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BACKGROUND PAPER**

**REGIONAL ECONOMIC DEVELOPMENT:
BUILDING PARTNERSHIPS OR TRANSFER DEPENDENCIES?**

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There is a wide range of theoretical, political and administrative issues connected to regional economic development and federalism. Over the past forty years regional development has been a policy sector highly resistant to "success" in terms of achieving stated objectives, or even the less rigorous measure of producing steady, incremental improvements toward the stated objectives. It seems both the objectives and the popular expectations they raised have been unrealistic. Policy often has been based on poorly understood economic processes and relationships, informed by weakly developed and untested theories. It has been plagued by half-hearted or poorly managed policy implementation, frequent changes to programs and implementation agencies, intergovernmental friction and conflict over appropriate roles and jurisdiction, and sometimes excessive 'politicization' in the form of clientelism and patronage.

For these and other reasons, regional development has tended to be the subject of contestation, disdain, resentment and suspicion within both central and regional bureaucracies accustomed to sectoral rather than spatial approaches to policy-making and administration. It has been marginalized in terms of its standing on the political agenda and its claim on public resources. During those brief periods when its political profile and claim on resources has been enhanced, it has generated political backlash and opposition from politicians representing non-benefiting regions. All of this contributed to the decline of regional development policy from its heyday in the 1960s and 70s, when it was perceived in its idealized form as a viable mechanism for diverting some of the economic and industrial growth of the congested and inflation-prone urban and industrial core to outlying or depressed regions suffering from industrial decline or simple lack of industrial development. The objectives were to promote more balanced spatial development and thereby reduce regional disparities in employment, incomes, and growth rates.

The Economics of Regional Development

The underlying economic rationale for regional development policies included reducing the costs of congestion and stress on housing markets in booming areas, as well as addressing pollution and inflation concerns, while exploiting available space and resources in depressed regions. In federal systems, economic efficiency also has been affected by inter-provincial/state competition to attract investment and incite growth, producing 'beggar-thy-neighbour' economic initiatives and interprovincial trade barriers (such as discriminatory procurement and contracting policies) that end up being costly for all provinces while detracting from national efficiency. A national regional development policy, it was thought, could help to forestall or at least limit this type of destructive inter-regional competition for investment. Finally, to the extent that regional economic activity was stimulated, regional development policy could help relieve the fiscal burden that high numbers of unemployed and underemployed in disadvantaged regions placed on the welfare state.

Despite initial optimism, it is apparent that there are limitations on the extent to which

economic and industrial activity can be redistributed across space. Agglomeration effects reinforce the continued economic expansion of already intensely industrialized, high growth regions, a powerful magnet which draws capital and labour from other regions. Propulsive industries that are thought to drive regional economic development have tended to locate close to other related industries and/or to their suppliers and markets. Creating a "growth pole" of such industries where none previously existed has proven to be notoriously difficult if not impossible, often resulting in a "cathedrals in the desert" syndrome (very little spin-off or linked development), or short-term, "doomed" operations that drain public treasuries with little long-term benefit for the affected region.

The repeated failures of grand regional theories to 'pan out' or succeed as anticipated whenever and wherever they have been applied to underdeveloped regions did nothing to increase the confidence or support levels of senior bureaucrats unaccustomed to developing or implementing spatially-oriented economic and industrial policies. As a result, bureaucratic resistance to regional development policy has grown apace. This resistance and opposition can and has taken varied forms: the perpetuation and reinforcement of cultural and regional stereotypes within central bureaucracies, repeated and determined criticism of the methods, objectives, and central purpose of regional policy, unyielding (even obstructive) application of rigid spending and program guidelines and requirements, resistance to policy and program coordination, simple lack of cooperation with regional policy-makers, and the continued pursuit of policies and programs that directly or indirectly undermine regional development objectives.

Political Reasons for Regional Development

Despite its dubious economics and the strong and persistent bureaucratic opposition to regional development, there always has been a powerful political incentive to bring work to the workers in depressed regions. This is always true for regional politicians and sometimes becomes politically imperative for governments (national and/or provincial) whose continued existence depends upon the support of those regions. A more principled political, moral and even legal argument for the state to engage in regional development policy is that citizenship in many countries now includes an important element of social equality, in that so far as possible, citizens should expect to have equal living standards or public services no matter where they live. Some federal countries have even enshrined constitutional or legal commitments to reduce regional disparities. It has been clearly demonstrated that the persistence of severe and unchanging, or even worsening regional disparities will foster political discontent and resentment in disadvantaged regions or federal units, placing an increasing and potentially volatile strain on national unity. Regional development policy (along with other types of interregional or intergovernmental transfers) has become an important means of ameliorating this situation by creating and sustaining a sense of national unity based on national social solidarity. National social and political integration is thereby furthered and the complete marginalization of groups and places is prevented.

Even in lieu of constitutional provisions, moral arguments, or citizen expectations regarding 'social rights', politicians representing depressed regions are unlikely to ever accept chronic and severe regional disparities as a 'normal' and unalterable economic situation. Government intervention of some sort to address the problem will continue to occur (regardless of a poor track record in terms of policy outcomes), as will the political problems that plague this policy field. The latter include the intrusive and sometimes pervasive presence of political patronage and clientelism, the constant presence of regional resentments and jealousies (with the resulting pressure to 'equalize' the treatment of regions, perhaps by expanding regional development coverage), the distorting influence of other political and/or program objectives on regional development policy (especially spending), often resulting in regional development being 'folded into' other political projects and purposes, and the normal and consistent desire of politicians to be seen to be 'doing something' about the regional problem, with the resulting impatience and political promises (and often disruptive actions) premised on 'change for change sake'.

This can lead to the almost continual revamping of regional development agencies and mandates.

Federalism and Regional Development

Regional development, then, presents an ever-present policy challenge for all states. Federal systems, however, face some additional and specific problems. One of the problems specific to federal systems - perhaps the one that is prime - is the question of jurisdiction and the respective roles of central versus provincial\state governments. Economic development generally is a policy sector that is shared, in which both levels of government are actively involved, with some industries and economic activities more directly under provincial\state jurisdiction and others the focus of national government regulation and intervention. The exact division of responsibilities will vary from federation to federation, and often the lines are blurred by overlapping government activity which may be cooperative, competitive or merely redundant. The intergovernmental friction and conflict which inevitably results may become a serious problem for governance only during certain conjunctures or intervals, or it may be sustained over decades. The courts will play some role in sorting out respective jurisdictions and responsibilities; ultimately, however, an ongoing commitment to cooperation and coordination, one which becomes institutionalized rather than remaining ad hoc, is usually necessary in federal systems in order to manage or resolve jurisdictional disputes and\or in cases of mutual or shared responsibility and activity.

Federal problems of coordination of cooperation are magnified when two levels of government cannot (or simply neglect to) reach agreement on the appropriate perspective, approach, and framework for regional development policy. This will generate, in turn, more specific disagreements about the relevant or functional definition of region to be used in targeting assistance, the policy instruments most likely to produce results (or alternatively, least likely to do economic harm), and the results themselves (i.e., the objectives and ultimate goals of policies and programs). One strategy for dealing with this is intergovernmental agreements on cooperation for regional development purposes that are very general and open framework agreements (enabling documents). These types of agreements often fail to encourage and support strategic approaches. Instead they tend to become a 'come-one-and-all' dumping ground for jointly funded (federal and provincial\state) economic development initiatives, where the sector-oriented, departmental interests of bureaucrats and the short-term, tactical interests of politicians predominate. Alternatively, intergovernmental agreements can produce overly formalized and restrictive policy frameworks which subject regional initiatives to tight centralized controls, highly specified policy instruments, and narrow eligibility criteria in accordance with rigid, top-down bureaucratic and planning guidelines. Intergovernmental agreements of this kind are more likely to be found in those federal systems, or during those historic conjunctures, where central authorities are dominant and\or strongly influenced by technocratic models of state planning and intervention. Both these types of framework agreements for intergovernmental cooperation have failed to perform well in terms of the creation and implementation of policies and programs that prove effective in alleviating regional disparities or fostering self-sustaining regional development.

On a somewhat more positive note, federal systems may possess important institutional and societal potentials for addressing the needs and demands associated with regional development. Because federations provide a constitutional and institutional basis for power-sharing between central and regional authorities, they generally also provide a functional basis for effective regional organization and action, along with political and bureaucratic cultures attuned to the need for intergovernmental cooperation, consultation and coordination. Federations may also alleviate the 'democratic deficit' that can accompany systems of regionalized decision-making that may arise to make and implement regional policy by providing established mechanisms for decentralized political representation.

There have been many reasons in the discussion to this point to account for the relative

decline of regional development as a political priority and policy field (theoretical and policy failures, excessive politicization, intergovernmental conflicts, bureaucratic resistance, etc.). At the same time, over the past four decades other social programs and fiscal transfers to ensure minimal national standards of program benefits and public services have helped to 'close the gap' by making a significant contribution to the goal of greater regional equality. This does not mean, however, that either the socio-economic need or the political demand for continued government involvement in regional development has lessened or disappeared, and since at least the mid-1980s, new economic and political developments have increased concerns over the economic fate of peripheral or less-developed regions.

The New Regionalism and the New Institutionalization

What is the new threat to the existing employment base of declining, peripheral, and hinterland regions, as well as to established program supports for the economies of these regions? It originates with the economic, technological and political changes that have been associated with the linked economic and political processes of internationalization, globalization, and marketization. The 'flip side of the coin', however, is that new economic opportunities have arisen for regions formerly marginalized within predominantly national systems of production and distribution. This has occurred because of the changing character of economic competition, itself a function of the changes in technology, production methods, corporate organization, and the removal of restrictions on international trade and investment, as well as the accessibility of a wider range of markets demanding a more diverse range of 'quality' products and services. In response, a 'new regionalism' has emerged in tandem with the new 'competitive imperative' that increasingly colours and shapes state policies, especially those related to economic and social development. To be more specific, changes in the nature of production, in technology, and in patterns of trade have altered the basis of economic (and therefore regional) development and competition, such that the competitive imperative is now not only greater and more immediate for all regional economies (because of their greater exposure to international economic forces and markets), but also different in terms of the structure of constraints and opportunities which it presents for regions, and the factors and resources (economic and financial, social and organizational, cultural and political) that are directly relevant to long-term regional competitiveness.

This altered context for regional development, and the increasing importance and changing character of regional competitiveness in the contemporary global economy, impacts both the theory and practice of regional development. A 'new institutionalization' is beginning to occur at the level of 'region'. This is because federations and non-federations alike have found it necessary to adapt to the new context by supporting new forms of regionalization of policy-making and implementation, involving partnerships between three levels of government (national, regional, local), as well as the private sector and key actors in civil society, in order to create a cooperative and collaborative regional policy framework. This has been accompanied by a redefinition - or at least, a reprioritization - of the key factors in regional development, with much greater attention and significance now being accorded to so-called 'soft factors' in economic development: high quality health and education services, entrepreneurial and managerial training, information and innovation networks, as well as supports for marketing, technology transfer, and business start-ups. Selective financial and industrial incentives and physical infrastructure (such as transportation links) are still an important part of the regional development 'toolbox' that federal and provincial governments can (and should) use, but the focus of regional development policy is changing. Previously, governments tended to approach the problem of regional development with the idea that they would somehow have to import development into underdeveloped regions usually through programs, incentives and even directives designed to buy, lure, influence or coerce capital into relocating some of their existing production, or otherwise invest in regions that they had previously neglected or abandoned. Not that such external investment is no longer needed or wanted in the current context; quite the contrary, it remains an important objective and

anticipated outcome of regional development efforts. But increasingly both the focus and longer term vision and purpose of regional development policy has shifted towards creating the conditions and supports for a sustainable and primarily indigenous development process, one based on the character and quality of a region`s human and social resources.

The new context for regional development also encourages the involvement of a broader range of actors and policies, and more region-specific strategies, tailored to local needs, circumstances and potentials. This in turn requires decentralization and regionalization of policy-making and implementation; it also requires more extensive and systematic cooperation than previously between various levels of government, and the involvement at the regional level of a range of societal actors in a collaborative network, the exact composition of which will vary from region to region. Creating this new institutional nexus is increasingly understood amongst analysts of regional development to be a key aspect of regional economic development policy, an act of `region-building` which acknowledges that appropriate policies and decisions that will nurture a process of sustainable regional development is most likely to emerge from a strong network of regional actors (public and private) brought together on the basis of a shared territorial identity and a direct interest in the economic fate of the regional community. Such `development coalitions` have proven capable of sustaining collaborative regional partnerships based on cooperation and exchange over long periods of time. Mobilization for these purposes can occur at the level of cities, city-regions, other functionally-delineated regions, or even smaller federal units (states or provinces). However, not all will be equally natural or effective as a territorial and institutional basis for the construction of a development coalition. This depends on a number of factors, including each region`s historical circumstances and inheritance, such as prior identities and patterns of social relations. As a result, some regions will be more capable than others of managing the exigencies and consequences of the need to create and sustain the conditions for sustainable regional competitiveness.

The changing economic and political context for regional development, the emergence of a new regionalism in response, and the `new institutionalization` that follows from intergovernmental movement toward a more regionalized and inclusive policy-making and implementation process, has other implications as well. These include the manner in which `region` (i.e., the region relevant for regional development policy) is defined (or redefined), both the meaning and content of the regional development process, the goals and objectives of policy, and finally the expectations of politicians, planners, and stakeholder participants regarding both short and longer-term outcomes. Instead of focussing primarily if not exclusively on reducing regional disparities in incomes and unemployment - the original policy objectives of regional development that have shown themselves to be unrealistic (unattainable) as well as poor indicators of regional economic health and dynamism - policy objectives should be clearer, more realistic and more region-specific. They should reflect the goals of enhancing regional competitiveness, first through continuing or increasing governmental support for institutions, programs and services that are necessary for the generation of the social capital on which a process of indigenous regional development depends, and secondly through strategic initiatives (taken at the regional level by development coalitions) that nurture the growth and vitality of key economic sectors and activities.

Viewed from this perspective, social, cultural, and environmental factors clearly now form part of any assessment of a region`s economic potential, as well as being important considerations in the regional planning and policy-making process. This broader understanding of the various constitutive and requisite elements of regional economic health suggests as well a broader range of government policies and programs that are relevant to regional development and to a successful region-building process. It also increases the number and type of social actors and interests who should be represented within the development coalitions that increasingly form the decision-making nexus for regional development efforts. Governments at all levels need to cooperate towards this end, to jointly provide the supports necessary for the continuous generation of social

capital, while at the same time eschewing top-down hierarchical control over regional economic development policy and decision-making. To the greatest extent possible, the latter should be devolved or delegated to regional development coalitions centered on cooperative and collaborative relationships amongst government, private sector, and civil society actors. Governments must shift the locus of planning activity and decision-making to these regional sites, where negotiating and entrepreneurial skills take precedence over the allocative and regulatory activity to which states are accustomed. In short, both both federal and provincial governments must give up some of their power (in terms of control), while continuing to provide regions with resources and other forms of support. Giving up a significant measure of control should not mean abandoning responsibility for regional economic development.

The foregoing discussion has raised a number of issues and questions (by no means exhaustive) about regional economic development. Some of these are summarized below.

- theory versus practice: Regional development theories usually have not proven effective in practice, either because the theories themselves were untested, incomplete or in other ways inadequate, or because they were inappropriate to the particular economic and social circumstances to which they were applied, or because there was a failure to allocate the necessary resources or supports in order to fully operationalize or test the main propositions of the theories, or finally because short-term political or partisan objectives were allowed to undermine the technical implementation of the theory. In any event, the utility of formal regional development theories to practical regional development policy-making is now highly questionable; at the very least, it seems clear that a more `clinical` and flexible approach should be used, one which is sensitive and adaptable to the specifics of each regional case.
- disparities versus development: Governments should change the both objectives of regional development policy and the working definition of `region` used for policy-making and implementation purposes. Regional economic health should be reconceptualized as a combination of social and economic criteria, with quality of life measures and economic competitiveness and dynamism (premised on structural change and regional participation in dynamic growth sectors) the objectives of policy, rather than shrinking income and employment discrepancies between centre and periphery. The region relevant to regional development policy-makers should not be coterminous with political boundaries (states or provinces) unless the latter itself comprises a natural 'region' based on economic, social and cultural criteria. Otherwise, for planning and policy-making purposes, regions should be demarcated in accordance with the different territorially-bounded socio-economic and cultural communities that are usually found within each province or state.
- social and cultural considerations: Increasingly regional competitiveness in the contemporary international economy is not premised on cheap labour or access to raw materials, but on the entrepreneurial, technological, social and cultural strengths of a region. Cohering as a regional community is linked to the extent of social adhesion and cultural integrity within that community; this in turn fosters a capacity to organize and plan for the community. Often, a region has particular or unique strengths that can provide a basis for economic strategizing. Regions such as this should be recognized, sustained and nurtured by governments, who can do so by providing various types of social, organizational and economic supports and cooperating with economic, social and cultural actors within the region in order to create a viable development coalition. Regions that are strong socially and culturally will be much more capable of adapting to and taking advantage of economic challenges and opportunities.
- intergovernmental and public-private cooperation: Federal, provincial and municipal governments must be willing to set aside questions of jurisdiction in order to

cooperate in a 'region-building' process for the purposes of economic development. This openness to cooperation must be extended to the private sector and to civil society as part of a process of institution-building at the regional level. This can provide the institutional nexus for a collaborative network which can identify regional strengths and devise strategies for playing to these strengths and overcoming weaknesses. It can also limit the distorting influence on regional development of partisan politics and patronage, or alternatively, of bureaucratic hostility and rigidity. The key to doing this, however, is to apply the principle of subsidiarity in order to devolve the necessary resources and decision-making powers to the regional level.

- government organization and special purpose agencies: Governments have conducted many reorganizations for regional development, but all too often these reorganizations have changed relatively little, serving only to disrupt established relationships. Within central bureaucracies, and often within provincial bureaucracies, regional development agencies have had a peripheral existence, both in terms of their resources and their political clout, leaving them constrained administratively and financially and ineffective as policy-making and implementation organizations. After many false starts, the trend has been towards the creation of relatively autonomous special purpose agencies that are more flexible in their procedures and guidelines, and region-based in their organization and operations. Such special purpose agencies are also more capable of cooperating with other actors at the regional level, and acting in an entrepreneurial rather than bureaucratic fashion. There are always political and bureaucratic pressures and tendencies, however, to reassert centralized control over such agencies, or in other ways limit or constrain their autonomy. Once established, the presence of a strong development coalition with its attendant pattern of cooperation and collaboration will help to counter these pressures. Governments and its traditional line departments should continue to play a role in regional development, of course, especially with regard to the administration of regional grants, subsidies and tax incentives.

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