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Place-Based Economic Policy: Innovation or Fad?

Thomas G. Johnson

This paper explores the emerging concept of place-based economic policy. It reviews recent literature on place-based economics policy, especially regional competitiveness policy, and explores the adoption and diffusion of this concept by economic development practitioners and social science researchers. It attempts to answer the question: Are place-based economic policy and the underlying conceptual foundations lasting innovations, or are they fads which economic development practitioners and social scientists will adopt until another fad emerges? The conclusion is that economic development practitioners and social scientists do tend to respond to fads. To ensure that regional economic development policy is not dominated by fads, social scientists must get out in front of economic development practitioners far enough to thoroughly develop and test regional competitiveness and other place-based economic theories.

Key Words: regional, competitiveness, place-based, clusters, policy

The goal of this paper is to explore what appears to be an emerging concept in the social sciences referred to as, among other things, place-based economics. There are several related streams of thought that are moving in similar directions towards the view that economic processes are best understood in the context of space. In a 2002 paper (Johnson 2002), I explored the relationship between space, as treated in regional science, economics, and economic geography, as well as sociology, anthropology, and other disciplines. My conclusion was that there was a great deal of room for elaboration of place in economic theories and that for the purposes of this elaboration, important insights could be drawn from other disciplines. In particular, it is important that we incorporate concepts similar to the notions of location, locale, and sense of place in geography (Agnew 1987, Massey 1994), as well as the related notions of cosmic, social, and personal space in ethnography (Kort 2001). This paper continues the effort to elaborate upon the role of

place in economics by reviewing some of the recent literature on place-based economics policy. In order to better understand the potential for place-based economics in policy, I first explore the process by which this emerging concept is diffused and adopted by researchers and practitioners. Using this process, I focus on one thread of place-based policy—regional competitiveness theory—to shed light on the question: Are place-based economic policy and the underlying conceptual foundations lasting innovations, or are they fads which economic development practitioners and social scientists will adopt until another strategy emerges?

What Is Placed-Based Economics?

Not surprisingly, there is no accepted definition of place-based economics. For the purposes of this paper I define place-based economic theories as those in which economic behavior is explained as a process which is influenced by the characteristics of places, and by interpersonal relationships which are influenced by the characteristics of places.

Thus, place-based economic theories go beyond explaining behavior as a function of distance, proximity, transportation and communications infrastructure, irregularities in spatial form,

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etc. In such theories, place is different than space, region, and distance. Place-based theories are defined as those which generalize the role of place in shaping behavior.

There are a number of ideas that potentially meet this rather broad definition. Industrial targeting, regional competitiveness theory (including economic cluster theory), regional innovation systems, and entrepreneurial development theories (especially economic gardening) are all theories or perspectives that have features that make them candidates under this definition of place-based economics.

The focus of much of this paper is on one of these theories, Porter's regional competitiveness theory, primarily because the literature on this concept is becoming quite large and it is arguably the most readily recognized theory of this type. But before getting to the details of place-based economic concepts, I go to a digression on the adoption of economic development ideas.

Fad, Fashion, or Paradigm Shift

As a part of my interest in place-based theory, I have long been curious about the competition, evolution, and diffusion of ideas in economic development, especially rural economic development. Among the reasons for my curiosity about these concepts is my observation that these concepts not only compete with each other for the attention of economic researchers, but they compete for the attention of economic development practitioners as well. Even more curious, practitioners are often the leading edge of the adoption of some of these concepts.

Local and regional economic development policy in the last half century has evolved rapidly through several strategies, sometimes referred to as waves (Elisinger 1995). Starting in the 1960s and continuing through the 1980s, industrial recruiting was the leading strategy. Practitioners devised various types of industrial incentives including tax abatement, industrial parks, and shell buildings. In support of this strategy, social scientists conducted industrial targeting studies, industrial location analyses, and economic impact analyses for economic development practitioners.

In the 1980s and 1990s, business retention and expansion became the choice of many economic development practitioners. Business and retention

strategies involved public-private partnerships, industrial visitations, import substitution strategies, and retail sector promotion. Social scientists supported this wave with development of survey instruments, industrial visitation protocols, and economic impact analyses.

Beginning in the late 1990s, place-based economic policies gained favor with practitioners. Cluster development, entrepreneurial programs, incubators, and local quality of life strategies rose to prominence. Social scientists responded with the development of new theories of cluster development, knowledge spillovers, and amenity-based development. They developed cluster analysis tools, entrepreneurial training and stimulation programs, and economic impact analyses.

Many changing circumstances could have been responsible for the changes in strategies over the last five decades. Technological change, globalization, and changing demographics have all had an influence on the optimal local and regional strategies, but are these trends enough to explain the rapid and revolutionary changes in economic development strategies? The answer to this question requires one to examine the process by which local, regional, and state policies are communicated, developed, and adopted by economic developers.

This interest in the process of evolution or diffusion of economic development strategies led me to a book by sociologist Joel Best entitled *Flavor of the Month: Why Smart People Fall for Fads*. In this book Best examines a particular type of fad he refers to as an institutional fad and argues that "Even serious professionals get caught up in what turn out to be short-term enthusiasms—that is, fads" (Best 2006, p. 3). It is clear that the propagation and diffusion of economic development concepts share certain characteristics with the propagation and diffusion of institutional fads.

To contrast fads that capture the loyalties of professionals from more obvious and perhaps frivolous entertainment and fashion fads, Best refers to the former as "institutional fads." Significantly for our purposes here, the patterns of adoption of fads and lasting innovations are very similar in their early stages—both processes trace the common S-shaped adoption curve. Best refers to this similarity between fads and innovations as the "illusion of diffusion." The difference, of

course, is that while innovations maintain a plateau at some significant level until replaced by a newer and presumably superior alternative, fads reach their peaks and then trace mirror images to the S-shaped adoption curve as they collapse, usually shortly after they reach their peak.

The importance, to this paper, of the similarities between the adoption patterns of fads and diffusions of lasting innovations lies in the fact that scientists, including social scientists, are constantly involved in the search for scientific breakthroughs and in the adoption of theories and concepts. It occurred to me that a review of place-based economics and related ideas might at least be better understood if the actors—economic development researchers and practitioners—were viewed through this lens of fads, fashions, and innovations. Moreover, I wondered if it were possible that some of these economic development policies were really only institutional fads.

Innovations are the stock in trade of scientists and the measures of their worth. Thus, as scientists continuously review the array of new ideas, methods, concepts, and theories presented to them in professional journals and at conferences, they reject or accept ideas, much like consumers reject or accept new fashions and producers reject or invest in new technologies. Thus, we scientists are part of a diffusion and adoption process ourselves.

As an emerging idea in the field of economic development, place-based economics and its component and related concepts are being considered and rejected or accepted by economists and other social scientists. Unlike fields such as physics and engineering, where practitioners are unlikely to adopt speculative designs (for things like new airplanes, for example) until the concepts are well understood and proven, some economic development practitioners are very anxious to get the jump on their competitors by adopting ideas before they have been tested and proven. And many social scientists involved in policy analysis and advocacy are understandably anxious to be on the cutting edge of new economic development trends.

Does the growing adherence to place-based economic development and policy signal a paradigm shift, or an illusion of diffusion? My premise and hope is that Best's treatment of fads, fashions, and innovations will provide useful insights into the diffusion of economic ideas, whether they be real innovations or simply fads.

Let us first distinguish between fad and fashion. Best argues that whereas fads are episodic, fashions are systematic. Fashion change is continuous, regular, expected, and institutionalized, with regular events and actors involved. Fads, on the other hand, occur rather unexpectedly and at unpredictable times and places.

Institutional (and perhaps scientific) fads are distinguishable from consumer fads by characteristics of their adherents and their consequences. Institutional fads attract smart people who are very serious about advancing their organization or field of study. The consequences of consumer fads can include the expenditure of millions of dollars and the temporary distraction of millions of people. Fad diets may actually be harmful to some people, but for the most part the long-run consequences of consumer fads are trivial. Institutional fads, on the other hand, divert the attention of institutions and entire firms for periods of time. Some institutions and firms are permanently handicapped when the strategies turn out to have negative consequences.

In many respects, lasting innovations are indistinguishable from institutional and scientific fads in the early stages. They are adopted by the same types of people, applied in similar ways, and have similar short-term consequences in that they change the way organizations and institutions behave.

The *ex post* distinction between fad and innovation is primarily that the former disappears shortly after it arises, whereas the innovation has a lasting impact, receding only when something superior is adopted. Usually, fads turn out to be ineffective or harmful, while innovations prove themselves. However, as Best points out, some institutional fads may fade even though they appear to be effective. The rush for the "next best thing" leads to their rapid replacement with the next fad.

Ironically, economists and sociologists have extensively studied adoption and diffusion processes. The classic example is the study of hybrid corn adoption by Griliches (1957). Unfortunately, these studies have been *ex post*, and primarily limited to true innovations that have persisted long enough to stimulate our interest in studying the nature of their ascendance. Furthermore, most of these studies have involved technical innovations, while governance, management, and most social theories have been ignored.

Innovations and institutional fads follow similar stages and share similar characteristics. They are first introduced as a solution to a vexing problem, such as the effective means of generating local economic development. They involve a good story about why current approaches fail and why the new idea is different and will solve the problem if adopted. The explanation of how the new solution works is typically simple but vague. Evidence for the effectiveness of the solution is usually anecdotal success stories. The stories are often tinged with mystery and associated with “gurus.” New ideas are lauded for their breadth of applicability—for example, the claim that all or almost all regions can benefit from their approach to economic development.¹ New approaches are often reduced to recipes including “aphorisms, slogans, lists, principles, steps to be taken, and other guidelines to applying the solution” (Best 2006, p. 57). Finally, the solution connotes status. Anecdotes cite the well-known adherents of the new idea.

Institutional fads spread fastest through well-established networks. What better networks than those of economic development practitioners, researchers, and policy analysts? One only has to look at lists of recent conferences, special issues of journals, and exposés in trade magazines to know that information networks exist and function well in the economic development field.

Fads and innovations have originators, promoters, trendsetters, followers, and late adopters. While promoters and trendsetters are relatively few in number, they are critical. Economic theories of technological change often assume that invention and innovation simply follow from research and development expenditures, but diffusion will not occur without promoters and early adopters. One can readily identify the originators, promoters, and trendsetters in most economic development ideas. The number and relative aggressiveness of followers and late adopters determine how high the idea’s zenith will be, and how long it will take to reach this zenith. When their zenith is reached, fads are generally exposed as such and their collapse begins.

¹ Ironically, one of the key principles of place-based economic policy is that unique local conditions must be exploited in order to effectively develop each region, yet this solution is offered as the approach that all regions should adopt.

Innovations usually distinguish themselves from institutional fads when they prove successful. Best points out that some ineffective ideas take time to reach their collapse stage. Some fads linger at some level for years. Usually these are ideas that grew gradually, became institutionalized, and were either resistant to testing or inadequately tested.

Research (evaluation) sometimes follows the early stages of adoption but not always. In the case of industrial incentives, research lagged long behind widespread adoption of the approach. This was perhaps due to difficulties involved in collecting data, and the lag between adoption of the policy and the consequences. For many years the strategy grew in acceptance strictly on the basis of anecdotes. More recently, anecdotes have been the most common tool for criticizing industrial incentive policy. Fads like industrial incentives are easier to recognize retrospectively than during their ascendancy. Hindsight is 20/20.

Best points out that we often don’t learn enough from our experiences with fads. Unwilling to admit that we are susceptible to fads, we explain away the experiences and in effect prepare ourselves for the next fad. If, however, we admit that some ideas are fads, we may be better prepared for the future. Next we look at some of the current and recent ideas not only to see if they include characteristics of fads, but also to increase our understanding of the process of diffusion and adoption of economic development ideas.

Porter’s Regional Competitiveness Theory

The concept of regional competitiveness, largely associated with Harvard economist Michael Porter, has evolved over the last 15 years from conceptualizations about growth and success of individual firms. Porter (1990) applied and adapted some of these micro economic ideas to macro economic questions of national economic growth and prosperity. Later, Porter (1998, 1999, and 2000) extended these ideas to regions and cities, and refined the idea of clusters.

Despite a great number of articles in this area, the concept of regional competitive advantage remains vague. And to date there is no formal theory of regional competitiveness.

We are far from any agreed framework for defining, theorizing and empirically analyzing regional competi-

tive advantage. But given the current fashion for notions of regional and urban competitiveness in policy circles, the need for such a framework is all the more urgent [Kitson, Martin, and Tyler 2004, p. 997].

Porter himself defines regional competitiveness as follows:

[T]he competitiveness of locations is primarily rooted in the nature of the business environment they offer firms... competitiveness arises from the productivity with which firms in a location can use inputs to produce valuable goods and services. Moreover, the productivity and prosperity possible in a given location depend not on what industries its firms compete in, but on how they compete [Porter 1999, p. 848].

In short, this suggests that a competitive region is one with competitive firms. Central to this idea of competitive firms (and thus regions) is the concept of clusters. “A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities” (Porter 2000, p. 16). Associated institutions include government agencies, universities, trade associations, and other participants. Firms in this cluster will be competitive if they demonstrate “*operational effectiveness*” (Porter 2000, p. 19), which means that they employ best practices and are efficient in the normal sense. Also they must “compete on differentiation and not just cost, the array of services that can be provided, and the approaches used in selling internationally” (Porter 2000, p. 19). This latter point seems to include the traditional concept of product differentiation and perhaps economies of scope and marketing. The key to these sources of competitiveness “is strongly influenced by *the quality of the microeconomic business environment*” (Porter 2000, p. 19). This business environment includes the standard attributes of business climate such as infrastructure, taxes, public services, and local institutions. The innovative element of the theory is the inclusion of cluster-specific local attributes.

Further describing this concept, “Clusters are a prominent feature on the landscape of every advanced economy, and cluster formation is an essential ingredient of economic development” (Porter 1999, p. 849).

Porter encapsulates this “theory” in the now well-known “diamond” which is composed of four elements: “factor conditions, demand conditions, the context for strategy and rivalry, and

related and supporting industries” (Porter 1999, p. 848).

Porter (2000) stresses the importance of local rivalry among firms within a cluster as a source of real innovation, differentiation, and efficiency improvements beyond simple price and wage competition, which are typically the response to local competition. Also important is the “quality of local demand” (Porter 2000, p. 21) for products of the cluster. While there are a number of reasons given for the particular importance of local competition and demand, the distinctions are not totally convincing and are not shown empirically. Many of these reasons relate to communication, information flows, market analysis, peer pressure, and other issues, which are in fact less dependent on proximity than in the past. This begs the question of what has changed to raise the importance of these factors to the point that they outstrip the benefits of the information society.

Clusters encourage efficiency by “(a) increasing the current (static) productivity of constituent firms or industries, (b) increasing the capacity of cluster participants for innovation and productivity growth, and (c) stimulating new business formation that supports innovation and expands the cluster” (Porter 2000, p. 21). The differences between Porter’s perspective and the traditional concepts of agglomeration economies include Porter’s focus on clusters and the dynamic elements of innovation versus the traditional focus on industries and city-wide external economies. Again, the validity depends on the growing importance of proximate networks, personal relationships, and face-to-face transactions.

Regional competitiveness theory is designed to guide policy. Thus it sees several critical roles for government and policy. First, it is government’s responsibility to create macroeconomic and political stability. Second, it is government’s role to provide public services and infrastructure. The third role for government is to create a healthy regulatory environment. The fourth role for government is to create an action program for change. Government’s fifth and final role is to be a partner in cluster development and upgrading. The first three of these are standard roles, included in most theories of economic development. The last two are very vague.

Regional competitiveness theory incorporates concepts from at least three other theories. First, it implicitly incorporates elements of transaction

cost economics by arguing that clusters self-organize in such a way that agency problems and transaction costs are minimized to the mutual benefit of cluster participants.

Second, it incorporates concepts from the Tiebout hypothesis, especially more recent dynamic versions of the theory in which households and firms are attracted to places in order to consume local public goods, and local public goods provision evolves to closer match the preferences of resident households and firms. According to the Tiebout hypothesis, localities evolve over time to become more homogeneous and grow (or decline) toward their optimal sizes. In a cluster theory context, the number and specialization of cluster participants grows over time, and the public services become more attractive to cluster participants and their employees. Other firms, not advantaged by the cluster and its specialized public services, will find the locality less attractive and will decline in relative importance.

Third, elements of Porter's theory closely mirror those of concepts from institutional economic geography. For instance, consider the five axioms of economic governance identified by Wood and Valler (2004): "strengthening networks of association; encouraging communication, negotiation, learning and adaptation; mobilizing a plurality of autonomous organizations; building up a broad-based 'institutional thickness'; and establishing a sensitivity to context-specificity and path-dependencies" (p. 8). Each of these five axioms has counterparts in Porter's cluster theory.

In fact, Porter's cluster theory could benefit from closer attention to some of the other concepts in institutional economic geography, including the concepts of path dependency, endogeneity and temporality of institutions, the role and dynamics of governance, the role and specificity of place and values in behavior, and "institutionalized scale." "Institutionalized scale" is the geographic level at which institutions develop, evolve, and exercise influence. This concept helps explain the observed rise of regional identities (and institutions) that otherwise defy explanation given existing jurisdictions and definitions of regions.

Regional Competitiveness Theory: Innovation or Fad?

We are now ready to partially address the question asked in the introduction: Is place-based eco-

nomics a fad or will it become a lasting innovation in economic development? While not all of the potential members of this class of theories have been addressed here, we have looked critically at one of these theories—regional competitiveness theory.

Some critics—Kitson, Martin, and Tyler (2004), for instance—are skeptical:

[E]ven though policy makers everywhere have jumped onto the regional and urban competitiveness bandwagon, we are far from a consensus on what we mean by the term and how it can be measured: as is often the case, policy has raced ahead of conceptual understanding and empirical analysis [p. 1].

Best provides a sort of checklist of indicators that an idea is a fad. Applying this checklist to regional competitiveness theory confirms the possibility that it qualifies as a potential fad. First, it is offered as a solution to a vexing problem. Regional competitiveness theory is offered as a solution to the, so far, intractable problems of regional disparity:

Current policies to improve the disappointing economic performance of rural regions are, by and large, not working.... This state of affairs exists despite significant efforts to boost rural regions through a wide variety of policies with budgets of billions of dollars in the United States alone [Porter et al. 2004, p. 3].

Next, fads are usually presented in the form of a story with references to successful cases. Proponents of regional competitiveness theory cite examples of prospering regions that are associated with successful clusters. For example, Porter (1998, p. 4) cites the Italian leather footwear and fashion cluster and the California wine cluster as examples of successful clusters. Rosenfeld (1997, p. 3) summarizes the tendency as follows:

The most obvious manifestation of clustering is Europe's industrial districts and America's industry agglomerations, both of which have fascinated and attracted researchers and policy planners for most of this century (see for example Goodman and Bamford 1989, Pyke and Sengenberger 1992). Businesses cluster in all sorts of regions (heavily populated areas, small cities and rural areas) and around many core interests (technology, natural resources, labour market skills, market or products). Upholstered furniture in Tupelo, Mississippi; carpets in Dalton, Georgia; electronics in Silicon Valley and northern Virginia; ceramic tiles in Sassuolo, Italy and Castel-

Ion, Spain; and metalworking in Stuttgart, Germany are but a few examples.

Another indicator of possible fads is that explanations of how the new processes work are left vague. Again, regional competitiveness theory meets this criterion. According to Porter (2000), the theory is represented by the now well-known Porter “diamond.” The diamond simply describes the four contributions to competitiveness—demand conditions, factor (input) conditions, the local context, and related and supporting industries. There is some elaboration of these contributing factors but few details about how they act and interact to achieve this competitiveness.

Other indicators of fads include the following: association with a particular individual, claims of breadth of applicability, and reduction of the process to a simple recipe. Regional competition theory has each of these characteristics.

Kitson, Martin, and Tyler (2004) are quite critical of regional competitiveness strategies. They point out that these policies are not based on a coherent, theoretical foundation. First, where theories are invoked in favor of these policies, they are often combined in awkward or inconsistent ways. Second, the policies are overwhelmingly supply-oriented. They either ignore the need to develop demand for regional products, or believe that the supply they encourage will create its own demand. Third (and very ironically), these policies tend to be applied in like fashion in all regions. Local differences tend to be ignored in favor of copycat programs applied in all kinds of locations. Finally, there is often little concern for the appropriate scale of the policy. Programs are designed for current administrative areas rather than regions scaled appropriately to the intervention. And within these regions there is little theory of empirical guidance for policymakers regarding intraregional roles of sub-regions and localities.

Thus, it is quite possible that regional competitiveness theory, especially the concept of regional clustering, is a fad that will be increasingly adopted by practitioners and social scientists, until it reaches its zenith, at which point it will be replaced by the next wave of economic development strategies. But Best (2006) cautions that even effective institutional innovations are destined to be mere fads if rival ideas emerge before the incumbent can be proven. Even if regional

competitiveness or the more inclusive place-based policies are currently fads, they may be valuable innovations. If these theories and strategies are not formalized, tested, proven, and institutionalized, they may yield to a newer and perhaps inferior fad.

The Future of Place-Based Economic Policy

In this paper, I have tried to extend, somewhat, the role of *place* as a concept in regional economic theory by critiquing a leading place-based concept—cluster theory. In order for place-based theory to be robust it must be a true innovation—one that improves policy and crowds out inferior strategies. Even smart people often succumb to fads. This paper critically examines one place-based theory to determine if it is likely to be a fad or an innovation.

The most visible place-based economic policy today is regional competitiveness policy. In this paper I have critiqued this theory not to discredit it but to determine its robustness. The conclusion here is that economic development practitioners and social scientists do tend to respond to fads. Even real innovations are threatened by faddish behavior. If we hope to accommodate the role of place in our regional economic theories, then we need to ensure that place-based economic policies are not replaced by new policies before we have a chance to formalize, test, and improve upon place-based concepts. Social scientists, especially regional economists, must get out in front of economic development practitioners far enough to thoroughly develop and test regional competitiveness and other place-based theories.

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