

## Chapter 3

# Determinants of Convergence and Disparities in Europe: Innovation, Entrepreneurship, and the Processes of Clustering

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### ABSTRACT

*Innovation and entrepreneurship are key factors in current regional development initiatives, derived from the concepts of new economic growth theory. The aim of this chapter is to combine an assessment of innovative and entrepreneurial performance with the spatial distribution and functional linkages of certain types of economic clusters. The hypothesis is that clustered regions with high entrepreneurial and innovative performance have higher growth than non-innovative/entrepreneurial regions or regions with a more scattered economic structure. The clustering and in some cases even the polarization of economic activities in metropolitan regions can lead to excess growth and contribute to a process of convergence between nations but will also turn regional economic divergence back on the national economic development agenda.*

### 1. INTRODUCTION

Convergence and divergence have been crucial issues in economic development of the European area since the very beginning of the process of economic integration in the aftermath of the Second World War. Structural change in business and industry has been the most important driver

of regional alterations. Nowadays innovation and entrepreneurship are key factors in current regional development. Current strategies of policy are often derived from the concepts of new economic growth theory.

The aim of this article is to combine an assessment of innovative and entrepreneurial performance with the spatial distribution and functional

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linkages of certain types of economic clusters. The central hypothesis is that clustered regions with high entrepreneurial and innovative performance have higher growth and rate of convergence than non-innovative/entrepreneurial regions or regions with a more scattered economic structure.

## **2. THEORETICAL AND EMPIRICAL FRAMEWORK**

The explorative nature of this paper calls for a combined theoretical and empirical foundation of the analysis. Theoretical and conceptual the point of departure is new economic growth theory and spatial aspects of economic growth and competitiveness, i.e. regional innovation systems and processes of clustering and co-location. The second anchor of the paper is the empirical distribution of economic activity and the patterns of economic performance in the European Union.

### **2.1 New Economic Growth, Clustering, and Regional Innovation Systems<sup>1</sup>**

The transformation of mature economies from traditional industrial societies toward modern service and knowledge societies has caused huge changes also in the regional balance within and between the countries of the European Union. Less than five years ago conventional wisdom often stated that in particular countries dominated by manufacturing industries would be the losers of structural change and economic transformation. Recent figures have shown that this not always is the case, in particular the export based German economy has performed astonishing well after the financial crisis and in the first years of the state debt crisis of the Euro area. One reason is that Germany not only has implemented significant reforms of the traditional very sticky labor market around the turn of the century by the social-democratic green government, the so-called Harz-reforms,

but more important that the traditional manufacturing industry has adapted to the new modes of economic growth. New economic growth does not only apply to the knowledge and service industry but also to manufacturing and more traditional sectors of the economy.

The reason d'être of regional development efforts is closely linked to the fact that some regions perform worse compared to others, and that this leads to a (comparative) derogation of the quality of living and will create unequal conditions within a country.

Traditional economic growth models have their focus on capital and labor as growth drivers. More refined concepts of growth and new growth models are operating with a wider range of growth drivers including factors like human capital, knowledge and innovation and even intangible factors like entrepreneurial spirit (Audretsch, 2006). It has been recognized that some of the mechanisms behind economic growth are endogenous in a certain economic system rather than independent of previous performance (see Romer, 1994). Innovation and the capacity to innovate are central factors for economic growth and regional development in this new context. The set-up of the regional and national system of innovation becomes crucial factors for the functioning of a modern business environment. Innovation has to be seen as both independent variable (i.e. a growth driver) and as a dependent variable with regard to policies aiming at stimulating innovative behavior in the firm or educational sector.

In this perspective, the role of knowledge and innovation is at least twofold. In the short run, innovation and knowledge creation becomes necessary instruments in the process of regional adaptation to industrial change as a response to changes in the competitive environment. One example of the new focus on competences is the on-going discussion of knowledge as a central factor in the spatial organization of industries (Malmberg & Maskell, 2002). In a longer perspective, innovation and knowledge are preconditions for a successful

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