New Challenges of Economic
and Business Development – 2012
May 10 - 12, 2012, Riga, University of Latvia

THEORETICAL ASPECTS OF LOCAL ECONOMIC DEVELOPMENT IN RURAL AREAS: A LITERATURE REVIEW

Ilze Vilka
Faculty of Economics and Management
University of Latvia
Aspazijas bulv. 5, Riga, LV-1050, Latvia
Phone: +371 27877077
E-mail: vilks.ilze@gmail.com

Keywords: economic development, community development

Abstract

There are 5 planning regions (which will appoint regional development centers), 9 cities with status of national importance, and 119 municipal units altogether in Latvia. Lately the regional planning includes the idea of polycentric development with focus on regional development centers. The regional development strategies have been elaborated and development strategies for local governments are either elaborated as well or in process of elaboration.

Socio-economic indicators show that rural territories differ from urban ones (suburban areas and area around capital Riga) in terms of economic development level. In case of Latvia rural economic conditions are very diverse comparing to urban or suburban territories. Latest internal population migration trends are oriented from rural territories towards urban or suburban ones. There is a trend that capable workforce diminishes in rural areas. The territory of rural municipalities' is cover more than half from State's territory, but in terms of total employment they form only 19%.

Sustainable Development Strategy of Latvia until 2030 suggests the Latvia's main capital is people. The diminishing workforce and lower development level in rural territories brings forward issues concerning the policy goals for the development of rural communities.

Purpose. The aim of this article is to provide conceptual framework for evaluating and diagnosing a potential of local economic development.

Design/methodology/approach. Author presents thematic state-of-the-art literature review both on economic development and economic development from local perspective. Author used peer reviewed scientific articles published by SAGE, EMERALD, and Cambridge Journals Online. The latter scientific discussions on local development challenges are highlighted. By methodological approach focus is kept on methods used by other researchers for evaluating and diagnosing a potential of local economic development.

Findings. Research identifies economic and non-economic factors defining the outcomes of local economic development perspectives and identifies questions for further research and discussion.

Evolution and Meaning of Economic Development Concept

To set a conceptual framework for local economic development, this paper first examines the chronology of economic development theory and historic derivation of development concepts. First this paper describes main guidelines within theory of development economics and economic development. Various literature sources confirm the importance of "economic" development. M.P. Todaro and S.C. Smith separate development economics as distinct branch from traditional economics and political economy. Authors point that development economics deals with greater scope of issues, such as economic, social, political and institutional mechanisms, both public and private, "necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living for the peoples [..]" [1]. Todaro and Smith describe development economics as eclectic, combining relevant concepts and theories from traditional economic analysis along with new models and broader multidisciplinary approaches derived from studying the historical and contemporary development experience. Traditional economics explains growth through efficient allocation of resources and evaluates economic growth by annual increase of GDP or likewise.

The two "markers of meaning of economic development" are Dudley Seers and Amartya Sen. According to Seers (1979) the purpose of development is to reduce poverty, inequality, and unemployment. For Sen (1999), development involves reducing deprivation or broadening choice [2]. As one of core authorities in the field Sen's approach largely focused on individual's freedoms as a result of development process. Amartya Sen developed the concept based on "capabilities to function": "The concept of "functionings" reflects [..] the various things a person may value doing or being. The valued functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being able to take part in the life of the community and having self-respect". Sen defines capabilities as "the freedom that a person has in terms of the choice of functionings, given his personal features and his command over commodities" [3]. Sen's perspective helps to explain why development economists have placed so much emphasis on health and education, social inclusion and empowerment and have referred to countries with high level of income but poor health and education standards as cases of "growth without development" [1]. Sen has inquired economic welfare as a wider subject of human freedom not just making better living standards of an individual. Sen has made some insights of rational choice theory incorporating ethics of behavior, responsibility, commitment [4].

If taken in account Sen's perspective, it can be concluded that the importance of "economic development" as a research subject can be reflected on various levels – global, international, national, local and individual.

There are three core values for inner meaning of development – *sustenance, self-esteem and freedom* that represent common goals by all *individuals and societies* [9]. Todaro and Smith comment on each of these. By sustenance basic human needs are understood – food, shelter, health and protection. Self-Esteem undermines authenticity, identity, dignity, respect, honor, recognition of individuals as well as societies. The third value is a concept of human freedom. Freedom involves expanded range of choices for societies and their members. Should be stressed that by gaining wealth individuals are enabled for freedom of choice i.e. between having material goods or denying material wants for life of spiritual contemplation. On the other hand human freedom on societal level includes components of political freedom as personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.

As to three basic values Todaro and Smith define objectives:

- to increase the availability and widen the distribution of basic life-sustaining goods
- to raise the levels of living, including provision of more jobs, better education, promotion of cultural and human values, which can generate greater individual and national self-esteem
- to expand the range of economic and social choices [1].

Gerald M. Meier distinguishes two generations of development economists – first generation after World War II (1950s-1975) and second generation from 1975 till present. According to Meiers *first generation* formulated grand models for development strategy that involved structural transformation and a correlative role for extensive government involvement in development programming or planning. The Harrod-Domar equitation was applied to estimate capital requirements in developing countries. Growth accounting emphasized the contribution of capital in Solow's model. Other early models of development strategy also featured capital accumulation: Rostow's "stages of growth", Nurkse's "balanced growth", Rosenstein-Rodan's external economies and "big push", Lewi's unlimited supply of labor and dual sector model, the Prebisch-Myrdal-Singer hypothesis about terms of trade and import substitution, Leibestein's "critical minimum effort" thesis, and Chenery's "two-gap model". The models and hypotheses *involved strong state action.* The less developed economy was perceived as pervasive market failures and to correct or avoid failures central coordination of resources was advocated. First generation thought is also characterized by external pessimism (capacity to pursue export-led development) and internal optimism (capacity to accelerate development through public sector and various governmental policies). It was believed that structural transformation may be accomplished through macro-strategies. During 1960s and early 1970s, deficiencies in industrial programming and comprehensive planning became acute and governmental planning policies were reviewed. The causes of government failures were suggested: deficiencies in the plans, inadequate information and resources, unanticipated dislocations of domestic economic activity, institutional weakness and failings on the parts of the administrative service (Killick 1876:164; Chakrawarty 1991). [8] Soedjatmoko also stresses the importance of factors stimulating or impeding growth: "Looking back over these years, it is now clear that, in their preoccupation with growth and its stages and with the provision of capital and skills, development theorists have paid insufficient attention to institutional and structural problems and to the power of historical, cultural, and religious forces in the development process" [6].

Returning to Meiers *generations, the second generation* of development economists returned to fundamental principles of neoclassical economy. The discussion of agents' economic rationality became so vast, that there had been suggestions that development economics should not be as separate subdiscipline. Notwithstanding Krueger points for necessity to maintain development economics "Once it is recognized that individuals respond to the incentives, and that "market failure" is a result of inappropriate incentives rather than of nonresponsiveness, the separateness of development economics as a field largely disappears. Instead it becomes an applied field, in which the tools and insights of labor economics, agricultural economics, international economics, public finance and other fields are addressed to the special questions and policy issues that arise from the context of development". An overriding issue is whether in the future 'development economics' is to be regarded simply as applied economics or whether the nature and scope of development economics will constitute a need for a special development theory to supplement general economic theory [8].

Todaro and Smith suppose the term "development" attracted attention in 1970s as many developing nations did have reached economic growth targets, but the levels of living of the masses of people remained unchanged [1]. Todaro and Smith also put forward fundamental questions regarding development issues on national and international level. On national level, who actually makes or influences economic decisions and for whose principal benefit these are taken. On international level, which nations and powerful groups hold control over finance, information and technology. Beyond national level development disparities are compared globally. To describe development level quantitative comparisons across countries are used e.g. real income per capita adjusted for purchasing power. Human Development Index equally weights average income, health and educational attainments. Annual Human Development Reports offers comparative analysis of socioeconomic development since 1990 [1].

This paper reports up to date research interest of development concept from economic theorists. Todd Sandler has shortly described the issues economic theory already explores institutions (the new institutional economics); seeks to explain public economics and social actions e.g. using game theory; an explanation for cultural norms is provided by analysis of evolutionary games. Game theory of population dynamics addresses how conventions develop and enable individuals to choose among Nash equilibria [5]. Meier is certain that development theory has to become more *country (place) and time specific* and must go beyond the perfect competition and rational-choice framework of neoclassical analysis as insofar just elucidating of institutional change, culture and social capital [8]. Meier has performed contrasting analysis of different Policy Situations – one situation, which requires incremental policy changes and may be characterized as neoclassical policy situation, and the other – development policy situation. It could be concluded thus that development policy situation may be characterized by low understanding of the policymaking process and the situation with pressing problems, that are country (territorially) and time specific, less technical analysis possible, high politicization, institutional change required and large innovative policy changes are required to implement the sustainable development (including the needs of next generation) [8].

Alike But Not the Same

Most development economists analyze the causes; why there is inequality comparing developing to developed countries. This paper reports common problematic areas Todaro and Smith have identified and, which may to some extent characterize not just macro level, but also rural/urban differences:

- *Lower levels of living and productivity*. Low income leads to low investment in education and health, plant and equipment, infrastructure, which in turn leads to low productivity and economic stagnation (Gunnar Myrdal "circular and cumulative causation") [12].
- *Lower levels of human capital* (*nutrition*, health, education and skills).

- *Higher levels of inequality and absolute poverty*. Concept of **absolute poverty** represents a specific minimum level of income needed to satisfy the basic physical needs of food, clothing, and shelter to ensure continued survival. The minimum subsistence levels vary across countries and regions reflecting different physiological, social and economic requirements [10].
- Demographic patterns – **dependency burden** older people and children referred as nonproductive members [10].
- *Greater social fractionalization* [13];
- *Rapid rural-to-urban migration* (rural areas are poorer and tend to suffer from missing markets, limited information and social stratification) [10].
- *Lower levels of industrialization and manufactured exports.*
- *False belief that industrial development is "more important" than agricultural.* Agricultural development does not need to be as rapid as industrial for two reasons: possibilities of import substitution are greater in industrial products and demand for manufactures grow faster than for food. The right balance between agricultural and industrial development [11].
- *Adverse geography.* High available potential of natural resources and profits from these industries does not lead to development success. Cases called "curse of natural resources" lead to a focus on distribution of wealth, governance and equality issues [10].
- *Financial and other markets* [15].
- *Historical impacts characterized by poor institutions and varying degrees of external dependence* (economic, political, cultural, and environmental).
- *Relative importance of Public and Private Sectors and Civil Society*.

Todaro and Smith state recurrently that economic and social development is impossible without corresponding changes in the *social, political, legal and economic institutions of a nation*. The fundamental problem of a developing nation is provision of infrastructure starting from basic physical infrastructure (roads, ports, telecommunications) to social infrastructure (reliable and evenhanded legal system and other institutions facilitating cooperation, investment and exchange).

Todaro and Smith identify significant differences in initial conditions that require special analysis of the growth prospects and requirements of modern economic development. It can be concluded that from local perspective would be the significance of the same dimensions and similar problematic issues for development, the following initial conditions are little modified to capture present problems from local perspective:

- *Physical and human resource endowments*; here Todaro and Smith mention two components of Paul Romer's technology gap- physical object gap (factories, roads, modern machinery) and idea gap or as Thomas Homer- Dixon named the ingenuity gap – the ability to apply innovative ideas to solve practical social and technical problems.
- Per capita incomes;
- Geography can influence the pattern and amount of trade [17]. Inequality and institutions may be development factors of stronger influence than physical geography [17].
- *Role of migration*;
- *Benefits from production*;
- *Basic scientific and technological research and development capabilities*;
- *Efficacy of domestic institutions*.

There are assumptions that living standards may converge due to technology transfer allowing to take over technological innovations without invention time and costs and through more rapid capital accumulation by attracting foreign investment (Joseph Schumpeter [18]). Practical evidence does not confirm such assumptions as for example Reis's research on welfare effects of foreign direct investments [19] for exception of OECD countries. The exception of OECD countries could be explained by elaborated investment policy framework [20].

Todaro and Smith have schematically organized leading theories of Comparative Development, which may explain long-run causes of comparative development. The *historic impact* plays significant role on institutions and "reinforced differing degrees on inequality" [17]. According to Engerman and Sokoloff [22] the degree of inequality can shape evolution of institutions. The extreme inequality is followed by less investment in human capital and public goods and "a tendency of less movement towards democratic institutions (which could also have facilitated movement to other constructive institutions) [24].

Cultural factors matter in influencing the degree of emphasis on education, institutional quality and the effectiveness of civil society [17]. Institutional quality affects the amount and quality of investments in education and health. According to Todaro and Smith causality between **education and institutions** could run in either direction, or both could be caused jointly by still other factors [17]. *Human capital* is at least as fundamental a source of long-run development as institutions. Todaro and Smith point that it is harder to conclude that institutions led to income rather than vice versa [17]. The depth and breadth of education in the population will help determine the effectiveness of government as force for development not just due to better-qualified civil service but also to the understanding of citizens of poor government performance and the knowledge of how to work for a better outcome and capacity to organize. Literature has primarily viewed the productive impact of human capital on market outcomes as direct one. Dani Rodrik "Participatory and decentralized political systems are the most effective ones we have for processing and aggregating *local knowledge*. Democracy may be perceived as "a meta-institution for building other institutions". Institutions will affect the ability of civil society to organize and act effectively as a force independent of state and market. Activities of *effective civil society; well –functioning markets; public goods quality* will have an influence on productivity and incomes, more generally on human development [17]. Todaro and Smith conclude that history matters as inequality and institutional development shape the participation opportunities of citizens in modern economic growth [17]. Not all regions and countries are equally successful in terms of economic growth or economic development because of various causes. Economic development at the first glance uses the income per capita to define the developing world. Initially economic development focused onto the structure of the economy and employment, later the scope widened and *economies are viewed as social systems* including both economic and noneconomic factors. As *noneconomic factors* Todaro and Smith mention:

Attitudes toward life, work and authority; Public and private bureaucratic, legal and administrative structures; Patterns of kinship and religion; cultural traditions; systems of land tenure; the authority and integrity of government agencies; the degree of popular participation in development decisions and activities; the flexibility or rigidity of economic and social classes. and strategic economic variables as: savings, investment, product and factor prices and foreign exchange rates [1].

Major Economic Development Research Subjects and Approaches

Some approaches depart to some degree from conventional neoclassical economics as assumptions of perfect information, the relative insignificance of externalities, and the uniqueness and optimality of equilibria [25]. Models of development that stress *comple-mentarities* are related to some of the models used in endogenous growth approach.

- Incorporating problems of *coordination* among **agents** (among groups of firms, workers, or firms and workers together);
- The formal exploration of situations in which increasing returns to scale, a finer division of labor, the availability of new economic ideas or knowledge, learning by doing, information externalities and monopolistic competition or other forms of industrial organization other than perfect competition predominate;
- Researches in new institutional economics (Nobel laureate Douglas C. North) [17; 22].

The *coordination failure* approach evolved relatively independently and offers some significant and distinct insights. The two approaches have converged when low-growth paths resulting from a coordination failure have been examined within endogenous growth framework by Oded Galor and Joseph Zeira [26]. *Coordination failure approach (underdevelopment as coordination failure)* explains worse outcomes (equilibrium) due to agents' behavior (choices) caused by difficulties in coordination caused by different expectations of people or because everyone is better off waiting for someone else to make first move [27]. If and when *complementarities* are present, an action taken by one firm, worker, organization, or government increase the incentives for other agents to make similar actions. Such complementarities often involve investments whose return depends on other investments being made by other agents. In development economics, such network effects are common. The important models reflecting such effect are the **model of the big push** pioneered by Paul Rosenstein-Rodan, who pointed out several problems associated with initiating industrialization in *subsistence* economy [31]. Kevin Murphy, Andrei Scheifer and Robert Vishny demonstrated the formal logic of this approach [32]. Paul Krugman simplified and popularized the approach by his monograph "Development, Geography and Economic Theory" in 1995 [33].

The big push theory brings further question why coordination failures cannot be solved by private sector. There are at least four significant theoretical answers:

- Possibility of capital market failure; how to provide confidence in investment;
- Agency costs (monitoring managers and other agents);
- Communication failures;
- Limits to knowledge, is there skilled workforce and, whom to hire;

The O-ring model reveals coordination problem, which can leave an economy stuck in a bad equilibrium – low average income and growth rate or with class of citizens trapped in extreme poverty. *It may not be possible to get this better equilibrium without the aid of government* [27]. Coordination problems are common in initial industrialization, upgrading skills and technologies and may extend to broad issues in changing behavior to modern "ways of doing things". Daron Acemoglu's formal model "Training and innovation in an imperfect labor market" brings practical insight to this issue combined with market failures problem [28]. Todaro and Smith say often this is a classic "chicken and egg problem": which come first skills or the demand for skills? And point that the solution is simultaneous complementarity investments *through coordination*. Especially in case, if there is a lag between making investment and realizing the return on that investment [28, 30]. The important role for government policy is in coordinating joint investments that workers get skills the employers can use and employers get equipment the workers are ready to use. This is the situation when neither party would be eager to be first to make the investment. Development economics is a policy-oriented study therefore the role of government takes central place "[..] a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics" [1]. Government itself is increasingly analyzed in contemporary development models as one of the components of development process that may contributes to the problem as well as to the solution; government policy is understood as partly determined by (endogenous) the underdevelopment economy. Even when government is imperfect, development specialists look actively for cases in which government can still help by pushing economy toward a self-sustaining, better equilibrium [27].

Multiple Eguilibria: A Diagrammatic approach is widely used. The *investment coordination* perspective helps clarify the nature and extent of problems posed when technology spillovers are present such as in Romer model. Multiple-equilibrium situation is also encountered in the Malthus population trap on policy coordination across families regarding fertility rates. The same multiple equilibria refers to technology transfer problem- making better technology available is generally necessary, but *not sufficient* condition for achieving development goals.

It can be concluded that various development approaches suggest welfare improvements by correcting market failures.

Economic Development from Local Perspective

As Bengt Johanisson suggests talking about "rural", "local" and focused without having the contraries "urban", "global" and "complex" does not make much sense [35]. The OECD had referred to the need for „a new research agenda in rural development" in 2006, implying that the nature, dynamics and heterogeneity of rural development processes, as they unfold in practice, were inadequately expressed in new theoretical frameworks. At the same time, rural development policies have continued to develop at supra-national, national, regional and local levels and, in the social sciences there have been some major shifts (away from earlier and, in retrospect, too limited and inflexible, models) that allow for a better understanding of a rapidly changing world [36]. Curry has researched different economic development policies: the pursuit of productivity, well-being, endogenous development and income support and he concluded that confusion of development goals to a significant degree stems from the nationally-centralised approach to policy formulation. He concluded that on national level there was no horizontal integration of economic development between governmental departments, nor vertical integration on different scales of devolution (regions, subregions, local authorities, parishes). There were different set of objectives at each scale [33]. Economics is applied for studying global, international, national (macro), individual (micro) issues as previously in paper mentioned as well in distinct fields like labor economics, agricultural economics, international economics, public finance and other fields. For research of *rural* economic development the concept of *community economic development* should be included. Shaffer, Deller and Marcouiller used following definition of the community: "community is a logical decision-making unit that may or may not incorporate space". Authors suggest that community development requires interdisciplinary approach, though rooted in economics, should also take in account sociology, political science [35]. This paper suggests social psychology and may be even legal sciences should be taken in account as well. There are some scientists, who suggest that *geography* should be considered as well. Farole, Rodriguez-Pose and Storper suggest that geographers have managed to avoid debates on more generalized theories of economic growth and development. Authors present overview of the principal theoretical and empirical developments in the institutionalist approaches to economic development and identify that geographical research could be a contribution [36]. Krūzmētra in her dissertation assessed changes in population structures in peri-urban territories, analyzing the composition and mobility of local residents in Latvia with a focuss on in the peri-urban zone of Rīga [38]. Myadzelets used methods of mathematical modeling of the socio-economic development of regions [39]. Jae Hong Kim has researched land use planning and regulation to economic development and his research reveals the complex causal links between land use and regional economies [39]. The thematic state-of-the-art literature review presents good insights for evaluating and diagnosing a potential of local economic development. Halebsky, Gruidl, and Green suggested that community *economic development involves understanding the full range of choices available to alter economic circumstances and engaging willing (and even un willing) collaborators in building long-term strategy* [41]. Shaffer, Deller and Marcouiller proposed following definition for community economic development, which may occur, when people in community analyze the economic conditions of that community, determine its economic needs and unfulfilled opportunities, decide what can and should be done to improve the economic conditions and then move to achieve agreed-upon economic goals and objectives. As previously mentioned the concept of development tends to be broadened as interdisciplinary subject, therefore Shaffer, Deller and Marcouiller offer a new paradigm, which includes elements associated with economics: resources, markets, space, and three additional elements: society/culture, rules/institutions and decision making [42]. This paper previously reported the issues researched by economic development and from this perspective radically new is the decision making. On the basis of public choice approach, the tragedy of commons debate and the "new" institutional economics Elinor Ostrom provides the components of basic *institutional analysis* framework in order to provide a general method for analyzing public economies and diverse forms of collective action [43]. Foley, Hutchinson, Kondej and Mueller have researched local perspective of economic development in Poland and they have largely analyzed *historical aspects* of Poland's transformation from command to a market economy [44]. Reese and Ye performed empirical research to address the question, if economic development is better explained by local development policy or simple place luck and concluded that "climate and natural features are an advantage, but effective public policy can make up for lack of those features" [45]. There are researches dedicated to endogenous growth and development theories focused on *business incentives and innovations*. Bengt Johannisson sets two human faculties – belief and determination that make economic development happen in unexpected places. He indicates Schumpeter's work on entrepreneurship as the origin of economic development and sociologist's Grantovetter's assumption that all economic activity is socially embedded [35]. Hennesberry, McGough and Mouzakis have created theoretically robust model for analyzing and estimating the effect of planning on the property sector of the local economy. The research proved that as planning regimes become tighter, the local supply of space decreases, thus revealing the negative effect on local economic activity and positive effects of local rents [46]. Zheng and Warner performed empirical research to find the evidence supporting the relying on business incentives in local economic development strategies. The results of their research "challenge the effectiveness of business incentives and raise concerns that in times of economic crises, competitive pressure to use business incentives may trap local governments in a race to bottom" [51]. As relevant research to business incentives for local development is a cluster-based economic analysis for regional development. But in case of researching local development the regional impacts should be evaluated. Waits have researched policy and practice of clusters as a tool for better understanding the economy, getting key industry stakeholders together to address common problems and provide high value specialized services to key industries and concludes that "clusters, rather than individual companies or simple industries, are the source of jobs, income, and export growth; and suggests that effective economic policy must be grounded in the realities of the industries at which it is targeted" [48]. Montana and Nenide use traditional quantitative cluster analysis techniques to capture entrepreneurial and innovative activity within the industry cluster context. They suggest that further research is needed "for interpretation of evolutionary developments of a regions cluster life cycle and evolutionary trends of an industry life cycle" [49]. When providing research on business incentives in rural perspective the role of agriculture should be evaluated. For *rural development* some evidence are found concerning commercialization of agriculture (based on A. Smith's idea of specialization as the source of productivity). Research in local economic development is devoted to issues of *human capital and employment* issues from local economic development perspective [51, 52, 53]. Lots of research explores *the impact of higher education on development*. Drucker and Goldstein propose a review of economic approaches for measuring economic impact and conclude that "often nonuniversity regional factors are more influential than university factors; the majority of empirical analyses do demonstrate that the impacts of university activities on regional economic development are considerable" [51]. Last not least is the economic approach to *social capital* for attaining economic development goals. Evans and Syrett stress the potential importance of social capital for understanding and promoting long-term, inclusive models of economic development [54, 55, 56]. As Murphy suggests "*trust* is a key influence on the constitution and development of economic spaces like production, innovation, and commodity networks; one that embeds and stabilizes relationship, fosters knowledge and technology diffusion, and helps to create order in the global economy". He also points that from perspective of political economy and community development *trust* is a key contributor to civil society. *Trust* contributes to innovation and knowledge creation in clusters, production networks, value chains, and can be as well perceived as transaction-cost reducing input [57]. Thus the conceptual framework for further research should include interdisciplinary approach: and a study of economic and noneconomic factors impeding or contributing to economic development of local (rural) community. Defining rural space is subject to perform for further empirical research.

References

1. Michael P. Todaro, Stephen C. Smith, "Economic Development", Pearson Education Limited, 2009, pp. 8, 12, 13, 15, 18, 21, 22.
2. E. Wayne Nafziger „From Seers to Sen. The Meaning of Economic Development", United Nations University, World Institute for Development Economics Research, 2006.
3. Amartya Sen "Commodities and Capabilities", Amsterdam, Elsevier, 1985; Amartya Sen "Development as Freedom", New York : Knopf, 1999, 75 p.
4. Amartya Sen "Why exactly is commitment important for rationality?", Economics and Philosophy, Cambridge University Press, 2005, 21: 5-14.
5. Soedjatmoko "The Primacy of Freedom in Development", Lanham, Md.: University Press of America, 1985, 11 p.
6. Todd Sandler "Economic concepts for the social sciences", Cambridge University Press, 2001, p. 49.
7. Paul Krugman "Towards a Counter-Counterrevolution in Development Theory", Proceedings of the World Bank Annual Conference on Development Economics, World Bank, 1992, Washington D.C.
8. Gerald M. Meier, Joseph E. Stiglitz „Frontiers of development economics: the future in perspective", 2002, copublication by World Bank and Oxford University Press, USA, 3rd printing, pp. 13-50.
9. Denis Goulet "The Cruel Choice: A New Concept in the Theory of Development", New York: Atheneum, 1971, pp. 87-94.
10. Michael P. Todaro, Stephen C. Smith "Economic Development", Pearson Education Limited, 2009, pp. 61, 63, 65, 66, 67.
11. Dudley Seers "The role of Industry in Development: Some Fallacies", The Journal of Modern African Studies, 1963, pp. 461-465.
12. Gunnar Myrdal, Asian Drama (New York: Pantheon, 1968), app. 2.
13. Alesina "Fractionalization", Easterley and Levine "Africa's growth tragedy".
14. David Landes, The wealth and poverty of Nations: Why some are so rich and Some so Poor, New York: Norton 1998); Jared Diamond Guns, Germs and Steel The Fates of Human Societies (New York: Norton, 1997); John Luke Gallup, Jeffrey D Sachs, Andrew D. Mellinger "Geography and economic development", annual World bank conference on Development Economics, 1998 (Washington D.C. World Bank, 1999), pp. 127-178; Paul Collier The Bottom Billion, Oxford, Oxford University Press, 2007.
15. Importance of information acquisition and governments role in promoting knowledge and information in context of limited markets see World Bank, World Development Report, 1998/99: Knowledge for Development, New York: Oxford University Press, 1998, pp. 1-15.
16. These factors are identified as critically important in research by Daron Acemoglu and James A. Robinson "Economic origins of Dictatorship and Democracy, New York, Cambridge University Press, 2005; also Daron Acemoglu Simon Johnson and James A. Robinson "Understanding prosperity and poverty: Geoography institutions, and the reversal of fortune; for an excellent review see Karla Hoff "Paths of institutional Development: A view from economic history", World Bank Research Observer 18, 2003.
17. Michael P. Todaro, Stephen C. Smith "Economic Development", Pearson Education Limited, 2009, p. 75, 82, 86, 87, 88.
18. Schumpeter, Joseph A. "The theory of Economic Development", 1912, translated by Redvers Opie. Cambridge. MA: Harvard University Press, 1934.
19. Reis, A., 2001, "On the Welfare Effects of Foreign Investment," *Journal of International Economics,* 54, pp. 411-427.
20. Organisation for Economic Co-operation and Development, *http://www.oecd.org/pages/0,3417, en_39048427_39049329_1_1_1_1_1,00.html.*

21. Simon Commander, Mari Kangasiemi, L. Alan Winters "The brain drain: Curse or boon? A survey of the literature" in Challenges to Globalization: Analyzing the Economics, NBER Conference Series, Chicago: University of Chicago Press, 2004, pp. 235-272; also Simon Fan and Oded Stark "International migration and educated unemployment", Journal of Development Economics, 83, 1, May 2007, pp. 76-78.
22. Douglas C. North "Economic Performance through time", American Economic Review 84, 1994, 359-368; & "Institutions, Institutional Change and Economic Performance", New York: Cambridge University press, 1990.
23. Sokoloff and Engerman "History lessons"; Engerman and Sokoloff "Colonialism, inequality and long-run paths of development".
24. William Easterley "Inequality does cause underdevelopment", Journal of Development Economics 84, 2007, pp. 755-776.
25. Karla Hoff and Joseph E. Stiglitz "Modern economic theory and development", Frontiers in Development Economics, New York: Oxford University Press, 2000.
26. Oded Galor and Joseph Zeira "Income Distribution and macroeconomics", Review of Economic Studies 60, 1993, pp. 35-52.
27. Michael P. Todaro, Stephen C. Smith "Economic Development", Pearson Education Limited, 2009, pp. 159, 161, 165.
28. Daron Acemoglu "Training and innovation in an imperfect labour market", Review of Economic Studies 64, 1997, pp. 445-464.
29. Alicia Adsera and Debraj Ray "History and coordination failure", Journal of Economic Growth 3, 1998, pp. 267-276.
30. Debraj Ray "Development Economics", Princeton, N.J., Princeton University Press, 1998, chapter 5.
31. Paul Rosenstein-Rodan "Problems of industrialization of eastern and southeastern Europe", Economic journal 53, 1943, pp. 201-211.
32. Kevin M. Murphy, Andrei Shleifer, Robert W. Vishny "Industrialization and the big push", Journal of Political Economy 97, 1989, pp. 1003-1026.
33. Nigel Curry "The Incompatibility of Economic Development Policies for Rural Areas in England", SAGE, Local Economy, Vol. 25, No. 2, 2010, pp. 108-119.
34. Paul Krugman "Development, Geography, and Economic Theory", Cambridge, Mass., MIT Press, 1995.
35. Bengt Johannisson, "Enacting local economic development – theoretical and methodological challenges", Emerald Group Publishing Limited, Journal of Enterprise Communities: People and Places in the Global Economy, Vol. 1, No. 1, 2007, pp. 7-26.
36. Thomas Farole, Andreas Rodriguez-Pose, Michael Storper "Human geography and the institutions that underlie economic growth", SAGE, Progress in Human Geography 35 (1), 2010, pp. 58-80.
37. Jan Douwe van der Ploeg, Terry Marsden "Unfolding webs: the dynamics of regional rural development", Assen: Koninklijke Van Gorcum, 2008; ch." Towards a Framework for Understanding Regional Rural Development" Jan Douwe van der Ploeg, Rudolf van Broekhuizen, Gianluca Brunori, Roberta Sonnino, Karlheinz Knickel, Talis Tisenkopfs and Henk Oostindie.
38. Ženija Krūzmētra, promocijas darbs "Piepilsētas lauku teritorijas apdzīvojuma pārmaiņas Latvijā", LU Ģeogrāfijas un Zemes zinātņu fakultāte, 2011.
39. A.V. Myadzelets "Modeling of the socio-economic potential of the Siberian regions with consideration for their economic-geographical position in the national economic system of Russian Federation", Cambridge University Press, Mathematical Modelling of Natural Phenomena 4, 2009, pp. 158-175.
40. Jae Hong Kim "Linking Land Use Planning and Regulation to Economic Development: A literature Review", SAGE, Journal of Planning Literature 26 (1), 2011, pp. 35-47.

41. S. Halebsky, J. Gruidl, and G.P. Green "Community benefits of supply-and demand-side economic development tools", Journal of Regional Analysis and Policy, 29(2), pp. 85-104.
42. R. Shaffer, S. Deller and D. Marcouiller "Rethinking Community Economic Development", SAGE, 2006, Economic Development Quarterly, Vol. 20, No. 1, pp. 59-74.
43. Elinor Ostrom "Challenges and growth: the development of the interdisciplinary field of institutional analysis", Journal of Institutional Economics, 2007.
44. Paul Foley, Jo Hutchinson, Andrzej Kondej and Jim Mueller "Economic development in Poland: a local perspective", MCB University Press, European Business Review, Vol. 96, No. 2, 1996, pp. 23-31.
45. Laura A. Reese and Minting Ye, "Policy versus Place Luck: Achieving Local economic Prosperity", SAGE, Economic Development Quarterly 25(3), 2011, pp. 221-236.
46. John Henneberry, Tony McGough and Fotis Mouzakis "The Impact of Planning on Local Business Rents", SAGE, Urban Studies, Vol. 42, No. 3, 2005, pp. 471-502.
47. Lingwen Zhengm Mildred Warner "Business Incentive Use Among U.S. Local Governments: A Story of Accountability and Policy Learning", SAGE, Economic Development Quarterly 24 (4), 2010, pp. 325-336.
48. Mary Jo Waits "The Added Value of the Industry Cluster Approach to Economic Analysis, Strategy Development, and Service Delivery", SAGE, Economic Development Quarterly 14 (4), 2000, pp. 35-50.
49. Jennifer Paige Montana, Boris Nenide "The Evolution of Regional Industry Clusters and Their Implications for Sustainable Economic Development", Economic Development Quarterly 22 (4), 2008, pp. 290-302.
50. Mateo Hernando and Nemo Remesar "The "Employment in the Neighborhoods" projecy: A local economic development experience in Catalonia", SAGE, Local Economy 26 (6-7), 2011, pp. 582-587.
51. Saumya Chakrabarti "A Macroeconomic Structure of Employment: Rural-Urban Conflict in a Kaleckian Framework", SAGE, Review of Radical Political Economics 43 (2), 2011, pp. 172-197.
52. Charles Woolfson "Labour Standards and Migration in the New Europe: Post-Communist Legacies and Perspectives", SAGE, European Journal of Industrial Relations, 13 (2), 2007, pp. 199-218.
53. Joshua Drucker, Harvey Goldstein "Assessing the Regional Economic Development Impacts of Universities: A Review of Current Approaches", SAGE, International Regional Science Review 30, 1, 2007, pp. 20-46.
54. Edward L. Glaeser, David Laibson, Bruce Sacerdote "The economic approach to social capital", NBER Working Paper Series, National Bureau of Economic Research, Cambridge, 2000.
55. Mel Evans and Stephen Syrett "Generating Social Capital? The Social Economy and Local Economic Development", SAGE, European Urban and Regional Studies 14 (1), 2007, pp. 55-74.
56. James DeFilippis "The Myth of Social Capital in Community Development", Fannie Mae Foundation, Housing Policy Debate, Vol. 12 (4), 2001, pp. 781-806.
57. James T. Murphy "Building trust in economic space", SAGE, Progress in Human Geography 30 (4), 2006, pp. 427-450.