

# Making Economic Sense of Balanced Regional and Rural Development

Professor Gerry Boyle

Director

Teagasc



# Outline

- Comprehending Balanced Regional Development (BRD)
- BRD policies
- High returns to public investment
- ‘Market failure’ rationales for BRD
- Evidence on the impact of public infrastructural policies
- BRD and Rural Development
- Conclusions

# A distinction between a regional policy and BRD

- A regional policy could seek to reinforce regional divergence by enhancing the impact of agglomeration economies etc.
- This could and often is the default policy
- BRD seeks to counteract the tendency towards regional divergence
- Latter often driven by equity concerns but can be motivated by also by efficiency concerns ... focus of this presentation

# Diverse views of BRD

- NDP 2007-13 and NSS broadly consistent views
- NDP – *“Balanced regional development means supporting the economic and social development of all regions in their efforts to achieve their full potential”*
- NSS – *“Developing the full potential of each area to contribute to the optimum performance of the state as a whole – economically, socially and environmentally”*
- Stark contrast with NDP 2000-06 where BRD is defined to imply a reduction in *“... disparities between the ... regions and to develop the potential of [the regions] ... to contribute to the greatest extent possible to the continuing prosperity of the country”*.
- ‘Disparities’ concept may be unattainable but measurable whereas ‘potential’ concept may be attainable but unmeasurable

# ‘Unconditional’ and ‘conditional’ convergence in regional disparities

- ‘Unconditional’ convergence – “poor (productivity) regions should grow faster than rich regions” implies eventual ‘catch up’
- Evidence contradicts this prediction
- ‘Conditional’ convergence – regional disparities will always remain as long as regional differences in resource endowments (=potential?) persist
- Implication - reduction in disparities requires the enhancement of a region’s ‘potential’

# BRD policies – investment vs. income redistribution

- Which regional indicator? – *per capita* income or consumption (welfare based) vs. *per capita* output (efficiency based)
- Two indicators are reasonably well correlated in a closed system (the state) but poorly correlated in an open system (regions)
- Two policy approaches ... (1) chose policy that delivers highest level of *per capita* convergence in income/consumption at least cost and maximum effectiveness (2) chose policy that confers maximum level of regional self reliance

# BRD policies designed to enhance inter-regional (current) transfers

- Type of policy – regional transfers through taxation and (current) public expenditure
- Reasonably direct boost to consumption of recipient regions
- Evidence suggests these policies have been reasonably effective (Morgenroth)
- Silent on the issue of the enhancement of regional self reliance; ignores development cost of ‘dependency’ culture; commuting costs, etc.

# BRD policies designed to boost a region's development potential

- Type of policy – public capital investment, e.g. infrastructure
- Can be efficient if a 'market failure' is alleviated
- Indirect boost to *per capita* incomes through enhancement of productivity and hence consumption and welfare
- Effectiveness of policies somewhat uncertain
- Potential high return
- Should boost a region's self reliance

# High returns to public investment

- Little dispute and lots of evidence that public capital investment, e.g. roads, R&D, etc. boosts *overall* living standards in a country
- Directly and *indirectly* adds to economic growth *via spillover* effects, e.g. a new road usually encourages private investment along its route
- Other *spillovers* include the encouragement of MNC investment

# BRD and public investment

- Few studies exist on the impact of public investment on BRD but there is one notable exception ... *Vernon Henderson*
- “Either over or under [urban] concentration is very costly in terms of economic efficiency and national growth rates”
- Henderson estimates that investment in roads, by reducing ‘urban primacy’ or capital-city dominance, can add between 0.5 and 0.7 points to the overall economy’s annual growth rate
- Estimates imply that a BRD policy of this nature would *not* constitute a ‘zero sum game’

# Public capital investment and 'market failure'

- Justification of public capital investment should pass a double-hurdle test
- (1) ... the investment should address a 'market failure' that might cause investment to be less than optimal – types of 'market failure' = *production of public goods and services; spillover factors; and 'targeted interventions'*
- (2) ... given (1) the social rate of return to the investment should be relatively high
- 'Market failure' concept now standard in justifying public intervention in areas such as education, technology, pollution, public infrastructure, etc.

# BRD, public capital investment and 'market failure'

- BRD-driven public investment policies are designed to alter the economic geography of an economy by either influencing the location of economic activity relative to what might otherwise be the case or boosting *place-specific* economic activity.
- Imbalanced regional development may be the result of 'market failure', e.g. the failure to account for the costs associated with excessive urban concentration.
- Economic activities that are *place specific* may be afflicted by inherent 'market failures' that prohibit production of their optimal levels of output at best, or, at worst stymie any level of activity, e.g. production of renewable energy, countryside recreational activity, etc.

# The fit between Rural Development (RD) and BRD

- RD is about the building of sustainable rural communities ... how?
- Supporting economic activity in rural areas *and* ...
- Ensuring acceptable levels of access by citizens in rural areas to jobs and services
- Teagasc's role ... to support development in the agri-food sector and the wider bio-economy

# Teagasc's role and medium-term focus

- *Science-based innovation support to the agri-food sector and the wider bio-economy*
  - Primary food production and processing
  - Value-added processing
  - Agri-environmental products and services
  - Energy and bio-processing
- Virtually all of these activities directly support the achievement of BRD.

# Conclusions

- Diverse interpretations of BRD
- Different paths towards achieving BRD
- Sound economic efficiency arguments can be made for public investment measures to promote BRD
- Rural development policies at the core of BRD
- NSS alone will not address BRD



