy and also offer some speculations about the implications of new technologies.

The context is principally lagging sub-national regions. Regions are heterogeneous, all having different economic structures, with different skill mixes and consequent differences in income per capita and other economic outcomes. My focus in this Policy Insight is on those regions that have fallen behind their neighbours, typically because they have experienced negative shocks such as loss of traditional sources of employment, driven by trade or technology shocks or more general structural change.

The perspective throughout is that of economic analysis. I will use economic reasoning to outline the way economists now think about regional issues. I will provide some empirical backing, drawing principally on UK regional problems. Little attention will be given to other dimensions of the problem, including governance and sociological aspects; these are undoubtedly important, but beyond the scope of this Policy Insight.

2 WHY ARE THERE PERSISTENT REGIONAL DISPARITIES?

Regional disparities can arise as areas are hit by negative economic shocks due to changing technologies or patterns of trade, or during a period of relatively rapid economic change as some areas pull ahead of others. They are particularly problematic as they often persist for long periods of time. How can such differences persist in

¹ This is a revised version of a paper written for the European Commission programme of work on "The future of cohesion policy", Brussels, May 2023. I thank members of the CEPR RPN on Spatial Disparities and Policy for helpful comments.

² Place-based policy is defined as special and differential spending, tax, or regulatory measures targeted at areas with lagging socioeconomic performance and with the objective of improving their performance.

reasonably well-functioning modern economies? A simple economic view is that price signals – changes in relative wages and asset prices between an affected region and others – should bring about automatic adjustment and convergence. The relatively poor performance of lagging regions might be expected to reduce relative wages and prices, thereby triggering two adjustment mechanisms. One is a change in labour supply to the region: out-migration mitigates the problem as households and workers leave the adversely affected region. The other is new sources of labour demand: new jobs should be created, as firms respond to cheaper labour by investing in the region.

In practice, these signals do not work effectively to bring about the desired change, for two broad reasons.³ One is that, within an integrated economic region, price signals may be quite weak. Price changes are muted by the fact that there is no local currency (specific to an affected region) to depreciate, so the main mechanism that operates for adjustment between nations is absent. Furthermore, some relative prices across regions may be fixed by national or supra-national practices and regulations (e.g., wage rates set at a national rather than regional level), and by the fact that markets are highly integrated (e.g., a common interest rate). Other relative prices do change, especially those of ‘immobile factors’ – land, housing, and less mobile types of labour.

The second reason is that the responses of households and firms (respectively supplying and demanding labour) to any price and wage changes that occur are weak and highly selective, changing both the composition of the remaining labour force (labour supply) and the nature and skill mix of the jobs on offer (labour demand). These effects may deepen, rather than cure, any initial disparities.

Migration, skills, and labour supply

Migration has been, and continues to be, a major force for moving people out of lagging regions to more economically productive areas.⁴ Urbanisation is the prime example of this, and continues to be important even in areas that have a long urban history. Potentially, it brings two benefits. Workers who move experience a direct personal gain – that is why they move. And the left-behind population experiences an increase in income as labour becomes the scarce factor, for example since there is now more land per remaining worker. Both these mechanisms work in many circumstances, but are problematic in the context of lagging regions.

Opportunities to move – and returns from so doing – vary widely and may be severely constrained. Migration is an investment that incurs fixed costs (both financial and by disrupting social networks) and the returns to this investment are generally greater for the young and the highly skilled. Furthermore, ability to move is conditional on a person’s assets – their human capital and their financial resources. Two people of identical ability brought up and living in different places are likely to have followed different career paths, and acquired different skills and different housing wealth. An immigrant from the lagging region may therefore be unable to access the higher wages and living standards of a counterpart in the high-income region. He/she may have the wrong skill mix or be disadvantaged in the housing market, facing additional housing and borrowing costs. These obstacles create major barriers to migration from low-income to higher-income places.

To the extent that out-migration occurs, its impact on the left-behind region may well be negative rather than positive. Since migrants are generally the younger and more skilled, the demographic and skill composition of the remaining population is adversely affected (Box 1). Loss of population does not bring benefits to the remainder, since economies of scale are lost (in contrast to a traditional view based on diminishing,

³ The following arguments are context-specific. For a review of ways in which the balance between regional convergence and divergence forces has moved in the direction of divergence, see Floerkemeier et al. (2021)

⁴ The US experience is instructive. Internal labour mobility was high until the early 1990s. Up to that date US places responded to negative shocks by out-migration, such that unemployment and per capita income levels returned to their pre-shock levels within a few years (Blanchard and Katz, 1992). Mobility rates fell sharply from the 1990s, and with this emerged larger and more persistent spatial inequalities (Ganong and Shoag, 2017; Austin et al. 2018).

rather than increasing, returns to scale). Stagnating or declining land and house prices lower the incentive to maintain existing buildings and to build new ones, and there may be deterioration of public services as the local tax base is eroded. The sense of being ‘left behind’, the discontent that this causes, and consequent political implications are well documented.

BOX 1 MIGRATION: AGE AND SKILL

A thorough analysis of the skill and age mix of UK regions and the impact of inter-regional migration is undertaken by Overman and Xu (2022). A flavour of their findings is conveyed by data comparing London with some of the poorest towns in the UK, in particular Skegness and Grimsby, towns on the north and central eastern coast of England.

In London and other prosperous cities such as Bristol, 35% of the adult population is less than 35 years old, compared to 17% in Skegness. At the other end of the age distribution, only 16% of London’s adult population is over 64, while in many coastal towns the share exceeds 35%.

Differences in skill levels and the role of migration in redistributing skills are highlighted by the education of a snapshot of 27 year-olds, looking at those born in a place compared to those working in the place. In London, 36% of those born in London have a university degree, and this is supplemented by net in-migration of skilled workers such that 44% of those working there have a degree. In Grimsby, the proportion of 27 year-olds born in the city who acquire degrees is 19% and even fewer of those working there (12%) have one.

Job creation and labour demand

The second potential adjustment mechanism is that new jobs are created in lagging regions to drive new economic growth or to offset job losses in traditional sectors. Land is likely to be readily available and, to the extent that relative wages and rents change, land and labour may be relatively cheap, so firms should find lagging regions profitable places in which to invest and expand. In some contexts, wage differences might be large enough to trigger such investment (e.g., inwards foreign direct investment to a low-wage region), but this is often not the case. Why don’t firms take these opportunities and move to lagging regions?

The list of considerations shaping firms’ location and investment decisions is long, and includes the institutional quality and governance of the place, and the geography of transport and communications. A critical element is that firms are typically embedded in a network of workers, suppliers, customers, and providers of technical knowledge and financial capital. On the employee side, firms need access to workers with appropriate skills which may be absent in lagging regions; the process of matching workers to jobs is more efficient in a large and thick labour market. Access to both suppliers and customers may require detailed information exchange, timely delivery, and perhaps face-to-face contact. Technical knowledge spills over from firm to firm through formal and informal channels, and through worker turnover. Investment in very highly specialised skills and techniques is profitable only if there is a sufficiently large market. These networks or business ecosystems are, in many cases, place-based, sometimes operating over very short distances. They raise firms’ productivity, driving agglomeration and supporting clusters of activity and urban centres (Box 2). Crucially, many of the benefits are externalities, i.e., they are transmitted from firm to firm without being purchased at additional cost.

BOX 2 MARSHALLIAN AND JACOBS AGGLOMERATION ECONOMIES: THEORY AND EVIDENCE

Authors have put forward different channels through which cities achieve agglomeration economies. For Jane Jacobs, it is driven by size and diversity of the city as a whole. Alfred Marshall and others focused on particular sectors, with similar technologies, labour skills, and supplier networks.⁵ Econometric studies have estimated the magnitude of the effect to be such that each doubling of city size (in the cross-section) is associated with productivity as much as 4-10% higher. This is consistent with observed productivity differences between large and small cities in the US and some other countries (Rosenthal and Strange 2004). More recent approaches have divided this effect into pure agglomeration economies and worker selection effects – i.e., large urban areas have individuals who are generally more skilled, and who would be relatively productive even outside large urban settings. (Combes et al., 2008; de la Roca and Puga, 2017).

These forces mean that firms in established centres – even if they are paying relatively high wages and rents – gain productivity advantages by their presence in these clusters. As a consequence, the location of firms is ‘sticky’ – i.e., firms are relatively immobile, attached to an existing cluster. An important aspect of this stickiness is the first-mover problem. It might be profitable for an entire cluster of activity to move from a high-cost centre to a lagging region, but it is not in the interest of any firm to be the first to move. To do so would mean foregoing the benefits of being in the cluster while being uncertain as to whether other firms will follow. In the absence of coordination across a wide range of investors (firms and skilled workers), the cluster remains in place, so this adjustment mechanism fails.

The trade-off between agglomeration benefits and the costs of labour and land is highly sector-specific. It may be relatively easy for firms or establishments in a sector such as food processing or back-room office operations to relocate, while high-technology and financial service sectors are much more dependent on their established local networks – a dependence which information and communication technology has not, until now, substantially altered. The difference between these sectors shows up in their observed propensity to cluster.

The distinction between sectors that are more or less easy to move is, in some cases, aligned with several other features of the sector. One is skill intensity. Knowledge spillovers have become an increasingly important feature of agglomeration economies, and it is knowledge-intensive sectors – such as those in high-technology and finance – that are most prone to cluster. Another is the tradeability of the sector. Non-tradeable sectors – restaurants, hairdressers, health and education services – are present everywhere. Sectors supplying goods that are tradeable over a medium range such as within a country (e.g., logistics or food processing) also tend to be dispersed across many locations. In contrast, sectors producing internationally tradable goods and services are often highly skilled, and need to operate at a high level of technical sophistication and productivity. These are the sectors (and firms) that tend to be more spatially concentrated and correspondingly stickier, more difficult to detach from existing centres.⁶

Outcomes and spatial equilibrium

The features described above imply that automatic adjustment mechanisms are highly imperfect and often inadequate to correct spatial disparities. Such disparities are therefore likely to persist and may trap a place in a low-level spatial equilibrium – an

⁵ For a review of these ideas and further references see Duranton and Puga (2004)

⁶ Rice and Venables (2023) produce a measure of the tradeability of the output of each sector and derive a measure of UK NUTS3 regions' bias towards operating in tradable sectors. This measure accounts for two-thirds of the variation in earnings across these regions, with the average skill intensity of sectors accounting for the remaining one-third. The mechanism is that the presence of a booming tradeable sector bids up prices, rents and therefore also wages in a booming area.

equilibrium in the sense that workers and firms acting individually in their own best interests have no incentive to behave differently (for example, by acquiring additional skills or investing in new places). The critical aspect of this is that it arises out of the independent actions of many different decision makers. Firms don't want to move because other firms have not moved, or because workers do not have appropriate skills. Workers don't want to acquire particular skills, as they do not see job opportunities arising from them, and so on in a vicious circle.

This is the problem of coordination failure. A better outcome might be possible, but it requires coordinated action to shift from a low-level to a high-level spatial equilibrium. In such a situation, the standard textbook economic policies (subsidies or taxes to equate marginal social costs with marginal social benefits) are often insufficient to bring about the non-marginal change required. Policy has to be designed to shift the regional economy out of its low-level trap and put it on a path where cumulative causation processes lead to a higher-level equilibrium. This is the sense in which special and differentiated place-based policies are needed.⁷

It is important to note that an equilibrium lies on both the labour supply and the labour demand curves. Focusing on the labour supply side, work by Overman and Xu (2022) has claimed that 64% of the variation in wages across UK travel to work areas is accounted for by the characteristics of the individuals that work there, and just 10% is left attributable to area effects (the remaining 26% being positive covariance between these factors). Focusing on labour demand and the sectoral structure of local economies, Rice and Venables (2023) claim that, even after controlling for sectoral wage differences, two-thirds of wage variation across UK NUT3 regions is attributable to a measure of the extent to which the economic structure of a district is skewed towards sectors that are relatively tradeable (and that tend to cluster) rather than sectors that are non-tradeable (and 'ubiquitous', i.e., present almost everywhere).

Superficially, these statements seem contradictory, but in fact both might be true. The first goes to factors underlying the labour supply curve, and the second goes behind the labour demand curve. It is their interaction that generates the outcomes we observe. This points to the need for effective policy to work on both sides of this relationship.

BOX 3 THE PERSISTENCE OF NEGATIVE SHOCKS: TWO GENERATIONS LATER

The UK was hit by de-industrialisation quite early, with major negative shocks during the 1970s. The impact of this can be measured by looking at the male employment rate across UK areas (local authority districts). In the worst affected districts, this rate fell by around 10 percentage points during the 1970s. Work by Rice and Venables (2021) traces out the consequences of this to 2011 and finds that, on average, only a small fraction (less than 1/10th) of this loss had been recovered by 2011.

The study also traces out the impact of de-industrialisation on various measures of deprivation. Places that were hit did not, on the whole, have worse than average measures of deprivation in 1970. However, pockets of deprivation in these places emerged during the decade and were highly persistent. In 2015, two-thirds of the UK's most deprived areas were places hit in the 1970s, and of places badly hit, two-thirds are still in the lowest quintile of areas by deprivation.

3 DO REGIONAL DISPARITIES MATTER?

Spatial inequalities account for just a small fraction of total interpersonal inequality. Furthermore, while regional differences in nominal earnings can be large, these are substantially offset by variation in the cost of living, in particular by regional variation

⁷ These arguments have a long history in 'big push' models of economic development (e.g., Murphy et al., 1989) and in work in 'tipping points' in the physical and social sciences (e.g., van der Ploeg and Venables, 2022).

in house prices (Overman and Xu, 2022). Measures of happiness or wellbeing often indicate similar scores across regions, with economically booming places not scoring particularly highly (Haldane, 2019). These observations raise the question: do regional disparities matter? There are several reasons to think that they do.

First, regional inequalities are perceived to be particularly unfair. Place of birth or residence denies people of some of the opportunities that are open to comparators (people of similar ability and social background) located elsewhere. Place of birth and education is outside of individual control, and once the path of asset accumulation (education, career ladder and housing investment) is set, so too are later life options. Out-migration might be possible, but the migrants' skill and asset base may support just a narrow set of options. The short-run political implications of this sense of unfairness are apparent, and with it the threat posed to the mutual responsibilities required by democratic societies.

A particularly damaging aspect is the inter-generational persistence of these inequalities. This is seen starkly across Italian regions, while Box 3 shows the UK's scars from negative shocks that occurred nearly half a century ago. This is seen not just in overall economic performance, but also in pockets of severe deprivation, lowered expectations and aspirations, and severely depleted social capital.

Regional disparities also matter for overall economic efficiency, at the national as well as the regional level. There is a positive effect, as overall performance is boosted by the presence of booming regions that deliver the productivity gains outlined in Box 2. Regional heterogeneity is necessary for these gains to be achieved. Set against this are two arguments. One is that there is an allocative inefficiency, as there are stranded assets (in the form of talent, buildings and other elements of potential economic capacity) trapped in poor regions. At the same time, there may be excess costs of congestion and over-crowding in booming centres.

Furthermore, regional disparities may be one aspect of a wider problem of the national economy having too few productive agglomerations of activity. As we have seen, locational stickiness means that places that lose comparative advantage in a traditional sector find it difficult to attract internationally competitive activity to replace these sectors. Even if employment in such places recovers, it is often in low-value and low-skill sectors – activities that are relatively less locationally sticky. Having relatively few internationally competitive activities is a problem for national economic performance, as well as for the directly affected region.⁸

4 EFFECTIVE PLACE-BASED POLICIES

The preceding sections make the case that adjustment mechanisms fail principally because of coordination failure. The market choices of individual firms and workers may leave a place in a low-level equilibrium, with adverse consequences for the place and for the wider economy. Establishing new high-value activities in a lagging region is not an automatic outcome of market processes, but may require a policy response.

This is a diagnosis of the problem, but the design and implementation of effective – and cost effective – policies have been elusive. What does the diagnosis suggest about the form such policies should take? A policy framework should involve three steps: setting clear objectives, identifying instruments that can achieve these objectives, and designing a process that selects policies in an efficient manner.

⁸ See Venables (2020) for development of these ideas.

Policy objectives

It is helpful to distinguish between two different objectives for place-based policy. One is to make ‘**marginal**’ changes – i.e., to improve wellbeing in a region, but not necessarily to trigger a substantial change in economic performance. The other is ‘**transformative**’ – seeking to change behaviour and thereby radically improve a region’s economic performance, shifting it out of a low-level equilibrium.

These different objectives call for different policy instruments, and also different modes of policy appraisal. If policy is intended to be transformative, then appraisal requires establishing both the **direct** and the **indirect or induced** changes generated by the policy. Thus, a road improvement will have the direct effect of reducing travel times by X minutes and generating Y additional journeys per day. An indirect effect arises if a change in private sector investment (by firms and households) is induced by the policy. For example, new jobs may be created as better communication links induce a new factory to become established in the region.

Appraisal of ‘marginal’ projects generally (and appropriately) ignores these indirect effects. Two reasons justify this. One is that they may be small. The other is that, even if indirect effects occur, their value may net out to zero. Job creation may shift workers from one job to another, but if the income created in the new job is similar to that lost in the old job, there is no net gain. This cancelling out is what is expected in a market economy with few market failures, and is the justification for ignoring indirect effects in standard cost–benefit analysis.

By contrast, transformative policies are those designed to trigger significant indirect effects, in the presence of market failures and with a view to shifting out of the low-level equilibrium that lagging regions find themselves in. This is a situation where market failures have been identified, plausible direct and indirect effects have been targeted, and the case made that these effects are of net social value. What are the desirable features of such policies?

Policy design

Transformative change requires changing the long-run behaviour of many decision takers, in which case the following elements need to be taken into consideration:

- **Addressing complementarity.** Complementarity means that the effectiveness of one action increases the effectiveness of another. Complementarity between policies arises if doing one policy increases the effectiveness of another. Complementarity between private actions arises if, for example, the presence of a supplier increases the attractiveness of a place for a customer, and vice-versa. If complementarities are large enough, the positive feedbacks they create may trigger a virtuous circle of actions. One aspect of coordination failure is that these benefits are foregone, so the role of policy is to overcome this.⁹
- **Multiple policies, scale and duration.** The location and investment decisions of firms and workers depend on multiple factors, many of them arising out of complementary actions by other firms or workers. As noted above, firms will require access to skills, markets, inputs, technology, and finance. It is unlikely that a single ‘most-binding’ constraint can be identified and targeted by policymakers.¹⁰ A package of multiple, mutually reinforcing policies is therefore generally required, covering infrastructure, skills, and support for private investment and local amenities. Policy needs to

9 Proximity to a firm in the same line of business may have a positive impact (*complementary*; e.g., building up a supply of skilled workers) or a negative one (*competitive*; e.g., by taking market share). The market system does not induce firms or individuals to take into account the value of complementarities on other firms or individuals.

10 ‘Growth diagnostics’ (Hausman et al., 2008) seeks to assist policymakers to prioritise by identifying such constraints, and the method has been applied to UK regions by Stansbury et al. (2023). It yields considerable insight, but the fact remains that many constraints can bind at the same time, in which case relaxing one of them may have a negligible effect on outcomes.

operate on many fronts, both hard (e.g., infrastructure) and soft (financial and institutional support). It also needs to create confidence and change expectations about future performance.

- **Local knowledge and involvement.** Involvement of local institutions is needed to provide local knowledge, and as part of building institutions that can reduce coordination failure (e.g., chambers of commerce, local educational institutions, local government).
- **Selection of places.** Effective packages of support require scale and scope, so are costly and can only be done in relatively few places. Selection should be undertaken based on need and on likelihood of success. This usually means selecting major urban areas with the potential for attracting and holding young skilled labour and achieving agglomeration economies.
- **Indirect effects; foreseen and unforeseen consequences.** Indirect effects – changes in private sector investment behaviour – are crucial to the success of transformative policies, but there are both positive and negative effects. These need to be factored into decision taking, and include:
 - Displacement: policy may simply relocate investment from one region to another. There may be a net gain if the investment is deemed to be more valuable in the lagging region, or a net loss if the relocation undermines an existing cluster of activity. The latter argument is important for knowledge-intensive activities – including private and public R&D – with agglomeration economies and a propensity to cluster.
 - Skills improvement: a positive effect on the lagging region, unless it has the effect of increasing the mobility of more able workers, thus promoting selective out-migration.
 - A policy focus on short-run employment: high levels of unemployment have often led policy to focus on short-run job creation, sometimes creating low-skilled jobs with few linkages to other sectors. There are short-run benefits, but the creation of low skill jobs in non-treadable sectors may simply accelerate the process of locking the region into a low-skill equilibrium.

Box 4 outlines case studies of policy packages in turning around city performance.

BOX 4 URBAN TURNAROUND¹¹

Research has looked at eight 'turnaround' cities across six different OECD countries: Lille (France), Newcastle (Australia), Bilbao (Spain), Pittsburgh (United States), Dortmund, Duisburg and Leipzig (Germany), and Windsor (Canada). It points to six key common themes for successful place-based policies.

- There are complementarities between urban redevelopment strategies and economic development strategies. The attractiveness of a place for living is as important as it is for business investment.
- Effective redevelopment strategies need to be comprehensive, not piecemeal or ad hoc in nature.
- Successful strategies build upon a region or a city's strengths.
- Local and regional leadership, rather than central government-led policies, matters for turnarounds, with central government playing a supporting rather than a primary role.
- Long-term, significant and stable funding is required, enabling the creation of local capacities and a long-term vision rather than a multitude of piecemeal projects.
- The engagement of a variety of actors and a sense of collaboration for the common good play an important role in the design and implementation of strategies and policies.

¹¹ Research undertaken by a consortium of the Universities of Oxford, Sheffield, Manchester, alongside the UK2070 Commission and the Lincoln Institute for Land Policy, Boston. This box draws on the summary in McCann (2023). For original documentation, see <https://www.bsg.ox.ac.uk/research/publications/turnaround-cities-western-europe-case-studies-insights-lille-france-and>; <https://www.bsg.ox.ac.uk/research/publications/turnaround-cities-german-case-studies-insights-dortmund-duisburg-and-leipzig>; and <https://www.bsg.ox.ac.uk/research/publications/turnaround-cities-anglo-saxon-case-studies-insights-pittsburgh-pa-newcastle>.

The policy process

The case for place-based policy rests also on a rigorous and transparent process which credibly tests and appraises the likely effects of a policy and informs decision taking. Such a framework should include the following elements:

- A clear and detailed statement of objectives (what is the policy intended to achieve?)
- A clear and detailed statement of how the policy will achieve these objectives. This involves specifying the quantity changes (direct and indirect) that the policy is expected to bring about, and spelling out the causal mechanisms through which it will bring about these changes.
- A calculation of the social value of these changes, i.e., ascribing monetary values to the costs and benefits of the policy as an indicator of social return to spending.
- Testing the policy under alternative scenarios, in particular its sensitivity to private sector ('indirect') responses.
- Presentation of appraisal results in a transparent form.

5 THE EFFECT OF NEW TECHNOLOGIES

How might the arguments outlined above be influenced by new technologies including digitisation, artificial intelligence, and working from home? History and theory provide a few pointers in a highly speculative area.

Booming clusters of activity have always existed around market centres and seats of government. The 19th and 20th centuries saw clusters develop around natural resource deposits, with the growth of extractive and manufacturing activities – activities that were relatively unskilled labour-intensive. The latter part of the 20th century saw the economic basis of many of these clusters decline, particularly in Europe and North America, while at the same time knowledge-based activities became an increasingly large share of the economy. These showed a strong propensity to cluster, leading to a revival of some, but not all, large urban centres. These are clusters based on relatively skill-intensive activities, so their prosperity tended to amplify spatial income differentials in a way that extractive and manufacturing clusters, based on relatively low-skilled labour, had not. Might new technologies be likely to create a new cycle, undermining some economic centres and creating new ones, and with it a new pattern of regional (and international) income distribution?

The resurgence of cities in recent decades took some by surprise. Digitisation led to predictions about the 'death of distance' and 'flat Earth' (e.g., Cairncross, 2001; Friedman, 2005). These predictions failed to materialise as the value of face-to-face contact in knowledge-intensive sectors (a centripetal force) outweighed the effects of information and communication technologies (centrifugal forces). The continuing progress of digitisation, AI, and post-COVID work practices now raises similar issues about the future of cities. However, the forces that led knowledge-intensive activities to cluster – the need for face-to-face interaction for exchange of complex tacit knowledge and for social reasons – continue to bring benefits. If these benefits can be achieved at lower cost (e.g., commuting fewer days a week), then the net effect is to reinforce rather than reduce the value of cities. As they do so, urban commuting hinterlands will likely expand, as people become willing to travel further but less frequently. Duranton and Handbury (2023) suggest that these changes might amplify the skill intensity of city centre employment, particularly if city centre amenities are not allowed to decline. There is little here that offers improved prospects for lagging regions or second-tier cities, unless these offer particular amenities that attract residents.

6 SUMMARY AND CONCLUSIONS

The case for activist place-based policy rests on (a) the fact that fundamental market failures prevent automatic adjustment mechanisms from working effectively, so that disparities may be persistent as places get trapped in a low-level equilibrium; (b) these market failures being sufficiently well understood that well-targeted policy can be designed and implemented; and (c) evidence of the effectiveness of such policies.

In this Policy Insight, I have argued that automatic adjustment mechanisms, through movement of firms and workers, may not be sufficient to bring convergence. Agglomeration economies mean that firms may be unwilling to move, and movement of firms and workers, when it occurs, may be selective, tending to concentrate lower-skill and lower-wage activities in lagging regions. These market failures mean that disparities may, in the absence of effective policy, be persistent.

Policies to shift a region out of a low-level equilibrium need to induce large changes in private investment, by workers in skills and by firms in the location of their operations. There are complementarities (reinforcing feedback mechanisms) between different policies, and between private investment decisions. This suggests the use of substantial policy packages, comprising a variety of both hard and soft measures, and designed to secure 'transformative' change in particular places. Case studies of 'turnaround' cities demonstrate that such packages can be effective.

REFERENCES

- Austin, B.A., E.L. Glaeser and L.H. Summers (2018), "Jobs for the Heartland: Place-Based Policies in 21st Century America", *Brookings Papers on Economic Activity*, Spring: 151-232,
- Blanchard, O.J. and L.F. Katz (1992), "Regional Evolutions", *Brookings Papers on Economic Activity* 1: 1-75.
- Cairncross, F. (2001), *The death of distance: how the communications revolution is changing our lives*, Harvard Business School Press.
- Combes, P-P., G. Duranton and L. Gobillon (2008), "Spatial Wage Disparities: Sorting Matters!", *Journal of Urban Economics* 63(2): 723-742.
- de la Roca, J. and D. Puga (2017), "Learning by Working in Big Cities", *Review of Economic Studies* 84: 106-142.
- Duranton, G. and J. Handbury (2023), "Covid and Cities, thus far", NBER Working Paper No. 31158.
- Duranton, G. and D. Puga, (2004), "Micro-foundations of urban agglomeration economies", in J.V. Henderson and J.F. Thisse (eds), *Handbook of Regional and Urban Economics*, Vol. 4, pp. 2063-2117, Elsevier.
- Floerkemeier, H., N. Spatafora and A. Venables (2021), "Regional Disparities, Growth, and Inclusiveness", in V. Cerra, B. Eichengreen, A. El-Ganainy and M. Schindler (eds), *How to Achieve Inclusive Growth*, IMF and Oxford University Press (also IMF Working Paper No. 21/38).
- Friedman, T.L. (2005), *The World is Flat; a brief history of the 21st century*, Farrar Straus & Giroux
- Ganong, P. and D. Shoag (2017), "Why Has Regional Income Convergence in the U.S. Declined?", *Journal of Urban Economics* 102: 76-90.
- Haldane, A.G. (2019), "Is all Economics Local", Sheffield Political Economy Research Institute (SPERI) Annual Lecture, 7 May.
- Hausmann, R., D. Rodrik and A. Velasco (2008), "Growth diagnostics", in N. Serra and J.E. Stiglitz (eds), *The Washington consensus reconsidered: Towards a new global governance*, Oxford University Press.

McCann, P. (2023), “How Have Place-Based Policies Evolved to Date and What Are They for now?”, The Productivity Institute, University of Manchester.

Murphy, K.M, A. Shleifer and R.W. Vishny (1989), “Industrialization and the Big Push”, *Journal of Political Economy* 97(5): 1003-1026.

Overman, H.G. and X. Xu (2022), *Spatial disparities across labour markets*, IFS Deaton Review of Inequalities, Institute for Fiscal Studies.

Rice, P.G. and A.J. Venables (2021), “The Persistent Consequences of Adverse Shocks: How the 1970s Shaped UK Regional Inequality”, *Oxford Review of Economic Policy* 37(1): 132-151.

Rice, P.G. and A.J. Venables (2023), “Tradability, Productivity and Regional Disparities; theory and UK evidence”, CEPR Discussion Paper No. 17806.

Rosenthal, S. and W. Strange (2004), “Evidence on the nature and sources of agglomeration economies”, in V. Henderson and J-F. Thisse (eds), *Handbook of Regional and Urban Economics*, Vol. 4, pp. 2119-2171, Elsevier.

Stansbury, A.D. Turner and E. Balls (2023), “Tackling the UK’s regional economic inequality; binding constraints and avenues for policy intervention”, *Contemporary Social Science* 18: 318-356.

Van der Ploeg, R. and A.J. Venables (2022), “Radical climate policies”, CEPR Discussion Paper No. 17677.

Venables, A.J. (2020), “Why some places are left behind: urban adjustment to trade and policy shocks”, *Oxford Review of Economic Policy* 36(3): 604-620.

ABOUT THE AUTHOR

Tony Venables is a Senior Research Fellow in the Department of Economics at the University of Oxford. He is a Fellow of the Econometric Society, the Regional Science Association, and the British Academy. Former positions include Chief Economist at the UK Department for International Development, Professor at Oxford University and at the London School of Economics, Research Manager of the Trade Group in the World Bank, and advisor to the UK Treasury. He has published extensively in the areas of international trade and spatial economics, including work on trade and imperfect competition, economic integration, multinational firms, economic geography, and natural resources. Publications include *The spatial economy; cities, regions and international trade*, with M. Fujita and P. Krugman (MIT press, 1999), and *Multinationals in the World Economy* with G. Barba Navaretti (Princeton 2004).

THE CENTRE FOR ECONOMIC POLICY RESEARCH

The Centre for Economic Policy Research (CEPR) is a network of over 1,700 research economists based mostly in European universities. The Centre's goal is twofold: to promote world-class research, and to get the policy-relevant results into the hands of key decision-makers. CEPR's guiding principle is 'Research excellence with policy relevance'. It was founded in the UK in 1983, where it is a Charity, and in November 2019 CEPR initiated the creation of an Association under French law, in order to provide a vehicle for an expansion in France. The members of the Conseil d'Administration of the Association are identical to the UK Board of Trustees.

CEPR is independent of all public and private interest groups. It takes no institutional stand on economic policy matters and its core funding comes from its Institutional Members, projects that it runs and sales of publications. Because it draws on such a large network of researchers, its output reflects a broad spectrum of individual viewpoints as well as perspectives drawn from civil society. CEPR research may include views on policy, but the Trustees/ members of the Conseil d'Administration of the Association do not give prior review to its publications. The opinions expressed in this report are those of the authors and not those of CEPR.

Chair of the Board	Sir Charlie Bean
Founder and Honorary President	Richard Portes
President	Beatrice Weder di Mauro
Vice Presidents	Maristella Botticini
	Philippe Martin
	Ugo Panizza
	Mar Reguant
	Hélène Rey
Chief Executive Officer	Tessa Ogden