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**Centre on European Political Economy**

**WHAT MAKES ECONOMICALLY SUCCESSFUL  
REGIONS IN EUROPE SUCCESSFUL?  
IMPLICATIONS FOR TRANSFERRING  
SUCCESS FROM WEST TO EAST**

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## **Regional Inequality in an Enlarged Europe: Regional Performance and Policy Responses**

On 12–13 March 1998 the Centre on European Political Economy at Sussex organised a research workshop to examine the regional dimensions of change in an enlarged Europe. The workshop brought together some 40 academics, practitioners and post-graduate students and was organised as part of the inaugural activities of Sussex European Institute's new Centre on European Political Economy. The workshop, which was supported financially by the University Association for Contemporary European Studies and the Economic Geography Research Group of the Royal Geographical Society (with the Institute of British Geographers), examined what the enlargement of the European Union to East-Central Europe will mean for the changing map of regional inequality in Europe. During the workshop three main themes were addressed:

- the level of regional inequality between the member states of the EU and the potential new members,
- the degree to which the relative performance of institutions matters in accounting for levels of inequality between regions, and
- the potential policy responses to regional inequality in a much larger Europe.

Four main papers, of which this is one, were presented and discussed during the workshop, and are published as Centre on European Political Economy/Sussex European Institute working papers. The papers were all edited by Adrian Smith, organiser of the workshop, and provide a record of some of the discussions held over the two days. For more details of the work the Centre is undertaking on European regional development please contact Adrian Smith (a.m.smith@sussex.ac.uk).

**WHAT MAKES ECONOMICALLY SUCCESSFUL REGIONS IN EUROPE  
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# **WHAT MAKES ECONOMICALLY SUCCESSFUL REGIONS IN EUROPE SUCCESSFUL? IMPLICATIONS FOR TRANSFERRING SUCCESS FROM WEST TO EAST**

## **Abstract**

A considerable body of literature has emerged over the last decade that emphasises the critical role of regional institutional arrangements, social structures, cognitive assets and cultures in successfully negotiating relationships between regions and a globalising economy, and in positioning the region so that it benefits from regional global relationships. The paper first explores the socially-produced internal characteristics of regions that underpin economic success in Europe summarising and critically examining claims about the key features of regions. The next section examines why this explanatory turn towards the internal features of regions came about. Following this, the policy implications of the regional turn are examined. As a corrective to the preoccupation with the regional, the fourth section focuses upon the continuing salience of the national, and the relationship between regional and national economic success and regulatory frameworks. Finally, the implications for regions the have “won” for those who have “lost” in Europe, especially those in the “east”, are explored.

## Introduction

What makes economically successful regions successful<sup>1</sup>? A deceptively simple question, to which there are no simple answers. Over the years, there has been a variety of attempts to explain success and failure, drawing on a variety of disciplinary backgrounds and emphasising a variety of process and variables. Recently, attempts to answer this question have come increasingly to focus upon the internal and socially created characteristics of regions in seeking to explain differences in their economic performance. Originating from a variety of starting points within the social sciences, there has been a convergence upon the significance of such endogenously-produced features. Economists such as Krugman and Romer, proponents of the new endogenous growth theory, emphasise the importance of increasing returns as a result of cumulative economic advantages arising from the process of growth itself rather than initial factor endowments, enabling regions to capitalise upon initially randomly arising advantages (see Krugman, 1991; Romer, 1986). Other social scientists draw upon more heterodox approaches in evolutionary and institutional economics and sociology (for example, see Hodgson, 1993; Granovetter, 1985; Polyani, 1957). Some of them place more emphasis upon the cognitive dimensions of knowledge and learning in seeking to explain the path-dependent character of urban and regional developmental trajectories, emphasising the significance of “knowledgeable production” and regional institutional capacities to help create and disseminate relevant knowledge (for example, see Morgan, 1995; Maskell et. al., 1998). Others put more emphasis upon “untraded dependencies”, the non-economic social relationships that underpin urban and regional economic success (Storper, 1995; 1997). And yet others, put the explanatory emphasis upon institutional capacities and the “thick” institutional tissue of regions that sustains these “soft” sources of competitive advantage, which are understood to be strongly territorially embedded (for example, see Amin and Thrift, 1994; Malmberg, 1997).

A considerable body of literature has thus emerged over the last decade or so that emphasises the critical role of regional institutional arrangements, social structures, cognitive assets and cultures in successfully negotiating relationships between the region and the globalising economy, and in positioning the region so that it benefits from regional-global relationships. This indicates that, at least in part, “successful” regional economies in Europe (and elsewhere) are dependent upon conditions and processes internal to the region and are not simply dependent upon external conditions and broader processes as the basis of their success. By implication, the less successful regions can do something themselves to improve their economic fortunes. There *is* scope for regional action and initiatives, albeit constrained, within the parameters of a global political economy - this is the good news, the optimistic implication, that the “losers” can take from the success of the “winners”, if only they can discover appropriate modes of regulation and forms of policy.

In the next section of the paper, I explore the socially produced internal characteristics of regions that underpin economic success in Europe, drawing upon detailed case studies (which are

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<sup>1</sup> While the focus in this paper is upon regions, the analysis could as easily be applied to cities and the growing literature with new forms of urban policy.

reported fully in Dunford and Hudson, 1996a).<sup>2</sup> I also draw upon other studies of regions more generally regarded as "classic" regional success stories (for example, see Benko and Lipietz, 1992; Garofoli, 1992), such as Baden-Wurttemberg and Emilia-Romagna and other parts of the Third Italy, as well as other regions which have been economically successful on seemingly intuitively implausible bases (for example, see Maskell et. al., 1998). The claims as to what are seen to be the key features of these various regions and their relationship to economic success will be summarised, and examined critically. The next section of the paper examines why this turn towards the internal socially produced characteristics of regions in seeking to understand regional economic success came about, relating this both to the perceived limitations of competing explanatory approaches and more general debates about the changing character of contemporary capitalism. The next section considers the policy implications of this particular regional turn, and indicates the limits to policies derived from it, showing their relationship to a particular neo-liberal conception of national economic policy and political strategy. The next section, therefore, considers the continuing salience of the national- in terms of economy, society and state - in accounting for regional success and the importance of different forms of national regulatory regime in relation to regional economic success and failure in an (alleged) era of globalisation. This is vital in seeking to understand the extent to which the economically less successful regions in Europe, especially eastern Europe, can learn from the experiences of other more successful western European regions. Finally, therefore, the implications of the bases of economic success in those regions that have "won" in western Europe for those that have "lost" in Europe, especially in the east, will be considered.

## **The Critical Characteristics of Successful Regions**

### *Social Cohesion and a Culture of Commitment*

There has been a growing emphasis on social cohesion as a critical pre-condition for economic success. In many of Europe's economically successful regions social cohesion and inclusion *do* appear to be a pre-condition for economic success. Social cohesion is not simply a product of economic success but also a pre-condition for it (a view that has found its way into policy discourse: for example, see European Commission, 1996). This symbiotic relationship between cohesion and success is manifest in a variety of ways, many of which can be summarised as a culture of commitment, which revolves around a variety of network relations of co-operation and trust. It is important; however, to stress that different forms of regional social cohesion underpin different models of regional economic success. The implication for less successful regions is that there is a variety of feasible relationships between social cohesion and economic success and that they should explore which combinations would be most appropriate to their specific circumstances. Furthermore, it follows that long term sustainable economic success is more likely if it is grounded in genuinely democratic conceptions of social cohesion.

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<sup>2</sup> This work was carried out with Professor M Dunford, at the request of and funded by the Northern Ireland Economic Council (see Dunford and Hudson, 1996a,b; Hudson et. al., 1997). I would also like to acknowledge the contribution made to the project by Richard Kotter (then also at Sussex) and the help and support given by Sir George Quigley (Chairman), Paul Gorecki (Director) and Douglas Hamilton (Senior Economist) at the NIEC. The responsibility for the views expressed here is mine alone, however.

It is also undeniably the case that in some of western Europe's successful regions the character of social inclusion is manifestly problematic - for example, many workers in Germany's successful regions are international migrants who lack citizenship rights. This suggests that economic success may in some circumstances be predicated upon partial and selective views of cohesion. Not all social groups necessarily have an acknowledged stake in the project of regional success.

#### *Co-operation, Trust and Networking*

Many of western Europe's economically successful regions are characterised by particular forms of relationships between companies which emphasise co-operation, trust and networking. Often these networks are place specific, as industrial districts of interlinked small and medium-sized enterprises (SMEs) have been recreated - or re-discovered - as an integral part of these successful regions. As the experiences of a variety of such regions make clear, small size is no barrier to corporate success and competitiveness, as such companies are enmeshed in networks which allow them to overcome the potential disadvantages of small size. Many small firms are dynamic and rely upon innovative, design, customised production and quality in order to remain competitive, and embedding in networks enables them successfully to pursue such Schumpeterian competitive strategies. Co-operative networks facilitate learning, innovation, the sharing of knowledge, and the creation of territorially specific types of knowledge that are central to competitiveness. Locally specific knowledge, often of a tacit form, is crucial in creating environments that are acutely and sensitively tuned to the competitive requirements of production in specific sectors and companies. A good example of this is the way in which staff in local banks and local branches of national banks develop in-depth knowledge of particular regional industries which allow them to provide greater financial support to local companies than would otherwise be the case (Maskell and Malmberg, 1995). More generally, there is a clear recognition of the mutual benefits of intra-regional co-operation for firms seeking to compete on national and international markets. There is typically a sophisticated horizontal division of labour between firms within an industry, spanning the conventional boundaries of the manufacturing and services sectors. The growth of business service firms, as one element in a shifting social division of labour, has typically been important.

There are, however, important differences between those regions in which "horizontal" networks of SMEs are the dominant feature of the corporate landscape (such as those found in parts of north east and central Italy) and those dominated by major companies (such as Baden-Wurttemberg). In the latter, and in contrast to more "horizontal" networks without marked inequalities in power between firms, there is typically considerable evidence of (quasi)-vertical disintegration and sharply asymmetrical power relationships between firms in the production filière. Relationships between companies are structured around formal contracts, often linked to meeting performance targets of various sorts as a condition of renewal rather informal relations of trust. The network relationships of large firms are at least in part typically transnational. Even in industrial districts of linked SMEs not all network relations are regionally based, however, as such successful regions typically are linked into a broader global economy.

As examples such as the Third Italy and a range of Scandinavian regions (Maskell et. al., 1998) make clear, particular forms of industrial organisation are more important than the particular industrial sectors present in a region. "Old" industries such as clothing and furniture have

become internationally competitive and a basis for economic success and growth in these regions at the same time as they have declined in importance in other places. This implies that existing "old" industries in economically weak regions in Europe could become a basis for future growth if appropriate organisational structures were to evolve.

#### *Embedded Factories and New Forms of Inward Investment*

While the dangers of the multinational branch plant investments that create "global outposts" are well known in many of Europe's peripheral regions, changes in the character of transnational investments and marketing policies have opened up opportunities for more "embedded" branch plant investment, involving higher value-added activities and greater linkages with the regional economy as companies seek to devise new strategies of global localisation. They could in this sense become the basis of new "clusters", which commentators such as Porter (1990) see as a key element in competitiveness. Alternatively, regions can seek to attract specialist component suppliers, with links to companies further up the value added and assembly chain across a variety of sectors and in a variety of locations, and thereby spreading the risks of decline in any one market segment. Attracting such investments, however, requires much more than just financial subsidies in order to persuade companies to locate in economically peripheral regions. It requires - *inter alia* - the provision of appropriate "hard" and "soft" infrastructure, focused labour market and training policies, sophisticated transport and communications infrastructure, and policies for improving and sustaining environmental quality. Such "quality" inward investment can both create substantial numbers of new jobs and have a range of other positive impacts on the regional economy (Hudson, 1995), though it is important to stress that much branch plant investment in Europe's peripheral regions can still be characterised as the "classic" Taylorist "global outpost" employing unskilled workers in mass production (Austrin and Beynon, 1979).

#### *Co-operation, Compliance and New Forms of Industrial Relations*

Successful regions in western Europe tend to be characterised by particular forms of co-operative industrial relations and flexible working arrangements; they employ skilled and well paid workers, on permanent contracts, committed to the companies for which they work, compliant and flexible in their attitudes to work. They are often members of trades unions, but unions that see co-operation with employers as the route to secure well-paid employment for their members. Many of the positive features for workers in such regions can thus be summarised under the rubric of co-operative social relations of production. At the same time, local educational and training institutions are sensitive to the needs of local companies for particular types of skilled labour and this can be important in maintaining both competitiveness and social cohesion in the region. This is, however, a necessary rather than a sufficient condition for successful economic regeneration.

It is, however, important to distinguish between regions in which there is genuine co-operation and commitment to common regional goals based on a shared understanding of the reciprocal relationships between cohesion and competitiveness and those regions in which there is a labour force which is malleable, flexible and compliant because of the fear of unemployment. Without a doubt, in regions of high unemployment in Europe many companies have been able to recruit workers very selectively in order to introduce new production concepts and "flexible" working arrangements. This bears more of a resemblance to the labour regulation regimes of Taylorism

than it does to regulatory and governance arrangements grounded in genuine trust and co-operation (Hudson, 1997). Moreover, some economically successful regions in Europe are characterised by deeply and multiply segmented labour markets, with ethnicity and gender often important cleavage planes (see Hudson and Williams, 1998).

### *Regulation, Governance and Institutions*

While regional policy incentives remain critical in persuading companies to locate in peripheral regions, there seems little doubt that much of the successful industrial growth in many European regions has been at best only tangentially related to such regional policies. Indeed, by definition successful regions are those that are ineligible for regional policy assistance, although some of them may benefit greatly though unintentionally as a result of the spatial consequences of other aspatial policies, such as those concerned with competition or R&D (European Commission, 1994; 1996). Furthermore, other central government social and welfare policies can play a key role in promoting regional economic success (as, for example, in Jutland). So too can national regulation in relation to environmental improvement (for example in the Ruhr: Refeld, 1995). The issue is not so much central government policy or no central government policy, but the type of national regulatory régime rather the ways in which central governments seek to foster regional economic regeneration.

What is undeniable is that in the successful regions local and/or regional government economic development policies have characteristically been an important influence and again there is a marked contrast to many less successful regions. Successful regions have systems of governance which embrace enabling and facilitating institutions both within the local state and civil society, as well as bridging the permeable boundaries between them, in which local economic success is embedded, often deeply. There seems little doubt, however, that the plethora of local development agencies that have sprung up in many successful regions, spanning the boundaries of the state and local civil society, have been very important in creating conditions that were conducive to and facilitative of the formation and growth of local small manufacturing firms, enable learning, and promote the sharing of intelligence about markets, products and technologies. Such local institutions thus play a decisive role in helping underpin local competitiveness. Regional transmission mechanisms help facilitate a self-reinforcing process of learning and regional specialisation that underpins competitiveness.

Successful regions thus tend to be characterised by distinctive forms of local regulation and governance, encompassing supportive local state forms and local government policies. As the case of western European regions such as the Saarland illustrates, however, a decentralised political system is not in itself a guarantee of successful regional economic transformation, even within a strong national economy such as that of Germany. Regionalised government within a Federal structure is not necessarily a sufficient condition.

It is also important to appreciate that such institutional forms are as much a product of specific local and regional cultures as they are mechanisms that facilitate their reproduction. Part of the problem in many problematic deindustrialised regions is that they are "locked in" to institutional structures that were relevant to an earlier phase of successful economic development but which now constitute a barrier to moving onto a new developmental trajectory (Grabher, 1994; Hudson,

1994). Other regions that at best marginally experienced the processes of industrialisation and modernisation are similarly locked into archaic institutional structures. Changing these institutional structures may well be a key pre-condition to successful economic regeneration but this can be a slow process if institutions are as much a product of economic success as they are a means to that end. There are clear limits, therefore, to the extent to which the creation of new institutions via policy interventions can actually change such cultures, especially in the short-term, and so help bring about economic transformation. This, *a fortiori*, points to clear limits to attempts to implant the institutional tissue of successful regions to alien environments in the hope that they will lead to a successful and rapid economic transformation via some non-problematic mechanistic process. Such institutional change may indeed be desirable, indeed necessary, but it is unlikely in itself to be either sufficient or rapid in producing lasting beneficial impacts.

The importance of local institutions both within and outside the structures of the state, of a local tradition of entrepreneurship and self-reliance, of a culture of democratic associationalism that facilitates co-operation and self regulation, and of labour market conditions that permit flexible production strategies to be developed and deployed is readily apparent in many successful regions. Such "soft" infrastructural capacities are usually lacking in less successful regions. Moreover, insofar as regional competitive advantage is rooted in locally and regionally specific tacit knowledge, it may well be that the bases of this advantage are at best imperfectly understood by key local actors within the successful regions themselves and not readily detectable in or decodable from the structures of local institutions. This *a fortiori* renders the simple mechanistic transfer of successful growth models from one region to another an impossible task but at the same time it emphasises the importance of the creation of conditions which will facilitate the emergence of a supportive regional milieu appropriate to the needs of competitive production in particular economic activities.

There are also questions as to the extent to which the local conditions that nurtured successful growth in the past will continue to do so in the future. For example, successful development can lead the local labour market to change in important ways, above all from one characterised by high unemployment to one characterised by low unemployment (see Dunford and Hudson, 1996a). This may well threaten the flexible deployment of skilled labour in production that has been so important in ensuring regions' economic competitiveness but equally, in an "intelligent" or "learning" region, this may simply be the stimulus to seek new ways of producing or new things to produce. Those regions that remain economically most successful in the face of the vicissitudes of volatile international markets are precisely those that have the institutional capacities to learn and change "ahead of the game", and which have the collective capability not so much to adapt to change as to anticipate it and change accordingly - which have, in brief, "learned to learn" (see Morgan, 1993; but also Hudson, 1998). Equally very few regions are in such a position and there are considerable opportunities for those regions that can adopt quickly and intelligently to new opportunities. Realistically, in the foreseeable future, the most that the regions that are Europe's "losers" - particularly peripheral regions in Eastern Europe - should realistically aspire to is to join this latter group.

### **Explaining the turn to endogenous regional capacities in explaining regional economic success**

The recent shift in explanatory emphasis, focusing more on the internal capacities and features of regions, is a seemingly surprising move, as it seems to echo a regional approach within geography that became discredited precisely because it eschewed explanatory questions in favour of a pre-occupation with description of the unique. The recent regional turn also breaks with that tradition in quite a number of ways, however, most importantly in shifting its concerns to explaining rather than just describing regional uniqueness, often engaging in a sophisticated way with contemporary social theory as it does so (for example, see Johnston et. al., 1999; Massey et. al., 1998). As a result of these developments, the “new” regional approach draws in more cultural and sociological elements and focuses more upon the internal capacities of regions. This change in emphases is the product of a complicated, and to a degree linked, series of changes in theory and practice. In part, it reflects the perceived limits of more “traditional” explanatory approaches. Traditionally, the explanation for differences in regional economic performance was sought by economic geographers and regional economists in differing factor endowments, or in differing location relative to sources of key raw materials or major markets. More sophisticated explanations arose from critiques of these and emphasised the effects of distanced social relations of production within a variety of spatial divisions of labour. The latter approaches often drew heavily on Marxian political economy, seeking the causes of spatially uneven development in the structural contradictions of capitalist development. Harvey (1982) eloquently states the case as to why spatially uneven development is unavoidable within a capitalist economy but equally sets out the limits to a structuralist account in explaining *which* places will succeed and develop, *which* will fail and decline. Others failed to heed this warning. In some instances, the emphasis upon structural determinism was taken to counter-productive lengths, in extreme cases taking a rigid position that denied space for conscious human agency, with people reduced to the status of passive “bearers of structures”, “cultural dopes” or even “structural dopes of even more stunning mediocrity” (Giddens, 1979, 52), and that denied space for state policy involvement to counter uneven development. It sought to deduce regional uneven development from immanent laws of capitalist development (for example, see Lapple and van Hoogstraten, 1980) and saw state policies as unavoidably captured by, and simply a reflection of, the interests of monopoly capital (for example, see Baran and Sweezy, 1968).

More sophisticated versions of Marxian political economy, and related critical realist approaches, heeded the warning and took a more nuanced view of the relationships between the interests of the state, capital and other social groups (for example, see Clark and Dear, 1984; O’Neill, 1997) and of the variety of links that could exist between the social relations and geographies of capitalist production (Massey, 1984). This produced more sophisticated understanding, on two counts. First, it explicitly recognised that the relationships between spatial pattern and social structure were reciprocal ones: patterns of uneven regional development reflect and are a product of the social relations of production but equally spatial differentiation influences the ways in which social relationships are formed and reproduced. Secondly, such approaches granted a variable degree of “relative autonomy” to the state and paid much more attention to the forms and content of state policies and to the implications of the structures of state apparatuses for policy formation and implementation (for example, see Offe, 1985). Consequently, considerable emphasis was often placed upon the intended and sometimes

unintended effects of national government regional policies, informed by these analyses and a view that governments could enhance the competitive position of problem regions via policy interventions of various sorts to enhance their attractiveness to private capital. Sometimes emphasis was also placed upon sectoral policies with unintended (and perhaps at times intended) strongly differential territorial impacts (for example, see Hudson, 1989; Hudson and Williams, 1995).

In summary, “traditionally” much of the explanatory focus in seeking to account for regional economic growth and decline has been upon political and economic relations extending beyond the region and connecting it to a wider world as well as the natural resource endowment of regions. This at best gave a partial account of the reasons for persisting uneven development. As a consequence, the policy prescriptions that followed from such analyses had at best limited effectiveness and problems of uneven regional development remained a chronic feature of the landscapes of capitalist economies. Both on theoretical and practical grounds, the limits of “traditional” approaches (although it is important to remember that some were much more limited than others in this regard) created a space into which alternative discourses could be projected and within which alternative conceptualisations and explanations. These alternatives shifted the weight of explanation more to the specific features of places, and in particular their institutional capacities and resources, rather than more general social processes of capitalist development. In seeking to go beyond structural determinism, therefore a number of issues were raised as to how best to conceptualise “middle level” processes, and the particular institutional forms in which the structural relations of capitalism were cast, and the relationships between the economy and the (re) production of places. Thus while a great improvement in explanatory terms, such approaches gave only a partial account of the determinants of regional success or failure and set the scene for a serious engagement between evolutionary and institutional in the social sciences and issues of territorially uneven development.

In addition, then, the shift in explanatory emphasis also partly reflects broader moves within the social sciences in understanding the character of contemporary capitalism. Alongside the debate about how best to comprehend persistent differences in regional economic performance, there has been a parallel debate as to how best to grasp what are clearly significant changes in the more general character of the contemporary capitalist economy and which, to some, have seen a necessary shift of emphasis to the regional as the efficacy of the national state in managing the national economy has declined. The debates as to how best to explain regional economic success (and failure) relate to those as to the most appropriate way to understand the form of relationships between economy, society and state, and, critically, about the most appropriate form and content of state policies. Increasingly, accepting (even if only implicitly at times) the more extravagant claims of proponents of globalisation, national states are said to have been undermined by intensified processes of globalisation, more and more marginalised as, it is claimed, formerly successful modes of national regulation based on welfare state interventionism have become untenable. In consequence, the national state has been “hollowed out” (Jessop, 1994), with political power moved upwards to supra-national levels, downwards to regional and local levels, and out of the ambit of the state into civil society. Accepting this analysis, but wanting to avoid the worst excesses of unfettered market resource allocation and neo-liberal regulation, attempts have been made to find a "third way" between market-led and state-led

strategies. These reject a view of state and market as either-or dichotomous options, insisting that markets are always - and must be - socially produced and politically regulated. Linked to this, in recognition of the (alleged) diminished capacities of national states, there has been a tendency towards the growing decentralisation of territorial development policies from the national to the local and regional levels (Dunford and Hudson, 1996a; Hudson et. al., 1997).

Thirdly, the shift to privilege specific - even unique - regional characteristics in explaining regional success and failure can in part also be related to the move in some academic circles away from concerns with grand modernist narratives with normative political implications to little local histories in a depoliticised and amoral post-modern discourse (for example, see Cooke, 1990). Rather than grand narratives that would provide general explanations of spatially combined and uneven development and systemic tendencies towards some regions “winning” and others “losing”, the emphasis shifted towards the celebration of difference and local stories of little local victories. It is, however, important to emphasise that acceptance of complexity in a polycentric world does not necessarily lead to a celebration of difference but simply emphasises the necessity to unravel the processes that produce more complicated forms of combined and uneven development (for example, see Hadjimichalis and Sadler, 1995).

Fourthly, the increasing intellectual fascination with the particular features of places is both a cause and a consequence of shifts in the conception and practice of public policy. Equally, the often-heated debates in recent years about the most appropriate form and content of regional and local development policies must be understood in the context of the growing and related debates about the extent and status of changes in the character of contemporary capitalism. With the increasing dominance of neo-liberal conceptions of appropriate modes of regulation, the withdrawal of national states from engagement with problems of regional combined and uneven development, has created a policy vacuum which has been in part filled by burgeoning activity by more pro-active regions to deal with such issues and promote the interests of “their place”. Politically, the agenda becomes a war of all against all, in a zero-sum game in pursuit of investment, employment and incomes.

### **Policy Implications: the Context of and Limits to Policies of Decentralisation to Regions**

It is often claimed by those seeking to ground decentralised territorial development policies in the “third way” that the move to decentralised development policies necessarily links territorial competitiveness more closely with enhanced social cohesion and inclusion within the territory. Cohesion is seen as both a result of, and as a pre-condition for, competitiveness, with growing attention given to the institutional arrangements that will facilitate the emergence and reproduction of associational and co-operative social relationships (for example, see Amin and Thrift, 1994; Morgan, 1996; Storper, 1995; 1997). Such decentralised policies are thus seen as socially inclusive and progressive in terms of intra-regional relationships. Regions compete via co-operating, with different social groups resident within them developing a common view of shared and territorially defined interests. While this will undoubtedly produce individual “winners” and “losers”, it is less clear as to whether the broader pattern of territorially uneven development will be one of divergence or convergence - but it is hard to escape the conclusion that it will be the former.

Within Europe (as elsewhere), however, these changes in urban and regional policy arrangements have taken place in the context of, and as an integral part of, a neo-liberal turn in state policy. Recognition of the limits to state capacities, and pressures for a “lean welfare” state (Drèze and Malinvaud, 1994) stimulated a search for new neo-liberal macro-scale regulatory models that accepted national states’ limited powers to counter global market forces. The neo-liberal turn led to shifts in the emphases of national state policies, from a concern with redistribution and socio-spatial equity to one with national economic performance and competitiveness, and has occurred in the context of what has increasingly commonly been represented as a global - even as a “borderless” (Ohmae, 1990) - economy. This “subversive liberalism” (Rhodes, 1995) consequently led to a re-definition of the boundaries between private and public sectors, and revised conceptions of the legitimate limits to public policy actions. Thus for those of a neo-liberal persuasion, shifting the responsibility for territorial development policies to the regional level necessarily - and rightly - involves enhanced competition between places. While such policies may be predicated on a view of intra-regional inclusion and cohesion, there is considerable ambiguity as to whether they will lead to inter-regional convergence or divergence - in so far as they imply acceptance of a neo-liberal (supra)national policy framework, it is, however, difficult to envisage how they would not reproduce - or even enhance - inter-regional inequality. These policy changes have in fact been directly linked with widening socio-spatial inequalities (see European Commission, 1996) and an increasingly sharply delineated map of “winners” and “losers” in Europe (Dunford, 1994).

As a consequence, regions have increasingly been cast as actors who need to compete in order to succeed: the “winners” prosper, the “losers” languish and fall still further behind in a zero-sum game. It is important, however, to recognise that regions are not simply cast as actors, playing out a script handed down to them by others in response to the retreat of national states. Regions can *cast themselves* in an “pro-active” rather than “passive” role, positively seeking increased autonomy, powers and responsibilities via decentralisation from national states, and writing their own economic development scripts. Sometimes, “winners” form alliances to seek to secure their leading position (as in the Four Motors Coalition) while the “losers” form alliances to seek to improve their position. Social groups and regional political authorities in the less successful regions look with often envious eyes at the more successful ones, and to seek to learn from their experiences in developing strategies to enhance social and economic conditions in their own regions.

The conception of cities and regions competing with one another in a zero-sum game, dog-eat-dog struggle for economic success, sits easily with the post-modern turn in the social sciences and its denial of the possibility of a normative and modernist political project. For some, parochialism and territorial competition is to be legitimated by an appeal to the post-modern condition and its air of neo-medieval “back to the futurism” (Cooke, 1989). There is, however, no *necessary* reason why a concern with the regional *necessarily* has to be accompanied by such a competitive turn, or that there could not be, and indeed are not, alternative conceptions of territorial development policy, linked to different national modes of regulation to those grounded in neo-liberalism. Territorial development policies are unavoidably *place-based*; they are not, however, necessarily *place-bound* (Beynon and Hudson, 1993)

### **The Continuing Importance of the National**

Contra the claims of the advocates of both globalisation and regionalism, the continuing significance of national state policies and institutional arrangements was alluded to above in discussing the salience of various forms of national government policies to regional economic success. Without denying either the transfer upwards to the European Union of some state powers and competencies or the importance of regionally specific institutional and social conditions, it is vital to emphasise that the national political and economic context remains of crucial significance in shaping possibilities for regional economic success. While there certainly has been a diminution in national state capacity to control monetary and fiscal policy (especially in the EU, with the onset of EMU and the Maastricht convergence criteria), national states retain considerable power and authority in other policy domains. The national level remains of decisive importance in the governance and regulation of economy and society, in innovation and technology transfer (Lundvall, 1992), in environmental policy (Hudson and Weaver, 1997), and education, training and the labour market (Peck, 1994). Gertler (1997) has recently gone so far as to suggest that what are commonly seen, as differences in regional culture are more accurately understood as strongly shaped by differing national industrial policies and regulatory regimes - a point of immense significance, theoretically and practically. The strong regional economies of western Europe are clustered in the strong national economies, within national regulatory regimes that have made fewest concessions to the worst excesses of Anglo-American neoliberalism (Dunford and Hudson, 1996a, Fig. 1). The critical issue thus concerns the form of national state, the type of regulatory regime that it maintains, and the form of capitalist economy that it seeks to encourage.

At the same time, it is important to emphasise that there have been significant changes in the forms and balance of regulatory relationships between the global, national and regional levels. One element in this pattern of changed relationships is that the mode of regulation at national level has altered in significant ways. There has undeniably been a degree of "hollowing out" upwards, downwards and outwards from the national to other levels of state power and to non-state organisations and institutions in civil society, of competencies and regulatory powers. This has both altered the mode of state regulation and the links between state and non-state institutions and organisations in the structure of governance. While insisting on the continued salience of the national, therefore, it is important to stress that views which suggest that little has really changed in the era of globalisation in terms of the ways in which the national remains significant (for instance, see Hirst and Thompson, 1996) are deeply flawed and dangerously misleading, theoretically and practically. The key point is that processes of globalisation require different forms of state policy and activity, focused on developing the specific and unique place-bound socio-institutional assets that will enable national states and their constituent regions to locate themselves favourably in a competitive global economy.

While the processes of change have re-defined systems of governance within western Europe, then, the national, and more specifically the national state, nonetheless remains a key element in the new arrangements. Ruggie (1993) argues that in the EU the process of unbundling territoriality has gone further than anywhere else, but nonetheless state power remains strongly

territorially, and nationally, based. Others caution against a too ready acceptance of reports of "the exaggerated death of the nation-state" (Anderson, 1995) and argue that what is emerging is a much more complex form of regulation involving supranational, national and sub-national scales. Mann (1993) stresses that European nation states are neither dying nor retiring; they have merely shifted functions, and they may continue to do so in the future. There are therefore strong grounds for believing that, for the foreseeable future, national states will continue to have a central role in processes of policy innovation, formation and implementation. This role will, however, continue to be a different one to that taken by the national state in the era of Fordist regulation and the welfare state, with a greater emphasis upon the state as enabler and facilitator. The transition from an interventionist to an enabling mode of state activity does not mean that national states cease to have any interventionist role, any more than the transition from a liberal to an interventionist state (Habermas, 1975) led to the end of national state involvement in the construction and regulation of markets. It does acknowledge, however, that the mix and balance of forms of national state involvement and policy making has qualitatively and significantly altered but emphasises that the claims of the "neo-medievalists" who suggest that the national state is being largely rendered redundant as structures of governance in Europe alter is seriously wide of the mark (see Anderson, 1995). The national remains critical in explaining differences in economic performance and well-being at the regional level.

The real issue is, then, what sort of national state? A thin and procedural one, simply concerned with market regulation, and presiding over a competitive society of asocial, atomised individuals? An "overloaded" state (O'Neill, 1997), struggling to cope with myriad demands in an increasingly globalised world, accepting the neo-liberal economic agenda, and seeking to cope with the implications of the welfare state cut-backs that necessarily follow as a result? Or a strong state committed to social justice and equity, facilitating and enabling by encouraging and steering progressive policy networks, but prepared to act directly in pursuit of an egalitarian and inclusive society? It is important to grasp that the proponents of neo-liberalism and the view that "there is no alternative" to the forces of irresistible globalisation, present a particular and one-sided view. Others contest this. They stress that it is vital not to overstate the extent of "hollowing out", nor the extent to which national state power has been diminished. As a corollary, they emphasise that it is vital not to underestimate the continuing significance of the national state as a site of resistance, both to the specifics of globalisation and to the more general dominance of unfettered market forces, and so of the possibilities for alternative political projects and policies to those of neo-liberalism (Boyer and Drache, 1995). For example, insofar as there is evidence of globalisation of political and economic processes, this is largely a product in national decisions to change the geographies of regulatory regimes, and national governments remain key actors within them (Cerny, 1990). Likewise, the context in which devolved regional governments operate is largely conditioned by national state decisions. Regional initiatives are most efficacious when there is an effective integration between national and regional level policies and actions. This is of critical significance in terms of the lessons that the peripheral regions of eastern Europe might learn from the successful regions of western Europe.

### **Conclusions: Transferring Regional Success from West to East?**

Perhaps the key lesson to be learned in the context of transferring regional success from west to east is that, despite the emphasis placed upon specifically regional conditions and processes in much of the recent literature, the most significant influence remains the character of the national mode of regulation and the strength of the national economy. The emphasis in eastern Europe has been upon “shock therapy” and a sudden transition to neo-liberal capitalism (Gowan, 1995; 1996; Lloyd, 1996), prioritising stabilisation, market liberalisation and development of market-supporting institutions, privatisation, currency convertibility and trade liberalisation. This emphasis was, at best, grounded in a very imperfect acknowledgement of the extent to which the economy is constructed as a structure of “instituted processes” (Polanyi, 1957), of the way in which markets must be socially constructed and politically regulated rather than existing in some natural state awaiting discovery by intrepid explorers of the new eastern frontier of capitalism in Europe. While “shock therapy” may have facilitated short-term *adaptation*, destruction of existing institutional capacity may have under-mined longer-term *adaptability* (Grabher and Stark, 1997). The “shock therapy” treatment was also recommended irrespective of the differences in national development trajectories prior to 1989. This emphasis on a spatially insensitive and undifferentiated “shock therapy” does not auger well for the possibilities of successful regional regeneration, for conditions at regional level were much more varied than nationally. Without doubt, a few places will prosper as favoured locations for foreign inward investment within a neo-liberal policy framework, but neo-liberalism has not been associated with generalised regional economic success in western Europe; indeed, it has been associated with creating more “losers” than “winners” and with widening socio-spatial inequalities.

The clear lesson is that strong regulatory national state regimes, enabling, encouraging and steering policy networks, but prepared to act directly if need be are a critical necessary - though not sufficient - condition for regional economic success. There is a pressing need for strong redistributive policies in pursuit of enhanced economic performance in weaker peripheral regions and of narrowing regional economic inequalities and enhancing socio-spatial cohesion. Ironically, the limited extent to which policies of “shock therapy” have had their intended effects, so that in fact the process of transition has been “path-dependent-path-creating” (Nielsen et. al., 1995), may offer better possibilities for successful regional transformation over much of eastern Europe. The lingering legacy of the institutional structures of the pre-1989 era may offer more possibilities for successful regional regeneration than would the obliteration of such institutions via “successful” policies of “shock therapy”, which would create not a new “institutional thickness”, nor even a new “institutional thinness” but rather an “institutional void”. Without underestimating difficulties, there may be more opportunities in adapting existing institutions to new political-economic realities, adopting existing knowledge, skills and institutional capacities, rather than seeking to build from scratch in a situation of ignorance as to the rules of the game and the institutional requirements that follow from this. The differing development trajectories and regulatory regimes of different state socialist states prior to 1989 reinforces the significance of the legacies of the past in terms of national regulatory frameworks as a resource for the future.

For the moment setting aside such caveats as to the prime significance of the national, what are lessons to be drawn by the economically weak regions of eastern Europe from the experiences of successful regions in western Europe, “les régions qui gagnent” (Benko and Lipietz, 1992)?

- First, it is important to emphasise that the basis of continuing success in the “winners”, even in some of the quintessentially successful regional economies of the 1980s, is open to question (for example, see Herrigel, 1995). The implication of this is that economic transformation must be seen as an ongoing process of adjusting to and anticipating change, either positioning more favourably on the existing developmental trajectory or moving onto a more promising one, not as a “one-off” event.
- A second qualification is that uneven development continues to pose problems within regions which, in aggregate, are regarded as economically successful and vibrant (see Dunford and Hudson, 1996a). The clear implication of this is that successful transformation of economically problematic regions produces both intra-regional “winners” and “losers” and maintaining social cohesion would require policies to address the needs of those places and people who gained least - or indeed lost as a result of - from regional economic transformation.
- Thirdly, and perhaps of most significance in a policy context, there are severe problems of “transferability”, or more accurately “non-transferability” of growth models and institutional arrangements from “successful” to “unsuccessful” regions. Successful regional economic development models are generally embedded in successful national economies and are always embedded in specific regional and national cultures and social structures. As a result they cannot be mechanistically transferred to other locations.
- Fourthly, there nevertheless may be lessons to be learned that could fruitfully be applied in the less successful regions of eastern Europe from the experiences of other more successful parts of western Europe. It is also important to stress the variety of successful regional developmental trajectories that have been followed in western Europe. This variety both makes generalisation difficult (without running the risk of overgeneralisation) but also points to the range of options that may be open to regions in eastern Europe searching for a new model of development appropriate to their particular circumstances of “path-dependent-path-forming” development.

In summary, there is no ready-made developmental strategy, devised in some successful western European region and waiting to be taken from the shelves, dusted off, and non-problematically and mechanistically implemented in an eastern European region which will guarantee successful economic transformation. There are, however, lessons to be learned from a variety of European regions, not least those of the importance of the national, but these must be adopted to the context, circumstances, strengths and weaknesses of other regions in varied eastern European contexts. Developmental strategies must seek to maximise the local developmental potential of the particular advantages and features of a given location within the context both of an enlarged European economic space, a widening and deepening European Union, and an increasingly globalised economy. There are, however, no guarantees of success for any given region, nor that

the regional development process will avoid degenerating into a zero-sum game within Europe, with the regions of eastern Europe very much on the margins.

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