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ISSUE BRIEF

Forgotten Places Around the World: A Call for Action

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Recent events have shown that the fruits of a post-pandemic recovery need to be broadly shared to reduce deep societal divisions within many countries. An important aspect in that regard is the geographical distribution of growth, which still seems to receive less attention than other dimensions of inequality. Policy-oriented economists and institutions need to devote more resources to identifying policies that lift the fortunes of "forgotten" places.

Now that vaccines are becoming more widely available, there is hope for a sustained global recovery that would provide an opportunity to narrow income gaps that have opened before and during the COVID-19 pandemic. Policy calls in support of inclusive growth include stronger social safety nets, more progressive taxation, green infrastructure spending, digital inclusion, and continued empowerment for women and underprivileged social groups. On the global level, there is a strong push for rejuvenating the United Nations Sustainable Development Goals (SDGs) as developing economies require strong support to make up for COVID-related losses.

Yet, one crucial aspect of inclusivity may again be overlooked by policymakers and academics alike: the divergent fortunes across different geographical areas. Regional disparities have long existed in many countries, feeding into divided electorates and populist resentments that characterized US and European politics in recent years. The problem is not limited to advanced economies, however. China, for example, has been grappling with the tensions between booming coastal regions and persistent rural poverty, and countless other countries have experienced an increase in inequality and urban/rural divergences. Given the growing support for nativist economic policies in such environments, it seems straightforward that policies to promote inclusive growth should come with a strong spatial component.

However, spatial economics is not the primary subject of many academic conferences or high-level policy discussions. Macroeconomics is focused on national aggregates, and the geographical distribution of growth is often regarded as a subordinated structural issue. This is puzzling insofar as policymakers have paid increasing attention to inequality, climate, or other structural issues that are also deemed important for long-term

1 The views expressed herein are those of the author and should not be attributed to the International Monetary Fund, its executive board, or its management.

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Medical workers arrive to vaccinate locals with the Chinese Sinopharm COVID-19 vaccine in the village of Leskovik near the city of Nis, Serbia, March 19, 2021. REUTERS/Marko Djurica.

growth. This article suggests that spatial aspects have long been a macrocritical issue that should be afforded as much, if not more, attention in policy designs for a post-pandemic recovery. The simple motivation is that even the most sound and inclusive policies may, sooner or later, be reversed if they lack effectiveness, support, and legitimacy in wide swaths of a country.

A macro-critical issue

The toxic political consequences of regional inequality have much to do with perceived threats to the economic and cultural standing of rural populations, and are not necessarily a function of nominal incomes alone. Financial assistance in the form of unemployment support, earned-income tax credits, or social welfare is, of course, available for rural populations just as it is for their urban counterparts. However, such "people-based" programs are typically at a level that preserves livelihoods rather than fostering regional employment, which would be most needed to preserve the human capital and cultural self-esteem of rural populations.[2] Social policies alone will, therefore, not counteract regional depressions and job losses in "places that don't matter," leading to political polarization and declining trust in the state more broadly.[3]

As an example, the differentiated regional impact of trade and technology has been much discussed in the United States in recent years.[4] Nevertheless, excessive reliance on trickle-down effects and inter-regional mobility may have obscured the recognition of rising problems in rural America, leading to what Anne Case and Angus

2 Benjamin Austin, Edward Glaeser, and Lawrence Summers, "Saving the Heartland: Place-Based Policies in 21st Century America," Brookings, Spring 2018, https://www.brookings.edu/wp-content/uploads/2018/03/AustinEtAl_Text.pdf provide an overview of the relevant literature.

3 The phrase was coined by Andrés Rodríguez-Pose, "The Revenge of the Places that Don't Matter (and What to Do about It)," *Cambridge Journal of Regions, Economy and Society* 11, 1, 2018, https://academic.oup.com/cjres/article-abstract/11/1/189/4821289 in the context of a broader global phenomenon.

4 Peter Ganong and Daniel Shoag, "Why Has Regional Income Convergence in the U.S. Declined?" Cato Institute, Research Briefs in Economic Policy 57, 2016, https://www.cato.org/research-briefs-economic-policy/why-has-regional-income-convergence-us-declined.

Deaton termed the "deaths of despair" haunting local communities.[5] Exhibit A in this context is the late detection of the US opioid crisis, which has taken a significant toll on life expectancy and morphed into a phenomenon that has taken on a macroeconomic dimension and intensified during the COVID crisis.[6]

There are several reasons why the decline of rural economies cuts into efforts to boost inclusive and sustainable growth more broadly.

- While rural areas are often regarded as bastions of conservatism dominated by dominant racial or social groups, the reality is that rural populations are often quite diverse, coming close to or equaling the diversity of urban centers.[7] The same population groups tend to be disadvantaged across different regions, and policies aimed at reducing spatial inequality can, therefore, be used to reduce other dimensions of inequality. In fact, improving the economic fortunes of women and minorities is likely to be more difficult in areas beset by racial and gender stereotypes and fewer opportunities for entrepreneurial careers, suggesting that policies to rejuvenate local economies have an important role to play in efforts to promote economic inclusion.

- Moreover, an economy's long-term productive capacity suffers if a large rural population is held back by low-quality schooling and lack of career prospects, especially in countries in demographic decline. Few countries can afford keeping a large share of their labor force underused, as the COVID epidemic left them with crushing debt burdens and underfunded public pension and health schemes. Immigration has provided a safety valve in many countries, but foreign inflows of unskilled labor have contributed to political tensions—even if they were beneficial for the economy as a whole.

- Looking forward, achieving ambitious greenhouse-gas emission targets will require a political consensus that needs to consider the specific characteristics of rural economies. These economies are often energy intensive, and fewer dense networks of public transportation increase the cost sensitivity of residents. In some areas, a decline in carbon extraction (mining, drilling, or fracking) could lead to a permanent dip in employment. While green investments in solar or wind power have the potential to generate new jobs in rural areas, it stands to question whether such investments could provide equivalent wages or lead to a sustained increase in demand for local labor. Moreover, an energy transition that would, for example, benefit wealthier landowners at the expense of poorer rural populations may face significant political obstacles, and could deepen social resentment.

No easy solutions

A discussion of spatial aspects of economic growth is pressing because previous attempts to lift the prospects of underprivileged regions have met with little success, including for want of effective policy solutions. As discussed above, there is broad agreement that a strong social safety net is necessary to secure livelihoods in rural areas, but—unless accompanied by steps to improve employment prospects—this will remain insufficient to prevent negative economic and social dynamics.

Policy options proposed by macro economists generally emphasize investment in infrastructure and education, as well as area-specific employment subsidies, but these have not yet brought significant changes to regional inequalities.[8]

- There are good reasons to reverse the long-term decline in public infrastructure investment in many countries. However, experience suggests that public infrastructure investment, by itself, will not improve economic fortunes in weaker regions—indeed, it often facilitates additional concentration of economic activity in existing centers, which it was intended to

5 Anne Case and Angus Deaton, *Deaths of Despair and the Future of Capitalism*, Princeton University Press, 2020.

6 Nicholas Eberstadt, "Big Government's Overlooked Americans," *National Review*, December 17, 2020, https://www.nationalreview.com/magazine/2020/12/17/big-governments-overlooked-americans/. Eberstadt decries the lack of data that would be necessary to fight inequality and rising poverty in the United States.

7 Hanna Love and Tracy Hadden Loh, "The 'Rural-Urban Divide' Furthers Myths about Race and Poverty—Concealing Effective Policy Solutions," Brookings, December 8, 2020, https://www.brookings.edu/blog/the-avenue/2020/12/08/the-rural-urban-divide-furthers-myths-about-race-and-poverty-concealing-effective-policy-solutions/. This is an aspect overlooked in Adam Posen, "The Price of Nostalgia: America's Self-Defeating Economic Retreat," Foreign Affairs, May/June 2021, https://www.foreignaffairs.com/articles/united-states/2021-04-20/america-price-nostalgia.

8 Austin, et al., "Saving the Heartland: Place-Based Policies in 21st Century America."

Teacher Sergio Ferrao gives instructions to students on how to wear a face mask at Escuela 30, a rural school that has resumed classes after a month off due to the coronavirus disease (COVID-19), in San Jose, Uruguay April 22, 2020. REUTERS/Mariana Greif.

alleviate in the first place.[9] East Germany provides a good example as a region that saw large infrastructure spending after German unification but, after an initial boost, has settled on a painfully slow course of closing its income gap with the western part of the country.[10]

- High-quality education is a necessary and worthwhile goal in itself. However, more expenditure on education is not a panacea for reducing inequality. Teaching resources, both in quality and quantity, tend to be least plentiful where they are needed most, whether in neglected inner cities or weak rural areas. And, even if a major effort were undertaken to level the playing field in formal education, many children from rural areas would continue to lack informal ways to bolster their human capital—for example, in the form of social networks helping with college access, internships, and lucrative entry-level jobs that tend to be stronger in highly connected urban areas.[11]

- Economists have been divided over the effectiveness of policies that directly target weaker regions ("place-based policies"). Government support to local and regional authorities clearly has a role to play in providing conditions that facilitate investment and job creation. At the same time, there is mixed evidence about the effectiveness of investment-related subsidies, which can be an expensive way to attract private companies, and pouring public resources in some part of a state or country may simply lead to higher growth there at the expense of other regions.[12] Given signs that rural labor-market outcomes seem to be predominantly a function of labor demand rather than supply, there is a case for direct employment subsidies in areas with high unemployment, but this hypothesis remains to be more widely tested, as data to evaluate the effectiveness of place-based policies have not been available so far.[13]

9 Simona Iammarino, Andrés Rodríguez-Pose, and Michael Storper, "Why Regional Development Matters for Europe's Economic Future," European Commission, July 2017, https://ec.europa.eu/regional_policy/sources/docgener/work/201707_regional_development_matters.pdf.

10 Günther Schnabl and Tim Sepp, "30 Years After the Fall of Wall. Convergence and Divergence between East and West Germany," University of Leipzig, October 3, 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3457175.

11 Ian Schmutte, "How Do Social Networks Affect Labor Markets?" *IZA World of Labor*, 2016, 304, https://wol.iza.org/articles/how-do-social-networks-affect-labor-markets/long.

ISSUE BRIEF Forgotten Places Around the World: A Call for Action

What to do?

Economists, geographers, and other scientists have, of course, worked hard to develop solutions to boost rural economies. Recent proposals include (among other things) stepping up direct financial support to rural communities, especially aimed at basic needs and poverty reduction, strengthening rural colleges and universities, connecting rural areas with high-speed Internet (the latest variant of the infrastructure argument), breaking up agricultural oligopolies, or developing more vibrant regional housing markets.[14] Much of this thinking is reflected in the policies of the new Biden administration and will be tested in the coming years. European researchers have suggested strengthening interregional trade and employment by connecting weaker regions with each other, rather than focusing on connections with stronger economic regions.[15]

A key theme underlying these proposals is that national, regional, and local governments need to work closely with each other and the private sector to make rural policies work. One key aspect is to provide local authorities with tools and incentives to ensure good governance, which is needed to overcome cultural resistance against change, especially in the face of a weak local revenue base.[16] Policy solutions will, of course, need to be customized to local conditions, but there is a strong case for a stepped-up exchange of ideas to be taken up by academia, think tanks, international institutions, and forums such as the Group of Twenty (G20).

In summary, despite COVID-19, it stands to reason that large urban agglomeration will remain a feature of modern economies, threatening a deeper regional chasm than already exists. Work on reducing spatial inequality deserves much greater attention and reinforcement from a macroeconomic and institutional perspective, helping governments around the world deal with one of the defining social questions of this time.

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12 Rural regions often benefit from agricultural subsidies, but these tend to be distortive, benefit large conglomerates more than small farmers, and have high overall economic cost.

13 For a broader overview of policy options in advanced economies, see: "Closer Together or Further Apart? Subnational Regional Disparities and Adjustment in Advanced Economies," International Monetary Fund, *World Economic Outlook*, Chapter 2, October 2019, https://www.imf.org/-/media/Files/Publications/WEO/2019/October/English/Ch2.ashx.

14 See, for example: Timothy J. Bartik, "Using Place-Based Jobs Policies to Help Distressed Communities," *Journal of Economic Perspectives* 34, 3, 2020, https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.34.3.99; Brian Dabson, "Equitable Recovery and Resilience in Rural America," Aspen Institute Community Strategies Group, December 2020, https://www.aspeninstitute.org/publications/equitable-recovery-and-resilience-in-rural-america/; Iammarino, et. al., "Why Regional Development Matters for Europe's Economic Future."; Christian Kastrop, et al., "The Urban-Rural Divide and Regionally Inclusive Growth in the Digital Age," G20 Insights, June 14, 2019, https://www.g20-insights.org/policy_briefs/the-urban-rural-divide-and-regionally-inclusive-growth-in-the-digital-age/; "Highways Aren't Enough: What Trump Needs to Know About Remaking the Rust Belt: A What Works Working Group Report," *Politico*, December 21, 2016, https://www.politico.com/magazine/story/2016/12/what-works-infrastructure-agenda-report-214540/; Jonathan Robison, et al., "The Land of In-Between: Revitalizing America's Small and Mid-sized Cities," Center for Strategic and International Studies, December 16, 2020, https://www.csis.org/analysis/land-between-revitalizing-americas-small-and-mid-sized-cities.

15 Iammarino, et. al., "Why Regional Development Matters for Europe's Economic Future."

16 David J. Douglas, "Governance in Rural Contexts: Toward the Formulation of a Conceptual Framework," *EchoGéo* 43, 2018, https://journals.openedition.org/echogeo/15265.

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