

Economic crisis and public policy responses: the role of spatial planning

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Introduction

This paper discusses the recent economic crisis and its connections with public policies, focusing on the importance of (spatial) planning for economic development. The objective is to analyse critically the recent responses of policy makers to the current crisis and its spatial impacts, discussing, in this context, the limits and the potential of regional policies of contributing to the recovery of economic growth and to the mitigation of the effects of crisis.

The methodology is based on literature review, with both theoretical and empirical emphasis, and also in data collecting of several countries and regions, focusing on income and GDP's performance in the last decades. The paper is divided in three sections, introduction and conclusion.

Section 2, “Economic crisis, the response of policy makers and spatial impacts: the geographies of austerity” discusses the arising of current crisis, the reaction of governments and policy-makers by implementing fiscal austerity policies, and the spatial diversity of the impacts.

The current crisis started after a remarkable period of global economic growth. From early 1990's to 2007 several economies experienced a significant economic expansion. Since 2007, however, the world economy has been facing an intense economic crisis, with the decrease of economic growth, rise of unemployment, getting worse the public debts, and decline of welfare.

After showing some data, and based on various authors, we argue that the current crisis is partially caused by the reduction of the economic role played by the State. On one hand, public spending and investment have been giving place to contractionary fiscal policy; on the other hand, the downsizing of the State and a more

flexible regulation of economic activity have been adopted, mainly in the financial sector. So, during the period of economic prosperity, a great deal of countries downsized their State, based on the idea that free markets organize better the economic activity. Then, we can argue that the current crisis is, at least in part, due to a lack of State and planning.

After crisis arose, instead of perceiving the role of market-based reforms in causing crisis, many economists and politicians have been arguing that contractionary policies are the only way to recovery economic growth. So they are defending the deepening of market-oriented measures and they are applying policies of austerity, arguing that these measures will contribute to correct government debt problems and, then, drive the economy towards a trajectory of sustainable growth.

Kitson et al. (2011) have shown that the global economy has moved “from boom to bust” and “from bust to austerity”. The authors highlighted that “a common response has also emerged, namely new politics of austerity” (p. 292). These politics include major cuts and reductions in public spending in all levels of government, national and local. Undoubtedly, the impacts of these measures have a spatial diversity: the poorer countries and regions tend to suffer greater and more negative effects. This fact is clear in Europe, as the mentioned authors showed, but data of other places indicate that it tends to occur over the world.

In section 3, “National growth, regional inequalities and spatial policies: theoretical connections”, the relation between national growth, regional inequalities, and spatial policies is examined, mainly in a theoretical perspective. In theoretical literature concerning these themes, two approaches may be distinguished.

In the first approach, there are those who see the economic development as a process trending to equilibrium, in which initial regional inequalities are transitory and tend to reduce automatically over time. In this perspective, there is a “trade-off” between national growth and regional disparities and, consequently, regional policies aimed at reducing inequalities may cause decrease of national growth. The first approach is based on the neoclassical (exogenous) growth theory and new (endogenous) growth theory, and constitutes an orthodox perspective, corresponding with a free market view.

In the second approach, there are those to whom the economic development is a spatial uneven process, in which regional inequalities are self-reinforcing and, without policy intervention, tend to become larger over time, consequently limiting the national economic growth, efficiency and welfare. They assume a redistributive perspective, searching for spatial rebalancing and social equalization. Accordingly, they propose active overall public policies conducted by the State, including those aiming to reduce regional inequalities. The second approach consists in a heterodox perspective, mainly influenced by the Keynesian growth theory and by the “principle of circular and cumulative causation”, with emphasis on the polarization and backwash effects (Gardiner et al., 2011; Pike et al., 2012; Garretsen et al., 2013).

Section 4, “Planning for the crisis recovery, economic development and welfare: the role of the (new) regional policies” debates the role of spatial planning, especially regional policies, can play in contributing to mitigate crisis effects and to recover economic development in regions and countries affected by economic crisis. The empirical and theoretical analysis in the former sections allows the statement of three topics in this issue.

Firstly, given the extension and the deep of current crisis, as well as the negative impacts of market-based and austerity policies established in response to the crises, planning for the crisis recovery must involve the change of the direction and the perspective of public policy into a more State-based and active course.

Second, since these impacts are spatially distinct, the response must to incorporate spatial diversity, aiming to reduce regional inequality and to enhance poorer and lagged regions’ recovery. Accordingly with the heterodox approach, spatial planning can play an important role to interrupt the circular and cumulative causation and to reduce regional inequalities, consequently improving national economic growth, what is particularly significant at this moment.

Third, by contributing to recover economic activity and to reduce regional inequalities, these policies are helping to build the bases for a broader and comprehensive development process, which includes social equality and spatial justice, with community participation.

Therefore, based on theoretical and empirical arguments, we defend (new) spatial planning, especially policies which aim to reduce regional inequalities, as a way to contribute to recovery growth and to mitigate current crisis effects

Concluding remarks

The main results and contributions of the paper may be summarised in these topics:

1. Current crisis is partially caused by a lack of State and planning;
2. The response of policy makers are mostly in the wrong direction of austerity, which tends to reinforce crisis effects and to cause spatially distinguished impacts, amplifying regional inequalities;
3. Accordingly with heterodox theoretical approaches, alternative public policies, centred on the State capacity of investment and coordination, contribute to improve economic growth. In this perspective, spatial planning and regional policies can constitute in a way to amplify the efficiency and the growth of national economic activity;
4. In recent context, spatial planning, particularly regional policies, can play an important role to: a) mitigate crisis effects; b) contribute to economic growth recovery, principally in poorer regions; c) contribute to build the basis for a broader development process;