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WHERE IS REGIONAL POLICY GOING? CHANGING CONCEPTS OF REGIONAL POLICY

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WHERE IS REGIONAL POLICY GOING? CHANGING CONCEPTS OF REGIONAL POLICY

1. INTRODUCTION

Regional policy is one of the most complex areas of government policymaking to define. The term can mean different things to people from different disciplines, jurisdictions and countries. It is approached from various ideological standpoints (free market, interventionist), and is given multiple objectives (maximising national economic growth, minimising social costs) which may be vague, subject to change and contradictory. Regional policy may be interpreted or practised as micro-economic initiatives (eg. investment incentives) or macro-economic actions (eg. stabilisers) or approaches to governance (eg. policy co-ordination, devolution), and it can involve every level of government – from the local community to the European Community – and actors in the private and voluntary sectors.

Formulated to deal with the locational aspects of social processes, regional policy constitutes a government response to uneven economic growth and development. While virtually all government policies have spatial characteristics and impacts, and some are highly place specific, the spatial incidence of these policies is usually secondary to their main focus on people (individuals, communities), economic agents (enterprises, sectors) or political entities (local authorities, nation states). The distinctiveness of regional policy is its concern with the *spatial* aspects of social and economic activity.

Over the past 50 years, every developed country has had some kind of regional policy. During that period, the aims, instruments and institutional arrangements of regional policy have evolved in line with political, economic and social trends, but the basic conceptual framework has remained largely the same. Until fairly recently, the predominant approach to regional policy would be instantly recognisable to a regional policymaker from the 1950s. However, the past 5-10 years have seen some fundamental changes in thinking about the role, form and delivery of regional policy leading to relatively radical changes. Indeed, it could be argued that a change in the *paradigm* of regional policy is under way.

To examine these issues in more detail, the aim of this paper is to make a critical assessment of the principles and concepts of regional policy. Its purpose is to consider why regional policy exists, its design and application in different countries, the evolution in thinking about regional policy over time and the characteristics of the 'new' regional policies emerging in EU countries.

Following this introduction, the paper has four sections. It begins with a discussion of the principles and assumptions on which regional policy is based. It then considers the different concepts of regional policy across the EU and the changing paradigm of regional policy. Lastly, the paper presents some discussion points. Although the paper touches on some of the philosophical and conceptual underpinnings of regional policy, as well as the theories of regional development, the field of enquiry is very much the practical aspects of policy design.

2. WHY REGIONAL POLICY?

2.1 Space, social processes and government intervention

A starting point for discussion is the concept of space. In a fundamental sense, space, like time, is integral to all aspects of human thought and existence. Space provides a means for ordering people, things, events and processes. Space helps us to make sense of the world and the complex processes of social behaviour and organisation, such as settlement and economic activity.

*“From physics to aesthetics, from myth and magic to common everyday life, space, in conjunction with time, provides a fundamental ordering system interlacing every facet of thought”.*¹

Space has many meanings. People perceive and interpret space and spatial relations differently in different situations. The spatial labels given to places are more than a descriptor of geographical boundaries, acquiring political, cultural and social meaning, associated with images, perceptions and connotations. Regional policy is loaded with spatial references that embody more meaning than simply the geographical description of a territory or a spatial pattern, for example: the north-south divide; the new *Länder*; the *Mezzogiorno*; the *Randstad*; the Northern dimension. The difficulty in reaching agreement on the meaning of the ‘region’ in the regional development literature exemplifies the intuition and subjectivity that underlie our notions of space. Apart from geographical or ecological boundaries, ‘regions’ can be integrated and represented as: a *social system* of cultural, political and economic interaction; an organised and institutional *co-operation* in cultural, economic, political and military fields; a *civil society* with convergent cultural and social norms and values; an historically formed *identity* operating as a legitimised political action; and an *administrative partition* carried out by central government to manage the national territory.²

Social evolution and organisation are fundamentally interconnected with geography. Distance or proximity and the variation between areas – in resource endowment, climate, topography etc – are integral to the development of social processes. However, space can not be separated from the social processes that operate over space. Certain spatial characteristics (eg. the availability of natural resources) do not automatically produce a given outcome. Spatial variation is mediated through a particular social response: “it is not ‘space’ itself which accounts for the impact on the national economy but social and economic processes operating spatially”.³ Spatial imbalances in development, therefore, need to be understood with reference to the

¹ Sack R D (1980) *Conceptions of Space in Social Thought: A Geographic Perspective*, Macmillan, London and Basingstoke, p.4.

² Hettne B (1994) ‘The regional factor in the formation of a new world order’, in Y Sakamoto (Ed.) *Global Transformation: Challenges to the State System*, United Nations University Press, New York. Smouts M-L (1998) ‘The region as the new imagined community?’ in P Le Galès and L Lequesne (Eds.) *Regions in Europe*, Routledge, London and New York.

³ Massey D (1984) *Spatial Divisions of Labour: Social Structures and the Geography of Production*, Macmillan, London, p.56.

social context. The process of translating resources into economic growth – the notion of development – involves a complex set of decisions and choices about how resources will be used. Development “*involves explicit and implicit value judgements about the direction and speed of structural changes*” which are “*induced, framed and generated by deliberate policies and development agents*”.⁴ Within a market economy, it is decisions about the mobility and organisation of capital, and its relationship with labour, that determine whether and how development takes place in particular locations at particular points or periods of time.

The basis for regional policy is that the spatial consequences of these development decisions matter, notably the perception that variation in prosperity (income levels, job opportunities) is undesirable. This is not necessarily self-evident. It could be argued that ‘people prosperity’ is the key issue, an appropriate objective for public policy being to maximise potential opportunities and economic well-being for individual citizens, not for regions.⁵ Nevertheless, regional policy proceeds from the fact that economic development in a market-based economic system is uneven and unequal vis-à-vis individuals, social groups and regions, and that this can be considered unjust or inefficient. Paraphrasing a quotation on regional economics, it can be said that regional policy:

*“starts from the existence of grievances that are identified with particular parts of the country, and from conflicts of economic interest between the predominant parts at least of regional communities”.*⁶

This suggests that regional policy depends on people identifying with regions (as opposed to local communities or countries), on being able to perceive their economic and social situation in a territorial context and in relative terms, (rather than absolute, personal experience), and on individuals being able to use this territorial context to articulate their concerns about the consequences of economic change. (Of course, perceptions of differences depend greatly on the units and indicators of measurement, which may deliver very different abstractions of spatial patterns.)

A further assumption is that intervention by government is rational, in the sense that applying resources using certain instruments in a specific way will lead to positive outcomes (however defined). Historically, the origins of regional policy are bound up with the growth of government, its role in distributing increasingly significant amounts of public expenditure and popular expectations about the responsibilities of the State for social welfare and economic activity. However, the rationality of State intervention is by no means self-evident and has been challenged as being increasingly unrealistic in the context of a more complex environment for economic development and policy-making.⁷ Looking back over the 50 years of regional policy,

⁴ Hermansen T (1972) ‘Development poles and development centres in national and regional development. Elements of a theoretical framework’, in A Kuklinski (Ed.) *Growth Poles and Growth Centres in Regional Planning*, Mouton & Co, Paris, The Hague, pp.1-68.

⁵ Savoie D J (1986) *Regional economic development: Canada’s search for solutions*, University of Toronto Press, Toronto, p.9.

⁶ Quotation from George Brown (British Chancellor of the Exchequer), cited in Cameron G C (1974) ‘Regional Economic Policy in the United Kingdom’, in Sant M (Ed.) *Regional Policy and Planning in Europe*, Saxon House, Lexington Books.

⁷ Huber W (2001) Consideration on the possibilities of spatially oriented policy making in a world of dynamic complexity, mimeo, 23 pp.

it is difficult to identify any correlation – across time periods and countries – between spatial inequality and regional policy intervention. During that time, of course, judgements as to the acceptability of regional imbalances and the role of State action have varied. In the 1960s it was possible to argue that governments “*would adopt regional policies even if the economic case was shown to be unconvincing*”,⁸ a statement which contrasts with the contemporary evidence-based, economic objectives with which regional policy needs to be justified.

2.2 Rationales for regional policy

In responding to the unevenness of development, regional policy is rationalised in various ways. At its most basic, regional policy is undertaken to ensure *national stability*. Policy may be initiated for particular regions suffering from temporary or persistent problems. This may be in the form of relief for high, localised unemployment resulting from plant closure, as in the early regional policies of some western European countries during the inter-war period (eg. the United Kingdom) or 1950s (eg. the Netherlands), or some of the first regional policy initiatives in Central and Eastern Europe during the 1990s (eg. Poland). Essentially, this approach can be considered as a passive form of quasi-welfare or regional labour market policy undertaken for political and social reasons, often because politicians have to be seen reacting to calamitous, local economic events. Such a policy may also be practised longer term for national, strategic reasons, where structural development and adjustment possibilities are limited or where national defence interests are involved, as in the cases (until the end of the 1980s) of the West German commitment to the Zonal Border Area or regional policy in northern Norway or northern Greece.

A second justification for regional policy is *social justice*. This originates from a concern with the relativities between regions in the form of spatial inequalities in income or living standards. In promoting a more equal distribution of income, employment opportunities or infrastructure, the equity or equalisation case for regional policy is that people in all parts of a territory have a right to the same or similar standard of living or that regional economic disparities or ‘disequilibria’ may lead to grievances, social unrest and, in certain cases, nationalism. This justification is essentially non-economic: it does not necessarily dispute the economic efficiency of the market, but argues that market mechanisms do not lead to satisfactory social outcomes and that regional policy is needed to achieve a more balanced pattern of development. The mandate of the German constitution to guarantee equal living conditions typifies this justification of regional policy. Another example is Spain where the (1978) constitution requires the State to safeguard “*the establishment of a just and adequate economic balance between the different areas of the Spanish territory*”.⁹ There may also be other, non-economic reasons such as the desire to preserve and strengthen regional cultures and identities, which partly underpinned early regional policies in France.

The most common reason for regional policy is the pursuit of regional and/or national *economic efficiency*. Regional policy action may be justified on the basis of presumed

⁸ McCrone G (1969) *Regional Policy in Britain*, George Allen & Unwin, London, p. 25.

⁹ Alonso Texidor L F and Hebbert M (1982) ‘Regional planning in Spain and the Transition to Democracy’, in R Hudson and J R Lewis (Eds.) *Regional Planning in Europe*, London Papers in Regional Science, Pion 11, London.

‘market failure’. For example, it is argued that economic inefficiencies arise because the market does not bring about an optimal allocation of productive resources. This argument focuses particularly on the perceived disadvantageous external effects of agglomeration, requiring regional policy to act as a corrective mechanism in order to produce a more efficient economic outcome.¹⁰ Fuller utilisation of regional resources, notably labour, would thereby promote national economic growth. The reduction of inter-regional differences has also been regarded as assisting macro-economic management of the economy and control of inflationary pressures. This ‘efficiency approach’ has been advocated in a development context (eg. Portugal, Ireland, Candidate Countries), where regional policy goals are part of national development strategies of maximising economic growth. It has also been pursued in many of the more developed Western European countries during the post-war period, responding to agglomeration pressures in core regions and facilitating adjustment in regions undergoing restructuring. In both cases, regional policy may involve several different objectives – the increased use of resources in regions where these are under-utilised, the efficient re-allocation of factors between regions to maximise overall income and growth, and the restraint of expansion of employment in congested regions – in pursuit of more optimal, spatial patterns of net economic and social benefit.

A final justification for regional policy could be termed *policy efficiency*. It has been argued that unequal development is actually often attributable to the failure of public policy.¹¹ It is suggested that supposed inefficiencies in market economic systems – and the unequal development and agglomerations that result – are caused or at least perpetuated by government policies that distort the functioning of market mechanisms. Examples of such ‘failure’ would include the way in which the government of the State is organised, the systems of government regulation, the allocation of public expenditure and the ‘price signals’ generated by subsidies for urban transport, public housing etc. Arguably, without such policy influences, agglomerative effects would be less likely to be sustained. The basis for regional policy intervention, therefore, if only implicitly, is to counteract the distorting effects of other aspects of government policy.

There are several qualifications that need to be made to this typology of the rationales for regional policy. First, the above categorisation is not regarded as mutually exclusive, and there are many examples of multiple rationales underlying regional policy. In France, for instance, the objectives of regional policy were framed in 1965 in terms of economic progress, public order, national defence, social and cultural objectives.¹² Regional policy in West Germany was specifically designed to fulfil the constitutional mandate of guaranteed equal living conditions (social justice), to ensure the optimal utilisation of production factors (efficiency) and to provide economic assistance for West Berlin and the Zonal Border Area (strategic).¹³ The long-standing goals of Dutch regional policy required that differences between various regions be reduced *and* that the contribution to national prosperity by every region be enhanced. During the 1980s, regional policy in the UK had a multiplicity of objectives: regions

¹⁰ Fürst B D, Klemmer P and Zimmermann K (1976) *Regionale Wirtschaftspolitik*, Tübingen and Düsseldorf.

¹¹ Klemmer P (1986) *Regionalpolitik auf den Prüfstand*, Bundesverband der Deutschen Industrie e.V., Köln.

¹² Prud'homme R (1974) ‘Regional Economic Policy in France, 1962-1972’, in N M Hansen (Ed.) *Public Policy and Regional Economic Development: The Experience of Nine Western Countries*, Ballinger, Cambridge, Mass., pp. 33-64.

¹³ Krumme G (1974) ‘Regional Policies in Germany’, in N M Hansen (Ed.) *op. cit.* pp. 103-136.

should ultimately achieve self-reliant growth; regional incomes and unemployment rates should be at an acceptable level; migration losses should not be substantial; and regional unemployment rates should not diverge sharply. Such multiple objectives may not be surprising, given the competing pressures on policymakers, but there are inherent dangers of contradiction in combining objectives, as well as difficulties in evaluating policy performance.

Second, regional policy objectives vary over time. Changes in the policy environment are associated with shifts in the objectives of regional policy. For many Western European states, there is a long-term trend of priority being given to equity in times of economic growth and to efficiency during times of recession and stagnation. An interesting perspective on the rationale of regional policy is provided by Friedmann¹⁴ who set European regional policy within a longer term and broader international framework (see Table 2.1). Friedmann argued that the importance of regional policy is related to the phase of national development – being ‘inappropriate’ for pre-industrial societies, ‘critical’ for transitional phases of economic development and ‘vestigial’ for industrial societies (“*the affluence that comes with industrial maturity allows of noble gestures*”). Friedmann was writing in the 1960s, and his table is now out of date, but his argument about the importance of regional policy in phases of transitional societies could feasibly be applied to the ‘transitions’ being undergone in both EU Member States (transition to a knowledge economy) and Candidate Countries (transition to a market economy). In both these cases, new forms of industrial organisation and the division of labour are giving rise to important spatial shifts.

Table 2.1: Regional policy and stages of economic development

Type of Economy	Pre-industrial	Transitional	Industrial	Post-industrial
Industry as Share of GNP	0-10%	10-25%	25-50%	Declining
Importance of Regional Policy for National Economic Growth	Inappropriate	Critical	Vestigial	Shift to a new focus
Policy Emphasis	Creating pre-conditions for economic development	Creating a spatial organisation capable of sustaining transition to industrialism	Depressed area problems; area redevelopment; spatial adjustments to common market organisation	Urban renewal; spatial order and circulation within metropolitan regions; open space and amenities of landscape
Examples	Tanganyika Paraguay Bolivia Afghanistan Cambodia Burma	Venezuela Brazil Colombia Turkey India Pakistan Iraq Mexico	France Italy West Germany Japan Israel United Kingdom Canada Australia	U.S.A.

Source: Friedmann J (1966) *op. cit.*

¹⁴Friedmann J (1966) *Regional Development Policy: A Case Study of Venezuela*, MIT Press, Cambridge, Mass., pp.7-8.

Third, the rationale for regional policy is not always precisely defined. Such imprecision derives from the trade-off between equity and efficiency, the mix of economic and social objectives and the political dimensions of regional development. Thus, the terminology used in policy formulation may be open to widely different interpretation. In France, for example, the introduction of “*regional policy was not inspired by a few broad objectives that could be easily stated, and compared with tools and results*”; indeed it was said that “*regional policy was what DATAR did*”.¹⁵ Similarly, in the UK Cameron identified “*a desire to leave policy objectives as fluid as possible*”¹⁶ with governments avoiding either a precise specification of regional policy goals or quantified targets. In a complex policy environment the setting of goals and objectives has been termed a ‘slippery exercise’.¹⁷

There are other factors that play a part in determining regional policy objectives. For example, the justification for regional policy is conditioned by *political ideology*. Armstrong and Taylor postulate two opposite approaches to regional development.¹⁸ One is the ‘free market approach’, based on a political ideology of neo-classical economics, popular capitalism, a minimal role for the state and ‘enterprise-oriented culture’. The causes of regional disparities are attributed to labour market rigidities and excessive state regulation, leading to policies of deregulation and privatisation, with minimal expenditure on regional policy. The converse is the ‘interventionist approach’ based on an activist State and supply-side support for industry and commerce to address structural weaknesses and low investment in the problem regions. The regional policy response is pro-active at regional and local levels, involving decentralisation of regeneration powers, and extensive regional policy intervention. It has been suggested that there is a definable intermediate approach, politically marketed as ‘The Third Way’ (Blair, Giddens) or ‘Die Neue Mitte’ (Schröder, Hombach), encompassing elements of both the free market and interventionist approaches, viz: “*it stands not only for social justice but also for economic dynamism and the unleashing of creativity and innovation*”. The thesis is regarded sympathetically by some academics, who recognise both ‘free market’ and ‘interventionist’ elements in modern regional and industrial policies,¹⁹ although others are more critical.

A further factor concerns the *regional policy strategy* which is being followed. One approach to adopt is a regional development strategy of exogenous development, focusing on stimulating the spatial mobility of production factors. Characteristic of regional policy in the first decades of intervention, policy may seek to resolve problems of labour over-supply, either by attracting new capital investment into the problem regions or by encouraging labour to move to the core regions. An alternative strategic approach, increasingly practised in regional policies from the 1980s onwards, is to raise the demand for labour by promoting endogenous development

¹⁵ Prud’homme R (1974) *op.cit.*, p. 41.

¹⁶ Cameron G C (1974) *op.cit.*, p.77.

¹⁷ Wadley D (1986) *Restructuring the Regions: Analysis, Policy Model and Prognosis*, Organisation for Economic Co-operation and Development, Paris.

¹⁸ Armstrong H & Taylor G (2000) *Regional Economics and Policy*, Third Edition, Blackwell Publishers, Oxford, p. 211.

¹⁹ For example, Morgan K (1997) The Learning Region: Institutions, Innovation and Regional Renewal, *Regional Studies*, 31(5), 491-503.

within the problem regions, for example by encouraging new firm formation, SME development, technology transfer etc.

Finally, the conceptualisation of regional policies can also reflect the different *policy options*. In a comprehensive typology, Armstrong and Taylor draw a distinction between three types of regional policy approach:²⁰

- Micro-policy options – policies to reallocate labour through *in situ* education and training or migration and mobility policies; or policies to reallocate capital through subsidies (incentives) and taxes, administrative controls, policies to improve enterprise efficiency, capital market efficiency or the development of social capital.
- Co-ordination options – co-ordination *within* jurisdictions between micro-policy instruments or between macro- and micro-policies; or co-ordination *between* jurisdictions, as between EU and Member States policies or between national, regional and local policies.
- Macro-policy options – devolution of trade policy, fiscal policy and monetary policy powers to regions; or regional discriminating tax and expenditure policies (automatic or discretionary stabilisers), monetary policies or tariff and other trade controls.

The operation of regional policies during the post-war period can be considered with respect to this typology. For example, regional policy in the UK has tended to concentrate very much on micro-policy options under the heading of ‘regional industrial policy’. The same would apply to the scope of regional structural policy in Germany or the ‘narrow’ regional policies of the Nordic countries, although in all these countries, there has also been an important ‘co-ordination’ and macro-policy strand to policy, as under the ‘broad’ regional policy of Norway and Sweden, which has involved a co-ordinated regionalisation of sectoral policies and regionally discriminating tax and expenditure policies. The French approach to regional development – *aménagement du territoire* – has also placed great emphasis on the co-ordinated planning of regional and sectoral policies between jurisdictions at different levels.

An interesting variant on this typology is the distinction made by Klemmer²¹ between the *Ordnungspolitik* and *Prozesspolitik* aspects of regional policy. The notion of *Prozesspolitik* (‘process policy’) encompasses direct State intervention through the micro- and macro-policy options outlined above. These are actions operating within a given set of legal, institutional and constitutional parameters. By contrast, the concept of *Ordnungspolitik*, embedded in constitutional economic analysis, goes much wider than the above co-ordination options and relates to the framework of governance, encompassing the structures, systems, regulations and procedures that govern the space of operation for the economy. With respect to regional policy, there are policy options concerned with how the legal-institutional-constitutional rules can be designed to maximise and facilitate the competitiveness of regions. Such framework

²⁰ Armstrong H and Taylor J (2000) *op. cit.*, pp. 233-234.

²¹ Klemmer P (1986) *op. cit.*, p. 22.

issues are of fundamental importance for regional development in a federal system, as in Germany, and are becoming increasingly so for other countries engaged in devolution and the evolution of new systems of governance.

3. TRADITIONAL CONCEPTS OF REGIONAL POLICY

Having discussed the basic concepts and rationales of regional policy, the following sections review the evolution of regional policy over time, focusing on how the theoretical basis and policy approach have changed over time among Western European countries. As noted earlier, it can be argued that regional development is undergoing a shift in ‘paradigm’ (see Table 4.1). In this view, there has been a fundamental change in all aspects of how regional development is conceptualised and how regional policy is conceived and delivered. This shift begins with the theoretical underpinnings of regional development and the factors which are considered to explain the geography and economy of development. It proceeds through the aims, objectives, sphere of action and mode of operation of policy, and is evident in the changing organisation of how policy is developed, managed, delivered and assessed.

3.1 Policy origins

Regional economic development has a long history, with the precursors of modern regional policy dating back over the past millennium. Ever since rulers and governments had an interest in the prosperity and unity of their territories, they have provided patronage and privileges for agricultural colonisation, industrial development and trade. Until the emergence of government taxation on a significant scale, support for particular centres or areas was undertaken mainly through the granting of rights to land or trade, concessions to exploit resources and the regulation of labour mobility.²² It is possible to identify forerunners of ‘regional development policies’ in the reliefs on royal taxation provided by monarchs to feudal barons to retain their presence in key areas or in mediaeval legislation restricting the movement of labour in order to maintain agricultural production. Other examples are the subsidies provided, during the 17th and 18th centuries, to attract skilled artisans to certain areas – most notably the ‘industrial mobility support’ of Louis XIV, but also in the cases of the subsidised movement of Huguenots to Prussia, foreign weavers to Dordrecht, Tyrolean farmers to the Palatinate, and English linen weavers to Ireland.

Such initiatives were motivated primarily by strategic or commercial considerations, the ‘regional’ aspects being incidental to the promotion of sectoral interests or (with the rise of the nation state) national economies. It is not until the industrial age that policies explicitly concerned with the management of space begin to appear. From the mid-19th century onwards, several European countries began to undertake major city and town planning schemes (most notably in Paris) to reconcile competing demands for residential, industrial and transport space, which progressively led to national

²² Miller E (1976) ‘Government Economic Policies and Public Finance, 1000-1500’, in C M Cirolla (Ed.) *The Middle Ages*, Fontana Economic History of Europe, Volume 1, Harvester Press/Barnes & Noble, Trowbridge. Vries J De (1976) *Economy of European in an Age of Crisis, 1600-1750*, Cambridge University Press, Cambridge. Crouzet F, Chaloner W H and Stern W M (1969) *Essays in European Economic History, 1789-1914*, Edward Arnold, London.

town planning legislation eg. in Italy (1865), Sweden (1874) and France (1911). An important part of this trend was driven by a social welfare agenda, focusing on the need to improve the situation for individuals and communities eg. through poor relief, regulation of social conditions, and the improvement of urban infrastructure.

The focus of planning progressively widened from the urban scale to regional and national levels during the late 19th century and early 20th century, with concerns about the optimal utilisation of industrial capacity, finding new land for factory development and the strategic location of armament industries. Major regional development programmes were initiated (eg. reclamation of the Zuyder See in the Netherlands and the Pontine marshes in Italy), and regional plans were drawn up to influence the distribution of industrial activity. In Germany, for example, the Regional Planning Federation of the Ruhr District was set up in 1920 with a remit that included the 'economic and sound development of land and industry' in the Ruhr region. Likewise, in the US, the huge and influential Tennessee Valley Authority experiment was undertaken to resuscitate a backward area (and, at the same time, check the flooding of the Mississippi).²³ Promoting national unity was also a factor: for example, in the newly-unified Italy, the State invested heavily in the speculative construction of railway infrastructure in the late 19th century to open up undeveloped areas and stimulate industrial production.²⁴

During the late 1920s and 1930s, two factors further stimulated the emergence of regional policy. First, the impact of the 'Great Depression' led to area-specific measures in response to economic and social hardship. Mass unemployment, especially its concentration in industrial conurbations, threatened political and social stability. It revealed the devastating impact of market forces and the inadequate capacity of institutions (public, private, voluntary) to cope with such effects. In the UK, an industrial transference scheme was initiated in 1928, to transfer unemployed miners to more prosperous regions, followed by the 1932 Special Areas Act providing special support for the high-unemployment areas of Western Scotland, South Wales, North-East England and West Cumberland.²⁵ At this time, some of the Nordic countries were also providing similar help to social groups affected by the Depression, *de facto* a form of regional aid.²⁶

A second factor was strategic, prompted by defence interests, to relocate armament and other vital industries. In France, for example, a fund was instituted in 1931, and extended in 1934 and 1938, to decentralise the aircraft industry - an initiative that, initially at least, was partly conceived to develop the depressed regions of the South. Similarly, in Poland, plans were drawn up to reorient the geographical distribution of industrial activity, promoting industrial development in the east and relocating industrial centres in the west of the country.²⁷

²³ Pepler G L (1940) 'A Memorandum on Planning in Some Other Countries' in *Report of the Royal Commission on the Distribution of the Industrial Population (Barlow Report)*, Cmd. 6153, HMSO, London, Appendix IV, pp.288-314.

²⁴ Miller E (1976) *op. cit.*

^{OR} McCrone G (1969) *op. cit.*

²⁶ Monnesland J (1994) *Regional Policy in the Nordic Countries*, Nordic Institute for Regional Policy Research, NordREFO, Copenhagen.

^{OT} Pepler G L (1940) *op. cit.*

These inter-war initiatives provided the basis for more substantial and sustained action following the Second World War. The war and its aftermath led to a new political consensus, across Western Europe and North America, about the role of government. The widespread introduction of Keynesian policy measures was undertaken to influence or moderate the effects of market forces, including on the spatial distribution of resources. After 1945, following the period of emergency reconstruction of physical infrastructure and production capital, regional concerns gradually moved on to the policy agenda. There were a number of reasons for this. One was an increasing emphasis across Europe on equality issues and questions of distribution. At the same time, the severity of the regional problem increased in many countries, with moves out of agriculture and downturns in traditional heavy industry resulting in both unemployment in problem regions and significant migratory flows to major urban centres, particularly in more prosperous areas. As a result, serious concerns arose about congestion levels and infrastructure provision in many of the major agglomerations (eg. London, Paris, Randstad), with attendant inflationary pressures. In such a situation, the economic case for regional policy was often heard. The argument was that regional policy would enhance national development by taking up the employment slack in the problem regions whilst relieving inflationary and other pressures in more prosperous, congested areas. At the time, too, there was a general confidence in government intervention, a conviction in many parts of Europe that the problems facing government could be solved if only the appropriate planning was undertaken and the correct policies adopted.²⁸

3.2 Policy characteristics

The major problems of concern to regional policymakers across Western Europe were underdevelopment and depopulation in rural areas (eg. the Highlands & Islands of Scotland, the ‘desertification’ of the Massif Central in France, southern Italy), especially in peripheral regions (eg. the northern parts of Norway, Sweden and Finland, the Zonal Border Area in western Germany). Particularly severe problems existed in parts of northern Finland and northern Norway following the ‘scorched earth’ destruction of buildings and the need for resettlement arising from the war. In addition, regional policy also attempted to address problems of geographically concentrated unemployment (“*keeping the peace in the face of economic rationalisation*”²⁹) especially in Scotland and northern England, where throughout the 1960s unemployment was around twice the UK average.

The central pre-occupation of regional policymakers at this time was 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:

- models of land prices (Von Thünen) which related the location of (agricultural) production to distance from markets and transport costs;

²⁸ Yuill D and Nicol S (1982) ‘Regional Problems and Policy’ in A Boltho (Ed.) *The European Economy: Growth and Crisis*, Oxford University Press, Oxford.

²⁹ Weaver C (1984) *Regional Development and the Local Community: Planning Politics and Social Context*, John Wiley and Sons Ltd.

- theories of industrial location (Weber), which explained the optimum location of a firm in relation to the minimization of transport and labour costs (Weber) or, taking account of product demand, the maximization of profits (Lösch);
- theories of the spatial distribution of economic activity, which explained settlement site in relation to market functions and distance (Christaller), as well as economies of scale (Lösch); and
- theories of growth poles, which maintained that industrial agglomerations arise due to economies of scale arising from locational proximity (Myrdal, Hirschmann, Perroux)

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

Table 3.1: Origin and evolution of regional policies in selected EU Member States³⁰

Austria: Regional policy in Austria is less readily definable than in most other countries, with competences and initiatives spread across several policy areas and departments at national and regional levels. For the first two decades following the Second World War, the priority was economic reconstruction. The Russian occupation of the eastern part of the country meant that development effort was directed exclusively to western Austria until 1955 with a switch thereafter to an almost total focus on eastern regions. Until 1980, regional development policy was undertaken principally through physical and social infrastructure investment, with spatially focused policy initiatives limited to programmes for declining mining areas. From the 1980s onwards, a more explicit regional policy was evident, with special business aid and infrastructure support for the restructuring of industrial regions, as well as endogenous development of rural areas. During the 1990s, the scope of 'regional policy' has broadened to involve action under several sectoral policies and to focus more on the business environment.

Finland: Statutory regional policy began in 1966 when the first regional policy laws were introduced. From this time up to 1975, regional policy (as defined in the legislation) was confined to the least-developed areas covering northern and eastern Finland and large parts of central and western Finland. In the mid 1970s regional policy became nation-wide in scope with a wide range of differentiated measures encompassing incentives, development planning and public service provision). In the 1980s, regional policy began to shift from longer term development support to dealing with problems of structural change outside the traditional development areas. Major policy changes to the organisation of regional policy were undertaken in 1994 to prepare for accession to the EU, bringing national regional policy (with a combination of regional incentives and regional development programmes) onto a similar basis to the Structural Funds.

France: Regional policy effectively began in the 1950s as a decentralisation policy, responding to the over-dominance of the Paris conurbation and the depopulation of rural areas. A series of laws

³⁰ This section draws on the following sources: Yuill D, Allen K and Hull C (Eds.) (1980) *Regional Policy in the European Community*, Croom Helm, London; Meyers F (Ed.) (1965) *Area Redevelopment Policies in Britain and the Countries of the Common Market*, US Department of Commerce and Area Redevelopment Administration, US Government Printing Office, Washington, DC; Hansen N M (Ed.) (1974) *op. cit.*; and Sant M (Ed.) *op. cit.*

provided subsidies to promote the relocation of manufacturing from the capital but it was the creation of the national regional development agency, *Délégation à l'Aménagement du territoire et à l'Action Régionale*, DATAR, in 1963, that marked the start of a co-ordinated high-profile regional policy. Initially focusing on the rural, less-developed regions, regional policy comprised a mix of infrastructure investment, financial incentives and development constraints, set within the context of a national and regional economic planning framework. In the 1970s, the focus narrowed to a regional industrial policy, concentrating intervention on support for restructuring in areas of industrial decline. From the 1980s onwards, a process of decentralisation led to an increasing role for the regions and 'bottom up' development, managed through the *Contrats de Plan État-Region*.

Germany: Support for depressed areas began in 1951, first as emergency assistance, and later to promote economic development areas in large 'federal expansion areas', mainly in more rural areas of southern Germany, Lower Saxony and Schleswig-Holstein. This was complemented by targeted support on 'expansion centres' by encouraging decentralised concentrations of non-agricultural job opportunities in rural areas suffering from high under-employment. The expansion areas and centres were superseded by (and incorporated in) 'regional action programmes' initiated in 1968, with spatially concentrated assistance in industrial development centres, jointly planned and funded by federal and state governments. This was codified in the 1969 legislation establishing the *Gemeinschaftsaufgabe 'Verbesserung der Regionalen Wirtschaftsstruktur'*, which has remained the basis for German regional policy since then. Over time, the institutional arrangements and key instruments have stayed broadly the same, but with a progressive shift away from rural problems to support for old-industrial areas until 1990, when the focus of regional policy shifted heavily towards the new German *Länder*.

Ireland: Since the 1950s and 1960s, the main focus of Irish industrial policy has been on economic transformation of the country, focusing heavily on the attraction of foreign direct investment and co-ordinated by the Industrial Development Authority (IDA). Although the first support for designated underdeveloped areas (through financial incentives) was already introduced in 1952, subsequently supplemented by other measures and development bodies for the western parts of the country, most of the support has been available nationwide with certain preferences for designated areas. From the late 1970s, national industrial policy began progressively to shift towards the promotion of Irish industry, with a major organisational restructuring of the IDA in 1993, fostered by growing receipts from the Structural Funds. It was only recently through regionalisation agreed in the context of the Structural Funds and operation of regional aid guidelines that there have been moves to a more differentiated regional policy.

Italy: Regional policy began in the late 1940s with an initial series of measures for the *Mezzogiorno* comprising fiscal relief, special credit facilities and other financial incentives for enterprise. In 1950, policy for the depressed South was expanded significantly with the creation of a special interventionist agency, the *Cassa per il Mezzogiorno*, under a cross-sectoral council of ministers, and a programme of public investment and financial incentives, which was progressively expanded over the subsequent decade. Italian regional policy remained synonymous with *Mezzogiorno* policy from 1950 until the early 1990s (although the institutional structure was amended over time). Policy changed radically in 1992 as a result of Law 488, which ended special intervention and special institutions for the *Mezzogiorno* and introduced policies for development areas throughout the country.

Netherlands: At its inception in 1952, regional policy was designed to combat structural regional unemployment, with special assistance measures for the rural areas in the north, south-west and south-east of the country. In a second phase, the objectives were broadened in 1959 to encompass the dispersion of industry and economic activity (away from the *Randstad*) and, later, to respond to industrial decline in certain areas. The broadening of regional policy stopped in 1973, with a shift in objectives towards efficiency goals and a narrower focus on fewer areas. Since the 1980s, narrowing regional disparities and the decentralisation of economic development responsibilities to the provinces have reduced the role of regional policy, with regional aid increasingly limited to the Northern Netherlands.

Sweden: Unlike most other European countries, Sweden did not have to undergo a phase of reconstruction after 1945, nor did it face significant pressures from industrialisation or urbanisation, until the 1960s. This has been partly ascribed to active labour market policies, pursued already in

the 1930s, and based on a traditional commitment to social welfare across the whole country. Pursuing inter-regional equality in income and employment, this commitment took on a regional policy component from 1955, with a system of subsidies to promote the geographical, occupational and sectoral mobility of labour. In 1965 this was complemented by a regional location policy based on investment grants, favouring the north of the country, complemented by sizeable inter-regional transfers under other government policies, especially subsidies for local government in the sparsely populated areas. This remained the basis for Swedish regional policy for almost 30 years, until a reformulation of policy goals in the 1990s, which gave greater priority to efficiency goals, and the promotion of regional development throughout the country.

United Kingdom: As noted above, regional policy measures were first introduced in the late 1920s and 1930s in 'special areas' of high unemployment. Support for these (mainly industrial) areas continued after the war with a dispersal policy involving a mix of development constraints in London and financial incentives for industrial location in the problem regions. Regional policy was expanded after 1960, heralding a 25-year period of implementing a mix of different incentive schemes in frequently adjusted designated areas that grew and contracted in line with changes in government and economic growth. From the early 1980s, regional policy began a long process of contraction, until the late 1990s when a new regional policy based on regionalised economic development began to be introduced.

Although there were significant differences in policy emphasis among Western European countries, the approach to regional policy was broadly similar. The main policy objective was equity, equalising variations in standards of living, infrastructure or employment across the national territory. Problem areas were designated on the basis of administrative or data collection units generally suffering from slow economic growth, low incomes and high unemployment. In these regions, policy instruments comprised four main types: *financial incentives* in the form of grants, loans, tax concessions, depreciation allowances, employment premia, removal cost allowances, transport subsidies, labour-training aids and rent subsidies; *infrastructure investment*, especially in rural and sparsely populated areas; the use of investment targets or other social obligations on the part of *state-owned or state-controlled industries*; and the diversion of development from congested areas through *development controls* on manufacturing industry or the relocation of private and public sector offices.³¹ A particular focus in some countries was on so-called growth centres, serving as a focus for geographic concentrations of public investment and stimulation of growth opportunities which would then spread to the surrounding areas. Lastly, considerable emphasis was placed on planning, with powerful agencies created in some countries, such as DATAR in France or the *Cassa per il Mezzogiorno* in Italy, to manage regional policy.

Despite the broad range of policy instruments, the focus of policy was essentially a narrow one, concerned with influencing economic activity through industrial location. Assistance was generally provided in the form of business aid and hard infrastructure. The mode of organisation was essentially top-down: the design of policy, the delimitation of assisted areas and the delivery of instruments was undertaken by central government (with the exception of some federal countries).³² Particularly in

³¹ Yuill D, Allen K and Hull C (1980) *op. cit.*

³² Even in federal countries, the need for a significant national role in the administration of policy was strongly felt. In Germany, for instance, a joint federal-*Land* committee was established in 1969 to provide an operational framework for regional policy in a policy area which, constitutionally, is the responsibility of the *Länder* but where the damaging effects of inter-regional competition for potentially-mobile investment had become very apparent.

the case of regional financial incentives, policy was essentially demand-driven and reactive, responding to individual project applications from companies in the problem areas.

After the oil shocks of the early 1970s, the importance of regional policy diminished in some countries; indeed, some UK commentators referred to the ‘death of regional policy’ during this period. Economic conditions in Western Europe were characterised by a long-term slowdown in economic growth, with sluggish increases in productivity, inflationary pressures, restricted investment, persistent widespread unemployment and pressures on state budgets. Crucially, the long-term period of economic convergence came to an end. Recession or low-growth conditions in richer countries and regions limited the opportunities for ‘trickle down’ or backwash effects from the core centres and regions. The scope for government intervention was constrained, and the potential for compensating migration flows – of particular importance for relieving labour market pressures in the poorer countries – was curtailed.

In the course of the late 1970s, and particularly during the 1980s, the political agenda across Western Europe moved against active government economic intervention, especially through subsidies to firms. The progressive removal of trade barriers and other constraints on the free movement of labour and capital was leading to an accelerated internationalisation of economic activity through foreign investment, trade and interfirm links, such as acquisitions and mergers. Technological and organisational changes were altering the way in which companies organised their activities, both internally and with suppliers and customers. The focus of regional and industrial policy shifted towards a neo-classical economic ideology of privatisation, deregulation and the liberalisation of markets. In a number of countries, the effectiveness of regional policy was questioned and criticised. Regional policy moved progressively down the policy agenda, downgrading the policy goals of reducing disparities and promoting regional convergence. Policy took on more limited objectives, focusing in some countries on the maintenance of settlement structures in sparsely-populated areas, in others on attempting to ameliorate the economic and social consequences of job losses in those regions suffering the highest levels of unemployment and, in a few, on the attraction of inward investment to the problem regions. The budgets for regional policy were cut back, and the coverage of problem areas was reduced.

The ‘retreat’ of central government from active regional and industrial policies (in some countries) was accompanied by the rise of a new regional and local dimension to economic development. This was partly attributable to regional institution-building which accompanied the increasing delegation of authority for certain economic development activities with a view to enhancing local identification with policies and increasing local responsibility for economic development. The trend was also due to a growth in ‘bottom up’ initiatives, as local authorities and other groups began to develop and implement their own measures to deal with growing economic and social problems. At the same time, regional policy thinking was shifting towards the promotion of endogenous development – by definition regional or local – with a

(re)discovery of the importance of entrepreneurship and SMEs.³³ Technology was increasingly seen as decisive factor for growth and prosperity, leading to a regional focus on high-tech zones and science parks.³⁴

4. A NEW PARADIGM?

4.1 New concepts of regional policy

The origins of new theories and paradigms are not always easy to identify. Yet in retrospect it is possible to identify a fundamental change in thinking about regional development during the past two decades. Presented as a ‘rediscovery of the region’, Storper saw the change as follows:³⁵

“Something funny happened in the early 1980s. The region, long considered an interesting topic to historians and geographers, but not considered to have any interest for mainstream sector social science, was rediscovered by a group of political economists, sociologists, political scientists, and geographers... it was asserted that the region might be a fundamental basis of economic and social life “after mass production”.

These assertions about the role of the region emerged from research on the restructuring of modes of economic and social reorganisation in western countries (the ‘crisis of Fordism’). Changing forms of spatial-regional organisation were seen as heralding a new phase of urban and regional development, characterised by a decline in the mass production of homogenous products within vertically and horizontally integrated enterprises, towards more flexible ‘regimes of accumulation’, particularly with regard to the use of labour.³⁶ Crucially, this was associated with new spatial patterns. Clustering and agglomeration of economic activity based on the need for spatial proximity of quasi-integrated firms was related to the regional and local characteristics that influenced, facilitated or underlay these patterns. New roles for the State were proposed, with public policy operating through entrepreneurial and innovative forms of decentralised governance.

These interpretations were partly derived from case studies of particular regions (most famously, the ‘Third Italy’), which highlighted their characteristics of flexibility and specialisation as the basis for successful regional adaptation and development. These were presented as strategies of permanent innovation, accommodating rather than controlling change through flexible equipment, skilled labour and an industrial community favouring innovation. Local policies and government played an important role in this community – through appropriate industrial assistance and regulation –

³³ Dekker J (1989) ‘Regional Development Policy in Europe’, in J Allesch (Ed.) *Regional Development in Europe: Recent Initiatives and Experiences*, Walter de Gruyter, NY.

³⁴ Ewers J-J (1989) ‘Technical and Market Changes and Regional Development Potential’, in J Allesch (Ed.) *op.cit.*

³⁵ Storper M (1997) *The Regional World: Territorial Development in a Global Economy*, The Guildford Press, New York and London, p.3.

³⁶ Albrechts L and Swyngedouw E (1989) ‘The Challenges for Regional Policy under a Flexible Regime of Accumulation’ in L Albrechts, F Moulaert, P Roberts and E Swyngedouw (Eds.) *Regional Policy at the Crossroads: European Perspectives*, Jessica Kingsley Publishers, London, pp.67-89.

but the key factor in this model was the facilitating role of networks of region-specific public, private and quasi-public/private institutions in supporting inter-firm relations. Networking between firms, in particular, was seen as critical for enabling small firms to survive, innovate and compete in the long term.³⁷

Other conceptual influences were the research on ‘new economic geography’ (Krugman, Venables) which analysed regional patterns of economic activity in terms of trade costs and economies of scale. The proponents argued that, in a situation of imperfect competition, the actions of oligopolistic firms seeking scale economies will promote agglomeration of activity. Studies suggested that these trends would be reinforced by the transaction costs associated with the division of labour. It was argued that, with a growing division of labour in production, firms are more dependent on inter-firm transactions – both physical and intangible. Even in the IT age, distance still matters for many important transactions. Agglomerations of regional industry were seen as a response to the desire to minimise the costs as well as the complexity and uncertainty associated with many transactions. However, the durability of agglomerations of economic activity could not be explained by external economies alone. It was argued that the characteristics of the region were an essential base to industrial organisation. In particular, the regional institutional environment was considered to play a significant part in co-ordinating the nexus of transactions underpinning agglomerations of regional industry.³⁸

Further insights originated from research on high-technology and regional development. New theories of economic growth and trade placed increasing emphasis on technological change as an endogenous factor, highlighting the role of human capital, especially qualified and skilled labour and technical knowledge. Studies at the European level highlighted an economic geography of a limited number of leading regions characterised by dense networks of ‘learning economy’ institutions – high-tech firms, research centres, technical colleges, service centres, universities, training centres, technopoles, information and knowledge networks etc. The argument was that such regions have been able to restructure and upgrade production structures to promote innovation complexes and create new clusters of comparative advantage.³⁹ In this context, knowledge or know-how is the key resource. It was recognised that business competitiveness increasingly implied the ability and capacity of enterprises, regions and nations to facilitate the generation, acquisition, control and application of knowledge and information, in the interests of innovation and marketing. The spatial interrelationships between organisations were recognised as critical - for example, participation in information and research networks, supply chains, SME collaboration, government-industry links.

In exploring ‘success factors’, innovation was increasingly understood “*in the broad sense to include product, process and organizational innovation in the firm as well as social and institutional innovation at the level of an industry*”. Rather than being an

³⁷ Piore M J and Sabel C F (1989) *The Second Industrial Divide: Possibilities for Prosperity*, Basic Books Inc, New York, p.17 and 228-9.

³⁸ Storper M (1995) *op. cit.* Storper M and Scott AJ (1995) The Wealth of Regions: Market Forces and Policy Imperatives in Local and Global Context, *Futures*, 27(5) pp.505-526.

³⁹ Amin A and Tomaney J (1995) The Regional Dilemma in a Neo-Liberal Europe, *European Urban and Regional Studies*, 2(2), 171-188. Morgan K (1997) The Learning Region: Institutions, Innovation and Regional Renewal, *Regional Studies*, 31(5), pp.491-504.

essentially linear activity taking place within individual enterprises, innovation was recognised to be an interactive (ie. non-linear) process, within and between firms, and between firms and the wider institutional milieu.⁴⁰ The concept of the 'milieu', or innovative environment, was used to describe the organisational environment of a territory in which innovation takes place, encompassing the regional institutions, their practices, inter-relationships, interaction and co-ordination. The dynamism of regional and local milieux was seen as underpinning the effective innovation of high-tech regions, especially the ability of local and regional institutions to 'animate' innovation systems eg. by encouraging linkages, assisting collaboration, providing the requisite infrastructure.⁴¹

Some of the researchers cited above have gone a stage further, arguing that the innovation process is shaped by various institutional routines and social conventions, such as cultural norms and social relationships. Sometimes termed 'untraded interdependencies', they refer to such territorially specific aspects of social capital as 'civic culture', the 'trust' between organisations and individuals or the collective 'tacit knowledge' embodied within institutions. It is claimed that successful regional development, or so-called 'learning regions', recognises the importance of this social capital and utilises it effectively through networking and associational forms of working.⁴²

The defining features of these new concepts of regional development are the primacy that they give 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 that it facilitates networking and other forms of association.

The challenge for regional policy has been how to respond to this new agenda. There is seen to be a requirement to develop a more sophisticated approach to improving both regional capabilities and attributes with measures that are socio-cultural as well as economic. The policy response has been a new type of regional policy concerned with the strategic management of regional development, termed 'modern regional policy' in Table 4.1. (adapted from a comparative assessment by Stöhr⁴³). The new 'paradigm' of modern regional policies appears to be desirous of achieving both equity and efficiency, by promoting increased competitiveness, variously defined as entrepreneurship, productivity, innovation and skill enhancement. In this model, the sphere of policy action is broad, operating over numerous sectors, with a planned, pro-active and strategic approach, rather than the 'reactive' approach of traditional regional policies. The spatial focus of policy encompasses all regions, supporting the development of the business environment with multiple policy targets and types of instruments. Policy is based on region-level analysis to create region-specific

⁴⁰ Morgan K (1997) *op. cit.*

⁴¹ Aydalot P (Ed.) (1986) *Milieux Innovateurs en Europe*, Presses Universitaires de France, Paris. Aydalot P and Keeble D (Eds.) (1988) *High Technology Industries and Innovative Environments: The European Experience*, Routledge, London. Cooke P and Morgan K (1998) *The Associational Economy: Firms, Regions and Innovation*, Oxford University Press, Oxford. Maillat D (1991) 'The innovation process and the role of the milieu', in E Bergmann, G Maier and F Tödtling (Eds.) *Regions Reconsidered: Economic Networks, Innovation and Local Development in Industrialised Countries*, Mansell, London.

⁴² Morgan K (1997) *op. cit.* Storper M (1995) *op. cit.*

⁴³ Stöhr W (1989) 'Regional Policy at the Crossroads: An Overview' in L Albrechts *et al* (Eds.) *op. cit.*, p.192.

solutions, involving negotiation if not consensus between a range of partners – bargaining is both horizontal (within the region) and vertical (between levels of government). Lastly, the paradigm has policy implementation operating over multi-annual planning periods and is subject to greater monitoring and evaluation.

Table 4.1: The Changing Paradigm of Regional Policy

<i>Criteria</i>	Classical	Modern
CONCEPTUAL BASIS		
	Industrial location theories Key factors are regional attributes eg. production costs, availability of workers	Learning region theories Key factors are regional capabilities eg. innovative milieux, clusters, networks
POLICY CHARACTERISTICS		
Aim(s)	Equity <i>or</i> efficiency	Equity <i>and</i> efficiency
Objectives	Employment creation Increased investment	Increased competitiveness (eg. entrepreneurship, innovation, skills)
Sphere of action	Narrow (economic/industrial)	Broad (multi-sectoral)
Mode of operation	Reactive, project based	Pro-active, planned, strategic
POLICY STRUCTURE		
Spatial focus	Problem areas	All regions
Analytical base	Designation indicators Regional exporting	Regional SWOT analysis
Key instrument	Incentive scheme	Development programme
Assistance	Business aid Hard infrastructure	Business environment Soft infrastructure
ORGANISATION		
Policy development	Top down/centralised	Collective/negotiated
Lead organisation	Central government	Regional authorities
Partners	None	Local government Voluntary sector, Social partners
Administration	Simple/rational	Complex/bureaucratic
Project selection	Internalised	Participative
Timescale	Open-ended	Multi-annual planning periods
EVALUATION		
Stage(s)	Ex post	Ex ante, interim, ex post
Outcomes	Measurable	Difficult to measure

4.2 Putting the Paradigm into practice

To what extent is this new ‘paradigm’ recognisable in the practice of the regional policies of Western European countries? Whether or not attributable to the changing conceptual thinking outlined above, it is evident that there have been significant shifts in the approach of regional policies in recent years. Some insights can be gained from looking at some of the recent policy reviews and changes in regional policy legislation undertaken in over the past 2-3 years:

- Finland – Target Programme for the Revision of the Regional Development Act (2000)
- France – Law on National Regional and Sustainable Development Policy (1999)⁴⁴
- Netherlands – White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks (2000)⁴⁵
- Norway – White Paper on Regional Policy (2000)
- Sweden – Parliamentary Commission on Regional Policy and the subsequent White Paper (September 2000)⁴⁶
- UK – White Paper on Enterprise, Skills and Innovation⁴⁷ (2001)

It is important to note that new regional policy thinking is not restricted to these countries – examples can be cited in regional policy concepts in Austria since the late 1980s, in successive National Development Plans in Ireland and in the 1997 Bassanini Law in Italy. This emphasises the fact that policy changes are rarely radical but follow a path of evolutionary, progressive and sometimes only incremental change over long periods of time. With these caveats, there are several important trends that can be identified⁴⁸.

4.2.1 Policy objectives: competitiveness, balanced development, sustainability

The first characteristic of recent policy reviews is that they give primacy to the twin objectives of regional competitiveness and balanced national development, within a sustainable context. The spatial policy White Paper in the Netherlands, for example, takes as its starting point the need to ensure national competitiveness by making certain that there is positive business location climate in the Netherlands with a strengthening of the spatial economic network and optimal utilisation of economic potential at regional level⁴⁹. The 1999 French law on national regional and sustainable

⁴⁴ Loi d'aménagement et de développement durable du territoire (known as the *loi Voynet*), 1999.

⁴⁵ Ministry van Economische Zaken (2000) *Nota Ruitelijk Economische Beleid: Dynamiek in Nieuwruimte* (White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks), The Hague

⁴⁶ Regeringskansliet (2000) *Regionalpolitiska utredningens slutbetänkande*, Statens offentliga utredningar, SOU 2000:87, Näringsdepartementet, Stockholm.

⁴⁷ Department of Trade and Industry (2001) *Opportunity for all in a world of change, White Paper on Enterprise, Skills and Innovation*, DTI/DFEE, The Stationery Office, London.
<http://www.dti.gov.uk/opportunityforall/index.html>

⁴⁸ The research for this section is reported more fully in another of the Sponsors' Meetings papers: Yuill D (2001) *Regional Policy Developments in the Member States*

⁴⁹ Wishlade F (forthcoming, 2002) *Regional Policy in France*

development policy (known as the *loi Voynet*) uses similar language in stating its objectives, but also giving primacy to the sustainable context:⁵⁰

“national regional sustainable development policy enables the balanced development of the territory as a whole linking social progress, economic efficiency and environmental protection. 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, and reducing territorial inequalities while preserving for future generations the resources available and the quality and diversity of the natural environment”

Similar language is used in other countries: the need for strengthened regional competitiveness and balanced regional development features in the ‘target programme’ for the review of regional policy in Finland.

4.2.2 An ‘holistic’ approach to space management

The second feature of national policy reviews is that they tend to encompass economic development in all regions, not just those designated for regional policy purposes. While they make reference to the traditional focus of regional policies (structurally weak regions such as the North Netherlands, sparsely populated areas of Sweden, eastern/northern Finland), they have a much broader perspective of regional policy, associated with the spatial development of the whole country, and there is a greater tendency to see regions in terms of spatial economic networks. For example, it is significant that the recent policy emphasis of recent regional policy White Papers in the Netherlands has been on spatial economic development throughout the country, maximising the contribution of regional development to national growth. In Denmark, too, the forthcoming White Paper is expected to continue the recent focus of Danish regional policy, which is to maximise the contribution of every region to national growth rather than redistribute economic activity across the nation. The UK White Paper starts out by asserting that the new approach to regional policy:⁵¹

“will be based on putting greater emphasis on growth within all regions and strengthening the building blocks for economic success by boosting regional capacity for innovation, enterprise and skills development.....Our goal is to increase the rate of growth in all regions by addressing underperformance and building on success.”

Similarly, the point of departure for the Swedish Parliamentary Commission was that increased economic growth in *all* regions is the main objective of regional policy.⁵² The subsequent White Paper also recognised that all regions would be encouraged to exploit their own resources and strengths to contribute to national growth, the necessity for which was stressed bluntly by a former Swedish policymaker:⁵³

⁵¹ DTI (2001) *op cit.*, paras 3.3-3.8.

⁵² Persson, L O (2000) Swedish Regional Policy: Renewal, Retreat and Rhetoric, *North*, Vol. 11, No. 5/6, December 2000

⁵³ Oscarsson G (2000) The ‘Revolutions’ from a Swedish Perspective, *North*, Vol. 11, No. 5/6, December 2000.

“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.....We see almost no realisation that the national well-being depends on the regions being smart. And of course even less acceptance that Stockholm, with one quarter of the economy, has a special role in this connection. This is almost exclusively looked upon as a problem. 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’”.

In Finland, the review of the goals of regional policy is proposing a retargeting of policy intervention to develop a competitive regional structure covering the whole country, supporting key urban areas and centres of competence in every region.

4.2.3 A key role for the regional level

A third characteristic of the new policy approaches is the key role accorded to the regional level in leading and co-ordinating an integrated response to economic development challenges. The French legislation is based on the premise that the regional level is the appropriate articulation point for co-ordinating national, European and sub-regional strategies. The recent Dutch White paper agrees: it states that it is in the regions that *“all the threads of policy meet....(and)...can best be knotted together”*⁵⁴ 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”*. The new approach builds on the new Regional Development Agencies and their regional strategies. This approach has been emulated in Sweden (regional growth agreements) over the past three years, and more recently in Norway, where the White Paper proposes that the *fylker* (counties) should be responsible for drawing up regional economic plans every four years, outlining local strategic priorities for the use of central government expenditure in the regions.

4.2.4 A broader agenda of policy intervention

The fourth aspect of new policy proposals is their pro-active approach to development, with a multi-annual programme of measures targeted at the business environment and soft infrastructure. Action is proposed over a broad range of policy sectors: physical and economic infrastructure, business development, RTD, human resources, tourism, environment etc. The Swedish White Paper proposes, for example, that the government should move away from the ‘narrow’ regional policy (ie. grant support for designated areas principally in northern Sweden) and consider greater

⁵⁴ Ministry of Economic Affairs (2000) White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary, The Hague, p.10.

encouragement of spatial aspects in all sectoral policy areas, encompassing not just traditional enterprise aid but other softer measures to support networking and structural measures (especially in education and infrastructure to promote knowledge capital as a key for regional growth) and welfare measures. In France, the legislation places emphasis on modernisation policies that look beyond physical infrastructure investment to the quality of links, the encouragement of intangible investment, human and environmental resources as factors determining the attractiveness and dynamism of regions. A distinctive characteristic of the Swedish and French policy review is the emphasis on links, inter-relationships and networking, not just between enterprises, but also between regions, urban and rural areas and inter-communal co-operation. The Dutch White Paper, which has the sub-title 'Dynamics in Networks', also highlights the importance given by the new regional policy to physical, knowledge and institutional networks as well as the broader spatial economic network of the country.

Of particular note in these reviews and elsewhere, there has been a widespread interest in the utilisation of the knowledge economy for regional development and in the stimulation of technology and innovation at the regional level. In some countries, this has led to a particular stress on cluster-based initiatives. In the UK, the creation of business-university partnerships in the English regions lies at the heart of a cluster-building strategy which aims to facilitate collaborative R&D and knowledge transfer in the regions. In Norway, clusters identified at the county level are expected to benefit from pooled regional programme resources aimed at developing networks between businesses and between firms and research providers. In Finland, the regional policy plan for the next two years envisages the boosting of regional competences, the transfer of technology and know-how in the regions, the development of regional innovation structures and enhanced cooperation between local and regional government, universities, research centres and local business and industry.

4.2.5 Focus on places

A further characteristic is renewed recognition of the importance of key locations in responding to the challenges of competitiveness, in particular the role of urban centres. Urban issues have moved progressively up the Dutch spatial policy agenda in recent years, and the 2000 White Paper reinforces the importance of developing the economic potential of cities (and the axes between them). Development is to be concentrated on so-called 'special growth points'. The French legislation also proposes reinforcing 'development poles' with a European or international dimension that are capable of offering alternatives to the Paris region. As policy has moved more towards a polycentric network approach to spatial development, urban and rural areas are seen to be complementary to each other rather than competitive. There has been growing desire to base policies for regional development around geographic areas relevant to the initiative in question – *pays* and *agglomérations*; increasingly, these spatial entities are seen as playing a key role in promoting national competitiveness and the development of surrounding rural areas. In Ireland, following the 1999 National Development Plan identifying the need for 'regional gateways' (development poles) to help address the uneven development of the country. In Finland, the traditional regional policy emphasis on rural areas and on the prevention of out-migration has been replaced by the concept of 'functional urban

regions'; the key policy objective now is to improve regional competitiveness and promote balanced regional development by concentrating development on the main urban centres in each region. The Regional Centre Development Programme, which was introduced in November 2000, is part of this process, aiming to create a network of 30-40 regional centres across Finland. Lastly, in Sweden and Austria, there is also renewed interest in the role of major cities, particularly with respect to their links with rural areas.

4.2.6 A 'learning policy'

A significant feature of the new policy paradigm is the emphasis on analysis and learning. This is evident in the importance given to establishing an analytical base for regional strategies and actions as well as in the more extensive use of evaluation tools. At a policy level, a distinctive proposal of the Swedish Parliamentary Commission was to encourage the development of a 'learning policy' ie. to improve regional level information systems as well as the feedback loops between national and regional authorities. This would help ensure that good analysis of the causes and factors in regional growth was on-going and could feed through effectively into policy initiatives.

4.2.7 Strategic policy-making through consensus

Lastly, the policy reviews and longer term trends embody a distinctive approach to policy implementation which is strategic and collective/negotiated, led by regional authorities and involves a wide range of partners from local government, the voluntary sector, business and social communities. The most prominent examples of this trend are the 'partnerships' of regional development programmes developed for implementing EU Structural Funds, as well as EU-funded regional innovation plans (RTPs, RITTS, RIS) and territorial employment pacts. This collective approach to regional strategic planning is also evident in the domestic regional policies in two ways.

First, there has been increased *vertical co-ordination* of economic development between different levels of government. The most well-known example is the French system of State-Region planning contracts (*Contrats de Plan* – the inspiration for the Structural Fund approach to programming), involving a bilateral, five-year agreement between central and regional government which governs the funding and delivery of economic development measures. Similar measures operate in Austria (*Bund-Länder Verträge*) and Italy (*contratti di programma*). Second, there has been an upsurge in the use of regional and local strategies and partnerships to improve *horizontal co-ordination* between different economic development actors. While they are an integral approach of the Structural Funds delivery model, they also feature increasingly strongly in national systems of local and regional development as a means of agreeing common priorities, defining economic development roles. Examples include the regional/local area contracts in Italy (*contratti d'area and patti territoriali*) and France (*contrat de pays*), the 'Growth Agreements' introduced in Sweden; the sub-regional 'conferences' (*Regionalkonferenzen*) of local development organisations, universities/institutes and community groups in Germany, the 'business nodes' in Denmark, and the regional strategies developed by RDAs in England and the Netherlands.

5. ISSUES FOR DISCUSSION

As European integration intensifies, regions and localities across Europe are being increasingly exposed to the effects of international competition, technological and organisational changes and sectoral shifts. For many Western European countries, regional problems are highly complex, with a fragmentation of the 'maps of inequality', as spatial differences become more localised and a broadening agenda for policy action emerges. Central governments still have a critical role in managing the effects of accelerating change, but their scope for intervention is often constrained, with a need to reconsider traditional policy instruments. More broadly, the balance of power and responsibilities between national and sub-national authorities is shifting through constitutional change, central reform of territorial administrative structures or the changing nature of governance. Societal change is also empowering non-governmental and social actors now active in public life.

In this context, the rationale for regional policy is being widely debated and in some cases reconsidered. In several countries, regional policy has a long history but has been undergoing a metamorphosis in recent years. As a basis for discussion, three inter-related questions are put forward: Have traditional approaches to regional policy failed or become redundant? Does the new regional policy 'paradigm' represent the way forward? What are the limits to regional policy?

(i) Have traditional approaches to regional policy failed or become redundant?

A starting point for discussing the future of regional policy is the question of whether traditional approaches to regional policy have failed to achieve their objectives. In most of the larger Western European countries – the United Kingdom, France, Italy – the so-called problem regions are still largely the same as they were 20 years ago. If one compares the maps of nationally designated problem regions in the mid/late 1970s with the national aid areas of 1999 or the new Structural Fund maps for 2000-06, the similarities are remarkable, for example in: Belgium (Hainaut, Limburg, West Flanders); Denmark (North Jutland, Lolland); France (provincial France outside the Paris conurbation); Germany (Saarland, rural Lower Saxony and Schleswig-Holstein, eastern Bavaria); Italy (Mezzogiorno); Netherlands (Groningen-Drenthe) and the UK (north-west and north-east England, Western Scotland, south Wales). In most cases, there has been some shrinkage of the problem areas, in part because of successful economic development (eg. Baden-Württemberg, Rhone-Alpes) or restructuring (South Limburg) or EC pressure for reductions in coverage, but the core problem areas remain seemingly immune to policy intervention.

Whether it is due to inadequate analysis and policy prescription, poor design of policy, or deficiencies in its institutional management and delivery – or simply insufficient resources, the intractability of problems or the timescale required to achieve change – it is arguably an indictment of policy-makers and academic experts that the richest, most developed countries in the world have failed in their policy objectives despite 1-2 generations of policy intervention. A recent evaluation of Swedish regional policy was frank: "Regional policy has succeeded in distributing

welfare but has not been able to create growth and attractive environments in the recipient regions".⁵⁵ More extreme is the academic view⁵⁶ that the Italian approach to the Mezzogiorno can be termed as a (qualified) 'policy disaster', measured on the basis of the persistence of regional disparities and measures of economic development.

The question is whether regional policy was the best that could be done in the circumstances, minimising the worst consequences of structural change and underdevelopment as a compensation of market failure, or whether the traditional approaches to policy were poorly conceived and paid insufficient account to factors that contemporary policy approaches deem to be important, such as the regional institutional environment.

(ii) Does the new regional policy 'paradigm' represent the way forward?

Whether or not the traditional approach to regional policy can be classed as a failure, the preceding discussion indicates (at least some) disillusionment with traditional regional policy measures. Partly this reflects the ideological shifts in economic thinking of the 1980s and the distaste for direct subsidisation of firms and other large-scale intervention by central government. It is also symptomatic of a view that such measures are not effective under current conditions.⁵⁷ Economic development has increasingly focused on endogenous factors where interfirm and inter-institutional networking and the quality of the business environment or industrial milieu are central to improving entrepreneurship, SME performance, innovation and exporting and thereby regional competitiveness. Endogenous development strategies are seen as inherently regional or local in scale, requiring area-specific policies and initiatives. The newer approaches to regional strategic planning also originate in the need for effective policy co-ordination. It has long been recognised that most public policies have spatial implications and that the resources of 'classical' regional policy are very limited. For example, in the early 1990s, Jan Monnesland⁵⁸ noted that explicit regional policies may only account for 5-10 percent of total public regional assistance in Sweden and Norway, the remaining 90-95 percent supplementing (or in some cases contradicting) explicit regional policy measures from other sources.⁵⁹ Strategic planning is a means for achieving co-operation and co-ordination between public policy, a process which is generally easier at regional than at national levels.

Putting these trends together, a new model of regional policy appears to be emerging based on broader 'spatial development', support for the 'framework conditions' for enterprise and decentralised governance. In some senses, the new paradigm of regional policy can be seen as a sophisticated amalgam of the equity-efficiency objectives – on the one hand there is a renewed concern with balanced regional development, not in terms of simple indicators of income or employment, but in ensuring that the potential of all regions is being maximised within an overall

⁵⁵Norberg H (1999) *Regionalpolitiken - en ESO-rapport om tro och vetande*, Expertgruppen för studier i offentlig ekonomi, DS 1999:50 (quoted in Hedegaard L (1999) *Regional Aid Wasted*, *North*, 10(5), 28-29).

⁵⁶Sykes R (1998) 'Italian public policy and the Southern Question: Policy disaster or political disaster?' in P Gray and P Hart (Eds.) *Public Policy Disasters in Western Europe*, Routledge, London & New York, pp.79-95.

⁵⁷Pinder D (1993) *Regional Economic Development and Policy: Theory and Practice in the European Community*, George Allen & Unwin Ltd.

⁵⁸Mannesland J (1994) *op. cit.*

framework that can promote sustainability. The approach appears less directly linked to strict designated areas and the role of 'regional policy' often seems to be evolving into one of *process management*, where the priority is to improve the co-ordination of policies and institutions and the efficient delivery of public expenditure.

The question is whether this approach represents the best way forward for regional policy. While the above argumentation may appear to be self-evident, the new thinking needs to be treated with caution. It has been argued that it underplays the importance of the nation state in economic development, particularly the role of State action in mediating the impact of international economic trends, through national institutional structures, regulation and choices concerning resource allocation.⁶⁰ For several commentators, the contemporary literature has *not* proved that the "regional milieu is more important than the national environment"⁶¹ and that the major changes in economic development is less a consequence of resurgent local economies or local agglomerations than a result of globalisation restricting the scope for manoeuvre on the part of national governments⁶².

From a policy perspective, critics argue that the prescriptions of modern regional policies continue to lack the crucial link with macro-economic policy (the question remains why regional policy is not a credible partner for macro-economic policy)⁶³. Further, strategies based on internationally competitive networks of flexible, specialised and co-operative SMEs are seen as fundamentally misconceived in that they cannot challenge an inequitable economic and spatial interest system. It is also suggested that the significance accorded to associational forms of relationship are overstated: how can such structures emerge in regions whose economic disadvantage stems from a lack of such structures? There are also valid questions about how powerful regional interests can be prevented from dominating the agenda and dictating the developmental trajectory.⁶⁴

The key questions for debate concern the rationale for regional policy and the way it is evolving. How can the objectives of equity and efficiency be most effectively balanced in the changing macro-economic framework? What is the role for national government authorities in an environment of greater regionalisation (and EU influence)? Should the competitiveness agenda move regional policy more towards goals of economic efficiency or does a valid rationale for this policy area lie in providing support for regions and areas which will always be adversely affected by factors of geography or economics? Should sectoral policies be the main focus of efficiency and competitiveness goals, with regional policy working to mitigate or compensate for spatially negative side-effects? Is regional policy more than the management of development processes?

(iii) What are the limits of regional policy?

⁶⁰ Cumbers A (2000) The National State as Mediator of Regional Development Outcomes in a Global Era: A Comparative Analysis from the UK and Norway, *European Urban and Regional Studies*, 7(3), 237-252.

⁶¹ Asheim B and Dunford M (1997) Regional Futures, *Regional Studies*, 31(5) 445-455.

⁶² Hudson P (1997) Regional Futures: Industrial Restructuring, New High Volume Production Concepts and Spatial Development Strategies in the New Europe, *Regional Studies*, 31(5), 467-478.

⁶³ Ministry of the Interior (1999) Report from the Seminar on Structural Policies in the Framework of Economic and Monetary Union, Saariselkä, Finland, 18-19 November 1999

⁶⁴ Hudson (1997) *op cit.*, Keating M (2001) Rethinking the Region: Culture, Institutions and Economic Development in Catalonia and Galicia, *European Urban and Regional Studies*, 8(3) 217-234.

In considering the future of regional policy, it is salutary to consider the limits of regional policy action: *“not all regional differences are indications of problems, not all problems can be solved, and regional policies can have unintended side effects that outweigh the benefits”*⁶⁵. This goes to the heart of the regional policy debate, since the parameters of regional policy are variable and difficult to define, as noted in the first paragraph of this paper. While politicians and policymakers deal with finite resources, and may be capable of exerting only limited leverage, others have much higher expectations. For example, underlying the above criticisms of modern approaches to regional policy is the view that policies will continue to have difficulty in reducing regional disparities and in tackling deep-seated regional problems because they lack either sufficient resources or are unable to challenge the national and international forces which have given rise to the problems or disparities.

In this context, there is a problem that we are over-ambitious in what we expect from regional policies. The advantage of traditional regional policies is that they were relatively explicit in their objectives, spatially focused and used targeted instruments whose effects were generally capable of measurement. Modern regional policies, by contrast, are holistic in their conception, encompassing all regions and many sectors with a multiplicity of instruments, and they are built on an analytical base that may give rise to misplaced confidence about expected outcomes. There is an assumption that the effectiveness of regional policy will be increased by more planning, more co-ordination and more intervention in more aspects of the economic development process. A final thought, therefore, is that that we should ‘accept our limits’⁶⁶:

“When we try to design spatially oriented policies we should avoid illusionary ambitions, because they damage credibility. We therefore should be aware that our possibilities to influence the development processes successfully are seriously restricted by the principal limits to human cognition and social communication, the limited repertoire of resources and possible actions available to influence processes in the “rest of the world” and the limited control over the effects of these actions, given the complexity of the processes we want to influence and the complexity of the policy-making institutions themselves”.

^{SR} Box S (2000) *Economic Geography - Key Concepts*, Treasury Working Paper 00/12, New Zealand Treasury.

⁶⁶ Huber W (2001) *op. cit.*, p.21