



Balanced Regional Development and the Remote Rural Areas (RRAs)

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Presentation to Western Development
Commission Conference, Hodson Bay Hotel,
Athlone, May 23rd 2008

Outline

- What is 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, the Remote Rural Areas and Rural Development
- Conclusions

Regional policy and BRD

- A regional policy could 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

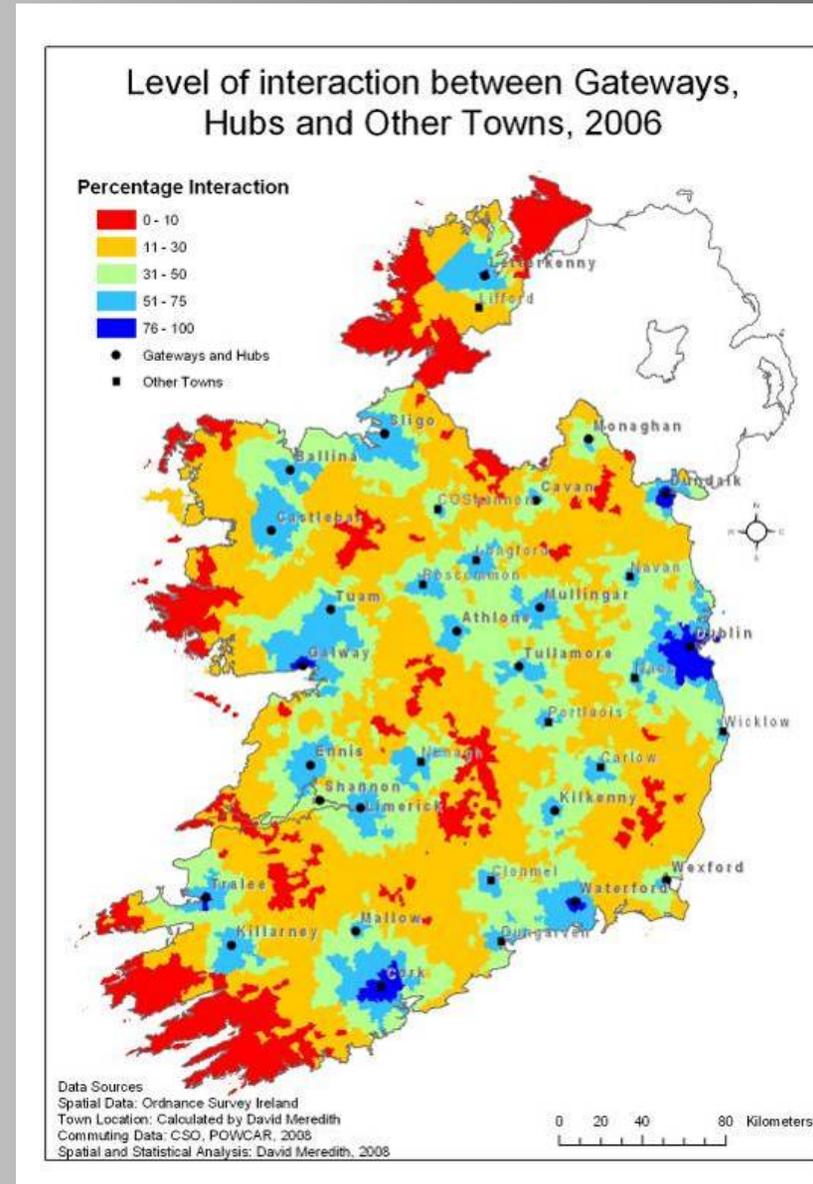
Diverse views of BRD

- 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

The NSS also de facto created a new concept of region – the Travel to Work Area ...

NSS Regions - Travel to Work Areas (TTWAs)

- Commuter flows between all EDs and Towns (population >1,000 persons)



‘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 – pathways towards the achievement of convergence

- Use taxation and expenditure system to boost *per capita* consumption and hence welfare of people in the “regions” (*focus on per capita disposable income convergence*)
- Promote economic development in the Gateways and Hubs (*focus on productivity convergence*)

Tax and expenditure policies

- Reasonably direct boost to consumption levels of recipient regions
- Evidence suggests these policies have been reasonably effective (Morgenroth)
- Silent on the issue of the enhancement of regional self reliance & ignores the development cost of 'dependency' culture; commuting costs, etc.

Economic development policies in the “regions”

- Type of policy – public capital investment, e.g. infrastructure; industrial policy; education & training; R&D investment
- 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.

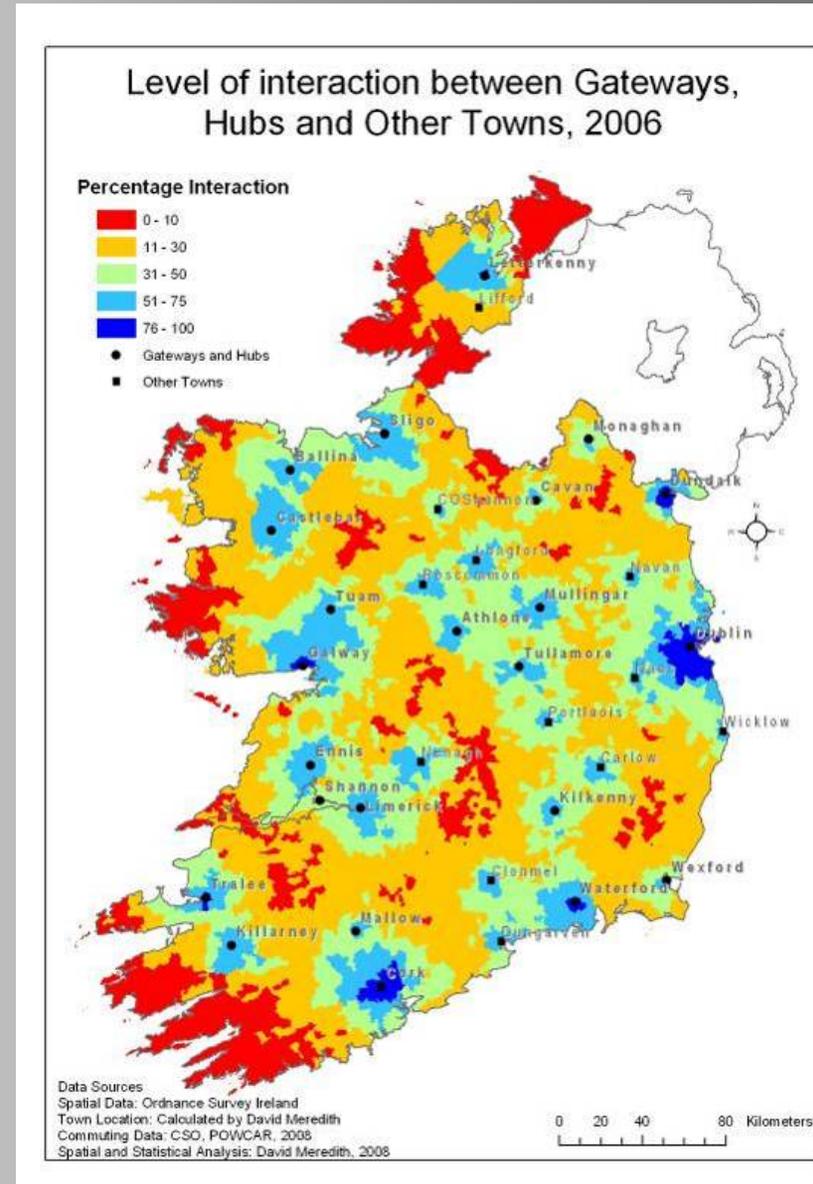
BRD, public capital investment and 'market failure'

- 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 by 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 optimal levels of output at best, or, at worst stymie any level of activity, e.g. production of renewable energy, countryside recreational activity, etc.

As a thought experiment, let's assume that BRD can be achieved for the TTW "regions" ... what about those areas that are left behind by this strategy ... the "remote rural regions" (RRAs) ...

NSS -Travel to Work Areas & Remote Rural Areas (RRAs)

- Commuter flows between all EDs and Towns (population >1,000 persons)
- RRAs = red, tan and light blue areas on the map



The RRAs – pathways for development

- Improve access for jobs and services to Gateways and Hubs for people in the RRAs
- Use taxation and expenditure system to boost *per capita* consumption and hence welfare of people in the RRAs
- Promote economic development in the RRAs
- A balance of pathways is desirable

Balance should reflect weights assigned to assessment criteria

- Assessment criteria ...
 - Cost
 - Equity
 - Economic efficiency
 - Self-reliance of RRAs

- **Key point** – development of TTWAs does not imply that the economic development needs of the RRAs can be ignored ...
- Better access to the Gateways and Hubs could even hamper the development of the RRAs ...

Strategies for the economic development of RRAs

- **Exploitation of natural resources**
 - Primary activities {farming; forestry; marine, tourism; bio-products; services} +
 - Associated processing activities & supply services both 'on' and 'off farm'
 - Food & energy security create new opportunities
- **Attraction of 'appropriate' inward economic activity**
 - Activity that is not dependent on agglomeration economies, e.g. knowledge or creativity based

Conclusions

- Diverse interpretations of BRD
- Different paths towards achieving BRD
- Sound economic efficiency arguments can be made for capital support measures to promote BRD
- BRD policies need to embrace the remote rural areas (RRAs)
- RRAs can be nurtured to generate greater economic development ... deep-seated inter-agency collaboration will be essential
- Go raibh maith agaibh ...

