

The regional policy within knowledge economy – theoretical-methodological circumstances

JOZEF TVRDOŇ

Department of Public Administration and Regional Development, University of Economics,
Dolnozemska cesta 1, 852 19 Bratislava
Slovak Republic
tvrdon@euba.sk

Abstract

The paper is focused on theoretical-methodological context in implementation of the regional policy in knowledge economy. We deal with the concept of the regional policy, its implementation and specific forms in dissemination of information in the regional policy environment. The experience in forming the regional policy models in the European Union countries and the long-term transformation trends have been taken into account. We briefly present the state of the art in the regional policy strategies, instruments of implementation (especially incentive packages) and the selection of administrative regional policy models. We employ institutional approach in forming the regional policy in knowledge-based economy and define the basic dimensions of processes, problems, their possible solutions and strategies. Implications for the Slovak Republic are also presented.

Key words: regional policy, knowledge-based economy, instruments and administrative model of the regional policy, institutional theory, regional policy strategy in knowledge economy environment.

JEL Classification: R11, R58

1. Basic characteristics of the current regional policy

Economies in particular countries have been significantly influenced by recessions on the threshold of 70's and 80's and then 80's and 90's as well as by economic recession in progress that changes the conditions of advanced countries and has a significantly different impact on the economies of their regions.

In cyclical economic development the economic growth can be graphically demonstrated with the W curve. Unemployment in all countries shows a steadily increasing trend. This development is accompanied by principal structural changes the two of which exert the most significant influence upon the regional growth: deindustrialization and the increasing impact of new technologies on production.

Deindustrialization decreased the advantages of retarded regions that in the previous period profited from the policy of industry de-concentration as well as those regions which disposed of classical localization factors while the advantage of regions with innovation potential – information systems network, R&D and educational institutions, etc. – was increased. Structural changes are incidental to changes in demand, first of all on production of traditional industries. Consequently the regions specializing in these industrial branches declined.

One of the ways how to stabilize economy of the regions was the increased support of SME's. The positive side of this concept was stabilization of employment, more intensive utilization of regional and local growth factors. The weak point is that small enterprises do not possess a sufficient innovation capacity and consequently such a region cannot face competition of regions with the concentration of big firms. In the global context the growth model based on the support of big enterprises that contribute to the growth of intraregional cooperation and services is enhanced.

The structural changes in many countries are intensified with the advance of internationalization of economies. Despite many protectionist measures the value of foreign trade grows more rapidly than production. Internationalization also produces changes in geographical division of labour. Typically the regions with good infrastructure, transport and telecommunication systems and small customs barriers gain favourable positions and consequently the access to foreign markets. The long expected reduction of subsidies into agriculture which will cause further decline of agricultural regions is another factor of potential structural unstableness.

In the OECD studies the regional policy is defined as a complex changing in following circumstances:

Changes in technologies

Innovations in technologies including product and production innovations represent the imperative of economic policies in all advanced countries. Without innovation it is not possible to retain the position on the world markets. As a result of innovation the products contain less and less materials and more and more information and know-how. Consequently priorities in localization criteria are being changed. Firms are localized in the areas with functioning innovation acceleration mechanism which is usually present in growth poles. The

increased influence of this factor is relevant to continual shortening of products' competitiveness. In regions with low labour costs or other advantages we can see dispersion of standardized production.

Demographic changes

In OECD countries there is a systematic decrease in natality as a consequence of which we can expect the reduction of total population and ageing of population, mainly of its active component.

Investigating current processes of spatial distribution of population two characteristic features can be seen:

- differences in demographic growth among advanced countries are gradually narrowing, probably as a consequence of double effect: uniformity of demographic trends and smaller interregional migration movements, mainly from agricultural into urban regions,
- de-population processes gradually inflict rural regions as well. On the other hand, we have recorded de-urbanization processes when densely populated urban zones are losing population in favour of smaller conurbations and rural settlements with more favourable living conditions.

Public finance

In highly industrialized countries the state of public finances is diversified. On one hand the importance of public financing is decreasing in connection with liberalization of economy but on the other hand the tax and social security rate in consequence of budget deficit are increasing in many countries. The conflict is growing also as a result that the effort to liberalize is systematically measured by political instability due to reduction of state intervention into retarded and structurally weak regions. Many countries start reforming tax systems and these in turn influence regional policy. The intensity of income redistribution mechanism is decreasing and thus intervention expenditure to the most inflicted regions is jeopardized.

Without taking into account the impact on regions the liberal budgetary policy finished with the support of traditional sectors which had lost their competitiveness. Government interventions into industries are rather indirect and quite selective. They are realized through reduction of profit tax, the support of investments into education,

information networks, etc. The development of regions will be influenced also by privatization of the state monopoly in transportation and telecommunication systems the localization of which in the past significantly supported activation of retarded regions (Sweden, Turkey, Canada).

Regional disparities

After a relatively moderate period, in 80's many countries notified a real risk of regional disparity deepening, especially in Sweden, Switzerland, Italy, France, Australia and Japan. The trend seems to be logical. Relatively long period of growth and prosperity in advanced countries which lasted to early 70's, had been supported by double mechanism: income redistribution and industrial decentralization. The following decade of the structural crisis saw the general reduction of economic activity as well as the reduction of incomes thus limiting income redistribution processes. Deindustrialization weakened decentralization of industries into less developed regions which offered comparative advantage ensuing from the scope of localization factors. At present the disparities are not found only in countries with active central regional policies (Denmark, Finland, the Netherlands).

Institutional changes

Decentralization and simplification of decision making processes are characteristic of present regional policy. The aim is to enhance decision making power of regional and local governments in favour of a more effective utilization of instruments and shortening of the distance between decision maker and receiver of support. Simplification is often connected with the reduction of central administration. For example, in Denmark in the 1987 reform the original number of 19 ministries was reduced to 8. On the other hand, Scandinavian countries supported the power and competencies of local governments. Another feature of institutional changes is an effort aimed at the formation of the mechanism of horizontal and vertical regional development coordination. The objective of horizontal coordination is to harmonize sector policies both in the centre and the regions. The foundation of specialized regional development agencies is one of the ways to coordinate regional policy. Vertical coordination demands coordination at all levels of regional initiatives on the basis of clearly defined objectives and sources of development. Objectives and instruments of central and regional governments are harmonized and divided among the participants of a consistent regional programme, if need be in the form of contracts.

Changes in regional policy instruments

Since 90's regional policy has been working on the assessment of space as an active element of economic growth, hence

- direct macroeconomic quantitative management should be replaced by qualitative and selective management. Direct and standardized procedures of regional policy implementation are being replaced by indirect, qualitative and discrete instruments aimed at the process of structural region reconstruction,
- new phenomena in regional policy arise from the creation of the mechanism of cooperation between the central and regional administration on one hand and a private sector on the other hand,
- the major basis for the assistance are investments in various forms: subsidizing and guaranteeing the loans from state or special institutions, tax relief for firms in inflicted regions, investment bonus. In some countries the investment assistance is oriented at the development of industrial zones, preparation of building sites, construction of buildings for sale or to rent to private entrepreneurs,
- employment support is generally given only to regions which are seriously hit by unemployment. Also this assistance may have different forms: support of free enterprise zones, assistance with creation of reserve job opportunities, reduction of social security payments, etc.
- recently the government support goes more and more to services which in turn support formation and growth of new economic activities (marketing, consulting, etc.),
- the ever increasing support of governments goes to new technologies: stimuli for foundation of universities and development centres in retarded regions, construction of technological poles, scientific parks or technopolis,
- instruments of regional policy in advanced countries form a comprehensive complex: they serve to build infrastructure, services for industrial sector, ecology and quality of life.

2. Conclusions and potential implications for Slovakia

Experience of the EU countries show that *localization policy* is very important at the national and regional levels because it is instrumental in ensuring macroeconomic stability and implementing and stabilizing market friendly framework conditions. It also proves that the policy of support from structural funds is not successful automatically but only in the

conditions of macroeconomic stability and good national localization policy. Some argue if it is fair to exclude from support more developed regions which are bearers of equalizing processes. Some studies disclose the fact that cohesive countries focused too much on regional interventions and limited growth in their major agglomerations and the process of balancing their GDP with the EU countries. Similar analyses of more affluent EU member countries point at the spread effect of transfer of growth from more to less developed regions.

Endogenous concepts, both at national and regional levels, include special instruments to enhance regional economy, increase of SME's competitiveness, innovations, foundation of new enterprises, attracting new actors, care of human resources and streamlining of infrastructure. The endogenous concept should be accompanied by international integration policy focused on export, international networks and foreign investments. The regional policy faces new tasks and methods: the role of mediator in the exchange of experience and best practises, benchmarking, organization of networks and clusters, new challenges in the field of marketing and management.

From the above mentioned assessment of regional policy in some countries it follows that

- the function of the government in regional policy dwells in coordination – vertical between different levels of governments (central and self-government, EU and a member country) and also between the government and enterprises; and horizontal among governments, institutions and organizations at the central level, between regional/local governments and subjects eligible for support.
- it is not possible to make a clear divide between inter and intra-regional policy because in regional policy all subjects (from central, regional/local level) mutually cooperate with the aim to reach synergy effects and also because regional policy is of subsidiary character. It is a typical example of assistance i.e. the regional development issues are inherent in a particular territory but it is the government that lends support. There is no regional policy carried out exclusively by regional government, there is always some top-down interconnection (sector dynamics) with bottom-up dynamics of a territory.
- central governments were charged with a new role to play in regional policy. 'It is a modest role but at the same time more complex and certainly more important than in the past'¹. Therefore the growth of subjects in regional development policy cannot be interpreted as a gradual extinction or weakening of the role of the government, but

¹ Prud'home, R, (1995): les nouveaux objectifs de la politique regionale. L'Observateur de L'OCDE, Nr.193.

only as *a modification towards reinforcement of coordination and impulses stimulating local and regional growth dynamics.*

3. The support of knowledge and the role of regional policy

From the stated framework of regional policy in advanced countries it follows that on the basis of empiric and theoretical research this policy must be accompanied with *explicit regional development concept*. As closely related seems to be the concept of *endogenous growth* that builds on a rational basis. It lies in coordination of entrepreneurship activities, creation of new industrial employment of qualified and skilled labour force, relevant links between public administration, universities, R&D institutions and institutions enhancing entrepreneurial environment. The instruments of the policy should be oriented at the increase of SME's competitiveness, innovations, establishment of new enterprises, new actors and human resources. An important role is played by creation and dissemination of knowledge in regional environment.

The institutional approach to public policy can be the starting point for the analysis of creation and dissemination of knowledge.

Institutional theories in principle follow from the fact that in every system subjects have mutual interactions within which they endeavour to reach their targets. It is the decision-making in the environment which is rather complex and about which they have little information. They exert great efforts and expenditure (transaction costs) to get information. Due to a lack of information the actors get at subjective creation of reality and try to watch or predict reaction of other subjects. They form strategies that can be modified as a consequence of the change in the environment.

The institutional theory is applicable to interactions of individuals and groups alike. The decision making of a group differs from that of an individual because a group must get through the stage of inner interactions in which the members of a group try hard to push their own opinion into final collective decision. In these interactions a hierarchy as a manifestation of different positions is formed and this hierarchy facilitates the final collective choice.

The latest regional development theories stress the fact that the development of the region depends on the growth of intraregional environment but also on various institutions which form the environment, rules for communication and particular activities and influence the relations of subjects².

² Capello, R.: Regional Economics, London, Routledge, 2007, 319 pages, ISBN 978-0-415-39520-5

Regions with effective growth form the environment in which economic, social, cultural and political activities are interlinked. These regions are formed in the conditions of competition but also cooperation and within the existence of certain administrative structure. The administrative structure forms regulative environment and thus influences all subjects in the region.

The institutional environment and regional conditions have an impact upon the successful growth and competitiveness of a region.

The institutional environment influencing the growth of regional economy operates as a rule at several levels (local, regional, national and supranational).

Formation of regulatory environment is a complex and complicated process and so are circumstances for the growth of particular subjects in the region. Coordination of various measures passed by various levels of the institutional environment may also be challenging. Based on the institutional approach regional policy can be defined as a *policy of all measures of public policy which are designed with the aim to influence economic efficiency of one or several regions compared with other regions by means of institutionalization of circumstances and incentives that (in a positive way) discriminate firms on the basis of spatial criteria* (Halkier, 2002).

The basic relations of the organization and political process can be seen in Fig. 1. The relation between public institutions and private actors is the basis of this process. The primary rule of public policy is that the government can influence the behavior of private subjects to meet its political priorities and this is done in a legitimate way in compliance with the Constitution.

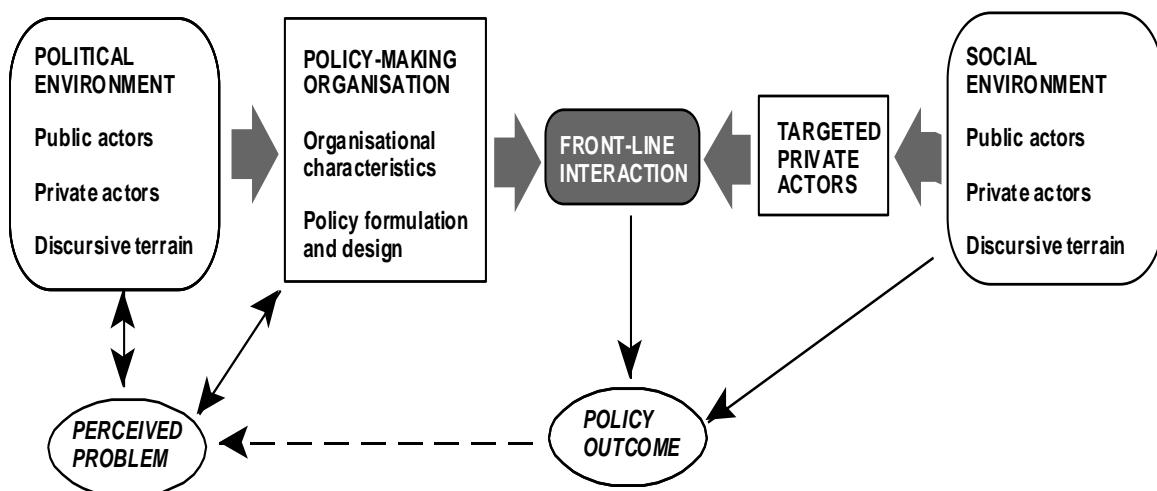


Figure 1. Organisations and the policy process – A basic model. (Halkier, 2006)

The interactions of these key actors are typically a component part of a wider political and social environment where other actors and institutions exert an influence upon circumstances which are effective in the sphere of public policy makers as well as in the sphere of private targets. It is necessary to stress that the nature of the political process is intricate and its formation and design is limited by the general conditions based on incomplete information. While the policy makers can control financial resources, employment or other resources supporting a particular objective, the final output of the government intervention depends also on the targeted response from the private actors. Stated briefly, the public policy is not only about symbolic gestures and deeply rooted power and authority but it is also about ‘real problems’.

Knowledge is included in all stages of making and implementing policy – from identifying regional problems to relevant measures, not only between mutual relations between public bodies and private enterprises. Within the framework of the European regional development initiative the following aspects are considered to be significant:

- assumptions of the nature of regional issues and justifying the attention paid to public policy,
- policy making proposals from the aspect of political objectives (what changes and where, what is expected to be changed) and instruments of the policy (rules and resources which are implemented in the effort to transform the political targets into patterns of behavior).

The differentiated approach to policy making that influences creation and dissemination of knowledge must be used. We distinguish three dimensions in the process:

- knowledge sites - explicit, implicit knowledge, the role of an individual and a group
- knowledge types - analytical, synthetic and symbolic
- knowledge moments - research, feedback, practical utilization.

It is pertinent to distinguish the different knowledge types on the basis of which we define analytical (natural science), synthetic (technical and social sciences) and symbolic (arts and communication) knowledge (Cooke, 2005).

4. Conclusion

In Europe there exist many programmes mutually interlinked in a complex behavior hence the difficulty to identify the role of knowledge in regional policy. The history of various regional development initiatives can be seen in three stages:

- national stage - top-down approach which was predominant in western Europe,
- polarized stage aimed at inner national measures in bottom-up initiatives in particular regions,
- multi-level stage (after 1988) as a consequence of structural funds utilization was manifested in the institutional form – expansion of partnerships.

We can state that in regional policies of the European countries these stages complemented each other and solved the regional issues from the aspect of the relevant management level (supranational, national, regional, local). It is requisite to state that the organization of particular initiatives is getting more and more complex due to an increasing number of actors and therefore difficult to differentiate among them. It will be important to determine which stage will include which initiative and especially to secure mutual coordination of activities within several stages.

From the aspect of initiatives aimed at the enhancement of knowledge, as an example we can state that to increase innovation efficiency in regional economy the top-down approach can be used – the import of technologies from abroad (the knowledge used elsewhere). And then the bottom-up approach as a complementary aimed at the support in implementation of new organizational procedures in the use of technologies, increase of marketing activities for new products, enhancement of research in new technologies, stimulation of various and unique processes of gaining knowledge at the regional level, etc.

From stated above it follows that the initiative in the top-down approach enables in the bottom-up approach the initiative in more varied and specific ways in the dissemination of knowledge at the regional level.

Acknowledgements

The paper is presented within the framework of the projects: APVV No 0230-07 'Regional dimensions of knowledge economy' (Slovak abbreviation REDIPE), APVV SK-CZ -0058-07 'Instruments influencing direct foreign investment distribution', VEGA No 228 'The role of information and communication technologies in the support of regional development'

References:

- [1] ARMSTRONG, H., TAYLOR, J.: Regional Economics and Policy. Blackwell Publishing. Great Britain. 1993
- [2] COOKE, Phil.: Proximities, Knowledge and Innovation Biographies, Paper, RSA International Conference, Aalborg, May 2005.
- [3] European Commission: Regional Clusters in Europe. Observatory of European SMEs (2002/No. 3). Belgium:European Communities, 2002. ISBN 92-894-3560-7
- [4] GORZELAK, G., KUKLIŃSKI, A.: Dilemmas of Regional Policies in Eastern and Central Europe. Institute of Space Economy, Warszawa.1992
- [5] HALKIER, Henrik.: Governance, Institutions and Regional Policy: Trends and Challenges in Western Europe, Keynote, SIRIUS Autumn School, EPRC, Strathclyde University, Glasgow, Storbritannien, 2002.
- [6] HALKIER, Henrik.: Institutions, Discourse and Regional Development. The Scottish Development Agency and the Politics of Regional Policy, Brussels: PIE Peter Lang. 2006
- [7] HALKIER, Henrik (2006) Regional Policy and Knowledge Processes: Towards a Framework for Analysis. Project no: 006187 EURODITE: Regional trajectories to the knowledge economy: a dynamic model.Integrated project. Sixth framework programme. Priority 7. Citizens and governance in a knowledge based society.
- [8] NEMCOVÁ, E.: Klastre a ich úloha v rozvoji regiónu. In: Ekonomický časopis, roč. 52, 2004,č. 6, s. 739 – 754. ISSN0013-3035
- [9] PRUD'HOME, R.: Les nouveaux objectifs de la politique régionale. L'Observateur de L'OCDE, Nr. 193. 1995
- [10] TVRDOŇ, J., a kol.: Regionálna politika. In: Konceptné východiská hospodárskej politiky v etape integrácie Slovenska do Európskej únie, Ústav slovenskej a svetovej ekonomiky SAV, Bratislava 2003, ISBN 80-7144-140-6

Contact address:**Doc. Ing. Jozef Tvrdoň, PhD**

Ekonomická univerzita, Národohospodárska fakulta
Katedra verejnej správy a regionálneho rozvoja

Dolnozemska cesta 1

852 19 Bratislava

tel: +421 2 67291350

e-mail: tvrdon@euba.sk