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LOCAL ECONOMIC DEVELOPMENT: THEORETICAL PERSPECTIVES

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Abstract

Economic growth and wellbeing are often considered issues to be addressed by central government action and policies. However, economic downturns in a context of globalisation have shown how localities are differently exposed to macroeconomic fluctuations due to differences in local endowments and local assets. Therefore, policies for *local* economic development become a critical issue in order to foster an inclusive, consistent and widespread process of economic growth. This paper focuses on local economic development under a theoretical perspective. That is, it presents an overview of the main theoretical streams that have investigated this issue, with the purpose of proposing a classification of policies and programmes that favour local economic development.

Keywords: local economic development, urban and regional growth theories

JEL CLASSIFICATION: O1, O11, O18

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1. Introduction

According to one of the most common definitions, economics is: “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” (Robbins, 1932). This definition, although capturing the essence of economic analysis, neglects the empirical evidence that the degree of attainment of “ends” of growth and development shows significant temporal and spatial variability. Development Economics is the branch of economics that studies the processes that allow the achievement of growth and accumulation, and of improvements in the levels of living (Todaro and Smith, 2003, p. 9). Local economic development studies are concerned with the processes of growth and improvements of well-being at a limited spatial scale, that of a locality[1]. The purpose of this paper is to present an overview of the different stream of theoretic analysis devoted to the analysis of local economic development. Many are the theories and approaches that investigate local economic development and they are far from constituting a unitary theoretical framework. This paper does not intend to bring this literature down to unity, which is probably far from being an attainable purpose. Rather it aims at presenting in a systematic way the various existing theories and approaches.

This paper is structured in three sections: the preliminary definition of the concept of local economic development in section 2; the description of the theoretical approaches relevant to the understanding, explanation and prediction of local economic development (section 3); section 4 concludes.

2. Local Economic Development: A Definition

A definition of “local economic development” can be unveiled by decomposing this concept into its two component parts: the phrase “economic development” and the term “local”. In the following, a definition of local economic development will be proposed, departing from a

[1] As such it has been conceptualised also as part of economic geography, the discipline that studies the principles governing the spatial allocation of (scarce) resources and the resulting spatial patterns and consequences.

theorisation of the concept of *economic development*, and then detailing how it is modified by the attribute *"local"*.

2.1. Economic Development

Economic development can be regarded as one of the various dimensions of development, a concept that refers, at the same time, to a *process* and to an *outcome*. *Development* as a *process* that generates an improvement in human and living conditions is the subject of development economics (Todaro and Smith, 2003, p. 9). *Development* as a *status or outcome* has been analysed in order to define its features and measurement criteria (Todaro and Smith, 2003, p. 15). Whether one or the other perspective is chosen, the meaning and definition of development is complex and multi-faceted, as it embraces many different aspects of human life. For example, Turner and Hulme (1997, p.11), in an attempt to provide a comprehensive definition, identify six different aspects embodied in the concept of development as a process: an *economic component*, referred to the creation of wealth and improved conditions of material life, equitably distributed; a *social ingredient*, concerned with the well being in health, education, housing and employment; a *political dimension*, including the establishment and respect of human rights, political freedom, enfranchisement, and some form of democracy; a *cultural dimension*, referred to the recognition and reproduction of people's identities and self-worth; the *full-life paradigm*, recognising meaning systems, symbols, and beliefs; an *ecology and sustainability issue*, requiring each generation not to undermine the position and possibilities of future ones[2].

The concept of *economic development* can be extracted as a subset of the definition of development proposed by Turner and Hulme. Economic development can be defined as: "the creation of wealth and improved conditions of material life, equitably distributed". This definition identifies the *outcomes* of economic development, but it is rather silent about the processes that allow their achievement. A satisfactory definition needs to extend to the issues of employment and sustainability: high levels of employment not only favour equity in the distribution of wealth, but they are often a precondition for sustainable and continuous economic growth (Giloth, 1998, p. ix). In addition, the sustainability of the process of wealth creation is a necessary condition for the reproduction and perpetuation of growth itself (Todaro and Smith, 2003, p. 23). Therefore, an expanded definition of economic development is: "the sustainable creation of equitably distributed wealth, jobs and improved conditions of material life".

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[2] Other authors have maintained that development has not only an economic dimension, and that there is a need for recognition of broader political and social issues that also affect the quality of life in a community (e.g. Beauregard, 1993). Economic, social and political issues are strongly linked and interdependent and distinctions between social, political, and economic development concerns have been defined "fuzzy" (Blair, 1995, p. 22).

This definition makes clear the difference between the concept of economic development and that of economic growth: the latter is a more restrained concept and refers to a mere increase in economic activity or wealth (Gillis et al., 2001, p. 8). Economic development is a more complex concept: it refers also to the impacts of growth and increases in the size of the economy on the quality of life and well-being of the population (Gillis et al., 2001, p. 9). The two concepts, therefore, are rather different, although intertwined: economic growth is generally acknowledged to be a necessary condition (although not sufficient) for economic development: "Growth is an important element in economic development processes. It provides jobs and resources that can support many improvements in the quality of life. (…) Economic development implies that the welfare of residents is improving. The increase of per capita income (adjusted for inflation) is one important indicator of welfare improvements. Nonetheless, economists recognize that income alone is an incomplete indicator of how well residents of a region are doing. Equity is another indicator of economic development. Even if average income did not grow, a change from a very unequal distribution of income to one that most people consider more fair could be considered a form of development" (Blair, 1995, pp.14-15).

Theoretical and empirical analyses using the concept of economic development necessarily rest on the use of indicators to measure it. Economic growth is generally measured using national accounts data, such as *gross domestic product*, GDP, or *gross national product*, GNP (Gillis et al., 2001, p. 28): evidence of economic growth derives from a rise in national income or product. Economic development is measured by *GDP per capita*, which conveys an indication of whether the domestic output is increasing at a faster rate than the population, thus providing the potential for increased wealth of all citizens[3]. Though, this measure lacks distributional significance: it delivers an insight into whether an economy is growing as a whole, but it does not offer any clue to whether the increased wealth corresponds to an improvement in all citizens' wealth (UNDP, 1990). A more informative measure is the distribution of income, in addition to per capita income, which conveys an indication of equity. In order to measure economic development, a combination of national account data and other indicators has to be used. In addition to GDP per capita, the Gini coefficient and unemployment ratios can be used. The results of attempts at combining different measures and data to deliver a unique indicator are rather questionable[4], mainly due to

[3] Another similar measure is often used: real per capita GDP or GNP, in order to discount the effects of inflation over national account data. Caution is necessary with all measures, because they are inevitably biased by definition, measurement and comparability problems (Gillis et al., 2001, p. 30-35).

[4] Development studies used GDP as the main indicator of (economic) development till the early 1970s, when the concept of development started being differentiated from that of economic development. As regards economic development, no other indicator has been successfully proposed to substitute GDP per capita. Furthermore, until

problems of commensurability and appropriate weighting. For the purpose of this work, it appears therefore preferable to use simple indicators rather than composed ones.

2.2. Local Economic Development

Economic development, as a process, has been defined as "the sustainable creation of equitably distributed wealth, jobs and improved conditions of material life". *Local Economic development* can be conceptualised as a specification of economic development: the adjective *local* limits the domain of this definition to a restricted spatial scale, the locality. Local economic development is the process of economic development taking place in a locality.

It is however rather controversial to specify what a locality is. In a simplified and intuitive way, a locality can be understood as a territorial area below the national and the regional scale, although this simply shifts the definition problem on the concepts of "sub-national" or "regional" area. The concept of locality is indeed not univocal and it is complex to define. An articulated debate, in particular during the 1970s to the 1990s, has revolved around the definition of what a "locality" is (Duncan, 1986; Urry et al., 1990), similarly to an earlier but ongoing debate on the concept of "region" (Allen et al., 1998; Paasi, 2002). The central concern to the debate is whether localities are a pure creation of geographers or whether they exist in economic terms, and if so, how they can be univocally identified. The general conclusion of this debate is that a locality can be identified only with reference to specific criteria: there is no unique set of localities. The definition of what a locality is, depends on the matter at stake and on the descriptive criteria relevant to that issue (Massey, 1991)[5].

Two general concepts are mostly used to identify localities in economic terms: the concepts of *unity* and *coherence* (Kimble, 1951). A locality is identified through the concept of *unity* when the different economic activities within an area are integrated in some way (for example a labour market area or a travel to work area). A locality is identified through the concept of *coherence* when the economy of an area is characterised by a preponderance of similar activities, although

recently no indicator of the "wider" concept of development had been established. It was only in 1990 that the United Nations Development Program (UNDP) proposed a new indicator in its annual "Human Development Report", the so-called Human Development Index (HDI), which is today regarded as the main indicator of development. The HDI has been measured each year since 1990. It has been slightly changed in its first years of usage and has reached its current form in 1994. The HDI combines the three main elements of development: *health*, measured by life expectancy at birth; *knowledge*, measured by a weighted average of adult literacy (2/3) and mean years of schooling (1/3); and *economic growth*, measured by real per capita income (adjusted at the purchasing parity power, *PPP*, of each country's currency, in order to allow for international comparisons). For reference: United Nations Development Program (1990).

[5] A similar conclusion applies also to the concept of "region": "*Region* refers to a part of an area. In practice the term is a chameleon, taking meaning from the context of use" (Blair, 1995, p. 15).

not necessarily integrated in any way.[6] Moreover, for the purpose of public policy analysis, administrative boundaries are still a very significant criterion for the definition of localities, because public policies are generally designed and implemented within those boundaries.

The concept of locality defined through an administrative criterion identifies the area of competence, or jurisdiction, of a local government, or city government, in the case of urban areas. Blair's (1995, p. 19) comments on the significance of regional administrative boundaries can be extended to urban administrative areas: "Administrative regions are formed for managerial or organizational purposes. Both private organizations and governments find administrative regions useful. Administrative regions are normally more clearly delineated than either functional or homogeneous regions because administrative regions are formed to clarify spheres of activity for businesses or governments. Administrative regions are also important because they frequently become the basis for policy".

Given these definitions, unless otherwise specified, in the following the term "local" will be used in its "administrative" meaning, the most coherent with the focus of this work on city governments' actions, programmes and policies for the economic development of their jurisdiction. Based on this specification of the meaning of the term "locality", local economic development can be defined as "the sustainable creation in a locality of equitably distributed wealth, jobs and improved conditions of material life".

The theoretical interest with *local economic development* derives from evidence of spatial differences and unevenness of economic development at a sub-national level, and the failure of the economy to bestow widespread benefits (Eisenschitz and Gough, 1993). The existence of notable differences between aggregate performances of national economies and the disaggregated performances that compose the national picture has been named "fallacy of composition" (Massey, 1991) and has implied the need for economists to develop tools for the analysis of economic phenomena at limited and reduced spatial scales (Allen and Massey, 1984). An introduction to the theoretical perspectives on local economic development will be detailed in the next paragraph (3.2).

As a consequence of spatial unevenness, *local economic development* is also a primary public policy concern: market failures in general and specifically at the local level are advocated as

[6] Alternatively, to the concepts of *unity* and *coherence*, Blair (1995, p. 16) proposes the concepts of *functionality* and *homogeneity*, which he applies to the regional dimension: "Functional regions are distinguished by the degree to which they are integrated or the extent to which the component parts interact. If interaction of components within a region is significant compared to interaction with other places, the basis for a functional economic region exists. (…) Nodal regions are an important type of functional area. A nodal region is based primarily on a hierarchical system of trade relationships". And further (p.19): "Homogeneous regions that are designated on the basis of internal similarity (…), common activities or climate (…), common economic development problems".

rationales for local intervention. In fact, national economic policies addressing market failures may be effective at a national level, but local intervention might be needed to address local specificities, especially to ensure availability and access to job opportunities for the local population (Blakely, 1989, p. 59). Part 3.3 analyses the topic of policies for the promotion of local economic development. In wider metropolitan areas, a similar concern is the one with unevenness among sub-units of the urban area, which is addressed by *community economic development* (Fasenfest, 1993), which, however, is not the object of this work.

3. Theoretical Approaches to Local Economic Development

The theoretical analysis and understanding of local economic development processes is not the object of a unique, unified or coherent analytical approach, rather it relies on a variety of theories and conceptualisations, from a wide number of disciplines, each providing insights into why and how localities grow economically, why spatial inequalities arise and how they can be tackled and reduced (Fasenfest, 1993, p. 11). Bingham and Mier (1993, p. 284) define "folly" an attempt to unify and organise coherently the various theories relevant to local economic development. They list 51 different approaches (Bingham and Mier, 1993, pp. 288-289), from as different disciplines as: theories of development from economics, business administration, regional science, planning, political science, public administration, and psychology (Bingham and Mier, 1993, p. ix).

In an attempt to rationalise the various theoretical strands, Blakely (1989, p. 60) maintains that, despite the absence of a theory or set of theories adequately explaining local economic development, several partial theories offer insights into the underlying rationale of local economic development processes, and he tries to summaries these insights through the functional relationship:

> *Local economic development* = *f* (natural resources, labour, capital investment, entrepreneurship, transport, communication, industrial composition, technology, size, export market, international economic situation, local government capacity, national government and state spending, and development support).
>
> (adapted from Blakely, 1989, p. 60)

Based on existing theories of development at the local level, this functional relationship provides a first indication of the factors that favour equitable and sustainable creation of wealth, jobs and well-being at the local level. These factors are primarily identified with those that influence business location and retention ("location factors", Blair, 1995). Spatial economics recognises also the importance for a locality's possibilities of development of its geographical position (central place theory and market areas) and of its stage of growth (stages of growth theory). Local economic development appears therefore to be affected by location and expansion decisions of firms, the quality of local production factors, the area's place in the system of cities, its economic structure and stage of urban growth. Finally, there is an acknowledgement of a precise role of the public sector.

3.1. A Theoretical Excursus

Some of the most relevant theories for the explanation and prediction of local economic development processes are briefly described in the following on the basis of existing attempts to classify and integrate the various theoretical strands (Blakely, 1989; Bingham and Mier, 1993; Blair, 1995). The following list does not pursue any objective of being exhaustive, but rather has the purpose of providing a general perspective.

a. Neoclassical economics

Neoclassical economics does not possess a significant spatial dimension, but its assumptions on *individual rationality*, *utility maximisation*, *free movement* of factors of productions and the concept of *equilibrium* are at the basis of a number of theories of local economic development, such as location theory, export-base theory, cumulative causation theory (Blakely, 1989).

b. Location theory

Location Theory explains and predicts firms' location decisions on the basis of costs minimisation models (Blair, 1995, p. 42; Blakely, 1989, p. 63; Blair and Premus, 1993, p. 3, Thisse, 1987). Based on the hypothesis that firms' location decisions are the result of cost minimisations processes, this approach identifies those factors that enter in a firm's cost function and that may differ across localities[7]. Traditional location theory focused on transportation costs for raw materials and finished products, which are a major cost factor for industrial/manufacturing firms. Later evolutions and refinements of this theory focused also on production costs that may display spatial variability, such as labour costs, energy costs, infrastructures, local government policies,

[7] An extensive literature maintains that the link between location factors and a firm's location choices, as is the case for any other strategic decision, is not simply given by the maximization of a profit function (minimization of a cost function), but derives from a more complex objective function, especially where managers self-interest may have a role (Blair, 1995).

quality of life and of the physical and social environment, research and technology development resources.

On the basis of the postulate that local economic development depends on the strength of the local economic base (identified primarily with the presence of firms), the implications of location theory are that intervention to reduce firms' costs can favour firms' localisation and, therefore, enhance the local economy. Obviously, the relative weight of each factor depends on each firm's cost function, which varies with sector and technology choices.

Following Blair (1995, pp. 42-55) the major *locational factors* can be detailed as:

- *Transport costs*, of inputs and outputs. Transportation cost minimising models predict that firms will locate at transportation costs minimising points, which will be either near raw materials, or final markets (the median one, when serving many), or trans-shipment points. Transportation costs are becoming less relevant due to the decreasing importance of manufacturing, and to technology induced reductions of transportation costs.
- *Labour factors*, such as the prevailing wage/compensation packages, levels of unionisation and productivity levels. There is evidence that unionisation increases compensation and reduces productivity, due to increased conflicts or less productive working rules.
- *Sites costs*, including land value, land and buildings availability, costs due to local planning and regulations. They are generally considered a minor location factor.
- *Energy costs*, which, especially for manufacturing activities, can be a consistent part of production costs. They also affect transportation costs.
- *Tax structure and level*, including tax incentives (tax holidays, tax credits, and so on). The level of taxation impacts on business costs directly, in the case of corporate income taxes, and indirectly, in the case of personal income taxes, which affect personnel compensation levels and may influence managers' location decisions. The importance of tax incentives as a location factor has been questioned, due to evidence on its limited impacts on location choices (Carlton, 1979, 1983). Long-term incentives pose a problem of efficiency and cross-subsidisation.
- *Public incentives*, including state interest subsidies, loan guarantees, regulatory exemptions, sale of land at below-market prices, but also availability of infrastructures, such as roads, water and sewing facilities, and telecommunication networks, which contribute to firms' productivity. There is no strong empirical evidence supporting their significance and there are also criticisms of these measures based on the zero-sum game argument (Blair and Premus, 1993, p. 15).
- *Political climate and stability*. At the national level it has noteworthy influences on returns on investments (through for example currency stability). At the local level, it impacts on the local business climate (Morse, 1990).

- *Business climate*, although recognised as an important factor (Morse, 1990), it remains a rather slippery concept, which includes "programs through which local government attempt to 'keep in touch' with existing businesses and monitor their needs through surveys, business round tables, or personal visits" (Blair, 1995, p. 53). It also includes inter-firm relationships and the potential for benefiting from agglomeration economies, which are detailed below.
- *Quality of life*, influenced by the number and types of local amenities, such as museums, cultural and sport facilities, green areas, good schools, roads and other public services, mild weather. Its impact is indirect: it facilitates the attraction and retention of high skilled productive workers, who lower businesses production costs (Roback, 1982), and may be prepared to accept lower wages in exchange for better quality of life (Blomquist et al., 1988).
- *Inertia*: businesses tend to remain where they initially located either because the reasons for initial location may not have changed, or because the economic and social structures have evolved to reinforce the initial choice (for example: development of local inter-firm relationships), or finally because they do not want to risk loosing some workers as a result of a relocation.
- *Agglomeration economies*: are cost reductions to firms that locate close to one another. They are of various kind, from specific to diffuse (internal; inter-industry – forward and backward linkages; intra-industry; urbanisation economies). Urbanisation economies are the most diffuse, and are the cost reductions to a firm from the overall increase in the economic activity of an urban area, resulting for example from infrastructure developments, division of labour, and so forth. They may produce the phenomenon of "coevolutionary development" (Norgaard, 1984): the development of symbiotic relationships among local firms and organisations. They are relevant to the literature on clusters and districts (Marshall, 1938; Scott and Storper, 1986; Porter, 1998)

The relative importance of each location factor depends on the economic sector, and it has been evolving over time. Initially, transportation costs were considered as the primary location factor (Thisse, 1987, p. 519), then joined by some production costs: labour, access to markets and raw materials - while others cost factors were not fund to be significant. Blair (1995) reports that more recent surveys support the relevance of many other factors as concerns location choices. He therefore proposes four generalisations as regards the importance of location factor today: "First, the traditional locational factors – market, labor, raw materials, and transportation – remain the most important location factors. Second, the relative importance of the traditional location factors has diminished compared to other locational factors. (…) Third, the primary impact of technological change has been to reduce the significance of proximity to raw materials and transportation costs as locational factors. (…) Fourth, studies have found that state and local taxes have had an important effect on business location. (…) Nevertheless, the preponderance of evidence shows that state and local tax policies *alone* will do little to change the economic future of regions" (Blair, 1995, p. 62). In conclusion, more recent cost minimisation models incorporate more variables, but the increased realism is at the expenses of generality, and the use of qualitative data implies that the models are less analytically treatable (Blair and Primus, 1993, p. 10).

Blakely (1989, p. 62) reports that, for traditional approaches, there are only three determinants for growth: location, location, location. Location is indeed relevant in assuring the potential for economic growth; nonetheless, other theories provide complementary perspectives on the determinants of local economic development.

c. Economic base theory

Economic base theory postulates that an area potential for growth depends on the external demand for the goods and services it produces, relative to the internal demand for consumption. Therefore, local economic development should target the attraction and retention of export-oriented firms, by reducing barriers to trade and providing incentives, such as tax relief, transport facilities (Blakely, 1989, p. 62). These models over-emphasise external demand and underestimate the role of the internal one in economic development (Blair, 1995).

Two groups of **theories of regional development** are rooted in economic base theory. According to the first, defined *development-from-above* (Nelson, 1993, p. 28) or *demand-side* theories, regional development depends on exogenous factors (export markets, investments from outside, labour migration). This approach was originally referred to international development, but has been applied also to sub-national processes. It is based on the assumption that both capital and labour flow to locations where their remuneration is the highest. Over time, this leads to a convergence in marginal products of each factor, so that the equilibrium is characterized by identical industry and skill mix, factor proportions, and other outcomes across localities. (Nelson, 1993, p. 31). Theories of comparative advantage and trade suppose that, for structural reasons, regions may have different marginal factors' productivities. Therefore, regions will specialise. An example is the theories of regional development based on price equilibrium and disequilibrium models (the price equalisation model – Heckscher, 1919; Ohlin, 1933).

The second group of theories, *development-from-below* (Nelson, 1993, p. 47) or *supply-side* theories, recognise the relevance of exogenous factors, but identify limits to their potential for growth, and concentrate on endogenous potential to reduce the "backwash effects"[8] of exogenous pressures (Myrdal, 1957), through, for example, increases in local productive inputs (capital, labour, entrepreneurship, infrastructures, and so forth). Examples are import substitution, territorial development and functional development models (Nelson, 1993, p. 47), which are however less articulated than demand side models (Howland, 1993, p. 70). Recent debates on the "skills mismatch" and the relevance of training and education in local economic development further support the importance of endogenous factors (Fitzgerald, 1993, p. 6)

d. Spatial Theories

Central Place Theory (Christaller, 1966; Losch, 1954) provides a framework for the explanation and forecasting of the pattern of growth of central or peripheral places (under the hypothesis of a uniform distribution of population over space). Therefore, it implies the importance of a locality's geographical position for its possibilities of growth. Similar conclusions are reached by the analysis of market areas (Blair, 1995, p. 67).

e. Stages of Growth Theories

Stages of growth theories "suggest a recurring, recognizable path or pattern of development over time and/or space" (Goldstein, 1993, p. 151). The process of development has been interpreted as a passage through successive stages, each with distinctive features. In particular, two theories, within the so-called modernisation school, have classified and specified the stages that correspond to the process of change from lower to higher development, with reference to nation states: the *Rostow's Stages of Growth theory* (1960), based on generalisations from historical evidence, and *Friedmann's Centre-Periphery theory* (1967). With reference to urban areas, *Urban Stages of Growth theories* (Thompson, 1968; Jacobs, 1969) maintain that cities, too, develop through a series of successive stages, and that the possibilities of growth of a locality are determined by its stage of development. The stages of urban growth identified by Thompson (1968) and Jacobs (1969) are detailed in table 2.2.

[8] The "backwash effect" refers to the reproduction of development differentials between leading and lagging regions, due to the migration of skilled and educated labour, entrepreneurial resources and venture capital from lagging to leading regions to seek higher returns, and the reverse migration of goods and services to lagging regions where they are sold at such low prices that local production cannot compete (Myrdal, 1957).

Thompson's Stages of Growth (Thompson, 1968, pp. 15-16)	*Jacob's Stages of Growth (Jacobs, 1969)*
1. Export specialisation: "The local economy is the lengthened shadow of a single, dominant industry".	1. Expanding market for a few exports and suppliers of the export.
2. Export complex: "Local production broadens and/or deepens by extending forward or backward".	2. Suppliers begin exporting directly.
3. Economic maturation: "The principal expansion is in the direction of replacing imports".	3. Goods initially imported into the area are produced and sold locally.
3. Regional metropolis: "The local economy becomes a node connecting and controlling neighbouring cities".	4. The city's enlarged and diversified local economy becomes a potential source of exports. The exports increase the volume of imports.
4. Technical-professional virtuosity: "National eminence in some specialized economic function is achieved".	5. New work is constantly developed. An "economic reciprocating system" results in new skills or businesses.

Table 2.2. Stages of urban growth according to Thompson (1968) and Jacobs (1969). Adapted from: Blair, 1995, p. 117.

f. Circular and Cumulative Causation theories

Circular and Cumulative Causation theories are based on empirical observations of self-reinforcing phenomena of urban decay. These theories maintain that the interplay of market forces increases rather than decreases the inequality between areas, the so-called "backwash effect". Market forces therefore, contrary to the prediction of neoclassical economics, determine self-perpetuating, rather than self-correcting, processes and outcomes (Myrdal, 1957, p. 13). *Disequilibrium models* developed upon this idea forecast continued investment in the leading region and widening divergence between localities in terms of income (Malecki, 1991). Their policy implication is that direct intervention is necessary to reverse these phenomena.

g. Industrial Attraction theory

Industrial attraction theory assumes that firms can be attracted to an area by offering incentives and subsidies, under the assumption that any public or private subsidy will be recouped by the increased economic wealth and taxes generated by the new activity (Blakely, 1989, p. 65). Despite this, there is evidence that the result is a cross subsidy from local workers and taxpayers to firms (Bluestone et al, 1981). This approach implies the idea of localities as a product to be "packaged" to attract firms and the need for "civic entrepreneurism" and search for "competitive advantage" (Blakely, 1989, p. 65).

h. Creative or Intelligent Regions

This approach is based on an interpretation of empirical evidence in localities and regions that have achieved sustained growth and well-being. The theoretical explanation for this evidence is that some regions grow because they are dynamic and synergistic, such as Silicon Valley (Saxenian 1994), and the cities of London and New York (Sassen, 1991). These cases are characterised by high levels of competence, many fields of academic and cultural activity, excellent possibilities for internal and external communications, widely shared perceptions of unsatisfied needs, and synergy among local actors (Andersson, 1985, p. 5). The policy implication is that development can be achieved by promoting and favouring these conditions in a locality.

i. The institutionalist approach to local economic development

According to an "institutionalist" perspective, the economy is not the result of rational actions by utility maximising individual actors on atomised markets. Rather, the economy is the result of individual actions shaped by collective social and cultural influences. According to Amin (1999, p. 366) this interpretation of the economy has its roots in three streams of literature:

- Economic sociology, which maintains that markets are socially constructed entities (Bagnasco, 1988) and that individual economic behaviour is "embedded" in social interpersonal relations and, hence, influenced by social factors such as trust and mutuality (Granovetter, 1985).
- Evolutionary and cognitive psychology (Cosmides and Tooby, 1994) and behavioural economics (Simon, 1959), according to which individual action can be shaped by differing rational approaches, which produce differing economic behaviours and decision-making rationalities and which are influenced by the relational framework as much as by the objectivity of the situation.
- Traditional institutional economics (Polanyi, 1957; Hodgson, 1988), which maintains that the economy is not the result of individual rational actions, neither can be identified with market processes, rather it is the result of instituted processes defined by enduring collective forces (of which markets are a *manifestation*).

Institutional conditions are increasingly recognised as an influential determinant of a territory's economic growth opportunities and achievements (Granovetter, 1985; Grabher, 1993; Sabel, 1989, Storper, 1993). According to some authors, an institutionalist approach to the issue of local economic development is a key to a better understanding of the growth processes and outcomes in localities (Raco, 1999; Amin, 2001). Such an approach combines the search for the conditions for local economic development with an acknowledgement of the role of local institutions, local governance and local organisations in shaping, influencing and creating those conditions.

Within the institutionalist approach to local economic development, Amin and Thrift (1994, p. 11, 13) suggest that certain institutional conditions enable local economies to flourish, by allowing localities to "pin down" global processes and become "centres of representation, interaction and innovation" in the contemporary context of globalisation. Amin and Thrift (1994, 1995) propose a conceptualisation of these institutional conditions that are crucial for local economic success and they introduce the phrase "institutional thickness" to describe their presence in a locality:

> "Success, in terms of holding down the global (local embeddedness) and thereby generating self-reproducing growth – cannot be reduced to a set of narrow economic factors. This is not, of course, to claim that economic factors are unimportant (…) it is to claim that social and cultural factors also live at the heart of economic success and that those factors are best summed up by the phrase 'institutional thickness'". (Amin and Thrift, 1994, p. 14)

The concept of "institutional thickness" embodies four non-economic factors: *a strong local institutional presence*, *high levels of interaction among local organisations*, the development of *structures of domination and/or patterns of coalition*, and the development of *local organisations' mutual awareness of being involved in a common enterprise* (Amin and Thrift, 1994, p. 14). In their words, institutional thickness is composed of "interinstitutional interaction and synergy, collective representation by many bodies, a common industrial purpose and shared cultural norms and habits" (Amin and Thrift, 1995, p. 102).

4. Conclusions

A theory of local economic development should, by definition, explain the processes of, and rationale beneath, development at the local level and at the same time it should allow predictions. Nothing as such exists. Rather a number of theories contribute to the understanding of local economic development, generally with a partial perspective on a phenomenon that, as it has been defined, is of high complexity. The brief description of theoretical approaches delineated above does not intend to be exhaustive, neither it has the purpose of attempting a synthesis or unification of approaches that are too different and in some cases conflicting. It rather pursues the objective of providing a review of a theoretical literature that has evolved along different strands, often concerned with and influenced by its implications in terms of advances in the practice of local economic development. Despite the claim that economic theory and practice are often disconnected[9], the theoretical literature on local economic development is often characterised by a notable orientation toward practice, to an extent that it has been maintained that, in local economic development, theory and practice are intersecting and reciprocally influencing (Bingham and Mier, 1993, p. ix). This orientation toward practice may be one of the main causes for the fragmentation of the theoretical analysis: practical instances and local specificities may have affected theory, contributing to its fragmentation. However even policies for local economic development would benefit from higher consistency in theoretical approaches, which could be pursued departing from an analysis of existing theoretical results. This paper has attempted an initial systematisation for such a purpose.

[9] Such claims are common, an example is the lamentation that: "Theory and practice exist as two seemingly separate entities. Academics strive to develop or refine theory, or the pursuit of disciplinary truths, by drawing on abstract concepts about the way people behave and institutions work, deriving testable hypotheses about behaviour, and testing the hypotheses with empirical data. Practitioners draw from a stock of programs that are 'in currency'. The theorists do not often specify how their constructs translate into programs, and practitioners rarely ask about the theoretical bases for the program(s) they implement or even the results of empirical testing and evaluation" (Goldstein and Luger, 1993, p. 147).

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