

# The challenge to Europe's growth and the need for new development policies

**Andrés Rodríguez-Pose**

*London School of Economics*

*Il territorio nello sviluppo regionale*

*IRPET*

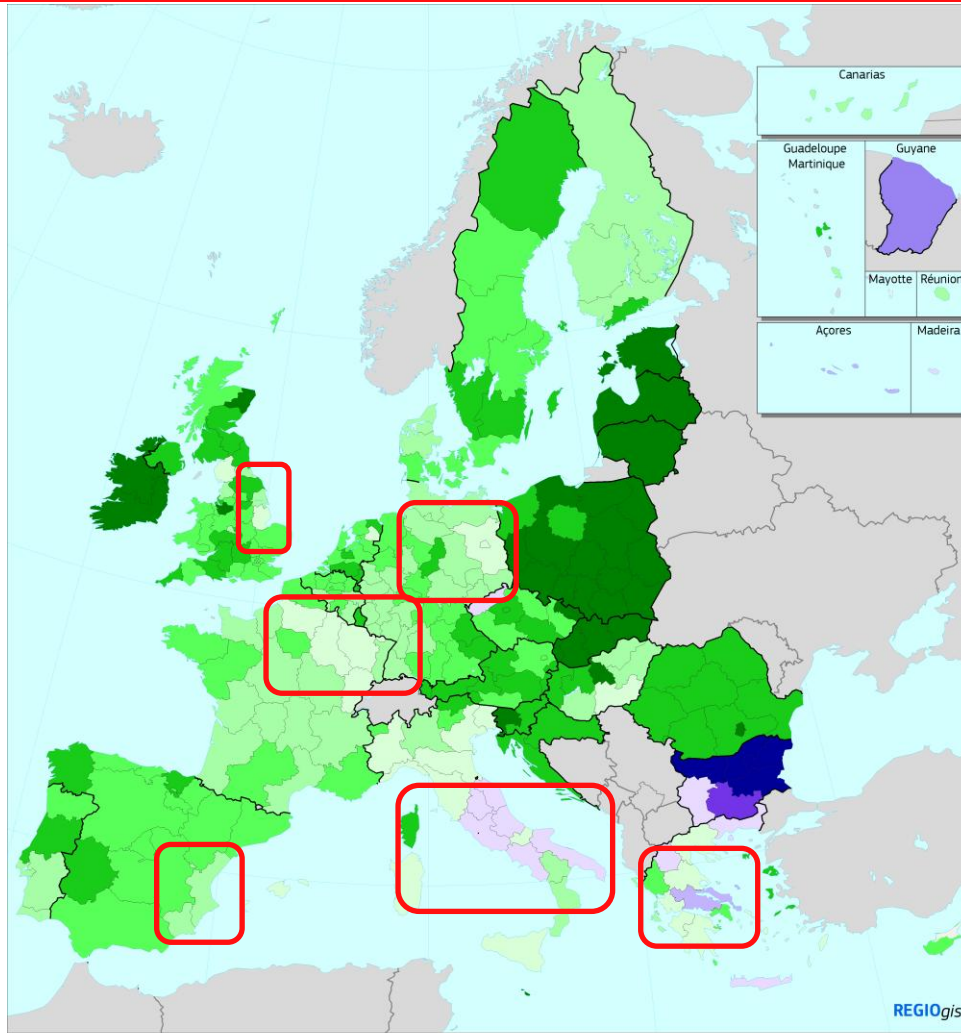
*Palazzo Medici Riccardi, Florence, February 12<sup>th</sup>, 2019*



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# The emergence of a middle income trap

Sustained low growth



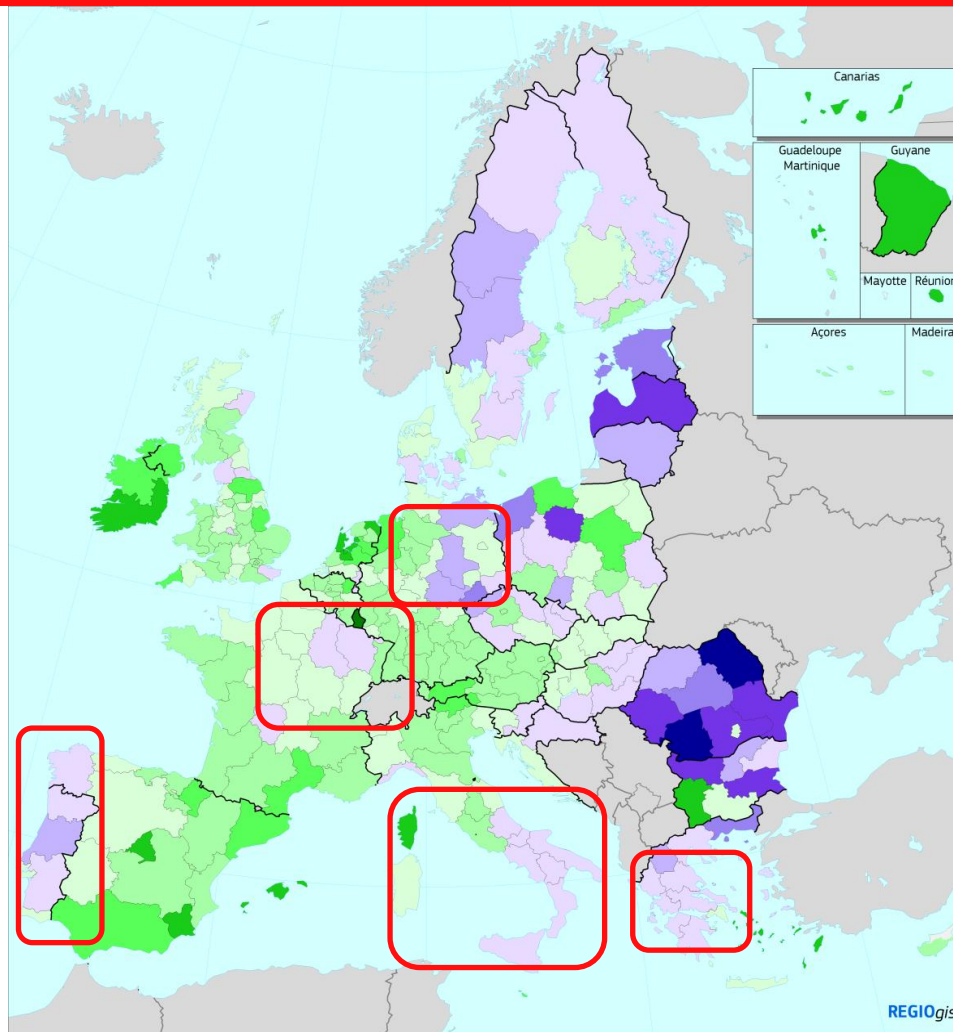
Growth of GDP per head, 1990-2014



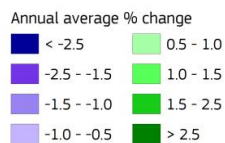
DE (new Länder): 1991-2014; HR: 1995-2014  
Capital regions  
including commuting areas.

# The emergence of a middle income trap (II)

Sustained low  
employment  
growth



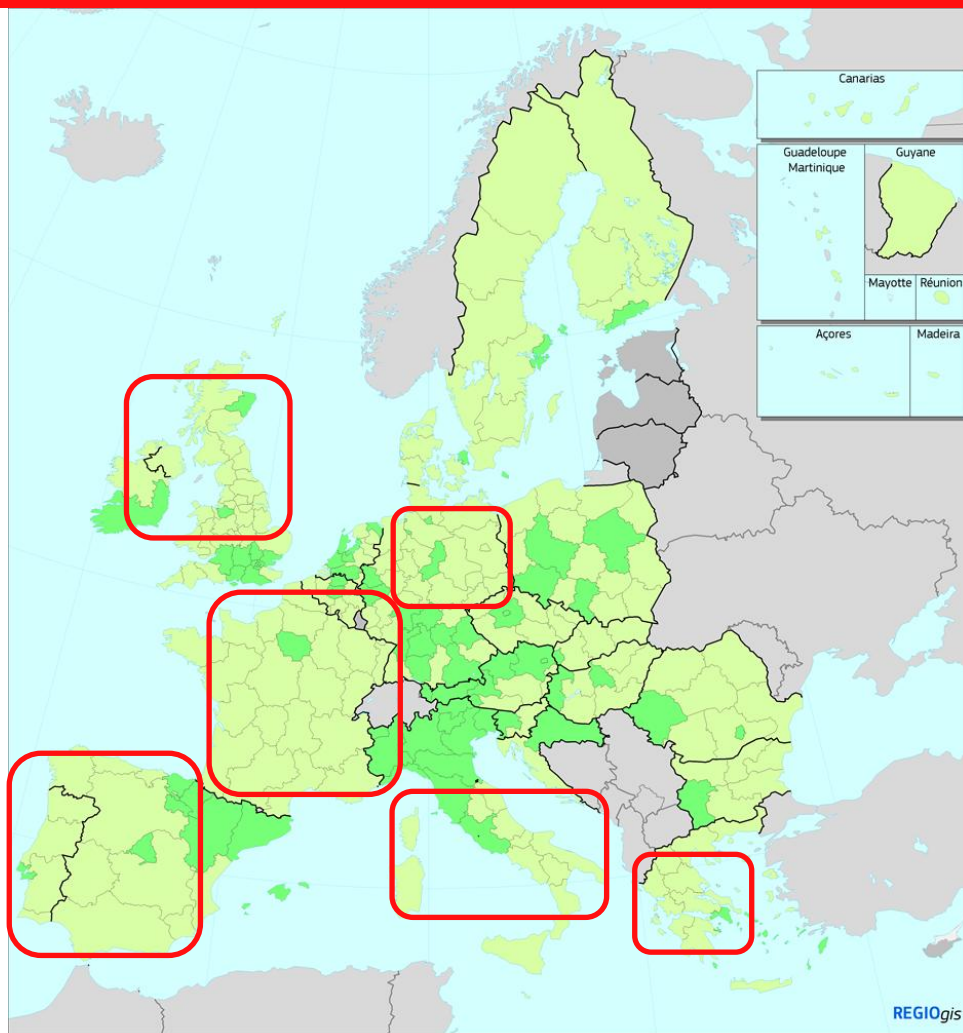
Employment growth, 1990-2014



DE (new Länder): 1991-2014; HR: 1995-2014  
Source: Eurostat, Cambridge Econometrics, DG REGIO

# The emergence of a middle income trap (III)

Tendency to underperform in the national context



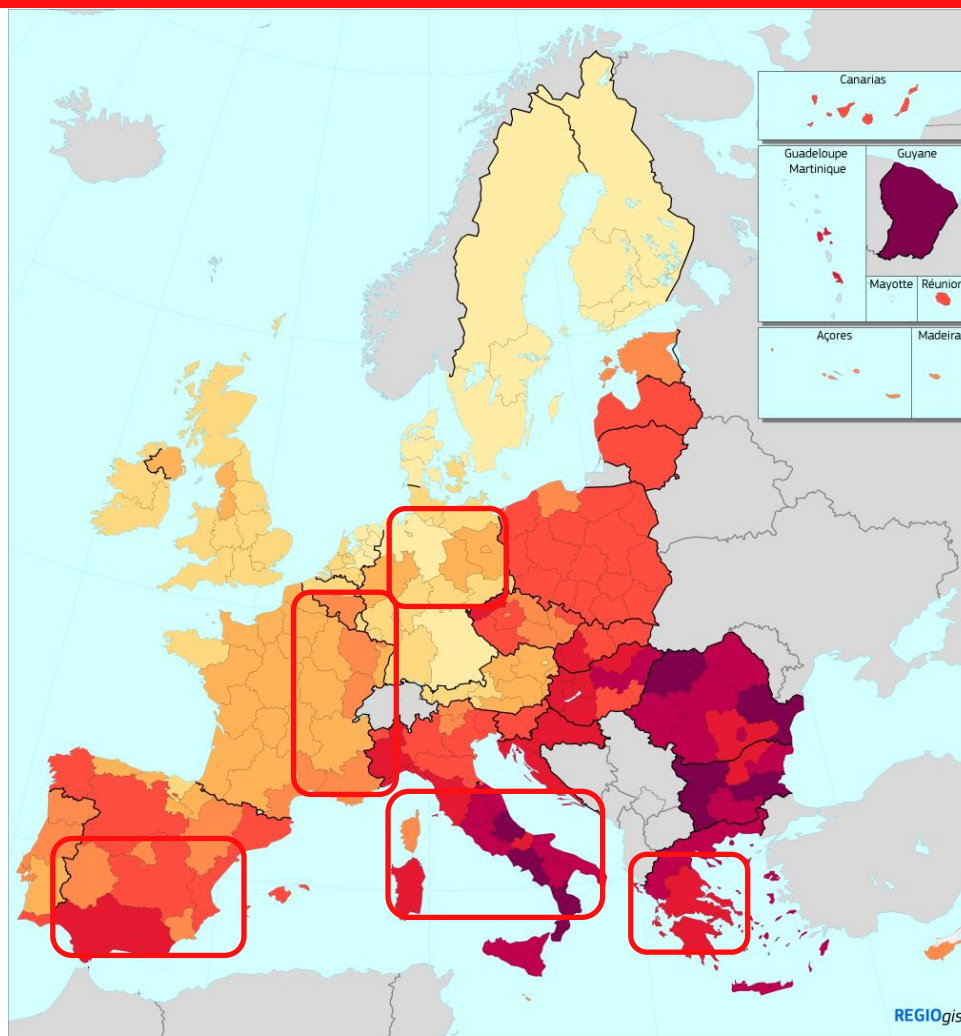
Over-performers and under-performers

- underperformer
- overperformer
- not applicable

Source: Eurostat, DG REGIO

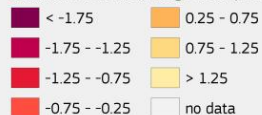
# The emergence of a middle income trap (III)

Weaker institutions



European quality of government, 2017

Standard deviation, range from poor quality (negative) to high quality (positive)



EU = 0  
Source: World Bank data and a regional quality of government survey.

Expo Station, Seville



'Radial' motorways, Madrid



AVE Toledo-Albacete



Castellón Airport



FINANCIAL TIMES

July 17, 2015 5:38 pm

Spanish ghost airport costing €1bn attracts offer of just €10,000

Tobias Buck in Madrid

Ciudad Real Airport

"All the News That's Fit to Print"

# The New York Times

Late Edition  
When another giving war to clouds, rain, high 40. Tonight, mostly a passing shower, chilly, low 37. Tomorrow, cloudy, a little rain, high 50. Weather map, Page C3.

NEW YORK, MONDAY, OCTOBER 8, 2012 \$2.50

**CORRUPTION SEEN AS STEADY DRAIN ON ITALY'S SOUTH**

EUROPEANS CONCERNED

Road Project, Began in the '80s, Is a Symbol of Missed Aid

By RICHARD HANDELMAN

REGGIO CALABRIA, Italy — Italy's A1 highway, begun in the 1980s and still not finished, stands outside Reggio in the ancient hill town of Salerno and ends, rather inconspicuously, 300 miles farther north as a local street in downtown Reggio Calabria.

Along the way, it frequently narrows to two lanes, with an occasional stretch of one-lane roads that have languished for decades. Politicians, particularly Italians, often blame the project's high costs on the war, which would normally look in the rear — and responded by using concrete and other building materials into passing cars.

Nothing explains the failure of the Italian state more vividly than the highway from Salerno to Reggio Calabria. Citizens now sit in the western part of a patch that cannot be fixed, worsened by the unscrupulous crime that is endemic in southern Italy. It has systematically deteriorated the state while failing its citizens, leaving Calabria geographically and economically isolated.



In Venezuela, a New Term for Chávez  
President Hugo Chávez, who faced down his strongest challenge in over a decade, celebrated Sunday night in Caracas. Page A1.

**ROMNEY STRIVES TO STAND APART IN GLOBAL POLICY**

HITS OBAMA'S RECORD

Advisers Reflect Wide Differences Among Republicans

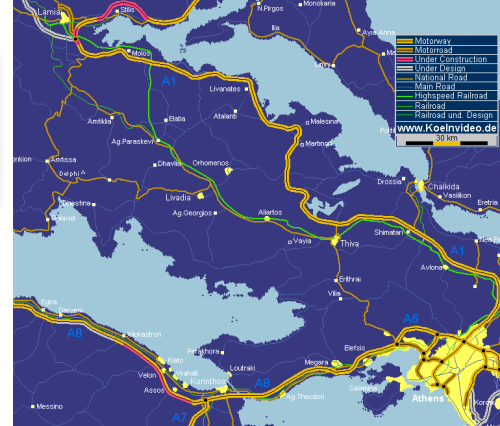
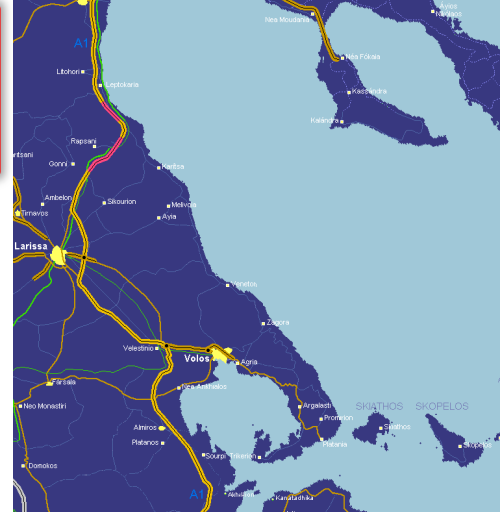
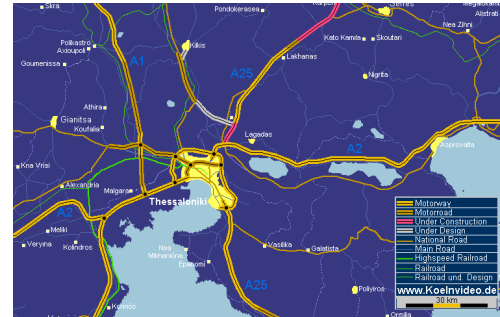
By DAVID L. RANKIN

WASHINGTON — Mitt Romney is intensifying his efforts to draw a sharp contrast with President Obama on national security in the presidential campaign's closing stages, portraying Mr. Obama as having mismanaged the result in the Arab world and having left the nation exposed to a terrorist attack in Libya.

In a speech on Monday at the Virginia Military Institute, Mr. Romney will declare that "hope is not a strategy" for dealing with the rise of Islamic governments in the Middle East or an Iran racing toward the capability to build a nuclear weapon, according to excerpts released by his campaign.

The essence of Mr. Romney's argument is that he would take the United States back to its earlier era, one that would result, as his young foreign policy adviser, Alex Wong, told reporters on Monday, in "the restoration of a strategy that worked so well for 70 years."

**A1 Motorway Greece**



## The Patent, Used as a Sword

Tech Giants' Legal Warfare Takes Toll on Innovation

By CHARLES DERRICK and STEVE LORER

THE ECONOMY  
As Apple announced, here is how to flourish in a recession

Mr. Phillips could not see how to fix the issue or be paid for genetic information. When Mr. Phillips refused to sell, Mr. Bay's company

## Biden Up Next, Obama's Aides Plot Comeback

By PETER HARRIS and TROP HARRIS

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

**Motorway Salerno-Reggio Calabria**

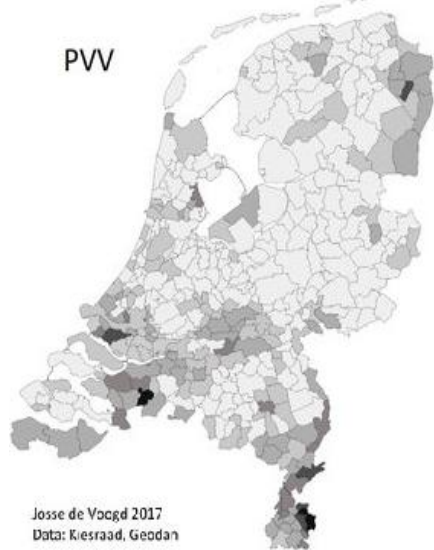
# The emergence of a middle-income trap (V)

- **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**

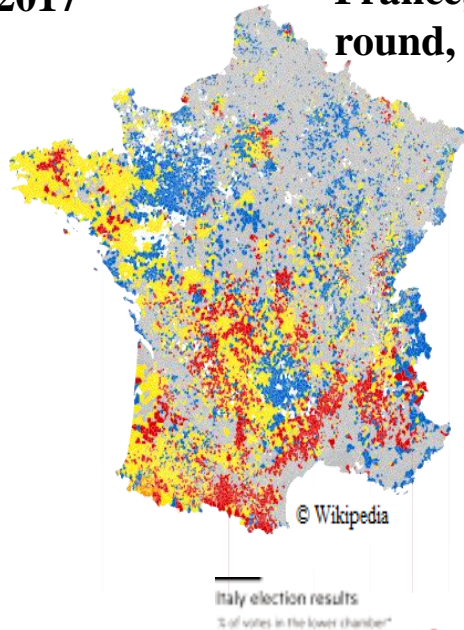


# Emergence of a geography of discontent

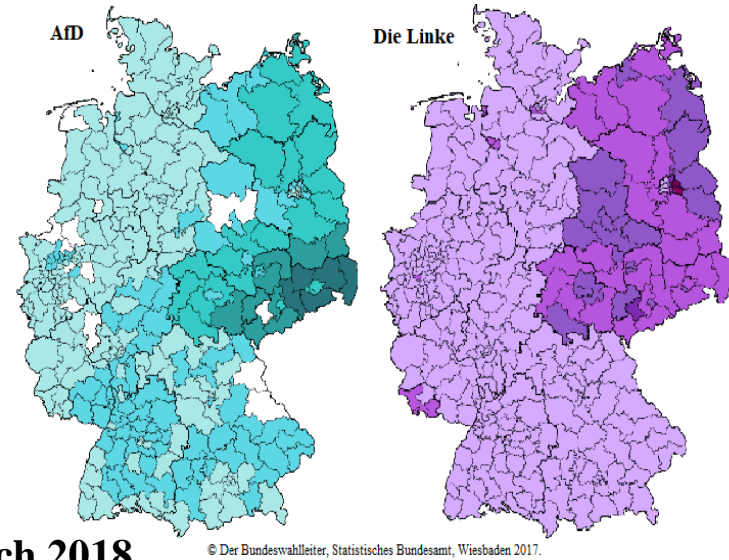
Netherlands, 15 March 2017



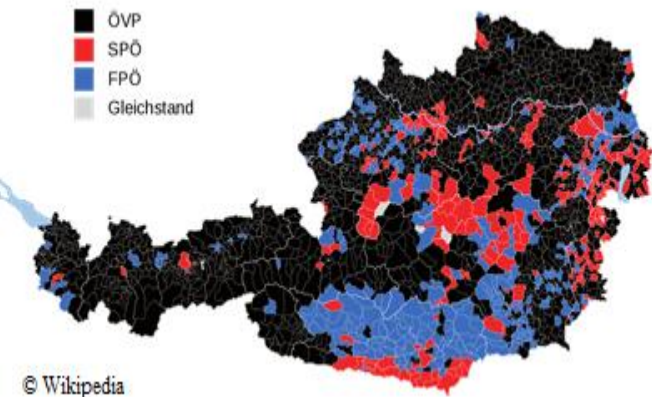
France, presidential first round, 23 April 2017



Germany, 24 September 2017



Austria, 15 October 2017



Italy, 4 March 2018



Hungary, 8 April 2018

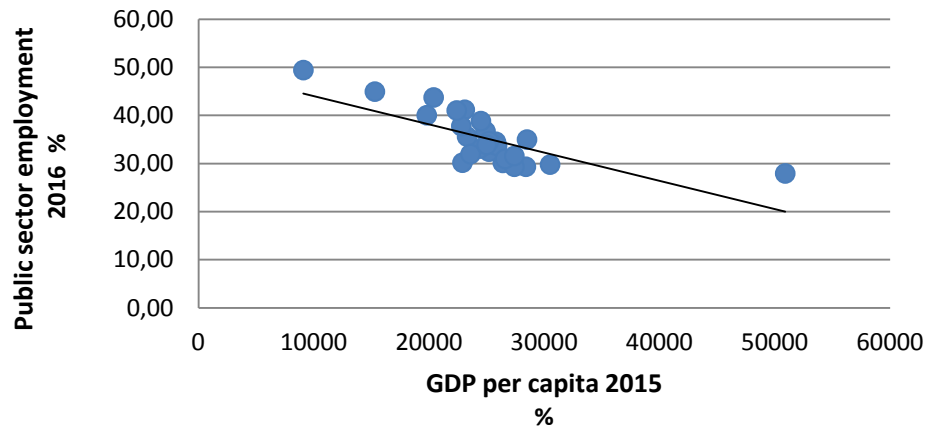


# Has nothing been done for these areas?

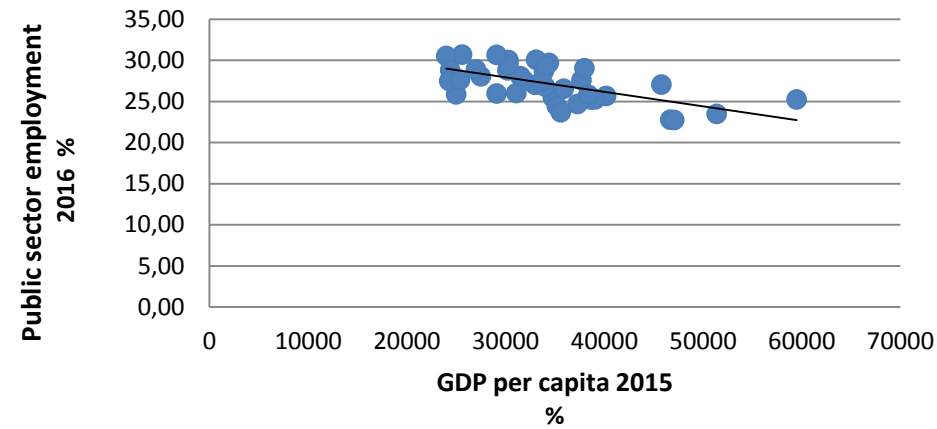
- **No**
- **National level**
  - Welfare transfers
  - Public employment
- **Regional level**
  - Past industrial policy
  - White elephants
- **The real economic potential of these areas has not been mobilised**
  - Policies have often promoted collusion, corruption and poor government
  - Perpetuating the impression that there is no future
    - This is massively resented

# Public employment

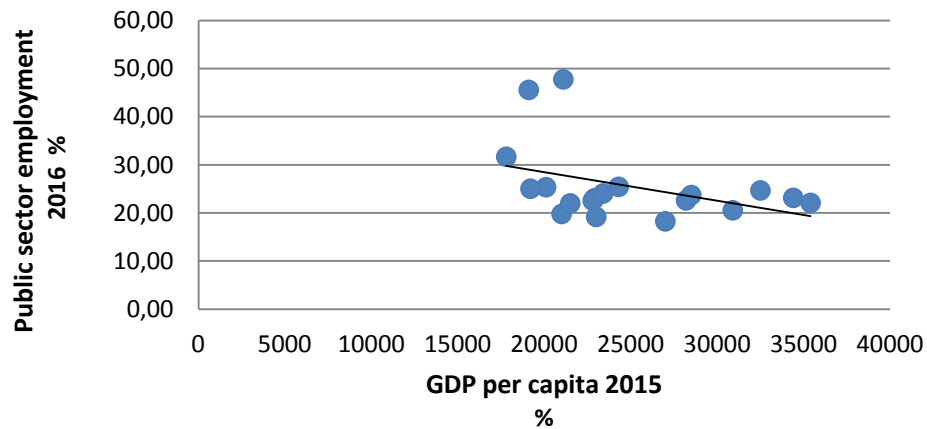
## France



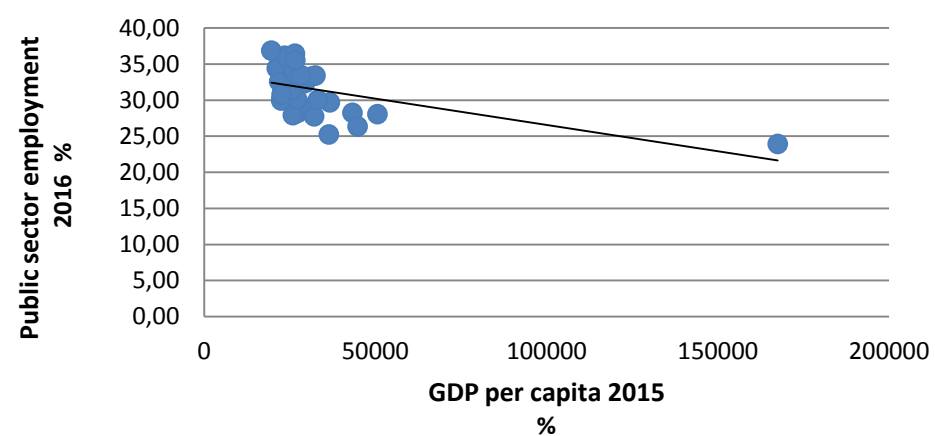
## Germany



## Spain



## United Kingdom



# Fiscal transfers

## USA

### Winners and losers

(Disposable income as a share of earned income minus state and local taxes plus SS, Medicare, and veterans' benefits, relative to national average)



Source: Bureau of Economic Analysis, Matthew Klein's calculations

## UK

Figure 1: Net Fiscal Balance FYE 2016, by country and region

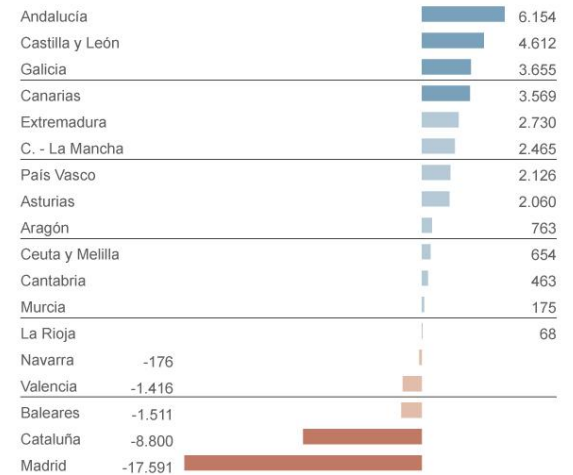


Source: Office for National Statistics

## Spain

### Las balanzas fiscales en las CCAA

En millones de euros



Fuente: M. de Hacienda y AAPP

J. Aguirre / EL MUNDO GRÁFICOS

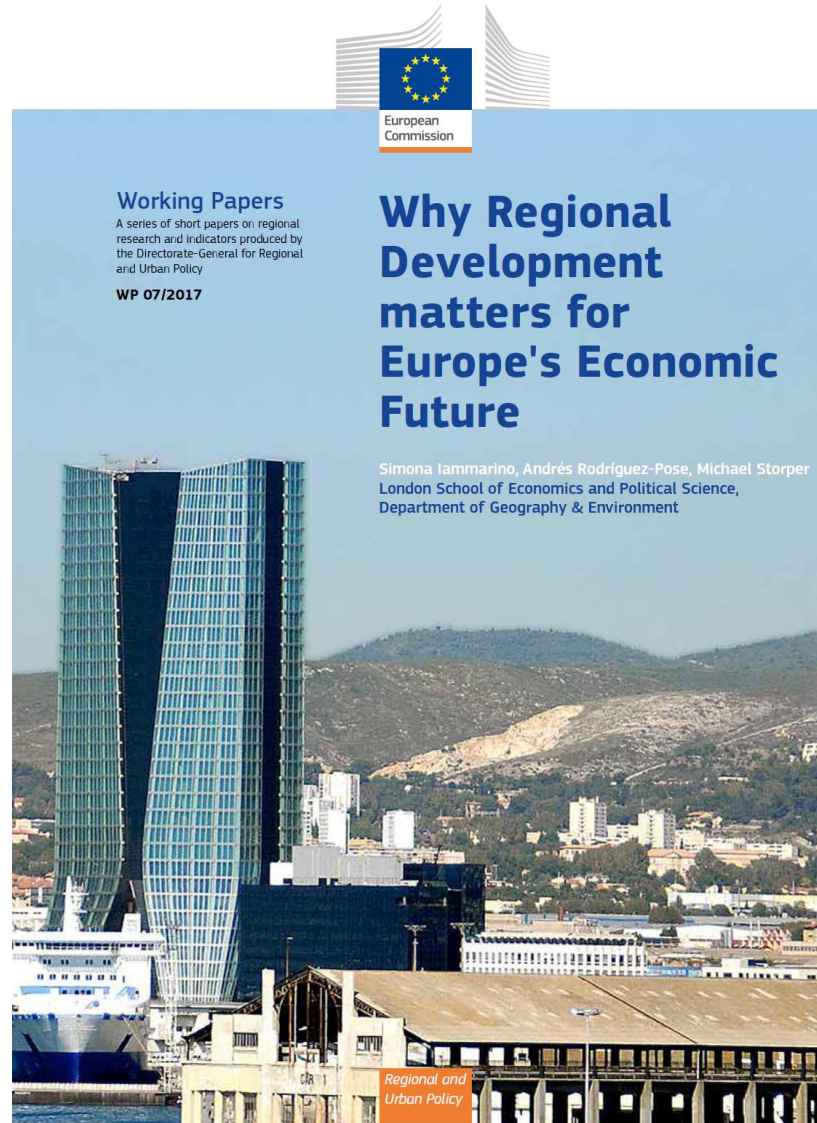
# Towards a different type of policy

- **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 compensatory policies
  - 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**
  - Place-sensitive distributed development policies (PSDDP)
    - 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
    - Improving access to basic services
    - Tackling institutional inefficiencies and bottlenecks head on

# How to go about doing it?



# The challenge to Europe's growth and the need for new development policies

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More papers at:

<http://personal.lse.ac.uk/rodrigu1/>



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