

Chapter 4

The Role of Local and Regional Institutions

John Tomaney
University College London, UK

ABSTRACT

This chapter explores the ways in which regions that are remote from the main concentrations of economic wealth and power can achieve development in a high cost environment. The role of effective institutions in creating the conditions for economic development has become a major field of scholarship. Recently, these insights have been applied to the urban and regional scale. This chapter pays particular attention to the role that regional and local institutions play in shaping patterns of economic performance, especially in high cost environments. The chapter examines ways in which this new thinking is informing regional policy. It provides some case studies of regions that have succeeded in the high cost environment of Europe. It concludes by stressing the importance of effective and adept local and regional institutions in ensuring the prosperity of cities and regions.

REGIONAL DEVELOPMENT IN A HIGH COST ECONOMY

How can regions prosper in a high cost economy? Peripheral cities and regions are typically seen as especially vulnerable in a high cost environment. The concentration of economic activity in megacities with large and diverse markets and agglomerations of industries is seen as providing productivity returns that offset the disadvantages of a high cost base (Glaeser, 2011). This chapter explores the ways in which regions that are remote from the main concentrations of economic wealth and power can achieve development in a high cost environment.

The role of effective institutions in creating the conditions for economic development has become

a major field of scholarship. For Douglass North (2005) the long-run evolution of the political-economic structure of a society is key to how choices are made and how they are able to shape economic policies and contribute to “adaptive efficiency,” that is, the ability of some societies to adjust to shocks in a world characterised by ubiquitous uncertainty and constant change and under conditions of bounded rationality (cf. Simon, 1986). Institutions are the “scaffolding that shapes human interaction” (North 2005: 48) or, “the rules of the game in a society; (and) more formally, the humanly devised constraints that shape human interaction” (North 1990: 477).

Recently, scholars and policymakers have sought to apply these insights to the urban and

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regional scale (see Tomaney 2013 for an overview). Thus this chapter pays particular attention to the role that local and regional institutions play in shaping patterns of economic performance, especially in high cost operating environments. The chapter begins by looking at new thinking on “place-based” forms of development. It then examines ways in which this new thinking is informing regional policy. The chapter then looks at some case studies of regions that have succeeded in the high cost environment of Europe. It concludes by stressing the importance of effective and adept local and regional institutions in ensuring the prosperity of cities and regions.

NEW THINKING ON PLACE-BASED CITY AND REGIONAL DEVELOPMENT

Over recent years there has been a growth in new thinking about the process of local economic development. Across the world local and national governments have moved away from traditional approaches that emphasised the provision of large-scale infrastructure, the attraction of foot-loose investors and the disbursement of transfer payments designed mainly to compensate for the effects of industrial restructuring and low growth. Under these conditions, peripheral regions in high cost economies often find themselves competing for investment through lowering wages. Such approaches have generally proved to be temporary measures that fail to contribute to the factors that will underpin more sustainable forms of development. The new approaches tend to emphasise the identification and mobilization of endogenous potential; that is, the ability of cities and regions to grow drawing on own resources. The new approach though is applied not just in areas with obvious economic strengths such as major cities – but in all areas. The new “place-based” approaches involve attempts to tap into

economic potential that remains unused and not identifiable to outside agencies, so that all cities and regions – potentially at least – can contribute to national development.

This kind of thinking is evident in recent reports by the OECD (2009, 2010 and 2012), by Fabrizio Barca (2009) for the EU and from the Obama administration (White House, 2010), which have pioneered “place-based” approaches. These reports posit a model of regional and local development intervention which is being increasingly adopted, in adapted fashion, in developed and developing countries, in cities and regions, and which at its heart focuses on the identification and mobilisation of endogenous assets, i.e. the region’s internal skills and innovation capabilities. The OECD calls it a “new paradigm” of regional development (see Box 1). Skills and innovative capacity are very important to regional development because they can be used to embed investment in cities and regions in an era of more mobile capital in ways that the provision of low cost labour and infrastructure alone cannot.

Table 1. Old and new paradigms of regional policy (Source: adapted from OECD (2009: 51) Regions Matter: Economic Recovery, Innovation and Sustainable Growth, OECD: Paris)

	Old Paradigm	New Paradigm
Objectives	Compensating temporarily for location disadvantages of lagging regions.	Tapping underutilised potential in all regions for enhancing regional competitiveness.
Unit of intervention	Administrative units.	Functional economic areas.
Strategies	Sectoral approach.	Integrated development programmes.
Tools	Subsidies and state aids.	Mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks).
Actors	Central government.	Multiple levels of government.

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