11.481J / 1.284J / ESD.192J Analyzing and Accounting for Regional Economic Growth
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PROPERTY RIGHTS' PERSPECTIVE ON REGIONAL-DEVELOPMENT STRATEGIES

A. **Original economic-development strategies** based on investment alternatives:
invest in key sectors (Hirschman)
invest in globally competitive firms (Porter)

[refer to previous outline of comparison of the two strategies]

B. **Expanded economic development strategy--asset-based strategy** based on property rights and their allocation over space. I propose that policy makers need to measure all tangible and intangible assets available in a region.

1. Tangible assets include
   capital,
   labor,
   land, and
   natural resources,

2. Intangible assets include
   managerial and labor training,
   worker skills, and
   capital risks.

To develop an asset-based economic development strategy, policy makers must focus on long-term planning and determine the ways stakeholders in the region interact with the global economy.

C. **Important considerations for any property-rights regime for a viable regional strategy taking assets into account.**. From the property-rights' and asset-development literature, I have identified five critical features that have an important relevance as a foundation for a strategy of economic development:

1. **Institutions**
2. **Governance mechanisms**
3. **Control**
4. **Power (political, social, and economic)**
5. **Distributional consequences**

Most property-rights scholars focus on only one, or, at most, two, of these categories and view the category from a single perspective, say legal, economic, political, or social; whereas, in reality, each plays an important role in the development process.

SELECTED TERMS/CONCEPTS

Property: an expectation of the advantages derived from an object that we claim to possess (Bentham, 1978).

Property rights: social relations that are enforceable by the state, which define the property holder with respect to something of value . . . against all others (Bromley, 1991, p. 2).

Bundle of property rights: the rights to enjoy, develop, dispose, inherit, own, use, etc.

Property relations: refer not only to property rights, but also to a variety of claims on property that may not be fully recognized by law (property status, property claims) (Razzaz, 1990).

NEOCLASSICAL AND ALTERNATIVE GROWTH (LOCATION) THEORIES

For each, identify the underlying assumptions

A. Neoclassical
- Focus on Investment
  - Balanced Growth Theory (Nurkse and Rosenstein-Rodan)
  - Unbalanced Growth Theory and Growth Poles (Hirschman and Perroux)
    - Forward Linkages
    - Backward Linkages
    - Key (propulsive industries)
  - Harrod-Domar Model

- Focus on Labor
  - Ricardo's Labor Theory of Value
  - Lewis Model: role of agricultural labor force moving to cities
  - Harris-Todaro Migration Model

- Focus on region's Export Base
  - Export-base Theory
  - Interregional Trade Theories

- Focus on region's Income and its convergence/divergence over time
  - Factor-price equalization theories

B. Alternative and/or nonorthodox
- Focus on *Spatial Diffusion*
  - Product Life Cycle (Vernon, Wells)
  - Regional Life Cycle
  - Networks
  - Supply Chains

- Focus on Political, Social, and Economic Interactions
  - Piore/Berger/Doeringer: Dualism Theory
  - Profit Life Cycle (Markusen)
  - Dependency Theory (including Colonialism)
  - New International Division of Labor (NIDL) Theory
  - Restructuring Theories
  - Property Rights
  - Asset-based

For each theory, we can examine the roles of agglomeration and dispersal and their effects on regional and income distribution:

LOCATION THEORIES

This is the first of a four-part sequence on mobility: (1) firm, (2) labor, (3) capital, and (4) goods.

MOBILITY OF THE FIRM

A. Basic assumptions of the neoclassical model of firm location:

1. Market demand is not affected by plant location.
2. Identical production cost in different locations.
3. Factors of production are available (unlimited supply) everywhere.
4. A homogeneous plain and equal accessibility in all locations.
5. Linear transportation cost function.
6. Market is competitive, with many sellers and buyers.

B. Factors affecting the demand for labor:

1. Physical location of firm differs, depending upon whether it is a
   (a) new firm,
   (b) branch plant,
   (c) plant expansion, or
   (d) relocation of existing plant (Schmenner, 1982).

2. Restructuring the way the firm does business includes
   (a) industrial restructuring, or
   (b) introducing new technologies, new processes.

3. Restructuring consumption includes
   (a) changing consumer tastes, or
   (b) changing environmental concerns.

C. Factors affecting the supply of labor

1. Labor Migration
2. Natural Disasters
3. War
4. Environment

Five types of location theories:

(1) neoclassical (Central Place, etc.)
(2) dispersion (product life-cycle; profit life-cycle; growth-pole);
(3) structural (location results from historical and structural conditions);
(4) urban systems (firms cluster to link into a specific urban system); and
(5) increasing returns (firms cluster to reap advantage of increasing returns).

1. Wheaton and DiPasquale (1996, p. 149) discuss ". . .the longer-run issues of how and why economic activity chooses to locate *among* different regions (the *interregional* location decision) . . . decisions that ultimately determine how fast a region grows or declines." They focus on

(1) demand-induced regional growth,
  changes in regional exports
  changes in industrial mix (shift-share analysis)
  product-cycle analyses
  influence of government
(2) supply-induced regional growth
  labor supply
  demographic changes
  migration shifts

They conclude that regional competition, wages, and real-estate markets are factors influencing regional growth. They ask is the hypothesis correct that across regions within a country, effective wages tend to converge even though nominal wages may differ?

2. Typical neoclassical location theory

Location of firm is determined by transportation costs of the raw materials and the output.

a. Firms that use heavy raw materials (inputs), locate near to the suppliers
b. Firms that use light-weight raw materials (inputs), locate near to the demanders.

STUDENTS: DRAW THE TYPICAL NEOCLASSICAL LOCATION GRAPH

3. Polenske's Regional Asset-based Development Strategy/Theory. In each case, in designing the asset-based regional development strategies, I have used almost all of the same factors as the other authors, but have combined the factors in alternative ways to focus on a different set of key issues, namely the institutional and distributional factors.