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REGIONAL DIMENSION OF THE EU ECONOMIC POLICIES IN POLAND

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Theoretical Aspects of Regional Intervention

Abstract

The aim of this chapter is a review of the literature concerning regional interventions conducted within regional policy. The first part of the chapter presents different political, social and economic arguments opting for the introduction of regional policy. This is followed by a presentation of a wide range of instruments used within regional policy or other economic and social policies at the regional level. Various classifications proposed by researchers are presented, as well as the reasons, causes, and potential effects of their implementation. The next part deals with the concept of decentralisation of power within regional policy. Then the potential positive and negative effects of regional policy are studied in the field of labour and capital, market, infrastructure, and innovation. This is followed by a presentation of a new approach and new paradigm of regional policy put forth in recent years. In order to present a balanced and wide overview of the theoretical aspects of regional policy, the final part of the chapter consists of a description of arguments against regional policy.
The text is a review of the literature of distinguished researchers, supplemented by some of the author's own critical remarks and opinions. In order to ensure the clarity, thematic unity, precision and correct presentation of the various approaches to regional policy, the chapter has been prepared using original statements, phrases and words from 60 original publications (articles in journals and chapters in books).

1. Introduction

Regional policy was pioneered in the United Kingdom to address the high level of unemployment in several coal mining areas in the 1930s, which was a result of declining major industries and an absence of new opportunities in expanding trades (Armstrong and Taylor, 1999, p. xiii). It was developed and implemented for both economic (efficiency) and social (equity) reasons (van Dijk et al., 2009, p. 461). But regional policy began in most OECD countries in the 1950s and 1960s, which was

a period of relatively strong economic growth, fiscal expansion and low unemployment (OECD, 2010, p. 11). As Barca et al. noted, with few and relatively minor exceptions traditional development policies continued to rely on 1950s growth and development theories and, across the world, remained cut from the same cloth: supply-side strategies – or, conversely, excessive demand-side strategies – based on a sectoral rather than a territorial dimension (Barca et al., 2012, p. 137). The principal objectives of the measures introduced were greater equity and balanced growth in a period of rapid industrialisation. The main instruments used were based on wealth redistribution through financial transfers by the national government, accompanied by large-scale public interventions. When unemployment problems appeared, regional policy, evaluated in the context of public policy, focused on job creation by changing production cost factors through subsidies and incentives, thereby influencing industrial relocation (OECD, 2009b, p. 50). During the 1970s and early 1980s successive economic shocks and changes in the global economy led to geographical concentrations of unemployment in many OECD countries, and regional policy evolved rapidly to address this new challenge. The focus was extended beyond reducing disparities in income and infrastructure to include reduction of disparities in employment as well. The theoretical assumption that guided policy at that time was that public policy could alter supply conditions, thereby influencing industrial location decisions with respect to existing firms and new investments. This increased the focus on direct support to firms, either by supporting ongoing activities or by attracting new jobs and investments to poor regions (OECD, 2010, pp. 11–12). Nowadays researchers develop a place-based approach to regional policy due to the presence of place-specific market imperfections or externalities. Essential features of the new paradigm of regional policy include tailoring interventions to specific territorial contexts and to their spatial linkages, and eliciting and aggregating the knowledge and preferences of local actors. Moreover, the recent debate on regional policy focuses also on whether policies should be pro-equity or pro-efficiency.

The aim of this paper is a review of literature on regional policy, its main goal, traditional and new instruments, as well as a discussion on a new concept of regional policy and analysis of arguments against governmental interventions at the regional level. The paper has been prepared based on over 60 original journal articles, and in order to ensure clarity and thematic unity the text consists of distinguished researchers' original phrases, statements or even short paragraphs with precise references to original works, supplemented where necessary, by the author's own critical remarks and opinions.

2. Regional Policy Goals

There are various classifications of the arguments for conducting regional policy. However the first question concerning the need for regional policy is linked to the concept of governmental intervention in the market. Some authors have noted that although there can be a consensus on accepting an active governmental role to influence the aggregate level of economic activity, the question remains as to whether in fact there is any need for regional policies (Norman, 1979, p. 294).

Some other authors distinguished social, political and economic dimensions (Thirwall, 1974), while others add the environmental one (Commission of the European Communities, 1973; Marelli, 1985, p. 131). According to Norman the alternative argument is that the above-mentioned regional imbalances are merely indications of the need for adjustment, and that such adjustment will follow more or less automatically from the operation of market forces. He found that the only justification for regional policy then rests on either: a) a desire to speed up the process of adjustment; or (b) social, political and environmental judgments based on concepts of equity and justice (Norman, 1979, p. 294).

2.1. Political Arguments

The political arguments are linked with the European economic integration, especially with the enlargement of the Community. Some authors argue that it is difficult to see how economic integration and policy harmonisation is to be accomplished without political solidarity. Already in 1970s a need for solidarity and unity of purpose of the European Community was noticed, given the presence of wide divergences in the economic and social conditions between people in Europe (Thirwall, 1974, p. 2). As Martin noted, in as much as neither policy makers nor economists are ready to give up the gains from trade, a natural implication is to employ public policies to counteract any increased inequalities which are deemed as unacceptable on distributional and political grounds (Martin, 2003, p. 757). Camagni and Capello explained that the lack of regional intervention can bring huge social and political costs, allowing for the explosion of regional crises and the cultural and environmental costs of regional desertification (Camagni and Capello, 2010, p. 6).

2.2. Social-Moral Arguments

The social-moral arguments relate to the provision of equality of opportunity and the maintenance of social cohesion due to, *inter alia*, the fact that inequalities and lack of cohesion impair the functioning of the economy. Social conflicts can interfere with the smooth functioning of economic systems, especially when regional economic and social disparities coincide the cultural and religious boundaries (Thirwall, 1974, p. 2). Martin also noted that if economic theory cannot support public intervention on pure efficiency grounds, to counter forces that may generate a core-periphery pattern, then it can be defended on equity grounds. He explained that although people with the highest skills will benefit from agglomeration forces by moving to regions which offer them the highest rewards, there are many people who will have to stay in the declining regions (Martin, 2003 p. 765). Moreover, Camagni and Capello noted that existing basic locational disadvantages, e.g. poor infrastructure and services, can lead to a lower exploitation of the creativity potential of all regional communities (Camagni and Capello, 2010, p. 6). It is worth noting van Dijk's observation that social capital as such can be added as an extra production factor in the framework of the neoclassical growth theory. However, in the regional policy debate social capital theory is mainly used to motivate policy measures that develop social capital in lagging regions as a goal itself, whereas the ultimate goal is of course to stimulate economic growth (van Dijk et al., 2009, p. 463). It is also worth noting that regional policy can be treated as a mean to achieve a more balanced geographical distribution of the population. The existence of cumulative causation mechanisms leads to very powerful centripetal forces (Armstrong and Taylor, 1999, p. xv). However, Parr's observation that regional policy intervention in the form of direct assistance to problem regions provides a logical reinforcement of the objective of greater equality, has been dismissed by some researchers as lacking an economic rationale and therefore being in the nature of purely social policy (Parr, 2014, p. 6).

2.3. Economic Arguments

There are many economic arguments for regional policies. One of the main ones, according to Parr, is that regional policy undertaken by a nation should assist areas (and thus the populations therein) that are deemed to be in need of assistance by virtue of their poor levels of economic performance, as manifested in below-average levels of per capita income and/or above-average unemployment rates. An inappro-

priate spatial structure within a particular region may adversely affect its economic performance and reduce its ability to adjust to change (Parr, 2014, pp. 2–5).

But there is no question that regional policy can have a various effects on general economic performance. After the Second World War one of the main goals of regional policy was that it would not only increase welfare levels in the problem regions but would also lead to efficiency gains within the national economy through the utilisation of unused resources in lagging areas and reduction of congestion and other negative externalities in the relatively prosperous regions. As regards the latter objective, there are essentially two complementary courses of actions available to public policy makers to prevent the further expansion of congested regions far beyond an optimal level: direct and indirect controls on the expansion of direct productive actions within such regions, and encouragement of economic growth in alternative regions. However, as Hanson noted, governments have rarely carried out such joint measures in any systemic fashion (Hansen, 1965, pp. 7–8).

Needleman and Scott noted that it can be argued that in order to justify state intervention in lagging regions it is necessary to establish that national output would be raised if regional differences were diminished, and those market mechanisms on their own are ineffective means of reducing these differences. They argued that in less prosperous regions of the country there are considerable pools of unused resources -mainly labour – which, if employed, could raise national output substantially (Needleman and Scott, 1964, p. 153). On the other hand, regional imbalances in the labour market may exacerbate the conflict between price stability, full employment, and capacity growth. Thus, according to Thirwall's research regional policy aimed at achieving a greater degree of sectoral balance could lead to an improvement in the general welfare by allowing the economy to operate at a higher level of employment and output consistent with its simultaneous desire for price stability and a balance in the overseas trading account (Thirwall, 1974, pp. 2–3). Moreover, Martin noted that the fact that regional inequalities might hurt immobile agents in declining regions provides a further justification for those measures meant to diminish them (Martin, 1999, p. 86).

It should be underlined that, at least in the long run, there is no conflict between the objectives of aggregate efficiency and of higher spatial equity (Marelli, 1985, pp. 129–130). Markusen argued that a well-designed regional policy could moderate regional growth rate differentials and ameliorate regional differences in per capita income, integrate stalled regions into the national economy, and spread urbanisation from a single metropolis to multiple sites (Markusen, 1996, p. 49). An OECD report also stated that fostering growth, even in lagging regions, is in the interest of national governments as it contributes to national output without hindering growth

opportunities elsewhere. Moreover, growth is often occurring even in lagging regions, while successful regions should also be nurtured (OECD, 2009a, p. 17). Thus one can state that lagging regions generate an important part of national economic growth – when they underperform, national output suffers. So there are clear arguments in support of regional development, but these should be evaluated against other uses of public funds (OECD, 2009b, p. 53). However, the conventional wisdom that there are inevitable trade-offs between national economic efficiency and interregional equity should also be noted (Parr, 2014, p. 5).

According to various researchers, a high rate of divergence between regions, in terms of social and private costs of production and inefficiencies in resource allocation, leads to the movement of factors from peripheral to central regions, where entrepreneurs prefer to locate their investments. Thus, as Thirwall claimed, private decision-making left to itself cannot lead to the most efficient allocation of resources when the price mechanism makes no allowance for external diseconomies in production and consumption (Thirwall, 1974, p. 3). If it is true that market forces are not always able to guarantee a self-equilibrating process of development, regional policy should at least aim at the correction of market imperfections in order to aid the functioning of the market. Marelli noted that the problem of regional disparities, which is an economic argument for carrying out a regional policy, depends upon the interregional differences (and their dynamic) in the following variables: a) relative prices or 'terms of trade'; b) level of utilisation of local resources (particularly labour); c) productivity of the regional economic systems; and d) the social, political and historical environment (Marelli, 1985, p. 130).

Thirwall developed some research on regional imbalances deriving from regional disparities, which can be considered between predominantly agricultural and industrial regions as well as between industrial regions themselves. According to his studies, a regional policy to contend with agricultural-industrial dualism has two choices: it either accepts the gradual rundown of agricultural regions on the grounds that industrial development there will never be economically viable, or it takes active steps to promote industrial development to absorb the resources released by declining agriculture in order to curb the flow of resources to areas already industrialised. A regional policy for depressed industrial regions should tackle problems of labour market's bottlenecks, with their stocks of social capital, human capital and technical expertise which could be employed in new industry (Thirwall, 1974, pp. 5–6).

As Melvin noted, the formulation of an appropriate economic policy must be based on a clear understanding of why interregional differences exist and where they arose from, because if the policy does not address the underlying causes, then more harm than good may result (Melvin, 1987, p. 305). If neoclassical growth theory can

lead to the view that regional disparities are the result of the failure of convergence processes to function properly, then regional policy could therefore be seen as an attempt to correct or mitigate the consequences of this failure (Armstrong and Taylor, 1999, p. xvi). Some authors claimed that the main aim of a regional aid policy should be, in order to foster industrial convergence between a rich and a poor region, based on facilitating domestic rather than international trade (Martin and Rogers, 1995, pp. 336–337). Camagni and Capello argued that unlike countries, regions are not subject to the principle of 'comparative advantage' governing international specialisation and trade, attributing to each partner country some specialisation sectors and a condition of full employment. Two equilibrating forces that in principle allow for passing from an 'absolute advantage' to a 'comparative advantage' regime are price flexibility and currency devaluation. While these are fully active in the case of countries, they do not work or cannot exist at the inter-regional level. Thus it should be underlined that regions compete on the basis of an 'absolute' advantage principle, and when they are non-competitive they cannot rely on any automatic mechanism in order to maintain some export specialisation. Their fate is mass unemployment and, in case of insufficient public income transfers, emigration and possibly desertification (Camagni and Capello, 2010, pp. 2–3).

Moreover, some researchers explain that the concept of regional policy is based on the assumption that market mechanisms not only cannot induce economic convergence but they can rather exacerbate existing inequalities. If equality of regional per capita income is the prime policy objective, this supports the spending of considerable human and financial resources in less advanced regions. This means that there are inequality and divergence of growth rates unless public policy intervenes (Boldrin and Canova, 2001, pp. 208–209, 212). Camagni and Capello observed that an excessive concentration of economic growth in a few areas is likely to lead to tensions on the local labour and real estate markets, pushing wages and land rents upwards in an unsustainable way. All this, coupled with the usual indirect effects of congestion, social costs and environmental decay, can generate a decline in the competitiveness and attractiveness of these areas. Thus according to Camagni and Capello a wise strategy in these cases would be to widen the potentially eligible areas for both foreign and domestic investments, strengthening second rank cities and city-regions in the national urban hierarchy and linking them with the present agglomerations (Camagni and Capello, 2010, p. 6). Also Barca observed that economic theory shows that a place might require an intervention from outside in response to two sets of market and government failures. Firstly, a place can be trapped in a vicious circle of inefficiency or social exclusion because the appropriate economic institutions are either intentionally not chosen by local elites, and/or because the less place has

effective institutions, the less likely it is to have them in the future. Secondly, agglomerations – one of the driving forces of development – are always the result of public as well as private decisions, the former consisting of the design of institutions which are tailored to places. And as Barca observed, what is crucial is that neither agglomerations nor network of regions are ever the result of purely market forces. Thus public action, which invariably has explicit or implicit and direct or indirect spatial effects, is a factor too. Moreover, he notes that in ongoing agglomerations, the 'hand of the State' is generally hidden behind seemingly 'national' policies and what are claimed to be 'natural trends' (Barca, 2009, pp. XI, 18–19).

The next sphere in the debate on economic arguments for regional policy is the dilemma of proper goal selection between 'place prosperity versus people prosperity'. On the one hand social security programmes may contribute to interregional equity, as their recipients tend to be over-represented in the lagging regions. On the other hand, 'place prosperity' may still be needed as an independent goal alongside 'people prosperity', as pursuing only the latter may yield unwanted indirect effects (negative effects of cumulative outmigration). Policy measures that enhance the place characteristics of a region by building new infrastructure will be mainly beneficial for the individuals that stay in the region, however using regional policy for social purposes works in the same direction as non-spatial social security policy (van Dijk et al., 2009, p. 461).

3. Instruments of Regional Policy

The definition and classification of regional policy instruments depends mainly on their positions within the public policy of a given government. Thus one of the crucial issues concerning their effectiveness is to design and accommodate them within the landscape of all other policies conducted by government. Markusen noted that conflicting goals can appear, for example, in the implementation of industrial and regional policy. It seems that she discovered a key issue, although she misnamed it. She argued that industrial policy can influence the location of economic activities, either directly through government siting or indirectly through incentives to entrepreneurs, and that government can use industrial investment to promote development of the poorest regions (Markusen, 1996, p. 49). Hosper and Beugelsdijk also took the view that public initiatives in the field of clustering can be found under the headings of not only industrial policy or science and technology policy, but regional development policy as well. Therefore, despite all the subsidies and other public support programmes, it is difficult to assess how many governmental resources are actually

invested in regional clustering (Hosper and Beugelsdijk, 2002, p. 383). But it is worth underlining that all these kinds of interventions are focused on the development of given areas, thus they should be recognised and treated as elements of regional policy.

Barca also distinguished two kinds of policies: those which have an overt spatial dimension – which he terms 'spatially aware' – and those which do not – sometimes termed 'spatially blind' (Barca, 2009, p. 19). The first one is a spatially focused policy, which concerns spatially targeted measures to stimulate economic growth in lagging areas (investment subsidies, tax rebates, location regulations, local infrastructure development, and targeted investment climate reforms). The World Bank suggested to add to this policy also activities taken within the framework of spatially connective policy, which covers all investments that connect places and provide basic business services (public transportation and utilities, interregional highways and railways, information and telecommunication technologies). While 'spatially blind' policy (the income tax system, inter-governmental fiscal relations, governance of land and housing markets, education, health care, basic water and sanitation) is not explicitly designed with spatial considerations in mind, it nevertheless has effects and outcomes that may vary across locations (World Bank, 2009, p. 231). Thus all sorts of non-regional policies can have 'regional side-effects', i.e. a potentially large impact on the location of economic activities and thus on the geographical distribution of wealth (Ottaviano, 2003, p. 669).

As regards 'pure' regional policy, there are various classifications of its instruments. Taking into consideration the aforementioned arguments for regional policy, one can state that its objective is the increase in gross regional product per capita at some time in the future through the development of a given region. It is worth noting Quah's observation that in the case of lagging regions regional instruments can take two possible forms. One is that of changing the structure of a particular region and that region alone (the stock of public capital, the quality of the environment, and other infrastructural characteristics of that region). The other form is that of changing how a selected region is related to other regions (interregional transportation, factor mobility, and merchandise trade) (Quah, 1997, p. 2).

Another approach to classification of instruments was taken by Camagni and Capello, who said that the possible strategies for the development of the lagging territories are threefold: 1) complete autarchy (almost impossible); 2) public income transfers; or 3) improving the competitiveness of some export sectors and attracting investors from other places (regions and countries) (Camagni and Capello, 2010, pp. 2–3). Gray and Duning suggested to divide the third solution into two dimensions which are the basis for the development of regional policy instruments: a) the enhancement of competitiveness and profitability of spatially mobile and

spatially immobile activities already located within the regions, and b) to actively try to attract (or retain) mobile investments which, together with the spatially fixed assets within the region, will promote the long-term comparative advantage of the region in association with a high knowledge-intensive content (Gray and Duning, 2002, p. 412).

On the basis of the aforementioned arguments, one can state that, apart from complete autarchy (which was evaluated as almost impossible), one of groups of regional policy instruments concerns the use of fiscal transfers to reduce regional disparities. Armstrong and Taylor listed the following tools: 1) automatic stabilisers which automatically hit richer regions harder than poorer ones. According to their research, welfare systems can be tailored to ensure that poorer regions are favoured during economic downturns. This is typically the effect where generous unemployment benefits and welfare payments are triggered by rising unemployment; 2) block and specific grants used by federal and unitary governments to channel resources from taxpayers in richer regions to citizens and governments in poorer regions; and 3) discretionary spending policies which favour poorer regions (Armstrong and Taylor, 1999, p. xxv).

The next group of instruments is based on a market approach, which argues that persistently high unemployment rates in particular geographical areas are due to factors inhibiting the functioning of local labour markets. Job creation can be achieved by removing all factors which interfere with wage flexibility, i.e. national wage bargaining, the gap between unemployment benefits and the wage rate for unskilled workers, and the high costs of hiring and firing workers (Armstrong and Taylor, 1999, p. xxiv).

The another group of instruments is developed on the assumption that substantial government intervention is required if unemployment is to be reduced in high unemployment areas in order to increase the demand for labour or improve the supply of labour. This interventionist approach attributes an area's high unemployment to inadequacies either in the physical capital stock or in human capital (Taylor and Wren, 1997, p. 840). As regards the labour market, Storper and Scott noted that there is a specifically regional role to play in the training of many kind of workers, particularly in the case where needed skills are not specific to an occupation or industry, but take on additional characteristics reflecting the regional production complex in general (Storper and Scott, 1995, p. 514).

Some authors have argued that *a priori* regional policy can be expected to stimulate manufacturing investment by special incentives and increase output and employment in assisted regions (Yamano and Ohkawara, 2000, p. 205). Others claimed that the regional policy appropriate to areas of slow growth due to its relatively

unfavourable industry mix involves general improvement in infrastructure, while areas equipped with disadvantageous factors which cause growth to be slower than the initial industrial composition would have suggested simply need injections of growth industries to compensate for their above-average share of static and declining industries (Stilwell, 1969, p. 170).

Markusen found that large and powerful oligopolistic industries, especially in mature or declining sectors, discourage entrepreneurship and restrict the supply of land, labour and capital to other industries within the region (Markusen 1996, p. 51). On that basis Alonso explained the Markusen's concept that one of the most common regional policy strategies is to focus on how to encourage the dispersal of mature industries to less-developed regions, the accelerating market tendencies for mature industries to move to trade agglomeration economies – particularly useful in the early stages of their development – by offering lower costs at other locations (Alonso, 1996, p. 81). Other researchers claim that regional policy consists of the provision of conditions that may act as incubators for new economic initiatives in a given region (Folmer and Nijkamp, 1986, p. 1). Storper and Scott argued that public institutions can help overcome specific problems at the regional level by the development of technologies in existing industries (to maintain the commitment of firms to the improvement of technologies that are particularly important to existing regional production ensembles, or that may involve learning-based extension of the local productive apparatus), the training of labour, efficient matching of workers and jobs, and the acquisition of a place-specific culture and order (Storper and Scott, 1995, pp. 509, 514). Johansson and Karlsson identified four areas for regional policies that relate to a region's knowledge resources: 1) knowledge policies, focusing on education and training of the labour force, development of innovation systems that support R&D, patenting, product and commercial innovations, and improving the capacity to absorb externally diffused knowledge; 2) household milieu policies, influencing life conditions by forming human and social capital; 3) facility policies, comprising the building of infrastructure for urban life, transport, Internet and telecommunications; and 4) firm milieu policies, stimulating technology diffusion, facilitating supply of venture capital, supporting start-ups, attracting direct investments by external firms, orchestrating cluster formation and improving the conditions for labour market adjustments (Johansson and Karlsson, 2009, p. 252).

Hosper and Beugelsdijk noted that although firms should be highly motivated to exploit the positive externalities of cooperation, 'market failure' may prevent companies from decoding as many resources to clustering as would be socially optimal. Apart from uncertainty and a lack of economies of scale to which its knowledge will leak out ('spill over'), is seen as a barrier to cooperation. In the light of their research

they concluded that corrective public intervention may be needed to correct some of the market failures (Hosper and Beugelsdijk, 2002, p. 386).

It is also worth noting other classifications of regional policy tools. Taylor and Wren formulated some supply-side policy concepts: a) encourage indigenous development through new firm formation and the growth of small companies through the provision of business support, industrial sites and premises, loan guarantees and financial support; b) encourage an inflow of investment through the provision of incentives (mainly financial); c) change the industrial mix of the less developed regions to make them less vulnerable to economic change; d) improve the physical infrastructure and environment of the lagging regions to make them more attractive to investors; e) improve the skill level of the local workforce; f) bring the long-term unemployed back into the effective labour force by offering temporary employment subsidies; g) reduce the job search and relocation costs of the unemployed; h) make well-developed regions less attractive for development imposing controls and taxes (Taylor and Wren, 1997, p. 840).

Parr proposed another approach to regional policy tools by splitting them into two groups: direct and indirect instruments. Direct measures of regional policy include: subsidies to existing or new firms as an incentive to locate their proposed activity or expansion of existing activities; relocation of activities of government departments, agencies and state-owned enterprises in assisted areas; technical education and manpower retraining; and infrastructure investment. It should be also noted that because of the sectoral interrelatedness of a regional economy, such a spatially selective emphasis typically has the effect of assisting the region in general, and not simply those for whom the policy is primarily intended. Indirect instruments are applied within the framework of policies which have a functional rather than a spatial focus (collection of taxes and expenditures on automatic stabilisers; taxing regions on the ability to pay and receive payments on the basis of need or the necessity of meeting standards) (Parr, 2014, pp. 6–8).

Another classification of regional policy instruments is focused and based on their specific mechanisms for influencing competitiveness of companies and attractiveness of investment locations, including quality of production factors and infrastructure, which can be applied to entrepreneurs both already located in lagging regions as well as those amenable to moving assisted territories. Folmerand Nijkamp enumerated these mechanisms as follows (Folmer and Nijkamp, 1986, p. 7):

- relocation or establishment of government activities or state-owned companies;
- regionally-based direct financial aid to companies in trouble, in the form of subsidies and loans;
- participation in privately owned companies by, e.g. regional development companies;

- creation of jobs, especially in times of recession, by regionally differentiated employment programmes;
- state-financed housing construction;
- investments in economic and social infrastructure in order to influence the location profile of a region in the form of, e.g. the construction of industrial sites, harbours, roads, other communication systems, and socio-cultural and recreational facilities;
- subsidies for capital, e.g. premiums on gross investments, fiscal-accelerated depreciations, fiscal investment deductions and subsidies on land use;
- subsidies for labour which, according to some researchers, can also take the form of industrial training centres, which have the advantage of being capable of forwarding planning (Storper and Scott, 1995, p. 515);
- mobility-stimulating measures, e.g. migration subsidies for migrants and enterprises;
- government expenditure policy;
- allowances of several types, which were divided by Dupont and Martin into three groups: a subsidy to profits of firms (tax breaks), a lump-sum subsidy to firms (subsidy for fixed costs), and a subsidy for production in firms (Dupont and Martin, 2003, pp. 3–4).

It is worth noting Melvin's observation that the issues of which is the more appropriate policy option: (a) direct subsidies to factors (which reduce mobility); (b) subsidies to encourage mobility; or (c) subsidies to the provision of information, depends both on the nature of the underlying production structure and on the source and nature of the exogenous fluctuations (Melvin, 1987, p. 310). As regards regional labour subsidies, they can be welfare measures aimed at improving the national economy, particularly given the cocktail of market failures that is typically associated with regional imbalances. Harrigan et al. found that automatic labour subsidies would increase employment and activity within the recipient region, but care needs to be taken concerning the overall desirability of such a subsidy (Harrigan et al., 1996, pp. 105–106, 128).

Another interesting instrument of regional policy was presented by Storper and Scott. They observed that those regions need institutions whose role is specifically to look forward and begin to make things happen so as to overcome tendencies towards institutional sclerosis in the existing economic system. They argued that regional development funds are one way to accomplish this, because they are pools of capital that can be invested in seed projects before there is a significant private-sector participation. It is also worth noting the concept of industry service centres, which could be treated as one of instrument of regional policy. In the case of sectors where the participation of small and medium-sized enterprises is great, firms may lack the financial resources to carry out a variety of functions internally in an efficient

manner. Thus there may be in some cases a need for service centres that give firms access to technology and marketing information they cannot afford to provide for themselves (Storper and Scott, 1995, p. 516).

4. Decentralisation of Regional Policy

Regional policy used to be often centrally planned and implemented through agencies devoted to regional matters. Markusen argued that due to political difficulties in the implementation of regional policy and the mixed results, the regional policy had become decentralised, even though this shift may result in uneven and costly consequences without achieving regional policy goals (Markusen, 1996, p. 52). One of the main drawbacks traditionally attributed to decentralisation is an unbalanced distribution of resources across regions, which can generate increasing economic differences between them, while the objective of regional policy conducted at a central level is to ensure cohesion between regions (Canaleta et al., 2004, p. 74). These arguments support Storper and Scott's findings that inter-regional coordination will be needed to ensure that each region's actions and plans are harmonised with the wider interests of the national economy as a whole. They noted that competitive and uncontrolled subsidies, or a competitive reduction of wages, may be undertaken by one region and have dramatic effects on the efforts of another to develop technology or to upgrade skills and productivity. Thus they stated that a prerequisite of successful regional economic mobilisation and inter-regional coordination is that there must be ground rules for what regions may and may not do in competing with each other (Storper and Scott, 1995, pp. 518–519).

On the other hand Porter argued that, as regards the level of institutions involved in the policy making process, pushing many economic policy choices down to the regional level aligns policy with the competitive reality, fosters accountability to citizens and creates competition among governments (Porter, 1996, p. 89). According to the research of Canaleta et al., a centralised public sector may attempt to produce a more balanced distribution by channelling resources from richer areas to poorer ones. Therefore decentralisation can provide sub-national officials with the power to actively pursue economic development policies better suited to local needs or capabilities, although it can lead to a competition among local authorities which may include incentives for investments. On the basis of the public choice theory, fewer regional disparities might be expected in decentralised states, mainly due to designing regional policies tailored to local needs. However, since there are effects that spread beyond regional borders, totally isolated development policies are likely

to produce inefficient levels of regional policy (Canaleta et al., 2004, pp. 74–75). It is worth noting Hudson's observations that the proposition that regional devolution in and of itself will lead to economic success has become deeply embedded in many beliefs and policy discourses about the determinants of regional prosperity, which in turn has led to political demands for such a devolution (Hudson, 2006, p. 159).

It is also worth noting Castell's views on the decentralisation of state power. He found that the state has become, in the information age, a network state made up of a complex web of power-sharing and negotiated decision-making between international, multinational, national, regional, local, and non-governmental and political institutions (Castells, 2000, p. 14). This concept was called 'the emerging network state', which is characterised by, *inter alia*, shared sovereignty and responsibility between different states and levels of government and flexibility of governance procedures. It should improve a nation-state's efficiency, however its crisis of legitimacy worsens, although overall political legitimacy may improve if local and regional institutions play their part. Castell observed that the growing autonomy of the local and regional state may bring the different levels of the state into conflict and turn one against the others, which introduces new types of problems (Castell, 2013, p. 40).

5. Effects of Regional Policy

The effects of regional policy depend on the degree to which the firms' original choices and those of the government coincide, and partly on the nature and scale of the public inducements (Needleman and Scott, 1964, p. 159). From the competition point of view, it is worth noting Meade's research outcomes, which distinguish between two types of external economies deriving from the government's actions towards industry located in a given region. The first type is called 'unpaid factors of production', which generate constant returns to scale for society as a whole, though not for the individual industry, while the second type maintains constant returns to scale for each individual industry but not for society as a whole (what can disturb competition) (Mead, 1952, p. 56). As regards the latter situation, Gray and Duning noted that regional policy will not affect the outcome when the project depends heavily on the availability of the attributes of a particular industrial cluster. On that basis they concluded that the more specific the requirements of the project, the less is the scope for regional policy. But policy measures will come into play when the project has no dominant specific features and its requirements depend primarily upon the indigenous resources and capabilities of the region and the costs of both generic and some specific factors of production (Grey and Duning, 2002, p. 417).

According to van Dijk et al., endogenous growth theory allows for basing regional policy on endogenous factors: human capital, scale effects, spillovers from investment in physical capital and R&D (van Dijk et al., 2009, p. 463).

On the basis of aforementioned discussion on the definition, scope, goals and instruments of regional policy, many effects can be distinguished based on the following indicators, factors, and social-economic phenomena: labour market and migration, regional accessibility, connectivity and infrastructure, overall level of development, research and development levels and links with innovation.

5.1. Labour Capital

One of the main goals of regional policy is the reduction of unemployment and elimination of regional imbalances in the labour market, which should foster economic growth. Needleman and Scott noted that if the case for state intervention in regional unemployment problems is accepted, there are two main policies that can be followed: either work can be brought to the workers, or the workers can be encouraged to migrate to areas of expanding employment (Needleman and Scott, 1964, p. 154). In the latter case, the main idea underlying the policy is the acceleration of migration through, *inter alia*, publication of the places for work through employment exchanges, and discontinuation of grants of assistance to distressed areas at the expense of the prosperous areas which offer employment. Pitfield took the view that this 'workers-to-the-work' policy was appropriate when other sectors of a national economy, either sectorally or geographically differentiated, are in a position of excess demand for labour (Pitfield, 1978, pp. 429–432), which leads to endogenous or generative growth (van Dijk et al., 2009, p. 467). Moreover, this kind of regional policy can reduce unemployment in areas of high unemployment without resulting in job losses elsewhere in the economy. This could be achieved by diverting the demand for labour from areas of excess labour demand to areas of excess labour supply. Armstrong and Taylor noted that reducing unemployment will generate social as well as economic benefits, since the concentration of pockets of high unemployment can lead to the creation of social problems. Moreover, the diversion of labour demand from areas of high unemployment to areas of low unemployment will reduce inflationary pressures at each level (including national level) of unemployment (Armstrong and Taylor, 1999, p. xv). But there are at least two objections to applying a pro-migration policy: the regional problem is often not entirely a problem of unemployment (and emigration from a region will not raise economic activity rates within the region; if anything it will reduce them) and a substitution increase in migration would be more

likely to increase than to reduce the excess demand for labour and the inflationary pressure in a receiving region (Needleman and Scott, 1964, p. 155).

However from a national viewpoint, outmigration from lagging regions should be viewed as a social gain rather than a cause for concern, at least insofar as regional policy aims at increasing welfare rather than maintaining or expanding the number of persons residing in a given area (Hansen, 1965, p. 12). But it is also worth noting that, according to Herzog et al., states and cities have little control over their present high-technology work-force (vis-á-vis other workers) and the decisions of its technicians, engineers, and scientists to relocate to other regions (Herzog et al., 1986, p. 458).

Storper and Scott present industry service centres as a mechanism which enhances information flow between firms and workers in specific regional clusters of activities, thus reducing the transaction costs and frictions of flexible labour markets and sustaining more efficient production and the realisation of full labour productivity potential (Storper and Scott, 1995, p. 516). It is worth noting that regional policy may also indirectly affect employment in non-manufacturing sectors: increased factory building in assisted regions and any regionally differentiated government expenditure on infrastructure would increase employment in the construction industry. However this could be partially offset by the particularly rapid decline of traditional sectors (Yamano and Ohkawara, 2000, p. 205). On the other hand, Camagni and Capello noted that a strategy of non-intervention presents the risk of a super-concentration of population in the big urban areas of lagging regions as a consequence of the crisis of the surrounding areas, not the attractiveness of these urban areas, i.e. of a push and not a pull factor. This is linked to the channelling of a wide share of national savings towards the building and construction industry and real estate speculation in advanced regions as a consequence of the migration process (Camagni and Capello, 2010, p. 6).

5.2. Capital Investment

Pro-migration regional policy can be replaced by a policy encouraging the movement of mobile production factors to lagging regions, via the provision of loans and contributions towards rent, rates and taxes as inducements to firms to locate in the assisted areas. A policy of moving 'work-to-the-workers' attempts to bridge the gap between demand and supply by raising the demand for regional labour services through inducing the movement of industrial establishments to an area (Pitfield, 1978, pp. 429–432), which leads to exogenous or redistributive growth (van Dijk

et al., 2009, p. 467). It is worth noting that the revival of declining areas may have beneficial effects on the utilisation of the socio-economic infrastructure of both the depressed areas as well as the rapidly expanding ones. A reduction of out-migration from policy-assisted areas will mean that existing infrastructure will not become under-utilised (Armstrong and Taylor, 1999, p. xv).

Job creation through investment can be generated by capital subsidies, however Buck and Atkins observed that these direct effects are actually only intermediate in relation to the ultimate objectives, e.g. the reduction of unemployment and out-migration in the underdeveloped areas, and even political gains in the form of electoral swings towards the party in government. From economic point of view they agreed that inter-regional industrial movement is important in the appraisal of regional policy and its contribution to total job creation in underdeveloped regions (Buck and Atkins, 1983, p. 182). According to Harris's research, capital subsidies succeed in stimulating investment in peripheral regions as well. Survey evidence has shown that firms take capital grants into account when computing the present value of future capital projects and thus invest more than they otherwise would. But it should be noted that the location of expanded operations is heavily influenced by the availability of automatic capital grants that do not require a firm to create new employment (Harris, 1991, p. 49).

Martin also observed that regional policy can have an unambiguously positive impact on convergence between regions, both because of the direct income transfer effect and because of the indirect impact through industrial location. The decline in the expenditure gap should lead to a relocation of firms towards those regions with increasing expenditures. However he argued that if a circular causation mechanism is at work and if the concentration of firms in the core is self-sustaining, then improving the attractiveness of the periphery by increasing local demand through transfers may not have any impact on the location choice of firms. Thus only a very large change in the attractiveness of the periphery would give it a chance to attract economic activities of those sectors showing increasing returns (Martin, 2003, p. 766).

5.3. Infrastructure

Infrastructure is, apart from human capital and investment, a key element of regional development. Thus regional policy is often focused on improvement of quality, accessibility and maintenance of various kinds of infrastructure (telecommunication, transport, energy, etc.). An increase in public investments directly and indirectly stimulates economic activity. Regional policy, as it mainly finances public

infrastructure with a heavy stress on transportation infrastructure, affects the cost of trade between and within regions (Martin, 2003, p. 766). This kind of public investment creating public capital (e.g. highways, airports, railroads, sewage and water systems) has a strong influence on the productivity of the private sector over time (Yamano and Ohkawara, 2000, p. 205). It has long-term consequences for enhancement of a region's productivity, and thus improves its competitive advantage. Thus the positive effect of public capital on a region's economy comes from more than simply a surge in construction activity. Therefore a well-maintained public infrastructure should be an important component of any policy package designed to promote regional economic development (Duffy-Deno and Eberts, 1989, p. 21).

Firms from the increasing returns' sectors tend to locate in countries with the best domestic infrastructure when trade is integrated, in order to take advantage of economies of scale. Thus differentials in domestic infrastructure determine the direction of relocation based on trade integration. Moreover a higher level of international infrastructure will magnify the concentration effects of differentials in domestic infrastructure (Martin and Rogers, 1995, p. 336). At the regional level, public infrastructure affects agglomeration primarily through the influence of the scale and spatial arrangement of public investment on both firms' and households' location decisions. The addition of new firms and households into a region may, in turn, increase the region's agglomeration economies, which contributes to even greater growth potential. This can directly influence output and productivity by entering a firm's production process as an unpaid factor (Eberts, 1986, pp. 2, 4). However the results of Helms's research unambiguously showed that when revenue is used instead to finance improved public services (such as education, highways, and public health and safety), the favourable impact on location and production decisions provided by the enhanced services may more than counterbalance the disincentive effects of the associated taxes (Helms, 1985, pp. 574–575).

Moreover, the effects of regional policy depend crucially on the type of infrastructure financed. According to Martin and Roger a regional aid programme that improves international infrastructure in a poor country brings more rather than less industrial concentration, and may therefore contribute to regional divergences. They also noted that a country with poor infrastructure may want to restrict the industrial location that follows trade integration (Martin and Rogers, 1995, pp. 336–337). On that basis, Martin argued, if a transfer finances public infrastructure that facilitates transactions inside a region (intra-regional trade), then such a transfer attracts firms and contributes to convergence. The improvement in this kind of infrastructure increases trade inside the region and the overall level of expenditure inside it. But if the infrastructure financed by regional policy facilities interregional (rather than

intra-regional) trade, then the regional policy can have a detrimental effect on the poor regions. He underlined that if regional policy finances inter-regional infrastructure then such a policy may have the contrary effect of attracting firms from the poorer to the richer regions, and therefore have the exact opposite effect to the one sought. Companies tend to locate near the largest market in the rich regions because this enables them to reap the benefits of increasing returns on scale in the large market, while at the same time facilitating sales to the poorer regions. Martin argued that facilitating inter-regional trade between regions is like removing the barriers that give a relatively monopolistic power to firms located in the poor regions and which protect them from external competition. Once these barriers disappear there is less reason to locate in the poor region (Martin, 2003, p. 767).

It is worth observing that other authors have analysed the effects of investment into public infrastructure within regional policy by taking into consideration different types of regions: congested, intermediate, and lagging areas. As regards congested regions, expansion of private investments increases the need for capital-intensive public investments in the form of transportation facilities, water, housing and power. The public investment in overhead capital in turn makes possible further growth of industry and trade in the favoured areas, and this growth requires further large allocations of public investments in them. According to Hansen's research, it is not economically rational to attempt to induce economic growth in lagging regions via excess economic overhead capital capacity so long as better alternatives exist in intermediate regions. However, the social overhead capital needs of lagging regions are relatively greater and their situation in this regard is the least well-developed (Hansen, 1965, pp. 5–8, 12). Barca also took the view that investment in infrastructure is not only a condition for development, but something demanded by society, highly visible and extremely attractive for decision-makers. Roads and other types of physical infrastructure can be built relatively quickly before the elections (Barca et al., 2012, p. 137). It is worth noting that Martin suggested, on the basis of the tools of the new economic geography and new growth theories, that the huge sums that finance infrastructure in poor regions may have a quite complex impact because of self-reinforcing agglomeration effects, and they may even have perverse effects at the local level (Martin, 2003, p. 773). However, the availability of social overhead capital will not necessarily itself induce growth in lagging regions in the absence of supplementary policy measures (Hansen, 1965, p. 12).

It is also worth observing that OECD research suggests that the construction or upgrading of transportation infrastructure can have a positive influence on a region's economic development, but that economic growth is not automatic. Growth effects are likely to appear only when the positive externalities that exist in various

markets – typically unexhausted economies of scale, scope, agglomeration, density or network – are more effectively used and consequently improve labour productivity, enhance output, reduce production costs and promote more efficient use of resources. Moreover, if regional policy concentrates only on providing capital in the form of infrastructure, a lagging region may end up losing economic resources ('the leaking by linking' phenomenon) (OECD, 2009b, p. 57).

5.4. Innovation

If the regional business environment is not dynamic and innovative, the economic benefits from investment in infrastructure and human capital are unlikely to accrue to the target region. In such a case improved infrastructure will promote 'leaking' and trained individuals will move to where the more dynamic businesses are located. Thus, according to OECD report, innovation should be the third crucial element of regional policy (OECD, 2009b, p. 63). Martin also noted that regional policies that improve regional equity, improving infrastructures in the poor regions in order to attract firms, may not generate the geography most favourable to growth. He demonstrated that in contrast to financial transfers and traditional regional policies, a public policy that reduces the costs of innovation or other impediments to growth attains both the objectives of higher growth and regional equity (Martin, 1999, p. 87). Storper and Scott observed that the costs to support the technological improvement of existing industries may be relatively small – just enough to compensate for the gap between existing firms' activities and socially targeted levels. They also argued that relatively small public investments can have large effects on regional technology development to the extent that they are made in a strategically competent fashion (Storper and Scott, 1995, p. 514). Gray and Duning also observed that more advanced spatially mobile knowledge-intensive activities, when combined with the location-bound resources of the region, are capable of generating quasi-rents for that region (Gray and Duning, 2002, p. 412).

Moreover, Martin noted that if subsidies to research and development (R&D) increase competition on the goods labour markets, an improved education infrastructure can decrease the cost of innovation for firms, hence this type of policy may yield more desirable outcomes than traditional transfers or regional policies (Martin, 1999, p. 101). It is also worth noting that many countries are seeking to achieve a so-called 'double dividend', both restoring short-term growth and reforming economic structures through, *inter alia*, strengthening the innovation capacity of firms and increasing investment in R&D and technology development (OECD, 2009b, p. 64).

According to Johansson and Karlsson's research, location advantages evolve slowly in a path-dependent way. To be successful, regional policy therefore has to focus on structural adjustment of both the tangible and non-tangible infrastructure. They noted that universities and university colleges are agents of human capital formation and may support the enhancement of local knowledge assets, while various non-profit organisations and similar institutions may catalyse the formation of social capital (Johansson and Karlsson, 2009, p. 252). One key example of this approach is exemplified in the regional technology centres, whose mission is to advance technology in a sector or in a cluster of technologically related sectors in particular regional complexes. They may stimulate technology by (a) identifying priorities and encouraging private-sector collaboration, or by providing technology research and advice to firms; and (b) mobilising and coordinating the application of public funds to complement or bootstrap private-sector R&D collaboration (Storper and Scott, 1995, p. 514). The aforementioned concept evolved into the idea of clusters, which are aimed at collaborative research and development needed for the realisation of innovations. The technology-based aim of clustering involves a complex interplay of different local actors (firms, universities and business associations) that provide each other with complementary knowledge. This kind of pro-innovative policy (conducted at both the regional and national level) treats clustering as a mean to dynamise firms and guarantee a high-technology economic future. Thus policy initiatives include performing cluster studies, setting up platforms for dialogue, providing subsidies for cooperation, and establishing, brokering, and networking schemes (Hosper and Beugelsdijk, 2002, pp. 382–383).

6. A New Regional Policy Paradigm

Although many countries have carried out regional policies and tried to reduce regional disparities by offering significant public investment and finance, according to OECD findings the overall results have been disappointing. At the regional level there was only limited success in restructuring the economic base of the target areas. Moreover, despite many governmental activities aimed at attracting foreign direct investment into targeted regions in order to create employment and allow local entrepreneurs to benefit from spillovers to increase their technological and organisational capacity, few productivity gains in regions have been generated (OECD, 2009b, p. 50).

Nevertheless it is worth underlining that this same OECD report presents an opinion that regional policies may have a strong contribution to sustainable growth

at the regional and national level. But in order to maximise this contribution, public policy needs to embrace reform and continue a transition away from market-distorting subsidies (mentioned earlier in this paper) to policies that unlock the potential of regions and that support long-term economic, social and environmental objectives (OECD, 2009b, p. 3).

Already the Sapir Report showed that cohesion (as an effect of traditional regional policy) may be pursued by instruments that reduce efficiency more than would be necessary to achieve a given level of cohesion. This may occur when regional policies work against (rather than in favour of) structural adjustments based on comparative advantage. Thus according to Sapir Report, the EU convergence policy should concentrate on low-income countries rather than low-income regions (Sapir et al., 2004, pp. 8, 10). The aforementioned concept can be treated as an example of spatially neutral regional policy. It was developed in the World Bank Report, where three development dimensions of regional policy were presented – density, distance and division – and three types of solutions: institutions, infrastructure and interventions. According to this report the bedrock of integration policies should be spatially-blind institutions. When the integration challenges span more than one geographic dimension, institutions must be augmented by public investments in spatially connective infrastructure. But where the problem is low economic density, long distances, and high divisions, the response should be comprehensive, involving spatially-blind, connective, and targeted policies (World Bank, 2009, pp. 23–24). In this regard the World Bank Report argued that policy discussions about how to improve welfare in lagging areas often begin with a focus on lagging areas and an emphasis on targeted interventions or policy 'incentives' to move production to these places, as was presented in earlier parts of this paper. But according to the World Bank's findings, territorial development policies should integrate the lagging with the leading areas, and any discussion of spatially-targeted incentives should come last – after considering spatially blind policies such as national revenue-sharing, social expenditure arrangements, and spatial connecting initiatives, such as transport and communication systems. Thus the authors of the report argue that regional policy should assist in investing in activities that produce the highest economic and social returns nationally: in leading areas focusing on durable investments in places that increase national economic growth, and in lagging areas – on investment into people that stimulate mobility and accelerate poverty reduction (World Bank, 2009, p. 231).

However according to Barca et al., the presence of place-specific market imperfections or externalities is likely to seriously weaken the efficiency of spatially-blind policies and to contribute to the reproduction of 'one size-fits-all' approaches

to development, in which top-down development interventions predominate (Barca et al., 2012, p. 147). Parr also noted that space-neutral policies are directed at the overall welfare of the nation and are less concerned with spatial outcomes, whereas space-based strategies are usually concerned with the economies of particular regions within a nation (Parr, 2014, p. 13). Thus there is an open discussion on the place-based approach to regional policy, which assumes that geographical context (in terms of its social, cultural and institutional characteristics) really matters (Barca et al., 2012, p. 139). The new paradigm of regional policy gives a new objective of regional policy, which is a reduction of persistent inefficiency and social exclusion in specific places (Barca, 2009, p. XI). The essential features of the new paradigm of regional policy are the tailoring of interventions to specific territorial contexts and to their spatial linkages, and eliciting and aggregating the knowledge and preferences of local actors. This new regional policy differs from the 'old approach', the objective of which was to compensate for regional differences in unit capital costs (due to productivity gaps) and rebalance labour and capital flows (Barca, 2009, p. 9). Barca argued that a place-based regional development policy should cover the production of bundles of integrated, place-tailored public-goods and services, designed and implemented by eliciting and aggregating local preferences and knowledge through participatory political institutions, and by establishing linkages with other places (Barca, 2009, p. 5). Thus this approach assumes that the interactions between institutions and geography are crucial for development, and many of the clues for development policy lie in these interactions (Barca et al., 2012, p. 140).

As regards the aforementioned territorial dimension, it is worth noting the meaning of territorial cohesion varies slightly. It can be understood as: (a) a measure for enforcing territorial aspects in general, and in the economy, social planning and decision-making in particular; (b) a method of planning and development which considers the territorial capital of places, settlements and regions and their interrelations; and (c) as an addition to economic and social cohesion, taking into consideration also areas with geographic disadvantages. Thus it seems that the territorial cohesion of a country or region would appear as a network of mutually-linked functional areas of varied spatial ranges, rendering to citizens an access to workplaces and public services indispensable for development and for the preservation of social and human capital (Szlachta and Zaucha, 2010, p. 9). However, it is worth noting that Szlachta and Zaucha concluded that territorial cohesion should be seen as a chance and not a turning point of a regional policy (or the cohesion policy of the EU). Thus its success depends on (a) complementarity and the adequacy of spatial and socio-economic visions and strategies at various regional levels; (b) evaluation of the influence of regional policy on a country's economic development and of

national policies on regional development; (c) the reliability of taking into account place-based approach (Szlachta and Zaucha, 2014, p. 284).

It is also worth mentioning that the traditional focus on interregional disparities has been complemented with more detailed focus on intraregional disparities, an urban-rural divide and concern about the decline of distress areas (OECD, 2010, p. 14). The probable tendency towards increased interregional welfare differentials is either regarded as acceptable or is viewed as unlikely to materialise by virtue of the existence of adequate spread effects or trickle-down mechanisms (Parr, 2014, p. 13).

OECD grouped the factors with the highest influence on regional development into three broad policy areas: a) the capital stock dimension (the level of past and present investment in a region's infrastructure); b) the labour market dimension (labour mobility and human capital development); and c) the business environment dimension (support for firms in clusters, promotion of links between research and promotion of industrial innovation in regions). The assumption of the new regional policy paradigm is that the implementation of regional development policies involves the integration of these core policy areas (OECD, 2009b, pp. 54–55). Moreover Camagni and Capello listed new targets for a renewed and modern regional policy: a) intangible factors, relational factors, creating synergies, promoting cooperation and partnership, as well as exploiting the richness of local relationships; b) advanced communication network and services (Camagni and Capello, 2010, p. 12).

The recent debate on regional policy also focuses on whether policies should be pro-equity or pro-efficiency (this dilemma concerns the issue of 'interregional equity versus national efficiency', which was already referred to the earlier part of this paper) (van Dijk et al., 2009, p. 461). According to OECD researchers, opportunities for growth exist in all regions, thus national governments should promote growth in all regions. At the same time, regions should promote their own growth by mobilising local assets and resources so as to capitalise on their specific competitive advantages, rather than depending on national transfer subsidies to help them grow. The OECD findings allow one to state that greater growth occurs when regions are able to mobilise their own local assets and resources rather than depending on support from the national government (OECD, 2009a, pp. 13, 17).

Moreover, it should be stressed that the aim of new regional policy should be to maximise national output by assisting and encouraging each individual region to reach their growth potential endogenously, thereby departing from the old view of regional polices (OECD, 2009b, p. 51). The OECD Report stressed that a greater focus should be put on endogenous assets rather than exogenous investments and transfers (OECD, 2009b, p. 50). However, Barca noted that the new paradigm of regional policy still provides for the possibility of exogenous public, spatially-aware

intervention aimed at increasing efficiency in a given region, which can be achieved by fuller utilisation of resources than otherwise would have occurred. He further argued that this type of intervention by means of conditional grants cannot be justified with the simple argument that some places are unable to raise enough revenue locally to promote development. They must be motivated by three distinct types of market or government failures: a) the economic institutions which a place needs are not put in place because they are contrary to the self-interest of the local elite; b) the formal and informal economic institutions do not develop because of strong path-dependency; and c) there are many potential agglomerations linked with exogenous public actions (Barca, 2009, pp. 19–20).

On the other hand, it is worth noting that there are also arguments in favour of supporting only the better developed regions. According to Capello et al., regional policy should first and foremost support regions in opening their local economies so that they can exploit the advantages deriving from an integrated world economy. Thus policies should be addressed to those regions already endowed with activities belonging to open sectors, but which lack international attractiveness (Capello et al., 2009, p. 18). It is argued that if competitiveness is the main issue, and if champion firms and territories act as driving forces for the entire territorial system, a proper spatial policy should care more about the strong than the weak territories, about winners rather than losers, and should therefore concentrate investments and innovations on core regions and big global cities. Camagni and Capello explained that when intervening through public development policies on limited territories like regions or sub-regions, an important policy rule should be to select places with a maximum development potential in order to maximise the probability of success and save public money (Camagni and Capello, 2010, p. 6). This approach is close to Yamano and Ohkawara's research, on the basis of which they argued that if the government were to allocate investments to highly productive regions the national economy would grow faster, however regional disparities would increase. This means, on one hand, that the regional allocation of public investment has a strong influence on the regional economy and income equality, while on the other hand it raises the question which regions should be supported by regional policy – the poorest to reduce disparities or the better developed or well prepared for growth, which can make a substantial contribution to the whole country's growth (Yamano and Ohkawara, 2000, pp. 224–225). Cappelo et al. partially responded to these doubts by asserting that regional policies should seek to reinforce the winning strategies of local economies by avoiding generic assistance policies in support of employment, and by developing job-creating policies only in those sectors and activities that show a capacity to increase productivity growth (Capello et al., 2009, p. 19).

In order to ensure the best results, the new regional policy should be developed in a collective/negotiated approach to governance involving national, regional and local governments along with other stakeholders, with the central government taking less dominant role (OECD, 2009b, p. 51). Barca termed this an 'outside place system of multilevel governance', where grants are subject to conditionalities and institutions are transferred from higher to lower levels of government (Barca, 2009, p. 5). Moreover Barca observed that place-based policies tend to involve higher management costs than other policies. These can be justified only if they deliver better results, which may not occur if interventions are not accompanied by effective means for mobilising local actors, eliciting knowledge and preferences, and obtaining more complete information (Barca, 2009, p. 27).

It is also worthwhile to present some of the projected outcomes for regional policy of the New Economic Geography Theory. The agglomeration of several firms (within the meaning of the New Economic Geography Theory) in a single location offers a pooled market for workers with industry-specific skills, ensuring both a lower probability of unemployment and a lower probability of labour shortage. Moreover, localised industries can support the production of non-tradable specialised input, while information spillovers can give clustered firms a better production function than an isolated producer (Krugman, 1991, pp. 484–485). Thus there are no strong evidences and arguments for regional policy and this theory is seen as pessimistic about the effects of such policy, and in addition it offers no recommendations for regional policy measures (van Dijk et al., 2009, pp. 463–464). However, despite the positive effects the negative effects of large concentration, especially in urban areas, can appear and raise the question whether the costs borne by society as a whole may not become unsustainable. The externalities include high transportation costs, loss of productivity from long commuting times, higher health costs and the increased impact on global warming. According to OECD findings, public intervention could help augment economies of agglomeration and prevent or delay their decline, and simple concentration of resources in one place does not necessarily translate into agglomeration benefits (OECD, 2009b, pp. 31, 46).

7. Arguments Against Regional Policy

As it was stated at the beginning of this paper, the first governmental intervention instruments in the context of regional policy were designed and applied in 1930s, when the Keynesian approach to economic policy was widely implemented. It allowed for tackling regional development problems deriving from market failures, but completely

ignored governmental failures. Thus the main arguments against regional policy are based on the neoclassical theory assumption that, at least in terms of economic efficiency, regional policy is unnecessary, or at best a mean of aiding automatic adjustment. Porter unambiguously stated that a regional policy that includes broad incentives for firms to locate in less-developed regions is flawed and doomed to failure, because these areas lack supporting infrastructure and face competitive disadvantages. As a consequence, this kind of regional policy exacts a high cost in terms of subsidies (Porter, 1996, pp. 88–89). Moreover, Gray and Duning argued that the recognition that governments may need to offer financial and other inducements to attract new activities or retain existing activities in a region opens up the very real possibility of competition among governments, both at the national and subnational levels (Gray and Duning, 2002, p. 412).

As regards economic imbalance, one can say that politicians generally view this phenomenon disapprovingly. And because governments care so much about domestic disparities, they jeopardise competitiveness and risk collapse. Policies to reduce interstate or provincial disparities in production and living standards are commonplace, but largely ineffective (World Bank, 2009, p. 5). Norman observed that the emergence of disequilibrium in a particular region can be associated with a reduction in wages in that region. Hence, according to his research regional imbalances can be removed automatically by the migration of labour from low- to high-wage regions and the migration of capital in the opposite direction (Norman, 1979, p. 294). Moreover van Dijk noted that convergence occurs because leading regions accumulate capital faster until they run into a situation of diminishing returns, which makes investment in lagging regions more attractive and productive. This process is reinforced by four other convergence mechanisms: inter-regional trade, labour migration, capital mobility, and technology transfer (van Dijk et al., 2009, p. 461). Boldrin and Canova also claimed that given free trade and reasonable competition, technological improvements promote economic convergence, thus there is no need for regional policy. They found no direct evidence that regions supported by regional policy (of the European Community) behaved any differently from the remaining ones. In fact, their research showed that much more convergence took place in the pre-regional-policies period than during the times of regional policy (Boldrin and Canova, 2001, pp. 211–212, 241).

The need for a regional convergence is often cited as the main argument for regional policy. But Sala-i-Martin argued that the effect of government action in the process of convergence is minor, observing that the speed of convergence is surprisingly similar across regions and countries. Since the degree to which national governments use regional cohesion policies is very different, the fact that the speeds

of convergence are very similar across countries suggests that public policy plays a very small role in the overall process of regional convergence (Sala-i-Martin, 1996, pp. 1341–1342). It is worth noting that Midelfart-Knarvik and Overman found that structural changes were occurring in the regions covered by regional policy (in the EU), but that this change was slow and the process was not uniform across different economies. They suggested that public actions may even be hampering the process of industrial restructuring, which could be more clearly observed at the regional level. Moreover, according to their research the direct impact of regional policy expenditures is counter to economic determinants, thereby possibly impeding the efficient allocation of resources (Midelfart-Knarvik and Overman, 2002, p. 324). Also other researchers observed that despite devoting considerable resources to regional policy, the evidence would suggest that neither efficiency gains nor reduced regional inequalities have resulted. Ulltveit-Moe argues that if they had any impact at all, regional initiatives would be purely redistributional, impeding moves towards enhanced inequality or maintaining the status quo (Ulltveit-Moe, 2007, p. 1444).

The next element of regional policy with negative effects to the economy consists of a group of incentives applied to improve regional attractiveness and convince entrepreneurs to relocate their economic activities or locate new ones in a given region. Needleman and Scott noted that in the development of most firms it is unusual for them to move into a new site, because they tend to expand at their established location and in general it is only when this becomes impossible or too expensive that the question of relocation is considered. Moreover, the degree of labour or infrastructure scarcity necessary to induce firms to move to the outlying regions would lead to an increased rate of general price increases. This is because firstly, businessmen know better than any civil servant how to choose the most efficient, lowest-cost location; and secondly, if they have to set up plant at another location, the loss in efficiency may be substantial (Needleman and Scott, 1964, pp. 157–158, 160). Also according to Ulltveit-Moe policy intervention causing relocation has a negative impact on the real earnings of both skilled and unskilled labour in the core area. As for unskilled workers in the periphery they would typically gain from relocation if trade costs were high and inter-industry spillovers significantly related to intra-industry spillovers. However, with low trade costs and relatively high intra-industry spillovers they may actually lose as a result of regional policy intervention (Ulltveit-Moe, 2007, pp. 1455–1456). In this context it is important to mention the situation of the better developed regions (hosts of better investments). It was observed that agglomeration economies may be lost by locating new industrial activities away from major industrial cities, while opting for more rather than fewer new centres risks missing out on economies of scale. However, Markusen also noted that congestion

and high input costs encourage firms to accept government directives and incentives to relocate. Industrial complexes in assisted regions can become new growth poles and the existence of many medium-sized cities (instead of a few big industrial agglomerations) may maintain growth of the whole country by offering lower-cost sites for cost-sensitive firms (Markusen, 1996, pp. 49–51).

There are also other arguments used to oppose the introduction of that kind of the policy (termed an industrial relocation policy). For one, taxpayer's money should not be used to subsidise private firms, and companies themselves should decide on the most efficient location for their business. Moreover, controls on the location of industry is regarded as unnecessary and undesirable since this could lead to higher production costs and lower levels of national investment (Armstrong and Taylor, 1999, pp. xiii-xiv). It is worth noting that Dupont and Martin found that, in a situation where capital is mobile and workers are not, regional policies actions can increase spatial inequalities. A subsidy given to firm that locates in a poor region can actually worsen nominal income inequality between the poor and the rich regions, because the subsidy to the poor region actually leads to a transfer from the poor to capital owners coming from the rich regions. Dupont and Martin concluded that even though there is an official net transfer from the rich to the poor region, the net effective transfer of income is from the poor to the rich region. Moreover, when the subsidy is financed by the region itself, the local tax that satisfies the budget constraint decreases local demand, and so reduces the initial impact of the subsidy on relocation (Dupont and Martin, 2003, pp. 3–4).

There are also some arguments concerning the negative consequences of regional policy on the labour market. Those industries which are everywhere releasing employees, many of which are heavily represented in given areas, may have released relatively more employees during the period of active regional policy. This would obscure any beneficial effect of regional policy on the unemployment position. Moreover, regional policy may increase the demand for labour, as well as labourers' demands (Moore and Rhodes, 1973, p. 90). Needleman and Scott noted that unless the controls on expansion are extended to cover most of the country outside the richer areas, the effect of the restrictions is more likely to spread jobs more evenly within the prosperous regions rather than to channel employment into the areas where unemployment is the highest (Needleman and Scott, 1964, p. 168). Groenewold and Hagger found, contrary to their expectations, that many policies which have traditionally been recommended to alleviate unemployment are found, in fact, to exacerbate the unemployment problem. They noted that most of the regional government policies' instruments (reduction in the payroll-tax rate, a reduction in unemployment benefits, a reduction in the labour force, a reduction in union power and an increase

in productivity in the high-unemployment region) were effective in reducing the unemployment rate disparity, at least in the short run. In the long run most continued to be effective, although the beneficial effects of the reduction in the labour force and the productivity boost were largely eroded when inter-regional migration was allowed in the long run. But it is of extreme importance to underline their findings that an increased expenditure by the regional government actually exacerbates the unemployment rate disparity, both in the short and long term. They also took the view that a national government policy of reallocating expenditure from the low unemployment to the high unemployment region is ineffective in the short run as well as in the long run (Groenewold and Hagger, 2008, pp. 355, 371).

The next threat engendered by regional policy is that assistance which completely substitutes for private funds generates no increase in the scale of investment and implies an arbitrary transfer of resources from taxpayer to producer, which is inefficient insofar as taxation carries an excess burden. Moreover, while this kind of instrument generates some increase in investment and directly subsidises some output, only when the substation of public for private funds has been completely eliminated, can the private sector contribution to investment be increased above the without-subsidy level, and can assistance act as an incentive to private funds (Wren, 1996, p. 535). Thus differences in factor incomes could be the result of policies pursued either by the federal or provincial government (Melvin, 1987, p. 308).

Regional subsidies are likely to have sectoral effects even if sectoral support is not an explicit goal. Firstly, regional industrial development programmes often support manufacturing rather than services. Secondly, in some countries regional problems have stemmed from the decline of geographically-concentrated industries, which leads to supporting the declining industries rather than encouraging geographical labour mobility or attempting to attract new industries into the affected regions (Ford and Suyker, 1990, p. 62). Harris also noted that while capital subsidies clearly encouraged higher levels of output and investment, they had a serious side-effect on employment. He found that the substitution effect of capital subsidies on the demand for labour outweighs the output effect (Harris, 1991, p. 61).

Moreover, as Alonso noted regional policy can be ineffective due to the various velocities and rhythms of different policies. The rhythm of industrial policy may be quarterly, with some slower rhythms (capital investment) of a year or more, while the rhythms of regional change are much slower – measured in decades or more (Alonso, 1996, p. 82). As a result of this long period of regional instruments' results (infrastructure investment, education and qualification changes), they may not meet entrepreneurs' present requirements and expectations even though they were tailored to the regions' needs.

Summing up, one can mention the outcomes of Alonso's research that possible failures of regional policy, which make it ineffective, derive from vague, romantic, and metaphorical concepts, based on fuzzy notions of balanced growth, anti-urban (or pro-urban) bias, utopian cities, and unrealistic attitudes toward the environment (Alonso, 1996, p. 82).

8. Conclusions

Concluding this review of the literature one can recall the outcomes of Alonso's research that regional policy should be understood as the territorial dimension of overall policy – the projection on the map of a multidimensional socioeconomic system. He underlined that this territorial dimension matters, both for its own sake and for the functioning of the other dimensions of the system (Alonso, 1996, p. 82).

Ulltveit-Moe found that the optimal design of regional policy depends on the level of trade costs and the degree of pecuniary externalities, the magnitude of localised inter- and intra-industry knowledge spillover, and the elasticity of substitutions. It is also a function of the government's underlying societal values (Ulltveit-Moe, 2007, p. 1464). But it is worth mentioning, with regard to regional policy, that when states use tax incentives and subsidies to bid against each other for every new plant, the competition is indeed zero-sum. It seems that only by investing in specialised training, building cluster-specific infrastructures, and improving the business climate with streamlined regulations, can states attract investment and upgrade the national economy (Porter, 1996, p. 89). Thus, according to Porter's research regional policy should promote specialisation, upgrading, and trade among regions because cluster formation can be encouraged by locating specialised infrastructure and institutions in areas where factor endowments, past industrial activities, or even historical accidents have resulted in a concentration of economic activities (Porter, 1996, p. 88).

It is worth noting that the OECD reports the key policy message that regional policy has been evolving from short-term subsidies into a much broader family of longer-term development policies designed to enhance regional competitiveness. Moreover, it should address equity and efficiency as objectives which are not exclusive. Thus regional policy should evolve away from top-down, subsidy-based interventions designed to reduce regional disparities into a much broader 'family' of policies designed to improve regional competitiveness (OECD, 2009b, pp. 49–50).

It seems that a very good conclusion would be a statement of Sala-i-Martin, who assumed that if the regions that are relatively poor now are the same ones that were relatively poor a hundred years ago, i.e. if poverty tends to persist over time, then we

may want to enact public aid programmes to allow the poor regions to escape this predicament. But if their economies are not, relatively speaking, poor today as in the past, then there may be no need to worry about the country-wide distribution of income (Sala-i-Martin, 1996, p. 1326).

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