

The choice of pattern of spatial development: reasoning and constraints

Extended abstract

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My paper is aimed at understanding what kind of reasoning underlie the ongoing bias to large cities in regional policy and why it became dominant in strategic documents as well as in public discourse. This study represents an alternative view in comparison with the prevailing views on prospects of development of city system in Russia.

The recent history of Russian strategic planning is characterized by the struggle between the aims of equity and efficiency in successive versions of national strategies of spatial development.¹ Eventually the debates come down to the choice between spatial concentration and even development of regions. Now arguments in the favour of efficiency became so influential that the encouraging of agglomerations' growth became a part of federal legislation. *Fundamentals of State Policy for Regional Development of the Russian Federation until 2025* consider "the development of large urban agglomerations as the necessary condition of providing the economic growth, of technological development and of increasing the investment attractiveness and competitiveness of Russian economy in world markets". *The Strategy of Spatial Development of the Russian Federation until 2025* does not contain the aim of smoothing regional inequalities; it is written in terms of "polarized development". It allows for supports for innovative activities in large urban agglomerations and creating new points of growth within their suburbs while small cities are proposed to function as parts of regional chains of value added, as touristic objects, or, as objects for the "administered shrinking" policy.

Russian resource economy, with its huge territory and stagnating population, is highly concentrated in space (40% of the GDP are produced on 5% of the territory). It does not appear reasonable to promote the spatial concentration by special government policies. How could the policy of encouraging the balanced national growth be transformed into encouraging the growth of agglomerations? The logics used in reasoning may be summarized as follows: "Agglomerations are the most productive places; hence, they mostly contribute into the growth that is sufficient for regional convergence. Hence, stimulating growth is more important than reducing inequalities". These arguments are represented by promoters of "polarized development" as very obvious facts.

The evident broad consensus about the positive role of spatial concentration in the national growth is based on effects of localization and urbanization economies of scale. These externalities are well theorized. The higher effectiveness of firms in large cities in the theory appears through decreasing costs and increasing outputs. Costs decrease due to external economies of scale that arise in agglomeration. Outputs grow on the principle of cumulative causation between growth of production, economies of scale, innovations and demand.

If so, we must observe higher productivity and growth in larger cities. But there are obvious problems with empirical confirmation of agglomeration effects. Ideally, one should measure costs and benefits of a firm in and out of agglomeration and to perform such estimate on representative sample. But such estimates are hardly possible because economics is not

¹ Mel'nikova, L.V. *Space-neutral and place-based regional policies: The problem of choice*. Reg. Res. Russ. (2015) 5: 1. <https://doi.org/10.1134/S2079970515010062>

experimental science. Under conditions of deficiency of microeconomic performance of firms economists often have to use urban and regional demographic and macroeconomic data (urban GDP, population, employment, number of firms, wages) as rough indicators.² Such estimates mostly approve the thesis about higher productivity of megalopolises and are widely broadcasted in policy reports of the World Bank.³ How do the estimates of urban externalities depend on the methods and data used in urban studies? The meta-analysis of published estimates of agglomeration effects in Russia gives some evidence that arguments for accelerated urbanization are often supported by macroeconomic statistical performance of cities and regions.

On the contrary, our studies on productivity in Russian cities with the use of performance of enterprises do not reveal that higher effectiveness is specific for larger agglomerations, or, industrial growth is exclusively concentrated in large cities. Our calculations were based on the statistical performance of industrial firms about outputs, employment growth and other aggregates of firm-level performance in near 1000 Russian towns of different size and in specific regions; the hypothesis about the positive relationship between productivity, economic growth and size of Russian cities was tested.⁴

The promoters of the accelerated growth of large cities often tend to follow reverse logics: from the fact of existence of large agglomeration they conclude that statistical performance of this city is due to existence of economies of scale, that large city is more effective, that it is a driver of growth, so it is recommended encouraging the development of agglomerations. This kind of reasoning is presented in current documents of regional strategic planning, including federal ones, spatial chapters of regional strategies of socio-economic development and regional strategies of spatial development, and underlies the ongoing bias to large cities in regional policy.

The belief that in the course of the national growth spatial inequality decreases is based on the neoclassical Borts-Stein one-sector model of interregional factor migration and on the "spatial Kuznets curve" model treats regional convergence as the result of structural transformation. This can be confirmed on the representative sample of countries for each specific year. But in dynamics, according to our calculations, spatial inequality increases due to the performance of developed countries while growing economies mostly follow the \cap -shaped curve.

But some recent studies found reasons to doubt the superiority of large cities.

² Rigby D. L., Essletzbichler J. (2002) Agglomeration economies and productivity differences in US cities. *Journal of economic geography*, 2(4), 407-432.

³ World Development Report 2009: Reshaping Economic Geography. – Washington, DC: World Bank, 2009; Russia: Reshaping Economic Geography/ Report No. 62905-RU. Washington, DC: World Bank, 2011; Eurasian cities: new realities along the Silk Road. Washington, DC: World Bank, 2012.

⁴ Мельникова Л.В. Теоретические аргументы и эмпирическое знание в стратегическом планировании (Theoretical arguments vs empirical evidence in strategic planning)// Регион: экономика и социология. - 2018. - № 2. - С. 52-80. DOI: 10.15372/REG20180203

Martin, Gardiner and Tyler think that «The evidence on whether greater spatial agglomeration of economic activity in cities promotes faster growth... is mixed... The growth rates of output and employment in the majority of core cities have consistently been below the corresponding growth rates for the national economy.

“Although the academic literature tends to focus on the agglomeration advantages of large cities as linear and monotonic”, for Dijkstra, Garcilazo and McCann it is “very clear is that large cities no longer play the driving role in the second decade of modern globalization

Cox and Longlands found that “With the exception of London, population does not correlate with productivity in UK metropolitan areas” and caution against reproducing simplistic models in national regional policies.

Kosareva and Polidi made an attempt to estimate Gross Urban Product of Russian cities in 2000-2015. The authors conclude that “urban economics does not play yet a significant role in the economic development of Russia” and link this with the export pattern of national economic growth.

Remaining within neoclassical framework, an economist will recommend liberating flows of labour and capital in order they move to where they can earn more according to market signals, which would automatically provide for levelling interregional differences. Sharing the views of new economic geography and endogenous growth theory, the economist believes that spatial disequilibrium is not self-corrected and will strongly recommend regional policies otherwise lagging regions would have no chances.

The validity of the proposed regional policies could vary significantly depending on the used theoretical framework. *“Because theories that have little proven empirical track record can quickly enter the realm of policy discourse, policy makers must recognize the inherent theory bias in economics.”*⁵ The strong bias to encouraging urban agglomeration in strategic documents of regional and federal level characterizes prevailing theoretical preferences in expert community.

In targeting, strategies use arguments that were initially built on strict theoretical concepts under many simplified premises: 1) higher productivity of large cities, 2) their principal contribution into the national growth, 3) growth as sufficient condition for decreasing interregional differentiation. These arguments are represented as self-evident though statistical evidence does not prove unambiguously many of them, especially on the base of microeconomic statistical evidence.

Are these arguments convincing by themselves, or are they used as rhetoric tools? What interested groups and think tanks promote the arguments about exclusively positive urban

⁵ Kim, S. (2009) Spatial inequality and development: theories, facts and policies. In: Buckley, R., Annez, P., Spence, M. (Eds.) Urbanization and Growth. The International Bank for Reconstruction and Development and World Bank, Washington, DC. P. 134.

externalities? Some light may be shed by the content analysis of publications of the most influential Russian think tanks involved in strategic planning in Russia as well as of public declarations of federal and regional officials on the problems of spatial development . We may identify the following interested groups.

The side of supply in strategy-making is presented by experts with their theoretical views, who do not care about rigid proofs of positive urban externalities. When disseminating and promoting these ideas, many causal relations are reduced and simplified, which transforms originally strict theoretical constructs into effective rhetoric tools, such as references to reputations, to the experience of model countries and cities, to historical background of the native country, etc.

From the side of demand for these ideas, we see 2 actors with opposite interests: the over-centralized federal government under budget constraints and regional governments that suffer of the lack of powers and funds and need any analytical instruments for lobbying local interests. What factors influence on the federal government current choice of the priorities of spatial development? There are some linkages between the declared spatial priorities and macroeconomic conditions, budget restrictions and current economic conditions during the last 20 years. What about regional officials, the current public discussion on the *Strategy of Spatial Development of the RF until 2025* stimulates them to propose new projects for including into the Strategy. This confirms that they consider the Strategy as a tool for lobbying local interests.

May it be the case when primitive arguments meet the demand for simple answers?