

The idea of regional policy: Fundamental issues¹

Marc Jacquinet

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I will deal here with two types of policies: innovation and regional policies.² Both are analytically distinct and functionally different, even though ever less so, and this on at least one count: the work of the state, as conceived by Saskian (2006, 2007), or as it used to be the consecrated expression of the role of the state.

These policies appear in a very different context now that it used to be in the late 1980s or early 1990s. Regional divergence, at the European level and at the national level (e.g., Portugal) have increased; and one reason for this is the recent enlargement process in Europe, with the European Union passing from 15 to 25 and then 27 member states. The gap between the Nuts II poorest to richest region has more than doubled.

Another reason is the continuing industrial and economic restructuring in Europe and worldwide (v.g., the globalization of the world economy and the various regional and national economic areas) that has continued its path, following the downturn of the 1970s. Europe has gone through a deep and protracted transformation of its economy (ref xxx).

Therefore, one difference has to do with the centrality of the innovation process and economic transformation, that is much deeper, much wider in scope and continuous, almost unrelenting, and with regard to this last point, the innovation imperative (xxx ref)

¹ See also xxx: "2010 and the idea of regional policy: A European perspective"; and a forthcoming one: "The idea of regional policy and innovation and entrepreneurship policies".

² I will not use here the restrictive concept of economic policies because of other realms of polity, and policy, because of other means or fields of "political" action, namely social policy, cultural policy, and educational policy that are not construed as typically economic or productive in nature.

is almost always present for more and more firms from more and more diverse productive sectors (ref Gadrey Handbook of service).

...., it is necessary to clarify the issues related to regional policy and innovation policy. We will first review the literature on some fundamental issues and sum up the basic dimensions that are relevant to regional policy before analyzing this policy proper.

In order to grasp better the complexities of regional development of today, some time has to be dedicated to rethinking concepts, theories, policies and results (achievements, failures and impacts) as we have done so in the introduction and previous part and will continue in the present one and the next and last section on the Upper Douro. It is important to avoid conceptual fads and trendy labels and stick to the explanatory power of concepts and theories and the evidence from data.³

If we take a moment to look back at the regional policies from the 1960s and the present decade, we notice, among other aspects, the prominent role taken by innovation and not just the transfer of technology and big projects as the driving forces behind regional policies and development (Janne 1968, Perroux 1950, Perroux 1964, 1983) but also a whole bunch of activities much related with knowledge and tacit knowledge, social networks, partnerships and local cultures (Fuchs and Shapira 2005). As we will show, our reflection has tried to integrate concepts such as innovation, regional systems of innovation, knowledge, learning regions and heterogeneous agents, to name just a few we make use of.

Before getting into the prominent matter of regional policy, it is necessary to summarize a number of interrelated issues in order to discuss coherently the policy formulation and implementation and, afterwards, some concrete development measures.

First, in the present paper, the regional system of innovation has to be considered in its broad sense, as highlighted by Freeman (1982, 1987, 2002), rather than its narrow one (institutions directly involved in the fostering of innovation activities, such as public labs and universities) because the former allows us to take into account the diversity of

³ In the present contribution our methodological ambition is limited but for some conceptual discussion some works are worth to be consulted (Boschma 2005, Boschma and Frenken 2009, Cooke, *et al.* 2007, Cooke, Uranga and Etxebarria 1998, Fuchs and Shapira 2005, Martin and Sunley 2001, 2006, 2007, Noronha Vaz 2004, Noronha Vaz, Morgan and Nijkamp 2006).

regional and local actors, their interrelations and the difficulties related to the implementation of policies throughout heterogeneous geographical areas. This broad conception of innovation dynamics permits the identification of networks and structures that shape local life and regional economic activities (MacKinnon, Cumbers and Chapman 2002). It is related to the literature on regional systems of innovation and their focus on the knowledge dynamics (Cooke 2001, Cooke, Uranga and Etxebarria 1998, Cooke, Uranga and Etxebarria 1997, Freeman 2002, Moulaert and Sekia 2003).

Second, as a corollary to the broad definition of regional systems of innovation, a central element is the interaction between social and economic actors in these regions; this is the network aspect of the regional dynamics. According to Chris Freeman, a (regional, we would add) system of innovation can be considered as a “network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies” (Freeman 1987: 1). Evidently, the word technology has to be broadly construed in order to include the artifacts and the tacit knowledge of using techniques, including the immaterial techniques.⁴

Third, at this point, it is crucial for designing successful innovation and development policies to note that regional and local actors are highly heterogeneous in terms of size (see the next section), knowledge base, history (path dependence of capabilities) and activities (economic sector, social activities). The heterogeneity is ontological in the sense of defining the being and becoming of social actors in a specific territory. Social and economic interactions are in fact occurring between individuals essentially different one from another and this difference is at the center of the mechanisms of exchange and interaction. This is where we find notions such as knowledge economy, skills and competences that enter the picture.

Anyone consulting recent issues of journals in regional science or technological change and innovation studies (e.g., *Regional Studies*, *Industrial and Corporate Change*, *Cambridge Journal of Economics*) can see that the arguments on the various strands of economic policy, namely regional policy and innovation policy, have shifted towards the

⁴ It is here that enter the notions of knowledge economy and working of skills and competences.

notions of the knowledge economy, different types of innovations⁵ and a more dynamic view of the process of policy-making (Amin and Wilkinson 1999, Antonelli 1999, Cohendet, *et al.* 1999, Lawson 1999, Maskell and Malmberg 1999, Moulaert and Nussbaumer 2005, Moulaert and Sekia 2003, Tödting and Tripl 2005). This change is substantial, not only at the level of the theories and conceptual framework as highlighted in the previous section, but also for the very design of specific policies. That last point is the subject of this section, but before getting straight to that matter, we will wrap up the critical theoretical elements that are needed for a correct appraisal of the challenges of economic policies.

There is a vast literature on learning regions and regional innovation systems and a much wider literature on regional economic development that has gained momentum in recent years and have renewed the theoretical concepts used for economic analysis and policy formulation (Cooke 2001, Cooke, Roper and Wylie 2003, Cooke, Uranga and Etxebarria 1998, Cooke, Uranga and Etxebarria 1997, Fritsch and Stephan 2005, Leydesdorff and Fritsch 2006, Leydesdorff and Meyer 2006). However, there is still a tremendous effort to be made for creating more coherent or integrated theoretical constructs of regional development (Moulaert and Sekia 2003). Moreover, the analysis of regional policies and the evaluation of their implementation is lacking in terms of the integration of new theoretical development, namely: learning, innovation systems, entrepreneurship, management and strategic capabilities of people and organizations, globalization, territorial dynamics, evolutionary economic policies and trust and social interaction (Morgan 1997, Moulaert and Sekia 2003).

Our task here is not to offer a survey of these developments. In the previous section, we have given an overview of some of the main theoretical concepts that are needed for studying a wide array of regions and in particular those regions that aggregate numerous obstacles to development, usually, but not exclusively, based on agricultural production. In the present section, we will reintegrate the theoretical concepts for two reasons: first, for criticizing the existing policy practices and policy justifications and formulations and, second, for designing the building blocks of a more successful regional policy, especially

⁵ By types of innovation, I do not mean just the traditional distinction (process, product, radical, incremental, etc.) but also open innovation, lock in, path dependence as exemplifications of more recent contributions to the literature reflecting new trends in the global economy.

with regard to problematic regions such as the Upper Douro, characterized by dependence on a sole product as main export (wine), the lack of dynamic medium sized towns and proactive connections toward outside markets, regions and cities.

Two of the main issues with economic policy (either regional or national actions) are its practical relevance (impact) and its dynamic character (i.e., the socio-economic reality is changing so does the policy-making and the administration that implement it). In the latter case, more often than not, there are maladjustments between the issues at hand (the concrete problems to solve) and the capacity of the administration and formal institutions that are taking or implementing measures. This is clearly the case in the Upper Douro region.

It is important to have a regional policy that focuses practical problems and advances concrete measures (proposed solutions) that can be appraised in one way or another. Too often, policies, unfortunately, are definitely not regional policies; they are formulated at the national level (or even the regional level) but are too vague and do not answer properly concrete regional problems whose solution could contribute to the emergence of new dynamics in the region under consideration.

The criticism made by Simões Lopes in the late 1970s and reiterated all along the 1980s and 1990s is still valid today: there is no true regional policy in Portugal (Lopes 2001). For the Upper Douro the conclusion is even worse, as we will get back to it in the next section.

Again, coming back to old debates on economic development, not just within the national border but in the wider European context, regional policy is lacking a *long-term view* and an integration of various sectoral policies into some coherent whole with more efficient effects at the local level. And no matter how different regional economic policies can be designed today, as characterized by some authors quite recently (Morgan 1997), the long-term perspective and the integration are problems that remain. Accordingly, this point is shared by some authors in the case of Portugal (Lopes 2001).

A key factor explaining the lethargy of regional development policy in Portugal and in the Douro, in particular, is the path dependent character of their design and implementation. We will focus now on the *path dependence* of policy design. The notion of path dependence in policy design and policy making is not different from the

one found in the economic literature on innovation and technological change (Arthur 1989, 1994, David 1985, David 1986, 1989, 1992, 1994, 2001) or the study of economic theory and the economic profession (Garrouste and Ioannides 2001, Hodgson 1997b, Hodgson 1999, Hodgson 2004).

Concretely, policy formulation is conditioned by past decisions and new ideas such as evolutionary processes enter slowly in the set of ideas that are dominating the references and justifications traditionally used in the design of policy measure. Very often, the rhetoric is integrating the new concepts, but too often on a very superficial scale, while the old dominating ideas are still there. This is exactly the case with the absence of regional policy in Portugal. In economic terms, changing policy guidelines has high costs, not just for the regional constituencies but also at the national level.

Maillat (1998: 3) highlighted “a shift from the notion of territory as a medium of passive and static resources to that of a territory that creates strategic and specific resources. The onus was now on regional policy to adapt. [...] they increasingly moved from a distribution to a resource–creation policy.” This point can be extended to recognize that regional policy in Portugal has to back up the creation of incentives for investments, foster inter-institutional cooperation and decentralization, and it is “precisely in these areas that Portugal lacks the necessary tools” (Noronha Vaz 2004: 223).

If we look at the successive types of regional policies, using the typology by Maillat, we can identify in the Portuguese regional policy a dominance of distributive policies rather than those that require participations of local actors (Maillat 1998, Morgan 1997). But what is more preoccupying is the static conception of policymaking and its vagueness, its lack of integration and its lack of regional focus. We will pass now to the consideration of the regional development policy for the Upper Douro region as a way of illustrating the issues hitherto highlighted.