

JANUS¹ Workshop “Progressing the Information Society: the role of government” Monday 17 February 2003

“The new regional agenda – evolving practice and policy” Jeremy Millard

Synopsis of presentation

According to the European Commission, there are striking differences in economic performance between different parts of Europe, particularly between the central and peripheral regions. As the economic position of countries converges, the divergences tend to be located increasingly within individual countries rather than between them². For example, there is a clearly delineated core super-region within Europe, whether measured in terms of employment, GDP, research expenditure, etc., which stretches as a band from north-west Italy through the south and south-west of Germany, up the Rhine/Ruhr west German corridor, into Flanders, Belgium, southern and central Netherlands, to south-east England and the Ile de France. The Digital Europe project³ calls this the ‘blue banana’ super-region and their research concluded that, measured at the national scale, ICT adoption has tended to weaken this core. At the sub-national scale, however, they found a clustering effect associated with the digital economy and the adoption of ICT which is stronger than that seen with traditional economic activities, although this is often better explained by industry characteristics, such as skill intensity, than purely ICT intensity.

Other research also points in the same direction, i.e. that, even though countries in the EU 15 may to some extent be converging in terms of economic indicators, at the regional level divergence is more likely to take place, and that some of this may be due to ICT adoption, although the effects of this must be seen together with wider economic forces, such as globalisation, increasing competition, de-regulation of markets, etc.

At the sub-national level, this clustering, or concentration process, seems often to be driven by both the demand and supply sides simultaneously.⁴ On the demand side, positive externalities for information flows and inter business exchanges are gained in larger markets, where the intensity of networks of exchanges also reduces the effects of risk from shocks. Other accounts extend traditional observations of the continuing importance of face-to-face contact in high-order business exchanges⁵. From a policy perspective, there is also an important supply-side to the concentration process, including the role of education and labour skills, land and site availability and the supply of innovation, new knowledge and finance. Supply-side effects also result from institutional structures, which are also strongly influenced by the wider state-administrative apparatus: competition law, regulatory structures and compliance frameworks. Indeed, the role of central government is vitally important and does not seem to be being squeezed to insignificance between the jaws of a new local-global dichotomy as some would have it..

Some proponents of the new, and specifically the digital, economy paradigm have argued that the importance of urban centres as primary business locations is being challenged by the growth of company downsizing and decentralisation, outsourcing and a greater role for SMEs in the economy. These developments have, it is postulated, allowed a more flexible and footloose pattern of location for many types of business, and the contention is made by some that ICT actually leads to the “death of distance”⁶. Others, however, see new or adapted types of both spatial centralisation and decentralisation taking place, with the former, in many important respects, often dominant over the latter. This would help to explain some of the increasing divergence in Europe’s regional map.

In this context, Castells⁷ charts an increasing separation of what he terms the space of flows from the space of places, leading to severe spatial, social and economic dislocation. This is exemplified when large metropolises, whilst becoming bound more tightly together on a global scale through exclusive high speed electronic networks, become disconnected from their local hinterlands leading to the splintering of physical networks and communities and increasing geographic polarisation. In similar vein, the examination of the digital divide can also be seen in a spatial

¹ For more information on JANUS see <http://www.janus-eu.org/>

² “The Regions and Research and Development and Innovation Policy: the Challenges and Prospects of Territorialisation”, European Commission, DG Research, Dr. Achilleas Mitsos, Director General, Valencia Conference, 23 February 2001.

³ <http://www.digital-eu.org>

⁴ Bennett, R.J., Graham, D. J. and Bratton, W. (1999) “The location and concentration of businesses in Britain: business clusters, business services, market coverage and local economic development”, *Transactions of the Institute of British Geographers*, 24,4, 1999, pp. 393-420.

⁵ See also Casson, M. (1998) *Information and organisation: a new perspective on the theory of the firm*, Oxford University Press, Oxford, 45-46

⁶ Cairncross, F. (1997) “The death of distance: how the communications revolution will change our lives”, Harvard Business School.

⁷ Castells, M. (1996) “The information age – economy, society and culture: volume 1, the rise of the network society”, Blackwell, Oxford.

context, i.e. the access to, and the use of new technologies, and the benefits they may bring, can be determined by both relative and actual location in important ways.

Thus, despite the apparent potential for economic decentralisation riding on the back of ICT adoption, most empirical research is pointing strongly the other way, certainly in the context of ‘high-order’ business activities. Whilst corporate decentralisation, outsourcing and SME development may be giving greater scope for development outside the main centres, the extent of spread of many of these developments tends to be restricted to within 50-80 kilometres from the headquarters or from major centres.⁸ Indeed, Bennett *et al* conclude that in Britain a very high proportion of external sources of supply to firms, particularly business services, is sought within the nearest 10-25 kilometres. Distance thus does appear to matter a great deal to the location of all businesses, and to business service firms most of all.⁹ Hence, proximity to major urban centres continues to be significant even if location within them may be less important. New agglomeration economies are apparent, suggesting that there is a continual concentration on existing major centres, especially for high value added activities, such as specialised (non routine) business and financial services, research and development, media, etc.

This importance of business concentration throws emphasis on policy interventions that focus on improving local factor conditions as a means of enhancing competitive advantage. Most local factor conditions depend on local markets: for factor inputs, local demand and supply, industrial interdependencies and the structure of firm strategy and competition. Policy initiatives can play an important role in improving these conditions. At a local level, major efforts can be devoted to improving education, training, public research and infrastructure. Exchange of information can be stimulated and common approaches can be developed to improve synergies between businesses, and between public and private agents. Barriers to market entry or growth can be reduced, particularly for small firms, by improving access to ‘business supports’, for example through provision of information, advice and improved access to venture capital.

An underlying assumption of much of this kind of analysis is that a major problem for ‘lagging’ regions is that they either lack the type of institutional capacity present in more ‘successful’ areas, or, if they do exhibit some degree of institutional thickness, the local institutional milieu is conflict-ridden and dysfunctional.¹⁰ This agenda has been taken up in the European regional policy model with an administrative bias towards developing partnerships and capacities observed to have ‘worked’ in more successful regions, including the shift from local *government* to local *governance*, in which local authorities appear to be just one player amongst many, having become ‘strategic enablers’ rather than direct deliverers of services and policy. Apart from the democratic deficit problem in this approach, these assumptions do not appear to always be tenable in less developed regions, and the political question of how regional development should best proceed remains open. “In the Humber (UK) case, the most effective form of development might well involve strong leadership from the public sector. It may not be the case that (sub) regional prosperity could be easily achieved if only the appropriate private sector partners could be found. Institutional capacity might be appropriately directed and shaped by those local authorities which have had experience in grappling with, for example, the history of economic decline in the Humber sub-region.”¹¹

Similar conclusions have been reached by the Tigers project¹² which examined six European regions or small countries away from Europe’s core. The common factors for success in such areas do not include a declining role for the local authority but upon strong public policy, a solid education system in the broadest sense (i.e. much more than IT skills), case specific investment policy, and conducive regulatory frameworks.

A clear strand in many research findings is that, although there is some decentralisation of economic activity this tends to be restricted to either the edge of the core or, if to more peripheral regions, to activities involving lower or medium added value in manufacturing or more routine service activities. Such ‘footloose’ activities are often attracted to non-core locations by lower wage costs, pockets of flexible and more stable labour, and the existence of special skills and expertise¹³. It does not seem that specific sectors (particularly when these are classified using the standard taxonomies) are being moved around in the new economy. Rather, a new type of spatial sorting seems to be taking place which is, to

⁸ This process is also been seen in Finland – personal communication from Nina Mustikkamäki, Research Unit for Urban and Regional Development Studies, University of Tampere, Finland

⁹ Bennet *op cit.* pp. 415-416

¹⁰ Gibbs, D.C., Jonas, A.E.G, Reimer, S. and Spooner, D.J. (2001) “Governance, institutional capacity and partnerships in local economic development: theoretical issues and empirical evidence from the Humber sub-region”, *Transactions of the Institute of British Geographers*, 26,1 2001, pp. 103-119.

¹¹ Gibbs *op cit.* p 116

¹² <http://tigers.infonomics.nl>

¹³ The Emergence research, for example, shows this, and especially Flecker J, Kirschenhofer S (2002), *Jobs on the move: European Case Studies in Relocating eWork*, IES Report 386, Brighton. See also : <http://www.emergence.nu>

some extent, dependent on the type of knowledge created and exploited in a given activity, for example as seen along the tacit to explicit knowledge spectrum, so that at the two extremes¹⁴:

- highly explicit (or codified) knowledge activities are more footloose and thus more spatially distributed, thereby prevalent in both peripheral and core areas – here the value added tends to be embedded mostly in the technology¹⁵
- highly tacit (experiential, often requiring a large degree of face-to-face contact) knowledge activities are much less footloose and tend to concentrate in core areas – here value added tends to be embedded mostly in people and organisations.

The above research and policy strands and contradictions illustrate the fact that, to perhaps an extent greater than in many other policy fields, the new economy/the information society involves the shift to a new type of socio-economic system which as yet we are at a loss to understand within a regional governance context. There is now at least a ten-year history of regional planners and policy makers attempting to make use of ICT to enhance the socio-economic development of regions, and to use new and knowledge economy concepts as a basis for regional policy making and implementation. For example, the new regional policy agenda is largely bound up with understanding and promoting new forms of relationship between the local and the global, without forgetting, as some researchers seem to insist we should, the continuing though changing role of nation states, and how geographic and virtual attributes impact on such relationships.

As pointed out above, much recent research points to new or adapted processes of both spatial concentration and spatial deconcentration. Part of the new regional research agenda should be to examine this contention, and to attempt to unravel the causes, paths, impacts and interrelationships of these two processes. Perhaps one avenue is to examine how different types of knowledge creation and use fuel or mitigate such spatial sorting effects.

¹⁴ See Millard, J. (2002) *Regional development and cohesion in the European Information Society – a review (on-going working paper)*: <http://www.beep-eu.org/regionaldevelopment>

¹⁵ Castro, E.A., Jensen-Butler, C.N. (1991) *Flexibility and the neo classical model in the analysis of regional growth*, Institute of Political Science, University of Aarhus, Denmark.