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The revenge of the places that don't matter (and what to do about it)

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Persistent poverty, economic decay and lack of opportunities are at the root of considerable discontent in declining and lagging-behind areas the world over. Poor development prospects and an increasing belief that these places have "no future"—as economic dynamism has been posited to be increasingly dependent on agglomeration economies—have led many of these so-called "places that don't matter" to revolt against the status quo. The revolt has come via an unexpected source: the ballot-box, in a wave of political populism with strong territorial, rather than social foundations. I will argue that the populist wave is challenging the sources of existing well-being in both the less-dynamic and the more prosperous areas and that better, rather than more, place-sensitive territorial development policies are needed in order to find a solution to the problem. Place-sensitive development policies need, however, to stay clear of the welfare, income support and big investment projects of past development strategies if they are to be successful and focus on tapping into untapped potential and on providing opportunities to those people living in the places that "don't matter".

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JEL Classification: F63, O18, R11, R12.

From hectoring to revenge

On 16 October 2008, Tim Leunig, then a Reader in Economic History at the London School of Economics, stood in Liverpool's Cathedral in front of a crowd of somewhat bemused and worried Liverpudlians to essentially deliver the message that Liverpool's time was past; that the place that they lived in and loved no longer mattered. Cities and counties in the North of England had "slipped back relative to both the national average and Britain's most successful towns" and "regeneration policy [had] failed to regenerate towns" (Leunig, 2008). Despite massive public expenditure in trying to promote development in the North, the results were dismal: the economic gap between a prosperous South of England and a declining North had continued to widen regardless of the efforts of successive governments (Martin et al., 2015). Development policies were not working and there was a need to rethink development strategies for lagging and declining areas in the UK, as the fate linked to geography could not be bucked (Leunig, 2008).

The proposed solution was relatively simple: first, focus on the parts of the country that

were prosperous and dynamic (i.e. London and the South East) and, second, allow "people in Liverpool, Sunderland and so on" (Leunig, 2008) to move to the more affluent places in order to take advantage of the opportunities on offer there. This would imply massively expanding the housing stock around London—"making [London] a mile bigger would create 400,000 new houses" (Leunig, 2008)—as well as multiplying the population of Oxford and, particularly, Cambridge by building there "as many as a million houses […] along the model of America's Silicon Valley" (Leunig, 2008).

Although Leunig's message was specifically targeted at the lack of economic dynamism in the North of England, it resonated in many parts of the world where past policies aimed at generating development, through an array of government agencies "such as the Economic Development Administration in the United States, the Department of Regional Economic Expansion in Canada, the Department of Economic Affairs in Britain, the Delegation à l'Aménagement du Territoire in France, the Cassa per il Mezzogiorno in Italy" (Scott, 1992, 220–221), had attempted "to create important new industrial growth centers through governmental action" with "very limited success" (Scott, 1992, 221). Traditional, supply-led development intervention was considered to have generally failed, leading to permanently assisted and sheltered economies (Fratesi and Rodríguez-Pose, 2016; Rodríguez-Pose and Fratesi, 2007). Places such as the Mezzogiorno in Italy (González, 2011; Viesti, 2011) or East Germany (Sinn, 2002) had, very much like the North of England, become increasingly dependent on transfers and welfare from the central or federal government.

Leunig demonstrated considerable courage by standing in front of what would have been a polite but mostly hostile crowd. Moreover, according to Hilary Burrage's (2008) account of the event at Liverpool Cathedral, Leunig was "quite obviously sincerely, very sorry about [the message he was conveying], and he didn't wish anyone to be upset". However, what Leunig—as many other academics that preceded and have followed him—probably did not realise was that telling people that they and their children had no future if they stayed put would have been considered as being patronised by an aloof and distant elite. An elite that was telling them that the alternative was between facing slow decline—possibly attenuated by attempts at decentralising powers—or leaving the places where most of them had been born and bred. An elite that, moreover, would suffer none of the costs and reap the potential benefits of any change in policy. Being told that where you live and where you belong does not matter is bound to make anyone react.

And reacted they have. The reaction has, however, come from a somewhat unexpected source. In recent years the places that "don't matter" have increasingly used the ballot box (and, in some cases, outright revolt) to rebel against the feeling of being left behind; against the feeling of lacking opportunities and future prospects. Such reaction—which was already evident in places like Thailand or some Latin American countries in the mid-2000s—pitches not so much the rich against the poor, as would have been envisaged by those focusing on interpersonal inequality (i.e. Piketty, 2014), but lagging and/or declining regions against more prosperous ones (Gordon, 2018). This political and territorial conflict, which has acquired greater notoriety since the 2016 Brexit vote in the UK, the 2016 election of Donald Trump in the US, the 2016 Austrian presidential election, the 2017 French presidential and the 2017 German general elections, threatens to derail the very economic and social stability at the heart of the prosperity of the most dynamic cities and regions. Future economic growth and development at country level and in the most prosperous regions is being jeopardised by the revenge of the "places that don't matter". These places have risen and used the ballot box—often taking advantage of majoritarian electoral systems (Spicer, 2018)—to send the

signal that if they are going down, as they have been repeatedly told, they are not going to go down without a fight. They may even be intent on sinking—or changing, depending on political views—the whole system with them.

In this article for the special tenth anniversary issue of the *Cambridge Journal of Regions, Economy and Society* I will present a critical overview of the revenge of the "places that don't matter", asking why and how has it happened, why didn't we see it coming despite many obvious signs, and what to do about it. In the process, I will establish links to the rest of the papers in the issue, as the majority of them raise very similar concerns—albeit in a probably more systematic and less polemic and impassioned way. The article proceeds as follows. I will first examine the dominant narrative, compare the narrative to existing evidence and highlight why the most influential theories did not have the tools to foresee the reaction. I will then discuss what has been done wrong and how can the problem be addressed so as to ensure that opportunities for all are spread out and lagging-behind and declining territories fulfil their development potential.

The dominant narrative

Tim Leunig's message at Liverpool Cathedral may have been extreme, but perfectly reflects the dominant narrative emanating from urban economics and, to a lesser extent, new economic geography (NEG). This narrative puts forward the idea that big cities are the future and that the best form of territorial intervention is not to focus on declining places—perceived as having low potential—but to bet on what is supposed to be the winning horse: the largest and most dynamic agglomerations.

Why focus on large cities? As Glaeser (2011) makes clear in the subtitle of his seminal book *Triumph of the City*, cities are "our greatest invention" and make us "richer, smarter, greener, healthier and happier". This is achieved through a combination of factors which include agglomeration, density and transport costs. Agglomeration and density facilitate the pooling of labour, the sharing and matching of infrastructure and suppliers, the interaction of economic agents and, through learning processes, the generation, distribution and assimilation of knowledge and innovation (Duranton and Puga, 2004). Cities, being larger and denser than towns and rural areas, have a comparative advantage relative to any other places, meaning that firms benefit from being located in cities. But not any city will do: agglomeration economies increase with city size. According to urban economics, there are considerable advantages of being located in larger and denser cities, as "there are substantial productivity benefits for all firms in denser areas that are even stronger for more productive firms" (Combes et al., 2012, 2570). Firms in denser areas "are, on average, about 9.7% more productive than in less dense areas" (Combes et al., 2012, 2584). Improvements in accessibility and declines in transportation costs also help in this respect, as they contribute to channel physical and human capital and resources to the more dynamic cities, further enhancing density and agglomeration and, consequently, generating economic opportunity and development. From this perspective promoting agglomeration and "urban density provides the clearest path from poverty to prosperity" (Glaeser, 2011, 1).

This message has been enthusiastically picked up by policymakers over the last decade and increasingly drummed to inhabitants of lagging and/or declining areas as the way forward. As proclaimed by the World Economic Forum, "the 21st century will be the "century of the city" and "the 'century of the city' will be one marked by prosperity, inclusion, partnership, and sustainability" (World Economic Forum, 2012, 3).

Focusing on cities and, especially, on the largest and most prosperous cities implies that "economic growth will be unbalanced" (Word Bank, 2009, xxi), but "to try to spread it out is to discourage it—to fight prosperity, not poverty"

(World Bank, 2009: back cover). Hence, the main aim of policies should be to move people to places where there are opportunities, not opportunities to declining areas (World Bank, 2009, 241). "Subsidizing poor or unproductive places is an imperfect way of transferring resources to poor people" (Kline and Moretti, 2014, 656). In sum, this implies pursuing what has been called people-based policies at the expense of place-based policies, as place-based policies are, at best inefficient and, at worst, distortionary and slow the need for structural reform (cf. Partridge et al., 2015).

Places that matter and places that don't matter

Is the 21st century becoming, as advanced by the World Economic Forum, the century of the city and one marked by prosperity, inclusion, partnership and sustainability? Or is it turning into one that increasingly divides places between those that matter and those that don't matter?

At first sight, there is evidence that big cities in many parts of the world are doing swimmingly. Large cities like London, New York, Tokyo, Paris or Singapore have tended to perform relatively well, especially in the face of a protracted crisis and relative to the performance of other cities and regions in their respective countries and to other large metropolises in the world (Institute for Urban Strategies, 2017). Moreover, it seems that size matters more than ever. In a country like the UK, over the last four decades, the economic performance of London has exceeded that of Manchester and Birmingham, whose performance, in turn, has been better than that of Liverpool or Sheffield (Tyler et al., 2017). In France, Paris' growth has outpaced that of Lyon, while Marseille and Lille have lagged further behind. Similarly, in Central and Eastern Europe the economic dynamism has been heavily concentrated in capital cities, which combine size with economic and political power. Urban economic studies looking at changes in economic performance have generally confirmed these trends. Bertinelli and Strobl (2007), Brülhart and Sbergami (2009) and Castells-Quintana and Royuela (2014) have underscored that the concentration of the population in the largest city leads to higher economic growth. According to this strand of research, productivity levels are also often enhanced by increases in city size. Doubling the size of a city can result in productivity increases that range between 3 and 8% (Rosenthal and Strange, 2004) and the yields can be higher in large cities in the developing world (Duranton, 2015).

Yet, the evidence that big cities are the main drivers of growth is far from consistent. There are plenty of once dominant cities that have suffered sharp or gradual economic declines. On top of the long decay of former industrial hubs such as Detroit, St Louis or Youngstown in the US, Guyuan, Yichun or Lanzhou in China, or Dnipropetrovsk in the Ukraine, a number of formerly leading cities have seen their star fade especially relative to other, often initially smaller competitors. This has been the case of Montréal relative to Toronto in Canada, or of Kolkata relative to Mumbai in India. A similar, albeit less spectacular, change has been analysed by Storper et al. (2015) in the case of Los Angeles and San Francisco. Meanwhile, many fast-growing cities in the developing world do not seem to have the capacity to act as motors of economic growth. Especially in the large "consumption cities" in Africa growth has been mostly associated with wealth derived from resource exports (Gollin et al., 2016). More systematic studies involving Europe (Dijkstra et al., 2013) or large samples in countries around the world (Frick and Rodríguez-Pose, 2016, 2018) have also challenged the urban economics view that large agglomerations are the main engines of growth. Factors like better quality of life, greater skills and improvements in accessibility have propelled economic activity in many medium-sized and small cities, which have become an important source of

economic dynamism for an increasingly large number of countries.

But if there is considerable discussion about the importance of big cities for economic development, what can be said about territorial polarisation? Is the 21st century leading to a more territorially inclusive society? Or has greater polarisation resulted in a division between places that matter and places that don't matter? Here, the evidence is also controversial. In a recent study by Lessmann and Seidel (2017) covering virtually all countries in the world, they find that within-country territorial disparities have not increased as would have been expected if economic growth had been driven by a handful of large cities. About two-thirds of all countries in the world have experienced a reduction of disparities between 1992 and 2012 (Lessmann and Seidel, 2017). Most of this reduction has been concentrated in developed and middle-income countries. Territorial disparities have declined across the American continent (with the exception of Guyana), most of Europe, and in a number of Asian countries, such as China, the Philippines or South Korea. Greater polarisation is, by contrast, in evidence in most of Africa, Eastern Europe and large parts of South Asia (Lessmann and Seidel, 2017, 120). These are precisely some of the countries with the highest internal disparities and greater potential for conflict (Rodríguez-Pose, 2012).

This evidence contradicts most predictions by urban economics and the idea put forward by the World Bank that economic development, at least in the initial stages, needs to be unbalanced (World Bank, 2009). Many less-developed regions across the world have actually caught up with richer regions in their respective countries. Whether this is the result of policy or of other factors would require greater investigation, but there seems to be a link between countries that have shown some concern for territorial inequality and have acted on it—generally better-off and emerging countries—relative to those that do not have the means or the will to intervene to promote economic development in their less developed regions.

However, what is undeniable is that the economic dynamism of many areas in developed and developing countries has left a lot to be desired. Many poor regions have remained stuck for long periods in low income traps, while some formerly well-off and dynamic regions have experienced long periods of decay. This is often the case in many developing countries, a factor that is affecting the livelihoods and opportunities of their residents. As many poor countries have abandoned traditional import-substitution strategies for economic openness, many core cities in these parts of the world have benefited, while the poorest of the poor have generally lost out (Ezcurra and Rodríguez-Pose, 2014, 179). This has been, for example, the case of Thailand, one of the countries with the highest level of territorial inequalities. Territorial conflict there has pitched a rich and relatively prosperous Bangkok against the highly impoverished rural areas in the Centre, North and East. Likewise, in China the coastal provinces have prospered since the beginning of the 1990s, while many internal regions still lag massively behind. In India, many western and southern states, such as Gujarat, Maharashtra, Karnataka or Tamil Nadu, have grown, while populous northern and eastern states, such as Uttar Pradesh, Bihar or West Bengal, have had far from glittering economic trajectories.

Territorial imbalance-related problems are not, however, just confined to emerging countries with high levels of polarisation. In Europe, where territorial inequalities are, in general, much smaller, persistently low levels of regional growth in parts of the continent are at the root of an increasing economic and political instability. Figures 1 and 2 show the growth of GDP per head and employment change in the regions of the European Union (EU) between 1990 and 2014. During this period economic growth has been mostly concentrated in some countries—Ireland, Estonia, Luxembourg, Poland, Slovakia—and in some

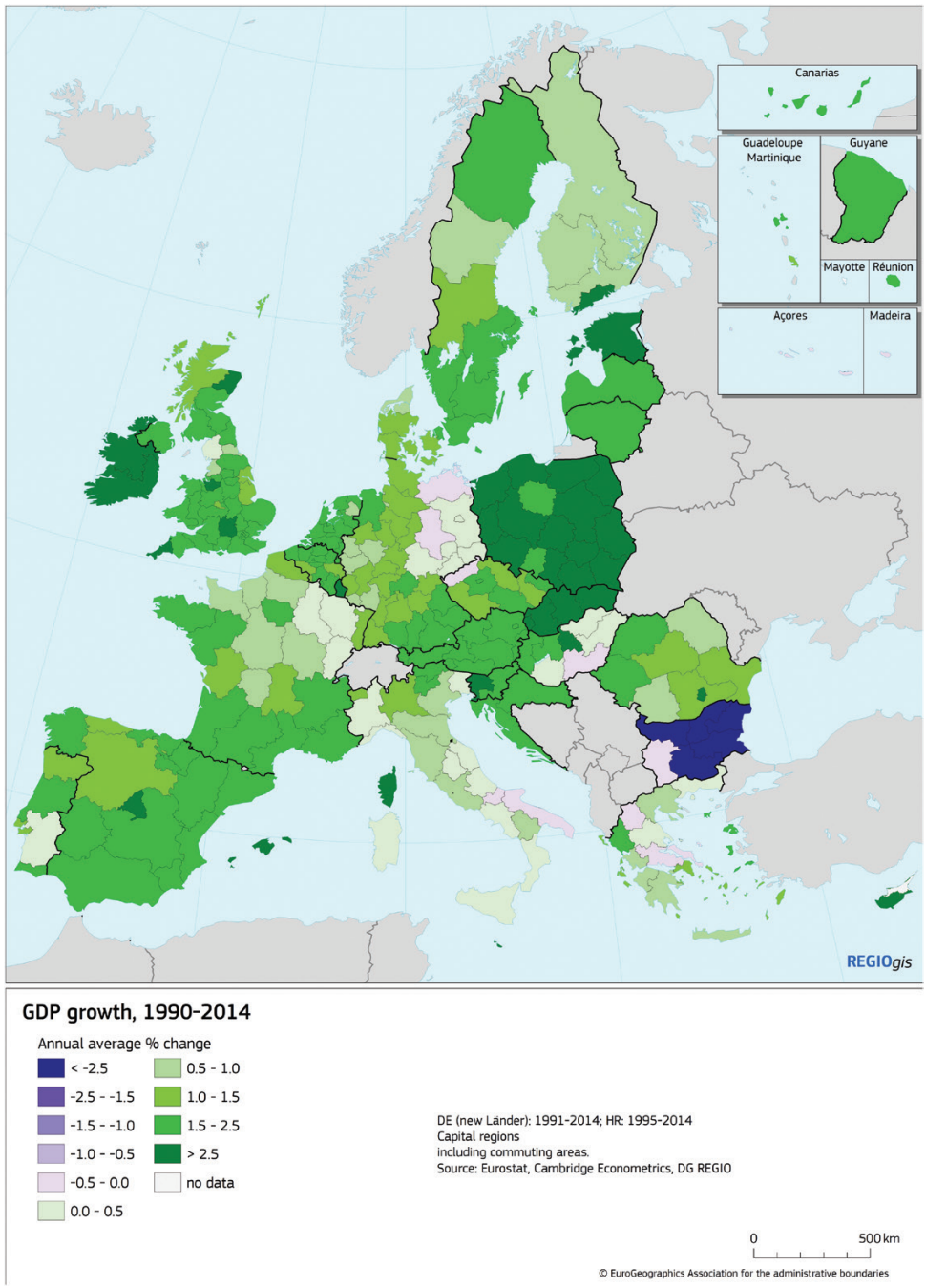

Figure 1. *GDP growth in the regions of the EU, 1990–2014.*

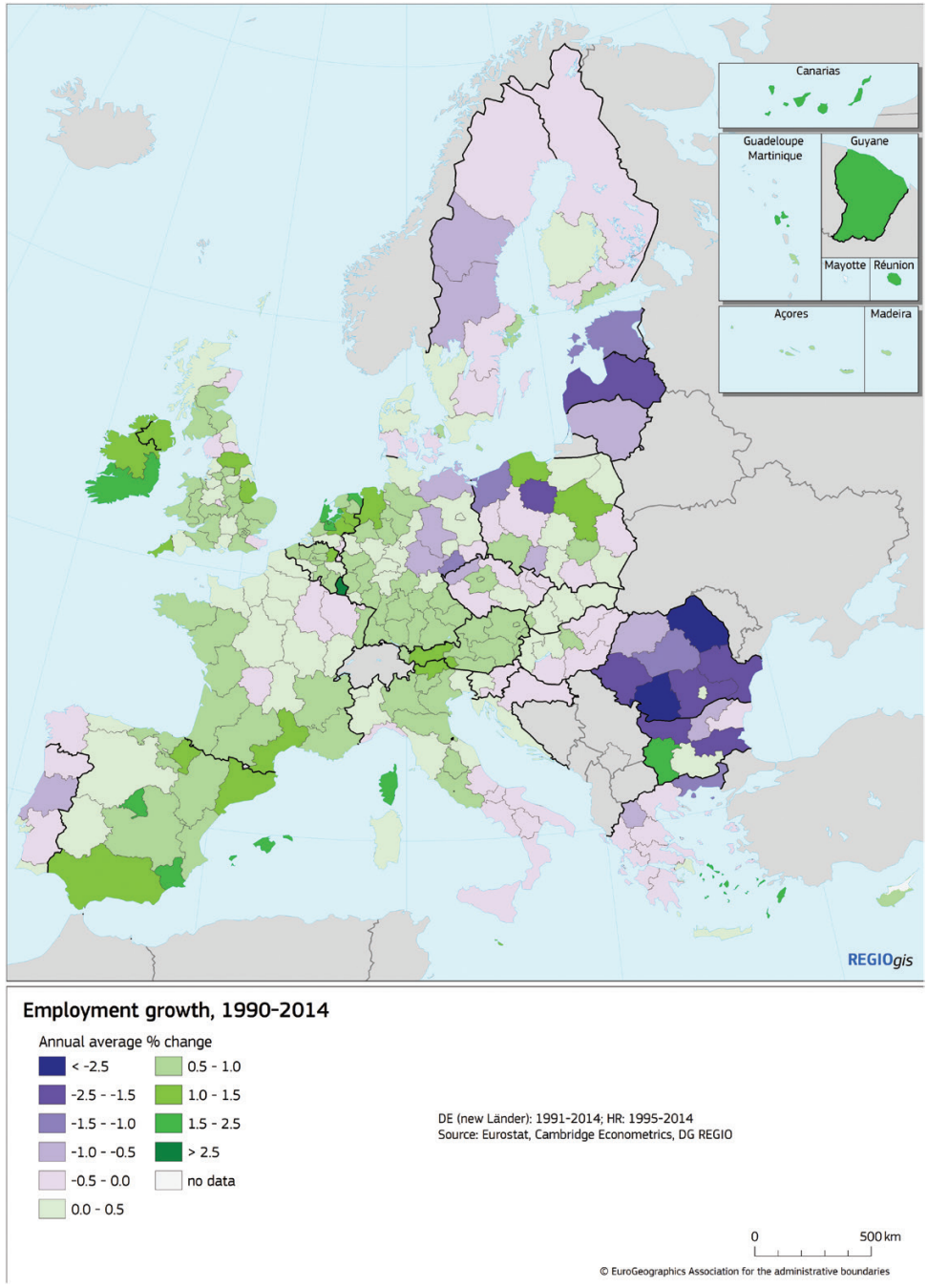

Figure 2. *Employment change in the regions of the EU, 1990–2014.*

dynamic cities—Bucharest, Budapest, Helsinki, Ljubljana, Madrid. The South of England, South Germany, Copenhagen or Paris have also done relatively well over the long run. In contrast, low growth has been the norm in Bulgaria, eastern and southern areas of Hungary, most of East Germany, central Greece, southern Italy, the South of Portugal (with the exception of the Algarve) and in industrial declining regions of north-eastern France, north-western Italy and the northern Czech Republic (Figure 1).

The contrasts are even starker when looking at the differences in employment change. Employment declines over a period of 25 years have been the norm in the Baltic States, most of Bulgaria, Greece and Romania (with the exceptions of the respective capitals), rural Hungary, western Poland, Portugal and northern Finland and Sweden. Many old industrial areas have been hit particularly hard, as is the case of Lorraine in France, most Czech regions outside Central Bohemia, Chemnitz and Saxony-Anhalt in Germany or Birmingham in the UK (Figure 2).

Similar trajectories can be spotted in many of the so-called "flyover" and "rustbelt" states in the US. The majority of the worst performing US metropolitan statistical areas (MSAs) were located in the South. MSAs such as Dalton (GA), Hilton Head (SC), Naples (FL) or Myrtle Beach (SC-NC) had rates of average per capita GDP decline between 2001 and 2016 which exceeded 1.5 percent per annum. Many MSAs in so-called "flyover" states performed only marginally better. Laredo (TX), El Paso (TX), Grand Junction (CO), Ann Arbor (MI), Lawrence (KS), Muncie (IN), Racine (WI) or Santa Fe (NM) all experienced annual GDP per capita declines in excess of 0.5%. Cases of similar economic decay along both coasts (outside Southern states) were few and far between—just Atlantic City (NJ) and Dover (DE).

This geographical pattern is reproduced when only the 30 largest MSAs in the US are considered (Table 1). The worst performing largest cities in the US between 2001 and 2016 were located in the South (Orlando, Atlanta, Charlotte, Miami, Tampa), in flyover regions (Phoenix, Sacramento, Riverside, Kansas City, Denver), or in rustbelt states (St Louis, Detroit, Minneapolis) (Table 1). Of the 10 MSAs with a GDP per capita growth of 1.0% or more, eight were located along both coasts—Portland, Los Angeles, San Francisco, Boston, Baltimore, Philadelphia, Seattle and New York (Table 1). Only Pittsburgh and San Antonio represented rustbelt or flyover states.

Hence, a number of territories across the world are being left behind, experiencing long periods of decline. Whether it is Bihar in India, the central lowlands of Thailand, parts of East Germany, Champagne-Ardenne or Lorraine in France or Michigan and Ohio in the US, a "geography of discontent" (Essletzbichler, 2018; Los et al., 2017), often linked to crises in the agricultural and/or industrial sectors, to significant outward migration and brain drain and, more importantly, to a feeling that there is no future and no hope, is emerging. The lack of faith in the future is giving way to the impression that these places matter less than hitherto. And the belief that there are places that don't matter comes both from within these declining areas—that feel left behind—and from the outside. Pejorative and widely used expressions such as "flyover country" or "rustbelts" do little to quell this perception, as "what arouses popular opposition is not inequality per se, but perceived unfairness" (Rodrik, 2017, 149). Overall, the fear of being left behind and of having no future is leading to a reaction which is starting to have serious political, social and economic consequences.

The revenge of the places that don't matter

Where is this reaction coming from? The reaction is coming from politics rather than economics. Populism as a political force has taken hold in many of the so-called spaces that don't matter, in numbers that are creating a systemic risk—what Aoyama et al. (2018) and van Bergeijk (2018) call *deglobalisation* (see also

Table 1. *Annual per capita real GDP growth between 2001 and 2016 in the 30 largest US MSAs in 2016.*

Metropolitan statistical area (MSA)	Population in 2016	Economic growth, 2001–2016 (%)
Portland–Vancouver–Hillsboro, OR–WA	2,424,955	2.5
Los Angeles–Long Beach–Anaheim, CA	13,310,447	1.8
San Francisco–Oakland–Hayward, CA	4,679,166	1.4
Pittsburgh, PA	2,342,299	1.4
Boston–Cambridge–Newton, MA–NH	4,794,447	1.3
Baltimore–Columbia–Towson, MD	2,798,886	1.3
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD	6,070,500	1.2
Seattle–Tacoma–Bellevue, WA	3,798,902	1.2
San Antonio–New Braunfels, TX	2,429,609	1.1
New York–Newark–Bridgeport, NY–NJ–PA	20,153,634	1.0
Dallas–Fort Worth–Arlington, TX	7,233,323	0.9
San Diego–Carlsbad, CA	3,317,749	0.9
Cleveland–Elyria, OH	2,055,612	0.9
Cincinnati, OH–KY–IN	2,165,139	0.7
Chicago-Naperville-Elgin, IL–IN–WI	9,512,999	0.6
Houston–The Woodlands–Sugar Land, TX	6,772,470	0.6
Washington–Arlington–Alexandria, DC–VA–MD–WV	6,131,977	0.6
Minneapolis–St Paul–Bloomington, MN–WI	3,551,036	0.5
Tampa–St Petersburg–Clearwater, FL	3,032,171	0.5
Denver–Aurora–Lakewood, CO	2,853,077	0.5
Kansas City, MO–KS	2,104,509	0.5
Miami–Fort Lauderdale–West Palm Beach, FL	6,066,387	0.4
Riverside–San Bernardino–Ontario, CA	4,527,837	0.4
Charlotte–Concord–Gastonia, NC–SC	2,474,314	0.4
Detroit–Warren–Dearborn, MI	4,297,617	0.4
St. Louis, MO–IL	2,807,002	0.4
Sacramento–Roseville–Arden-Arcade, CA	2,296,418	0.1
Phoenix–Mesa–Scottsdale, AZ	4,661,537	-0.1
Atlanta–Sandy Springs–Roswell, GA	5,789,700	-0.2
Orlando–Kissimmee–Sanford, FL	2,441,257	-0.2

Source: Author's elaboration, using Bureau of Economic Analysis data.

Gordon, 2018). Although the attention to the rise of populism has massively grown since the 2016 Brexit vote and the election of Donald Trump as president of the US, populism is nothing new. In recent decades, it has emerged as a political phenomenon in many parts of the world. But it is particularly in poor or declining areas where it has taken hold. Populism has been a fact of daily political life in Latin America since at least the 1940s, with the ascent of Juan Domingo Perón to Argentina's presidency. In some cases, populist movements have developed into armed conflict, as was, for decades, the case in Colombia or Peru. In Nigeria or Indonesia, armed groups have found fertile grounds in lagging-behind regions. However, with the spread of democracy, populism has been transformed and become increasingly grounded on new types of anti-party, "personalist" movements. This is a type of populism which has thrived in areas particularly affected by poverty, prolonged economic crisis and persistent social problems (Roberts, 1995). Such populism hinges, regardless of ideology, on the figure of a charismatic leader: e.g. Alberto Fujimori, in Peru (Roberts, 1995), Hugo Chávez, in Venezuela (Hawkins, 2003). This brand of populism has spread to other parts of Latin

America, including Bolivia with Evo Morales, Ecuador with Rafael Correa and Argentina with Néstor Kirchner and Cristina Fernández (De la Torre, 2013). The rest of the world has also not been immune to the phenomenon, as evidenced by Thailand (Hewison, 2014).

In Thailand, deeply ingrained territorial inequalities between a poor North and North-East on the one hand, and Bangkok on the other, have driven the country to a political stalemate, pitching the red-shirts supporters of the populist, democratically elected leader Thaksin Shinawatra, against the yellow-shirts royalists. The divide is a social and geographical one, as the red-shirts are mainly rural workers from poor regions, whereas the yellow-shirts represent the urban elite and the Bangkok middle-classes. This division, which became entrenched since the 2006 military coup, has resulted in the politicisation of territorial inequalities (Hewison, 2014) and in a deep-seated political conflict that has greatly affected economic activities in Thailand. Territorial inequalities have driven the process, as support for populism in Thailand "is concentrated in regions of relatively high poverty and low incomes" (Hewison, 2014, 859).

It is, nevertheless, the recent rise to prominence of populism in the Western world which has caught the eye. From Belgium to Denmark, Austria to Canada, Hungary to Poland, France to Germany and the UK to the US, new brands of populism are on the rise (Mudde and Kaltwasser, 2012; Greven, 2016). For many years populism in developed countries had remained a minority affair. The big turnaround took place in 2016 when populist movements made big breakthroughs in elections. First came the Brexit vote in the UK in June 2016, followed by the election of Donald Trump as president of the US in November 2016. Subsequent elections in Austria (Essletzbichler, 2018), the Netherlands, France and Germany have somewhat halted the momentum, but have not diluted what seems to be a global drive towards *deglobalisation* (Aoyama et al., 2018), associated with an increasing reversal of global roles, with the US and the UK sliding into protectionism and China stepping in as the champion of a new form of globalisation (Chen, 2018).

As in developing countries, the rise of populism in the developed world is fuelled by political resentment (Cramer, 2016) and has a distinct geography. Populist votes have been heavily concentrated in territories that have suffered long-term declines and reflect an increasing urban/regional divide (McCann, 2016). In the UK's Brexit vote, most big cities opted to remain in the EU (Essletzbichler, 2018; Lee et al., 2018). This was the case of some of the most dynamic cities in the South East, including London, Brighton, Cambridge and Oxford. Other cities in the rest of the country generally supported the Remain camp. This applies to cities that, according to Tyler et al. (2017) have performed well over the last four decades and a half, such as Aberdeen, Bristol or Leeds, as well as to others whose economic performance has been below par, such as Glasgow and Liverpool. However, not all large cities in the UK expressed a preference for Remain. Birmingham, Hull, Sheffield and Sunderland voted for Brexit. The Brexit vote was concentrated in many industrial declining and disadvantaged rural areas of the North and the East of England. Lincolnshire, the county with the highest share of the Brexit vote, has been among the areas with the lowest GDP growth over the last quarter of a century (Figure 1). By contrast, the most dynamic areas in recent years—London, the South and Scotland—are places that have become increasingly "decoupled" from the UK economy and generally voted Remain (McCann, 2016).

Donald Trump's victory in the 2016 US presidential election owes much to big swings in rustbelt states. Iowa, Ohio, Pennsylvania and Wisconsin (together with Florida) flipped electoral votes between 2012 and 2016, de facto securing Trump the presidency. But even in these states the vote was territorially uneven.

The big cities—Philadelphia, Detroit, Cleveland, Cincinnati, Columbus, Pittsburgh and Des Moines—all supported Hillary Clinton. This was also the case elsewhere in the US. Every city of more than 1 million inhabitants voted for the Democratic presidential candidate, as did most large university towns. Support for Clinton was also strongest on both coasts. Donald Trump's victory was thus delivered by a combination of rustbelt and flyover country.

France has been regarded by some as a key stage in the counter-reaction against the rise of populism. However, the French two-round electoral systems masks that Marine Le Pen, a right-wing populist candidate, secured more than 21% of the vote in the first round and more than one-third in the second. Geography once again emerges as the determinant of the vote distribution. In the first round of the election, most large French cities voted for candidates of the "establishment". Paris, Lyon, Bordeaux, Nantes, Rennes, Strasbourg and Reims all supported the current president, Emmanuel Macron. Nice voted for the right-wing candidate Fillon, while Marseille, Lille, Montpellier, Grenoble and Toulouse gave the lead to Jean-Luc Mélenchon, who could be classified as a left-wing populist. In none of the French big cities did Marine Le Pen get the largest share of the votes. Toulon, with a population of less than 165,000, was the largest city where Le Pen held the lead after the first round. Her support mainly emanated from the medium and small cities and rural areas of the French rustbelt in the North and North East—in the regions of Champagne-Ardenne, Franche-Comté, Lorraine Nord-Pas-de-Calais and Picardie. Once again, the old industrial regions which had experienced decades of deindustrialisation, job losses and relative economic decline. But even in these regions, the main cities—Lille, Metz, Nancy, Amiens and Reims—bucked the populist trend and supported Emmanuel Macron in both the first (with the exception of Lille) and second round of the election (see also Essletzbichler, 2018).

The places that don't matter are becoming tired of being told that they don't matter and are exercising a subtle revenge. They are voting down or threatening to vote down a system they perceive has quelled their potential and driven them down a road in which the future offers no opportunities, no jobs and no hope (Gros, 2016; Rodrik, 2017). It is as if the declining agricultural areas and rustbelts the world over have had enough of being patronised and have said, rightly or wrongly, that enough is enough: if we are being told that we no longer matter and that we are going down, the whole ship will sink with us.

Are we surprised?

Have we been caught by surprise by the rise of populism? Although there will always be claims that a worldwide emergence of populism was on the cards, the reality is that, by and large, the political world and mainstream academia have been caught completely unaware and unprepared not just by the surge of populism, but mainly by its ascent to power and by the challenges it poses. In the political world virtually no-one—not even its promoters—believed that Britain would vote for Brexit until the scrutiny started and the first results came through. The same could be said for Donald Trump's victory. Until the day of the election, it seemed that Hillary Clinton would emerge as the clear winner.

Even more excruciating has been the total unpreparedness of most mainstream academia (see also Spicer, 2018,). The challenge has come from an obvious, but at the same time completely unexpected source: the ballot box. How was this missed? There are basically four reasons that could have clouded our judgement and explain why the ascent of populism has remained under the radar. With notable exceptions, mainstream academia has been (i) looking at the wrong types of negative externalities; (ii) ignoring one important form of inequality; (iii) overestimating the capacity and willingness

of individuals to move and (iv) overlooking or dismissing the economic potential of many lagging-behind areas.

The wrong type of negative externalities

New economic geography and urban economics have been for long conscious that agglomeration, for all its advantages, can trigger a number of negative externalities. High land rents, congestion and pollution have traditionally been considered as the main negative externalities. An excessive concentration of economic actors and activity in large cities increases land rents and raises congestion and pollution in ways that can undermine some of the benefits linked to agglomeration. However, according to these theories, the costs of agglomeration are still clearly outweighed by its benefits.

While high land rents, congestion and pollution can certainly be significant negative externalities, the real cost so far has not come from them, but from an entirely unexpected source: social and economic, real or perceived distress in many non-agglomerated areas. The areas left behind, those having witnessed long periods of decline, migration and brain drain, those that have seen better times and remember them with nostalgia, those that have been repeatedly told that the future lays elsewhere, have used the ballot box as their weapon. Their aim may simply have been a call for greater attention and opportunities. It may just represent a revolt vote or even a warning sign of a need to review the system. But the economic consequences are plain to see. Thailand's conflict between Bangkok and its central, northern and eastern regions has been simmering for long, affecting economic activity and curtailing overall national growth. Brexit may mean that the areas that voted for parting with the EU—which are, paradoxically, some of the most dependent on EU trade and support (Los et al., 2017)—may end up being worse off in the future as, if we are to believe most pre- and post-Brexit vote predictions (Dhingra et al., 2016; Los et al., 2017), will be the case for the whole country.

Considering territorial inequality as almost irrelevant

The worries about inequality before the outbreak of populism were all about interpersonal inequality (e.g. Piketty, 2014; Sassen, 2001). The globalised system dominant since the 1970s had concentrated wealth in an ever smaller share of individuals at the top of the pyramid, leading to a growing economic polarisation of society. Nowhere was this polarisation more evident than in big cities, where globalisation had both engendered an economic elite in sectors such as finance, insurance or technology, together with an impoverished underclass whose task was and is to service the elite (Sassen, 2001). If there was going to be a challenge to the system, it surely had to come from rising interpersonal inequalities in cities (Gordon, 2018). The poor could revolt any time: "Inequality in the ownership of capital brings the rich and poor within each country into conflict with one another far more than it pits one country against another" (Piketty, 2014, 56). And this view is so ingrained that post-Brexit and post-Trump accounts about the rise of populism (e.g. Rodrik, 2017) are still all about interpersonal inequality (see also Gordon, 2018, for a criticism of this point). Territorial inequality was mostly dismissed as ancillary or even irrelevant. As a consequence, intervening in low-income, low-density places was regarded, at best, as a second-best solution to targeting interpersonal inequality (Kline and Moretti, 2014, 656) and, at worst, as inefficient and leading to little discernible impact (Glaeser and Gottlieb, 2009).

Yet, in the Brexit vote and in the elections of Donald Trump and Emmanuel Macron there is little evidence that interpersonal inequality played a decisive role. The poorest of the poor in the ghettoes and impoverished boroughs of New York, Philadelphia, Baltimore, San Francisco or Los Angeles, to name a few, voted alongside the very rich for Hillary Clinton rather than for Donald Trump. Likewise, the inhabitants of the HLMs (*Habitations à loyer modéré* or public housing) in the suburbs of

northern and northeastern Paris did not vote for Marine Le Pen. They voted together with the very wealthy of the 5th and 6th districts of the city. Similarly, in London, Tower Hamlets, Newham or Bermondsey—among the poorest boroughs in the UK—voted with Westminster and Kensington and Chelsea against Brexit. Populism took hold not among the poorest of the poor, but in a combination of poor regions and areas that had suffered long periods of decline. It has been thus the places that don't matter, not the "people that don't matter", that have reacted. In these areas it has been very often the relatively well-off, those in well-paid jobs or with pensions that heeded the call of populism. Trump supporters in Ohio, Pennsylvania or Michigan are generally better off than Clinton supporters.

This is not to say that interpersonal inequality does not matter, but that the challenge to the system has come from a neglected source of inequality: territorial and not interpersonal, as was generally expected. As indicated by Gordon (2018), policies do not only operate in a spaceless individual world, but in one where political and economic geographies are driven by strong, place-based effects.

Overestimating the capacity and willingness of individuals to move

When Tim Leunig encouraged patrons at Liverpool Cathedral to migrate to the South East of England, he was merely expressing the widely held assumption in urban economics that mobility is costless or that, at least, it is preferable to move to where the opportunities are than to stay put in a place where the chances of finding a job or making a career are limited. Urban economics and other economic theories tend to emphasise the role—and, to a certain extent, the ease—of individual mobility (Kline and Moretti, 2014). Perfect, or almost perfect, labour mobility represents a general assumption in urban economics models. If there is a real barrier to mobility—and possibly the main cause to implement place-based policies from this perspective—it is "inelastic housing supply in the targeted area" (Neumark and Simpson, 2014: 6; cf. Glaeser and Gyourko, 2005). The solution is, therefore, obvious: build more housing in the places of destination by making more land available and relaxing planning regulations. However, facilitating access to housing in dynamic areas is unlikely to address the problems of lack of mobility from lagging and/or declining areas. Brexit areas in the UK are the realm of the "immobile" (Lee et al., 2018), and more affordable housing in London is not going to suddenly make all people from Boston (Lincolnshire) more employable and move in search of greater opportunities. Those in Boston that could move have probably already done so. Those that remain are unlikely to relocate for a variety of reasons. These include, among others, emotional attachment to the place where they live, age, and lack of sufficient skills and qualifications. Older and retired citizens are much less likely to migrate. Those with limited or conventional skills will be unable to compete at the top end of the London market with the pool of workers with higher skills and, at the bottom end, with those, often coming from abroad and in irregular situations, willing to accept lower wages. Transfer payments from the government, stagnant or declining house prices in shrinking cities and lagging-behind regions (Partridge et al., 2015, 1312), as well legal barriers in certain parts of the world—e.g. the *hukou* system in China—further restrict the mobility of individuals from lagging and/or declining regions to core areas. No improvements in housing accessibility are therefore likely to make the immobile class (Lee et al., 2018) suddenly mobile. The assumption of perfect mobility is, hence, less than perfect.

Overlooking the economic potential of lagging-behind and declining areas

As Tim Leunig explained in Liverpool, the overwhelming belief in academia has been

that many lagging-behind and declining areas have seen better times and that those times are unlikely to return. Investing in these areas involves, according to most urban economics literature, "potentially severe equity-efficiency trade-offs" (Kline and Moretti, 2014, 656). From this perspective "subsidizing poor or unproductive places is an imperfect way of transferring resources to poor people" (Kline and Moretti, 2014, 656). Hence the solution involves limiting the investment in sparsely populated lagging areas—while providing basic services—and encouraging mobility towards core areas in more densely populated, but declining or poor regions (World Bank, 2009, 242). However, shifting the attention from the so-called places that don't matter towards more dynamic cities and regions risks leaving local potential untapped (Barca et al., 2012, 147). This is can be damaging on two counts.

First, not all lagging-behind and declining areas have no economic potential. Many once-lagging behind areas are now leading regions, while former leaders have, at times, become economic backwaters. The Asian Dragons were underdeveloped until a few decades ago; Flanders, in Belgium, lagged behind Wallonia; the now world-leading South of Germany was once a quiet agricultural region; while Las Vegas arose from the desert. By contrast, there is no shortage of once prosperous cities in North America and in Europe whose recent economic trajectories have been subpar. From Detroit to Buffalo or from Chaleroi to Katowice, agglomerations that were leaders in a series of industrial sectors have suffered extensive economic degeneration in recent decades. As indicated by Barca et al. (2012, 149), "tapping into unused potential in intermediate and lagging areas is not only not detrimental for aggregate growth, but can actually enhance both growth at a local and a national level".

Second, shifting away attention from places in need of support to more prosperous and dynamic ones causes distress and resentment in the neglected spaces, especially as the lack of capacity and/of opportunities for mobility implies that a considerable part of the local population is effectively stuck in areas considered to have no future. Hence, the seed for revenge is planted.

Has nothing been done for declining areas?

Why are the places that don't matter rebelling? Has nothing been done for them? As Leunig defended in Liverpool Cathedral, it is not that nothing has been done in declining and lagging behind areas. Many different strategies have been tried to promote development and growth, but the results have been, at best, mixed.

National and supra-national level intervention has typically taken two forms. On the one hand, traditional top-down development strategies, often based on the promotion of growth poles or similar territorial development strategies, have been a constant in many lagging or falling/behind areas. Their aim has been to stimulate growth in less developed and declining territories, while, at the same time, reduce regional disparities. The result of these development strategies has, according to Leunig and most urban economists, been well below expectations. Funding what are often large scale projects in areas with vulnerable or weakened socio-economic conditions does not always end up in success. The list of "white elephants" (Albalate and Bel, 2012) or "cathedrals in the desert" (Lipietz, 1980) in poor and/or declining regions is large. Poor local institutions and government quality in many of these areas frequently lead to the design and implementation of "glitzy", but often superfluous, development strategies. Such strategies often promote the individual interests of specific political and/or economic stakeholders, and end up burning large amounts of scarce financial resources with little to show in terms of sustainable employment creation or economic growth (Flyvbjerg, 2009; Crescenzi et al., 2016).

On the other hand, and especially in developed countries, governments have tended to resort to inter-regional transfers and the welfare state in order to mitigate the symptoms of economic backwardness or decline and to support the population in lagging-behind and declining regions. Across Europe, welfare policies are not only socially, but also territorially progressive. Regions in distress generally receive more support per capita than more prosperous ones. Governments also use public employment as a means to soften the blow of rapid employment decline in many areas lagging behind. Figure 3 displays the distribution of public sector employment in 2016 across regions, classified according to their level of GDP per capita in six different European countries. The relationship is always the same. Whether in France, Germany, Greece or Poland, public employment is, on average, higher in poorer than in richer regions. This reflects a conscious effort by governments to substitute increasingly rare and dwindling jobs in the private sector by public employment as a way to improve the livelihoods of individuals and to pump resources into precarious local economies.

The same could be said for public transfers (Figure 4). Negative slopes in the relationship between net fiscal balances by states or regions, when classified according to their level of development per capita, signal a territorially progressive fiscal system using public funds aimed at maintaining welfare in the worst/off areas. This is the case in Spain, the UK and the US (Figure 4), but applies as well to most developed economies.

Unfortunately, both investment-based and welfare- and support-based policies have not

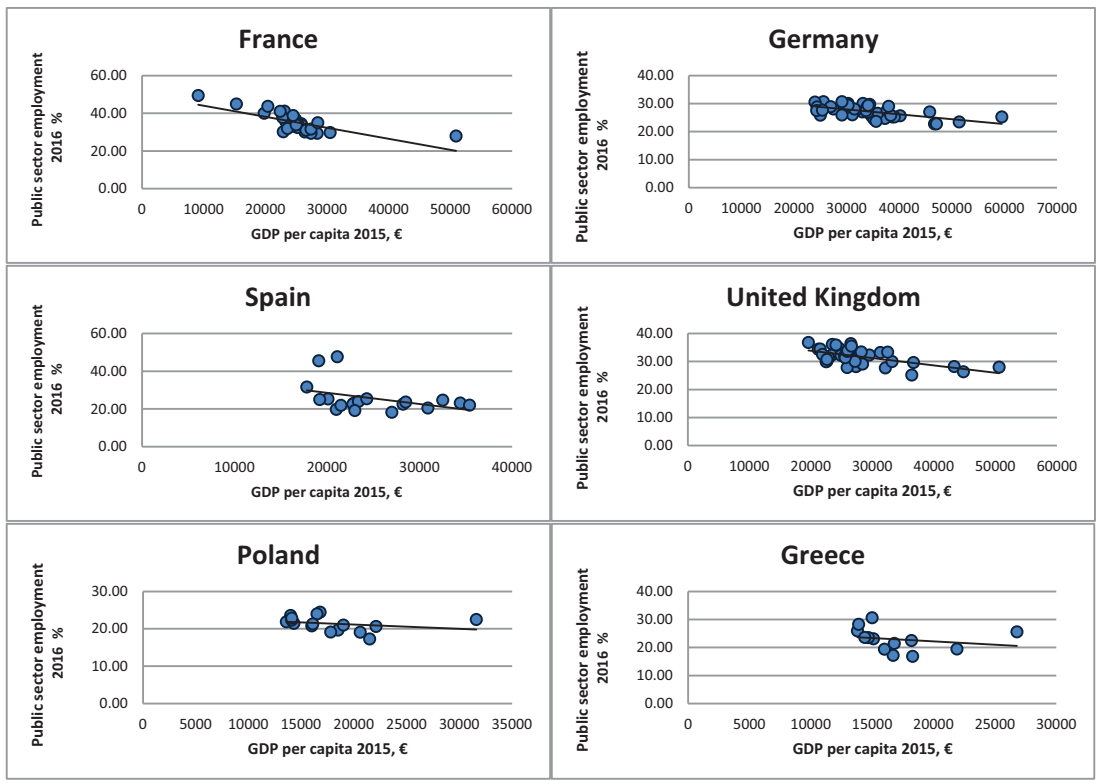

Figure 3. *Public employment in 2016 relative to regional GDP per capita.*

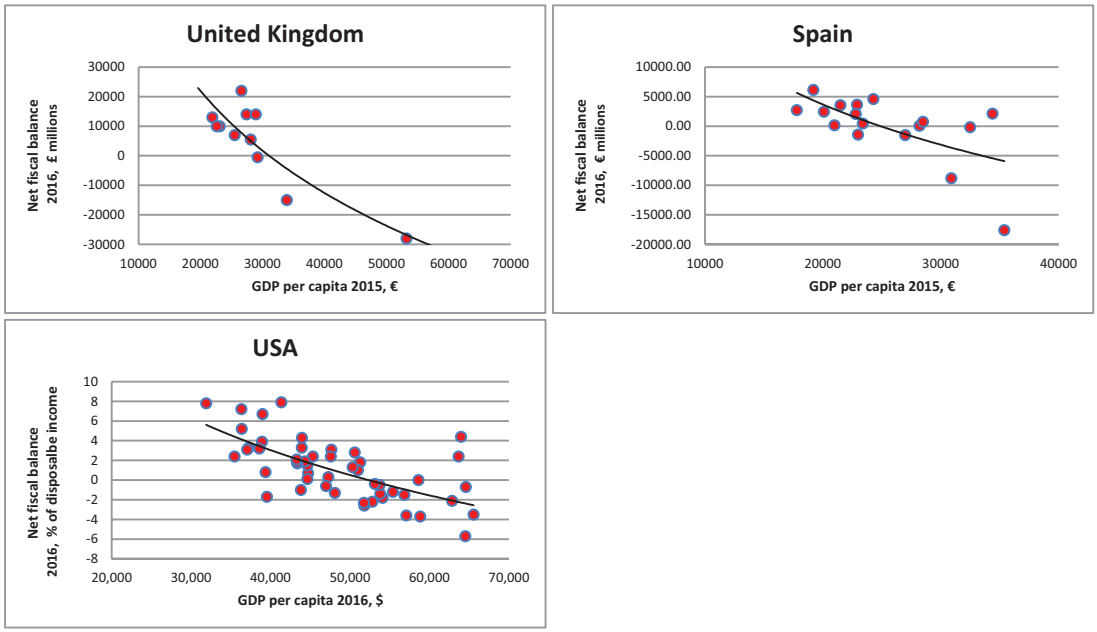

Figure 4. *Net fiscal balance relative to regional wealth, 2016.*

always achieved the desired results. A combination of misguided investments—frequently pursuing individual interests at the expense of collective ones (Rodríguez-Pose, 2013)—income-support transfers, and public employment has often resulted in protected, assisted and sheltered economies, increasingly incapable of mobilising their true economic potential (Fratesi and Rodríguez-Pose, 2016). These territories become more and more reliant on transfers—from the state in the case of the poorest and/or declining regions in developed countries, and from international organisations in many developing countries. As Bevilacqua (2005, 171) has noted in the case of Italy, policies "targeting the support of economic structures […] have increasingly become an instrument for assistance, income support, the maintenance and nurturing of clientelistic networks, and for connivance between political power and active groups in civil society".

When this *modus operandi* becomes deeply rooted in a territory, the sense that there is no future takes hold making permanent assistance even more necessary. Local inhabitants are generally aware of this and are far from satisfied with the situation. They want opportunities rather than assistance and aid; they want a future rather than permanent support. It is in these circumstances when they feel at their most vulnerable and talk of focusing scarce resources in dynamic and prosperous places in what they believe is at their expense is massively resented.

Towards a different type of policy

If traditional policies have failed and the places that don't matter are rebelling and threatening not only their own future, but also the viability and economic prosperity of the most dynamic places, what is the solution to the problem? On the one hand, given the reaction that we are witnessing in places like Thailand, the UK or the US, the solution cannot be more policy for prosperous areas and less for poor and/or declining ones. Territorial inequality, persistent

lack of opportunities and incapacity and/or unwillingness to move are at the root of a resentment that is lightning the fire of territorially based populism. Withdrawing intervention in these areas will inevitably add fuel to the fire. On the other, promoting more of the same policies, as posited by territorial development enthusiasts, is also not a solution. If many of the development strategies applied in recent years have not worked and, in the worst case scenario, have benefitted clientelistic networks and stimulated the creation of assisted economies, the solution cannot be more of the same.

The answer has to come not from less or more intervention, but from a *different* type of intervention. One that moves away from simply providing welfare, away from continuing to shelter the inhabitants of less developed and declining areas, and away from supply-led interventions that end up becoming white elephants. The solution needs to be place-sensitive, that is policies that are informed by theory and empirical evidence but that, at the same time, respond to the structural opportunities, potential and constraints of each place (Iammarino et al., 2017). The advantage of these policies is that they can overcome the false trade-off between efficiency and equity. When there are barriers to mobility and when there are significant constraints for economic activity to spread from core to less developed areas, focusing on the most prosperous regions is not equity enhancing. It may also not be efficiency enhancing as "it is not clear that economic agglomeration will always lead to sustained high annual average growth and, even if it were the case, that growth, prosperity, and welfare would subsequently spread out from agglomerations to less prosperous peripheries" (Tomaney et al., 2010, 775; cf. McCann, 2016). Strategies focusing on large agglomerations always imply that considerable aggregate economic development potential remains untapped.

The only way to overcome this false dilemma is by tapping "into untapped potential in all regions in a co-ordinated and systematic way" (McCann and Rodríguez-Pose, 2011, 211). This requires policies aimed not a providing transfers or welfare, but at enhancing the opportunities of most territories, regardless of their level of development or economic trajectory and taking into account local context. In this scenario tackling institutional inefficiencies and bottlenecks head on and emphasising portable skills through measures aimed at boosting training, promoting entrepreneurship and facilitating the assimilation of knowledge and innovation, becomes a must.

One of the main challenges for the implementation of this type of place-sensitive policies in lagging-behind and/or declining areas is institutional. Elite capture of rents has often derailed past intervention. Turning a blind eye on corruption, clientelism, nepotism, free-riding and rent-seeking can only increase the widespread perception that any intervention is aimed at benefitting the ruling elites, putting further wind in the sails of populism.

Conclusion

Years of decline, lack of opportunities and perceived neglect have put lagging-behind and declining areas in a state of flux. Being told that their future is bleak, as traditional development policies have had limited returns and that, as a consequence, it would be best to invest in more prosperous places, has done little to quell the unrest. In fact, the places that don't matter are surfing the wave of populism and, through the ballot box or revolt, attacking the very factors on which recent economic growth has been based: open markets, migration, economic integration and globalisation (Aoyama et al., 2018).

The populist revolt is being erected along territorial cleavages and will affect, first and foremost, the very areas that are pushing it forward (e.g. Los et al., 2017). More populism is likely to mean less economic stability and more inefficient governments and policies. This could translate into lower taxation receipts and less inward investment, affecting primarily regions that depend more on welfare and transfers as well as on jobs for the medium- and low-skilled.

But populism and its ascent to power are also shaking the foundations of a system that has, to a certain extent, relied on a number of dynamic agglomerations as the main source of economic growth. Brexit will affect London's growth prospects in a similar way as it will be detrimental to the economic perspectives of the North and North East of England, while Trump's presidency will have implications for the prosperity of America that go well beyond the flyover and rustbelt states where Trump's power base lays.

The rapid rise of populism represents a serious and real challenge to the current economic and political systems. The stakes are exceptionally high and there is no time for business as usual. The array of solutions is, however, limited. Doing nothing is not an option, as the territorial inequalities at the root of the problem are likely to continue increasing, further stirring social, political and economic tensions. Encouraging migration, as proposed by Tim Leunig in Liverpool and supported by urban economics, may only be feasible for those with high skills and already living in developed countries. The costs of migrating for the low- and intermediate-skilled remain high—especially the opportunity costs of migration in developed countries—and within-country migration has dropped considerably since the beginning of the crisis. Betting on big cities is also risky. Urbanisation without growth is becoming increasingly the norm (Jedwab and Vollrath, 2015). The image of big cities as engines of growth is also being dismissed by some as a 1990s story (Dijkstra et al., 2013). There is no law that makes big cities always more dynamic. Gambling on large agglomerations as winning horses is not always a sure bet and is now becoming more perilous than ever. And even if large cities were always more dynamic, concentrating on big cities would lead to a rise in territorial inequality which will further ignite populism. Decentralising and devolving power to less developed cities and regions has also resulted in disappointing economic outcomes in recent times (Rodríguez-Pose and Ezcurra, 2010), while sticking to social and welfare policies can result in permanently dependent populations and territories, possibly stunting economic growth and leading to a rise in social and political tensions.

Development policies for lagging and declining areas offer the most realistic and viable option. This does not mean more policies, but *better* policies. Policies aimed at maximising the development potential of each territory, solidly grounded in theory and evidence, combining people-based with place-based approaches, and empowering local stakeholders to take greater control of their future (Iammarino et al., 2017). There is no complete guarantee that this type of policies will stem all the risks, but they do provide the best options to enhance the opportunities of individuals and workers to thrive and prosper, regardless of where they live. Not trying will only make things worse, bypass economic development opportunities and lead to a world in which the revenge of the places that don't matter will be fully justified, as continued economic, social and territorial conflict continues to erode the economic, social and political foundations on which current and future well-being is based.

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