

***PURSUING EQUITY THROUGH
PLACE-BASED DEVELOPMENT POLICIES.
RATIONALE AND THE EQUITY-EFFICIENCY ISSUE***

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THE NEW PARADIGM OF REGIONAL POLICY CALLS FOR A DISTINCTION BETWEEN EFFICIENCY AND EQUITY

- In the **old paradigm of regional policy**, where space-aware policy interventions are aimed at compensating for disparities in productivity and income:
 - the objectives of **efficiency** and **equity** are intertwined in the financial retribution mechanisms (subsidies to firms and citizens)
 - **convergence** of per capita GDP is somehow assumed to encompass both objectives
- In the **new paradigm of regional policy** (or **place-based development policy**), where space-aware policy interventions are aimed at improving opportunities and changing economic institutions, a distinction is called for between the two objectives of these enhanced opportunities:
 - the **efficiency objectives**, i.e. achieving a fuller utilization of economic potential of all places
 - the **equity objectives**, i.e. achieving socially acceptable standard of living and reducing disparities, independently of where people live

MOVING FORWARD IN TACKLING THE EQUITY OBJECTIVE

- **The strong ideological concern of the last two decades not to give to equity the same status of efficiency in public discourse and policy has prevented the new paradigm of regional policy to fully explore**
 - how to pursue equity
 - the linkages between efficiency and equity objectives

- **Now, when recognition is growing that**
 - equity and efficiency represent two equally relevant features of development,
 - progress of societies cannot be measured only through income or GDP, but it requires an assessment of the multi-dimensional features of well-being (see *OECD Global Project and the results of the Stiglitz Commission*),

the new paradigm of regional policy must make a step forward in tackling the equity objective

A FOCUS ON FOUR QUESTIONS

In order to move forward four questions need to be addressed:

1. “Equity of what?”: why do we need a policy to address equity?
2. Why a development policy for addressing equity must be place-based?
3. What is the linkage between equity and efficiency objectives in implementing this policy?
4. Any guideline for governance?

These questions will be addressed by using the Report “Agenda for a Reformed Cohesion Policy” (http://ec.europa.eu/regional_policy/policy/future/barca_en.htm) recently prepared for the European Commission.

MEMOS: in the same web-page see also the papers by

- *Dirk-Jan Omtzigt, “Survey on Social Inclusion. Theory and Policy”*
- *Sabina Alkire and Moizza Binat Sarwar, “Multidimensional Measures of Poverty & Well-being”*

EQUITY AS SOCIAL INCLUSION

- Equity is defined as **social inclusion**, i.e. the capacity to reduce deprivation of capabilities.
- Drawing from a very wide academic and institutional debate, “ingredients” of the definition of social inclusion are:
 - **multidimensional aspects of people’s well-being**, including all the capabilities that make a life worth living: health, education, housing, security, labour conditions, self-respect, role in decision-making, income, etc.
MEMOS: “income” is only one (although relevant) dimension, since it cannot be fully converted in all the other dimensions; and so is “employment”;
 - **the interdependence and interaction of these dimensions;**
 - **both a threshold** (achieving a socially acceptable standard) **and an interpersonal** (achieving socially acceptable disparities) **concept** of inclusion;
 - **both individual persons and groups;**
 - **the process** through which inclusion is achieved, with reference both to relation between private actors and to the **degree of democratic participation in public decision-making** (i.e. the freedom of citizens and collective bodies to experiment with solutions while exercising mutual monitoring);and aims at distinguishing (although full distinction can never be achieved) between:
 - those features effecting a person’s well-being that depend on his/her **effort**, or on factors beyond his/her will (**circumstances**, including those which are place-related)

A DEFINITION

➤ **Social inclusion can then be operationally defined as:**

“the extent to which, with reference to a set of multidimensional outcomes, all persons (and groups) enjoy socially acceptable standards, and disparities among them are socially acceptable, the process through which those results are achieved being participatory and fair”

WHY DO WE NEED A POLICY? SOCIAL INCLUSION TRAPS

- Social inclusion can persistently fail to occur, i.e. **social exclusion traps can arise, for four reasons:**
 - 1) formal and informal institutions are inadequate and fail to be adjusted due to path dependency;
MEMOS: this case is particularly serious for informal institutions such as trust, agency (the capacity to act effectively in the pursuit of goals), social capital, or democratic participation in decision making;
 - 2) circumstances are transmitted inter-temporally from a generation to the next;
 - 3) outcomes depend on past outcomes;
 - 4) institutions tend to be chosen by elites for their distributive effects (Douglas North).
- A **“development policy” is then needed** to undo these traps ⇒ an exogenous intervention with enough power, capacity and credibility to trigger institutional changes so as to remove the causes of the trap.
- **This policy should be concentrated on the provision of integrated bundles of public goods and services.** Why?
 - Several dimensions of inclusion are directly determined by the success or failure of public institutions to deliver public goods and services (health, education, security,) etc.
 - The informal institutions whose lack is often behind social exclusion traps can be indirectly built through the delivery of public goods and services.

MEMOS: A DEFINITION OF “PLACE-BASED DEVELOPMENT POLICY” AND “PLACE”

- **A place-based development policy is:**
 - a long-term development strategy aiming at reducing **underutilization of resources** and **social exclusion of specific places**, through the production of integrated bundles of public goods and services,
 - determined by **extracting and aggregating people’s knowledge and preferences** in these places and turning them into projects,
 - and **exogenously promoted** through a system of grants subject to conditionalities and multilevel governance.

- **What is place?** In a place-based development policy,
 - a place is not identified by administrative boundaries,
 - nor by any other ex-ante “functional” criteria (coincidence of residence and activity, density of population, absence of land connections, existence of water or other natural linkages, altitude, proximity to natural areas, etc.),
 - rather **a place is endogenous to the policy process**, it is a contiguous area within whose boundaries a set of conditions conducive to development apply more than they do across boundaries.

WHY DO WE NEED PLACE-BASEDNESS FOR ADDRESSING SOCIAL INCLUSION? WHAT DO WE NEED A “TERRITORIALIZED SOCIAL AGENDA”?

A social inclusion development policy needs to be place-based because both the existence of social inclusion traps and the effectiveness of any intervention to combat them depend on places:

I. Existence of social inclusion:

- **the way in which personal circumstances matter** for social inclusion depends on the particular location where a person lives. This should not refer only to the person's household (as it does in the social policy literature), but to all human and material relations, which are place-defined;
- **institutional causes** of social exclusion are context-dependent (social exclusion is spatially concentrated).

II. Policy effectiveness:

- **persons' capacity to access public goods and services** depends on context;
- the effectiveness of any sectoral interventions depends on other sectoral interventions, and **bundling can operationally take place only at place level**;
- **the fundamental problems** to be tackled in the implementation of policies for social inclusions **can be better solved** at place level:

→ *avoiding “paternalism” in the choice of dimensions, indicators and thresholds*

→ *dealing with information incompleteness on opportunities and outcomes*

NO NATURAL CORRELATION EXISTS BETWEEN EQUITY AND EFFICIENCY GOALS

- It is often argued that equity (or social inclusion) should not be a separate policy objective because a natural correlation exists between equity and efficiency. In particular, it is argued that:
 - gaps in per capita GDP between regions tend to increase in the first stages of development (when growth accelerates), and then to diminish (so-called Williamson inverse-U curve);
 - interpersonal income inequality tends to increase in the first stages of development (when growth accelerates), and then to diminish (so-called Kuznets inverse-U curve).
- **Actually no such natural correlation exists.**
- First, convergence of per capita GDP says nothing on progress towards equity and social inclusion.
MEMOS: it actually says nothing about the efficiency objective too.
- Second, the analysis of long-term series of income interpersonal inequality and growth shows that “it is misleading to talk of ‘trends’ when describing the evaluation of income inequality” (A. Atkinson, 2008).

THE BALANCE OF SYNERGIES AND TRADE-OFFS BETWEEN EQUITY AND EFFICIENCY DEPEND ON CONTEXTS

- **Synergies** between the equity and the efficiency objective are at work:
 - social exclusion traps and inefficiency traps often share the weakness of formal and informal institutions as their **common cause**: addressing those weaknesses can effect both (education policy is a classical example);
 - a social exclusion trap, by causing social and political instability or preventing innovation, can negatively effect efficiency: **tackling the former can help addressing the latter** (*market-compensating view of social policy*).
- **Trade-offs** can also arise between the equity and the efficiency objective:
 - greater social inclusion changes the balance of negotiating power among parties (for example in favour of workers and against entrepreneurs) and it then rises the incentive, and the effort, of some, while **reducing the incentive, and the effort, of others**: the balance can be negative;
 - policies for increasing social inclusion by attempting to address the effects of circumstances can end up addressing the effects of efforts: that would **reduce the incentive to make efforts**;
 - social inclusion policies, by reducing the pressure for labour mobility (even if the reduction of labour mobility is not their goal) can, in conditions of imperfect information, **reduce the opportunity for agglomeration elsewhere**.
- **In the short-medium term, the balance of synergies and trade offs is an empirical matter. No ex-ante general assumption can be made on this balance.**

INTERVENTIONS AIMED AT SOCIAL-INCLUSION AND INTERVENTIONS AIMED AT EFFICIENCY SHOULD BE KEPT DISTINCT

➤ Furthermore, it is often the case that **the most satisfactory intervention from the point of view of tackling social inclusion is not the most satisfactory intervention from the point of view of tackling efficiency** (even if both interventions have a positive impact on both objectives).

➤ Finally, focusing an intervention on either social inclusion or efficiency **increases the verifiability of results and the forcefulness of public debate and democratic participation.**

MEMOS: the opposite has taken place in recent years when the ideological concern not to stress social objectives has often resulted in social inclusion policies to be “smuggled” as competitiveness policies, with bad result for both equity and efficiency.

➤ In summary:

- a place-based development policy must surely aim at both efficiency and social inclusion,
- but the interventions (mostly) aimed at efficiency should be kept distinct from the interventions (mostly) aimed at social inclusion,
- while an effort must be made to exploit all complementarities

A “TERRITORIALISED SOCIAL AGENDA” SHOULD PURSUE A FINE BALANCE BETWEEN SUBSIDIARITY AND CONDITIONALITY

- **If subsidiarity (entrusting project design to places) is over-played**, a place-based policy is more likely to be captured by local rent-seekers ⇒ the very rationale of an exogenous intervention gets lost.
If conditionality (setting conditions from above for grants to be transferred) is over-played, the mobilization of local knowledge and preferences is weakened and paternalism prevails ⇒ exogenous interventions become ineffective (or even counter-productive)
- The governance should then follow the three following guidelines:
 1. **A system of contracts between the institutions running the exogenous intervention and the “places”**, allowing space for conditionalities and space for learning;
 2. **Experimentalism and openness**, to create incentives for actors at place level to experiment with solutions and exercise mutual monitoring;
 3. **A new metric: a system of measures tailored to contexts capable to orient policy to results. Namely:**
 - **promoting policy-makers’ focus on final targets** in terms of the different dimensions of people’s well-being, by developing high-quality outcome indicators, both at super-national, national and place (community) level;
 - **promoting learning about what works**, through the use of prospective counterfactual impact evaluation, whereby outcomes for beneficiaries of the intervention are compared with outcomes for a similar population of non-beneficiaries and the evaluation design is anticipated at the time of intervention design, with ⇒ strong disciplinary effects.

MEMOS: more of this in my presentation at OECD Busan World Forum (<http://www.oecd.org/dataoecd/52/19/43971921.pdf>)