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Territorial competition

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Introduction

The notion of territorial competition refers to a form of collective action, undertaken on behalf of economic interests within a particular territory, which serves to advance these in competition with those of interests located in (some or all) other territories (Cheshire and Gordon, 1995, 1996). From one perspective, this involves an extension to broader spatial scales of the types of location marketing traditionally practised by private developers. Alternatively, it may be seen as extending local governments’ use of public goods provision to attract/retain desired residents into the productive economy. A more distinctive third dimension to the process involves specific investment in organisational assets to create a market in membership of the territory’s economic community (Gordon and Jayet, 1994).

The concept was developed in the context of integrating European economies in the 1980s and 1990s, where such competition attained a new importance. In North America particularly, local competitive activity in the form of boosterism had been a well-known phenomenon for very much longer (see e.g. Cobb, 1982; Ward, 1998). The idea of ‘territorial competition’ is intentionally much broader, however, encompassing not only attraction of inward investment, but all/any forms of collective action which served its purposes. The point is not to treat all these forms as equivalent, but rather to direct attention to the choices made among them in different contexts, instead of treating the practice of one or another in isolation.

Defining territorial competition in this broad way might seem to make it synonymous with local/regional economic development in general, and thus not worth discussing separately in this volume. But there are two distinguishing features which give analyses of territorial competition a particular flavour. The first is that they do not presume that such competition is necessarily functional – whether for a territory which is pursuing it, or for a wider set of areas – or indeed dysfunctional. Rather that is a key question to be investigated, both theoretically and empirically. Second, their dual emphasis on collective action and particular economic interests raises questions about the political processes underlying specific forms of territorially competitive activity (or their absence). From this perspective, there is nothing inevitable about a commitment to any serious form of local/regional economic development – even given a more solid understanding
than in the past) of how these can/should be pursued. Rather it is expected to depend on those structures, institutions and constraints which shape political action, and inaction, within the areas concerned. Nor does the idea of territorial competition presume that the interests to which it is directed will naturally or necessarily be those of the local economy/residents as a whole. Rather the expectation is that the mixture of interests which are effectively served will reflect the same political processes that determine whether and in what ways ‘places’ actually develop one form or another of competitive/developmental activity.

The perspective is thus essentially one of political economy – giving a central role to the interaction between ‘political’ and ‘economic’ processes – and might be seen as an extended/generalised version of the North American analyses of ‘growth machines’ (Molotch, 1976). However, the aspiration of those writing within a ‘territorial competition’ framework is not simply to provide a critical exposé of the gulf between idealised expectations of place-based economic development and the thrust of ‘actual existing’ competitive activity. The aim is rather to develop the kind of realistic understanding of the behavioural and political economy factors which is necessary if ways are to be found to correct the biases in how local/regional development functions or fails in particular kinds of context.

The significance of such factors is substantially affected by the territorial dimension, since the areas on behalf of which competitive actions are to be pursued will generally be far from closed in economic terms, or completely autonomous politically. This presents a pair of key issues about: the extent to which such activities could or should have effects outside the initiating areas (‘spatial externalities’ in the jargon); and how higher levels of government/governance – whether regional/national or international – may constrain these territorially competitive activities, whether just to conserve their own power resources or to optimise outcomes across a wider territory.

Over the past quarter century, territorial competition seems to have become a global phenomenon, spreading beyond Europe/North America to play a strong role (for good and bad) in the development of newly industrialised and transition economies (Rodríguez-Pose and Arbix, 2001; Chien and Gordon, 2008; Hermann-Pilath, 2004, Jessop and Sum, 2000), and with sub-national agencies in many countries playing key roles in the competition for FDI (Oman, 2000). In each context, a characteristic interplay between political and economic factors shapes the form, intensity and outcomes of local economic development policies – sometimes with important consequences for national development too. But the expectation is that these will play out in different ways, depending on a set of economic, political and institutional characteristics which figure within a general model of territorial competition. In the remainder of this chapter, we shall look in turn at: the economics of place competitiveness; the politics of territorial competition; and a normative framework for assessing outcomes from the process and regulating it; before summarising key issues.

Place competition, place competitiveness and territorial competition

Spatial competition may be understood in several different ways in relation to local economic development policies. In particular, there are three that need to be distinguished, which for convenience we will refer to as place competition, place competitiveness and territorial competition (though these terms are not used consistently in the literature).

Place competition: At the most basic level, it is a simple matter of fact that individuals and businesses located in a particular area tend to
compete not only with each other, but also with people/businesses located in other areas. The competitive position of each, in terms of price and quality, reflects a combination of factors – associated with: the assets they have available; the technologies they can deploy; costs/prices in the local market; extraneous influences on supply/demand in their specialisms; and ‘pure chance’. Their combined effect across all local businesses/individuals produces some places which are ‘winners’ in terms of aggregate activity/earnings levels, while others are ‘losers’ in the place competition. Whether or not this division has evident local causes, it is likely to have local consequences – though not all of the place’s businesses/residents will be affected in the same way (or at all).

What it means for a business to be ‘located’ in an area can vary greatly, depending on: who owns it; the status/role of local operations; and how far these are embedded in the local economy. Direct benefits from the competitive success of local business establishments (in product markets) and local residents (on labour markets) clearly accrue to those who own the crucial assets, notably: shareholders, who may or may not live within the area (in the first case); and those with increasingly valued kinds of human capital, who may or may not remain within it (in the second case). In addition, their success is likely to have some positive income spillovers within the local/regional economy, in terms of property values, money wages and (probably) employment rates.

Spatial economic theory suggests that the effects on property values will tend to be localised, because these assets are immobile, whereas the labour market effects may get rapidly and widely diffused. For the average resident, real (expected) earnings may not actually change, though there will generally be both winners and losers within any affected economy. If the supply of local residential/commercial space is somewhat inelastic, the success of some local businesses will mean higher costs for all, thus lowering the demand for others who sell price-sensitive products in external markets. Despite such uncertainties, the existence of spillover effects means that members of the local community may reasonably believe that they have some stake in the competitive success of local businesses and residents – even when there is no collective involvement either in producing competitive assets or in sharing out their benefits.

**Place competitiveness:** Outcomes of such inter-place competition may be wholly or largely determined by exogenous factors. There are cases, however, where the competitive position of representative firms in an area is substantially influenced by the presence or absence of quasi-public goods, i.e. of competitive assets which are freely available, on a non-rivalrous basis, to all located within the area. Relevant examples could include: facilities traditionally provided (if at all) by local authorities (e.g. education, transportation, specialist research institutes); others dependent for their existence/sustainability on appropriate regulation of private activities by such an authority (e.g. via development planning); and a further set whose provision essentially depends on private activity, but where economic incentives cannot be counted on to secure (any or adequate) provision (e.g. pools of skill/tacit knowledge and support services, or networks of established cooperation). What these competitive assets have in common is that they are endogenous in character, in the sense that their availability is not fixed but rather reflects the shaping of an area through a combination of its economic history and its political economy (Massey, 1984).

The importance of place competitiveness in terms of such assets has been substantially enhanced over the past quarter century or so by two broad shifts in the form and intensity of economic competition. The first involves the market for mobile industrial or commercial investment projects, which grew substantially in importance as constraints on
Territorial competition: One further step beyond this, ‘territories’ – or some body acting on their behalf – may be seen as playing an active collective role in securing the conditions to promote competitive success for firms and individuals based in their area. This is the strong sense of purposive ‘territorial competition’, rather than of simply de facto ‘place competition’ or ‘place competitiveness’.

For this concept to be applicable, it is necessary first of all for there to be substantial aspects of place competitiveness which can be manipulated in predictable/positive ways by some collective agency in the territory. That is partly a technical issue, as to whether such agencies possess both the relevant expertises and effective autonomy to apply them. But it is also a political one, because of the diversity of economic interests within any territory, which not only complicates the process of mobilising collective action but also increases the likelihood of it being captured by particular sectional interests.

There is a theoretical precedent for such purposive activity in Tiebout’s (1956) treatment of inter-jurisdictional competition between (nearby) local authorities offering rival bundles of local public goods/tax rates to attract residents. Within the framework of his analysis, such competition serves – as authoritative decision-making on its own could not – to stimulate provision of an optimal mix of public goods – including those trade, communications and multi-plant coordination of productive activities were successively overcome (between the 1960s and 1980s). As far as inward investment was concerned, this enlarged the pool of potential projects which could be ‘won’, even by less established centres. As a result, however, the practice became much more competitive, since firms with plants to locate could now actively consider many more locations, and play these off against each other. And, at the same time, the existing activity base of economic ‘territories’ (both old and new) became more vulnerable both to the relocation of specific functions from established centres that could now be made to operate in some cheaper location, and to onward movement by footloose recent arrivals, tempted by better ‘deals’ offered elsewhere. The second involves a quite widespread (though still ongoing) shift in the basis of product market competition from simple price (or value-for-money) criteria to quality (or rather to the distinct qualities of differentiated products). This shift toward some version of ‘flexible specialisation’ (Piore and Sabel, 1984; Storper, 1989) seems partly to have reflected changes in the tastes of (more affluent) consumers, facilitated by new production technologies which made short production runs much more economic. But in the advanced economies it also represented a defensive response by home producers who could no longer attempt to match prices from plants in those low-wage economies that now offered feasible locations for relatively standardised products.

In Porter’s (1990) terms, this shift allowed businesses, and the places that housed their core functions (‘home bases’), to develop distinctive forms of ‘competitive advantage’ as an alternative to the ‘race to the bottom’ which pure price competition (and comparative advantage) promised in an increasingly globalised economy. The kinds of local public goods that appear to sustain competitive advantage of this kind are themselves qualitative – in relation to capabilities of local suppliers, complementary skill/knowledge pools, knowledgeable consumers and vigorous competition – and combine in ways that allow fortunate places to offer distinctive kinds of environment relevant to firms occupying different types of market niche. As with Krugman’s (1995) more aggregative emphasis on the strength of agglomeration economies, Porter’s evidence for the beneficial effects of clustering implied that such places could enjoy continuing dynamic benefits (i.e. faster growth), rather than simply one-off (or temporary) boosts to the level of local activity.
generated directly by an optimal pattern of residential segregation. This outcome depends crucially on three assumptions which are a good deal more problematic when translated to the context of competition for economic activity rather than residents: a large number of competing jurisdictions, each of efficient size and with free mobility between each; absence of any impacts spilling over territorial boundaries; and jurisdictions simply motivated to maximise growth (in Tiebout’s version) or ‘profits’ (Bewley, 1981). Where these do not apply, competition alone will not necessarily secure desirable outcomes, independent of the processes through which policies are shaped and regulated.

Famously, Krugman (1996a) has argued against the pursuit of ‘competitiveness’ policies on behalf of territories (whether national or urban/regional), for reasons most commonly identified with the claim that unlike firms they ‘cannot go bankrupt’). The relevance of that argument is not clear – since firms do not compete only to avoid extinction. But it can be understood as part of a broader concern about the lack of mechanisms to ensure that policies advocated in these terms are actually geared to advancing overall economic interests, rather than some (disguised) sectoral benefits involving larger costs for others in the economy, as he believes to be much more commonly the case (Krugman, 1996b). Just as at the national scale protection for the steel industry may be (falsely) claimed to advance overall US competitiveness (Krugman, 1996b), so at the urban scale boosterist arguments may be used to generate profits for developers while residents suffer in fiscal and environmental terms (Molotch, 1976).

**The politics of territorial competition**

Even where there is a strong functional argument for a public agency to take on some particular role – and widespread understanding of it – we cannot assume that it will necessarily be pursued in practice in any serious/effective way. In general, governmental activities tend to be sustained through a high degree of inertia – with demands and supports flowing from established sources, organised client groups, vested staff interests, public expectations and programmed operations. Getting additional or novel responsibilities into the portfolio requires more pressure, to overcome initial hurdles and win a start-up budget, in situations where potential beneficiaries are liable to be less well organised than in cases where policy activity itself sustains organisation. This has two likely consequences. The first is that where new activities do make it on to the agenda and crowded budgets of public agencies they may not be very substantially resourced. The second is that, where they are, the form in which they are pursued may strongly reflect the particular political forces that managed to get them there.

The emergence since the 1980s of a new set of arguments for local economic development policies and/or more strategic forms of territorial competition is a case in point, for places lacking a longer history of such activity. For such arguments, and the real economic circumstances they invoke, to generate robust forms of competitive activity depends on a combination of:

- at the micro-level: effective mobilisation by potential beneficiaries with the capacity to organise themselves into a successful promotional coalition within a suitably defined territory; and
- at the macro-level: tolerance and/or active support by higher levels of government for local agencies to take on independent/competitive roles in pursuit of economic development for their territories.

The micro-level requirement has two aspects. The more basic is the presence within the territory concerned of a set of actors with...
significant ‘spatially dependent’ economic interests and the political/economic resources to pursue these (Cox and Mair, 1988). Such interests may include: ownership of land or immobile infrastructure; dependence on local markets, particularly where sales rely on persona; contact/reputation, or non-local expansion is otherwise constrained (as historically with state-based banks, utilities, etc. in the US; Wood, 1996); or other locally networked assets. For public authorities it may involve: dependence on a local tax-base (as in e.g. North America, though much less in Western Europe); for individual public officials it may involve: career prospects linked to measured local economic performance (as in China; Chien and Gordon, 2008). Their strength is institutionally variable therefore, but within nations is also likely to vary with different patterns of specialisation, and the balance between local and (multi-)national firms. Additionally, however, these interests need some basis for getting round the fundamental dilemma of collective action, as Olsen (1971) identified it: namely that it is rarely in the immediate interest of those with a recognisable stake in the success of some collective action, actually to expend significant resources of their own in pursuing it. Where no such basis exists, the likely outcome is some purely symbolic ‘competitive’ activity. This warrants a critical look at how substantively significant much advertised developmental action actually is. But where particular bases are found for escaping this dilemma, these will have consequences, first for the composition of the promotional coalitions that emerge, and then (consequentially) for the set of ‘collective interests’ and policies that come to be pursued – which also require careful examination (Cheshire and Gordon, 1996).

Some circumstances may just be generally supportive of cooperation, on the basis of solidaristic sentiments (as in the case of national minorities such as Catalans in Spain). But at best these provide a starting point, and other factors will generally produce biased outcomes. Three common forms can be identified. The first starts from Olsen’s observation that very small groups of actors with large individual stakes in a particular set of linked outcomes can more easily secure their mutual engagement than can any larger group. This leads to an expectation that major-landowning/development interests are the most likely core for a viable coalition (as in Molotch’s ‘growth machines’ in the US). A second involves a bias toward historically dominant sectors, including staple industries in structural decline, on the basis that these are likely to have the strongest habits of cooperation, and most generally credible construction of what the territory’s collective interests might be. The last embodies a bias toward (greater) localism on similar grounds. At a general level, the political economy perspective raises a suspicion that such coalition-building is more likely to serve elite interests than those of the average local resident, and to encourage an understanding of local development processes that conflates the two.

Beyond this, the specific kinds of bias that have been identified suggest potentially serious biases toward types of policy which are less likely than others to advance a territory’s strategic economic prospects, by: focusing excessively on attracting inward investors to prestige new property developments; a form of ‘lock-in’ which concentrates on reinvigorating mature/obsolete sectoral complexes, rather than on renewing the local economic base; and/or defining the economically relevant territory too narrowly, ignoring complementarities with neighbouring areas, which are treated instead as the key competitors.

At the macro-scale, two key considerations are the degree of centralisation of, first, the state and, second, of national politics. On the one hand, state centralisation (as in say the UK or France as against effectively federal states) simply limits the scope of territorial agencies for genuinely independent action, as in the case of West European states before the 1980s, where both economic policies and
fiscal control were jealously guarded monopolies of the central government. One factor in the eventual rise of territorial competition here seems to have been recognition that within a Single European Market where urban services became freely tradable urban competitiveness became a matter of national economic interest. In some developmental states elsewhere, notably China (Chien and Gordon, 2008), mobilisation of local competitive forces, within a framework of continuing central control, has been seen more directly as a servant of national economic objectives.

In relation to politics, the issue is rather different, relating to the role that territory plays in the processes through which national power is acquired. On the one hand are highly integrated systems in which political conflict/competition is fought out on a nation-wide basis in relation to generally recognised ideological differences and/or socio-economic groupings (as has tended to be the case in Western Europe, or in India through the 1950s/1960s). On the other are systems where national power is to a greater degree acquired through politicking in a series of semi-independent territorial politics, serving as arenas for political contests played out on different bases. This has always been the case in the US, but is also true in Brazil (Ames, 1995) and became so in India after the 1980s when the dominant Congress party lost its political cohesion (Schneider, 2004). In these situations, where power has to be built up sub-nationally, the territorial division of economic activity (as of the ‘pork barrel’) is an inescapable aspect of politics, and constrains any potential development of nation-wide ideological or class-based competition. Territorial competition is then (for better or worse) an expected and natural component of the political system. By contrast, in the former case, serious territorial competition presents a potential challenge to the maintenance of an integrated national politics (and party system) structured around such nation-wide issues. In the face of such threats, national (or EU-wide) regional policies have been promoted to sustain political cohesion – rather than the ‘economic and social cohesion’ to which EU policies are nominally directed. And these may be adapted to assist, integrate (and domesticate) nascent forms of territorial completion, through conditional funding in relation to national goals and programmes (Gordon, 1990).

To summarise, while the pursuit of material interests of one kind or another is fundamental to the politics of territorial competition – and hence to the policy mix and outcomes to be expected from it – this does not mean that any reasonably free market economy should be expected to develop a common form of territorial competition, operating with similar intensity, and producing the same mix of outcomes. Rather the political economy perspective suggests that territorial competition – and thus local economic development as conventionally understood – should operate in ways that are highly contingent, but related in intelligible ways to a small set of factors. These include the character of national politics, the institutional/regulatory regimes under which territorial agencies operate, local economic structures, and the significance of territorial assets for interests within the local economy (Figure 3.1). In no case, however, can it be presumed that an effective capacity to engage in territorial competition can necessarily be mobilised, or that this would serve a set of community-wide economic interests.

Outcomes: good, bad and regulated

Like other kinds of policy, economic development policies launched under a territorially competitive initiative may yield unsatisfactory outcomes – whether through poor policy choice or failure to assure the necessary conditions for implementation (including actual provision of all required resources, including finance, skills and compliance). Other chapters
in this volume provide ample examples of this. But territorial competition presents some specific issues in relation to the desirability of outcomes which can be related to the conditions under which such activity comes into being in particular places and times.

One starting point for thinking about the problem is a simple normative distinction between policies which are (and may be expected to be):

1. Purely wasteful – with no net gains;
2. Zero-sum in their effects – i.e. purely redistributive, with gains for some being matched by losses for others; and

The distinctions here are not quite as simple as they look. In the first case, even the most ‘wasteful’ policy is likely to yield benefits to somebody, even if only to those who worked on it, the politician publicly launching it, or the mobile firms who succeed in extracting a high price for their locational favours. The basis on which we should judge whether some policies are ‘purely wasteful’, however, is whether they involve net losses overall to the territorial agency’s legitimate stakeholders. In the second case, ‘zero-sum’ policies are ones that escape the ‘pure waste’ category by yielding net benefits to stakeholders within the agency’s own territory, but do so simply by capturing benefits from elsewhere (maybe in the form of mobile firms or product market share), or imposing comparable costs on other areas. Essentially then, they are...
spatially redistributive in their effects, possibly in ways that improve spatial equity, but as likely, or more, not to do so. In most cases we might expect there to be no equity issue, since competitive interactions of this kind most commonly involve areas in a similar economic position, and/or within the same functional economic region (for the latter see e.g. LeRoy, 2007).

To the extent that economically stronger areas have more assets to deploy in such competition, however, in the absence of external assistance to assist the competitive efforts of others, there is likely to be some bias toward outcomes that reduce rather than enhance spatial equity. Often, however, substantial effort may be required to achieve this outcome, including effort expended in contests where the territory ultimately loses out to other active competitors, as well as in those where it ‘wins’. Taking these ‘transaction costs’ into account, the aggregate result of seeking to compete on this basis will generally involve negative-sum outcomes (i.e. net costs overall), rather than simply a zero balance.

For the active territorial ‘players’ (i.e. places pursuing such gains, through e.g. policies to attract mobile firms) the expected pay-off might still be expected to be positive – at least relative to the position they could expect to be in if they refrained from competing. This is often presented as a ‘prisoner’s dilemma’ situation, in that active players may not actually achieve gains as compared with the status quo but be forced into competition by the knowledge that they will end up worse off if they refrain and allow others to take all the spoils (see e.g. Ellis and Rogers, 2000). That danger can seem particularly real, given a great excess demand for mobile investment projects, meaning that agencies cannot tell when the next desirable project might come along. For example, Thomas (2008) cites an estimate from Loveridge (1996) of just 200–300 large-scale projects annually in the US being pursued by some 15,000 investment attraction agencies.

However, if almost everyone participates in such competition, e.g. by offering cash incentives/tax breaks to firms who will locate a plant in their area, the expected net benefits may be very low, with only a modest penalty for abstinence. For any given project potentially available to, and desired by, all territories, models of the competitive process demonstrate how the ‘winning’ area will have to offer an incentive (of financial plus any natural advantages) at least equal to the perceived value of this project for the area which attaches the second highest value to it (King and Welling, 1992). From the perspective of an average territory, participation in such contests may then move toward the ‘purely wasteful’ category, with zero expected gains and significant entry costs. In the US, at least, these entry costs increasingly include the employment of site consultants, who offer territories the prospect of net gains through access to superior information, but serve primarily to boost competitive activity (Markusen and Nesse 2007; Thomas, 2007). Indeed it is striking that in a recent listing of nine ways to curtail the ‘economic war’ among the US states, at least two-thirds were clearly directed at issues involving waste for the states involved, while only one focused on issues of ‘zero-sum’ inter-state predation (LeRoy, 2007). OECD’s international study similarly emphasises the advantages for states in pursuing transparent, rules-based approaches and avoiding rent-seeking (Oman, 2000). A careful econometric review of likely impacts of state and local economic development incentives in the US concludes that:

for an average incentive project in a low unemployment local labor market, benefits and costs are of similar magnitude....whether the net benefits are positive or negative is unclear.

(Bartik, 2005: 145)

The implication is that for a substantial proportion of such projects the balance will be clearly negative (even without taking account...
of the fixed costs of competing). Examples of such purely wasteful financial competition are numerous, including cases where regions within a developing economy end up competing with each other for FDI projects, as in the Brazilian ‘car-wars’ documented by Rodríguez-Pose and Arbix (2001).

The same logic applies where territories offer not actual cash payments (maybe because that is unlawful in their position) but rather a standard package of generalised concessions or locational attractors, fitted to the needs of a typical firm with mobile projects. In such cases, for projects with few locational constraints, all regions within a country (if not further afield) are effectively competing with each other, and monopoly power rests with the firm just as in the textbook case of tax/subsidy competition. This monopoly power derives ultimately from an excess demand from territories for mobile projects, which no individual agency can significantly modify. But it is substantially reinforced when areas pursue undifferentiated attraction and incentive policies, which allow firms to extract the maximum rent, by pitting all potential locations against each other.

By contrast, the economically productive/capacity-building category of policies includes not just the now familiar range of ‘high road’ initiatives aimed at boosting the long-run productivity of local business and public sector activity (Sengenberger and Pyke, 1992; Malecki, 2004); but also selective attraction of inward investors within specific target groups, using incentives that emphasise and reinforce distinctive actual/potential strengths of the particular territory. Pursuit of distinctiveness – with a locational offer that other territories could not match – could then serve as a means of countering the monopoly power of the mobile firm, both at the point of inward location and subsequently, when it might otherwise threaten an onward move. Where successful, this strategy would allow territories themselves to show net benefits from induced inward investment (Wins, 1995).

From the perspective of the territorial competition literature, we can thus identify three broad types of pathology in the way that subnational economic development activities are characteristically conducted – whether in advanced or developing economies, and whether in liberal democracies or more authoritarian regimes. These involve: a tendency for territorial agencies to pursue policies that are unlikely to yield net benefits for their constituents; an over-emphasis on competing against other areas (often within their own functional regions) for a limited pool of investment projects, whether directly or via generalised promotional strategies; and a failure to focus effectively on developing distinctive assets that could build a competitive advantage in particular economic niches, where territories could credibly establish some market power. As Turok (2009) indicates, this requires more than simply espousing the idea, or adopting some conventional notion of how distinctiveness can be achieved (whether through high-tech, creativity or iconic design).

These failings might be seen simply as components of a ‘low road’ development (or perhaps underdevelopment) strategy, for which other chapters offer a more detailed critique. Where the Territorial Competition (TC) perspective differs from other parts of the Local Economic Development (LED) literature is in suggesting that these pathologies are not simply reflections of ignorance, incompetence or lack of sophistication on the part of LED practitioners. Rather they are seen as predictable outcomes of the problematic politics of building collective territorial action, and of more or less rational behaviour on the part of those actively engaged in it. An obvious example is the neglect of spatial externalities by those territorial agencies which focus on the competitive aspect of their relations with other areas (including their neighbours), rather than the potential for collaboration. The seriousness of this problem clearly varies both with the extent to which agencies (including local governments) are free to pursue whatever competitive initiatives they
choose, and with the particular pattern of incentives facing them.

In the first respect there has been a marked contrast, between a general lack of constraint on state/local competition in North America, and the situation in Western Europe, where national governments have traditionally restrained ‘wasteful’ domestic competition, and the EU has buttressed this with an effective cross-national regime limiting the use of state aid for competitive purposes (Sinnaeve, 2007). In relation to incentive structures there may be a similar pattern of difference among advanced economies, with those (notably the US) which make sub-national governments substantially autonomous in fiscal terms encouraging more cut-throat competition, than those where fiscal federalism dilutes the financial gains (or even eliminates them, in the UK case). Elsewhere, as in China, the central state may actually purposefully design the incentive structure to encourage, not simply tolerate, vigorous local competitive action (Chien and Gordon, 2008). Translating some version of the European regulatory system to other national/regional contexts seems a rational response to the evident neglect of spatial externalities by which territories’ competitive activities are unconstrained, though there is scepticism of its feasibility in the US case (Sinnaeve, 2007; Thomas, 2005).

From the TC perspective, however, neglect of such externalities is not the only issue involved in the pathology of predatory incentive competition. As important are: the excessive localism of the ‘territories’ on behalf of which agencies act (relative to the scale of functional economic units); and the seemingly irrational bias toward inward investment as the central priority in much competitive activity (Cheshire and Gordon, 1998). These are important in themselves, because a large proportion of incentive-based competition actually involves nearby areas which should logically be collaborating on a common development strategy, and because much of this appears wasteful even from the perspective of the area which is supposed to benefit – if not from special interests in these areas.

Beyond this, however, the TC analysis wants to situate these issues in a root problem of the building of effective collective action to pursue competitive strategies on behalf of a representative set of interests across coherent economic units. Without some active, independent source of leadership, it is argued, the structures and forms of intervention that are developed will be subject to some combination of: weakness in resource terms, leading to the adoption of superficial, symbolic policies, including a substantial element of copying of conventional/fashionable initiatives (isomorphism, as Chien (2008) terms it), rather than development of tailored/differentiated strategies; and structural biases, reflecting the unrepresentative sub-sets of interests which are able spontaneously to build viable coalitions to promote competitive initiatives, including particularly those with stakes in development projects for which inward investment is an essential requirement.

**Conclusion: competition, competitiveness and local economic development**

Place competitiveness as well as place competition are clear realities in an economic environment, where market competition is pervasive and strong place characteristics play a crucial role in protecting communities from race-to-the-bottom forms of pure price competition. There is a functional role thus to be filled by collective actors who can respond coherently, rationally and in a representative way to the challenge of building and sustaining the appropriate combination of territorial assets.

Vigorous market competition between places ought to provide both motive and the right set of incentives to steer public agencies toward more effective performance in support of this activity. However, the capacity to fill these roles is not naturally or necessarily
available, and the collective action problem in evolving appropriate action coalitions is such that rhetoric about competition and competitiveness will often not be matched by organisations and activity which are both genuinely substantial/strategic and representative of the collective economic interests of functional relevant territories. To understand the limits of actual existing LED activity and the forms of ‘competition’ in which it engages – and progressing beyond these – it is necessary then to attend to the ways in which contextual influences on the political base of territorial competition shape (and bias) the choice of policies and the way they are implemented.

References


