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A NEW PARADIGM OF REGIONAL POLICY? REVIEWING RECENT TRENDS IN EUROPE

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1. INTRODUCTION

In recent years, regional policy in many western European countries has been undergoing fundamental change. In virtually every country there has been a debate about the future direction of regional policy, in several cases associated with policy reviews and new legislation. The changes often represent a significant break with past practice, arguably constituting a shift in the ‘paradigm’ of regional policy.

These policy developments are taking place against a background of major upheaval in the ‘global socio-economic order’ over the past 25 years and lively theoretical debates about patterns and processes of regional development. For many countries in western Europe, the past 2-3 decades have been a period of difficult adjustment. With some exceptions, it has been hard to sustain high rates of economic growth, and unemployment rates have often been high, not just in ‘problem regions’ but nationwide, with relatively high levels of youth and long-term unemployment. On the one hand, governments have had to deal with regional concentrations of economic development problems, notably in old-industrialised areas, but also threats to competitive advantage across the economy, in agriculture, traditional and modern industrial sectors and in producer services, affecting many parts of the country.

It is clear that the rapidity of technological change, combined with market liberalisation and deregulation, have greatly increased the exposure of regions and countries to international competition. Enterprises have greater flexibility in producing and delivering goods and services, and investment is more mobile. Especially within Europe, barriers to trade, investment and factor mobility have been reduced and governments are less able and willing to provide protection to sectors or firms.

In a more globalised production environment, it is argued that competition is increasingly between regions and cities, rather than countries. Successful regions are those that can develop and maintain agglomeration economies in competitive sectors. Competitive success is based on the ability to adapt and innovate, produce new ideas, products and services. Effective systems of adaptation and innovation depend not only on factors such as the quality of infrastructure, SMEs, the skills base and sources of RTD but also the types of relations, inter-relationships and networks between institutions (public, private, quasi-private) that facilitate the flow of ideas, knowledge, finance and technology.

There are also important new social and ecological dimensions of economic development. Public policy has to recognise social factors underlying the exclusion of certain groups from the labour market and economy, especially with respect to women, the disabled and ethnic minorities. Past decades have seen a growth in concern with the environmental implications of economic and social activity, from global issues such as climate change and species diversity to more local matters such as waste management, water quality and ground pollution. Brought together in the concept of sustainable

development, there is increasing recognition of the need to take account of the inter-relationships between economic, social and environmental aspects of development.

Lastly, the institutional context for regional policy has changed. At one level, there has been a Europeanisation of policymaking through the influence of EU structural and cohesion funds and EU competition policy on the regional policies of Member States. At another level, there is increased involvement in economic development on the part of regional and local institutions and groups, as a substitute for, or complement to, central government action. Issues of regional identity, local democracy and accountability also underlie a general trend for the devolution and decentralisation (to differing degrees) of central government responsibilities.

It is against this background that regional policymakers across western Europe have been reconsidering the aims and content of regional policy. The characteristics of the policy shifts are varied, but essentially they involve a focus on regional growth rather than redistribution. Instead of targeting intervention selectively on particular regions, newer regional policies are encouraging development in all regions. The use of standard policy instruments (such as financial incentives), applied in a uniform manner by central government, is being superseded by decentralised regional development policies that are broader in scope and instruments, and adapted to the needs of individual regions. The focus of new policies is often on regional capabilities, particularly with respect to innovation systems, and the role of regional policy is frequently to mobilise a more effective use of public and private resources rather than direct intervention.

The following paper examines these issues in more detail. Building on the paper prepared for Sponsors in 2001,¹ it investigates the substance of new approaches to regional policy and how they relate to the traditional model of regional policy. The research is based on a combination of desk review of academic research and the content of policy reviews and legislation, as well as interviews with policymakers. It is important to note that the coverage of the research is limited to the Sponsor countries; crucially it does not include the less developed parts of the EU – Spain, Portugal, Greece – or the countries of Central and Eastern Europe. Also, it pays particular attention to those countries where new legislation or policy reviews have been taking place.

The paper begins by examining the changing rationale for regional policy with emphasis on balanced development and competitiveness. It then considers some of the significant features of new regional policies, notably the concern with systemic issues and sustainability. The paper also discusses how the governance of regional policy is changing in terms of the regional focus of policy approaches and the greater emphasis

¹ Bachtler J (2001) *Where is Regional Policy Going? Changing Concepts of Regional Policy*, paper prepared for the Regional Policy Research consortium, EPRC, Glasgow.

placed on vertical and horizontal co-ordination. The paper concludes by highlighting questions and issues for further discussion.²

2. POLICY RATIONALE

2.1 Balanced national development and competitiveness

There are two distinctive features of the ‘new’ regional – or ‘regional development’ – policies: they have an explicit national economic rationale; and the policies operate across the whole country. The objectives of many new regional development policies are framed in terms of maximising the contribution of all regional economies to national growth (or at least ensuring that no region impedes national development) in a more competitive global environment. According to this rationale, regional development is not a policy restricted to selected areas suffering from particular disadvantages but needs to operate in all regions; this includes placing more emphasis on the ‘core’ or ‘central’ regions whose continued prosperity and growth are essential for national economic development.

The objectives of recent policy legislation place great emphasis on terms such as ‘balanced national development’ and national or regional ‘competitiveness’. While some countries have long had policies aimed at economic development in all regions – eg. France – this has become a more explicit goal in most European countries. For example, the 1999 French law on national regional and sustainable development policy (known as the *loi Voynet*) states its objectives as follows:

*national regional sustainable development policy enables the balanced development of the territory as a whole...It aims to create conditions that favour the development of employment and national growth, notably by reinforcing the links between firms and the areas in which they are located.*³

Similarly, the UK White Paper (which applies only to regional development policy in England) states that:

² Throughout the following sections, the term ‘regional development policy’ is generally used to refer to contemporary policy approaches as distinct from the ‘regional policy’ of the past.

³ Article 1 of the 1999 *loi d’aménagement et de développement durable du territoire* (or *loi Voynet*).

A strong national economy cannot function to its full capacity and individuals cannot realise their full potential if regions and localities are under performing.....The new approach will be based on putting greater emphasis on growth within all regions and strengthening the building blocks of economic success by boosting regional capacity for innovation, enterprise and skills development.⁴

The spatial policy White Paper in the Netherlands takes as its starting point the need to ensure national competitiveness by making certain that there is a positive business location climate in the Netherlands with a strengthening of the spatial economic network and optimal utilisation of economic potential at the regional level.

The same orientations are evident in the Scandinavian/Nordic countries. In Denmark, a commitment to 'balanced regional development' was included in the coalition agreement that formed the basis for the new government in November 2001. In Finland, the new Regional Development Act coming into force at the start of 2003 shifts the emphasis of policy to stimulating regional competitiveness across the whole country; one of the main new programmes covers all regions with a view to creating a "*balanced and properly planned regional structure in terms of the country as a whole*".⁵ In Sweden, previous regional policy laws have spoken of the importance of encouraging growth throughout the country, but the new bill, entitled 'A Policy for Growth and Viability throughout Sweden', is more explicit. Its preamble states:

Swedish regional policy has changed from including primarily prioritised areas to being a policy that in practice covers all parts of the country, although the main focus will remain on prioritised areas...Its aim is to establish a coherent policy covering the whole country that can be adapted to regional difference and conditions.⁶

Following recent elections in Norway, the overall aim of the new government's regional development policy was summarised as:

balanced development, in which all parts of the country experience population growth. We believe we can achieve this through a policy that supports and enhances the opportunities for growth in all parts of Norway.⁷

⁴ Department of Trade and Industry (DTI) and Department for Education and Employment (DfEE) (2001) *Opportunity for All in a World of Change*.

⁵ Government Decision of 9.11.2000 on the Target Programme in accordance with the Regional Development Act 1135/1993.

⁶ *En politik för tillväxt och livskraft i hela landet*, 2001/02:4.

⁷ Speech by the Minister to the Storting, 8 June 2002.

In some senses, many of these countries are moving towards the ‘whole country’ approach to regional development that hitherto has been limited to the cohesion countries. Although they may not have an explicit ‘national development plan’, the above countries are recognising explicitly – within regional development policy objectives – the roles and interdependence of all types of region for national growth. There are striking similarities with regional development policy in Ireland, where the objective (as expressed in the National Development Plan) are:

to achieve more balanced regional development in order to reduce disparities between and within the two regions [the Border, Midlands Western Region and the Southern and Eastern Region, and by developing the potential] of both to contribute to the greatest possible extent to the continuing prosperity of the country.⁸

It should be noted that these trends are not as strong in more federal countries, such as Germany and Austria. Here, the national role in regional policy has been to co-ordinate the policies pursued by sub-national territories which have considerable policy autonomy. In the light of such regionalised autonomy, overarching *national* goals for regional policy – while still present – have been a less critical determinant of policy.

2.2 Is equity still important?

The language of these policy objectives is, in some important respects, fundamentally different from the past. The motivation for government intervention through contemporary regional development policies appears now to be exclusively economic. The historic commitments to social justice – an entitlement to equal living standards – as a justification for undertaking regional policy are rarely mentioned in contemporary policy legislation, except within EU regional policy. The traditional concern with relative disparities in income per head and (un)employment between regions has been superseded by a pre-occupation with regional variation in growth rates and productivity.

This should not imply, however, that regional development policy is abandoning the ‘problem regions’. Most of the above countries continue to provide preferential support to less-favoured areas (as described in a separate report to Sponsors) and, in some cases, make explicit commitments to the ‘equity’ objective of regional development policy. For instance, in France, the objectives of regional development policy include:

equality of opportunities among citizens, in particular guaranteeing to each equal access to knowledge and public services throughout the territory and reduced disparities in prosperity between local authorities by adjusting their resources in the light of their changes and by modulating public aid.⁹

⁸ *National Development Plan 1999.*

⁹ *Loi Voynet, op. cit.*

The UK White Paper also commits itself to reducing regional disparities to ensure “*equal opportunities for all*”, and a skewing of expenditure among the (English) regions in line with regional income and deprivation. Further, among the targets recently specified by the UK government is the intention to “*make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions.*”¹⁰ As noted above, the Swedish regional development policy bill insists that the “*main focus will remain on prioritised areas*” and the same is true to varying extents in Finland and Norway.

There are also countries where the scale of regional disparities is such that the need to address the problems of particular regions is still the primary concern. Although different in many respects, Germany and Italy share a common focus on specific regions. In the case of Germany (where ‘balanced regional development’ has long been a goal of regional and spatial policies in the organisation of the state at federal and *Land* levels), the magnitude of the disparities between the new and old *Länder* has required a continued, explicit focus on the disadvantaged parts of eastern Germany. The same is true in Italy, where the main objective of regional development policy is developing the conditions for increased competitiveness of the *Mezzogiorno*, thereby reducing gaps with the Centre-North of Italy and other parts of the EU. Lastly, in Ireland, the country’s sustained economic growth combined with persistent regional disparities mean that the case for a regional development policy – based on encouraging economic development outside the Dublin area, particularly in the western parts of the country – has strengthened.

2.3 Interpreting the trends

Notwithstanding the continued commitment to equity – expressed more in terms of equality of opportunity (eg. access to public services) rather than equality of income or employment – the shift away from ‘cohesion’ objectives and redistributive regional policies among many countries is clear. What are the explanations for these shifts?

The most important argument put forward to justify recent policy trends is the need to promote national growth and competitiveness. As noted above, this means safeguarding the existing regional ‘motors’ of the national economy while raising the economic performance of other regions. The Dutch White Paper on Spatial Economic Policy starts from the premise that “*fierce international competition and strong dynamics*” of the global network economy pose a major challenge for the Netherlands to maintain an “*outstanding business location climate*” for which the “*economic potentials of both cities and economic development axes in the strategically important parts of the country need to be utilised and reinforced*”.¹¹

¹⁰ Department of Trade and Industry, *Public Service Agreement shared with Her Majesty's Treasury and Office of the Deputy Prime Minister*.

¹¹ Ministry of Economic Affairs (2000) *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks*.

In Sweden, the point of departure for the recent Regional Policy Commission was that increased economic growth in all regions should be the main objective of regional development policy.¹² This led to considerations of a different approach to regional economic development focusing more on the potential for increased regional level growth to contribute to overall national growth than a national government re-distribution of financial resources to the regions. All regions were to be encouraged to exploit their own resources and strengths to contribute to national growth. In the words of a critical commentator on Swedish regional policy:

*Increasingly the national economy depends on 'the regions' and especially on certain regions that perform well. It is through well functioning local innovation systems that national wealth is created... The national well-being depends on the regions being smart... Stockholm, with one quarter of the economy, has a special role in this connection.*¹³

Moreover, in the UK, there is evidence of regional development policy being seen as part of macro-economic policy, as indicated by objective of narrowing regional differences in economic performance being shared by the UK DTI and Treasury.

A second explanation for shifts in regional policy is that present regional development 'challenges' are more complex and spatially varied than was previously the case. According to this argument, many, if not all, regions continually have to restructure to adapt to economic, organisational and technological changes whose impacts are territorially varied. This requires a nationwide but also regionally differentiated response on the part of regional development policy to assist all regions to adapt to economic change. In Finland, for example, the Target Programme justifies the universal applicability of new regional development policy measures on the basis of trends in agricultural restructuring (affecting mainly eastern Finland), migration outflows from peripheral rural areas, growth pressures in the Helsinki metropolitan areas and the impact of an ageing population on the labour market of particular regions.

The complexity of spatial disparities has also been highlighted by UK policymakers, pointing to the existence of concentrations of deprivation in the core regions and relatively prosperous localities in the traditionally weaker regions. It is certainly the case that the nature of the 'regional problem' has become more complicated, with structural change affecting areas in different ways. This is reflected in the more refined measures used by policymakers to attempt to measure spatial problems, with the traditional reliance on GDP per capita and unemployment rates being superseded or complemented (in some countries) with a range of indicators relating to both 'competitiveness' (such as labour productivity and percentages of the population with skills qualifications) as well as deprivation (such as levels of child poverty). A more complex map of spatial problems

¹² Persson, L O (2000) Swedish Regional Policy: Renewal, Retreat and Rhetoric, *North*, Vol. 11, No. 5/6, December 2000

¹³ Oscarsson G (2000) The 'Revolutions' from a Swedish Perspective, *North*, Vol. 11, No. 5/6, December 2000:

has been associated with a demand for regional policies to become more spatially discriminating in order to be able to adapt policy responses to the particular requirements of individual regions and sub-regions. This awareness of a more 'micro' basis to the complexity of regional disparity has prompted the growth of parallel policy areas in some countries: for example, in the UK, alongside the 'regional' policy, separate policy initiatives have concentrated on urban, rural and 'regeneration' matters, often with a more localised focus.

The third aspect of changes in regional policy applies exclusively to smaller countries, where the size of the country combined with the limited scale of regional disparities, has lessened the requirement or perceived justification for a redistributive or spatially focused regional policy. This was exemplified in the case of Denmark in the early 1990s when preferential support for peripheral regions was abandoned in favour of nationwide industrial policy support for firms to promote growth in both stronger and weaker regions. In the Netherlands, the White Paper on Spatial Economic Policy observes that:

*The considerable decrease in regional differences in economic development has strongly reduced the need to conduct a classical regional policy of support to economically backward regions.*¹⁴

The same reasoning is sometimes used in an Austria context where the lack of severe regional disparities has been cited as one factor in why there is no strong federal regional policy. Although Denmark, the Netherlands and Austria have individual regions with economic development and/or employment levels lower than the national average (North Jutland, Northern Netherlands, Burgenland), regional disparities are lower than in most other European countries. Therefore, while a move away from traditional regional policies may be justified with reference to trends in regional disparities in these countries, this does not necessarily apply elsewhere. Indeed, in most EU Member States, regional disparities in GDP per head and unemployment (within countries) appear to have been widening over the past 10-15 years according to the First and Second Cohesion Reports.¹⁵

A fourth issue playing a part in the shifts in regional policy is the influence of European policies. At a macro policy level, economic and monetary union within euroland constrains public expenditure, in particular budgetary deficits, and places much greater importance on growth as a source of revenue. With respect to the substance of regional policy, EU competition policy, through the control of State aids by the European Commission, has, over time, restricted the scope of traditional regional aid policies in richer Member States by progressively reducing the coverage and award rates of regional incentive instruments. Further, since the reform of the Structural Funds in 1988, EU regional policy has promoted a model of regional development based on regionalised, integrated, multi-annual strategies. In some countries, it could be argued that the equity goals of regional policy are currently being addressed by EU regional policy, allowing domestic regional policy to pursue more efficiency-oriented goals. The EU influence is,

¹⁴ Ministry of Economic Affairs, *op. cit.*

¹⁵ CEC (1996) *The First Cohesion Report* and CEC (2001) *The Second Cohesion Report*, Commission of the European Communities, Brussels.

however, disputed. Although these two EU policies have clearly affected the spatial coverage, instruments and organisation of national regional policies, it is questionable to what extent their influence has been more on the form or process of national policies rather than their underlying rationale and objectives.

Lastly, an important factor underlying trends in regional policy relates to the perceived effectiveness of traditional regional policy approaches. Changes in political ideology over the past two decades are associated with a neo-liberal economic agenda that has favoured measures to create a more flexible and dynamic business environment (through, for example, deregulation and liberalisation of markets, supply-side measures to improve skills and innovation) while discouraging certain forms of selective government intervention such as investment aid for the problem regions. By contrast with the 1960s, it is argued that there is less opportunity for steering investment and employment to preferred locations within countries, and that such steering may be counter-productive. This has been summarised bluntly by the OECD in the following terms:

*Allowing investment to gravitate to the areas where they are most profitable ensures a better overall allocation of resources and therefore higher and more lasting growth for the country as a whole... The use of tax or financial incentives to encourage enterprises to invest in areas where they would not otherwise have invested does not lead to development in the long term, since it does not ensure that investments match the territorial capital.*¹⁶

In some countries, such as Austria, alternatives to traditional regional policy were investigated as far back as the late 1970s and early 1980s, as a result of growing evidence that capital transfers into structurally weak, peripheral regions were not sufficient to compensate for severe locational disadvantages or induce significant private investment. As in some other countries, during the 1980s and particularly the 1990s, standardised, central state intervention with respect to the problems of technological and institutional sclerosis in old-industrialised areas was increasingly seen to be ineffective. As a result, there was a gradual but profound reorientation of regional policy philosophy towards decentrally-managed strategies of mobilising local and regional resources. Since the early 1980s, many countries have pursued policies based on endogenous as opposed to exogenous development, supporting a range of activities that improve the business environment.

In reflecting on the past, some commentators have been blunt in their disparagement of traditional policies. A Swedish observer noted that “*for the few centrally placed policy makers, dealing with Sweden’s total economy, the prefix ‘regional’ still only stands for ‘wasteful use of money in lagging regions’*”.¹⁷ In similar vein, some UK policymakers have attempted to define new regional development policy approaches in language that represents a clear break with the past:

¹⁶ OECD (2001) territorial Development: A Policy Framework for the 21st Century, OECD territorial Outlook, Paris.

¹⁷ Oscarsson, *op. cit.*

*The first generation of regional policy, before the war, was essentially ambulance work getting help to high unemployment areas. The second generation in the 1960s and 1970s was based on large capital and tax incentives...It was inflexible but it was also top-down. And it did not work. The new approach to regional economic policy...is based on two principles – it aims to strengthen the long-term building blocks of growth ...by exploiting the indigenous strengths in each region and city. And it is bottom-up not top-down, with national government enabling regional and local initiatives to work by providing the necessary flexibility and resources.*¹⁸

Recent regional development policy trends in Italy also start from the premise that a re-balancing of the North-South divide through compensatory transfers has failed and that an effective regional policy strategy for the *Mezzogiorno* needs to focus on exploiting the endogenous potential for the region. However, regional policy changes in Italy need to be understood within a context of wider reforms in government, in which decentralisation and rationalisation have taken place across the range of policy activities.

3. POLICY CHARACTERISTICS

Apart from the rationale and objectives of new approaches to regional development policy among western European countries, there are several distinctive features of contemporary policies. Some of these are the products of evolutionary change over the past decade or more, while others are of more recent origin. The main characteristics worth highlighting are a new systemic approach, the importance of spatial inter-relationships, new attitudes to spatial targeting, the changing definition and scope of regional policy and the role of sustainability, each of which is examined in turn in the following sections.

3.1 A systemic approach to policy

In the past, regional policymakers were primarily concerned with regional convergence – reducing economic disparities between regions, especially core-periphery differences. Conceptually, regional policies were based on traditional theories of regional development concerned with the economics of location. The common characteristic of these theories was that they were concerned with explaining variations in the location of economic activity with reference to the *attributes* of regions or urban areas, such as the cost of land, transportation costs, market size and the availability of workers. Policies to reduce disparities were, therefore, generally developed to influence these factors, for example by reducing investment or employment costs, subsidising transport costs,

¹⁸ Speech by Ed Balls, Chief Economic Adviser to the Treasury on 'Regional Renaissance' to a Policy Conference for the South-West, 10 May 2002. Similar language has been used by the Chancellor of the Exchequer, Gordon Brown – speeches on 'Enterprise and the Regions', 20 January 2001, and 9 February 2001.

providing cheap land and premises in the problem areas, while (in some cases) increasing the costs of development in the core or congested areas.

As previously noted,¹⁹ recent academic debate has highlighted the influence of regional and local characteristics in facilitating, influencing or determining the clustering of economic activity. In particular, the regional institutional environment is considered to play a significant part in co-ordinating the nexus of transactions underpinning agglomerations of regional industry. Spatial inter-relationships between firms and other organisations, it is argued, are shaped powerfully by the activities of public, private and quasi-public/private institutions. The term ‘innovative milieu’ has been used to encompass not just the existence of regional institutions but their inter-relationships, interaction and co-ordination.

The new concepts of regional development give primacy to human capital, ‘soft’ production factors and behavioural issues. Uneven development – concentrations of economic activity in some regions and not in others – is attributed to the business environment of the ‘region’, in particular its institutional infrastructure, and the degree to which it facilitates networking and other forms of association. Regional development policy is more concerned with improving regional *capabilities*, through measures that are socio-cultural as well as economic, in areas such as entrepreneurship, productivity and innovation. In the words of the UK White Paper, the new approach to regional development policy is about “*boosting regional capacity for innovation, enterprise and skills development*”.²⁰

In addressing regional capabilities, it appears that more policy attention is being given to ‘systemic’ issues, in other words, specific failures in the operation of regional systems of business development, exporting, innovation, technology etc. Indeed, it could be argued that the current trends represent the first genuinely systematic approach to understanding, and intervening in, the sources of regional economic growth. Rather than targeting individual agents (such as firms), policy is focusing on the interaction between organisations, such as networks of co-operation between firms, links between providers and users of technology, and flows of information/knowledge between policy bodies and enterprises. There is also an important geographical element to this network approach, since spatial proximity and accessibility are important variables in influencing interaction between organisations.

The significance accorded to systems of interaction is immediately evident in the White Paper on Spatial Economic Policy in the Netherlands, which has the sub-title “Dynamics in Networks”. The White Paper states at the outset:

¹⁹ Bachtler J (2001) *op. cit.*.

²⁰ DTI and DfEE, *op. cit.*

A second reason for reconsidering regional economic policy refers to changes in international economic structure, earlier referred to as the rise of the 'network economy'. This refers to a new economic landscape in which the competitiveness of firms, regions and countries is increasingly determined by the ability to develop, disseminate and apply knowledge in global networks of economic activities

The principal features of the network economy are increased competition due to intensification and dissemination of knowledge, and ongoing labour division and specialisation. The latter two features contribute to the phenomenon of clustering.²¹

The subsequent proposals for regional development policy are conceived both in terms of traditional policy targets such as the nodes of physical and technological infrastructure (industrial estates, business complexes, transportation hubs, knowledge facilities) and in the 'axes of economic development' (transport networks, telecommunications, as well in terms of contemporary policy themes such as business links, cluster development and co-operation between the business community and science and technology institutes).

As illustrated by the case of the Netherlands, the acquisition and exploitation of knowledge are central features of the emerging policy approach. The sources of regional competitiveness have been increasingly cast in terms of the knowledge and innovation networks of local enterprises, research providers (such as universities) and key public sector bodies. Innovation is increasingly seen as a systemic process, dependent not just on the capacities of individual agents but their inter-relationships and the wider business environment. Consequently, the policy focus on what makes enterprises more innovative has prompted questions about the external environmental conditions which support innovation. It also underlies an emerging conception of regional development as a self-regenerating set of processes that influences enterprise innovation, both individually and collectively as industries.

The rise of 'innovation-oriented regional policy' is arguably most advanced in Austria, where the concept has evolved as a guiding principle for policy design. At its core is the idea of regional development being determined by path-dependent innovation dynamics, resting upon inter-organisational interaction and feedback mechanisms and being heavily affected by, and itself affecting, the respective regional context. Ways of knowledge production, dissemination and adoption within such a 'Regional System of Innovation' (RIS) are central to this policy approach. It is thought that innovation, creating new regional capabilities and potentially resulting in enhanced, dynamic regional competitiveness ('*learning regions*'), is the *via regia* to regional economic growth and prosperity. This principle applies both for core regions, which should perform as growth motors for the national economy, and for less-favoured regions, where innovation and learning should contribute to structural change and the development of niche competencies.

²¹ Ministry of Economic Affairs, *op. cit.*

The RIS approach has already been adopted in the latest version of the ‘Austrian Spatial Development Concept’ in 2001, a consensual document embracing the views of the federal ministries, the *Länder* governments and the municipalities. This Concept (which is a set of guiding principles and not a binding policy document) recognises an increasingly flexible and specialised international economy requiring new locational qualities and making heavy demands on soft or immaterial factors in the fields of human capital and institutional environment

Knowledge and innovation systems are also important elements in the new regional development policy in Finland, the discussion documents underlying the National Spatial Strategy in Ireland, the regional growth programmes in Sweden, and the UK White Paper and strategies of the regional development agencies in England and those of the devolved administrations in Scotland and Wales.

An increasingly common systemic approach to regional innovation has focused around the cluster concept. Cluster policies have proliferated over the past decade, with manifestations ranging from policies to encourage low-resourced, small-group business networks without a particular sectoral focus to complex, large-scale programmes of co-ordinated measures that target a specific, geographically-cohesive industry. As an approach to regional development, it differs from traditional incentive-based policies by concentrating its support in networks of diverse agents rather than individual firms. Measures tend to provide common resources for groups of inter-related firms – such as specialised infrastructure or specific skills training programmes – or to encourage linkages between and amongst firms and research providers. In this, cluster policy has been presented as a form of regional policy which affects the *relationships* between a region’s ‘relational assets’ rather than the assets themselves.

As with the RIS, the use of the cluster concept in regional development is prominent in Austria, where it is pursued by *Länder* such as Styria and Upper Austria, which are widely regarded as pioneers of cluster development at a regional level. In recent years, the example of Austria – and territories such as the Basque Country in Spain and Scotland in the UK – has prompted national policymakers to develop regional development policies around cluster concepts. New and pilot policy activities in this area can be seen in several countries:

- Finland: the Ministry of the Interior has run two successive rounds of the Centre of Expertise programme, which provides matching national funding for designated, regional centres to encourage networking in specialised industrial fields;
- France: DATAR has completed a pilot round of support for projects based on the development of local industrial clusters (*systèmes productifs locaux*);
- Italy: sub-national authorities have been highly active in pursuing cluster development;
- Norway: the Norwegian development agency, SND, has launched a pilot programme for cluster-based projects in different parts of the country;

- Sweden: a new programme of support for local cluster projects is currently underway under the direction of the main innovation agency, VINNOVA; and
- the UK: the Department of Trade and Industry has set aside regional development funding to encourage the English Regional Development Agencies to support a range of local cluster projects and set up a number of regionally-based centres of research excellence.

3.2 New approaches to defining and targeting regions

The systemic approach to regional development is also evident in the way that policymakers are thinking about the inter-relationships between places and regions. In 'classic' regional policy, policy tended to define the 'region' in quite limited terms. Regions were seen as contiguous territorial units, generated out of a mixture of statistical analysis according to certain development indicators and political negotiation over state aids maps. With policy largely based on incentives and geographical eligibility, the main interest in the region as a focus for policy was its features in developmental terms – levels of unemployment, GDP per capita, etc. – rather than the inter-relationships underlying those features. In other words, regions were defined with respect to their shared characteristics rather than underlying common functionality.

In several countries, regional policy reviews and legislation have explicitly drawn attention to the importance of key locations for regional development. In particular, major urban centres are accorded a key role as 'drivers' of regional and national economies, and there is also more recognition of the links between centres, and their relationship with surrounding areas. In this respect, regional development policy is moving in the direction of spatial development, addressing a broader range of physical planning as well as economic issues, as advocated under the European Spatial Development Perspective (although not all countries would recognise this as being the role of regional policy).

Greater attention has been given to functional *coherence* rather than statistical *consistency* as the fundamental means of dividing territory into 'regions'. A recent Swedish parliamentary commission reviewing regional policy held the view that regions should be defined as relatively coherent areas which can develop in a functional way (particularly in labour market terms) rather than areas designated on the basis of certain economic development problems. Similarly, in Ireland, the clearly distinct spatial trends of the Dublin area and the western parts of the country contributed to the division of Ireland into two regions. The recent National Development Plan and the Action Plan for the Millennium contain sections explicitly covering the differing development needs and strategic measures appropriate for each region – a novelty in Irish policy. It points to greater regional targeting in economic development policy and a recognition that the traditional units of economic development analysis and action are becoming more unwieldy.

One of the countries where this trend is most apparent is France. By contrast with past French regional policies, which were primarily concerned with dichotomies such as Paris versus the provinces or urban versus rural areas, a key element of the *loi Voynet* is a

polycentric network approach. It stresses the role of urban centres as the motors of economic development, favouring the development of major centres, the networks between such centres, and their links with satellite towns. The law also seeks to emphasise the complementarity and symbiosis between urban areas and their rural hinterlands.

This type of thinking also underpins the Dutch White Paper which is aimed at strengthening the ‘spatial economic network’ of the Netherlands, defined as “*the urban concentrations, the main ports, the economic development axes between economic centres (both inside and outside the country) and the rural core areas*”.²² Similarly, the Regional Development Act in Finland stresses the growing importance of ‘functional urban regions’ and the promotion of urban centres. The Regional Centre Development Programme, introduced in November 2000, aims to create a network of 30-40 regional centres across Finland and encourage more interactive co-operation between urban and rural areas. In Ireland, as part of the future orientations of regional development policy, there are also ambitions to develop regional ‘gateways’ – strategically located centres which by virtue of their critical mass of population, skills, economic bases, support services and infrastructure, have the capacity to drive development throughout their surrounding counties and regions. In the debate over the National Spatial Strategy, it has been emphasised that the ‘gateways’ will need to be closely linked with the functional areas within which they operate. Lastly, one of the aims of the new RIF programme in Austria is to strengthen the links between urban centres and their hinterlands in order to facilitate greater knowledge exchange and technology transfer.

The moves towards greater regional focus and differentiation pose some challenges for policymakers in allocating resources. Traditional regional policies have defined ‘problem regions’ through a mix of economic indicators (eg. GDP per capita), social indicators (eg. unemployment rates) and geographical criteria (eg. distance from markets). Insofar as such policies are still pursued by national governments, the issue of area designation remains an important process in defining the eligibility of regions for resource support.

However, for many, though not all, countries, the question of spatial targeting is also important for contemporary regional development policies. In a policy environment where the ‘regional level’ has responsibility for allocating regional development resources, many regional authorities need to have systems for the spatial targeting of programmes. The broader range of policy intervention and the systemic approach to policy is encouraging policymakers to reassess the *functionality* and *locality* of the spatial units and the range of indicators used for analysing economic development problems and allocating support.

For the most part, the spatial targeting of resources is a top-down process, whereby higher levels of government or administration determine the eligibility of units at a lower level. By contrast with traditional top-down methods of defining the ‘action area’ for

²² Ministry of Economic Affairs, *op. cit.*

regional policy, a radically different approach is to work from the bottom up. This is one of the defining features of the *loi Voynet* which permits different combinations of spatial units to be defined in line with the needs of the local population. The major new strand of French regional development policy is the ‘recomposition’ of the territory into so-called *pays* and *agglomérations*. The *pays* are areas perceived to have a geographical, economic, cultural or social identity; they are defined at the initiative of the *communes* (the smallest level of local authority) following wider consultation at the *département* and regional levels. The main aim is to develop territorial entities that are relevant for local development initiatives and which reinforce the linkages between rural areas and small towns. *Agglomérations* are defined as urban areas with a minimum population of 50,000, made up of communes with at least 15,000 inhabitants. In a 2001 report to the Prime Minister,²³ it was proposed that current spatially-restricted policies should be replaced with partnership-based initiatives linking economic development and environmental protection within the framework of *pays*, *agglomérations* and natural parks; enterprise aid would be replaced by territorial support for these spatial units. The ‘problem region’ orientation would be maintained by adjusting the levels of government support for *pays* and *agglomérations* in line with economic, social and cultural difficulties facing particular areas, but without recourse to top-down area designation in the classification of zones.

At present, this (proposed) approach is unique among western European countries, but there are several examples of individual regional policy instruments having some flexibility in their spatial coverage: for instance the ‘City Challenge’ initiative operated in the UK (which allowed self-defined groups of urban organisations, eg. local authorities, to submit bids for central government funding). In Sweden, new legislation allows for groups of municipal bodies to band together with a view to taking over many of the central government policy initiatives currently held by the County Administrative Boards (such as managing the Regional Growth Programmes), while in Finland, the Regional Centre Development Programme discussed above represents a re-arrangement of the administrative boundaries of policy implementation. However, the ‘recomposition’ of territory along the lines of the *loi Voynet* and the Perrin-Gaillard report is much more radical and would represent a fundamental break with past practice.

3.3 Changing definition and scope of regional policy

An important characteristic of the newer approaches to regional development policy, which has been already referred to above, is their breadth of action. Contemporary regional development, aimed at developing regional capabilities, encompasses not just the promotion of business investment and local physical infrastructure in the problem regions (as under some traditional policies) but also skills development, environmental action, innovation support, technology transfer, networking measures and information and advisory services.

²³ Perrin-Gaillard, G and Duron, P (2001) ‘Du zonage... au contrat: une stratégie pour l’avenir’, *Rapport au Premier Ministre*.

This illustrates the way in which the boundaries of ‘regional development’ as a distinct and separate area of policy are increasingly difficult to define. There is increasing overlap between regional and other policy areas, as sectoral policies appear to be taking regional development issues more explicitly into account or are being delivered in a more regionalised manner. A good example is Finland, where the Regional Development Act calls for sectoral ministries to differentiate their policies and instruments depending on the differing needs of each region. The national RTD agency, Tekes, is to develop a regionally-based RTD strategy to enable individual regions to maximise their innovation capacity, while the Ministry of Education is promoting the greater integration of universities with their individual regions through a series of region-specific actions.

In the Nordic/Scandinavian countries, regional policy has always had a broader element than just support for productive investment and local infrastructure. For instance, in Sweden, the objectives and coverage of regional policy legislation has, on the one hand, guided intervention under a so-called ‘narrow’ regional policy (such as regional aid instruments) and has also, under a ‘broad’ regional development policy promoted the regionalisation of sectoral policies for education, RTD, labour market, environment etc. This is exemplified by the new regional development policy Bill which refers to measures relevant to regional development in terms of: *stimulating measures*, targeted at the designated assisted areas; *structural measures*, mainly in the areas of education and physical and communications infrastructure; and *welfare measures*, involving the provision of basic services in all parts of the country. To some extent, such distinctions have long existed in Swedish policy, but the new Bill is making them more explicit. The perceived breadth of action required in the field of regional development is indicated by the diversity of policy areas identified in the Bill as having an important regional dimension: trade and industry; labour market; education; transport; innovation; rural development; and culture.

The growing cross-sectoral character of contemporary regional development is requiring regional development policy to take on a co-ordination function to integrate the mix of policies. Regional development policy still involves specific instruments with a dedicated budget and administrative apparatus, but an increasingly important (and, in some countries, novel) function of regional policy is the use of planning and programming instruments to create a framework within which a mix of tasks can be undertaken and resources applied from different sources. This is discussed further in Section 4 below.

3.4 Importance of sustainability

The final important characteristic of regional development policies is their commitment to sustainability. Sustainable development has been given considerable emphasis in recent EU regional policy. It is also featuring more strongly in national regional development policy, initially in the context of raising the profile of environmental issues in economic development, but more recently, with a more comprehensive approach to sustainable development. While there has long been a case for including environmental issues as an explicit element of economic development programmes, it is only in recent years that this has extended to a more integrated approach to economic development. ‘Sustainable development’ is predicated on the notion that economic, social and

environmental policies are interlinked and should not be applied in isolation. As a result, economic development should be placed in the context of ensuring environmental protection and pursuing social inclusion.

An interest in sustainable development issues is particularly visible in recent policy debates in Sweden. Here, the concept of sustainable development – in a wider sense than what is traditionally considered to be *environmental sustainability* – has been part of the reconfiguration of regional policy as a nationwide spatial policy. In promoting economic development in all regions in order to contribute to national growth, it is recognised that there is a danger that higher national growth becomes in itself a more important objective (a particular issue if congestion problems are to be avoided in growth regions like Stockholm). Policymakers have argued that it is important to build sustainable development considerations into policy as a counter-balance to the importance given to growth objectives. As a result, a commitment to sustainable development has been given prominence in the new Bill on regional development policy.

Sustainability issues are also prominent in recent policy reviews in France and Ireland. As noted earlier, Article 1 of the *loi Voynet* refers at the outset to “*national regional and sustainable development policy*” which links “*social progress, economic efficiency and environmental protection*”. It also states that economic actions need to preserve “*for future generations the resources available and the quality and diversity of the natural environment.*”²⁴ In Ireland, recent work on preparing the National Spatial Strategy has included debate over the incorporation of sustainable development principles and determining how balanced and sustainable development of industrial, enterprise, tourism and service activities can be assisted in all regions without undermining competitiveness.

The debate in Ireland is indicative of questions that face regional policymakers more generally: how to reconcile environmental sustainability with economic development; and in a further stage, how to design and implement policies that truly represent ‘sustainable development’.

²⁴ *Loi Voynet, op. cit.*

4. POLICY OPERATION

4.1 Regional focus

Alongside shifts in the objectives and characteristics of regional development policy, the most important changes to policy are in the field of governance. The ‘new’ approach to regional policy, based on region-specific economic development initiatives involving a mix of policies, has required new thinking about the ways in which policy is designed and delivered.

At the heart of new regional development policies is the region. The territorial scale of the region, and its economic, social and institutional endowments are deemed to be critical elements in regional economic performance; indeed, the region has been sometimes interpreted as ‘a fundamental basis of economic and social life’. This term ‘region’ of course means many different things; across Europe, regions have very different political, economic, social, cultural and administrative connotations. Nevertheless, it is possible to generalise in saying that sub-national territorial units are being given more recognition in the design and implementation of regional development policies.

As noted earlier, the focus on endogenous development through regional competitiveness strategies recognises that regional development needs of regions vary, requiring region-specific responses. On the basis that regions themselves are best placed to identify and respond to regional problems, a key role is accorded to the regional level in leading and co-ordinating an integrated response to economic development challenges.

Recent policy review and legislation have explicitly addressed the need for regional differentiation to adapt policy to regional needs. One of the main aims of the Regional Development Act in Finland is to encourage a range of central government policies to take account of regional needs and priorities, adapting measures and resources to the strengths and weakness of individual regions. Recent French legislation has been based on the premise that the regional level is the appropriate articulation point for co-ordinating national, European, regional and sub-regional strategies. The Dutch White Paper states that it is in the regions that “*all the threads of policy meet... (and) can best be knotted together*”.²⁵ The key characteristics of this action – as demonstrated by the Dutch White Paper – are: *flexibility*, in reacting dynamically to competitive challenges; *region-specific responses* that are tailor-made to the strengths of individual regions; and *coherence*, ensuring that the many elements of location policy are brought to together at regional level. Whereas the Netherlands has promoted regional action for several years, in the UK, a regional focus for national regional policy is new. The UK White Paper recognises that the future requires “*a bottom-up approach: the role of central government must be to ensure that all regions and communities have the resources and capability to be winners*”.²⁶ The new approach builds on the new Regional Development

²⁵ Ministry of Economic Affairs, *op. cit.*

²⁶ DTI and DfEE, *op. cit.*

Agencies and their regional strategies. This approach has been emulated in Sweden through, initially, the regional growth agreements and in future, the regional development programmes, and more recently in Norway, where over the last few years, the *fylker* (counties) have been gaining responsibility for drawing up regional economic plans on a four-yearly basis, outlining local strategic priorities for the use of central government expenditure in the regions.

In some senses, it could be argued that this situation represents a major contrast with past practice. From the 1950s to the 1980s regional policy was exclusively the responsibility of central government in many western European countries. The exceptions were the federal countries (Austria, Belgium, Germany and Switzerland) where the role of national government tended to be one of co-ordination, co-financing or limited direct intervention. On the other hand, it has to be recognised that economic development has often included *some* elements of regional focus and differentiation, even outside the federal countries. Although regional incentive policies have been generally been applied with standard instruments across all problem regions, most countries have been able to apply differing economic development measures (to varying degrees), not just in federal countries through sub-national governments, but also in some countries through the regional offices of central government departments.

The distinctive feature of modern regional development policies is that, in a significant number of countries, there is now a widespread appreciation of the need for regional differentiation to be formalised and planned in a systematic manner. Whereas in the past, regional variation in economic development measures (in non-federal countries) tended to be ad hoc, involving a mix of central government sectoral programmes and local government actions, contemporary regional development policies place great stress on the development of co-ordinated and integrated region-specific strategies that address regional needs. As with other policy trends, it is possible to identify the evolution of regionally-differentiated regional policies as far back as the 1980s (for example in France or the Netherlands), but this approach has now become an important feature of many recent policy reviews and legislation.

4.2 Regionalisation

In understanding the origins of the regional focus of regional development, it is worth considering the processes of regionalisation (and, to a certain degree, localisation) of economic development which have taken place over the past 20 years. This situation has changed with a major regionalisation of responsibility for economic development. Regionalisation has taken many forms, in some cases involving a deconcentration of policy administration to regional offices of the State, and in other cases, the devolution of policy design and delivery to territorial governments. In several countries, there are examples of 'asymmetric' regionalisation with different parts of the national territory having varying levels of political and/or policymaking autonomy in the field of regional development. In some countries, the regionalisation process has been a by-product of constitutional change transferring a range of central government powers, while in other countries, decentralisation of regional development has been part of more limited

administrative reforms associated with improving the effectiveness and efficiency of policy delivery.

Among the more fundamental reallocations of policy responsibility are the recent programmes carried out in the UK and Italy. In the UK, territorial devolution, through the creation of a Scottish Parliament, a Welsh Assembly and Northern Ireland Assembly, has transferred responsibility for regional development to Scotland, Wales and Northern Ireland respectively. In England, regional development agencies have been established in each of the nine administrative regions of the country to manage economic development on behalf of the UK government and there are proposals to set up regional assemblies which will be responsible for overseeing and directing RDA activities.²⁷

In Italy, a series of constitutional and administrative reforms have had significant impacts on the allocation of regional policy tasks. The so-called Bassanini law in the late 1990s transferred a range of responsibilities and functions to regional and local government. This was followed in more recent years by a series of supplementary constitutional laws which have made subsidiarity – particularly in economic development matters – central to policymaking. The transfer of competence is particularly significant in relation to regional development in that at least 40 percent of the administrative functions related to industrial support have moved from national ministries to sub-national administrations. As a result, the central government's policy powers are specified – or 'reserved' – leaving the bulk of other policy powers allocated to regional and often local authorities. At the same time, the regional offices of national departments have been restructured to create single co-ordinating units in each region – the *Ufficio territoriale del governo* – acting as interfaces between national and sub-national tiers of government.

The latter move towards more regional democracy parallels similar changes in Ireland, where Regional Assemblies have been set up in the two newly-constituted regions in order to manage regional programmes under the National Development Plan, as well as provide more general consultative advice on the development of its regional dimension. In Norway, the new government has signalled its intention to reallocate the bulk of regional policy budgets to the regional level, where the counties (or *fylke*) will be responsible for determining expenditure. All centrally-distributed money to the *fylke* will be merged into a single budget, which the *fylke* will have the freedom to allocate as they see fit. For the most part, this means that most of the budgets assigned to the Ministry of Local Government and Regional Development for distribution to the regions through a number of separate programmes will now be amalgamated and transferred directly to the *fylke* in blocks as part of the annual budget process. The former approach – in which the central government effectively entered into a contract with each *fylke* – would be abandoned in favour of a more hands-off system, where national government intervention in business and regional development would be limited to global, business environment-related measures (such as tax subsidies) and varying the size of the regional blocks.

²⁷ As set out in Department of Transport, Local Government and the Regions (2002) *Your Region, Your Choice: Revitalising the English Regions*.

Similarly, in Sweden, the County Administrative Boards have been getting more powers in recent years. Over time, the role of the CABs has gradually moved from the analysis and forecasting of regional problems to more direct promotion of economic development through incentive administration, the allocation of funding from central block grants and policy co-ordination. In the latter role, as the main representatives of national policy in the regions, they have become the focus for regional strategy-building in the different regions (as discussed in more detail below). The process is set to continue with a new public administration Bill which outlines the scope for CAB powers to be transferred to new groupings of municipal bodies.

In France, the *loi Voynet* has put more emphasis on supporting locally-generated initiatives in economic development. As a whole, the new law can be considered a move towards a policy based on endogenous development, differentiated by region and based on local initiative and empowerment. For example, it has been proposed that policy should continue to move away from financial aid and fiscal concessions to firms and towards *aides aux territoires*, central government grants to local partnership-based policies.

There is, however, an important caveat to this account of regionalisation processes which concerns the need to distinguish between regional aid instruments and other aspects of regional development policy. Insofar as the long-standing regional policy instruments – financial incentives – are concerned, the locus of governmental responsibility has not changed markedly over the past 50 years. While aspects of regional aid administration have been decentralised, central governments generally retain primary responsibility for policy in this area, partly to avoid competitive outbidding between regions and partly to retain oversight in the interests of complying with EU State aid rules.

The acquisition of regional policy responsibilities primarily concerns those dimensions of regional development that have grown in importance over the past 20 years in areas such as SME development, RTD, human resource development, education and environmental improvement. These areas have been addressed primarily through small-scale business aid measures, various forms of physical and economic infrastructure development, labour market programmes etc, either by central or local government. It is primarily these areas of regional development competence that have been acquired by the regional level under contemporary policy approaches designed to improve their region-specific orientation, co-ordination and management.

For some countries, such regional autonomy in economic development has been practiced for some time and is often embedded in the national constitution. Both Austria and Germany are federal countries where economic development responsibilities – including financing powers – are firmly placed with the individual *Länder*. In the case of Germany, a national framework for regional policy continues to exist through the *Gemeinschaftsaufgabe*, in which the *Länder* can offer financial incentives but in line with a centralised set of rules, eligibility criteria and award rates. However, in discussions about the future of policy after 2003 (when the current assisted areas map expires), the abolition of the GA-funded regional policy has been mooted as a way of potentially allowing the *Länder* more flexibility in policy and reducing the role of the federal level in

regional policy. In Austria, regional policy – at least in terms of policy instruments – is almost a wholly *Land*-level responsibility already.

4.3 Co-ordination of policy

As noted earlier, the breadth of regional development action and the different policy areas and jurisdictions at various levels involved in economic development has required more emphasis on co-ordination within regional policy, in particular to provide a framework for implementation of different measures and, in some cases, to link regional policy with regional planning.

In some countries, this ‘framework’ aspect of regional policy is long-standing. For example, Austrian regional policy (at least, at national level) has arguably existed more as a cross-sectoral policy (or ‘*Querschnittsmaterie*’) in which regional policymaking is divided between different policy jurisdictions covering different sectoral policies and acting at different levels and the role of the federal level is to provide a co-ordinating framework for sub-national policies. The latter task is particularly seen through ÖROK (*Österreichische Raumordnungskonferenz*), a body which acts as a forum for co-operation between the different actors in the regional policy field, allowing general guiding principles for policy to be set through a federally-co-ordinated framework. The use of the term ‘spatial development’ also indicates the perceived inter-relationships between regional development policy and regional planning in Austria.

A more formal framework for regional development policies is provided in France. The concept of *aménagement du territoire* has always embodied an important planning component, with hierarchies of long-term national, regional and sectoral plans, as well as (over the past 15 years), multi-annual State-regional planning contracts governing the allocation of regional development resources. In the *loi Voynet*, the most recent development with respect to the planning function of regional development policy has been the finalisation and approval of *schemas de services collectifs* which are intended to provide a long-term frame of reference for the provision of public services in nine key areas: higher education and research; culture; health; information and communication; passenger transport; goods transport; energy; natural and rural areas; and sport. The significance of this approach, in the French context, is that it represents a shift away from physical infrastructure as a core component of regional economic development and has an overall objective of linking strategic long-term planning with short-to-medium term programming to improve the coherence of spatial policies.

A different formal framework for regional development policy exists in Germany, but with a much narrower remit. For over 30 years, the design and delivery of regional economic policy has been regulated by the *Gemeinschaftsaufgabe ‘Verbesserung der regionalen Wirtschaftsstruktur’* (Joint Task ‘Improvement of Regional Economic Structures’), known as the GA. It provides a formal planning framework, stipulating the respective responsibilities and roles of the federal and *Land* governments in determining regional policy objectives, the design, application and funding of regional policy instruments and the designation of assisted areas.

There are more recent examples of a co-ordination function for regional development policy in Finland, Germany, Italy, Norway, Sweden and the UK. In each country, regionalised, contractual and planning arrangements have been put in place to co-ordinate regional development support and provide a more strategic approach. As part of national regional policy, designated regional-level bodies are responsible for developing consensus-based strategies for multi-year periods. Typically, these strategies allow – while at the same time, requiring – regional-level bodies to identify the key development needs and outline the measures to be taken in response and allocate appropriate responsibilities for action. The role of national government tends to be limited to a supervisory role, authorising, approving and co-funding the resulting strategies.

In several cases, the model for the strategy-building exercises has been the Structural Funds. As with the development of Single Planning Documents, these regional strategies are usually developed on the basis of partnership with a range of stakeholders in local economic development. Consultation has formed the basis for subsequent policy co-ordination, demonstrating the need for integration of what has often hitherto been fragmented policy activities in regional development. Consequently, the strategies provide a framework in three key areas: the analysis and understanding of the regional economy; the measures and instruments to be used in regional development; and the key institutions with a role to play. The French *contrats de plan* between national and regional authorities – covering the distribution of the bulk of the national regional development budget – are a well-known and long-standing feature of regional policy (and indeed, were a significant influence on the Structural Funds SPDs). Other examples, introduced more recently are as follows.

- Finland: Regional Councils have been responsible for co-ordinating the development of regional strategies since the mid-1990s.
- Germany: support from the GA for sub-regions has led to the development of a more strategic approach to economic development.
- Italy: introduced during 1995-96, *Patti Territoriali* and *Contratti d'Area* are 'bottom-up' initiatives involving diverse local bodies for spending national funding for economic development.
- Norway: the individual *fylke* are responsible for producing an economic strategy outlining how they will spend the national regional development blocks they receive.
- Sweden: since 1998, the different Swedish counties have been required to produce Regional Growth Agreements, and from 2004, these will be superseded by the new Regional Growth Programmes.
- the UK: under the Labour government, the Regional Development Agencies have been responsible for Regional Economic Strategies, which set out the main development goals and actions for the different English regions.

Such co-ordination has been dictated by a differing mixture of factors in each country. However, while much of it has been pushed by national changes in policy, it is worth highlighting the role of regional complicity in these changes. For example, in Denmark, regionalisation has been partially driven by the desire of regional bodies to use their

involvement in economic development to heighten their political profile in the face of the perennial threat of local government reform.

As well as new bodies being created, partnership mechanisms have been developed to improve strategic co-ordination at sub-national level. In Sweden, the new regional development policy Bill aims to create two Delegations which will be responsible for developing a more strategic approach to economic development over wider spatial areas (eg. the northern parts of the country). While the Delegations have a broad remit, no specific finance has been attached to them, so consequently, they have to co-ordinate and work with other government bodies, funding programmes and agencies already active in these areas. Similar partnership mechanisms can also involve national policy bodies operating regionally, as was the case with the creation of the TE Centres in Finland and the Government Offices in the UK, both of which brought together the regional offices of several government ministries with regional representation (eg. the regional offices of departments with trade, industry and labour market remits).

Finland also offers a recent example of how regional-level co-ordination is being seen as the foundation of future policy delivery. Launched in 2000 by the Ministry of Interior, the new Regional Centre Development Programme aims to create a network of 30-40 regional centres covering the whole of Finland, which would work towards a *"balanced and properly planned regional structure in terms of the country as a whole"*. The term 'regional centre' is defined as *"a natural area of labour markets, service groupings and municipal collaboration that is larger than any single municipality.. [and which] has an economic impact that extends beyond any particular subregion and nearby municipalities in terms of both service production and availability"*. The centres should organise and intensify co-operation and operational partnerships between the municipalities in any given region. In so doing, they are meant to enhance regional dynamism by intensifying joint business policies, promoting their coherence and encouraging networking. The intention is to increase competitiveness in all regions, rather than just a few growth centres. Conventional sectoral thinking has been viewed as unable to respond to current economic development challenges, and so, this programme represents a new approach – *'focusing action in different sectors of the administration all on the same goals'*.

Other examples of co-ordination *between* regional and national levels are provided by the following cases.

- Austria has an established practice of creating federal-*Land* contracts governing the division of policy and funding responsibilities between national and regional levels in the field of economic development. Regional strategies for individual *Länder* also involve close informal co-operation between federal ministries and regional authorities. This also applies to individual initiatives as with the Austrian programme of 'impulse centres' – publicly-funded agencies with the specific aim of promoting RTD networking between universities and businesses in particular industrial fields – which has been extended across the country through a series of national-regional collaborations.

- The new Danish government has indicated that it plans to improve such economic development co-ordination between national and regional levels in the near future. In-depth SWOT studies of particular localities have formed the basis for concrete development projects involving regional actors in partnership with central government (the Copehagen-Øresund project has been the model for this activity).
- In the Netherlands, the 'Partnership in the Regions' was signed by the Ministry of Economic Affairs, the Ministry of Transport, Public Works and Water Management, the Association of the Provinces of the Netherlands and the Association of Netherlands Municipalities to increase centre-region co-operation in three fields: industrial estates; innovation; and the 'operation of the market'.
- To avoid potential policy conflicts between the newly-empowered Scottish and Welsh authorities and the UK central government, a Memorandum of Understanding has been signed to ensure that all changes in regional industrial policy are co-ordinated between the central and territorial levels.

4.4 Redefining roles for national governments

Policy co-ordination is a national issue as well. In part, this is because of external pressures arising from the need to manage relationships over a series of different policy areas with the regional level, not least in terms of providing a framework for the development of sub-national economic strategies and policy initiatives. However, it has also resulted from the increased focus on the regional dimension of policies in a variety of different government departments. Just as frameworks have been required at regional level to maximise policy efficiency by integrating different measures and bodies, similar co-ordinating mechanisms have been needed for central government.

Responding to these pressures, several governments have designated particular units to oversee regional development matters. In Norway, the Regional Development Unit of the Ministry of Local Government and Regional Development has been given responsibility to co-ordinate the regional dimension to the policies of other government departments, principally through inter-ministerial groups. Similarly, in the UK, the Regional Co-ordination Unit – currently placed within the Office of the Deputy Prime Minister – was set up to implement cross-cutting initiatives, advise Departments on successful implementation strategies at regional and local level, and overall, to promote closer links between government activity in the regions and the centre. In Italy as well, the Department for Development and Cohesion Policies within the Ministry of Economy and Finance has general competence for economic and financial programming and co-ordinating the investments made for sectoral, territorial and cohesion development, with particular reference to the so called 'depressed areas'.

With the greater transfer of powers to a sub-national level in most countries, new questions have been asked about the role of the national level in regional development policy. Certain central functions have remained – notably assisted areas designation and the distribution of resources between regions – while many policy design and delivery functions have been decentralised. In many ways, regional policy ministries are serving

the same role in domestic regional policy that the European Commission has served in the Structural Funds: allocating funding; setting the guidelines for drawing up regional strategies; advising on and authorising the strategies; and ensuring that value-for-money has been taken place by seeing that what the regions have done is reviewed.

In many respects, this process has already taken place in the federated countries such as Austria and Germany, where the national level focuses its efforts on managing the framework for a spatially-differentiated economic development policy. It can, however, be most usefully seen in the case of Norway, where the election of a new government has heralded a significant transfer of powers away from central government. With much of its programming responsibility being transferred to regional level, a series of models is being considered by the Ministry of Local Government and Regional Development with regards to its future. Overall, the government is moving towards a ‘coaching and facilitating’ model, where the Ministry will have three roles: as an adviser to the *fylke*; as co-ordinator of regional development issues at national level; and as an overseer of regional development policy. First, the Ministry would have an active role as an adviser to the *fylke*. It would be responsible for facilitating the exchange of good practice between different regional development units as well as identifying relevant international experience. Where common problems arise which involve joint or national solutions, the Ministry will be responsible for undertaking the necessary research. It will also be active in undertaking pilot projects, which the *fylke* could later adopt. As already noted, the Ministry will also have a key role as co-ordinator of regional development issues between national ministries. Finally, the Ministry will retain its role as an overseer of regional development policy. It will still have authority in determining the aid maps and will continue to have the principal role in state aids monitoring for Norway as a whole.

5. ISSUES FOR DISCUSSION

The purpose of this paper has been to examine longer-term trends in regional policy and consider whether a real shift in the fundamental approach to regional economic development has been taking place. Clearly, as outlined above, there have been numerous, widespread changes, which, in many countries, collectively suggest the emergence of a new policy approach (what has been termed here, ‘regional development policy’). However, this has not meant an end to what is often described as the ‘traditional’ approach to regional policy, with its focus on equity goals and its selectivity in terms of instruments and spatial targeting. Policy remains in a state of flux – possibly even *transition* – and is perhaps best represented as a continuum along which different countries display differing balances between ‘regional policy’ and ‘regional development policy’. In some cases, the balance can be characterised by tension between the traditional and emerging concepts underlying policy, in others, by the development of a more harmonious policy framework. For all countries, though, policymakers recognise a set of key changes has altered the policy environment. These can be summarised as:

- a greater emphasis on the growth rather than redistribution objectives of policy;
- regionalisation of policy responsibilities;

- increased interest in policy co-ordination mechanisms;
- a shift from regional intervention to regional *management*;
- the influence of the Structural Funds; and, finally,
- the question of whether a paradigm shift has occurred.

5.1 Growth versus redistribution

The main conclusion is that the redistribution goal of regional policy has been downgraded or abandoned in favour of regional growth. Preferential aid for selected regions still exists but in a more diminished form compared to 30 years ago, whether measured in terms of political profile, financial resources or the range of instruments. Instead, the main focus is on regional development policies that seek to promote growth in all regions. As noted above there are several explanations for this shift in policy objectives: the overriding need to sustain or enhance national economic growth rates; the universal challenge of economic restructuring; the growing complexity of economic challenges within regions; the limited scale of regional disparities (in some, smaller countries); and the perceived ineffectiveness of traditional regional policies.

Whatever the reason, this represents a profound change. Whereas, in the past, governments were committed to reducing regional disparities in income and employment (at least partly) on social grounds, regional policymakers now appear to be exclusively concerned with differences between regions in economic terms. Making an immediate impact on unemployment by subsidising job creation has been superseded by the supply-side agenda of promoting innovation, skills etc. Relative disparities in income or employment seem to be perceived as important only insofar as they imply deficiencies in productivity or other measures of competitiveness.

It is not clear to what extent this is sustainable. Conditioned by increasing industrial restructuring in the post-WWII period, part of the original justification for regional policy was to avoid social tensions endangering the political and economic stability of the country. In the current environment, policymakers may take the view that the combination of welfare and labour market policies, as well as effective financial equalisation systems and equitable access to public services, provide a basis which would allow regional development policies to deliver self-sustaining growth, employment and prosperity in all regions. On the other hand, policies to promote regional growth in all regions may well have widely differing effects – an acceleration of growth in some regions but not in others – leading to a widening of disparities. Indeed, the latter point draws attention to the possibility that a shift in favour of efficiency objectives could come at the *expense* of the equity goals of policy: in some cases, there is a potential danger that unrestricted growth in core regions could directly hinder the growth prospects of more peripheral or less-favoured regions.

5.2 Regionalisation of policy

A second important feature of regional development policies is the emphasis on regionalised policy responses. Rather than central government determining the spatial and thematic focus of policy, the implementation of regional development policy is becoming more diverse with different measures being applied in different kinds of region. The process is being undertaken within a context of devolution to regional governments (Italy, the UK) or decentralisation to regional offices of State ministries or agencies (Finland, Ireland, Sweden, the UK). It involves not just a focus on the regions, but also ‘empowerment’ and encouragement of sub-regional and local initiatives (France, Germany, Italy, Sweden).

The nature of regionalised policy responses is based on the assumption that regional development challenges vary from region to region and can best (or only) be addressed by region-specific responses, in particular by improving regional capabilities for growth through supply-side strategies. The emphasis on partnership in developing regional strategies reflects the complexity and breadth of regional development actions (and the mix of policies and organisations involved) but also a belief that consensus in the design and implementation of strategies will lead to better-quality regional development.

However, there are several potential problems with this approach. First and most importantly, it assumes that regions – which may have a long dependence on one particular form of economic development – have themselves the ability and capability to move from one development path to another. It sometimes requires regions to be able to replicate the conditions for self-sustaining growth that are only found in certain regions by virtue of their historical, economic or geographic competitive advantages. Second, there is a danger that regionalisation may lead to an inward-looking approach to economic development, whereby the administrative boundaries of the region inevitably determine the spatial coverage of strategies, excluding or limiting the possibility of trans-boundary action in areas such as cluster development, technology transfer or networking. Third, regionalisation creates a new layer of institutions and administrative processes which, on the one hand, can more effectively diagnose and treat the causes of economic development problems but may also increase the complexity and diminish the efficiency of economic development intervention.

5.3 Co-ordination mechanisms

The regionalisation trend represents a significant change in the role of central government. The latter is now less involved in direct intervention and more in the establishment of the national framework for regional development policy (eg. objectives, rules), the allocation of resources to the regions and the monitoring of performance. The design of strategies and deployment of instruments has now become the responsibility of individual regions.

Policymakers have been exploring different ways of how best central government can exercise this role. A mix of approaches has been used, reflecting the different

constitutional arrangements, administrative traditions and institutional structures of each country (and offering opportunities for mutual learning across Europe). These approaches include:

- direct control/accountability of sub-national bodies to central government, typically through the use of performance indicators (as in England);
- contractual mechanisms in which the central government and sub-national bodies form ‘contracts’ for the carrying out of certain regional development activities (France, Austria);
- covenants through which devolved administrations agree common policies and guidelines (such as the Memoranda of Understanding in the UK and the agreement made between the Dutch central government and the northern regions on levels of regional development funding);
- planning frameworks within which the scope for sub-national authorities to pursue their own development objectives is defined (France, Germany); and
- administrative guidelines, laid down by central government.

Co-ordination arrangements need to suit individual political, constitutional, institutional and administrative circumstances and there is a limit to the transferability of systems and experiences across borders. However, it would be interesting to identify the factors that underlie effective co-ordination within regional development policies and whether there are commonalities among countries.

5.4 From regional intervention to regional management

An important role for policy is now the ‘management’ of regional development. The public sector has borrowed concepts and methods of ‘strategic planning’ from the private sector – analysis, mission statements, measurable objectives, systems of monitoring and control. It is apparent that regional development is more ‘evidence based’ than ever before. Central government seeks to manage or influence (rather than direct) the allocation of public resources in concert with other levels of government and non-government actors.

There are clear potential advantages from this approach. Policy measures are being designed and targeted on the basis of more analysis to suit region-specific conditions and needs. A managed, strategic approach enables policy to focus on a limited number of priorities with everyone pulling in the same direction and avoiding policy conflicts. Co-operation and co-ordination can induce new momentum into economic development by creating new regional identities, regional image and new direction of economic development. Indeed, these mechanisms have arguably become more important in light of the increasing shift to a ‘growth in all regions’ rationale in policy, in order to ensure that the policies for different regions complement each other. However, taken to its

extreme (as under Structural Fund programmes), it presupposes that, with sufficiently thorough analysis of regional problems, sophisticated resource allocation systems and extensive control procedures, strategies will achieve desired outcomes – in terms of impact on regional variables such as GDP and unemployment.

Among the problems, however, is over-ambition. Regional development strategies often account for a small part of overall public expenditure in the regions and a tiny fraction of overall economic activity. The ability to influence overall economic development trends is subject (whether in terms of negation or amplification) to the economic cycle, natural disasters, geo-political events etc. There are also bureaucratic objections. Regionalised policy management and delivery is often associated with new institutions and mechanisms, in some cases involving an elaborate administrative apparatus for analysis, resource allocation and control. This can be counter-productive and inefficient, putting more obstacles and delays between the policy objectives of politicians and the targets of policy intervention. The question, therefore, is how to establish and ensure the added value of the regional management role of regional development policies.

Moreover, it also raises the prospect that the new policy approach conceals the more significant retreat of the State from regional economic development intervention. Against a background of a wider neo-liberal philosophy of government of only acting in the economy in cases of clear market failure, it is telling that the changes in regional policy covered in this paper have not touched on the issue of budgets. There is little indication that ‘regional development policy’ is associated with either an increase or a redistribution of resources; indeed, it has been more concerned with the more ‘efficient’ use of existing resources.

5.5 Influence of Structural Funds

It is evident that many aspects of the new regional development policies discussed in this paper are similar to the principles and mechanisms of EU regional policy. The implementation of the Structural Funds embodies a regionalised, partnership-based approach to the design and delivery of integrated strategies via multi-annual programmes involving a mix of funding, and placing great stress on monitoring and evaluation. Although the delivery of Structural Funds was relatively straightforward in the 1989-92 programming, with a strong focus on productive investment and infrastructure, over successive programming periods, both strategies and delivery mechanisms have become more complex. The 2000-06 generation of Structural Fund programmes covers a wide range of policy interventions and instruments, promoting policy priorities such as gender mainstreaming, sustainable development, social inclusion and the information society, and they are managed – to varying extents - with sophisticated programme management, project selection and monitoring systems.

The development of the Structural Funds approach to regional policy has taken place over a similar period as changes to national regional policies. In some countries, policymakers are ready to acknowledge the influence of the Funds in, for example, encouraging a more regionalised or integrated approach to regional development policy.

Indeed, in some Member States – such as Austria and Denmark – the Structural Funds have effectively taken the role of spatially-targeted regional development support and in many senses, the Structural Funds have become synonymous with the term ‘regional policy’. In the case of Ireland, the Structural Funds have even been a major prompt for the creation of a regional policy in the first place, as the changes required to continue some form of Structural Funds eligibility laid the basis for the country’s new approach to regional development.

In other countries, the effects are less clear. In particular, to what extent has EU regional policy influenced the fundamental changes to the objectives and focus of national regional policies or has its effects been more on aspects of governance and organisation?

5.6 A new paradigm of regional policy?

One final reflection concerns the significance of the trends discussed in this paper. It is a remarkable feature of the recent period that several countries are engaged in fundamental reappraisal of their regional policies with important similarities in their thinking about the future. As discussed above, across a number of western European states, regional development policy is focusing heavily on growth by improving territorial capital through the application of more wide-ranging instruments. Regional development policies are being targeted at all regions, not just the disadvantaged areas, with policy increasingly being adapted to individual regional needs through integrated strategies managed and delivered at regional level. Policy measures are giving particular attention to a range of systemic and intangible issues such as knowledge flows and institutional relationships. Sustainable development, variously defined, is becoming an integral part of policy design and delivery.

For many academic observers and policymakers, the commonalities in the trends observed across countries, suggests that a change in the paradigm of regional policy is taking place. While the perception of the depth of change varies by countries – and the time period examined – for many policymakers, there is now a fundamentally different conception of the purpose and function of policy compared with the past. The trends are, however, not universal. Not every western European country is engaged in major change to its regional policy, and there are important differences between countries in the changes taking place. The key question, therefore, is whether the new ‘paradigm’ of regional policy has a wider relevance to other countries in both western and eastern Europe.