Innovation, Global Change and Territorial Resilience

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14. Regional policy: what (it seems) we have learned from some European experiences*

Juan R. Cuadrado-Roura

1. INTRODUCTION

Most European countries – from the UK and the Scandinavian countries to Italy and Greece – have a long experience in implementing regional policies. Generally, these policies have been a response to the existence of regional disparities in a wide range of variables (gross domestic product per capita, unemployment and productivity rates, and so on), which have a profound effect on the economic welfare of a nation region's. Other specific problems have also justified some types of regional policies, such as those aiming to solve problems of industrial decline or to slow down the concentration processes of economic activities in the metropolitan areas.

Traditional regional policy, based upon offering subsidies to firms locating their new plant in designed assisted areas, became rather popular in many European states until mid-1970s (Albrechts et al., 1989; Armstrong and Taylor, 1994). Government investments in the infrastructure of the lagging regions have also had an important role in the regional policies applied, and the location of state-owned companies was also employed as a tool to push the development of less developed areas or regions having problems of industrial decline.

A different phase in the evolution of regional policies in Europe started at the end of the 1970s when these policies were set at a low priority owing to the fact that the countries were confronted with a deep recession process and budgetary constraints. Nevertheless this practically coincides with the period of rapid expansion of the European Community's own regional policy. The increasing importance of the European Union's regional policy since the end of the 1980s has been welcome in that it has occurred when regional policies of individual European states have been under restrictive fiscal constraints. Actually, the European Union (EU) has not taken over completely the member states regional policies. Individual states continue to implement regional policies of their own. What has really changed are the main objectives and strategies of the regional policies applied, paying much more attention to efficiency problems than to the equity-oriented policies mainly searching to diminish regional disparities in terms of income per capita.

The aim of this chapter is to offer a panoramic approach to the regional policies operated in Europe from the 1960s to date, paying particular attention to the changes introduced in their objectives, the strategies pursued and the principal instruments employed in different phases. To do so, three periods are going to be differentiated. The first comprises from the end of the 1950s to the end of the 1970s, when the effects of the oil crisis knocked the economies and their macroeconomic equilibriums. The second refers to a period including from the 1980s to the mid-1990s, when regional policies passed to a low level of priority in the agenda of above all European countries, but the EU regional policy started to operate. And the third period starts from the mid-1990s and runs practically until now, mainly under the leadership of the European Union.

The chapter adopts a very synthetic approach, according to the purpose of offering a panorama of the regional policies operated in Europe for more than five decades. The research supporting this chapter includes not only the use of documents and reports of different type produced by some European countries as well as the European Commission, but the personal contacts and experiences accumulated as consultant, member of teams charged to prepare reports for the European Commission, as well as adviser of some high authorities.[1]

The chapter is organized as follows. Section 2 gives a first panoramic approach to regional policies practiced in Europe, paying particular attention to the arguments used to support them. Section 3 is the central part of the chapter focused on the analysis of the basic characteristics of the regional policies operated in Europe – particularly in the European Union of 15 countries – during the three periods previously described. Section 4 answers the question of the influence of 'theories' in the orientation of regional policies. Finally, section 5 offers a number of specific points which can be drawn from the experiences analysed. They are not conclusions. Surely not really 'lessons' we have learned from the European regional policies, as the chapter's title suggest. But, the points underlined in this final section suggest a good number of aspects which should be taken into account to implement efficient regional policies.

2. REGIONAL POLICIES IN EUROPE AND THE ARGUMENTS GENERALLY ACCEPTED TO SUPPORT THEIR NEED

Since the 1920s, many European countries have had some type of regional policies as part of their Government's agenda. Initially, regional policy emerged as a matter of contingency, as part of policies to confront the global economic crisis of 1929.[2] As the crisis passed, regional policy evolved into a genuine policy for structural change in the economy (Armstrong and Taylor, 1994) rather than merely 'fire-fighting' (Bleitrach and Chenu, 1982). The cases of the UK, France, Germany, Italy and the Netherlands are good examples of this; individual states pursued their own regional and/or territorial policies under different objectives and names, as 'territorial arrangements', 'local and regional activities', 'correction of regional imbalances', 'development of lagging areas', and others.

From the mid-1950s to the early 1970s most West European governments developed some types of regional policy, trying to reduce the regional disparities existing inside their countries. In some cases, as in the UK and France, problems of congestion in the main metropolitan areas (Greater London; Paris-Region) have also been included as part of regional policies. Fiscal and monetary incentives and disincentives were widely employed to attain the objective of a much more territorially equilibrated economic growth, but other figures (growth poles, metropolis of equilibrium, reconversion areas, and so on) have also been put in practice. Interesting experiences, but not always sufficiently successful, were developed in Italy (the 'Mezzogiorno' policy), France (under the DATAR), the Netherlands (having a long tradition of physical planning from the early 1950s), the UK (with a particular emphasis a confronting the declining industrial areas and the development areas), Germany (a much more decentralized country, as federal state) and Spain (growth poles and new industrializing areas).

From the end of the 1970s, as a consequence of the so called 'oil crisis', lower priority was given to regional policies by most of the member states of the European Community. The deep recession, the specific crisis of some industrial activities, the problems of unemployment and, particularly, the budgetary constraints determined a cutting back of the resources previously allocated to regional policies. Nevertheless this was also the period of taking off of the regional policy of the European Union (EU), which from the late 1980s[3] until now has greatly strengthened to become one of the two most important policies of the EU, absorbing around 40 per cent of the EU budget, that is, a 0.45 per cent of the EU-15 gross domestic product (GDP).

One of the reasons for the existence of regional policies in Europe is that less faith was put on the benefits of the free market than in some other countries, such as the USA. The development of the welfare state had its origins in this idea and in the criticisms made of the pure market as unable to solve certain social problems and needs. Thus, we talk about the 'socially oriented' free market economy and not just of the 'free market economy'. In Europe, as in other parts of the world, the objective of wealth redistribution, and not only the attention paid to the population's collective needs, also ranks high in economic policy, and it is clear the role the state often took in the economies for supplementing the market, promoting industrial development, improving the infrastructures or trying to solve labor market problems.

Looking at the historically extended existence of regional policies in many European countries, some questions come to any observer or analyst. Why have regional policies had and do they continue to have such an important position in the economic and social policies practiced in Europe? What have been the arguments used to support them?

There is agreement that regional policies have been justified *not only* by economic reasons, but also because of *political and social* reasons, and even by making reference to potential 'historical debts' for certain areas in a country. Among the *economic arguments*, the reasoning is rather lineal:

1. Generally, they started from one fact: *economic imbalances do exist at territorial level*. Wealth and growth do not take place in a harmonious way, and still less in a homogenous way. The reasons for this can be attributed to many different causes: the differences in the resources available, the geographical location of a region or territory (more or less isolated from the most dynamic centers); the existence of a number of crowding-in effects (the advantages of large capital cities, the weather); or to delocalization and reorganization processes of production sectors which were very concentrated, due to technological changes or to the rules of the market.
2. *Will these differences increase or decrease with time?* Theories clearly disagree on this point. According to neoliberal and neoclassical model principles (see Table 14.1), the existence of such disparities should not be a cause for concern. The exchange market-based system itself will take care of adjusting prices and quantities (from Borts and Stein, 1964, to the most recent contributions, applied to regional trends by Hulten and Schwab, 1984; Harris and Trainor, 1997; and Barro and Sala-i-Martin, 1992; 1995). According to this approach it would be better if any type of regional policy were to be practiced,

Table 14.1 Key elements of neoclassical theory

Key assumptions	Key driving factors
• Perfect information (same technology across countries), constant returns to scale and full divisibility of all factors leads to a world of perfect competition. • Trade based on factor endowments (labor and capital). • Within countries, factors of production (labor and capital) are perfectly mobile across industries.	• Trade (move from autarky to free trade) provide an engine for growth (static gains from trade).
Implications for (regional) competitiveness • All countries have a role in the division of labor based on their relative factor proportions. But if factor proportions are the same across countries (regions) then there is no basis for trade. Theory is most relevant for North–South or developed–developing country trade (i.e. where nations display major differences in factor proportions). • Factor price equalisation implies convergence of returns to capital and labor. • Given (universal) perfect competition, the notion of 'competitiveness' is essentially not relevant in the long run.	

> because it should mean a restriction or impediment to free-market movements. Convergence will really be the result of successive adjustments through the market reducing or cancelling any distortion to its operative capacities.

However, other approaches have been much more critical of the market capacity to solve the disparities existing at the departing period and their future evolution. Arguments have been developed by Myrdal (1957), Hirschman (1957; 1958), Kaldor (1970) and Kuznet (1966a; 1971), among others, and are also supported by some conclusions of the modern theories of economic growth (endogenous growth theories). The cumulative economic development model (Table 14.2), for example, states that 'the play of the forces in the market normally tends to increase, rather than to decrease, the inequalities between regions' (Myrdal, 1957). Once particular regions have by virtue of some initial advantage moved ahead of others (Clark, 1966), new increments of activity and growth will tend to be concentrated in the already expanding regions, because of their derived advantages, rather than in the remaining areas of the country. So, the convergence among countries and regions is not something that must be taken for granted (Kaldor, 1970; Dixon and Thirlwall, 1975)

Table 14.2 Key elements of cumulative development economics

Key assumptions (observed facts)	Key driving factors (observations)
• Incomes do not necessarily converge over time • Some countries develop more successfully than others • Economics policy plays an important role in determining this success	• Move from agriculture to higher value added sectors • Openness to trade • Foreign direct investment (FDI) • (Foreign) development funds
Implications for (regional) competitiveness • 'Central' regions with initial productive advantages are likely to maintain their lead over less productive 'peripheral' regions • Catch-up productivity between regions is likely to be a slow process • Policies should take into account a region's stage of development • Policies are needed to promote 'spread effects', e.g. through FDI or development funds	

Agreeing with some points of this line, the contributions of the modern theory of international trade and the supranational integration processes also support the idea that it is possible that regional disparities not only disappear but that they will increase in size. There will be more advantages for the 'central' regions/nuclei, for the localization of new enterprises in and out of different territories, for an increase in competition in the markets, all of which will have an adverse effect on the least efficient producers or on those who are less able to react (Asuad-Sanen and Quintana-Romero, 2010; EU, 1987; 1991).

Based on some of these last ideas and prospects, regional policies have generally found support in a set of essential economic arguments:

1. Efficiency is not fully guaranteed by the market and by its adjustment mechanisms.
2. The lack of adaptation and the backward state of some regions entail the misuse or the underutilization of their resources.
3. The market is blind in terms of wealth redistribution.
4. Population movements (migrations) have costs (economic, moral, cultural) which the market does not evaluate.
5. The development of a backward territory can benefit the whole country, since it promotes a better use of resources, prevents the abandonment of facilities and equipment, and so on.

But it is also true that a number of *ethical reasons and arguments* have weighed in favor of the regional policies. The equity and solidarity principles support the need to progress towards greater equality of living conditions for all and the sharing of profits among the inhabitants of a country. The existence of wide economic and living standards differences among a country's regions (or among a set of integrated countries) is neither politically nor socially admissible. It is not acceptable either that a proportion of the inhabitants are forced to leave their places of origin and their roots in order to obtain a job and enough income for living, sometimes which comes at a high price in personal and family terms.

There are also *political reasons* supporting the need for regional policies aimed at balancing the social and economic situation of a country or of a group of countries. From a political point of view, it is argued that it is usually difficult to maintain the stability and the social and political cohesion of a country when there are territorial conflicts or serious inequalities. It will not be easy either 'believing' in the advantages and benefits of a supranational integration process (such as the European Union) or those resulting from the intensification of free trade through different global agreements (for example, the North American Free Trade Agreement and Mercosur – the South American Common Market), when one of the countries or the regions affected by such integration feels that it does not benefit in any way from the advantages attached to such integration.

Finally, among the possible arguments for justifying a regional policy, recourse has occasionally been made to *historical reasons* or facts, alleging that some past decisions (localization of a country's capital; the railway network; trade preferences for a seaport; the existence of international borders, which sometimes influence the growth of the regions on the border) have caused the current imbalance, which should be corrected or 'offset'.

To sum up, the arguments in favor of regional policies are supported by economic, ethical and political reasons, which usually are intertwined in the documents on which those policies were put forward. In the case of the European Union the main argument supporting a common regional policy is linked, in particular, to the concept of 'cohesion', first introduced in the Maastricht Treaty of 1992, which states that: 'In order to promote its overall harmonious development, the Community shall develop and pursue its action leading to the strengthening of its economic and social cohesion. In particular the Community shall aim at reducing the disparities between the various regions and the backwardness of the least favored regions, including the rural areas' (art.130 a).[4]

3. EUROPEAN REGIONAL POLICIES: THE EVOLUTION FROM THE 1960S TO THE MOST RECENT FEATURES AND PROFILES

Above all it must be emphasized that the experiences of regional policies in Europe show a wide range of possibilities and cases, both with regard to their objectives and the instruments used to reach them, or the institutional structure supporting their implementation, whether through centralized (national) regional policies or decentralized ones, as in federal states. Nevertheless some common points can be identified.

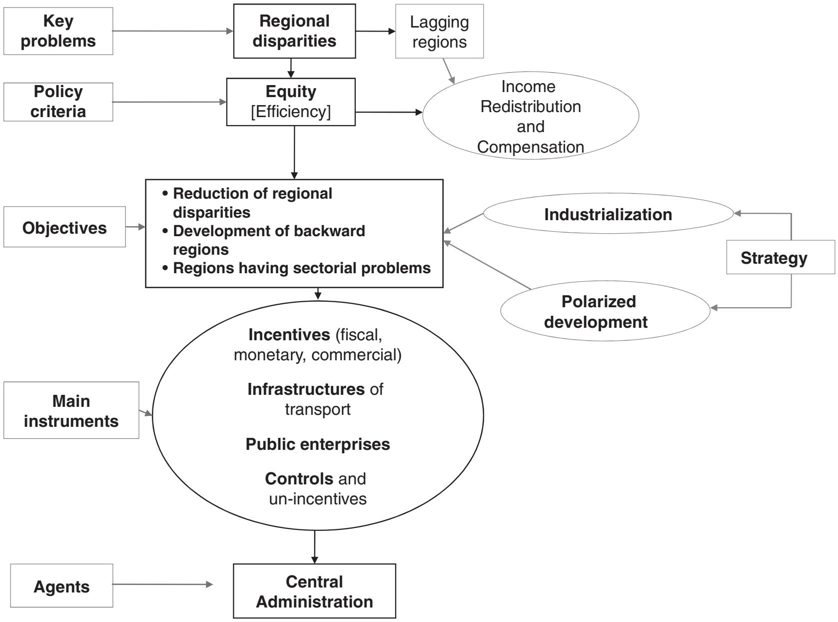
First, the reduction in the regional disparities of GDP per capita has regularly been the *main objective* of regional policies, which have tried to promote the growth and solve the problems of the more backward regions in each country. But this objective has gone hand in hand with other more specific objectives: the industrial restructuring of an area in decline due to sector-wide changes; the structuring of the territory through railway or expressway networks; even to stop the excessive growth of some metropolitan areas, as was implemented during the 1960s and the early 1970s in France, as in the case of Paris.[5]

Secondly, there are no doubts that, in general, the approaches taken by regional policies have been clearly 'conditioned' by the social, political and economic context in which they were designed. Sometimes the design was also influenced by some theoretical ideas, to which mention will be made below, and in quite a few cases by the 'fashions' regarding the actions which might be taken, based on the ideas and policies already essayed in other countries, which had not always been checked.

Finally, the phase of the business cycle in which the national economies found themselves has always been important and has conditioned those policies. It is clear that there have always been much more attention and funds devoted to regional policies in times of economic prosperity than in times of economic crisis, such as at the end of the 1970s and the early 1980s.

Starting from this unquestionable variety, and without elaborating further on the details, our objective is to review the most significant features of the *types* of regional policies implemented from the 1960s to mid-1970s, the changes brought about by the international crisis developed from the end of the 1970s and the predominant approaches in regional policies that can be observed in the past few years.

To that end, special attention will be paid to the following items: the main problems and environment of regional policies practiced; the theoretical models used to support them; the central objectives pursued and the strategy adopted; the main instruments used; and the agents finally responsible for implementing the policies.



Source: Author's own elaboration.

Figure 14.1 Regional policies until the 1980s

3.1 Main Characteristics of the Regional Policies from the 1960s to the Early 1980s

Until the late 1970s, western countries' economies grew at very high rates. This enabled large amounts of resources to be directed to regional objectives and policies during almost two decades.

According to a scheme going to be used for each period, Figure 14.1 summarizes the problem considered as the most important to be solved by the regional policies until the 1980s, the policy criteria adopted, the objectives and main instruments, and the principal agent responsible for implementing and practicing the policy.

What was regarded as the most relevant problem in this period? Without any doubt, that of interregional disparities in terms of GDP per capita and the existence, in particular, of *lagging regions*, apparently not able to progress to an economic take-off phase. Besides this focal problem, some policies also included specific rural regions and those regions which suffered an industrial decline as a result of the problems faced by very specialized and highly localized industries (traditional mining, steel and shipbuilding industries, basic chemicals and pharmaceuticals and others). In more isolated cases (France), policymakers considered the possibility of 'applying the brakes' to the growth of the large metropolitan areas (Paris).

The dominant *criteria* on which regional policies were based at the time was that of the ethical/solidarity type. In fact, regional policies were justified on the basis of the policies for income redistribution and/or as a 'compensation' in favor of the more backward regions, in part due to the bad social conscience existing at the time. This *equity principle* almost always prevailed over the *efficiency principle*, in the well-known conflict between both criteria, and has always been at the heart of the discussions regarding political and social policies.

The main objective to be achieved by regional policies was to reduce the existing interregional disparities and, at the same time, to try to develop those areas which were especially backward as a result of geographical reasons (peripheral regions; rural areas) or to try to help regions with specific problems.

A feature which stands out in this overview of the regional policies implemented during this period is the type of prevailing *strategy* to achieve those objectives. In general, although exceptions existed, this was based on promoting the 'industrialization' of those areas, attracting new investments from abroad, the location of new factories and the development of infrastructures to support economic growth. In a high number of cases, growth was identified with 'industrialization'. This was equally based on the principles of 'polarized growth'; creating one or more focus on a region through large investments which could act as growth instigators and which would be expected to act as the engines of the region's economy.

Undoubtedly, on the theoretical level were the ideas of those in favor of the cumulative growth processes (as Hirschman, 1957 and 1958; Myrdal, 1957; and Kaldor, 1970, had pointed out) and the need to create unbalancing elements in some areas in order to offset the backward effects. But there were also present some relatively abstract ideas about the advantages of the concentration of industrial activities (or, in particular, a big key industry) and its backward linkage effects in the region (Perroux, 1955; Boudeville, 1966), or those of the center-periphery model (Prebisch, 1950; 1959; Friedmann and Alonso, 1964; Friedmann, 1966) and the need to 'break off' such a dependent relation.

The *range of instruments* used, always oriented, above all, to 'industrialize' and to raise investments and new activities, whether national, local or foreign, was really very wide. Let us remember the analysis on tools carried out by the Organisation for Economic Co-operation and Development (OECD) or by the team from the University of Strathclyde

(Yuill and Allen, 1981). In general, those tools were in some way related to the Keynesian concepts prevailing at the time; more spending, making investment cheaper, a belligerent attitude on the part of the state; and so on. The abundance of tools constitutes, in any case, one of the basic features, with a predominance of a wide range of incentives (fiscal, monetary, loans, commercial, and so on) or using reductions, subventions, discounts, as well as the provision of public land for establishing new businesses.

Besides this, another widely used tool consisted in investing in physical infrastructures (roads, railways, airports, ports). Generally its effects were slow to materialize, and sometimes it even provoked overinvestment (Biehl, 1975; Biehl et al., 1986).

Another tool used has been state-owned enterprises, which generally were focused on the basic industrial sectors (iron and steel industry, chemicals and shipbuilding) and located so that they promoted the economic activity of underdeveloped areas (the INI – National Industry Institute in Spain; the IRI – Instituto per la Ricostruzione Industriale in Italy; the industrial de-location practiced in France). Their long-term effects have been very much in doubt. In some cases they have been dubbed as 'white elephants'. In other cases, it has been shown that the investments made in them and their own activity had indirect effects which favored the more developed regions in the country, as has been demonstrated by Rosenstein-Rodan in Italy.

Finally, among the tools there also appear the more occasional use of controls, regulations and discouragement concerning the set up of new industries in those metropolitan areas which already suffer serious concentration and congestion problems. The case of France and the deconcentration policy from Paris towards other province capitals is a good example of the use of these instruments, despite their poor results.

From the point of view of the regional policies responsibility and the *institutional framework*, a dominant feature is that such policies were almost always designed from the 'center' (that is, by the national or central government), and were controlled and managed also from that center (that is, in France, through the DATAR; in Spain directly linked to the Ministry of Planning, Commissariat of Plan; in Italy, through the Cassa per il Mezzogiorno). So, referring to this rather long period (mid-1950s to the end of 1970s) it is possible to talk of 'regional policies . . . without the regions'.

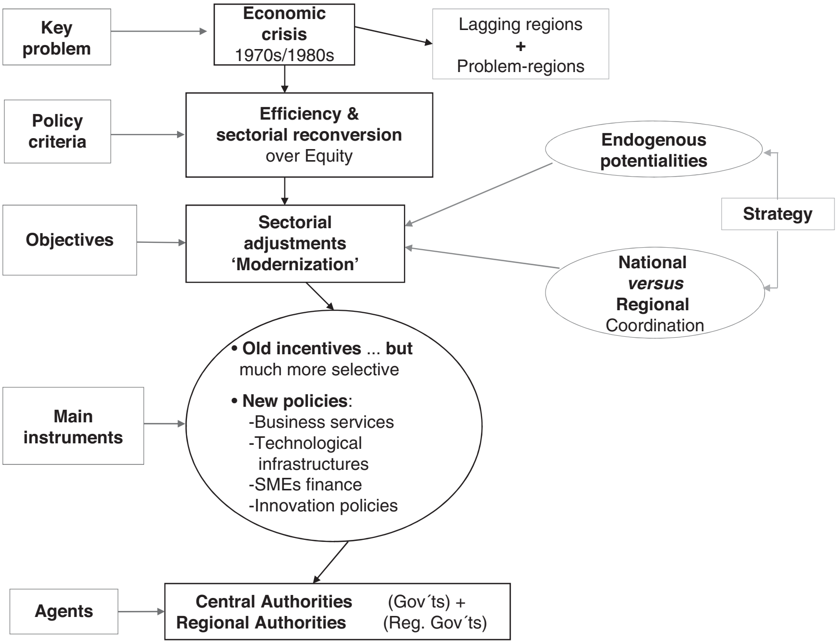
3.2 Changes in Regional Policies in the 1980s

The brusque irruption of the so-called 'oil crisis' (1973 and 1979), which in turn provoked the apparition of serious problems of oversupply, together with the development of new technologies and the need to carry out industry-wide reorganizations, provoked significant changes in the regional policies applied (Cuadrado-Roura, 1988). These changes consisted of the following:

1. An *increase in the number of problem regions*, so that the regions which demanded state aid were not restricted to the more backward, but also included some of the wealthier which faced serious unemployment rates and needed industrial restructuring processes (UK, Belgium, France, Germany, Italy, Spain).
2. Interruption of a number of those actions which until then had been regarded as useful (*incentives*) and positive (*state-owned enterprises*, focused actions).
3. Irruption, with a growing force, of *neoliberal approaches*, in favor of the market and its adjustments, criticizing the welfare state and with arguments in favor of rolling it back and applying fiscal orthodoxy, and so on. The result was that regional actions were sidelined to a large extent. There was a clear predominance of macroeconomic approaches and problems (unemployment, industrial reorganization, petrodollars, and so on). As a consequence of all this, the *efficiency criterion* became more important than that of *equity*, owing to the need to modernize the economies and making them more productive. Figure 14.2 shows in a very simplified way the impact of the international crisis on the key problem, the policy criteria, the objectives and instruments of regional policies applied in many countries, particularly in Europe.
4. At the same time, and as a fact which stands out, the relatively good performance of some intermediate regions, based on small and medium enterprises (SMEs), whose innovation and export capacity caused regional economists to turn their attention towards some 'new' ideas, which are not easily applied, such as regional policy (RP): endogenous development; *millieux innovateurs* (Aydalot, 1986; Maillat, Quevit and Senn, 1993); spread of innovation; learning regions; industrial districts; and so on. Most of these ideas offer a bigger role to regional and local authorities, and pay more attention to local matters than in the past.

From a *strategic* point of view, the reorientation of regional policies was already expressed in three great guiding principles:

1. Priority was given to efficiency over equity.
2. Greater importance given to the regions' endogenous growth potential.



Source: Author's own elaboration.

Figure 14.2 The impact of the international crisis on regional policies

3. The need of greater coordination of the national/regional activities with the aim of employing as best as possible a lower volume of resources than in the past. As a result, appeared different bodies linked to the promotion of SMEs (such as regional development agencies), with technological development (scientific and technological parks); financing (mutual guarantee companies; venture capital companies, and so on).

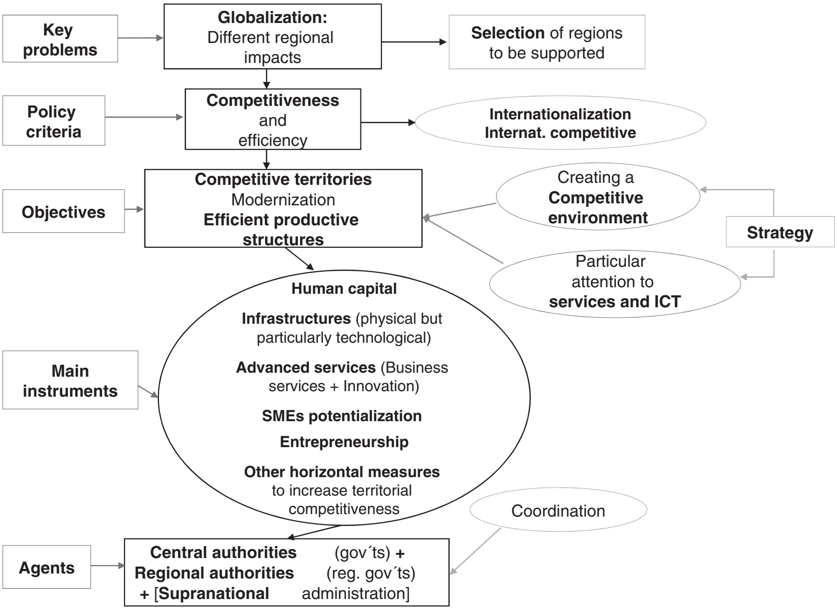
In Europe it is possible to notice that during these years there was a 'contagion' and 'imitation effect' among countries and regions. Some ideas became 'fashionable', as it was the case when creating numerous technological parks, scientific parks, regional development agencies, ICT programs, and so on. In quite a few cases, these initiatives had very limited or no success and they often demanded the achievement of short-term objectives, without using all the means for succeeding.

3.3 Regional Policies, 1995–2007

During the period 1995–2007 there have been a number of significant changes in the orientation of regional policies:

1. Regardless of the fact that the solidarity and equity principles continue to be in force, it is clear that the *efficiency objective* (under the guise of 'competitiveness') has taken again a predominant position in all regional policies. This has resulted, on the one hand, from the influence of neoliberal ideas, which have dominated the ideological scene during the past few years (growing trust in the market, horizontal and not industry-oriented measures) and, on the other, from the economies' globalization, which has caused regions to be more exposed to international competition and with fewer protective measures available than in the past. Any region is practically forced to try to be competitive against the other regions in the country and the rest of the world, instead of being 'protected' or 'subsidized'.

   To all this must be added the fast development of information technologies (IT) and of the knowledge society, which demand special efforts on the part of more backward regions for bridging what is called the technological gap.
2. The above has led many countries and groups of countries to decide that regional policies *must be much more 'selective'* about the regions eligible for receiving state aids. At the same time, it is thought that the resources assigned to regional actions must always include messages which reinforce the idea of developing the territories taking into account their sustainability and capacity for competing in the future. That is, they must promote those factors which can allow a region to modernize and have efficient production structures within their potential specializations (Cuadrado-Roura and Parellada, 2002; Cuadrado-Roura, 2010).
3. Thus, we cannot be surprised *that competitiveness and efficiency* today occupy a key position in regional policies (see Figure 14.3), and from that result the objectives which those policies pursue: making the territories competitive, ensuring that they contain elements which contribute to that area's companies having a competitive 'plus', besides their own competitiveness. In strategic terms there is a belief that what is needed is to create in the regions a competitive environment, and for this it is necessary not only to support the industry (as in the past) but also the options provided by service activities and the development of IT.
4. Many of these ideas are supported by some of the theories and



Source: Author's own elaboration.

Figure 14.3 Regional policies from the mid-1990s to now

interpretative models of growth and its causes. This is the case of the approximations of the 'modern' *neoclassical model* with the conditionality of the β convergence due to the existence of a number of factors which slow down or prevent progress and which determine a stationary state which differs from that of the more dynamic regions).

Equally, the *social capital* theory has paid more attention to the influence of cultural differences, social attitudes, reciprocity norms, civic commitment networks and institutions in every development process.

Besides, the 'new economic geography' has reintegrated the role of the buildup and agglomeration economies and of the intangibles in every economic concentration process. The models of exporting competitiveness (Porter, 1985, 1990; Kay 1994) raise the possibility of reaching interregional convergence through 'virtuous' accumulative causation processes, based on a region's exporting capacity, particularly when this region enjoys good production factors (human capital with specific skills); a strong set of interrelated activities (clusters); enterprises which operate in competitive environments; and a significant local demand.

When considering *regional policy instruments*, it is clear that not only are there some new instruments, but also that there has been a change in the emphasis placed on the role of many of them. In this sense, investments in human capital (training at all levels, having a skilled workforce) occupy a prominent place. The following are also important: investments in physical infrastructures, especially in those of a technological character and those which promote innovation (R&D); the promotion of modern and advanced services (which bind together enterprises and innovation); SMEs promotion (reducing the importance of direct state aid, but improving the support provided and promoting closer cooperation among enterprises); the revalorization of the entrepreneur role (who must be pampered, in this sense, due to his key role); and, last but not least, other horizontal promotion actions like specialized rural promotion, development of tourist areas and environmental conservation policies. To attain the objectives of creating new opportunities of regional development some new entities have been fostered in many European countries, such as regional development agencies, technology parks and technical laboratories generally oriented to help the SMEs already existing in the region as well as to attract new investments and initiatives. A proliferation of these kinds of entities have been created by the states and/or the regional governments in almost all European countries. Some of them are successful (for example, the regional development agencies of Emilia-Romagna, Italy; Valencia, Spain; and Ireland, for example), but there are also examples of failure or of very poor results, mainly in the case of the technology parks

It is obvious that one of the basic objectives actually assigned to regional policies is that of *improving the regions' competitive capacity*, which is placed ahead of the mere reduction of interregional income disparities.

But what competitiveness are we talking about? Competitiveness has microeconomic and macroeconomic components. At the micro level, it is stated that an enterprise is competitive when it is able to grow, to acquire new markets and achieve profits at its level. Thus, competitiveness consists in the enterprise's capacity to produce, in a coherent and profitable way, those products which meet the requirements set by an open market in terms of price, quality, innovation, and so on. Any enterprise must meet these requirements if it wants to stay in business, and the more competitive an enterprise is against its competitors, the more market share it will be able to win. Those who are uncompetitive will lose market share, and they will be able to survive 'artificially' only through official aid and protection, which does not make much sense.

From a macroeconomic perspective, the competitiveness concept is more fluid, but it means that the enterprises 'environment' should promote their competitive capacity and that it should also solve their problems for retaining their competitiveness or increasing their capacity to do so (skilled labor, supplementary services, collaboration between companies, and solutions for specific problems in certain sectors (from packaging to export routes or information regarding the regulations in force in the export markets, and so on). 'The competitiveness of a country/region can be measured by the degree in which it can, in a free and competitive market, produce goods and services which meet the test of international markets, and at the same time expand the inhabitants real income' (World Bank, 2008c).

In this sense, the sixth periodical report about the EU regions (European Commission, 1999) defines regional competitiveness as 'a region's capacity to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable income levels; or in a more general way, as the regions' capacity to generate relatively high income and employment levels while being exposed to external competition'.

4. HAVE GROWTH THEORIES HAD ANY INFLUENCE ON THE REGIONAL POLICIES APPLIED?

Apparently, growth theories have really had an influence on the regional policies applied in Europe, at least, on some of them, as has been pointed out at section 2. Some ideas and models supporting regional policies implemented in Europe in the three periods previously analysed have also already been quoted in section 3. However, after analysing many of the regional policies' experiences and approaches, it can be pointed out that the influence of the theories has not been particularly significant. Recourse has been made to them, of course, but with the purpose of 'justifying' specific actions (politicians always seek prestigious external support, which suits them, as authoritative arguments), but a gap existed between the theories/models and the policies.

To better understanding this statement, it is necessary to begin acknowledging that many of the theories on regional growth and its causes are, above all, 'indebted' to broader models and theories which make reference to national economies. In many cases there is not a highly 'regional' specificity (Cuadrado-Roura, 1995). It might even be argued that some of the supposedly 'regional' theories pay almost no attention to the 'space' or the 'territory' as a significant variable, and that they have not been able to integrate it into the models. In reality, quite a few such theories are clearly 'subordinated' to macroeconomic theories of a more general nature.

Nevertheless, it must be admitted that the progress recorded in the field of growth theories has supplied regional policies with new ideas. Some of them have contributed to 'clarify' the factors which seem to be most important to achieve economic growth. Others, have highlighted that territorial imbalances require the authorities' direct intervention and that, without it, the market will not be capable of solving such disparities (unless one thinks that population movements in the form of migrations have no costs and that the readjustment between factors, prices and costs is made by the market, which is not the case, nor is it guaranteed that it can take place within an acceptable period; on the contrary, the period involved is quite long). And, finally, some rather limited or modest contributions have provided regional policies with new ideas. This is the case with the theory of the export basis, of the theory of the innovative means, of the aspects which highlight the ideas of endogenous development (not to be confused with the endogenous growth theories), the thesis of the 'industrial districts' and the idea about the clusters, which have also provided elements used in designing regional policies from the 1990s up to now.

However, it can be established that economists and geographers have had a clearer influence on improving regional policies in the field of applied analysis. Specifically, the studies that became increasingly sounder and deeper in respect of the regions' behavior and referred to concrete countries and regions, have proved to be very useful. They have made it possible to identify weaknesses and strengths the latter of which have been included in the regional policy programs and approaches. Equally, the use of some analytical tools (input-output tables, regional accounting, social accounting, estimates of social capital, comparative studies of technological development, and so on) have made it possible to make better regional diagnosis, contributing in this way to give sounder support to the ideas and programs to be developed.

The evaluations of the effects of regional policies which have been put into practice in many countries (particularly in the European Union) are also having an extraordinary influence. This has made it possible to evaluate the real contribution of the regional funds and actions for development, handling the 'counterfactual' evolution, both in the estimate of macroeconomic effects (investment, growth, productivity and employment), as in more specific policies (training for those unemployed, providing support to enterprises for tackling their technological and export problems, technological development, and so on).

Finally, in quite a few countries, the growing interest about the regions has led them to produce regional statistics which did not exist before, and which now allow them to make real comparisons both within one country and among different countries. This is a fundamental step in the progress achieved in the last few years, which has enabled many decisions to be rationalized and the objectives to be achieved quantified and to evaluate their rationality *ex ante* and the results of their application *ex post*.

Thus, two points can be made. First, theories have had a lesser influence than it might have appeared at first sight. Second, the progress recorded and the greater depth of regional studies have contributed to provide a greater support to regional policies.

5. WHAT HAVE WE LEARNED?

Analysis of the European experiences in regional policy and their evolution gives sufficient evidence to succinctly highlight what we 'have learned'. In some cases these consist of recommendations which should be made to any authority that wants to start a regional development program.

The first that must be pointed out is that in regional policies experiences have varied greatly in terms of success or of little or no success. Some years ago, Maurice Dobb put as an example of the search for developing the backward countries and areas the image of the zigzagging path followed by a dog seeking a buried bone. The examples available of the European regional policies indicate learning 'trial and error'.

Second, regional policies are not, and must not be, mere 'redistributive' policies. They cannot be presented as such (as politicians sometimes do); they must include much more demanding objectives than just the distribution of 'subsidies', 'state aids' and 'gifts', in short, as a sort of 'Santa Claus' state. To grant subsidies to a region on a permanent basis is the worst decision that can be taken for that region. Any regional policy must include specific deadlines for reviewing whether the regions included must 'exit' the program.

Third, there are some principles which seem to be definitively consolidated as issues which we have learned from the RPs experiences. Four in particular can be highlighted:

1. *Need to program for the medium to long term.* Under no circumstance can a regional policy be included in government programs with short-term objectives. As with all the actions aimed at promoting economic growth and development, their objectives and results are only visible in the long term, provided the policies have been maintained, even when no immediate results are apparent. The failure of many regional policies can be attributed to a premature change in policy, which

causes the abandonment of the actions taken before; to the fact that no programming is made for the medium/long term; and to the consequences of a change in government and in the authorities before being able to see the potential rewards. In this regard, the EU has set up action 'programs' for its regional policy with a six- to seven-year horizon, which are agreed with governments – national, regional or local – and which cannot be altered despite the political changes which might result from fresh political elections or eventual changes in the government.

2. *Concentration of the actions*. This means that the regional policies cannot be confused with policies for distributing privileges to all regions of a country, under the pressure exercised by the different politicians and representatives. The RPs must be, above all, selective. A region's 'eligibility' must be the result of certain minimum terms set beforehand (that is, that its per capita GDP is below the 60 or 70 per cent mark of the national average). As a result, only some areas or regions must be the object of the regional policy.
3. *Principle of additionality*. This requires that regional programs do not include actions and investments which would have been programmed in any case by the state, regional governments or state-owned enterprises. Regional policies must contain investments and actions which 'would not have been made' if they were not programmed as part of the regional policy.
4. *Participation and joint participation in the preparation and implementation of regional policies.* It is essential that the regions and their main agents have a clear role both in the preparation of the programs and in their implementation. There are enough examples of successful development agencies, whose success is due to the fact that they have really 'integrated' entrepreneurs and other regional agents (representatives of chambers of commerce, autonomous organizations and so on) *within* themselves and within the technological support institutes for SMEs.

Besides the above, there are several ideas which we have also learned from the most positive experiences:

- To limit the subsidies and aid to the first time an enterprise sets up its business. Many of these ideas do not regard subsidies as effective. They often promote 'rent-hunting'.
- To leave direct aid measures in favor of those which help enterprises to solve their problems and can become more competitive at the national/international level (technological improvements;

solving export problems; cooperation among enterprises; innovation promotion).

- A definitive 'no' to the role played by state-owned enterprises as means for promoting development. Of course, there can be exceptions, but, in general, authorities and civil servants take the wrong decisions, based on a knowledge which ignores the changes, or which is based on non-replicable cases.
- To grant the utmost importance to 'entrepreneurs' as the agents for development, either those in SMEs or in micro-enterprises. Programs promoting them: first launch support; simplification of the bureaucratic procedures; joint ventures with foreign enterprises; and so on.
- The institutions work when the agents apply themselves to their working. This can seem like an obvious thing to say, but it is true. There exist clear examples about this. The protection of the Santa Claus State is not essential.
- No regional development can take place if this is not sustainable through time. That is why it is necessary to set up productive structures and units which are efficient and competitive, and which offers several fronts on which to act.
- Regional policy must be designed to bring about concrete results. So, regional policies must help to finance actual projects for regions, towns and their inhabitants. But the idea is to create potential, so that the regions can fully contribute to achieving greater growth and competitiveness.
- Regional policies must be subjected to a regular 'evaluation'. This is a very important point. The European experience is, in this sense, very positive. *Ex ante* evaluation in order to determine whether what is intended to do is feasible within the programming period (six- to seven-years); ongoing evaluation for changing any imbalance which might have arisen; and, above all, *ex post* evaluation for effectively justifying whether the resources employed have been put to good use. Usually, politicians do not like being evaluated. But they must be, and not for preventing frauds or the diversion of resources, but to have elements to be considered in future policies and programs.

NOTES

* A first version of this chapter was given by the author as a keynote lecture at the 1st Congress of the Regional Science of the Americas, Cartagena (Colombia), in 1999. This is a much revised version of it. References to the case of some Latin American countries have been passed over.

1. Anyway, the responsibility of this chapter is exclusively that of the author.

2. Some previous experiences could also be quoted as historical precedents, mainly in the cases of the UK, France, the Netherlands, Spain and in the Scandinavian countries.
3. The great reform of the EU Regional Policy was decided upon in 1988 and started from 1989. A set of major reforms were introduced which were extremely far-reaching and altered the nature of the previous European Community regional policy. The creation of the European Regional Development Fund in 1975 had been the departing point of EC regional policy, but its purpose and relevancy changed completely with the new rules approved in 1988.
4. This compromise has also been introduced into the most recent 'Lisbon Treaty' (2007).
5. The ideas and the methods of J.F. Gravier (1958) were adopted by the Délégation interministévielle à L'aménagement du territoire et à l'attractivité régionale (DATAR) (French Agency for Territorial Planning and Development) (1963) to implement a policy oriented to stop the strong growing and centralizing process of Paris.