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## Book Review

# [Book Review of] Richardson, Harry W. : Regional growth theory, London, 1973

Weltwirtschaftliches Archiv

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Suggested citation: Siebert, Horst (1975) : [Book Review of] Richardson, Harry W. : Regional growth theory, London, 1973, Weltwirtschaftliches Archiv, ISSN 0043-2636, Vol. 111, Iss. 1, pp. 177-179, <http://hdl.handle.net/10419/3589>

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# S c h r i f t t u m

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## Einzelbesprechungen und Anzeigen

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### I. Allgemeine Wirtschaftslehre

**Richardson, Harry W.**, *Regional Growth Theory*. London 1973. Macmillan. VIII, 264 pp.

Richardson's book gives an excellent survey of the main approaches and problems of regional growth theory. In Chapter 2 the state of the art is discussed, namely the export base hypothesis, neoclassical models, cumulative causation models, econometric, input-output and development planning models. Two key problems of regional growth, i. e. regional investment (Chapter 6) and interregional factor mobility (Chapter 4) are analyzed in greater detail. The main effort of the book consists in evaluating the elements and building stones of regional growth theory (Chapters 3, 5, 7). Finally, a model is constructed (Chapter 8) and policy implications are discussed (Chapter 9).

Richardson's thesis is that "reliance on neoclassicism was detrimental to progress in regional economics" (p. 2) and has been the cause for "a widening rift between theory and policy." It is stressed that the assumptions of neoclassical theory such as perfect competition and full employment are inconsistent with the regional problem per se and that the existence of regional problems suggests that some of the neoclassical assumptions cannot be fulfilled. This criticism is, however, a critique by assumptions. The decisive test for the empirical relevance of a model is not the empirical relevance of the assumptions but, according to the Popper-criterion, its explanatory or predictive power. Richardson grants that the empirical evidence for testing the neoclassical theory is rather weak (pp. 26 sq.). Awaiting further empirical evidence one can agree with Richardson that the intellectual appeal of the neoclassical approach to present a consistent model encompassing regional growth, factor mobility, factor and commodity prices and allocation is somewhat compensated by the lack of accounting for more complex empirical problems.

It is Richardson's aim to analyze the more complex process of economic growth and to discuss some of the key variables and phenomena that have to be included in regional growth theory.

(1) Since regional growth is a spatial theory it should include the interrelations of the growth process and changes in spatial structure. An integration of growth and location theory is needed and, more specifically, a dynamic theory of location has to be developed. One aspect of the interrelation of location and growth are locational constants, i. e. "fixed locations that act as a focus for the agglomeration of population" (p. 172). The locational constants (e. g. immobile natural resources, cities, transportation networks) represent the location impact of a fixed and given pattern of the past. Another aspect of location decisions to be included in regional growth analysis are locational preferences (p. 196) relating to non-monetary variables such as amenities of the landscape, integration into groups and social systems.

(2) The role of the transportation sector has to be taken explicitly into consideration. Since spatial frictions for factors, commodities and the flow of new ideas are a key element of regional growth analysis, transportation innovations play an important role in reducing these frictions.

(3) The transportation sector is only one aspect of social overhead capital which also includes other public production inputs, and also public consumption goods. Maybe this aspect of regional growth should have been elaborated in greater detail. It must, however, be admitted that empirical information on the role of public production inputs is not yet available. One additional aspect which would have to be introduced into regional growth theory is the distinction between social overhead capital for production and consumption activities. Public consumption goods for instance determine locational preferences of workers and consequently labor mobility. Their consideration also requires that regional growth must not only be defined with respect to regional income, but also in terms of other indicators of welfare (social indicators).

(4) A special aspect of spatial structure are urban agglomerations. Growth theory has to be integrated with the analysis of urban dynamics. This does not only include the estimation of urbanization and agglomeration economies (and the social costs) of increasing city size. It is also necessary to include non-economic aspects of growth such as social processes, changes in social structures etc.

(5) The intention to open the neoclassical and somewhat narrow economic analysis for other phenomena such as social processes also becomes apparent in the chapter on interregional factor mobility. Here alternative hypotheses of factor mobility are discussed and alternative determinants of mobility such as the labor market situation, distance, relevance of information flows, uncertainty of information, locational preferences are discussed. The spatial diffusion of technical knowledge is treated as an important aspect of the interregional mobility of factors.

Taking these requirements of regional growth theory into consideration, Richardson constructs a model including such factors as agglomeration economies, locational preferences, the region's capacity to absorb technical progress etc. However, the model is not yet tested empirically. Unfortunately, it is the fate of economic analysis that theories being very broad and encompassing a complex picture of reality and conceivably some non-economic variables run into great difficulties of being made operational, and operational theories tend to be narrow.

Richardson's book is a fascinating contribution to regional analysis pushing the frontiers of our knowledge further into the dark areas of the unknown and bringing together many loose ends of regional analysis. The following two critical suggestions may be permitted.

(1) The book does not explicitly consider the role of interregional trade for regional growth (except for potential models and export base). Interregional trade, however, is one mechanism of interregional interaction. Regional comparative price advantages do not only determine interregional trade, but also are an indicator for longrun location changes and consequently represent the necessary link between trade theory and location analysis (Ohlin). Also interregional commodity movements may be a substitute for factor mobility.

(2) Not only are public goods, both in their consumption and input function, not fully discussed; public bads are also not analyzed. Especially, the relevance of the environmental problem for regional analysis should be included in a survey of regional growth. Some questions may be mentioned to illustrate this problem: Does the assimilative capacity of the environment represent a limit to regional growth processes? How is the comparative price advantage of regions affected by environmental policies? Will environmental policies change the spatial structure in the long run? Will environmental quality influence the mobility of foot-loose industries in terms of Richardson's locational preference function? And will pollution be an argument variable in the mobility function of workers? Will the evaluation of the environment change with increasing private incomes and will the issue become more relevant in the future? Will the introduction of environmental policy reduce agglomeration economies since it can be expected that (a) agglomerated regions are more highly polluted and (b) that a unit of pollutants causes a higher marginal damage in a more densely populated area? This would require more strict emission norms or higher effluent charges in agglomerated regions, reducing their location and price advantage. Also, firms in agglomerated regions might have to pay higher wages in order to compensate for pollution in the preference function of workers. Should environmental policy instruments be applied regionally differentiatedly or nationally uniformly? And should emission norms be set differently for the different regions of an economy in order to allow for a specialization of space? Finally, what are the interrelations between regional planning and environmental policy?

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