

Globalisation's losers The right way to help declining places

 [economist.com/leaders/2017/10/21/the-right-way-to-help-declining-places](https://www.economist.com/leaders/2017/10/21/the-right-way-to-help-declining-places)

Time for fresh thinking about the changing economics of geography



Print edition | Leaders

Oct 21st 2017

POPULISM'S wave has yet to crest. That is the sobering lesson of recent elections in Germany and Austria, where the success of anti-immigrant, anti-globalisation parties showed that a message of hostility to elites and outsiders resonates as strongly as ever among those fed up with the status quo. It is also the lesson from America, where Donald Trump is doubling down on gestures to his angry base, most recently by adopting a negotiating position on NAFTA that is more likely to wreck than remake the trade agreement (see [article](#)).

These remedies will not work. The demise of NAFTA will disproportionately hurt the blue-collar workers who back Mr Trump. Getting tough on immigrants will do nothing to improve economic conditions in eastern Germany, where 20% of voters backed the far-right Alternative for Germany. But the self-defeating nature of populist policies will not blunt their appeal. Mainstream parties must offer voters who feel left behind a better vision of the future, one that takes greater account of the geographical reality behind the politics of anger.

Location, location, vocation

Economic theory suggests that regional inequalities should diminish as poorer (and cheaper) places attract investment and grow faster than richer ones. The 20th century bore that theory out: income gaps narrowed across American states and European regions. No longer. Affluent places are now pulling away from poorer ones (see [article](#)). This geographical divergence has dramatic consequences. A child born in the bottom 20% in wealthy San Francisco has twice as much chance as a similar child in Detroit of ending up in the top 20% as an adult. Boys born in London's Chelsea can expect to live nearly nine years longer than those born in Blackpool. Opportunities are limited for those stuck in the wrong place, and the wider economy suffers. If all its citizens had lived in places of high productivity over the past 50 years, America's economy could have grown twice as fast as it did.

Divergence is the result of big forces. In the modern economy scale is increasingly important. The companies with the biggest hoards of data can train their machines most effectively; the social network that everyone else is on is most attractive to new users; the stock exchange with the deepest pool of investors is best for raising capital. These returns to scale create fewer, superstar firms clustered in fewer, superstar places. Everywhere else is left behind.

Even as regional disparities widen, people are becoming less mobile. The percentage of Americans who move across state lines each year has fallen by half since the 1990s. The typical American is more footloose than the average European, yet lives less than 30 kilometres from his parents. Demographic shifts help explain this, including the rise in two-earner households and the need to care for ageing family members. But the bigger culprit is poor policies. Soaring housing costs in prosperous cities keep newcomers out. In Europe a scarcity of social housing leads people to hang on to cheap flats. In America the spread of state-specific occupational licensing and government benefits punishes those who move. The pension of a teacher who stays in the same state could be twice as big as that of a teacher who moves mid-career.

Perversely, policies to help the poor unintentionally exacerbate the plight of left-behind places. Unemployment and health benefits enable the least employable people to survive in struggling places when once they would have had no choice but to move. Welfare makes capitalism less brutal for individuals, but it perpetuates the problems where they live.

Welcome to the place age

What to do? One answer is to help people move. Thriving places could do more to build the housing and infrastructure to accommodate newcomers. Accelerating the reciprocal recognition of credentials across state or national borders would help people move to where they can be most productive. But greater mobility also has a perverse side-effect. By draining moribund places of talented workers, it exacerbates their troubles. The local tax-base erodes as productive workers leave, even as welfare and pension obligations mount.

To avoid these outcomes, politicians have long tried to bolster left-behind places with subsidies. But such "regional policies" have a patchy record, at best. South Carolina lured BMW to the state in 1992 and from it built a thriving automotive cluster. But the EU's structural funds raise output and reduce unemployment only so long as funding continues. California has 42 enterprise zones. None has raised employment. Better for politicians to focus on speeding up the diffusion of technology and business practices from high-performing places. A beefed-up competition policy could reduce industrial concentration, which saps the economy of dynamism while focusing the gains from growth in fewer firms and places. Fostering clusters by encouraging the creation of private investment funds targeted on particular regions might help.

Bolder still would be to expand the mission of local colleges. In the 19th century America created lots of public technical universities. They were supposed to teach best practice to farmers and factory managers in small towns and rural areas. They could play that role again today for new technologies, much as Germany already has a network of applied-research institutions. Politicians might even learn from Amazon, whose search for a home for a second headquarters has set off a scramble among cities hoping to lure the giant retailer. Governments could award public research centres—in the mould of America's National Institutes of Health or Europe's CERN—to cities which prepare the best plans for policy reform and public investment. This would aid the diffusion of new ideas and create an incentive for struggling places to help themselves.

Perhaps most of all, politicians need a different mindset. For progressives, alleviating poverty has demanded welfare; for libertarians, freeing up the economy. Both have focused on people. But the complex interaction of demography, welfare and globalisation means that is insufficient. Assuaging the anger of the left-behind means realising that places matter, too.