

REGIONALISATION, REGIONAL INSTITUTIONS AND ECONOMIC DEVELOPMENT

Richard Evans and Alan Harding

Recent claims that regional government structures are crucial to regional economic competitiveness are controversial. This article summarises the economic arguments for regional government and assesses how far British policy-making on economic development has become regionalised. It examines links between regional institutional capacity and regional economic performance in Britain, commenting in detail upon the experiences of four British regions. The penultimate section suggests the common allegation that Britain is out of step with its European Union partners in terms of regional structures and support for regional economic development is overdrawn. The final section argues that regional government is by no means a proven economic necessity.

Les affirmations récentes sur l'impérative nécessité de structures gouvernementales régionales pour une compétitivité économique régionale sont discutables. Cet article récapitule les arguments économiques en faveur d'un système de gouvernement régional et détermine comment les décisions de principe britanniques sur le développement économique prennent en compte les régions. Les liens entre les moyens institutionnels régionaux et la performance économique en Grande-Bretagne sont examinés et l'article commente en détail les expériences de quatre régions britanniques. L'avant-dernière partie suggère que la critique courante qui consiste à dire que la Grande-Bretagne ne marche pas au pas de ses partenaires de l'Union Européenne en termes des structures régionales et du soutien pour le développement régional est exagérée. La dernière partie affirme qu'un système de gouvernement régional est loin d'être prouvé être une nécessité économique.

As other contributors to this volume show, there is growing political, academic and popular support for the principle of regional government in England, even if there is no consensus on the precise form it might take. The regionalist case is supported by traditional arguments which highlight potential gains in the efficiency of service delivery and issues of territorial cultural identity (Coulson, 1990). Political pressure for change in England's more self-conscious regions also feeds upon the growing likelihood that devolutionary demands in Scotland and Wales will be met. But the fresh impetus recently acquired by the regional debate rests mainly upon two new lines of argument.

The first reflects worries about the growing quantity of public money disbursed by quangos with regional boundaries and structures. This form of regionalisation has been more pronounced in England than in Scotland and Wales even though Britain's 'stateless nations' still have far stronger deconcentrated regional administrations. One new argument for regional government, then, is that it is the most effective way of democratising the unelected regional state (Morgan and Roberts, 1993; Salt, 1994). The second is concerned with the link between regional democracy and regional economic performance. It feeds on a widely-held impression that Britain's European neighbours have

divisions of labour between local, regional and national levels of government which serve the regions better. A second new argument for the creation of a system of regional government, then, is that it is essential if regional economic fortunes are to be improved (Murphy and Caborn, 1995; European Dialogue/Friedrich Ebert Foundation, 1993).

This article concentrates upon the latter claim. Debate about the desirability of regional government in Britain from an economic development viewpoint has its limitations. It suffers from a lack of precision in the way terms like regions, regionalism, regionalisation, regional policy and regional autonomy, along with others such as devolution, deconcentration and decentralisation, are used. It is highly Anglo-centric, which means that substantial differences between structures of governance at sub-UK level are often ignored and domestic lessons go unheeded. And it takes a somewhat one-dimensional view of the continental European experience.

In a recent study for the Joseph Rowntree Foundation (Harding et al., 1996), we sought to escape these limitations. The study put variation in the structures of governance at sub-UK level at the centre of its concerns. It sought evidence of recent regionalisation across the whole range of policy spheres. It looked in detail at the economic development field and asked whether powerful economic forces appear to be forcing governments to decentralise power and build up regional institutional capacity. It investigated variations in the nature and degree of institutionalisation at 'regional' level in Britain's non-English nations (Scotland and Wales) and two English regions (the North West and North East) and tested perceptions as to what effect these have upon economic performance.

This article draws upon the Rowntree study. It summarises the main economic arguments for regional government. It then explores the extent to which public policy-making on economic development has recently been regionalised. The next section examines links between regional institutional capacity and regional economic performance in Britain. The experiences of the English regions are compared with those of Scotland and Wales to assess perceptions of the value of different institutional structures in responding to broadly similar economic challenges. The

penultimate section tests the common allegation that Britain is out of step with its European Union partners in terms of regional structures and support for regional economic development. The final section then returns to the key question: is regional government an economic necessity?

Economic arguments for regional government

Regional government is increasingly advocated on economic development grounds. There is a growing belief that a democratic and organisational deficit exists at regional level in Britain, particularly in England. This is said to contribute to regional underperformance and inter-regional inequality and to result in a failure to harness indigenous assets and the actions of key regional industries and public support agencies to best effect (Labour Party, 1995). This argument is not entirely new. Regionalist critics of macro-economic policy have long argued that UK governments routinely ignore regional potential to the detriment of the national economy. Economic 'booms', they argue, begin and are at their strongest in the South of England. By the time their effects have rippled outward to peripheral regions, there is usually 'overheating' in the South. Growth therefore fuels inflation and corrective measures have to be taken to dampen economic activity. In this way, the economies of peripheral regions are artificially kept in a state of under-performance by the needs of better-performing regions.

A different position has long been advanced by regional scientists and planners. Their more technocratic arguments suggest regional units have more of an economic rationale than most lower-tier local authority areas because they can embrace travel-to-work areas and the economic sphere of influence around major population centres. 'Economic' functions like land-use and transportation planning are said not to be dealt with effectively by national government, because it is insufficiently knowledgeable and sensitive, or by a local authority system which is too fragmented, competitive and parochial. So, for example, the fact that economic policy-making is primarily a national government responsibility but land-use planning is administered mainly at local level is said to be a recipe for conflict, 'nimbysism' and sub-optimal decision making

(Cheshire, D'Arcy and Giussani, 1992).

Beyond these long-standing concerns there are more recent claims that the process of economic globalisation will increasingly be supportive of regionalism and regionalisation rather than nationalism and nationalisation. Regional tiers of government, it is argued, are not just becoming more common, they are more and more essential to effective economic policy making. In a globalised economy, nation states are increasingly unable to perform their traditional, dominant role in economic regulation. In response, a process of 'hollowing out' is said to be occurring (Jessop, 1994) in which decision-making power is being passed upward, to supra-national institutions, so that problems which no longer respect national boundaries can be managed (Luard, 1990), but also downward, to sub-national levels of government.

Decentralisation to regional tiers of government, such as has happened in France, Spain and Italy at various times in the last 25 years, is therefore viewed by some as going with the grain of the times. Given that Germany already has a highly decentralised, federal system of government, the UK has been seen as the one large EU country which has moved most slowly along the road to a Europe of the Regions. Centralising tendencies within the UK are said to put it temporarily out of step in Europe but ultimately to be self-defeating and unsustainable (Crouch and Marquand, 1989).

Regionalism can therefore benefit from the politics of globalisation. It may also benefit from the economic geography of globalisation (Harding and Le Galès, 1997), that is, from the effect globalisation has on business decision-making and the capacity of the public sector to influence business decisions. This argument is more controversial. Many commentators argue, very persuasively, that power and control within the private sector is passing inexorably from regional actors to the headquarters of transnational corporations whose interest in regional economic fortunes is much more ambiguous (Amin and Malmberg, 1992). However, the idea that the 'branch plant economy syndrome' is increasingly dominant, and regions are evermore powerless in the face of the transnationals, is not universally accepted.

A contrary argument is that symbiotic links

between regions and corporations strengthen as corporate structures themselves become more regionalised. Some commentators suggest that managerial autonomy within the regional units of global corporations simply has to grow if complex market conditions are to be understood and acted upon. Responsibility for the control of corporate costs is also increasingly pushed down the corporate hierarchy to the managers of decentralised cost centres. Twin pressures in management and business development have therefore led, in many cases, to increased regional subcontracting, joint ventures and strategic alliances and hence to corporations embedding themselves more deeply in regional networks (Ohmae, 1993).

At the same time it is argued that indigenous economic development and a region's attractiveness to external investors now rely more heavily on factors which vary between localities than on standardised forms of national regulation. On one hand modern locational choices, in theory, are much more amenable to public policy influence than were traditional factors of production. Businesses in the information age increasingly rely upon efficient communication networks (motorway systems, high speed trains, international airports, advanced telecommunications), the innovative capacity and advanced labour pools provided by higher education institutions and the quality of life advantages offered by carefully-managed cultural, residential and physical environments. Many of these public sector inputs need to be attuned to specific production needs and delivered flexibly at a scale more manageable and appropriate than that of the nation (Mayer, 1994).

On the other hand, recent theories about the sources of competitive advantage also stress the importance of sub-national institutions and forms of regulation. This is true of neo-Schumpeterian arguments which stress the role of institutions in underpinning entrepreneurship and innovation (Porter, 1990). It also applies to the literature on 'flexible specialisation' which suggests a greater role for local cultures and milieux in helping localities adapt to economic change. This work draws heavily upon the notion of industrial districts (Marshall, 1919) and tends to stress the role of 'soft infrastructures', collaborative networks and clusters in economic innovation. For all these reasons, there is growing belief that regions may

be credible rivals to nations as potential units of supply side intervention.

The above can provide some basis for economic justifications of regional government. They are also used to criticise current regional administrative arrangements in England. However the most common arguments are political and institutional ones. It is said that the lack of independent institutional power and coherence within English regions compared to their continental European counterparts means that they find it more difficult to present a regional voice distinct from national government. This allegedly limits their capacity to draw on EU support for regional development in that they are argued to be less effective at influencing EU policy through mechanisms like the Committee of the Regions or developing regional strategies and coalitions to smooth access to EU regional funding. English regions are also seen as institutionally disadvantaged in comparison to Scotland and Wales which have strong, deconcentrated administrations, Cabinet-level political representation and a variety of relatively well-funded public agencies specifically devoted to economic development.

Most of the reasons that regional government is expected to bring positive economic benefit, however, are more general. The most rarefied argument is that greater regional self-determination would yield intangible economic benefits because it would encourage greater self-belief, self-esteem and will to succeed.¹ For technocratic regionalists, there would be a number of more concrete gains from the creation of regional government. Regions, they suggest, would define coherent socio-economic areas and so offer the opportunity to internalise economic benefits and costs and create legitimate constituencies of interest. Regional government would help reduce inter-governmental conflict and introduce sufficient executive capacity to implement policy measures. It would offer a single point of contact through which the business community could become more involved in the economic development process (Cheshire, D'Arcy and Giussani, 1992).

Accountable regional government, it is said, would also have a knock-on effect on relations between key interest groups. It would act as a ringleader and honest broker in facilitating networking between key economic agencies. It

would be more likely to produce appropriate, flexible and innovative responses to regional problems and opportunities and would champion strategic industries to a greater degree than at present (Labour Party, 1995). It would counter the remoteness and inappropriateness of much national decision making. It would prompt ways of dealing with the long-standing 'de-spatialisation' of regional institutions such as banks and insurance companies - and their consequent lack of a sense of territorial loyalty - by promoting institutionalisation at regional level (Hutton, 1995). It would enable each region to maximise its comparative advantage. Thus, it is argued, inter-regional inequalities would be reduced, the control of inflation made more easy and the cycle of boom and bust flattened (Murphy and Caborn, 1995).

Regionalisation and economic development policy-making

How far have recent UK governments, whilst obviously not favouring regional government, addressed a regional economic agenda? How significant is the process of regionalisation that has recently occurred in England and how far has it enhanced economic development capacity? The broad consensus on these questions seems to be that regionalisation in England has not bolstered regional autonomy very much, nor has it been dominated by economic development issues. Recent regionalisation has been a largely top-down process, driven by the functional requirements of central government departments in various aspects of service delivery (Hogwood, 1996). There has been no systematic strengthening of English regional administration. Compared with Scotland and Wales, far less countries with elected regional tiers of government, it remains patchy and incoherent. Neither has top-down regionalisation in England occurred primarily in fields related to economic development (Harding et al., 1996). That is not to say, though, that there has been no change in the regional administration of economic programmes.

Indeed, two significant changes in the economic development sphere have recently occurred within the English regions. As described in more detail in this volume by John Mawson, in 1993 the government integrated the regional offices of the Departments of Environment,

Employment, Trade and Industry and Transport into new Government Offices for the Regions (GORs). In the same year a new quango, English Partnerships (EP), was created with a roving role in the treatment and development of derelict and under-used land. Under the new regime, the offices of EP's partial predecessor (English Estates) were amalgamated into six regional offices. These new structures operate upon a similar philosophy and rationale. They respond to some extent to representations from private and public interests that government needs to provide a stronger lead in the attempt to unlock regional competitive potential. In moving some way toward that, they partially rehabilitate strategic approaches to planning and economic development.

GORs are charged with co-ordinating departmental inputs, providing a one-stop-shop service to enquirers and orchestrating the actions of a plethora of public bodies. In a sense, they invite a more active regional policy, based upon co-ordinated regional administration rather than the more centralised system of selective business subsidies which underpinned traditional, redistributive regional policies. The responsibilities GORs have for orchestrating the use of EU structural funds also suggest that EU programme requirements concerning strategic forethought, partnership and synergy have been important considerations in the government's move toward more coherent regional structures. EU programmes and structures have also been one of the contributory factors in a limited process of 'bottom up' regionalisation. This is indicated, for example, by the creation and strengthening of regional associations of local authorities, the growth of business groupings at regional level and the development of regional representation in Brussels.

Recent trends in England therefore suggest a modest strengthening of regional administration from above and below. From a government perspective, though, new regional arrangements are simply an extension of the 'non-executant' tradition of UK administration in which control over policy is maintained at the centre but implementation responsibilities are devolved (Sharpe, 1985). As ever, such arrangements enable the government to mediate between central requirements and local needs, relieve itself of

administrative detail, cushion itself from the impact of its expenditure decisions, add legitimacy by adapting central directives to regional circumstances and achieve regional economies of scale.

Whether recent growth in regional activity will result in anything other than more convenient administration from a government perspective depends upon whether it ultimately helps enhance regional autonomy. If autonomy is seen purely as independence from other levels of government, then clearly the new arrangements in England have added little so far. Indeed, to the extent that powers and functions have been withdrawn from local government in the process, they are associated with a reduction rather than an increase in sub-national autonomy from the centre. Regional autonomy has nonetheless been enhanced in the sense that there is greater capacity to achieve things at regional level. Whether this will be used to support regionally-defined economic strategies remains to be seen. GORs are considered unlikely to act as regional advocates, not least because Senior Regional Directors report to the Secretaries of State of their four constituent departments. Whitehall also decides upon the disbursement of key funds like the Single Regeneration Budget. In the event of a clash of interest, it is difficult to see how territorial concerns will prevail over central departmental priorities.

On the other hand, regional institutional capacity and coherence in the economic development and strategic planning sphere does appear to be growing. There is some evidence that GORs are promoting greater policy co-ordination and improved regional networking and strategic debate and encouraging other agencies to adopt common and coherent boundaries. In the longer term this could encourage the sort of institutionalisation associated with the growth in functions and influence of the Welsh and Scottish Offices. For example, the establishment of England's first regional Chamber of Commerce in the North East is partly attributable to the creation of GO North East since its underlying logic is not merely to achieve economies of scale and critical mass but also to provide a more effective regional lobby and well co-ordinated service to business.

The fact that English Partnerships continues to adopt different boundaries to GORs suggests

that national operational criteria such as the reduction of property overheads and staffing through amalgamation continue to compete with, even cut across, territorial considerations. In the longer term, alliances between regionally-based utility companies and other economic development bodies may emphasise regionalisation tendencies. Greater institutional coherence, capacity and consistency in boundary definition has already made groupings of regional interests more willing to speak up and lobby on regional issues such as the need for co-ordinated infrastructure planning. The creation of GORs and increased adoption of the partnership philosophy by, for example, English Partnerships is promoting greater regional networking and policy making. Recent institutional developments at the regional level could, despite the ambiguity of much recent evidence, herald more extensive changes in regional governance.

Institutions, strategies and regional economic competitiveness

What models of regional governance are appropriate if the primary aim is to enhance regional economic performance? Assessing the added economic value of institutions and inter-agency networking is an inexact 'science' which is still in its infancy. Concepts like 'institutional thickness' (Amin and Thrift, 1994) have been coined to suggest that the density and pro-activity of local and regional institutions, along with the various interactions between them, play an increasingly important role in helping localities adapt successfully to new, globalising economic circumstances. Quite how they do this and to what extent, however, remain matters of judgement rather than precise measurement.

The Rowntree study examined this question in two ways: by testing perceptions about the added value of regional institutions in the four case study regions and by reviewing the extent to which regionalisation seemed to be driven by economic considerations elsewhere in Europe. In the British regions there was broad consensus that the influence of regional institutions on processes of economic innovation and change is limited but far from negligible. Adverse macro-economic circumstances and the limited purchase that regional institutions have over the range of resources needed to effect economic change

prevent them from engineering miraculous turnarounds in regional fortunes. But there is considerable evidence that 'regional' institutions in Scotland and Wales are better able to understand, articulate, engage with and act upon regional problems and opportunities than are their counterparts in England.

The presence of the Scottish and Welsh Offices, along with key implementation agencies such as Scottish Enterprise, Highlands and Islands Enterprise, Locate in Scotland, the Scottish Local Enterprise Companies, the Welsh Development Agency and the Development Board for Rural Wales, facilitates better performance in promoting inward investment, strategic networking, targeting strategic sectors, the deployment of specialist expertise, raising international awareness and constructing regional alliances. Regional administrative control over a wide range of economic development functions reduces the time and effort spent in putting together multi-disciplinary programmes. They ensure that departmental priorities can quickly be reconciled and the actions of regional organisations orchestrated. A sense of nationhood also means that a wide range of professional and non-statutory interests organise themselves at the 'regional' level and provide a ready-made policy community that has a highly developed sense of regional needs and opportunities.

To some extent the perceived gap between the stateless nations and the English regions reflects big variations in the levels of public sector support for economic development institutions. Scottish Enterprise, for example, is grant-aided by the government to the tune of £380m per year whilst its nearest equivalent in the North East, the Northern Development Company, albeit with fewer responsibilities, struggles along with around £6m worth of support from the DTI, local authorities and Directorates-General of the European Commission. Financial clout does not just underpin its actions. Funding buys knowledge, expertise, influence and supporters and so plays a critical role in the varying impact of regional institutions.

What is also clear from comparing the experience of Scotland, Wales, the North East and the North West, however, is that regional institutions, whatever their formal powers, work better when their *raison d'être* and priorities are part of a

wider social consensus. The sum of the institutional parts in Scotland is generally seen to be greater than that in Wales for this reason, as is the case for the North East compared to the North West. Whilst both pairs of regions have similar institutional structures, the differences between them are argued to stem from less tangible factors such as the legitimacy and standing of regional institutions, the degree of regional consensus on broad economic strategy and the extent of inter-agency networking that these factors encourage.

Inward investment is one field in which there is relatively clear evidence that institutional factors can result in regions over- or under-achieving whatever potential their structural advantages or disadvantages bequeath them. The creation of the Scottish electronics industry largely from scratch is a striking testimony to the way in which different departments and agencies were able to package together a range of incentives and to the effectiveness with which these and other advantages were sold by Locate in Scotland, the inward investment agency.

In Wales, lower wage costs and financial assistance are argued to account for most of the variation in its inward capital investment relative to other regions from 1979-89 (Hill and Munday, 1991) but the Welsh Development Agency and Development Board for Rural Wales have been very active in pressing home such advantages. Conversely, the deterioration in Wales' relative performance in inward investment since 1992 has not just been due to the slow-down which followed the completion of the Single Market and loss of Assisted Area and Objective 2 status in South Wales. The tarnished image of the WDA following disclosures of financial malpractice, its impact upon staff morale and the hiatus associated with extensive internal restructuring has played a key role.

In the English cases, the North East's superior inward investment record relative to the North West cannot simply be put down to the scale of incentives for manufacturing investment since the region performed comparatively well in both non-manufacturing and manufacturing investment projects. A more acute sense of regional consciousness in the North East translates into a more consensual regional strategy and a firmer base for joint working between agencies. In the case

of inward investment, this manifests itself in almost blanket local authority support, backed by considerable financial contributions, for the work of Northern Development. This contrasts with the more patchy, lukewarm local authority support for INWARD, the North West's inward investment agency. Variations in agency calibre and performance partly cause and partly reflect these differences.

This brief discussion suggests institutions matter to the way regions respond to economic change. Whether there is an economic case for bringing regional institutions under the control of governments elected at that level, however, is far from straightforward. Within the English regions there is a general feeling of being institutionally disadvantaged compared with Scotland and Wales. For some, particularly in the North East, this imbalance can only be addressed by the creation of elected regional government. But others are simply envious of the public sector economic development capacity in Scotland and Wales. They see the acquisition of comparable regional institutions, rather than regional government, as the way forward.

In Scotland, and to a lesser extent in Wales, there is less support for the status quo which seems so attractive when viewed from the English regions. In the stateless nations, the critical question is whether or not more powers and responsibilities should be wrested from Whitehall and Westminster or indeed whether Scotland and Wales should have their own, autonomous parliaments and executives. This debate is not about institutions, since it occasions virtually no discussion about the reform of executive bodies. Neither, despite a vague confidence that decisions made in Cardiff and Edinburgh would be more effective in bringing about positive economic change than those emanating from Westminster and Whitehall, does it concentrate upon economic development issues.

Debate in Scotland and Wales is primarily political. It is concerned with the rider, not the horse. Those who argue for devolution or independence argue that today's institutions, under different political leadership, would be seen as more legitimate and would be able to draw upon a greater sense of shared purpose and self-confidence. They could devise policies tailored more closely

to regional needs, establish integrated approaches to regional, technology and training policies and get a better deal from Europe. Those who are less persuaded by these assumptions, particularly business leaders, are much more concerned that the direct and indirect costs of change could outweigh any benefits. They tend to reserve judgement until they can make such calculations with some degree of certainty.

In the English regions there are clear perceptions that gaps exist in regional institutional capacity with regard to innovation and technology transfer, regional banking and venture capital, research and development, image promotion and maximising the economic potential of regional arts and tourism attractions. It is generally felt that the strengthening of regional economic development institutions, beyond current capacities with regard to inward investment, would help. However, views differ on whether regionally elected institutions would improve economic prospects still further.

In the North East especially, there is quite strong support for the idea that regional government would improve regional policy innovation and joint working, attune policies better to regional circumstances and indigenous productive potential, generate long-term strategies and policy continuity, provide a strong regional voice in Europe and encourage a greater sense of ownership of strategic projects. But there is also concern that the politicisation of problems at the regional scale would not necessarily result in their being resolved in economically effective fashion. There are fears about parochialism outweighing strategic judgement, the calibre and capacity of local politicians and the costs of additional bureaucracy.

Support for regional government is much more muted, however, in the North West where many commentators argue the region's problems have been as much cultural as institutional (Burch and Rhodes, 1993). The history of economic diversity and political rivalries, particularly between the region's two conurbations, have militated against the emergence of regional networks and a regional consciousness. That, in turn, has precluded the emergence of regional institutions with authority and legitimacy. Indeed, government has institutionalised regional fault-lines by giving Merseyside its own GOR separate from the North

West GOR. Given this context, there is wide support for the view that any enhancement of regional institutional capacity should proceed on a voluntary basis, beginning with essential coalition-building and strategy-implementation activities before structural changes are contemplated.

Britain out of step in Europe?

The British evidence suggests there is a link between regional institutional capacity and economic performance but it obviously cannot substantiate claims about the added economic value of regional *government*. The domestic debate on this issue is largely based upon political rhetoric. For all those who claim that a Scottish Parliament, a Welsh Assembly or regional government in England will improve economic performance, there are others who suspect that a more democratic but 'thicker' system of decision-making, unless it were somehow channelled into serious examination of economic issues, could simply politicise and embed problems rather than provide the means to resolve them.

But the economic case for regional government does not just draw upon domestic evidence. It involves claims that European regions with highly autonomous, well-resourced and democratically-elected tiers of regional government are the high economic achievers of today and will attain still greater relative prosperity in the future. Regions that lack such characteristics, or fail to acquire them as a result of enlightened decentralisation policies of national governments, will fall further behind. The evidence suggests that such arguments are overdrawn and problematic.

Whilst it is true that a number of EU countries have decentralised power recently, there is no unambiguous direction or pattern to the change. Heterogeneity is still the principal characteristic of sub-national governmental structures in Europe. The size, status, boundaries and degrees of autonomy of Europe's regional governments vary substantially. Even the best-endowed regional tiers are constrained in their influence by national governments. Neither has there been a clear economic imperative for recent reforms, suggesting that whatever impact regional government has upon economic

development is often adventitious rather than consciously designed. Regionalist commentators also falsely ascribe some characteristics associated with strong regional economic performance to the institutional machinery controlled by elected regional governments.

Some countries have taken a road similar to the British one, combining centralisation in some fields areas with decentralisation to non-elected agencies in others. In Denmark, for example, the only 'regional' authority - for Greater Copenhagen - was abolished in 1989. Since then, functions have selectively been withdrawn from some of the remaining intermediate governments, the counties, and central government has created and encouraged specific, non-elected agencies for economic development. And of course a country that is decentralising is not necessarily decentralised (Bennett, 1990). A decentralising France, for example, remains much more centralised, in absolute terms, than a centralising Denmark.

Overall, there are almost as many arrangements for the intermediate tiers of government between national and local/municipal levels - departments, regions, counties, autonomous communities, Länder, provinces - as there are countries (Sharpe, 1993). As the European Commission found when devising its NUTS classification system for sub-national data-collection, these intermediate units vary substantially in size and status. The populations of some European 'regions' are smaller than those of certain British cities, let alone counties or statistical regions.

Contrary to the assumptions of technocratic regionalists, 'regional' institutions also vary widely in the extent to which the areas they cover make economic sense. The idea that regional 'units' have an economic rationale is not generally borne out in reality. Even in Germany, whose Federal system is the most decentralised in Europe, there are anomalous situations in which, for example, suburbs and areas of concentrated economic activity that depend upon Hamburg and Bremen fall outside the constrained borders of their respective city-states and within one or more other Länder. The difficulties for 'regional' economic policy-making caused by fragmented administration are therefore just as acute in these two cases as in other countries.

'Regional' institutions also vary massively in their relative autonomy from other levels of government and in their capacity to influence economic change (Rhodes, 1996a). In some cases regional government, despite its constitutional or statutory status, is relatively weak. The recently-created French regions (Le Galès, 1994) and the Dutch provinces (Toonen, 1993) exemplify this. EU member governments of all political persuasions, particularly in northern Europe, also maintain control over major items of policy and expenditure and continue to operate relatively strong fiscal equalisation policies which together limit sub-national autonomy.

Even in the case of the German Länder, whose constitutional status and independent control over important resources combine to produce substantial regional autonomy, major capital expenditures and regional development programmes have to be negotiated with Federal government departments. Indeed, it is generally argued that the influence wielded over Länder decisions by the Federal authorities has been growing, not declining, over the last 30 years. That influence is further reinforced by the equalisation system which effectively forces the transfer of huge resources from rich to poor regions. The rich western Länder, for example, were unable to insulate themselves from the fiscal austerity caused by the re-orientation of public expenditure towards eastern Germany after re-unification (Sturm, 1992).

Elsewhere, new sub-national units of government have been created but not necessarily in response to economic imperatives. Nor has the result always been the creation of comprehensive, country-wide tiers of government at regional level. Decentralisation proposals in Belgium, for example, have been driven by attempts to balance the cultural demands of the country's two linguistic groups against the anomalous position of Brussels (Evans et al., 1994). The Spanish model, different again, involves geographically selective reform in which powers are granted to (regional) autonomous communities depending upon levels of demand and cultural homogeneity. The impetus there was also cultural and political rather than purely economic.

A geographically selective approach has also been tried in the Netherlands. There, economic competitiveness figures much higher on the

institutional reform agenda. But decentralisation plans have not aimed to strengthen the traditional intermediate tier of provincial councils. Instead, national government and city authorities have attempted to encourage voluntary arrangements at the metropolitan or urban-regional scale as a precursor. The Dutch government has tried to use the carrot of decentralised power and resources selectively to put in place governing arrangements which might enhance the economic competitiveness of the country's most internationally-connected urban centres only.

Regional government: an economic necessity?

The Rowntree study findings support the growing view that regional institutional capacity matters to economic performance (Cheshire, 1990; Rhodes, 1996b). But they suggest the link between regional *government* and regional economic competitiveness, at best, to be highly contingent. While plausible theoretical arguments have been made for intervention at a regional level, real-world systems of regional government rarely have the advantages of their theoretical cousins. It is also questionable whether some of the properties claimed for regional government or seen as necessary to it are really intrinsic to elected government at that level.

When examined more carefully, many arguments simply ascribe the contributions of a wide range of other agencies to the presence of regional governments. What regional governments deliver in support of economic innovation can, and often are, provided as effectively by government at other levels, by non-elected public agencies, by the market, by hybrid public-private organisations and by informal inter-organisational networking arrangements. Advocates of the economic case for regional government also risk falling into the trap of ascribing strong economic performance at sub-national level to democratic institutions when the real explanation may lie in a unique regional combination of supply side, technological, behavioural, cultural and scale factors (Harding et al., 1996). Where public institutions are seen as important to economic change, commentators tend to mention local governments and special development agencies more than regional government.

None of this is to say that regional government for England, or indeed devolution or even independence for Scotland and Wales, cannot be defended. Where there has been sustained hostility toward the status quo by the peoples of a region or nation irrespective of the political hue of the government of the day, for example, there are clearly strong *democratic* arguments for change. Democracies, after all, are meant to respond to the wishes of electorates, whether or not the result is better economic performance. However in economic terms there are less disruptive and possibly less costly options which might be tried.

The alternatives would need to build upon a recognition that regional economic change depends upon the interactions between all levels of government and between public and private sectors, not on the powers and resources of one, often relatively weak, tier within the public sector. They might also usefully bear in mind that, as one commentator put it to us, 'the British disease is forever proposing institutional solutions to organic problems'. It would be interesting to see how far regionalist demands could be met by, for example: revamping and expanding regional policy so that it became geared to maximising indigenous potential; re-invigorating local democratic institutions and enabling more resources to be earmarked for local economic development; giving GORs time to demonstrate their potential to integrate resources which are likely to stay in the hands of central government and to orchestrate and promote regional strategies; and developing more powerful regional development agencies in at least some of the English regions.

More incremental and organic approaches to regional economic development would have a number of potential advantages. The nature and boundaries of the problem might be better explored and defined: an open debate about issues is likely to be more productive than a sensitive one about structures which too often results in interested parties defending their turf. Organic solutions, based on networking and forging of relations between institutions rather than their abolition or reform, might also 'bind in' a wider constituency and hence deepen the level of support for regional actions. Even if organic options are ultimately adjudged inappropriate, a more limited set of institutional changes, specifically

related to the promotion of particular aspects of regional economic innovation and development, might emerge. The evidence from the Rowntree study suggests the organic debate is beginning to happen in British regions and elsewhere. It would be a pity if it were drowned out by louder and cruder voices clamouring for constitutional and institutional reforms which might promise more than they can deliver.

Notes

1. Although rarely spelled out so simply, such arguments are used with regard to the creation of a Scottish Parliament and a Welsh Assembly. Scotland and Wales are generally expected to derive economic advantage from this change even though their institutional frameworks will remain broadly the same.

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Richard Evans
Senior Research Fellow
European Institute for Urban Affairs
Liverpool John Moores University

Alan Harding
Professor of Urban Policy and Politics
European Institute for Urban Affairs
Liverpool John Moores University