OECD Territorial Outlook

TERRITORIAL ECONOMY

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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– to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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FOREWORD

The *Territorial Outlook* is a new OECD publication. It results from the activities of the Territorial Development Service (TDS) which was created in 1994 and is the OECD's newest directorate. TDS is responsible for those policies which have a spatial dimension, whether they relate to regional, urban, rural or local development. The fact is that there are often great disparities between territories within the same country and the differences in their respective performance cannot be explained by macroeconomic conditions alone. Because of the nature of its work, TDS uses a multisectoral approach (addressing economic, social, transport, agricultural, environmental and industrial issues). It also places special emphasis on studying governance issues, including innovative relationships between the public sector the private sector and the representatives of civil society.

The publication is the fruit of the work carried out for the two committees of governmental representatives and experts serviced by TDS: the Directing Committee of the Local Economic and Employment Development Programme (LEED) and the Territorial Development Policy Committee (TDPC), the most recently created committee in the OECD. It is rare for the OECD to establish new committees. It is therefore highly significant that the most recent one is designed specifically to address territorial development issues. This reveals the growing attention which governments are according to regional economic and social development and to the process of decentralisation of powers and responsibilities.

It is within this context that the new committee is developing reviews of the territorial policies being implemented by Member countries at the national level and supplementing this activity with regional policy reviews. These reviews contribute to the OECD's task of multilateral monitoring; they will unquestionably help to improve policies aimed at achieving sound economic expansion. The LEED Committee, for its part, has recently given greater emphasis to work aimed at understanding better the contribution to local development made by sectors that have as yet received little attention such as the voluntary sector, promotion of entrepreneurship and self-employment, or the development of partnerships between enterprises in networks and industrial districts. In this respect, there is a need to pursue work on transfrontier networks which will increase as globalisation progresses.

This first issue of the *Territorial Outlook* therefore provides a timely opportunity to take stock of the richness of these new approaches and to make the initial promising results more widely known. I believe that it is essential to support the approaches being implemented at the national or subnational level to enable specific regions and cities to overcome the difficulties that they face in their development. We need to support solutions which have been tried and tested. Only by so doing, can we improve our chances of meeting the aspirations of local populations and achieving sustainable prosperity.

Donald JOHNSTON

Secretary-General of the OECD

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INTRODUCTION

The policy field which at the OECD is called territorial development is based on the recognition that prosperity is increasingly a matter of how well each city, each region, can achieve its potential. Territorial capital refers to the stock of assets which form the basis for endogenous development in each city and region, as well as to the institutions, modes of decision-making and professional skills to make best use of those assets. The first part of the *Territorial Outlook 2001* therefore explains what territorial policy is.

Territorial policy recognises that many changes associated with, *inter alia*, globalisation and technological innovation, and with steps toward sustainable development, are concentrated at the sub-national level. The unique role of territorial policy is to make the spatial dimension explicit. Now that monetary, fiscal, sectoral and structural policies are increasingly similar across the countries of the developed world, or their effectiveness is diminished, governments are recognizing that territorial development policy enables countries to distinguish themselves. Territorial policy is a comprehensive set of actions which can be carried out by a government to foster development in all its territories, to limit the disparities between them, and foster a more balanced distribution of population and economic activities.

Chapter 1

WHY TERRITORIAL POLICIES MATTER

Introduction

Because socio-economic situations change, the tools used to regulate the economy in order to maintain or re-establish prosperity can lose some of their relevance and effectiveness. At the same time, reasons for government intervention in the economy also change. Economic policies must therefore adjust to these new conditions.

Territorial policy seems to be gaining importance in this regard. This policy field is not merely a combination of spatial planning and regional policies, or of rural and urban development. It covers all action taken by the central government to promote the growth of all the territorial units that make up a country (such as regions, *départements* and cities in the case of France). It also reduces the disparities between them, in particular disparities in development opportunities.

Is this a temporary trend or is it a lasting one that might be representative of a new economic policy paradigm? What are the main reasons for this trend and the underlying causes of such change? Why should the OECD include territorial policy reviews of Member countries in its multilateral surveillance?

The purpose of this study is to try to answer these questions. It will begin by examining why the various territorial levels seem to be playing an increasingly important role in the economy. It will then focus more specifically on the following points: the impact of increasing globalisation and devolution on territorial development; the new challenges of governance; the need to supplement macro-economic and structural policies and rethink traditional industrial and regional policies; the need to implement the means for attaining the goal of sustainable development; and, lastly, the emergence of the new economy.

1. The growing importance of territorial units

The return on an investment is closely related to the place where the investment is made, as the rate of return can often vary considerably from one place to another. Theories of international direct investment (IDI) have long recognised that IDI gravitates to those areas where the expected return is highest. This is determined by numerous factors, such as the size of the host country's market; the political and social stability of the country; the quality of its infrastructures and labour force; and the various incentives that it may provide. The same holds true for territorial units within countries, for it is now recognised that each area has a specific capital — its "territorial capital" — that is distinct from that of other areas and is determined by many factors that have been successively highlighted by various theories.

These factors may include the area's geographical location, size, factor of production endowment, climate, traditions, natural resources, quality of life or the agglomeration economies provided by its cities, but may also include its business incubators and industrial districts or other business networks that reduce transaction costs. Other factors may be "untraded interdependencies" such as understandings, customs and informal rules that enable economic actors to work together under conditions of uncertainty, or the solidarity, mutual assistance and co-opting of ideas that often develop in clusters of small and medium-sized enterprises working in the same sector (social capital). Lastly, according to Marshall, there is an intangible factor, "something in the air", called the "environment" and which is the outcome of a combination of institutions, rules, practices, producers, researchers and policy-makers, that make a certain creativity and innovation possible. This "territorial capital" generates a higher return for certain

kinds of investments than for others, since they are better suited to the area and use its assets and potential more effectively. This means that areas not only have Ricardian comparative advantages (*i.e.*, they are more competitive because of the relative costs of factors of production), but also absolute advantages, for they have unique assets. Some economists even consider areas as factors of production on a par with labour and capital.

But conversely, it can be argued that a given investment will not have the same effects on every area. In this regard, three kinds of effects are generally distinguished: multiplier effects, productivity effects and competitiveness effects (see Catin, 2000). The first concern either the supply (spillovers on suppliers and customers) or the demand (spillovers due to the rising regional income). The magnitude of these effects depends on many factors that characterise a region, such as its size, specialisation, marginal propensity to consume locally or its economic openness. Productivity effects result either from greater economies of scale due to the investment made or agglomeration economies that can in turn be broken down into economies of location due to the concentration of activities, and economies of urbanisation due to the concentration of the population, infrastructure or business services. Lastly, there are the competitiveness effects generated either by lower imports due to higher local production, or higher exports. Again, these effects depend on the specific characteristics of the area where the investment was made.

It is also important to point out that the changes in production systems that have taken place over the past thirty years have led to even greater importance being given to territorial capital than in the past. Initially, the mass production/consumption system primarily sought cheap and plentiful labour, and as wages changed, companies were able to relocate rapidly. However, in a time of "flexible specialisation" (see Benko *et al.*, 1997) characterised by small or medium-sized production units, which rapidly adapt to the changing needs of consumers and their desire for more personalised goods, the place where an investment is located makes a difference. This is because SMEs seek to offset their lack of economies of scale through agglomeration economies. They also look for those locations that provide the highest return on their investments at the lowest risk. This has resulted in regions that specialise in certain kinds of production because of their specific territorial advantages, and the emergence of industrial districts that make possible, *inter alia*, a higher degree of division of labour and therefore more efficient production systems and lower production and transaction costs between enterprises. These costs, which are generally low in large, vertically integrated enterprises that have internalised the services of other enterprises, are higher in SMEs. They can be reduced by geographical proximity and co-operation between enterprises.

Endogenous growth theories also support this initial analysis. Since the beginning of the 1980s, it has been recognised that technological progress as a factor of production, rather than being imported by companies (an exogenous variable), can be an integral part of the functioning of companies (an endogenous variable). This can take place in many ways: through learning (the replacement of a machine leads to higher productivity); externalities (the higher productivity of one enterprise can lead to productivity gains in others in the same sector, just as one knowledgeable person can raise the level of knowledge of his entourage, *i.e.*, increasing returns); accumulation of knowledge (the productivity of researchers is an increasing function of the stock of knowledge already accumulated; the higher the existing stock of knowledge, the lower the cost of acquiring new knowledge, *i.e.*, increasing returns); and, lastly, the productivity of enterprises, which is an increasing function of the stock and quality of the available infrastructure.

It can be seen that many of the components of the territorial capital mentioned above can lead to productivity gains and therefore generate growth that is more endogenous than exogenous. This is the case in particular for agglomeration economies, social capital, untraded interdependencies and aspects related to the area's "environment". More recently in this regard the concept of "learning cities and regions" has been promoted, stressing the fact that not only individuals but also cities and regions can learn through R&D that is more extensive than intensive (see OECD, 2000).

The concept of a territorial capital particular to each area can also make it possible to understand why it is necessary to combat disparities of development between areas within the same country. In fact, helping a disadvantaged area to develop its own territorial capital enables it ultimately to develop activities that will be more profitable than if they were located elsewhere. Consequently, beyond the basic argument in favour of social cohesion and equity, there is a solid argument of economic efficiency, since this allocation of resources leads to higher overall profitability.

Some key economic policy conclusions can be drawn from this analysis:

— allowing investments to gravitate to the areas where they are most profitable ensures a better overall allocation of resources and therefore higher and more lasting growth for the country as a whole (since investments are better matched to areas than they would be otherwise);

— public policies aimed at promoting territorial development and limiting territorial disparities should first and foremost help areas to develop their territorial capital;

— the use of tax or financial incentives to encourage enterprises to invest in areas where they would not otherwise have invested does not lead to development in the long term, since it does not ensure that investments match the territorial capital.

These principles constitute the very foundations of the new territorial development policy, which is primarily aimed at finding more effective means of strengthening economic dynamism in the present-day economy. Thus, as an economist recently pointed out, there is every reason to believe that some of the most dynamic forces of contemporary capitalist development are both localised and territorially specific (Storper, 1997: p. 6).

As we have seen, the specialisation of an area enables it to achieve significant agglomeration economies, develop its territorial capital, become more competitive and thereby attract more enterprises. Specialisation also enables an area to avoid making excessive infrastructure investments in order to attract enterprises in a number of sectors simultaneously. Lastly, specialisation makes it possible to avoid harmful competition between areas that all want to attract enterprises in the same sectors by granting tax advantages.

But specialisation also presents two dangers. Firstly, activities may be concentrated in certain areas to the detriment of other areas, thus worsening territorial disparities. Secondly, an area's development is more fragile if it is dependent on a single sector rather than several sectors. For the EU countries, their possible specialisation involves an additional risk of asymmetric shocks that can no longer be countered using exchange rate adjustments, as was previously the case.

These issues fall within the scope of economic geography, which holds that the choice of the site of an economic activity is a function of two forces: centripetal forces, such as scale economies that prompt companies to choose only a single location; and centrifugal forces, such as transport costs that are proportionately lower the larger the number of production sites.

Alfred Marshall extended this model by including three external economies (agglomeration economies) among the centripetal forces: the dissemination of knowledge, techniques and technology (as we have seen, the recent concept of "learning cities and regions" has taken up this idea by emphasising that shared technology and extensive R&D is just as important as intensive R&D); the development of broad specialised production tools; and the creation of a large local job market. These externalities enable enterprises to have increasing returns, but as all enterprises do not enjoy them equally, the resulting competition is imperfect.

By introducing these phenomena of increasing returns and imperfect competition into a model, Krugman was able to show that in the case of two regions with industries of different size, the greater the economies of scale in the larger industrial region, the larger the initial share of industry in this region. The lower the transport costs between the two regions, the higher the concentration in the larger region will be. This makes it possible to show that there is ultimately a certain polarisation of activities.

This theory implies that a strong trend towards concentration world-wide could be expected since the main barriers to factor mobility are gradually being reduced and transport and communications costs are also falling. If all the Marshallian agglomeration economies are added to the fact that market openness increases the variety of supply of intermediate goods, thereby increasing the efficiency of production (higher output), there are many arguments that suggest that the countries throughout the world will gradually specialise, following the example of the United States.

The main argument in favour of this polarisation is that in the United States, for example, regional disparities are smaller than in Europe (the difference in per capita GDP across US regions is roughly half that of European regions). It would therefore be highly advantageous for European countries, and their territorial units, to specialise in specific fields, and territorial policies should help them to do so.

However, not everyone agrees with this argument. For example, the French General Planning Commission (*Commissariat Général au Plan*) has emphasised the continuing border effects and cultural and linguistic differences in Europe as well as its low labour market mobility. This inertia means that it is likely that forces of agglomeration will, in the medium or even long term, be limited to areas inside countries, with the countries themselves remaining relatively unspecialised. In short, it is likely that the European countries will continue to converge in terms of economic dynamics while the regional economies within each country continue to diverge.

Whether or not one agrees with the arguments of the new economic geography, there will be a greater need to develop territorial policy: firstly, so that the countries concerned can together plan and support their specialisation and that of their territorial units; and secondly, so that countries can take appropriate action to counter the growth of territorial disparities.

2. The trend towards globalisation, devolution and supranational entities

The main effect of globalisation is to heighten competition world-wide and to increase the number of competitors. But this competition is not limited to enterprises. We must now consider the role that cities and regions play, since they are in fact competing with each other to attract economic activities. Furthermore, this competition is becoming international, since the competitors are increasingly territories located in other countries.

The cities and regions that are most competitive are those that face the challenge of globalisation most effectively, *i.e.*, that are better adapted to globalisation than others and take better advantage of it in terms of growth and employment. On the other hand, less competitive areas may suffer from this increased economic interdependence. This can lead to a worsening of disparities between areas within the same country.

The main reason for this, as we have seen, is that areas can have tangible effects on the profitability of enterprises that invest in them. Areas, in fact, have characteristics (their territorial capital) that can influence the location decision of enterprises. In an increasingly global and competitive world, areas are becoming a key variable for the competitiveness of enterprises. They play an essential role as a catalyst. The regions and cities that win are those that have the strongest assets, so it is possible to speak of the competitive advantages of areas.

But enterprises themselves try to protect their competitiveness by locating in areas where there are already clusters of businesses in their sector, a clustering that is explained by the area's territorial capital. Consequently, by favouring the clustering of enterprises and a certain territorial specialisation, globalisation leads to unequal development across areas (see Kherdjemil, 1998).

Globalisation and devolution

These growing disparities will lead to two trends in some countries. Firstly, disadvantaged areas will ask the central government for greater assistance, either through financial compensation or subsidies to enable them to become more attractive by developing infrastructure and public services. Secondly, some regions will ask for greater political autonomy in order to gain greater control over their destiny, which now seems to be increasingly determined by the international economy and less and less by the domestic economy. Thus, in some countries greater globalisation is accompanied by greater devolution (a combination of decentralisation and deconcentration) of both legislative powers and economic and social policies. In the light of local economic conditions and aspirations, devolution has often been asymmetrical. The most striking example is provided by the devolution recently carried out in the United Kingdom. Paradoxically, globalisation, an overall trend that makes everything increasingly interdependent in a world in which borders are gradually disappearing, is accompanied by this apparently opposing trend of devolution, which is in fact the direct result of globalisation, and is asymmetrical.

The question is whether this trend towards devolution will widen territorial disparities even further. In fact, the areas that are most successful in the process of globalisation will benefit from devolution. Because of their greater autonomy, they will be in a position to take policy decisions advantageous to them, which will augment their chances of increasing their prosperity. The opposite will occur in the

other regions: their own economic difficulties will be compounded by devolution, since they will be less able than in the past to rely on the central government for help. In some countries, this has led the central government to react by using territorial policy to offset the combined effects of globalisation and devolution through a certain financial redistribution across territories, or to organise a certain recentralisation. These policies are indispensable, for without them, growing territorial disparities might ultimately become an obstacle to continued economic openness and interdependence.

Supranational entities

Lastly, a key aspect of the growing economic interdependence is that it encourages countries within the same geographical region to step up their co-operation by developing supranational entities that have considerable policy-making powers, such as the European Union. This example might well be followed by others. But the transfer of economic policy powers from central governments to supranational entities has obvious consequences for the territorial units within countries. Economic policy is generally decided in the light of the overall socio-economic situation, which reflects the average situation across the various areas of the country. The fact that some aspects of macroeconomic policy are decided at the supranational level considerably weakens the link between the reasons for the decision and the situation in these areas. As a result, macroeconomic policy, which is developed at supranational level, is now of less overall relevance to the specific needs of areas. This development can increase regional disparities, since macroeconomic policy may in fact be at odds with the state of the business cycle in some regions. This in turn can only justify the demand for devolution in some areas and the need to develop territorial policies at the central level in each country.

These factors lead to the key conclusion that globalisation, devolution and the development of supranational entities can all have the effect of widening territorial disparities and that each country must therefore implement a territorial policy to counteract the most serious effects.

3. The new challenges of governance

However, the successful devolution referred to above cannot be established by decree. It will only be possible if certain necessary conditions are met, especially with regard to the apportionment of powers and responsibilities between the central government, regions and cities in the legislative, fiscal and economic fields. This apportionment is sometimes more the outcome of historical developments than of a rational approach, but it is also true that there are no universally recognised criteria for efficiency in this field. According to the principle of decentralisation (Oates, 1972), the objective is to achieve the closest match possible between those who enjoy the benefits of public goods and those who finance them, except in cases where there are spillovers or economies of scale. Under the principle of subsidiarity, everyone concerned by an issue — and as few people as possible not affected by it — should fall within the jurisdiction of the authority responsible for that issue. But these principles are not always strictly applied, and the fiscal federalism being implemented in many countries is not always based on an obvious economic rationale. Governance must therefore be reformed in the light of territorial policy in order to make institutional structures more compatible with economic dynamics.

This issue is even more crucial since some areas simply do not have adequate resources to meet inhabitants' needs for public goods, and therefore some degree of financial redistribution (equalisation) from the richest areas is sometimes necessary. But even this cannot be done without finding an acceptable method of measuring the needs to be met and determining how the equalisation should be calculated and whether it is conditional or not.

The relations between the central authorities and the regional and local authorities are another area in which reforms are necessary. Territorial policy should be used, where necessary, to make these relations, still very hierarchical in many cases, more flexible and contractual. There should be greater emphasis on accountability, performance requirements and monitoring of operations with a view to improving results, promoting entrepreneurship and curbing the dependency culture that develops when subsidies are automatically renewed.

New types of partnerships between the public and private sectors are also being developed to provide certain public goods and services. Some see this compromise between an "all public" and "all private"

(*i.e.*, privatisation) approach as being able to provide the benefits of both approaches, while limiting their shortcomings.

Partnerships are also being developed in regions and localities between the public authorities in the field and local actors (social partners, the private sector, the third sector and other representatives of civil society) in order to address the issues most urgent to the community, such as unemployment, social exclusion and economic expansion. In fact, there is a growing need to establish greater economic democracy, *i.e.*, greater participation of civil society as a whole in decision-making that concerns it directly. This participatory democracy, which can usefully complement representative democracy, is a basic component of territorial policy.

Lastly, partnerships are also being developed between communes, as is being done in France under legislation providing for inter-communal co-operation. This approach enables neighbouring areas with common interests to achieve the necessary critical mass to carry out projects effectively.

All of these territorial governance issues are now an integral part of the new territorial policy, as reviewed in the OECD's Territorial Development Policy Committee.

4. Supplementing macroeconomic policy and structural policies

Macroeconomic policy

The main purpose of macroeconomic policy is to create the general conditions needed for prosperity, *i.e.*, growth without inflation, unemployment or external imbalances. Thus, its chief aim is to facilitate harmonious growth that is compatible with the various components of aggregate demand (consumption, investments, governmental spending and net exports). This approach of regulation through demand, as well as some of its theoretical foundations, was recently supplemented after the oil crises, where the disruption in relative prices showed the need to make adjustments in the supply of goods and services. This was borne out by the subsequent persistent inflation, and then by the high structural unemployment that prevailed for many years in a number of countries. The flexibility of markets, an assumption on which neo-classical macroeconomic policies are partly based, rarely seemed to hold true for the labour market, or that of goods and services. Consequently, structural policies had to be developed to supplement traditional macroeconomic policies. Clearly, the necessary structural reforms must often be implemented directly at the regional and local level, since it is at these levels that market failures and appropriate corrective measures can best be assessed.

It then became clear that the assumption that prices are determined by the free functioning of markets did not always hold true. For example, in the case of wages, it had to be accepted that institutional variables such as the nature of contracts, the influence of trade unions, laws and regulations and collective bargaining agreements, could also play an important role in determining wage levels. Macroeconomic policies therefore had to take these institutional factors into account. However, these factors often have a markedly territorial character, since they are more specific to certain cities or regions. Consequently, territorial policy can usefully supplement macroeconomic policy.

Furthermore, three key factors have recently begun to limit the degree of autonomy, the scope and very effectiveness of macroeconomic policies. The first factor is the growing economic interdependence over the last decade that makes it increasingly difficult for a country, despite floating exchange rates, to adopt a monetary policy that is independent of international conditions. There is also a consensus (the so-called Washington Consensus) that a sound macroeconomic policy must, on the whole, be primarily aimed at fighting inflation (if necessary through very high interest rates) and keeping public deficits to a minimum. The growing openness of economies is not fortuitous and is largely due to the fact that governments have agreed to liberalise their trade in goods, services, capital and investments. This, combined with investors' preference for countries that have prudent and stable economic policies, following the consensus mentioned above, has meant that macroeconomic policies are less autonomous and that policies are tending to converge.

Secondly, policy-makers' room for manoeuvre is shrinking even further in countries that, as members of a regional economic union, have agreed to comply with certain rules of good conduct, for example in the fields of monetary policy, deficits and public debt (as in the EU countries). At the same time, the

scope of these countries' macroeconomic policies has declined with the transfer of some of their policy prerogatives to supranational entities, as the European countries did with the European Commission in Brussels and the European Central Bank in Frankfurt.

Thirdly, macroeconomic policy recommendations are largely independent of the size of the country concerned and its regional disparities. For example, with regard to monetary policy, it may be recommended that the money supply grow at the same rate as GDP volume. This recommendation holds for all countries, whatever their size, whether they have a centralised or federal structure, are composed of many or few regions and whether these regions have similar or completely different socio-economic situations. This is what gives macroeconomic policy its universal character. Territorial policy recommendations, on the other hand, take account of regional situations and disparities. But there is reason to believe that macroeconomic policy is more effective when the territorial disparities of the country targeted are narrow — in other words, the greater a country's overall cohesiveness, the more effective macroeconomic policy will be. This would suggest that there is an inverse correlation between policy effectiveness and the entropy of territorial units (the degree of socio-economic "disorder" between regions). Yet paradoxically, the same macroeconomic recommendations are made for a given socio-economic situation regardless of these disparities, as has just been shown. There is reason to believe that this practice can even create asymmetric shocks. For example, an anti-inflationary policy will, in fact, lead to a slowdown of inflation in the most dynamic regions, but it can also worsen economic conditions in regions where economic activity is already too low. Conversely, one of the assumptions on which territorial policy is based is that the productivity of the same economic activities (industry, research, services) will vary depending on the regions in which they are established. Consequently, the territorial dimension has a definite impact on the profitability and competitiveness of economic activities (the territorial capital), and territorial policy can be used to increase the opportunities for expansion.

All these factors have resulted in a growing need to support traditional macroeconomic policies with other measures that make it possible to achieve the goal of prosperity. In this context, territorial policies appears to have a major role to play in optimising the conditions that enable each area (region or city) to achieve prosperity. This can lead to a higher level of prosperity for the country as a whole.

Structural policies

The main purpose of structural policies is to improve market efficiency and factor productivity. Market efficiency increases if markets are able to operate freely, without constraints and shortcomings. This means that regulatory reform must continue, in order to eliminate any useless legislation, regulations and administrative practices, and to make any necessary improvements. It also means that markets themselves must be transparent and free from restrictive and unfair commercial practices that are detrimental to competition (unfair transfer pricing, tied selling, cartels, monopolies, etc.). The objective is not to deregulate markets systematically, but to do everything possible to ensure greater efficiency and fairness.

However, although much must be done at the national level to achieve these objectives, complementary action at the level of regions and cities is also required. For the factors that interfere with the smooth functioning, efficiency and fairness of markets are more easily identified at the level of regions and cities, and the most appropriate solutions can be more readily implemented at this level. Similarly, complementary measures at the infra-national level can usefully supplement the measures taken at the national level to increase market flexibility and factor productivity. This is particularly true for the labour market, where the specific measures taken in regions and cities (such as training initiatives, work experience programmes for young people and the development of local partnerships between various economic and social actors) can significantly improve the local employment situation.

5. Revisiting industrial policy

Industrial policy has had different objectives at different times in different countries: developing basic industries to facilitate economic development; supporting industries deemed to be strategic; supporting declining industries; or helping large groups to be set up. In all cases, these policies have had consequences for regional development, although particular emphasis is sometimes placed on this objective.

Policies to help those sectors essential for the development of other industries, such as heavy industry or petrochemicals, were implemented in certain countries after the Second World War, when it was necessary to rebuild the foundations of national industry. These policies were aimed at the country as a whole, even if specific regions were a natural choice for the location of certain industries, due to their past history and natural advantages (steelworks in mining areas, for example). Policies to support strategic industries followed immediately thereafter. Three objectives were involved: guaranteeing access to certain products or technologies presenting a "strategic advantage" (for example, high-technology products); benefiting from increasing returns to scale of industries which create significant wealth and numerous jobs (aeronautics, aerospace and high-speed train); lastly, protecting sectors with so many backward and forward linkages with other industries that they become strategic for the country (the car industry). In most cases, national plans were formulated to implement these policies, and if certain regions benefited more than others, this was essentially due to past developments or political pressure.

In the 1980s and 1990s, the increasing opening up of frontiers, the extension of international trade and investments, and the appearance of newly industrialised countries (NICs) called into question the profitability of certain industries and led to the closure of many enterprises. This resulted in the implementation of defensive policies that tried, without much success, to guarantee the survival of these industries. Here again, national plans (steel plan, shipbuilding plan, calculation plan) were introduced to attain these objectives, and these were particularly beneficial to those regions most affected by the "crisis". The same phenomena at an international level led to enterprise relocation and to public intervention in some countries to thwart such developments. Certain countries began to compete with each other to attract the direct investments that promised so much in terms of employment, transfers of technology and know-how, and exports. Here again, some regions were affected more than others by these two developments. Finally, over the last twenty years, another purpose of industrial policy in certain countries has been to facilitate the establishment of large industrial groups through mergers and the grouping of domestic or foreign firms, whether from the same sector or not. Some regions were able to benefit from this and others less so; in some cases, such groupings led to the closure or relocation of enterprises.

At this stage, two main observations can be made. The first is that with increasing globalisation, combined with a certain reduction in the role of the State in many countries (for example the trend towards the privatisation of public enterprises and services over the last ten years or so), industrial policy in the majority of OECD countries has gradually given up most of its previous objectives. Major national projects have been abandoned, and a simultaneous decentralisation of responsibilities for industrial development has occurred.

Since world-wide economic interdependence is constantly increasing, it is indeed difficult, if not impossible, for one country to act against the forces of the world market, which distributes industrial activities and services on a major scale, according to the needs of the private sector and the specific advantages of particular countries. It is as if there were a "world location market". The role of national governments is thus to protect and develop these advantages, while emphasising — in a world in which one of the main factors of production and competitiveness has become knowledge in all its forms — education, training and innovation.

The second observation is that, in this context, cities and regions appear to be important actors in industrial development. In the location market, each area offers specific advantages that can be used to attract enterprises or even a sector of industry.

Large enterprises usually "internalise" all services peripheral to production (legal services, finance and accounting, recruitment, marketing, research and development, exports, etc.) and their smaller subsidiaries or branches benefit from this. This is not the case for independent SMEs. In many cases, they are not big enough to justify the in-house development of such services, given their costs. This problem may be resolved if the enterprises form a network or "agglomeration" (industrial districts or local production systems) within which they can share such services, thus paying less for them (see Porter, 2000). These "agglomeration economies" are supplemented by other factors, such as a more complex and effective division of labour; the availability in the longer term of a specialised and skilled labour market; the ability to find suppliers and outlets more easily; proximity to competitors in order to keep in touch with the latest innovations (both technical and management-related); and lastly mutual assistance and the relations of trust that develop between the enterprises of a given agglomeration (corporate capital). It is

found, moreover, that enterprises clustered in industrial districts are usually more competitive, profitable and innovative, and export more than others.

The territories (cities and regions) in which such districts and other enterprise networks are created therefore enjoy obvious competitive advantages. An SME set up in a given sector, whether domestic or foreign, has everything to gain by choosing to locate in the industrial district specialised in its own sector in order to benefit from the savings which can offset the economies of scale not available to SMEs.

More generally, it is interesting to compare the evolution over time of production systems and territorial development (see Julien & Marchesnay, 1997), distinguishing three periods: Fordism, neo-Fordism, and, more recently, post-Fordism. With Fordism, the emphasis is laid on economies of scale. In a time of mass consumption and continuous mass production, huge factories were naturally located near major centres, giving birth to large cities. The main principle of neo-Fordism was to cut costs by using "tight flows" or the "just-in-time" method with regard to stocks. The trend was therefore towards hiring sub-contractors to whom the problem of stocks was transferred. In order to minimise transport costs and delays, these sub-contractors set up business close to the major production units. With post-Fordism, in order to maintain demand at a certain level, the keywords became "variety and novelty". Long series of identical production therefore gave way to small series, leading to a sort of individualisation of products to meet the specific requirements of consumers and respond to rapid technological change ("flexible specialisation"). In this scheme of things, medium-sized enterprises, which play an essential role, choose to establish themselves in industrial districts, thus enhancing their competitiveness. We can thus speak of Fordist and post-Fordist areas, as for example the Frostbelt and the Sunbelt in the United States (see Scott, 1998).

Consequently, at the start of this century, it seems that industrial policy as it has traditionally been conducted at the national level must be fundamentally rethought and broadly supplemented in the light of territorial policy. In particular, it no longer seems possible to influence the development, fate or location of large industrial groups, especially if they are multinational. However, it is desirable to influence the creation and development of SMEs and their location, initially by taking steps to enhance the competitiveness of enterprises.

Two types of action can be identified here. The first includes measures to reduce the operational costs of enterprises by investing in transport and communications services; the second includes measures to improve the competitiveness of markets taken as a whole (regulatory reform, privatisation, greater protection of competition, opening up the economy, etc.). These can be supplemented by policies to promote the creation and spread of innovation, the dissemination of know-how, and the development of enterprise networks and centres. Admittedly, public authorities do not themselves have the means to create industrial districts. But they can promote the development of the high-quality business services that, as has been seen, are so important in giving real value to industrial centres and providing them with better opportunities for expansion.

Industrial policy can thus be said to be more "territory-targeted", following the example of sectoral policies. In fact, whereas certain sectoral policies, such as those relating to agriculture and tourism, are of course in essence territorial (inasmuch as they concern some regions more than others), all other sectoral policies — transport, health, communications, the environment, education, innovation — also have an important territorial component. It is therefore best that they be designed in the light of territorial policy, in order to ensure their overall consistency. Implementation of these policies always concerns some regions and towns more than others. Particular mention may be made in this respect of telecommunications policy in the context of the emerging new economy (see below).

6. The changing course of regional policy

Regional policies in OECD Member countries were traditionally targeted above all at the most disadvantaged regions. In view of the results obtained, however, many countries wondered whether it was worth continuing such policies. Briefly, they have given rise to the following issues:

— massive subsidies (in particular for building infrastructures and setting up public services) to the poorest regions resulted above all in creating market distortions and a dependency culture and in fact, in many cases, harming the development chances of the regions concerned;

— the artificial creation of economic poles of development, which took scant account of the competitive advantages of the regions concerned, has given rise to costly projects (such as industrial zones) together with equally costly tax incentives, with most projects proving to have no long-term future;

— with few exceptions, the creation *ex nihilo* of techno-cities has never really been a success since they had few links with the region in which the investment was made;

— the attempt to keep declining industrial sectors alive so as to protect local jobs, while everything pointed to such sectors being condemned in the long term, led in most cases to unnecessary and major expense.

A new paradigm

In recognition of these failures and limits, regional policies gradually adopted new approaches, that enable us to speak today of the appearance of a new paradigm, based on five pillars:

— Regional policies are not targeted at the most disadvantaged regions only, but at all regions, the richest as well as the poorest.

— The objective is no longer to attract investment to regions in difficulty by granting subsidies, tax breaks or benefits in kind to enterprises, but to make every effort to ensure that all regions are able to maximise their development opportunities (endogenous development). This goal is therefore achieved by making the most of all the advantages a region and its constituent parts (for example cities) have, and also by developing new assets. No artificial development is therefore pursued. Thus, investments are made in a region, not in order to take advantage of generous incentives, but because that region, thanks to its competitive assets, is ripe for a higher level of profitability. Enterprise location is therefore much less volatile which makes it possible to build lasting and sound relations between the territory concerned and the business community. The territorial capital mentioned above thus allows the development of a sort of investment multiplier.

— There is no question of suddenly stopping all forms of assistance and compensation. The poorest regions still benefit from financial equalisation (the subsidies, indemnities and pensions received and paid are the same in all regions, to ensure a redistribution from the richest to the poorest) and from a certain financial adjustment when their own income is insufficient to meet their obligations. Moreover, in many countries central government ensures the continued quality of infrastructures and public services and the development of modern means of transport and communication, guaranteeing all regions a minimum level of accessibility. However, the objective is now not to artificially maintain the same level of infrastructures in all regions, but to ensure a favourable environment for enterprise development. Since this development depends on the specific characteristics of the region concerned, infrastructure policies may be based on a typology of regions.

— The infrastructures in question now include intangible ones. These play a primordial role in promoting the comparative advantages of a region as regards endogenous development. Measures are therefore taken to improve the competitive advantages of regions and their attractiveness from a business viewpoint, for example by providing assistance in disseminating knowledge (education, training and special courses), technologies and innovation; measures to develop corporate capital; the elimination of barriers to competitiveness by means of greater market flexibility and fluidity of operations thanks to fewer regulations and controls; assistance in resolving conflicts; measures guaranteeing social harmony and cohesion; encouraging entrepreneurship and enterprise creation by means of business incubators and specific subsidies to enterprise networks and other industrial districts the development of which is promoted by a pooling of services (research and development, finance, accounting, commercial services, marketing, recruitment, external trade, etc.); lastly, measures to protect and improve the physical and human environment.

— The fifth and last pillar of the new regional policy paradigm relates to governance. In the first place, this involves ensuring that territorial policy formulated at a national level is compatible with the development policies pursued in the regions and cities. Therefore, a fair distribution of responsibilities and financial resources has to be organised among the three levels of intervention

(central, regional and local) and decentralisation of responsibilities must be avoided, unless it is accompanied by tax resources enabling the fulfilment of such responsibilities. In the second place, greater recognition has to be given to the need to involve in major decisions not only the local authorities but all local actors, whether the private sector, the social partners, the community (third) sector or civil society as a whole. These local partnerships are the best way to guarantee that problems are properly identified, that the solutions adopted are as effective as possible, and that the correct priorities are set.

7. The absolute need for sustainable development

It seems obvious that the various economic policies pursued by a given country should form a coherent whole, representing a comprehensive medium and long-term strategy. However, this is not always the case. Often, economic objectives, such as protecting jobs, take precedence over goals considered as less urgent. Thus, environmental protection, the conservation of non-replaceable assets, or compliance with certain social standards, are sometimes sacrificed. But the converse can also be true: there is no guarantee that all decisions made with regard to environmental and social matters take due account of the economic costs they involve. Were they to do so, such decisions could well be different.

Reconciling economic effectiveness with social cohesion and ecological equilibrium — three major objectives in all OECD Member countries — is the goal which is now set under the heading "sustainable development".

Territorial policy can play an important role here for three reasons. The first is that while some policies must of course be formulated and implemented for a given country as a whole, where the problems are national ones, others must be applied at regional level since the problems are regional in nature. National policies are also required for all social measures concerning the population as a whole, as for environmental measures that set up standards with regard to air and water quality, the emission of greenhouse gases, the conservation of natural resources, and reducing wastes and wastage. But many problems remain regional in nature: for example, in the social field, urban districts and suburbs in difficulty, and the depopulation of rural areas; in the environmental field, the regulation of industrial sites that pollute the soil or the anarchic growth of certain large cities.

The second reason is that solving all these problems, both national and regional, will be easier if solutions are implemented locally. Local solutions guarantee a degree of participation by civil society, since it is easier, at local level, to form partnerships bringing together all the relevant actors. A regional approach, which is by definition multi-sectoral, will undeniably help to build bridges between the various objectives and to reconcile them. Furthermore, a regional approach offers two essential benefits: developing local partnerships fosters greater awareness of the nature and urgency of the problems involved, and the solutions adopted and the priorities chosen will take better account of all the relevant constraints (institutional, financial and fiscal) and objectives (economic, social and environmental, both national and regional).

The third reason is that locating economic activities in regions is not neutral from either a social or environmental viewpoint. As has been seen, each region presents competitive advantages (its territorial capital) whereby a given activity developed in one region rather than another will enjoy greater competitiveness and profitability, and will therefore create more jobs. Moreover, concentrating activities in a given region may present greater ecological risks than in another. But the location of infrastructures is not neutral either: building a motorway or installing power transmission lines, for example — indispensable to regional development — can have an adverse effect on local amenities. One of the greatest advantages of regional policy is precisely this ability to implement solutions reconciling economic, environmental and social objectives.

8. The challenge of new information and communication technologies (ICTs)

The new technologies could significantly alter the advantages enjoyed by regions unless measures are taken quickly with regard to telecommunications infrastructures, enabling these technologies to serve all of a country's inhabitants, in both urban and rural areas.

Indeed, large cities, where capital, know-how and a large proportion of demand are concentrated, which have high-quality infrastructures and where new economy enterprises naturally tend to establish themselves first, could easily take a decisive lead over other territories. Outlying regions and rural areas, not so well-equipped in modern telecommunications infrastructures, could suffer most from this situation. The result could be marked regional divisions, adversely affecting enterprises located in those regions that are least well-equipped in information and communications technologies.

But at the same time, ICTs can be a very important factor for development. Thus, in rural areas, they represent an opportunity to break out of a certain geographical isolation prejudicial to economic development, or to help restart traditional activities and, in some cases, create new ones. If ICTs are used effectively, distance is no longer necessarily a handicap for supplying public services: well-equipped public facilities such as post offices and libraries already make it possible in some countries to complete various administrative procedures and formalities at a distance, on screen. Similarly, some communities have successfully developed distance learning projects, as well as on-line medical diagnosis and the treatment of emergencies.

Moreover, by using ICTs, local SMEs, including tradespeople, can have easier access to new outlets in both national and international markets which would not have been possible without the Internet. Telecentres and telework can also, in certain circumstances, help to create new jobs. With regard to the environment, the development of telework (especially part-time telework) should reduce congestion and pollution in large cities.

However, in addition to the territorial dislocation mentioned above, there is the risk of another division, this time between populations. Access to public services, education, training, documentation and communication with the outside world could well be reserved, initially, to the inhabitants of large towns, or at least to those with the resources to buy computers.

At the same time, ICTs can be important assets as regards social policy. On-line access to public information and services, free electronic kiosks in public places, measures to help disadvantaged social categories (unemployed, handicapped, senior citizens and low-income groups) are some of the ways in which ICTs should be able to help solve certain social exclusion problems.

Lastly, ICTs represent an important potential in the field of governance. They can help increase the transparency of public decisions and financing, help citizens and civil society as a whole to participate actively in decisions concerning them, and lastly exercise control over public measures in general.

From the above, it can be seen that ICTs constitute a real opportunity for urban agglomerations, but this is not the case at all for rural areas. There is indeed a risk that in the absence of appropriate policies, the difficulties experienced by rural areas will worsen, for example through the decline of traditional activities and an ageing population. Solutions include the development of "distance services", *i.e.*, the relocation of disembodied activities (call centres, data processing and software development) made possible by the "network economy".

The first successful examples of such policies in certain regions of North America and Europe show what needs to be done. First, local initiative has to be stimulated, with local projects supported and co-financed as soon as development sustainability has been verified. This implies a certain harmonisation with other territorial policies, such as education and research, so as to ensure the availability of skilled labour for the new enterprises. But the first condition to be met, which is a condition *sine qua non*, is the development of telecommunications infrastructures allowing optimum use of ICTs in all regions.

Conclusion

The first economic policies implemented by states, in the Weberian sense of policies that were "continuous and consistent", were the customs policies associated with the rise of mercantilism in England in the 14th century. Next came public investment policies aimed at providing specific regions and towns with public infrastructure (roads, ports, bridges, etc.), public services (schools and hospitals) and buildings (tax offices, barracks and prisons). Then, sectoral policies were developed, with measures aimed at promoting the development of specific economic sectors such as heavy industry, shipbuilding, transport and agriculture. Later, macroeconomic policies were developed, primarily to regulate demand for goods and services, in particular through monetary and fiscal policies.

Naturally, both public investment policies and sectoral policies could be more beneficial to certain regions, while macroeconomic policy, through taxation, could be used to ensure a certain redistribution of income between territorial units. More recently, among the measures that enable government to regulate the economy, the need has arisen to promote those measures aimed more specifically at limiting the socio-economic disparities between regions and cities and at optimising their development opportunities so that they can achieve prosperity. This need has arisen from a series of factors that this paper has sought to explain, each of which is the result of a specific historical trend. These different measures are now grouped under the heading of "territorial development policy", or more simply "territorial policy".

This policy, as the preceding paragraphs have endeavoured to show, is based on three key principles: endogenous development (aimed at enhancing territorial units' own opportunities for expansion); sustainable development (aimed at reconciling the objectives of economic efficiency, social cohesion and ecological balance) and more accountable governance.

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Part II

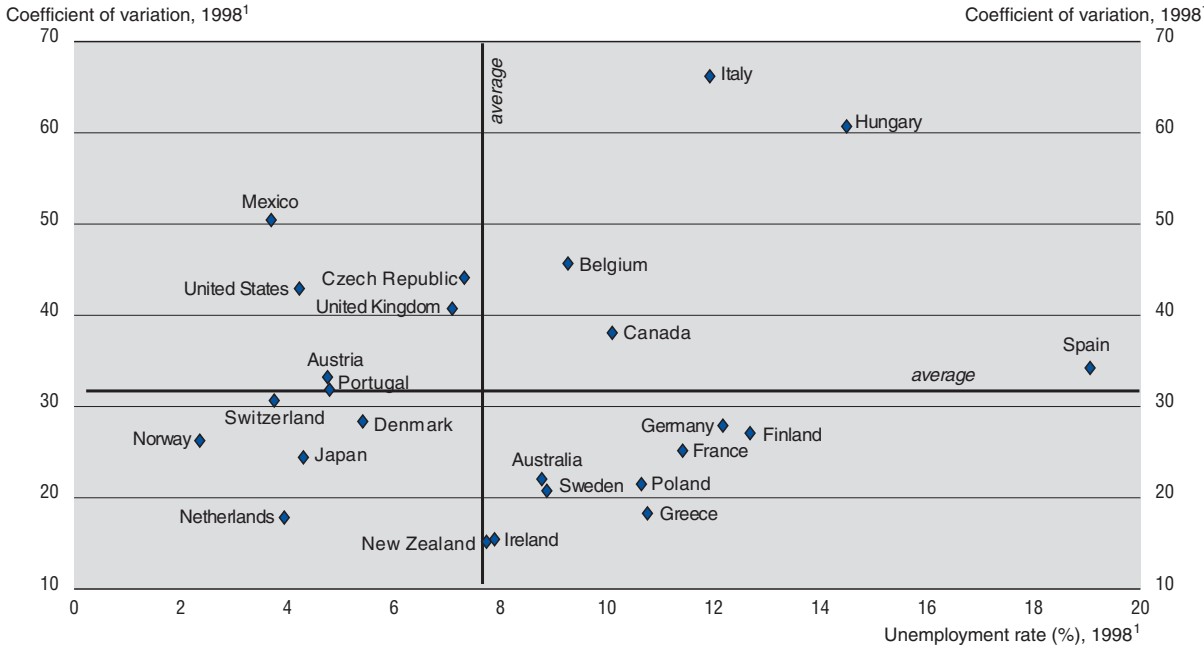
THE GEOGRAPHY OF DIVERSITY: AN ATLAS OF VARIATIONS WITHIN OECD COUNTRIES

INTRODUCTION

Analysis shows that disparities among states are declining and some disparities among regions within states are also declining. However, this convergence is slow and wide disparities remain across states and across regions within states. Thus, the reduction of territorial disparities is becoming a priority for most OECD countries.

In order to understand the processes underpinning territorial cohesion within Member countries[1], it is necessary to exploit regional databases. As Diagram 1 shows, national averages hide the variability across regions within a country. For example, though it has an average unemployment rate comparable with those of Germany and France, Italy has much bigger inter-regional differentials. To take some other examples, Mexico has a similar unemployment rate to that of Switzerland and the Netherlands, but it varies widely from one region to another, whereas it varies only moderately among Swiss regions and only very slightly among regions in the Netherlands. Regional data can thus be exploited to obtain a better understanding of the degree that national average measures hide the need for public policy attention in specific sub-national territorial units.

Diagram 1. **Average unemployment rate and regional disparities**



1. 1995 for Japan; 1996 for Australia, Canada and New Zealand; 1997 for Mexico; 1999 for the United States, Italy and Portugal.
Source: See Annex.

By comparing the average unemployment rate and territorial disparities within that rate, four groups of countries can be distinguished (Diagram 1). The first group consists of countries like Norway, Japan,

the Netherlands and New Zealand, in which the unemployment rate and regional disparities are lower than in most other OECD countries. The second group comprises countries in which the average unemployment rate is relatively low but the regional differentials are high, such as Mexico, the United States, the United Kingdom and the Czech Republic. The third group is composed of countries which combine a high unemployment rate, one that is above the OECD average, with large territorial disparities — Italy, Hungary, Spain, Belgium and Canada. The fourth group comprises countries with relatively high national unemployment rates but with small regional differentials, such as Finland, France, Poland and Greece. However, there is no correlation between the level of the national unemployment rate and the degrees of territorial disparities in unemployment rates — a low national unemployment rate does not correlate with either small disparities or large disparities in the territorial rates of unemployment.

1. Which indicators for evaluating regional disparities?

The choice of a measure or measures of regional disparity is driven by public policy objectives. In most contexts, economic development is the goal. Thus, typical measures are level and growth of output, level and growth of output per worker, level and growth of employment, level and growth of earnings per worker, etc.

Three indicators are used here to portray regional disparities:

— Gross domestic product is traditionally a key indicator for analysing regional performance. However, it needs to be interpreted with much care. On the one hand, the value added assigned to a region is equivalent to the gross income generated by the activities within the boundaries of the region, and cannot be attributed to the region's inhabitants, chiefly because a number of non-resident workers contribute to the region's production.[2] On the other hand, as mentioned earlier, *regional* per capita GDP should be interpreted in combination with other factors such the population trend for example. The reason for this is simple: an increase in per capita GDP is not necessarily synonymous with economic performance, but may simply mean that resident population has fallen faster than the resident workforce has -admittedly a highly unlikely situation because usually job loss leads to population loss.

— The level and trend in unemployment is a measure of the degree to which the objectives of full employment is being met. As for per capita GDP, and for the same reasons, the *regional* unemployment rate should be interpreted in combination with other indicators such as the dynamics of population or employment.

— Population change is a basic indicator of the overall territorial development, since the territorial development policy in many countries aims to prevent the growth or concentration of population in increasingly extensive metropolitan areas and to prevent the desertification and out-migration from certain rural areas. In other countries, workers are encouraged to migrate, often with various labour market adjustment policies, to regions with better job prospects. In this case, a population change indicator will show regional population decline but another indicator (such as unemployment rates, above) may show a positive trend (*e.g.*, declining unemployment rates).

2. Main findings

Each measure of territorial disparities picks up only one dimension. A multi-dimensional approach provides a more comprehensive view of the nature of inter-regional disparities in OECD member countries. The findings were as follows:

Territorial concentration of gross domestic product

Indices of concentration make it possible to gauge the weight of main regions, and thus of major urban regions. The concentration of GPD *in the main region* enables two categories of countries to be identified (Table 1): countries in which the capital region is macrocephalous and the concentration of GDP in that region is over 25 per cent, and countries in which the domination of the capital region is much less marked and the concentration of GDP varies between 9 and 24 per cent.

In order to understand the high concentration of GDP in the capital regions of Hungary, Japan, Austria and France, one only has to recall the centuries-old primacy of Budapest, Tokyo, Vienna and Paris. The high concentration of GDP in the capital regions of Ireland and Greece can be explained by the position of both countries in the development cycle, which in a preliminary catch-up phase is highly polarised. Lastly, physical geography explains to a large extent the very high concentration of population and activities in the main urban region in the south of Sweden, Norway and Finland. Conversely, concentration is relatively low in Germany, the United States, Spain, Canada, Italy and the Netherlands. A common feature of these countries, and which could explain the low degree of concentration, is that the political capital is distinct from the economic capital. Concentration is also low in Poland and the Czech Republic, this being a legacy of the socialist system, which strengthened the weight of regional capitals.

Countries like Hungary, Portugal, Japan, Norway and France, exhibit high degrees of territorial concentration of GDP and large territorial disparities in per capita GDP. But by and large, there is no regular pattern. Countries like Greece, Finland and Australia have a high degree of concentration of GDP in the main region and in the first five regions, but regional per capita GDP differentials are small, overall, compared with other OECD countries. Others such as Mexico and the United Kingdom combine low concentration of GDP with relatively large territorial disparities.

Table 1. **Regional concentration of GDPA in OECD countries**

	Share of first region[b]	Share of first 5 regions[c]	Coefficient of variation of per capita GDP[a]
		1997[d]	
Hungary	42.2	60.9	35.9
Ireland	39.0	64.1	23.8
Greece	37.4	60.9	12.9
Finland	37.3	60.2	22.6
Denmark	32.8	51.8	27.3
Japan	30.8	49.4	30.0
Portugal	30.4	59.0	32.2
Norway	30.0	53.1	33.0
France	29.5	39.5	45.2
Austria	29.1	51.8	30.6
Sweden	25.2	63.0	10.9
Australia	25.0	65.7	18.6
Mexico	23.1	50.9	56.0
The Netherlands	22.3	55.3	11.3
Czech Republic	22.1	44.1	33.0
Switzerland	21.0	58.7	14.0
Italy	20.0	57.0	26.6
Belgium	20.0	46.6	23.1
Poland	19.7	43.6	23.6
Canada	18.5	45.1	14.1
United Kingdom	17.2	26.1	45.9
Spain	16.9	43.9	22.3
United States	10.2	26.6	20.0
Germany	9.0	35.0	26.3
OECD	***25.4***	***50.2***	***31.0***

Notes:

a) For Australia, Canada, the United States and Switzerland: the total household income including social transfer income has been used.
b) For some countries, the regions identified in the Annex have been grouped into functional metropolitan regions to determine the share of aggregate GDP (or aggregate household income) that comes from the largest region.
c) Only the first three regions for Belgium, Denmark, Greece, Ireland, the Netherlands, Poland, Switzerland and the Czech Republic.
d) 1995 for Japan, Mexico and Norway; 1996 for Australia, Canada and Germany.

Source: See Annex.

To sum up, this index shows that, on average, the concentration of GDP is very high in the OECD countries: a ***quarter*** *of national gross domestic product is generated by a single region, which is usually the major metropolitan region in the country, and* ***half*** *of national GDP is generated by the first five regions, which are usually major urban regions.*

Dispersion in unemployment rates

While many OECD countries have exhibited a decrease in their unemployment rate over the past decade, the reduction has often been accompanied by a sharp increase in regional disparities (Table 2). And while nine countries showed a relative decrease in regional disparities, their nation-wide unemployment rates rose concurrently. Lastly, five countries combined an increase in their average unemployment rate with an increase in inter-regional disparities. Canada was the only country to combine a — small — reduction in the average unemployment rate with a reduction in inter-regional disparities.

This indicator thus shows that, in two-thirds OECD countries, regional disparities in unemployment rates are widening. This means that, in a national context of positive employment growth, growth is spatially differentiated; by and large, it is always the same regions that benefit from growth. This polarised pattern shows that positive national growth does not necessarily rebalance growth territorially.

Table 2. **Trend of regional disparities in unemployment during the past decade**

Regional average	Regional disparities: *decrease*	Regional disparities: *increase*
increase	Germany*, Spain, Finland Greece, Italy, Japan Portugal, Sweden, Switzerland	Belgium, France Hungary, Mexico Czech Republic
decrease	Canada	Australia, Austria, Denmark, United States, Ireland, Norway, New Zealand, Netherlands, Poland, United Kingdom

* Former West Germany only

Source: See Annex.

Location of population growth

Population change often provides a good summary of the regions with the best performance and those that are in decline. By **locating** them on a map, we can "see" and understand the processes involved.

In the United States and Canada, some regions show large population gains (over 8%). These regions are not randomly located: in the United States, they are essentially located in the west, south-east and centre-east; in Canada, they are located in the Northwest Territories[3], British Columbia and Alberta (Figure 1a). This confirms that growth processes are spatially specific and that population dynamics depend less on the dynamism of the area itself than on the overall dynamism of a wider territory.

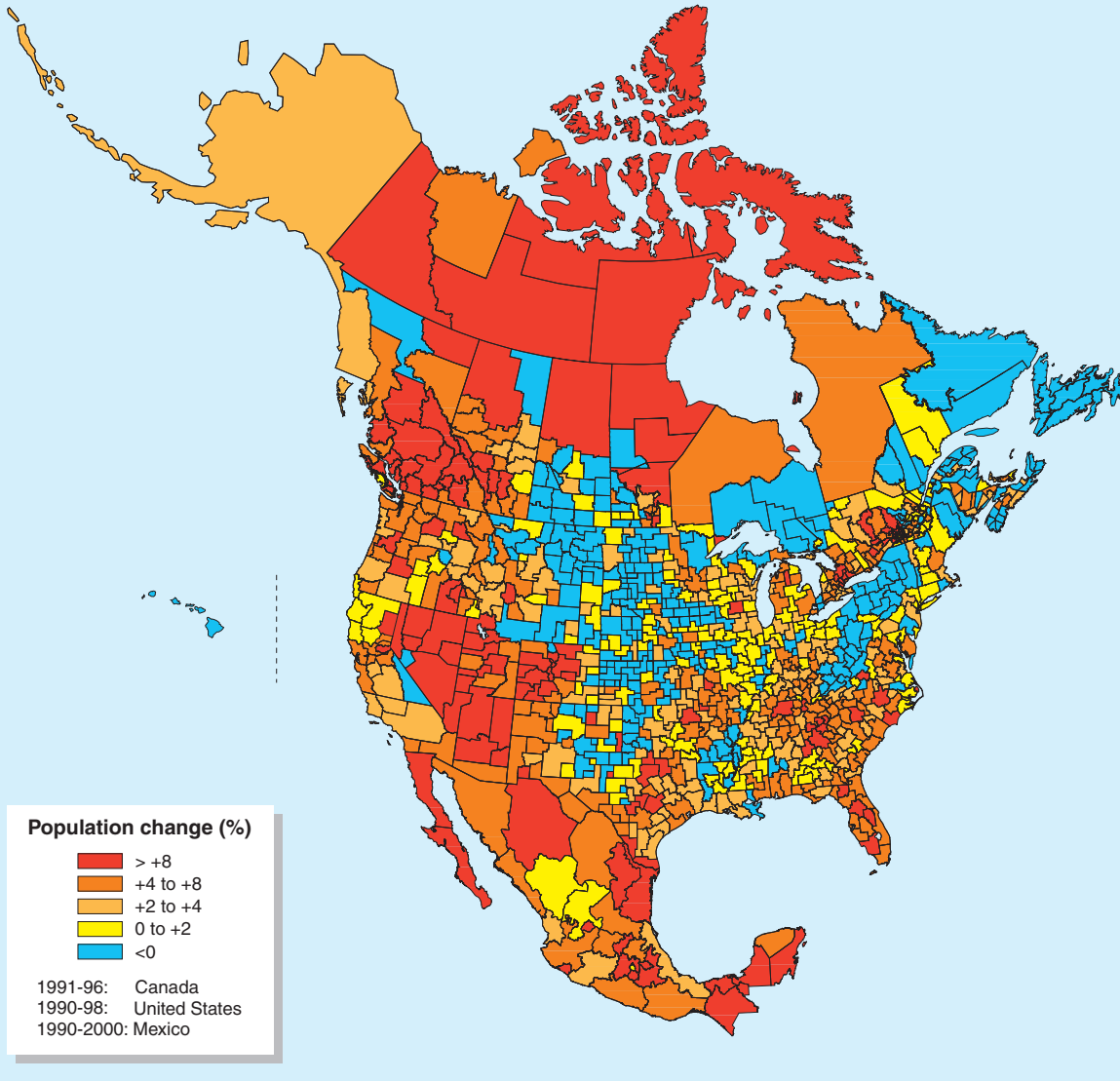
The situation is comparable in several European countries (Figure 1b). In France, for example, the expansion of certain areas in Brittany, the centre-west and the south-east is part of a general expansion affecting all regions of the Atlantic seaboard and the south-east, rather than being specific to those areas. Another phenomenon that is clearly visible in France but that also characterises many OECD countries is the strong population growth in peri-urban areas. This is the case of the *départements* to the west of Paris, which have benefited from the decentralisation in the Île-de-France region. Other examples of such

growth differentials can be given. Recent growth in Ireland — attributable in particular to service companies linked to the new economy — mainly benefits the Dublin area in terms of growth although all parts of Ireland have benefited in less direct ways. In Norway, the growth of the past decade has essentially benefited the urban regions in the south of the country.

In the countries of Asia and Oceania, regional trends are more complex (Figure 1c). While trends in Japan are comparable with those mentioned above, in Australia many remote regions are gaining population.

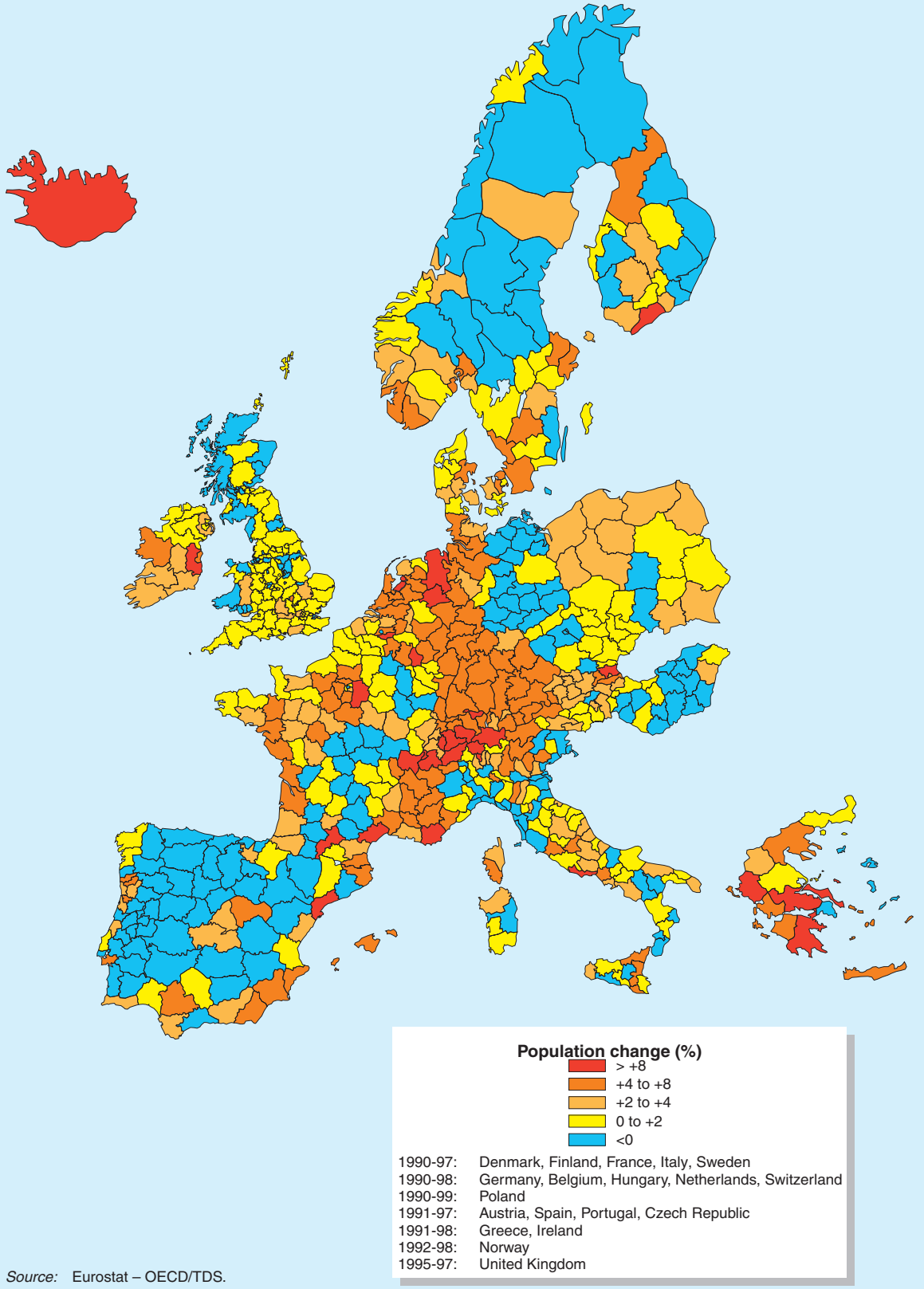
In conclusion, it may be said that, in a large majority of OECD countries, ***regional growth rates are spatially diverse****. Growth tends to occur in the same regions — essentially areas that have some linkage to a metropolitan centre. There are exceptions — mountainous areas and coastlines for example attract specific categories of people. As a result, some parts of national territories, especially areas not adjacent to metro centres, continue to decline, while growth spreads ineluctably in an ever-expanding band around metro areas.*

Figure 1*a*. **Population dynamics of North American regions**



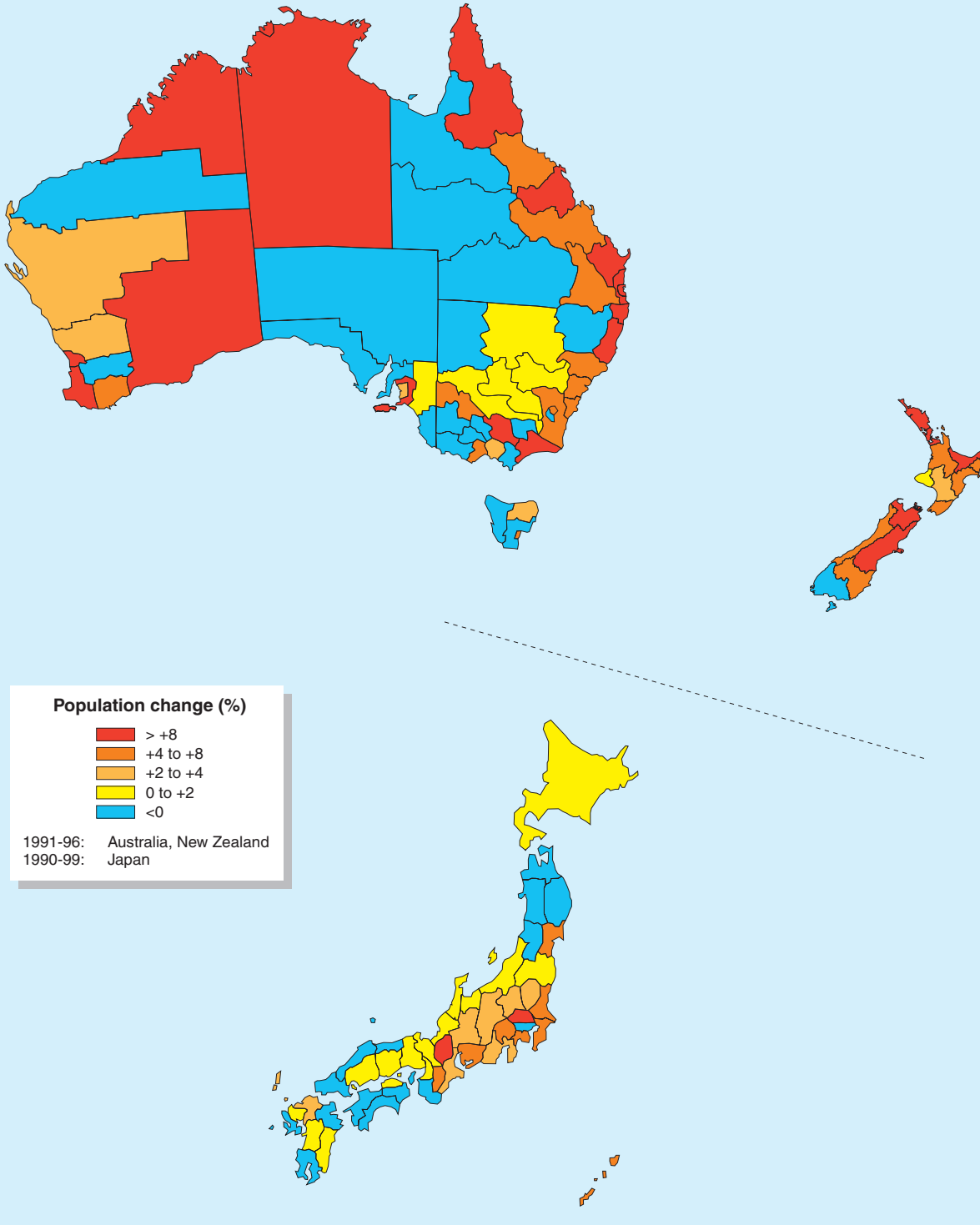
Source: US Census Bureau – Statistics Canada – Instituto Nacional de Estadística, Geografía e Informática – OECD/TDS.

Figure 1*b*. **Population dynamics of European regions**



Source: Eurostat – OECD/TDS.

Figure 1*c*. **Population dynamics of regions in Australia, New Zealand and Japan**



Source: Australian Bureau of Statistics – Statistics New Zealand – Japanese Statistics Bureau– OECD/TDS.

NOTES

1. Twenty-five Member countries are examined. Given the size of Iceland and Luxembourg, these two countries should not be divided into regions for the purposes of international comparison. The data fo Korea and Turkey are in the process of being assessed.
2. In some urban regions, where daily inflows of people who live in other regions increase the local labour supply and productivity, the per capita GDP of the inhabitants of the region is thus overstated, while that of neigbouring regions is understated.
3. The strong population growth in Canada's north is not an indicator of economic performance; rather it is an indicator of a fast-growing Aboriginal population that is facing severe social and economic challenges in finding sustainable livelihoods.

Chapter 2

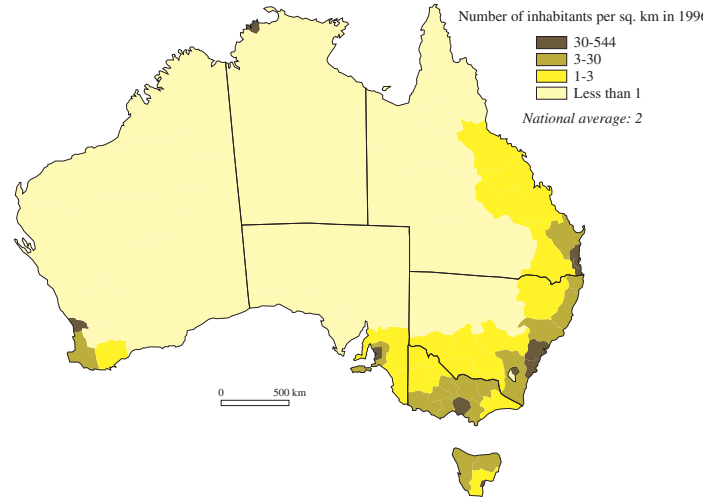
TERRITORIAL DISPARITIES: CURRENT CONDITIONS AND TRENDS

Australia

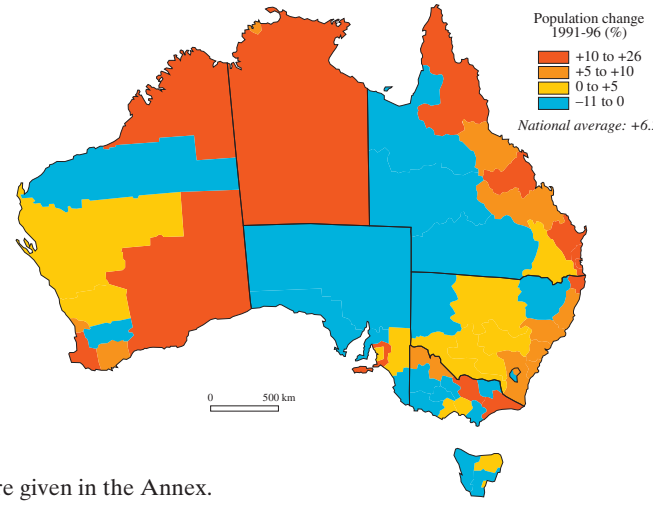
*Australia has a highly urbanised population and the trend has been for large urban areas to grow at a faster rate than the balance of the country, driven by better employment opportunities and higher incomes. Away from the major cities, there is substantive divergence in population and employment growth within regions, with marked falls occurring in areas where agricultural productivity has continued to rise. Where growth is evident in non-metropolitan regions it is being influenced by mining, tourism and other services, particularly in inland and remote Australia.**

As the relative importance of agriculture to the national economy has declined, the proportion of population living in coastal areas has increased. These coastal settlement patterns are driven by retirement decisions, as well as industry, with improved transport also facilitating this trend. The highest population densities are concentrated along a coastal belt in the south-east, from Brisbane to Adelaide, and the Perth area to the far south-west. In the north, Darwin is the

Population distribution



Demographic change

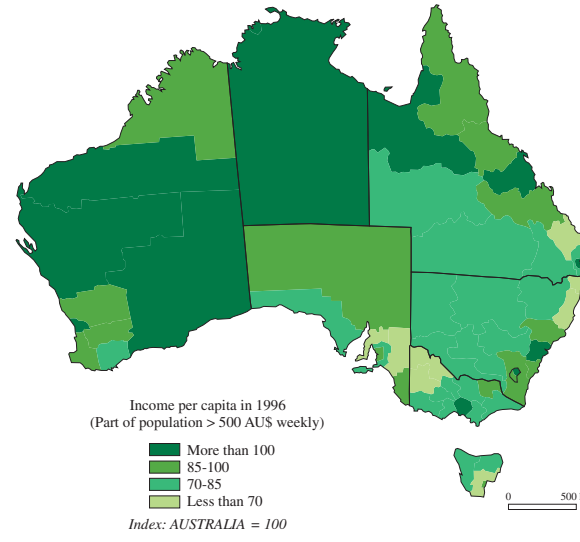


* The territorial grid and the sources of data are given in the Annex.

exception with over 30 people per square kilometre. The population is highly concentrated: 20 per cent live in the metropolitan area of Sydney and nearly six in ten Australians live in the country's five main urban regions, namely Sydney, Melbourne, Brisbane, Adelaide and Perth.

Demographic change between 1991 and 1996 is also variable. On the east coast, it is to the north of Brisbane that the population is growing fastest. The biggest increases, of over 10 per cent, are found in the Northern Territory and some almost deserted part of Western Australia. The outlying areas of the larger cities are recording high growth, and this is particularly visible around Perth, Adelaide and Brisbane. However, it is the major cities that continue to outstrip growth in real numbers leading to continued regional population differentials.

Income distribution



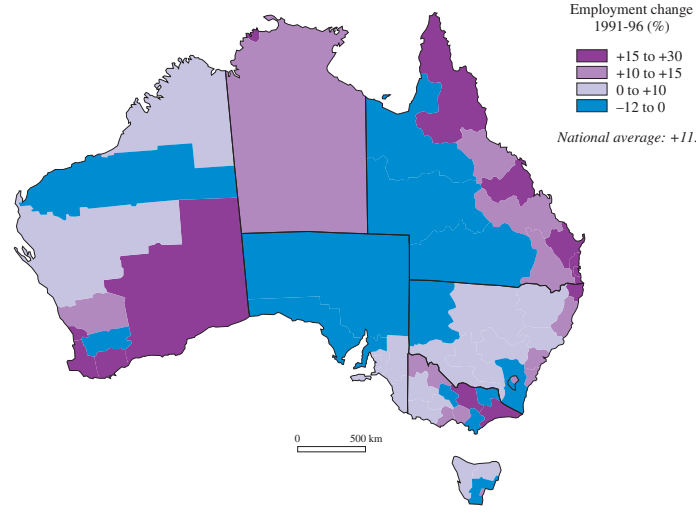
It is in the major urban regions that people with the highest incomes live. High incomes are also evident within the sparsely populated States of Western Australia and the Northern Territory — and parts of Queensland. While the concentration of high value-added service industries explains the relative prosperity of the urban regions to the south of the country, it is mining in Western Australia that provides the local population with comfortable incomes. Also rich in minerals, the Northern Territory produces gold, silver and copper. This income distribution, however, does little to restore the territorial imbalance between the urban regions, and rural and remote parts of the country. One-quarter of the Australian population with the highest incomes (over AU$500 per week) live in Sydney and the five main urban regions have over two-thirds of the more affluent population, indicating the disparity which exists between these regions

Australia: Indexes of regional disparities

	1991	1996	1991	1996
	Density of population inhabitants per sq. km.		*Income per capita* Population with an average weekly income above than 500 AU$ %	
National average	2.1	2.3	22.5	27.2
Median	2.3	2.5	19.1	23.2
Regional maximum	532	541	42.1	44.9
Regional minimum	0	0	10.8	15.5
Coefficient of variation	973	968	20.9	18.6
	Total population		*Income per capita* Population with an average weekly income above than 500 AU$	
Regional maximum (%)	21.0	20.9	25.9	25.0
5 regional maxima (%)	59.7	59.6	65.9	65.7

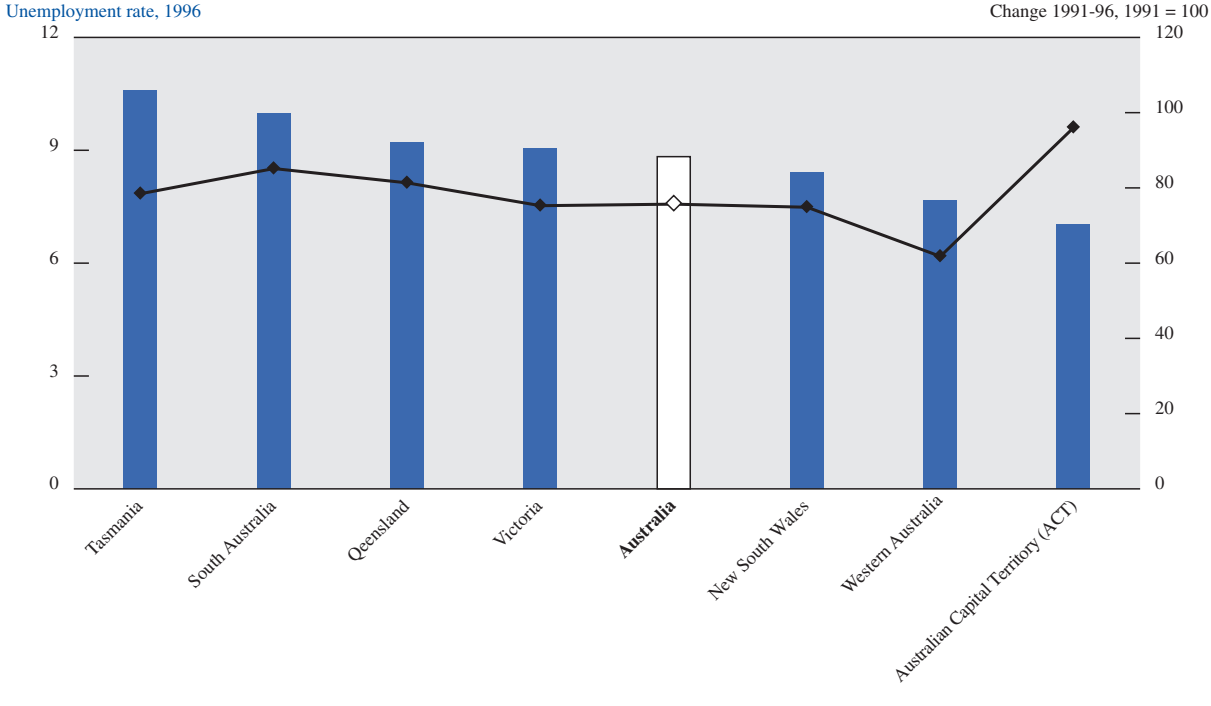
and the balance of Australia. Between 1991 and 1996, these concentrations declined in relative terms. To summarise, then, substantial regional income disparities remained in 1996 but the contrasts are becoming relatively less marked.

Employment dynamics



Employment trends are closely correlated with demographic trends and indicate that territorial disparities may be narrowing despite urban regions recording brisk growth. Coming from a relatively low base, the least densely populated regions to the west, the north and along the north-east coast, job supply increased between 1991 and 1996. High national growth in employment is pushing down unemployment in all the Australian States. The Northern Territory and the State of Western Australia have recorded the steepest falls in unemployment and, in 1996, the lowest rates (fewer than 8%).

Australia: Unemployment change



Austria

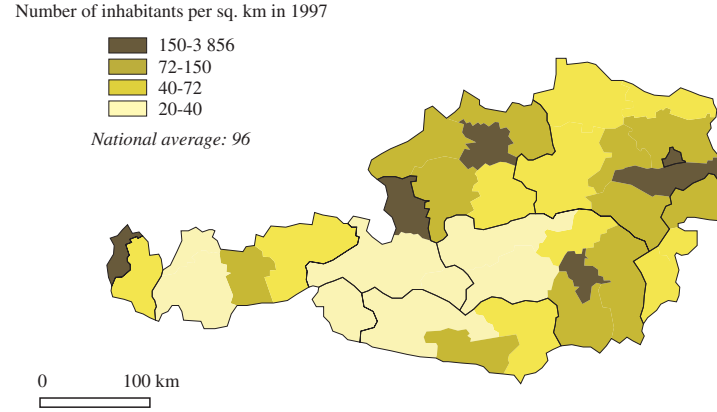
*Over the past ten years, growth appears to have been widespread throughout Austria. Most regions are performing well and some have unemployment rates that are not only very low (3%) but falling sharply. Employment is rising almost everywhere and, in spite of wide regional disparities in growth, there is a very clear likelihood of a relative reduction in the uneven wealth distribution.**

One in five Austrians lives in Vienna and over one in four in the capital or its hinterland. Other settlement areas, with population densities in excess of 150 people per square kilometre, are located mainly in the regions of Linz, Graz and Salzburg. In the mountainous central regions, population density falls to below 40.[4]

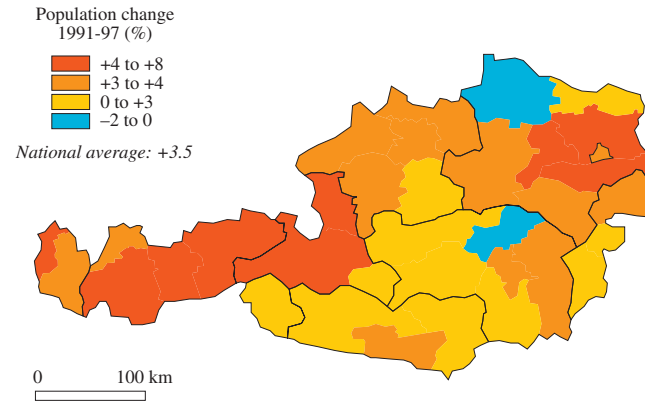
National population growth is relatively high (+3.5%) and the figures for most Austrian regions are on the rise. It is in the west, in Salzburg and the Tyrol and in the regions adjoining Vienna that the sharpest increases are found. Demographic factors, but also retirement migration and tourism largely explain the big increases recorded in western Austria. This new factor may eventually reduce the wide disparities in settlement. Finally, it is in the central Alpine regions that increases are lowest.

The most prosperous regions are the main urban areas and Salzburg. It is in the outlying

Population distribution

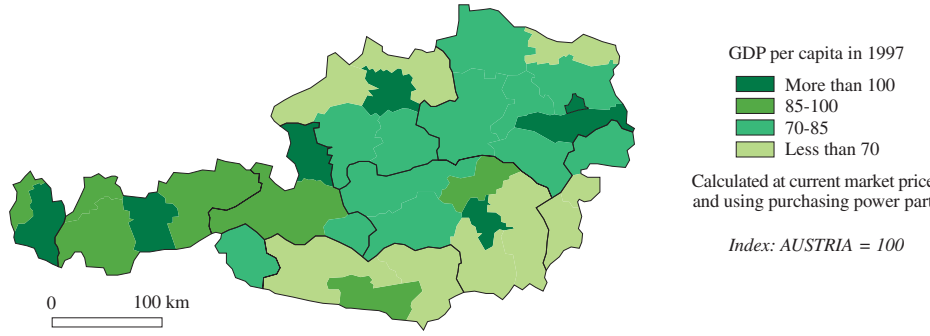


Demographic change



* The territorial grid and the sources of data are given in the Annex.

Gross domestic product



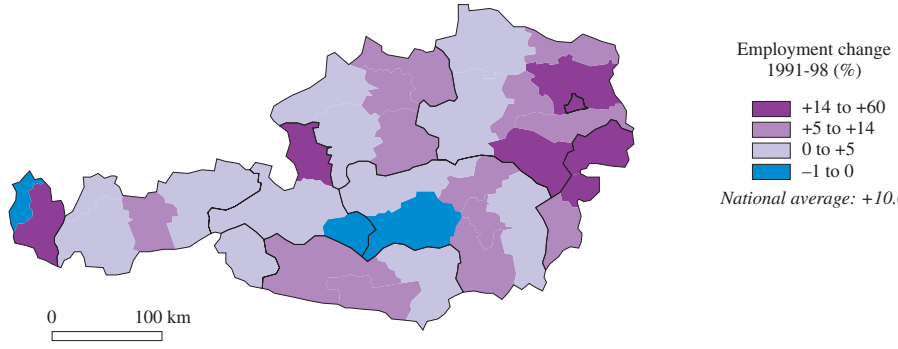
southeastern regions that per capita GDP is lowest. Whereas some 20 per cent of the country's population are concentrated in the Vienna region, the latter account for 30 per cent of GDP. Over half of the country's GDP is concentrated in the five most prosperous regions. However, inequalities in the distribution of wealth are tending to become less marked, as demonstrated by the low coefficient of variation and the stable, even declining, concentration indices between 1990 and 1997. Finally, the fact that the relative increase in the lowest per capita GDP is double that in the highest (the Vienna region) confirms that a degree of balance is being restored.

Employment is growing almost everywhere. The highest increases were recorded in the main urban regions and more specifically along a continuum from the north of Vienna to the south of Graz. A victim of its own growth, the central region of Vienna had the highest rate of unemployment in the country in 1998. Yet over the previous decade, the rate fell by 10 per cent. As for the rest of the country, it is the southern and some touristic parts of the western regions that have seen rates in excess of 4 per cent, while the highest relative increases have been in the Tyrol and the Vorarlberg, furthest to the west. Finally, the regions of Lower Austria, Burgenland and Upper Austria — benefiting from growth in the major cities of Vienna and Linz and more specifically their hinterlands — have both the lowest and fastest falling rates of unemployment. In terms of job supply and unemployment trends, these trends reflect a relative widening of territorial disparities between 1990 and 1998.

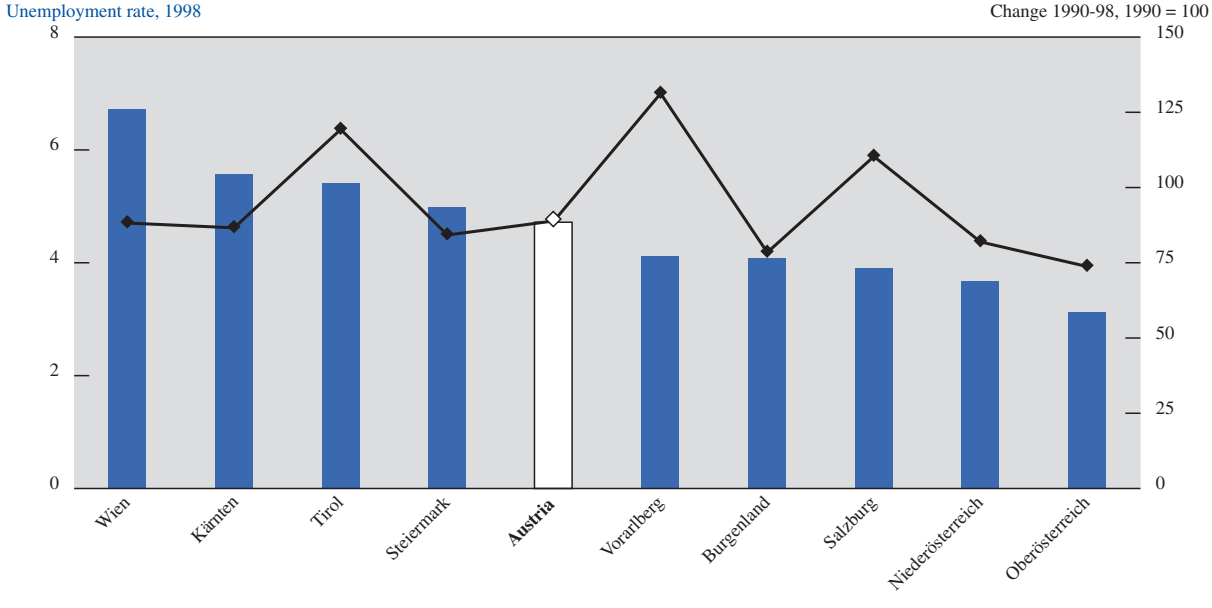
Austria: Indexes of regional disparities

	1991	1996	1997	1991	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	93	96	96	17 076	17 697	18 387
Median	69	70	71	13 311	14 403	15 113
Regional maximum	3 710	3 853	3 856	25 600	26 370	26 963
Regional minimum	20	21	20	8 951	9 355	9 947
Coefficient of variation	282	284	283	32.7	31.5	30.6
	Total population			*National GDP*		
Regional maximum (%)	19.7	19.8	19.8	29.6	29.6	29.1
5 regional maxima (%)	38.4	38.7	38.7	52.4	52.1	51.8

Employment dynamics



Austria: Unemployment change



Belgium

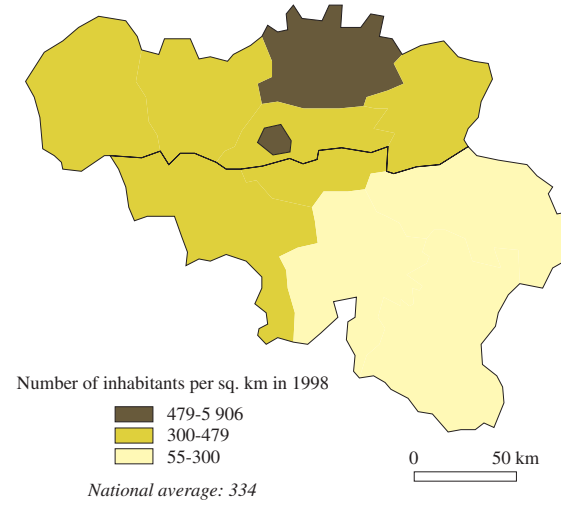
*There were still wide territorial disparities in Belgium in 1998. Over the past decade, however, the inequalities in settlement and productivity appear to have narrowed. This does not apply to employment growth, which is benefiting the Flemish region more specifically. Widening disparities or more even patterns of distribution — the evidence is not clear-cut. By and large, however, the conclusion is that social and economic trends across the country are converging.**

Most of Belgium is very densely populated, with over 300 people to the square kilometre. Only the southeastern part of the Walloon region, from the Ardennes to Namur, has lower densities. The areas around the two largest cities — Brussels and Antwerp — are the most densely populated. Regional disparities are very marked: the density in Brussels is ten times that of Antwerp and the ratio of the densest to the most sparsely populated province is 115. Yet only 10 per cent of the Belgian population live in Brussels, a relatively lower concentration than in other EU Member States.[5]

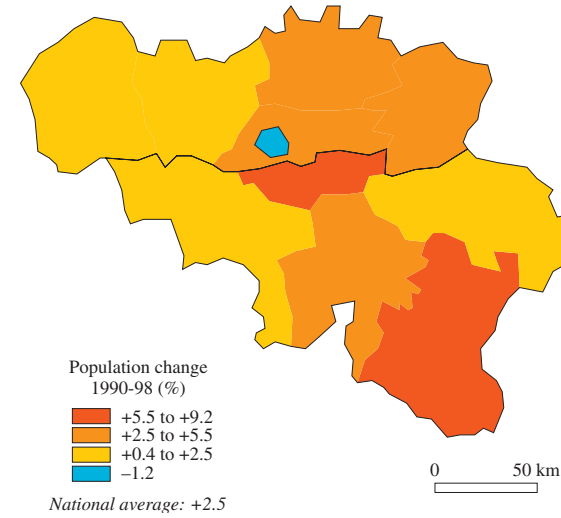
Apart from Brussels, every region has seen its population increase over the past decade. However, it should be pointed out that since 1997 the population of Brussels-Capital has begun to rise again. The sharpest rise was in the Walloon region (over 5.5%). The figures vary quite substantially across the country but this is not widening regional disparities, since the coefficients of variation remained stable or declined between 1990 and 1998.

The provinces of Brussels, Antwerp and West Flanders have the highest per capita GDP, above the national average. This can be put down to the concentration of high value-added

Population distribution



Demographic change

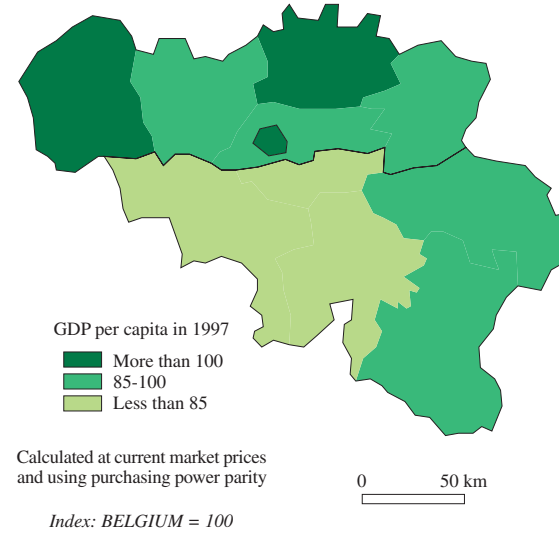


* The territorial grid and the sources of data are given in the Annex.

services and the main European Union institutions in the Belgian capital, the very busy port of Antwerp, and the tourism industry and port activities along the coast.

One-fifth of Belgium's GDP came from Antwerp province, the most productive region, and the three most productive regions generated 46.6 per cent of GDP in 1997. Over the past decade, there seems to have been a slight decrease in the concentration of productivity: in the most productive region it remained the same in 1990 and 1997, while in the top three regions it declined by 1 point. Over the same period, the coefficient of variation moved in the same direction and indicated that regional disparities were narrowing. Consequently per capita GDP was rather more evenly spread at the end than at the beginning of the decade.

Gross domestic product

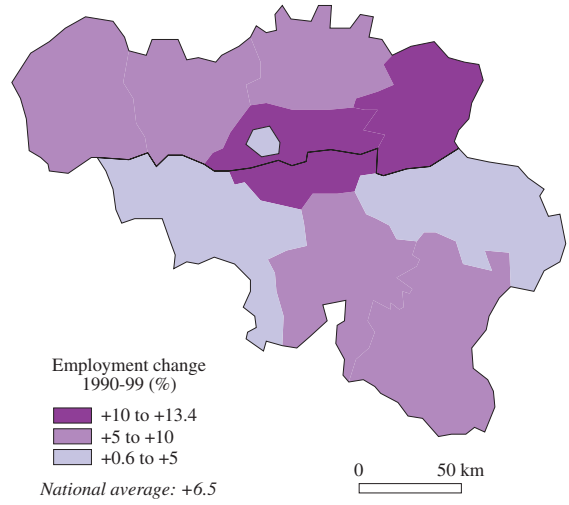


Belgium: Indexes of regional disparities

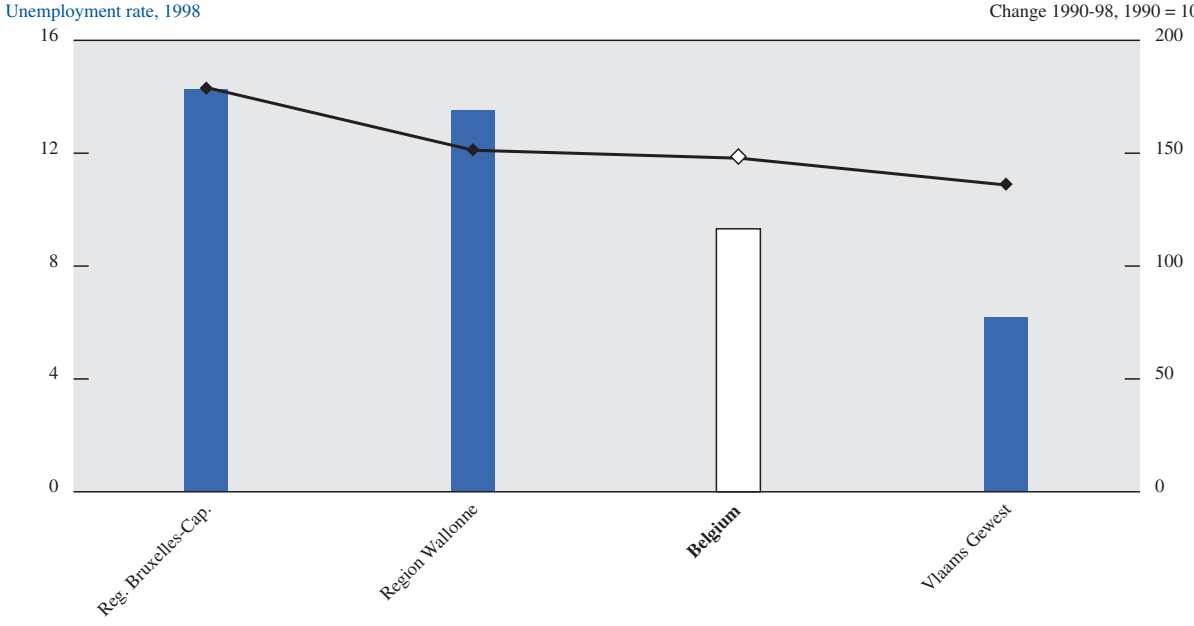
	1990	1995	1998	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	326	332	334	16 669	17 447	18 159
Median	338	340	339	14 948	15 368	16 084
Regional maximum	5 990	5 911	5 921	25 786	26 359	27 555
Regional minimum	52	54	55	12 177	12 589	12 896
Coefficient of variation	135	131	131	24.0	22.5	23.1
	Total population			*National GDP*		
Regional maximum (%)	16.1	16.1	16.1	19.8	19.7	20.0
3 regional maxima (%)	42.3	42.1	42.0	47.6	46.4	46.6

Between 1990 and 1999, employment increased all over Belgium but at a variable pace, which did not prevent erratic differences of varying intensity throughout the period. Growth was slower in the provinces of Liège and Hainaut, the Walloon region and Brussels. This widespread increase has not been large enough to prevent a rise in unemployment. It is in the Brussels and Walloon regions, which have the highest unemployment rates (nearly 14% in 1998), that the rise was sharpest between 1990 and 1998, although the situation has improved since 1996. Over the past decade, the Walloon region has been hard hit by the crisis affecting the traditional industries. Conversely the Flemish region, with a rate well below the national average, recorded the lowest rise in unemployment.

Employment dynamics



Belgium: Unemployment change



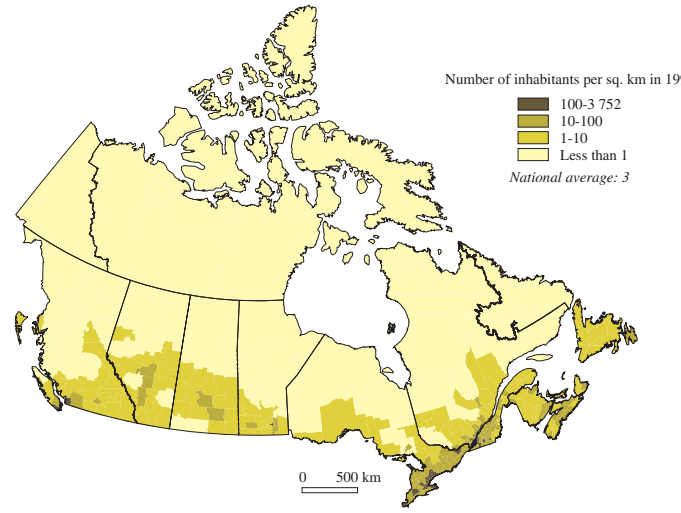
Canada

*In a country with such contrasting patterns of population and economic activity as Canada, most social and economic trends concern regions that are minute compared with the largely deserted vastness of the country as a whole. That said, Canada's economic growth did not benefit every region to the same degree between 1991 and 1996. Even if some regions appear to be making up ground, the leading metropolitan regions are still recording rapid growth. As regional settlement differentials are so wide, these trends will not change the territorial balance at all.**

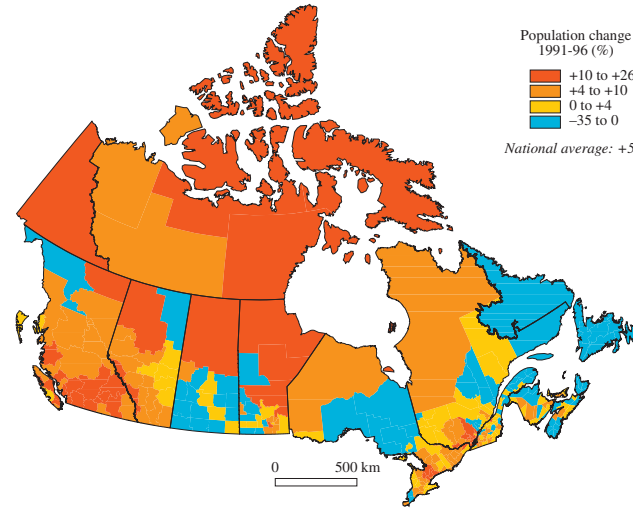
Canada is an underpopulated country. With less than one person per square kilometre, most of the country is virtually uninhabited. The majority of the population is concentrated in the south, near the border with the United States. The main settlement area runs along the Saint Lawrence valley, which has Canada's two largest cities, Toronto and Montreal, and the federal capital Ottawa. Elsewhere, only the capital regions of the southern provinces have relatively high densities. In 1996, 16 per cent of the population lived in Toronto and over four in ten Canadians lived in one of the five main metropolitan areas, *i.e.*, Toronto, Montreal, Vancouver, Edmonton and Ottawa.

Demographic trends between 1991 and 1996 seem to have narrowed uneven settlement patterns. While in the most sparsely populated northern areas — the Northwest Territories and the Yukon — population is growing (>10%), some densely populated regions in the south, the Maritimes, much of Ontario and

Population distribution



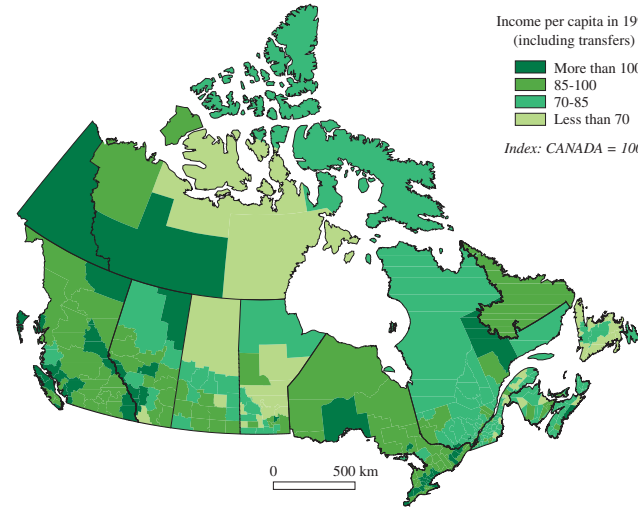
Demographic change



* The territorial grid and the sources of data are given in the Annex.

southern Saskatchewan in particular, are seeing their populations decline. This broad readjustment is only relative in that, at the same time and on another scale, the urban fringes continue to attract a large number of people and sprawl further outward. The share of Canada's population in Toronto which is Canada's largest urban region has increased over time (by 1.3). Although over the past ten years regional settlement disparities have globally remained the same, or narrowed in relative terms as the slightly smaller coefficient of variation shows, there are larger growth differentials between urban and rural areas and between the north and south of the country.

Income distribution



Income patterns show that Canada is a country in which two provinces — the central province of Ontario and the pacific-coast province of British Columbia — are relatively more affluent compared to the Prairie Provinces of Manitoba and Saskatchewan and compared to the four Atlantic Provinces. The situation in Quebec is worthy of note. Its inhabitants are on average less affluent than in neighbouring Ontario. It is in the metropolitan regions that people average the highest incomes. In 1996 nearly 19 per cent of Canada's income was concentrated in Toronto, while the five most affluent urban regions accounted for 45 per cent of the total. Areas with high incomes in the sparsely-populated northern regions are associated with government employment in the capital cities of Whitehorse, Yukon Territory and with Yellowknife, Northwest Territories). High wages paid in the mining sector are another contributing factor. This is part of a global re-adjustment in territorial disparities, as can be seen from the decreases in the coefficient of variation and in the share of the most prosperous regions between 1986 and 1996.

Regional employment trends are closely correlated with demographic trends. Vast areas of Canada reported employment declines in the 1991 to 1996 period, consistent with the on-going de-population of many areas in Canada. Employment decline is associated with regions where machines are being substi-

Canada: Indexes of regional disparities

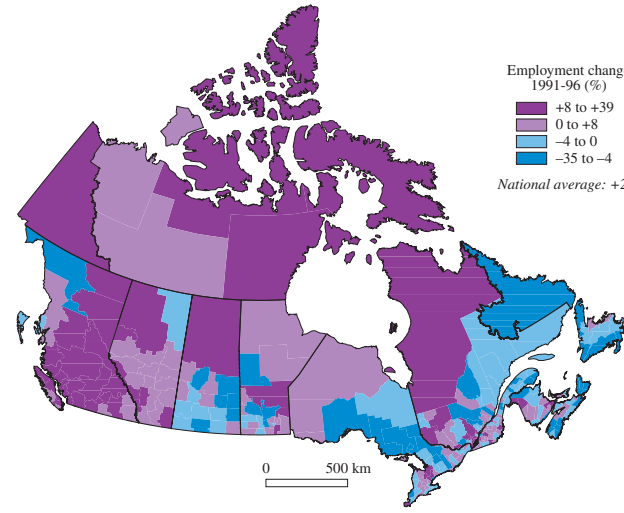
	1986	1991	1996	1986	1991	1996
	Density of population inhabitants per sq. km.			*Income per capita* current CAN$		
National average	2.7	2.9	3.1	12 445	17 271	18 473
Median	7.8	7.9	8.1	10 392	14 558	15 888
Regional maximum	3 501	3 579	3 752	16 964	23 748	25 934
Regional minimum	0	0	0	4 641	5 608	6 681
Coefficient of variation	1609	1563	1538	17.5	16.2	14.1
	Total population			*Total income*		
Regional maximum (%) [b]	14.8	15.6	16.1	18.1	19.0	18.5
5 regional maxima (%) [b]	39.4	40.7	41.4	44.8	45.7	45.1

a) at census divisions level.

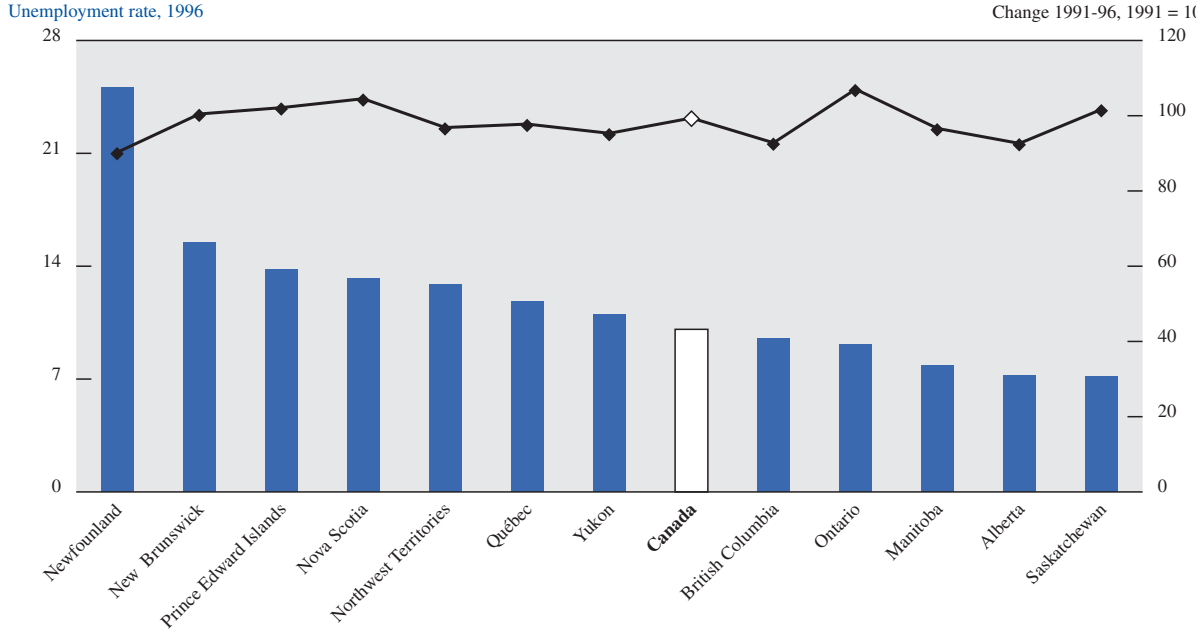
b) Each metropolitan region is represented by a grouping of a few closely integrated census divisions : Toronto (5 census divisions), Montreal (15), Vancouver (3), Edmonton (1) and Ottawa (4).

tuted for labour in primary industries (agriculture, logging, fishing and mining) and new exports are not being developed at a sufficient pace to stabilise employment levels. Thus, we see employment declines in many parts of the Atlantic Provinces, in eastern Québec, in northern Ontario and in the agricultural zones of Saskatchewan and Manitoba (in areas outside the commuting zones to major centres). However, employment growth is relatively high in the northern territories and in most northern census divisions in the provinces — this growth is associated with high Aboriginal birth rates in recent decades. Employment growth in the social services sector (education, health and government sectors) is the main source of jobs. Employment remains concentrated in major metropolitan centres, although the commuting zone is expanding gradually as workers search for a rural lifestyle to go with their metropolitan job. This is particularly noticeable north of Montreal and north of Toronto, but is generally the case around all metropolitan centres. Unemployment rates remain high in each of the Atlantic Provinces whereas unemployment rates remain low in each Prairie Province. The Alberta and British Columbia economies are growing which causes their unemployment rates to be low. Manitoba and Saskatchewan have maintained low unemployment rates, in part because their unemployed workers move. Many unemployed workers in the Atlantic Provinces move to the job opportunities in Ontario and in Alberta, but the rate of mobility is not sufficient to lower the unemployment rates. In this sense, the disparities in unemployment rates continue to persist among Canadian regions.

Employment dynamics



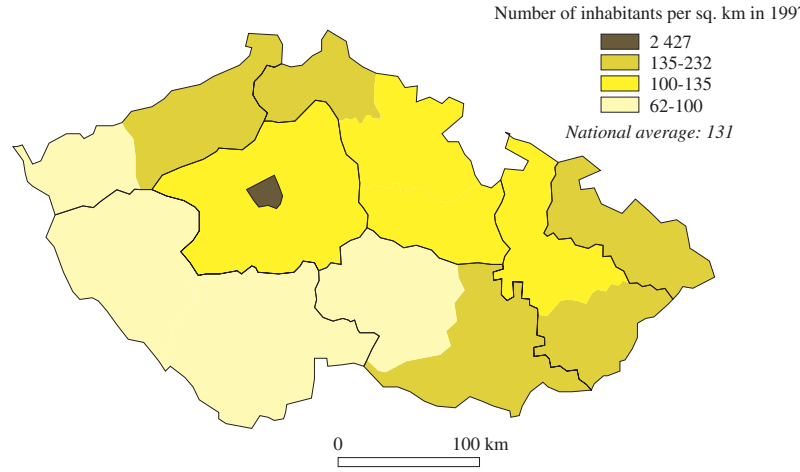
Canada: Unemployment change



Czech Republic

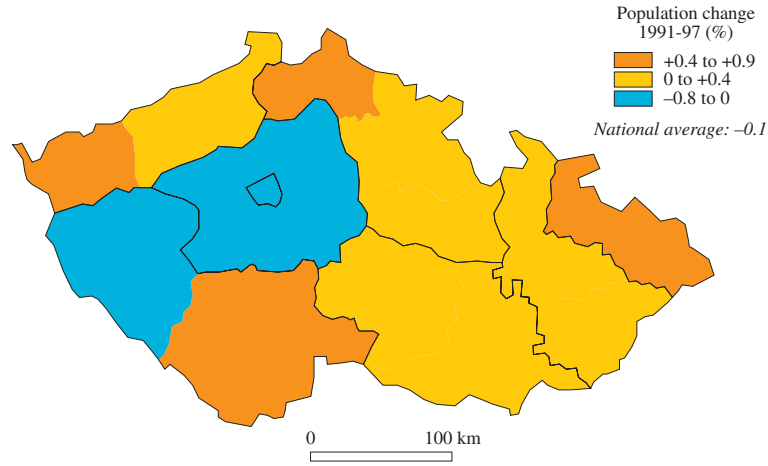
*The transition of the Czech Republic to a market economy has been accompanied by a serious reduction in the number of jobs and a substantial increase in unemployment. Two regions, in which the highest per capita GDP is concentrated, seem less affected by the decline: the Prague and Plsen regions. The northwestern and south–eastern regions are the most deprived. This process is tending to increase regional disparities both in the medium term (10 years) and the very short term (2 years).**

Population distribution



The distribution of the population is such that there are high, above-average densities in the North and in the Southeast, around the towns of Brno and Ostrava. The Prague district has the highest density with more than 2 000 inhabitants per km^2, and in 1997 more than 12 per cent of the Czech population was concentrated there. The lowest densities are in the Southwest.

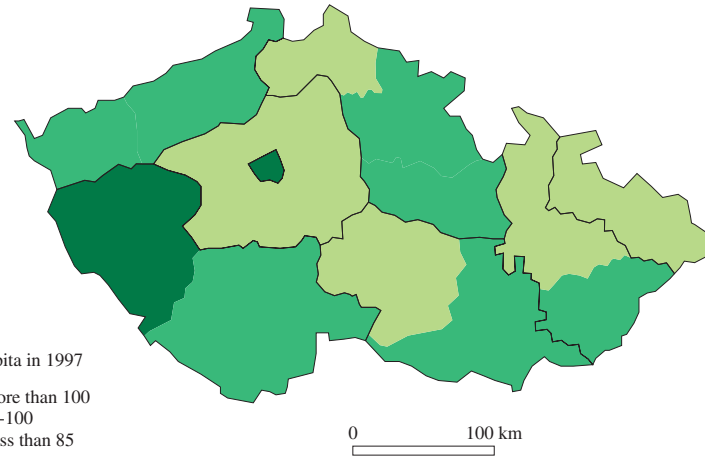
Demographic change



Demographic change is fairly slight in the regions as a whole. There has been a drift away from the Prague and Plsen regions, whereas the populations of four border regions have been increasing. The dynamics of this change are not affecting the population balance, which seems to have been established since 1991. The concentration of the population in the Prague region, as in the three most popu-

* The territorial grid and the sources of data are given in the Annex.

Gross domestic product



Calculated at current market prices and using purchasing power parity

Index: CZECH REPUBLIC = 100

Czech Republic: Indexes of regional disparities

	1991	1995	1997	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	131	131	131	10 105	10 630
Median	121	121	121	9 048	9 416
Regional maximum	2 446	2 443	2 427	18 538	20 111
Regional minimum	62	62	62	7 860	8 295
Coefficient of variation	145.1	144.5	144.0	31	33
	Total population			*National GDP*	
Regional maximum (%)	11.8	11.7	11.7	21.5	22.1
3 regional maxima (%)	35.3	35.3	35.2	43.6	44.1

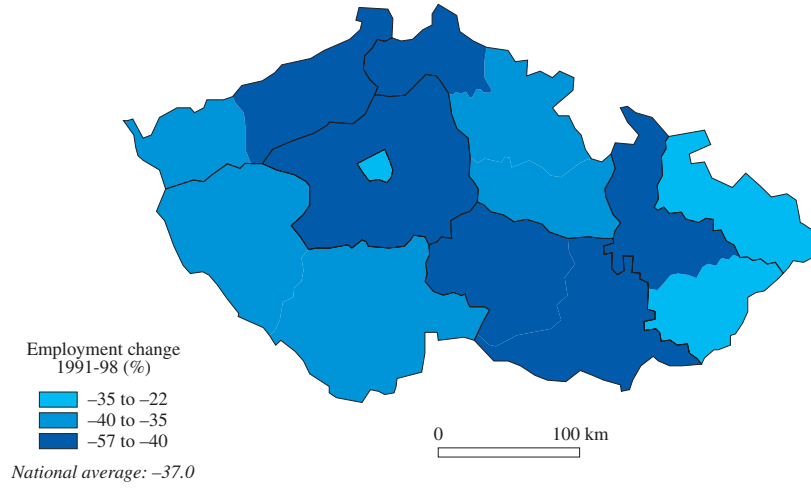
lous regions, is stable; the same is true of the regional distribution of the population, as the stability of the coefficient of variation shows.

The per capita GDP is above the national average in two regions: those of Prague and Plzensky. The position of Prague is due to its exceptionally high level of tertiary activity with high added value, that of Plzensky to its substantial industrial heritage as well as recent foreign investment. Wealth per capita Prague is twice that of the population; in 1997 nearly 12 per cent of the population was concentrated in Prague, and it accounted for more than 22 per cent of GDP. The three richest regions alone produced 44 per cent of GDP. Over a very short period, between 1995 and 1997, the trend was towards greater concentration of wealth and an increase in territorial disparity, as the change in the coefficient of variation

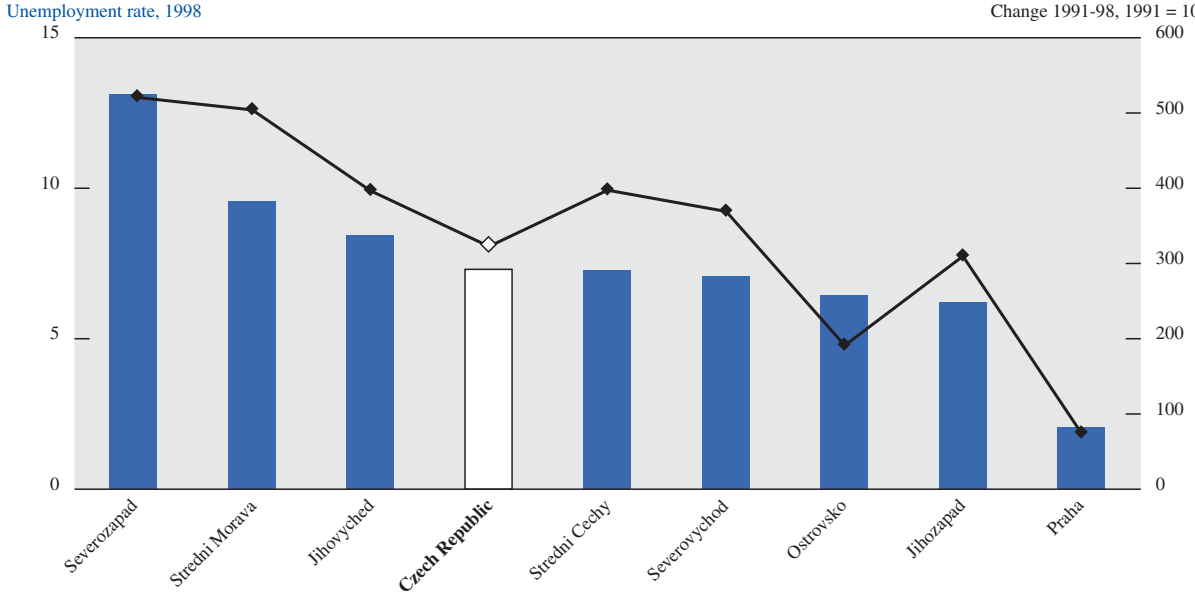
shows. The regions bordering on Prague and those to the East are the most deprived, with an index fifteen points below the national average.

Over the past decade, during which the transition to the market economy has occurred, employment has fallen sharply throughout the Czech Republic (-37%). The most serious job losses, greater than –40 per cent, have occurred in the diagonal strip between the Northwest and Southeast; Prague has been spared, however, registering the lowest fall in employment. The eastern regions, notably Moravia with the towns of Brno and Ostrava, were also among those with the fewest job losses between 1991 and 1998. If we exclude the Prague region, unemployment throughout Czech territory rose steadily over the same period. The regions most affected, with unemployment rates more than doubling, have been in the Northwest and the Southeast.

Employment dynamics



Czech Republic: Unemployment change



Denmark

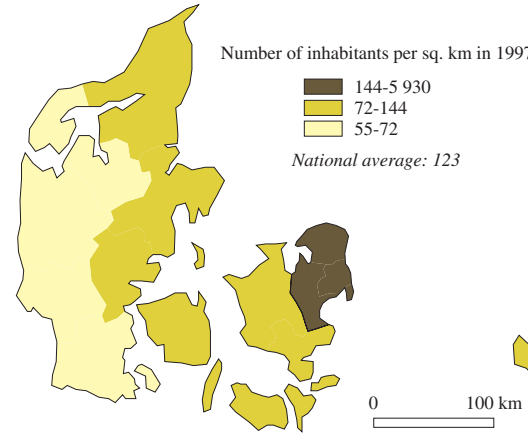
*By and large, Danish growth is relatively evenly spread across the country and irons out inequalities. Employment and unemployment trends support this. It is only wealth distribution that showed the persistence, in 1997, of huge disparities between the metropolitan region of Copenhagen, where most of the high value-added jobs are concentrated, and the rest of the country.**

With nearly 6 000 people per square kilometre, the metropolitan region of Copenhagen is 5.5 times more densely populated than Denmark's second largest region and 107 times more than the most sparsely populated region, Ringkøbing in Jutland. Nearly one-quarter of the Danish population lives in the capital region and, by and large, density declines steadily on a gradient from east to west.

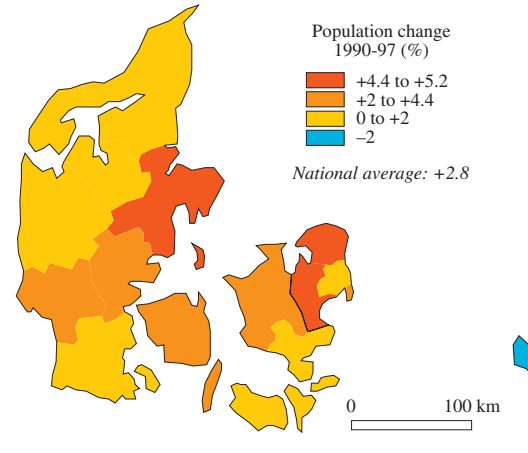
The population is growing almost everywhere. Only the small island of Bornholm in the Baltic Sea is seeing its population decline. In the main urban regions, the population has expanded most in the past decade: the increases are well above the national average in the hinterland of Copenhagen and in the Århus region. From 1990 to 1997 the north and west of the Jutland peninsula registered the smallest increases (between 0 and 2%).

The capital region is the only one whose GDP exceeded the national average in 1997. It accounts for nearly one-third of the nation's wealth and, with the Århus region, generates over half. This concentration has grown markedly since 1990. While population trends are not accentuating regional disparities, the steep increase in the coefficients of variation for per capita GDP and the considerable increase (up 35%) in per capita GDP in the capital region are proof of widening regional disparities in wealth, to the detriment

Population distribution



Demographic change

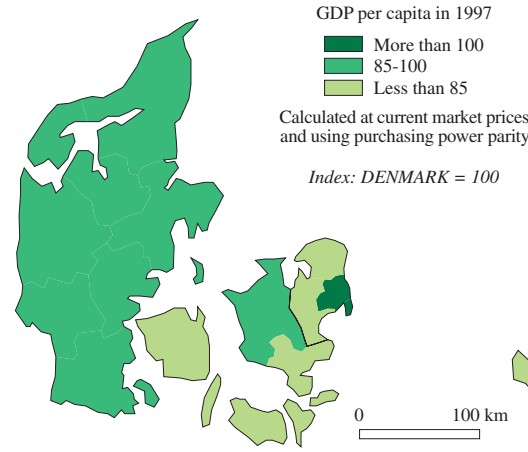


* The territorial grid and the sources of data are given in the Annex.

of the most depressed regions. The ratio of the wealthiest to the poorest region rose from 1.8 in 1990 to 2.5 in 1997.

Over the past decade, the number of jobs has been rising nearly everywhere and unemployment is falling appreciably in Denmark. Only the centres of the metropolitan region of Copenhagen and the island of Bornholm have seen their job supply decline. The Copenhagen hinterland and the?rhus region have recorded the highest increases. In 1998 unemployment rates were low, consistently under 6.5 per cent, and regional differences in them only minor. And changes in these rates were likewise low. With regard to job supply and unemployment rates, then, there are only small disparities between the different parts of the country.

Gross domestic product

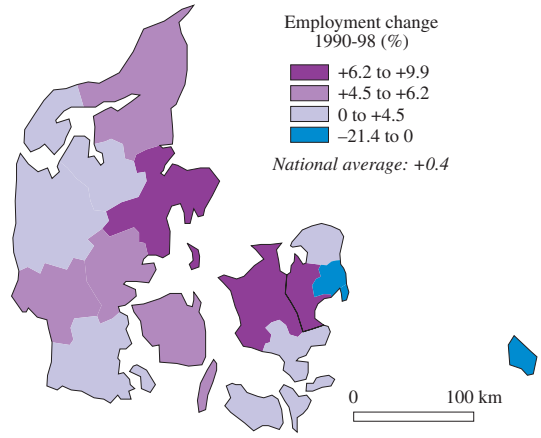


Denmark: Indexes of regional disparities

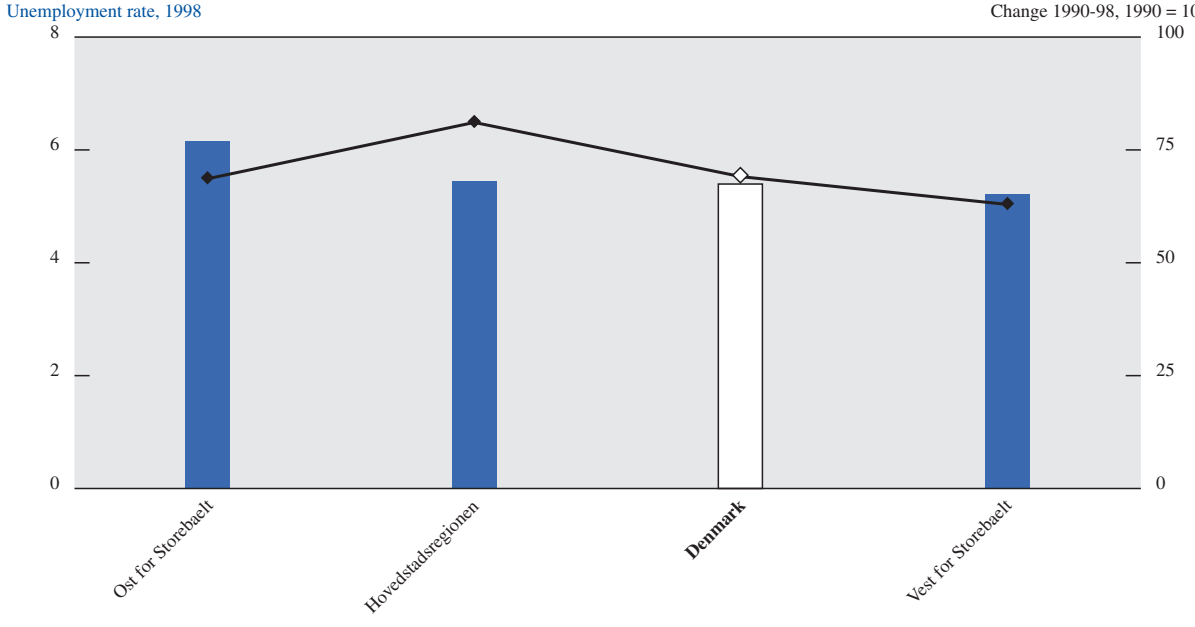
	1990	1995	1997	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	119	121	123	17 091	18 996	20 036
Median	95	97	98	15 772	17 185	17 989
Regional maximum	5 686	5 784	5 930	24 557	32 279	33 121
Regional minimum	55	56	56	13 038	13 046	13 610
Coefficient of variation	245	245	247	20.2	28.0	27.3
	Total population			*National GDP*		
Regional maximum (%) [a]	22.4	22.3	22.4	30.2	32.6	32.8
3 regional maxima (%)	43.5	43.5	43.7	49.8	51.6	51.8

a) The regions of Copenhagen and Copenhagen And Frederiksberg have been merged to form the capital region.

Employment dynamics



Denmark: Unemployment change

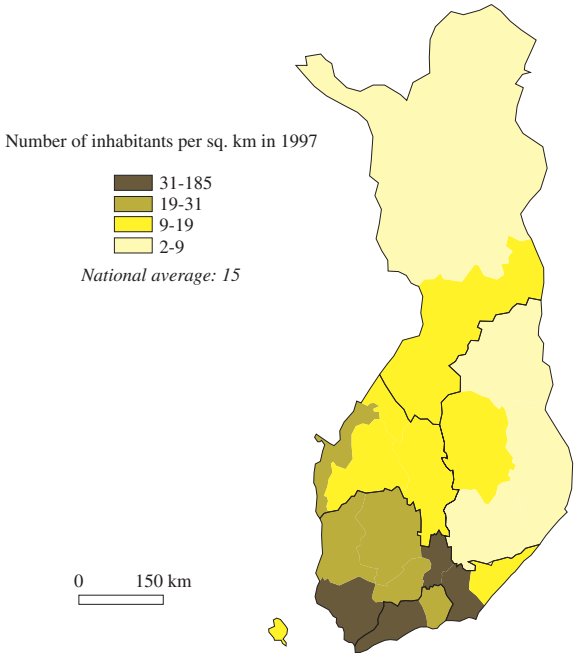


Finland

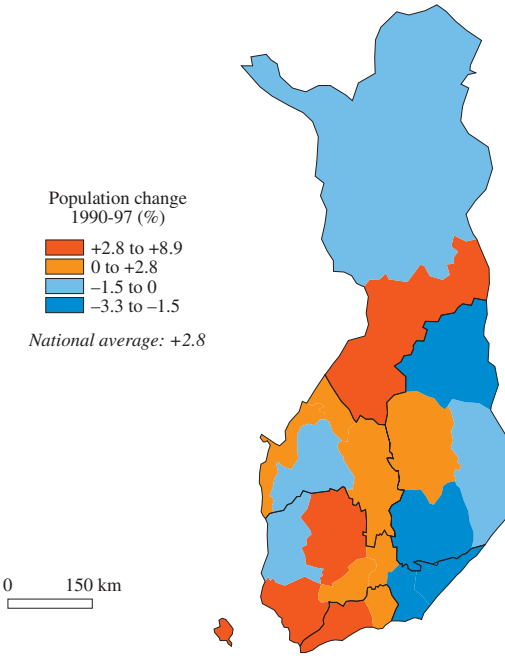
*Over the past decade, Finland has first experienced a recession resulting in steeply rising unemployment and a shrinking job supply. After recession Finland's economy has grown very rapidly, especially IT-based export industry. However, this has not affected every region in the same way. The regions on the border with Russia and in the far north have been the hardest hit. At the same time, wealth has tended to become more concentrated, particularly in the capital region (Uusimaa), and this led to a general widening of territorial disparities. The latest phase in Finnish regional policy resulted from Finland's accession to the European Union: 1995.**

The distribution of Finland's population reflects the pattern common to all the Scandinavian countries, namely low population density and a growth gradient declining from south to north. Half of the 20 regions have often population densities of less than 16. The Arctic region in the far north has fewer than 2 people per square kilometre, while most of the population is concentrated in the main urban regions of the south. One-quarter of the Finnish population lives in Uusimaa region and almost one Finn in two lives in the five densely populated southern regions.

Population distribution



Demographic change

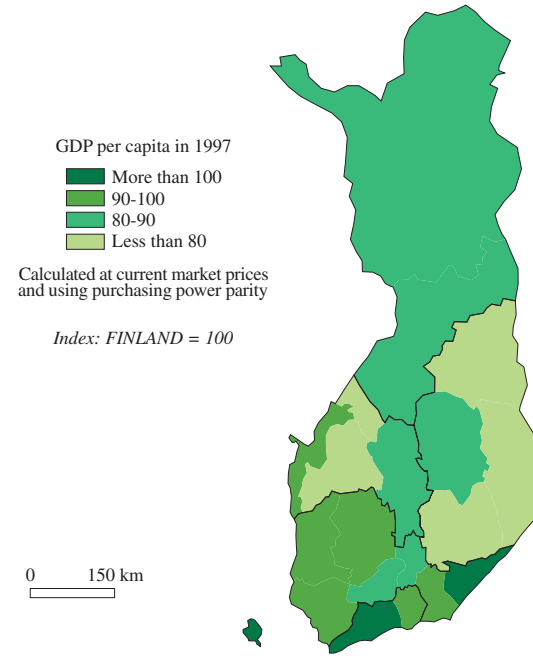


* The territorial grid and the sources of data are given in the Annex.

The north and the regions along the border with Russia have seen their populations decline, while the regions around the four main cities — in the southern Finland Helsinki, Turku, Tampere and in the northern Finland Oulu — and their hinterland have seen theirs expand over past decade. The main reason why Oulu has managed so well, despite it's northern position, is area's booming IT-industry.

It is in the regions along the border with Russia that GDP is lowest. The far north is less depressed. About half of the nation's wealth is concentrated in the south's five main urban areas and the figure rose by nearly 2 percentage points over the period 1995-1997, whereas demographic concentration rose by only 0.4 points. This makes the situation of the population in the more depressed regions even more vulnerable. One figure corroborates this: between 1995 and 1997, per capita GDP rose by 10.4 per cent in the Uusimaa region, but by only 0.5 per cent in the Kainuu region on the border with Russia.

Gross domestic product

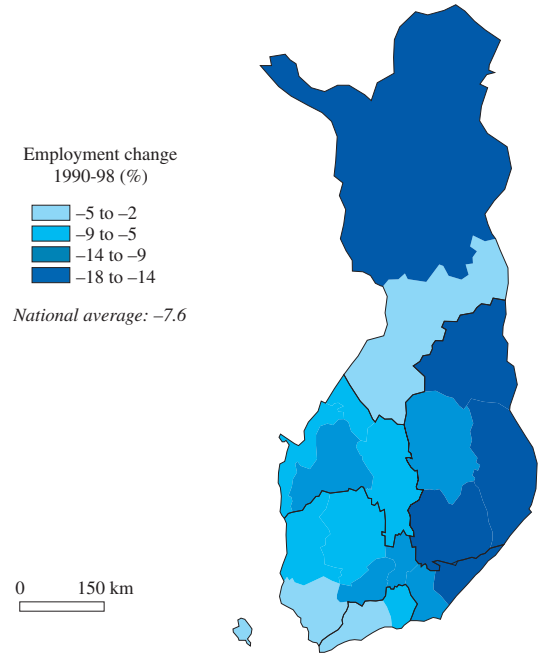


The economic problems facing Finland also affect the various regions differently. From 1990 to 1998 the Arctic northern region and the regions along the border with Russia saw the sharpest falls in the number of jobs and the highest rates of unemployment. The smallest relative decreases in employment — below the national average — are found in the three main urban sub-regions: Helsinki (in the Uusimaa region), Turku (in the Varsinais-Suomi region) and Oulu (in the Pohjois-Pohjanmaa region). Paradoxically, this might explain why they seen the highest increases in unemployment: these sub-regions become attractive as a refuge for job-seekers at times of crisis, but cannot cope with the influx and see their rates of unemployment rocket (over 300% in the Uusimaa region).

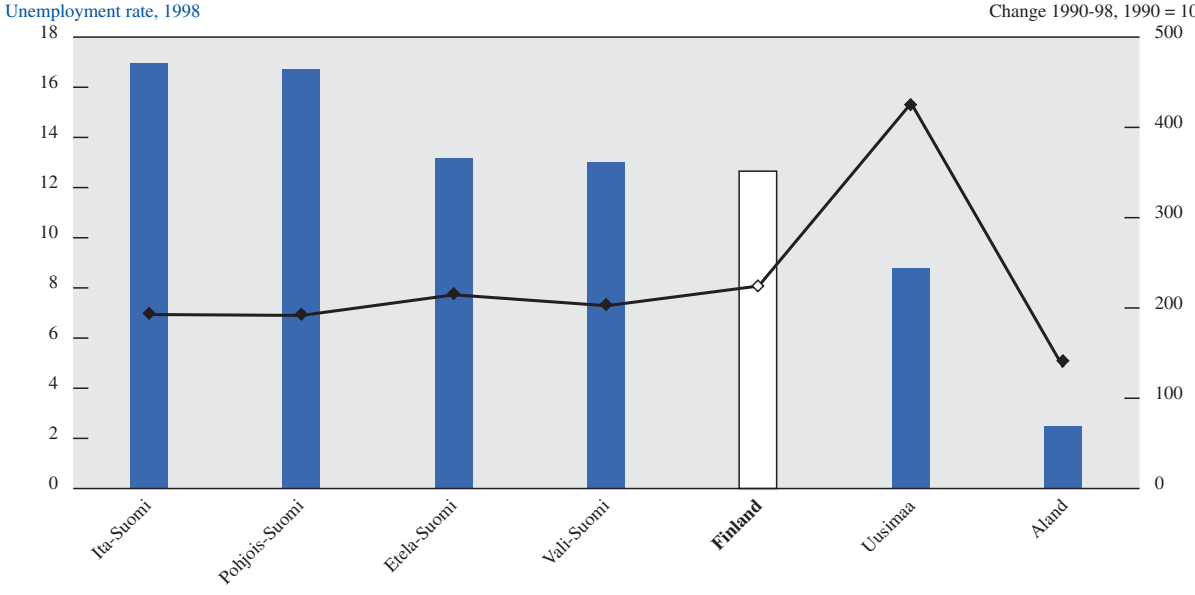
Finland: Indexes of regional disparities

	1990	1995	1997	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	15	15	15	15 379	16 777
Median	16	16	16	14 241	15 002
Regional maximum	170	181	185	20 911	23 084
Regional minimum	2	2	2	11 668	11 724
Coefficient of variation	165	171	173	19.8	22.6
	Total population			*National GDP*	
Regional maximum (%)	23.0	23.9	24.3	31.7	33.4
5 regional maxima (%)	52.0	53.0	53.4	58.3	60.2

Employment dynamics



Finland: Unemployment change



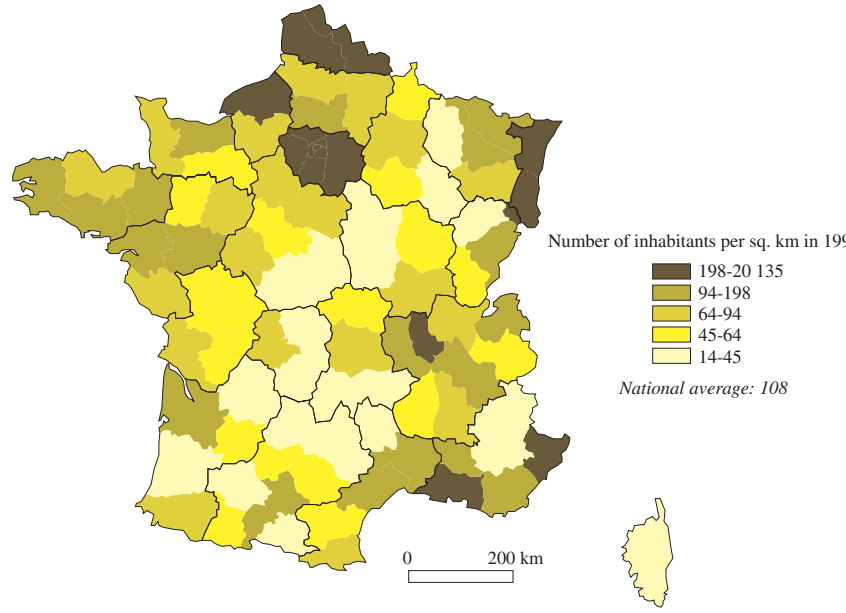
France

*French growth is not evenly spread across the country. High growth remains concentrated in the cities, along the coast and in southern areas, while the most depressed regions are rural or the former industrial areas of the north and northeast. Compounding these disparities is the strong domination of the Paris area, which alone accounts for some 30 per cent of the country's wealth. However, recent trends show that this situation is changing, with higher growth and more rapidly expanding employment in the regions of the west and southwest than in Ile-de-France.**

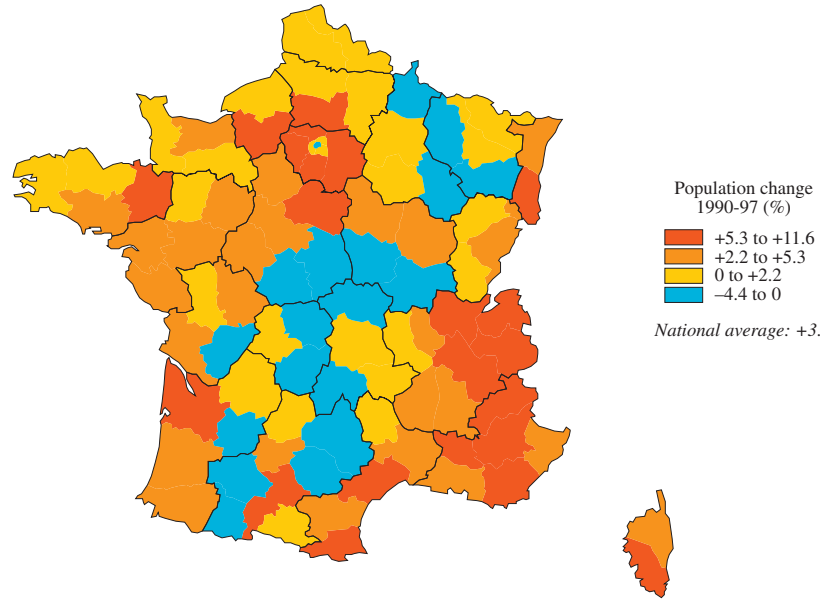
The French population remains unevenly spread and highly concentrated. The capital region concentrates some 20 per cent of the population, while one-third live in the major urban areas of Paris, Lyon, Marseille, Lille and Nice. A sparsely populated diagonal crosses the country from northeast to southwest.

Major demographic trends show that the already densely popu-

Population distribution

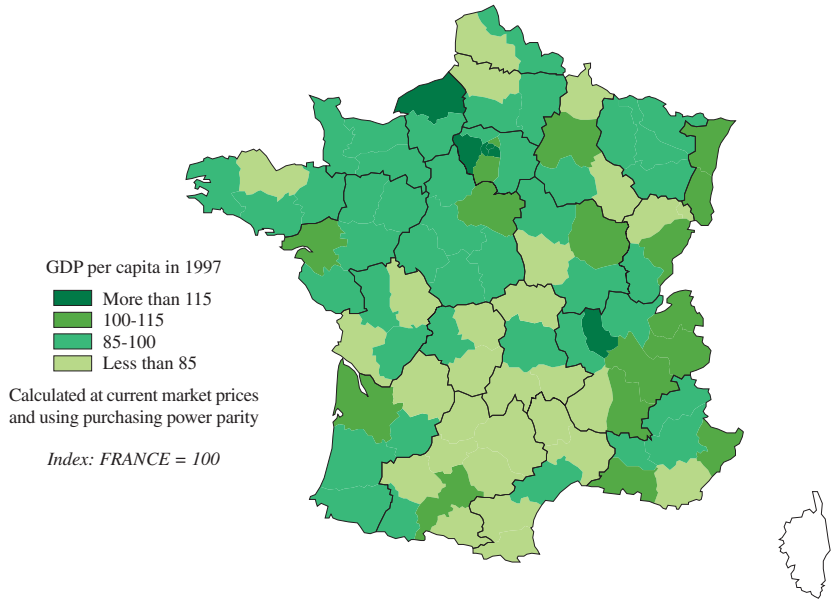


Demographic change



* The territorial grid and the sources of data are given in the Annex.

Gross domestic product



lated *départements* — coastal or urban areas — are attracting more and more people, while the diagonal is becoming even more sparsely populated. However, this growing imbalance has not widened regional settlement disparities. The reason lies in peri-urbanisation, whereby the sharpest increases in population are found in the *départements* adjoining the metropolitan areas. There is accordingly a dual population trend in France, namely concentration at national level but urban dispersal at local level, the effects of which are gradually reaching rural areas. This shift towards a more uniform distribution of the population throughout the country is confirmed by the recent results of the 1999 population census and the slower demographic growth in Île-de-France.

The most prosperous regions lie east of a diagonal running from northwest to southeast France. Here are located most of the country's industries and services. West of the diagonal, but excluding the regional capitals, are the mainly agricultural, less productive regions. The Île-de-France region alone

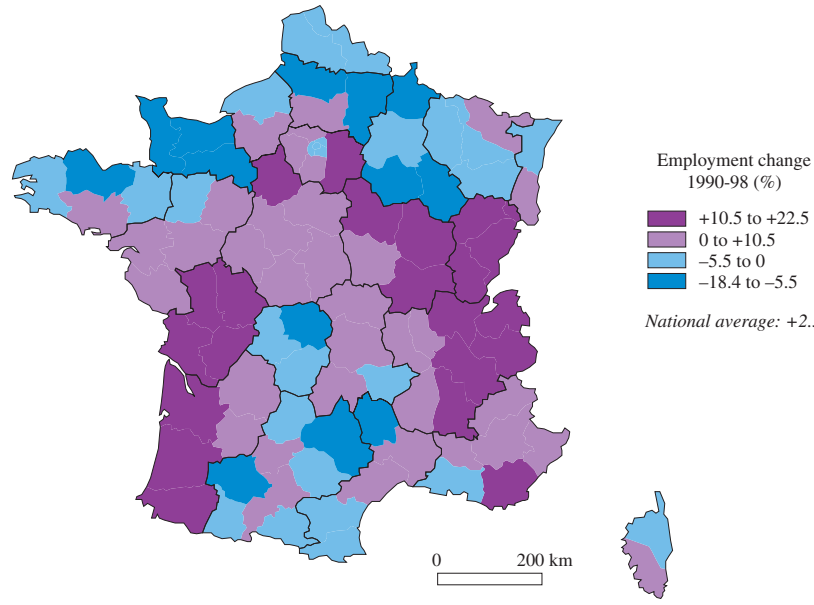
France: Indexes of regional disparities

	1990	1995	1997	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* [b] at constant prices (1990) $ - PPP		
National average	104	107	108	17 424	17 928	19 837
Median	75	77	77	14 681	15 001	16 629
Regional maximum	20 500	20 280	20 210	46 940	50 700	56 765
Regional minimum	14	14	14	10 530	11 455	12 920
Coefficient of variation	350	342	339	42.8	44.8	45.2
	Total population			*National GDP* [b]		
Regional maximum (%) [c]	18.8	18.9	18.9	28	29.2	29.7
5 regional maxima (%)	31.6	31.6	31.6	45	45.5	46

a) Without DOM-TOM.
b) Without Corsica.
c) The region Ile-de-France has been used.

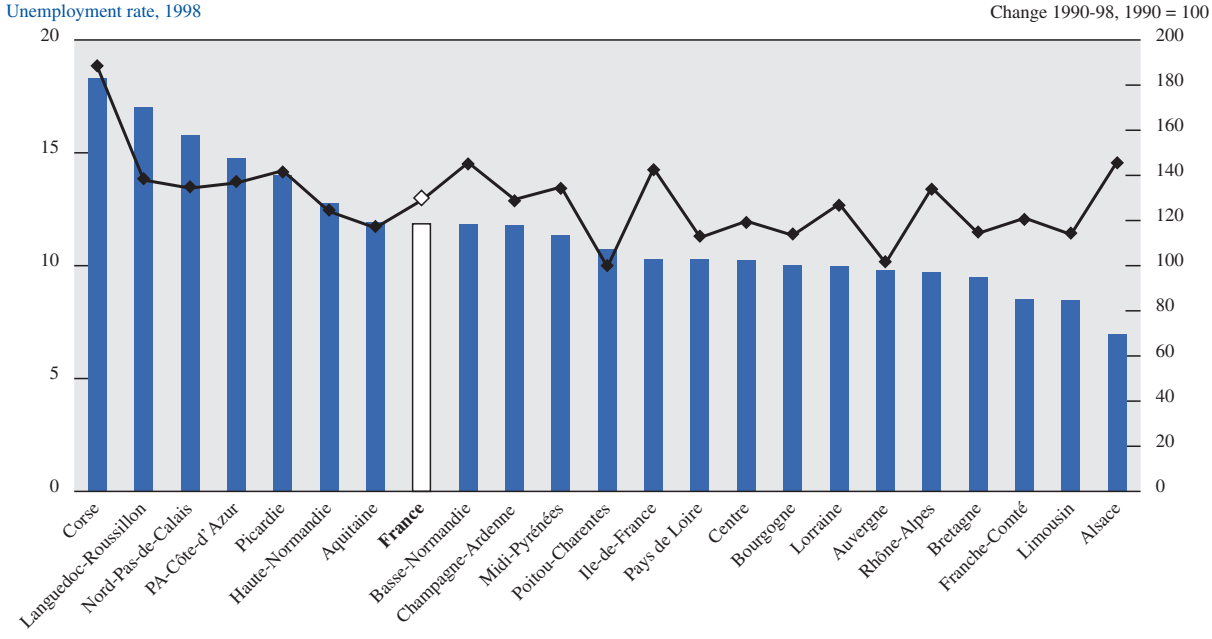
accounts for 29.7 per cent of France's GDP. The 1990s were marked by an initial slowdown and stagnation of activity in general, followed by a recovery in 1997, particularly in the tertiary sector. During this period, in contrast with the previous decade, regional growth rates gradually became more uniform, as high growth shifted from Île-de-France to the regions of the west and southwest. The opposition between "poor agricultural" and "rich industrial" regions became less clear-cut.

Employment dynamics



In the 1990s, employment trends differed sharply from the trends in previous periods, since job losses were particularly high in Île-de-France and the Paris area, and the recovery of recent years has been much stronger in the regions of the west and south-west, Rhone-Alpes and to a lesser extent Alsace and Nord-Pas-de-Calais. Nevertheless, regional disparities in unemployment rates persist, and are highest in the regions of the Mediterranean coast and the north.

France: Unemployment change

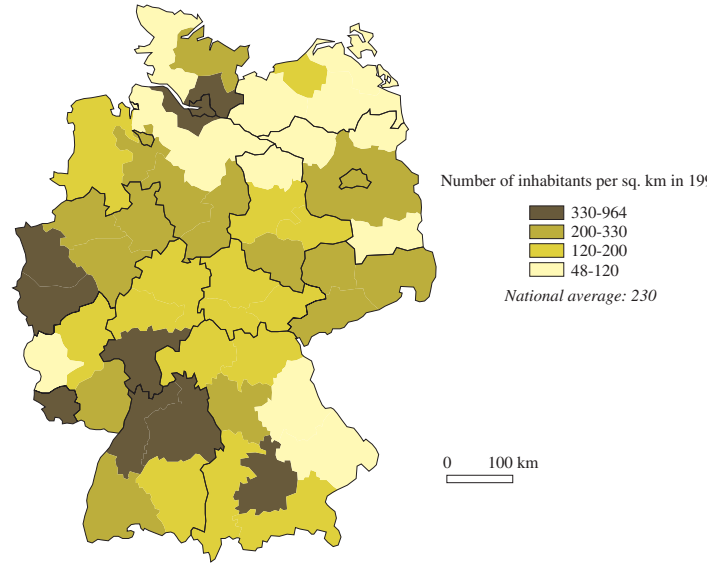


Germany

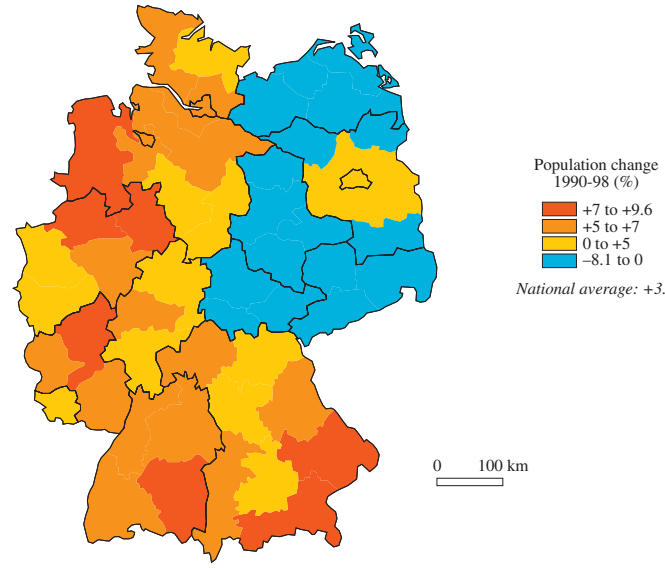
*German unification has had undoubted territorial repercussions. However territorial patterns of wealth and growth are analysed, the gap between the most prosperous regions in the west and the most depressed regions in the east is clearly widening. A soaring unemployment rate in many western regions over the past decade has done nothing to attenuate the image of a two-speed Germany; paradoxically this is the sign of a sound economy: as employment rises, these regions are attracting job-seekers.**

With an average density of 230 inhabitants per square kilometre in 1998, Germany is a densely populated country. Fifty per cent of the regions have over 196 people to the square kilometre. The regions with the highest density are the major urban areas such as Munich, Stuttgart, Frankfurt, Hamburg and the Ruhr conurbation with its string of cities — Cologne-Bonn, Düsseldorf, Essen and Dortmund. Apart from the Hamburg region, the north has the lowest densities with fewer than 120 people per square kilometre in many cases. The fact that the population as a whole is not at all concentrated in the most densely populated region (less than 10 per cent) reveals an outstanding feature of the country's settlement patterns, namely that

Population distribution



Demographic change

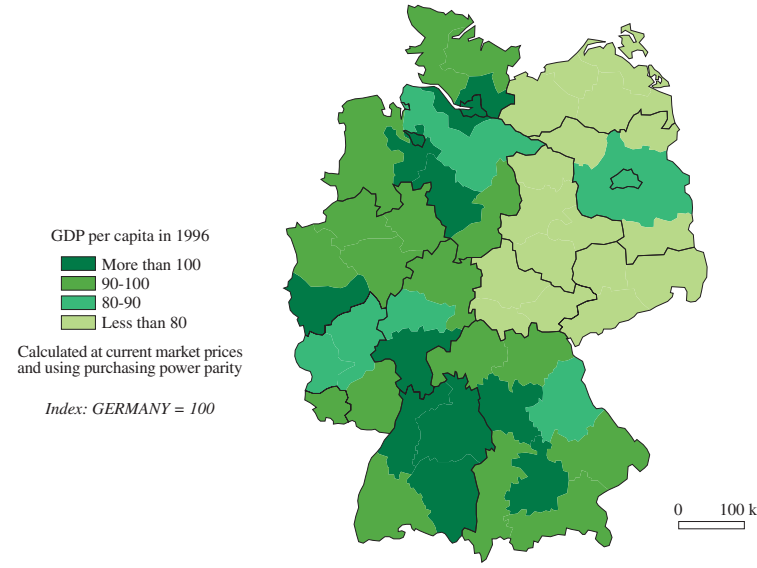


* The territorial grid and the sources of data are given in the Annex.

Germany has no primate city but a polycentric urban network of similar-sized towns and cities.

Demographic trends paint a picture of two contrasting and territorially well-defined trends: decline in the east and widespread growth in the west. In the east, only the regions of Berlin and Brandenburg are recording slight growth; in the west, south-eastern Bavaria and the regions bordering on the Netherlands have the highest increases. Yet this territorially contrasting trend has not widened settlement disparities over the past decade, as can be seen from the stable coefficients of variation and concentration indices. The results show clearly a change in the spatial patterns and structures, namely a change in the rural-urban system. Like in many countries of western Europe, rural areas profit from certain constrains in the agglomerations — such as the environmental situation, the price level and the high density level — which make it possible to decentralise personal and economic activities.

Gross domestic product



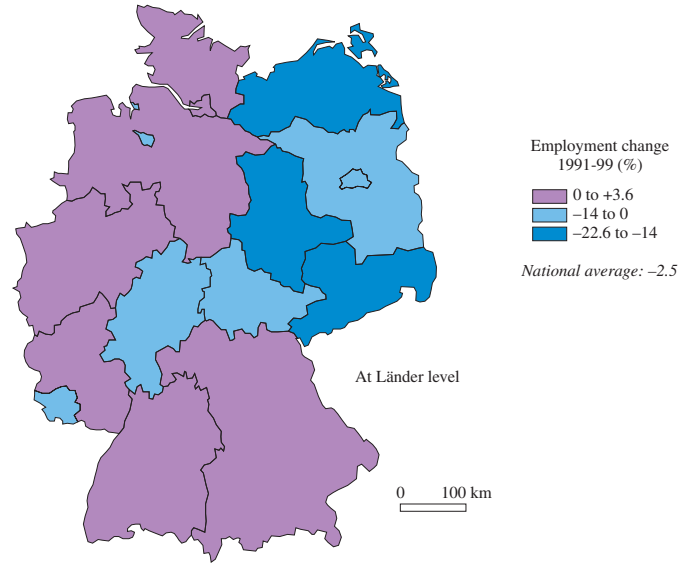
The distribution of wealth in 1996 primarily shows the contrast between eastern Germany where per capita GDP figures are low — 20 points below the national average -– and western Germany with the highest figures. The most densely populated regions are generally those where per capita GDP exceeds the national average. They include, for example, the regions of Munich plus Augsburg, Hamburg, Stuttgart plus Tübingen, but also Bremen and Hanover.

Germany: Indexes of regional disparities

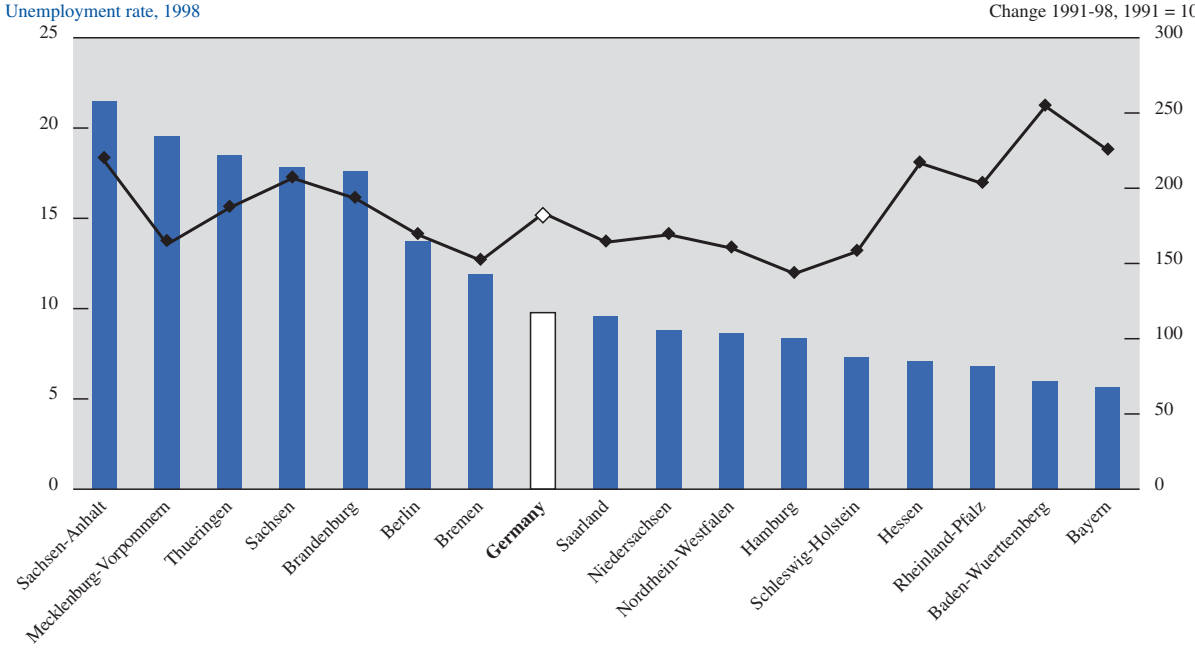
	1990	1995	1998	1996
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP
National average	223	229	230	16 948
Median	183	193	196	15 361
Regional maximum	961	972	964	29 819
Regional minimum	50	49	48	8 805
Coefficient of variation	71.7	71.7	71.6	26.3
	Total population			*National GDP*
Regional maximum (%)	8.5	8.4	8.3	9.0
5 regional maxima (%)	31.8	31.7	31.7	35.0

Employment trends and the unemployment situation in 1998 –- at *Länder* level -– also paint a divided picture of Germany. For the past decade, growth has been concentrated in the west while the east has been steadily declining. In 1998, the west had the lowest unemployment rates (below the national average), while the east had rates of over 15 per cent. Otherwise, all the eastern *Länder* except Berlin combine steep increases in unemployment with the biggest falls in job supply.

Employment dynamics



Germany: Unemployment change



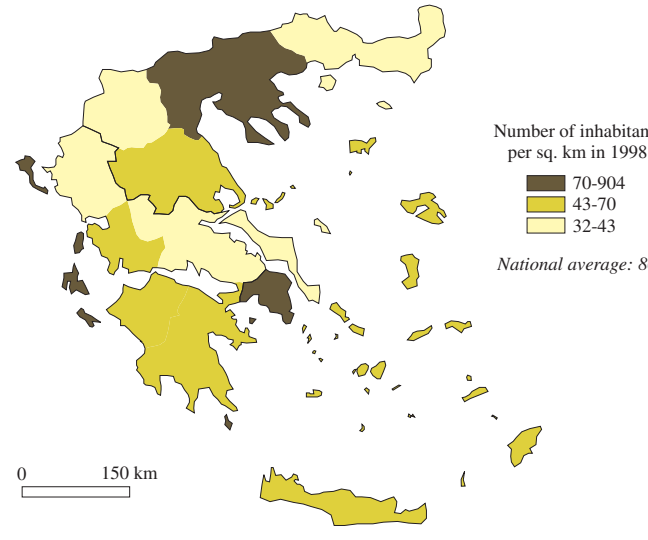
Greece

*Greece's economic growth over the past decade has not greatly widened regional disparities, but it has not narrowed them either. Across the country as a whole, the rise in employment has not been sufficient to push down unemployment, but the outlying regions of the north, the south and the islands have been harder hit than the rest. Wealth distribution and analysis of how it will evolve confirm the strong primacy of Athens.**

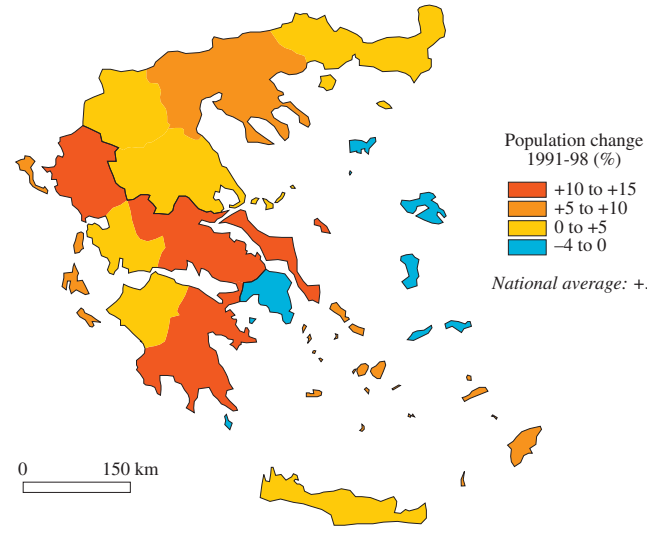
The Greek population is concentrated in the coastal plains and on the islands. The urban regions of Athens and Thessaloniki have the highest population densities, above the national average. One in three inhabitants lives in Athens, in the Attica region, and over 55 per cent in the three urban regions on the eastern coast. As for the remainder of the country, the mountainous areas in the north and centre of the peninsula count fewer than 50 people to the square kilometre.

Population growth is brisker in the southern regions than in the north. Only Attica and the North Aegean islands have seen their populations' decline over the past decade. There is a general downward trend in the relative concentration of the population in the leading urban regions, with a decline in the largest three from 58.4 per cent in 1991 to 56.9 per cent. This decline in concentration has been accompanied by relatively narrower territorial disparities in population distribution. The more even pattern has benefited the Peloponnese and a cen-

Population distribution



Demographic change

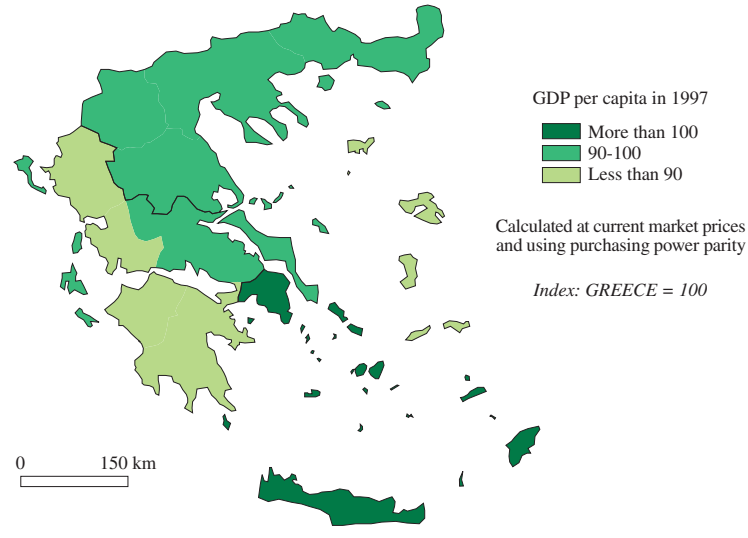


* The territorial grid and the sources of data are given in the Annex.

tral belt running from the southeast to the centre-west.

The southeast with Athens, the Cyclades and Crete has a GDP above the national average. The concentration of services and high-tech services in the capital region and the buoyant tourist industry in the islands are behind this good performance. Less affected by this trend, the Peloponnese and the eastern coastal regions are the most depressed areas. Over one-third of the country's wealth is produced in Attica, and 60 per cent in the three main urban regions, Attica, Central Macedonia and Thessaly. Over the past decade there has been a 1-point rise in the concentration of wealth, benefiting the capital region and the three urban regions on the east coast. This trend is widening territorial disparities, as indicated too by increases in the coefficient of variation and the ratio of the wealthiest to the poorest region.

Gross domestic product

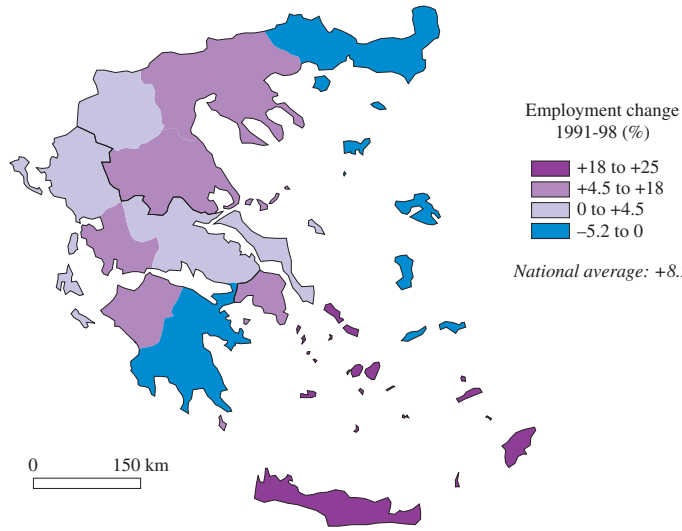


Excluding the northern and southern extremities of the country, Thrace, the Peloponnese and the North Aegean islands, employment is growing throughout the country. The fastest growth (>18%) is found in the Cyclades and Crete, generated by a booming tourist industry. Elsewhere, it is in the most densely populated and urbanised areas that employment is growing fastest. With the exception of the islands, there is little difference in unemployment rates across the three regions (around 10.5 to 12%). In 1998 the region with the highest rates was Attica, yet this is where they have risen least over the past decade. In terms of the job supply and unemployment, then, disparities have not noticeably widened, but nor has there been any real tendency towards a more balanced pattern.

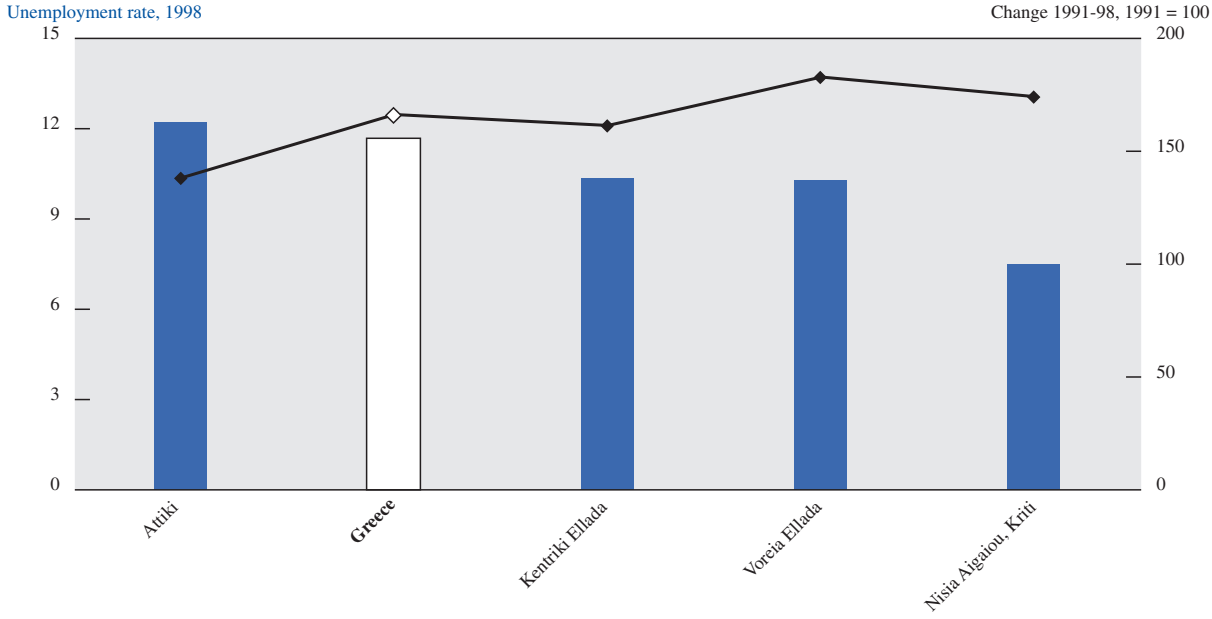
Greece: Indexes of regional disparities

	1991	1996	1998	1991	1996	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	77	80	80	9 434	9 715	9 991
Median	50	51	51	9 073	8 940	9 133
Regional maximum	925	906	904	11 117	11 035	11 409
Regional minimum	31	32	32	6 475	6 317	6 435
Coefficient of variation	190	181	180	10.2	12.6	12.9
	Total population			*National GDP*		
Regional maximum (%)	34.5	33.0	32.8	36.5	37.4	37.4
3 regional maxima (%)	58.4	57.0	56.9	60.0	60.9	60.9

Employment dynamics



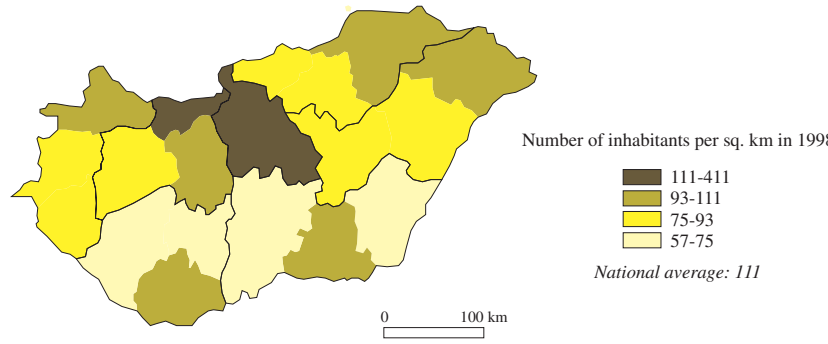
Greece: Unemployment change



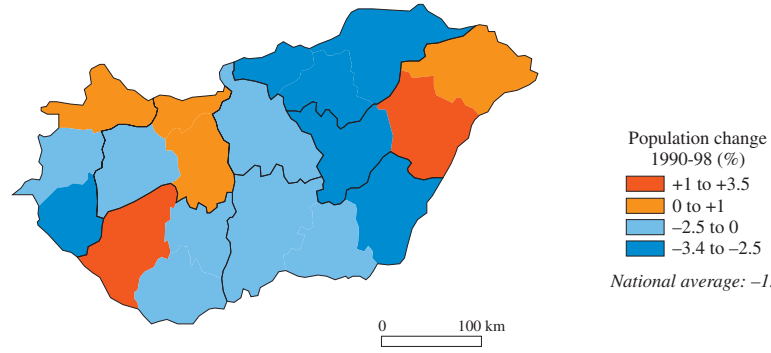
Hungary

*Hungary's shift to a market economy has been accompanied by a spectacular increase in unemployment and very steep cuts in the job supply. Underlying this trend is a significant widening of territorial disparities. Patterns and trends in unemployment, per capita GDP and employment show that the capital region is the least affected and the only one capable of withstanding this situation.**

Population distribution



Demographic change



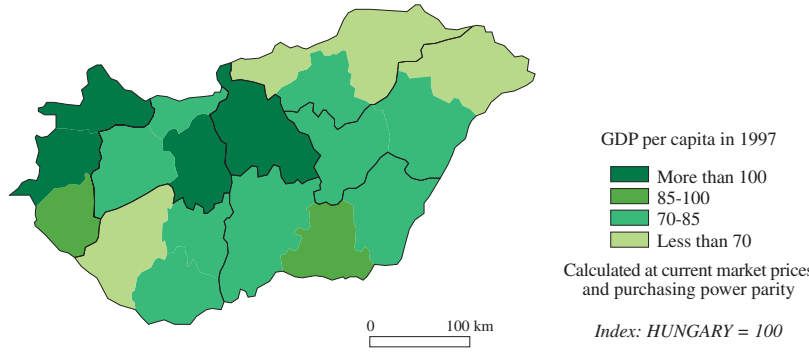
The population is spread very unevenly across Hungary. The north is more densely populated than the south and only the Central Hungary (including Budapest) has densities exceeding the national average. The strong primacy of the capital region, where more than one in four Hungarians live, has relegated to the periphery the other urban centres of Debrecen, Miskolc, Szeged and Pécs.

Very low national fertility rates over the past decade have caused a decline in population affecting virtually the entire country. Only a few regions on the eastern and northwestern borders and adjacent to Lake Balaton have recorded moderate growth. A stable index of population concentration in the Budapest region shows that, in spite of a population decline, the capital region is maintaining its influence.

There are significant disparities in terms of productivity and wealth. Per capita GDP in the capital region, Central Hungary, and the region bordering on Austria, West Transdanubia, is higher than the national average, compared with figures 30 per cent below the national average in the northeastern regions. Over a very short period of two years (1995-1997), the share of GDP generated by the capital

* The territorial grid and the sources of data are given in the Annex.

Gross domestic product



region rose by 1.3 percentage points, whereas population concentration remained stable. Furthermore, regional disparities in per capita GDP widened noticeably across the country, as shown by the coefficient of variation. This indicates that the more depressed areas have become poorer.

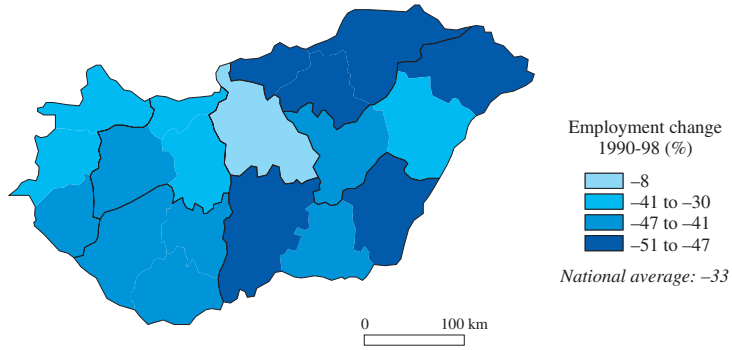
The opening of the Hungarian economy to competition has led to massive cuts in employment. Between 1990 and 1998, the job supply fell threefold. This has affected various parts of the country differently. It is the least "prosperous" regions that have seen the most job cuts. In northern Hungary and some of the southern regions, the job supply has been halved. In the northwestern regions on the border with Austria, reductions have been less massive; in the Budapest region, the decrease has even been far less noticeable than in the rest of the country (only 8%). Unemployment rates everywhere are rising spectacularly (over 300%); only the capital region has seen an increase of under 200 per cent. The biggest increases are found in the regions that already have the highest rates of unemployment. This, combined with employment trends, is proof that the more depressed regions are becoming increasingly vulnerable.

Hungary: Indexes of regional disparities

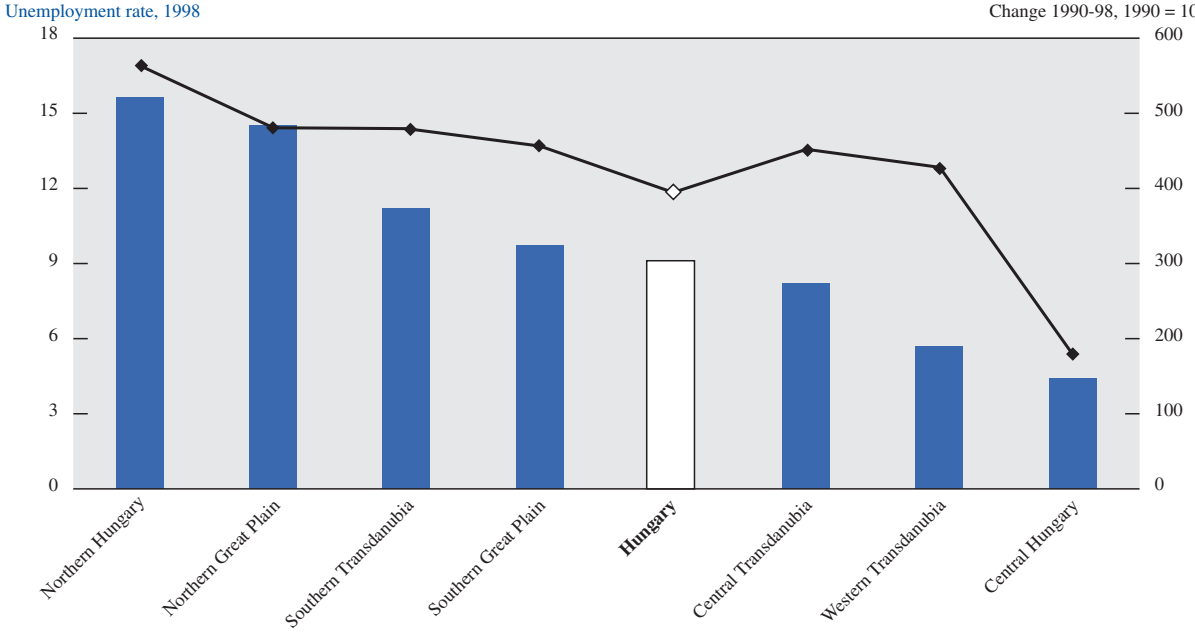
	1990	1995	1998	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	112	112	111	7 514	8 021
Median	91	91	91	6 010	6 398
Regional maximum [a]	419	419	411	11 094	12 287
Regional minimum	56	58	57	4 452	4 213
Coefficient of variation	78.8	78.7	78.1	31.5	35.9
	Total population			*National GDP*	
Regional maximum (%) [a]	27.7	27.7	27.5	40.9	42.2
5 regional maxima (%)	51.7	51.7	51.7	59.3	60.9

a) Budapest and the region of Pest have been merged to form the capital region.

Employment dynamics



Hungary: Unemployment change



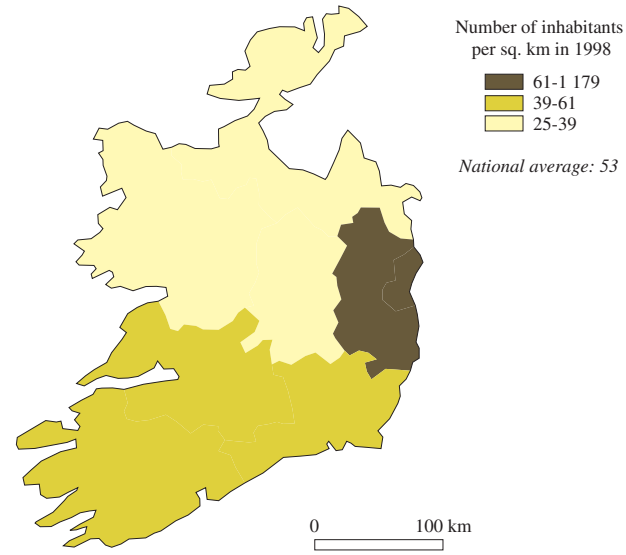
Ireland

*Over the past decade, Ireland has enjoyed spectacular economic growth thanks, in part, to the boom in Information and Communication Technologies. The choice of Ireland as a location for service industries linked to the new economy has benefited the whole country. Contrary to received wisdom, however, it is Dublin and its hinterland that have benefited most. While some rural regions in the west have also felt the impact of growth, the availability of a skilled labour force is still a major factor in location decisions. Although growth is not increasing territorial disparities or taking away from the image of evenly distributed economic buoyancy, it does appear to be of greater benefit to the capital region.**

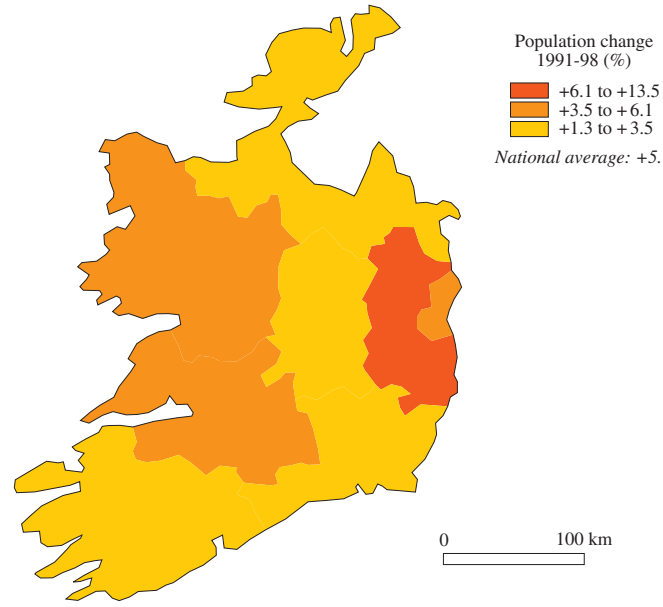
The Irish population is spread unevenly across the country. Dublin and its hinterland have the highest densities with over 60 people per square kilometre, while the north, west and centre have fewer than 40. Nearly 30 per cent of the population live in Dublin and more than one in two live in the country's two main urban areas, namely Dublin and its hinterland the Centre-East, and the Cork region.

Between 1991 and 1998, population growth was high in Ireland compared with other European Member States. No region has seen its population decline, but the steepest increases are found mainly around Dublin (Centre-East). Dublin and the west have recorded increases in line with the national average, while a

Population distribution



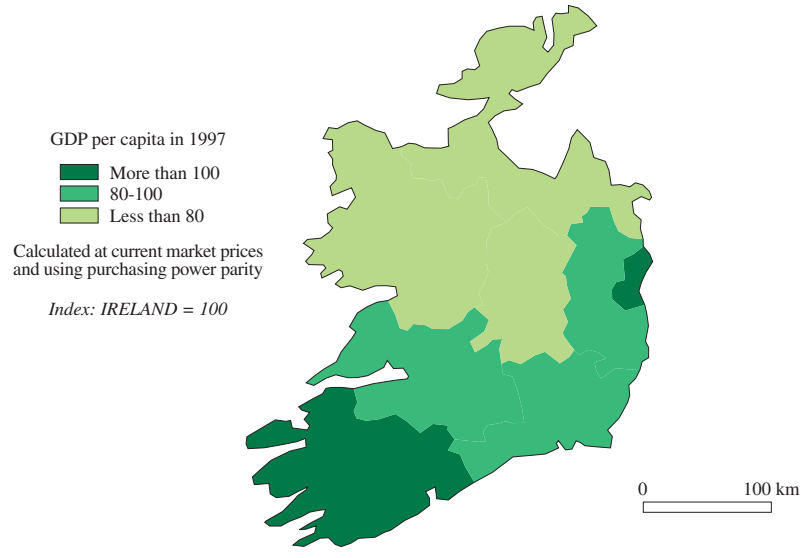
Demographic change



* The territorial grid and the sources of data are given in the Annex.

belt of low increases crosses central Ireland from north to south and includes the south-west (Cork). Although this demographic trend varies quite substantially from region to region, it has not widened the disparities in Ireland's settlement patterns.

Gross domestic product



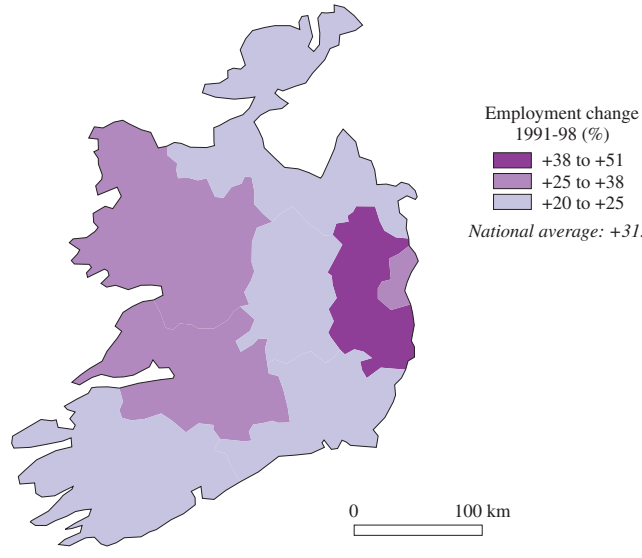
The distribution of the highest per capita GDP figures matches that of population density. It is in the regions around Dublin and Cork that purchasing power exceeds the national average. Dublin generates 40 per cent of the country's GDP and the three most productive regions over 60 per cent. Over the past decade, Ireland has seen spectacular growth in per capita GDP — over 50 per cent. Closely linked to Information and Communication Technologies, this growth appears to be spread evenly across the country, judging by the stability of territorial disparity indices: from 1991 to 1997, there was no rise whatsoever in the coefficients of variation, concentration indices and ratios of the most prosperous to the poorest regions.

As proof of the buoyancy of the Irish economy, job supply has risen by over 30 per cent in the past decade and every region is showing a marked fall in unemployment. While all regions are enjoying growth in employment, the southwest and the regions along a central north-south axis are recording increases below the national average. These were also the regions with the highest unemployment rates in 1998 (above the national average) and the smallest decline in unemployment rates over the past decade. This does modify somewhat the picture of evenly spread growth.

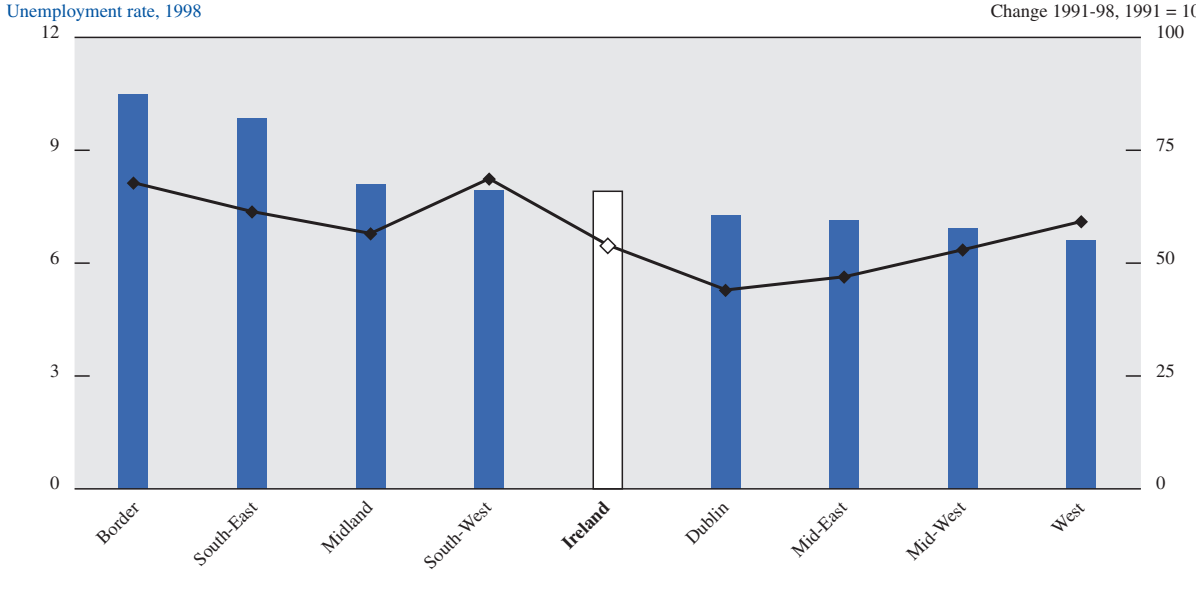
Ireland: Indexes of regional disparities

	1991	1996	1998	1991	1996	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	50	52	53	11 604	16 025	17 562
Median	39	40	40	9 997	12 360	15 085
Regional maximum	1 112	1 148	1 180	15 622	17 564	23 332
Regional minimum	24	25	25	7 984	9 579	11 752
Coefficient of variation	245	246	247	24.1	20.4	23.8
	Total population			*National GDP*		
Regional maximum (%)	29.1	29.2	29.4	39.1	37.1	39.0
3 regional maxima (%)	55.6	55.5	55.2	64.4	63.2	64.1

Employment dynamics



Ireland: Unemployment change



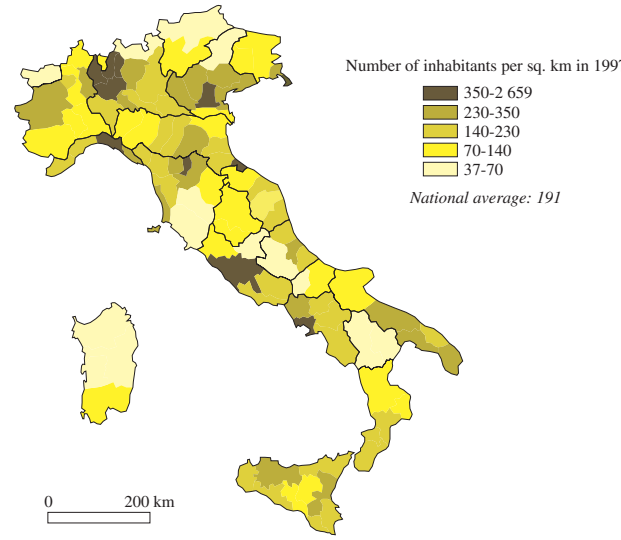
Italy

*The north-south divide is a well-established feature of Italy's social and economic environment. In 1998 there was a very clear contrast between the more prosperous north, with less unemployment, and the far more depressed south. This has been compounded by substantially different employment trends across the regions over the past decade. With unemployment rising at national level and a relative decline in the job supply, there is little chance of seeing a more balanced picture across the country, at least in the medium term.**

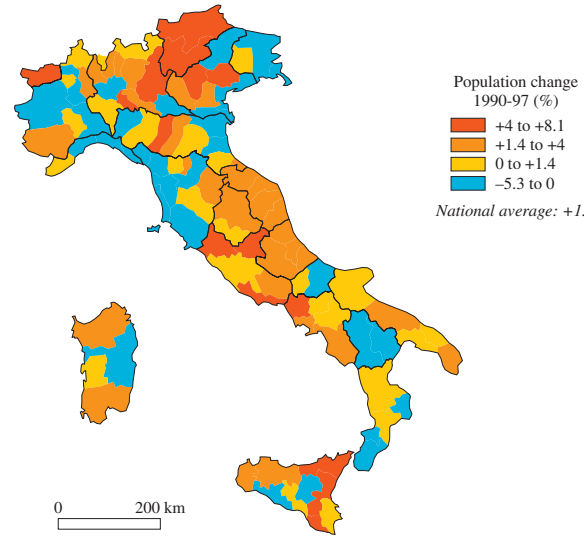
With nearly 200 people to the square kilometre, Italy is a densely populated country. The highest densities are found in the north and along the coast from Rome to Naples. The main urban regions — Rome and Naples to the south, Milan and Genoa to the north — head the list, with densities of over 350. Although the population is unevenly spread across the country, it is not excessively concentrated. 6.6 per cent of the population live in the province of Rome but only 9 per cent in the Lazio (Rome) region as whole. Also, only one in four Italians lives in one of the five most densely populated regions.

Between 1990 and 1997, the sharpest increases in population have occurred mainly in the hinterlands around the largest cities. Apart from those close to the Alps, most of the regions north of

Population distribution



Demographic change

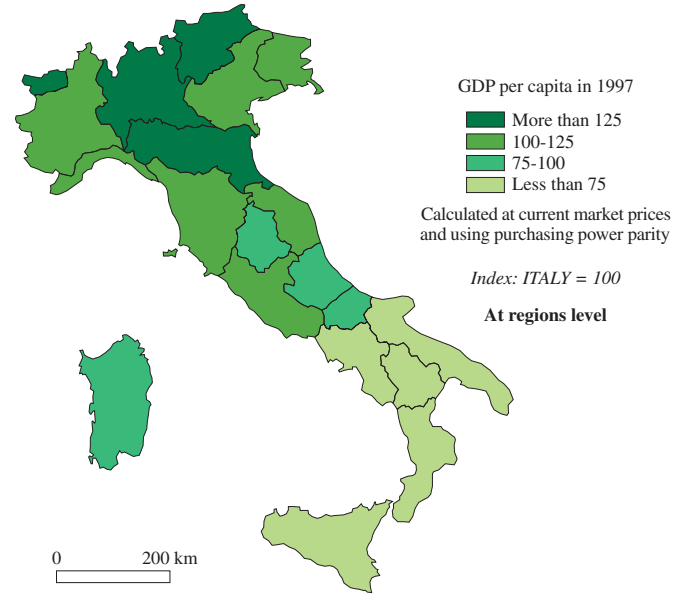


* The territorial grid and the sources of data are given in the Annex.

Rome have seen their populations' decline; to the south, the fall has been less marked. Along a central belt covering the regions of Lazio, Umbria, Marche and Abruzzi, growth has been brisk.

The regional distribution of wealth is uneven and shows a clear divide between the north, where per capita GDP is above the national average, and the south with its much lower figures. In the north, four regions stand out: Lombardy, Emilia-Romagna, Trentino-Alto-Adige and Valle d'Aosta. The presence of major firms, dynamic industrial districts and an expanding tourism industry explain why all those regions have very high per capita GDP figures. Unlike most Member countries, Italy's capital region does not have the highest per capita GDP. In 1997, the ratio of the wealthiest region to the poorest, Calabria, was 2.3. This gap is however combined with a decrease in the coefficient of variation and indicates that territorial disparities in the distribution of wealth have slightly decrease.

Gross domestic product



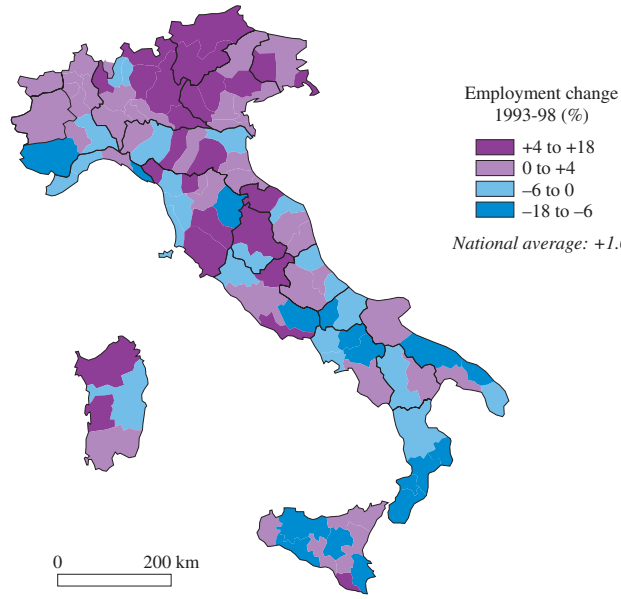
Employment trends also reflect the divide between growth in the north and decline in the south. Between 1993 and 1998, Calabria and specific provinces in Basilicata, Campania and Sicily have seen the number of jobs decline by over 6 per cent. With unemployment rates above 15 per cent, peaking at 25 per cent in Calabria and Sicily, Italy's southern regions suffer from a combination of handicaps. In 1999, unemployment was under 10 per cent in most of the northern regions, and it is there that the job supply is still expanding.

Italy: Indexes of regional disparities

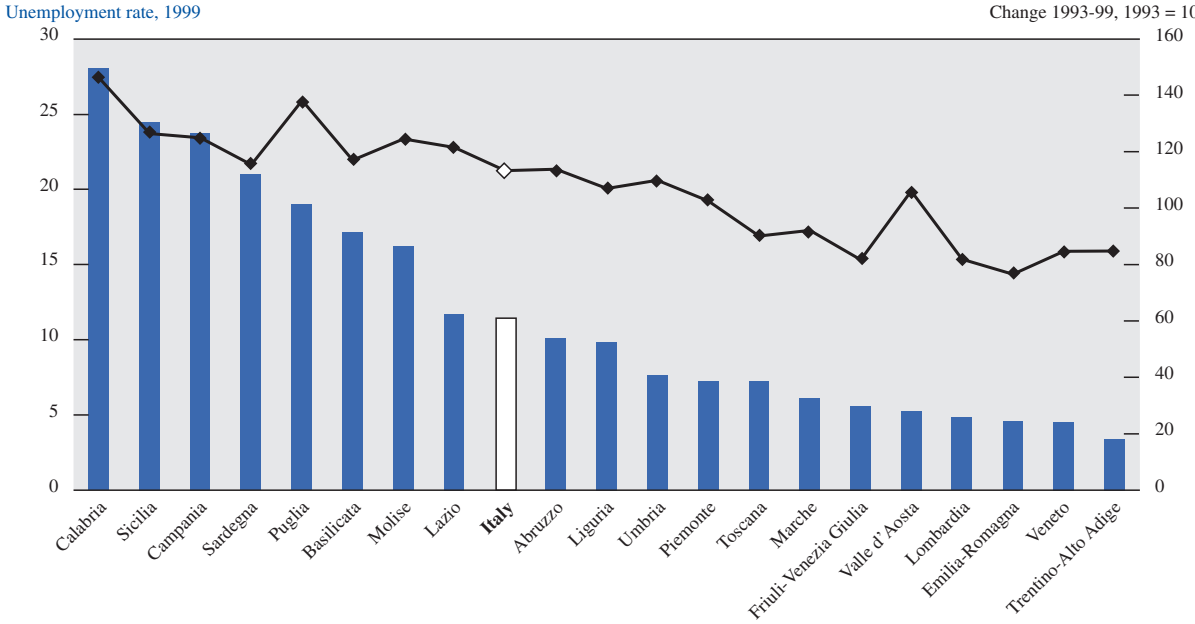
	1990	1995	1997	1995	1997
	Density of population [a] inhabitants per sq. km.			*GDP per capita* [b] at constant prices (1990) $ - PPP	
National average	188	190	191	19 240	20 004
Median	172	174	173	19 769	20 719
Regional maximum	2 574	2 642	2 659	27 349	27 316
Regional minimum	35	36	37	11 625	12 164
Coefficient of variation	127	127	127	27.1	26.6
	Total population			*National GDP*	
Regional maximum (%) [a]	6.6	6.6	6.6	..	..
5 regional maxima (%) [a]	25.2	25.1	25.1	..	..
Regional maximum (%) [b]	15.6	15.6	15.6	20.5	20.5
5 regional maxima (%) [b]	50.9	51.3	51.4	57.3	57.1

a) At territorial level 3 (province).
b) At territorial level 2 (regioni).

Employment dynamics



Italy: Unemployment change

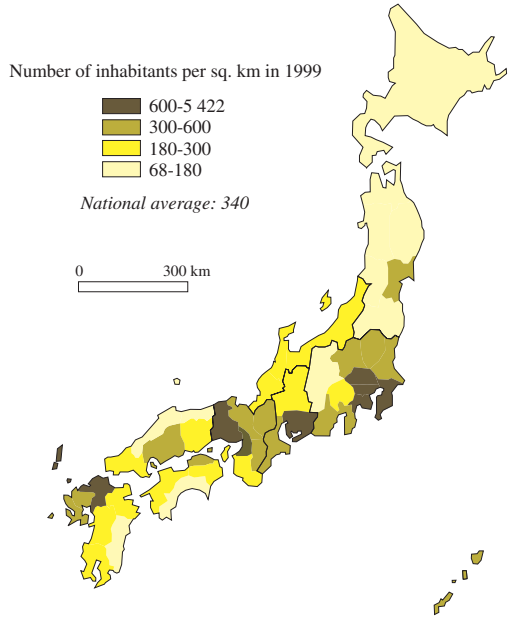


Japan

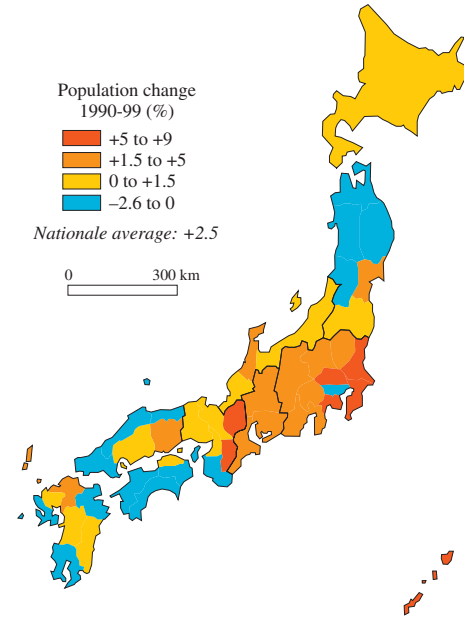
*The exceptional concentration of the population and economic activity in the megalopolis stretching from Tokyo to Osaka shows how deeply rooted territorial disparities are in Japan. A major factor in Japan's success, this concentration has become more marked over the past decade, mainly in the two metropolitan areas of Tokyo and Osaka/Kobe. As the upper limit has not yet been reached, agglomeration effects are still widening the interregional growth differentials and are likely to persist, at least in the medium term.**

With over 330 people to the square kilometre, Japan is a densely populated country with major regional disparities. The northern prefectures of Hokkaido and Tohoku are sparsely populated. The highest densities (>600) are features of the main urban areas — Tokyo, Nagoya and Osaka/Kobe -– that form Japan's megalopolis, the urban axis stretching from Tokyo to Osaka/Kobe. Fukuoka, on the island of Kyushu to the south, also has very high densities. The megalopolis is very concentrated in the metropolitan area of Tokyo: in 1999, more than one in four Japanese lived there, while the five most densely populated prefectures, corresponding to the urban areas of the megalopolis, together account for fewer than 45 per cent of Japan's population. The strong domination of Tokyo is an important feature of Japanese settlement patterns.

Population distribution



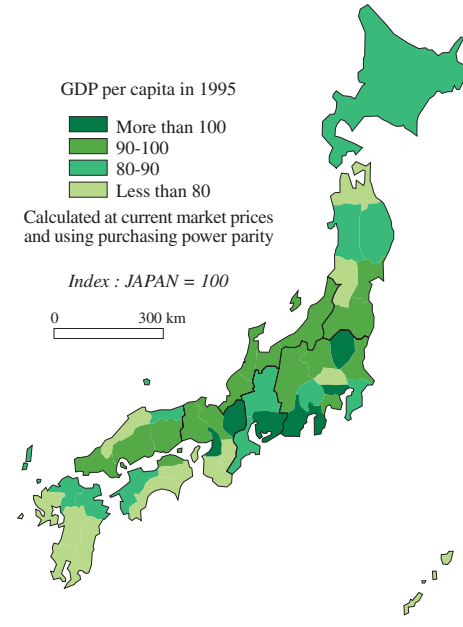
Demographic change



* The territorial grid and the sources of data are given in the Annex.

The population is evolving along the lines of a centre/periphery model, with sharp growth in the prefectures of the megalopolis but stability or decline in the northern and southern prefectures. While concentration has risen by nearly one point in the Tokyo hinterland, it is relatively stable in the two other urban regions of the megalopolis. The trend is therefore towards wider settlement disparities, largely benefiting the capital.

Gross domestic product



The megalopolis prefectures had the highest per capita GDP in 1995. The north and the southern prefectures had relatively lower figures. Overall, the prefectures on the Islands of Shikoku and Kyushu had the lowest per capita GDP, more than 20 points below the national average. While the prefectures in the megalopolis together generated nearly half of the country's GDP, Tokyo alone generated some 31 per cent. The very high concentration of industry, business and financial services and corporate headquarters explains the predominance of the Tokyo region. From 1990 to 1995, Tokyo's per capita GDP declined. This was accompanied by a fall in the share of national GDP generated by the city and a decline in the coefficient of variation. Far from providing evidence of narrower regional disparities and the primacy of the capital, these developments can be viewed as premonitory signs of the economic crisis that was to hit Japan a few years later.

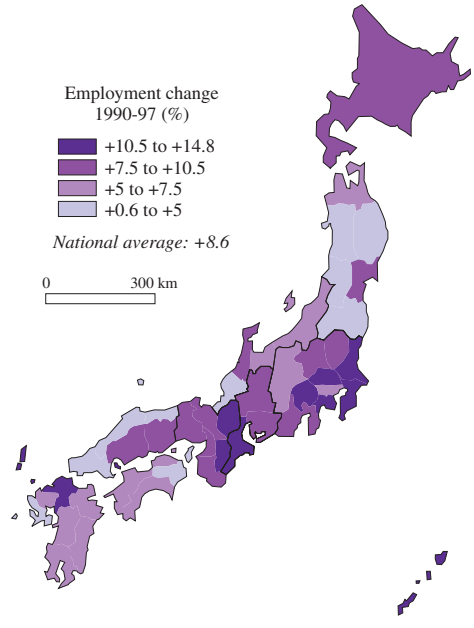
With regard to employment, the trend between 1990 and 1997 was upward throughout the country. However, the increase in some regions was double that in others. The greatest increases (>10%) were in or around the three urban prefectures of Tokyo, Osaka/Kobe and Fukuoka, while in some prefectures to the south and north of Honshu the rise was less than the national average, at under 5 per cent. Over the country as a whole, apart from Hokkaido and the prefectures of the Island of Kyushu, the largest numbers of job creations were in the megalopolis. Job supply also grew sharply in Okinawa. Apart from the Okinawa region where unemployment exceeded 10 per cent in 1995, rates throughout the country were below 6 per cent. In spite of sharp gains in employment, the regions of Kanto, Kinki and Toukai have seen unemployment increase relatively faster than other parts of the country. This is a feature common to attractive urban regions.

Japan: Indexes of regional disparities

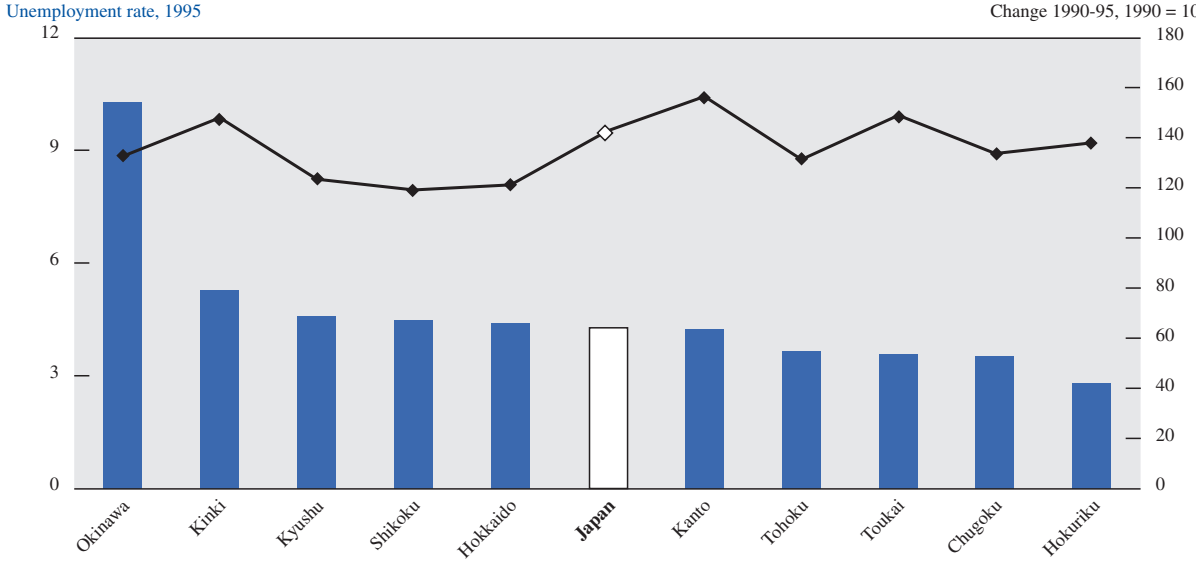
	1990	1995	1999	1990	1995
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	332	337	340	17 814	18 837
Median	271	274	276	15 333	16 681
Regional maximum	5 430	5 384	5 631	34 888	34 443
Regional minimum	72	73	73	11 360	11 860
Coefficient of variation	187	187	187	35	30
	Total population			*National GDP*	
Regional maximum (%) [a]	25.7	25.9	26.1	32.5	30.8
5 regional maxima (%) [a]	42.6	42.7	42.9	51.3	49.4

a) The prefectures of Saitama, Chiba, Tokyo and Kanagawa have been merged to form the capital region.

Employment dynamics



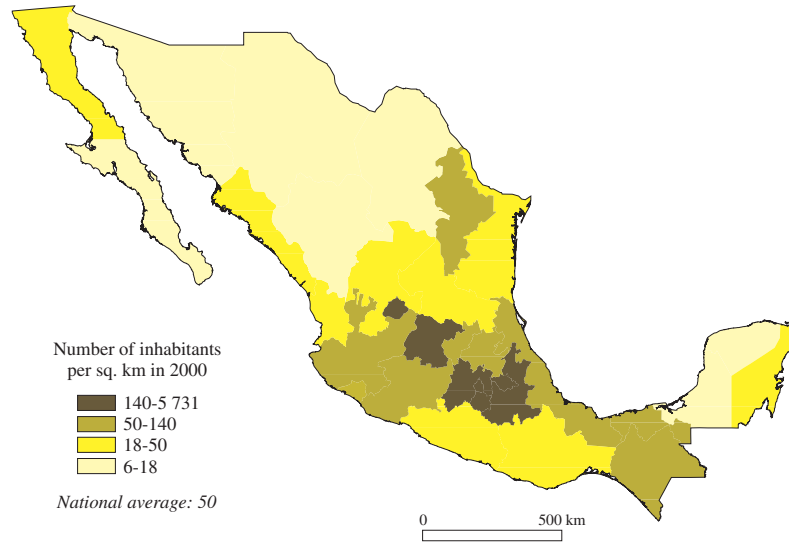
Japan: Unemployment change



Mexico

*Mexico recorded brisk growth through the 1990s, this having undoubtedly been boosted by the creation of NAFTA, of which Mexico is a member. While it is difficult to assess how the relative weight of the megalopolis constituted by Mexico City and its region has evolved over a short period, it has to be said that regional disparities are tending to ease. Most of the least populated regions are benefiting, stimulated in particular by the boom in tourism activities and oil-related activities, both along the Pacific coast and in the Gulf of Mexico. Of note in this respect is the particular dynamism of a vast southern area stretching from Acapulco to Cancun.**

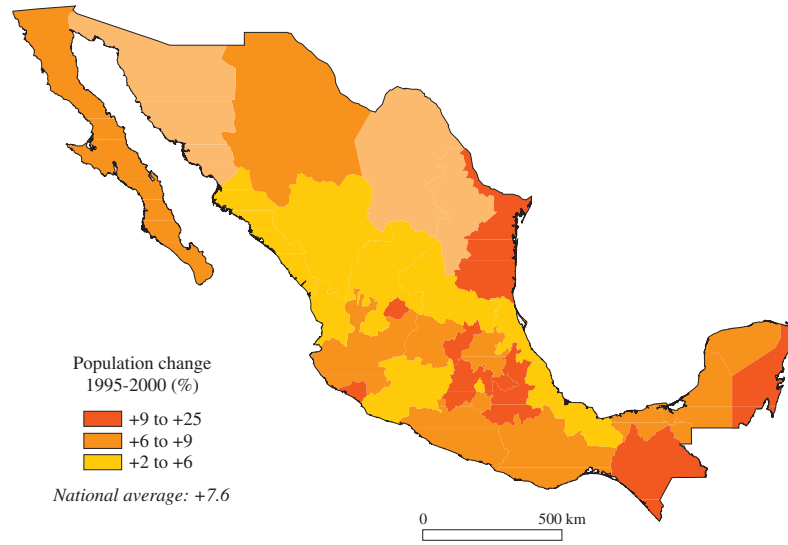
Population distribution



A corridor comprising population densities in excess of 50 per km^2 stretches from the Guadalajara region on the Pacific coast as far as Chiapas to the east, taking in the capital Mexico — with 22 per cent of the Mexican population — and part of the Gulf of Mexico coastline. This area contrasts with the rest of the country, which is much less densely populated. In the northern half of Mexico, only the state of Nuevo Leon, dominated by its capital Monterrey, exceeds that figure.

Mexico has kept a decreasing tendency in the growth of its population rate. Between 1995

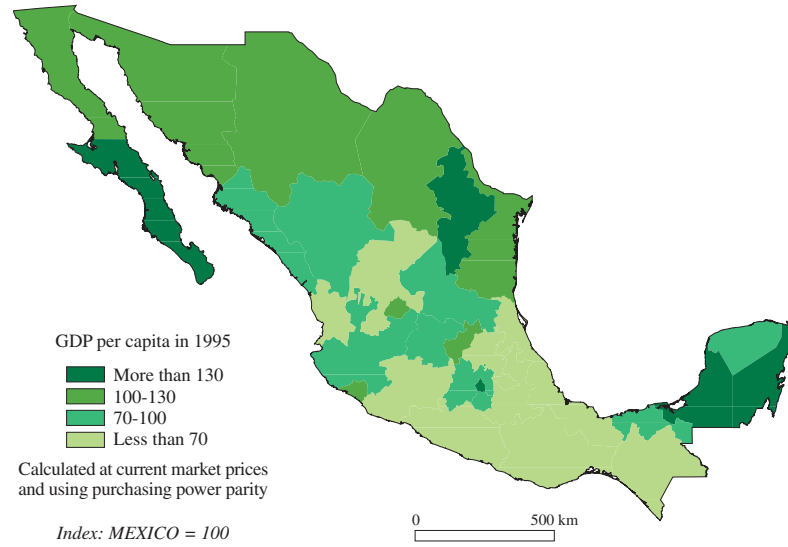
Demographic change



* The territorial grid and the sources of data are given in the Annex.

and 2000 it has shown an annual average rate of 1.55 per cent, the lowest since the 60s, when its highest level was reached: an annual average rate of almost 3.5 per cent. This tendency is mainly the result of a fecundity decrease. In fact, mortality has been very low, and the migration balance is of little significance. On the other hand, there are regions that have experienced a rapid population growth in the same period. The main factor for this in Baja California Sur, in the extreme north-west, and the Cancun region, in the extreme south-east, is tourism, while in Baja California and Chihuahua, in the north cross-border, the reason is the development of new economic activities such as the *maquiladoras*.

Gross domestic product



Regarding the distribution of per capita GDP in 1995, the contrast is featured by a gap between the north of the country, near the United States, from Baja California to Tamaulipas where the figures are above the national average, and the rest of the country which is doing less well. Two types of wealthy areas may be singled out: the more built-up areas such as the Federal District (Mexico City) and the Monterrey region (though not Guadalajara), and those with low population densities and a high value-added dominant activity such as the state of Campeche in the south-east, which is an energy-producing area, and the states of Quintana Roo (Cancun) and Baja California Sur where tourism is continuing to expand. The

Mexico: Indexes of regional disparities

	1990	1995	2000	1995
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP
National average	41	43	50	5 744
Median	45	47	51	4 938
Regional maximum	5 883	5 621	5 731	14 274
Regional minimum	5	5	6	2 723
Coefficient of variation	402	375	360	56
	Total population			*National GDP*
Regional maximum (%) [b]	22.6	22.2	22.3	33.2
5 regional maxima (%)	42.4	41.2	41.1	50.9

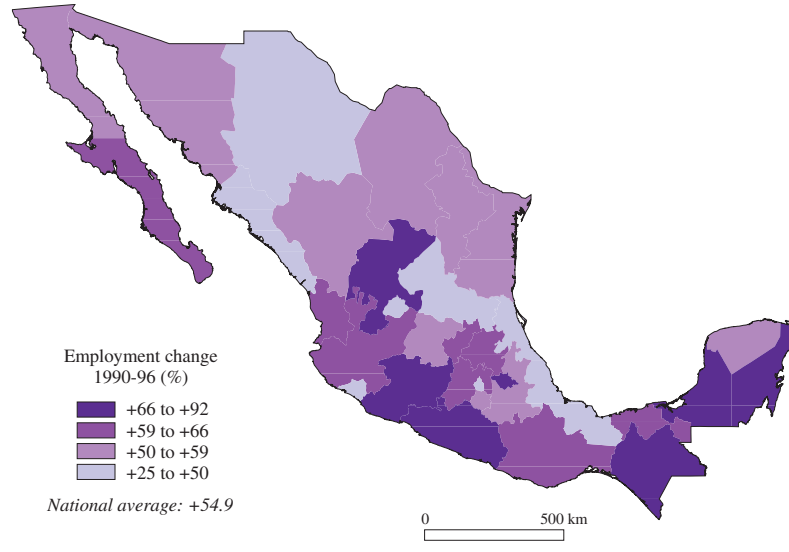
a) At territorial level 2.

b) The states of Federal District and of Mexico have been merged to form the capital region.

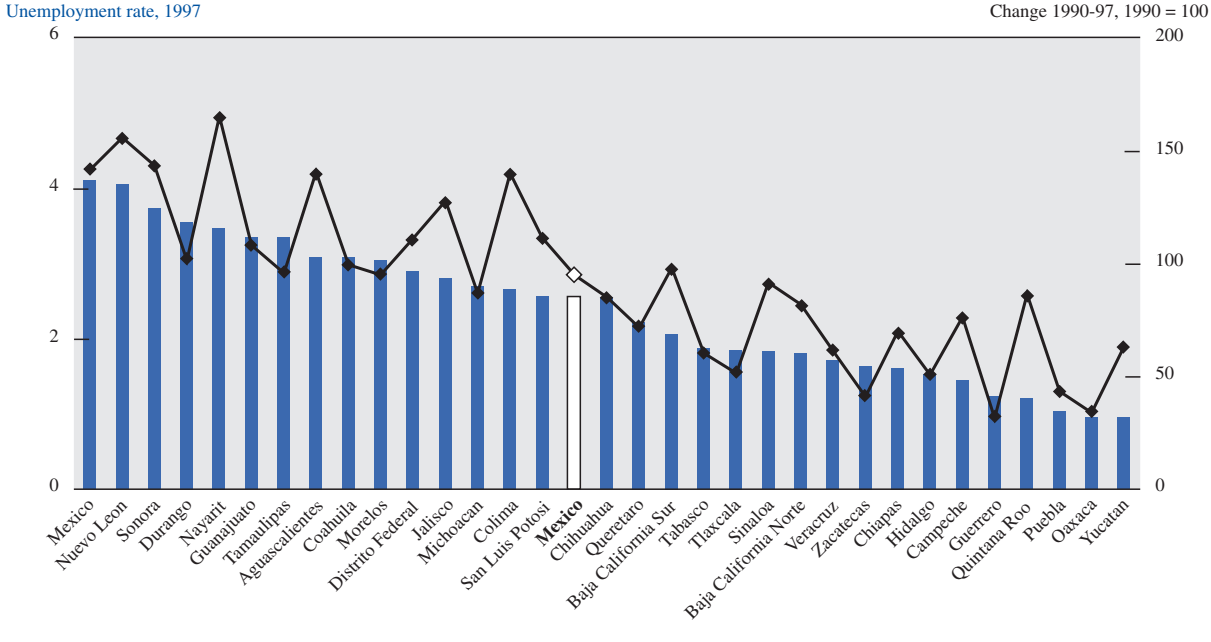
disparities are substantial: the GDP of the Federal District accounts for 22.9 per cent of the total GDP and its per capita GDP, the highest one, is five times higher than the poorest state.

The employment level of the country has shown a general growing tendency, according to the performance of Mexico's economy, in spite of the 1995 financial crisis that caused unemployment to reach a 4.43 per cent rate, the highest since 1991. Afterwards, the unemployment rate has been falling down: 2.25 per cent in 1997, and 1.8 per cent in 2000. Among states, including the Federal District, important differences in employment levels and their trends are identified. However, these differences are not related to the strength of their economies, mostly due to the relative weight of the informal sector and to the extent, in some states, to which agriculture and self-consumption are related to underemployment rather than unemployment problems. Thus, in the more industrialised states, employment is more likely to suffer changes within the formal markets of goods and services, while the least industrialised states are less affected this way. On the other hand, in border cities, as well as in cities with important manufacturing and tourism activities, employment is associated with external factors because of the effects of foreign investment.

Employment dynamics



Mexico: Unemployment change



The Netherlands

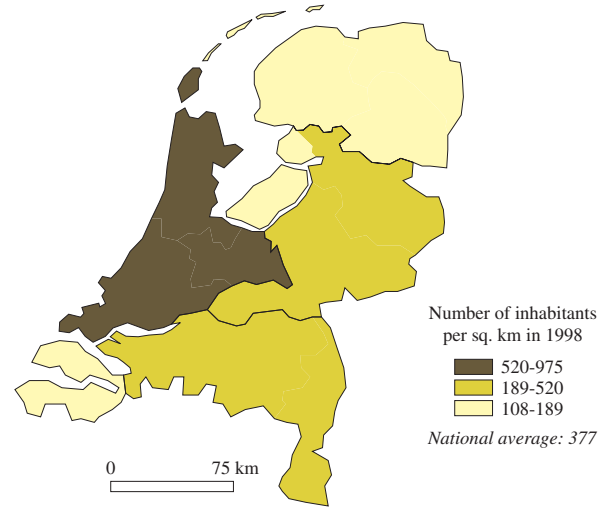
*Over the past decade the Netherlands has experienced sustained growth. While in 1998, given the great inertia of its settlement systems, population and wealth were to some extent still concentrated in the western regions, growth is evenly spread across the country. While there has been no tangible reduction in territorial imbalances, nor has there been any widening of what are in fact quite small inter-regional disparities.**

With 44 per cent of the country's population, the West Netherlands region is also the most densely populated. It includes the *Randstad*, the urban network formed by the four cities of Amsterdam, Rotterdam, The Hague and Utrecht, all specialised and similar in size. The least densely populated areas lie mainly along the Ijsselmeer coast, to the north.

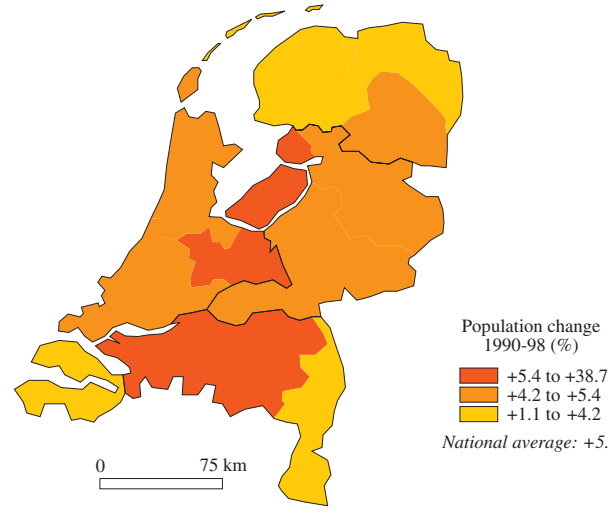
Major demographic trends during the 1990s show that the provinces adjacent to the West Netherlands region are making up ground while the most far-flung — Zeeland, Limburg, Groningen and Friesland — are growing more slowly. The new province of Flevoland (a new frontier reclaimed from the inner sea) is one of those with the highest growth.

By and large, the most prosperous regions are the most densely populated. It is in with the "growth engine" of the *Randstad* where most of the country's industrial and service activities are found that the per capita GDP are the highest. The province of Groningen to the north owes its place to the gas production; the inhabitants of the region draw few direct benefits from the exploitation of gas. The largely agricultural northern provinces are still lagging behind. Although three regions

Population distribution



Demografic change

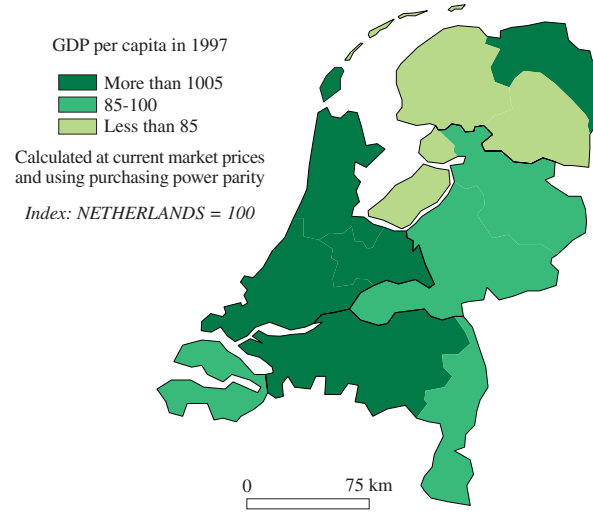


* The territorial grid and the sources of data are given in the Annex.

— North Holland, South Holland and North Brabant — account for 55 per cent of national GDP, against a background of sharply rising national wealth (up 16.5%), there has been very little widening of regional disparities.

The general increase in the number of jobs between 1990 and 1998 and the massive decline in unemployment (down 45%) over the same period have been spectacular. The West Netherlands accounts for 42 per cent of the overall increase in jobs, and the figure rises to 60 per cent including North Brabant. However, as employment is growing substantially in the northern provinces, the pattern is becoming relatively more balanced. Furthermore, Flevoland can rightly be described as a new frontier, with a 59 per cent rise in the number of jobs. Unemployment is declining in every region and there were only small inter-regional disparities in unemployment in 1998.

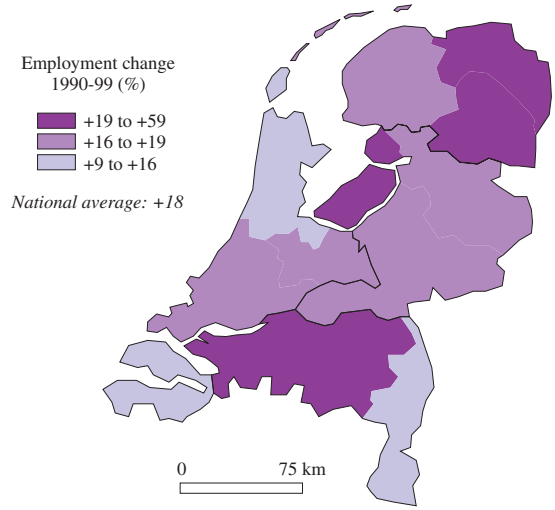
Gross domestic product



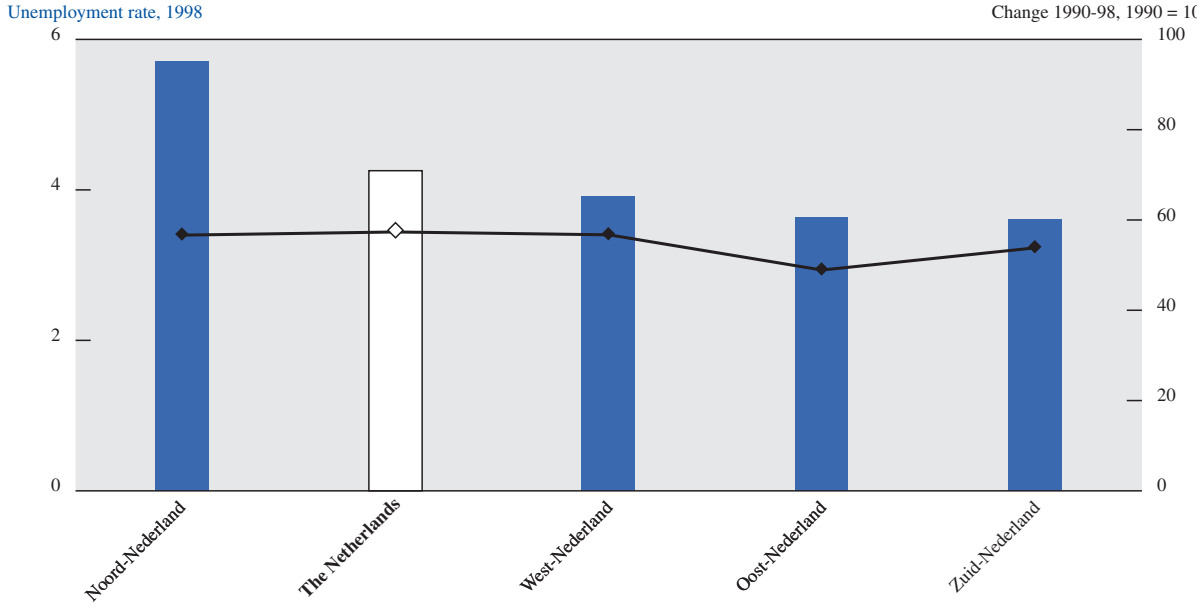
The Netherlands: Indexes of regional disparities

	1990	1995	1998	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	359	371	377	15 958	17 127	18 524
Median	325	335	340	15 006	16 365	17 480
Regional maximum	934	965	975	19 449	20 491	22 498
Regional minimum	88	106	108	12 442	12 498	12 803
Coefficient of variation	69	68	68	10.6	10.5	11.3
	Total population			*National GDP*		
Regional maximum (%)	21.6	21.6	21.5	22.8	22.4	22.3
3 regional maxima (%)	52.3	52.3	52.1	55.2	55.1	55.3

Employment dynamics

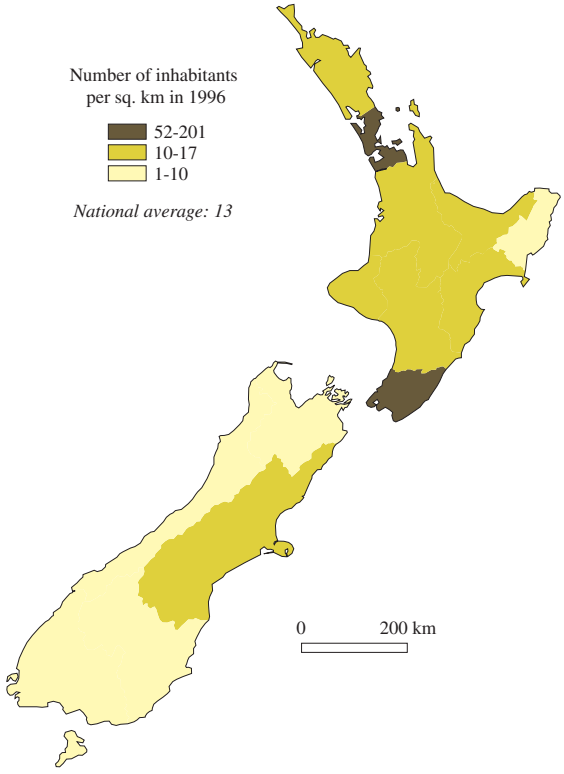


The Netherlands: Unemployment change

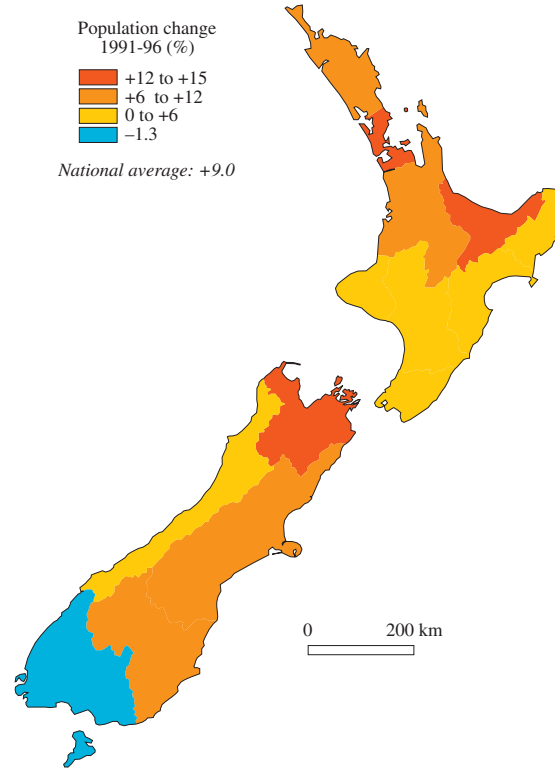


New Zealand

Population distribution



Demographic change



*In 1996, New Zealand looked to be a very dynamic country with regional disparities that were both relatively minor and were not widening. The contrast between the more developed North Island and the less developed South Island still persists, but is not increasing. However, while the balance in the country remains, thanks to the division of powers between the political capital, Wellington, and the economic capital, Auckland, the latter is posting more rapid growth and so reinforcing its role as the engine of national development.**

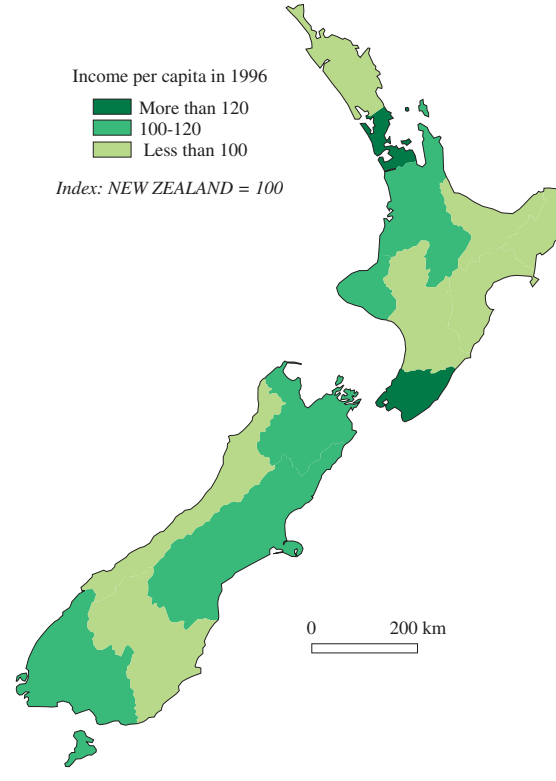
Looking at the distribution of the New Zealand population in 1996, there was a contrast between the North Island, where regional population densities are almost all in excess of 10 per km^2, and the South Island, which is considerably bigger and where population densities are lower. The exception is the region of Canterbury in the South Island, which is dominated by the town of Christchurch and where pop-

* The territorial grid and the sources of data are given in the Annex.

ulation density is relatively high. The New Zealand population is concentrated in a small number of urban areas. The three main such areas account for nearly 54 per cent of the total population, while the most densely populated region, Auckland in the northern part of North Island, alone has more than 1 million inhabitants, *i.e.*, over 29 per cent of the population of New Zealand. Wellington, the regional capital, has a population of just 425 000.

Between 1991 and 1996, the population of the country increased sharply, notably in the north of the two main islands. The main beneficiaries of the said growth were the regions of Nelson-Marlborough, Bay of Plenty and, above all, Auckland which saw its population rise by 15 per cent, which was 46 per cent of the entire country's population growth. Although just one region, Southland, has seen its population diminish, it is nevertheless true that territorial disparities have widened, to the advantage of the more urbanised regions. Evidence of this lies in the fact that the coefficient of change and also concentration are increasing in the three main regions (+1.1 points), and especially in the most important one (+1.5 points).

Income distribution



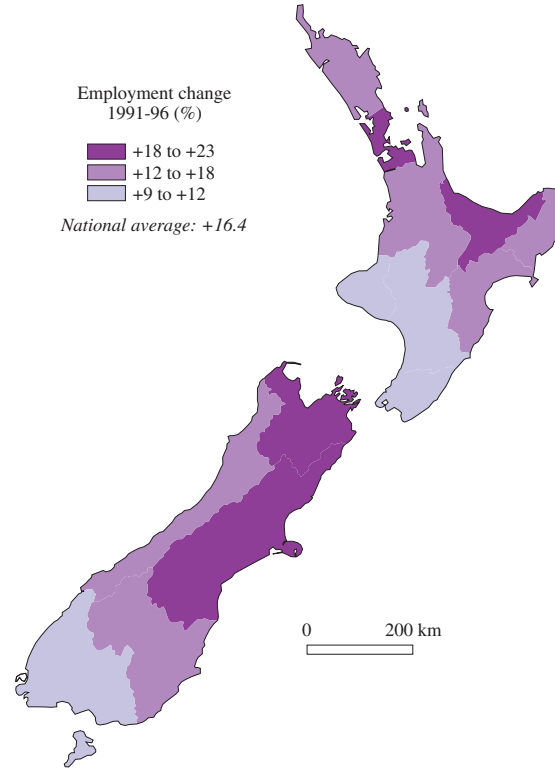
In 1996, the highest per capita incomes were found in the two most densely populated regions: Auckland and Wellington, a phenomenon that is common to most OECD countries. Immediately behind come the other urban regions such as Christchurch and Hamilton. The distribution of per capita income is very homogeneous: the mean deviation and the differentials between regional maxima and minima did not increase between 1991 and 1996.

New Zealand: Indexes of regional disparities

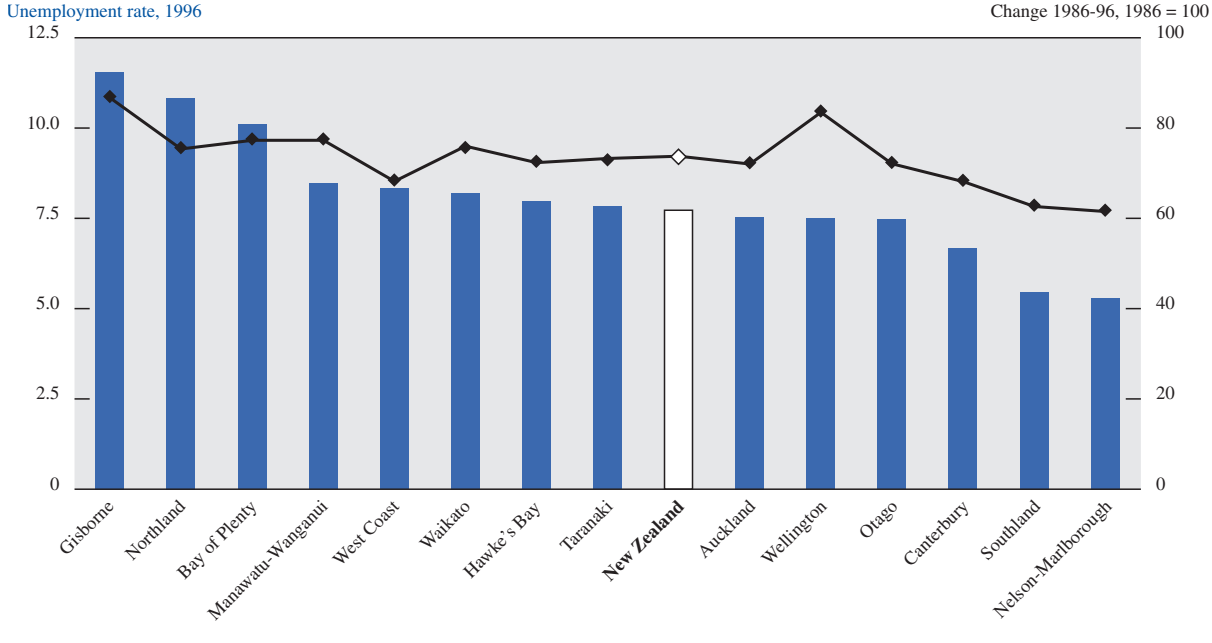
	1991	1996	1991	1996
	Density of population inhabitants per sq. km.		*Income per capita* current NZ$	
National average	12	13	14 396	15 992
Median	10	11	13 115	14 549
Regional maximum	174	201	17 555	19 006
Regional minimum	1	1	11 878	13 225
Coefficient of variation	198	208	11.6	11.7
	Total population		*National income*	
Regional maximum (%)	27.7	29.2	..	..
3 regional maxima (%)	52.8	53.9	..	..

Employment trends broadly match demographic trends. While employment is increasing everywhere, and substantially, the biggest increases are to be found in the regions where the population is rising most. In the metropolitan area of Auckland, for example, the buoyancy of activity is equal to that of the population, and that buoyancy is spreading to the neighbouring regions. Here again, the situation in the regional capital, Wellington, is relatively less favourable. The fact that the New Zealand economy is in good health is confirmed by the steep overall fall in the number of jobless. Generally speaking, the more populous regions in the North Island continued in 1996 to post higher unemployment than those in the South Island. The regions of the three main towns, Auckland, Wellington and Christchurch, have unemployment rates below the national average (close to 7%). It is in the capital region that unemployment is falling the least sharply. Territorial disparities in unemployment are small and are not widening.

Employment dynamics



New Zealand: Unemployment change

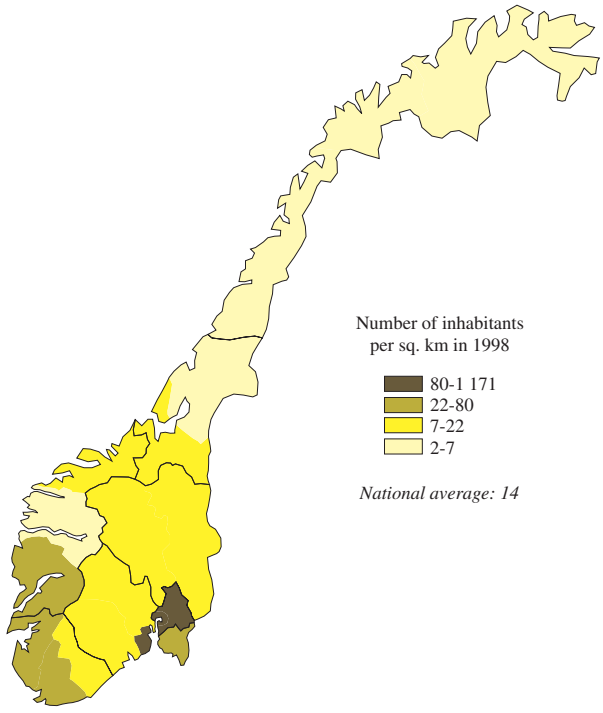


Norway

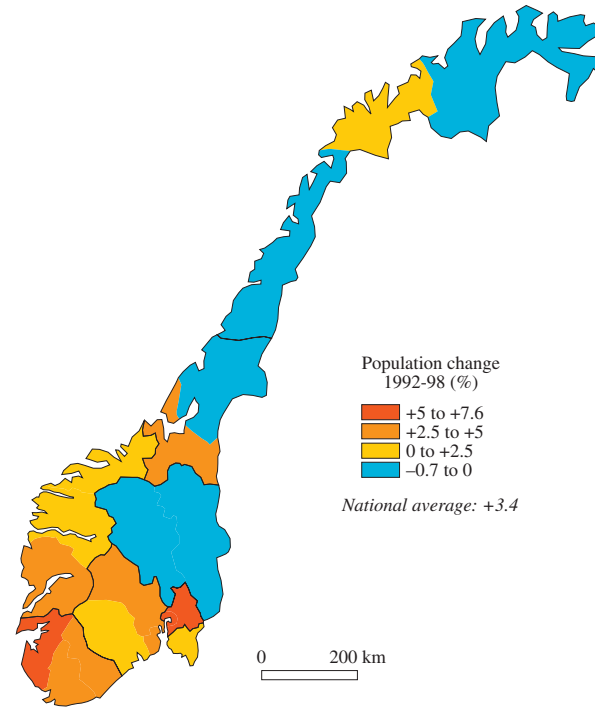
*Norway's economic buoyancy is having a variety of territorial repercussions. In spite of extremely low rates of unemployment, growth is mainly benefiting the southern regions and failing to narrow territorial disparities in wealth, the northern regions being more depressed. The development of the new economy might, in the medium term, reverse certain processes as the economically vibrant Troms region is doing in the north of the country.**

Like its two closest Scandinavian neighbours, Norway has a sparsely populated north, with fewer than 7 people to the square kilometre, and a more urban, densely populated south. The highest densities are found in the regions around the cities of Oslo, Bergen and Stavanger, but only in the Oslo region do they exceed 80 people per square kilometre. Owing to this highly differentiated pattern there is relatively little concentration, with nearly one Norwegian in five living in Oslo in 1998 and 45 per cent living in the three main urban areas of Oslo, Bergen and Trondheim.

Population distribution



Demographic change

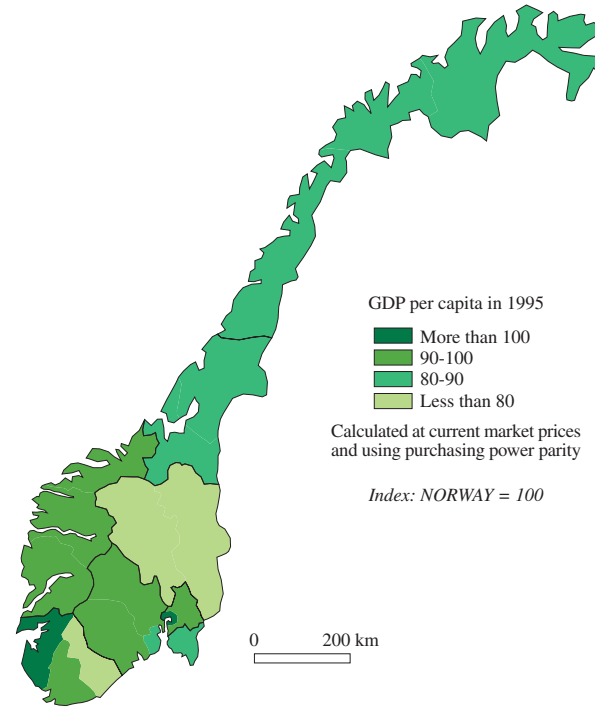


* The territorial grid and the sources of data are given in the Annex.

With a north where the population is declining and a south recording the highest increases, particularly in the metropolitan areas of Oslo and Stavanger, demographic trends are giving an even more marked picture of a country split in two. Furthermore, the population has become more concentrated over the past decade in the three main cities. The combined impact of these two trends is widening disparities in settlement patterns, as the rising coefficient of variation shows.

Oslo and Stavanger have the highest per capita GDP, above the national average. By and large the south, apart from the fairly unurbanised region of Hedmark and Oppland, is more prosperous than the north. Thirty per cent of the country's wealth is produced by the capital region and over half of its GDP is generated by the three main urban regions in the south — Oslo, Bergen and Trondheim. Over a short-term period of three years, productivity has remained stable in all three regions.

Gross domestic product



Norway's economic buoyancy led, between 1992 and 1998, to a sharp increase in employment (up 8.8%) and a massive reduction in unemployment (over 50%). Its performance has had relatively uneven territorial repercussions. The sharpest rises in employment are found in the south. The only exception is the region of Oslo, which corresponds to the central city, where the number of jobs is declining.[6] This is not specific to the Norwegian capital; the relative decline of central cities is a feature of several European countries. While all of the northern cities have had employment gains below the national average over the past decade, job supply in the Troms region was far greater in 1998 than in 1992. The rise is to a large extent due to increased number of public sector jobs, jobs in business services and other private services. Retail trade

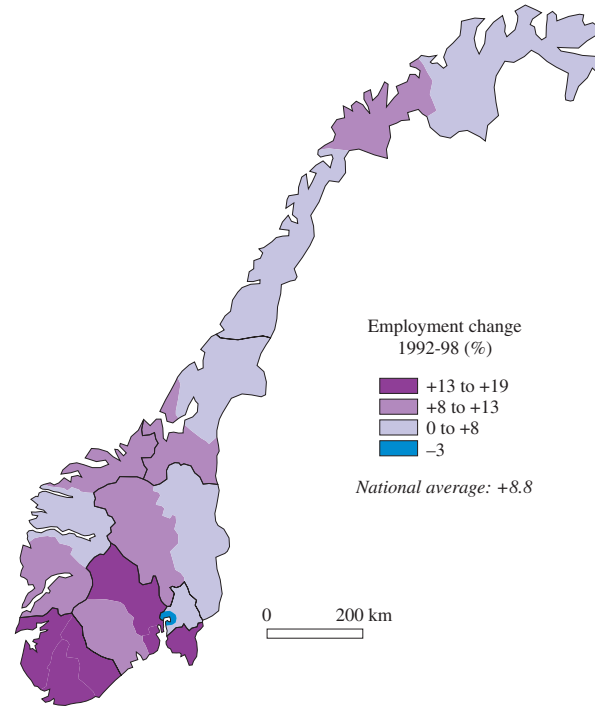
Norway: Indexes of regional disparities

	1992	1995	1998	1992	1995
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	14	14	14	18 448	20 471
Median	14	14	15	16 046	18 426
Regional maximum	1 096	1 133	1 171	35 306	39 506
Regional minimum	1.6	1.6	1.6	14 461	15 377
Coefficient of variation	310.8	315.6	321.3	33	33
	Total population			*National GDP*	
Regional maximum %) [a]	20.8	21.1	21.6	30.7	30.0
5 regional maxima (%)	44.4	44.9	45.4	53.6	53.1

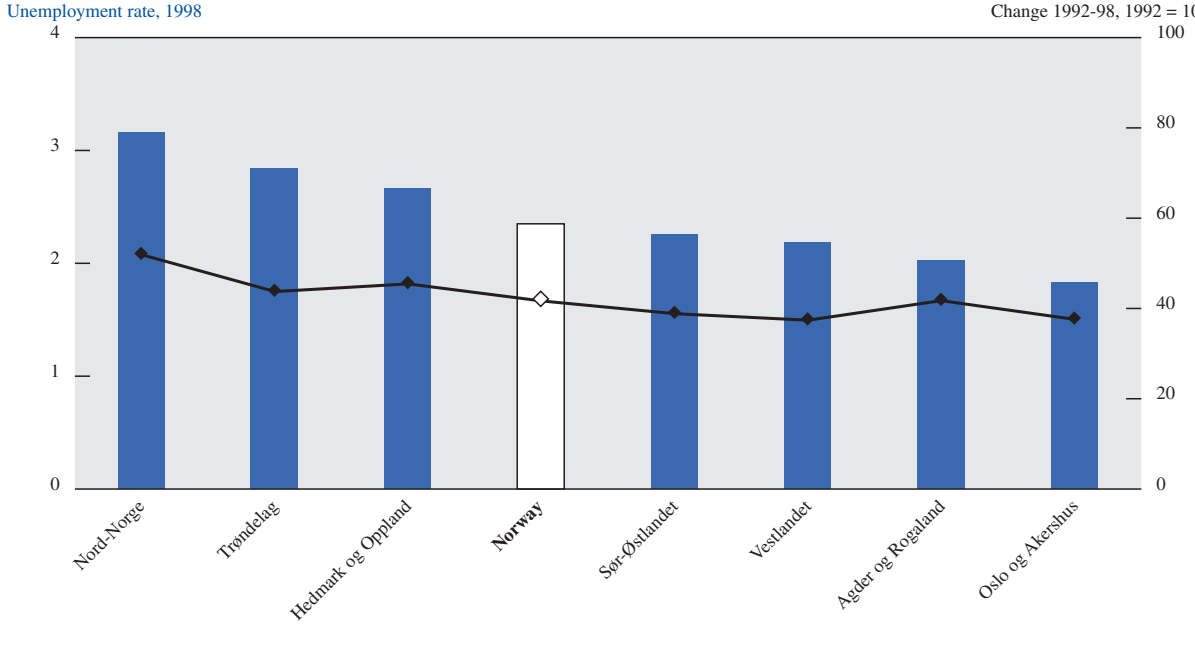
a) The regions of Oslo and Akershus have been merged to form the capital region.

and construction made also a considerable contribution as well as the development of businesses linked to information and communication technologies. These highly differentiated effects of growth are compounded by regional disparities in unemployment rates. While these are below 4 per cent throughout the country, the highest rates are found in the north and the lowest in the three urban regions of the south. Trends in these rates indicate a widening of territorial disparities: the unemployment decrease being relatively greater in the south than in the north.

Employment dynamics



Norway: Unemployment change



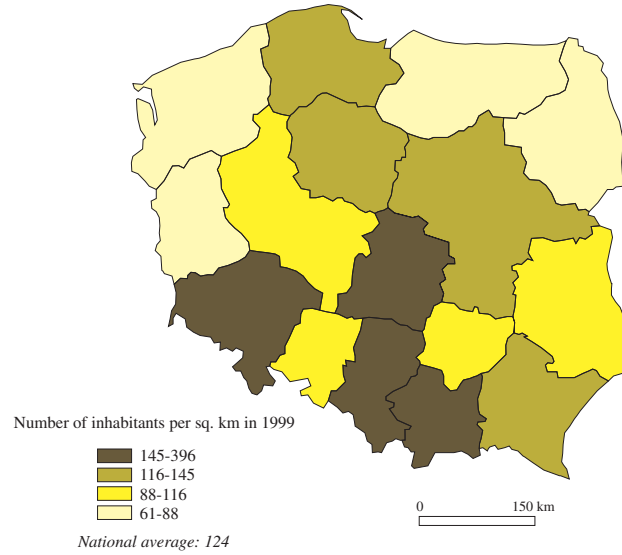
Poland

*In the second half of the nineties[7], Poland has shown clear signs of economic renewal: a substantial fall in unemployment and sustained growth in GDP and employment. But this dynamism is not spread equitably across the country. In the period of 1996-1997 the real growth of GDP was the highest (above the real growth for Poland — 13,4%) in Mazowieckie, Warmińsko-Mazurskie and Wielkopolskie regions. In 1998, in terms of per capita GDP, the best results achieved the following regions: Mazowieckie, Wielkopolskie and Sląskie. In the years 1995-1998 high growth of per capita GDP was noted in Mazowieckie, Swiętokrzyskie and Małopolskie regions, and the lowest in Lódzkie, Sląskie and Pomorskie.**

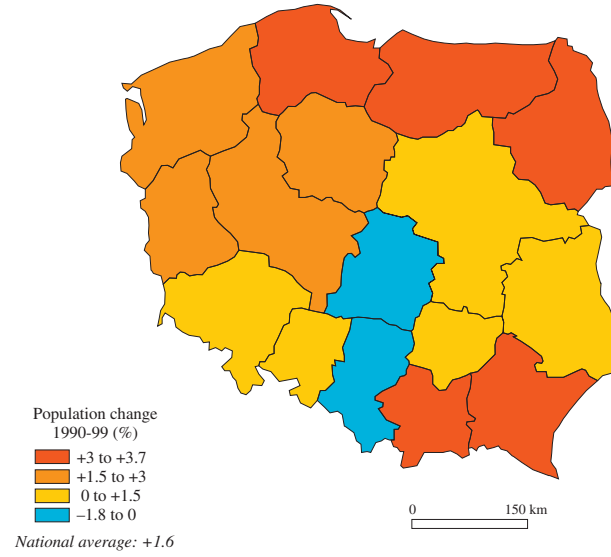
The characteristic feature of the distribution of population across Polish territory is its manifest homogeneity. No region[8] is really dominant. The Mazowieckie region (including the capital Warsaw) which is the largest in terms of area, accounts for 13 per cent of the total population of the country whereas the Sląskie region (including Katowice) with 12.6 per cent of the national population ranks 14th in the country in terms of area. The Lubuskie region in the West and the Opolskie region in the South account for below 3 per cent of the total population of the country with population numbers 1 023.5 thousand and 1 088.3 thousand respectively.

Population growth in the period between 1990 and 1999 — generally fairly low (+1.2%) — has benefited both the large northern part of the country, for example Warmińsko-Mazurskie (3.5%), and Pomorskie (3.4%) regions where there is very little urban development, and the extreme South-east of the country, mainly Małopol-

Population distribution



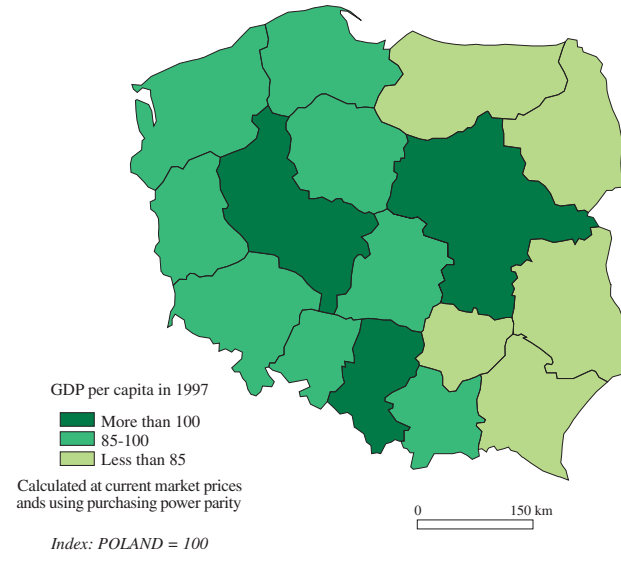
Demographic change



* The territorial grid and the sources of data are given in the Annex.

skie — including Krakow — (3.3%) and Podkarpackie regions (3.7%). The very dense region of Lódzkie in the central Poland and Sląskie in the South have experienced falling populations, and the population of the Mazowieckie region has increased only slightly. The decrease was noted both in Sląskie and Lódzkie regions (-1.8% respectively). The disparities in the distribution of the population have diminished, as the reduction in the coefficient of variation shows.

Gross domestic product



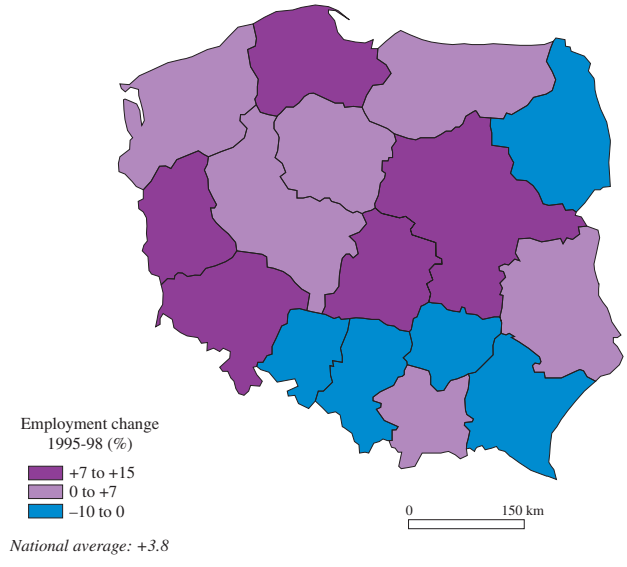
In terms of GDP generated[9], 3 regions (Mazowieckie, Sląskie and Wielkopolskie) noted the highest shares in the total GDP. They accounted for about 43 per cent of the total GDP generated in 1997. In contrast, the lowest shares in the total GDP — below 3% each — had the following regions: Podlaskie, Lubuskie, Swiętokrzyskie, Opolskie and Warmińsko-Mazurskie. The distribution of per capita GDP in 1997 showed a clear division between the western part of the country, which is richer, and the eastern part, which is poorer. Only Mazowieckie, the capital region and the richest in the country, disturbed this symmetry. During the short period between 1995 and 1997, per capita GDP increased overall (+13%) but the gap between the richest and the poorest regions grew even wider, the coefficient of variation increased by 4.7 points. This increase in territorial disparity benefited the Mazowieckie region, in which nearly 20 per cent of national wealth was concentrated in 1997, an increase of nearly 2 points on 1995.

Over the period 1995-98 almost all regions showed positive signs in economic and social developments. It can be observed on the basis of changes in employment (+3.8% growth for Poland) and unemployment (-18.2% decrease for Poland) figures. Virtually all regions North of Silesia experienced and increase in the nmber of jobs, sometimes a substantial increase. The highest growth in employment, in the range between 15 per cent and 12 per cent, was seen in the Dolnośląskie, Pomorskie and Lubuskie as compared to the decrease in Podkarpackie (almost 10%) and Opolskie (-8.2%) regions. In comparison to 1995, the rate of unemployment in 1998 has fallen in all the regions (except for Opolskie), most in Małopolskie (by 6.5 points), Pomorskie (by 5.4 points) and Wielkopolskie (by 4.7 points), least in Sląskie and Zachodniopomorskie regions (0.4 points and 0.9 points.

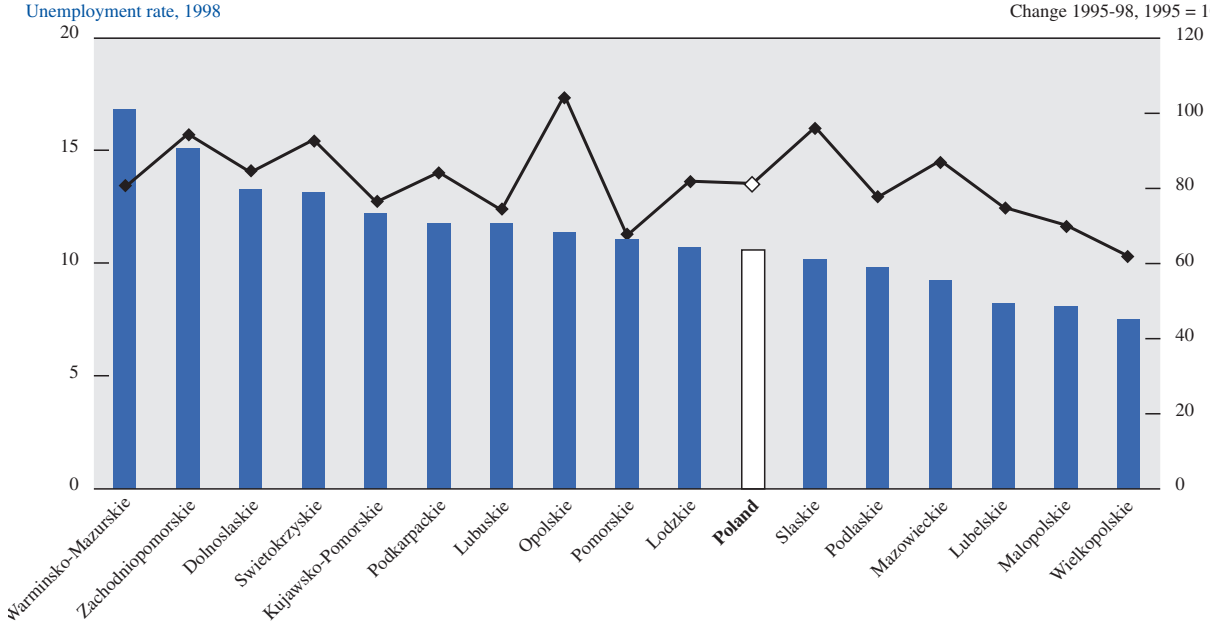
Poland: Indexes of regional disparities

	1990	1995	1999	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	122	123	124	5 375	6 082
Median	114	116	116	4 898	5 320
Regional maximum	403	399	396	7 279	9 130
Regional minimum	58	60	61	3 940	4 286
Coefficient of variation	55.2	54.0	53.5	18.9	23.6
	Total population			*National GDP*	
Regional maximum (%)	13.1	13.1	13.1	17.8	19.7
3 regional maxima (%)	34.7	34.4	34.4	41.8	43.6

Employment dynamics



Poland: Unemployment change

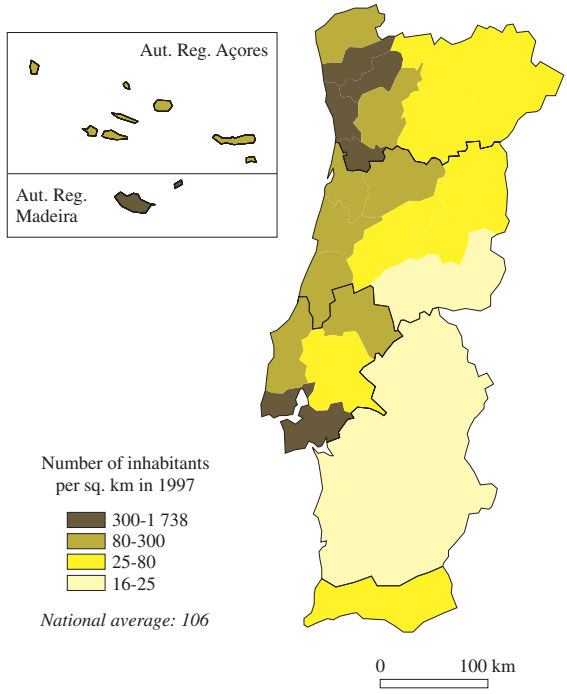


Portugal

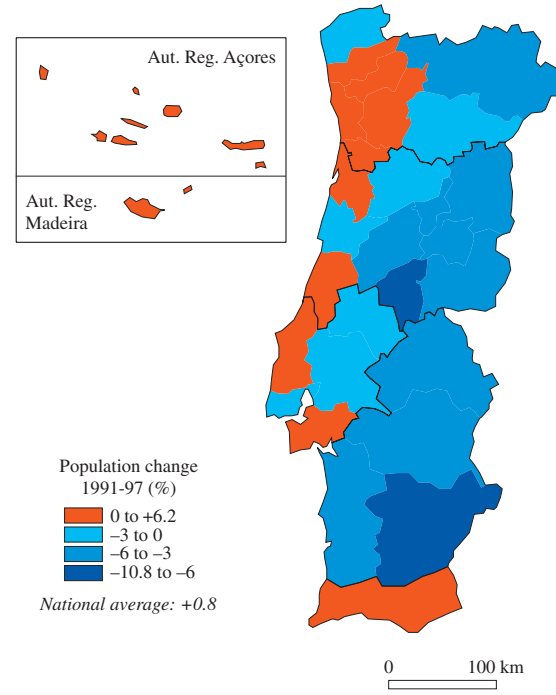
*Portugal's success in making up economic ground appears to be benefiting most of its regions. Although wide territorial disparities persist, the gaps have been closing over the past decade. This would indicate that Portugal, a cohesion country, has passed the initial stage of economic transition — when growth benefits the more successful urban areas — and entered the next phase of development, when efforts focus on the most depressed regions.**

Population distribution in Portugal shows a contrast between the densely populated north and the south (excluding the Algarve) with fewer than 25 people per square kilometre. This is compounded by another strong contrast between coastal areas (except for the Alentejo coast), which have over 80 people to the square kilometre, and inland regions. Accounting for some 20 per cent of the Portuguese population in 1997, the Lisbon region ranks highest with 1 738 people to the square kilometre. Thirty-nine per cent of people in Portugal live in the metropolitan areas of Lisbon and Porto.

Population distribution



Demographic change

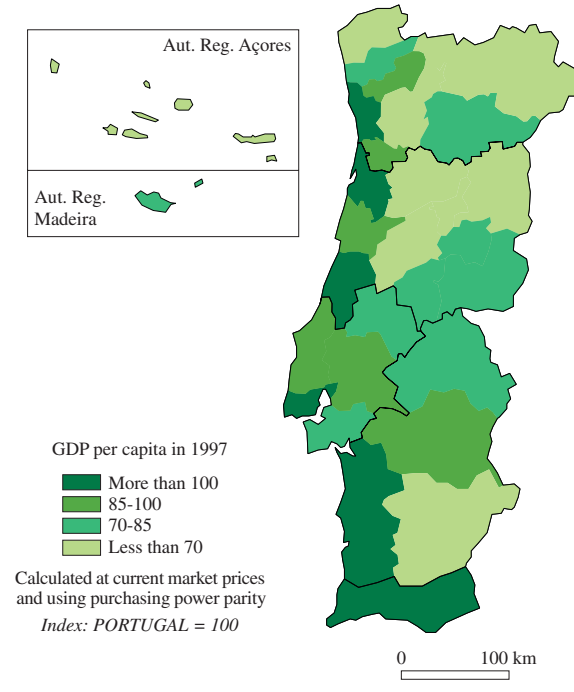


* The territorial grid and the sources of data are given in the Annex.

Far from reversing the trend, demographic changes over the past decade are substantially widening these uneven settlement patterns. The biggest increases in population are found along the coast and in the Azores and Madeira regions. The rest of the country is seeing its population decline, with the largest decreases (averaging 4.2%) in the remote inland areas along the border with Spain.

Industry and services, with their higher value-added, are concentrated in the coastal regions, while those inland remain largely agricultural and not very productive. In 1997, 30 per cent of Portugal's GDP was generated by a single of Portugal's 30 NUTS III regions and nearly double that figure by the five most productive regions. However, in spite of these strong contrasts, territorial disparities in per capita GDP appear to have narrowed. Between 1990 and 1997, two third of the Portuguese regions, in which the Madeira region, have a GDP growth rate over the national average while a group of ten regions (Grande Porto, Grande Lisboa, Azores, etc.) shows a weakest growth. Over a short-term period, all the indicators confirm this, with reductions in the ratio of the wealthiest to the poorest regions, in the coefficient of variation and in the concentration of production. Furthermore, in 1995 the disposable income of families was more evenly spread across regions compared to the national average (-216, +212) than was the case for GDP (-475, +414). The economic ground made up by Portugal compared to the EU average appears to be benefiting all regions.

Gross domestic product



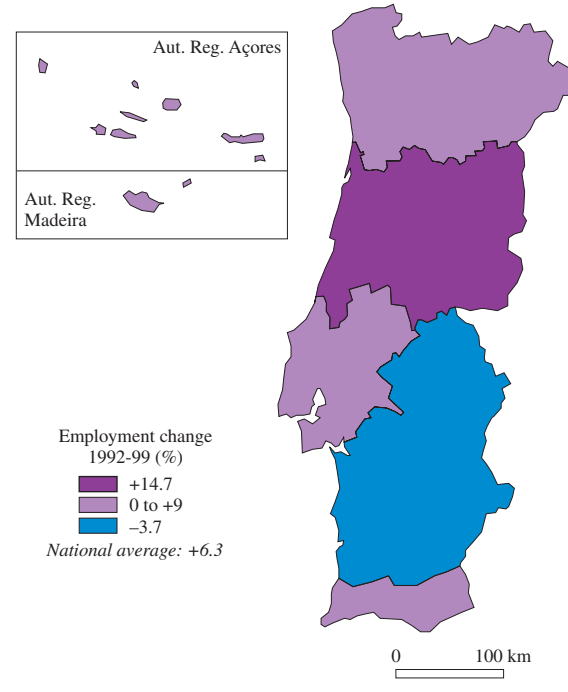
Portugal: Indexes of regional disparities [a]

	1990	1995	1997	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP	
National average	106	106	106	10 454	11 147
Median	75	75	75	8 349	8 870
Regional maximum	1 738	1 739	1 741	17 068	17 350
Regional minimum	16	16	17	5 280	5 938
Coefficient of variation	223	224	225	34.6	32.2
	Total population			*National GDP*	
Regional maximum (%)	19.6	19.5	19.5	31.1	30.4
5 regional maxima (%)	49.1	49.7	50.0	60.4	59.0

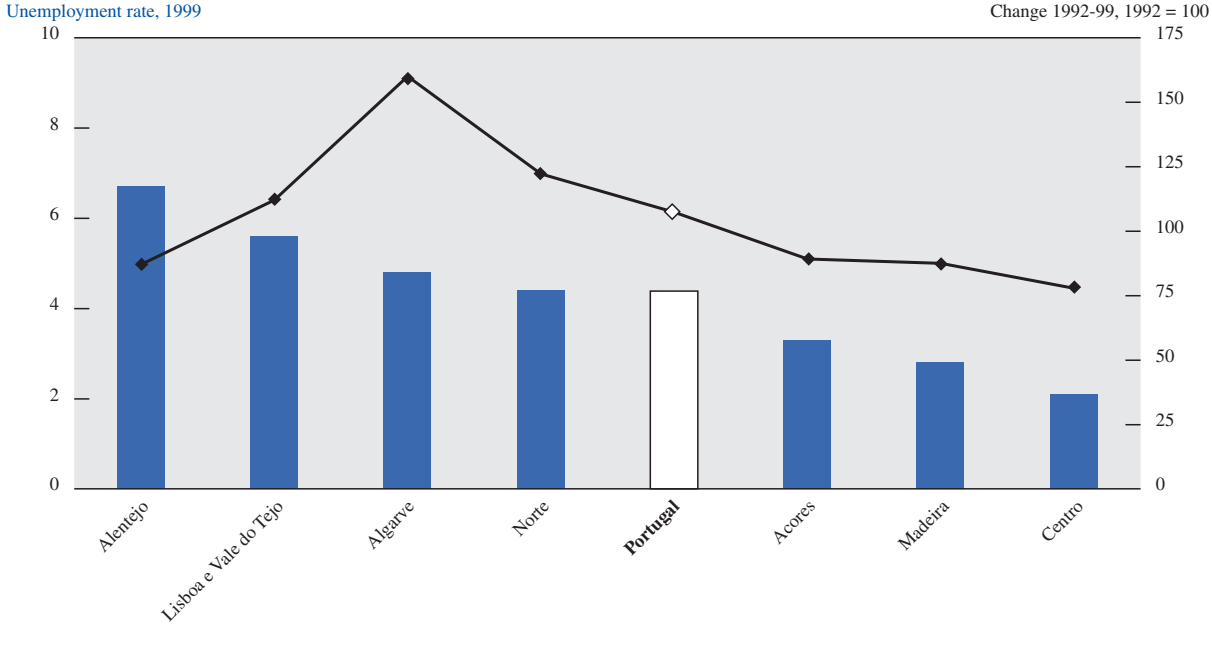
a) Without the Azores and Madeira.

Portugal's unemployment rate in 1999 was slightly higher than in 1992 (4.4% as compared with 4.1%). This broad trend does, however, mask some contrasting territorial realities. For example, after 1992 unemployment increased in all NUTS II regions, peaking at 7.3 per cent nation-wide in 1996. After 1995-96, this trend was reversed and led to a generalised drop in unemployment rates across regions, especially in the Alentejo (falling from 11.8% in 1995 to 6.7% in 1999) and in Lisbon and Vale do Tejo (from 9.1% in 1995 to 5.6% in 1999). Despite the similarity of unemployment trends, employment dynamics are not the same across regions. The Alentejo, for example, remained the only region in which the job supply diminished between 1992 and 1999, the decline in this rate over the past decade being largely the result of outmigration. Conversely, the Algarve and the Centre show significant increases in employment. In the island regions, the evolution of unemployment rate has followed the country tendency, remaining however always below the national rate. Otherwise, due to the growth that occurs at the end of the period, the number of jobs in 1999 is higher than in 1992 in Azores as well as in Madeira regions.

Employment dynamics



Portugal: Unemployment change

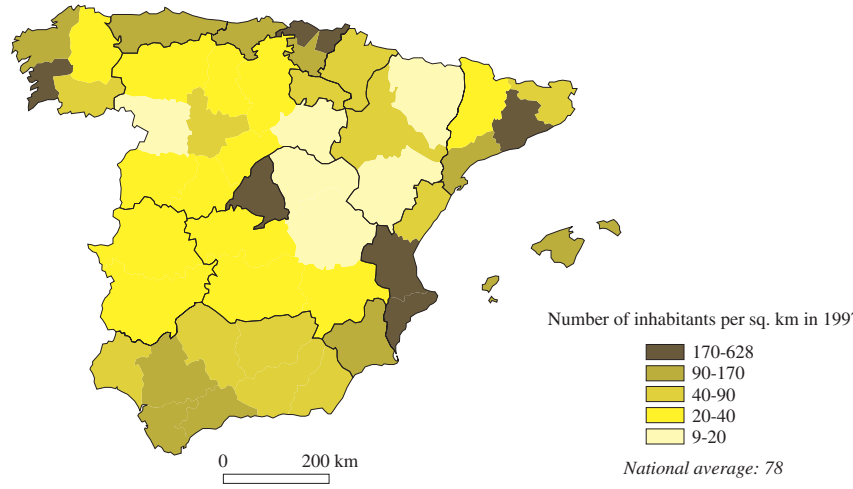


Spain

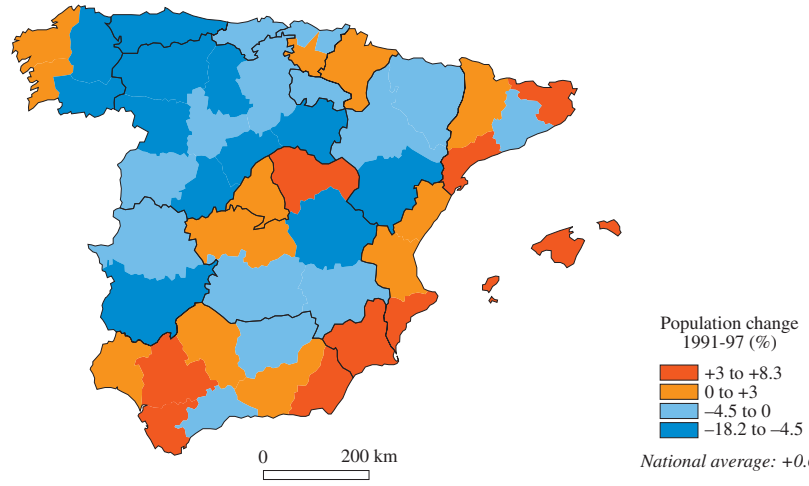
*Social and economic inequalities are a well-established feature in Spain and have not narrowed in spite of the country's success in making up economic ground over the past decade. If anything, they have widened. Most of the economic activity and wealth is still concentrated in the northeastern quarter of the country as far as Madrid, while the south and northwest hold the unfortunate record for the highest unemployment rates in Europe. In the medium term, any hope of a more even balance seems doubtful.**

Spain is a country that is not densely populated. Its population pattern resembles what is commonly called the Paris model, with a dominant metropolitan region around Madrid (home to one Spaniard in five), and a vast and sparsely populated periphery. The other major settlements are dotted

Population distribution



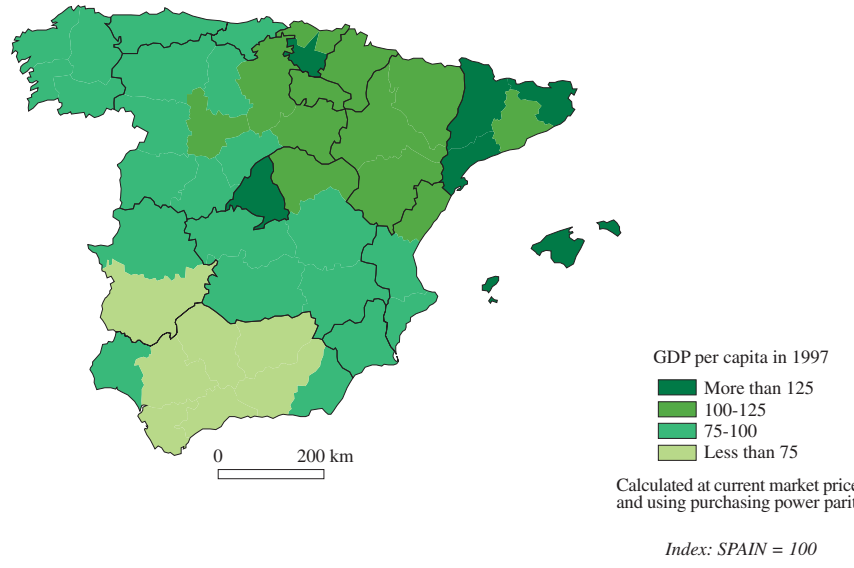
Demographic change



* The territorial grid and the sources of data are given in the Annex.

along the coastlines, on the Atlantic from the Basque Country to Galicia but more importantly on the Mediterranean from Catalonia to Andalusia. The five largest provinces account for over one-third of the Spanish population and Barcelona is the only metropolitan area that could be compared to the capital region.

Gross domestic product



Recent population trends are increasing the imbalances in settlement patterns. Over half of the provinces, most of them rural, are seeing their populations decline, in some cases very sharply as in Castilla y León or Extremadura, while much of the demographic growth is concentrated along the Mediterranean, heightening the contrast between coastal and inland areas, and around the major cities.

The distribution of per capita GDP in 1997 reveals a productivity gradient running from the northeast to the southwest and dividing Spain into three. With GDP figures higher than the national average, the broad north-eastern quarter of the country — with Madrid, Catalonia and the Basque Country, plus the Balearic Islands — still account for most of the country's economic activity. An intermediate area stretches from Galicia to Murcia, where productivity is slightly below the national average. Finally, a pocket of low productivity is centred on Seville and covers the rural provinces of the upper Guadalquivir valley. The more densely populated areas on the Andalusian coast have a higher productivity and economic dynamism. This uneven distribution of "wealth" was already visible in the early 1990s. In 1997, therefore, the gaps are widening very little, as the stable coefficients of variation and concentration indices show.

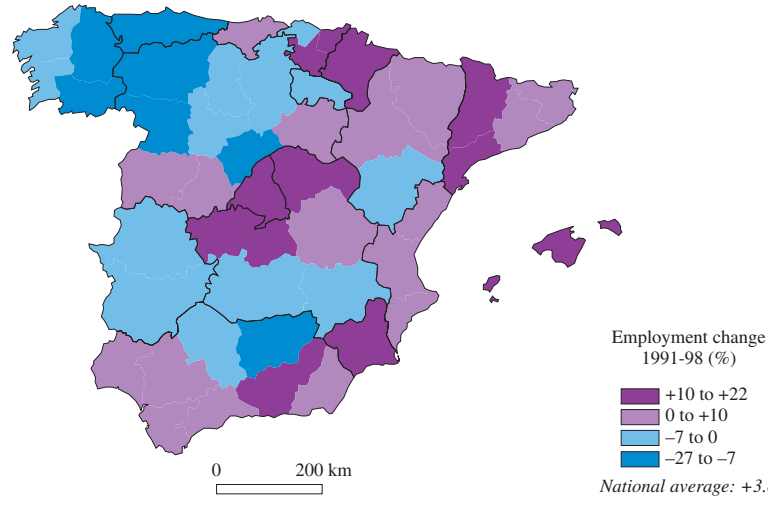
Spain: Indexes of regional disparities [a]

	1991	1996	1997	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	77	78	78	12 033	12 766	13 200
Median	54	54	53	11 082	11 835	12 219
Regional maximum	615	630	630	19 075	18 592	19 163
Regional minimum	10	10	9	6 983	7 733	7 842
Coefficient of variation	146	146	147	22.0	22.5	22.3
	Total population			*National GDP*		
Regional maximum (%)	12.5	12.7	12.8	16.4	16.8	16.9
5 regional maxima (%)	37.0	37.6	37.6	43.6	43.9	43.9

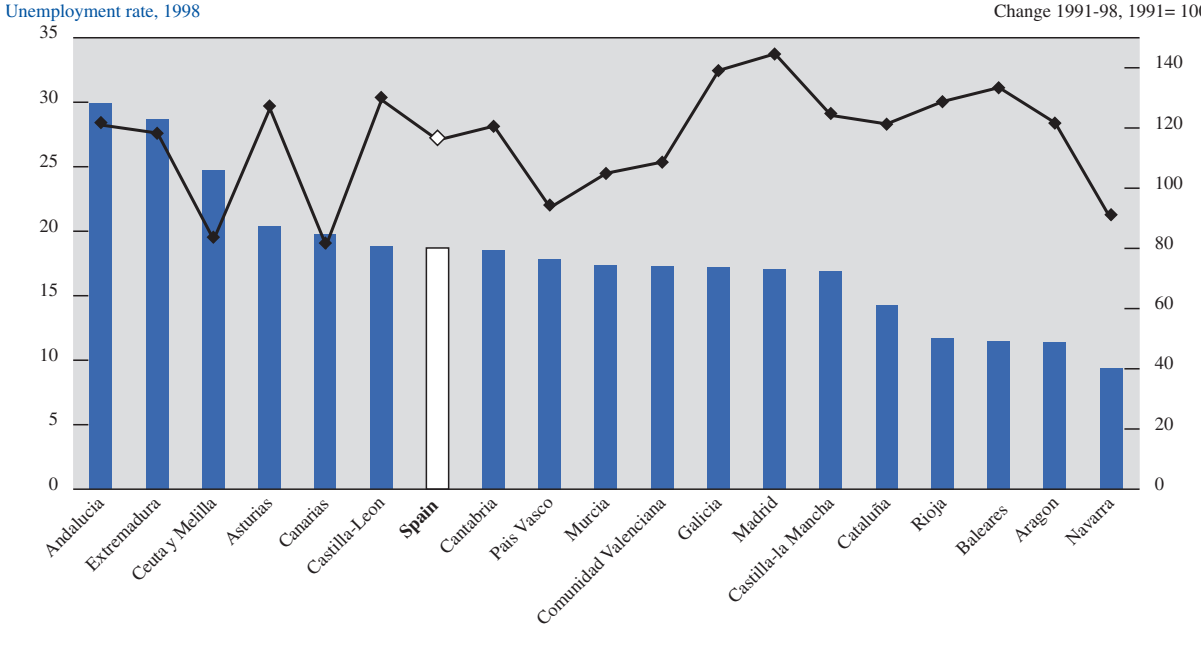
a) Without Canarias, Ceuta and Melilla.

The regions generating more jobs are roughly the same as those registering a gain in population. The two processes are combining to make territorial imbalances more marked. Madrid and the coastal regions to the east and south are continuing to expand, while the northwest and inland regions are seeing their population and job supply decline. Madrid and Barcelona alone account for 28 per cent of total employment. The breakdown of unemployment is one contributory factor: with rates of less than 15 per cent of the labour force, the north-eastern quarter clearly contrasts with the rest of the country, where rates are as high as 30 per cent. The sharp increases in these rates affecting the north-eastern regions (>10%) will not suffice in the medium term to rebalance growth, since the threaten areas of Galicia, Asturias and Extremadura combine sharply rising unemployment with fewer and fewer jobs.

Employment dynamics



Spain: Unemployment change

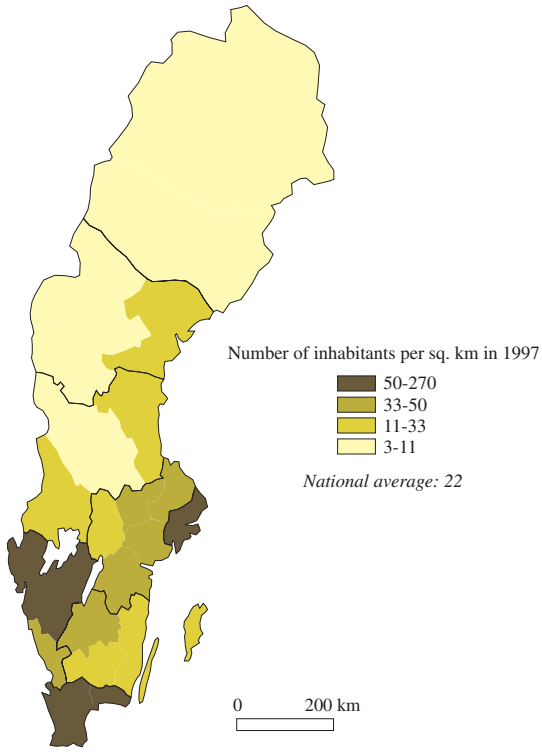


Sweden

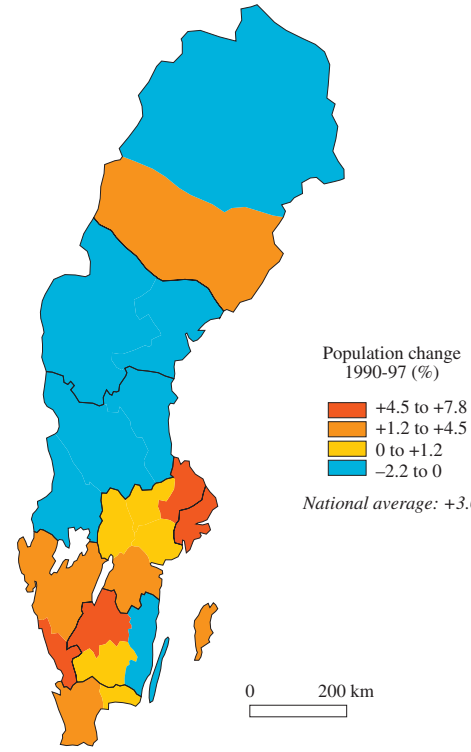
*The recession of the Swedish economy during the 1999s, especially during the first half, did affect every region. This seems to have been accompanied by a greater concentration of wealth in the main urban regions of the south, their share of GDP rising from 56 per cent in 1990 to 63 per cent in 1997. Spectacular increases in unemployment rates from 1990 to 1998 in Stockholm and Malmö, for instance, did not herald a more even balance between north and south in the medium term. After 1997, the Swedish economy has considerably recovered and is at present among the strongest in Europe, not least thanks to the development within the IT-sector.**

Population patterns reveal two major features. The relatively densely populated south is distinct from the north, where large areas have fewer than 10 people per square kilometre. The majority of the population is concentrated in the three urban regions in the south around Stockholm, Göteborg and

Population distribution



Demographic change



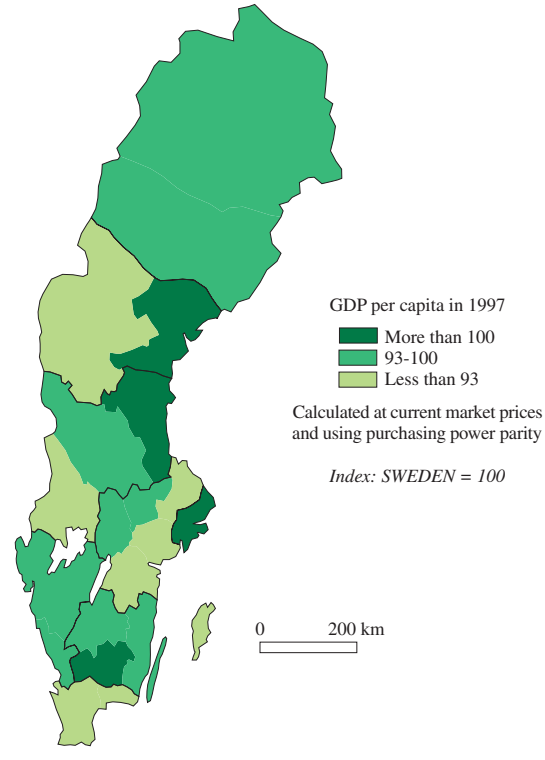
* The territorial grid and the sources of data are given in the Annex.

Malmö, the only places with densities of over 50 people per square kilometre. One in five Swedes lives in Stockholm and nearly six in ten live in the five largest regions of the south.

Demographic trends are widening the divide between north and south. The three northern regions are seeing their populations' decline, unlike the three urban regions in the south where they are on the rise. Stockholm has increased its primacy further with an increase of 6.7 per cent between 1990 and 1997, compared with a national average up 4.7 per cent.

The breakdown of per capita GDP is rather different from that of the population. The highest per capita GDP figures, above the national average, are mainly found in two southern regions but also in two regions on the northern coast (Norra Mellansveridge and Mellersta Norrland) around the towns of Gävle and Sundsvall. In the south, GDP growth has accompanied an increase in population and therefore reflects genuine growth in productivity. In 1997 the Stockholm region accounted for 25.2 per cent of national GDP and the five top regions for 63 per cent. Whereas population concentration remained almost stable between 1990 and 1997, the concentration of GDP rose 7 points, benefiting the five main urban regions in the south (Stockholm, Göteborg, Malmö, Jönköping and Linköping). This too reflects the traditional north/south divide in Sweden. Only the relatively high figures for per capita GDP in the most northerly region do not fit into the pattern. They can mainly be explained by the location of capital intensive water power stations, mining, steel and paper industries in the northern inland respective coastal regions.

Gross domestic product

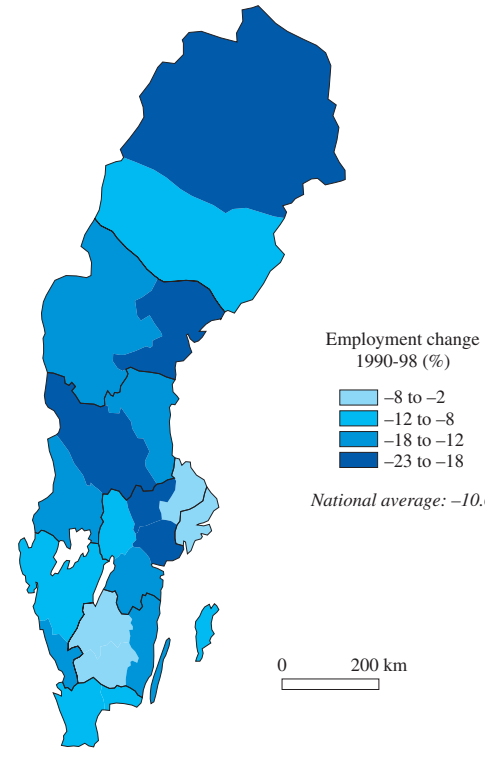


Sweden: Indexes of regional disparities

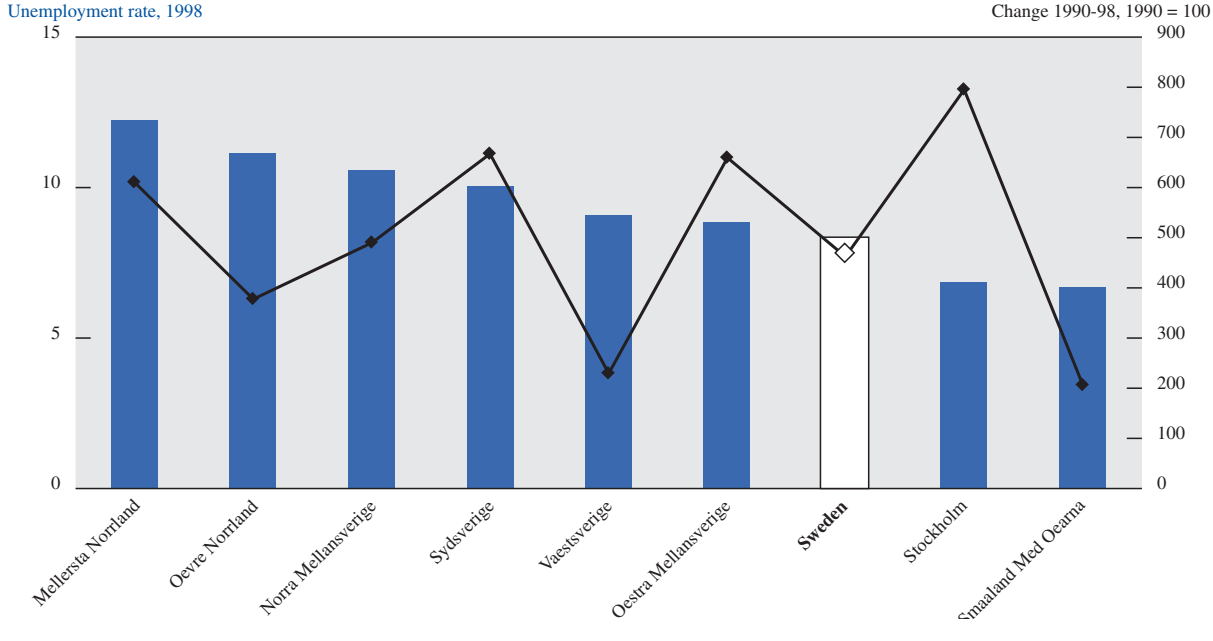
	1990	1995	1997	1990	1995	1997
	Density of population inhabitants per sq. km.			*GDP per capita* at constant prices (1990) $ - PPP		
National average	21	21	22	16 957	16 880	17 368
Median	31	31	32	16 057	16 066	16 593
Regional maximum	253	265	270	20 383	20 364	20 928
Regional minimum	3	3	3	14 550	14 382	14 579
Coefficient of variation	173	176	178	10.4	10.9	10.9
	Total population			*National GDP*		
Regional maximum (%)	19.1	19.5	19.8	21.7	23.5	25.2
5 regional maxima (%)	56.8	57.2	57.6	56.3	59.3	63.0

Job supply in Sweden fell sharply between 1990 and 1998, while unemployment rates rose spectacularly by an average of some 380 per cent. However, this has not affected every region in the same way. The highest unemployment rates (over 10 per cent) are found in the three northern regions, which have also seen the steepest decline in the number of jobs. Yet it was the three urban regions to the south of the country — Stockholm, Malmö and Jönköping — that registered the sharpest increases in unemployment between 1990 and 1998; Stockholm, in spite of a small decrease in jobs, peaked with a 700 per cent increase in unemployment. The growing attractiveness of the southern metropolitan areas, at a time of crisis, is a major factor here. Only the Göteborg region comes out better, with a markedly smaller rise in unemployment. It should be noted that since 1997 the situation has changed dramatically. Thus the unemployment rate has fallen and during the autumn this year it is expected to go down to 4 per cent of open unemployment.

Employment dynamics



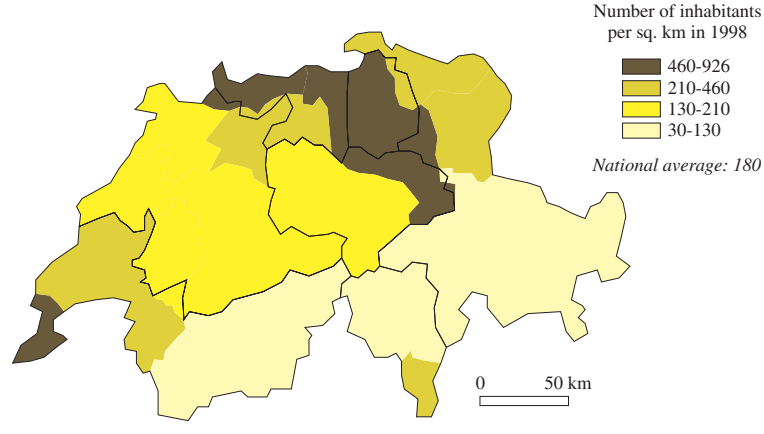
Sweden: Unemployment change



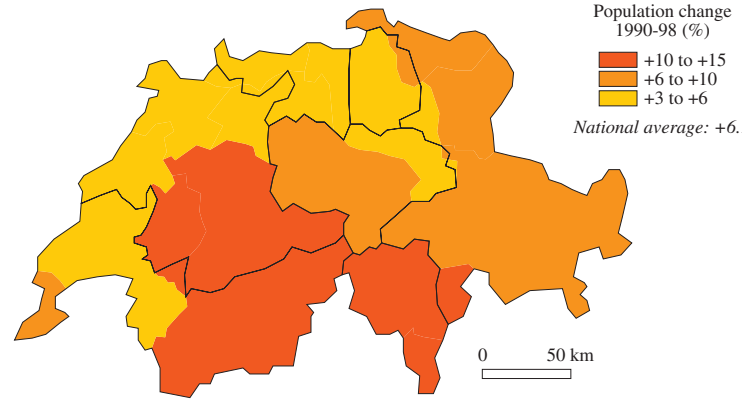
Switzerland

*Over the past decade, declining employment and growing unemployment have been signs of a relative weakening of the Swiss economy. In this context, the relatively balanced economic performance of the country's major centres has shifted somewhat to the advantage of Switzerland's economic capital, Zurich, and its neighbouring regions in the eastern part of Switzerland. Although demographic trends show that the sharpest increases were in Alpine regions, employment trends followed a different pattern. On the whole, employment fell most sharply in French and Italian-speaking urban and industrial areas. Furthermore, the greatest losses were in all the border regions that employ large numbers of cross-border workers. Although regional inequality indices remain at the same level as ten years ago, this is because they fail to account for the trend in favour of «intermediate" areas and medium-sized cities, such as the regions of Bern and Lucerne, and the deterioration in the outlying areas of the Jura or the Alps.**

Population distribution



Demographic change

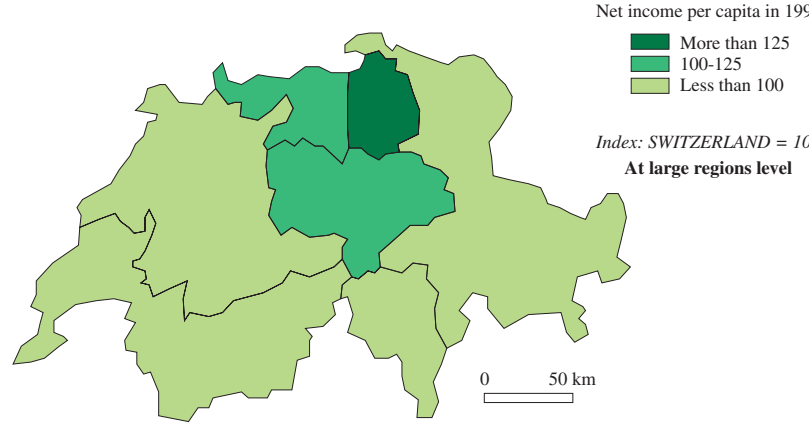


Two areas of concentrated settlement stand out in a country that is densely populated, but has wide disparities in population density because of its topography: a long northern arc in German-speaking Switzerland that includes the conurbations of Zurich and Basel; and the regions around lake Geneva together with the poles of Geneva and Lausanne in the west. The other labour market areas with popu-

* The territorial grid and the sources of data are given in the Annex.

lation densities above the national average are adjacent to the Zurich region: St-Gallen, Winterthur and Aarau-Olten. The lowest densities are in the Alpine arc, with the exception of Lugano.

Income distribution



No labour market areas lost population between 1990 and 1998. Demographic growth was above 10 per cent across a large, continuous area covering the Alps and Pre-Alps as far as Ticino, where the population densities are relatively low. On the other hand, the population grew by less than 6 per cent in the most heavily populated and urbanised areas of the "midland" (the plain between the two mountain ranges), such as Zurich, Basel and Lausanne, and in the industrial arc of the Jura region. The only exception was the Geneva area, where demographic growth was above the national average. Consequently, the disparities in settlement are narrowing. The decline in the relative weight of the largest region, Zurich (which still accounted for over 21% of the total population in 1998), and of the five other largest regions, confirmed this trend.

In 1997, per capita income was distributed according to a centre-periphery pattern. The richest region was Zurich. The adjacent regions of Basel (*Nordwestschweiz*), with its chemical industry, and Lucerne (*Zentralschweiz*), dominated by the modern tertiary sector, were also above average. The situation was much less favourable in the rest of Switzerland. The per capita income of the richest region was one and a half time that of the least favoured region. These differences were somewhat less marked if income was measured per job (rather than per inhabitant). However, differences at the micro-regional level were concealed within the seven largest regions, and the per capita incomes of Zurich, Geneva-Lausanne and the federal capital Bern were diluted by inclusion in extensive adjoining areas.

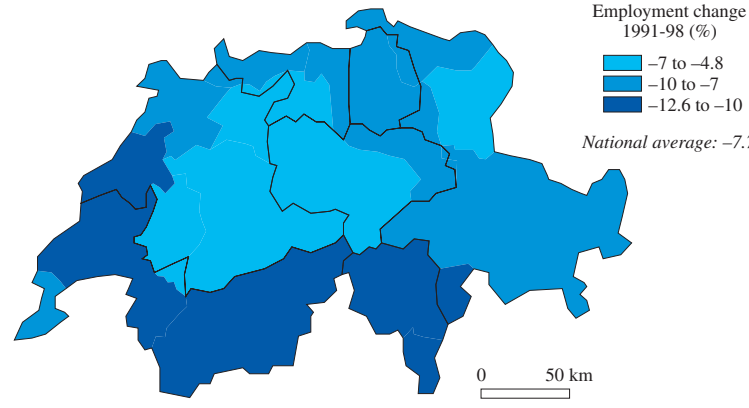
Switzerland: Indexes of regional disparities

	1990	1995	1998	1990	1997
	Density of population [a] inhabitants per sq. km.			*Income per capita* [b] current CHF	
National average	168	176	180	38 203	44 458
Median	203	207	209	37 264	43 587
Regional maximum	847	911	926	48 158	56 048
Regional minimum	28	30	30	32 966	37 179
Coefficient of variation	91	91	91	14	14
	Total population [a]			*Total income* [b]	
Regional maximum (%)	21.9	21.6	21.4	21.6	21.0
Regional maxima (%) [c]	55.7	54.8	55.3	60.2	58.7

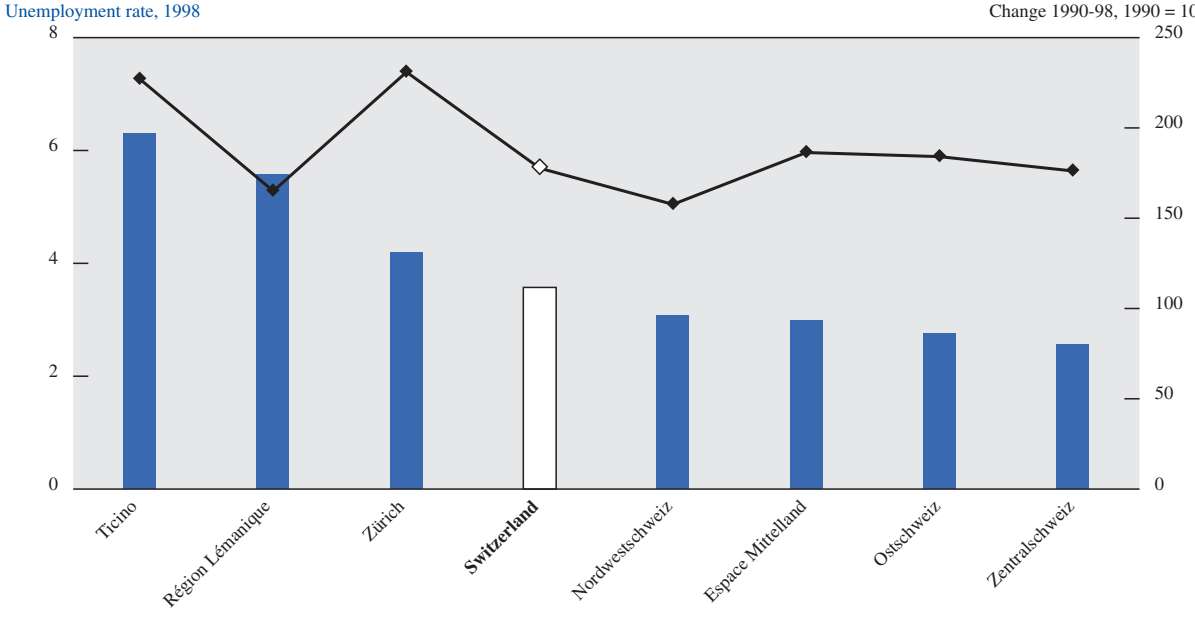
a) At territorial level 3 (labor markets).
b) At territorial level 2 (big regions).
c) 5 maxima for population; 3 maxima for income.

The number of jobs fell significantly during the 1990s. This downward trend affected all regions, both rural and more urbanised. The decline was particularly significant — over 10% — in the west and south of the country, in the area stretching from Neuchâtel to Lugano. The main urban regions (Zurich, Geneva, Basel, and Lausanne) lost over 7 per cent of their jobs. In this respect, the labour market areas of Bern (experiencing high demographic growth) and Lucerne, among others, seem relatively privileged. The relatively sharp and uniform rise in unemployment nation-wide — up approximately 70 per cent between 1990 and 1998 — confirms the relative weakening of the Swiss economy, at the present time. Nevertheless, it must be pointed out that the unemployment rate at the end of the decade stood at under 4 per cent. The number of unemployed is increasing more in the regions that had already been affected at the beginning of the period, such as Geneva, Zurich and Ticino.

Employment dynamics



Switzerland: Unemployment change

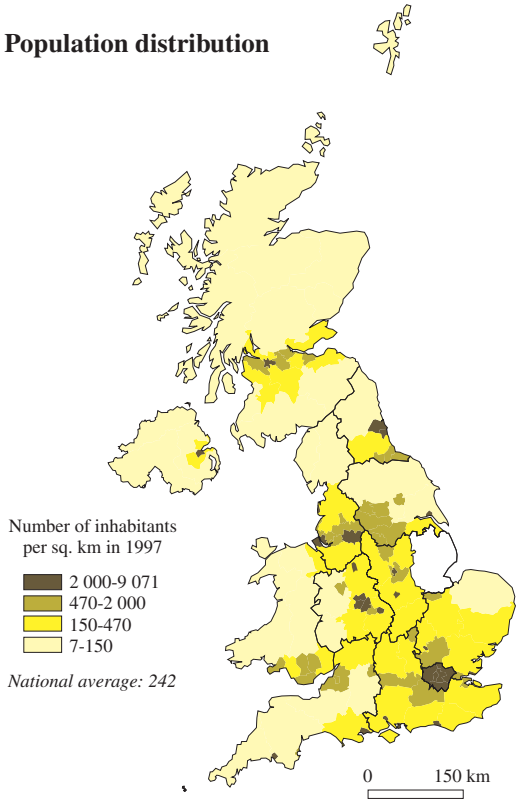


United Kingdom

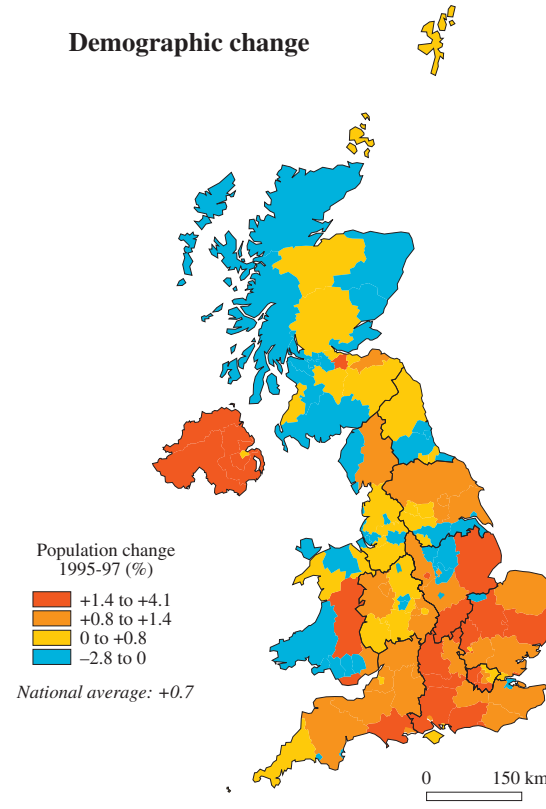
The United Kingdom experienced a period of growth between 1995 and 1997.[10] *There was a general reduction in unemployment and an increase in the number of new jobs in more than half the regions. Although the short-term effects of these changes have not resolved the growth differential between an affluent South and a stagnating North, certain signs of a new equilibrium are visible; for example, the reduction of wealth differentials and the substantial increase in the number of new jobs in certain northern regions.**

With an average of 242 inhabitants per km^2, the United Kingdom is a densely populated country. However, the population is unevenly distributed across the territory. A densely populated central strip between London and Manchester contrasts with areas on the periphery where densities are lower than 150 inhabitants per km^2. The highest densities, in excess of 2 000 inhabitants per km^2, are found in the main urban areas of the country. These include London, Birmingham, Manchester, Liverpool, Newcastle and Glasgow.

Population distribution



Demographic change

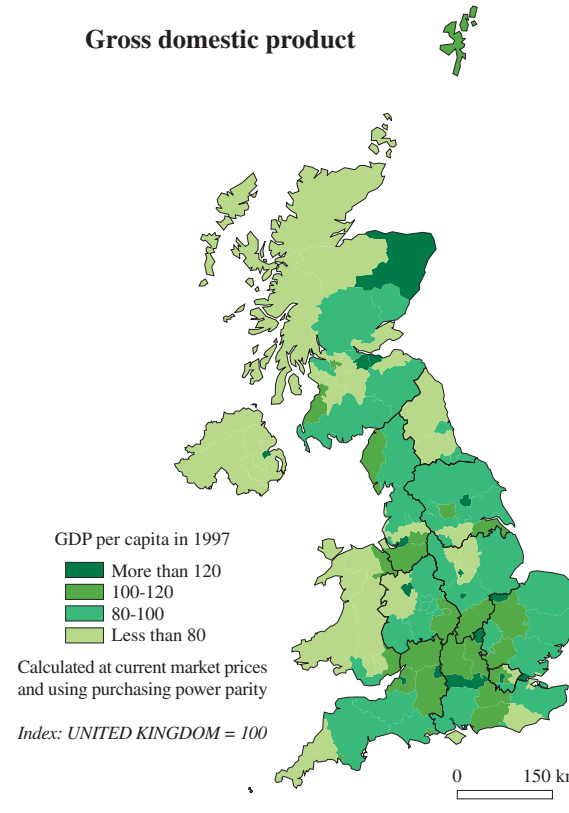


* The territorial grid and the sources of data are given in the Annex.

Strict control of urban sprawl around the capital over several decades explains the low concentration index in the capital: only 12 per cent of the population of the United Kingdom live in Greater London.

Demographic change between 1995 and 1997 is reflected in overall growth in the South — together with Northern Ireland — and decline in the North. In the South, development of the areas around cities is clearly visible, and populations are declining in the centres of the principal urban areas, apart from London. Although the high population levels in the five major regions is stable in the short term (2 years), the process seems very vigorous and capable of overturning certain traditional tendencies in the medium term (10 years).

Gross domestic product



The distribution of wealth confirms the north-south divide of British territory. With the exception of Wales, the highest per capita GDP — above the national average — is in the South, while the lowest is concentrated in the North. Certain towns or their surrounding areas stand out as islands of wealth in the South. In the North, the Aberdeen region of Scotland is an exception, with high per capita GDP: the scale of activity generated by the oil industry is the essential reason for this. The concentration of wealth per capita in London is higher than the concentration of the population: 17 per cent of GDP is created in the London area while 12 per cent of the population is living there. More than a quarter of GDP is concentrated in the five richest regions. In 1997, the per capita GDP in the London region was 7.8 times higher than in the most deprived region. However, this gap would seem to be closing: two years earlier, it had been eight times higher. Generally speaking, wealth differentials fell between 1995 and 1997, as the substantial reduction in the coefficient of variation shows.

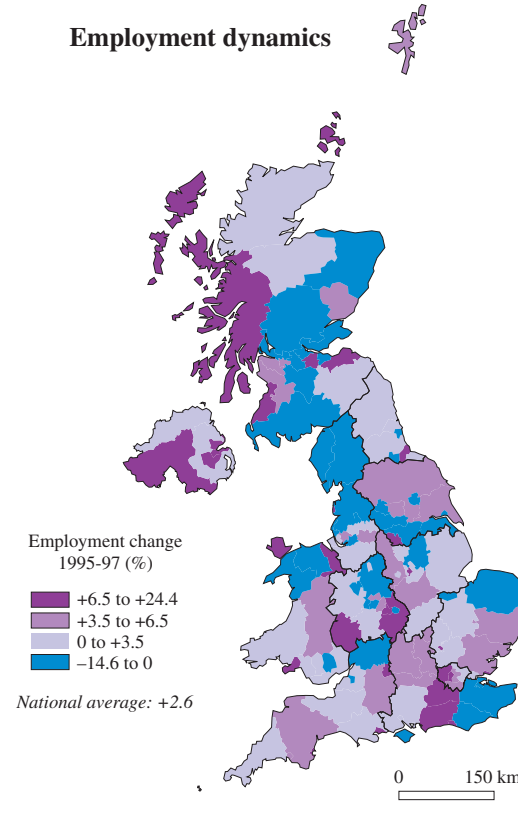
United Kingdom: Indexes of regional disparities

	1995	1997	1995	1997
	Density of population inhabitants per sq. km.		*GDP per capita* at constant prices (1990) $ - PPP	
National average	240	242	16 600	17 710
Median	422	430	15 032	15 739
Regional maximum	8 787	9 071	73 742	73 604
Regional minimum	7	7	9 171	9 364
Coefficient of variation	229.5	229.7	48.1	45.9
	Total population		*National GDP*	
Regional maximum (%) [a]	11.9	12.0	17.7	17.2
5 regional maxima (%)	20.8	20.9	26.2	26.1

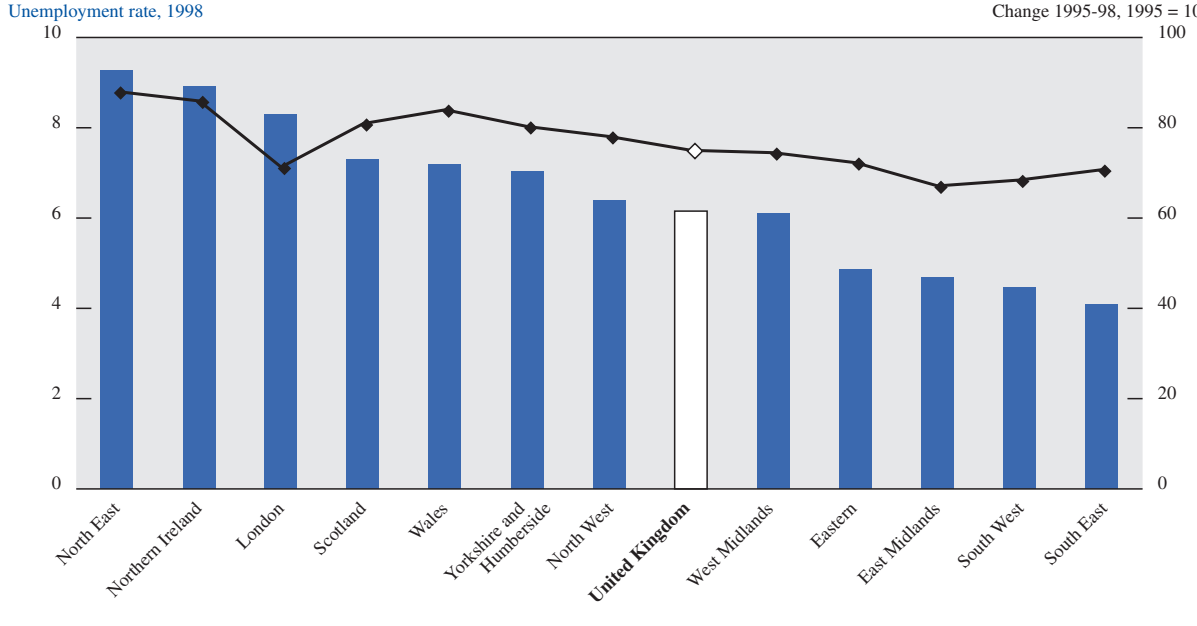
a) All the boroughs of London have been merged to form the capital region.

On the whole, employment dynamics in the United Kingdom between 1995 and 1997 were positive but they were not evenly distributed across the territory. In the majority of the southern regions, there was an increase in new jobs. The West of Scotland and the North of Ireland registered very high increases, whereas the East of Scotland lost jobs. The unemployment rates reinforced the sense of polarisation across British territory. Unemployment remained higher than the national average in all northern regions in 1997, even though it fell in all regions. Most of the southern regions experienced substantial reductions in unemployment between 1995 and 1997, and enjoyed the lowest levels at the end of the period. London, with high level of unemployment, and Wales, whose above-average unemployment fell only slightly, are exceptions to the general rule. The high level of unemployment in London is endemic; it is a structural feature of many an attractive metropolis.

Employment dynamics



United Kingdom: Unemployment change

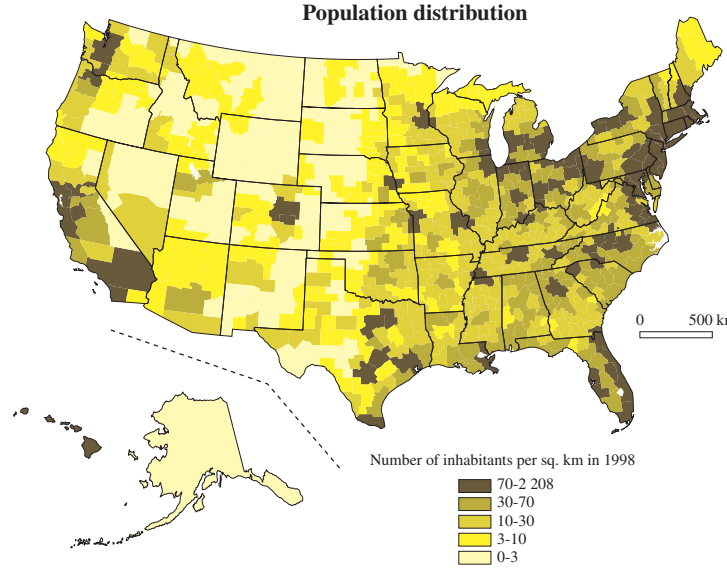


United States

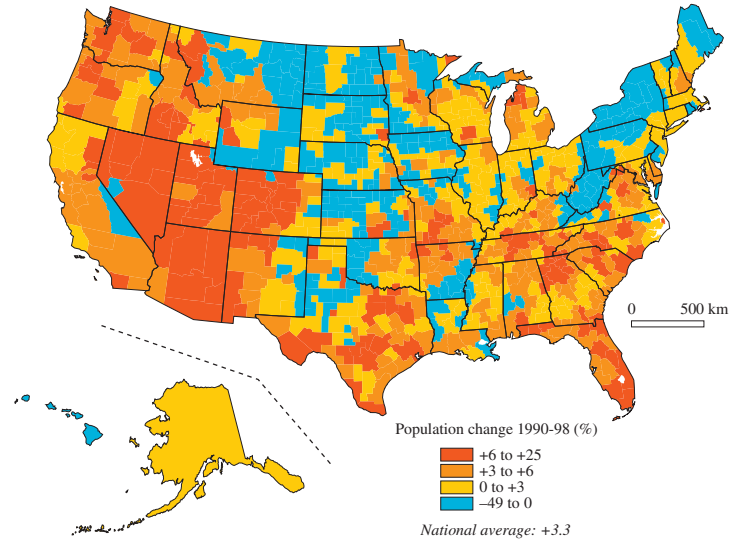
*The effects of the high growth in the US economy over the past decade differ across the regions. The central plains and some northeastern regions are benefiting least, or even seeing a decline in their population and job supply. There has also been a substantial increase in territorial disparities regarding average per capita income with the result that, in 1997, substantial inter-regional differentials still remained, with incomes in the most depressed regions 40 per cent below the national average.**

In 1998, population density differentials across the United States formed a pattern of three vertical belts. A broad high-density belt covers all the regions east of a line from Minneapolis, in Minnesota, to Dallas and San Antonio, in Texas. It is in the coastal megalopolis, from Boston to Washington, and around the major cities, that densities are highest (>70 people per square kilometre). Apart from the Denver region, the central belt covering the plains is a depressed area with fewer than 10 people per square kilometre. Finally, to the west a narrow coastal belt from Seattle to San Diego has high population densities. The population is not highly concentrated in the main urban areas: with 20 million inhabitants, the metropolitan area of New York accounts for 7.5 per cent of the

Population distribution



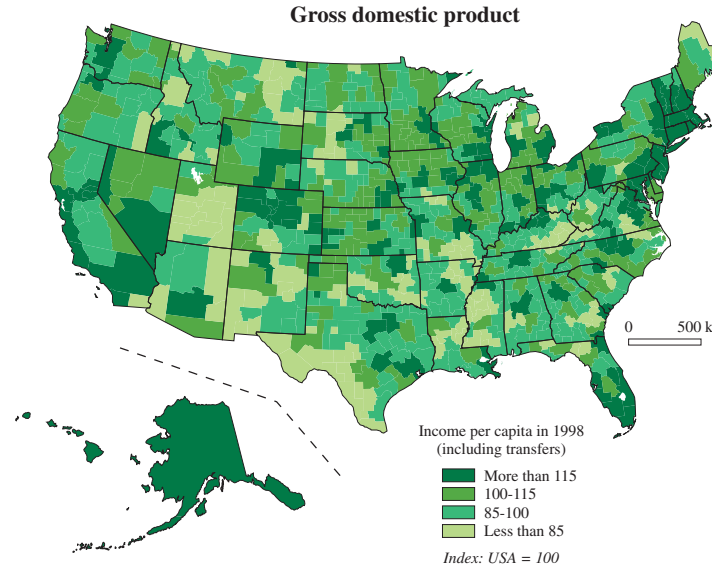
Demographic change



* The territorial grid and the sources of data are given in the Annex.

US population and nearly one American in five lives in the five largest metropolitan areas — New York, Los Angeles, Chicago, Washington and San Francisco.

The regions in the south, southeast and above all the west have seen the sharpest increases in population (over 6%) during the past decade. Conversely, the area stretching from Maine to Virginia has recorded a decline. The same applies to the central, more sparsely populated regions from North Dakota to northern Texas, together with certain regions in Wyoming and Montana. Between 1990 and 1998 territorial disparities in settlement patterns narrowed, as the decrease in the coefficient of variation showed. In addition, the population is becoming less concentrated in the leading metropolitan areas.



With the exception of certain sparsely populated regions such as Alaska that generate high value-added by exploiting raw materials, the highest incomes are found in the most densely populated urban areas. In Nevada, in particular in the two gambling centres Las Vegas and Reno, per capita incomes exceed the national average. Some of the mountain recreation areas in Wyoming and resort areas in Colorado also have high incomes. Compared with other OECD countries, however, the concentration of wealth is not very high in the United States: 10 per cent of incomes are concentrated in the metropolitan area of New York and one-quarter of US income in the five most prosperous regions. In spite of this low concentration, there are wide territorial disparities in per capita income: while the average per capita income in 1998 was some US$27 203, 50 per cent of regions averaged less than US$21 181. Moreover, the benefits of growth appear to be widening territorial disparities in income. The ratio of the wealthiest to the poorest regions has moved from 4.4 in 1990 to 6.3 in 1997.

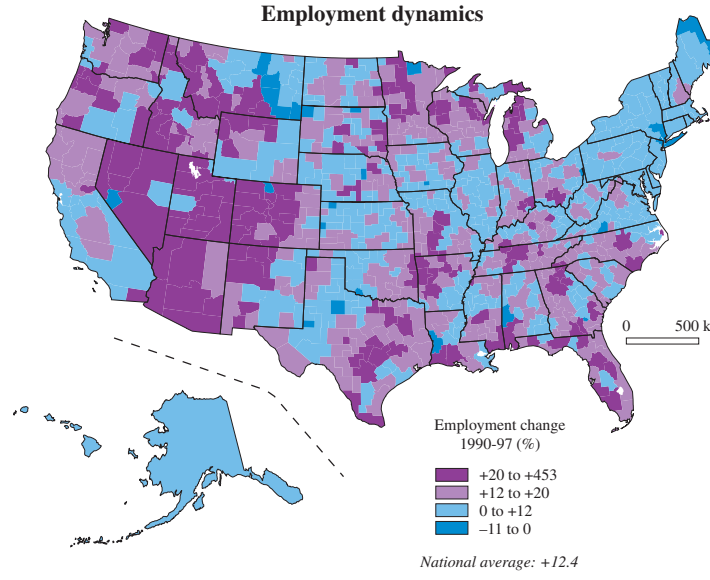
United States: Indexes of regional disparities

	1990	1994	1998	1990	1994	1998
	Density of population inhabitants per sq. km.			*Income per capita* current US$ including transfers		
National average	27	29	30	19 584	22 581	27 203
Median	13.4	14.1	14.5	15 473	18 032	21 181
Regional maximum	2 166	2 183	2 208	31 727	36 446	44 267
Regional minimum	0.1	0.1	0.1	7 235	7 949	7 000
Coefficient of variation	282	274	272	20	19	20
	Total population			*Total income*		
Regional maximum (%) [a]	7.9	7.6	7.5	10.6	10.2	10.2
5 regional maxima (%) [a]	22.3	21.9	21.8	27.8	26.6	26.6

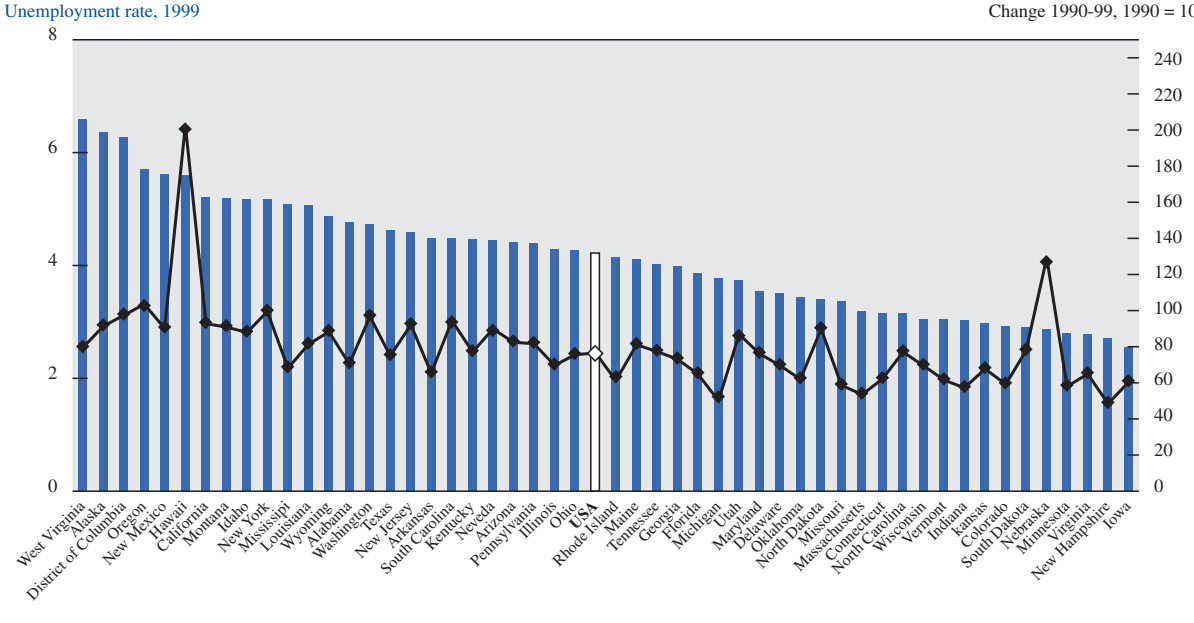
a) The consolided metropolitan statistical areas (CMSA) have been used.

Over the past ten years, the United States has experienced a spectacular rise in employment, averaging over 12 per cent. Apart from some regions on the central plains where the job supply is declining or hardly stabilising, all the US regions are creating jobs. Although the trend in the eastern States, from Maine to North Carolina, is not very buoyant — below the national average, and in some cases negative -– many of the western States, with the exception of California, are seeing very sharp increases (*e.g.*, Utah, Colorado and Arizona). The south-eastern States and the industrialised States in the Centre-East are also experiencing strong growth. To summarise, the United States can be divided into four alternating belts: from east to west, the trend is downward, then upward, then downward again, and then upward. This pattern is broadly the same as population density. As high growth in employment is widespread, unemployment is falling in most States, the only exceptions being Hawaii and Nebraska. By and large, growth in the past decade does not appear to be widening territorial disparities. Apart from a few States such as Nebraska, South Dakota and Hawaii, combined employment/unemployment trends do not reveal any very noticeable change in terms of growth disparities.

Employment dynamics



United States: Unemployment change



NOTES

4. Slight difference should be notified: if the measurement of the density was based on the amount of land truly occupied (not including mountainous areas) the density would be much higher in the valleys.
5. These particularities are largely explained by the status of the Brussels-Capital region, which coincides with the Brussels province. It is an enclave within the Flemish region and is strictly limited to 19 independent municipalities, which accont for a small part of the actual conurbation of Brussels. nlike the other capitals of industialised countries, Brussels cannot be enlarged from an institutional standpoint, even though it is continually growing in fact. As a result, it has a very high population density, a relatively small share of the national population and population and population statistics that are difficult to interpret because they do not fully reflect the real situation.
6. Data on employment change cover employment by place of residence. The number of jobs (employment by place of work) actually increased in the region of Oslo.
7. Data regarding unemployment and employment are based on LFS conducted in 1995 and 1998.
8. Region is used as a generic term to define the voïvodship..
9. Data according to the publication of Orłowski, W.M. and Zienkowski, L. (1998), *Szacunek poziomu rozwoju oraz skali wewnętrznego zróżnicowania gospodarczego 16 nowych województw*, Zakład Badań Statystyczno-Ekonomicznych GUS i PAN, Warzawa (*Estimations of level of development and scale of internal economic differentiation of 16 new voivodships*, Research Centre for Economic and Statistical Studies GUS and PAN, Warszawa)..
10. It has been possible to gather information in the new regions (*i.e.*, 133 upper tier authorities or groups of lower tier authorities or groups of unitary authorities or LECs or groups of districts) of the United Kingdom since 1995.

ANNEX: TERRITORIAL LEVELS AND SOURCES

AUSTRALIA
— 8 States/Territories: Unemployment.
— 58 Statistical Divisions: Population, Income, Employment.
Sources: Australian Bureau of Statistics-OECD.

AUSTRIA
— 9 Bundesländer: Unemployment.
— 35 Gruppen von Politischen Bezirken: Population, GDP, Employment.
Sources: Statistik Österreich-Eurostat-OECD.

BELGIUM
— 3 Régions: Unemployment.
— 11 Provinces: Population, GDP, Employment.
Sources: Institut National de Statistique-Eurostat-OECD.

CANADA
— 12 Provinces: Unemployment.
— 288 Census Divisions: Population, Income, Employment.
Sources: Statistics Canada-OECD.

CZECH REPUBLIC
— 8 Groups of Kraje: Unemployment.
— 14 Kraje: Population, GDP, Employment.
Sources:?esky statisticky ú?ad-OECD.

DENMARK
— 3 Regions: Unemployment.
— 15 Amter: Population, GDP, Employment.
Sources: Danmarks Statistik-Eurostat-OECD.

FINLAND
— 6 Suuralueet: Unemployment.
— 20 Maakunnat: Population, GDP, Employment.
Sources: Tilastokeskus-Eurostat-OECD.

FRANCE (without DOM-TOM)
— 22 Régions: Unemployment.
— 96 Départements: Population, GDP, Employment.
Sources: Institut National de la Statistique et des Études Économiques-Eurostat-OECD.

GERMANY
— 16 Länder: Employment, Unemployment.
— 49 Regierungsbezirke (modified): Population, GDP.
Sources: Statistisches Bundesamt Deutschland-Eurostat-OECD.

GREECE
— 4 Groups of Development regions: Unemployment.
— 13 Development regions: Population, GDP, Employment.
Sources: National Statistical Service-Eurostat-OECD

HUNGARY
— 7 Tervezesi-statisztikai regio: Unemployment.
— 20 Megyek (+Budapest): Population, GDP, Employment.
Sources: Központi Statisztikai Hivatal-Eurostat-OECD.

IRELAND
— 8 Regional Authority Regions: Population, GDP, Employment, Unemployment.
Sources: Central Statistics Office-Eurostat-OECD.

ITALY
— 20 Regioni: GDP, Unemployment.
— 103 Province: Population, Employment.
Sources: Istituto Nazionale di Statistica-Eurostat-OECD.

JAPAN
— 10 Groups of prefectures: Unemployment.
— 47 Prefectures: Population, GDP, Employment.
Sources: Japanese Statistics Bureau-OECD.

MEXICO
— 32 Estados: Population, GDP, Employment, Unemployment.
Sources: Instituto Nacional de Estadística, Geografía e Informática-OECD.

NETHERLANDS
— 4 Landsdelen: Unemployment.
— 12 Provincies: Population, GDP, Employment.
Sources: Centraal Bureau voor de Statistiek-Eurostat-OECD.

NEW-ZEALAND
— 14 Regional Councils: Population, Income, Employment, Unemployment.
Sources: Statistics New Zealand-OECD.

NORWAY
— 7 Landsdeler: Unemployment.
— 19 Fylker: Population, GDP, Employment.
Sources: Statistisk sentralbyrå-OECD.

POLAND
— 16 Voïvodships: Population, GDP, Employment, Unemployment.
Sources: Polska Statystyka Publiczna-OECD.

PORTUGAL
— 5 Comissaoes de coordenaçao regional + 2 Regioes autonomas: Employment, Unemployment.
— 30 Grupos de Concelhos: Population, GDP.
Sources: Instituto Nacional de Estatística -Eurostat-OECD.

SPAIN (without Canarias and Ceuta y Melilla)
— 16 Comunidades autonomas: Unemployment.
— 48 Provincias: Population, GDP, Employment.
Sources: Instituto Nacional de Estadística-Eurostat-OECD.

SWEDEN
— 8 Riksomraden: Unemployment.
— 21 Län: Population, GDP, Employment.
Sources: Statistiska centralbyrån-Eurostat-OECD.

SWITZERLAND
— 7 Grandes régions/Grossregionen: Income, Unemployment.
— 16 Bassins d'Emploi/Arbeitsmarkt: Population, Employment.
Sources: Office Fédéral de la Statistique/Bundesamt für Statistik-OECD.

UNITED-KINGDOM
— 12 Government Office Regions + Countries: Unemployment.
— 133 Upper tier authorities or groups of lower tier authorities or groups of unitary authorities or LECs or groups of districts: Population, GDP, Employment.
Sources: National Statistics-Eurostat-OECD.

UNITED-STATES
— 51 States: Unemployment.
— 765 Commuting zones: Population, Income, Employment.
Sources: US Census Bureau-OECD.

Australia

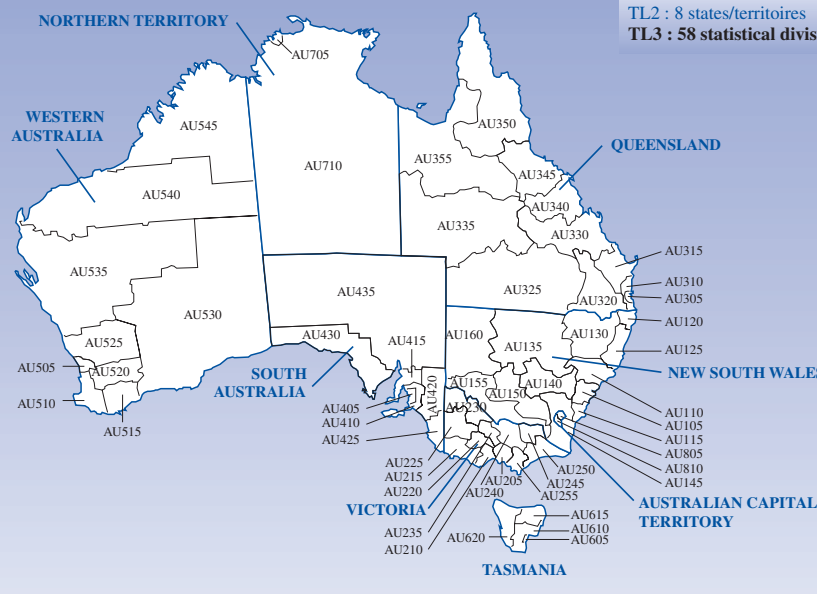
TERRITORIAL LEVELS 2 & 3

AU1- NEW SOUTH WALES
- AU 105- Sydney
- AU 110- Hunter
- AU 115- Illawarra
- AU 120- Richmond-Tweed
- AU 125- Mid-North Coast
- AU 130- Northern
- AU 135- North Western
- AU 140- Central West
- AU 145- South Eastern
- AU 150- Murrumbidgee
- AU 155- Murray
- AU 160- Far West

AU2- VICTORIA
- AU 205- Melbourne
- AU 210- Barwon
- AU 215- Western District
- AU 220- Central Highlands
- AU 225- Wimmera
- AU 230- Mallee
- AU 235- Loddon-Campaspe
- AU 240- Goulburn
- AU 245- Ovens-Murray
- AU 250- East Gippsland
- AU 255- Gippsland

AU3- QUEENSLAND
- AU 305- Brisbane
- AU 310- Mereton
- AU 315- Wide Bay-Burnett
- AU 320- Darling Downs
- AU 325- South West
- AU 330- Fitzroy
- AU 335- Central West
- AU 340- Mackay
- AU 345- Northern
- AU 350- Far North
- AU 355- North West

AU4- SOUTH AUSTRALIA
- AU 405- Adelaide
- AU 410- Outer Adelaide
- AU 415- Yorke & Lower North
- AU 420- Murray Lands
- AU 425- South East
- AU 430- Eyre
- AU 435- Northern



AU5- WESTERN AUSTRALIA
- AU 505- Perth
- AU 510- South West
- AU 515- Lower Great Southern
- AU 520- Upper Great Southern
- AU 525- Midlands
- AU 530- South Eastern
- AU 535- Central
- AU 540- Pilbara
- AU 545- Kimberley

AU6- TASMANIA
- AU 605- Greater Hobart
- AU 610- Southern
- AU 615- Northern
- AU 620- Mersey-Lyell

AU7- NORTHERN TERRITORY
- AU 705- Darwin
- AU 710- Balance NT

AU8- AUSTRALIAN CAPITAL TERRITORY
- AU 805- Canberra
- AU 810- Balance ACT

Austria

TERRITORIAL LEVELS 2 & 3

AT11- BURGENLAND
- AT111- Mittelburgenland
- AT112- Nordburgenland
- AT113- Südburgenland

AT12- NIEDEROESTERREICH
- AT121- Mostviertel-Eisenwurzen
- AT122- Niederösterreich-Süd
- AT123- Sankt Pölten
- AT124- Waldviertel
- AT125- Weinviertel
- AT126- Wiener Umland-Nordteil
- AT127- Wiener Umland-Südteil

AT13- WIEN
- AT131- Wien

AT21- KAERNTEN
- AT211- Klagenfurt-Villach
- AT212- Oberkärnten
- AT213- Unterkärnten

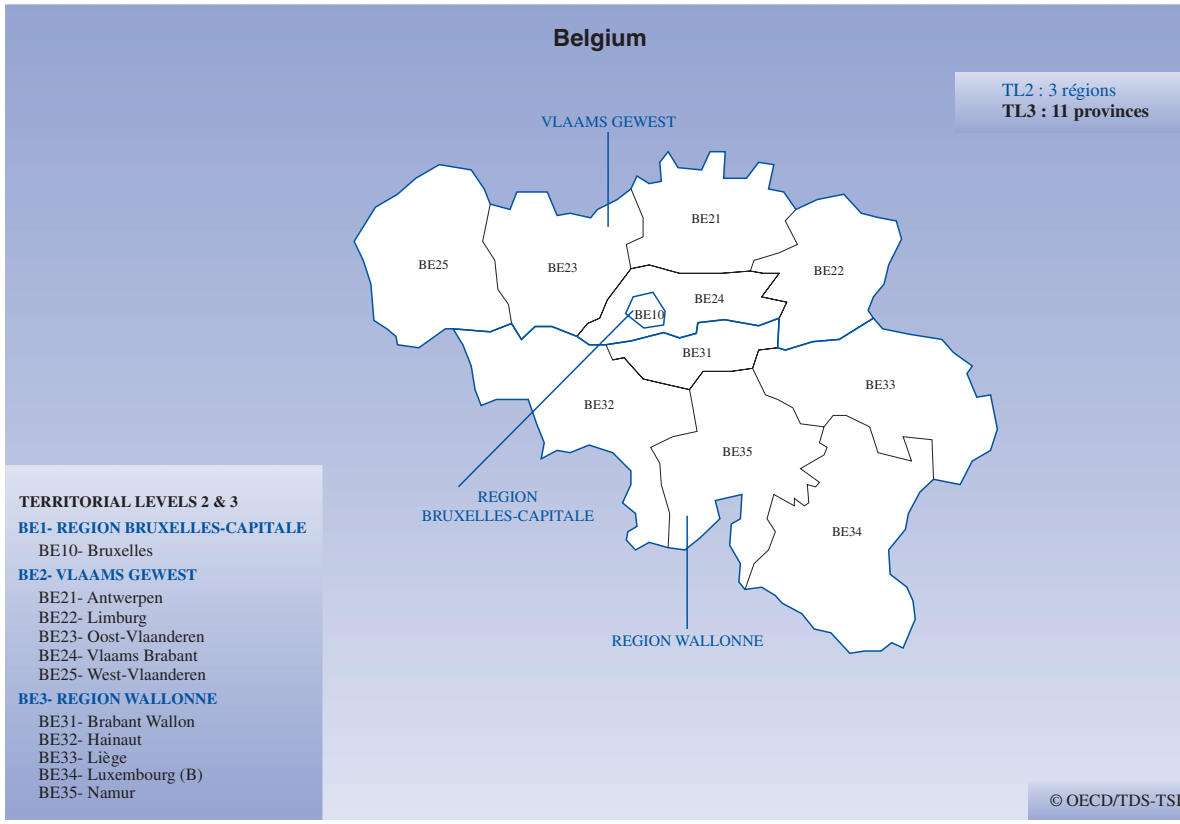
AT22- STEIERMARK
- AT221- Graz
- AT222- Liezen
- AT223- Ostiche Obersteiermark
- AT224- Oststeiermark
- AT225- West und Südsteiermark
- AT226- Westliche Obersteiermark

AT31- OBEROESTERREICH
- AT311- Innviertel
- AT312- Linz-Wels
- AT313- Mühlviertel
- AT314- Steyr-Kirchdorf
- AT315- Traunviertel

AT32- SALZBURG
- AT321- Lungau
- AT322- Pinzgau-Pongau
- AT323- Salzburg und Umgebung

AT33- TIROL
- AT331- Auflerfern
- AT332- Innsbruck
- AT333- Osttirol
- AT334- Tiroler Oberland
- AT335- Tiroler Unterland

AT34- VORARLBERG
- AT341- Bludenz-Bregenzer Wald
- AT342- Rheintal-Bodenseegebiet


Belgium
TL2 : 3 régions
TL3 : 11 provinces
VLAAMS GEWEST
BE21
BE22
BE23
BE24
BE25
BE10
BE31
BE32
BE33
BE34
BE35
REGION BRUXELLES-CAPITALE
REGION WALLONNE
TERRITORIAL LEVELS 2 & 3
BE1- REGION BRUXELLES-CAPITALE
BE10- Bruxelles
BE2- VLAAMS GEWEST
BE21- Antwerpen
BE22- Limburg
BE23- Oost-Vlaanderen
BE24- Vlaams Brabant
BE25- West-Vlaanderen
BE3- REGION WALLONNE
BE31- Brabant Wallon
BE32- Hainaut
BE33- Liège
BE34- Luxembourg (B)
BE35- Namur
© OECD/TDS-TSI

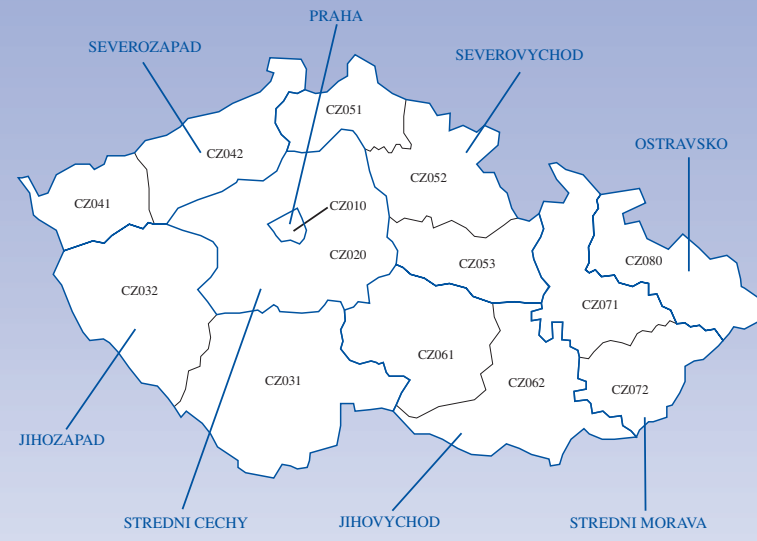

Canada
TL2 : 12 provinces
TL3 : 288 census divisions
NORTHWEST TERRITORIES
YUKON
NEWFOUNDLAND
QUEBEC
MANITOBA
ONTARIO
PRINCE EDWARD ISLAND
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
NEW BRUNSWICK
NOVA SCOTIA
© OECD/TDS-TSI

Czech Republic

TL2 : 8 statistical or technical regions (for structural funds)
TL3 : 14 kraje

TERRITORIAL LEVELS 2 & 3

CZ01- PRAHA
CZ010- Praha
CZ02- STREDNI CECHY
CZ020- Stredocesky
CZ03- JIHOZAPAD
CZ031- Budejovicky
CZ032- Plzensky
CZ04- SEVEROZAPAD
CZ041- Karlovarsky
CZ042- Ustecky
CZ05- SEVEROVYCHOD
CZ051- Liberecky
CZ052- Kralovohradecky
CZ053- Pardubicky
CZ06- JIHOVYCHOD
CZ061- Jihlavsky
CZ062- Brnensky
CZ07- STREDNI MORAVA
CZ071- Olomoucky
CZ072- Zlinsky
CZ08- OSTROVSKO
CZ80- Ostravsky



Denmark

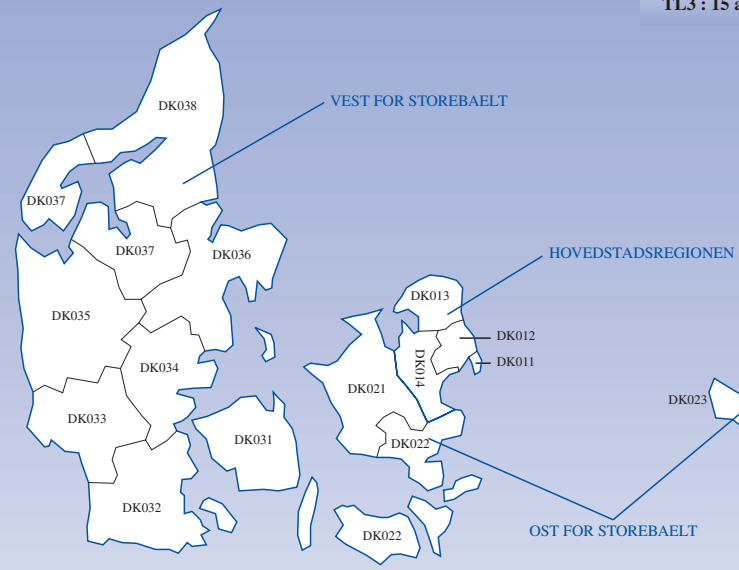
TL2 : 3 regions
TL3 : 15 amter

TERRITORIAL LEVELS 2 & 3

DK01- HOVEDSTADSREGIONEN
DK011- Kobenhavn Og Frederiksberg Kommuner
DK012- Kobenhavns Amtskommune
DK013- Frederiksborg Amtskommune
DK014- Roskilde Amtskommune

DK02- OST FOR STOREBAELT
DK021- Vestsjaellands Amtskommune
DK022- Storstroms Amtskommune
DK023- Bornholms Amtskommune

DK03- VEST FOR STOREBAELT
DK031- Fyns Amtskommune
DK032- Sonderjyllands Amtskommune
DK033- Ribe Amtskommune
DK034- Vejle Amtskommune
DK035- Ringkobing Amtskommune
DK036- Arhus Amtskommune
DK037- Viborg Amtskommune
DK038- Nordjyllands Amtskommune



TERRITORIAL LEVELS 2 & 3

FI13- ITA-SUOMI
- FI131- Etelä-Savo
- FI132- Pohjois-Savo
- FI133- Pohjois-Karjala
- FI134- Kainuu

FI14- VALI-SUOMI
- FI141- Keski-Suomi
- FI142- Etelä-Pohjanmaa
- FI143- Pohjanmaa
- FI144- Keski-Pohjanmaa

FI15- POHJOIS-SUOMI
- FI151- Pohjois-Pohjanmaa
- FI152- Lappi

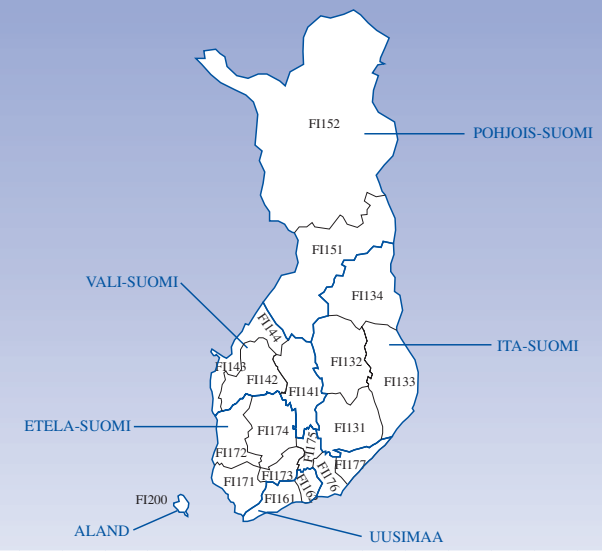
FI16- UUSIMAA
- FI161- Uusimaa
- FI162- Itä-Uusimaa

FI17- ETELA-SUOMI
- FI171- Varsinais-Suomi
- FI172- Satakunta
- FI173- Kanta-Häme
- FI174- Pirkanmaa
- FI175- Päijät-Häme
- FI176- Kymenlaakso
- FI177- Etelä-Karjala

FI20- ALAND
- FI200- Aland

Finland

TL2 : 6 suuralueet
TL3 : 20 maakunnat



TERRITORIAL LEVELS 2 & 3

FR10- ILE-DE-FRANCE
- FR75- Paris
- FR77- Seine-et-Marne
- FR78- Yvelines
- FR91- Essonne
- FR92- Hauts-de-Seine
- FR93- Seine-Saint-Denis
- FR94- Val-de-Marne
- FR95- Val-d'Oise

FR21- CHAMPAGNE-ARDENNE
- FR08- Ardennes
- FR10- Aube
- FR51- Marne
- FR52- Haute-Marne

FR22- PICARDIE
- FR02- Aisne
- FR60- Oise
- FR80- Somme

FR23- HAUTE-NORMANDIE
- FR27- Eure
- FR76- Seine-Maritime

FR24- CENTRE
- FR18- Cher
- FR28- Eure-et-Loir
- FR36- Indre
- FR37- Indre-et-Loire
- FR41- Loir-et-Cher
- FR45- Loiret

FR25- BASSE-NORMANDIE
- FR14- Calvados
- FR50- Manche
- FR61- Orne

FR26- BOURGOGNE
- FR21- Côte-d'Or
- FR58- Nièvre
- FR71- Saône-et-Loire
- FR89- Yonne

FR30- NORD-PAS-DE-CALAIS
- FR59- Nord
- FR62- Pas-de-Calais

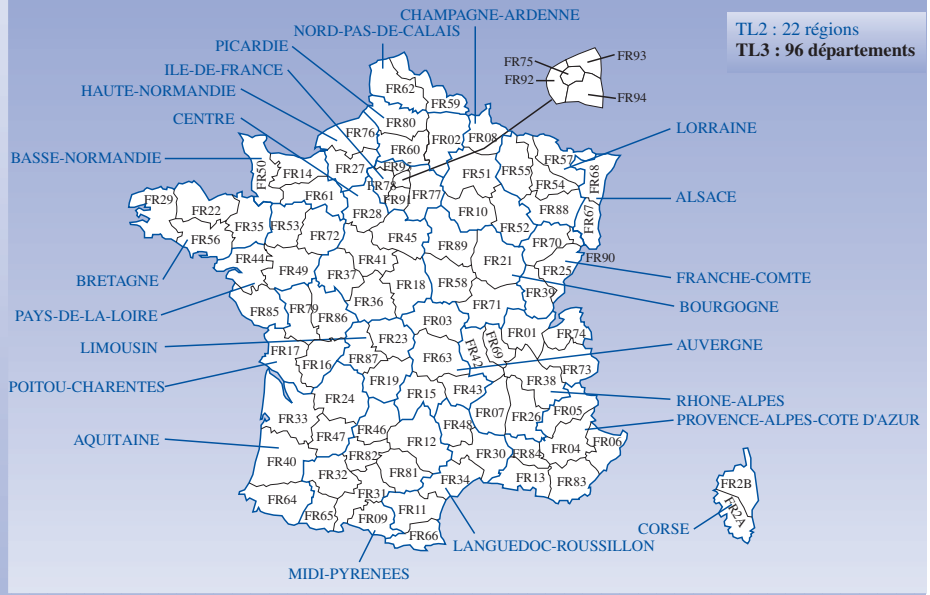
FR41- LORRAINE
- FR54- Meurthe-et-Moselle
- FR55- Meuse
- FR57- Moselle
- FR88- Vosges

FR42- ALSACE
- FR67- Bas-Rhin
- FR68- Haut-Rhin

FR43- FRANCHE-COMTE
- FR25- Doubs
- FR39- Jura
- FR70- Haute-Saône
- FR90- Territoire de Belfort

France (without Dom-Tom)

TL2 : 22 régions
TL3 : 96 départements



FR51- PAYS-DE-LA-LOIRE
- FR44- Loire-Atlantique
- FR49- Maine-et-Loire
- FR53- Mayenne
- FR72- Sarthe
- FR85- Vendée

FR52- BRETAGNE
- FR22- Côtes-d'Armor
- FR29- Finistère
- FR35- Ille-et-Vilaine
- FR56- Morbihan

FR53- POITOU-CHARENTE
- FR16- Charente
- FR17- Charente-Maritime
- FR79- Deux-Sèvres
- FR86- Vienne

FR61- AQUITAINE
- FR24- Dordogne
- FR33- Gironde
- FR40- Landes
- FR47- Lot-et-Garonne
- FR64- Pyréné-Atlantiquees

FR62- MIDI-PYRENEES
- FR09- Ariège
- FR12- Aveyron
- FR31- Haute-Garonne
- FR32- Gers
- FR46- Lot
- FR65- Hautes-Pyrénées
- FR81- Tarn
- FR82- Tarn-et-Garonne

FR63- LIMOUSIN
- FR19- Corrèze
- FR23- Creuse
- FR87- Haute-Vienne

FR71- RHONE-ALPES
- FR01- Ain
- FR07- Ardèche
- FR26- Drôme
- FR38- Isère
- FR42- Loire
- FR69- Rhône
- FR73- Savoie
- FR74- Haute-Savoie

FR72- AUVERGNE
- FR03- Allier
- FR15- Cantal
- FR43- Haute-Loire
- FR63- Puy-de-Dôme

FR81- LANGUEDOC-ROUSSILLON
- FR11- Aude
- FR30- Gard
- FR34- Hérault
- FR48- Lozère
- FR66- Pyrénées-Orientales

FR82- PROVENCE-ALPES-COTE D'AZUR
- FR04- Alpes-de-Haute-Provence
- FR05- Hautes-Alpes
- FR06- Alpes-Maritimes
- FR13- Bouches-du-Rhône
- FR83- Var
- FR84- Vaucluse

FR83- CORSE
- FR2A- Corse-du-Sud

Germany

TERRITORIAL LEVELS 2 & 3

DE1- BADEN-WÜRTTEMBERG
- DE81- Stuttgart
- DE82- Karlsruhe
- DE83- Freiburg
- DE84- Tübingen

DE2- BAYERN
- DE90- Region München-Ingolstadt
- DE91- Alpenvorland
- DE92- Niederbayern
- DE93- Oberpfalz
- DE94- Oberfranken
- DE95- Mittelfranken
- DE96- Unterfranken
- DE97- Schwaben

DE3- BERLIN
No correspondance between the 2 levels

DE4- BRANDENBURG
- DE110- Region Berlin
- DE121- Prignitz-Uckermark
- DE122- Cottbus

DE5- BREMEN
No correpondance between the 2 levels

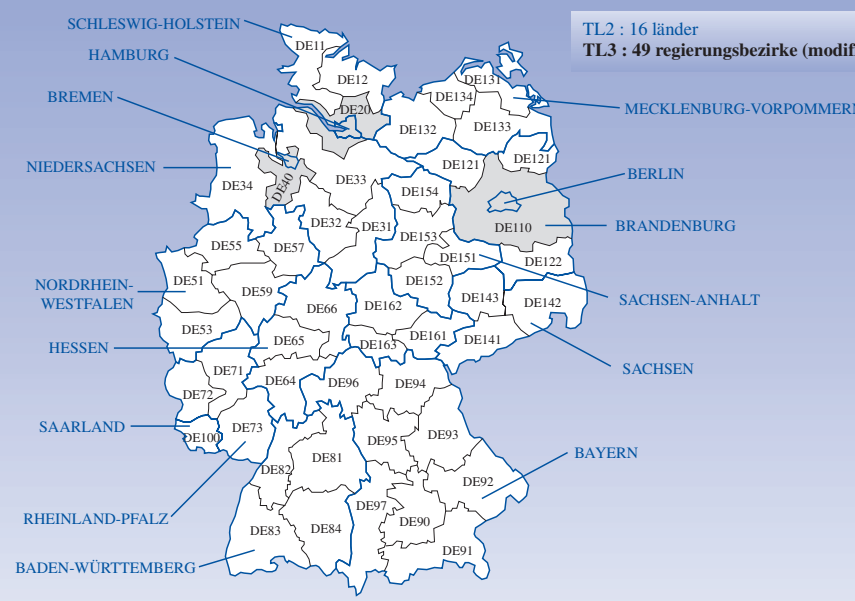
DE6- HAMBURG
No correspondance between the 2 levels

DE7- HESSEN
- DE64- Darmstadt
- DE65- GieBen
- DE66- Kassel

DE8- MECKLENBURG-VORPOMMERN
- DE131- Stralsund-Greifswald
- DE132- Schwerin
- DE133- Neubrandenburg
- DE134- Rostock

DE9- NIEDERSACHSEN
- DE31- Braunschweig
- DE32- Hannover
- DE33- Lüneburg
- DE34- Weser-Ems
- DE40- Region Bremen

DEA- NORDRHEIN-WESTFALEN
- DE51- Ruhrgebiet
- DE53- Rheinland
- DE55- Münster
- DE57- Detold
- DE59- Sauerland



TL2 : 16 länder
TL3 : 49 regierungsbezirke (modified)

DEB- RHEINLAND-PFALZ
- DE71- Koblenz
- DE72- Trier
- DE73- Rheinhessen-Pfalz

DEC- SAARLAND
- DE100- Saarland

DED- SACHSEN
- DE141- Chemnitz
- DE142- Dresden
- DE143- Leipzig

DEE- SACHSEN-ANHALT
- DE151- Dessau
- DE152- Halle
- DE153- Magdeburg
- DE154- Altmark

DEF- SCHLESWIG-HOLSTEIN
- DE11- Schleswig-Holstein West
- DE12- Schleswig-Holstein Ost

DEG- THÜRINGEN
- DE161- Mittel-und-Nordthüringen
- DE162- Ostthüringen
- DE163- Südthüringen

DE20- Region Hamburg into DE9 and DEF

Greece

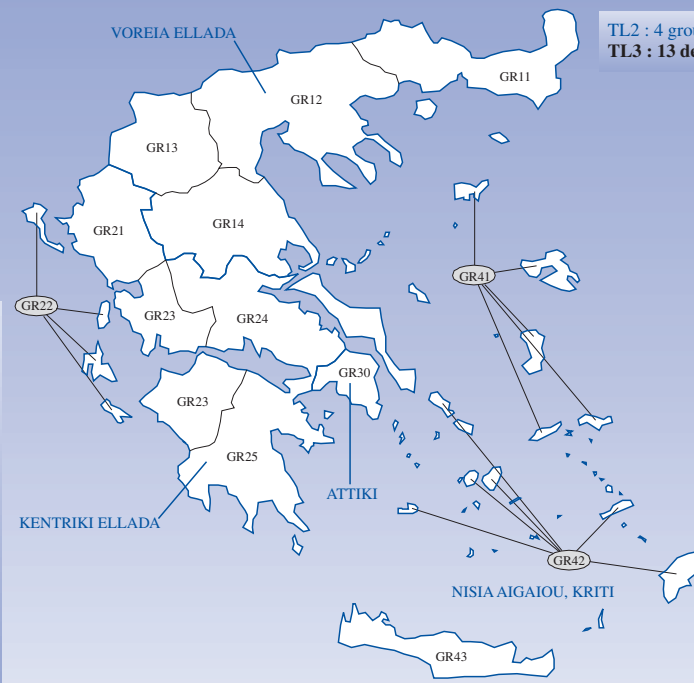
TERRITORIAL LEVELS 2 & 3

GR1- VOREIA ELLADA
- GR11- Anatoliki Makedonia, Thraki
- GR12- Kentriki Makedonia
- GR13- Dytiki Makedonia
- GR14- Thessalia

GR2- KENTRIKI ELLADA
- GR21- Ipeiros
- GR22- Ionia Nisia
- GR23- Dytiki Ellada
- GR24- Sterea Ellada
- GR25- Peloponnisos

GR3- ATTIKI
- GR30- Attiki

GR4- NISIA AIGAIOU, KRITI
- GR41- Voreio Aigaio
- GR42- Notio Aigaio
- GR43- Kriti



TL2 : 4 groups of development regions
TL3 : 13 development regions

Hungary

TL2 : 7 planning statistical regions
TL3 : 19 counties + Budapest

TERRITORIAL LEVELS 2 & 3

HU01- KOZEP-MAGYARORSZAG
- HU011- Budapest
- HU012- Pest

HU02- KOZEP-DUNANTUL
- HU021- Fejér
- HU022- Komarom-Esztergom
- HU023- Veszprém

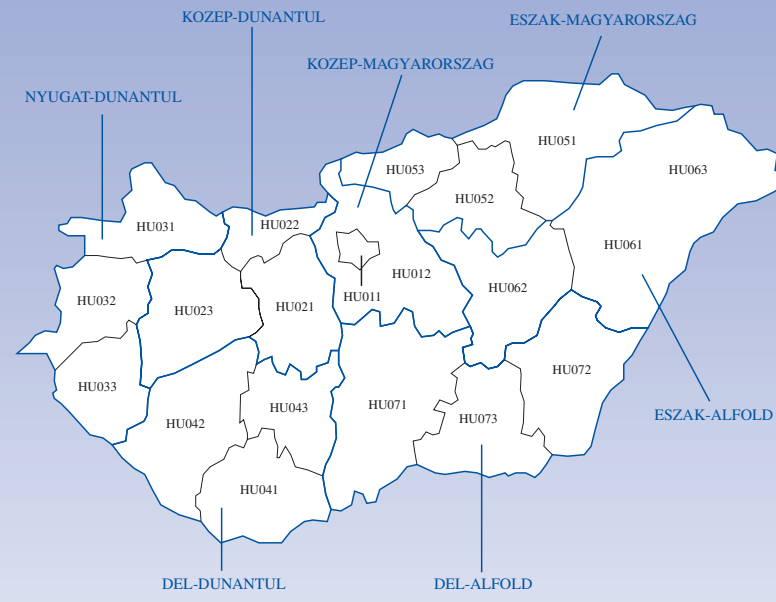
HU03- NYUGAT-DUNANTUL
- HU031- Györ-Moson-Sopron
- HU032- Vas
- HU033- Zala

HU04- DEL-DUNANTUL
- HU041- Baranya
- HU042- Somogy
- HU043- Tolna

HU05- ESZAK-MAGYARORSZAG
- HU051- Borsod-Abauj-Zemplén
- HU052- Heves
- HU053- Nograd

HU06- ESZAK-ALFOLD
- HU061- Hajdu-Bihar
- HU062- Jasz-Nagykun-Szolnok
- HU063- Szabolcs-Szatmar-Bereg

HU07- DEL-ALFOLD
- HU071- Bacs-Kiskun
- HU072- Békés
- HU073- Csongrad

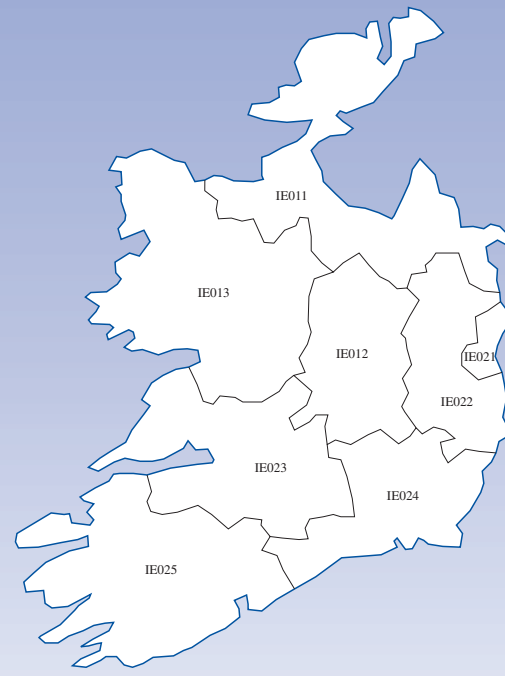


Ireland

TL2 : 1 state
TL3 : 8 regional authority regions

TERRITORIAL LEVELS 3

- IE011- Border
- IE012- Midland
- IE013- West
- IE021- Dublin
- IE022- Mid-East
- IE023- Mid West
- IE024- South-East



TERRITORIAL LEVELS 2 & 3

IT 11- PIEMONTE
- IT111- Torino
- IT112- Vercelli
- IT113- Biella
- IT114- Verbano
- IT115- Novara
- IT116- Cuneo
- IT117- Asti
- IT118- Alessandria

IT12- VALLE D'AOSTA
- IT120- Valle d'Aosta

IT13- LIGURIA
- IT131- Imperia
- IT132- Savona
- IT133- Genova
- IT134- La Spezia

IT20- LOMBARDIA
- IT201- Varese
- IT202- Como
- IT203- Lecco
- IT204- Sondrio
- IT205- Milano
- IT206- Bergamo
- IT207- Brescia
- IT208- Pavia
- IT209- Lodi
- IT20A- Cremona
- IT20B- Mantova

IT31-TRENTINO-TO ADIGE
- IT311- Bolzano-Bozen
- IT321- Trento

IT32- VENETO
- IT321- Verona
- IT322- Vicenza
- IT323- Belluno
- IT324- Treviso
- IT325- Venezia
- IT326- Padova
- IT327- Rovigo
- FR55- Meuse
- FR57- Moselle
- FR88- Vosges

IT33- FRIULI-VENEZI -GIULIA
- IT331- Pordenone
- IT332- Udine
- IT333- Gorizia
- IT334- Trieste

IT40- EMILIA-ROMAGNA
- IT401- Piacenza
- IT402- Parma
- IT403- Reggio Emilia
- IT404- Modena
- IT405- Bologna
- IT406- Ferrara
- IT407- Ravenna
- IT408- Forlì-Cesena
- IT409- Rimini

IT51- TOSCANA
- IT511- Massa-Carrara
- IT512- Lucca
- IT513- Pistoia
- IT514- Firenze
- IT515- Prato
- IT516- Livorno
- IT517- Pisa
- IT518- Arezzo
- IT519- Siena
- IT51A- Grosseto

IT52- UMBRIA
- IT521- Perugia
- IT522- Perni

IT53- MARCHE
- IT531- Pesaro e Urbino
- IT532- Ancona
- IT533- Macerata
- IT534- Ascoli Piceno

IT60- LAZIO
- IT601- Viterbo
- IT602- Rieti
- IT603- Roma
- IT604- Latina
- IT605- Frosinone

IT71- ABRUZZO
- IT711- L'Aquila
- IT712- Teramo
- IT713- Pescara
- IT714- Chieti

IT72- MOLISE
- IT721- Isernia
- IT722- Campobasso

IT80- CAMPANIA
- IT801- Caserta
- IT802- Benevento
- IT803- Napoli
- IT804- Avellino
- IT805- Salerno

Italy

TL2 : 20 regioni
TL3 : 103 province

IT91- PUGLIA
- IT911- Foggia
- IT912- Bari
- IT913- Taranto
- IT914- Brindisi
- IT915- Lecce

IT92- BASILICATA
- IT921- Potenza
- IT922- Matera

IT93- CALABRIA
- IT931- Cosenza
- IT932- Crotone
- IT933- Catanzaro
- IT934- Vibo Valentia
- IT935- Reggio Calabria

ITA- SICILIA
- ITA01- Trapani
- ITA02- Palermo
- ITA03- Messina
- ITA04- Agrigento
- ITA05- Caltanissetta
- ITA06- Enna
- ITA07- Catania
- ITA08- Ragusa
- ITA09- Siracusa

ITB- SARDEGNA
- ITB01- Sassari
- ITB02- Nuoro
- ITB03- Oristano
- ITB04- Cagliari

TERRITORIAL LEVELS 2 & 3

JPA- HOKKAIDO
- JP01- Hokkaido

JPB- TOHOKU
- JP02- Aomori
- JP03- Iwate
- JP04- Miyagi
- JP05- Akita
- JP06- Yamagata
- JP07- Fukushima

JPC- KANTO
- JP08- Ibaraki
- JP09- Tochigi
- JP10- Gunma
- JP11- Saitama
- JP12- Chiba
- JP13- Tokyo
- JP14- Kanagawa
- JP19- Yamanashi
- JP20- Nagano
- JP22- Shizuoka

JPD- HOKURIKU
- JP15- Niigata
- JP16- Toyama
- JP17- Ishikawa
- JP18- Fukui

JPE- TOUKAI
- JP21- Gifu
- JP23- Aichi
- JP24- Mie

JPF- KINKI
- JP25- Shiga
- JP26- Kyoto
- JP27- Osaka
- JP28- Hyogo
- JP29- Nara
- JP30- Wakayama

JPG- CHUGOKU
- JP31- Tottori
- JP32- Shimane
- JP33- Okayama
- JP34- Hiroshima
- JP35- Yamaguchi

JPH- SHIKOKU
- JP36- Tokushima
- JP37- Kagawa
- JP38- Ehime
- JP39- Kouchi

JPI- KYUSHU
- JP40- Fukuoka
- JP41- Saga
- JP42- Nagasaki
- JP43- Kumamoto
- JP44- Oita
- JP45- Miyazaki
- JP46- Kagoshima

JPJ- OKINAWA
- JP47- Okinawa

Japan

TL2 : 10 groups of prefectures
TL3 : 47 prefectures

Mexico

TERRITORIAL LEVELS 2

MX01- AGUASCALIENTES
MX02- BAJA CALIFORNIA NORTE
MX03- BAJA CALIFORNIA SUR
MX04- CAMPECHE
MX05- COAHUILA
MX06- COLIMA
MX07- CHIAPAS
MX08- CHIHUAHUA
MX09- DISTRITO FEDERAL
MX10- DURANGO
MX11- GUANAJUATO
MX12- GUERRERO
MX13- HIDALGO
MX14- JALISCO
MX15- MEXICO
MX16- MICHOACAN
MX17- MORELOS
MX18- NAYARIT
MX19- NUEVO LEON
MX20- OAXACA
MX21- PUEBLA
MX22- QUERETARO
MX23- QUINTANA ROO
MX24- SAN LUIS POTOSI
MX25- SINALOA
MX26- SONORA
MX27- TABASCO
MX28- TAMAULIPAS
MX29- TLAXCALA
MX30- VERACRUZ
MX31- YUCATAN
MX32- ZACATECAS

TL2 : 32 estados

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Netherlands

TL2 : 4 landsdelen
TL3 : 12 provincies

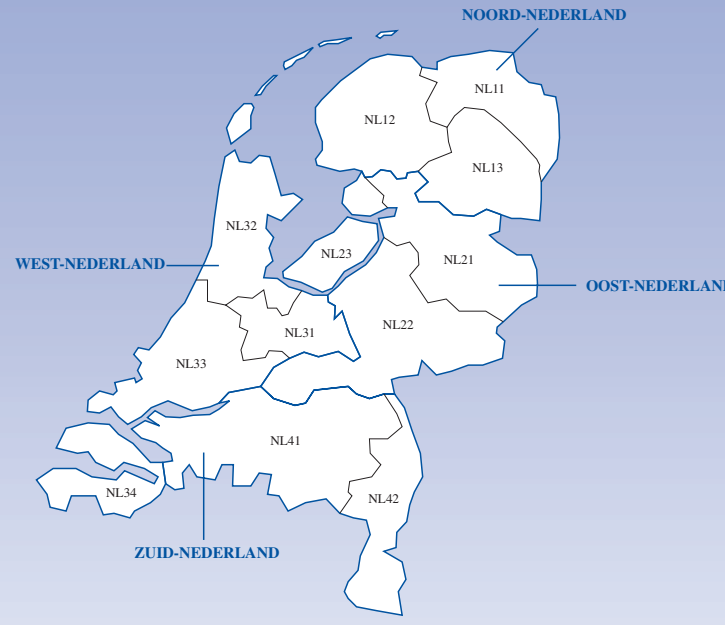
TERRITORIAL LEVELS 2 & 3

NL1- NOORD-NEDERLAND
NL11- Groningen
NL12- Friesland
NL13- Drenthe

NL2- OOST-NEDERLAND
NL21- Overijssel
NL22- Gelderland
NL23- Flevoland

NL3- WEST-NEDERLAND
NL31- Utrecht
NL32- Noord-Holland
NL33- Zuid-Holland
NL34- Zeeland

NL4- ZUID-NEDERLAND
NL41- Noord-Brabant
NL42- Limburg (NL)



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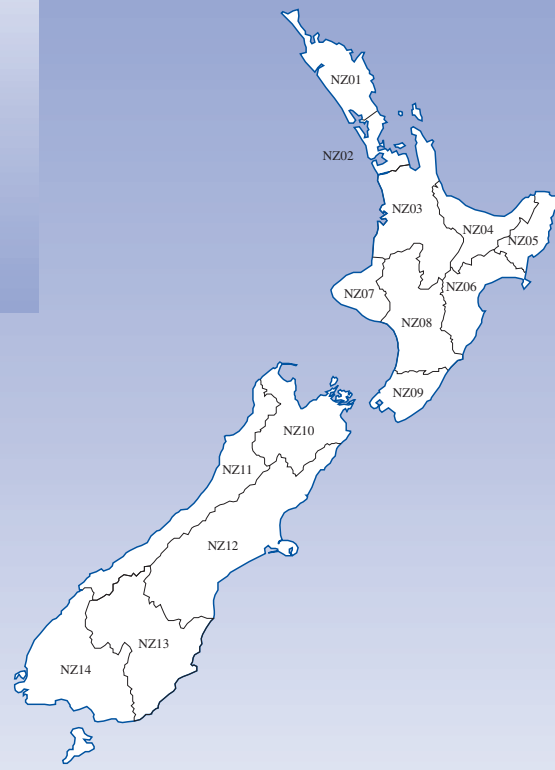
New Zealand

TERRITORIAL LEVELS 3

NZ01- Northland
NZ02- Auckland
NZ03- Waikato
NZ04- Bay of Plenty
NZ05- Gisborne
NZ06- Hawke's Bay
NZ07- Taranaki
NZ08- Manawatu-Wanganui
NZ09- Wellington
NZ10- Nelson- Marlborough
NZ11- West Coast
NZ12- Canterbury
NZ13- Otago
NZ14- Southland

TL2 : 1 state
TL3 : 14 regional councils



Norway

TERRITORIAL LEVELS 2 & 3

NO01- OSLO OG AKERSHUS
NO011- Oslo
NO012- Akershus

NO02- HEDMARK OG OPPLAND
NO021- Hedmark
NO022- Oppland

NO03- SOR-OSTLANDET
NO031- Ostfold
NO032- Buskerud
NO033- Vestfold
NO034- Telemark

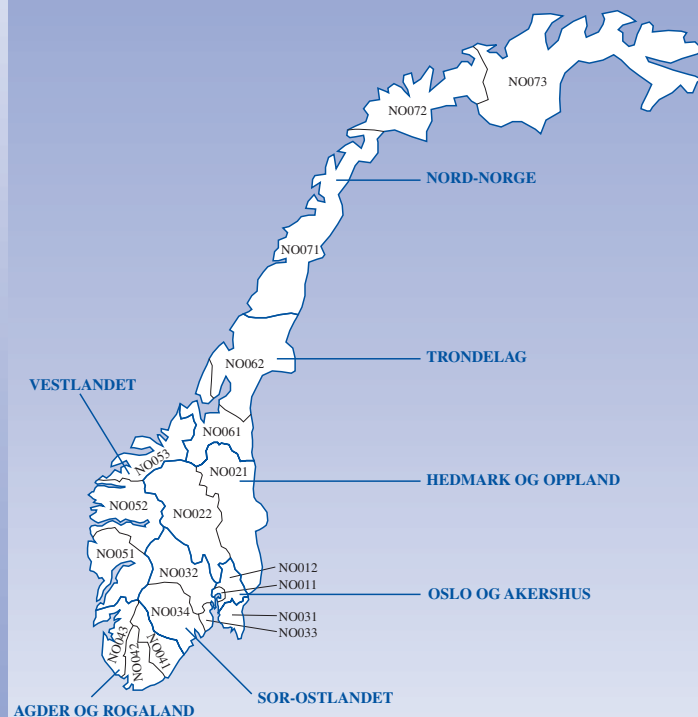
NO04- AGDER OG ROGALAND
NO041- Aust-Agder
NO042- Vest-Agder
NO043- Rogaland

NO05- VESTLANDET
NO051- Hordaland
NO052- Sogn og Fjordane
NO053- More og Romsdal

NO06- TRONDELAG
NO061- Sor-Trondelag
NO062- Nord-Trondelag

NO07- NORD-NORGE
NO071- Nordland
NO072- Troms
NO073- Finnmark

TL2 : 7 landsdeler
TL3 : 19 fylker



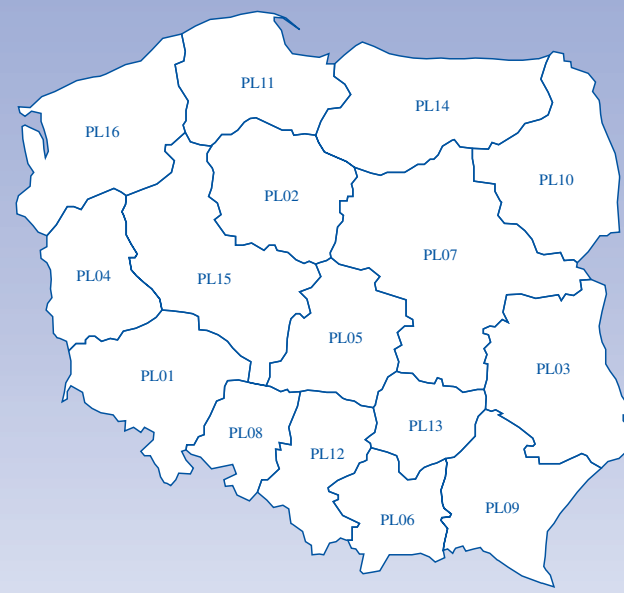
Poland

TERRITORIAL LEVELS 2

PL01- DOLNOSLASKIE
PL02- KUJAWSKO-POMORSKIE
PL03- LUBELSKIE
PL04- LUBUSKIE
PL05- LODZKIE
PL06- MALOPOLSKIE
PL07- MAZOWIECKIE
PL08- OPOLSKIE
PL09- PODKARPACKIE
PL10- PODLASKIE
PL11- POMORSKIE
PL12- SLASKIE
PL13- SWIETOKRZYSKIE
PL14- WARMINSKO-MAZURSKIE
PL15- WIELKOPOLSKIE
PL16- ZACHODNIOPOMORSKIE

The territorial grid at level 3 is not yet available

TL2 : 16 voïvodships



Portugal

TERRITORIAL LEVELS 2 & 3

PT11- NORTE
PT111- Minho-Lima
PT112- Cavado
PT113- Ave
PT114- Grande Porto
PT115- Tâmega
PT116- Entre Douro e Vouga
PT117- Douro
PT118- Alto Trás-os-Montes

PT12- CENTRO
PT121- Baixa Vouga
PT122- Baixo Mondego
PT123- Pinhal Litoral
PT124- Pinhal Interior Norte
PT125- Dão-Lafões
PT126- Pinhal Interior Sul
PT127- Serra da Estrela
PT128- Beira Interior Norte
PT129- Beira Interior Sul
PT12A- Cova da Beira

PT13- LISBOA E VALE DO TEJO
PT131- Oeste
PT132- Grande Lisboa
PT133- Península de Setúbal
PT134- Médio Tejo
PT135- Leziria do Tejo

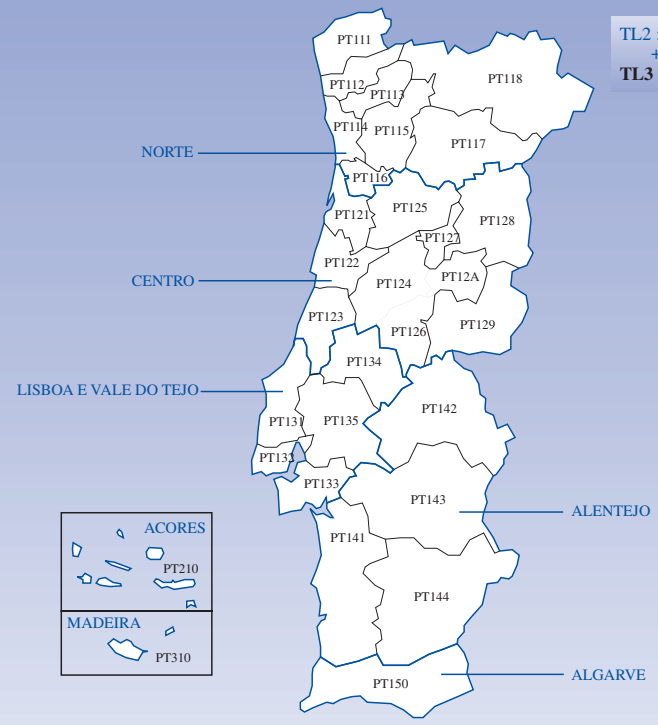
PT14- ALENTEJO
PT141- Alentejo Litoral
PT142- Alto Alentejo
PT143- Alentejo Central
PT144- Baixo Alentejo

PT15- ALGARVE
PT150- Algarve

PT21- AÇORES
PT210- Açores

PT31- MADEIRA
PT310- Madeira

TL2 : 5 comissões de cordenação
+ 2 regiões autónomas
TL3 : 30 grupos de concelhos



Spain
(without Canarias and Ceuta y Melilla)

TL2 : 16 comunidades autonomas
TL3 : 48 provincias

TERRITORIAL LEVELS 2 & 3

ES11- GALICIA
- ES111- La Coruña
- ES112- Lugo
- ES113- Orense
- ES114- Pontevedra

ES12- ASTURIAS
- ES120- Asturias

ES13- CANTABRIA
- ES130- Cantabria

ES21- PAIS VASCO
- ES211- Alava
- ES212- Guipuzcoa
- ES213- Vizcaya

ES22- NAVARRA
- ES220- Navarra

ES23- RIOJA
- ES230- Rioja

ES24- ARAGON
- ES241- Huesca
- ES242- Teruel
- ES243- Zaragoza

ES30- MADRID
- ES300- Madrid

ES41- CASTILLA-LEON
- ES411- Avila
- ES412- Burgos
- ES413- Leon
- ES414- Palencia
- ES415- Salamanca
- ES416- Segovia
- ES417- Soria
- ES418- Valladolid
- ES419- Zamora

ES42- CASTILLA-LA MANCHA
- ES421- Albacete
- ES422- Ciudad Real
- ES423- Cuenca
- ES424- Guadalajara
- ES425- Toledo

ES43- EXTREMADURA
- ES431- Badajoz
- ES432- Caceres

ES51- CATALUNA
- ES511- Barcelona
- ES512- Girona
- ES513- Lerida
- ES514- Tarragona

ES52- COMUNIDAD VALENCIANA
- ES521- Alicante
- ES522- Castellon
- ES523- Valencia

ES53- BALEARES
- ES530- Baleares

ES61- ANDALUCIA
- ES611- Almeria
- ES612- Cadiz
- ES613- Cordoba
- ES614- Granada
- ES615- Huelva
- ES616- Jaen
- ES617- Malaga
- ES618- Sevilla

ES62- MURCIA
- ES620- Murcia

Sweden

TL2 : 8 riksomraden
TL3 : 21 län

TERRITORIAL LEVELS 2 & 3

SE01- STOCKHOLM
- SE011- Stockholms län

SE02- ÖSTRA MELLANSVERIGE
- SE021- Uppsala län
- SE022- Södermanlands län
- SE023- Östergötlands län
- SE024- Orebro län
- SE025- Västmanlands län

SE04- SYDSVERIGE
- SE041- Blekinge län
- SE044- Skane län

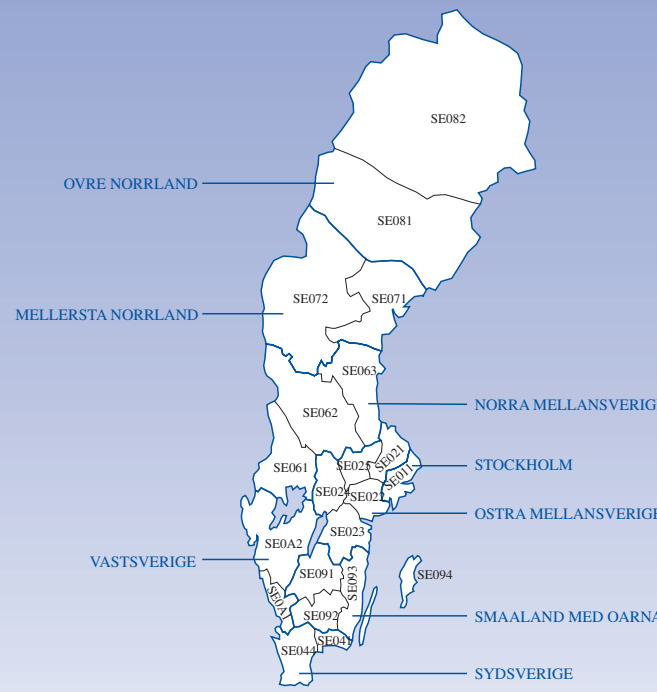
SE06- NORRA MELLANSVERIGE
- SE061- Värmlands län
- SE062- Dalarnas län
- SE063- Gävleborgs län

SE07- MELLERSTA NORRLAND
- SE071- Västernorrlands län
- SE072- Jämtlands län

SE08- ÖVRE NORRLAND
- SE081- Västerbottens län
- SE082- Norrbottens län

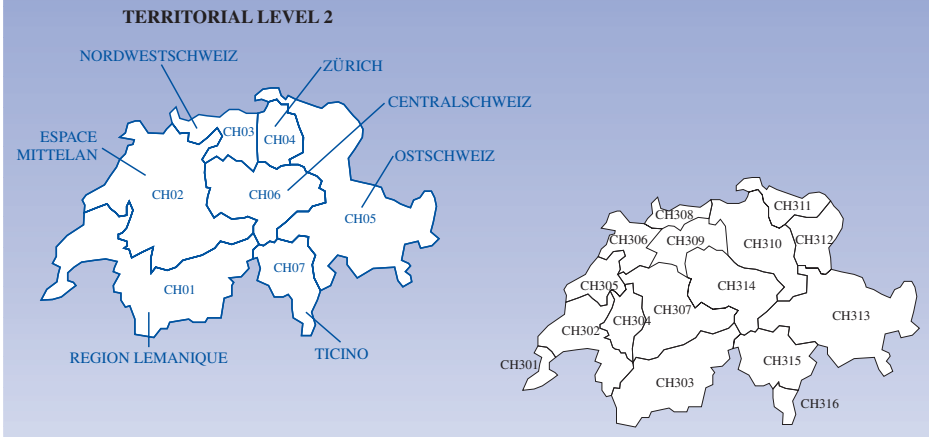
SE09- SMAALAND MED ÖARNA
- SE091- Jönkoepings län
- SE092- Kronobergs län
- SE093- Kalmar län
- SE094- Gotlands län

SE0A- VÄSTSVERIGE
- SE0A1- Hallands län
- SE0A2- Västra Götalands län



Switzerland

TL2 : 7 grandes régions
TL3 : 16 bassins d'emploi
WITHOUT CORRESPONDANCE

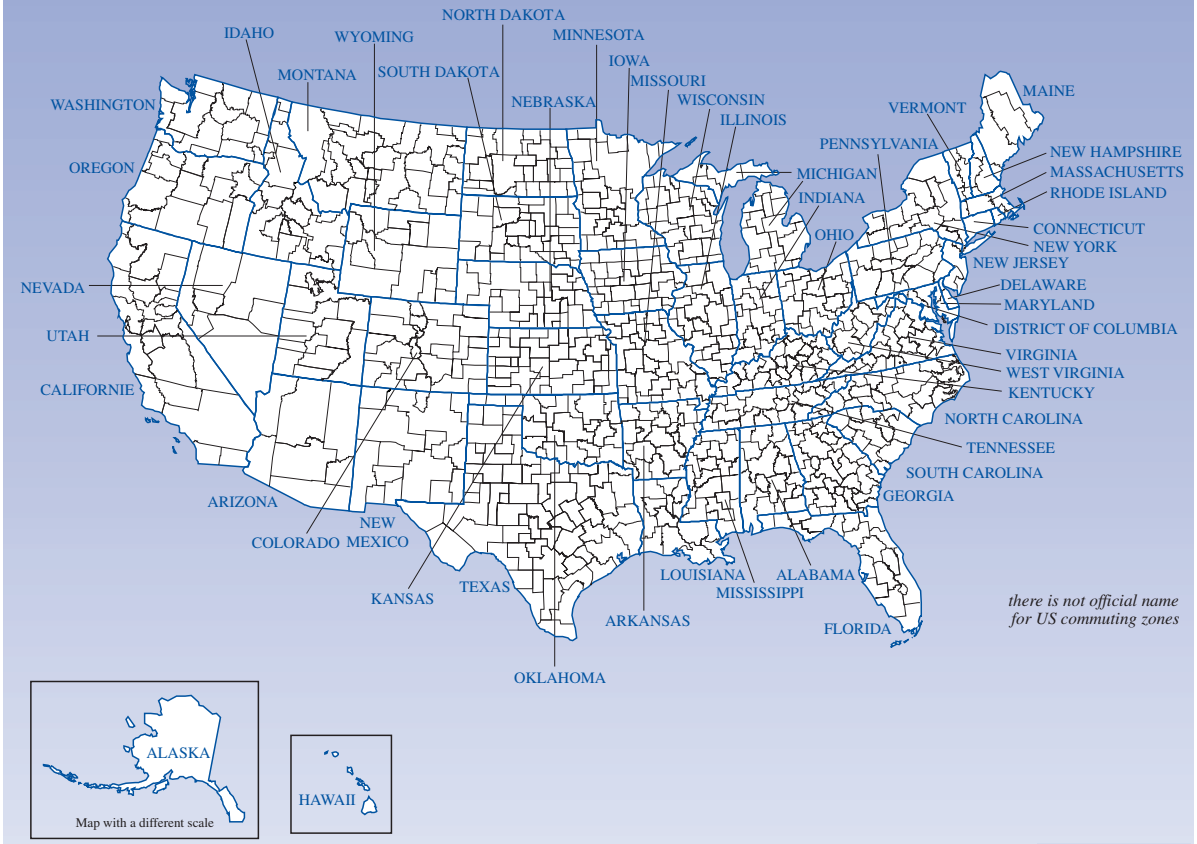


TERRITORIAL LEVEL 3

CH301- Genève
CH302- Lausanne
CH303- Valais-Sion
CH304- Fribourg
CH305- Neuchatel
CH306- Biel-Bienne
CH307- Bern
CH308- Basel
CH309- Aarau-Olten
CH310- Zürich
CH311- Winterthur-Schaffhausen
CH312- St-Gallen
CH313- Grisons-Chur
CH314- Luzern
CH315- Bellinzona
CH316- Lugano

United States

TL2 : 51 states
TL3 : 765 commuting zones
WITHOUT CORRESPONDANCE



TERRITORIAL LEVELS 2 & 3

UKC- NORTH EAST
- UKC11- Hartlepool and Stockton-on-Tees
- UKC12- South Teesside
- UKC13- Darlington
- UKC14- Durham CC
- UKC21- Northumberland
- UKC22- Tyneside
- UKC23- Sunderland

UKD- NORTH WEST
- UKD11- West Cumbria
- UKD12- East Cumbria
- UKD21- Halton and Warrington
- UKD22- Cheshire CC
- UKD31- Greater Manchester South
- UKD32- Greater Manchester North
- UKD41- Blackburn with Darwen
- UKD42- Blackpool
- UKD43- Lancashire CC
- UKD51- East Merseyside
- UKD52- Liverpool
- UKD53- Sefton
- UKD54- Wirral

UKE- YORKSHIRE AND THE HUMBER
- UKE11- City of Kingston upon Hull
- UKE12- East Riding of Yorkshire
- UKE13- North and North East Lincolnshire
- UKE21- York
- UKE22- North Yorkshire CC
- UKE31- Barnsley, Doncaster and Rotherham
- UKE32- Sheffield
- UKE41- Bradford
- UKE42- Leeds
- UKE43- Calderdale, Kirklees and Wakefield

UKF- EAST MIDLANDS
- UKF11- Derby
- UKF12- East Derbyshire
- UKF13- South and West Derbyshire
- UKF14- Nottingham
- UKF15- North Nottinghamshire
- UKF16- South Nottinghamshire
- UKF21- Leicester
- UKF22- Leicestershire CC and Rutland
- UKF23- Northamptonshire
- UKF3- Lincolnshire

UKG- WEST MIDLANDS
- UKG11- County of Hereford
- UKG12- Worcestershire
- UKG13- Warwickshire
- UKG21- Telford and Wrekin
- UKG22- Shropshire CC
- UKG23- Stoke-on-Trent
- UKG24- Staffordshire CC
- UKG31- Birmingham
- UKG32- Solihull
- UKG33- Coventry
- UKG34- Dudley and Sandwell
- UKG35- Walsall and Wolverhampton

UKH- EASTERN
- UKH11- Peterborough
- UKH12- Cambridgeshire CC
- UKH13- Norfolk
- UKH14- Suffolk
- UKH21- Luton
- UKH22- Bedfordshire CC
- UKH23- Hertfordshire
- UKH31- Southend-on-Sea
- UKH32- Thurrock
- UKH33- Essex CC

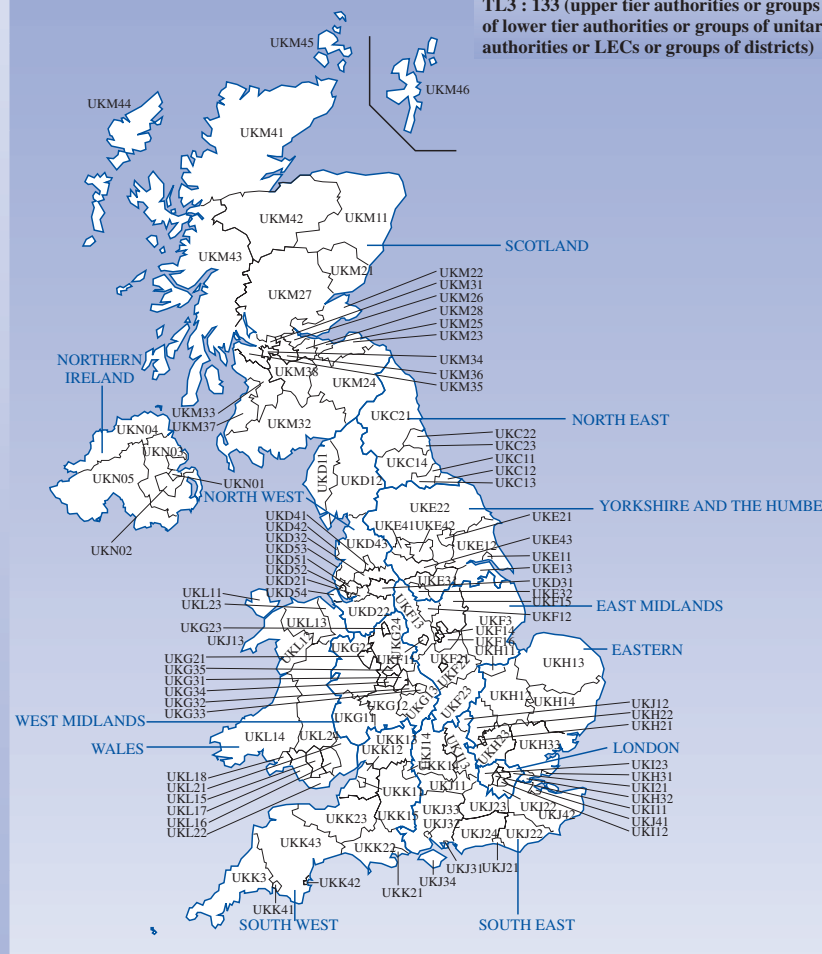
UKI- LONDON
- UKI11- Inner London - West
- UKI12- Inner London - East
- UKI21- Outer London - East and North East
- UKI22- Outer London - South
- UKI23- Outer London - West and North West

UKJ- SOUTH EAST
- UKJ11- Berkshire
- UKJ12- Milton Keynes
- UKJ13- Buckinghamshire CC
- UKJ14- Oxfordshire
- UKJ21- Brighton and Hove
- UKJ22- East Sussex CC
- UKJ23- Surrey
- UKJ24- West Sussex
- UKJ31- Portsmouth
- UKJ32- Southampton
- UKJ33- Hampshire CC
- UKJ34- Isle of Wight
- UKJ41- Medway
- UKJ42- Kent CC

UKK- SOUTH WEST
- UKK11- City of Bristol
- UKK12- North and North East Somerset, South Gloucestershire

United Kingdom

TL2 : 12 (9 Government Ofiice Regions for England and 1 country for Wales, Scotland and Northern Ireland)
TL3 : 133 (upper tier authorities or groups of lower tier authorities or groups of unitary authorities or LECs or groups of districts)



- UKK13- Gloucestershire
- UKK14- Swindon
- UKK15- Wiltshire CC
- UKK21- Bournemouth and Poole
- UKK22- Dorset CC
- UKK23- Somerset
- UKK3- Cornwall and Isles of Scilly
- UKK41- Plymouth
- UKK42- Torbay
- UKK43- Devon CC

UKL- WALES
- UKL11- Isle of Anglesey
- UKL12- Gwynedd
- UKL13- Conwy and Denbighshire
- UKL14- South West Wales
- UKL15- Central Valleys
- UKL16- Gwent Valleys
- UKL17- Bridgend and Neath Port Talbot
- UKL18- Swansea
- UKL21- Monmouthshire and Newport
- UKL22- Cardiff and Vale of Glamorgan
- UKL23- Flintshire and Wrexham
- UKL24- Powys

UKM- SCOTLAND
- UKM11- Aberdeen City, Aberdeenshire and North East Moray
- UKM21- Angus and Dundde City
- UKM22- Clackmannanshire and Fife
- UKM23- East Lothian and Midlothian
- UKM24- The Scottish Borders
- UKM25- City of Edinburgh
- UKM26- Falkirk
- UKM27- Perth & Kinross and Stirling
- UKM28- West Lothian
- UKM31- East and West Dunbartonshire, Helensburgh & Lomond
- UKM32- Dumfries and Galloway
- UKM33- East Ayrshire and North Ayrshire Mainland
- UKM34- Glasgow City
- UKM35- Inverclyde, East Renfrewshire and Renfrewshire
- UKM36- North Lanarkshire
- UKM37- South Ayrshire
- UKM38- South Lanarkshire
- UKM41- Caithness & Sunderland and Ross & Cromarty
- UKM42- Inverness & Naim and Moray, Badenoch & Strathspey
- UKM43- Argyll and the Islands
- UKM44- Eilean Siar (Western Isles)
- UKM45- Orkney Islands
- UKM46- Shetland Islands

UKN- NORTHERN IRELAND
- UKN01- Belfast
- UKN02- Outer Belfast
- UKN03- East of Northern Ireland
- UKN04- North of Northern Ireland
- UKN05- West and South of Northern Ireland

Part III

CORE POLICIES FOR TERRITORIAL DEVELOPMENT

INTRODUCTION

The TDPC developed a conceptual framework for territorial development policy (Chapter 3) in 1999 to present a general, comprehensive view of the objectives and instruments that apply to the field as a whole. The conceptual framework therefore is a concise statement of what territorial development policy is, together with an appreciation of the obstacles to their implementation. Using the conceptual framework as a template, Member countries are able to compare their policy objectives and instruments. This framework is being applied to the first series of territorial reviews, to help ensure that the reviews are comprehensive and consistent. In due course, the lessons learned from the reviews, together with the lessons learned from a series of in-depth, horizontal studies on the implementation and validation of specific policy instruments, will be used to revise of the conceptual framework.

Three background papers, Chapter 4, 5 and 6, explore the theoretical foundations of the three core policies for territorial development (spatial, economic and social), the shortcomings of theory and its relation to policy practice. Each paper makes an original and important contribution on its own to the field: in Chapter 4, Prof. Laurent Davezies (University of Paris-Val de Marne) explores the tension between equity and efficiency in matters of social development; in Chapter 5, Prof. Roberto Camagni (Polytechnic of Milan) emphasises the importance of immobile assets for territorial development; and in Chapter 6, Prof. Amy Glasmeier (Pennsylvania State University) highlights the links between regions and knowledge-based development. Their papers highlight such issues as the factors affecting endogenous development, the importance of relational capital (the ability of stakeholders to work together) and "collective" knowledge (the shared knowledge, often local and uncodified, about what works, what is important, and why), the issue of scale and nesting (how rural and metropolitan areas find a place in an overall strategy for regional development), the overlap between social, economic and spatial approaches, the misalignment between functional areas and administrative boundaries, and the option between development dominated and shaped by the market, or development guided by the state. All these issues merit further study.

These papers were discussed by the Territorial Development Policy Committee at its July 2000 meeting.

Chapter 3

THE CONCEPTUAL FRAMEWORK

Introduction

To accompany the launch of territorial review, this Conceptual Framework was developed to set out the foundations underpinning territorial policies, to help ensure that the reviews are comprehensive and consistent.

Each territorial review has a common structure composed of four sections:

1. assessment of the socio-economic situation (including a broad outline of the macroeconomic situation and the analysis of territorial trends) of the country or region under examination (drawing on Territorial Statistics and Indicators work);
2. assessment of the actual and potential impact of territorial policies;
3. analysis of the territorial governance framework (distribution of competencies, resources and responsibilities among different government levels; forms of partnerships and negotiation; instruments to evaluate and monitor policies, etc.); and
4. recommendations for policy reforms.

This Conceptual Framework relates mainly to points 2) and 3) above, looking in depth at the three principal aspects of territorial policy (that is, spatial, economic and social development) and then at the main institutional issues relating to territorial policymaking. Consideration of each policy area includes its definition and scope, the range of policy tools currently employed, the benchmarks used to assess its effectiveness, and the main obstacles to implementation.

1. Territorial development policies

The logic of territorial development is that economic growth is based in part on the organisation of space which is shaped by a range of policies at all levels of government as well as by social trends, technological development and market forces. Some of these mainstream economic and sectoral policies have unintended spatial impacts which can compromise territorial development. Policies with a territorial focus not only counteract these effects but more importantly add value by integrating the economic, social and environmental dimensions of cross-sectoral policies.

This involves:

— Promoting spatial development and providing spatial frameworks conducive to economic growth as well as to the reduction of environmental problems, and to the pursuit of sustainability;

— stimulating economic development and enhancing each region's potential for growth and capacity building, with an emphasis on entrepreneurship and the business environment;

— fostering social development and strengthening social cohesion, thereby reducing the scale of social problems associated with economic change and the fragmentation of areas according to widening socio-economic disparities.

Spatial development

Definition and scope

Achieving balanced and sustainable development requires interventions that can be grouped under the broader heading "spatial development" and the more restricted term "spatial planning". These include, *inter alia*:

— Preparing territories to support economic and social activities;

— geographical (re)distribution of infrastructure and public services across the territory; and

— management of natural and cultural resources embedded in each part of the territory.

Market forces alone do not necessarily lead to optimal outcomes in terms of the geographical distribution of population, economic, social and environmental activities (*e.g.*, offices, settlements and educational institutes). Such market failures create a drag on the economy and a sub-optimal use of human and capital resources. Many of the negative externalities are localised and need to be addressed through specific targeted initiatives.

Spatial development policies are also important with respect to the geographical distribution of infrastructure and public services so as to ensure equal access across the territory and reduce excessive disparities in terms of productivity and living standards between different parts of the territory, and to alleviate obstacles and bottlenecks in links to the global economy.

In many cases, spatial development has to deal with resources that are public goods, for which no market exists and where demand signals are weak and the optimal level of supply is difficult to gauge. Government intervention is necessary and desirable in these policy areas to generate fully optimal outcomes for a balanced and sustainable use of resources or to remedy adverse effects. Spatial development plans, which can affect the use of resources and consumption of energy, are a vital component in the implementation of national policies and strategies for sustainable development.

Medium or long-term spatial development plans guide the spatial evolution of economic and social activities within a country, and help policymakers determine funding needs from region to region and also with respect to different types of sectoral and structural policy interventions. In addition, spatial development policies can help governments to cope with economic and societal changes by helping to promote new network structures among towns and cities and between rural and urban areas (in contrast to existing hierarchical settlement structures), and by making possible coherent long-term visions of places to guide policy interventions by national and sub-national governments, and the private sector.

Policy tools

The main policy tools used to improve spatial development include:

1 Those directed at geographical distribution of economic and social activities:

— Strategies relating to the distribution of human settlements and economic and social activities such as industrial and business districts, commercial centres, transport and logistic hubs like ports and airports, and public decisions regarding their location.

— Development of a balanced and polycentric urban-rural structure by, for example, strengthening small and medium-sized towns as focal points for regional development.

— Provision of financial incentives and disincentives (*e.g.*, grants, subsidies, tax concessions, and charges) to influence the location of activities.

— Land use planning and co-ordination with transport and telecommunication planning.

2 Those directed at geographical distribution of infrastructures and public services:

— Public investment in infrastructures of all kinds in an equal opportunity objective.

— Location of public agencies as a means of deconcentrating employment and boosting development in target areas.

— Provision of subsidies and grants to local governments and the private sector for development of public infrastructures and provision of public utilities.

3 *Those directed at managing natural and cultural resources:*

— Preservation and creative development of natural and cultural landscapes with special historical, aesthetic and ecological importance.

Benchmarks for assessing spatial planning policies

Benchmarks to evaluate the performance of policy tools would include:

1 *Impacts on the geographical distribution of economic and social activities:*

— The incidence of adverse effects due to geographically driven problems, such as excessive concentration and depopulation, which can be measured by the extent of disparities between regions in terms of the quality of living and productivity.

— The extent to which spatial development planning concerning geographical distribution of economic and social activities can influence individual sectoral policy making and implementation.

2 *Impacts on the distribution of infrastructures and public services:*

— The quality of living, especially in terms of accessibility to employment opportunities, education and training, technology and knowledge, health and social care, cultural and leisure activities.

— The extent to which infrastructure and public services are provided in an integrative manner based on spatial development strategies, rather than according to the interests of individual sectors.

3 *Impacts on managing the natural and cultural resources:*

— The accessibility to and sustainable use of natural and cultural assets.

— The extent to which the preservation and creative development of natural and cultural resources are integrated in long-term spatial development strategies.

In addition to those corresponding to individual policy tools, benchmarking is necessary to evaluate the performance of the whole spatial development planning practice by examining:

— whether consultation mechanisms are available to incorporate the many relevant interests in the planning and implementation phases;

— whether planning is sufficiently far-sighted and flexible to respond to economic and social change and to local needs; and

— whether transparent and timely evaluation is available to compare cost and benefit in the long run and in a wider scope.

Obstacles to implementation

Practices in spatial development policy differ greatly between different spatial levels and between countries. Some countries approach spatial development in a narrow context, in a single sector approach rather than in a horizontal policy context. The lack of common understanding of spatial development policy is a major obstacle to communication between and within countries in this sphere and affects the functioning of private-public partnerships.

This is exacerbated when policymakers are reluctant to develop long-term strategies and the market is left free to create and manage the built environment. There is generally a lack of political interest in long-term strategies as compared to short-term development projects.

The designation of areas for special assistance and pilot projects has been a long-term practice in spatial development policy. A spatial targeting system that is not functionally linked to spatial development strategy is less effective. Moreover, too many small projects supervised sectorally may complicate the procedure and cause administrative problems at local level.

A lack of cross-sectoral perspectives remains a major obstacle. Spatial development policy tends to be narrowly confined to urban land use and physical policy with less focus on economic and social aspects and environmental concerns. Although integrated spatial policies are emerging in some metropolitan contexts, spatial development approaches are often sectorally focused and may generate conflict rather than co-operation.

Few countries have an evaluation culture in spatial development policy. Evaluations are often carried out within sectors but not in a holistic manner. As spatial development policy is cross-sectoral practice, this does not suffice. Indeed, performance measurement is complicated by the fact that spatial development policy is one amongst many to influence on real development.

Economic development

Definition and scope

Economic development policies aim to raise the potential for long-term growth and sustainable development in the overall national economy by creating favourable local economic environments, by overcoming local structural problems and by linking endogenous and exogenous resources. Development policies restore balance to the economy by reducing local market failures and encouraging growth in regional economies, particularly those where development is lagging.

In OECD countries, regional disparities are partly reduced through automatic fiscal transfer systems. These are designed to supplement the spending capacities of sub-national governments when their development needs exceed their fiscal capacities. Using these mechanisms, central governments direct assistance towards poorer areas or those facing severe adjustment problems. Transfers can also be initiated at sub-regional levels in order to combat concentrations of unemployment and pockets of social deprivation and exclusion. While these objectives are still actively pursued by national authorities, governments are now according increasing attention to a second type of programme designed to maximise the competitiveness and the development potential of all territories, not only those in difficulty.

To reach these objectives, policymakers use combinations of initiatives across a wide range of structural and sectoral policies. These can be divided into three broad categories:

1. Policies intended to increase the productivity of factors (*e.g.*, by raising educational attainment and skill levels in the labour force or by speeding the incorporation of new technologies by enterprises).
2. Policies intended to improve the functioning of markets (*e.g.*, by improving labour market flexibility and mobility or by broadening access to risk capital and encouraging inward investment). And
3. Policies intended to improve the business environment (*e.g.*, by improving transport infrastructures and promoting access to Internet and telecommunications networks or by reducing bureaucratic and fiscal burdens on enterprises and by promoting networking among enterprises). These policies aim at enhancing the competitiveness of firms and territories through the availability of physical infrastructures and other externalities. They complement spatial policies, which mainly focus on the balanced distribution of and equitable access to infrastructure.

Policy tools

Allocation of funds for territorial development purposes can be 1) systematic or 2) discretionary:

1. The redistribution of funds among sub-national governments is based on the use of traditional fiscal policy instruments. These instruments need to take full account of the consequences of decentralisation of functions to local and regional governments in order to ensure that new mandates are accompanied by the provision of adequate financing.
2. Discretionary transfers are earmarked for specific aspects of regional development or to remedy specific structural problems, notably in lagging regions. Financial assistance is increasingly provided to collective projects rather than to individual firms. Indirect assistance takes the form of funding for physical but also, and increasingly, for soft infrastructures, such as improving provision of training for SMEs and enhancing access to information and new technology.

The main policy tools used to improve the long-term performance (productivity or competitive position) of economic activities include:

1 *Those directed at factors of production:*

— Upgrading the qualifications and skills of the workforce by raising standards in the formal educational system and developing, and promoting career mobility through vocational training policies.

— Speeding the transfer and incorporation of new technologies through promotion of investment in R&D, creation of science parks, technical service centres, technopoles, etc., and increasing the use of information and communication technologies.

2 *Those directed at markets:*

— Assisting the functioning of the labour market using tools such as active labour market policies, job placement, sectoral employment policies, labour laws and standards, and unemployment insurance regimes.

— Enhancing the potential of endogenous business by promoting enterprise clusters and networks; and/or maximising the potential of inward investment by creating linkages and technology transfer with local firms.

3 *Those directed at the business environment:*

— Reducing regulatory burdens on SMEs and limiting the number of intermediaries in the start-up process.

— Increasing access to knowledge infrastructures using tools such as establishing technical institutes, improving distance learning facilities and tele-education; creating specialised multi-campus universities.

— Improving transport infrastructures, road, rail, etc by means of multi-modal transport networks; development of better linkages between less developed areas and core areas, between small and medium-sized towns and the main urban centres, etc.

— Furthering the progress of firms in meeting environmental criteria and objectives.

Benchmarks for assessing development policies

Since territorial development policies are increasingly pursuing two strategic goals: enhancing regional competitiveness and reducing disparities, they have to be assessed accordingly; that is, using two sets of benchmarks:

1 *Disparity indicators* applied to the whole spectrum of regions (convergence or divergences between regions are commonly measured on the basis of income criteria — GDP per capita — and labour market criteria).

2 *Policy performance criteria*, both in terms of whether a given policy has had the expected results in the target field (*i.e.*, markets, factors and the business environment) and in terms of the outcome yielded by the policy per unit cost (cost per job created, for example). Examples of policy performance benchmarks would include:

— *impacts on factors of production*: for example, increases in labour productivity, in employment and activity rates, in environmental performance, and in private sector R&D intensity;

— *impacts on markets*: for example, increases in placement after participating in active labour market policies and in the amount of risk capital made available to local enterprises;

— *impacts on the business environment*: for example, increases in the density of road/rail networks and in mobile phone coverage, decreases in the enterprise tax burden and in the number of intermediaries in the start-up process.

Obstacles to implementation

Policies to reduce disparities pose a number of problems for policymakers, both in terms of which regions to target and what policies to introduce.

— It is often difficult to gauge the relative needs of different lagging regions; whether to concentrate funds on only the worst few regions or spread the funding more widely. Moreover, the selection criteria for targeting regional aids may have inherent biases towards certain types of area (for example, those with high unemployment).

— Better performing regions often argue that they need additional resources in order to compete globally; this would increase overall national competitiveness and draw in investment but could also increase regional disparities

— Unless clear development trajectories and associated policy instruments are identified for backward regions, funds for development risk being wasted on costly but unsuitable infrastructure projects.

Implementing structural reform involves a number of inherent short-term disadvantages or costs which go a long way to explain why progress in implementing reforms is often slow.

— Adjustment costs are often borne by rather narrow groups or in specific regions, which, as a result, have a strong incentive to resist reforms. Moreover, benefits are often spread widely but thinly, and often borne in advance, reducing the incentive to push for reforms.

— Structural policies often act to change long-held advantages, which can provoke a social reaction despite the promise of economic benefits. They can also require cumbersome changes in legislative or constitutional frameworks.

— Use of some structural policy tools is circumscribed by international agreement (WTO, EU, NAFTA, etc.).

— Certain structural reforms, notably those designed to improve the competitive position of enterprises, may raise questions about the use of public funds, particularly with respect to dead-weight and displacement problems.

Social development

Definition and scope

Over the past few decades, there has been increasing concern in OECD countries over a perceived weakening of social cohesion, linked, it has been argued, to processes of globalisation and economic restructuring. People living in certain areas of major cities and in some rural areas appear to have become isolated from the structure of opportunities provided by institutions (like schools, welfare systems, the legal system) and also by markets (notably the labour market and the housing market).

It is clear that economic growth by itself is not sufficient to eradicate processes of social and spatial exclusion, and mechanisms by which resources are redistributed within the society work only imperfectly. Indeed, in some places growth is accentuating the spatial concentration of social problems: for example, national welfare and housing policies, which had been successful in reducing poverty and improving living standards after 1945, have not been able to control the concentration of deprivation in particular urban zones.

Moreover, areas that develop social and housing problems are often confronted with severe environmental problems. Strategies for social development therefore not only address the need to improve conditions in areas characterised by high levels of distress and exclusion, but also the need to maintain and enhance the quality of life throughout territories as a factor that contributes to social stability and helps to attract investment.

Now, governments are searching for effective policies, recognising, in particular:

— the need for active welfare policies that provide protection and encourage equality of opportunity, without creating dependence and alienation;

— the close links between social conditions and economic performance and the search for policies that can reconcile the two; and

— the value of local innovative projects and experiments, area-based strategies and public-private partnerships to set up priorities and increase economic and social return.

— the impact of quality of life issues (*e.g.*, access to and quality of services such as health, education or transport services, availability of green spaces and quality of environment, affordability and attractiveness of housing, security, etc.) on the well-being of neighbourhoods and communities, with consequences that often spill over from one area to another.

Innovative local responses to problems of exclusion are now appearing in OECD countries, aiming either to connect people to opportunities or, and perhaps preferably, to create economic opportunities in the areas themselves where spatial patterns often exacerbate social disparities. The local level is critical because this is where integration could and should take place.

Policy tools

Policy tools in this field tend to include one or a combination of the following actions:

— *Education:* for example, improving levels of educational attainment, providing educational role models, ensuring equal access to educational resources and equivalent standards of teaching, providing compensatory support, both within and outside schools, to offset cultural disadvantages.

— *Employment and training:* for example, special training programmes for long-term unemployed or early school leavers, ensuring access to employment opportunities through commuting policies, promoting transfer from the informal to the formal economy, encouragement of self employment and local entrepreneurs, promoting the move from welfare to work and facilitating links with the external labour market.

— *Economic development*: for example, encouragement of local business start-ups, maintenance of suitable infrastructures for existing businesses, participation in finance and credit schemes, encouragement of social enterprises.

— *Improvement of housing and the physical environment:* for example, campaigns to stop vandalism, renovation of housing stock, efforts to alleviate pollution, and congestion and to integrate natural landscapes into the community, and metropolitan strategies to integrate distressed urban areas into the rest of the region.

— *Community development:* for example, encouragement of social mixity in residential areas, emphasis of maintaining local commercial, retail and leisure centres, support for local organisations and residents groups.

Most initiatives aim to benefit all social groups whatever their income level or place of residence. Regardless of the specific policy instruments, however, they must succeed in reaching a number of particularly vulnerable groups, notably:

— *Young people:* for example, increasing levels of employability, encouraging participation in further education, and combating drug and alcohol abuse.

— *Single parent families:* for example, providing child care options, increasing part-time and work options within the framework of social assistance.

— *Ethnic or racial minorities:* for example, programmes to improve literacy, efforts to combat racial discrimination.

Benchmarks for assessing social policies

The key indicators of change in this field would include:

— Income distribution and poverty: income distribution pyramids, ratio of the population living on social transfers, ratio of households where no parent works.

— Employment situation: ratio of the unemployed to long-term unemployment (1 year and 18 months), data on employment status.

— Education and access to technology: educational attainment, ratio of illiteracy, evaluation of public access to computers and Internet.

— Quality of life: a composite index could include ratio of long-term sickness, ratio of workers' illness on the workforce, life expectancy, level of delinquency, number of crimes (per 1000 inh.) or number of co-operation agreement between community dwellers and local police, quality of air and water, congestion ratio, etc.

— Participation and equity: number of associations, partnerships and interest groups where the civil society is involved, results from surveys on social mobility and equal opportunity, migration flows, degree of social diversity in local areas and more generally the quality of social dialog within and between communities and groups.

Obstacles to implementation

Factors which present potential obstacles to efficient social policy responses, include:

— cultural/attitudes (towards family, work, education, entrepreneurship, public institutions);

— lack of long term stability of employment;

— disparities in the costs of social services between urban and rural areas due to different population density and remoteness, and the effects of concentrations of disadvantage in metropolitan areas;

— efficiency problems due to lack of co-ordination and co-operation between state agencies (*e.g.*, the public employment service), local authorities and social partners;

— insufficient targeting of key issues, people and places;

— lack of involvement of the private sector in tackling social issues, lack of effective involvement of the third sector and citizens in designing and delivering of social policies.

Increasing responsibility for social policy at the local level due to decentralisation has often had the effect of downloading responsibilities to the local level, unaccompanied by compensatory financial arrangements. Local and regional authorities often find themselves financing *de facto* territorial social policy. This can be a major problem, especially in urban areas where there are large differentials between central cities and suburbs and also between rural and remote areas. It also penalises cities with poor economies in relation to those with more robust economies.

2. Territorial governance

Trends in territorial governance frameworks

Territorial governance is the manner in which territories of a national state are administered and policies implemented, with particular reference to the distribution of roles and responsibilities among the different levels of government (supranational, national and sub-national) and the underlying processes of negotiation and consensus-building. The objective of territorial reviews is to identify the most efficient and balanced allocation of functions among governmental (and non-governmental) bodies, both horizontally and vertically, as well as the best way to achieve it, and thereby help to improve the impact of public policies.

The past decade has seen considerable change in systems of territorial governance in OECD countries, resulting largely from widespread decentralisation of government functions.[11] In many OECD and non-OECD countries, policy responsibilities and, in some cases, revenue-raising capacities have shifted away from the central government to regional and local governments and this decentralisation has had a dramatic effect on the way nations are governed. Not only have specific tasks been re-allocated to different agencies and the repartition of revenues revised, but in addition, more flexible institutional relationships have evolved. A wide range of governmental and non-governmental actors, including the voluntary sector and private enterprises, are gradually constituting a new and more or less formal policy network within which solutions to common problems are jointly discussed and policy solutions developed. The functioning of these new forms of governance appears to have a number of key features.

First, formal mechanisms of horizontal and vertical co-operation between government bodies and partnerships with non-governmental actors are becoming more commonplace and operational. Depending on the degree of decentralisation, local and regional authorities are building the necessary institutional bridges among themselves, with the central government and with social partners and NGOs, so as to maximise local/regional participation in the process of policy formulation and implementation. To facilitate these trends, central governments have, in some cases, begun to promote the formation of new spatial structures for territorial governance (inter-communal frameworks, regional platforms, territorial pacts, etc.). These new structures promise more co-ordinated spatial planning and more coherent allocation of public resources across whole territories, as well as greater transparency in resource use. Given the increasingly favourable policy environment, local governments now need to further strengthen their own policy-making and implementation capabilities.

Second, in the context of these new partnership-based institutions, the role of citizen participation is increasingly emphasised. One of the main criticisms of public administration in the past, particularly in terms of social policies, has been that it was distant and poorly adapted to the real needs of the constituency it aimed to help. In response, there have been increasing calls for public policies to be informed directly by representatives of the local community and local interest groups who have knowledge that can be harnessed to increase the responsiveness of public policy delivery. There have been, over the past two decades, numerous policy initiatives designed to promote empowerment, associative democracy and stakeholder democracy. However, the overwhelming conclusion from the evaluation of these programmes is that they have rarely delivered the kind of balanced, participative and inclusive governance that they promised. The bottom-up approach is however increasingly rooted in the overall system of territorial governance in Member countries; the challenge is to make it work better.

Finally, against this background, the role played by negotiation and contract in establishing new governance structures and in transforming inefficient relationships into dynamic interagency partnerships is becoming increasingly central. Many OECD countries are reconsidering the importance of effective negotiation processes between sectoral government departments, between different tiers of government and between the government and private/voluntary sector actors (some of whom have a stronger bargaining position than others). The approach is based on the assumption that a negotiation process that values, on the one hand, the richness of information available at the local level and, on the other, the potentially wider vision of the central government, can lead to a better assessment of relative need and consequently to a more effective and accountable allocation of resources. In this respect, the theory of contracts, which takes into account the institutional and information constraints that influence and mould economic agent interactions, as well as the role of risk-sharing, is emerging as a particularly useful tool to assess the efficacy and efficiency of public institutions to analyse the performance of partnership and identify potential for improvement.

These shifts in territorial governance lie at the heart of the policy process. The evaluation of territorial policies and the identification of recommendations for improving their effectiveness demand, therefore, as a pre-requisite, an understanding of changes taking place in governance structures and the impacts that they can have on policy outcomes. Hence, the establishment of a review process to identify trends in territorial governance and to pick out best practices is a key aspect of territorial policy analysis. By exploring governance structures in each country, the reviews will examine the extent to which the current institutional structure in each country/region enhances or hinders economic growth, equity, social stability and the implementation of territorial policies.

Assessing governance frameworks: the point of departure for territorial reviews

The territorial reviews will consider governance frameworks in different countries on the basis of a series of key questions:

1 The distribution of responsibilities and powers among different tiers of government

— What is the distribution of responsibility across levels of government and among government departments? Is it enforced through constitutional law or political agreement? To what extent has decentralisation to sub-national bodies taken place and what has been its impact? What competencies have shifted to supranational bodies and what has been the impact of this process? Is the current allocation of functions considered to be adequate for effective territorial policymaking? Can we say that a new "culture of governance" has developed?

2 The distribution of resources among different tiers of government

— Is the distribution of resources consistent with the distribution of responsibilities? Does it involve re-distribution of resources between tiers of government, or a distribution of fiscal responsibilities? Do the public service responsibilities (and costs) match with the revenue-raising capacity? How important is horizontal re-distribution (for example, among municipalities in a metropolitan area)?

3 The negotiating process between central government and other government agencies and between public and private sector bodies

— To what extent is negotiation considered a key aspect of the administrative process? Is the paradigm "local knowledge/national vision" used in practice and does it have positive out-

comes? Is the implementation of policies subject to contracting arrangements with other levels of government? Are there contractual relationships with other non-government bodies?

4 The use of partnerships with non-governmental organisations

— Are formal/informal partnerships employed in the design and delivery of policies and services? Who is represented on the governing boards of the partnerships, and how is decision-making power distributed? What are the sources of funding? To whom are partners accountable?

5 The effectiveness of programme management, implementation procedures and monitoring mechanisms

— What are the management schemes (*e.g.*, management by programme, by objectives) and funding methods (*e.g.*, block grants) used? What is the degree of autonomy of public managers at local and regional levels and what are the mechanisms to ensure accountability? To what extent are programmes subject to monitoring and periodic evaluation? Who undertakes evaluations and what is the procedure for mainstreaming results?

6 Relations with community groups and the general public

— To what extent do private citizens or citizens groups participate in the design and implementation of public policies? What are the mechanisms or channels by which access is provided? If policy initiatives have been introduced which included empowerment or participation as a specific objective, what have been the outcomes?

Analysis of these issues will enable the Secretariat to assess the effectiveness of existing governance schemes and to identify transferable best practices for improved policy implementation. By stressing the close links between well-functioning governance structures and policy outcomes (the former being a pre-requisite for the latter), the territorial reviews will be able to provide specific recommendations to assist Member countries in improving their methods in the strategic phases of conception, negotiation, implementation and evaluation of territorial development policies.[12]

Conclusion

Territorial development has institutional, economic, social and environmental dimensions which, like the tripartite paradigm of the Secretary-General, can only be achieved if progress is made on all fronts. The national goal of employment must be translated into economic development policies that promote local job creation and entrepreneurship. Social stability requires that spatially concentrated blackspots of deprivation and social exclusion must be addressed. Care for the environment requires that environmental problems at the sub-national level be remedied in ways that lead to better protection or more sustainable use of natural resources and more sustainable land use patterns. And, in all cases, effective and efficient national public policymaking demands that attention be paid to governance issues across all levels of government and to linkages with non-governmental actors.

Territorial reviews provide a means to address the inter-relationships among these elements, all of which are essential to sustainable territorial development, paying particular attention to:

— strategies, policies and instruments to reduce disparities and build on regional assets and comparative advantages, contribute to national goals such as reduced unemployment, ensure sustainable spatial development, and increase social cohesion; and

— the distribution of competencies and resources between the different levels of government and identification of the most appropriate modes of governance.

The territorial reviews can become the empirical foundation for developing policy recommendations relevant for all Member countries, a structured link between the particular and the general, the local, national and global.

NOTES

11. Here, use of the term decentralisation is intended to cover the range of concepts relating to the reorganisation of government functions away from the centre, such as deconcentration, devolution, subsidiarity and fiscal federalism.
12. It sould be underlined that this analytical effort is not centred on the reform of public administration, which relates more directly to the work of other bodies of the Organisation such as PUMA (Public managment Service).

Chapter 4

POLICIES FOR SPATIAL DEVELOPMENT

Introduction

This paper addresses the need for spatial policy at two territorial levels, that of the region and that of the locality. The first concerns the question whether it matters to overall output where investment and economic activity are located within a country, and therefore whether spatial policy should provide equal levels of service or reinforce the more competitive (or least competitive) regions. The second addresses how individual localities, even those as big as a metropolitan area, are organised in spatial terms, the question being whether the market is able to provide an optimal level of positive externalities and can reduce the negative aspects of agglomerations to a minimum.

The rationale for spatial development policies was discussed and mainly settled thirty to forty years ago, when most of advanced countries experienced huge migration processes from rural to urban areas, from backward to advanced regions, inside each country or across countries. Evidence of the cumulative character of spatial development led the majority of regional scientists to abandon the optimistic neo-classical vision of a long term trend towards equalisation of territorial conditions and to fully embrace the idea of necessary, re-equilibrating policy interventions.

Subsequent evidence during the 1970s and 1980s indicating the emergence of new regions, "intermediate" between advanced and backward regions, following autonomous and innovative development patterns, did not change the general attitude, confirming the possibility for each region to define a viable, specific development trajectory. Further scientific reflections on the role of new production factors — such as information, knowledge, human capital, local culture and industrial atmosphere — and on the pervasive importance of technical change, innovation and learning reinforced the general belief about the cumulative nature of spatial development.

From evidence of increasing regional disparities, the need for policy intervention was generally derived (probably too rapidly) for equity reasons. Equity was acknowledged as being in potential contrast with another goal, efficiency (addressing the maximum aggregate growth rate of the national economy), but the balance between the two was never explored in depth, the positioning on the equity-efficiency trade-off being left to the political sphere. Equity of course represents one of the main social and political goals of any society, and was authoritatively assumed as one of the funding principles of the European Union under the "cohesion" label by the Maastricht and Amsterdam Treaties, but its limits and costs as far as spatial policies are concerned should be properly analysed. In fact, spatial policies were questioned in recent years also with respect to their cost, and opportunity cost, in times of tight public budget constraints.

Further theoretical reflections put in question the very existence of the trade-off, emphasising both the aggregate development effects of sound spatial development policies and, on the other hand, the social costs of an unbalanced development process. Many of these reflections are worth reconsidering nowadays.

In recent times, the general attitude towards spatial policies has shifted: more market oriented or *laissez-faire* approaches are advocated authoritatively, both by scientists and by policy institutions. Spatial policies are no more assumed to be "natural"; they have to be properly justified both in their general scope and with reference to the new economic and spatial context.

As an economist, I see two theoretical reasons for this new, beneficial challenge, requiring a such attention to the scientific foundation of development policies and spatial planning. The first reason

resides in the following fact. Spatial policies traditionally found their justification in the evidence of multiple cases of market failure in the *allocation* of resources: spatial and land resources, physical and financial capital resources, in a general framework of *static optimisation.* Nowadays, after the huge transformations of economies — from agriculture to industry, to tertiary activities, to information, knowledge and control activities — the general framework is one of *dynamic optimisation*, of devising the conditions for fast spatial transformation and quick transfer of resources from declining to "sunrise" functions.

This change in the frame of reference justifies, on the one hand, the exploration of the general and institutional conditions which may be crucial for speeding up economic transformation; they regard factor flexibility (in the labour markets), market transparency (in financial markets), market openness (antitrust practices), and fiscal homogeneity (across countries). On the other hand, these trends raises questions about how spatial policies can supply better preconditions for economic transformation than a free-market context.

The second related reason for questioning traditional policy approaches resides in the explosion of the globalisation issue. In a context of more or less separated spatial markets, where physical distance works as a powerful shelter in favour of domestic activities (and populations) at the different geographical levels, core-periphery or advanced-backward dichotomies bear completely different meanings than in a condition of global openness and interdependence. Advanced areas in a regional context may be areas at risk of disappearance in a wider, global context. This is why, in the new condition, it may look rational to question spatial policies addressed only towards weaker areas in favour of policy targets addressed towards reinforcing the points of (relative) excellence in each country or region.

On the other hand, the globalisation issue has taken to the fore the growing importance of space, in the sense of the growing importance of local conditions for economic success — the so-called "localisation" issue. Territories not only supply the infrastructure and service preconditions for successful location decisions and the skills and competencies needed for present economic growth, but represent a crucial stock of non-mobile social and "relational" capital; in policy terms, these assets should not be wasted as a consequence of the "hyper-mobility" of some, globalised activities.

1. Globalisation: what's new, and with what spatial consequences

Globalisation is not a state of the world but a process: the increasing planetary integration of markets for goods and services, markets of location sites for economic activities, markets of such production factors as technologies and information.

Globalisation is not a new phenomenon and in many periods of the last century it reached very high and even comparable levels; moreover, it did not show up in a single, catastrophic jump, as the sudden adoption of the term in the political debate could suggest. What is nevertheless new is the long-term, contemporary acceleration of many parallel integration processes, reinforcing and compenetrating each other in multiple ways:

— Since almost thirty years, international trade has been steadily growing at a rate that is the double of world GDP.

— Foreign direct investments have grown at rates that are double with respect to international trade and four times those of world GDP. Most of these investments are directed towards developed countries (80% in the years 1986-1990, around 60% in years 1993-97) and are attracted by accelerations in economic integration processes: in fact EU countries, at the start of the process of creation of the Single Market in 1991-92, received up to 50 per cent of world FDI (UNCTAD, 1997 and Camagni, 2000*a*).

— The nature of international trade has evolved from pure exchange of (final) goods among national production systems to exchange of intermediate goods and components within production networks organised on a world-wide scale. Local production systems are increasingly interdependent, mainly through the global strategies of multinational corporations.

— Mobility of financial capital has grown spectacularly: in 1995 financial exchanges reached one thousand billion dollars a day, more than the foreign exchange reserves of all national govern-

ments together. The short-term profit objective of these movements imposes serious constraints on the international financial system.

Looking at globalisation in this quantitative perspective, though, would lead to a judgement of neutrality regarding its effects on local territorial systems: opportunities and threats may look equivalent. But this judgement changes radically if one considers some new, qualitative aspects of the present international economic picture: the increasing importance of knowledge factors, of immaterial elements linked to culture, taste and creativity in present economic processes and the characteristics of what could be called the production function of these elements and the ways of their accumulation. In fact, these immaterial elements develop through slow learning processes, fed with information, interaction, and long-term investments in research and education. Like all learning processes, they are inherently localised and cumulative, as they embed in human capital, interpersonal networks, specialised and highly skilled local labour markets and local innovative *milieux*; therefore they are highly selective in spatial terms (Camagni, 1991*a*; 1999).

When analysed in an international perspective, technical progress ceases to be a public good, perfectly mobile and accessible to everybody; on the contrary, it circulates rapidly only inside some restricted networks, as it requires high quality immaterial assets in order to be properly adopted and its profits appropriated (Savy & Veltz, 1995: Introduction). *"While firms can access an increasing stock of codified knowledge, they require greater investments in tacit knowledge, such as human capital, management and organisation, to derive tangible benefits from technological change and innovation. (…) Firms may now benefit less from imitation and "free" technology spillovers, as they require substantial investments in innovation and in co-operation and networking to access the stock of global knowledge"* (OECD, 1999*a*: p. 3).

We see here a complex dialectics between the hyper-mobility of some production factors and the territorial "anchorage" of some others, which act as crucial location factors for the more advanced production processes. The likely result is the cumulative strengthening of the centripetal forces of growth (scale and scope economies, all sorts of increasing returns) and the centrifugal forces of territorial exclusion and decline. It is perfectly true that technologies and capital goods may be marketed and utilised almost everywhere (better: they *have* to be used everywhere, as they impose internationally shared standards in product and process quality) and that telecommunication networks and facilities are (more or less) ubiquitous, but the skills and "relational capital" required for their proper or innovative use are by no means available everywhere.[13]

A possible counter-argument to the preceding considerations may refer to the fact that the technological paradigm of information and communication technologies (ICTs) is nothing new, as it permeates the world economy since at least thirty years; why then should these concerns about its spatial effects be considered *now*?

The proper answer to this argument regards the evidence that we are entering a new phase in the technical evolution and in the adoption philosophies of these technologies. On the supply side, beyond the continuous increase in the performance of single technologies, the Internet phenomenon represents a clean break, as it allows not only a quantum jump in the efficiency of the existing capital stock, but also the potential development of a wide spectrum of new functions, services, business ideas.

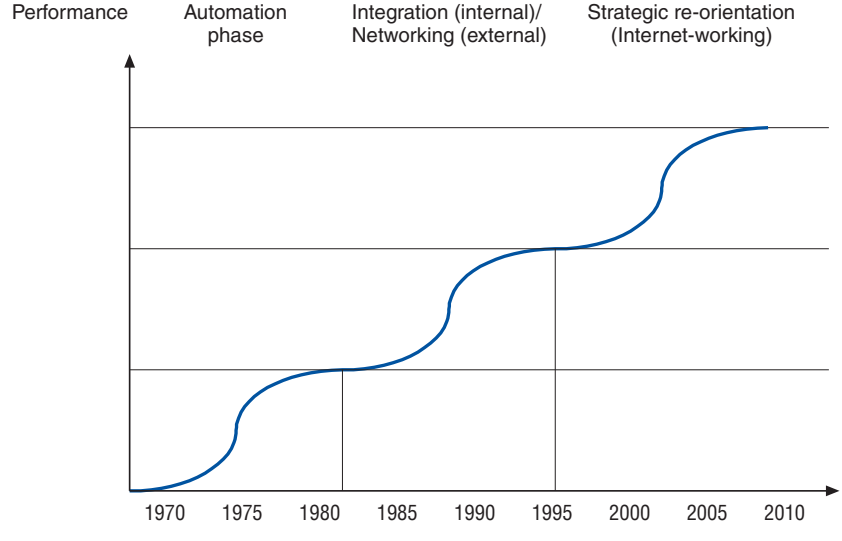
But perhaps the most relevant element determining the economic performance of these technologies lies in the demand or adoption side: in fact, the full exploitation of their potential in time is linked to the capability by the adopters of shifting towards more advanced and complex adoption philosophies. The first philosophy, followed approximately from 1970 to 1985, defined the early phase of diffusion that may be termed "*automation phase*", when adoption of ICTs referred to the single operations and functions of the firm. The second phase, reaching its full potential in terms of performance in the second half of the 1990s, may be termed the "*integration*" or "*networking*" phase, when ICTs were used to integrate the different functions (production, administration, commercialisation): inside the firm at first (the firm as an integrated system) and, at a later stage, outside the firm, linking it to the main customers and suppliers (the "extended" firm). The third phase, which is beginning now, requires a "*strategic orientation*" or "*re-orientation*" of the approach to the market by the firm, in order to take advantage of the new opportunities, offered by the network, of reaching new customers, enlarging the spectrum of services supplied, reshaping the entire value chain of traditional products and proposing new ones (Figure 4.1). Definitely, the goal of the firm shifts drastically from cost reduction to revenue expansion[14], from the efficiency of the structure to the effectiveness of decision making, from the existing business to new ones.[15]

The shift to the new phase (that could be labelled "*Internet-working*") is by no means a simple and easy task; in fact, it requires imagination, entrepreneurial capability, huge organisational capability in managing internal transformations, flexibility by all components of the production process. These skills may be found inside existing firms, or inside well established and advanced local *milieux*; as it often happened in the early phases of the diffusion of new technological paradigms, the "strategic re-orientation" phase is likely to generate mainly centripetal rather than centrifugal processes at the spatial, inter-regional level.

Coming back to foreign direct investments, another element is likely to imply important selective effects from a spatial point of view. Increasingly these investments involve the tertiary sectors — namely banking, finance, insurance, advertising, and consultancy — which have a strong urban and metropolitan bias as far as their location is concerned. These sectors currently represent more than 60 per cent of the stock of outward FDI in countries such as Japan, Germany and Italy, and more than 50 per cent in countries like the US and France (OECD, 1999*b*).

Two reflections emerge from these figures: on the one hand, specific territories like cities, particularly endowed with human and relational capital, are most likely to capture the full advantage of globalisation; on the other hand, they find themselves in direct competition with each other in the attraction of those huge capital flows that have been mentioned.

Figure 4.1. **Phases / philosophies in the adoption of ICTs**



Source: Camagni, 2000.

2. The economic rationale for spatial policies

From what precedes, we learned about an increasing world-wide competitive climate, decreasing spatial shelters and weakening policy tools for defending territories from outside challenges. This may be sufficient to justify a policy of territorial attention and care, perhaps a policy of interregional cohesion and equity, but does not explain if and why such policy could be justified from an economic point of view.

In this respect, revisiting and updating some traditional arguments showing how and why the supposed trade-off between efficiency and equity in spatial policies could be overcome (allowing the trade-off curve to shift upwards or at least change its slope) can be worth-wile.

We can distinguish two aspects here: the advantages from interventions and the costs of non-intervention.

As far as the first aspect is concerned, five major arguments, widely interconnected, may be presented:

— Unlike countries, regions are not subject to the principle of "comparative advantage" governing international specialisation and trade, attributing each partner country some specialisation sectors and a condition of full employment. The reason for this resides in the fact that the two equilibrating forces that in principle allow passing from an "absolute advantage" to a "comparative advantage" regime — namely price flexibility and currency devaluation, fully active in the case of *countries* — either do not work properly or do not exist at the *inter-regional* level.[16] Therefore, regions are not granted some productive specialisation and some role within the spatial division of labour whenever they prove less competitive in *all* production sectors with respect to the external territories (Camagni, 1992).

— Regions in fact compete on the basis of an "absolute" advantage principle, and, whenever non-competitive, they cannot rely on any automatic mechanism in order to maintain some export specialisation; their fate is, in this case, mass unemployment and, in case of insufficient public income transfers, emigration and possibly desertification (GREMI, 1995). For these territories, the possible strategy for development (or survival) is threefold: complete autarchy (almost impossible), lobbying for public income transfers (to be rejected flatly), or improving competitiveness of some export sector and attracting investments from other regions and from abroad.[17]

— As a consequence, in the case of regions, cities and localities, caring about competitiveness and attractiveness is perfectly legitimate, and the criticisms that Paul Krugman recently addressed to such concerns (Krugman, 1996; 1998), labelling them as "wrong" and "misleading", do not apply in their case.[18]

— The argument refers to the fact that, even in case lagging regions could supply lower wages than advanced regions, their advantage would be limited by the lower levels of labour productivity. In fact, what matters to firms in choosing their location, are unit labour costs or "efficiency wages" (wages/productivity): in advanced regions, a high productivity generated by a strong industrial culture, efficient services and good infrastructure may well outweigh the disadvantage of higher salaries and generate a continuing external competitiveness, as in the well-known Dixon-Thirwall model (1975).

— All this leads to the further argument that, in the absence of some basic "preconditions", namely in terms of infrastructure, accessibility, general education and basic public services, growth could never start in a region, given the strong locational advantage of the other competitor sites (Rosenstein Rodan, 1943 and Armstrong & Taylor, 1993).

— The fourth argument, dynamic in nature, regards the cumulative nature of economic growth, due to:

* intersectoral relationships and forward/backward linkages in the general economy and along the main production *filières* (Hirschman, 1957 and Krugman & Venables, 1996);
* increasing returns to scale, when the expanding size of the local production fabric generates increasing productivity (once called the "Verdoorn law", utilised by Kaldor, 1970, and more recently re-discovered by Krugman, 1991);
* demand-supply interaction on the goods and labour markets, which generates a cumulative development process in core regions (investment ➞ development ➞ in-migration ➞ new local demand ➞ new investment ➞ new development) (Myrdal, 1957);

— The last argument regards technical change, both "embodied" in new machinery or "endogenous" — in the sense of the cumulative expansion of local know-how and knowledge through learning-by-doing processes *à la* Arrow. These effects taking place in already developed regions are in a measure to overcome the trend towards decreasing capital productivity in these regions (a consequence of the expanding capital stock), and to counterbalance the dispersion of economic activities expected by the simplified neo-classical model of regional growth of the early 1960s (Borts & Stein, 1964).[19] [20]

These arguments look strong enough to disprove the optimistic view about interregional convergence processes, mainly expressed by the neo-classical school, both in its traditional and modern modelling approaches. The convergence process is expected by this school as a consequence of many factors:

— An outmigration process of unemployed people from lagging regions: this process takes place in fact, and statistically reduces per-capita income disparities — as it reduces the denominator of the per-capita income indicator in these regions. One may question though whether this can be considered a true convergence process, as it adds human resources in already developed regions reducing the inflationary effects of tight local labour markets, subtracting them to lagging regions, and whether interregional and international mass migrations could be still politically acceptable, at least in European countries.

— An outflow of capital from advanced regions, as a consequence of the diminishing returns showing up along with the capital accumulation process; this event may be easily counterbalanced by learning processes and cumulative technological change, as shown before.

— An outflow of technology from advanced regions towards lagging ones. This argument suffers from the consideration of single technologies or technological paradigms, which for sure, once developed and introduced in some core localities, diffuse afterwards on the territory. But what about the overall pace of technological creation, in the form of subsequent improvements to the single technology, development of integrated technological systems, new inventions leading to new technologies? What about the capability of developing new applications of existing technologies? Or the capability of "strategic reorientation" of existing business, as we have shown in the preceding section? The pace of this technological creation process in core regions is likely to be faster than the pace of technology diffusion and catching-up by lagging regions, due to all sorts of learning processes, both internal to the firm or taking place in a "collective" way on the territory (Camagni & Capello, 2000*a* and Keeble & Wilkinson, 2000).

Even modern neo-classical conditional convergence theory (Barro & Sala-i-Martin, 1991 and 1992), which still expects diffusion processes and re-equilibrating processes (a sort of "entropic trend" towards spatial homogeneity) acknowledges that these processes are "conditioned" by other, opposite, endogenous or exogenous forces (industrial structure, propensity to save, institutional innovations like the creation of custom unions, regionally-asymmetric shocks, etc.) which diversify the catching-up capability of the single regions and are often in a measure to postpone or overturn the process of convergence (Armstrong, 2000).[21]

From a modelling point of view, already fifteen years ago it was shown that if the linearity assumptions of the traditional neo-classical model were abandoned and some non-linearities and increasing returns introduced, the same neo-classical model could well accommodate varied possible outcomes –- both spatial diffusion and concentration (Miyao, 1987); and also "endogenous growth" models, which include cumulative processes into a neo-classical production function, mainly end up with an interregional divergence process.

But the second aspect, regarding the social costs of non-intervention in a context of increasing disparities and interregional competition on the basis on an "absolute advantage" principle, provides even clearer support to spatial development policies. A strategy of non-intervention in fact presents the following drawbacks:

— Huge social and political costs allowing the explosion of regional crises and the cultural and environmental costs of regional desertification.

— The risk of a super-concentration of population in the big urban areas of backward regions (a phenomenon which is typical of developing countries), as a consequence of the crisis of the surrounding areas and not of the attractiveness of these urban areas, of a push and not of a pull factor.

— The high opportunity cost of adding successful activities in already successful areas: in a context of full employment, new workers for new activities are found at the expense of existing activities, while in weak areas they are drawn from the unemployment reservoir, and their opportunity cost is close to zero.

— The channelling of a wide share of national savings towards the building and construction industry and real estate speculation in advanced regions and cities, as a consequence of the migration processes, subtracting it from more productive uses.

— A lower exploitation of the creativity potential of all regional communities, constrained by the presence of some basic locational disadvantages (accessibility, services, infrastructure).

An argument widely utilised some years ago — a complicated and questionable argument which requires caution and thorough reflection — regards the excessive concentration of activities and population in core areas which triggers a decreasing returns regime in these areas. In the traditional static approach, decreasing returns are supposed to stem from the existence of some fixed factors, hardly expandable in the short run (like urbanised land, infrastructure, advanced human capital) determining a decreasing marginal productivity of the other expanding factors, namely capital and labour, and overcoming the increasing returns that could be reached at the firm level thanks to economies of scale. The idea of an U-shaped aggregate cost curve for limited territories like cities, and the consequent hypothesis of some "optimal" city-size gave strong support to policies limiting growth in these areas and provided the rationale for the creation of "new towns" and "*métropoles d'équilibre*". After some threshold, that some econometric analyses have indicated between 50 000 and 300 000 inhabitants (Camagni, 1996: Chapter 1 and Camagni & Capello, 2000*b*), urban economies of scale turn into diseconomies; they represent private and social costs that could be prevented or avoided thanks to a more equilibrated allocation of activities on space.

Some counter-arguments may be proposed in this respect, assuming a dynamic perspective:

— In the longer run, fixed assets may be expanded, and the constraint they impose to local activities may be overcome.

— Beyond some critical thresholds, *e.g.*, in urban size, more efficient technologies may be introduced (in public transportation, in waste disposal), postponing the diminishing returns trend.

— Diminishing returns in present activities work as an incentive towards a reallocation of local resources and production factors in the direction of more productive, advanced activities (Camagni & Cappellin, 1985). As a consequence, in a dynamic setting the outcome of the process may well be a positive one, as some models of regional and urban dynamics based on innovation have widely shown (Camagni, Diappi & Leonardi, 1986 and Camagni, 1996: Chapter 12).

— An example of technical change in an urban context, capable of avoiding size diseconomies and postponing the emergence of decreasing returns, may well be indicated in appropriate planning decisions. The proper allocation of urban spatial resources to alternative uses; the timely introduction of new urban transportation infrastructure; the better matching of transport facilities and locations, are all elements that allow increasing city sizes without huge social costs.

— Lastly, we have to consider at the same time the costs and the benefits of increasing city sizes. Among the benefits, as we have already seen, we find wider specialisation possibilities and division of labour; wider case for local synergies, interaction, knowledge transfer; faster technological diffusion through imitation and co-operation; faster learning processes; elements which may well counterbalance the increasing local diseconomies.

Recent historical evidence brings support to both positions. In fact, almost all advanced territorial systems were hit by a crisis of their industrial fabric during the 1970s and early 1980s, mainly generated by spatial diseconomies and contradictions, and were challenged by the rise of new industrial spaces. On the other hand, these same systems were able to show a remarkable recovery in more recent years, mainly thanks to a fast reallocation of resources and the development of new urban schemes and strategies.

In the presence of this empirical ambivalence, the debate on urban diseconomies was recently dropped perhaps too rapidly. In fact, some social costs, increasing with local wealth and city size, are borne mainly by citizens and are not adequately taken into consideration by the market when it confronts the locational advantages of a city with these disadvantages. Some of these costs belong to the category of environmental risks and irreversibilities, such as the greenhouse effects generated by emissions of urban traffic.

A further element that recently contributed to lowering the general attention to re-equilibrium issues and spatial development policies is derived from the globalisation debate. If, in the new integrated context, competitiveness is the main issue, and if champion firms and territories act as driving forces for the entire territorial system, a proper spatial policy — it is argued — should care more about strong than weak territories, about winners than losers, and should therefore concentrate investment and innovation (*e.g.*, public expenditure in advanced infrastructure and human capital) on core regions and big global cities.

Two answers may be given to this argument, referring to two different territorial levels, the inter-regional and the intra-regional ones. As far as the first level is concerned, a distinction has to be made between the *provision* of advanced assets and infrastructure — that has to be secured to all regions

and to advanced regions in particular — and the *public support* to the financing of this provision, which should be inversely proportional to the capability of each region to provide the same assets through a private financial procedure (*e.g.*, through a project financing).

On the other hand, regarding the second level, namely the intra-regional one, the suggestion coming from the previous argument can be acceptable: when intervening on limited territories like regions or sub-regions, an important policy rule should be to select places with a maximum development potential (big cities, specialised medium-sized cities), in order to maximise probability of success and save public money. At the intra-regional level, spread effects expected in the long run from the intervention on "champion territories" would be probably faster and stronger than at the inter-regional level, and the social cost of letting some areas lagging behind in the initial stage more acceptable.

3. The economic rationale for spatial planning

Many times in the previous discussion, the role of a well-shaped physical lay out and form of settlements was referred to as an important element of both the efficiency-competitiveness of territories and the general welfare conditions of populations. In fact, appropriate city sizes, efficient external and internal accessibility, ordered mobility, appropriate shape and structure of the urban system or the urban hierarchy, and levels of compactness of the settlements prove crucial in determining not just the wellbeing of local populations, but increasingly the attractiveness of the sites with respect to external firms and the efficiency of activities already located.

Spatial planning has always claimed for itself a role in the direction and shape of spatial development, especially for what concerns the guarantee for a proper use of the limited and non renewable resources of the environment.

Recently, an important scientific debate has taken place, in parallel to the one concerning spatial development policies, where the traditional role and effectiveness of planning decisions was questioned in favour of market driven strategies. Authors like Gordon & Richardson (1997) and the supporters of the so-called *technocentric* strategy to environmental equilibria (Tate & Mulugetta, 1998) support the view that the market alone is perfectly able to supply the right answer to the right questions.

Market oriented policy tools may play several roles complementing or substituting planning, especially when they allow the creation of a market corrected for negative externalities ("internalisation" of externalities, "polluter-pays-principle"). The advantage of relying on policy tools (underlining that we are still speaking about policies) based on economic elements (*viz*. mainly taxation and incentives) resides in the following considerations:

— they are very powerful tools, as they impinge on variables directly considered by individuals in their production and location decisions;

— they show low enforcement and control costs;

— they work in both directions, limiting negative externalities but also stimulating the production of positive ones;

— in a sense, they are fair, as they apply equally to everybody (even if the sacrifice they imply may be differently felt by different individuals and social classes).

For these reasons, the use of economic tools should be as wide as possible.

Nevertheless, the general position claiming that market alone can drive properly the spatial form of settlements is widely questionable, as traditional textbooks of mainstream economics remind us. In fact:

— First of all, the market alone provides a sub-optimal solution in case public goods are concerned (characterised by non-excludability) and in case of presence of externalities (which is usually the case in space); market alone drives to under-investment in virtuous behaviours by individual firms and households in case of positive externalities, over-exploitation of "commons" and over-production of negative externalities in the opposite case.

— The second but probably the most important case of "market failure", leading towards the need for some form of planning, refers to the time horizon. Market allocation of resources works in a

short-time perspective, as market signals refer to present conditions (or easily forecasted ones). But spatial planning and environmental concern refer to long-term processes, deeply characterised by irreversibility and cumulative interdependencies: a precautionary principle is therefore crucial, and tools for stopping likely vicious cycles necessary.

— Thirdly, as far as production factors are concerned, the market acts as an efficient resource allocator only within the rules that society elaborates and imposes as a general framework to it, according to the profound intuition of Karl Polany (1944). When these rules — which mainly refer to production factors, like labour, capital and also natural resources — do not exist, the market either does not work (as in many respects in the countries of the former Soviet system), or does not provide per se sufficient social guarantees (*e.g.*, allowing exploitation of kids in production or mining) or finally does not prevent overexploitation in case of unpriced externalities or "commons" (like air, the resources of the sea or public roads). The market is a social formation: it operates and works within a series of rules, criteria, definitions, and values defined by the society on the basis of its — historically evolving — ethics.

Urban mobility and urban form: a case in point for integrated economic/planning policies

The huge problems relating to mobility in large metropolitan areas and urban regions are an extremely important case in point of the failure of the market system of decentralised and fragmented decisions, in presence of externalities. Mobility patterns depend on the supply of transport infrastructure, which is facing increasing difficulty in meeting the enormous growth in mobility demand (itself increasingly complex and unsystematic), which in turn depends on the unconstrained location decisions of firms, developers and households. In the absence of appropriate planning guidance and consensus, the decisions of single actors tend mainly towards suburbanisation, generating an increasing burden on other actors, the territory and the community, producing a vicious cycle of road construction and further suburbanisation. On the other hand, strict regulatory measures have often proved ineffective and counterproductive, due to the lack of flexibility and ability in managing the complex nature of modern mobility demand.

A growing literature exists and much research has been undertaken on this subject, contributing to a lively international debate that can be summarised as follows:

— Suburbanisation, which used to be a typically North American phenomenon, is increasingly affecting European cities too, as a consequence of a vast array of factors including changes in life style, the attraction of more natural non-urban environments, the rapidly decreasing quality of life in many city centres and, not least, as a reaction to inner city congestion. This location strategy by individuals and firms has apparently proved effective according to a private logic, as the resulting mobility pattern — accompanied by heavy public infrastructure investment in suburban roads — has led to an increase in average trip speed (empirically tested for North American cities by Gordon & Richardson, 1995, and for some European cities with an efficient transport system like Paris by Massot, 1998).

— Unfortunately, the higher average speed has not resulted in shorter commuting times, but in increasing distance travelled; commuting times show a remarkable stability through time in all territorial systems, leading many scholars to think about an anthropologic constant in the form of a fixed time budget constraint, averaging one hour, for daily trips in all societies.

— Average journey-to-work distances (one way) in a sample of large international cities recently analysed by Newman & Kenworthy (1999) show the following increases between 1980 and 1990 (See Table 28).

Table 4.1. **Average journey-to-work lengths in a sample of large international cities (km)**

	1980	1990
North America	13.0	15.0
Australia	12.0	12.6
Metropolitan Toronto	10.5	11.2
Europe	8.1	10.0

Source: Newman & Kenworthy, 1999.

In all metropolitan areas of the US, average-commuting distances rose from 13.6 km in 1983 to 18.6 in 1995 (Cervero, 1998: p. 32). Increasing average distance means exponentially growing vehicle-kilometres travelled overall in the expanding metropolises and cumulatively increasing suburbanisation:

— Decentralisation of jobs following decentralisation of population, even if at lower rates, has not provided a better match between residential and working locations, as witnessed by the increasing distances travelled. It has determined, or co-determined, a dramatic fall in transit ridership, as the physical lay-out of public transit systems is generally oriented in a radial pattern around the city centre, not serving scattered suburban locations efficiently. The same effect derives increasingly from the dispersal of residential locations in low-density settlements, leading to the almost complete car dependency of American cities.

— Increasing commuter travel results in higher fuel consumption, as the growth in travel easily exceeds the higher fuel efficiency brought about by the car technology; this was even registered in the United States where fuel efficiency almost doubled between 1973 and 1988, and oil consumption increased by 20 per cent.

— The price systems and fiscal policy of most advanced countries were pro-active with respect to the emergence of highly transportation-intensive life-styles and residential location patterns. Increasing fuel efficiency of cars and long-term fall in the real price of oil (not just in the United States, but also in most European countries) helped the substitution of mass transit trips by private car use: in the US, the real price per kilometre travelled decreased by 47 per cent between 1973 and 1988, while the average transit price increased in real terms by 47 per cent. Furthermore, unlike Europeans, American motorists pay only 60 per cent of the cost of road construction, maintenance and administration, through taxes and user charges (Cervero, 1998: p. 35). The general unpaid hidden costs of road traffic are estimated by the OECD and US Natural Resources Defense Council at about 5 per cent of GNP of advanced countries, made up of congestion costs (2%), and the costs of pollution, accidents, social disruption, and global climate change.

— In the case of the US, the upper estimate of these costs, related to a passenger kilometre unit base, equal the hidden subsidies to transit riders for capital and operating costs. These figures are often utilised by pro-road advocates to underline the intrinsic cost and economic disadvantage of mass transit, but unit figures should not be used in a situation where transit commuters represent 3.5 per cent of total commute trips in the country. What emerges is evidence of an entire socio-economic system locked into a car-dependent settlement and mobility pattern.

— The relationship between settlement structure and transport modal choice emerges as a cumulative and long term one, where the key factor is the relative competitiveness of the two modes, private and public. When the initial competitiveness of the transit system is jeopardised by increasingly dispersed locations, its relative appeal to consumers decreases sharply and the cost of new infrastructure investment and operation improvement correspondingly skyrockets. The average relative speeds of the two modes, defined on the entire existing network, can give a misleading image of their relative performance, as the actual speed of the transit system may be relatively high on some routes, but low and close to zero on others and for most metropolitan origins and destinations, due to lack of public service or time-consuming interconnections with other modes.[22]

— Therefore, the element under scrutiny is the form of the metropolis, and in particular the relationship between its spatial lay-out and transportation network, with the relative compactness of the settlement structure and consequent overall urban density adopted as critical indicators. In fact, average density appears to be closely associated with per capita gasoline consumption, as shown by the well-known hyperbolic relationship estimated by Newman and Kenworthy. This relationship per se does not reveal a direct, causal relationship between the two variables, but the existence of at least three different settlement models: the European, the Asian and the American — characterised by very different average urban densities, associated with equally different levels of car use and energy consumption through a complex set of long term evolutionary processes involving the architecture of transportation networks and life-styles. But this same relationship was proven to hold also in the case of single metropolitan areas with reference to the density of their neighbourhoods or municipalities (New York, Melbourne, Milan, Paris, etc.); this leads us to suggest that the density and compactness of settlements could be used as planning policy targets and tools to achieve lower levels of car dependency.

— Cities have not yet stopped let alone reversed the historical trend towards decreasing metropolitan densities, but there are some positive trends note, using the Newman & Kenworthy sample (see Table 29).

Table 4.2. **Activity intensity: population and job density per hectare**

	1960	1970	1980	1990
American cities	26	25	22	23
Australian cities	27	22	19	18
Canadian cities: Toronto	52	60	59	65
European cities	113	102	87	82
Asian cities	—	260	232	251

Source: Newman & Kenworthy, 1999.

Density, of course, should not be the sole policy variable, just as car dependency reduction is not the sole goal, although it has significant economic, environmental, social, and aesthetic drawbacks for the city. The policy response should be to provide alternative settlement patterns for the long term, by building a new collective vision of the modern sustainable city, through integrated land-use/ transportation/ pricing policies.

4. Towards renewed spatial policies: goals, principles and issues

Let us now consider directly spatial policies, and in particular their evolution in terms of goals, principles, tools and issues. The main attention is devoted to spatial development policies, but the convergence with respect to planning policies will appear as one of the main novelty of recent years.

Towards a new rationality in spatial policies

The new scenario in which territorial systems compete and act nowadays is a scenario of increasing complexity and uncertainty. Decision-making centres have to manage increasingly interdependent and integrated systems, globally stable but locally fragile; logical causal chains present wide and embarrassing holes; the behavioural logics of the different actors show increasing instability, limiting forecasting possibilities; transformations in production and consumption habits appear faster and faster; available information grows exponentially, but our capability of selection, transcoding and evaluation does not grow in a parallel way. As a consequence, our cognitive models evolve in new directions, requiring new rationalities in the decision-making process.

The logics founded upon a "substantive" rationality, widely utilised in economic thinking, appear inadequate, as do the pretentions of the so-called "rational-comprehensive" planning models of the recent past. But all this does not question the very existence and necessity of spatial policies and planning, as some modern approaches seem to imply; it only requires a new type of rationality, acknowledging its limitations and its "bounded" character: a "procedural" rationality, using Herbert Simon's well-known paradigm (Simon, 1972), fully assuming uncertainty as a normal condition in cognitive processes and building decision-making procedures characterised by flexibility, partnership, iterative processes of decision-monitoring-assessment-decision, precautionary and "no regret" principles as far as environmental matter is concerned, search for consensus by the concerned communities. Even if a "strong" rationality is useless, we still need a rationality in spatial policies and planning: we still need to find good solutions, to evaluate the effects of past decisions, to provide consistency and compatibility among different decisions (about projects and schemes that are frequently managed separately), to assess the likely impact of single projects not just in terms of their direct effect on employment, income, mobility, environmental quality, but on the general development strategies for territories.

Goals and key-words in spatial development policies

During the last half-century, both theoretical reflections and the evolution itself of spatial systems have determined a substantial enrichment of policy strategies and policy tools in spatial development

practices, shifting the emphasis successively towards new, more suitable goals and key-words. We can summarise these evolutions as follows:

— 1950s Infrastructure, as precondition for growth;

— 1960s Attraction of external activities, development poles, export industry;

— 1970s Endogenous development: SMEs, local competencies;

— 1980s Innovation, technological diffusion, innovative *milieux*;

— 1990s Knowledge base, intangible factors, local culture;

— 2000s "Relational capital", collective learning, interconnection, "Internet-working".

The general approaches followed in the earliest period, in the Europe in particular, fully recognised the "balanced" nature of the economic development process; all preconditions had to be present, or provided, at the same time. Subsequent reflections were mainly oriented by the sense of urgency and the need to find short-cut solutions to development needs of territories: a "big push" and an "unbalanced growth" strategy were felt to be economically and politically superior. Development poles, "cathedrals" or "white elephants" forced into "the desert" were supposed to bring faster, even if less certain, effects (Parr, 1999). During the 1970s, taking advantage of the results achieved mainly through the diffusion of public infrastructure and services throughout the countries (but also trying to counterbalance the negative effects that in many cases derived from the location of big external plants, separated from the local economy and society), development policies addressed themselves towards the strengthening of the local fabric of SMEs, in a first stage through generalised incentives and subsequently trying to enhance local synergies and local specialisations (the so called "development from below" model: Stöhr, 1990).

Subsequently, during the 1980s, both the theorisation on the importance of innovation processes for spatial development (Ewers & Wettmann, 1980; Camagni & Cappellin, 1985 and Nijkamp, 1986) and that on "industrial districts" (Bagnasco, 1977; Brusco, 1982 and Becattini, 1990) and *milieux innovateurs* developed by the GREMI[23] helped understanding the necessity of valorisation of local entrepreneurship, even if weak and of a mainly handicraft nature; of collaboration between the public administrations and the organisations of entrepreneurs, devising common projects and schemes addressed towards the strengthening of the local productive "vocation"; the necessity of concentrating in single sites different policy tools, from economic and fiscal incentives to education and training services and infrastructure provision; the necessity of stimulating innovation more than simply efficiency (Camagni, 1995). But the reflection on local *milieux* also helped in drawing attention once again to the characteristics of the territory: not only to its physical configuration (infrastructure, accessibility, environmental amenities) but especially to its social and relational aspects. Incentives to innovation through inter-firm co-operation; provision of local schemes developed in private-public partnership; orientation of public funding towards specialised territorial "districts"; all these measures represented policy innovations during the 1980s and 1990s, recently revisited through the new tool represented by the territorial "pacts".

Since the mid 1980s, the knowledge base as a source of continuous innovation was highlighted as one of the major factors for long-term growth (Knight, 1984; Castells, 1985 and Tatsuno, 1986). Also in this case, different stages were experimented in policy strategies: interventions addressed directly to the R&D functions of firms; interventions establishing facilities and places devoted to knowledge construction outside firms (technology poles, science parks, etc.), and more recently interventions addressed towards creating a local atmosphere conducive to innovation, through wide training programmes coping general education and extensive use of new technologies, inside and outside firms, or building advanced schemes in public/private partnership (Ewers & Allesch, 1990 and Cooke & Morgan, 1998). The core issue is increasingly placed on enhancing local creativity (Andersson, 1985), recreating the particular atmosphere felt (in particular periods) in such innovative *milieux* as Silicon Valley, Orange County, the Swiss Jura, the Italian industrial districts. Along the same logical trajectory, trust (Knack & Keefer, 1997), relational capital (Camagni, 1999; Camagni & Capello, 2000*a* and 2000*b*), and collective learning (Camagni, 1991*b*; Lundvall & Johnson, 1994; Capello, 1999*a* and 1999*b* and Keeble & Wilkinson, 1999) are more recently theorised as the main factors or preconditions for a creative environment that calls for completely new policy styles, still to be fully understood and developed.

I have spoken about strategy "enrichment", in the sense that previous goals and key-words were not really abandoned subsequently: rather, the policy vision was enriched and widened, the main limits of previous policies corrected, emphasis shifted to new issues, on a path towards complexity and integration. Spatial development is increasingly understood as a complex, multi-dimensional phenomenon, and the illusion about the existence of simple, short-cut strategies progressively abandoned.

In the theorisation, a general long-term trend is apparent in the direction of the consideration of:

— intangible factors, like human capital and knowledge;

— relational factors, creating synergies, promoting co-operation and partnership, exploiting the richness of local relationships that define a productive "vocation", a local know-how and a local culture;

— advanced communication networks and communication services, in order to get a global reach on markets, information and business opportunities.

The main change in policy attitudes resides in the goal of preparing territories for innovation, enhancing their adaptability to a changing external context and negotiating the terms for a fruitful co-operation between firms and territories, rather than forcing decisions of single firms; once again, reinterpreting a bottom-up, generative approach to development rather than a top-down, "competitive" one (in a zero-sum game sense).

The convergence between economic and territorial issues

The convergence between the economic and the territorial approaches to spatial policies probably represents the most relevant cultural innovation in policy thinking and policy practices in the last decade, bringing regional/inter-regional development policies closer to planning policies. On the one hand, the efficiency of the spatial structures is increasingly felt as a crucial element in the development potential of territories, not just as a precondition for growth but as a relevant component of the competitiveness itself of territories. On the other hand, physical planners are becoming aware of the fact that the complexity of spatial systems, and of cities in particular, cannot be broken down into separate fields, and that effectiveness of planning cannot be achieved without handling together forms and functions, efficiency of containers and economic profitability of contents, physical networks and immaterial socio-economic relationships.

As a consequence, regional development policies are increasingly targeting limited territories (cities, ports, industrial districts and urban peripheries), analysing their micro-territorial specificities and tailoring integrated development schemes on their needs and potentialities; on the other hand, planners are trying to integrate in their spatial constructions a "vision" for the future of their territories, built around their economic "vocations", their historical identity and the expectations of the local community.

This convergence is by no means fully achieved in terms of policy tools, methodologies, professional skills required. Economists, transport engineers, sociologists, planners and architects are trained in different if not separated institutions; on the other hand, public administrations, at the different territorial levels, are still organised in vertically separated departments. In Italy, the Regional Development Plan, the Regional Territorial Plan and the Landscape Plans (managed at the province level) are still separate documents, under the responsibility of different bodies. Nevertheless the new planning style is increasingly evident in both issues and approaches.

A possible typology of spatial policies highlights this convergence in the evolution of main goals (Table 30). The table is self-explaining on the base of the considerations developed before, but a final comment is worthwhile as far as the attraction of external firms is concerned, as many concerns have been expressed about the usefulness of a bidding war among regions and cities.

The traditional vision of the locational decision process considers the territory as a passive geographical substrate, characterised by localised "advantages", the pure object of firms' decisions. In fact, firms use locations as competitive tools, and increasingly use global mobility to optimise production and distribution costs. But location territories are not just the passive objects of location decisions, but communities made up of economic subjects which act in their own interest by trying to keep or attract firms. Workers, subcontracting firms, suppliers of intermediate inputs, services and factors, are all agents which can achieve their goal not just by competing on prices and wages with other communities (sites), but increasingly by upgrading the quality of their service through direct or indirect tools which involve the community and the local public administration.

Locations are in a sense bought and sold on a global market, where demand and supply confront each other. And the existence of this market — increasingly transparent thanks to wide locational evaluations, territorial rankings, territorial benchmarking experiences –- brings about an increasing quality and efficiency of what we can call the territorial supply, to the benefit of both incoming and existing firms. Moreover, through a bargaining process between the external firms and the local public administration about the conditions for a new investment in a particular location –- an increasingly popular behaviour and planning style — firms may obtain the provision of not just generic public goods, human capital and social overhead capital, but increasingly of selected external assets and "specific resources" that cannot be easily obtained via spontaneous market developments; on the other hand, local communities obtain a stronger loyalty and a deeper embedding of the firm into the territory, engaging it in the local collective learning process. This co-operative style is due to bring substantial advantages to both partners, and to keep spatial policies far from a "misleading" zero-sum-game logic.[24]

Table 4.3. **Typology of spatial policies and main goals**

Spatial Policies	Traditional goals	New goals
Planning	— optimal allocation of land resources; — quality of urban environment.	— sustainability; — local competitiveness; — "visions" for cities and regions.
Provision of non-mobile resources	— externalities; — accessibility; — place / network integration.	— interconnection; — network / network integration; — integration of form and function.
Management of local, imperfectly mobile resources	— combating income inequalities; — countervailing locational disadvantage.	— quality of local resources (training and service efficiency); — innovation capability; — relational capital and learning.
Attraction of mobile resources	— idem.	— attractiveness of territories; — embedding external firms; — local partnerships and joint development of territorial schemes.

Source: Camagni, 2000.

Sustainability: the new integrated paradigm

In the last decade, sustainable development has imposed itself as the emerging paradigm in spatial development policies. Its main characteristic — especially when applied to local environments that are largely non-natural, but artificial, like cities — resides in its integrated and integrative nature. In fact, it aims at the benign co-evolution of the different sub-systems that co-exist on a territory: namely the economic, the social and the environmental ones, in order to achieve a non-decreasing level of collective welfare in the long run.

The triple nature of sustainability and sustainability policies is widely accepted; but what is not entirely understood is that sustainability will not be the result of a simple sum of traditional policies, separately addressed to economic, social or environmental goals. In fact the outcomes of such policies could be conflicting with each other, if the three different goals are not taken into consideration simultaneously and from the beginning, since the initial stages of policy formulation and project imagination; the long delays in infrastructure provision due to ex-post environmental assessments are a clear case in point. On the other hand, in many cases, the policy tools which are typical of the three fields may enhance each other's effects, if implemented in a simultaneous and integrated way; the case in point here being the integrated schemes realised in many cities under the URBAN Community Initiative to fight multiple deprivation.

In order to really integrate logics, goals and policy tools, integration between the regulatory principles of the three subsystems is required; private efficiency, social equity, aesthetic quality and ecological equilibrium are valid principles and policy goals in each single sphere, but they are partial, often antithetical and do not lead to sustainability. On the contrary, new, integrated principles have to be built (Camagni & Gibelli, 1996 and Camagni, 1998) (see Figure 4.2) namely:

— *Long-term allocative efficiency,* by internalising social costs and constructing a "good market" which can properly deal with environmental externalities and assess future benefits and not only immediate ones.

— *Distributive efficiency,* by allowing the maximum number of inhabitants to access to knowledge, live in stable and culturally stimulating environments, exploit and enjoy the variety of options offered by modern technologies and modern cities. This does not mean constructing the society of equality, which is a condition neither necessary nor sufficient for sustainability, nor a society without conflicts. The sustainable city (or territory) is not a conflict-free city but one that knows how to manage its conflicts.

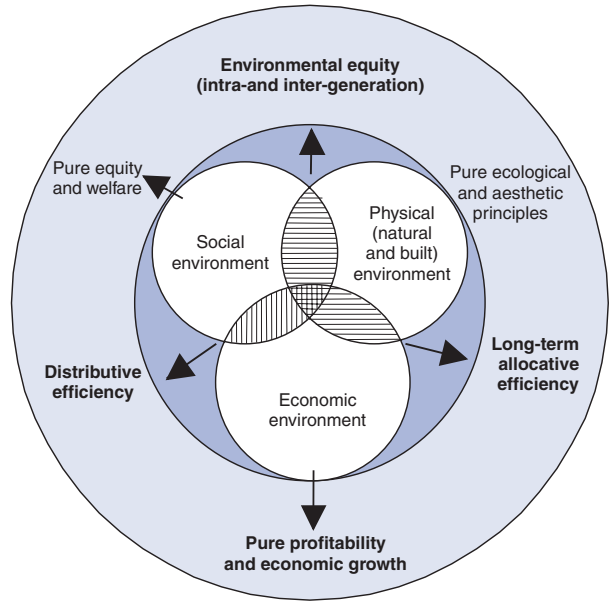
— *Environmental equity,* in both inter- and intra-generational senses. Once again, this means not so much, and not only, producing environmental values, but guaranteeing access and enjoyment of them to the entire population, both present and future. The element of equity refers to the environmental element in two main senses. First, many environmental policies may be costly and imply greater sacrifices for the less wealthy classes (*e.g.*, a carbon tax or a private car tax weighs more heavily on them, since the share of their income destined for mobility is greater). Second, as many environmental goods are typically located on physical space, subject to private ownership, some potential users may be excluded from enjoyment of them.

The new regulatory principles proposed here are therefore less ample than the pure principles, but they are more selective and above all potentially compatible. In operational terms, sustainability policies should not impinge on the entire spectrum of possible fields, but on the areas in which the three sub-systems overlap and integrate with each other (the grey area in Figure 4.2), namely:

— minimising the effect of negative cross externalities, in cases where the different goals conflict with each other; and

— maximising the positive cross externalities, in case of possible synergy among policy tools.

Figure 4.2. **The locus of sustainability principles and policies**



Source: Camagni, 1998 and Camagni & Gibelli, 1996.

New governance methods for spatial development

In order to cope with the preceding paradigm shifts, and their consequences in terms of goals, policy principles and policy tools, new governance methods are crucially needed in spatial policies and are being tested and introduced in many countries. The Commission of the European Union has insisted many times in its policy documents and regulations for the use of Structural Funds on the new key-words of:

— intersectoral integration in terms of policy tools and policy approach;

— vertical integration among the different levels of territorial government;

— partnership between the private and the public spheres;

— participation of citizens to the decisions that concern them.

In governance terms, the response that has been developed in the different countries seem to converge towards a "contractual" model, in which all parties concerned by a decision or territorial project are simultaneously present at the decision table. This procedure in particular allows to receive the contemporaneous agreement of the different sectoral and territorial administrations (which traditionally expressed themselves in sequence), enhancing the time efficiency of the decision procedure; and allows a more careful listening of the community needs, a more transparent involvement of the private sector. The drawback of this procedure resides in the bargaining tools and behavioural habits of the different parties during the negotiation, that have to change with respect to the past according to the new characteristics of the decision method (co-operative *vs.* hierarchical) and the new goals (improving the quality of the projects and widening their total utility *vs.* the zero-sum distribution of a given payoff). Pro-active attitudes, consensus-seeking proposals, research of effective solutions should substitute the traditional veto attitudes, hierarchical imposition of pre-defined solutions, disproportion between opposition power and level of the defended interests, *nimby* attitudes and scarce attention to the collective good. Also in this case, a cultural (and sometimes also organisational) change is needed, in order to make a more advanced form of participative democracy viable and efficient.

An important example of the convergence towards a negotiated model of decision making concerns the realisation of big urban infrastructure projects and their financing. As a recent OECD Seminar has pointed out, whatever the institutional land property regime and whatever the planning and fiscal rules concerning land development and betterment taxes, in almost all countries a negotiated model of public/private partnership is emerging, integrating transport infrastructure development and compact settlement development along them, reaching a consensual sharing of surplus values among the private and the public spheres, attributing the right roles and responsibility to public planning and private project definition and implementation (OECD, 1998).

In the case of the city — given the complexity of the territorial problems and the fragmentation of its decision making units, both private and public — the need to "give the floor" to its citizens, associations, institutions and interests is now apparent; a shared vision of the future of the local territory and a consistent development strategy that could bring benefits to all stakeholders in the long run should and could be built, in the form of a Strategic Plan.[25] This tool provides in fact the flexibility, the interaction, and the internal "network" co-operation of different partners that is necessary for managing a complex system in a turbulent environment.

In following this general approach, the city should fully exploit and make the best use of the potential synergies that are implicit in its nature of cluster of externalities, of melting pot of cultures and diversities, of integrator of interests and birthplace of such human values as democracy and solidarity. In this sense, it may act as a *milieu* — and many cities and urban regions have already proved it possible — developing:

— a strong internal cohesion and sense of citizenship and belonging;

— a wide and innovative co-operation between a "strategist" mayor, a reliable and accountable public system, a creative private economic fabric, a responsible community of citizens;

— external diplomatic, political or economic co-operation (with the national and regional governments, with other cities);

— an attractive external image.

Some cities were able to conceive innovative development schemes and a widely shared vision of their future, channelling in consistent directions both internal and external financial resources and entrepreneurial activities; examples range from Birmingham to Munich and Stuttgart, from Portland to Lyon and Lille, from Barcelona to Turin, from Malmö to Oslo. Increasingly, the full exploitation of the potential synergies among local firms, local research and training institutions, local professionals and their associations, and with the public bodies is pursued through a strategic plan (a *démarche stratégique*).

Unfortunately, the previous examples of virtuous and successful urban strategies and collective behaviour are not common; the widely prevalent case is one of social fragmentation, of pure juxtaposition and clustering of urban activities in order to exploit scale economies and reduction of transaction costs, of huge confrontation between the different layers of the public administration. A locational logic prevails upon the synergetic and co-operative one; the sense of belonging to a local community or *civitas* is often absent.

Interestingly enough, in the most advanced experiences which have developed themselves on a relatively long time span, different time stages are quite visible in the definition of priorities: from pure concerns about economic competitiveness or rehabilitation of parts of the cities of the late 1980s, to a virtuous integration of economic and territorial elements (infrastructure, public spaces, important urban schemes) typical of the mid 1990s, to a new consciousness of the centrality of social cohesion and metropolitan governance issues in the most recent experiences (like *Millénaire 3* in Lyon).

Conclusions

This paper presents a reflection about the rationale and economic justification for spatial policies, in their double nature of development policies and planning policies, in present times of globalisation and market driven growth.

The relevance of spatial policies still resides in the evidence of increasing, or at least non-decreasing, inter-regional imbalance, and on the concerns about the sustainability of present trends of urban expansion and mobility increase, particularly in metropolitan areas; in the spatially cumulative processes that all models of regional growth acknowledge and forecast, once increasing returns and learning processes are correctly handled; in the social costs that increased spatial divergence determines both in successful and lagging areas.

The full development of the present information and communication technologies paradigm and the increasing planetary integration of markets and places at the same time underline the crucial role of spatial policies in supplying the necessary preconditions for a continuing and sustainable local development: territorial efficiency, environmental quality, social cohesion, cultural richness. On their turn, these elements point out the necessary convergence between local development strategies and planning policies, and remind us the necessity of changing policy tools, policy goals and policy styles. In fact, the new focus on immaterial assets, on learning processes, on synergy and integration among territorial actors as powerful development factors requires a deep reorientation of policy tools; the necessity of attracting private resources into spatial development plans –- financial resources but also project conception and management capabilities -– opens up the decision arena to new partners and requires the development of co-operation and trust sentiments between the private and the public spheres; the relevance of social consensus for democratic societies implies participatory decision styles, fight against deprivation and segregation, search for new tools for the valorisation of cultural diversities –- geographical and ethnic -– particularly in metropolitan areas.

Spatial and planning policies are confronted with new challenges, but also with new stakes and opportunities; their economic justification looks sound, but their effectiveness will depend on the capability of the governance structure to change attitudes and mentalities inherited by a past which is definitely over.

NOTES

13. We prefer to speak about "relational" capital rather than about "social" capital, as in Putman (1993); the latter exists wherever a local society exists, while the former concept refers to the (rare) capability of relating different skills, interacting amoung different actors, trusting with each other, co-operating even at a distance with other complementary organisations.

14. Experts, in order to give a measure of the effectiveness of new technologies, speak about "total cost of opportunity", as opposed to the previous "total cost of ownership".

15. A similar approach in terms of adoption philosophies was proposed some years ago by Camagni to interpret the diffusion trajectory of industrial automation technologies; the phases were labelled as "substitution" phase (man substituted for by computerised automata), "production integration" (integrated automation of the entire production line, FMS) and "strategic integration" (when the strategic position on the market is reoriented in order to fully exploit the characteristics of the technology, *e.g.*, the possibility of differentiating the single pieces of product at zero marginal cost). See: Camagni, 1988.

16. The "classical" equilibrating process relies on downward flexibility of prices and wages, which is widely hampered by the existence of national wage contracts in both private and public structures and by the homogeneity of import prices (we remind that regions are very open economies). The second, "modern" process relies on the devaluation of the currency, and it is automatically excluded in an inter-regional context.

17. The importance of this last reflection is magnified by the consideration that, with the creation of exchange rate agreements and large monetary unions, states will increasingly lose control over the external value of their currency, and will increasingly behave inside the unions like regions inside a nation.

18. Krugman speaks of a general "competitiveness obsession", mainly referring to the case of countries; Roberto Camagni has treated this question thoroughly elsewhere (Camagni, 2000*b*). For a rebuttal of the zero-sum-game argument against competitiveness or attractiveness policies managed by the single regions or cities, see further, on paragraph 4.

19. See Romer (1986) as the pioneer of endogenous growth models.

20. As it will be shown later, the targets of the different policy strategies derived from these "pessimistic" aépproaches to regional growth have evolved in time: from hard to soft "preconditions" like human capital and skills; from incentives to R&D and technology adoption to networking and creativity enhancing; from intersectoral relationships inside growth poles or industrial complexes to co-operation in innovation processes.

21. The "Official" interpretation of a constant level of interregional disparities within the European Union since the early 1980s, claimed in the Periodic Reports of the Commission, fails to recognise two important elements: that before that period, between 1965 and 1975, disparities have decreased substantially, and that the constancy of the overall disparity level is the result of two processes: an international convergence process (the economic success of Ireland, Portugal and Spain) and an inter-regional divergence process inside almost all countries (Camagni & Gibelli, 1996).

22. Newman & Kenworthy's sample of 46 large international cities show that the average speed of metro trains is higher than that of cars not only in Asian cities (38 km/h *vs.* 25), but also in European ones (41 *vs.* 36). There is only a small negative difference for cities in Canada (33 *vs.* 40), Australia (35 *vs.* 45) and the United States (37 *vs.* 51). These differences could not explain why commuters rely increasingly and so heavily on private cars. But if one compares the average trip time for the two modes by neighbourhoods of origin, the times for suburban neighbourhoods are substantially lower for the private car, even in European cities.

23. The GREMI — *Groupe de Recherche Européen sur les Milieux Innovateurs* — chaired by Roberto Camagni, is an international group of scholars located in Sorbonne University, Paris, for the purpose of studying innovative environments. The "innovative milieu" is defined as the set of relations uniting a local production system, a set of actors and their representations, and an industrial culture, which together generate a localised dynamic process of collective learning. Some of the basic constituent elements of this last process are: mobility of specialised labour within the local labour market, innovation imitation, interfirm co-operation and linkages, common codes and conventions, and a common sense of belonging (Camagni, 1991*a*).

24. Providing pure financial or fiscal incentives to external firms to the detriment of neighbouring territories may be equated to a "price competition", close to a zero-sum-game, acceptable only in the case of the confrontation between advanced and backward regions; providing territorial assets and environmental amenities may be equated to a more rewarding "quality competition", increasingly appreciated by firms in the present complex context of global competition.

25. Strategic planning has passed through tree generations or families of approaches: the structure plans of the British tradition of the 1960s and 1970s or of the *Schéma Directeur* of the French tradition, mainly addressed to the big infrastructure investments; the approaches derived from the private company planning models, developed in the 1980s, engaging mainly private, organised interests and addressed to the conception and implementation of big urban development schemes; and the interactive, participatory approaches of the 1990s, addressed towards a wider citizens participation and towards sustainability issues. See Gibelli, 1997.

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Chapter 5

POLICIES FOR ECONOMIC DEVELOPMENT

Introduction

With the advent of the new century, regional economies are confronting momentous changes. The globalisation of trade and economic activity is increasingly testing their ability to adapt and their competitive edge. There is a tendency for income and performance gaps to widen within regions rather than between them and the cost of maintaining social cohesion is increasing. On the other hand, rapid technological change and greater use of knowledge are offering new opportunities for local and regional development but demand further investment from enterprises, reorganisation of labour and production, and more advanced skills.

Amid this change and turbulence, regions continue to follow very different paths. Some regions are doing well in the current phase of the growth cycle and are driving growth. Others are less successful at capturing trade and additional economic activities. Many territories with poor links to the sources of prosperity, afflicted by migration — notably of young people — and lagging behind with respect to infrastructure and private investment, are finding it difficult to keep up with the general trend.

OECD's investigations have shown that this division reflects less and less the traditional dichotomy between urban and rural areas. Performances are varying widely in all types of regions. As is the case with urban areas, wide differences in income and employment capacity are found between prosperous and lagging rural areas in Member countries. Furthermore, territories risking population drain and distressed urban districts are to a large extent facing similar economic problems: inadequate access to public services and information, few trading facilities, little private investment, insufficient linkages with markets and lack of social dynamism. Furthermore, peri-urban areas are expanding and helping to blur the boundary between town and country. In a large number of countries, hybrid areas (termed intermediate areas) are flourishing and contain networks of dynamic small and medium-sized towns that signal a trend towards counter-urbanisation.

These new patterns of population settlement, relationships between urban and rural areas and rural diversification[26] are leading public authorities to rethink their policies. They need to weigh up current challenges, evaluate the strategies pursued in recent years, and define new options. The creation of the OECD Territorial Development Policy Committee at the beginning of this year clearly reflects these trends in Member countries.

1. Regional development and socio-economic challenges

Under present economic conditions, there are four major reasons for monitoring and analysing regional development trends in Member countries: the condition of labour markets, the increasing globalisation of company strategies, the search for ways to ensure sustainable development, and the need to establish new patterns of governance.

The labour situation

Sustained by exports and recently buttressed by capital formation, most economies are now on the road to recovery. The strength of growth in America, the return of confidence in Europe, good performances by the emerging OECD countries, and good prospects for Australia, New Zealand, and Korea are

signs that the strains in labour markets are easing. Unemployment rates started to fall and ought to drop to 6.4 per cent this year in the OECD area.

Despite this favourable outlook, many countries are still facing severe unemployment problems and overly high levels of underemployment. Two major aspects need to be emphasised:

1. Unemployment displays a strong structural component almost everywhere. In 1997, for example, nearly half the unemployed in the European Union had been out of a job for a year or more, amounting to 5.2 per cent of the working population (as against less than 1% in the United States). Furthermore, certain social groups have been particularly affected: women, young people, and the poorly qualified. In some countries low activity rates are not as a rule a sign of unemployment. They are more usually a sign of an unused reserve of labour that is generally being put off by high rates of underemployment.

2. Unemployment is highly concentrated in certain regions and locations. The magnitude of disparities seems to vary inversely with shifts in the economic cycle. In Europe, for example, it shrank during the period 1990-1997, only to swell again when national rates were on the increase (from 1989 to 1994) and thereafter declined. In these areas, the difference between the United States and Europe or Japan is that in the former the upheaval was greater but the time taken for re-establishing order in the market was shorter. On the whole, such disparities show a pronounced time lag.

Some types of regions are apparently more adaptable or resilient than others. Statistics show that unemployment rates remain, on average, higher in rural than in predominantly urban areas in many OECD countries[27] because of structural impediments related to low population density, lack of critical mass, and geographical isolation in a number of countryside areas. Furthermore, the unemployed in rural regions make up over 30 per cent of the total unemployed in a majority of OECD countries. Rural regions are nevertheless increasingly diverse and a number have performed well recently, creating jobs and wealth sometimes at a more sustained rate than in metro areas.

To move the policy effort forward and strengthen action on the structural characteristics of unemployment, it is clear that *The OECD Jobs Strategy*[28] proposed by the Organisation (OECD, 1996*c*) should also take account of territorial differences and where necessary be supplemented by appropriate local measures. It is found, for example, that marginal groups are heavily concentrated in certain areas and that their return to the labour market would be greatly facilitated by policies taking local and regional specifics into account. It is also found that participation by women is very much higher in urban areas than in rural regions. Regional disparities are considerable in the case of unemployment among young people and in general are larger than the average figures recorded for the 15 to 65 year-old age group. Lastly, it has been found that in many countries persistent pockets of unemployment resulting from specific factors (external shocks, localised restructuring, or endemic poverty) still persist. Many such areas of high socio-economic decline are found in inner city or peri-urban areas. The wide variety of such situations calls for specifically tailored corrective action.

Globalisation of company strategies and their impact

Globalisation affects firms to different degrees, but is increasing everywhere. International networks are forming and a new international division of labour is emerging. In this new pattern, regions are becoming increasingly a part of world trading groups, with a growing dependency on export markets. Specific areas and regions may offer competitive advantages that strengthen their position.

Financial flows are strongly globalised. However, the same is not altogether true of physical capital and even less so of human capital. Although it is tempting to relate globalisation to population movements, working populations in many countries (particularly in Europe) are still not very mobile for historic, cultural, linguistic, or socio-economic reasons.

There is thus a regional aspect to the growing global character of economic relations. However, not all regions are in the same boat. For example, many studies (see Paul Krugman's work) show that globalisation of company strategies is now reinforcing agglomeration processes in urban or intermediate areas that offer various resources and externalities needed for modernisation of economic structures or innovation.

Although world trade continues to be an important driving force for growth in most Member countries (it has for several years been expanding twice as fast as economic activity — except in 1998), it is mainly the most advanced regions (those with economic activities with a high skills and capital content) that reap the benefit of doing business on international markets. Thus most major countries still have limited geographical diversification of trade (only 20 American states earn more than 10 per cent of their GDP from exports; in France, 5 out of 22 regions are responsible for over half of the country's sales abroad). Winning regions are those with a solid export base and notably with a sectoral distribution of activities emphasising mostly globalised industries such as pharmaceuticals, electrical and non-electrical machinery, basic chemicals, scientific instruments, textiles, electronics, and services to firms.

The spurt in trade following the conclusion of the Uruguay Round and the development of free trade areas have also created conditions prompting territories and economic activities to greater specialisation. Such specialisation often takes place at very narrow levels of the sectors concerned, through product differentiation and outsourcing of production processes. Territories in a position to develop narrow specialisation strategies and strategies to promote appropriate skills should be able to benefit from these new development opportunities. Central regions are not the only ones in this position. Areas with clusters of high-performing and networking SMEs, high social capital, and a skilled workforce, able to compete on niches and specialised markets and to take part to global trade, can also be found in non metro regions. Lower transportation costs, and the availability of new information technologies and the Internet have diminished the cost of access to international markets for firms, clusters, and often secured their prospects for development.

Growth in foreign direct investment (FDI) is another phenomenon associated with globalisation. Strengthened by economic recovery, FDI represents very large amounts (since 1980 it has grown three times faster than domestic investment in the EU). FDI towards the United States came to Euro430 billion between 1987 and 1996. During the same period the inflow of FDI to the EU was Euro247 billion, while Japan invested nearly Euro220 billion abroad.

A number of factors determine the attractiveness of regions for investors: proximity to markets, quality and availability of labour, appropriate infrastructure (transport, telecommunications), quality of life, cultural similarities, and presence of other companies (clusters). In this case the polarisation effect promotes agglomeration. However, there are no hard and fast rules. Recognition as a dynamic region is not necessarily permanent. Experience shows that long-term success can be ensured by means of well designed policies.

Search for sustainable development

In recent decades, environmental protection has become a major government policy objective. For a start, the general public pays much more attention to quality of life and protection of nature than it used to. Furthermore, scientific advances have made the relationship between increasing pollution and declining public health more clearly apparent and demonstrated the magnitude of its indirect costs for society. It has also become more apparent that uncontrolled economic development can undermine the ability of future generations to meet their own needs. The need for sustainable development, namely development that respects the environment, provides good resource management, and is concerned with resource renewal, has thus been recognised by all countries. What public authorities have done in the area has been to regulate polluting economic activities and pursue active policies in specific sectors such as transport and clean technologies or in educating and informing the general public with a view to promoting environmentally-friendly behaviour and encouraging environmentally-friendly products.

Recently, the concept of sustainable development has been extended to include social equity and equitable living standards and conditions of development. Sustainable development policies have thus been enriched by all measures and initiatives, generating social expenditures to reduce exclusion as far as possible and increase self-reliance (the ability of individuals to solve their own problems).

Even where the environment is the source of industrial activity (equipment and services) and although social services and the tertiary sector are major employers, reconciling growth, environmental protection, and social cohesion is no easy task. Paradoxically, national and supranational levels are not the most appropriate for dealing with these problems, although they are of course still the best levels for dealing with matters relating to the spread of pollution, the protection of species, action against global

environmental dangers, or triggering and managing redistribution mechanisms in the social sphere. The regional or local level is where it is easiest to develop effective integration processes, overcome conflicts of interest, and take most effective account of different ecosystems and of a variety of nuisances.

Urban concentrations pose very specific problems in the area of travel, waste management, air and water quality control, and noise. Through renewal of older areas, development of new methods of land management, more efficient distribution and management of infrastructure, local authorities can act against nuisances at source. In distressed areas they play a decisive part in designing packages of suitable measures (economic procedures and locally-generated action, habitat improvement, development of proximity services, special training programmes). Even where the problems are complex, sub-national governments are generally the best placed to respond to public demands and to find the best solutions. To the extent that urban development affects neighbouring rural areas (spillovers, relocation of companies, investment in green areas) communities within agglomerations and inter-communal co-operative structures can play an important role in promoting sustainable development.

Regions that are predominantly rural are a different matter (at least as far as the environment is concerned) since they offer specific resources or amenities. Natural or man-made areas are set aside for wild flora and fauna, specific ecosystems, cultivated landscapes, recreational areas, and historical and specific sites with unique social and cultural traditions. The challenge facing local and regional authorities is to improve and develop such amenities. Conservation of the environment can pose problems because amenities should be valorised without being destroyed or downgraded. Here again sub-national authorities are the best placed to identify trade-offs and determine the most suitable means of action. Sustainable development is not necessarily easier to achieve in non metro regions. If low-density areas are less exposed to environmental deterioration, there are numerous cases where ecological systems have been seriously threatened, thus requiring costly regeneration investment. For example, concentration and pressure of tourism in Europe in the Alpine region (Savoy and Bavarian Alps, Graubunden, Wallis and Tyrol) have left both visible and invisible scars on the natural environment and landscape.

In regions depending on the primary sector, the economic base has sometimes been eroded by dwindling resources as a result of environmental constraints and overproduction (forestry, fishing, and mining in Atlantic Canada) or mismanagement of water and land resources for agriculture (Andalusia in Spain). Furthermore, restructuring traditional industries and a focus on heavy manufacturing have often resulted in wasteland extension, soil pollution, and landscape problems (the Walloon Region in Belgium, Pas de Calais and Lorraine in France). Due to economies of scale, the cost of depollution could be lower in relative terms in highly concentrated metropolitan areas.

New governance patterns

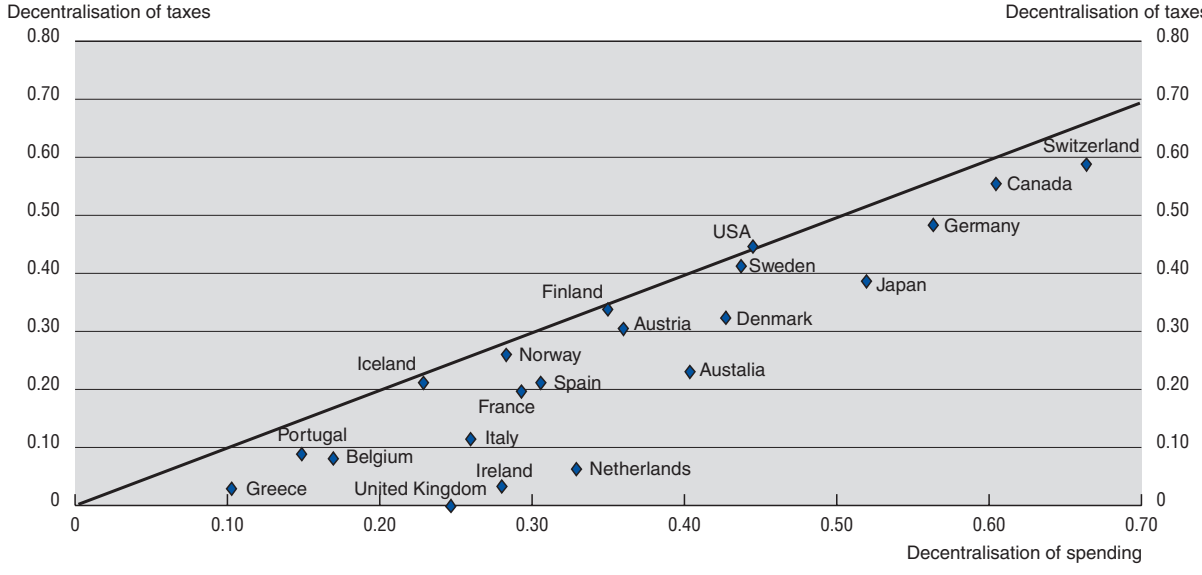
In order to fulfil these new mandates, regional and local authorities need to be given new powers. They are being asked to respond to the expectations of civil society. They also have to face greater competition from other territories in their efforts to attract and retain individuals and companies. Territorial marketing is increasingly based on quality of public services, effectiveness and efficiency of infrastructure, and an ability to implement forward-looking strategies and develop partnerships. Even in federal countries, central authorities and states are looking for ways to involve new actors and improve the traditional three-tier system of governance.

Although competition at sub-national levels is beneficial, it has certain limits. Not all services can be transferred to lower tiers of government. Suitability for decentralisation depends on what geographical externalities there are (benefits offered by infrastructures or services that are felt outside the administrative area in which they are located) and economies of scale (unit costs fall as the population served increases). Furthermore, equity demands that central governments should establish equalisation systems with a redistributive effect to counter the structural handicaps suffered by some regions (*e.g.*, low tax base) and give more equal opportunities for development.

During the past two decades, forces favourable to the decentralisation of government functions have prevailed over centralising forces. Major transfers of powers to lower governmental levels have taken place almost everywhere (in the United Kingdom, Spain, or Poland, to give the most recent examples), but the rate of movement has varied from country to country. In the most striking cases, new levels of

administration have been created. At local levels everywhere, public expenditure is still higher than the amount raised by taxes and fees (Figure 5.1). Central government thus continues to subsidise local administrations.

Figure 5.1. **Decentralisation ratios in OECD Member countries, 1995**



Notes:
a) Decentralisation of taxes: Local taxes/Total taxes (net of social security).
b) Decentralisation of spending: Local government spending/Total government spending.
c) The distance between a point an the straight line indicates the imbalance between local spending and local tax revenues. The greater the distance, the higher the transfers from the national government to the local authorities.
Source: OECD, National Accounts.

Although the independent decision-making powers of sub-national levels have increased since transfers from central authorities are often no longer specifically targeted (earmarked subsidies), this observation needs to be qualified. First, national levels have tended to delegate powers without allocating additional resources (unfunded mandate). Second, increases in the number of programmes and services have led to no decrease in overlapping powers, particularly in federal states.

The need to improve national methods of governance therefore remains a major priority for public authorities. The first task is to prevent waste of budgetary resources, which are less abundant than they used to be. Next, the impact of policies on territorial performance needs to be optimised by better co-ordination of initiatives in individual sectors and by public investment that is better targeted and more cost-effective.

In what follows, the focus is on regional development theory and practice, the region being at an intermediate scale between the urban or local on the one hand, and the national on the other. The theory of urban economic development has many points in common with regional theory (agglomeration effects, the role of leading sectors, cumulative causation), but has more on land use and land markets, for example, on taxation and the costs of public services, and on inter-sectoral mix. The inter-dependence between cities and hinterlands, a classic in economic geography, has been eclipsed in recent years by the growth of the service sector and by changes in transport and communication which have altered the nature of inter-urban networks, and have enabled regions to emerge more clearly as distinctive economic units, at a scale favourable to both public and private-sector action. Questions about infrastructures that tie cities and their environs into functional economic units for labour, goods and services often involve competition between places within a region. These issues are not addressed in this paper. Another question, which would require another paper for elaboration, is the extent to which a region is more than just the collection of places within it. Nevertheless, many of the issues about effective economic strategies and about the challenges facing regions apply to their component parts as well.

The trends previously outlined, in particular the growing heterogeneity in the economic processes governing the growth experiences of regions, suggest the need for changes in regional development practice based on contemporary theoretical insights. These perspectives take into account the changing nature of the firm, the renewed importance of "the region" as the locus of interactive and reinforcing economic development, the contradictory effects of processes of globalisation that both enhance and inhibit the control regions and territories have over their economic trajectories, and the role of culture, institutions, and organisations that can promote or inhibit economic growth.

Before proceeding to a discussion of contemporary perspectives on regional development, we first look back at post-war regional development theory and practice in order to understand the context in which our present day development tools evolved. A discussion in an historical context can illuminate the very different circumstances and problems that regional development policy was expected to attend beginning in the 1950s and proceeding until the 1970s. Although there are examples of the success of post-war regional development policy, nonetheless, as this paper will make plain, places facing structural transformation or deep-seated poverty were relatively immune to the effects of development practice. As contemporary critiques of conventional policy suggest, the underlying problems of uneven development were not uniform, consistent or of the same magnitude. Many factors that were not considered in post-war regional planning practice, such as the role of institutions, organisations, and cultural practices, are now emphasised in recent contributions to the field.

In part in response to these critiques, in some circles there has been a broad scale retreat from the belief that there is a role to play for government support of regional development. We wish to challenge this perspective in later portions of this paper by suggesting that the problems facing territorial development today are as complex and multi-faceted as any time in the post-war era, and that there is an important role for government as a partner to attain regional development over time.

The begins from a practical perspective by examining several questions. What were the problems territorial policies were designed to address in the post war era? Was policy in fact configured to address the underlying problems? Was policy justifying public intervention misguided or were there weaknesses in or misapplications of different theories? Are there new approaches to policy design that bring into better alignment problem theory and policy theory? Have we learned from past practice how to achieve more dynamic and reinforcing regional development?

2. Why traditional regional development theory may be unable to inform contemporary policy debates

Traditional regional development theory came into existence at a time and in a world in which the primary underlying regional problem was conceived as lagging economic growth. Thus, if the key to growth could be found, it could be used to unlock a process of integrated and reinforcing economic development. Most agree that regional development has been uneven. Acknowledgement of this dates in the US, to the 1920s, when federal and state officials identified pockets of persistent severe poverty amidst an abundance of natural resources, infrastructure, mild climates, and fertile soil. Regional development policies were largely creatures of the Depression, a time when thousands of citizens were without work and whole sections of the nation seriously lagged national norms. In the US, the southern states embodied the nation's "regional development problem." Federal and state studies of the 1930s identified *"an outdated tenant-farmer system, a lack of manufacturing, absentee ownership of what manufacturing plants there were, and a general lack of capital and credit in the region"* (Cogan, 1999) as the causes of regional inequality. Federal programs such as the Tennessee Valley Authority and state programs such as Mississippi's Balancing Industry with Agriculture thus were designed to rectify uneven development through a combination of infrastructure and industrial incentive programs. The next step was to develop theory.

The formulation of regional development theory occurred as economists and planners sought to understand and characterise processes of regional growth. Thus, theory first endeavoured to apply prevailing concepts to describe divergent territorial growth paths. Three schools of theory — neo-classical, export base, and cumulative causation — underlay early efforts to understand divergent regional economic growth. Each rested upon visions of separate, sometimes overlapping mechanisms thought to foster more equitable economic development.

Only one perspective, cumulative causation, recognised the link between regional change and qualitative attributes of place. Neo-classical and export base theories both emphasised engines of growth as a means of provoking quantitative changes in an economy. Qualitative attributes were either assumed to exist or would be a result of the growth process. Their central purpose was not to provide explanations for systemic change. Early policy also failed to make this distinction, at least formally. Instead, the problem of regional differentiation was viewed as due to lagging rates of growth, not qualitative deficiencies of place. Thus, the failure of policy may in part be ascribed to the misalignment of targets of intervention and the underlying development problem. As more contemporary theories suggest, endogenous processes of change which have far more to do with the qualitative attributes of place are key determinants of long-run regional growth.

Before describing contemporary theories of regional economic development, each of these early theoretical models of regional growth is described briefly to clarify the limits of previous efforts at regional development planning, and to motivate discussion of contemporary development perspectives.

Neo-classical

According to Amos (1996) writing, in a summary of neo-classical growth theory, *"The neo-classical theory has been frequently used to analyse observed patterns of regional growth"* (Borts, 1960 and Borts & Stein, 1964). Neo-classical regional growth theory extends the analysis first undertaken by Solow (1957) regarding national economies, to incorporate openness in regional economies as epitomised in Smith's neo-classical approach. According to Smith, a *"... model relating intereconomy factor movements to intereconomy factor price differentials is embodied in a neo-classical, variable-proportion growth model (Smith, 1975: p. 165)"*. The neo-classical theory builds on a perfectly competitive, highly factor-mobile, profit-utility-maximising world to explain how regional growth results from equilibrating forces operating in competitive regional product and factor markets.

This theoretical perspective was the foundation of many early policy efforts and supported gestures to enhance factor mobility through movements of labour and capital. Public programs that attempted to equalise costs across locations led to tools such as business subsidies, infrastructure investments, and tax abatements. Few if any emphasised enhancements of labour, given the politically volatile nature of the expected outcome, migration. Moreover, it was recognised at the outset that labour was far more fixed in space than capital and more variable as well. Thus, personal ties combined with the politically unsavoury implications of mass migration diminished the acceptance of labour enhancement-led interventions.

From the 1930s to the mid-1970s, policies emphasised business attraction and infrastructure investments. Programs underwrote the costs of new capital development through various means. In marginalised places, the results of such efforts were less than convincing. In the US, while the South indeed had attracted capital from the outside, its form simply reinforced existing low productivity activities. New investments made little difference in the overall well-being of the most vulnerable members of society. Wages remained static, poverty persisted, and the expectation of integrated development was not forthcoming. As Amos points out in a critique of neo-classical theory, its lack of relevance in coming to terms with uneven development rested not with what was left in, but what was left out of the original construction.

Although the neo-classical theory highlights the important convergence mechanism of factor mobility, its basic assumptions prevent it from providing a complete explanation of regional growth. Important are the relationships not included, or only incorporated as ad hoc assumptions to the basic theory such as agglomeration economies and increasing returns to scale, export demand, transportation costs and the friction of space, spatial differentiation of resources, the concentration/dispersion of economic activities, and technological progress.

Elements outside the purview of prevailing theory were precisely those factors absent in most backward regions. They lacked spatial concentrations of economic activity and failed to attract sectors that were dynamic and growth-oriented. Export-oriented low-wage sectors, which had migrated from the higher-cost industrial heartland, produced goods that faced stagnant and in some cases declining demand, and thus remained disadvantaged due to high transportation costs. Factors that had previously relegated remote locations to the periphery remained active impediments to regional economic change.

The failure of neo-classical theory to foster prescriptions that could reconcile regional development fortunes and engender self-sustaining regional development is as much a result of the inapplicability of the theory to the underlying problem as it is a failure of the theory itself. In isolation, neo-classical theory offered a mechanism for achieving regional equality, given a set of initial assumptions. But it was precisely the inadequacies of backward regions, which included low and deficient levels of human capital, insufficient and in some cases non-existent institutions, inadequate business organisations, and an oppressed or underdeveloped culture of entrepreneurism, that impeded the process of factor price equalisation and diminished its effect in backward regions.

Early regional development policies cannot be understood outside the geopolitical context in which they were formulated. The end of World War II and the defeat of communism left the victors with a substantial problem — the need to offer an alternative market-based strategy of regional change. The search for and applications of theory were part and parcel of a larger project deemed necessary to assure democratic forms of political organisation. In the search for a theoretical framework utilising a market model of development, a second strand of theory emerged that emphasised growth based around export-oriented industries. Success was easily recognised, even amid the war torn economies of Western Europe. Growth seemed to occur in regions that had an industrial development system built upon exports. Theory served to reinforce this perspective. In fact, neo-classical theorists recognised the importance of a region's export base as one explanation for why factor price equalisation failed to represent regional development processes over the post-war period. As Borts noted in 1960, in a seminal application of neo-classical theory:

> *"The role of demand appears to have a strong influence on the relative movements of capital and on the increase in wages in the different states. This appears to be the chief reason why wage convergence failed to appear in two out of the three periods; and it indicates strong support for a model of regional growth based on the demand for a region's exports"* (Borts, 1960: pp. 342-343).

Recognising deficiencies of neo-classical accounts of regional development, theory turned toward a closer examination of industrial attributes thought to foster more integrated regional change. Static conceptions gave way to the search for more dynamic explanations of regional development. Policies followed by targeting investment toward sectors and firms.

Export base

Export base theory emphasises the role of export-oriented activity as a stimulus for regional growth. Although originally formulated in the 1950s as an alternative to Rostow's stages theory of national growth, export base theory began to stimulate discussions of an alternative means of achieving dynamic regional development. It posits that a region's development path is a function of its export industries. As Amos suggests:

> *"This approach builds on the assumption that regional economies develop around, and specialise in, particular basic activities that export goods to outside the region and upon which other regional activities are economically dependent. The dependency takes the form of residentiary or local output needed to support the export based labour force or ancillary activity required for export base production. The relationship is typically captured as a multiplier between export base and local activity.*
>
> *Export base theory, however, was better at explaining short-run processes than it was at identifying how to activate mechanisms required to unleash a longer-term process of regional development. Subsequent studies of the role of export base activity pointed out that an export base was perhaps necessary, but not sufficient for the promotion of regional development. Indeed, assumptions underlying this theory were recognised as serious constraints to broader processes of development. For example, the theory assumed either the persistence of demand for the existing activity or the revelation of demand for new activities once the original source of growth declined. The theory also assumed the existence of key factors such as the source and availability of capital required for the formation of ancillary activities, and the formation of mechanisms triggering the accretion of secondary industries in support of the export base. The lack of realism supporting these assumptions called into question the theory as a basis for policies to stimulate regional development.*
>
> *Encumbered by often unattainable pre-conditions, export base theory succumbed to challenges of being overly deterministic. The policy prescription of attracting branch plants to remote locations reg-*

ularly failed to foster integrated development as anticipated by the theory. The linkage formation process, central to the development of the residentiary sector, simply failed to materialise. Like the broader neo-classical theoretical realm, export base theory was able to describe what had previously unfolded in selected locations, but it was far less effective in providing a prescriptive framework for the formulation of policy, which had as its goal altering the development trajectory of backward regions." (Amos, 1996).

Cumulative causation

Writing at essentially the same time, Nobel laureate Gunnar Myrdal suggested, in contradistinction to neo-classical theory, that the process of growth was inherently and persistently uneven. The reinforcing nature of endogenous income growth would result in regional divergence as a process of circular and cumulative causation took hold. In boldest terms, places left behind would remain behind, as reinforcing mechanisms accompanying the process of growth would simply amplify existing patterns of development. Myrdal summarises this thesis:

"This simple model of circular causation with cumulative effects, released by a primary change, is, I believe, more typical of actual social processes, then the intersection of the demand and supply curves at an equilibrium price which has become symbolic of much of our reasoning in economic theory." (Myrdal, 1944: p. 24).

According to Amos, cumulatively reinforcing growth is based on agglomeration economies and increasing returns to scale. He suggests that:

"(1) the growth rate of productivity is directly related to the growth rate of output, (2) efficiency wages (money wages divided by a productivity index) are inversely related to the growth rate of productivity, and (3) the growth rate of output is inversely related to efficiency wages." Thus, based on Myrdal's original thesis, once a stimulus for change unfolds, the effect is cumulative —"... additional output increases productivity, which lowers the efficiency wage, which increases output and once more increases productivity — in a continuously reinforcing process." (Amos, 1996).

Hirshman and others were forced to concede that absent major and sustained public interventions, regional equalisation would likely fail to unfold.

A central aspect of cumulative causation theory is the existence of two effects, termed backwash and spread. The backwash effect occurs when one region, through the impetus for cumulative growth, expands at the expense of another region. This insight highlighted the existence and importance of economies of scale. Spread effect results when growth in one region extends to, and promotes growth in, another region. But as often is the case, peripheral regions either had little to offer developing locations or, more likely, their most mobile and valuable factors could and did easily relocate to more developed locations in search of higher rates of return. The dependence of most peripheral regions on low value-added and commodity-based goods served as a further disadvantage, as negative terms of trade eroded the value of their traded goods. Thus, first-mover advantages, though not described as such, would simply reinforce past patterns, and in fact reward places that had reached some level of self-sustaining development.

Myrdal's perspective suggested that development would be polarised. First-mover advantages, reinforced by initial factor endowment, fortuitous location, or technological change, served as barriers to entry, but more importantly as a stimulant-reinforcing development at the expense of less developed regions. Hirshman, like Myrdal, saw the process of development as polarising, as more developed regions enjoyed the ability to draw in new investment, retain and attract skilled labour, and garner available public investments, thereby reinforcing existing growth.

At approximately the same time, writing within a separate intellectual sphere, European economists such as François Perroux articulated a theory of regional growth based upon firm-led dynamic industrial development. This prescription recognised the importance of increasing returns to scale internal to the firm and external economies of agglomeration. Complementing Myrdal's and Hirshman's perspectives of development as cumulative and reinforcing, Perroux formulated a theory based on a simple premise — that economic growth was unevenly distributed and spatially concentrated around key firms. He identified as the agent of polarisation, the *"lead firm"*. This intervention unleashed studies of firm and sector behaviour thought to promote economic growth.

Based on the observation of large integrated industrial complexes in central Europe, the theory posited that dynamic development was unleashed as a dominant economic activity stimulated change in up- and down stream industrial activities. Because growth poles could influence the behaviour of suppliers and markets, a region's economic base was seen as capable of self-sustaining growth. The mechanisms supporting this contention were twofold. On the upstream, the demand stimulus of the growth pole was thought capable of exerting pressure on supplier firms to be productive and innovative. On the downstream, low-cost and presumably more productive output would reward the markets of the lead firm's products. This seemingly complete characterisation of industrialisation was billed as comprehensive and therefore capable of unleashing self-sustaining regional development.

Perroux's original conception was based around the notion of "*economic*" space. His initial formulation never explicitly specified the location of linked activities. They were assumed to manifest locally. But, like export base theory, growth pole strategies succumbed to the problem that in most cases, upstream and downstream linkages of a growth pole were non-local. The theory lacked sufficient realism regarding the necessarily conditions to explain the development of agglomeration economies. In cases where growth pole theory was the theoretical justification for development policy, many expected outcomes never materialised. The economic stimulus from indirect and induced linkage growth was not forthcoming within the immediate geographic area.

Growth pole theory also ignored industrialisation other than that associated with the large, capital-intensive business enterprise. Although important in the 1950s, the large firm was by no means the only agent of industrialisation. Numerous examples existed of vibrant, interlinked constellations of small firms. The Swiss watch region, the fashion industries of Paris and New York, and the furniture and jewellery industries of several countries all represented an alternative pattern of industrialisation that was inherently labour intensive and small scale in structure. As Chinitz pointed out in the early 1960s, in his paper contrasting the development paths of New York and Pittsburgh, high rates of growth and relative stability in New York were the result of the city's highly varied, multi-sector, multi-firm economic structure (1960). With this he contrasted the experience of Pittsburgh, where the large firm-based sectorally concentrated economy had proved to be more volatile and slower growing over the post-war period. In this instance, big meant neither growth-oriented nor stable.

Subsequent authors extended Perroux's framework to include spatial considerations. In the 1960s, academics and policy makers began experimenting with models of concentrated development built around the notion of "growth centres." In the US, growth centres were promoted as the spatial manifestation of growth pole theory. Their application in a policy context argued for concentrating economic development resources in growth-oriented locations. It was presumed that growth was assumed to spread outward and stimulate the development of dependent industries in the periphery.

In the US, the most widely recognised example of growth centre development policy is the Appalachian Regional Commission (ARC), a federal-state agency responsible for fostering economic development in one of the nation's most backward regions. In this instance, the policy problem leading to creation of the ARC was described as economic isolation leading to underdevelopment. The policy prescription was framed around the development of transportation and other infrastructures considered necessary to attract and retain industry. Rather than distributing investments throughout the region, in its early years the Commission concentrated resources in designated growth centres. These locations were initially selected on the basis of size and their presumed likelihood of future development, given their location and existing level of economic capacity. Thirty-five years after its enactment, the ARC has assisted in stimulating development around the region's edges and in its urban centres, but the central portion of the region remains poor, isolated, and deeply impoverished.

The inability of growth pole and growth centre strategies to create self-sustaining economic growth in backward regions or to ameliorate the problems of deep-seated poverty highlighted the limit of these theoretical constructs to guide policy. Both characterisations served to reinforce concentrated development in existing centres of economic activity. Subsequent assessments identified two central limitations of these prescriptions. First, growth pole theory assumed a set of initial conditions, such as the existence of institutional capacity, localised downstream markets, and dynamic industrial activities, which were lacking in backward regions. Second, policy strategies, based upon a top-down model of implementation, led to large-scale capital-intensive interventions, completely ignoring the non-economic origins of poverty and uneven development. Policy makers presumed that concentrated development would lead to spread

effects. However, as Myrdal and others had warned, growth was disequilibrating and hence reinforcing of existing centres. Backwash effects would drain peripheral regions of required assets including human capital, institutional capacity, and interindustry linkages.

Failed attempts at regional development based on a top-down model of implementation led in the 1980s to calls for "development from below," emphasising the need to build up local capacity based around residents' goals and aspirations for development. This alternative perspective placed significant emphasis on factors such as the nature and form of political institutions; the need for sustained regional policy assistance, modern infrastructure, adequate supplies of skilled labour, social capital in a multitude of forms, competitive factor prices, and a reasonable level of population density (Amos, 1996). Policy interventions to foster such conditions were considered central to bringing about equitable regional development.

The timing of these more locally based development initiatives is important to an understanding of contemporary policy models and interventions. In the 1980s, large federal government deficits and lagging national economic growth led to calls for policy reforms, including a reduced role for federally-based development interventions. Large-scale federal programs were no longer affordable. More importantly, the public had soured on the belief that centralised interventions were capable of fostering development. Policy interventions moved to a more local level where public participation and institutional development became central objects of investment.

Several observations summarise the theoretical underpinnings of post-war regional development. First, most theoretical contributions to regional development have been based on observations of growth processes unfolding in developed regions. Theory drew upon the experiences of existing regional agglomerations where key ingredients were in place and operating. These theories presumed that the spread of development would occur as a natural outcome of the growth process. Second, no theory was sufficiently detailed to isolate critical ingredients required for development, nor were theories sufficiently dynamic to suggest the inner workings of key components, and how they would unfold sequentially or simultaneously through time. Third, there was little meaningful recognition of the variety of spatial contexts in which underdevelopment existed. Locations of early policy intervention were seen as interchangeable and therefore their underlying problems as essentially the same. Fourth, growth pole theory, perhaps the most widely invoked conceptualisation underpinning post-war regional policy, was never intended to respond to the increasingly complex and multifaceted problems of regional development. Its lack of spatial specificity limited its relevance to relatively few types of locations, and its reliance on historically specific capital-intensive sectoral structures as propulsive agents of change, further limited the theory's applicability given alternative forms of successful industrialisation.

3. Rethinking policy responses requires revisiting current practice

How have traditional regional development theories shaped contemporary policy? To meet these various challenges and to adapt their action to the new territorial context, governments have already a major toolbox at their disposal, namely regional policies. For a long time, most have used a series of measures designed to affect the geographical distribution of economic activity. Such measures target, for example, development factors and act both at local and microeconomic level (customs-free areas, industrial parks and territorial pacts), and at sectoral and national level (trade, investment and training policies or local development).

During the past 20 years, most of the governments of OECD Member countries have prepared comprehensive regional policies, to which they continue to allocate significant funds. Many countries consider that reducing imbalances and economic gaps between regions is the principal way to attain given fundamental social objectives such as social cohesion and mutual support. Mechanisms for restoring balance between regions are currently being used to reach these goals in both federal and unitary states. They are a recurrent subject of discussion in conversations about construction within the European Community (*e.g.*, the structural funds policy). Sometimes balanced regional development is a right enshrined in constitutions or the law (*e.g.*, Spain, Germany and France), and sometimes, as in the Nordic countries, making living standards equal, although not laid down in the law, remains a major goal of central government.

Although these strategic objectives are not being called into question, it is clear that the instruments and methods of intervention adopted almost everywhere to attain them are increasingly subject to debate. Thus, there is now agreement that policies based on redistribution mechanisms involving direct assistance to enterprises, technocratic approach to heavy infrastructure, or support to declining economic activities do little to stimulate growth and employment in the regions concerned and may even be costly blind alleys.

The setbacks or partial setbacks countries have experienced can teach useful lessons about government failures. For example:

— *The inadequacy of pouring massive amounts of assistance through bureaucratic channels into lagging regions*. Italy provides a good example of a considerable effort to channel funds to its Southern region (the Mezzogiorno) by means of a government agency provided with ample funds.[29] Behind the particularly poor results obtained (increased disparities[30] between 1980 and 1995) lies a simplistic view of the reasons for lagging development and industrial conversion. First, the small wage differential between South and North (wages are negotiated at central level) held back any flow of investment to the South. Second, weakness of social capital in the Mezzogiorno (where the sense of individual initiative is limited and inclination to undertake collective action low) has favoured a culture of dependence on assistance and multiplied obstacles to development.

— *Artificial interventions.* Reindustrialisation efforts in many countries have been focused on a small number of sites in order to pin down industrial development, benefit from the effects of scale, and absorb labour made available by a stagnant primary sector or from restructuring sectors in decline. Even in the long view, such so-called poles of growth strategies have been relatively unsuccessful. They have often been costly, combining large-scale infrastructure projects, enterprise zones, and expensive tax incentives. The investments made have generally paid little attention to local and regional industrial cultures and have at best turned sites into exporting islands. Many examples can be given (Lorraine and Southern France, Pouilles and Basilicate in Italy, the Walloon Region in Belgium).

— *Launch of major infrastructure projects without taking regional demand into account.* Autoroutes, airports, bridges and technopoles are examples of projects that have improved the accessibility of non-metropolitan regions, sometimes beyond their capacity to fully utilise them.

— *Maintenance of direct assistance to declining sectors in order to protect local economic activities*. Such practices were employed on a large scale in the 1980s in most European countries and in traditional sectors generally did little more than delay adjustment. The approach, which has been almost universally abandoned, appears to persist in the new European OECD Member countries (such as Poland[31] or the Czech Republic) — and particularly in Korea — by means of banking subsidies or by keeping enterprises within the public sector.

— *Short termism*. A conflict usually exists between infra-structural long-term development needs that tend to concern weaker regions and immediate imperatives to alleviate bottlenecks that concern stronger areas where growth is leading to the emergence of excess demand capacity. In the case of financial constraints, there is a bias towards meeting short-term needs and often allocating funds to wealthier regions.

Generally speaking, these diagnoses are no longer in dispute and a change of direction has taken place almost everywhere in recent years. Although the new policies vary from country to country in response to factors associated with historical events, economic conditions or political institutions, such updating of regional policies displays some common features. Greater weight is given to a new approach including regional activities in policies to encourage competitiveness by taking all regions into account, by adjusting procedures to the specific requirements of each, and often by granting them wider responsibilities over economic development. In other words, the task of regional policies is no longer to redistribute growth between regions. Its top priority is to maximise the potential of each region and its contribution to national growth.

Like regional development theory of the post-war era, several more recent interventions were based upon a similar logic, even as the interpretation of the problem of regional uneven development and its

underlying precipitants began to change. The search for new leading sectors to foster regional development emerged in the 1980s as old-line industries began to succumb to international competition (Markusen, Hall, & Glasmeier, 1986). First emerging in the US, and then in other industrialised countries, the rise of high-technology industries witnessed the ascendancy of a revised model of development built around growth pole theory. Like growth pole theory of the 1950s, development policy prescriptions of the 1980s in the form of technopoles focused on either capturing or creating a dynamic sector that could precipitate integrated regional development (Castells & Hall, 1994).

The limited success of these policy gestures can be traced back to many of the original criticisms of growth pole theory (Erickson, 1972). First and foremost, the theoretical underpinnings were based on propositions that emerged from contemporary observation rather than being historically and developmentally articulated within an existing organisational and institutional context (Cooke, 1996 and Enright, 1996). Second, little consideration was given to the dynamic nature of these industries and their organisational logic. The romantic story of new firms forming in the garages of Silicon Valley obscured the fact that big firms were central players in most high-tech complexes and that successful centres were defined as those where small firms grew large. Finally, given the increasingly universal acceptance of the emerging global division of labour in which peripheral locations performed simple labour-intensive functions while the core generates new ideas, most non-urban and less developed locations were relegated once again to dependent status. Even in those instances where inner urban economic development was the focus of inquiry, transactions costs analysis applied to industrial clusters could not evade the underlying power relationships embedded in supplier/subcontractor associations.

Coincidental in time with high-technology industries surfacing as targets of economic development policy, a second model of economic growth drawing on the experience of small firm industrialisation in central Italy gained prominence. In this case principal advocates of the industrial district model of development were as concerned with this form of industrialisation as an antidote to post-war dependence on large firms and the consumption and production practices embedded within this regime, as they were searching for a model of development that could be replicated.

Coming to the problem of industrial development from an institutional economics perspective, Piore & Sabel argue that small, highly innovative, and sectorally focused firms offered a way out of the Fordist dilemma of mass production and dependence on big firms (Piore & Sabel, 1984 and Sabel, 1992). Almost overnight, "The Third Italy" model of economic growth became a huge success and quickly became an element of economic development lexicon. As with high technology industry development policies, attempts at replication were unbounded and the primary agency that helped foster the emergence of the industrial districts in Central Italy, ERVET, became as much a prophet of its own practices as a practitioner of the programs it created to assist the formation and sustenance of sub-district industry clusters. Within a few years, the unbridled enthusiasm surrounding the district form of development gave way to critical appraisals of its elemental base and prospects for replicability. Criticisms of the representations of the district model of development emphasised the ahistorical nature of the treatment of the district's formation, the lack of appreciation for the unique nature of the region's political/institutional context, and the static treatment of the different sectors' developmental trajectories through time.[32] Others argued that there was nothing new about districts as an industrial form. Indeed, cluster and district forms of development were seen by many to exist alongside and within large-scale economic large firm constellations (Harrison, 1997).

Despite reservations associated mainly with excessive claims made by industrial district and cluster-based development advocates, authors including Amin, 1989; Best, 1990; Lazonick, 1991; Glasmeier & Fuellhart, 1996; Maskell & Malmberg, 1995, 1999; Markusen, 1996; Gordon & McCann, 2000 and others (Glaeser, 1997; Glaeser *et al.*, 1992 and Florida, 1995) offered more nuanced and increasingly theoretical appraisals of alternative forms of regional development emergent in the 1990s, of which the "district" constituted one model of economic growth. Stripped of vitriolic language, authors such as Porter (1998) and Gordon & McCann (2000) have constructed coherent arguments in support of the measurable advantages accompanying certain forms of economic and sectoral concentration. Building on the work of early theorists including Afred Marshall, Adam Smith, and later Edgar Hoover, urban, regional, and increasingly trade economists now highlight the meaning and importance of spatial agglomeration as a key element in economic growth. Gordon & McCann summarise this large body of literature, suggesting that:

"Marshall proposed three reasons why firms would continue to be localized within the same area. These related to the development of local pool of specialized labor, the increased local provision of non-traded input specific to an industry, and the maximum flow of information and ideas (Krugman, 1991). More modern descriptions of agglomeration generally tend to follow the classification in which the sources of agglomeration advantages are grouped together under three headings—namely, internal returns to scale, localization, and urbanization economies. The key feature of this method of classification is that the external economies are defined according to the industrial sector in which they occur, with the scale of local economy being the only explicitly observable variable". (Gordon & McCann, 2000 p. 515).

They continue:

"And within Marshall's broad groupings, various more specific sources of external economy may potentially operate at any of these scales. … these include: beneficial local labor market effects of efficient search and job match possibilities (Simpson, 1992), the impacts of human capital-accumulation on labor skills and firm productivity (Arrow, 1962), and consequences of these for local efficiency-wage levels (Akerloff & Yellen, 1986 and Blanchflower & Oswald, 1994). Within Marshall's category of non-traded inputs are the various ways in which businesses can benefit from the greater availability and efficiency of particular local services, these representing local pecuniary externalities in Scitovsky's (1954) terms. … Finally, within Marshall's third category of potential local external economies, are a variety of ways in which information flows are mediated, including interfirm labor migration (Angel, 1991), informal contacts between members of different firms (Jaffe et al., 1993) and restructuring of local businesses". (Gordon & McCann, 2000: p. 516)

Of significance in this wide-ranging treatment of the benefits of spatial association and integration, Gordon and McCann note that this "pure model of agglomeration presumes no form of co-operation between actors beyond what is in their individual interests in an atomised and competitive environment. A second large and growing body of literature they also summarise suggests ample evidence of the value and benefit firms' experience from co-operation and collaboration. Drawing on the industrial sociology literature, Gordon & McCann suggest:

"The "neo-institutionalist" school of economics had perceived the creation of hierarchical organizations and institutions to be a rational response to the transactions-costs problems caused by bounded rationality and opportunism in a pure market-contracting economy. From this perspective, the development of organizations, which allow transactions to be internalized and coordinated, means that trust (i.e., non-opportunism) becomes institutionalized within the economic system. … The sociological response to the institutional school is the "social-network model", in which it is argued that there is more order to interfirm interactions and less order to intrafirm interactions than economic models would imply (Granovetter, 1985). The reason for this is that social networks can transcend firm boundaries, with the result that many interfirm social interactions may be stronger than their intrafirm counterparts". (Gordon & McCann, 2000: p. 520)

The relevance of this discussion to the concern at hand is the extent to which new macro-economic conditions warrant greater collaboration among firms, hence suggesting the possibility of the need for new territorial policies to take account of emerging firm and industry behaviours that contribute additional sources of spatial economic growth.

Consensus has begun to emerge around the recognition that new forms of industrialisation are indeed at the base of regional growth, and in some instances even the revival of formerly static or declining territorial complexes. While geographers take note of the relevancy of non-traded factors in fostering territorial competitive advantage and economists emphasise more traditional cost- and market-based attributes, nonetheless, there is growing agreement that areas can and do have the potential to shape their economic fortunes to various degrees. While economists are more sceptical than geographers and planners of the role of public policy in creating self-sustaining territorial economic development, nonetheless, they share much in common in their interpretation of factors underpinning regional economic growth (Krugman, 1991; see Gordon & McCann, 2000 for an extensive bibliography of economic literature).

The "learning region"

An additional perspective combines insights from literatures on industrial districts, high-tech industrialisation, and innovative milieu, and insights from evolutionary economics and theories of innovation,

in order to argue that "soft institutions such as conventions, traditions of co-operation, the kind of labour relations, ways of solving conflict—the extent to which social institutions operate in support of processes of learning, underlies successful regional development. Franz Todtling summarises the key elements of this new perspective:

> *"Global competition requires that regions recognize the importance of continuous learning as a key strategic element in the process of innovation. Regional success is based on the development of new processes, products, and capabilities. Contemporary forms of innovation are distinct from the past. They are interactive, cumulative and path dependent, and are the result of historic and geographic processes that occur in time and space. Innovation and learning processes no longer occur in isolation, but result from high degrees of interaction among networked actors including firms, workers, and state institutions. In some cases these networks reflect industrial clusters; they also can take the form of supply chains, or more dispersed concentrations of urbanized activity."* (Todtling, 1999)

Not without its critics, nonetheless, the concept of the learning region has grown both in its adherents and in the precision with which it is discussed in broader circles including economics (Asheim, 1997; Asheim & Cooke, 1999; Harrison, 1992; Landabaso, 2000; Lundvall, 1996; Maskell & Malmberg, 1999; Morgan, 1997; Porter, 1998 and Soskice, 1999). Whereas the discussion of the attributes of and benefits from agglomeration emphasise the firm, and is to a large degree decontextualised and disembodied from the larger environment, qualities attributed to learning economies are based in qualities and characteristics of place, with explicit recognition of changes in the macroeconomic environment. With this broad aperture, advocates argue that learning economies are rewriting to some degree the meaning of international trade relations as Asheim suggests:

> *"These changes have led to a shift in the regime of international trade relations from comparative advantage on the basis of relative best access to endowments supplying cheap production factors to socially created competitive advantage resting on "making more productive use of inputs, which requires continual innovation."* (Asheim, 2000, citing Porter, 1998: p. 78). Further,

This has on the sub-national, regional level resulted in a growing attention being paid to perspectives and strategies that can secure the innovative capacity of regions in order to foster a regional future of endogenous economic growth.

Thus places and therefore territories can no longer presume economic success is assured based on price competition but must recognise that it is at the level of "locality" that competitive opportunities can and are being defined and realised. By implication, policy is increasingly needed to focus the energy and efforts of localities to identify, internalise and in many cases actively create their own economic destinies rather than presuming it will occur based either on factor endowments or external investment in support of export promotion. Following from this perspective, old-line policies that emphasise hard investments alone lack sufficient local specificity and suppleness to ensure territorial resiliency over time.

With almost 20 years of accumulated research and experimentation regarding qualities of self-defined regional competitiveness, policy tools have begun to emerge that have at least modest potential to contribute to contemporary territorial development. Most of these prescriptions work at the level of local organisation and capacity building rather than physical infrastructure or large scale corporate subsidy. Instead, such policy proposals emphasise increasing knowledge and competency across a spectrum of local actors, firms, organisations, and governmental units.

4. The new options offered by policies encouraging territorial competitiveness

Improving regional employment

One of the usual criticisms of regional policies is that they have a limited impact on employment, or at least that no empirical evidence is available on the matter. This questionable success, for example, in the case of the EU structural funds policy, has almost everywhere led to redefinition of regional programmes and regional aid. In particular, it is increasingly recognised that further action is needed in addition to macroeconomic procedures and structural reform if unemployment is to be cut in less

developed or outlying regions. Considered as a major source of employment, local development forms the cornerstone of these new policies. Three components are essential:

1 *Creating a more favourable environment for SMEs.* The attention paid by government authorities in small businesses is easily explained. First, SMEs suffer recognised handicaps that reduce their economic competitiveness and justify public intervention: high cost of bank credit, difficult access to public programmes and to knowledge and relatively high fixed cost. Second, they are major job creators, particularly in the case of fast growing companies[33] (gazelles), since unlike large businesses they tend to be more labour than capital intensive. Third, small businesses are over-represented in the lagging areas. Fourth, the presence of dense networks of small specialised companies very much increases the odds on territories attracting outside investors looking for efficient subcontractors and seeking to outsource their subsidiary operations.

2 The purpose here is not to increase the number of sectoral programmes aimed at small businesses. Most countries are in fact oversupplied in this field.[34] The point is rather to territorialise procedures to make them more efficient. It is recognised, for example, that regional mutual guarantee systems (such as those in the German *Länder*) are the best equipped to assess the risks entailed in local projects as a result of their good knowledge of the local situation. Similarly, the technological needs of SMEs (such as information requirements, certification, or technology transfer) are often better evaluated through national or regional territorial policies than through centralised sector policies, particularly if the small businesses themselves participate in management of the bodies responsible for implementing such policies. The success of specialised agencies such as ERVET in Emilia Romagna in Italy, or regional technical centres for specific sectors such as Impiva in Spain, are proof of this. Lastly, SME management problems are more amenable to solution by the local private sector. Thus the Flemish government in Belgium is funding sponsorship of small firms by managers of large businesses located in the area concerned on the basis of specific projects.

3 *Encouraging creation of businesses.* As shown by the TDS Thematic Review on Entrepreneurship,[35] business structures vary considerably from region to region as a result of differences in population make-up, wealth, local occupational skills and other factors. To some extent, the regionalisation of entrepreneurship may reflect business agglomeration phenomena. Clusters of businesses create bigger markets for specialised workforces and intermediate products and produce spin-offs by way of information. Experience shows, however, that in most regions local and regional authorities can help to stimulate entrepreneurial spirit, notably in places affected by factory closures and restructuring. Programmes targeting specific factors such as social capital, institutional frameworks, and local networks appear to be determining factors in creating a favourable environment for entrepreneurial spirit. Medium-term strategies to develop this type of programme and to introduce a series of measures on the lines of the entrepreneurial strategy of Atlantic Canada[36] are examples of good practice.

4 *Consolidating and improving local infrastructure.* Setting up businesses in less developed regions is conditioned in part by the existence of quality infrastructure and services. In some countries, satisfactory public services are guaranteed because of the principle of equal access by all citizens to public services (universal services). Where such a principle does not apply, it is more difficult to attract or keep individuals and companies in peripheral areas, particularly where mobility is encouraged to help reduce strains on labour markets. Regional policies, notably European policy, continue to make catching up on infrastructure a major thrust. However, emphasis is increasingly being placed on soft infrastructure (*e.g.*, training, technical centres, incubators, etc.). The major effort made by Ireland[37] in this respect has probably not been unconnected with its current performance. It is still true that such investment needs to be subjected to rigorous cost-benefit analysis since too large-scale an effort may prove to be not only ineffective in preventing migration of jobs and individuals but in particular may also be extremely costly.

Making the most of globalisation

Globalisation does not mean creating uniformity. It is, on the planetary scale and within the framework of free-trade areas, a positive sum game and a vehicle for the creation of new international networks and a new sharing-out of industrial sectors and services. Even where agglomeration or even urbanisation is of greater benefit for regions with diversified economic structures and a high capacity for innovation, all

regions can derive advantage from greater internationalisation of their activities. Governments are therefore increasing their efforts to facilitate access by territories to new growth and job opportunities and to strengthen their capacity to cope with new competitors.

One of the first effects of globalisation has been to facilitate moves to locate/relocate and outsource companies. The territories concerned thus gain greater room to implement strategies for *externally*-led growth. The challenge facing local and regional authorities is therefore 1) to attract mobile capital and further 2) to tie them to the target regions.

1 Experience has shown that although foreign direct investment (FDI) often targets the most dynamic regions, notably highly urbanised areas, part of this flow can also be directed towards peripheral areas. In the United Kingdom — and to a lesser extent in Canada — aggressive marketing by the central government and by regional agencies, competitive tax regimes and flexible labour markets have in recent years enabled less advanced areas to attract a greater level of FDI than their contribution to national GDP.

2 At the regional level there is a risk that incoming production facilities will adhere to a vertical integration pattern and contribute little to the establishment of a competitive regional environment, with the new products being developed in design units frequently located in the country of origin. It is therefore important that policies for attracting FDI should be selective in order to reduce volatility of outside investment and increase its multiplying effect on regional economic activity. Large international businesses are a major potential source of technical skills and may offer outlets for locally-generated innovations. It is crucial that they should be able to forge links with local businesses and that regional decision-makers should facilitate their contacts with local suppliers and subcontractors.

Globalisation also increases competition among businesses and regions and serves as a permanent testing ground of their comparative advantages. Regional and local authorities are therefore faced with a second challenge: to know how to strengthen and enhance their *locally-generated* competitive potential. Attention in this field is increasingly being directed to networks and clusters of businesses. Many studies have shown the formation of clusters of businesses with related activities to be a feature of many sectors, including "footloose" sectors (such as information processing), and is a major source of competitive activity in regions. Such local concentrations, whether taking the form of industrial districts in traditional sectors (Northern Italy, Vendée in France, the Eastern and Southern United States, California (wine production), the Valencia region in Spain, Southern Norway) or advanced technology (Silicon Valley, Silicon Alley, the North Carolina Triangle, Austin, Silicon Glen, South-Western Paris) are characterised by high investment propensities, low transaction costs, and levels of productivity and real wages above the sectoral average. As the OECD Territorial Development Service (TDS) work (OECD, 1996*a*) shows, these clusters in general demonstrate remarkable resilience and capacity for expansion when faced with new international competitors. Provided political authorities are careful how they encourage cluster creation[38] (through public infrastructure projects such as technopoles, science parks, or specialised centres), they will find that favourable institutional conditions go a long way toward promoting the blossoming of latent clusters and the consolidation of existing networks.[39] Measures in view are: promoting the establishment of producers' associations, facilitating contacts between cluster members and training institutions and distributing information on business groupings to business circles and employers' federations. Programmes along these lines have been launched in some countries (*e.g.*, in France and in Norway to enhance R&D in traditional clusters — the REGINN programme). Central administrations, however, are frequently still relatively unaware of the development opportunities offered by strategies to promote business clusters (the issue is often considered as one of local or minor importance). The OECD organised a conference in 2000 in Bologna, Italy, on these issues.

In non-metro areas, local urban centres are often a hub for such clusters and systems of small firms around which regional diversification and consolidation of comparative advantages can take place. The increasing significance of small towns stems largely from their ability to link rural producers with wider regional, national, and global markets and thus potentially support a more competitive enterprise base. Small towns are therefore increasingly not only centres of service provision for the rural hinterland but can and should also have strongly outward-looking functions. While bottom-up initiatives and co-operation between local governments are critical to build networks of small urban centres in order to overcome the lack of critical mass, central government has also an important role to play as a designer of frame-

works for spatial planning concerning infrastructure and services and as a source of strategic information and advice for sub-national levels.

Territorialising sustainable development policies

Harmonising regional socio-economic development and environmental protection poses complex and global questions with which countries deal by means of general measures, such as making prior impact analysis mandatory for many public programmes and applying the procedure to all government initiatives, as in Canada. Public authorities can issue regulations and apply active sectoral policies in the case of economic activities harmful to the environment. They may also use tax regimes or economic instruments to facilitate the internalisation of social and environmental costs of economic development.

Many questions relating to sustainable development have a strong territorial component. For example, should preference be given to compact towns in order to save energy and natural resources or should urban development be allowed to spread out in the interests of the well-being of local inhabitants? Should efforts be made to reduce the mobility of individuals and goods and thus penalise outlying regions or should transport infrastructures be improved to ensure access to development at the risk of harm to the biosphere? Lastly, should businesses be allowed to cluster together and perhaps exceed the ecological optimum for implantation areas or should they be urged to spread out at the risk of affecting their competitiveness?

Generally speaking, there is no single national response to such questions. Centralised states can of course lay down guidelines (such as the polycentric concepts of spatial and urban development in the EU under the European Spatial Development Perspective[40] (ESDP) (see European Commission, 1999) or that of multi-axial structure in Japan) or frame comprehensive schemes to co-ordinate major telecommunications, transport, hydrological equipment or waste management programmes. However, decisions are principally taken on a case-by-case basis. Space management is increasingly becoming the business of regions and local authorities. Many regions are now drawing up environmental plans (*e.g.*, the autonomous communities in Spain, SEQ 2001 in South Eastern Queensland), as have big cities (such as Madrid 21 for the Spanish capital). Many such plans are based on joint action by local players and enable regional consensus to be achieved in line with national frameworks (county plans in Norway, round tables on the environment and the economy in Canada).

The role of local and regional bodies is becoming more important in three particular areas:

1 *Infrastructure*. Local communities are increasingly acquiring new powers with regard to the environment. Environmental evaluation of infrastructure projects is increasing their awareness of such matters, notably with the extension of public consultation procedures (Canada, Northern European countries). Lastly, local communities in OECD countries now decide and implement from 60 per cent to 90 per cent of civil public investment expenditure.

2 *Social cohesion.* Even where social transfers are initiated at higher levels, local government is increasingly involved in the fight against poverty, the protection of socially disadvantaged groups, and access to housing. Bottom-up initiatives, social economics, dialogue with and participation by the general public, and encouragement of human development are all qualitative and innovative measures capable of revitalising the approach to matters such as social exclusion and disintegration (the definition of Empowerment Zone/Enterprise Community or EZ/EC areas[41] in the United States is an example of support for such actions).

3 *Management of environmental resources.* Amenities - in particular rural amenities - can be a real source of economic development. However, the fact that they are public or semi-public goods makes their marketing difficult. As TDS work (OECD, 1999) shows, regional and local levels can play a major role in facilitating a good level of resource allocation and promoting co-ordination between suppliers and consumers (the French regional nature parks are an example).

Developing partnerships and multi-governance

It is tempting, on the basis of these results, to recommend almost universal restriction of central functions and the complete decentralisation of most public responsibilities and services in the interests of achieving greater efficiency, increased democracy, greater participation in civil society, and better moni-

toring by the individual citizen of the use made of his taxes. Experience in Member countries has shown that care is needed in this area, not only because sub-national levels are not necessarily prepared or trained to accomplish these new tasks but also, as noted above, because for economic or even cultural and political reasons not all government functions can be decentralised. Furthermore, many studies have shown that augmenting the number of levels of responsibility may prove costly. Some countries have even reduced such levels.

In federal as in unitary states, the lowest tiers of governments are increasingly being invested with new mandates and are having to cope with a multiplicity of issues spanning a variety of geographical areas. For example, environmental problems involve ecosystems, unemployment affects employment areas, and industrial concentrations spread out to the suburbs. Increasingly, these different areas cut across separate administrative entities, thus calling for new governance frameworks and new forms of co-ordination between public entities and of co-operation with the private sector.

In this context, recourse to vertical partnerships[42] (between different levels of government), horizontal partnerships (for the same type of administrative area), or partnerships with the private sector often provides innovative policy responses. Partnerships make it possible to exploit potential synergies. They are an effective corrective for deficiencies in systems of governance, and a means of attaining critical mass and overcoming contradictions in territorial strategies. In particular, they embody flexible formulas well adapted to the complex and multi-sectoral nature of rural development, to managing the interface between town and country and to ensuring co-operation between the Central State and the regions.

Some countries make more use than others of such partnership formulas. In general, the most decentralised nations (*e.g.*, the United States and Canada) seem to have done most in this area. This is not, however, a regular rule and some unitary countries such as the Netherlands and the United Kingdom have long had a tradition of collaboration between public and private sectors in the design, application, and evaluation of territorial policies.

An OECD study on local partnerships in Ireland (OECD, 1996*b*) has shown that partnerships in that country have served as springboards for local government to play a more active part in the process of change in the economy and in society. In this way, local players have not only been empowered to play a greater part in the development of their own areas but have also been able to influence national policy trends, since the lessons learned from local experience are communicated to central levels as part of the feedback process.

When different partners in different territories are pursuing different aims, or when their methods of work diverge, conflicts of interest may emerge. Partnerships, therefore, have to be flexible as well as clear about aims and methods and the assignment of functions and responsibilities. A number of countries are starting to establish contractual procedures, such as in the area of vertical partnerships, in order to make such procedures more effective. Efforts are being made to include in such contracts concepts such as performance, regular evaluation reporting, and general accountability.

Two examples can be given of good frameworks introduced to facilitate development of partnerships in two countries with very different governance structures: *a)* the first relates to the implementation of rural partnerships in the United States and *b)* the second concerns the development of bottom-up initiatives in the context of new territorial areas (called "countries") in France:

1 National Rural Development Partnership (NRDP)[43] in the United States has, since 1990, been co-ordinating rural programmes and acting as an intermediary between the players and institutions involved in rural development. The aim of the NRDP is to promote partnerships between agencies and their departments and with the private sector in order to facilitate grassroots approaches to development in conjunction with financial support and expertise from government bodies. The two pillars of the system are the State Rural Development Councils (SRDCs) whose purpose is to frame strategies and respond to rural needs, and the National Rural Development Council (NRDC), which provides advice and expertise to SRDCs.[44]

2 In France, the 1995 Act provided an opportunity for agglomerations of municipalities sharing the same local identity to propose a new area development plan. Such a plan, if approved, would give access to funding for various projects (associated with entrepreneurship, training, environmental protection or habitat improvement). This flexible system, which is not a new administrative level,

makes it possible to promote urban/rural co-operation at community level. It has been very successful (250 requests have been registered, although the central administration initially had in mind some 40 pilot experiments).

Summary

With the new economic context prevailing in the coming years of the 21st century (characterised by new spatial patterns, greater regional and international trade, accelerated technological change, globalisation of firms strategies, and, at the government level the necessity to balance budgets) regional policies are confronted with major issues linked with:

— *Regional employment and job creation.* Despite the resumption in growth, the persistence of unemployment in many areas and its territorial concentration have increased the need for regional initiatives to supplement traditional labour policies.

— *Internationalisation of regional activities*. Economic globalisation has probably exacerbated territorial competition but also increased the potential of initiatives to develop the local and regional base and to link comparative advantages with human capital.

— *New demand emerging from citizens and the civic society for sustainable development.* Balanced regional development contributes to the upgrading of social capital, to enlarging opportunities for co-operation between communities, and to increasing wealth and the quality of community life.

— *Devolving competencies to lower level of government.* The increasing regionalisation of OECD economies is putting the focus on the need to introduce policy responses at sub-national levels.

Policies addressing these issues should be carefully designed. Past experience shows that a number of practices have been inefficient or have produced negative side-effects. For example, massive transfer policies led to market distortions. Mismanagement of large-scale infrastructure projects often reinforced polarisation on highly urbanised areas and accelerated the decline of intermediate areas having no access to the link. Investments in intangible and training services that can improve the employability of the workforce have been overlooked. Top-down governance systems have stifled local and regional initiatives. In a nutshell, intensive redistribution between wealthy and lagging regions has often not helped the latter and subsidies to firms — whether high-tech or not — have not done better.

Governments are now moving away from such approaches. As territories have fragmented, the goals, targets, and prospects of regional policies are also changing. National authorities are much less concerned with systematically reducing gaps in wealth and employment between regions. Their efforts are instead directed increasingly to assisting each region to identify and achieve its own development potential. It is now recognised that no single model of development exists but that there is instead a wide variety of paths to growth.

As a result, policies are increasingly framed as policy mixes adapted to the needs and opportunities offered by territories. This is, however, no easy task. Not only must appropriate locally-conceived development strategies be introduced (promoting SMEs, business enterprise, infrastructure, and resource management) together with policies for attracting foreign investment, but major contingent factors also have to be taken into account such as *(i)* the knowledge-based society, *(ii)* the expansion of the "new economy," *(iii)* the need for enhanced quality of life, and *(iv)* the development of local and institutional co-operation, notably between urban and adjacent rural areas.

Policy-makers are now persuaded of the importance of the investment they must and should make in training, the continuing acquisition of new knowledge, and the development of the ability of communities to think for themselves (to enable them to understand themselves better and improve their performance level). Good policies can improve regional social capital, reduce mismatch between supply and demand of skilled labour, and create unprecedented conditions for development. The challenge is for sub-national bodies to make their territories into learning regions.

Those in authority are also aware of the opportunities available to regions taking advantage of information technology. For regions where development is hampered by high transport costs, communication-based networks can help to overcome handicaps caused by a lack of critical mass. Almost everywhere, new prospects are opening in the area of specialised services, call centres, electronic shopping,

software, and recreational activities. It is crucial that such opportunities be seized; regional policies should facilitate the process.

1 There has been an increasing concern recently in the OECD countries over a perceived weakening of social cohesion, linked, it has been argued, to processes of globalisation and economic restructuring. People living in certain areas of major cities, as well as in some rural areas, appear to have become isolated from the structure of opportunities provided by institutions and markets. To combat these trends that are disproportionately affecting particular areas, governments are searching for effective regional policies. They recognise the need for active welfare policies without creating dependence and alienation. They are also more and more concerned with quality-of-life issues (*e.g.*, access to and quality of health, education and transport services, availability of green spaces and quality of environment, security) and their impact on the well-being of neighbourhoods and communities.

2 An emerging role for the central government is to provide frameworks for partnerships and decentralised programme management and design. Horizontal partnerships are helping to avoid undue competition among them and ensure that common macro-regional concerns are addressed. In particular, such partnerships can be instrumental in enhancing interaction and improving co-ordination between metropolitan areas and (neighbouring) rural areas. The challenge here is not only to promote balanced territorial growth (smart growth) and to control peripheral urban development and the expansion of towns, for example, into coastal areas. It is also to manage urban employment more effectively, taking migration from the primary sector and transfers with neighbouring peri-urban areas into account.

Conclusions

Regional development policy experiments of the post war era drew upon models of economic growth that were inappropriately scaled to the development problems of the day. Concomitantly, many development efforts failed because they were based on the extant circumstances of specific locations, with little consideration for the complex and poorly understood means required to foster integrated regional development in very different places. Early policies lacked sensitivity to the meaning and value of locality. There was a general disregard for the importance of non-pecuniary assets such as institutional norms and conventions, organisational and social competencies, and cultural aspirations.

Nonetheless, retrospectively, certain policy interventions did achieve some measure of success, but few if any were effective in dramatically reducing long-standing regional disparities or in diminishing the tendency toward uneven development. Virtually none have eliminated pockets of deep-seated poverty. Was it theory or policy that failed? To some extent it was a bit of both. Theory was insensitive to spatial scales and often misapplied; and policy was poorly configured to contend with the weakly understood and contingent nature of development.

Challenges facing current territorial development dwarf those of the post war era. The rapidity with which change is occurring often overwhelness familiar categories and concept. Economies are open and thus subject to outside influences in ways that are unprecedented. The ever-present role of multinational corporations in daily economic life raises significant questions about the effect localities can have over the direction of their economies. National governments have increasingly fewer effective controls over their spatial borders. Competition among regions of essentially similar factor endowments is a given. Infrastructure investment requirements to be an equal player in the "new" economy are as large as any experienced at the dawn of telephony; in many cases a literal re-wiring of an entire nation's telecommunications capabilities is required in order to effectively compete. Remote places will surely be left behind unless concerted actions are taken to assure they are given access. In the end, intangible assets and competency-based advantages will be one of the few means of distinguishing localities one from another.

Clearly, many regions are coping with change, and in some instances they are thriving in this new "mach speed" environment. Places that appear most effective in leveraging the unique combination of exogenous stimulants and their own endogenous assets are those that demonstrate high degrees of intra-regional co-operation among all relevant actors. It is increasingly obvious from the examples cited in this paper that localities within a region are ill-advised to "go it alone." The resources and competen-

cies required to succeed in today's fast-paced world are simply too large for individual sub-regional localities to manifest or afford.

Theoretical insights about processes of regional development of the last 30 years help us understand what has already happened, but offer only hints, in many cases mere guesses, about what is yet to come. For example, it is easy to see that export-led development can lead to regional economic growth; however, this perspective alone is unable to suggest how or when development will occur. In fact, increasing economic volatility in the external environment requires that territorially based development schemes must build local resiliency rather than simply creating bursts of short-term investment and job growth.

Lessons from the Asian and Mexican financial crises of the late 1990s clearly suggest that development from within is as important as the growth of external economic relations if territorial units are to control facets of their futures. The vulnerability of these economies came from their dependence on external markets, their lack of effective governmental regulatory institutions, their insufficient internal economies of scale and lack of untraded interdependencies, their failure to account for extreme differences in economic well-being, and their role as production enclaves. In other words, their fates were subject to the whims of an increasingly global economy.

Are regional economies becoming more like national economies? We do not traditionally think of regions as being subject to short-term capital flows or speculative investment schemes; but we do think of them as production enclaves often lacking sufficient regulatory regimes to combat swings in investment. Increasing openness means economic agents are able to move production and services employment from region to region depending on rates of return traditionally tied to differences in factor costs or in response to substantial government subsidies. Now the search also is on for competencies that distinguish places one from another. The glue binding such flows to a place is the stock, value, and meaning of local tangible and intangible assets. Thus the goal of regions must be to turn flows of investment into permanent stocks that represent long-term commitments. In order to diminish regional vulnerability to the effects of increasing economic volatility, policies must focus on local asset creation and management and on enhancing locally based competencies. These are increasingly recognisable advantages in a globalising world.

Implications for policy

Empirical evidence shows that these tailor-made policies are based on core regional policies highly related to the type of region concerned. In the case of non metro regions, OECD work has pointed out the need to design policies that combine economic, social, and environmental goals, unlock local resources, and identify comparative advantages.

In predominantly rural areas, emphasis is to be placed on:

— rural amenity policies which develop local consensus, establish conditions for a more significant contribution to rural economic development by public amenity goods, and provide incentives which stimulate amenity provision through market mechanisms;

— policies to diversify the economic base through niche market production and labelling, in order to link niche products with the historical/cultural image of the local area; and

— policies to enhance the economic potential of small and medium-sized towns, to encourage them to specialise and to foster the creation of networks within the framework of a spatial-functional division of labour, information, services and infrastructures.

In the case of large cities and urbanised regions, main issues include urban regeneration, socio-spatial fracture (a growing factor of tension in many big cities), depletion of social capital, and environmental deterioration. Policy responses, whether at the national or sub-national level, are increasingly biased towards area-based solutions, which attempt to integrate different parts of the city into the wider metropolitan region. Strategic approaches to attract business and encourage entrepreneurship are becoming more popular. Almost everywhere, synchronisation between economic development and environmental protection is rising higher on policy agenda of urban regions.

NOTES

26. In France, most workers are now employed in non-metro areas.

27. The typology urban-intermediate-rural is based on evaluation of regional population density: a rural region is defined as having more than 50% of its population living in rural communities (*i.e.*, in local areas having a population density of less than 150 inhabitants per km^2); intermediate areas are defined as having a rural population of between 15% and 50% and urban regions a rural population of less than 15%. According to this definition around 28% of total population of the OECD live in predominantly rural areas, 32% in intermediate regions, and 40% in urban regions.

28. The *OECD Jobs Strategy* can be summed-up with the ten following planks: set macroeconomic policies to encourage sustainable growth, enhance the creation and diffusion of technologies, increase the flexibility of working times, nurture an entrepreneurial climate, make wage and labour costs more flexible, reform employment security provisions, strengthen the emphasis on active labour market flexibility, improve labour force skills, reform unemployment, and related benefits systems, and enhance product market competition.

29. This kind of unprecedented regional intervention was abandoned in 1995 and the relevant (European) funds are now disbursed by various ministries following "usual" procedures.

30. Per capita income declined relative to the Centre and North. Production is also down and unemployment at the end of the period was almost five times the figure for the northern part of the country.

31. E.g., in Silesia.

32. This form of industrial development draws upon a very long history of investigations into the development of industrialisation in Central Italy. Beginning with Arnaldo Bagnasco (1988) who, from a sociological perspective, argued that an understanding of the development of the Third Italy rested on an unusual set of historically constructed attributes of place. In no preferred order, he identified the importance of a vibrant, culturally-based context of co-operation and institutional association, a strong political tradition based on the belief in and programmatic emphasis on "good government," the creation of infrastructure to support locally based industrialisation, and a decentralised system of agriculture. This short listing of attributes underplays the complex set of interactions initially identified as ingredients leading to the formation of the early industrial districts. Other authors such as Sebastiano Brusco (1992) provided further elaborations of this model of development. Brusco emphasised the importance of non-conventional services in support of the industrial district firms. In sum, the investigations of Italian post-war development highlighted the existence of a new industrial form based around a highly articulated and interwoven industrial and social process built on a cultural history of co-operation and sophisticated political organisation.

33. They provide 70% of new jobs in the United States.

34. A study shows that some years ago the state of Wisconsin had 400 different business programmes providing 700 different types of services while the business sector remained relatively unaware of these opportunities.

35. Published as *Fostering Entrepreneurship, the OECD Jobs Strategy*, 1998.

36. Its special feature is a two-pronged approach — through the media (advocacy campaigns) and the educational system (insertion of specific programmes in pre-university education to enhance the image of the role and work of the entrepreneur). See Atlantic Canada Opportunities Agency & OECD, 1996.

37. Close to 37% of community expenditure on Ireland has been spent on human resources, a figure maintained throughout the period 1994-1999. This compares to 27% in other countries with access to the Cohesion Fund (Spain, Portugal and Greece).

38. See the proceeding of the OECD/TDS Modena conference to be published soon under the following title: *Innovation and Territory: Upgrading Knowledge and Diffusing Technology in a Regional Context*.

39. See the success of the Finnish centres of expertise in several regions including very remote ones such as Oulou.

40. The ESDP is a framework intended to promote economic and social cohesion in the European area. It set three priorities: urban polycentrism and the initiation of new relationships between town and country; equal access to infrastructure and knowledge; and careful management of the natural and cultural heritage.

41. EZ/EC is a public/private partnership framework created by a presidential initiative voted by Congress in 1993. Its objective is to empower rural and metropolitan communities and their residents to create self-sustaining, long-term economic development in distressed areas. The framework of the EZ/EC programme is embodied in four principles: economic opportunity, including job creation, entrepreneurial initiatives, small business expansion, and job training; sustainable community development; broad community-based partnerships and the development of a strategic vision which identifies what the community will become, and a strategic map for revitalisation.

42. According to the OECD definition (OECD, 1990), partnerships are systems of formalised co-operation, grounded in legally-binding arrangements or informal understandings, co-operative working relationships, and mutually-adopted plans among a number of institutions. They involve agreements on policy and programme objectives and the sharing of responsibility, resources, risks, and benefits over a specified period of time.

43. Launched in 1990 as part of a Presidential initiative.

44. SRDCs are made up of representatives of local government, the states, the courts, the federal authorities, and the private sector. The NRDC is a similar body composed of senior specialist officials from various ministerial departments and public interest groups.

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Chapter 6

POLICIES FOR SOCIAL DEVELOPMENT

Introduction

The dissociation over the past twenty years of the dynamics for economic growth and for reducing spatial and social disparities, against a background of deregulation and greater emphasis on market mechanisms, has resulted in an expansion of social and territorial policy measures. In the United Kingdom, for example, in the 1980s, the policy of reducing the tax burden and cutting public expenditure did not prevent record growth (in relation to other European countries) in the volume of social expenditure as a proportion of GDP.

Most OECD Member countries have had to tackle a situation that is novel in several respects.

Poverty — which had substantially diminished since the Second World War — is again rising and now concerns people who are not working, whereas throughout the past it had concerned people in work. Without major publicly funded intervention, poverty as measured in the United States had declined from 34 per cent of the population in 1940 to 15 per cent in 1960 and 11 per cent in 1970. Since then, and despite social expenditure doubling as a proportion of GDP (rather than the frequently claimed "withdrawal" of government), poverty has ceased to decline. May this suggest that the effectiveness of social policy has sharply diminished or reached its limits (Brooks, 1993).

Another novel feature is that the new groups of poor are geographically different. Earlier mostly the lot of rural areas, poverty is now vested in some socially specialised city districts. The social specialisation of urban districts, and the massive scale of problems there, both tend to produce negative externalities of their own, underpinning a new urban culture that is largely self-sustaining, marginal and frequently criminal. In this respect, and as Brooks (1993) noted, we have a "poverty paradox", inasmuch as poverty today involves groups who are dissociated from the dominant economic and social lifestyle without being systematically poor in monetary terms, differences in ways of life being more to the fore than differences in income.

The growing divide between a constantly evolving globalised productive system, on the one hand, to which access is increasingly closed to poorly skilled workers, and on the other hand the emergence of a highly agglomerating "poverty culture" in the cities of industrial countries is helping to substitute "dissociated segregation" for the "associated segregation" these cities had known in the past (Damette, 1990). Whereas previously rich and poor had rubbed shoulders and contributed to the same productive system, today a significant proportion of poverty is to be found among poor groups outside the world of work, living close to areas of production but not associated with the system.

Solidarity, often viewed simply as monetary redistribution, could more accurately be defined as the outcome of groups living together in complementary fashion, in other words in unequal circumstances (Estèbe, 1999). Public policy in the past had to help channel or accelerate a dynamic of social development rooted in conflict and private occupational relations. The inequality of those working together was the driving force, for process and for outcome, behind solidarity and cohesion. The poverty of the groups and areas engaged in production was the chief factor in their development, because to some extent poverty was a comparative advantage (hence, for instance, the rapid economic catch-up of the poorest regions in all industrial countries). Today poverty is no longer a comparative advantage, at whatever scale, in the advanced countries. Development, which used to go towards underdevelopment, now tends to go towards development, hence the breakdown of the solidarity system of earlier years.

With dissociated segregation, which is the outcome of a complete breakdown of the engine driving economic development and social development together, governments have to build a new type of solidarity, now steered by public policy. This is something new, meaning that deregulation, expansion of the market and globalisation have largely shifted poverty management from the sphere of private dealings to that of government responsibility.

Behind what at first sight seems a quantitative increase in spatial and social problems, we are actually witnessing a kind of structural turnaround: the driving force for cohesion, earlier the private interactions between unequal partners, is now public policy directed towards restoring equality among agents. Moreover this issue, posed largely in social terms in the post-war period, should now be tackled at local level, because that is where it finds expression. The pursuit of equity and social justice is now coming to be described, *albeit* confusedly, in terms of equity and spatial justice.

Most OECD countries, for instance, have introduced a panoply of instruments to intervene in support of the most disadvantaged areas. Cohesion now stands in the first rank of policy aims, and the European Union for instance has placed it, alongside economic integration and monetary unification, among its three major objectives. And cohesion is now viewed in spatial rather than social terms, as can be seen in the First Report on Cohesion (EC, 1996), which bluntly assimilates cohesion with balanced territorial development.

These changes have occurred under the impetus of necessity and urgency, with practice often ahead of theory or providing theoretical justification after the event. It may be asked — and that is the purpose of this paper — what are the relations between social policy and territorial development, how the territorial approach can secure more effective action to promote overall cohesion and improve performance in our societies, in short what are the reasons underpinning government intervention to support the development of disadvantaged areas.

The conceptual distinction between spatial problems and social problems, often poorly drawn, makes the foundation for territorial intervention harder to identify. The theoretical approaches that can be used are often formulated in social rather than spatial terms. Switching from analysis of a social dimension to analysis of a spatial dimension is often a conceptual change, however, rather than simply a change in the focus of a theory, inasmuch as spatial inequalities and the ways they develop differ in nature from social inequalities.

There is no general body of theory addressing these issues, but a range of theoretical and regulatory approaches that overlap but do not exactly match them. In turn we may review various lines of thought which underpin territorial policy, resting on the economics of "maintaining" disadvantaged areas, contemporary theories of justice, reducing the negative externalities of urbanisation, fiscal redistribution or macroeconomic policy. While these various approaches are complementary rather than antagonistic, and are often couched in abstract terms providing no precise guidance for tangible operations, they can provide some clarification about the rational nature of territorial policy which far too often is analysed solely from an emotional or political standpoint.

1. Social, spatial and socio-spatial inequality

There has been much economic and philosophical writing about social justice, but little about "spatial justice". Is an area a special target of corrective policy, like an agent, or is it simply a geographical unit for handling social and economic development problems? Do policies deal with people as spatially located, or the areas themselves? The answers to these questions are by no means clear. Looking at the practice of government services handling spatial policy, and at academic publications, reveals a degree of conceptual confusion over the status and nature of "territories". The general lack of distinction between spatial inequality indicators and socio-spatial inequality indicators, for example, is symptomatic.

The disparity indicators usually employed by government services or researchers, such as coefficients of variation (standard deviation from the mean) or Gini coefficients,[45] provide information, depending on whether they are population-weighted or not, about socio-spatial inequalities or spatial inequalities. When weighted, the indicator gives a guide to inequalities between groups located within a territory. It is then an indicator of interpersonal inequalities, measured on the basis of spatial data. When not weighted,

the indicator provides information about inequalities between territories, regarded as of equal importance. The territory is then treated as an agent. It is striking, for example, to note that the wealth of administrative documentation from the European Commission dealing with cohesion refers to disparities between EU regions by means of both weighted and non-weighted indicators, used one for the other and with no justification given. In France, INSEE is more explicit in stating that inter-regional disparities are to be addressed without weighting: the smallest region, Corsica, should count equally in calculations with Île-de-France, with some forty times more people.

Yet it is simple to demonstrate that, for one and the same territorial area, statistics can show an increase in socio-spatial disparities and a reduction in spatial disparities, or vice versa, depending on whether the inequality indicator is weighted or not. Apparently a point of pure methodology, this in fact stems from a conceptual, or ideological, option concerning the exercise of justice. Are areas being considered, or people? Are the population groups mobile or fixed, indissociably linked to the land?

The response is a political one. This has been observed in the past, in the differences in the basis of Member countries' regional policies. Some, such as the United Kingdom, have considered that people are what count, rather than territories, which are not economic agents. Accordingly, they have taken measures to assist geographical mobility, to encourage people in the most disadvantaged areas to move towards more dynamic ones (people-to-jobs policy). On this point we may note the ambiguous conceptual status of another regional indicator, the emigration rate. High movement out of an area is often regarded as the symptom of a problem, and hence as an indicator of eligibility for public intervention to promote territorial development. From the standpoint of economic analysis, on the other hand, residential migration is seen as a powerful regulator of regional disparities and national growth: inter-regional and inter-sectoral mobility fosters access to employment, productivity gains and hence national growth (one reason for the very high levels of growth today in the newly industrialising countries, as earlier in the advanced countries, is gains from the transfer of factors of production away from low-productivity sectors and areas towards high-productivity ones, rather than higher intra-sectoral productivity). Research (Oswald, 1997) has shown that factors inhibiting residential mobility (in particular home ownership or low-cost renting, and taxes on property transactions) restrict access to employment and are one of the main obstacles to economic development, hence warranting incentives for people to move rather than remedial intervention in their localities.

In a larger group of other countries, emphasis is on the area: abandonment is rejected (jobs-to-people policy). This is not a cultural or ideological approach, but rests on two considerations: *i*) a varying proportion of people in a seriously disadvantaged area are tied to that area, and *ii*) the public sector is hence bound to intervene, and the cost will be higher if intervention comes late. A report by the OECD Council's Working Party on Regional Policy sets out the arguments backing government action in disadvantaged areas (OECD, 1989).

2. The economics of territorial maintenance

A sort of model of spatial underdevelopment can be outlined to show that underdevelopment is not a linear trend but a cumulative mechanism that gathers speed as certain thresholds are passed. It is hard to specify and quantify these thresholds on a general basis, but their existence can quite easily be observed. In the abandonment of rural areas, below a given density threshold private and public services withdraw, speeding up depopulation. The baker's shop, post office, school and railway can each run only with so many users. Below that figure, the service can no longer be provided, and that in turn pushes the remaining inhabitants to leave. There is a chain sequence: one agent leaving the area closes down a service, which in turn leads other agents to leave, closing down other services, and so on. The mechanism is the same for business as for people. A firm needs customers in the area, but needs other firms too, particularly today with the disintegration of vertical production systems and the spread of subcontracting networks. The fewer businesses there are within an area, the fewer new ones will come in, and the present ones are more likely to move away.

In rural areas, deterioration of the social and economic fabric is largely quantitative, mainly via emigration. In towns and cities with serious social difficulties, the mechanism is qualitative. Particular population groups, skills and businesses leave. The growing mismatch between the tax base and the cost of

public services entails increasing taxes or cutting services, in either case simply making matters worse. These are snowballing mechanisms, very hard to reverse.

We could apply to these areas the calculations used to set optimum fishing catches or logging rates. For a given stock of fish, we can compute the volume that can be caught without affecting the stock's capacity to replenish itself. If some fishermen over-fish for personal profit and damage the stock, the whole group of fishermen suffers in the short term. In turn, to maintain their incomes, they too will over-fish the stock already depleted by the earlier over-fishing. Without regulatory intervention, the entire stock will quickly be wiped out, and fishing will cease to be a viable occupation.

The position is fairly similar in regions experiencing structural deterioration. When an agent decides to move out, he does so to increase his income. Especially when his departure brings the area down through a density threshold (population, skills, business, etc.), it will cause the remaining agents losses that far exceed the migrant's gain. His departure is a serious negative externality for the area. The economic balance of migrants' gains and others' losses will be negative. Accordingly, there is nothing economically abnormal in a regulatory authority intervening to offset forgone gains by would-be migrants, and thereby preventing the loss to the area. Especially so as it is frequently easier to keep an agent where he is than to draw in another one to take his place, given that, when the first leaves, the area's structure is impaired so that arithmetically the cost of attracting a new agent will be greater than the cost of keeping the original one. Cost studies of highway maintenance show that preventing deterioration is always less expensive than rectifying it. This is true of geographical and human entities as well.

Other arguments can also be put forward for intervention to prevent some areas reaching extreme stages of underdevelopment. There are political considerations (national solidarity). There are social considerations: even if it is accepted that complete abandonment will ultimately ensue, the social cost of the process may be very high (in particular the impact on the elderly, who are least mobile). Last, the environmental cost of rural abandonment or the social cost of severe deterioration in towns and cities (crime, drugs, and re-emergence of epidemic disease) is seen as too high by many governments, warranting public intervention in disadvantaged areas.

3. Social and spatial equity

Whatever the target — people or areas — and whether the context is regional underdevelopment or urban crisis, government responses may also be based on notions of equity and justice. While the theory of political economics is fairly clear on macroeconomic policy, the question of justice continues to be subtly debated among economists and philosophers. Whether taken in moral or purely economic terms, and set via individuals' explicit or implied preferences for more or less justice or by a neutral umpire, the question of socially desirable inequality as an objective of social justice is poorly defined in both theory and practice.

Inequality is an equivocal notion, hard to pin down and gauged by various kinds of indicators (coefficient of variation, Gini coefficient, interquantile deviation, etc.) which supply different measurements but all (in different ways) measure the deviation of a given distribution from a situation of equality. As inequality is equivocal when gauged between more than two agents, it is understandable that several methods of measurement should be proposed, all relevant even though frequently yielding contradictory findings. Equality has the advantage of being conceptually clear-cut and widely understood, hence the popularity it has enjoyed, in more or less absolute versions, in past political history.

Even so, as Atkinson (1970) had pointed out, equality is not a socially desirable objective: no society wants agents of different abilities, experience, age and responsibilities to be equally rewarded. As he suggests, it is hence appropriate to gauge the aggregate preference of a given population for a desired level of inequality, and compare the current position to the desired one in order to set the relevant perimeter for operations to counter inequality (Atkinson's disparity coefficient is a modified Gini coefficient, relating the concentration curve of the indicator examined to the desired inequality curve rather than the equality line). An indicator of this kind cannot be used, of course, since a position of socially desired inequality cannot be defined.

Among contemporary theories of justice, the theory of John Rawls (1971) is currently most widely accepted and seen as most capable of combining with economic theory. Rawls' normative theory seeks to

define the unjust or illegitimate inequalities that policymakers should attenuate, and presents a theoretical method for setting the preferable level of inequality in a society. Starting from a hypothetical original position, agents selfishly (and hence not altruistically, so providing the link with *homo oeconomicus*) define the type of society in which they would like to live, unaware of the respective positions that they would occupy there. All the features of this virtual society which are unanimously agreed are held to be "just". Rawls shows that the two principles which will emerge are *i*) on the freedom register, each individual has an equal right to the broadest set of basic freedoms compatible with the same set for others, and *ii*) on the justice register, inequalities are structured in such a way as to benefit the most disadvantaged and to make all positions open to all.

Rawls' influence on thinking on social justice has been significant, notably in the sphere of positive discrimination and in the theoretical underpinning for public action designed to restore principles of justice (in particular equal access to rights and social positions) for individuals deprived of them. But this analysis is not without its critics, in particular Rawls' postulate that agents adopt a maximum strategy, seeking to hold down the drawbacks of being in a highly disadvantaged position in a highly unequal society, which leads them to prefer a society where the absolute position of the poorest is best. This precautionary approach systematically favours the situation of the most disadvantaged, even preferring a system of distribution that is more beneficial to the most disadvantaged over one that maximises all individual utilities. In short, it is preferable to have a smaller cake, with larger shares for the most disadvantaged, rather than a larger cake in which they have smaller shares.

For Harsanyi (1955), in the hypothetical original position agents would take the principle of "sufficient reason", which would give another meaning to social justice: here, the random nature (veil of ignorance), by definition, of each person's assignment to a particular position in possible societies leads them to prefer the one where the mathematical expectation of gain is greatest for them, hence preferring that society where the sum of utilities is greatest. We thus revert to the classical framework of welfare economics (Bentham, Pareto), where the objective is the greatest happiness of the greatest number, or maximising collective welfare, independent of any consideration of justice or fair distribution of welfare. The definition of a "just" society introduced by Rawls, as can be seen, is a fragile one, vulnerable to changes in the hypothesis about agents' rationality and attitudes.

A further criticism has to do with the ambiguity of "poverty" or "most disadvantaged". According to Rawls, the system of "democratic equality" is based on the principle that any change in circumstances should not make the position of the most disadvantaged worse. Whether this means relatively or absolutely worse is still in fact unsettled. The development of our society will be regarded as just or unjust, in Rawlsian terms, depending on which standpoint is adopted. It is observed at present — whatever the scale — that inequality and (absolute) poverty are moving in opposite directions. The turbulence bringing successive periods of growth and slump affects high incomes, those most elastic in terms of the economic cycle, above all. During a period of expansion, the wealthiest households become richer more quickly and broaden their freedoms more quickly than the poorest households, who nonetheless enjoy the favourable consequences of growth; that means that during a period of growth inequality tends to increase at the same time as absolute poverty decreases. Conversely, in a period of recession inequality tends to decrease while poverty spreads. Growth is thus "just" and recession "unjust", in Rawlsian terms, if poverty is considered on an absolute basis (*e.g.*, the number of people living on welfare payments). On the other hand, if the assessment is based on inequality and relative poverty, recession becomes just in Rawlsian terms! The advanced countries, many of which have set poverty thresholds as a proportion of average or median income, have adopted a concept of relative poverty which embraces groups whose size varies in proportion to rises in the income of the wealthiest, not in relation to the absolute social circumstances of the poorest groups. In addition, while rises in the income of the wealthiest hold out new freedoms (such as Internet access today) open to them alone, income inequalities due to growth automatically generate "Rawlsian injustice" that recession is supposed to alleviate.

Economic growth, stemming from mechanisms described by writers such as Perroux (1955) and Schumpeter (1939), driven by particular sectors which develop faster than others, and involving a process of creative destruction, generates substantial inequality. Generally speaking, as Kuznets (1955) has observed in social terms and Williamson (1965) in spatial ones, inequality and growth are intimately linked, and are the two terms of a dilemma, notably in the early part of long production cycles. The poorest societies, such as Burkina Faso and Bangladesh, show levels of social and spatial inequality well below those in fast-growing countries such as Mexico and Morocco. Later on in the long period, private and

public linkages bring all of society into the growth generated by the drive sectors, and inequality is ultimately reduced (as was seen in the post-war years in the advanced countries): growth and inequality reduction are then associated. The new long cycle which seems to be opening up in the advanced countries, replacing the mechanised processing economy of the earlier hundred-year cycle by a "new" information economy is currently relaunching the growth-inequality tandem and the change-round in the later part of the cycle is not yet on the horizon. It is by no means sure that reference to Rawlsian justice "here and now", linking growth and inequality, would give satisfactory guidance to governments seeking to combat the most serious social problems of today while preparing for tomorrow's growth.

Moreover, apart from being highly abstract and hard to apply (since it is based on the disclosure of unanimous decisions[46] by agents who do not know what position they would hold in the society they are building), a theory of social justice is not easy to apply in spatial terms. Yet the literature is expanding the notion of social equity to include spatial equity.

Rawls' theory of justice introduces the concepts of legitimate and illegitimate inequality. The whole question is to determine how far agents are responsible, or not, for the positions in which they find themselves. Equality of opportunity should be established or restored only for matters for which individuals are not responsible. The practical point then is to define the borderline between what is considered as being, or not being, the responsibility of individuals. Territorial characteristics are clearly relevant here: does living in an underdeveloped area or a socially disadvantaged district of town, or among a higher or lower concentration of poor or excluded people, penalise individuals, placing them in positions of illegitimate inequality? This question, or rather the multitude of questions that flow from it, find few clear-cut responses, either in theoretical and empirical terms or from the standpoint of public policy.

American sociology, since the Chicago School, has been concerned with the impact of spatial factors on social trends and broadly considers that individuals with the same starting capital (family, social, economic and other circumstances) will not follow the same socio-economic route, depending on the areas where they live. Territorial features would thus appear to be positive or negative factors bearing on agents, independent of their own responsibility (at birth, at least). On the other hand European schools of urban sociology, drawing largely on Marxism, have long denied that space is an active factor in social breaklines, the whole social question lying within the register of social relations alone, of which territory is merely a reflection. But today the specific effects of territory, negative or positive, are being generally recognised. The economic theory of externalities, introduced by Marshall at the start of the 20th century, and identifying urbanisation economies due to non-market mechanisms and conducive to some levels of geographical factor concentration, is now enjoying a genuine renaissance. The new theories of economic geography, with writers such as Paul Krugman (1991), place urbanisation effects, and in particular the transaction cost economies that they can supply, at the heart of explanations for economic growth. Territory, its shape and management, is presented less as the outcome of macroeconomic mechanisms and more as one factor in economic growth that needs to be managed. The proposition that *"a healthy economy is our most powerful tool for revitalising our cities and improving their fiscal positions"* (The President's Urban Policy Report, 1982, cited by Wolman, 1986) could today be inverted: healthy urban economies are our most potent factor for developing the country's growth. The positive externalities linked to spatial concentration have much to do with the size of markets (for employment, sub-contractors, information, etc.), which operate more effectively when they are broad and fluid.

The same proposition can be formulated symmetrically for the negative externalities linked to poverty concentration. The territorial context of poverty, and its degree of concentration or mass nature, have effects of their own. The same families would not have the same destinies if they lived in a uniformly poor district, where poverty is a mass phenomenon, or in a more diverse area where it is scattered in parcels.

The Gautreaux programme run from 1976 onwards in Chicago is a significant experimental reference for identifying and measuring the effects of poverty concentration. The Chicago Housing Authority had been sued on grounds of racial discrimination, and the courts required it to fund the removal of poor families living in its run-down city-centre housing stock to private rental homes in white suburbs. Five thousand six hundred families, largely black single mothers with two or three children, were helped to leave the run-down urban district. The long-period evaluation by J.E. Rosenbaum, sociology professor at Northwestern University, shows that the educational, occupational and social itinerary of the family mem-

bers rehoused in the suburbs was far better than that of families who had remained in the city centre (Rosenbaum, 1996).[47]

In an approach derived from justice theory, government action for locally disadvantaged groups would thus appear to have two dimensions:

1. A purely social approach, designed to remedy social inequalities regarded as illegitimate, without distinguishing the spatial characteristics in which they form. For example, the mentally and physically handicapped should be assisted wherever they live, even in wealthy districts. This social approach clearly has spatial implications. It is the one to which the term of implicit territorial policies will be applied below.

2. A spatial approach that can be justified only if strictly targeted at those handicaps generated by certain types of spatial provision imposed on agents. One particularly eloquent example of territorially related inequality is that of the nuisances associated with transport infrastructure (roads, airports, railways, etc.). In economic terms, this usually means internalising the negative externalities flowing from spatial arrangements imposed on captive agents. These policies will be termed explicit territorial policies.

Territorial action may thus take two forms: the first covers the spatial effects of non-spatial policies, and the second consists of government action that explicitly discriminates between areas.

4. Implicit and explicit cohesion policies in the European Union

This reversal of the macroeconomic logic of redistribution applies to most of net contributor regions within Member countries, regardless of whether or not they are located in Europe. European regions, however, are a special case inasmuch as they are part of an economic and political union which has made territorial cohesion one of its primary objectives and which has implemented polices to promote the least developed regions or localities.

Most of the government funding for redistributive mechanisms applicable to areas within Europe derives from national budgets and only marginally from the Commission's budget which accounts for only slightly more than 1 per cent of the total GDP of the countries concerned, and yet the Commission is responsible for pursuing cohesion objectives that are couched in essentially inter-regional terms (EC, 1996). Achieving a social and spatial balance within the area it embraces has always been a long-standing goal of the European Union and is based on the idea that the economic and to a certain extent political integration of Europe is only possible if the component countries and regions are at a comparable stage of development. Europe refers to the type of society it intends to construct as a "market social economy". In pursuit of this doctrine, and also in response to pressure from certain Member States receiving only a small share of common agricultural policy subsidies, the budget for regional policy and European structural funds has risen sharply over the past twenty years. The Commission's intervention policy has undergone a number of changes recently with the introduction of the "Agenda 2000" programme, which sets out new rules regarding eligibility criteria for the allocation of regional development subsidies with the aim of reducing the size of the populations and territories assisted and of concentrating aid solely on those geographical areas experiencing the most difficulty, measured primarily in terms of per capita GDP (eligibility criteria) and rate of unemployment (allocation criteria).

This doctrine of concentrating European regional aid on the poorest areas (whose per capita GDP, measured in terms of purchasing power parity, is less than 75% of the Community average), because it solely addresses areas below an agreed poverty level, has been criticised (see Wishlade *et al.*, 1999) in that *i)* using GDP and unemployment as indicators of regional difficulties poses a number of conceptual and methodological problems which amply disqualify their use in defining eligibility for support and the level of subsidy required[48] and *ii)* such a strategy ignores the fact that these poor areas are part of differing national frameworks. The latter criticism is related to the problem described earlier with regard to the perverse effects of decentralised cohesion mechanisms. Europe, unlike the United States where federal funding accounts for a quarter of national GDP, is a highly decentralised political entity. Most cohesion policies in Europe are implemented through national redistributive policies whose impact varies from one country to another. Despite European regulations under which the poorest European countries are

assigned higher intervention ceilings than others, the limited budgets of such countries are such that the amount of regional aid that they are awarded for their regional policy is lower than that of richer countries with lower ceilings (Wishlade *et al.*, 1998). The richest regions in the least developed European countries are net contributors to their respective national budget, despite the fact that they are poorer than most of the net beneficiary regions in the richest European countries. The region of Barcelona, for example, has a per capita GDP or income which would qualify for massive redistributive transfers in a country like France or Italy[49] (Wishlade *et al.*, 1998 and Davezies, 1999), but heavily subsidises the development of the least developed regions in Spain and is too "wealthy" to benefit from European subsidies which are therefore assigned to the least productive regions in Europe. What we have here are the disadvantages arising from the perverse effects of the decentralisation of redistributive mechanisms described above.

The absence of a "federal" budget raises the issue of whether a different mechanism, under which support would be given to the more productive areas in the poorest countries, might not be a better way of stimulating economic convergence among European countries, while at the same time providing funds for redistribution at the national level among the regions in such countries, in that the level of transfers from rich to poorer regions obviously depends in the first instance on the development of wealthy regions. It might perhaps be pertinent to ask whether redirecting European support in this way might not yield better results in terms of both efficiency (that is to say the rate of return on investment in powerhouse regions) and cohesion (that is to say support or compensation for regions that are net contributors to less developed countries). In addition, inter-regional transfers of national origin do not provide funding for ad hoc development projects which still remain difficult to plan and assess, as we know to be the case with European funding, but for the continued provision of public services that ensure the basic conditions for economic and social development (education, roads, health, social aid, etc.) in less developed regions.

It can be shown, although it is harder to provide empirical evidence due to the lack of statistical data, that for a given redistributive system in a European country, there is a given level of inter-regional difference between the marginal productivity of one Euro of subside for regional development beyond which it would be preferable from the standpoint of national growth, European cohesion and also the income level of the poorest region to invest the aid in the wealthiest region in the country rather than the poorest. In short, the issue raised by these outcomes of European cohesion policy is whether, in the absence of a significant budget at European level, it would be better for European regional policy to provide aid exclusively for the least developed regions, with low productivity, in the poorest European countries, or whether it would be preferable, from the standpoint of overall growth, the convergence of European national economies and regional cohesion within Europe, to assist the wealthy regions driving the economy of those countries. This is obviously a highly topical issue at a time the Union is set to integrate new Member States from Eastern Europe whose development lags far behind that of existing Members.

5. Implicit territorial policies

Economic theory assigns three main tasks to government: *i*) the most efficient possible allocation of scarce resources, *ii*) stabilising macroeconomic action, and *iii*) income redistribution (Musgrave *et al.*, 1974). The three tasks can be pursued separately or together. Any allocative sectoral policy will have redistributive effects inasmuch as it is funded by fiscal levies on agents that are independent of the subsequent benefits to individual agents. Allocative mechanisms will have redistributive effects, positive or negative, which are rarely neutral in social or spatial terms. Redistribution — the difference between agents' contributions and their gains from government budgets — stems both from taxation (progressive or not) and from the social thrust of public spending.

Such redistribution transfers income from household to household, and also from area (considered as an aggregate of households) to area. There has been substantial research on the spatial redistributive effects of government budgets (*e.g.*, EC, 1996 and Catsambas, 1978). By and large, depending on the country and the disparity indicators employed, government budgets cut inter-regional inequalities in primary income or GDP by between 25 and 50 per cent. The particular feature of this mechanism, the main means of reducing spatial inequality, is that it is not driven by explicit spatial policies and is largely the implicit outcome of fiscal mechanisms and public spending decided on a-territorial grounds. As tax rates are set on social considerations alone, a progressive tax system applied to areas of uneven development

automatically implements a kind of implicit spatial progressiveness. The same applies on the spending side. The bulk of spending, and all government levies, do not serve territorial objectives as such, and are designed less to guide spatial trends than to treat individuals equitably.[50]

The spatial effects of budgetary mechanisms are extremely powerful, but are not always fully controlled, and the impact varies. For example, tax measures for housing or equalisation rules for central government grants to local authorities may have unwanted social or spatial effects, such as subsidising urban sprawl when the stated policy is to restrict it.

Government budgets are also strong automatic absorbers of economic shocks in particular areas (Asdrubali, Sorensen & Yosha, 1996). A reduction in a sector's value-added and employment is immediately mitigated by social provisions which come automatically into play (unemployment benefit and welfare payments, local government spending held steady despite lower tax revenue, etc.).

These automatic redistribution mechanisms differ in a number of ways from spatially discriminatory development projects funded by government. We are familiar with the difficulties that local and national actors (and European actors in the case of the European Union) have in devising, agreeing and implementing specific local development projects: one pointer is the delay, in several EU countries, in disbursing the structural funding allocated to them. Income redistribution via government funds transfers far greater amounts than those involved in explicitly territorial measures, without any time-consuming design and approval procedure, automatically each year for areas with structural difficulties, and immediately in the event of shocks. It has been calculated (Wishlade *et al*., 1998), for example, that the thirty wealthiest regions in seven large European countries[51] in 1993 transferred around 4 per cent of their GDP to less developed regions within their national borders: across the European Union, that represents around twenty times the funding explicitly supplied via EU regional policy.

These transfers are not made in support of a particular territorial development strategy. They rather represent the operation of mutual guarantees to keep levels of public services and standards of living even countrywide, independent of individual regions' capacity to generate wealth and contribute to government budgets. These implicit mechanisms may be seen as supporting a strategy to mutualise local risks over the long term and to maximise the comparative advantage of all the country's regions. In many advanced countries numerous regions which had traditionally been net contributors to government budgets are now net recipients. Areas that have experienced industrial shocks are today benefiting from mechanisms that they had earlier funded, and earlier transfers have helped newly emergent areas to develop a comparative advantage that has only now come to the fore. In the absence of a clear view of which comparative advantages, in the medium or long term, will determine the course of national and regional economic development, inter-regional redistribution via the government budget provides uniform public service coverage across the country and is a precautionary strategy ensuring that the country makes the best use of development opportunities that are today hard to predict in both functional and geographical terms. Conversely, if the larger advanced countries, over the 20th century, had invested in the regions in proportion to their revenue payments, with no redistribution at all, their overall level of economic development would be lower today and disparities between regions would be still greater.

All the same, automatic transfers from advanced to less developed regions do not necessarily reflect equality of treatment by government. As in Mexico (OECD, 1997) and other OECD countries, public financial solidarity between agents and regions, bringing them closer to equality without fully achieving it, may sometimes be the outcome of unequal taxation and unequal spending to the detriment of the poorest![52] There is accordingly a substantial conceptual difference between redistribution (or fiscal solidarity) and equality or indeed positive discrimination, which will be tackled further on.

6. Perverse effects of local redistribution

Public finance theory indicates the level at which each budgeting function can or should be performed. Unlike allocation, whose objectives can best be achieved via policy applied at local or regional level, redistribution must be performed at the highest level of government, *i.e*., countrywide. This is because redistributive mechanisms applied at sub-national levels produce unwanted effects running directly counter to the aims of redistribution. Uneven development across the country means that, with decentralised redistribution mechanisms, people in a similar position may, after local taxation and public spending, be situated differently

depending on where they live. People in a given income bracket will be considered wealthy in a poor area or poor in a wealthy area, and hence in one case be a net contributor and in the other a net beneficiary of local redistribution. This unjust situation is unsatisfactory in itself, but may have other adverse consequences too when, given the scope for mobility between areas or regions, net contributors move away to other places where the fiscal outcome is more advantageous to them. Fiscal solidarity at local level may also increase spatial disparities, as the poorer areas see a significant proportion of their tax base move away. This perverse effect of local redistributive policy may be further accentuated by democratic processes where a majority of poor local voters press elected officers to increase benefits to them, funded by their "wealthier" fellows, the outcome being *i)* a faster outflow of net contributors and a decline in the tax base, and *ii)* local social policy taking priority over structural development policy.

The consequent need to restrict[53] local tax solidarity policy is frequently misunderstood or disregarded in quite a number of OECD countries facing serious social and spatial problems. For example, it lay at the heart of political debate and turmoil involving US city mayors who, as in Baltimore, had preferred redevelopment policies to policies of local redistribution, attracting much criticism from "progressive" academic writers: *"Elected on reform platforms that promised profound changes in the policymaking process, black mayors have almost uniformly embraced corporate-centred strategies that have virtually precluded the redistribution of major benefits to broad segments of the black community"* (Nelson, 1987, see also Levine, 1989).

7. The macroeconomic dimension of implicit territorial policy

Applying redistribution at national level holds down, though does not fully erase, the fiscal effects of mobility (the cost of mobility for tax avoidance depends on the geographical and politico-administrative scale) and avoids the injustice of treating people in similar positions unequally. But now, with the lowering of customs barriers and international competition between agents and regions, it raises greater problems. Post-war economic history shows that national redistributive mechanisms developed very quickly in a Keynesian macroeconomic context where demand was the driving variable in developing production in predominantly closed economies. Musgrave's distinction between the three functions of public finance (allocative, stabilising and redistributive) did not set the necessarily political weighting for the three and did not highlight the fact that they may overlap, as can be seen with redistribution vis-à-vis the other two. In a macroeconomic context where domestic demand is the chief driving force behind growth, redistribution through fiscal solidarity was a macroeconomic means of supporting demand by transferring income from wealthy agents with a low propensity to consume to poorer agents with a high propensity to consume. Both socially and spatially, this mechanism served economic aims and objectives of social and in fact spatial justice at the same time. From the standpoint of economic geography, it can be seen from countries with inter-regional input-output tables that a substantial proportion of redistributive transfers to net recipient regions flowed back in the form of orders to net contributors, thus supplying strong economic, social and political cohesion among the regions. In a world where economies are now much more open to international trade, the Keynesian macroeconomic justification for redistributive transfers is becoming weaker, which in fact explains why justifications drawn from theories of justice are tending to replace it (the popularity and spread of justice theories have gone hand in hand with headway in liberalisation and the questioning of Keynesian policy).

Transfers are no longer one of the driving forces for growth among those who finance them. Macroeconomists now consider government support for the poorest households less from the standpoint of the benefits of their propensity to consume than from the standpoint of the drawbacks of their propensity to import. Resentment of taxation, latent in many countries and open in a few, is reflected in avoidance by households and firms and increasingly in collective questioning, regional or local, of redistributive transfers by central government. Many regions, such as Lombardy in Italy, Catalonia in Spain and Nuevo León in Mexico, which are substantial net contributors to their governments' budgets, and are in competition with other advanced regions across the world, are today calling for a greater share of the taxes collected locally to be spent on improving their economic environment rather than on implicit inter-regional subsidies for which they receive no return (see, for example, the case of Mexico as described in OECD, 1997). Pressure is growing in these regions for lower taxes, and more specifically for greater financial autonomy and more decentralisation. In other words, for less redistribution to backward areas and regions in difficulty.

8. Explicit territorial policy

In addition to redistributive measures with social aims of reducing inequality between individuals, which have substantial indirect effects on regions as we have seen, other explicitly spatial policies have to act on those inequalities that are generated by regional features. This distinction, to assist analysis, between social policy with territorial effects and explicit territorial policy, is not absolutely clear-cut, of course, inasmuch as the two overlap to some extent: interpersonal redistribution, via its mechanisms, also tackles the inequalities generated by regions. But whereas the first measures tend to offset the effects of poverty, wherever it occurs, the second seek to tackle the specifically spatial causes of poverty.

The theory of justice suggests public intervention to tackle inequalities for which an agent is not responsible. But assessing responsibility is difficult, and especially so when inequalities derive from features of areas or regions.

Some clarification is appropriate about the legitimacy of public intervention in cases of spatial inequality. Some accepted meanings of "territorial equity" somewhat blur the issue and prescribe equalising intervention, without regard to agents' decisions and freedom to relocate, or to the scarcity of public resources and the need to allocate them as effectively as possible. For example, urban public transport systems generally serve only those areas where demand can provide a minimum social return. The same applies to the whole range of urban or regional facilities. Claims are frequently heard, in connection with local or regional development, for "fair" or "equitable" treatment, meaning equal provision of facilities (which as we have seen is not always the outcome of redistributive mechanisms, however powerful). Generally speaking, as research in various countries and at EU level (see in particular Navarre & Prud'homme, 1984) has shown, public expenditure is mainly allocated on an equal per capita basis across regions — so the principle of equal treatment is by and large applied socially — generating spatial inequality in terms of amounts per square mile. More densely populated areas enjoy economies of scale not available to less populated regions. The same per capita allocation will not allow identical provision of services in a densely populated area with a million residents and another with just 10 000. Social equality in government treatment, accordingly, does not mean spatial equality.

There is of course legitimate political debate over universal provision of public services, which may entail spending more per capita to maintain services in less populated areas, and hence allocating more per capita to peripheral areas. But this debate has little to do with formal theories of justice or the internalising prescriptions of economic theory. The aim is not to offset the external diseconomies of thinly populated regions, but to supply them, in addition to the redistributive transfers required by their social features, with the same advantages as areas enjoying economies of scale.

The numerous combinations of social and spatial circumstances make explicit spatial policy hard to apply effectively and fairly. Four typical cases can be categorised:

1. Some groups of people seem to be clearly tied to some areas, or excluded from other areas, for economic, ethnic or age reasons. It is these groups for whom theory suggests spatially discriminatory public intervention when their location generates negative externalities.

2. Other groups, however, may have some responsibility for their residential decisions since, with a given budget, they make a trade-off between amenity and external economies (more space, fewer public services). Public intervention there does not necessarily appear legitimate, except via incentives for rational land use highlighting the cost of some locations and encouraging positive external economies (in the case of peri-urban development, for example, by charging more fully for infrastructure use or subsidising economically efficient building).

3. The position is more complex with agents who are responsible for their socially disadvantaged status, as a result of their personal decisions and achievements. Starting out on an equal footing with others, they have contributed to their social difficulties and will be tied to those areas where they can afford to live, location and status in the property market being the reflection of social status. Their personal under-achievement should not, in theory, call for remedial intervention, unless it generates inequality of opportunity for other agents (as with the education of their children, for example).

4. In other cases government policy may be substantially responsible for people's residential decisions and the resulting negative externalities. Public regulation of the housing market affects people's decisions and biases the range of alternatives. Low-cost housing, a significant element in most advanced countries, and taxes on property transactions can inhibit household mobility or tie people to certain regions. The spatial concentration of social problems can also be an unintended effect of government policy steering the most disadvantaged towards publicly managed sites that generate significant negative externalities. Unregulated operation of the housing market can admittedly produce equally serious segregation. But the current debate in many countries over building public housing for the most disadvantaged or aiding households to broaden their range of housing choice demonstrates that there are forms of housing policy that can reduce spatial drawbacks.

The forms of public intervention required to reduce negative externalities generated by a geographical concentration of handicaps also raise numerous problems. Internalisation, more familiar in connection with the environment (with the polluter-pays principle, for instance), is often incorrectly seen as a means of offsetting handicap, whereas its purpose is to change people's behaviour. Charging for pollution is designed not to compensate the victims, but to bring the social cost home to polluters; the internalising levy is to be regarded primarily as a signal, encouraging them to modify their behaviour and regulate emissions in terms of the cost to society.

So internalisation must do more than simply compensate, as is commonly thought in connection with territorial problems; it should be a rational means of reducing the externality itself. Application of this principle, clearly established by economic theory (and in a Paretian approach independent of any theory of justice), is nonetheless highly problematical in socio-spatial matters.

Not all externalities can be internalised. Marginal-cost charging for the congestion generated by an additional car driver raises few technical or economic difficulties. Socio-medical problems in many advanced countries, exacerbated by the return of epidemic disease in some areas, call naturally for public intervention: free programmes of vaccination or medical care are warranted by the net social gain that they supply. But reducing the externalities generated by a concentration of under-achieving children in a class can hardly be achieved by charging the parents of the worst performers (although some advanced countries have taken steps towards penalising "parenting failures").

In fact, public intervention for disadvantaged regions cannot be based solely on internalising instruments, which are frequently unavailable, and must rely on reducing the effects of territorial problems or reducing the causes of the problems. In many cases this entails directly influencing the behaviour of agents rather than establishing conditions that will indirectly affect their behaviour.

Broadly speaking, instruments for public intervention in disadvantaged areas fall into two broad categories in most OECD countries: contractualisation and positive discrimination, in a range of combinations. The chief difference in intervention policy has to do less with the instruments than with the force with which they are applied and the degree to which market rules are to be restored in disadvantaged areas (Donzelot & Jaillet, 1998). In the United States,[54] for example, the fields of government intervention are limited, and the rule is to give private agreements, on market terms, preference over widespread assistance; public intervention must seek to reintegrate agents in a market that is deemed capable of taking them in. In many parts of Europe greater public resources are deployed, but with the aim of remedying market failure affecting particular groups. Agents' responsibility for their social difficulties is thus viewed quite differently from country to country, in a broad spectrum running from "propensity to idleness" to "forced exclusion".

Contractualisation, which is spreading today in most OECD countries, at all geographical levels, is a means of engaging the efforts and responsibility of people living in disadvantaged areas. It is also a means of associating government and private agents at local level, as in the United Kingdom for instance, in territorial development projects that are mainly, in all countries, funded by central government (either directly or via earmarked grants to local authorities). Local operations seek to boost local resources (public and private); through the financial intervention of central government, they broadly overcome the dangers inherent in local redistribution that we mentioned earlier.

Positive discrimination involves modulating government intervention and restoring equality of opportunity for groups labouring under unsought disadvantages, by distributing resources unequally to

deal with unequal circumstances: in regional policy, supplying more grants or services to poorer areas, in urban policy, giving more resources to public services in disadvantaged districts.

In the United States affirmative action, chiefly measures for ethnic minorities, has been a particular form of equality policy. This form of positive discrimination seeks to achieve equality of outcome, rather than simply equality of opportunity, straight away. Since the mid-1960s ethnic minorities have been granted statutory privileges to offset past discrimination, in particular in education and employment. The very essence of affirmative action is to step outside the framework of equal rights to seek to achieve equal outcomes directly. In most other OECD countries positive discrimination has been targeted on urban rather than ethnic groups and has sought to restore equality of opportunity rather than outcome.

Implementing positive discrimination raises many problems, however. Direct assistance to businesses in disadvantaged areas has been widely discussed. It has generally been called into question, because of the way it distorts competition.[55] Positive discrimination now largely takes the form of indirect assistance to enhance development factors and the general environment for people living in disadvantaged areas (public services, infrastructure, etc.).

Education, one of the main spheres of positive discrimination and widely studied, shows the difficulty of calibrating government action. Evaluating the resources to be deployed to give an equal level of education to people in unequal social and spatial circumstances assumes first of all that the objective is in fact equality of education. From a Rawlsian standpoint, this means offering the same range of choice to pupils and making their courses uniform, as we have seen in many advanced countries in recent years. But replacing differentiated (if not unequal) courses with this uniform teaching has in itself been an additional factor in the failure of the most disadvantaged children, by reinforcing the impact of social inequality, already rising sharply, on children's outcomes (imposing the same rules on all players penalises the most handicapped and favours the fittest). Legitimate though it is, this uniformity therefore entails an additional effort to offset social and spatial handicaps.

Calibrating these compensatory efforts is difficult, first because the effectiveness of an education system cannot be measured solely by the expenditure devoted to it. More formally, it is very hard to determine empirically the level of expenditure that will equalise the chances of success of pupils in unequal circumstances.[56] Generally speaking, in most Member countries, positive discrimination for disadvantaged educational areas entails flat-rate grants with no real relation to the true cost of offsetting handicaps. In France, research shows that the positive discrimination grants to priority education areas (ZEPs) were in fact cancelled out by under-funding for ordinary education spending[57] (Tréguer, 1997). There is little research, apart from the work on education by Reschovsky (1994) and Reschovsky & Imazeki (1998), to calibrate the effective level of positive discrimination measures.

9. Stimulating the productive economy or the residential economy

Restoring employment and production is one of the main objectives pursued directly or indirectly by policy on disadvantaged areas. In general, a low level of productive activity accompanies social problems in these areas, and may to a degree explain them. As a result, much local development policy seeks chiefly to stimulate the productive system. Economic geography and more recently geographical economics seem to establish an analytical link between local production and social development: productive capital flows to geographical sectors offering the greatest comparative advantage, and hence the greatest potential for social development. Widening social and spatial inequality appears to reflect growing inequality among agents and areas in terms of production. The location of factors of production and areas' comparative advantages currently seem to be changing: drawn earlier to areas with low manpower costs in the advanced countries, leading-edge production now seems to be going towards areas offering the most diversified resources and the lowest transaction costs, that is to say towards the most developed areas.

This change of direction in the dynamics of the location of the productive sector, now world-wide, may well be at the root of the resurgence of spatial disparities in most industrial countries, the areas most affected being those which offer little or none of the resources that firms require: an abundant supply of skilled labour, easy transport, diversified subcontractors and suppliers, infrastructure, etc. The literature shows a new form of relationship between productive systems and regions, whose social development seems to depend exclusively on the presence of the comparative advantage sought by firms.

The social difficulties faced by some areas, it is argued, are due chiefly to their inability to attract factors of production, so government policies (at central and local level, or applied via public-private partnerships) to develop the most disadvantaged areas first have to create or foster local advantages making these regions more attractive to mobile productive capital. Most Member countries are introducing spatially discriminatory policies to establish firms in the most disadvantaged areas, striving to offset the comparative disadvantage via direct, indirect or fiscal measures (regional policies, subsidised sites and buildings, free zones and enterprise zones, etc.).

There are both theoretical and empirical grounds, however, for questioning this focus of public policy on the solely productive interpretation of local social and economic development.

There is generally a divergence between GDP (value added) and income.[58] While per capita GDP disparities are growing everywhere and at all levels, per capita income disparities are tending to fall as between regions and to rise as between local areas. These observations suggest two conclusions: *i*) inequalities in production capacity as between regions are increasingly offset by the mechanisms of household income formation via inter-regional income transfers, public and private; and *ii*) the widening inequalities and the emergence of local pockets of poverty has as much or more to do with social or demographic factors as with patterns of capital location: residential decisions by households, numbers of households increasing faster than numbers of jobs, more and more two-earner households — these all go to account for the widening income inequality between local areas and have little connection with production development.

Base theory (see in particular North, 1955) is one of the most elementary and most fruitful approaches to these paradoxes and to understanding more generally, not just from the production standpoint, the process of local or regional social and economic development. Derived from the comparative advantage theory of Ricardo (and before him, in the same terms, of Aristotle), it is simply formulated: a local economy develops economically, socially and demographically only through the income it receives from outside. In conventional economic terms, its outcome depends on its specialisation and its trade. The local economy is made up of two sectors: the first, or basic sector, is the one that secures income from outside, and the second, or domestic sector, is stimulated by this basic income to produce goods and services traded locally (bakers, doctors, household services, etc.). Social and economic development is simultaneous: the basic sector supplies the income which supports demand for the domestic sector, allowing local distribution of basic profits in the form of jobs and income among households.

The basic sector is traditionally defined as the one that produces goods and services traded with the outside. It is roughly speaking the sector where the local area competes with the rest of the world. The local economy thus operates according to a dual model: *i)* a supply economy competing with the rest of the world, and *ii)* a Keynesian demand economy within the area, with domestic activity operating in a largely closed local market. Basic income depends on the quality of local supply, and domestic employment and the final distribution of income depends on the demand generated by basic income. The literature on local and regional economies frequently tends to focus only on the first term of territorial development, competitive supply and world-wide competition.

This conventional view of the local base is too limited. In fact the base is supported by all the channels, productive and non-productive, which bring income from outside. The key, in this model of local development, is income, and the basic sector's GDP is simply one of the income-creating factors. It is the basic income and not the local GDP from which it partly comes that supports the demand that stimulates activity in the domestic sector and develops employment there. Local GDP, which is an indicator of production development, supplies only part of local income: a greater or lesser portion of the GDP of the regional or local basic sector will provide capital and labour income for other areas and does not contribute to local development.

The lack of sectoral income statistics means that the bulk of research applying base theory has been expressed in terms of basic sectors of activity, using measurements of employment volume, while the conventional theoretical formulation sees the key to local development as maximising income, not employment or basic GDP.

Expressed in terms of income flows, the base is made up of the salaries of public officials paid by the government (or through central government appropriations for local government), and all the income flows to local residents: pensioners (around a quarter of household incomes in advanced countries), and

residents who do not work locally (second homes, residents working elsewhere, etc.). This local basic income, not GDP, will determine the level of demand in the local domestic sector, and ultimately the level of local social cohesion (in terms of the final distribution of jobs and income).

This model of a local economy is quite different from that suggested by current literature on territorial economic development, supplementing rather than opposing it. The new economic geography analyses the territorial dimension of world-wide productive development, but does not tackle the more complex reality of local economic development and does not take account of the fact that national economies are not the sum but the consolidation of local economies. Local economies depend substantially on private and public income flows between the sub-national areas which frequently form the bulk of the local base, and which are consolidated and so disappear in national macroeconomic analysis.

A breakdown in local development may not necessarily stem from a weakness in the production system, but from very different mechanisms linked to local income formation. It can be seen, in fact, that many areas with comparable basic productive systems have very different social circumstances. High local levels of unemployment and poverty are frequently due to weakness in the domestic sector, in turn linked to weakness in basic income against a background of high local GDP! Conversely, some areas or regions where the basic productive system is not greatly developed perform well in job creation and have satisfactory levels of cohesion, due to the presence of income not dependent on the local productive system. These different patterns of economic and social development stem less from competitiveness than from the relation between basic income and the domestic sector.

Research in France (Davezies, 2000) has drawn up economic accounts illustrating this model for different types of area, from region to urban district, and the findings are probably much the same in most advanced countries: at regional and local levels, basic income comes less from the value added of the private basic sector than from public income and social benefits, particularly pensions, and income of residents working elsewhere. There are just two regions in France, for example, where private wages are proportionately greater than social benefits (including pensions), and there is no region where private wages are greater than the sum of public wages and social benefits. In most regions, private wages represent only half or a third of public or social income. Generally speaking, two-thirds of national employment is concerned with the production of goods and services for households, mainly with little international or even inter-regional competition. These jobs form the bulk of net private job creation in recent years, explaining why those French regions with the best performance in increasing private employment are not the ones showing the strongest GDP increases or the highest profiles in international competition, but the ones addressing residential functions (in particular for the retired) and whose income is very different, in both level and dynamics, from their GDP.

At local level, research on the most socially disadvantaged areas in the suburbs of Paris (Seine-Saint-Denis *département*) show the presence of an active production system, with the bulk of the earnings it generates being exported to residential areas. The shortfall in domestic employment and the higher unemployment, as compared to the regional average, is arithmetically explained by the lower income of the resident population, not by "under-endowment" in factors of production. The social specialisation of the resident population accounts directly for the high rates of unemployment, especially among the least skilled and least mobile groups *i*) who find it increasingly difficult to enter the jobs market in the international production sector, which is looking for higher and higher skills, and *ii*) for whom the local Keynesian domestic market does not offer sufficient jobs, because of the demand shortfall related to the area's residential profile.

On the other hand, in small towns which are centres supplying services to households residing within a broad geographical perimeter (for example Beauvais in relation to the southern half of Oise *département*), and concentrate the residences of poor groups and public and private services to households in the same place, private employment creation by the domestic sector both offsets net job losses in the industrial sector and significantly reduces unemployment, in particular long-term unemployment.

The residential dimension of local social and economic development has received little attention even though the formation of basic income, as a key element in local development, depends as much on capacity to retain and attract mobile income in the residential system as local capacity to retain and attract mobile factors of production. In the base approach, local development policies, whether for urban districts or for regions, should not confine themselves to influencing, more or less effectively, the behaviour of firms. They should, as in some American cities that are today tackling local economic redevelopment

by enhancing the residential profile,[59] help to restore the link, mentioned in our introduction, of solidarity expressed via market relations arising out of resident demand for the local private domestic sector. The public sector, which seeks to influence business decisions locally and redistributes income to groups excluded from the market, could perhaps operate more effectively, and structurally, by influencing the residential behaviour of local people. The siting and allocation of low-cost housing, infrastructure, public service quality, incentives to develop second incomes in households, and measures to diversify housing supply, are all instruments that the public sector can employ to enhance local residential profiles. In short, by influencing the geography of income, largely independent at whatever level from the geography of value added, government policy would secure further ways of fostering the development of market employment and developing cohesion in the most disadvantaged areas.

Conclusion

Spatial inequalities are distinct from social inequalities, and that needs to be borne in mind in devising and assessing social and spatial policy. We have seen that the government policies with the greatest spatial effects are generally those defined on non-spatial bases. The strong social and spatial cohesion that these policies secure, as we have seen, will over the longer term lead to mutualisation, reducing inequalities in development and ensuring greater macroeconomic growth.

All the same, space generates its own mechanisms of economic and social disadvantage. The theory of justice, though expressed in highly abstract and conventional terms as yet, in conjunction with economic theory on externalities, justifies and suggests remedial public action when these disadvantages bear upon captive groups. We have further seen that public policy to internalise the negative externalities generated in some areas cannot, unlike pollution or congestion, rely on charging mechanisms of the polluter-pays type, but entails positive discriminatory intervention whose calibration continues to raise numerous unresolved problems in Member countries.

Last, one new major characteristic of the socio-spatial problems experienced in most Member countries seems to be that tackling them is now a matter less for the market and more for the public sector. Yet public policies of solidarity or redistribution are not an end in themselves but a means of restoring the mechanisms of mutual (even if unequal) development linked to market relations. The abandonment over the last ten or twenty years of the Keynesian macroeconomic framework in national economies which are now competing has called into question demand support policies in closed economies whose social and spatial effects largely account for the social and spatial convergence observed in the post-war years in OECD countries. Most literature now deals with a globalised economy where the search for competitiveness apparently results in the exclusion of a large proportion of the most vulnerable people, and areas.

Yet we need to make a distinction between analysis of local economies and the usual analysis of the spatial characteristics of the globalised productive system. It can be shown that what might be called the "local macroeconomy" does not match the model of the national macroeconomy. The issue in territorial development, at all levels, is not simply attracting and exploiting mobile factors of production, but also retaining and attracting mobile income. That income, related to the residential characteristics of areas, generated by mechanisms of income formation whose geography is different from the geography of value added (pension payments, government wages, separation of home and work, etc.), accounts, via a local Keynesian mechanism, for the bulk of private employment in most Member countries. Taking this mechanism into consideration in national and local policies, by influencing living conditions, the quality of services, and the social and functional mix of local areas, can help to restore, where it has been broken, the only lasting mutual link — market relations.

NOTES

45. The Gini coefficient will be considered weighted when, in the concentration curve, the cumulative percentage of a given indicator, such as income, is related to a cumulative percentage of local or regional populations and not to a cumulative percentage of local entities.

46. Questions can also be raised about the notion of "unanimous agents", which for instance implies a uniform position on racial issues, in particular in countries where social and ethnic issues are closely interlinked.

47. Some bias may be perceived in this virtually experimental protocol, however, given that the families who moved to the suburbs did so voluntarily.

48. Regional GDP is an unclear concept which provides a poor indication of the value added generated within a given region because of the conventional methods used to distribute national GDP by statistical offices (failure to take account of the contribution of productive capital to the creation of value added, conventional regional distribution of items that are not part of value added such as real and notional rents, balance of banking activities, administrative activities, etc.). The rate of unemployment in European regions is largely governed by national regulations.

49. Per capita GDP, in pesetas, of Spanish Catalonia is less that that of French Languedoc Roussillon, and yet Catalonia is a net contributor of 5% of its GDP to the Spanish national budget whereas Languedoc Roussillon is a net beneficiary under the French national budget of an amount equivalent to 10% of the region's GDP.

50. The scope of the definition for equity, and in particular whether it embraces territorial constraints, varies from country to country. For example the United Kingdom budget does not provide the Shetland Islands with the "territorial continuity" grants that France or Greece make to their islands to offset extra costs due to their offshore position. Bourgignon (1998) supplies an international comparison of interpersonal redistributive mechanisms, and the *First Report on Cohesion* (EC, 1996) an international comparison of inter-regional effects of public authority budgets.

51. The seven countries reviewed were France, Germany, Italy, Portugal, Spain, Sweden and the United Kingdom.

52. Let us take two agents, A and B, with incomes of 100 and 300 respectively. If degressive taxation takes 10% of A's income and only 8% of B's income, they contribute 10 and 24 respectively, which is unfavourable to the poorer A. The tax of 34 goes to fund spending of 15 on A and 19 on B. In terms of both tax and public spending A is less well-treated than B, even though there is a transfer of 5!

53. The redistributive effects of local or regional budgets cannot be totally eliminated because of the inevitably redistributive dimension of any public spending decision, as we saw earlier.

54. It may further be noted that the United States has no regional policy, as the federal government considers it distorts the market rather than effectively stimulating territorial development.

55. The dilemma with the effectiveness of direct aid is often put in these terms: either the aid is useful, meaning that the firm is not viable without it, or the aid is not useful and the firm has received a windfall. In either case, government aid is thus ineffective.

56. It can be shown, as is generally the case, that a school's success is inversely proportional to its spending per child (the resources allocated to children in a disadvantaged area may be inadequate, but still greater than funding for a school in an average district). See Hanushek (1997).

57. Largely on account of lower wage bills due to the teachers' status and age.

58. Territorial GDP data are more widely available, and more standardised across countries, than household income data.

59. See for instance the "Symposium on Neighbourhood Economic Development and Revitalisation", held in Milwaukee on 9-11 June 2000 by the Council for Urban Economic Development.

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Part IV

SUSTAINABLE DEVELOPMENT, ENTERPRISE AND GOVERNANCE

INTRODUCTION

Urban and rural issues and their policy implications play an important role in territorial policy. Regions in OECD Member countries vary according to their demographic and economic trends, which have both beneficial and harmful consequences. Territorial development policy is for all regions, but to function effectively, it must concentrate on preparing different kinds of territories, at varying scales from small districts to regions the size of a province or state, for a more sustainable pattern of development, taking their specific assets and needs into account.

Although there has been a tendency in the past to study urban and rural trends in isolation, and indeed to assume that their interests are diametrically opposite, there is a growing tendency to consider more carefully how interdependent they are, and thus what can been gained by considering a number of policy issues in urban and rural areas together. After all, the simultaneous decline of both rural and urban areas in the same country would leave that country with unmanageable problems. The focus of sustainable development on inter-generational obligations and strategies calls attention to the importance of immovable assets, both natural and man-made, in both urban and rural assets. The management of land being common to them both, trends in urban deconcentration and sprawl are at once an urban and a rural issue. Because globalisation has flattened hierarchies of commerce and exchange and privileged networks in their place, both rural and urban areas enjoy more opportunities. But short-term approaches to development, which often emphasise forms of tax competition and subsidies to attract investment, do not provide a sound basis for endogenous development.

Framework policies are needed which acknowledge the diversity of conditions, needs and opportunities across territories; promote endogenous development by focusing on human and social capital, entrepreneurship, innovation, key infrastructure, and the quality of the environment; and address governance issues, including enhancement of local capacity for leadership, improving modes of public-private partnership, enhancing democratic participation, and assuring a better co-ordination of policy between different levels of government. Area-based programmes and strategies are being used in both rural and urban areas, and thus provide an opportunity to examine the lessons of common experience.

This section of *Territorial Perspectives* considers some of the innovative trends local economic development (business incubators, clusters and networks) which are studied in the LEED programme, and trends in urban and rural policy which are covered by the Territorial Development Policy Committee (TDPC) and its Working Parties on urban and rural areas.

The sharing of information about policy innovations and trends is a valuable feature of OECD committees. Territorial development policies are changing in response to globalisation, technological innovation, decentralisation, and sustainability objectives. In response to a questionnaire based on the conceptual framework for territorial development policy, Member countries representing half the membership of the OECD provided written summaries and contributed to a roundtable discussion at the July 2000 meeting of the Territorial Development Policy Committee. The final chapter provides a synthesis and selection of policy changes arranged thematically.

Chapter 7

ACHIEVING SUSTAINABLE URBAN DEVELOPMENT

Introduction

The beginning of the 21st century will be shaped by a new phase in the 7 000-year history of cities. A threshold will soon be passed when more than 50 per cent of the world's population will live in urban settlements. Although the consequences of urbanisation on a global scale in the coming decades cannot be predicted, the historical record shows that changes of this magnitude in the size, distribution and relative importance of cities affect political systems, economies, the environment and social structures.

The pressure of urbanisation means that the future of cities is critical to the well-being of people wherever they live. In recent years, the level of urbanisation in OECD Member countries has reached an average of 80 per cent; six of the twelve largest cities in the world are in Member countries (Tokyo, Mexico City, New York, Seoul, Osaka and Los Angeles). Cities are dynamic places where the social and environmental consequences of other economic and technological changes often appear quickly. As a result, cities are very often seen as being vulnerable to such changes, the victims of processes that people feel they do not understand and cannot control. And there are valid reasons why people are concerned about the future of cities, ranging from an emerging underclass, crime and anti social behaviour, to the closure of factories associated with the structural shift to the service sector, problems of urban education, the growing tendency of people to live alone or in two-person households, congestion, air pollution, and the growth in jobs and housing on the urban periphery, often at the expense of the city centre.

Many cities perform economic functions that cannot be substituted elsewhere in territories without a loss of efficiency and productivity. The agglomeration effects of cities however remain difficult to analyse quantitatively. Some major metropolitan areas (*e.g.*, Greater Tokyo) have a GDP equivalent to a developed country with twice as many people (the United Kingdom). But not all the advantages belong to the largest cities. Many of the metropolitan areas with the fastest growing export sales in the United States are smaller places, such as Erie, Pennsylvania; La Crosse, Wisconsin; Muncie and South Bend, Indiana; Reno, Nevada; and Odessa-Midland, Texas. In the past, rapid population growth raised questions about whether very large cities are sustainable in social and environmental terms. Questions about very large cities are still pressing in developing countries, where the number of megacities and the percentage of the total population living in cities are both rising dramatically. Rapid urban growth remains an issue in some OECD Member countries such as Turkey and Mexico, but for the most part, Member countries are more concerned about urban spatial and environmental patterns than about the size of cities.

How space is organised and used in cities, given their density and complexity, has a major impact on whether cities continue to be engines of economic growth. These issues, which are central to the agglomeration effects of urban areas, are only raised explicitly in the context of territorial development policy. Macroeconomics treats the national unit as indivisible, and sectoral policy is not much concerned with how people and activities are distributed within urban areas. The fact that most cities have above average levels of productivity has therefore remained a "black box phenomenon": people know that something is going on inside the city which accounts for the outcome, but exactly what is happening, and who is responsible, are mysteries.

In the logic of mobility, the more places resemble each other, with similar housing markets, schools and retail facilities, the easier it is for people and firms to relocate. Space in the old econ-

omy of mass production and standardised services was developed wholesale on the basis of uniform models and zoned, monofunctional land use patterns, whether for housing, retail and stores, or public facilities to which people had to conform. But the new economy, which is organised around the service sector and knowledge workers, wants more mixed use, more custom design, more specialised forms which take better account of the changing needs and wants of people for environments for leisure, working and living. Opportunities are now more a matter of exploiting local assets than of capturing transitory investments. Now and for the foreseeable future, firms may need to be in places where the people they want to employ or serve want to live. This alters the methods of territorial development fundamentally, away from functionalism and towards a human-oriented approach. Top-down, technocratic strategies alone appear unable to generate a reassuring vision of the future on which an overall development strategy can be based. New modes of governance are needed so that effective medium-term strategies can be linked to a vision of a future that people want.

The fact that cities in different parts of the world confront similar problems shows that urban conditions differ more by degree than kind. Terms such as city, suburb and metropolitan area often get in the way of understanding general trends. What matters rather are the relative weight given to economic, social and environmental issues, and the thresholds at which changes are perceived to be a problem. Three of the major challenges facing government are, first, to promote co-ordinated, holistic, multisectoral solutions; second, to facilitate policy coherence among difference levels of government, including greater recognition of the urban impact of many sectoral policies; and third, to provide a better match between resources and responsibilities at the urban and metropolitan level.

This agenda represents a shift away from remedial policy interventions and toward proactive policies. In the past, urban policy was often a residual, dealing with matters that were not otherwise covered by macroeconomic and sectoral policy. But this approach, which essentially focused on urban problems, was ill-adapted to the rate at which cities change and evolve, and was handicapped by the lack of a comprehensive view of the city or city-region as a whole. A territorial development approach which aims for coherence can focus on the factors that enable all cities to fulfil their potential, and can integrate priorities at an operational scale.

The shift toward a more comprehensive and forward-looking approach to urban policy began in the early 1990s in reaction to several trends which converged: globalisation, which flattened urban hierarchies and challenged established specialisations; decentralisation, which gave municipal authorities more initiative and responsibility; new patterns of social exclusion, which were manifest in the growth of distressed urban areas; and the sustainable development agenda, which called attention to the importance of urban environmental and social conditions. In addition, it became increasingly obvious that strategies that had worked well enough in the past to cope with such problems as congestion by building more roads, urban waste by increasing the size of municipal land fills, and low-income housing by building more social housing units were simply not viable any longer. Governments increasingly recognise that urban issues are neither purely local nor purely domestic any longer, but central to both national cohesion and competitiveness.

The next three sections will explore innovation in urban policy in relation to urban brownfields and anti-sprawl strategies, environmental management systems, and the learning city-region concept. These are not discrete and separate issues, but inter-related dimensions of the process by which urban policy can set broad frameworks. Some cities take initiative in the absence of national policy, but many — perhaps the majority — do not. Many of the solutions will require considerable professional and technical expertise. But a broad approach based on trying to make cities places where people will want to live and work must also recognise that urban development proceeds through the expansion and exercise of civic rights and responsibilities. From this perspective, metropolitan governance, which is discussed in Chapter 8, is about the renewal of the democratic process in the territorial unit where representative government and individual rights were first tested and recognised, the city.

1. Urban sprawl and brownfields in strategies for sustainable urban development

Introduction

If location matters within a country, it also matters within a city. Territorial development policies, which add value by enhancing immovable assets and their links to flows of finance, the movement of people and circuits of information, must factor in the cost of the misuse or neglect of land, and the benefits of a sound organisation of space. This leads directly to a consideration of the future of urban centres, where old industries are often vacating space, where new housing might be suitable for today's society, where new economic functions can find their place, and where spaces and facilities for public use and cultural functions can attract the widest audience. But in recent decades, the value of an urban centre and its importance to the wider urban region are topics that have all but disappeared from the discourse of planners and policymakers.

The phenomenon of population deconcentration, which has weakened urban centres, often appears to be an irresistible force. In fact it has most often resulted from a mix of market and policy forces, with a range of unintended consequences ignored in policy. It has altered the economic, environmental and social conditions of many existing cities particularly where urban infrastructures may be under-utilised. And it has transformed many communities on the urban periphery by increasing their density and complexity and lead to congestion pressures on overburdened infrastructures. Finally, it has greatly increased the environmental impact of urbanisation in terms of deteriorating air quality, rising noise levels, and mounting pressure on water supplies and water quality. In the communiqué following their summit in April 2000, the G-8 Environment Ministers stated that *"Urban sustainable development will represent a major policy challenge for this century. Combating unsustainable trends in urban development including environmental pollution, urban sprawl and green-field development through integrated policy approaches will contribute to a higher quality of life of citizens."*

Urban sprawl and brownfields

The goal of a more balanced pattern of urban and rural development in a country leads directly to a consideration of how the management of urban sprawl and the regeneration of urban brownfields are linked. Pressures in one dimension of urban development lead to problems elsewhere. Are win-win solutions to be found?

More can be done to strengthen the synergies between spatial and environmental policies of which the redevelopment of brownfield sites are an important element in an overall strategy to manage urban change better. Brownfield sites are considered to be derelict land and buildings that are, or are likely to be contaminated as a result of former industrial, commercial or governmental operations. Urban brownfields can be accommodated in city or metropolitan-wide strategies for economic development, thereby relieving pressure for suburban development and new (increasingly costly) infrastructure. The treatment of urban brownfields has therefore been increasingly intertwined with other issues concerning urban regeneration, and especially the redevelopment of all previously developed buildings and land, whether or not these were ever contaminated. This holistic approach is consistent with efforts to promote sustainable development following the 1992 Rio and 1996 Istanbul Summits, and with the implementation of Agenda 21.

The growing number of brownfield sites in urban regions (there are hundreds of thousands of them) is inextricably linked to the often dramatic and rapid shift from heavy industrial processes to service and knowledge-based economies with different technological needs and changing employment patterns. When old industrial activities become obsolete, the presence of derelict land has a negative impact on communities and investors alike, thus inhibiting the capacity of cities to cope with economic transition. Physical degradation, contamination or the perceived risk of it, and a lack of maintenance or modernisation all compromise reuse and depress demand for these sites. Failure to renew brownfields often affects the environmental quality of the surrounding area, and when compounded with spatial patterns of social distress, the presence of brownfields helps to explain why certain disadvantaged social categories are at much greater risk of exposure to contaminants. In the end, this can create a negative spiral of mutually reinforcing processes which eventually lowers the vitality of the city as a whole as firms and people relocate to greenfield sites, where the risks of contamination are mini-

mal or non-existent, and the costs lower. Brownfield sites have therefore become a persistent problem that cannot be alleviated by the normal process of modernising the built environment of cities.

Historically, environmental policy provided the initiative to remediate urban land either known or suspected to be contaminated. Only recently has brownfield redevelopment been more closely linked to policies for urban regeneration. The challenge lies in improving the synergies between these two complementary strands. Policies to improve and protect the urban environment have focused on air, water and land quality. Air and water qualities have been improved through the introduction of new technology, through better use of economic instruments, and through regulatory measures that limit emissions. Of these three, land quality has received relatively less attention than the others, in part perhaps because air and water quality are pervasive phenomena, covering large areas, and involving flows that spill over boundaries. Thus, the costs of the neglect of land — its quality and its use — have not been estimated, making the benefit of remediation and of better land-use planning very difficult to calculate for policy purposes.

In the 1970s and 1980s, land questions emerged as a significant issue in relation to the management of waste disposal sites. These sites were increasingly difficult to manage, not only because they were themselves the sites of pollution, but also because the growing volume of waste being generated in cities raised questions about the size and number of waste disposal sites needed in the future, and about the growing cost of operating such sites. Most of these sites were however on the urban periphery. Attention to the quality of land in cities increased when old industrial sites were identified as the site of pollution affecting adjacent properties (usually housing), and waterways. Most commonly, the problems of such sites are associated with the presence in the soil of chemicals or products remaining from past industrial activities or from old building materials. Although the polluter-pays principle commonly is applied to contaminated land in cities, the pollution usually occurred in the past, and often by an agent, such as a firm, that no longer exists. The problem of contaminated land is therefore fundamentally different from that of polluted air or water — current best practice of waste treatment can only reduce the problem in the future, but leaves the legacy of the past untouched. A remediation strategy is therefore essential to address the environmental problems of contaminated land in cities.

Conversion of existing urban areas and spaces to new uses must be addressed if efforts to control urban sprawl are to succeed. Many cities now contain areas where investment in housing, economic activities and amenities such as parks or recreational facilities could occur. These sites may or may not contain buildings that can be renovated; they may or may not contain land that needs to be remedied. The costs and constraints related to remediation and renovation are acknowledged to be a factor favouring greenfield development. The redevelopment process encounters other obstacles, perhaps less visible but more difficult: planning systems, fiscal structures, inadequate public services (police, fire, education, etc.), lack of jobs, and social patterns and preferences. The precise mix will vary from country to country, and even from city to city. International comparative approaches draw attention to the fact that the problem is general as well as local and identifies the mix of policies and mechanisms to combat a range of problems.

Cross-sectoral co-ordination through the drafting of laws or the implementation of policies is an increasingly common feature of brownfield regeneration strategy. In combination, these approaches can increase public funds available for remediation, and can provide a basis for partnerships with the private sector and local communities. The quality of specific projects is often the key to success, but efforts to set a high standard for quality design and project management are often neglected. There is potential for good complementarity between environmental and regeneration policies: regeneration may advance more rapidly if brownfield sites are restored to useful life, and remediation efforts are strengthened if a coherent strategy exists to create or support economic and social uses for these sites. Inevitably, however, this combination makes it more difficult to relate outcomes to the different policy strands and associated expenditure: for example, to what extent is the addition of housing into an area with brownfield problems due to the remediation of those sites, and what does it owe to the regeneration strategy for the area as a whole? The relationship between these two policy strands also involves the relative importance that should be given to brownfield remediation in any urban regeneration strategy, a question which raises the issue whether governments should give incentives or planning guidance to direct investment toward brownfield sites in preference to sites elsewhere, and especially on greenfields. Current policies do not yet resolve these issues.

The environmental advantages of brownfield remediation are clear: relieving pressure on rural areas and greenfield sites, reducing pollution costs and being more efficient with energy use and natural resource consumption, facilitating economic diversification, and emerging habitat requirements.

The combined efforts of local, regional and national governments to strengthen territorial development — to build up territorial capital — are likely to become one of the major drivers of change, improving the endowments of places and the abilities of people, creating greater opportunities for business. Indeed, the business of territorial development — of building and managing large, diverse and complex cities and regions — is increasingly an international business. This constitutes a major paradigm shift in public policy. Local expertise for territorial development has become an internationally traded commodity. There is a large and growing market to supply the goods, services and expertise that territories need for their own development, everything from public transport and management systems for utilities, to architecture and engineering design, environmental technologies, and the fabrication of building materials. And increasingly, this is an international market — albeit one that is neither measured not analysed.

Best practice and policy implementation

The following policy lessons remain pertinent and highlight the need for:

— ***Well-developed regional and city level strategies*** that are capable of addressing the economic and land use issues surrounding brownfield sites. Wallonia in Belgium, Nord-Pas-de-Calais and Lorraine in France, the Ruhr in Germany and the Basque Autonomous Community in Spain are examples of regional strategies for economic regeneration and brownfield redevelopment.

— ***Flexibility and innovation*** processes which are responsive and allow for change will encourage greater public and private sector investment levels, which is after all, the key to achieving more brownfield redevelopment. The US EPA Brownfields Initiative has yielded over US$1.4 billion leveraged through grants of US$58 million, resulting in the creation of 3 000 jobs. Experimental projects in Germany and the Netherlands have yielded similarly impressive results.

— ***Establishing appropriate funding mechanisms*** stimulating further private sector investment through a judicious mix of market based mechanisms is necessary. The role of the public sector as facilitator in terms of funding and initiative is significant. Future policy needs to consider the ongoing costs to the public purse and how best to stimulate the private sector to take more responsibility for brownfield land.

— ***Partnerships****:* the development of proactive partnership approaches between public and private sectors and between levels of government, alongside the active involvement of civil society representatives, have been a central feature of successful redevelopment programmes. Public-Private Partnership initiatives in the Netherlands have facilitated successful brownfield redevelopment. The real benefits of partnership emerge when all actors are included in the process.

— ***Communicating the benefits of brownfield redevelopment****:* reducing misconceptions and fears will enable greater flexibility of land use and ultimately greater economic freedom. Encouraging effective public participation will further integrate these sites into existing communities. Communicating and sharing experiences across international borders will facilitate 'best practice' and allow Member countries to address a common issue with greater coherence and understanding. Involving communities who live alongside industrial and manufacturing sites, and are most directly affected by dereliction begins at the environmental stage of clean up, as exemplified by the Groundwork Trust in the United Kingdom and the Brownfields Initiative in the United States, and extends throughout the development process as demonstrated during the construction of new homes in the Black Country and Glasgow in the United Kingdom, and through the creation of employment opportunities at Emscher Park and Nordhorn in Germany.

— ***Compiling accurate, consistent and up-to-date information*** on the number, location and condition of contaminated sites within the national framework is crucial. A realistic understand-

ing of the scale of the problem of brownfield sites is a vital first step in the development of a coherent policy. The majority of OECD Member countries lack national level inventories. In Germany the Soil Protection Act and the United Kingdom the National Land Use Database, are examples whereby national level criteria has been established with the aim of realising the redevelopment of more brownfield sites, whether it be through specific environmental or land-use legislation the ultimate aim is relieving pressure on greenfield sites.

— ***More coherent national and sub-national legislative frameworks*** for urban, economic and environmental sustainability are necessary which include evaluating processes and outcomes is a crucial aspect of brownfield redevelopment, indicators and benchmark criteria are essential.

Several OECD Member countries are facilitating brownfield redevelopment primarily through existing legislative frameworks and policy guidance, the effectiveness of which becomes apparent when matched by stringent monitoring processes. The following country examples highlight how such changes are effected and how countries facilitate sub-national efforts through strong national strategies, as the following country examples reveal.

Country examples

United Kingdom

Planning legislation, Planning Policy Guidance Notes, Structure Plans and Local Plans are the principal instruments used to influence development, particularly with respect to brownfield sites. In March 2000 the revised Planning Policy Guidance Note 3: Housing was released. The Note seeks to *"promote more sustainable patterns of development and make better use of previously-developed land, the focus of additional housing should be existing towns and cities. New housing and residential environments should be well designed and should make a significant contribution to promoting urban renaissance and improving the quality of life"*. A national target of realising 60 per cent of new housing in previously developed areas and through building conversion by 2008 exists in the United Kingdom, embedding this target into national policy reinforces local capacity to bring about change. However, 1998 saw some crucial changes affecting England, which enhanced the already strong commitment in the United Kingdom in general to redeveloping brownfield sites. The Urban Task Force was established, bringing together a key panel of practitioners and academics to:

> *"…identify causes of urban decline in England and recommend practical solutions to bring people back to our cities, towns and urban neighbourhoods. It will establish a new vision for urban regeneration founded on principles of design excellence, social well-being and environmental responsibility within a viable economic and legislative framework".*

The findings and recommendations of the Task Force were published in 1999 in the comprehensive report "Towards an Urban Renaissance". Considering design, transport, management, regeneration, skills, planning and investment over 100 recommendations emerge which go way beyond providing the know-how to accommodate 4.4 million new homes over the next twenty five years, if pursued they will actually facilitate an urban renaissance appropriate for the 21st century.

The Netherlands

From the late seventies, onwards Dutch policy-makers started to work structurally with urban brownfield sites and the approach adopted has evolved considerably over the years. At present, it is characterised by an integrated approach, which incorporates diversity through the range of actors involved, and their interests. This means that efforts are made to produce coherent solutions drawn from various policy-sectors and from different administrative levels. The Netherlands formally launched its urban approach with the Urban and Rural Regeneration Act, 1985 aimed at *urban renewal,* to bring about the physical improvement of the built environment. Formally, its purpose was to eliminate the quality deficits of the residential, working, production and living environments in the built up area from before 1970. During the 1990s, this policy was widened into one of *urban regeneration*. Urban regeneration goes beyond simply modifying the housing stock and the immediate surroundings. It also involves infrastructure, green spaces, economic activities and other neighbourhood

facilities. Complementing the concept of urban renewal is *urban restructuring* which seeks to achieve a greater differentiation of the quality of housing and work where general well being is under pressure. In recent years, spatial planning policy has been aimed at such a development whereby the daily functional relationships in terms of living, working and care are able to operate at the level of the *urban region*. The strong national focus is enhanced through a coherent cross-sectoral approach, as highlighted in the next section. From the Dutch perspective making towns compact has a positive effect on reducing transport needs which in turn means checking urban sprawl.

United States

The *Brownfields Initiative* has dispersed grants to hundreds of communities in the form of assessment pilots. These moneys have leveraged over US$1 billion in public and private redevelopment and cleanup funds. Additionally, Showcase Communities have been designated to demonstrate the successful, systemic use of brownfields and community empowerment concepts to revitalise urban centres. Each project receives US$200 000 over two years to *"test redevelopment models, direct special efforts toward removing regulatory barriers without sacrificing protection, and facilitate co-ordinated site assessment, environmental cleanup and redevelopment efforts at the federal, state and local levels"*. The Showcase Communities initiative, which supports the projects, has three main goals: *"to promote environmental protection, economic redevelopment and community revitalisation"*. National policies affect local and regional planning through funding priorities. Local, regional, and State governments set planning priorities of their communities and have planning agencies to implement these priorities. The extent of planning at the local level varies among States and communities. However, the Liveability Agenda, forwarded by the Clinton-Gore Administration, is seeking to provide incentives to communities to create stronger, more resident-friendly cities and towns. In an initiative designed to make American cities places where more people will want to live, work, and play, housing remains a significant national and local priority.

Germany

Germany has been particularly successful in developing sustainable urban policy that effectively addresses brownfields as part of an integrated strategy. Strengthening urban centres has been an important policy objective for which the recycling of land has made an important contribution prioritised at both national and local level. Recent developments in both remediation and redevelopment initiatives and legislation reveal a more integrated cross-governmental approach than is evident in many countries. The federal government has adopted the objective of modernising urban centres to strengthen the economic and social base and environmental quality of cities. One of the aims of the Regional Planning Act 1998 is strengthen city centre function and structures, and the Federal Building Code is being used to support these policy changes as are transport initiatives and funding mechanisms. Within the Federal Building Code provisions for sustainable urban development are made, based on a recognition that social integration, environmental improvement and economic development can be supported through the provision of a mix of uses and social diversity. Goals are set for the *Länder* such as achieving a ten per cent increase in the presence of small and medium size firms in inner cities and increases in housing provision on reclaimed sites. The federal government has secured the commitment of the *Länder* and Communes in favour of town and city centres required to achieve equality of opportunities compared with greenfield sites. DM250 million of public funds are being provided in 1998 to construct social housing in towns and cities, DM9.2 billion has been allocated for the period 1993-2000 to reduce town and city centre traffic.

Sweden

In Sweden policies exist to at central and municipal levels of government protect greenfield sites although no national approach to the reuse of brownfield sites specifically for housing development exists. Over recent years the City of Stockholm has implemented a range of complementary policies which seek to reinforce existing urban areas thus reducing pressure for development on the urban fringe. The City Plan and the Green Structure Policy require that new dwellings, offices and other buildings should be built on previously developed land rather than greenfield sites. Stockholm has in fact increased its density of population and jobs in its central, inner and outer areas. The redevelop-

ment of previously used land is generally within a mixed-use framework, the co-dependence of work and home being encouraged in a pro-active anti-sprawl context. Environmental standards are rigorously applied for all new development. Two issues for the future have been identified: affordable housing and balancing the increased housing costs associated with measures to curb urban sprawl with the long term environmental benefits which will be felt by the populous as a whole.

France

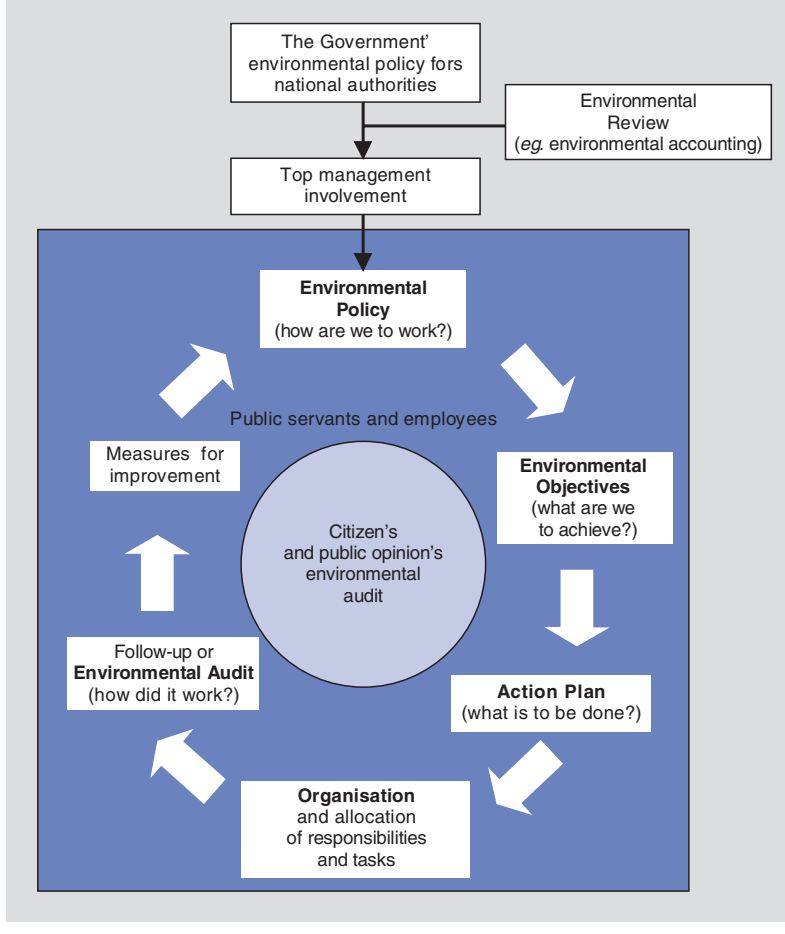
Consolidating the urban centre of the City of Paris has long been recognised as important. To reinforce the residential character of the city, office floorspace has been strictly limited. Between 1993-1998 more than 200 000 m^2 of office floorspace was reconverted back into residential use in the city of Paris, creating some 2 400 new homes. Two thousand one hundred new homes are to be constructed on an annual basis as a result of a Convention signed between State and City. Value Added Tax on property conversions has recently been cut as a measure which to reinforce existing policies. Ongoing public-private partnerships continue to facilitate such conversions with the aim of reinforcing residential living in the city, and ensuring affordability. *ZAC Rive Gauche* is an example of a large-scale urban project in the city. Housing and planning are priority areas for the Budget 2000, some FF3 billion are to be dedicated to the reconstruction of the urban fabric and the construction of social housing. The renovation will pursue a balanced mixed land use approach, respectful to the original character, comprising historic preservation and new build.

2. New approaches for sustainable development: environmental management systems

The achievement of sustainable development requires that new approaches be developed at territorial level, *i.e.*, that they be tailored by and to the local dimension. Hence, the promotion of instruments that favour the self-management capacity of organisations has become a priority in the context of the increasing complexity of urban settings. Such increasing complexity implies that different issues are managed at different scales (for instance: public transport, waste collection or public health often cover different territories within an urban area). Among these innovative instruments are environmental management systems (EMSs). An environmental management system (EMS) is *"the part of (an) overall management system that includes organisational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy"* (ISO14001). As a consequence the implementation of EMSs acts on the management culture of an organisation and thus may contribute to a number of policy objectives, such as "reinventing government", "de-centralisation", "regulatory reform", etc.

An EMS is a tool that enables an organisation to collect the information necessary to measure, and improve its environmental performance. Furthermore, it allows for the integration of environmental management systems with traditional management tools (*e.g.*, accounting, quality management, etc.). An increasing number of private and public sector organisations are adopting and implementing an environmental management system (EMS) in one form or another. Many of these organisations are even requiring an independent certification of their EMS. This is particularly important at a time in which an increasing number of services are privatised while contributing to public management objectives. Environmental management systems are being adopted by businesses either at site level (*e.g.*, the European Environmental Management and Eco-Audit Scheme, EMAS), or at the level of an entire organisation (*e.g.*, Ford and BP-Amoco), by local (*e.g.*, municipalities, counties, etc.) or national administrations (*e.g.*, all major Swedish agencies, President Clinton's executive order). According to (OECD, 1998*a*), government agencies in Sweden, Canada, Germany, the United States and the United Kingdom are implementing EMSs, and even greater progress has been achieved at intermediary and local levels of government particularly at county or municipal level. One OECD Member country has adopted legislation that has sets mandatory reporting requirements for all territorial communities with a population of more than 100 000 by the year 2006.

Figure 7.1. **Key components of an environmental management system**



Source: Adapted from Sweden's Environmental Advisory Council Report, 1997.

In 1997, an OECD expert workshop examined the practical effects, and trade implications, raised by the adoption of international standards for EMSs, and concluded that *"international environmental management standards may help bridge more traditional command-and-control approaches with the flexibility and efficiency provided by a system approach to environmental performance (…). Once sufficient data has been gathered from various EMS pilot projects which can substantiate a linkage between certified EMS and superior environmental performance, authorities may wish to re-allocate some of their inspection and control efforts towards organisations that are not ISO or EMAS certified"*. This work also pointed out a number of conditions to capture the expected benefits (for details see OECD, 1998*b*), and called for a more systematic link between macro-economic policies and local development conditions and actions.

From a strictly *environmental perspective*, EMSs offer the advantage of integrating information flows that affect several media. The management systems also set the basis for identifying the sources of undesirable life-cycle effects, improve the environmental cost allocation, and allow for the evaluation of eco-efficient and possibly resource-efficient alternatives. By measuring the "just-in-time" financial implications of various options and technological paths, they can have ripple effects right across business clusters, and trigger innovative practices along the supply chain or downhill among clients. Hence, OECD Member country governments have been looking at ways to favour the diffusion of EMSs within governmental organisations and across businesses, especially among small and medium size enterprises.

An *area-based approach* allows environmental policies to account for sectoral conflicts, and helps cities focus on local priorities. From a broader territorial development perspective, EMSs offer the advantage of providing a coherent framework within which to exchange, often sensitive, information between the private and public sector. As such, they support the preparation of an overall, inclusive vision of the common future. For instance, in Germany and Japan regional and local authorities have used EMSs, and related reporting mechanisms, to negotiate the attainment of environmental objectives with the private sector. Thus they can better take into account the economic and social implications of the envisaged changes together with their environmental base. As a transparent, role based approach EMS helps to reduce competition among territories based on widely differing environmental standards, while enhancing competitive advantage. The diffusion of EMS will give central governments confidence that local authorities are able to make progress toward national objectives. More study however is needed:

— to acquire a better understanding of the issues raised by the development and diffusion of EMSs and their links to sustainable territorial development;

— to consolidate a multi-stakeholder process by being able to tap and/or support the most interesting initiatives, and trigger innovative territorial policy initiatives adapted to scale;

— to help identify areas that may require harmonised approaches at the technical level, or at policy level (incentive structures for the adoption of EMS's, protocols for data exchange, stake-holder roles as for instance that of the Chambers of Commerce and Industry, etc).

3. The learning city-region

The example of environmental management systems is of a feed-back loop or system, whereby information about conditions and trends enables an assessment to be made of the progress toward objectives. What is important about EMS as a feed-back system is that it makes organisations responsible for monitoring the impact of their own activities on their environment. Such a system is only possible in a society which puts a premium on knowledge-based development, and which has a legal and ethical framework consistent with decentralised and devolved decision-making. This example can be extended throughout the urban economy, to show the importance of information and communication as a form of empowerment.

The phrase "knowledge-base development" may be relatively new, but the concept is not. It has long been recognised that urban economies grow through inputs which stimulate innovation, either in the form of imports that challenge local producers, or in the form of new processes or ideas that are locally created. Efforts to formalise the relations between "thinkers" and "doers" have had only erratic success, and especially when these have involved links between universities and commerce. With the growing importance of hi-tech in the economy, however, questions are again being asked about the links between human capital and competitiveness.

The concept of the learning city-region is of a locality where individuals and organisations become better able to improve their capacity to learn. This may sound circular, but in fact it describes a virtuous circle, one based on mutually reinforcing actions. It further implies a capacity for conscious, objective thinking about how learning in a society takes place, and about the obstacles particular individuals or organisations face when trying to improve their knowledge base. In other words, it is "self-reflexive". The measurement of many different aspects of knowledge-based development in cities is still in an early phase. Notwithstanding the long historical association between cities and the institutions of higher education, research and the media, changes in both education and communication that make networked learning possible have opened opportunities to people and places hitherto marginalised. At the same time, the pressures of competition have made an education strategy essential for any city, whatever its status in the global economy.

Cities are where innovations are incorporated into everyday life, but there is no agreed measure of urban innovation. The criteria for benchmarking the most competitive cities change from year to year, and from one agency or consulting firm to another, suggesting excessive short-termism: for some, lifestyle and a quality environment is most important, for others it is the tax and regulatory structure. But efforts to improve the competitiveness of places take time — 10 to 20 years — a period long enough to span two or three electoral and economic cycles.

Traditional measurement methods looked at such indicators as the number of patents registered, the percentage of employed persons with a secondary or tertiary degree, or the presence of a science or technology park. One recent survey of European cities looked at the number of citations in science journals from 1994-96 based on the city where research for the published papers originated. London came first, with 64 742, followed by Paris with 45 752 citations, then Moscow, the cluster of Amsterdam-Hague-Rotterdam-Utrecht, and in fifth place, with 21 631 citations, Copenhagen-Lund. At the bottom of the rankings were Gothenburg, Budapest, Oslo, Stuttgart and Dublin, with fewer than 7 000 citations. On the basis of papers per 1 000 inhabitants, Cambridge came first with 81, followed by Oxford-Reading with 41, then Geneva-Lausanne with 29; Moscow and Budapest however had three apiece. This kind of analysis was pushed further to classify cities according to the disciplinary breadth of their research centres, and their links to industry. This study shows a distinct concentration in Britain and Northern Europe, and an important role for medium-size cities, suggesting that the traditional links between urban size, complexity and wealth creation which characterised state-building and industrial development in the past will mutate as hi-tech aspects of knowledge-based development strengthens (Wichmann Matthiessen & Winkel Schwarz, 1999).

A recent OECD study conducted by CERI in co-operation with TDS on five "learning city-regions" in Western Europe (Jena, Germany; the Vienne *départment*, France; the Oresund region of Denmark and Sweden; Andalucia, Spain; and Kent Thames-side, UK), generated the following conclusions:

— Secondary education is most relevant to firms at the local and regional level, even if tertiary levels are sometimes more important at the national level;

— The correlations between GDP per capita and individual learning highlight that the use made of individual skills in firms through organisational learning creates growth, and that R&D and patents are not necessarily likely to lift regional output;

— Innovative regional economies do not automatically lower unemployment or exclusion; a lack of social capital will impede learning and economic success. Regional networks can improve the conditions for learning.

— Regional policy can play an important role in breaking institutionalised norms that interfere with education and networking, in creating synergy between sectors and in developing new economic roles, and in blending the new with the old. Co-ordination takes place through many traded and untraded networks of economic and social agents.

— Policy makers too must learn to adapt to changing conditions, but are most likely to do so in response to crises.

— In a sense, the real meaning of the "learning city-region", like that of an "ecological city", is of a place where people are better able to solve problems as they arise. They are places whose very condition is the subject of study and debate. To an extent that has not been appreciated, innovation for cities, to improve them, is something to be cultivated and nurtured. It simply does not happen on its own. Urban policy can help, but precisely because a strong component is "bottom-up", and calls upon the imagination of people, uniform policies will never produce uniform outcomes.

In his most recent book, Sir Peter Hall (1999) concludes that it is difficult to predict where innovations are likely to occur, but this statement is tempered by his reading of history which shows that such places often are located on the margins or borders between regions (what Sir Peter, quoting James Vance, calls "unravelling points", p. 21), that they often are places with an unusually high level of immigration, multiple networks, pathways or circuits connecting people and sectors, and that there must be a certain instability, a genuine uncertainty about the future.

The step is short from a learning city-region with a focus on skills for jobs and innovation in firms, to a learning city-region with a focus on the skills and strategies for territorial development, and on innovation to improve the quality of life in cities. In the past, some of the cities that have been important places for economic innovation have also been places where the city itself has been reinvented. In 1820, Manchester was the city to see; people went to see the future in Paris in the 1860s, Chicago around 1900, London in the 1930s, Los Angeles in the 1960s, perhaps Barcelona or Singapore in the 1990s.

The sobering fact is that many regional, intermediate and metropolitan regions as they exist fall short of our needs and expectations. Rural regions are overly dependent on the public sector for employment,

are handicapped by out-migration and a low skills base, and often suffer from problems of accessibility. Intermediate regions may be overly dependent on a narrow range of sectors, and a lack of jobs for all segments of the population. Metropolitan regions are constrained by the costs of regenerating areas abandoned in the transition from one economic phase to another, by the complexities of integration large numbers of immigrants, and by the high costs of providing adequate infrastructure and amenities, and meeting the demand for a better environment.

No single type of region can take its future for granted, the phenomenon of path dependence or geographical momentum notwithstanding. Like a cluster, a network cannot guarantee that all its members will survive; the relative strength or weakness of an individual component in a network, or cluster, does not however compromise the strength of the network itself. Networks of cities, like clusters of firms, are based on negotiation and compromise, not confrontation; they seek to enhance exchange and welcome diversification. Thus, the regeneration of the Rust Belt in the United States, the industrial heartland of the Great Lakes States from Illinois to Ohio, has strengthened cities like Indianapolis and Cleveland, but not Detroit or Cincinnati. Cities dominated by a single exporting sector organised in a few large firms are much less likely to survive from one cycle to another than cities with a healthy degree of diversification. It is inconceivable that anyone could invent the automobile industry in Detroit today. On the other hand, whatever their problems which are considerable, Istanbul and Mexico City are places where all the different phases of the industrial revolution, from steam engines to software, can still be built and repaired in those cities' myriad small shops, many of which fill in the side streets and alleys adjacent to modern office towers.

Planning is fundamentally an optimistic exercise grounded in assumptions about the potential for and benefits of collective action without coercion. But it is too soon to know whether there is enough political will and understanding to take a proactive approach. Our experience with remedial strategies is greater than with proactive, preventive ones. The logic of territorial development relies on a willingness of people to develop strategic visions of the medium-term future, implemented through public and private programmes of investment. A recent book by Robert Putnam (2000) raises a serious question about whether there will be a constituency for anything like the progressive programmes of Wilson, Roosevelt, Truman or Johnson in the United States in the foreseeable future. Putnam describes the collapse of civic-mindedness in the US. Two statistics are very telling: the number of individuals seeking an elected office at any level has fallen by 15 per cent in the last two decades, meaning that some 250 000 people have not presented themselves, and the percentage of people who acknowledge having attended one meeting in an organisation on any subject whatsoever has fallen by 40 per cent between 1973 and 1994. Putnam makes the point that a generation of civic involvement was a unique historical phenomenon spanning the Great Depression and the Second World War. There is no paradox that this decline in civic-mindedness parallels a remarkable economic boom, given that the consequences can be seen in the extent to which this boom has fed private consumption. The implications are that planning and governance strategies that call for extensive public participation and consultation may be unrealistic. It is an open question whether in respect of the decline of civic-mindedness, other regions of the world are simply 10-20 years behind the United States. They need not be.

Conclusion

It would be a mistake to conclude on a pessimistic note. Ever since the Renaissance, critics of the city have argued that because urban conditions are difficult to predict and control, cities — or at least very large cities — are a threat to economic, social and political stability. In the past, apocalyptic predictions of the collapse of cities have usually exaggerated their vulnerability to external shocks or internal fractures. But the history of cities shows that people can learn to resolve problems that are as difficult to anticipate as they are complex. The possibility of catastrophe cannot be excluded, and it is in any case not clear whether government and the public are more likely to improve urban policy out of fear or out of hope. The challenge lies in harnessing the things that are a positive force in cities — their social heterogeneity and mobility, their openness to innovation and change, their myriad firms and networks of exchange — to the solution of urban problems and to the creation of better cities in which to live and work.

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Chapter 8

IMPROVING METROPOLITAN GOVERNANCE

Metropolitan areas are emerging as key players in the global economy. A major challenge for OECD governments is to enhance the competitiveness of these areas, but at the same time ensure that they are pleasant and safe places for people to live and work. Modern urban problems — such as higher land prices, urban sprawl, traffic congestion, environmental pollution and social exclusion — reduce the ability of urban areas to compete successfully in the global economy and to support sustainable development.

Metropolitan areas are perhaps the most important type of region to consider because they play such a critical role in both globalising networks and in the diffusion of the new economy. A 1999 survey of American urban scholars commissioned by the Fannie Mae Foundation selected the top ten influences for the future of cities. In descending order, the list reads: 1) growing disparities of wealth; 2) suburban political majority; 3) ageing of the baby boomers; 4) perpetual 'underclass' in central cities and inner-ring suburbs; 5) initiatives to limit sprawl; 6) the internet; 7) deterioration of post-1945 suburbs; 8) shrinking household size; 9) expanded superhighway system to serve new edge cities; and 10) racial integration. Most of these items, which are extrapolations not emergents, are negative. This list indicates that the social and environmental dimensions of development are likely to be more important than, and more difficult to solve, than the economic ones.

The governance of metropolitan areas is critical to their ability to solve problems and to grasp the opportunities that the global economy offers. Three of the main obstacles to better metropolitan governance are:

1 *Fragmentation of administrative jurisdictions within metropolitan areas* which results in lack of correspondence between administrative and functional territories, and inhibits cross-sectoral policy integration. This situation, which tends to favour, and be defended by, vested interests, results in a complex policy environment in which area-wide consensus is difficult to reach on important multi-faceted medium and long term goals such as environmental quality, economic development and competitiveness, social cohesion, equitable public finance, and the level and quality of public services across the urban region.

2 *Strain on the financial/fiscal ability of local authorities in metropolitan areas,* which face additional charges at a time when economic and social conditions have deteriorated for many groups of the population, and when major investments in infrastructure are required to enable metro areas to compete in the global economy. In many countries, decentralisation has been used as an opportunity for upper levels of government to download responsibilities to the local level without introducing the corresponding, but politically difficult, financial and fiscal reforms.

3 *Lack of transparent, accountable decision making processes and of clear political leadership at the local level.* There is a growing demand for more democratic, less hierarchical, more flexible, transparent and accountable systems of governance for all types of territories, urban, rural and mixed, based on more horizontal networking with a wide range of partners from the private sector and community groups.

The governance arrangements for metropolitan areas of OECD Member countries display various combinations of a number of key characteristics. This explains the difficulty when defining individual cases and classify types of metropolitan governance encounter. It is also important to bear in mind that

metropolises are entities subject to constant transformations and thus, the mechanisms and instruments designed to govern them must evolve according to the changing local conditions.

Whatever the starting point, or the particular problems that have to be faced, a clearer definition of roles and responsibilities of the different levels of government involved in the metropolitan area is crucial to better implement decentralisation, the principle of subsidiarity, and to introduce more coherent and responsible governance. Whatever the specific institutional arrangements adopted, it is essential that metropolitan governments:

— embrace a new, more democratic concept of governance — which is less "top-down", less bureaucratic, and puts people at the centre;

— introduce more flexible "outcome-oriented" strategic approaches which integrate the sectoral policies of different levels of government intervening in the metropolitan area and provide a framework for managing change in the entire urban region more successfully;

— develop the skills and capacity required to lead partnerships (which provide a flexible tool for achieving a wide range of purposes) in co-operation with the private sector and civil society and to employ performance criteria to improve transparency and accountability criteria in decision-making.

This new approach is essential in view of the greater interdependence, complexity and often contradictory interests of all the stakeholders in metropolitan areas.

1. Frameworks for change in metropolitan governance

Successfully managed change cannot, however, be achieved piecemeal. It requires both a planned framework and a goal. The purpose of the Principles is to suggest to OECD governments ways of building that framework and of achieving that goal.

Although the process of reform of metropolitan governance which is taking place in many OECD countries, if successful, will create stronger metropolitan governments, the role of central/state governments will remain important to ensure that the process of change and its effects are carefully managed, and to avoid excessive competition between cities. Central governments should make clear that the best way for cities to attract investment is by providing appropriate frameworks for economic activity, rather than through investment incentives. The ability of central government itself to adapt and modernise in the face of change (for example by integrating innovations generated at the local and metropolitan level) is central to the emergence of better metropolitan governance. Central governments will also be increasingly concerned with improving co-ordination, as metro governments take on a life of their own and participate in national and international arenas. There is considerable scope for central governments to support structures or exchanges where city leaders can discuss key urban issues and policies in co-operation with national government. Increased coherency between the policy stances of national and metropolitan governments would strengthen the credibility of national governments in international arenas.

There is no single ideal model of governance for metropolitan regions. However, some common elements, which underlie good governance in metropolitan areas, have been identified. The principles build on these common elements. They are non-binding and do not aim at detailed prescriptions for national or sub-national legislation. The principles are evolutionary in nature and should be reviewed in the light of significant changes in circumstances. To remain competitive but liveable places, metropolitan regions must innovate and adapt their governance practices so that they can meet new demands and grasp new opportunities. National/state governments have an important responsibility for shaping an effective framework that allows cities to function effectively and to respond to the expectations of citizens and other stakeholders. It is then up to local government and the communities to decide how to apply these principles in developing their own frameworks for metropolitan governance.

2. Implementing the principles of metropolitan governance: Policy guidelines

The following policy guidelines provide an illustration of how the metropolitan governance can be improved by government at all levels.

Central government

To achieve the goal of more competitive and liveable metropolitan areas, central levels of government are advised to:

— Improve their understanding of the multiple roles now played by metropolitan areas on the local, national and international level.

— Maintain and develop policies that strengthen nation-wide solidarity and work towards greater equilibrium between individuals, territories and generations.

— Examine how policies to enhance metropolitan areas as "gateway" cities in the global economy can be harmonised with: policies for balanced spatial development of urban settlements nationally; policies to encourage endogenous economic and cultural activities, and more generally, policies for high quality living and working environments locally.

— Within the framework of national strategies for decentralisation and rationalisation of government, develop more explicit urban strategies and announce a clearer policy stance in respect of the future role of metropolitan areas.

— Facilitate, when necessary, institutional and financial reforms to enhance metropolitan wide co-operation, more appropriate public finance, strategic planning, and more transparent and accountable governance.

— Accompany decentralisation and institutional and financial reforms at the local and metropolitan level with innovations to modernise the public sector (for example, introduce new technologies and management approaches, an outcome-oriented focus and budgets, greater political legitimacy of local leadership).

— Change the culture of governance to make it more horizontal (working with partners from business and civil society), transparent, accountable. Governance should be focused on people and outcomes rather than being rule-driven and top-down.

— Integrate national sectoral policies at the metropolitan level within area-based "whole-of-government" strategies driven by the goal of sustainable development.

— In co-operation with local, metropolitan and regional authorities and civil society, implement the principle of subsidiarity. This will require more careful targeting of the administrative and territorial levels at which different policies should be applied (for example, the bioregion for certain environmental policies).

— Promote the introduction of new technologies as a key tool of governance. The introduction of new technologies has been shown to act as a catalyst for policy integration at the local and metropolitan level.

— Improve understanding of the relationship between, on the one hand, macro-economic national objectives and financial and fiscal policies, and, on the other, metropolitan-level objectives and financial and fiscal policies. In the current situation, the pursuit of good national credit ratings, compliance with EU financial regulations, fiscal federalism, and capping of local budgets may act as a brake on institutional reforms in metropolitan areas and on investment in urban infrastructures.

— Reduce vertical fiscal imbalances where these persist to accompany administrative decentralisation with greater financial autonomy. Reinforce accountability, controls, and ethical standards to fight corruption at the local level.

— Improve access to capital markets for major urban infrastructure investments, coupled with regulations, guidelines and staff training to enable the public sector to better negotiate with the private sector with a view to securing long term economic, social and environmental returns, as well as the purely financial returns pursued by the private sector.

Metropolitan level government

At the metropolitan level, government is advised to:

— *Institutions and finance:*

* Introduce, as necessary and to the extent possible within the limits of local competence (which varies from country to country) more politically legitimate, accountable and responsible metropolitan authorities or stronger inter-municipal co-operative bodies, and align administrative jurisdictions more closely with functional territories.
* Improve co-operation between local authorities and regional bodies to achieve key local and regional outcomes through a "whole of government" approach.
* Inform and prepare public opinion through timely information and debate in order to transmit the message that all parts of the metropolitan region are important for the good functioning and image of the urban area as a whole. This is necessary in order to achieve maximum support for proposed reforms.
* Improve the availability and equity of urban public finance by (in addition to national measures) local measures to reduce intra-metropolitan fiscal imbalance; improve the revenue-raising base (user charges, changes in property taxes); introduce outcome-oriented budgetary procedures, better control expenditures (monitoring and performance management); and develop co-operation with the private sector (service provision and investment in infrastructures).

— *Liveability and competitiveness:*

* Seek a balance between national and international objectives and the objectives for metropolitan or neighbourhood level. This aspect of governance has become particularly important due to the spatial impacts of globalisation on urban territories and on socio-economic disparities within urban regions.
* Play an active role as a leader and partner in local strategies to improve competitiveness, of which quality of life is an intrinsic component. Vibrant, adaptable economies create good living conditions on which social harmony, tolerance and democracy thrive. This belief underpins the rationale that led to the creation of the OECD. The pursuit of social cohesion, quality of life and competitiveness does not have to be contradictory.
* Develop monitoring frameworks to benchmark and measure progress towards goals and to allow comparison with other cities. Make this information widely available from numerous sources on a regular basis.
* Ensure that restructuring of urban land markets (e.g., rehabilitation of brownfield sites) takes place within a governance framework which safeguards social capital and enhances endogenous skills and employment in small and medium sized enterprises, avoiding over dependence upon international companies. Special attention is required to ensure transparent and accountable decision-making processes to avoid corruption and illegal pressures (for example, on small landowners to facilitate the assembly of larger land lots without appropriate compensation).
* Integrate central cities and their suburbs. Globalisation can accentuate socio-economic spatial disparities in cities that in due course will reduce competitiveness. Integrated strategies (often based on contracts or agreements among government and key stakeholders and focused on specific territories) have been introduced in some countries (*e.g.*, France) to counteract this trend and to integrate city centres and their suburbs. Stronger metropolitan wide structures and strategic planning are likely to help in achieving this goal.

— *Social cohesion and democracy:*

* Work in partnership with business and other societal actors to open up metropolitan governance. The concept of partnership can, however, be ambiguous and has to be defined clearly. Successful partnerships need a clear vision; clarity about what partners will do; critical mass and resources; targeting; leadership and teamwork/working with conflicting interests; equality between partners; and, evaluation.

* Identify and remove institutional barriers to effective local democracy. Metropolitan level institutions require mechanisms that provide fora for open debate and conflict resolution, accessible to urban neighbourhood groups, municipalities, and the business community. The emergence of new actors is considered to be critical for improving metropolitan governance. The strategy of opening up the system to new stakeholders is accompanied by a certain degree of risk and does not always elicit the intended results.

* Enhance the legitimacy of metropolitan leadership through more direct elections and more democratically constituted policy agendas. If increasingly diverse urban populations are to identify more with their region and neighbourhood, urban governments will have to make special efforts to develop "a feeling of belonging" and greater solidarity, and to allow citizens to exercise greater pressure on the processes of governance and the decision-making process. For this, citizens and the business community should be encouraged and enabled to participate in the development of local and metro wide agendas and not just be faced with "cafeteria choices" which often produce apathy and lack of civic engagement when the agenda offered does not correspond the aspirations of the citizens.

* Improve voting systems and consultations (*e.g.*, referenda) of the public on specific issues. Major challenges are to increase turnout at local government elections and to include particular groups of citizens such as ethnic minorities and young people who remain outside the political process.

* Preserve and enhance social capital that is essential for democracy and competitiveness. Social capital takes a long time to build, but can be destroyed rapidly. In today's metropolitan areas, social capital is challenged strongly by social and economic marginalisation. Competitiveness is not only about production and innovation in the production process, but is also about the process by which human capital is renewed in metro areas. This is a special challenge in metropolitan areas whose population is increasingly diverse, ethnically and culturally. The objective of raising the young to responsible adulthood in today's climate of economic uncertainty and social diversity is central to a sustainable economy.

* Prioritise issues of gender, not only in terms of including more women in the decision making process, but in terms of the need to change the nature of democratic discourse in relation to both the theory and practice of community action. To be truly democratic, decision-makers need to ask relevant questions that take into account the everyday life of people, which seemingly objective, technical information does not always communicate well. Organisations such as the Finnish sponsored Eurofem Network work to support this view by collecting, analysing and disseminating information about urban projects designed and developed by women.

* Treat citizens as customers with a right to a contractual relationship with service providers (public or private). This will require a change in perceptions of how the public relates to local government and private sector providers. It involves norms and values that have been built up over a long period. Public participation initiatives can involve complaint procedures, citizen satisfaction surveys, citizen's charters, public forums and focus groups, and citizen panels.

— *New technologies:*

* Support the introduction of new information technologies (telematics) to improve urban governance. New information technologies applied to governance can provide a precious tool for improving local democracy by for example: facilitating voting; providing easily accessible information, monitoring and evaluation of key urban indicators; making the decision making process more accountable and transparent. Government has a role to play in ensuring that new technologies are accessible to all socio-economic categories.

3. Governance and non-OECD Countries

The call for change in the governance of metropolitan areas in OECD countries has also to be viewed in the context of the unprecedented explosion in the growth of urban centres in the developing countries and in relation to the role of these cities in the world economy and within their own countries. Although the magnitude of the problems they face and the resources available to deal with them differ tremendously from OECD countries, the issues they face in terms of decentralisation, adapting to a globalised-information based economy, and co-operation with the private sector are similar.

There is, therefore, scope for a policy dialogue and an exchange of experience about ways and means of improving the governance of metropolitan areas. Without metropolitan area strategies integrated into good national and regional policy frameworks which limit massive shifts of population towards metropolitan areas, these countries risk even more uneven development with the emergence of global megacities (often ports) which function mainly in relation to metropolitan areas in other countries, without economically integrating neighbouring provinces, cut off by lack of good transportation infrastructures. This trend can already be seen in certain coastal cities of China such as Shanghai. The need to demonstrate the utility of good governance through examples of good practice in OECD countries is, therefore, an additional incentive for OECD Members to introduce viable models of urban governance, which support the goal of sustainable development, good living standards and democracy.

Chapter 9

RURAL TRENDS AND POLICY ISSUES

Introduction

The aim of this paper is to review briefly the main trends affecting rural areas across the OECD and identify some of the key policy (re)orientations that are emerging as a result.

The shift in the nature, content, and administration of rural policies in many OECD countries during the 1980s and 1990s has been noted in numerous reports and studies, including those of the OECD. The changes observed concern both 1) shifts in the policy focus and 2) adjustments to the governance structure, in particular:

— a shift from an approach based on subsidising declining sectors to one based on strategic investments to develop new activities;

— more attention to quasi public goods and "framework conditions" which support enterprise indirectly;

— a focus on local specificities as a means of generating new competitive advantages, such as amenities of an environmental or cultural nature or traditional or labelled local products;

— a shift from a sectoral to a territorial policy approach, including attempts to improve co-ordination and to integrate the various sectoral policies at regional and local levels;

— decentralisation of policy administration and, within limits, policy design to those levels;

— increased use of partnerships between public, private and voluntary sectors in the development and implementation of local and regional policies.

Even though in many countries, sectoral policies, centralised sectoral administration and subsidies to maintain existing activities remain very important, there seems to be a consensus that rural policy is evolving. In this chapter, we will look at the main assumptions underlying this evolution and then the specifics of the policies themselves in different OECD countries.

1. Rethinking the key issues

The shared challenges facing rural regions

Rural areas, in general, still face particular challenges in comparison to metropolitan and even intermediate areas. Three specific concerns are often identified.

First, even if farming is still important in shaping rural land use, employment opportunities in primary industries (largely agriculture) are declining. Moreover, in many rural areas, public sector employment has been the main component of employment growth, but in a climate of fiscal restraint this source of jobs is likely to contract.

Second, out-migration of young people caused by both lack of employment opportunities and inadequate access to educational and leisure facilities, along with in-migration of retirees in some places, has led to significant ageing of the population. The resulting demographic structure is often not sufficient to support provision of adequate public services.

Finally, most rural areas have difficulty establishing the necessary critical mass of facilities, producer services and investments to support economic development so that entrepreneurs have difficulty starting up enterprises in the area.

Yet, despite important economic and demographic challenges, sustained development has been observed in certain rural areas, with sources of economic success ranging from dynamic SME clusters to dynamic niches marketing in the agro-food industry, and rural tourism. As a result, policymakers are increasingly coming to recognise that economic prosperity is not restricted to metropolitan areas and that many rural areas can 'fend for themselves' in the global marketplace in a wide variety of different ways — in other words, *rural areas are no longer synonymous with decline*. The reasons are the following:

— Urban manufacturing and service industries started to relocate to suburban and rural green-field sites where land was more plentiful and cheaper. The availability of more diverse employment opportunities in some non-urban areas also served to increase population movements from urban to rural areas.

— Sustained endogenous development has also been observed. This has involved both intermediate and remote regions, with sources of economic success including dynamic SME clusters and industrial districts, development of diversified agro-industries, and rural tourism. In these areas, growth in local industries has reversed patterns of economic decline and out-migration.

— Residential location decisions place increasing emphasis on quality of life factors, including proximity to open countryside and natural amenities. This has resulted in people moving from cities to rural areas attracted by a pollution-free, easily accessible natural environment.

— Increased demand on the part of urban dwellers for amenities in rural areas, given that improved transport links make recreation in rural areas increasingly feasible.

At the same time, the role of commodity agriculture in rural development has weakened. Of course, some rural places still owe their growth to the new ways in which agriculture produces commodities. In some regions, farmers still assure income and even employment development by signing contracts with a major food company to deliver precisely grown products on a pre-set schedule. However, such a successful move to a 'supply chain' organisation changes not only *how* agriculture does business but also *who* does business and *where*. In most of the cases, supply chains include relatively few farm producers (so to minimise the costs of managing highly integrated business alliances) and lead to a geography based on concentration in relatively few rural places. With few farmers and fewer suppliers where they locate, the economic impact will be different than with the commodity agriculture of the past.

Pushing things a little further, one is tempted to state that today *rural is not synonymous with agriculture*, and even that agriculture is no more longer the backbone of rural areas. In any case, data collected from Member countries make clear how dysfunctional a single sectoral definition of rural areas is. Even among the most rural regions of OECD Member countries only one out of five jobs is in the agricultural sector (including forestry and fisheries) and employment shares of the industrial sector (including mining and construction) are higher than those for agriculture. Moreover, almost everywhere, agricultural employment is declining not only in relative but also in absolute terms.[60]

Yet, agriculture may plays an important role in shaping the rural landscape, and it remains a wellspring of national support for development. However, this seems to make sense if agriculture is conceived more as a part of a restructuring process towards multi-sectoral approaches (which encompass agriculture as one component of a comprehensive rural development policy) than as a traditional sector producing commodities as well as positive or negative externalities.

A crucial implication is that while for a long period of time agricultural policies have been considered as synonymous with rural policies, an approach extendinged far beyond agriculture is today required today to cure rural ills. The interests of the majority of rural citizens, and even most farm families, are no longer (if they ever were) best served by sectoral policies, since they increasingly depend on employment and income generated by a complex mix of interacting economic activities. This is why a shift from an approach based on subsidising sectors to one based on strategic investments to develop new activities is increasingly expected.

The rationale for a "rural policy"

The rationale for a territorial approach to rural policy is the result of the fact that the shift in the economic base of rural areas away from agriculture should be accompanied by policy intervention. Many but not all rural areas still suffer from relatively low incomes, high unemployment and underemployment, poor quality of employment, outward migration of young people, and low quality services. This may raise concerns of equity and cohesion (for example within the EU rural policies are essential for the achievement of cohesion objectives in Objective 1, countries like Greece and Portugal). Although, sub-national differences are not a new phenomenon, they may become a growing political concern for at least two reasons.

First of all, sound macro-economic policies (ensuring national growth together with stable prices and healthy government finances), as well as structural policies (improving the efficiency of markets) will not be sufficient to deal with new and more intense rural problems. Indeed, globalisation is putting beyond the reach of national governments more and more of the economic, social, institutional and legal parameters that were once under control. National barriers to competitions and all sorts of regulation are being progressively dismantled and removed. Exchange and interest rates are less and less susceptible of manipulation by administrations. Thus, by loosing national ties and enforcing international competition, globalisation confronts rural areas both with development opportunities and with threats not previously known. On balance, globalisation is expected to bring gains to economies in their totality, but it will nonetheless pose severe problems of adjustment to a good number of rural regions. Consequently, growing expectations will be made of territorial policies so to complement macro and structural policies.

Secondly, traditional territorial policies, concerned with the equitable geographical distribution of resources, are not going to be an appropriate answer to the new conditions engendered by globalisation. Assistance is not only difficult to practice for cost reasons; it raises doubts about its efficacy. The option that appears reasonable calls for mobilising local resources and local collective goods to support comparative advantages for local firms, local entrepreneurship and innovation as well as to assure social cohesion (by, for example, facilitating 'welfare to work' policies to integrate the unemployed and excluded). In short, change in emphasis from fiscal policies to development strategies can add impetus to the restructuring of national economies by reinforcing the capacity for self-generated change.

A key change in thinking about rural policy has resulted from the emergence of a more general policy concern with sustainable development. This marks a shift in thinking from the idea of development as a process mainly or entirely linked with economic growth to one based on increases in the quality of life. In fact, some rural areas contribute to the quality of life of society as a whole because they contain important public or quasi-public goods such as a clean environment, attractive landscapes and cultural heritage. This wide range of amenities can be a source of economic development, (in many cases the only potential factor of comparative advantage relative to other locations), either through the direct exploitation of resources or by creating conditions likely to favour economic activities. Potential economic opportunities range from developing green tourism packages (farm holidays, nature holidays, theme routes and discovering of natural heritage), promoting local products (traditional farm foods, goods requiring high quality water or other locally produced materials and craftwork using specific raw materials, skills or heritage), attract residents and enterprises to the area.

Last but not least, a series of recent events have put rural policies on the international agenda, including the OECD agenda. Why has this happened, given that in most instances, rural issues are domestic in nature and policy decisions are taken on the basis of purely national considerations?

2. Rural policies in the international arena

At least two elements are available to explain the growing international concern for rural policies. One has to do with the need to experiment and spread all over countries best practices in a field that needs to extend far beyond the limited boundaries of the agricultural policies. The second explanation comes from the fact that in some important areas — notably agriculture, trade and sustainable development — the policy approach taken in rural areas has important international implications.

Let's start with the debate on multifunctionality that illustrates well the second explanation for an international interest in rural policy-making. The term multifunctionality[61] is used to convey the notion

that agriculture can play several roles in our societies in addition to its primary function of producing food. While well-defined markets exist for food, agriculture's other functions may involve services for which markets are imperfect, do not exist, or have not yet been developed. Multifunctionality is neither a new issue nor it concerns a single sector as agriculture, but the growing attention given to the non-commodity outputs of agriculture has augmented its policy relevance.

The policy context lies, firstly, in the increased demand for certain of the non-commodity outputs of agriculture, and in some cases, a diminishing supply, resulting from demographic changes, lack of economic growth in many rural areas, changing farming practices and the declining importance of agriculture in the economy. Governments have become more concerned about ensuring that the non-commodity outputs of agriculture correspond in quantity, composition and quality to those demanded by society. In some cases they are looking for appropriate policies to help regions valorising their natural and cultural endowment so to attract more tourists, make them pay for the reproduction of beautiful landscapes and support farmers to do so. In other cases, following the principle of targeting policies to their specific objectives, governments are considering to facilitate the production of non-food outputs without subsidised extensive agricultural production, but rather building appropriate regional development agencies (sometimes within the framework of natural/cultural parks) provided with block grants for infrastructures, labelling and marketing support for local niche-products, and development of rural tourism initiatives. More complicated is the case of pure public goods for which a market is difficult to create or may concern future generations' interests. In all these cases, the international arena provides governments with a seminal ground for exchange of information and best practices.

On the other hand, the growing concerns about multifunctionality of agriculture coincides with the opening of negotiations to make further reductions in trade distortions, which countries agreed to limit in the Uruguay Round Agreement on Agriculture. Countries are increasingly committed to further progressive reductions in domestic agricultural support and border protection, and to shift away from policy measures that encourage higher levels of food production and input use, towards measures that are less distorting of markets and trade. Some Member countries are concerned that reductions in production-linked support and trade liberalisation may, through a decline in food production, reduce some of the positive non-commodity outputs of agriculture below the levels desired by society. For what concerns rural development the endangered non-commodity outputs of agriculture would be mainly the contribution to viable rural communities and the provision of rural amenities for present and future generations. Conversely, there are fears on the part of the trading partners that those countries might try to safeguard their non-commodity outputs through the continued protection of their domestic food markets, or even expand these outputs through measures that lead to increased food production. In short, underlying the debate on multifunctionality are some "non-trade concerns" evolved in the context of multilateral trade negotiations.

The standard policy recommendation in situations where a combination of private and public goods is produced, is to let market forces freely determine the level of production, consumption and trade of the private goods, while at the same time addressing any under-provision of public goods and any positive or negative externalities through targeted and decoupled policy measures. Moreover, each public good objective or externality should be addressed through a separate policy instrument that influences the target variable directly. This standard recommendation corresponds to the well-known result from the theory of economic policy that, in order to simultaneously achieve a set of objectives, the number of policy instruments has to be equal to or greater than the number of goals (Tinbergen, 1952).

The challenge for the work on multifunctionality is to test the validity of the standard policy recommendation against the aspects introduced by multifunctionality: the simultaneous consideration of the various positive and negative effects of agriculture and their externality and public good aspects. The eventual goal is to establish principles of good policy practice that permit the achievement of multiple food and non-food objectives in the most cost-effective manner, taking into account the direct and indirect costs of international spill-over effects, *i.e.*, the costs on poor and developing countries due to trade distortions. The discussion is entering now in its crucial phase and it is likely to require more in depth conceptual clarification.

At this point it is possible to recognise links between rural issues and the international agenda. An initial tentative suggestion from the rural debate is the following: if rural is not in itself synonymous with decline nor with agriculture, if productivity gains in agriculture tend to reduce the sector capacity to cre-

ate jobs, then viable rural communities may better be assured by comprehensive area-targeted programmes than by traditional agricultural production-linked payments. Such a suggestion does not erase any kind of measure related with agricultural production. On the contrary, in regions where ageing populations and geographic conditions inhibit the growth of non-agricultural jobs, block grants for area-targeted programmes may even give rise to monetary support to farmers. The point is that area-targeted programmes focus on declining and restructuring rural regions and, at least for this reason, assure limited trade distortions. The same cannot be said for agricultural policies linked to production which raise output in both wealthy and marginal rural regions and, by definition, support the most efficient farmers. In short, a shift from a sectoral to a territorial policy approach, including attempts to improve co-ordination and to integrate the various sectoral policies at regional and local levels, may result in cost-effective practices with a higher possibility to reach consensus in multilateral negotiations.

Moreover, the rural debate questions whether man-made rural landscapes that are recognised as a value for present and future generations are the result of ancient techniques endangered by new method of production, or are a joint output directly related with the quantity of agricultural production. In the former case, production subsidies that raise profitability of extensive agriculture may reduce the desired quantity and quality of rural amenities, while instruments such as labelling, transfer to farmers of part of tourists expenses via tourist taxes, transfer to traditional farm-families and villages (instead of farm production), purchase and transfer of land development rights may have higher efficiency. Tuscany without olive trees would maybe not be Tuscany anymore, but with many more olive trees Tuscany would maybe resemble Andalusia.

To what extent these suggestions from the rural debate will appear in next months in the agenda of international trade negotiations in the coming months is difficult to say. Still, many practitioners and policy-makers see in them a useful tool for possible agreements.

3. New issues in rural policy-making

Together with new reasons for a territorial approach to rural policy, new issues are increasingly shaping the policy design and implementation. Let's focus on two of them.

The first issue has to do with the fact that past public policies have made simplistic distinctions between rural and urban areas, and furthermore have tended to focus on rural areas as homogenous, with uniform problems and similar opportunities, as opposed to those of urban areas. Such an approach no longer reflects the present development opportunities for rural areas. The unit of analysis and intervention has changed. In many cases, the definitions of separate urban-rural forms, functions and societies have become obsolete. Daily commuters from scarcely populated municipalities in suburban areas of London or Paris have values and behaviours that are much closer to those of inner cities residents than to the values and behaviours of residents in small and medium sized towns in predominantly rural regions. In this context, the crucial unit of analysis and intervention is not the small municipality but the functional region, defined in terms of its local labour market or commuting area. Rural and urban cannot any more be an easy substitute for sectoral *Weltanschauung* (outlook) and interests.

Furthermore, the traditional approach failed to take account of the actual diversity among rural areas. The business environment of the French Auvergne, Tuscany in Italy, the Spanish region of Andalucia and Portuguese Alentejo, for example, are fundamentally different. All of them are rural areas — with low population density and significant agricultural land use — but their development patterns are significantly different.

Why do regions have such distinct performance profiles? What are the structural differences between regions and which factors contribute to explain the different performances? Which typology of regions should be taken into account in policy-making? Regions have certain basic resources and characteristics that to a large extent shape their development trajectory and potential-geographical location, proximity to markets, topography and climate, natural resource endowments, industrial heritage, endowment of human, social and physical capital. The point of departure for policy-makers should be the identification of possible development strategies per type of region. General measures applied uniformly across *all* regions are often ineffective and even inappropriate at a time when territorial diversity is increasing. Areas with abundant service networks, a skilled workforce and physical and intangible infras-

tructure can take advantage of their externalities to strengthen their comparative advantages and expand their market power. But other territories in which agglomeration effects are smaller have difficulty in achieving the necessary critical mass that would allow for competitive and coherent production, even in specific market niches, and may be threatened by depopulation and decline. Moreover, although a large stock of technologies is available, access costs and the ability to make optimum use of these technologies vary considerably across territories, depending on their sectoral mix, business cultures, technological infrastructure and skill levels. Even the new information technologies that obviously make the factor of distance less important do not necessarily lead to more uniform spatial patterns. For these technologies, like others, specific territorial strategies are necessary, given the local differences in absorption, the differing SME fabrics and the significant technological gaps that continue to exist across regions.

The need to develop tailor-made regional policies has been implicitly recognised by central governments. At the same time, experts are aware that it would be unrealistic for central governments to tailor policies to *each* region given the complexity of implementing procedures and the prohibitive co-ordination costs. A middle course may take into account regional types that should be targeted by specific policies. Many governments have identified maps of eligible areas using appropriate criteria. These criteria vary considerably. They may be geographical in nature (for example, the fact that the areas are located in remote mountain regions as in Switzerland,[62] or outlying regions as in Sweden[63] and Finland) or socio-economic criteria (in terms of poverty in Mexico[64] or labour market characteristics in Germany). These maps are generally revised periodically to take account of economic trends and the fact that some territories are catching up while others are falling behind. In the EU, the structural funds granted by the Commission supplement the Member countries' initiatives and add a European map to national maps. Since the 1989 Reform, this map negotiated with Member countries has been based on a more detailed assessment of regional problems, and four types of regions — today reduced to two — have been identified.[65] For each of these types, the Community has defined policy objectives to be implemented under the structural funds.[66] In the EU again, the development of border areas is strongly suggested, influenced by the need to establish and/or consolidate ties and joint initiatives with the area located on the other side of the border. Policymakers should take into account the specific influence of these inter-regional networks to base targeted policy.

The change in unit of analysis and intervention is of course closely related with the efforts to replace large-scale subsidy programmes with a more selective approach using packages of co-ordinated measures focused on the development of the economic fabric of lagging rural regions. These forms of aid tend to supply collective services either to improve the quality of the business environment or build social and human resource capital, thereby indirectly helping local enterprise. In many countries, it is assumed that endogenous development capacities and entrepreneurship are latent in rural areas and that specific measures (centres for services, loan guarantee consortia, promotion of labels, community collages, etc.) to encourage them are needed in order to bring out local dynamics of business creation and development. Thus, the new course of action has led to more attention to quasi-public goods and "framework" conditions that support enterprise indirectly.

The second issue that is increasingly shaping the rural policy design and implementation is common to a large range of policies and has to do with the fact that local and regional governments have been brought more strongly into the picture. The diversity among rural places makes it very difficult to design a national rural development policy which can take into account locally specific needs at the same time as geographically balanced objectives of national economic development. Traditional concerns related to fiscal federalism, the effort to secure effective citizen participation in decision-making, as well as the necessary consensus to design and implement policy imply an active role for different levels of governments (local, regional, national and international). Many countries have thus embarked upon reviews and reforms moving in the direction of decentralisation and devolution of economic and social decision making and programme management.

Depending on the chosen degree of decentralisation, governmental entities at the lowest levels are increasingly being invested with new mandates and are having to cope with a multiplicity of issues spanning a variety of geographical areas (*e.g.*, environmental problems involve ecosystems and unemployment affects employment areas). Increasingly, these different areas cut across separate administrative entities. To adapt to such a scenario of shared authority, territorial dynamics and new economic realities, central administrations have begun to prompt the formation of new structures for territorial governance by encouraging and setting forms of vertical and/or horizontal co-ordination between the institutional parties involved.

The development of rural areas is based more and more on interactions with adjacent areas. The inter-regional aspect is not always taken into account at the international level because these cross-border zones do not coincide with traditional administrative divisions. Differing regional fiscal and regulatory regimes and diverging levels and rates of development are equally obstacles to intensification of spatial relationship between neighbouring areas. Co-operation between communities and the putting in place of horizontal partnerships between public and private actors over areas sufficiently large to define coherent, common strategies have been seen as the most effective means by which to take into account these new forms of territorial development. These flexible forms of governance permit governments to exploit better local complementarities and, notably, to ensure continuity in infrastructural development through the sharing of public investments.

In practice, a wide variety of institutional arrangements for the delivery of rural policy has been noted in OECD countries, but some common features are:

— Decentralisation towards regions and localities, sometimes involving efforts at community 'empowerment', in order to better meet diverse needs and conditions found in rural areas and tap local knowledge and other resources.

— Support for "bottom-up" development initiatives, for example through the Canadian Community Futures Programme and the EU LEADER programme.

— Attempts at better co-ordination of policies affecting rural areas at central levels through inter-departmental and inter-ministerial working groups or committees, sometimes paralleled by rural affairs committees in national parliaments, and possibly involving various forms of "policy-proofing" to ensure that all policies consider the rural dimension (policy proofing is the process by which a designated body "proof-reads" legislation to verify that rural issues have been adequately considered).

— Greater co-ordination and co-operation at regional and local levels usually through partnerships involving the different public departments and agencies as well as private and voluntary sector interests.

An important trend has been the apparently growing power of the supra-national level on the one hand, and the regional level on the other, as compared with the national level. This is not just a matter of changes in the distribution of administrative functions between levels, but also political and institutional changes, such as the extension of EU powers, the creation of a Committee of Regions at EU level, Scottish devolution, and the creation of regional governance structures where none existed before in several OECD countries. Moreover, there are new institutional structures of local development emerging in some countries which cut across traditional administrative, geographical, and sectoral boundaries, examples being the Regional Nature Parks in France, LEADER local action groups, and Local Agenda 21 activities.

It is widely argued that development policy and practice must allow for diversity in the goals and objectives of development, must acknowledge that it should include social, cultural, environmental as well as economic dimensions, and should allow for democratic processes at all levels. The idea of local and regional partnerships is often a step forward, and the inclusion of social and environmental groups (NGOs) in such partnerships within the EU is another sign of progress, but more needs to be said about democratic processes and participation of rural people. In some cases, partnerships have lacked open and transparent procedures and accountability to local populations. In other cases partnerships have proliferated along sectoral lines, leading to multiple partnerships in any one locality or region which frustrate or hamper the goals of "integration", and, often, lead to "partnership fatigue". Some relevant questions for policy development are:

— How can partnerships be made more open, accountable and democratic?

— How can the participation of citizens in public decision-making be improved, especially in very sparsely populated areas with scattered settlement patterns?

— Should partnerships be re-organised on a territorial basis to serve the needs of planning for integrated rural development at local and regional levels and avoid proliferation of sectoral partnerships?

— Should partnerships be mainly means of joint strategic planning, monitoring and assessment or should they be decision-making or implementing bodies as well?

Perhaps there should be a stronger role for democratically elected local authorities in local and regional partnerships, and that a single local or regional partnership should deal with all social, economic and environmental aspects of territorial strategic planning for development. It may also be that in some sparsely populated areas, levels of local government are too remote to permit easy access to services and decision-making processes by rural citizens. Central government financial support, negotiated on the basis of the territorial plan, could take the form of a global grant and rather than being subject to complex *ex ante* administrative rules and conditions, financial control could be in terms of *ex post* outputs and outcomes or results.

At the level of central government, there often remains room for improvement in co-ordination of the various ministries and departments responsible for policies affecting rural development. Judging by recent developments some key elements seem to be:

— Policy "proofing" by a senior inter-departmental or inter-ministerial group. This group sees policies affecting rural areas during their formative stages, is able to point out possible problems for rural areas and can propose amendments. For example, the group may look at policies for housing, transport, telecommunications, water and waste disposal, postal services, education and training, health, regional development, agriculture and environment, national parks, local government, and so on.

— This process is likely to be stimulated by the presence of a Rural Affairs Committee in the Parliament, with a territorial rather than a sectoral remit, since this will ensure senior civil servant participation in any inter-departmental or inter-ministerial group.

— Allocation of rural co-ordination responsibilities to one senior Ministry or department which must chair the inter-departmental or inter-ministerial group.

This partly refers to the continuing role for central Government in terms of macro-economic management, which will have rural implications, but it goes beyond that.

Another role for the State is in ensuring that there is a good flow of information about rural development activities and their results. In many cases this is undertaken through national or supra-national networks of local partnerships (as for example in the European LEADER Observatory) which exchange information, run training seminars, and provide documentation on "good practice", etc. Such activities need to be supported by active research, which can codify and validate results, and raise issues to be addressed.

Conclusions

Rural policy has seen significant developments in the past two decades. Several Member countries have completely overhauled their rural policies in recent years, while most have undertaken significant reforms. The key elements have of these shifts have been:

Relating to the governance framework of policy…

Efforts to improve central co-ordination of a wide range of policies affecting rural citizens through institutional arrangements for inter-departmental and inter-ministerial co-ordination, including "policy proofing" to ensure that all such policies contribute to the over-arching goals, and that actual or potential conflicts are minimised.

— Attempts to create more flexible arrangements for central support of rural development such that the diverse and varying needs and circumstances of rural areas can be better met, for example through policy "menus", devolved powers to prioritise measures and spending, and 'global' programme grants.

— Efforts to create new institutional arrangements at local and regional levels to define policy objectives priorities and strategies, and implement policies and programs at these levels, as well

as to involve both government and non-government actors in ways which not only integrate and co-ordinate activities, but also draw on local and regional knowledge and other resources and increase the participation of local people.

Efforts to build local capacities to act through leadership and community development programs and empowerment of local actors — *i.e.*, a better matching of responsibilities and powers.

Relating to the objectives and instruments of policy…

— A new focus on trying to improve the "competitiveness" of rural areas, and hence to understand the key elements which differentiate rural areas which appear to be "performing" well from those which are not.

— Attempts to divert resources from programs which focused on subsidies to maintain existing rural activities in an effort to maintain these, to programs which focus on support for investment in human and social capital, diversification of economic activity and the related creation of new enterprises, key infrastructure, the environment, and innovation.

— Efforts to reinforce rural economies, principally through diversification of economic activities, mainly using indirect aid for transport, communications and business infrastructure, promoting networks of knowledge and expertise, supporting education and training, and increasing the attractiveness of areas for new enterprises.

— Enhancing business assistance, especially efforts to diffuse new technologies through R&D and the development of specialised regional institutes or centres, enhancing business services, establishing inter-regional and international business networks and encouraging endogenous innovative initiatives.

— Developing human resources through vocational training, including an important emphasis on entrepreneurial skills, and school-to-work initiatives; plus capacity building' for policy actors at local levels.

— Developing and commercialising natural and cultural "amenities" through direct exploitation of the relevant resources for recreation, tourism, etc., and indirectly through promotion of conditions likely to favour, for example, enterprise locations for quality of life reasons.

— Creation of local products based on local identity and aiming at a market niche, usually linked to local natural and cultural 'capital', and including development of quality labels and guarantees linking products to places, particular production techniques, etc.

— New ways of providing public services in rural areas, sometimes combined in service centres and, as in the case of tele-medicine and distance learning sometimes using information and communications technologies.

— The increasing use of programme evaluation procedures both as a control and a learning mechanism.

In many cases, these refinements and innovations are recent, and are still limited in scope to certain OECD countries. As such, they have not been comprehensively evaluated. Additional work will be needed to ascertain the durability and transferability of these initiatives on a wider international scale. Nevertheless, this brief survey lends support to the argument that rural policy has now gone beyond agricultural policy in many countries, both providing a complement to sectoral policy approaches and offering new trajectories of development for rural areas.

NOTES

60. Economic forces and changing government policies are speeding up the process of agricultural restructuring in most OECD countries. In effect, most regions have become less dependent on agriculture and resource industries and specialisation in these sectors is risky given the vagaries of international commodity markets and trading regimes. Estimates of the amount of formerly agricultural land that will be converted to other uses range between 30% and 80% (ESDP, 1999). The issue for policy-makers is how to ensure that market-led restructuring does not result in over-cultivation with negative environmental effects in some areas and abandonment of the land in others. Adjustment and transition to new economic sectors and activities is therefore a priority, and the majority of member countries opt for policies of internal and especially, external diversification.

61. As the term multifunctionality has been used with various meanings, the OECD Directorate for Food and Agriculture has developed a working definition which encompasses its core elements: the existence of multiple commodity and non-commodity outputs that are jointly produced by agriculture, and the fact that some of the non-commodity outputs exhibit the characteristics of externalities or public goods.

62. Fifty-four micro-regions have been defined as qualifying for the LIM (Law on investment in mountain regions).

63. The northern areas are defined using a criterion of population density. They are eligible for settlement grants and subsidies for transport and job creation.

64. A marginalisation index, calculated based on 9 indicators taking into account the proportion of the population that does not have access to basic goods and services, is used to identify 91 priority regions for federal government aid.

65. For the 1994-99 period.

66. Although these typologies are largely based on objective criteria, they may be applied with some flexibility, in particular for territories that are borderline cases. Some areas may be included in a type of region as a result of complex negotiations in which countries, regions and even a supranational entity (the EU) are involved. Consequently, these areas are defined to some extent partly through a political compromise. In the case of type 5b areas, since the European negotiators were unable to reach a clear definition of criteria of eligibility, the map was particularly complex and geographical priorities were not easy to identify. In general, switching a region from one classification to another raises practical problems, which can result in exemptions being granted and transitional periods being established.

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Chapter 10

SUBNATIONAL AUTHORITIES AND ENTREPRENEURSHIP: POLICY ON BUSINESS INCUBATORS, ENTERPRISE CLUSTERS AND NETWORKS

Introduction

Productive entrepreneurship is central to economic growth, employment creation and innovation. As described in the OECD (1998*a*) flagship publication *Fostering Entrepreneurship,* there is a territorial dimension to entrepreneurship. The interest of local policymakers in particular in promoting entrepreneurship reflects two broader shifts in policy orientation. Firstly, since the 1980s, a much greater stress has been placed on the mobilisation of local talents and resources — so-called endogenous development — rather than an exclusive reliance on inward investment and/or financial support from central government. Second, labour market policy generally has given greater emphasis to active measures.

Entrepreneurial activity drives efficient resource use, and accelerates the process of generating, diffusing and applying innovative ideas, both technological and organisational. This process of innovation is critical to growth. Furthermore, across OECD countries, enterprises in many fast-changing markets increasingly view entrepreneurial behaviour within the firm — termed intrapreneurship — as essential to corporate success. Large firms in many sectors are reorganising into smaller business units in which entrepreneurial aptitude is at a premium. In many countries the greater parts of all new jobs are created in a small number of fast-growth firms, both established and newly created. By increasing the total number of enterprise start-ups policymakers can expect to expand the population of these key job-creating firms.

Fast-growing subnational economies usually have high rates of enterprise start-up. While not all areas with high start-up rates also grow rapidly, growth is difficult without a significant level of enterprise creation. At the same time, the development of entrepreneurship bears directly on a number of social issues of concern to local and regional authorities. For instance, self-employment can offer solutions to some whose efforts in the mainstream economy may have been frustrated. And entrepreneurship in economically distressed areas can yield social benefits above and beyond private returns.

Rates of enterprise creation differ markedly across regions for a variety of reasons. Some regions in OECD countries have annual firm birth rates two to six times higher than others. Significant influences on enterprise creation that can vary from one locality to another include: *i)* demographics, as areas with young populations tend to start more firms and rates of start-up are usually higher in urban than in rural environments; *ii)* unemployment, which for different reasons can both encourage and diminish start-up rates; *iii)* wealth, with wealthier areas expected to have high rates of enterprise creation owing to higher levels of demand and greater availability of capital; *iv)* the educational and occupational profile of the workforce; *v)* the prevalence of small firms, it being argued that employees in small firms will aspire to own other small firms; *vi)* the extent of owner-occupied housing, with property being a frequent source of start-up capital for entrepreneurs; *vii)* infrastructure endowment, which is positively related to investment demand; and *viii)* history, because, amongst other reasons, imitation frequently plays a role in the spread of entrepreneurship.

Local and regional authorities employ a range of policy instruments to encourage enterprise creation and development. Indeed, local authorities have important roles to play in matching programmes to varied local circumstances. The range of programmes include initiatives to: effect attitudinal change towards entrepreneurship; increase the flow of information and advice for starting, financing and managing entrepreneurial ventures; encourage awareness of entrepreneurship; facilitate access to accommodation; improve skills, and promote beneficial collaborative behaviour (such as in mutual credit guarantee schemes and inter-firm networks). The combination of major spatial variations in entrepreneurial activity, and the scope for superior resource mobilisation and allocation through local programmes, highlight the importance of local flexibility in the design and implementation of policy. Indeed, a policy that fails to account for regional and local differences is unlikely to be optimal.

The promotion of entrepreneurship, however, does not constitute a developmental panacea. The encouragement of entrepreneurship is unlikely to yield major benefits in the short-run. As entrepreneurship programmes expand and eligibility is extended positive impacts often weaken as marginal participants are attracted (indeed, entrepreneurship-centred strategies may favour those already possessing significant assets, both human and financial). The option of entrepreneurship is not suitable for everyone. Becoming an entrepreneur is a daunting challenge, especially if leaving salaried employment means giving up healthcare coverage, pensions, and insurance against invalidity or unemployment. Moreover, only a minority of the self-employed hires large numbers of additional workers. In England, for example, evidence from a recent survey of local authority districts indicates that rates of long-term unemployment are likely to be higher in areas with high levels of job growth, as the employment created in these areas did not benefit the long-term unemployed. If job creation and entrepreneurial activity are positively correlated, then it need not be the case that increased entrepreneurship will help the most disadvantaged in the labour market. Therefore, entrepreneurship promotion should form but one component in an array of developmental programmes and policies.

This chapter concentrates on business incubators and enterprise clusters and networks, areas of policy that in recent years have attracted increasing attention from subnational and national policymakers. These fields of policy have also been a focus of recent study by the OECD's Local Economic and Employment Development (LEED) Programme. The text that follows outlines the rationale for public action in these specific areas, reviews current practice, and proposes policy recommendations. The policy guidelines on clusters and networks outlined here form the basis of those agreed to by 47 Ministers and representatives of government at the June 2000 Ministerial Conference in Bologna entitled "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies". These recommendations are encapsulated in the Bologna Charter, a Ministerial declaration adopted during that Conference.

1. Business incubators[67]

In many countries, both members and non-members of the OECD, business incubators have become a popular tool for local economic and employment development. Broadly stated, a business incubator is a tool to facilitate enterprise creation and development, usually (but not always) comprising physical workspace and co-located business advisory services. There are around 550 business incubators in the United States, some 200 incubator-type structures in France, and more than 100 incubator schemes in the United Kingdom, with these numbers growing rapidly. Over the last 15 years incubators have been one of the most important instruments of regional and urban development in Germany. Indeed, especially in local and regional tiers of government, policymakers have increasingly turned to business incubation as a means of combating unemployment, raising rates of enterprise formation, upgrading the technological standing of a given locality, commercialising university research, assisting socially disadvantaged groups — such as youth and minorities — and expanding the supply of infrastructure. In this vein, it has recently been announced that France intends to press for a European network of incubators and technological research institutions (Galus, 2000).

The public, private and non-profit sectors have all established incubator schemes. In different places and at different times incubator programmes have been funded by local and regional governments, universities, chambers of commerce, science parks and private real estate developers. Business incubators have been referred to as enterprise centres, nurseries, shared workspaces, managed workspaces and ven-

ture units. As this varied nomenclature suggests, there is no unique business incubator model. The incubator industry is an assortment of diverse types of facility operating under a wide range of circumstances.

Linkages between incubators and the local economy can be various. Aside from direct contributions to local economies from increased employment, incomes, and taxation, incubators sometimes introduce infrastructure previously lacking and can also generate income by extending services to nearby firms (around 34 per cent of the firms served by US incubators are located off-site). Incubators can likewise serve as a point of referral for local companies, offering information and guidance on the range of business, training and financial support services available for start-ups. Some incubators offer marketing services to facilitate supplier linkages between tenant and local non-tenant firms.

The Internet is likely to have an influence on business incubation, if only because of the expanded opportunities it provides for enterprise creation. Recent work indicates that there are now more than 220 private for-profit technology incubators in the US — in addition to traditional public technology incubators — the majority of which concentrate on Internet start-ups. It is also likely that the Internet will affect business incubation through the changes it is bringing about in the medium for providing business services. However, the Internet is unlikely to remove the need for face-to-face contact between service providers and client firms, particularly during the early stages of a firm's development.

The impact of business incubation

The combination of real estate supply with technical assistance can make business incubation a cost-effective form of business support because the unit cost of providing technical assistance can be lowered by supplying to a collection of firms, while synergies can be created among tenant enterprises.

There is, however, a scarcity of methodologically sound studies on the impact of business incubators. Nevertheless, the available material generally indicates a positive effect in terms of improving rates of enterprise survival. However, while employment creation is one of the most frequently stated objectives of incubation programmes, it appears not to have been their main achievement, especially over the short-term. In Germany, for example, studies suggest that significant improvement in local job markets has not occurred as a result of incubation. SPI –- Italy's premier agency promoting business incubation (recently merged into a new institution, *Sviluppo Italia*) -– planned to create around 2 500 new jobs a year nationally with a network of 30 incubators. And in Australia the estimated total number of people working in firms in incubators may be approaching 2 000. These numbers are small when taken nationally, and smaller still when one considers that at least some of these jobs would have been created anyway outside the incubators. From a local perspective however the impact on employment may be more significant. It should also be borne in mind that the bulk of job creation in incubated firms often occurs after these firms graduate from the incubator. This finding reiterates the message that sizeable short-term employment gains are unlikely from programmes for enterprise development.

The available assessments suggest that the cost of public support per job created in an incubator can compare favourably with other public job creation programs. Incubators can also have long-run indirect effects that are difficult to quantify. For example, area development effects may be important in some circumstances. In Genoa, siting a business incubator in a derelict steelworks prevented the abandonment of a substantial industrial zone near the middle of the city. A few successful start-ups may a demonstration effect, helping local communities recognise that entrepreneurship is a realistic option. Similarly, entrepreneurs whose ventures fail may learn from the experience and establish successful businesses later on, perhaps outside the incubator. Technology incubators can also sensitise academics to the problems of industry. And in Germany some have considered the networking of organisations involved in local economic development to be the most positive effect of incubators.

In assessing the merits of business incubation as a policy tool there is a need to reflect on the implications of some of the criteria used in the evaluation of business incubators. For example, a widely used measure of the performance of incubators is the public subsidy per job created. However, this criterion is of little use if the jobs would have been created anyway outside the incubator. Similarly, it is difficult to gauge the significance of improved survival rates among incubator-resident firms if those firms enter the incubator after a selection process. That is, the success of such companies may be attributable to intrinsic characteristics rather than the effect of the incubator. Even surmounting this evaluation problem — the problem of attribution — an increased rate of survival and improved corporate performance are to be

expected in firms receiving assistance. The critical issue for policy evaluation is the ratio of costs incurred through incubation to benefits generated.

So there is a need — a need understood by many practitioners — for studies that assess the degree of "additional" or "incremental" job creation and enterprise performance brought about by incubators (by comparing firms within incubators against similar firms outside). There is also a need for comparisons of the costs of incubation against other measures that might be employed to achieve similar outcomes. Unfortunately, such work is badly lacking.

The rationale for public policy towards incubation

There is an immediate and understandable attraction for policymakers in the idea of being able to grow or incubate affluence. There is also often a pressure for policymakers to be seen to be active in rectifying local economic problems. As incubators can afford visibility to policy, there may be a tendency for local policymakers to oversupply incubation programmes. The economic rationale for public investment in incubation needs careful consideration. An explicit recognition amongst policymakers of exactly what public funds are being employed for is essential. Therefore, before investing in incubation, policymakers need to ask how well markets are working in the provision of business support services. Market failure in the supply of financial and technical services to new and small firms, a contested subject, may be less frequent than claimed. Policy should be formulated on the understanding that public investments do not duplicate resources available elsewhere.

Similarly, it has to be asked whether there are market failures in real estate operations which merit public intervention. From the work on this subject undertaken by the LEED Programme, it appears that in many situations market failure is likely to be more serious in the provision of industrial real estate than in the supply of producer services.

Certainly, the provision of industrial accommodation often holds little attraction for private investors without public support. In economically distressed areas there may be difficulties in securing tenants — particularly if auxiliary infrastructure is poor — long time periods in recovering investment outlays, and opportunities for higher returns in other forms of real estate. But there can also be problems in the supply of SME accommodation in dynamic property markets, such as in London, which relate principally to the superior returns from using real estate for office space and/or housing.

Furthermore, corporate property investors are often averse to the risk which unknown business propositions — such as enterprise start-ups — entail. They demand a quality of covenant from prospective tenants which is prohibitive for many new ventures, even if these have business plans accepted by external financiers. However, the public policy response need not involve government investment in incubator buildings, which is a capital-intensive use of public funds, with limited prospects of cost recovery through onward sale of the property. A preferred alternative may be for the public sector to guarantee the rent of a privately funded building, which practice shows to be a low-risk undertaking if tenant firms are well selected (and well managed).

A case-by-case approach must also be taken in advancing infrastructure provision as an argument for public expenditure on incubators, because private infrastructure supply may sometimes be preferable. If public policy towards incubation is intended to go beyond the correction of failures in property markets — if for example it is founded on the premise that incubation supplies some form of public good such as education — then this should be made clear in the stated goals of the programme. Clarity in the formulation of objectives will facilitate management and the evaluation of public support.

Aside from the need to follow economic rationality, other policy principles derived from the LEED Programme's work on business incubation include the following:

— *When considering incubation, policymakers should be aware that other options might achieve similar effects but with lower costs.* The degree to which "incubation" is the tool of choice to achieve local business development and employment outcomes depends on such factors as the extent of business advisory and training services in the local environment and the skills of the workforce. Under different circumstances a local training programme, efforts in investment promotion, or other measures may be more appropriate than business incubation. Similarly, the goals of any incubation programme must be made explicit. Not only will this assist evalu-

ation; it can also help resolve tensions that sometimes arise between the role of an incubator as a financially self-sustaining venture and its role as an instrument of economic development.

— *Incubators must be given realistic objectives*. Business development should take primacy over job creation, especially in the short-run. Job creation and economic development are vital goals, but they are best achieved over the long run through the creation of well-functioning businesses.

— *A sound feasibility study and business plan are fundamental*. In addition to determining financial viability, the process of feasibility assessment can be used to create consensus, motivate participation, solicit funding, and avoid known sources of error.

— *Significant benefits can be had from local business and community support*, which should be encouraged to the extent possible. In the US, for example, the *pro bono* supply of services to incubators by local business people is not uncommon. And in Germany, industry chambers, municipal savings banks and building societies have all played important roles in incubation programmes.

— *The recruitment of suitably qualified managerial staff is crucial*. Capable incubator managers are essential in selecting suitable tenant firms, advising these firms and in creating links to investors and the wider business community. Indeed, practice suggests that the time a manager spends working with tenants or developing business assistance networks should be maximised. Also important is the creation of a competent Board of directors embodying a breadth of skills and experience. Political and community support — and associated funding — can fluctuate, but the Board must provide continued commitment and guidance to an infant programme.

— *Due consideration should be given to the scale of incubation programmes.* Increased size opens possibilities for the reduction of costs and diversification of risk, as well as the leveraging of private finance. The Australian industry has determined that incubators offering commercial office space usually need around 1 500 square metres — with more if the tenant firms are from light industry — in order to generate sufficient income to employ a full-time incubator manager and support staff (the efficient scale of operation an incubator will in part be determined by the service mix). Public incentives to help scale up the commercial supply of industrial real estate (which might also encourage investment in portfolios of incubation sites) could therefore be superior to local public subsidy of SME accommodation. For small communities incubation should probably be treated with caution. In Australia, for example, it has been found that incubators are more difficult to operate in remote areas with smaller populations, smaller markets, and fewer community resources. If incubation is to be attempted in such circumstances it may be advisable to embed the incubator in a larger umbrella organisation. So-called "virtual" incubators may be a cost-effective means of providing non-property-based services in areas with small numbers of potential tenant firms.

— *Incubators should provide good quality accommodation*. The unattractive image projected by sub-standard facilities may deter high-potential start-ups.

— *Public support, when it is given, should primarily come in the early stages, not through the subsidy of operational costs*. In Australia it appears that most incubators receiving operational funding have not survived the removal of that funding. And in Germany a positive correlation has been found between the presence of subsidies and high operating costs. Without a commercial mindset the incubator is unlikely to provide competitive services. Furthermore, when there is a need for operational subsidy, management and staff often spend precious time searching for additional funding, and less time assisting tenant firms.

— *In many countries there is a need for some degree of standardisation in incubation, combined, although it may seem contradictory, with local flexibility*. In too many countries the incubation industry is characterised by numerous isolated initiatives making similar mistakes. Industry representative bodies can be helpful in disseminating best practice and creating benchmarks.

— *Evaluation and monitoring are critical for improving operational procedures and collecting data with which to inform public policy*. Despite the diversity characteristic of business incubator schemes there are core objectives common to most programmes, and these should form the basis of evaluative work.

While much is known about how to manage incubators, more information is needed on their long-term and sometimes indirect effects on local economies. Such effects, which are often difficult to quantify, may include: impacts on area development through various channels (even by providing a visible symbol of public commitment to new local and regional development); the enhanced networking of organisations involved in local economic development; beneficial effects on entrepreneurs whose ventures fail but create successful businesses at a later date; the sensitisation of academics to the workings of industry, etc. Evidently, more longitudinal studies are called for. Analysis is also required of the cost-effectiveness of incubation compared with other measures to achieve similar goals.

2. Enterprise clusters and business networks[68]

"Clustering" is the tendency of firms in related lines of business to concentrate geographically. In broad terms, the agglomeration of firms and their suppliers permits the creation of locally concentrated labour markets. The clustering of firms can likewise encourage specialisation and division of labour between firms (offering greater scale economies for individual firms), attract buyers and sellers, and reduce the unit costs of activities undertaken collectively. The clustering of firms can also reduce the unit costs of technical services provided to members of the cluster. By operating in close proximity firms can also more easily subcontract to competitors those orders that exceed their own capacities, as proximity allows greater knowledge of the capabilities of other potential contractors. This may allow firms to retain valued customers. The clustering of firms can likewise facilitate the flow of ideas and information. Such flows occur formally and informally, for example when employees change employer, through contacts with common suppliers, and through social exchanges. As is emphasised in the extensive writing on Italian industrial districts, such interrelationships are sometimes overlaid by common membership of artisanal and commercial associations, labour associations, and various community-based institutions. The opportunities for association thus provided can facilitate information flows and create a social substrate facilitating the reduction of transaction and other business costs.

A cluster can contain a small or large number of enterprises, as well as small and large-size firms in different ratios. Some clusters, such as many of Italy's industrial districts, are comprised principally of SMEs. Different clusters involve varied degrees of interaction between the firms involved, ranging from fairly loose networks of association through to multifaceted forms of co-operation and competition.

The degree to which economic activities are clustered is striking. According to one estimate (from the mid 1990s) there are around 380 clusters of firms in the United States operating across a broad spectrum of service and advanced manufacturing industries. Together they employed some 57 per cent of the United States' workforce and produced 61 per cent of the country's output (see Rosenfeld in OECD, 1996). Local industrial districts account for some 30 per cent of total employment in Italy and in 1994 produced 43 per cent of Italy's exports. Clusters exist in nearly all economies and are present in affluent regions such as North-Central Italy, Baden-Würtemberg and Bavaria in Germany, Cambridge and the M4 region in the United Kingdom, Silicon Valley and Route 128 in the United States, Sophia Antipolis in France, and many others. Internationally-renowned clusters are numerous, including, for example, automobiles around Detroit, financial service providers in New York and London, carpet manufacture in Dalton, Ohio, semi-conductors in Silicon Valley, fashion in Paris and Milan, film-making in Los Angeles, and so on. Enright (2000) has noted that clustering can also be seen in some businesses that one might not think of as subject to clustering at all, such as telemarketing and credit card processing. He observes that the emergence of agglomerations in even such "placeless" activities indicates the potency of the phenomenon. Furthermore, in many industries the location decisions of multinational enterprises serve to reinforce the physical concentration of business activity.

Public programmes to encourage inter-firm networks have in part been inspired by a desire to replicate the success of enterprises belonging to renowned clusters in such areas as Silicon Valley and Emilia-Romagna. Business networks operate with varied forms and objectives. Some aim at general sharing of information, while others tackle more specific goals. Networks can allow rapid learning — and small companies often favour the peer — based learning that networks permit. Networks can also facilitate the reconfiguration of relationships with suppliers. In some instances networks have led to a new division of labour in a group of firms, allowing individual companies to reap economies of scale and scope. And networks can help exploit the benefits of collective action. For instance, small firms in Mirandola

— a town neighbouring Bologna and home to one of Europe's largest groupings of biomedical companies — share the costs of expertise in quality assurance, costs considered excessive for individual companies. In fact, networks have spurred co-operation on issues as diverse as training, technological development, product design, marketing, exporting and distribution. In finance, each year, around one million Italian SMEs receive credits mediated by mutual guarantee schemes, a form of network organisation that is mainly local in scope.

Why do clusters occur?

The economic drivers of cluster formation in particular industries can include:

— *Proximity to markets*. Despite low-cost international transportation, being near to markets can be important in cluster development, especially for products that are not easy to transport or that require continuous interaction with customers. For example, specific local demand spurred the growth of the Bologna packaging machinery industry, and the Turin factory automation equipment industry (Enright, 1991).

— *Supplies of specialised labour*. The existence of specialised pools of labour, such as occur around many universities.

— *The presence of input and equipment suppliers*. A high frequency of exchanges between co-located capital goods producers and users is likely to underpin the innovative performance of firms in many industrial districts.

— *The availability of specific natural resources*.

— *Economies of scale in production*. Such economies may allow only a small number of efficient-scale plants in a given market.

— *The availability of infrastructure*. Some types of infrastructure may also be quite specific, such as with certain transport or tourist facilities, further encouraging agglomeration.

— *Low transaction costs*. When firms and their suppliers operate near to each other, and the frequency of interaction is high, the costs of negotiation and contract enforcement may be reduced. This effect may be reinforced by social norms affecting entrepreneurs belonging to overlapping social groups.

— *Superior access to information*.

Why is there a policy interest in clusters and networks?

Policymakers are aware that membership of clusters and inter-firm networks can enhance the productivity, rate of innovation and competitive performance of firms. For example, quantitative work by the Bank of Italy has shown job creation and return on investment in Italy's industrial districts to have all been consistently higher than elsewhere, even in periods of recession (Fabiani, Pellegrini, Romagnano & Signorini, undated). Clusters and networks can allow small firms to combine advantages of small scale with various of the benefits of large scale. Public policy on clusters and networks can help SMEs realise the opportunities and meet the challenges associated with globalisation. The examples of affluent regions whose economies are built on localised groups of firms have inspired local, regional and national governments to adopt policies based on enterprise clusters. Indeed, cluster development initiatives are now common in developed and developing economies, in wealthy and lagging regions, and in jurisdictions with *laissez-faire* and *dirigiste* approaches to economic development. Disappointment with development approaches based on large firms has also propelled policy on clusters (Enright, 1991, 1996, 2000; and Storper, 1992).

Clearly, large firms possess significant advantages in international markets, while many SMEs are smaller than the efficient optimum in different stages of production, marketing and distribution. At the same time, economic liberalisation and the international integration of markets are bound to reduce the opportunities for firms to remain both small and efficient. Such considerations have also been important in shaping policy towards the creation of enterprise networks aimed at overcoming the constraints of limited scale.

The structure of some clusters can also lead to high rates of enterprise start-up, an issue of widespread interest among policymakers. The inter-firm specialisation that clusters can permit allows individual entrepreneurs to start firms that concentrate on only a small phase of production in a given industry. In other words, a low degree of vertical integration in firms belonging to clusters can also lower barriers to entry for entrepreneurs. Secondly, as clusters often contain many buyers and sellers in different parts of the production chain, the pressure to innovate is great, while conditions conducive to innovation are often present. A propitious environment is thus created for innovation via enterprise creation.

Innovation and productivity are crucial concerns for many policymakers. As already noted, the physical proximity of firms, suppliers, and buyers in many clusters can facilitate the transmission of information and ideas, which is the basis of innovation. Operating near to specialised local suppliers has spurred innovation in industries such as ceramic tiles in Sassuolo, electronics in Silicon Valley, and oil and gas in Scotland (Russo, 1985; and Enright, 1991). Furthermore, clusters often create a focus of industry-specific skills that quicken the innovation process. Clusters can also present a conducive environment for innovative spin-offs. Many clusters, in fact, have developed mainly through the generation of spin-offs, as is largely the case with semiconductor companies in Silicon Valley (Saxenian, 1994; and Enright, 1991).

3. Interactions with education and training institutions

A number of internationally renowned clusters have developed around institutions of higher education and technical training. In addition to facilitating access to research, proximity to universities and training institutions can be important in creating prestige, recruiting highly qualified graduates, and accessing information. The presence of centres of technical learning can also mean that entrepreneurs engaging in high-tech ventures will feel less like outsiders and may more often encounter interlocutors (such as bank managers) familiar with the problems they face.

Many institutional permutations are possible as regards the interaction of local firms, universities and training institutions. For example, university/industry partnership mechanisms can range from grants and fellowships to targeted research contracts, collaborative research and consortia agreements, training, mobility and networking programmes. In terms of functional goals such partnerships often seek to enhance the commercialisation and diffusion of technology, create enterprise spin-offs and support strategic research and technology objectives (see OECD, 1998*a*). A key consideration is that local flexibility should exist in the collaboration that educational and training bodies enter into with adjacent firms, whether in joint development of specialised courses and curricula — national curricula may be too slow to change and be unsuited to the technical specifics of particular enterprise agglomerations — the distribution of financial benefits from collaborative undertakings, or the precise forms of partnership in research and development.

Characteristics of commonly pursued cluster policies

Cluster development strategies often have marked similarities. Many concentrate on small and medium sized enterprises. Others provide generic information on business and economic trends as well as cluster-specific information on parameters such as markets, technologies and competitors. The specific infrastructure and training requirements of a cluster are a focus of many programmes. Cluster programmes often use a variety of means to foster business networks (see below). Governments sometimes also provide business services ranging in sophistication from basic research to advice on bookkeeping. Well-known examples of such service provision include locally sponsored technical extension centres in Northern Italy, Germany's Steinbeis Foundation centres, and the Manufacturing Extension Partnership (MEP) in the United States. Various sub-national bodies have sought to develop technopoles, a generic term covering a spectrum of initiatives from technology incubators, to science parks and even larger agglomerations (OECD, 1999*a*). Such programmes have been driven both by the expectation that economic benefits will follow from bringing together firms in "high-tech" fields, and by the desire to realise commercial returns from investment in scientific and technological research. Some cluster development programmes also aim to enhance information sharing and inter-firm trust.[69] Finally, initiatives often seek to assess and upgrade public policies and programmes affecting a cluster. This is the case, for example, in a recent World Bank-sponsored cluster programme — the Pro North-East Initiative — launched by the governors of the Brazilian states of Pernambuco, Bahia and Ceara.

Differences in cluster development strategies

While there are recurrent features to many cluster development programmes, there are also important differences. For example, differences exist in the level of government involved. The public sponsors of cluster strategies are usually local and regional governments. However, national and even supranational governments — particularly the EU — have also played active roles. Central government in the United Kingdom, for example, has recently announced the creation of a 150 million pound clusters and incubation challenge fund (to be administered through regional development agencies). The appropriate level of government will be one that matches the geographic scope of the cluster concerned, and that also has significant responsibility for relevant programmes and policies. Another area of difference relates to whether programmes focus on developing the existing economic base, or attracting firms into the cluster, or a combination of the two. Each strategy has strengths and weaknesses. For instance, enterprise recruitment can raise levels of economic activity relatively quickly, but can also be constrained by the resources available for investment attraction. In addition, this approach can give rise to imitation and zero-sum competition among localities, and there may be limited multiplier effects if the attracted investments are only weakly linked to the local economy. The choice of strategy should reflect current economic development and institutional capacities in the locality concerned.

In the aforementioned background paper to the Bologna Conference Enright noted that cluster development programmes also differ in the process of cluster identification and selection, with some programmes using detailed criteria — such as industry growth rate, multiplier effects, job creation and income potential, match with local resources, relationships with local suppliers, etc. However, many other programmes use little rigour in the choice of target cluster. In fact, programmes often exhibit marked similarities in the selection of the sectors assisted, often being those in so-called "sunrise" industries such as biotechnology, new materials, information technology and others. However, there is no justifiable economic reason for prioritising these sectors, and the fact that such sectors are frequently targeted (sometimes by programmes operating in neighbouring areas) highlights the element of destructive competition that some cluster initiatives can engender.

Clusters themselves differ in important ways. Among other parameters, clusters can vary as regards geographic scope, the number of firms present, the degree to which firms are vertically integrated within the cluster, the extent to which value-addition is occurs within the cluster, the level of innovative activity undertaken, firms' competitive positions, the extent of networking and information flows between firms and between firms and local institutions (Enright, 2000). The choice of policies should reflect the type of cluster in question. For example, a cluster comprised of innovative small scale firms that engage in collaborative ventures and access international markets will require very different policies from those for a cluster containing a many large companies in traditional industries with limited inter-firm collaboration and weak competitive positions.

4. Market failure and cluster strategies

Policy should also focus on identifying and correcting significant market failures. Indeed, the fact that clusters can afford competitive advantages for member firms does not in itself constitute a justification for public action. Several forms of market failure are relevant to policy on clusters of SMEs. These include under-supply of public goods, and co-ordination failures. Also important can be failures affecting small and medium sized firms more generally, such as in the supply of industrial real estate and, possibly, the provision of certain technical and financial services. Nevertheless, the fact that markets can fail in some of the above fields does not imply that they will be failing everywhere, and many clusters have thrived in the absence of significant policy support. A proper assessment of how well the relevant markets are functioning should be an integral part of policy formulation.

Public goods, such as basic education, training, infrastructure, certain forms of information, and some types of research — from the benefits of which it is both economically undesirable and impractical to exclude anyone — can be under-supplied by the market. All governments seek to provide such goods through public or public-private channels. However, as SMEs often operate in a degree of isolation, they may fail to clearly articulate their collective needs. As a result, relevant public goods may not be provided (it may also be the case that relevant public goods are being supplied, for example in training and educa-

tion, but that they need to be better tailored to local circumstances). Many SMEs clearly lack the resources, including in-house expertise, to obtain and interpret all the information relevant to their business. At the same time, private supply of some types of information required by small firms may be unforthcoming — especially where non-excludability from information (a pre-requisite for private supply) is reinforced by the sheer proximity of actors in a cluster (Pezzini, 2000). Such considerations have motivated the establishment of several of the business service centres previously referred to.

Co-ordination failures occur when agents fail to make use of available information because of an inability to act in concert. For instance, potential joint gains may fail to materialise when small firms lack the capacity, the trust or a suitable forum to act together.

There can also be problems in connection with the private provision of *industrial real estate*, especially for new enterprises (see the section above on business incubation). In some cases the private supply of certain business services has been reported as problematic. The reasons why this might be so have to do with the fact that many small firms often have an insufficient internal division of labour to permit the development of specialised skills in-house in different business functions. Some of these services may need to be contracted-in. But because the required volume of services is often small, and some of the services themselves indivisible, the market may under-supply substitutes for the skills lacking in some small firms. Evidence suggests that effective extension services in industry can be important but are also rare. If the market for certain business services appears not to work well, appropriate regulation to encourage private supply will often be preferable to public provision.

The physical proximity of actors within a cluster provides scope for collaborative endeavour aimed at addressing some areas of purported market failure. For example, mutual credit guarantee schemes, common in many of Italy's industrial districts, aim to facilitate the access of firms with viable projects to bank lending from which they would otherwise be precluded (owing primarily to insufficient collateral). They do so by members of the association providing a common guarantee for a loan to a single borrower. An advantage of such associations is that the evaluation of credit risk may be done more effectively by association members working in the same industry, while peer pressure can help effect repayment.

Few cluster programmes are based on an analysis of market failures or consideration of the rationale for supplying certain "public goods". The lack of such analysis can potentially give rise to an economically inefficient use of public resources. In addition, by not explicitly identifying market failures a cluster development programme might simply become a source of interest-group support. Indeed, assisting a group of firms to better act in concert can have the unwanted consequence of helping those same firms press for support that is economically unjustified.

Policy towards enterprise networks

Networks are much in vogue and, unsurprisingly, the omnibus use of the term covers varied forms of collaboration. For example, networks of friends and family often give critical financial, moral and other support to entrepreneurs. By contrast, strategic alliances among firms frequently exist to compensate for lack of scale. As companies develop, networks of the latter sort gain in importance. Of recent policy interest are formal mechanisms of co-operation among groups of small firms, and sometimes among small firms and larger enterprises. Such networks are particularly high on the policy agenda of regional and local authorities across the OECD. Some of the most comprehensive network programmes have been in Scandinavia. The *Danish Network Programme*, begun in the early 1990s, explicitly aimed to help small firms acquire efficiency, as a group, on a par with larger enterprises. This programme has served as a template for many initiatives elsewhere.

The most successful business networks organise around specific objectives. Therefore, public authorities and business associations should seek to raise awareness of the benefits and opportunities of networks in order to increase informed demand for network services. Information technology holds the promise of lowering the cost of advisory services, expanding network access (the UK government's University for Industry initiative is a case in point) and bringing about better links with research bodies, education and training institutions.

Aversion to and unfamiliarity with inter-firm co-operation, as well as problems of co-ordination, create barriers to the spontaneous emergence of networks. Public action, at least in a catalytic role, is frequently needed. As with many schemes to support enterprise, the quality of management is critical. Per-

sons with direct experience of SME development should be employed as network brokers, providing advice and a neutral corner for firms hesitant at the prospect of co-operation. Network brokers can also help allay concerns over loss of control and appropriation of benefits. During the previously mentioned Bologna Conference Ministers underscored the need for partnerships involving NGOs, private actors and different levels and sectors of the public administration, with local bodies of particular importance.

Policy recommendations on clusters and networks

Policy towards clusters should be based on government supporting existing and emerging clusters rather than trying to create them *ab initio*. A policy aimed at developing entirely new groups of firms in selected sectors can entail high costs, high risks, serve as a screen for outmoded forms of industrial targeting, and give rise to destructive competition should many regions follow the same policies in pursuit of the same industries. Underlying programmes of cluster development is the idea that firms and industries are part of larger inter-linked systems. It is difficult for governments to create and manage such complex systems through policy. Accordingly, an indirect role for government is preferable.

There is another economic reason why an enabling role for government is preferable. Regional and local development agencies sometimes express the view that public spending on cluster development is economically justified because it aims to create positive externalities, the agglomeration economies referred to earlier in this paper. In fact, such an argument highlights the limits of policy. This is because, while agglomeration economies are clearly significant in many industries, policymakers do not generally have the information with which to judge their magnitude in different industries for agglomerations of different scales (see Bartik, 1990). Therefore, policymakers are usually not in a position to assess whether the cost of the support to be given is smaller than the potential benefits. Furthermore, diseconomies of agglomeration — say from congestion or pollution — may occur as clusters increase in size. So, beyond a given scale, a public subsidy of agglomeration may be guaranteed to reduce economic efficiency, although policymakers would not have the data with which to know when this occurs. Such considerations again suggest a non-distortionary and facilitatory role for the public sector, rather than one in which government seeks to plan the creation and development of new agglomerations.

Essentially, a policy on clusters provides a framework for dialogue and co-operation between firms, the public sector (particularly at local and regional levels of government) and non-governmental organisations. This dialogue can lead to efficiency-enhancing collaboration amongst firms, such as in joint marketing initiatives, the creation of mutual credit guarantee associations, joint design and sponsorship of training, a more efficient division of labour among enterprises, etc. Such a dialogue can also lead to an improved quality of policy and government action (such as in training, the provision of information, and infrastructure supply). Policymakers can lock-in some of the benefits of existing or embryonic clusters by ensuring suitable institutional conditions. For example, amongst other actions, promoting the establishment of suppliers' associations and learning circles, facilitating contacts among participants in the cluster, facilitating subcontracting arrangements within the cluster, and ensuring effective extension services can all increase the benefits to firms of belonging to a cluster. Firms should have access to such institutional arrangements whether they belong to a cluster or not. However, it is likely that the benefits of such arrangements will be magnified by cluster membership, and the cost-effectiveness of provision may be greater when supplying to a clustered rather than a dispersed group of firms. Indeed, a particularity of working with clusters is that, owing to the physical proximity of firms and institutions, there can be more opportunities for promoting inter-firm collaboration than would otherwise be the case.

Attracting outside investment may also help stimulate a cluster if it can close capability gaps. As even an embryonic cluster is likely to offer locational advantages to other firms, disseminating information about the cluster throughout the business community of a region or country may attract new firms (although a variety of other considerations will impinge on the location decisions of firms).

Policy — in which local and regional authorities are critical — should explicitly target market failures. Policy should also be informed by an awareness that programmes need to be tailored to diverse local economic, social and institutional circumstances. Mechanical replication of policy approaches will not produce optimal results.

5. Policy Recommendations emerging from the Bologna Conference

The policy recommendations on networks and clusters outlined below were developed by the OECD Secretariat in the background paper on clusters and networks during preparations for the Bologna Conference. The *Bologna Charter* itself contains a selection of the recommendations described here.

On enterprise networks

— *Implement broad campaigns to introduce the networking concept to businesses*. It is important to create informed demand for network services, with networks preferably addressing precise market-driven objectives.

— *A degree of financial support, in feasibility work, start-up activities, and the costs of network brokerage, is to be expected*. However, funding should be modest, and should be phased out as participants start to engage more formally and obtain benefits.

— *Work with realistic time-frames*: a commitment of 3-4 years is usually required for a significant business network programme.

— *Ensure the presence of experienced network brokers*. Establishing broker teams and facilitating exchanges among them can help maintain effectiveness and motivation.

On enterprise clusters

— *Facilitate local partnerships involving private actors, NGOs and different levels and sectors of government so as to arrive at agreements on individual responsibilities* (for example in co-locating complementary public investments with related concentrations of private investment). Many types of cluster organisations exist. These include units within public development agencies, private representative organisations such as chambers of commerce or industry associations, public-private partnerships or entirely independent organisations. In successful clusters, such organisations usually have specific functions. They provide a mechanism for exchange between firms in the cluster, government, and other bodies such as universities, research centres, and financial institutions.

— *Let the private sector lead in cluster-development initiatives, with the public sector playing a catalytic role. Policy makers should generally refrain from seeking to build entirely new sector-specific clusters of firms*. There should be an element of market-test before significant public resources are committed to a cluster. Adopting this practice may help avoid situations in which sub-national bodies compete in implementing identical cluster development strategies. Similarly, cluster initiatives should not be used to introduce distortionary industrial policy intended to target "national champions", "sunrise sectors", etc.

— *Where possible, match initiatives to the most suitable level of government*. As described above, the ideal level of government will correspond to the physical scope of the cluster while having substantial influence over relevant programmes and expenditures.

— *Some prioritisation among clusters is generally necessary due to limited resources* (selection criteria might include the opportunity for the sponsor to add-value, and the existence of organised nuclei of actors in the cluster). There may also be benefits to working with a portfolio of clusters.

— *Initially adopt a low risk/early return focus*. It is useful to generate small but evident gains through collaborative effort at the outset. As success develops, higher risk and longer term activities can be introduced.

— *Target market failures*. In addition to helping use resources in an economically efficient manner, the identification of relevant market failures can highlight areas of potential public-private or private-private co-operation.

Seek to lock-in benefits of existing or embryonic clusters by:

— *Facilitating access to accommodation for new and small firms* (given the widely reported difficulties faced by small firms, and particularly start-ups, in gaining access to industrial real estate).

Promoting the establishment of suppliers associations and learning circles, and other forms of collaborative undertaking that are made possible by virtue of physical proximity among firms (such as mutual credit guarantee associations).

— *Allowing specialisation and local adaptation in university-industry linkages including experimentation in incentive structures that can encourage local linkages to industry*.

— *Ensuring effective technical support and information services*. Markets may under-supply some business services and certain types of information, especially to small firms. Policy should address market failures where these are significant and aim to induce private provision as early as possible.

— *Ensuring access to specialised infrastructure, communications and transport*.

If seeking to attract investments then:

— Have local, regional and national authorities disseminate information about the cluster — and the locational advantages it offers — throughout the business community of a region or country.

— Focus investment promotion efforts on linkages within a cluster considered weakest (such as gaps in the chain of local suppliers).

— Consider complementing the national collection and organisation of statistics by adopting a frame of reference that would illustrate the geographic concentration of related groups of firms. Data organised according to the Standard Industrial Classification (SIC) omits the extent of inter-linkages among firms in a given locality belonging to different branches of manufacturing (or services).

— Evaluate the initiative throughout, not just at the end of the process. Ongoing monitoring and evaluation can serve as a valuable programme management tool, helping assess progress and indicating where changes in implementation are needed. As not all programmes can be successful, initiatives should be ended if they fail to produce results.

Conclusion

This chapter has briefly reviewed why entrepreneurship is central to economic development, innovation, growth and employment. This chapter has also indicated why the promotion of entrepreneurship occupies a leading position on the policy agenda of many local and regional authorities. Two fields of current policy interest were considered in some detail, namely business incubation and enterprise clusters and networks. The rationale for — and appropriate scope of — public intervention were assessed at some length. The chapter presented the policy recommendations on clusters and networks endorsed by Ministers at the June 2000 Bologna Conference entitled "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies". In the cases both of incubators and clusters, well-designed public policy that adheres to market rationality can bring about benefits for firms and localities that would not have occurred in the absence of intervention. More remains to be understood however. For example, there is a particular need for methodologically sound longitudinal studies of the costs and benefits of incubation, and the comparison of incubation's cost-effectiveness with other related policy instruments. Owing to lack of space, only two aspects of entrepreneurship policy were discussed here. A variety of other tools are also open to local and regional authorities. Analysis of the merits and demerits of such options is an ongoing concern of the OECD's Local Economic and Employment Development (LEED) Programme and, more broadly, the Territorial Development Service (TDS) as a whole.

NOTES

67. This subsection draws heavily on two recent LEED publications: OECD, 2000*a* and OECD, 1999*a*. The publication OECD (2000*a*) summarises key messages from the international conference of the same title held in Albi, France, in October 1999. The conference was co-organised by the *Société Financière pour Favoriser l'Industrialisation des Régions Minières* (SOFIREM) — a major French institution charged with creating employment in areas affected by the closure of coal mines; the LEED Programme; and the School of Mines of Albi-Carmaux.

68. Parts of this subsection draw on the background paper on enterprise clusters for the aforementioned Bologna Conference. The background paper (OECD, 2000*b*) was prepared under the guidance of the LEED Programme. The principal author of this paper was Professor Michael J. Enright, with inputs from Mr. Ifor Ffowcs Williams, Mr. Alistair Nolan (of the LEED Secretariat) and other members of the OECD Secretariat. This paper served as the basis of the policy recommendations on networks and clusters contained in the Bologna Charter. Readers are invited to consult the full text of this paper on the LEED Website (http://www.oecd.org/tds/bis/leed.htm). The Website of the Bologna Conference can be visited at http://www.oecd.org/dsti/sti/industry/smes/index.htm.

69. Indeed, as already noted, a premise of some writing on clusters is that informal social institutions, and the presence of "trust", often underpin competitive success. The importance of such social foundations is hard to gauge empirically. However, there are many accounts of pre-existing barriers to collaboration being broken down by programmes that increase the frequency of contacts among potential business partners, especially when interactions are mediated by neutral brokers.

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Chapter 11

REVIEW OF POLICY TRENDS: A SURVEY OF 15 OECD COUNTRIES

Introduction

The field of territorial development policy is rapidly changing, not only as governments evaluate and learn from experience, but also as political devolution, fiscal constraints, and a greater role for partnership and public participation, technological innovation and globalisation modify the means and ends of policy. A survey of policy trends and innovations is therefore needed at regular intervals to keep abreast of developments, and to identify key issues and policy instruments for further in-depth study.

A survey based on information provided by 15 Member countries (Austria, Australia, Canada, Czech Republic, Denmark, France, Germany, Hungary, Korea, Japan, Mexico, Poland, Portugal, Sweden, and the United States) covers a range of variables, including: 1) territorial polices that are "embedded" in other mainstream sectoral policies; 2) autonomous, highly focused programmes; 3) cross-sectoral co-ordination at each level of government; 4) a mix of direct expenditure, cost-sharing measures, fiscal exemptions and public-private finance; and 5) institutional changes to seek the most appropriate territorial level for policy action.

The following sections highlight some of the principal policy trends and innovations as they relate to the three core policies for spatial economic, and social development of territories within Member countries. Necessarily, this text presents highlights of the national reports; it is selective, not exhaustive. A concluding section contains some observations about common themes and neglected topics.

1. Policies for spatial development

Market forces alone do not necessarily lead to optimal outcomes in terms of the geographical distribution of population, and of economic, social and environmental activities. Many of the negative externalities, which lead to a sub-optimal use of human and capital resources, need to be addressed through specific targeted policies. At the same time, spatial development calls for greater cross-sectoral integration, leading to a more strategic mode of spatial planning. How are governments trying to guide the spatial evolution of economic and social activities within Member countries? How can better outcomes from private investment be realised? What vision of the future of places and territories is shaping public policy and investment for spatial development?

The Governments of OECD Member countries apply spatial planning to a broad spectrum of policy objectives, including to improve regional economic performance, to create a more rational organisation of land uses, to balance demands for development with the need to protect the environment, to strengthen social cohesion and to take advantage of the opportunities presented by globalisation and technological innovations.

Strategic spatial planning

Notwithstanding the considerable diversity in the way that spatial development is planned and implemented across countries, there is an emerging consensus concerning a new strategic mode for spatial

policy. Two seminars on spatial planning systems were held at OECD in 1999 and 2000, in co-operation with the National Land Agency of Japan; a volume of papers from these seminars will be published early in 2001. Governments of OECD Member countries can further co-operate in exploring how co-ordination can be improved, and conflicts reduced, between spatial planning and sectoral policy making, between different tiers of government, and between government and the private sector. These efforts to improve co-ordination are critical to the success of public-private partnerships and to improving the conditions for investment more generally in infrastructure projects which often determine not only the form and shape of settlements and of the networks linking them, but also the social and environmental costs and benefits associated with life in both urban and rural areas. The functionalist, technocratic method of designing and managing projects for spatial development characteristic of the post-war decades when strenuous efforts were made to raise the overall level of infrastructure is giving way to an approach more responsive to the needs and aspirations of people for a higher quality of life, including the enhancement of natural and cultural assets which are so important to the identity of places. Policymakers are searching for better ways to improve the social acceptability of projects for urban and rural development (see OECD, 2000).

Administratively, spatial planning is practised at various tiers of government, namely, national, regional and local levels. Many countries have spatial and physical planning systems with a hierarchy of local, regional and national responsibilities. The national government is usually responsible for frameworks policies based on objectives and strategies for several years; lower level planning must be consistent with these policies. Examples of this category include the national development plans (Japan, Korea and Turkey), the Spatial Planning Concept (Austria), and the national planning report (Denmark). National spatial planning also serves as a policy tool to address the distribution of economic activity and social welfare between regions, which may be termed as national-regional planning. At the regional level, planning attempts to shape development. Finally, at the local or municipal level, spatial planning in many cases centres on land use planning to regulate land and property uses. Changes in national policy therefore signal important new directions for territorial development.

Due to the decentralisation of responsibilities and power to sub-national governments, the integration of regions and localities in the same functional region, and greater interdependence between different territorial levels, spatial planning systems have evolved into a more network-based and flexible structure with increasing intervention at all territorial levels and closer collaboration between levels, and between public and private sectors. In Denmark, the next planning period may well focus on less densely populated and less competitive areas, a direction which would be consistent with an initiative of the Ministry of the Interior (1998) which invited all municipalities and counties to focus on developing rural areas within their jurisdiction. A similar framework exists in Poland following adoption of an Act on Spatial Development (1999), which takes account of needs for investment in transport and telecommunications as well as environmental and cultural assets.

Traditionally, spatial development strategy was articulated in master or development plans. Such plans turned to the promotion of projects and to land use issues by imposing a rigid pattern, which was incompatible with the dynamic nature of modern economic and social life. A coherent strategy was therefore one that implied a degree of stability in land use, which is unrealistic. "What goes where" still matters, but the criteria of success have changed to reflect the multi-sectoral and dynamic nature of strategies based on a vision of the kind of territory that people want for the future. The objective has since shifted to securing sustainable development and encouraging local endogenous development. There is discussion underway in the Netherlands concerning whether some activities should be transferred to other countries, and whether the Netherlands might receive activities transferred from abroad, depending on the fit between activities and their territorial contexts. This suggests that market-based decisions on location cannot fully internalise the range of concerns about the environment, social cohesion, transport and governance that are addressed in policy.

Globalisation

Globalisation is another major factor in the evolution of spatial planning. The growing integration of markets for goods and services and of production factors such as capital, labour, technology and information mean that individuals and firms have a wider choice of locations than every before. With a shift in focus from hard to soft infrastructure, the territorial impacts of sectoral policies and investments, the

quality of project design and management, and public-private partnerships all become more important. Consider the following:

— Mobile capital searches out specific qualities of territories for investment. In particular, multinational corporations compare the qualities of places to locate business functions within a global frame of reference. Where firms consider there are long-term advantages, they are willing to commit company resources to building local opportunities and improving worker skills, educational programmes and living environment for families; and

— In a globalising economy, not only firms but also territories increasingly find themselves in competition with each other. Furthermore, opening territories to a global economy has restored the idea of territories in continual incremental adjustment to external market forces, instead of the idea of territories as fixed physical structures.

Local economies must constantly reinvent themselves through structural and microeconomic adjustments, and thus policies should enable each locality to respond quickly and effectively to problems in relation to the enhanced mobility of capital, management, professionals and skilled labour, and technology innovation. If a local response is inadequate or too slow to take full advantage of endogenous resources and competencies in the face of such new challenges, it will be by-passed, leaving declining sectors, communities and cities behind. The establishment of local systems that can develop and sustain flexible economic and social responses to challenges from global changes is a new key policy area.

The new agenda of spatial development is broad. Competitive positioning in a new global economic geography shapes strategic pre-occupations, particularly as regards major infrastructure investments and locations for new concentrations of business activities. It also highlights the importance of the cultural assets of a place to attract the skilled workers of the new knowledge industries and tourists. The need for environmental sustainability highlights both new conservation priorities and new ways of thinking about the flows of people, goods and waste products; the need for social cohesion leads to concerns for the quality and accessibility of particular resources, amenities and opportunities in the city and region. As a result:

— Spatial development strategies must go beyond merely indicating where major material investments should go and what criteria should govern land-use regulations. In other words, they have to be more than merely an aggregation of considerations and policy principles collected together in a plan or document.

— This suggests that their key task now is to identify the critical relations among many agents which are likely to shape the future economic, social, political and environmental qualities of territory; and thus

— Spatial development strategies exert influence by framing ways of thinking about and valuing the qualities of a place and of translating plans into reality. This work in turn helps to mobilise the many actors inventing the futures of places by shaping their understanding and guiding their investments towards more sustainable outcomes.

These general points find their application in a number of policy innovations in Member countries that address the spatial dimensions of economic and social change.

Managing urban growth

In the 1990s, urban sprawl became much worse at the same time as the abandonment of many older industrial and residential properties released more land within urban areas for redevelopment. The linkages between environmental, economic and social outcomes drew attention to the potential advantages of a territorial approach. Japan is adopting measures to increase the supply of urban housing close to places of employment, and to improve the urban environment more generally in an overall approach to revitalise city centres which have been "hollowed out" by demographic changes and a sectoral shift in employment and production. Portugal has been managing a programme on urban regeneration since 1994 (PROSIURB) to strengthen regional cities with financing for public works and services, and reduce pressures on the largest urban centres. In May 2000, another programme (POLIS) increases the resources available to improve the quality of life in cities through urban design and environmental efforts. In a clear indication of the linkages across policy fields,

Portugal places considerable importance on the role of cities as a factor in re-balancing and reorganising the national territory as a means of reducing disparities.

Issues of urban sprawl and brownfields have inspired the US Smart Growth policies as part of its "Liveable Communities Initiative". To protect greenbelts around cities and preserve natural amenities that are essential for rural development, the Administration has funded demonstration projects, increased transport legislation and federal loans (and subsidies from telephone companies) for infrastructure, restricted the construction of roads in undeveloped parts of national forests, and increased funds for land and water conservation. Grants, loans and funding to renovate or replace public housing are intended to increase low-income home ownership, and improve the quality of housing, but independently of any overall spatial strategy. In the United Kingdom, the reuse of brownfield sites and the setting of targets for housing for urban regeneration has meant that 45 fewer square miles of greenfield land have been needed for the same amount of housing. The international exchange of examples such as this helps to build confidence in policy instruments and support for policy objectives.

A Canadian programme, Encouraging Sustainable Community Planning and Design, focuses on reducing greenhouse gases from urban travel, reducing infrastructure costs, and protecting land resources. It investigates ways to ensure that community designs and land use planning reduce environmental impacts, while paying greater attention to the desires of people for privacy, safety, affordability and amenities in their communities. This is an initiative to build national partnerships for diffusion of best practices. A Portuguese programme created in May 2000 called POLIS (programme for urban regeneration and environmental quality in cities) increases funding for projects that combine urbanistic and environmental improvements. Water issues are receiving particular attention in several Portuguese programmes.

The US-Mexico border region benefits from a bi-national effort to address problems of water supply, wastewater treatment and waste management within 100 kilometres north and south of the boundary. A North American Development Bank was established in 1994 to help with environmental infrastructure projects. In addition the Mexican Ministry of the Environment, Natural Resources and Fisheries launched a pilot project in 1998 for the North-Center Western Region of 9 states. This effort should generate a comprehensive strategy for sustainable development, to be implemented with specific projects calling for considerable public-private co-operation inplanning and implementation. This Ministry is also promoting a model for the design, implementation and assessment of a sustainable development policy for deprived rural regions covering land use planning, social participation, and co-ordination of work programmes.

Balanced territorial development

A more balanced, polycentric urban-rural structure is an explicit objective of territorial policy. There are tensions within these policies due to the fact that many cities with higher than average levels of productivity have an important role to play in reducing disparities, whereas the pull of the city can also undermine prospects for rural regions. Ireland is working toward a national spatial strategy by the end of 2001 to guide infrastructure investment, rural initiatives and urban development toward a balanced territorial structure; the concept of gateway cities in the regions figures prominently. Sweden has proposed that the theme of "functional small and medium-size urban areas" be introduced during the French presidency of the EU Council of Ministers and continued during the Swedish presidency in 2001. For the moment, there is no policy for small and medium-sized towns in Sweden, but there is an awareness of the importance of rural-urban relationships for job creation and the provision of public services. The downsizing of the military is one factor which calls attention to these issues now, as there is a need for some towns to develop a new economic base. (In March 2000, the Swedish Parliament adopted a defence bill with measures to help nine municipalities cope with adjustment problems). Small and medium-size towns are also important in Austria, with only one city of between 200 000 and 1 million inhabitants, and only one city with over a million. Portugal also has a national strategic plan for medium-size cities and regional capitals, through rehabilitation, investment in schools and hospitals, physical infrastructure and financing of public services.

In a revision of the Federal Regional Planning Act in 1998, Germany added sustainable development as a new paradigm for spatial planning; cultural landscapes and the preservation of historical heritage became social and ecological objectives. The objective of sustainable territorial development is to

be pursued so that the social and economic demands made of an area correspond with its environmental carrying capacity, resulting in system that is balanced on a large scale. The objectives of spatial policy and regional development should be consistent with each other, taking better account of Germany's settlement pattern and environmental objectives as positive factors in the effort to enhance regional competitiveness based on their endogenous potential. This is consistent with the guidelines for regional planning introduced in the early 1990s, which promoted the concept of "decentralised concentration" for polycentric spatial and settlement patterns. Regional planning makes it a responsibility of all levels of government to promote the development of settlements around the use of environmentally acceptable transport networks, in order to prevent further dependence on passenger cars and large trucks. In the older *Länder*, policy favours the development of small and medium-sized industrial and service centres, and in the new *Länder*, the strengthening of a network of larger central places that can support their hinterland. Throughout Germany, compact and dense settlements characterised by functional complexity should be the ideal. The way forward involves model projects and the sharing of experiences in both urban and rural areas. The model regional planning projects should bring out lessons concerning how projects are implemented, and especially what the benefits of voluntary inter-communal co-operation can yield.

A better balanced settlement system might also reduce the pressures of growth in metropolitan areas. This can require measures to improve rural areas, which in any case have specific needs given their importance in strategies of sustainable development. In 1999, the Council of Ministers in Poland included rural programmes among the middle-term objectives for environmental policy, specifically increasing the size of the areas under protection, increasing forestation, maintaining and preserving existing eco-systems of natural and cultural value, and improving areas of tourist potential. Regional plans in the Czech Republic will address the location of major infrastructure investment, logistic centres and environmental protection. Economic growth may in due course intensify pressures for housing development in suburbs, but for the present, suburban growth and urban sprawl in regions relate to sites for supermarkets and warehouses. Urban-rural co-operation, urban sprawl and other related issues will be a priority for the new regional governments being set up in 2000 (see Section 4). A draft Act on Spatial Planning has the objective of making regional and spatial plans more comprehensive. Transport services will be transferred to the new regional authorities, creating the possibility of a better integrated approach which can help support rural areas.

A specific policy objective of Japan called "Grand Design for the 21st Century" focuses on the third national land use plan, which includes measures for integrating environmental improvements with social and economic development. A priority concern, uncontrolled urbanisation, benefits from separate measures (City Planning Act and Building Standard Law, revised May 2000), that extends municipal planning over areas previously unregulated. Other measures of the "Grand Design" focus on the establishment of new industrial systems based on natural resources and agriculture; industries that are less dependent on specific localities due to information technology; transport and communications infrastructures; and targeted assistance to develop "local core areas".

To the degree that a more balanced, polycentric spatial pattern of development (and associated infrastructure design and investment) correspond to the objectives of economic development policies, there appears to be a high degree of coherence between spatial and economic policies. This said, there is still the question whether government has strategies and instruments which can foster economic development, which involves labour markets, the firm, etc., while also guiding investment to particular regions or locations. Polycentric urban networks and a more balanced overall pattern of regional development should be congruent with the network mode of the new knowledge-based economy, but this optimistic perspective will have to be clarified in the light of the survey and case studies underway on information and communications technologies in rural areas. Nevertheless, a consensus on the importance of social and environmental factors and on effective governance at the local and regional level would suggest that most regions could be competitive and sustainable. Much will depend on how robust vision-building and strategic planning exercises, on which spatial policy increasingly relies, will prove to be when confronted with the next wave of technological innovation, the next phase in the economic cycle, and the next phase in the environmental agenda.

Issues for the future

— What are the critical infrastructures needs in Member countries?

— What changes in laws, regulations and institutional structures are needed to make flexible spatial planning systems work?

— What are the benefits of managing urban growth? What are effective policy instruments?

— Is balanced territorial development an explicit goal of policy, and if so, what are the forces change which work in favour or against it?

2. Policies for economic development

One of the major objectives of territorial policy is the reduction of regional disparities, not only through redistributive measures, but also by optimising local comparative advantages. How can the strengths of different regions and localities be strengthened? And how can some balance across national territories then be found, given the differences in potential and rates of growth from one region to another?

Localisation of firms

Japan has taken a number of measures to promote the relocation of industry and upgrade workforce skills. As of Fiscal Year 2003, the high school curriculum will add subjects on information to train people for the IT sector, and on welfare to train specialists on care service. Ministries are encouraged to increase expenditure for technology development in SMEs, and each region benefits from a new law to promote new firms ("Regional Platform System"). Fiscal measures support industrial clusters and regulatory reforms assist the development of SMEs in metropolitan areas. As part of the "Grand Design for the 21st Century" (see social policy, below), Japan has strategies for public investment in infrastructure to mitigate regional differences, designed to give regions equal opportunities and to promote regional independence, and to give more people a standard of living and access to facilities found in advanced urban areas. This embodies a long-term vision to transform the current unipolar, unixal structure into a multi-axial, polycentric one.

In 1995, the Danish Ministry of Trade and Industry set the objective to improve the framework conditions of regions so that enterprises can develop (rather than try to make all regions "equal" in respect of their facilities). This involved a change of policy because the special strengths of each region need to be identified, if the government is to improve the framework conditions. This has been done for the Copenhagen-Oresund region. A report on the Jutland/Funen region, produced in co-operation with partners at the regional level, has been published to guide a strategy for this region. Areas experiencing large industrial closures benefit since 1996 from funding for new local initiatives and technical services for economic development. These objectives will support sustainable development, which is an explicit goal for territorial policy in Denmark, and is intended to link economic development to local assets as against transfers from the central government. The Ministry of Interior submits a regional policy report to Parliament, which helps to make the government more aware of the regional impacts of new laws and other initiatives.

The German Joint Federal/State Scheme for the Improvement of Regional Economic Structures permits grants towards the costs of preparing integrated regional development targets and priorities, including social aspects. The purpose is to help structurally weak regions develop a longer-term strategy taking better account of the complexity of social, environmental and economic factors that require an integrative approach. As a result, policymakers are obliged to discuss a range of issues including research, labour markets, education, and urban construction. This Scheme responds to a requirement in Germany's Basic Law, to create equal living conditions throughout the national territory. (Structurally weak areas in Germany are identified in terms of labour-market regions according to a series of indicators covering labour markets, income levels, infrastructure development, and expected employment growth. The analysis is updated every three to four years.) The Scheme makes grants up to 80 per cent of eligible costs for construction and development of industry-related infrastructure, including industrial parks, installations for

education and training, and industrial and commercial properties. Particular efforts are being made to promote employment in the services sector at the regional level. SMEs are eligible for assistance when hiring university graduates seeking their first employment, for research and development, and for IT training. Business incubators, centres for research and telematics, and the creation of call centres are also eligible for assistance. In the period 1991-1999, the federal government provided DM24.2 billion in funding under the Joint Scheme; DM8.1 billion was awarded during the years1997-99.

New technologies and balanced development

In the early phases of the so-called new economy, governments are experimenting with a regional approach to improving the diffusion of technology. In Denmark, the government is introducing a new strategy for business and industry to focus on the "Global knowledge society", leading to the establishment of regional knowledge centres for business. Information and communications technologies, when coupled with regional economic integration and globalisation, make it possible for many cities and regions to develop complementary specialisations. Vertically structured hierarchies of administrative responsibilities, economic functions and settlement structures are being replaced by flatter structures that encourage networks along multiple pathways, and greater diversification. National policy must take better account of this important shift, which could permit greater co-operation between urban and rural areas.

A German programme with similar objectives, "InnoRegio — Innovative Stimuli for Regions" was initiated in 1999 by the Federal Ministry for Education and Research. A total of DM500 million is available for projects until the year 2005 to develop regional innovative potential and capacity based on joint projects among people from different fields of activity. A specific goal is to engage people from industry, education, and administration who have not yet participated in efforts to improve regional innovation (*i.e.*, the development of new products, processes and services that can lift the educational, research and economic profile of a region). The projects are to emerge from a self-development process at the regional level, leading to a national competition (1999-2000). The implementation phase was due to begin in the autumn of 2000.

In Sweden, a report on the future regional policy is being prepared which might reflect these trends. A bill on a new regional policy is due by Spring 2001 against a background of change which has pushed Stockholm close to the limits of capacity, while jobless growth has been characteristic of many parts of the country. The recognition that all regions have economic opportunities has led Sweden to adapt its industrial policy to regional and local conditions. This requires, in turn, better private-public co-operation and the engagement of civil society. To bring the various sectors together and to explore new approaches to local and regional development, the Swedish government has offered County Administrative Boards and the regional councils of Gotland, Kalmar and Skane the opportunity to shape an action programme (Regional Growth Agreements) which can be extended to all 21 counties in Sweden. The County Administrative Boards, which bring together partners from local municipalities, local businesses, chambers of commerce, and county councils, will have responsibility for co-ordinating the agreements, but their implementation will require more intensive co-ordination among various ministries responsible for growth and employment policies (an inter-ministerial secretariat has been set up to this end). A partnership approach to regional development with the active involvement of the private sector will promote the analysis of the potential for and of threats to economic development in each region.

Korea's Fourth National Development Plan proposes "Creating Competitive Regions with Local Characteristics" based on promotion of local initiatives for regional development, a better balance between a competitive capital region and the rest of the country, knowledge-based industry, and settlements with a higher quality of life. A Planning Group for Balanced Regional Development, which reports to the President's Office, is working on a three-year plan which is more comprehensive than previous plans insofar as it pays more attention to underdeveloped regions, and calls for greater local initiative and responsibility. One strategy is to restrain the location of factories, universities and other facilities that draw people toward the capital region, Seoul. There are restrictions and heavy assessments on acquisition and registration tax on new construction or expansion of some facilities. Large buildings in downtown Seoul are burdened with an "overpopulation charge" equivalent to about 10 per cent of construction costs. To promote develop elsewhere in the country, the government is trying to promote the growth of independent regional hubs. Since 1994, 8 Area-Wide Development Plans have been desig-

nated. In addition, development promotion districts of various types, depending on regional characteristics, have been designated to address the problems of areas near cities undergoing structural adjustment. Measures for nearly 50 areas include tax exemptions, government grants, etc. Other measures exist to induce firms to relocate corporate headquarters or factories from Seoul elsewhere. The expectation is that with greater public-private partnerships, some traditional industries can be transformed to keep pace with the demand to add more value (optics in Kwangju, shoes in Pusan, fashion in Taegu, machine tools in Kyungsngnamdo). High speed transport links and the most advanced telecommunications networks will connect the country and link the regions to the major ports and new Inchon International Airport.

The objectives for regional development may differ in specific ways from country to country. Portugal, for example, wants to reduce disparities within the country while bringing the country as a whole up to European levels. There is a Regional Development Plan covering the period 2000-2006. Priority is given to valuing human potential, supporting productive activities, and structuring the territory. This involves efforts to raise the workforce skills and promote social cohesion (through such measures as three Territorial pacts for Employment), guide the private sector toward the activities of tomorrow, valorise the country's position in larger economic systems (for example, by integrating the national urban system into the European urban system), and promote sustainable regional development (with major infrastructure investment to assure the accessibility of less densely populated areas).

Reducing regional disparities

Finding the right balance between the needs of growing and of declining regions is not easy. In Austria, the closure of secondary railroad lines and improvements in road transport are issues in lagging regions. These regions benefit from other measures, such as increased business aid and support for technology transfer, education and networking among SMEs. The focus is therefore shifting from hard to soft infrastructure. But even this shift poses new questions, such as how to find an optimum distribution of social infrastructure, to supply a better level of service at minimum cost. In Austria, environmental issues and sustainable development objectives more generally have been integrated into territorial policy.

Poland adopted a bill in 1999 on rules to support regional development, which includes measures for co-operation at ministerial level. Although there is a focus on equalising opportunities regardless of locality, which necessitates efforts to overcome the handicaps of poorly developed regions, the strategy includes improvements to the quality of life throughout the country. A cross-sectoral approach will be used, covering entrepreneurship, public services, inter-regional infrastructure, education, environment, capacity-building for local and regional government, and research on regional development, and the diffusion of innovations from high activity areas to other regions, strengthening regional centres, helping with the restructuring of regions with traditional industries. Poland (Ministry of Labour and Social Policy) has put in place programmes of microcredits and requalification to promote entrepreneurship and reduce unemployment in rural areas. The Ministry is also preparing a new set of procedures for locally-initiated programmes to cope with the negative effects of unemployment and structural adjustment covering active labour market measures, job intermediation, sectoral employment, labour standards and insurance. Infrastructure investment can also be targeted to areas of high structural unemployment. In Poland, the Ministry of Economy and several other ministries are preparing a National Strategy for Regional Development, 2000-2006 that makes sustainable development an explicit goal for territorial development.

Balanced development was adopted as an objective of environmental policy in the Czech Republic in 1999. The Czech Republic uses an indicator set to identify structurally damaged regions (covering 16.7% of the population, 9.35% of the area; another set of indicators targets economically weak areas). Programmes of support for the most affected areas and targeting SMEs in particular drawn up annually among several ministries. Subsidiarity follows logically from these two positions, as does cross-sectoral integration. The challenges lie in meeting the different needs of different regions to achieve territorial balance, while addressing the need to balance the economic, social and environmental components of development. Whatever the problems to be addressed, however, in many Member countries the implementation of policy involves capacity-building measures, cross-border co-operation, greater attention to peripheral regions, the integration of urban networks into larger regional and global networks, investment in human capital, and targeted efforts to reinforce existing strengths. The precise mix of instruments and objectives will necessarily vary from one country to another. A new Act on Investment Incen-

tives in the Czech Republic provides foreign and domestic investors with incentives such as tax concessions, subsidies on job creation, subsidies on the preparation of land and properties for future investment, etc., with a potential territorial impact. A priority is for integrated transport systems with a preference for public transport, to maintain the existing modal split with car use.

Regional disparities are a frequent variable in the development of remote regions, often of significant size, where a majority of the population is of native origins. Canada has created a new territory of Nunavut (1 April 1999) taking in the central and eastern portions of the Northwest Territories. This is the result of the largest land claim settlement in Canadian history, giving Inuit control of more than 350 000 square kilometres, and over CAN$1 billion over 14 years. Other efforts to strengthen the Nunavut economy and help make the territory self sufficient will be pursued by the territorial government, Nunavut Tunngavik Inc., which has established regional development corporations and is encouraging mining exploration. There are more than 800 000 Aboriginal people in Canada, the fastest growing segment of the national population (4.4% versus 1.1% for the rest of the population), with a more youthful age structure, but with lower educational attainments and higher unemployment than average. A series of national initiatives have been taken to address their problems.

Investment for development

Infrastructure investment is an important part of economic development. In Canada, up to CAN$600 million has been allocated to improve highways and intermodal facilities in major trade corridors. Japan is improving its highway network to reach a standard permitting 80 per cent of areas to have access to the Arterial High-Standard Highway Network within an hour (an improvement of 9%). Comprehensive transport improvement programs linked to urban development have been introduced since FY 1999 with a focus on improving integrated services at stations and terminals, to improve access to airports and urban waterfronts, and generally improve public transport to sustain urban centres in regional economies.

Equal access to public services is being supported in Canada by an equalisation programme, renewed in 1999 for five years for 7 provinces that cannot generate revenue otherwise at a reasonable level of taxation. The CAN$9.5 billion being made available will allow the provinces to provide public services according to their own priorities at levels comparable to what is found elsewhere. The formula assures provinces a minimum of CAN$5 679 per resident to fund public services. A major concern in rural areas is the need for better access — to financial resources, youth employment opportunities, and public services. General equalisation schemes exist in Denmark; these are of particular benefit to small and medium-sized towns, especially in lagging regions, which then are better able to develop given the advantages of size of larger cities which can finance public services with a larger tax base. There is also evidence in Denmark that the development of public services contributes to a convergence of per capita income between rural, predominantly rural and urban areas.

Australia, like Canada, is a federal state with a vast territory that includes a significant indigenous population and some very remote areas. At the Regional Australia Summit held in late October 1999, delegates emphasised the resilient character of development in remote rural areas, and developed some 250 recommendations to address the challenges such areas face. (In Australia, the term "regional" refers broadly to sparsely populated rural areas, many of which are under pressure as intermediate and metropolitan areas continue to grow, and as globalisation continues to alter the market for the natural resources which came from rural areas). A private-public partnership called the Foundation for Rural and Regional renewal was established at the Summit; backed by A$14.5 million in federal funds and matching non-federal contributions, the Foundation is expected to reach a level of resources of over $A80 million. In May 2000, the Minister for Regional Services, Territories and Local Government announced the Research and Development Programmes for Rural and Regional Australia designed to improve the availability and application of research and data on rural social and economic issues, and to foster community development. Local communities will be helped to take a greater role in planning and decision-making.

In March 2000, a meeting of Regional Development Ministers and the Australian Local Government Association focused on ways to improve co-ordination across spheres of government, establishing a taskforce of senior officials, and agreeing to draft a framework for co-operation between the three levels of government. Constitutional responsibility for regional development rests with state and local govern-

ments, which adopt different approaches given their needs. The focus of all these activities is on improving regional services, enterprises and communities, which in turn requires investment in telecommunications infrastructures, job training, education, health care, etc. Initiatives include Rural Transaction Centres to help small rural communities (less than 3 000 people) provide access to basic private and government services for banking, welfare and health benefits, etc; the Job Network of about 200 organisations which helps employers fill vacancies; and the work of the Australian Heritage Commission which is responsible for many natural and cultural sites in rural regions with tourism potential. All Federal departments are now required to prepare Regional Impact Statements for any policy or programmes likely to affect services, employment and investment in regional Australia.

Taking these various approaches together, it is possible to see how different territorial development policy has become in recent years. The Korean report makes a comparison between previous regional development policies, which were largely concerned with the equality of development among regions, economic growth and infrastructure development, and new polices which are concerned with regional competitiveness, cultural identity, environment, the quality of life, human resources and democratic participation. Of course some aspects of policy such as infrastructure development will be maintained, but less as a sectoral instrument and more as a strategic element linked either to preparing territories for the growth of the new economy and for environmental improvements, or to the problems of lagging regions. This new approach integrates social, spatial and economic aspects of development more completely in an effort to optimise local potential and improve framework conditions.

Issues for the future

— Will technological change exacerbate regional disparities?

— How are lagging regions identified? What measures improve endogenous growth?

— What structural and regulatory reforms at the sub-national level are needed to improve the business climate?

— What is the impact of measures to improve social conditions on regional local economies?

3. Policies for social development

There has been increasing concern in OECD countries over a perceived weakening of social cohesion as people living in some rural areas and in certain districts of cities appear to have become isolated from the structure of opportunities provided by institutions (such as schools, welfare systems) and by markets (notably the labour market and the housing market). Economic growth by itself is not sufficient to eradicate processes of social and spatial exclusion; indeed, there is concern that growth may also be a factor in exclusion. How can the quality of life be improved throughout territories even as areas characterised by high levels of distress and exclusion are the focus of attention? Can national framework policies promote local initiatives, to achieve better policy integration? How can the links between social conditions, spatial change and economic performance be reconciled?

Spatial patterns of distress and disadvantage

The emergence of distressed areas in urban and rural regions has been one of the most important factors of the 1990s giving territorial policy greater visibility. The social-spatial fracture that weakens social cohesion has spillover costs, which call for area-wide strategies and national policy frameworks if the concentration effects of local problems are to be reduced. In Mexico, municipalities have been ranked according to their degree of marginalisation; the government has responded by shift resources, improving policy deliver, and emphasising social enterprises, microcredit, SMEs; a new national development plan will be prepared in the first half of 2001.

Mexico, which has an significant pattern of territorial and social disparities, has adopted a strategy to cope with the concentration of social and economic activities in the four largest metropolitan areas (Mexico City, Guadalajara, Monterrey and Puebla), by trying to improve the development potential of alternative cities and by providing better services in some 100 small and medium cities (between 50 000

and 1 000 000). Investments in social and physical infrastructures have been made to improve living standards and investments, thereby reducing the rate of migration to the largest conurbations. Improved access to distant and lagging regions and medium-sized cities has been a priority for infrastructure investment. Improvement of downtowns, preservation of cultural and historic heritage, environmental services, and urban transport have all been the focus of public policy. Efforts have been made to consolidate growth and improve land use in the country's four largest metropolitan areas. Housing programmes are an important part of an overall strategy. This requires an integrative approach in which environmental issues play a significant role.

Economic development policies include many programmes to improve labour training, productivity in SMEs, reduce the regulatory burden, and the Clusters Promotion Progamme launched in 1997 as a joint public-private initiative in a number of sectors, and which includes regional studies to define strategic plans and guidelines.

The territorial approach to a better social and spatial pattern of development is based on the assumption that sustainability can only be reached by means of a comprehensive treatment of social, economic and environmental variables in land use planning studies. This multisectoral approach is intended to reduce social and economic imbalances among the regions and promote their long-term development, as well as to support local and municipal initiatives. All levels of government in the federal system must co-ordinate their efforts, beginning with a diagnosis of the unmet needs of the regions and their potential for growth, and leading to solutions to specific problems and the design of comprehensive regional development programmes. A Territorial Ordering policy is being prepared to maintain territorial development as a government priority.

Ane OECD report (1998) recommended that metropolitan regions develop a comprehensive, forward-looking strategy crossing jurisdictional boundaries, integrating sectors, and including the participation of the private sector, civil society and various public authorities. Germany has initiated a "Social City" programme, managed for the Federal Ministry for Transport, Building and Housing by the German Institute for Urban Affairs (Difu), to give greater political visibility to urban development issues, and to ensure that greater efforts are made to implement an integrated approach to problem areas in cities. This will involve bundling and co-ordinating all investment and non-investment resources from both federal and state departments into a single plan for a given urban area. The timing of actions can thus be synchronised according to an overall strategy. NGOs and community associations participate. In Sweden, where a unified municipal policy was embodied in a bill on "Development and Justice, a policy for metropolitan areas in the 21st century" (1998), central and local government initiatives to reduce social segregation are co-ordinated in local development agreements intended to last for several years (with annual audits). Local action plans for education, employment, cultural integration, etc., initiated from the bottom up, focus on improvements to specific neighbourhoods, within a framework of national objectives. A national board of integration will conduct evaluations with indicators. The Swedish government has allocated SEK2.1 million to metropolitan regions, with an equal or greater amount to be committed by the participating municipalities.

Cross-sectoral strategies

In Poland the State Office for Housing and Urban Development has prepared a draft act based on a medium term strategy to cope with the deficit in repair and renovation which calls for a leading role for municipalities, together with regional government, the private sector and NGOs. Additional measures are needed to cope with issues of environmental protection, an integrative strategic, metropolitan approach areas of urban poverty, the valorisation of historic buildings, the transformation of industrial areas into commercial, leisure and touristic centres, and reduction of air pollution linked to heating systems. Social diversity will be strengthened if many older residential areas can be modernised and renewed.

New brownfields have emerged in industrial cities in many Member countries. In the Czech Republic, the regeneration of areas with declining heavy industry and mining and former military bases are problems, and the large stock of prefabricated housing estates must be renovated, lest pressures for suburban development increase, leading to a deterioration in air quality and congestion. The government is trying to integrate social and economic development in regional development plans, such that social investments will generate economic gains. Nevertheless, some inter-regional migration can be expected

as populations in older industrial areas decline, and Prague continues to grow. Environmental problems specific to landscapes of heritage status, regions with the heaviest burdens, and rural villages make the inclusion of environmental strategies an integral part of an overall territorial approach to social issues.

The United States is an example of a federal system where programmes are spread across many agencies, and rely on a mix of loans, credits, direct expenditure and technical assistance, making policy coherence more difficult. In the United States, the Empowerment Zone/Enterprise Community (EZ/EC) programme, established in 1994 and expanded in 1998, uses Federal taxes, grants and loans to encourage development in poor rural and urban communities. The goals and strategies must be clearly defined locally over a 5-10 year period. Assistance for rural local development is supplemented by the Rural Housing and Economic Development programme of the Department of Housing and Urban Development and by the Department of Agriculture's Rural Community Development Initiative. The New Markets initiative has sought partnerships with the private sector to invest more in distressed urban and rural areas.

Many educational programmes and initiatives for employment and training in the United States, as in most countries, focus on individuals, not regions or localities. Nonetheless, the Workforce Investment Act of 1998 tries to concentrate training services in a "one stop" format in facilities controlled by local workforce investment boards which determine the specific services received, thus allowing a better match to the needs of local communities. This initiative is designed to improve the long-run efficiency of local labour markets as well as to increase participation of long-term unemployed. Welfare reform, undertaken in 1996 and 1997, establish tax credits to help encourage the hiring and retention of long-term welfare recipients, measures that may be of use in areas where labour productivity and the growth of new jobs are slow. Some small rural communities may not be able to offer enough jobs to absorb new workers (one-third of rural counties captured three-quarters of rural economic growth), but might benefit from the wider range of services made available through welfare reform.

New regional organisations have been initiated in the US, and supported by the Rural Development agency's Office of Community Development (Mississippi Delta, Southwest Border), following local initiatives by distressed areas to improve, and to seek assistance from the national government. Regional initiatives of this kind require a better assessment of the region's needs and potential.

A cross-sectoral approach to economic development is gaining visibility in Canada, where four regional development agencies (for the Atlantic, Quebec, Northern Ontario and Western regions) try to target vulnerable groups and areas, based on recognition of the links between social and economic conditions. On a more local level, Community Futures Development Corporations (CFDCs) in Canada, which work through regional agencies, focus on building local capacity in rural areas to deal with economic change and labour force adjustment. There are more than 200 CFDCs run by volunteer boards and salaried staff. CFDCs use local knowledge and entrepreneurs to reduce the risk associated with loans and self-employment assistance programmes, complemented by technical and advisory services. The CFDCs have been expanded nation-wide to provide targeted programmes wherever communities experience severe economic downturns.

The digital divide is a topic of growing policy concern. Canada's Community Access Programme, a partnership-based effort to make the Internet more accessible to low-income, disadvantaged and young people, has over 4 200 sites in 3 200 rural and remote communities, with a goal to expand the programme to urban areas, and create 10 000 sites across the country by March 31, 2001. The Swedish Parliament recently decided on an investment programme to give all parts of the country access to broad-band communications networks, which should help small and medium-size towns and rural areas. In the United States, where the current farm policy will expire in 2002, efforts are underway to link information and communications technology to rural development through improvements to access in the context of deregulation, improvements to human capital and entrepreneurship, and a focus on innovations in electronic commerce.

Immigration-related issues were raised explicitly only by Denmark, where a new law on integration has been enacted in an effort to get a more balanced distribution of asylum seekers across the country (thus, to avoid the emergence of ghettos in large cities).

Given the potential of the third sector (philanthropic and voluntary organisations in civil society) to contribute to local development and partnerships, efforts are being undertaken to strengthen capacity

and improve the regulatory framework for non-profit organisations. Since the spring of 1999 in Canada, this has taken the form of three Joint Tables, which bring sector leaders and government officials together.

A greater effort is apparently being made to improve the opportunities for education and job training to people who live in disadvantaged or distressed areas, often delivered by regular sectoral agencies or ministries. Regional and municipal authorities are still less active as initiators of policies in the social field, even though their responsibilities for housing and land use usually relate policy and investment to quality of life issues. From this perspective, social policies, even if they are integrative in approach, lack the broader territorial coverage of economic and spatial policies, focusing instead on areas of disadvantage. Innovation appears to involve new modes of delivery of services and capacity-building measures more than new approaches to education, health, housing and community development.

Issues for the future

— How are co-ordinated, cross-sectoral programmes being implemented? Is the spatial scale a variable (neighbourhood, metropolitan, inter-regional)?

— Given the rate economic and technological change, are there preventive strategies to reduce social problems in the future?

4. Governance institutional innovation and trends

Cross-sectoral and inter-jurisdictional co-ordination

France has adopted two laws and creating a framework for territorial development policy; passage of a third is pending. These include laws adopted on the planning and sustainable development of territories (25 June 1999), and on the strengthening and simplification of inter-communal co-operation (12 July 1999), and a law pending on solidarity and urban regeneration. These three laws, taken together, outline a new orientation.

The first of these laws calls for nine zones for public services to be determined at the national level. Co-operation between the state and the regions will be organised according to seven-year long contracts, linked to the duration of spending programmes of the European structural funds. Local involvement is promoted through the elaboration by local authorities of medium-term projects for development, by the organisation of development councils bringing together area-wide social, economic and cultural actors and associations; and by the preparation of an area contract in metropolitan or rural regions.

The second law promotes the regrouping of communes into urban communities, where there are at least 500 000 inhabitants, and into smaller units below that threshold. The third law will substitute a framework for territorial coherence for older frameworks. This new framework should correspond to the spatial application of development projects, such that different sectoral policies can be integrated. It also calls for a mix of housing types within built-up areas so as to favour a social mix and the integration in cities of different social categories.

Canada gave the Minister of Agriculture and Agri-Food Canada the additional title of Minister co-ordinating Rural Affairs (1998), with support by a Secretary of State for Rural Development (1999). Cross-sectoral co-ordination at the level of the federal government is provided by the Canadian Rural partnership, with a budget of CAN$20 million for four years (beginning 1998). Federal departments have established rural teams in every province, to work with all stakeholders. This strategy is designed by an interdepartmental working group made up of representatives from 29 federal departments and agencies. The CRP shares costs of pilot projects building on existing rural networks and supporting greater local participation in community development.

Public participation in shaping the policy agenda often requires new modes of communication. In Canada, the Rural Dialogue has been initiated to promote the participation of rural citizens. In 1998, some 7 000 people discussed the challenges and opportunities of rural areas in over 30 regional workshops. Eleven key issues and guiding principles for government co-operation with people in rural areas

were then reflected in a "Federal Framework for Action in Rural Canada". The Government then reported to Parliament ("Working Together in Rural Canada", May 2000) on how it has met the 11 priorities in the Federal Framework. The dialogue continues in an on-line discussion group, and in a national rural conference (April 2000).

To promote cross-sectoral integration and to give greater visibility to territorial issues, the Canadian Minister Co-ordinating Rural Affairs has introduced a "rural lens", which asks federal departments and agencies to identify the effects of federal policies, programmes and services on rural Canada when considering future initiatives. (This would appear to be similar to the Australian requirement for federal departments to file Regional Impact Statements). Key issues include accessibility to public services in rural areas, and flexibility for decision-making at the local level. Japan is creating a Ministry of National Land and Transport (provisional title) in January 2001 to integrate the Ministry of Construction, the Ministry of Transport, the National land Agency, and the Hokkaido Development Agency. Local governments, including prefectures, cities, towns and villages, with greater participation by the public and private sector, will take leading roles in inter-regional co-operation within national framework policies. A Regional Development Bureau (provisional title) can be expected to combine the regional bureaux of the existing construction and transport ministries.

Decentralisation

Devolution leads to efforts to improve co-ordination at each level of government on matters where responsibilities have either been transferred from the national to the regional level (as is the case for social housing in Canada), or shared (as is the case in Canada with active labour market policies). The problem of sustaining resources at the sub-national level to match responsibilities is recurrent in Member countries. In Australia, the collection of taxes by the Federal government was in excess of its expenditure, whereas States had a less secure fiscal base and a more complex system of taxes, which encouraged business and consumers to make locational decisions for tax reasons. The Federal government made available A$32 billion in 1998-99 to the States in the form of block grants, equivalent to about 42 per cent of total State revenue. Comprehensive tax reform led to the introduction of a broad Goods and Services Tax (GST, a value-added tax) on 1 July 2000. The Federal government will reduce its grants to the States, but the States are expected to increase their revenues overall from the GST, with projections showing that they should have an additional A$1.25 billion in 2004-05 than if the older system had remained in place, and larger amount sin successive years.

In Mexico, decentralisation progressed in 1999 when federal subsidies and grants for some urban programmes were included in a budgetary item known as "Ramo 33" which is a direct transfer to states and municipalities based on a population and poverty index. This enhancement of the decentralisation process is intended to improve transparency at the local level, and to guide resources toward priority social needs. In Fiscal Year 2000, 30 per cent of total expenditure was directed toward states and municipalities, 83 per cent of the decentralised resources of 365.3 billion pesos going to the states, the remainder to municipalities or local governments. During the six years of the Zedillo presidency, social spending has been given priority over other categories of expenditure.

The strong federal structure of Germany places much of the responsibility for territorial policies on the level of the *Länder*, which is consistent with a strategy for their endogenous development. The Federal government brings representatives of the various policy areas (labour market, research and technology, agricultural structural policy, urban development) together, to better co-ordinate their assistance programmes to the regions. An "Alliance for Jobs at the Regional Level" shows what can be done to co-ordinate regional policy with labour-market policy. More time will be needed however to achieve inter-ministerial co-ordination of programmes with impacts on regional economic structures. Various co-ordinating committees have been set up within the framework of the EU structural and regional policies to implement support measures, thereby respecting the constitutional responsibilities of the central government for external representation, and of the *Länder* for carrying out programmes oriented to regional policy.

In 1999, Hungary revised the 1996 Law on Regional Development and Physical Planning. In the original law, the 19 traditional Hungarian counties and the capital could form regions on a voluntary basis, which meant that the borders between them could vary over time according to the decisions of the regions themselves. The 1999 amendment changed the law to reflect the territorial division of the country into

7 regions for statistical and planning purposes that had been effected in 1998, and withdrew the provision that permitted regions to change their borders. The amendment clarified the institutional system of regional policy, strengthening the regional development councils and listing their mandated activities, reducing the representation of small areas on regional and county councils, and providing a stable funding base for the councils. A preliminary national development plan is being prepared as part of the pre-accession process, which Hungary is following with the European Union. An Interministerial Co-ordinating Committee on Development Policy has been actively involved in its preparation.

Poland clarified its inter-governmental structure to focus on regional policy. There is a minister for regional development with responsibility for a national strategy, and a council of Regional policy of the State. Regional authorities (16 *voivoidships*, created in 1999) have responsibility for development at their level, with central and regional tasks identified through negotiations. *Voivoidships* and municipalities no account for more than 9 per cent of total public expenditure.

The Czech Republic has the objective of accommodating regional plans within the new administrative structure of the state. A Constitutional Act on the Formation of Higher Territorial Administrative Units (*e.g.*, regions) came into effect on 1 January 2000; 14 regional assemblies will be elected in the autumn, and will begin work as of 1 January 2001. The Ministry for Regional Development, established in 1996, will remain as the central body with overall responsibility, and will assure co-ordination of rural and urban policies. (There is no single urban programme but major support for housing renovation, whereas a rural programme is explicit for village renewal, education, integrated projects for micro-regions, etc.).

For the 15 Member countries that are also members of the European Union, the importance of the EU structural funds for regional development and territorial development policies cannot be underestimated. Not only does the EU provide funding; the supranational frame of reference means that the objectives of policy are no longer exclusively domestic, even in countries such as Austria with a long tradition of public support for private investments in lagging rural and industrial regions. Moreover, the differences between programme and funding cycles in the EU and in its member states means that the exchange of experiences and best practices, evaluations, and corrections to programmes are ongoing. Co-operation among different funding authorities and a more integrated approach are both essential to success.

Issues for the future

— What are the problem and challenges which can be addressed more effectively through better cross-sectoral co-ordination at central level? Which countries are gaining experience of this kind?

— What changes in the responsibilities of central government follow decentralisation?

Conclusion

A cross-section of territorial policy trends and innovations in OECD Member countries, both large and small, in Asia, North America and Europe, with both federal and central systems, have indicated policies which are fully congruent with the outline of core policies in the TDS conceptual framework (OECD, 1999) in respect to economic, social and spatial development, to both local and regional levels, and to both urban and rural areas. To a greater or lesser extent, key concerns or issues include information and communication technology, population shifts and regional balance, disadvantaged groups, cultural heritage, and sustainable development. Policies involving all levels of government are intended to cope with the spatial effects of structural change and greater decentralisation, and to promote stronger endogenous development based on relatively immovable assets and local or regional opportunities. On the one hand, cities retain a crucial role in economic development, and as "holders of knowledge", perhaps even more so in the knowledge-based economy. On the other hand, there are strong rural pressures to make better use of the potential of information and communication technologies. Polycentric settlement systems with greater urban-rural interdependence are an explicit policy objective. But the specificity of rural and urban areas means that uniform policies for both are unworkable.

Some issues have not however appeared as uniformly as might have been expected, including: global climate change, urban pollution and congestion, changes in the retail sector with spatial implications, the third or civic sector, the territorial dimensions of immigration and of social integration more generally, support for rural amenities, regulatory reform, and the "unfunded mandates" problem of a mis-match between devolved responsibilities and resources. Balanced development is a common objective, and increasingly there is evidence that Member countries are setting medium-term visions for territorial development, but benchmarks have yet to be defined by which countries can measure progress.

Several Member countries prepare annual or quinquennial spatial development plans or reports, either for the national territory or for urban or rural areas. These exercises provoke reassessments and evaluations of previous programmes and interministerial co-ordination. The cycles and time horizons differ in each country. These exercises, which are linked to budgetary cycles and infrastructure programmes, may be difficult to co-ordinate with major economic shifts, social trends or technological innovations. The complexity increases when programmes are supposed to set targets and forge partnerships. How quickly can such exercises respond to larger changes in social and economic systems in the years to come? How might Member countries learn more from each other about ways to develop more resilient and flexible modes of policy development?

Territorial development policies respond to the fact that economic growth is based in part on the organisation of space, which is shaped by a range of policies at all levels of government, as well as social trends, technological development and market forces. In addition, some mainstream economic and sectoral policies have unintended spatial impacts which can strengthen, or compromise, territorial development. Policies with an explicit territorial focus not only cope with these effects, but more importantly add value by integrating the economic, social and environmental dimensions of cross-sectoral policies. These policies have important implications for governance, not only because they involve vertical and horizontal co-ordination within government, nor also because they call for better modes of public-private partnership and public participation, but also because they help territories to be the agents of change, not its victims. This survey of policy trends shows that the forward-looking aspect of territorial development policies is frequently combined with remedial strategies that deal with problems that emerged in the recent past. Institutional changes and increased investments need to be phased in over a period of years if territories are to be prepared to meet the challenges of the future. One of the major innovations in policy concerns how governments at all levels can improve their capacity to design, implement and evaluate policies in time frames that better match the rate of economic and social change.

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