Backwash Effect

The idea of backwash originated in international-trade theory in a book by Gunner Myrdal (1957). Myrdal noted that an increase in exports from a region may stimulate capital and labor flows into the region to the detriment of the localities from which the resources came. Gary Gaile (1980) used backwash concepts to describe the potential negative effects of urban growth on peripheral areas.

A renewed interest in backwash effects was stimulated by the “new economic-growth theory.” An enhanced role for innovative activity and increasing returns to scale in economic development increase the competitive advantage of larger urban areas as the location for economic activity. This growth in urban (core) areas may lead to a decline in rural (peripheral) population and employment (a backwash effect) if rural-to-urban flows weaken rural economies.

Five types of flows contribute to backwash:

- Rural funds are invested in urban areas to take advantage of entrepreneurial activities and relatively rapidly growing markets for goods and services.
- Spending in rural trade and service markets declines owing to increased competition from urban businesses.
- Rural residents move to the expanding urban areas for improved access to jobs and urban amenities.
- Rural firms in the innovative stage of their life cycle move to urban areas to benefit from proximity to specialized services, skilled labour, and expanding markets.
- Political influence and government spending may shift to the more rapidly growing core areas.