AN INSTITUTIONALIST PERSPECTIVE ON REGIONAL ECONOMIC DEVELOPMENT

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1. Introduction

Until recently, regional or local economic development policy in the advanced economies has been largely *firm-centred, incentive-based, state-driven, and standardised*. This is certainly true in the case of the Keynesian legacy that has dominated since the 1960s, but it also applies to neo-liberal approaches which have come to the fore since the 1980s. The Keynesian approach has relied on income redistribution and welfare policies to stimulate demand in the less favoured regions (LFRs), as well as the offer of direct and indirect incentives (from state aids to infrastructural improvements) to individual firms to locate in such regions. The neo-liberal approach, placing its faith in the market mechanism, has sought to stimulate entrepreneurship in the LFRs through a variety of small-firm policies and to deregulate markets, notably the cost of labour and capital. The common assumption in both approaches is that top-down policies can be taken off the shelf and applied universally to all types of region, since at the heart of economic success lie a set of common factors (e.g. the rational individual, the profit maximising entrepreneur, the allocative free market, and so on).

The achievements of both of these two strands of what can be described as the 'imperative' approach (Hausner, 1995), *have been modest in terms of stimulating sustained improvements in the economic competitiveness* of the LFRs. Keynesian regional policies, without doubt, helped to increase employment and income in the LFRs, but they failed to secure increases in productivity comparable to those in the more prosperous regions, and more importantly, they did not succeed in encouraging self-sustaining growth based on the mobilisation of local resources and inter-dependencies (by privileging selective sectors and firms, or externally-led growth). The 'market therapy' has threatened a far worse outcome, by removing financial and income transfers which have proven to be vital for social survival, by exposing the weak economic base of the LFRs to the chill wind of ever enlarging free market zones, and by failing singularly to reverse the flow of *all factor inputs away from* the LFRs (i.e. no proof of price-seeking inflow of opportunities leading to regional specialisation in the appropriate industries).

Partly in response to these failings, more progressive policy communities have begun to explore a third alternative, designed to secure economic competitiveness by mobilising the endogenous potential of the LFRs through efforts to upgrade the local supply-side infrastructure for entrepreneurship. In short, the idea is to unlock the '*wealth of regions'* as the prime source of development and renewal. This is not an approach with a coherent economic theory behind it, nor is there a consensus on the necessary policy actions. However, its axioms contrast sharply with those of the policy orthodoxy, in tending to favour *bottom-up, region-specific, longer-term, and plural-actor* based policy actions. In addition, against the conceptual individualism of the orthodoxy (e.g. economic success as the product of *homo economicus* set free), it recognises the collective or social foundations of economic behaviour, for which reason it can be described as an *institutionalist* perspective on regional development.

Owing to its under-explored policy status I wish to formally articulate the institutionalist perspective and to suggest that it opens up novel but challenging opportunities for policy action at the local level. The first section of the paper summarises the axioms of economic action and governance which emerge from a theorisation of the economy rooted in institutional economics and socioeconomics. The second section summarises contemporary institutionalist thought in regional development studies, while the third section draws out its policy implications.

2. The Economy and Economic Governance in Institutional Economics

My aim here is not to discuss in any depth or detail institutionalist thought in economics and the other social sciences. Instead, it is simply to offer a stylised account of some contributing strands of thought which explain the economy as both an instituted process and a socially embedded activity. Three strands in particular seem to be relevant to any discussion on the sorts of actions which might be necessary in order to encourage economic success.

First, from economic sociology comes the well known idea that economic behaviour is embedded in networks of inter-personal relations, and therefore, crucially, influenced by aspects such as mutuality, trust and co-operation, or their opposite (Granovetter, 1985; Dore, 1983; Grabher, 1993; Smelser and Swedberg, 1994; Misztal, 1996; Ingham, 1996). Second, from the behavioural and cognitive sciences comes the idea that different actor rationalities produce different forms of economic behaviour: for example, substantive or scientific rationality favours rule-bound behaviour, procedural rationality favours behaviour based on the accomodation of actors to the constraints posed by their environment, while recursive or reflexive rationality favours strategic behaviour owing to the ability of actors to reflect on and manipulate their environment. Third, from the recent rediscovery of 'old' institutional economics comes the idea that the economy is shaped by enduring collective forces. These include formal institutions as well as informal or tacit institutions such as habits, routines and norms, all of which provide stability in a context of uncertainty, as well as templates for, or constraints upon, future development (Hodgson, 1988, 1994; Hodgson, Samuels and Tool, 1993; Mulberg, 1995; Samuels, 1996).

From these strands derives an understanding of the economy as something more than a collection of atomised firms and markets driven by rational preferences and a standard set of rules. Instead the economy emerges as: a composition of networks and collective influences which shape individual action; a highly diversified set of activities owing to the salient influence of culture and context; and subject to path-dependent change due to the contribution of inherited socio-institutional influences. In turn, the influences on economic behaviour are seen to be quite different from those privileged by the economic orthodoxy (e.g. perfect rationality, hedonism, formal rules, etc.). Explanatory weight is given to the influence of formal and informal institutions, considered to be socially constructed and subject to slow evolutionary change; to values and rationalities of action ensconced in networks and institutions; to accumulated cultural and behavioural characteristics locked into collective institutional life; to the composition of networks of economic association, especially their role in disseminating information, knowledge, and learning for economic adaptability; and to intermediate institutions between market and state which are relatively purposeful and participatory forms of arrangement.

There follow from these assumptions a number of general axioms of economic governance associated with an institutionalist approach:

- First, a preference for policy actions designed to *strengthen networks of association*, instead of actions which focus on individual actors.
- Second, that policy action should involve a *plurality of decentralised and autonomous organisations* since effective economic governance extends beyond the reach of both the state and market institutions (Hirst, 1994).
- Third, within a frame of plural and autonomous governance, the role of the *state*, as the prime collective organisation with societal reach and legal power, should be that of *providing resources, arbitrating between decentralised authorities, securing collective results, and, above all, establishing the strategic goal*, rather than that of central planner or market facilitator (Hausner, 1995).
- Fourth, the aim of policy action should be to *encourage voice and negotiation, together with procedural and recursive rationalities of behaviour*, rather than self-serving or rule-following behaviour, in order to secure strategic vision, learning and adaptation (Amin and Hausner, 1997).
- Fifth, solutions have to be context-specific and sensitive to local path-dependencies.

- Sixth, there is a need to encourage intermediate forms of governance, building up to a local 'institutional thickness' (Amin and Thrift, 1994) which includes enterprise support systems, political institutions, and social citizenship.
- Finally, and as a consequence, building economic success, is as much a matter of devising appropriate economic policies as wider social and political reforms to encourage the formation of social capabilities for autonomous action (Putnam, 1993).

These governance axioms and their underlying concepts are now beginning to filter into regional development studies and policy thinking on local economic development studies, as shown in the next section.

3. The Institutional Turn In Regional Development Studies

In recent years, the *region has been rediscovered as an important source of competitive advantage* and economic organisation in a globalising political economy (Scott, 1995; Cooke, 1997). This rediscovery is based on studies of the success of highly dynamic regional economies and industrial districts which draw extensively upon *local* assets for their competitiveness.

Conceptually, the rediscovery has drawn in part on renewed interest in *endogenous growth theory* which acknowledges externalities and increasing returns to scale associated with spatial clustering and specialisation (Krugman, 1995; Porter, 1994; Martin and Sunley, 1996). These include reduced transaction costs, scale economies of agglomeration, and technological or skill advantages associated with specialisation. The contention of Krugman and Porter (against their neo-classical colleagues) is that external economies, skilled labour and technological innovation are spatially clustered, and that such clustering offers some of the key elements of growth and competitiveness (increasing returns, human capital formation, technological progress), has gained considerable influence. The appeal is undoubtedly seductive, as it provides some solid economic reasons for local agglomeration in a globalising economy (reduced transaction costs, economies of specialisation, externalities, etc.).

However, this *new economic geography fails to properly investigate the sources of these economies,* which according to a second strand of regional rediscovery developed largely by geographers, lie in the character of locally embedded social, cultural and institutional arrangements. Here, insight is drawn from institutional and evolutionary economics concerning *ties of proximity and association as a source of knowledge and learning* (Amin and Thrift, 1995; Storper, 1997; Sunley, 1996).

A leading exponent is Michael Storper (1997), who has suggested that a distinctive feature of those fortunate places in which globalisation is consistent with the localisation of economic activity is the strength of their *'relational assets' or 'untraded interdependencies'*. These include local tacit knowledge and face-to-face exchange, the quality of local institutions, long standing social habits and norms, local conventions of communication and interaction, and so on.

It is claimed that these informally consituted knowledge and information environments allow firms to engage in *learning-based competitiveness* owing to their daily access to the relevant resources (information, knowledge, technology, ideas, training and skills), through networks of inter-dependency, formal institutions of learning, and common understandings that surround individual firms. Many of the insights of the institutionalist literature on so called *learning* regions (Morgan, 1997) such as Silicon Valley, Baden Wurttemberg, and the Italian industrial districts derive from analysis of the comparative advantages of local business networks specialising in individual industries. Through specialisation, these regions are said to display high levels of inter-firm interaction, shared know-how, spillover expertise, and strong enterprise support systems. All of these characteristics, according to Anders Malmberg (1996), are sources of learning, facilitated through such properties as reduced opportunism and enhanced mutuality within networks of interdependence, and spillover of knowledge.

Other observers who emphasise differences between *formal and informal knowledge* in economic competitiveness (e.g. Storper, 1997; Maskell and Malmberg, 1995; Becattini and Rullani, 1993; Asheim, 1997; Nooteboom, 1996; Blanc and Sierra, 1996) have suggested that proximity plays a unique role in supplying *informally-constituted* assets. For instance, Maskell and Malmberg have argued that tacit forms of information and knowledge are better consolidated through face-to-face contact, not only due to the transactional advantages of proximity, but also because of their dependence upon a high degree of mutual trust and understanding, often constructed around shared values and cultures. Similarly, Becattini and Rullani, Nooteboom, and Asheim have distinguished between codified knowledge as a feature of trans-local networks (e.g. R&D laboratories or training courses of large corporations) and formally constituted institutions (e.g. business journals and courses, education and training institutions, printed scientific knowledge), and non-codified knowledge (e.g. workplace skills and practical conventions) as aspects locked into the 'industrial atmosphere' of individual places. The consensus among these commentators seems to be that in a world in which codified knowledge is becoming increasingly ubiquitously available, uncodified knowledge, rooted in relations of proximity, attains a higher premium in deriving competitive advantage owing to their inimitability.

The institutionalist geographers take the role of proximity to be much wider than that theorised by the first strand, which stresses well known but tired factors associated with the economics of agglomeration. Proximity is considered in ways which acknowledge the institutional and social foundations of economic activity discussed above (Thrift and Olds, 1996; Barnes, 1995) consistently ignored by the economic orthodoxy. This includes recognition of the role of local rationalities and traditions of behaviour, the importance of tacit knowledge and face-to-face exchange, the quality of local institutions, social habits, norms and routines, and the sociology of communication and interaction in local economic networks.

Notwithstanding their differences, the consensus shared across both strands *is that regional-level industrial configurations, supply-side characteristics and institutional arrangements, can play a critical role in securing economic success* in a globalising economy characterised by transnational flows of factor inputs and global-level industrial and financial organisation.

4. Issues For Regional Development Policy

Both strands of the new regional theory imply practical actions which go well beyond the limits of traditional local economic development initiatives. *Its focus falls on building the wealth of regions (rather than the individual firm), with upgrading of the economic, institutional, and social base as the prerequisite for entrepreneurial success*.

Thus local effort might focus on developing the supply-base (from skills through to education, innovation and communications) and the institutional base (from development agencies to business organisations and autonomous political representation), in order to make particular sites into key staging points or centres of competitive advantage within respective global industrial filieres and value chains. This would replace a policy approach based on, say, protecting or keeping out certain industries. In addition, the relational strand on regions suggests that attention might be paid to identifying firm interdependencies, exchange relations and rationalities of behaviour (e.g. reciprocity, trust and interactive decision-making) that work to local advantage and identifying those which hinder the development of local capabilities and virtuous networks of entrepreneurship. This would replace the legacy of firm-centred policy actions, privileging, for example, domestic small firms or inward investors.

In my view there are *four* novel areas of action which emerge from this 'wealth of regions' perspective. A caveat, however, in keeping with the institutionalist axiom that actions have to be contextually relevant, is that I consider them to be especially appropriate for less favoured regions characterised by certain structural impediments to economic renewal:

fragile small firm entrepreneurship; domination by externally owned or controlled firms with poor levels of local economic integration; restricted diversification, innovation, and learning capacity; and state dependency and institutional closure. As it happens, these are problems facing a very large number of both old industrial regions as well as lagging rural regions, thus the recommendations have reasonably wide applicability. This said, I should stress that the recommendations are not offered as *templates* for action, but as issues that policymakers need to attend to in devising practical solutions to encourage regional endogenous growth.

4.1. *Building clusters and local economies of association*

The experience of some of the most dynamic economies in Europe shows that supply-side upgrading of a generic nature (e.g. advanced transport and communications systems, or provision of specialised training and skills), though desirable, is not sufficient to secure regional economic competitiveness. Instead, in small nations such as Denmark, and successful regional economies such as Emilia Romagna, Baden Wurttemberg, and Catalonia, policy action is increasingly centred around *supporting clusters of inter-related industries* which have long roots in the region's skill- or capabilities-base, in order to secure meaningful international competitive advantage.

Firm-specific initiatives, such as small-firm development programmes, or incentives to attract inward investors tend to be integrated within such cluster programmes, in order to build up a system of local inter-dependencies. Institutional support, in the form of technology transfer, training and education, access to producer services such as market intelligence, business innovation, and finance, tends to be sectorally specific, so that help can be targeted to firms in specific clusters.

In addition, considerable policy attention is paid to building *economies of association within clusters*. This might include efforts to improve cultures of innovation within firms by encouraging social dialogue and learning based on shared knowledge and information exchange. It might also include initiatives to encourage inter-firm exchange and reciprocity, through buyer-supplier linkage programmes, incentives for pooling of resources, joint-ventures, task specialisation, and so on. Finally, in order to maximise the efficiency of collective resources, it includes contact and overlap between sector-specific organisations (e.g. trade associations, sectorally based service centres) and other economic organisations (e.g. large and small-firm lobbies, function-specific producer services agencies, trade unions, chambers of commerce, local authorities, regional development agencies).

Building economies of association along the above lines would help regions to overcome some of the structural impediments mentioned above, by enforcing local ties and by encouraging continual upgrading and capacity-building across sectoral networks of horizontal and vertical inter-dependency.

4.2. *Learning to learn and adapt*

The second strand of new regional thought stresses innovation and learning as a key factor of dynamic competitiveness. Indeed, this is corroborated by the experience of successful regions with considerable capabilities as ‘learning’ or ‘intelligent’ regions. It is their capacity to adapt around particular sectors, and their capacity to anticipate at an early stage new industrial and commercial opportunities, that enables them to develop and retain competitive advantage around a range of existing and future possibilities. Their unique strength lies in *‘learning to learn’* (Hudson, 1996). By contrast, a very large number of less favoured regions suffer from the problem of industrial and institutional lock-in and that of reactive adaptation to their economic environment, both of which have contributed to the third structural impediment to innovation and learning mentioned above.

There is *no received wisdom* on the factors which contribute to regional learning and adaptability. However, from the experience of relevant successful regions some of the contributing factors can be discerned. One obvious factor is quite simply *the scale and density of ‘intelligent’ people and institutions,* as reflected in the skill and professional profile of the labour market, the volume and quality of training and education across different levels, the depth of linkage between schools, universities, and industry, the quality and diversity of the research, science and technology base, and the availability of intermediate centres of information and intelligence between economic agents and their wider environment (e.g. commercial media, trade fairs, business service agencies). Many LFRs display a discernible lack of most of these attributes, with policy actions often geared towards the production of low grade skills and training, or towards disembodied ventures such as University expansion, science parks, and training schemes which fail to build the necessary connections.

Less obviously, *networks associated with economies of association are another important source of learning and adaptation*, notably through the circulation of informal information and knowledge as argued by the 'relational' turn in regional development theory The networks facilitate the spread of information and capabilities, and the prospect of economic innovation through social interaction. Of course, there is always the danger that ties which are too strong and long-standing might actually prevent renewal and innovation, by encouraging network closure and self-referential behaviour (Grabher, 1994; Grabher and Stark, 1997). On the other hand, in contexts where economic agents have the option of participating in many competing networks on the basis of loose ties and reciprocal relations, and through independent intermediaries, the prospect for learning through interaction is enhanced. The policy challenge in this regard for LFRs is to find a way of substituting their traditional ties of hierarchy and dependency (e.g. big firms, state provision, family connections) with links of mutuality between economic agents and institutions.

Finally, as mentioned earlier, research has begun to appreciate the connection between *rationalities of action and adaptive potential*. It would appear that rule-based, substantive rationality encourages reactive responses to the external environment, and is therefore ill-equipped for learning and adaptation, while procedural rationality, based on cognitive and behavioural interpretation by economic agents of the external environment favours incremental adjustment and adaptation. In contrast, a reflexive or recursive rationality, involving strategic and goal-monitoring behaviour on the part of economic agents, encourages anticipatory actions, and a depth of knowledge capable of shaping and influencing the external environment (Amin and Hausner, 1997; Sabel, 1994).

The culture of command, hierarchy, and dependency that characterises so many LFRs has stifled the formation of a reflexive culture among the majority of its economic institutions, and consequently, prevented the encouragement of rationalities geared towards learning and adaptation. To correct this failing, considerable policy attention needs to be paid to the nature of organisational and management cultures and actor-rationalities which circulate within a region's dominant institutions. Only too often, policy action has sought to introduce new players and institutions in a region, without giving due regard to the dominant 'mind set' and its effects on innovation and adaptability.

Importantly, but rarely addressed by the policy community, the capacity to change lies centrally in the ability of actor-networks to develop an external gaze and sustain a culture of strategic management and co-ordination in order to foresee opportunities and secure rapid response. The key factor is the ability to *evolve in order to adapt* (Amin and Hausner, 1997). The encouragement of this ability requires effort to identify the potential sources of behavioural alternatives, for example, the preservation of diverse competencies (e.g. redundant skills and industrial slack - see Grabher and Stark, 1997); scope for subaltern groups to break the grip of hegemonic interests which gain from preserving the past; the openness of organisations to external and internal influences; scope for strategic decision-making through agent-environment interaction; and encouragement of diversity of knowledge, expertise and capability, so that new tricks are not missed.

4.3 *Broadening and mobilising the local institutional base*

This last point graphically illustrates the need for wider institutional reforms capable of addressing the structural impediments to economic renewal related to state dependency and institutional closure. It is becoming increasingly common to assume that region building has to involve also the mobilisation of independent political power and capacity at the local level. In the EU, this assumption lies at the centre of the discourse of a 'Europe of the regions' and has led to strong endorsement for local fiscal and financial autonomy, together with enlargement of the powers of local government, and the establishment of vigorous regional assemblies or parliaments. The linkage that is made with economic development is that local political power and voice facilitates the formation of a decision-making and decision-implementing community, able to develop and sustain an economic agenda of its own.

The institutionalist perspective, however, suggests that region-building cannot stop at simply securing regional political autonomy. Equally - perhaps more important - are *matters of who makes decisions, and how*. Let us recall two of the institutionalist governance axioms, namely the desirability of decision-making through independent representative associations, and the superiority of participatory decision-making. Thus the added challenge for the regions is to find ways of enhancing a democratic and interactive pluralism that draws in both the state and a considerably enlarged sphere of non-state institutions.

It would be an error, therefore, if regional institutional reform became a matter of simply substituting government by the central state with a *regional corporatism* that relies on a small elite drawn from the regional government offices, local authorities, development agencies, the business leadership, and perhaps even Mayors wielding extraordinary powers. *Governance in especially the institutionally thin regions has always been in the hands of elite coalitions, and the resulting institutional sclerosis has been a source of economic failure, by acting as a block on innovation*, and the wider distribution of resources and opportunity. In an increasingly global economy, these elites and their charismatic leaders may undoubtedly help regions to jostle for influence with national and international organisations (e.g. the EU, or transnational corporations), but they will achieve little in terms of mobilising a regional development path based on unlocking hidden local potential.

This is why it is vital that regional actors ask whether their decision-making processes constitute an obstacle to institutional renewal, away from a culture of hierarchy and rule-following, towards one based on focusing on informational transparency, consultative and inclusive decision-making, and strategy building on the basis of reflexive monitoring of goals. In the sphere of local state action, such deliberation might well lead towards very *new institutional practices*. For example, regional authorities - in the search for innovative ideas or unrecognised potential - could extend decision making beyond the professional politician and draw in - perhaps through specialist committees - experts and representatives from the various professional and civic groups that make up local society. In addition, the principle of learning through social inclusion, taken seriously, might make special effort to draw in minority and excluded interests. In turn, special attention might be paid to how business is conducted, in order to allow full and proper debate, potential for creative decisions, empowerment of the dialogically disadvantaged, and open and transparent interaction with the public and other representative institutions.

But, ultimately, *the process of institutional reform has to go beyond the pluralisation and democratisation* of decision-making within a region's existing 'official' public-service organisations. Many of the prosperous regions of Europe are also regions of participatory politics, active citizenship, civic pride, and intense institutionalisation of collective interests - of *society brought back into the art of governance*. Within them, associational life is active, politics are contested, public authorities and leaders are scrutinised, public space is considered to be shared and commonly owned, and a strong culture of autonomy and self-governance seeps through local society. They are regions of developed 'social capital' in the words of Robert Putnam (1993), serving to secure many economic benefits: public sector efficiency in the provision of services; civic autonomy and initiative in all areas of social and economic life; a culture of reciprocity and trust which facilitates the economics of association; containment of the high costs of social breakdown and conflict; and potential for economic innovation and creativity based on social confidence and capability.

The LFRs face a daunting task in reconstructing local social capital, damages as it may be by decades of economic hardship, state-dependency, elite domination, and so on. But, this is not an impossible task. Some catalyst projects might focus on popular projects which restore a pride of place and belonging (e.g. festivals, the recovery of local public spaces, cheap and efficient public transport), community development programmes, schemes involving public participation, investment in the social infrastructure, civic educational programmes, and so on. These are projects which need public involvement and imagination, constituting a small but necessary step towards reconstructing damaged civic identities.

4.4 *Socially inclusive forms of entrepreneurship and employment*

The preceding discussion has implied that a regional culture of social inclusion and social empowerment is likely to encourage economic creativity by allowing diverse social groups and individuals to realise their potential. This reinforces the view that policies to stimulate regional entrepreneurship should recognise, oblique though it may appear, the centrality of policies to combat social exclusion in this process. This is especially relevant in the context of regions marked by problems of persistent structural unemployment, and rudimentary entrepreneurship, both of which act as a severe constraint on economic renewal. In such regions, the depth and scale of unemployment, and the trend towards job-less growth in the economy at large, makes a return to full employment through improvements in regional economic competitiveness (via say, industrial upgrading, clusters, and economies of association), highly unlikely.

Therefore, more direct action to stimulate job generation is required, but it is essential that the action taken serves as a catalyst for building a social economy capable of nurturing skills, expertise, and capabilities. The action might involve active labour market programmes targeted towards reintegrating particularly vulnerable social groups such as young persons, the under-qualified, or ethnic minorities. It might include sustained effort to monitor and understand activity in the informal economy, with the aim of trading improvements in business practice with forms of policy support that firms on the margins of illegality might find acceptable. For example, regions in which the sweat-shop economy thrives might consider providing firms with access to bridge-loans and specialised services in order to help firms upgrade, and through this process, emerge into the formal economy.

An interesting recent innovation has been a growth in local markets for socially useful welfare services. In countries like Germany, France, Belgium, Netherlands, Italy and Ireland, local initiatives have grown providing subsidies and other forms of support (e.g. training, facilitative legislation, specialised services) to community-based economic development projects that involve target excluded groups either as providers or users of socially useful services. This might involve support for a community group that employs school leavers to offer affordable housing to low-income groups, or a co-operative that focuses on the long-term unemployed to provide domestic care or transport access to the elderly. In other words, the battle against social exclusion is being combined with reforms to the welfare state, towards building an intermediate economic sphere that serves to meet real local welfare needs. In return, this intermediate sphere, sustained by both monetary and innovative non monetary metrics of exchange (e.g. service vouchers or services in kind), is proving to be an important basis for rebuilding social confidence and skills among the excluded.

The policy implication is that regions need to seriously consider incorporating an innovative *social economy programme*, within the frame of their initiatives to improve regional economic competitiveness. It is important, however, for the reasons given in the preceding section, that this is done with a light governmental touch, leaving a great deal to local actors. For example, regional, or city-based, ‘social inclusion commissions’ could be established, with an elected chair from a widely-drawn membership of relevant local organisations. The Commissions would audit local service needs, propose rules for action, invite and consider applications for funding, work with the local authorities and other economic interest groups, and so on. The local authorities and the central government thus would play a ‘facilitative’ role, providing, for example, resources and legislation, but not a direct steer on local priorities and projects.

5. Conclusion: Back to the Macroeconomy?

It is clear that the institutionalist position implies a very broad policy approach that focuses on the insitutional and social foundations of economic behaviour. Its agenda threatens the inherited policy approach in three ways: first by placing faith in long-term, evolutionary actions which tend to span across normal planning and electoral cycles; second, by suggesting new actor rationalities to replace reliance on standardised, off-the-shelf formulae applied mechanically by an unreflexive policy community; and third, by expecting policy actors to considerably broaden their definition of the factors of economic success. The response to these challenges, however, should be positive and exploratory, since it is clear that the currently available policy orhodoxies are straining at the seams.

It is nevertheless vital that an approach based on mobilising the wealth of regions does not degenerate into localist sentiment. There is a risk that the institutionalist turn in regional thought and practice reinforces a parochial optimism centred around the *belief that building local capabilities might be sufficient for establishing a privileged position within global networks*. There are two flaws in this assumption. First, as Ray Hudson (1996) argues, drawing on the example of once-prosperous regions which too were learning regions, such internal connectivity unattended can quite easily end up reinforcing through institutional lock-in, path-dependencies which are inappropriate for new economic circumstances. Second, and as a consequence, the critical factor for economic success is not the presence of local relations of association, and institutional advancement, but *the ability of places to anticipate and respond to changing external circumstances.* Thus it is the management of the region's wider connectivity that is of prime importance, rather than its intrinsic supply-side qualities.

In part, responsibility for the management of this wider connectivity lies in the hands of non-regional actors, most notably governments. No amount of imaginative region-building will be able to sustain a spiral of endogenous economic growth in the absence of a *conducive macroeconomic framework*. Inter-regional competition in a Europe in recession, and dominated by restrictive macroeconomic policies, will continue to work in favour of the core regions. Therefore, something has to be done to secure the less favoured regions sufficient time and resources to implement boot-strapping reforms. So entrenched is the recent history in the EU, and other regional confederations, of member state commitment to macroeconomic prudence - from monetary stability to reduced public expenditure - that manipulation of the rules in favour of the LFRs is a dim prospect. For example, inflationary, or deficit-inducing expenditure programmes steered towards the less favoured regions are likely to be blocked.

Yet, it is imperative that the European economy, with its alarmingly high levels of unemployment, is given an expansionary kick start. Historically, governments have implemented Keynesian, demand-led recovery programmes by financing public building and infrastructure programmes, as well as relaxing investment and credit restrictions in order to stimulate expenditure, and consequently, industrial expansion. With careful regulation of potential inflationary outcomes, there is no reason why controlled expansion of the economy along these lines is not possible. Without it, there can be little scope for redistributing jobs and economic opportunity to the regions.

Secondly, regional financial security, decoupled from the ideological whims of centralising governments, needs to be secured across member states, in order to adequately resource policy priorities and meet the income and welfare needs of the local population. Controversially, this might involve as bold a step as automatic fiscal transfers to the regions aligned to local income. In this way, tax revenue pooled at, say, the EU level can be automatically, and continually, redirected to the regions. Such a regionally equitable fiscal system would ensure that the less favoured regions are compensated for their inability to generate as high a level of local tax revenue as their more prosperous counterparts.

These are controversial suggestions which need further debate. However, the point of raising them here is that in the absence of a conducive macroeconomic framework, it seems irresponsible to ask the regions to embark upon a long-term and comprehensive overhaul in pursuit of an endogenous pathway to prosperity.

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