policy briefing

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Why care about regions? A new approach to regional policy

WDC Policy Briefings: The Western Development Commission (WDC) is a statutory body promoting economic and social development in the Western Region of Ireland (counties Donegal, Sligo, Leitrim, Mayo, Roscommon, Galway and Clare). WDC Policy Briefings highlight and provide discussion and analysis of key regional policy issues.

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Why care about regions?

Regions are the drivers of modern economic systems and all regions have the potential to thrive and to contribute to the national economy. However, because success breeds success some regions do this more effectively than others. Less advantaged regions will benefit if policy is focused on ensuring that they too can reach their potential. With the economic downturn, regional policy may not be prioritised, but it is a waste of talent and opportunity not to realise all regions' potential.

This Western Development Commission (WDC) Policy Briefing makes the case for a coherent approach to policy for regions. In particular it focuses on the new approach to regional policy which is emerging internationally. This new approach to **developing regions involves harnessing the assets of all regions** (rural and urban), **and all sectors** of the economy and society, to enable regions to be the drivers of their own development and at the same time strengthen the national economy.

Regional development cannot be viewed as an isolated issue or as the sole responsibility of a single Department or Agency; rather it depends on the interaction of physical capital, human capital, the business environment and related policies. As the determining factors of regional performance are mutually reinforcing, a cross-sectoral approach to policy formulation and delivery is essential.

Government policy for balanced regional development is set out in the National Spatial Strategy 2002-2020 (NSS)and two National Development Plans (NDP), for 2000-2006 and 2007-2013. But while specific 'regional' policy is important, all government policies have very significant effects on regional development. Realising the full potential of regions must be viewed as a guiding principle which influences decisions across all sectors including, for example, transport, education, enterprise, communications, and tourism. **Regional policy is relevant to all policy.**

A new approach to regional policy?

This WDC Policy Briefing draws on and highlights findings of recent work by the OECD "How Regions Grow: Trends and Analysis"[1] and "Regions Matter: Economic Recovery, Innovation and Sustainable Growth".[2] These studies consider the role of regions and their contributions to growth; as well as the factors which help regions to achieve their potential. The reports develop previous OECD work which specifically examined the

1 OECD, 2009a, How Regions Grow: Trends and Analysis

2 OECD, 2009b, Regions Matter: Economic Recovery, Innovation and Sustainable Growth

Opportunities for growth exist in all types of regions and all regions contribute to the national economy.

role of competitive cities[3] in driving development of their regions and new approaches to rural development.[4] The more recent reports emphasise the importance of a broader approach to regional development, building on the assets of regions and inter-linkages between cities and rural areas. Their findings are important to the development of regions and informing regional policy in Ireland.

There can be a tendency to assume that growth is led by the core, higher GDP regions and that these regions generate the lion's share of new wealth. However, a key OECD finding is that while leading regions are very important for national economies, over the past decade lagging regions have also made a strong contribution to growth. In most OECD countries lagging regions have generated more than 50% of national growth over the past decade.

The OECD also argues that persistent regional disparities suggest there is unused growth potential in these regions. The new approach to regional policy is based on the principle that **opportunities for growth exist in all types of regions** and that **all regions contribute to the national economy.** Regional policy is not a zero sum game where growth in one region is at the expense of another. The aim of regional policy should be to maximise national output by assisting and encouraging each individual region to reach their growth potential. The market does not achieve this alone.

Simple concentration of resources in a place is not a sufficient condition for sustained growth.

The contribution, and potential contribution, of lagging regions to a national economy is given greater prominence, recognising that **simple concentration of resources in a place is not a sufficient condition for sustained growth.**[5] This approach leads to very different policies to those that are based on the assumption that concentration by itself will generate economic growth. The new approach also underlines the key role of public policy in ensuring that growth is maximised based on a region's assets. These assets include the ability of regions to attract skilled, creative and innovative people; to provide high quality cultural facilities; and to encourage development of social networks. All of these are aspects of regional competitive advantage.[6]

Ensuring the many facets of successful regions are present and working together in each region, and developing each place's comparative advantage, must form the basis for regional policy.

Regional policy in the future must have a more subtle understanding of issues such as environmental sustainability, individual welfare or happiness and their association with economic and social development. **Ensuring the many facets of successful regions are present and working together in each region, and developing each place's comparative advantage, must form the basis for regional policy.**

Developing regional potential or balancing regional growth?

Previous emphasis in regional policy was on a balance among regions and on aiding less developed regions to catch up i.e. on 'convergence' or the reduction in disparities. The newer approach to regional policy focuses on regions achieving their potential, and recognises that **less developed regions can have greater unfulfilled potential.**

Less developed regions can have greater unfulfilled potential.

Evidence that some of the Western Region's unused potential was being tapped was shown by the increase in labour force participation which occurred in response to a period of rapid economic growth.[7] The goal now is to ensure that the economic downturn does not reverse that progress and that the region is in a position to take advantage of the upturn in global economic activity, when that occurs.

Focusing on developing regional potential does, however, raise a number of concerns. It is critical that any concept of regional potential is not taken to imply a limit on a region's growth. Regional potential arises from regional assets and advantages. Some of these may be fixed (e.g. certain natural resources), but many assets, particularly those associated with the knowledge economy (such as human capital, innovation capacity

3 OECD, 2006, Competitive Cities in the Global Economy
4 OECD, 2007a, The New Rural Paradigm
5 OECD, 2009b (see footnote 2)
6 Kitson, M., Martin, R. and Tyler, P., 2004, 'Regional competitiveness: An elusive yet key concept?' Regional Studies 38(9): 991-999
7 WDC, 2009a, Work in the West: The Western Region's Employment & Unemployment Challenge

and infrastructure) are not limited in supply. **A presumption that some regions have more 'potential' than others should not be used as a justification for concentrating investment in those regions.**

Another concern in relation to potential is the difficulty of measurement. Regional balance or convergence has a well established measurement approach based on the gap in Gross Value Added (GVA) between regions. However potential, and progress towards achieving regional potential, presents a far more complex measurement task.[8] There is a risk that difficulties in measurement, and therefore in monitoring progress, may reduce the priority given to regional development policies particularly where there is increasing competition for resources. What gets measured gets done.

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What kind of country do we want to live in?

What kind of country do we wish to live in? One where development and economic growth is only a characteristic of stronger regions? Where cities and agglomerations are the sites of production, employment and growth while rural and peripheral areas are places for leisure or sources of labour? Or one where we stimulate the mutually beneficial relationships between rural and urban areas? An Ireland that recognises the potential of regions and seeks to allow them achieve it.

Development of our regions must be an integral part of the vision for Ireland's future. Decisions on regional policy should reflect the kind of country we want to create. A fairer system will mean greater wealth throughout the country, arising not from redistribution, but from increased growth in lagging regions. It involves a recognition of the mutually beneficial relationship between the urban and the rural, not the presumption that one is dependent on the other. **If regional policy is effective it will result in a country with better options for all** and a sharing of both the positive and negative aspects of growth.

If regional policy is effective it will result in a country with better options for all.

Regions or cities? Agglomeration and regional development

Firms often want to locate where there is demand and population, where there is a quality labour market and where suppliers and buyers are located. Likewise, people may want to live where firms and jobs are located. The economies of agglomeration lead to the concentration of educated, skilled labour, entrepreneurship and investment and to higher levels of innovation and patenting activity. But the benefits associated with economies of agglomeration are not unlimited.[9]

There are negatives associated with concentration in urban areas including high transportation costs (e.g. congested streets), higher levels of crime and anti-social behaviour,[10] loss of productivity and stress associated with long commuting times.[11] These are real costs to the national exchequer and to society. There are continued requirements for infrastructural investment to satisfy the needs of the growing agglomeration, which in turn can divert investment from other regions making it more difficult for them to reach their potential. The OECD notes that this has led to debate as to whether increasing concentration leads to the "privatisation of benefits and socialisation of costs".[12] In other words, at some point the growth in cities, while continuing to benefit businesses and some individuals, imposes higher societal and public costs.

The role of Dublin in the Irish economy needs to be carefully considered. Dublin is the site of economic power

8 A future WDC Policy Briefing will examine the measurement of regional development.
9 OECD, 2009b, p. 29 (see footnote 2)
10 OECD, 2006 (see footnote 3)
11 O'Regan, B., and Buckley, F., 2003, The Psychological Effects of Commuting in Dublin, Centre for Research in Management Learning and Development Working Paper Series
12 OECD, 2009b, p. 31 (see footnote 2)

Where there are underused resources in lagging regions mobilising them will add to overall national economic growth.

and the seat of government. It is the presumptive site of the 'national'[13] and much of what is commonly supposed to be 'national' in fact favours one part of the country. The OECD argued that public infrastructure, resources and human capital are particularly allocated to, and developed in, capital cities.[14]

Yet rhetoric often implies that the wealthier city regions succeed somehow by their own intrinsic qualities while other regions of the country are somehow inadequate and thus in need of 'aid'. It ignores the fact that such wealthy regions receive massive investment, both public and private.

All too often 'regional disadvantage' was traditionally explained and addressed in terms of regionally located 'inadequacies'. It has been argued that government expenditure in favour of lagging regions will not be effective and will in fact diminish performance in the growth poles and the economy as a whole.[15] Alternatively it has been suggested that the main focus of regional policy should be on investment in the larger cities whose growth will then 'trickle down' to their rural hinterlands.[16] In reality there is little evidence of such an effect, while the inter-relationships between cities and their wider regions, and how these can stimulate growth in the rural economy, are poorly understood.[17]

Lagging regions generate an important part of national economic output;[18] the argument of the new approach to regional policy is that **where there are underused resources in lagging regions mobilising them will add to overall national economic growth.**

What role for rural regions?

Rural areas should be active and dynamic parts of the productive economy.

Rural areas should be active and dynamic parts of the productive economy. There is already significant economic activity taking place within rural areas.[19] Changing lifestyle preferences mean that amenities in many rural areas (public goods such as clean environment, landscape and cultural heritage) represent valuable endowments that can play a role in increasing competitiveness and growth.[20] Rural regions can develop to their potential, providing opportunities for those living or wanting to live in rural areas, while at the same time contributing to the national economy. This perspective, rather than a focus on agglomeration, is particularly relevant when rural regions, such as the Western Region, have a key role in green growth and eco-innovation.

The OECD's "New Rural Paradigm" highlights how some rural regions have managed to achieve significant growth rates by finding ways to exploit their resource endowment and economic opportunities.[21] Growth opportunities exist in renewable energy, creative industries and high-end knowledge intensive enterprises for which quality of location can be more important than proximity. High growth rates may be associated with specific fixed assets such as a scenic environment, or amenities that are not found elsewhere. Rural regions adjacent to urban regions are also often able to take advantage of their accessibility.

Rural regions need to be in a position to benefit from their natural advantages, within the context of a high value-added 'smart economy'.

The Western Region and other **rural regions need to be in a position to benefit from their natural advantages, within the context of a high value-added 'smart economy'.** Without high value-added economic activities in these regions there will be a divergence in economic growth patterns, and increased dependence on more advantaged parts of the country.

It is important that both urban and rural policies work together as components of regional policy and that there is further evolution of policy thinking in relation to both.

13 Draws on discussion in relation to London by Amin, A., Massey, D. and Thrift, N., 2003, 'The 'regional problem' and the spatial grammar of British politics', Working Paper. Catalyst.
14 OECD, 2006 (see footnote 3)
15 Dublin Institute of Technology, 2008, Twice the Size: Imagineering the Future of Irish Gateways for the Urban Forum
16 National Competitiveness Council, 2009, Our Cities: Drivers of National Competitiveness; National Economic and Social Council, 2008, The Irish Economy in the Early 21st Century
17 Ward, N., 2008, Balanced Regional Development: Issues and Insights in WDC, 2008, Delivering Balanced Regional Development: A Challenge for Policy, Conference Proceedings
18 In 2007 the Border, Midlands, West (BMW) region contributed almost a fifth (18.5%) of national GVA, and more than half (51.7%) of total State GVA came from the regions outside Dublin and the Mid-East. CSO, County Incomes and Regional GDP 2007
19 WDC, 2009b, Travel to Work and Labour Catchments in the Western Region: A Profile of Seven Town Labour Catchments; WDC, 2007, Rural Businesses at Work: Case Studies of Rural Enterprises in the Western Region
20 OECD, 2009b (see footnote 2)
21 OECD, 2007a (see footnote 4)

Is there a more effective approach to regional development?

Market forces are powerful drivers of regional growth outcomes. This benefits the successful global regions, while lagging regions can have difficulty in exploiting their full potential in the face of such forces. Regional policy needs to harness the market to positively impact on regional growth. Effective regional policy has two elements:

- '**Narrow**' policies, such as the NSS or specific rural policy such as CLÁR, aim to achieve regional or rural growth and development.
- '**Broad**' policies are the means by which regions are influenced by sectoral policies such as transport and communications infrastructure, education and employment. Social welfare policies also have a regional impact, reducing income differentials at an individual and consequently at a regional level.

The mix of 'broad' and 'narrow' policy arenas means that regional policy can suffer from unclear management at national level. On the one hand it is a task for all, but no one may ensure it is implemented. On the other, it may be assumed to be the responsibility of those with the narrower policy remit but without the influence to affect broader decisions. **Regional policy needs to be co-ordinated by an identifiable single figure at the national level** supported by a designated institution (for example a section of a government Department or Agency) with the mandate to co-ordinate and drive regional policy across sectors. If the NSS is the 'key' policy, it needs to be seen as broader than strategic and spatial planning. **Regional development issues should pervade government decisions** and the effects of all decisions on regions should be consciously considered.

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Regional development issues should pervade government decisions.

Case study: regional policy in Finland[22]

Finland, a country with a similar population to Ireland, though a significantly larger land area, makes a useful example of a country with a strong regional development policy aimed at spreading growth more evenly across the country. Key experiences in Finland showed that:

- Early infrastructural improvement policies had long lasting positive effects on the least developed regions.
- Technology and knowledge based support became more important.
- Regionalisation of university education was a very efficient means of spreading development, providing skilled human capital in regions and enhancing the cultural and economic attractiveness of weaker regions.
- Special programmes based on know-how and the development of smaller urban centres played an important role.

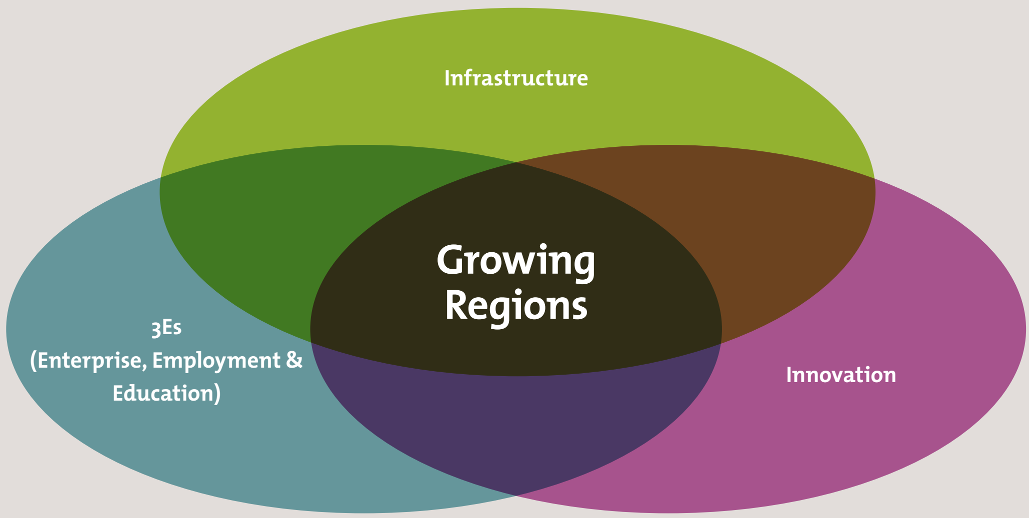
22 Based on Tervo, H., 2005, Regional Policy Lessons from Finland, in Felsenstein, D., and Portnov, B.A., (eds.) Regional disparities in small countries, 267-282

Infrastructure, the '3Es' (enterprise, employment and education) and innovation are priority areas. When they work together they drive regional growth.

What are the priorities for regional policy?

The aim of regional policy should be to provide the conditions for regions to grow and in this context **infrastructure, the '3Es' (enterprise, employment and education) and innovation are priority areas. When they work together they drive regional growth.** Each has a distinctive role, and needs its own policy focus, but they are most effective when combined (Figure 1). They are discussed briefly here and will be the topic of future WDC Policy Briefings.

Figure 1: Illustration of the priority areas for regional policy



Transport and other infrastructure developments are not enough by themselves.

Infrastructure

Investment in infrastructure has always played a prominent role in regional policy. The expectation that improvements in physical infrastructure will generate productivity gains for local businesses and increase the attractiveness of an area for investment and for tourism has been a recurring theme. Lagging regions need to have a similar quality of infrastructures for their residents and businesses as is available in more successful regions. Infrastructural connectivity has a critical influence on choice of location for both indigenous and foreign investors.

But OECD work emphasises that **transport and other infrastructure developments are not enough by themselves**; to have an impact on growth they need to be associated with human capital and innovation developments.

The '3Es': Enterprise, Employment and Education

Regions are successful because enterprises in these regions are successful. When enterprises grow, employment grows; but both are dependent on skilled and educated people. The '3Es' of enterprise, employment and education policy must work together at both national and regional level to create dynamic regions.

Enterprise

Enterprises across Ireland have been faced with a recession. Policy has responded by setting the objective of a 'smart economy' with high levels of innovation, improved competitiveness, increased export activity, a focus on the green sector and continuing infrastructure investment.[23]

If, however, there is an over focus on those sectors and technologies which are most attracted to larger cities, without policies to support existing and new entrepreneurs in sectors where lagging regions have comparative advantage, then efforts to achieve national economic recovery may result in increasing regional disparities. **If regional strengths and areas of comparative advantage are taken into account in the implementation of national enterprise policy, it is likely to be far more effective.**

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Employment

Regardless of the sector, enterprises depend on the quality of their workforce. **The OECD found that human capital is even more important than infrastructure as a determinant of regional performance.** The key challenge of course is the balance between demand and supply. A skilled workforce will attract high value enterprises to a region, but a skilled workforce will not locate there unless the job opportunities exist.

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In general, lagging regions have substantial reserves of unmobilised labour, indicated by higher unemployment rates and lower participation rates. During the period of rapid economic growth this trend was partially reversed in the Western Region with rising participation rates, falling unemployment and high levels of inward migration. However the recession has led to rising un- and underemployment, declining participation and concerns about a return to large scale out-migration.[24] Out-migration can be detrimental to lagging regions, as the propensity to migrate is higher among the more skilled, depriving the region of their skills and leaving the less skilled more dependent on local employment opportunities.

The creation of good quality jobs for graduates in lagging regions will help retain and attract a highly skilled labour force and, in turn, stimulate further growth and employment.

Education

Further and higher education has an important role to play. Educational institutions build a region's human capital assets, attract and retain talent. Vocational education and training have a particular role in up-skilling those with lower education levels, who face higher unemployment rates and are at greater risk of long term unemployment. Lagging regions generally have a greater share of their labour force with lower levels of education. **Higher education, meanwhile, brings knowledge creation, knowledge transfer, cultural and community development and innovation to regions.**[25] It can also stimulate entrepreneurship.

Higher education brings knowledge creation, knowledge transfer, cultural and community development and innovation to regions.

The broader role of further and higher education, touching on innovation, enterprise and employment, needs to be a key focus of regional policy and of educational institutions' activity. Where this works effectively it becomes part of a virtuous cycle producing graduates, and enabling them to find employment in developing enterprises.

Innovation and the needs of regions

To remain competitive, manufacturing and service firms must continually upgrade skills and capabilities, access new ideas and technologies through industry networks, tap the knowledge of their workers, suppliers and customers and search for new market opportunities. This is all innovation.

Innovation policy is often focused on scientific and technological research, but while leading OECD regions produce several hundred patents per year per million inhabitants, more than one third of OECD regions generate fewer than ten patents per year.[26] **Lagging regions need a different kind of innovation policy, one that emphasises absorption capacity and innovation by adoption.**

Lagging regions need a different kind of innovation policy, one that emphasises absorption capacity and innovation by adoption.

23 Government of Ireland, 2008, Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal
24 WDC, 2009a (see footnote 7)
25 OECD, 2007b, Higher Education and Regions, Policy Brief
26 OECD, 2009b, p. 65 (see footnote 2)

Policymakers should develop a comprehensive regional policy which not only links regions through infrastructural investments, but also fosters human capital, and facilitates innovation.

In many other OECD countries governments are realising that policy needs to address the issues of regions that are not innovation leaders. A substantial element of innovation policy should be focused on adoption of innovations developed elsewhere and on initiatives such as human resource management or implementation of new processes. It should stimulate innovation activity in areas where regions have particular strengths such as renewable energy and agri-food.

A future for regional policy?

Opportunities for growth exist in all types of regions but regions need to be able to mobilise their assets to take full advantage of their growth potential. This requires integrated strategies for regional development policy that cut across sectors and that are based on inclusive governance arrangements.

There is no single prescriptive approach which will work for all regions

In 'new' regional policies, bringing about convergence is less important than improving the performance of all regions. In order to promote regional growth, **policymakers should develop a comprehensive regional policy which not only links regions through infrastructural investments, but also fosters human capital, and facilitates innovation.** Partial policies can create problems: if you only provide infrastructure it can create a 'leaking' instead of 'linking' process. If only human capital is promoted it can lead to a 'brain drain'.

There is no single prescriptive approach which will work for all regions, instead the new way of thinking and of approaching the problems, as set out in this WDC Policy Briefing, should help give rise to individual solutions, tailored to individual regions.

Public policy has a vital role to play in developing all regions and helping them to achieve their potential, so bringing the widest possible national benefit.

We need to ensure that this new thinking forms the basis of regional policy in Ireland. A simple accumulation of investment and assets is not enough. The market alone does not maximise the potential of lagging regions. **Public policy has a vital role to play in developing all regions and helping them to achieve their potential, so bringing the widest possible national benefit.**

For further information

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