

**UNIVERSITY OF WARSAW**  
**EUROPEAN INSTITUTE FOR REGIONAL AND LOCAL DEVELOPMENT**

# **DILEMMAS OF REGIONAL POLICIES IN EASTERN AND CENTRAL EUROPE**



**Editors:**  
**Grzegorz Gorzelak**  
**Antoni Kukliński**

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**EUROPEAN INSTITUTE FOR REGIONAL AND LOCAL DEVELOPMENT**

**REGIONAL AND LOCAL  
STUDIES**

**ÉTUDES RÉGIONALES  
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Warszawa 1992

**EDITORS OF THE SERIES:  
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ÉTUDES RÉGIONALES ET LOCALES**

**Antoni Kukliński  
Bohdan Jałowiecki  
Grzegorz Gorzelak**

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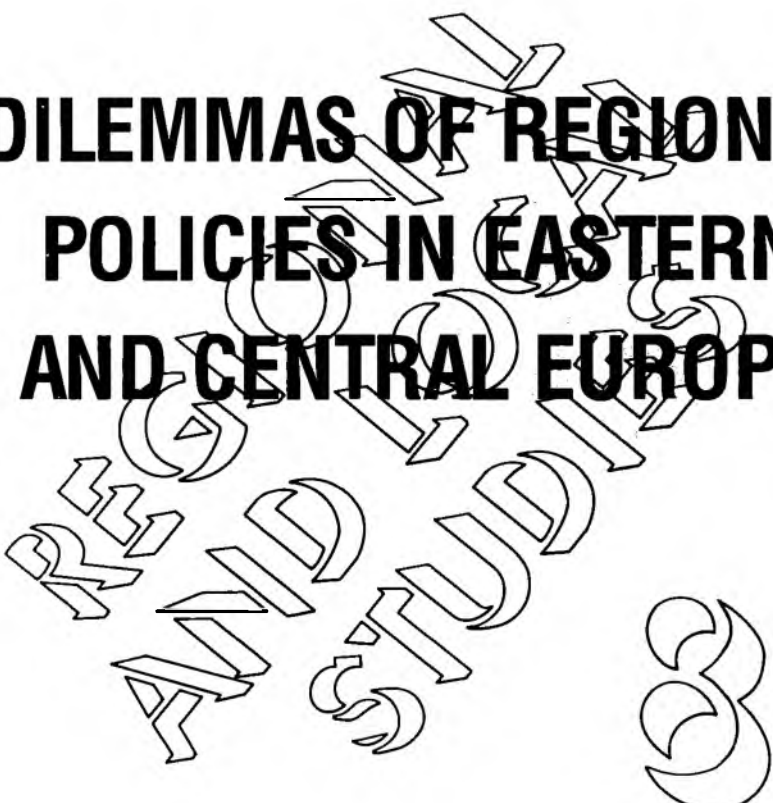
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## REGIONAL AND LOCAL STUDIES

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- 7 - Baltic Europe. Ed.: B. Jałowiecki. Warszawa 1992, pp. 87 + 47 tables.

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# Introduction

East-Central European countries undergo dramatic political, economic and social changes. All face deep economic recession. Majority of them have introduced radical economic reforms, aiming at constructing market economy. There are several, widely known, obstacles and difficulties on this way: obsolete industrial structures, technological backwardness, low competitiveness of their products on international markets, foreign debt, growing unemployment, deteriorating level of consumption, impatience of the people, etc. However, in several of them first signs of improvement and entering on the path of stable development and constructing of new political, social and economic structures can already be noticed.

Poland is an example of a country in which the most radical systemic reforms have taken place. Strict monetary policies restored the market equilibrium and shifted the economy from a supply-side to a demand-side restricted type. However, the dogma of state non-interference with economic life has led to lack of almost any state economic policy with the exception of budgetary control. Not surprisingly, **there has been almost no regional policy of the state.** To a great extent, similar phenomena could be observed in other Eastern and Central European countries during last years.

There is no need to argue that the regional dimension of these deep economic and social changes should not be neglected, as it has been the case. The crucial problem arises, however, **what the principles of regional policies in the process of transition should be?** How to design new policies which would support other means of transforming Eastern and Central European economies and how to implement them?

These were the topics discussed during the conference organised by the European Institute for Regional and Local Development of the University of Warsaw on April 6-9, 1992: **"Dilemmas of Regional Policies in East-Central European Countries under 'Transition'"**. The conference - and this volume - have been financed by the Polish State Committee for Scientific Research, within the framework of the research project the Institute carries out: "Restructuring of Polish Regions within the European Context" (see the description of the project in this volume).

The aim of conference was to assess these problems from a broad, **comparative international perspective**. This was possible due to attendance of eminent scholars from many European countries and also from the Commission of the EC, who have prepared the papers presented in this volume and conducted vivid and topical discussions.

The volume well reflects the conference programme. The volume begins with presentations of the problems facing Eastern and Central European countries. We have collected contributions from Bohemia, Hungary, Lithuania, Poland, Russia and Slovenia. These countries present a wide variety of social, political, economic and ethnic problems and all of them were covered in the papers.

The experiences of the West are discussed in Part II of the volume. It should be noted that in many papers the same question had been posed: **"How the West can assist the East?"**. This reflects the positive and contributive attitude of the western scholars - but also of the representatives of the EC, who present their papers in Part III - towards the problems of Eastern and Central European countries.

The very recent phenomenon - the regionalistic movements in Central and Eastern Europe - are discussed in Part IV. The authors undertook an effort of systematisation of various origins and manifestations of these processes. They also tries to present some evaluations of the impact this phenomenon may have on the transformation processes.

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The volume ends with part V, presenting the research priorities. In this way the volume could perhaps open new intellectual perspectives for our scientific undertakings in the future.

The editors would like to thank the sponsors of the conference and of this volume and the authors for their valuable contributions. They do hope that the volume will initiate discussions on the regional dimension of the transformation processes in Eastern and Central European countries, and in this way it will facilitate this difficult phase of our history.

Grzegorz Gorzelak  
Antoni Kukliński

Warszawa, September 16, 1992

# **Part I. Dilemmas of Eastern and Central Europe**

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## **Restructuring of Polish regions as a problem of European cooperation (remarks for discussion)**

### **Introduction**

Europe of the 21st century will be Europe of regions, defined as areas of specified identity and institutional subjectivity, both on national and continental scale. These presumptions should stimulate and support research projects and studies on restructuring of Polish regions in the context of fundamental changes within processes shaping European space.

Following issues would be presented in this article:

1. Dynamics of sectoral and regional changes and permanent restructuring of regions;

2. Industrialisation of Polish People's Republic as an example of negative restructuring of regions;
3. Restructuring of regions - experience from Italy and Germany;
4. Restructuring of Polish regions on the turn of the 21st century;
5. Cooperation between European regions;
6. European regional policy;
7. Polish initiative of organising international conference: "Regions of Three Continents".

This list may serve as a base for discussion about future research priorities.

## **1. Dynamics of sectoral and regional changes and permanent restructuring of regions**

There is a mechanism of permanent restructuring of regions in the ideal model of market economy. Every region has differentiated industrial and sectoral structure, and various firms and enterprises act with different developmental dynamics. Efficient mechanism of success and bankruptcy is the source of permanent regional restructuring. This mechanism is directly connected with processes of innovation, which are the most important driving force of progress in world economy.

In this context three main types of regions (on world scale) could be distinguished (Kukliński, 1990):

1. **Innovative Regions** - which experience a proper integration of innovative and entrepreneurial spirits. This integration leads to creation of new technologies, new products, new ideas of organisation, and new methods of management. All technological and industrial revolutions have been initiated in particular regions, and in every historical period only few of the regions could be labelled as innovative.
2. **Adaptive regions** - there are regions which demonstrate the ability to utilize, at the right moment, the mechanism of diffusion of innovation, and thus create such conditions for



economic activities, and such an economic, social and political potential, that they can secure self-sustained development and competitive position on dynamic scene of world economy for a long period of time.

3. **Scansen-type Regions** - in which the mechanisms of permanent restructuring do not function; regions which become in a specific historical period the areas of technological, economic, social, and political backwardness.

It is worth to look at this typology from the perspective of theoretical concepts and empirical materials, which are presented in Porter's book "The Comparative Advantage of Nations" (Porter, 1990), and which are also useful in the analysis of regional systems (Kukliński, 1990a).

## **2. Industrialisation of Polish People's Republic as an example of negative restructuring of regions**

Economic policy can accelerate or slow down "natural" processes of permanent restructuring of regions.

These processes are accelerated when economic policy anticipates properly dynamism of global changes, and gives innovative character to these processes through suitable instruments and parameters. From this perspective one should look carefully at economic and regional policy of Japan, Germany and France.

Decisions of economic and social nature, which form systems of long-term subsidizing of weak sectors of industry (which can not cope with challenges of world competition), are examples of policy slowing down processes of permanent restructuring.

Attempts to stop and turn over processes of bankruptcy have entailed great expenses and only in some cases brought intentional results. In most cases these attempts were very expensive and insufficient at the same time. This is dangerous memento for our contemporary economic, social and regional policy.

History of different countries of real socialism (including Poland) is an interesting chapter in the whole history of world experience in

the field of regional restructuring. This is an example of industrial policy which purposely rejected challenges of permanent restructuring of regions as the mechanism resulting from global economy.

Negative restructuring of regions in Poland was activated by the stalinist model of industrialisation. Branches of industry and technologies promoted at that time were in contradiction with trends observed in innovative regions. From historical perspective industrial policy of Polish People's Republic turned out to be the policy of transforming Polish regions into scansen-type regions. The most monstrous and pathological example of negative restructuring is Upper Silesia - region of ecological catastrophe and structural backwardness.

Processes of negative restructuring have not appeared evenly in all Polish regions. Studies on diagnosis of the economic and social situation of Wielkopolska region prove the rightness of this statement (Kacprzyński, 1990).

Situation of Polish regions inherited from economy of real socialism would be a significant obstacle in the processes of transformation of Poland in the 1990's.

Negative restructuring manifests itself in useless industrial plants, deterioration of natural environment, and also psychological sphere. Many Poles have been made to believe that coal industry has been and should be in the future the main national branch of economy.

Reform of administrative division of the state introduced in 1975 is also a good example of negative regional restructuring. This reform disrupted structures of territorial organisation, which lasted for ages.

### **3. Restructuring of regions - experience from Italy and Germany**

Especially interesting chapters from Porter's work are devoted to Italian and German experience, connected with their efforts to conquer and strengthen competitive positions on world markets. This process has regional dimension which consists in great role of innovative and adaptive regions in economic landscape of both

countries. Simultaneously Italy and Germany enrich world experience concerning positive restructuring of regions.

It would be interesting to compare Italian experience concerning restructuring of the Southern part of the country - Mezzogiorno (Dunford, 1988) with German experience concerning immensely accelerated restructuring of former GDR. However, one must remember that striking force of Germany is much bigger than Italian one, and the target of attack - Eastern Germany - is smaller than Southern Italy. Dynamics of economic development of Germany and Italy, and processes of accelerated regional restructuring should be the subject of special attention of Polish science. These phenomena should be analyzed not only from the *rerum cognoscere causas* point of view, but also from the point of view whether it is possible to absorb innovations in this field.

#### **4. Restructuring of Polish regions on the turn of the 21st century**

Endogenic activities should play the role of main elements in the processes speeding up restructuring of Polish regions. Proper conditions must be created to allow regions to regain their identity, dignity, and power of autonomous activity. Conditions for development of different regional style of economic activity and integration with other European regions must be worked out.

Poland can not be the country of many weak departments - Poland should be a country of 10 big regions - voivodships noticeable on the map of Europe (Kukliński, Swianiewicz, 1990).

The question is not only whether territorial division of the state would be changed or not. The real problems are rooted much deeper. The style of thinking and acting in the spheres of fundamental issues of territorial organisation of the state, society, and economy must be changed. Real mechanism of decentralisation have to be activated finally.

In this context experience of other European countries ought to be analyzed in every respect.

In June 1990 I published a short article entitled: Territorial Organisation of European Countries - Research Priorities. I would like to quote conclusion of this article (Kukliński, 1990b):

*There is a sad phenomenon in the history of Polish science of breaking continuity and wasting values and results we have obtained hitherto. In the late 1980's, within the Research Project "Regional Development - Local Development - Territorial Self-Government" some concepts of studies on territorial organisation of European countries were formulated. These concepts can transform Oxford Program into Warsaw-Oxford Program. My initiative should not be wasted. That is why I propose to organise in 1991 an international conference on Territorial Organisation of European Countries. During this conference following issues should be discussed:*

- 1. Evaluation of Oxford Program;*
- 2. Problems of transformation of systems of territorial organisation of the state;*
- 3. Creation of International Research Project on Territorial Organisation of European Countries.*

\* \* \*

*Perriculum in mora* - immediately, before institutional approval of new administrative division, new concepts of restructuring of big Polish regions should be prepared. New methodological concepts of regional planning are also needed. It would help to form the base for integration and coordination of spontaneous and guided activities within regions. One should stop thinking of classical, established patterns concerning spatial development of the whole state.

Restructuring of Polish regions is not only scientific, but also political, economic and social problem. There are different relation between endo- and exogenous foundations for economic development in particular Polish regions. The extreme case is Upper Silesia. Restructuring of this region would be possible only when strong international consortium is created. This consortium should implement a programme which will change this region from "region of

depression" into a normal European region. It must be emphasized that every big Polish region would have different trajectory of restructuring processes and different system of international and internal relations which would stimulate these processes. The Regional Development Corporations would play an important role in this field (Kukliński, Jałowiecki, 1991).

## **5. Cooperation between European regions**

The European Communities and the European Free Trade Association have expanded impressive networks of inter-regional cooperation. A lot has been done to establish quasi-international subjectivity of regions. Very active regional authorities benefit from this subjectivity. We have to prepare in a short period of time series of publications, in which network of European inter-regional cooperation would be analyzed. Dissemination of these publications would give incentives to develop new initiatives which should intensify processes of incorporation of Polish regions into the map of modern Europe.

Special monographs of selected regions should be also prepared. These regions would be selected according to the following criteria:

1. There are regions, which have found solutions applicable under Polish conditions.
2. There are regions, which are especially interested in cooperation with Polish regions.

A lot of efforts of different types must be undertaken to accustom Polish scientific, political, and social opinion to think in terms of a European regional system. Nowadays it is not enough to use classical and limited geographical knowledge about European countries.

We have to reach much deeper and see dynamics of changes of European regions - innovative, adaptive and of scansen-type. These postulates are also new challenges for the national system of education.

## **6. European regional policy**

Political, intellectual and bureaucratic systems of the European Common Market influence concepts and practical solutions used in

Europeann regional policy. This policy is only quasi-European, while covering only countries of the "Twelve", not the whole continent.

It seems that when the countries of Eastern and Central Europe join the European Common Market they would find themselves in the sphere of regional policy formulated in Brussels. All groups of Polish public opinion which are interested in this problem should have full access to publications about European regional policy. It concerns mainly critical analysis of two options of this policy - social option and a global one.

Social option is a classical base for regional policy. According to this option, the main goal of regional policy is to create and activate mechanisms which might reduce regional diversification of socio-economic development.

Within the European Common Market strong mechanism of fiscal policy exists. According to the theoretical assumptions it should reduce inter-regional disparities. Activity of this type has support of weak countries, which try - with assistance of the European Commonn Market - to solve the most burning questions, which can not stand pressure of the world economy.

Global option of regional policy consists in stimulation of development of innovative and adaptive regions, which enforce position of the European Common Market in competition with North America and very dynamic countries of Pacific region, especially Japan. The global option has not yet become official regional policy implemented by Brussels, and may be would never become. However discussion - social option versus global option - is it a substantial element of a more general discussion on renaissance of regional policy. Too strong defense of the old social model of regional policy is one from the whole set of reasons of the crisis of regional policy. Polish science has intelectual potential and capability to participate in the discussion about new role of European regional policy.

Polish science reminds also about neccessity of creation of a really European regional policy which would cover the whole continent.

## **7. Polish initiative of organising an international conference: "Regions of Three Continents".**

I am convinced that we are able to be very active in terms of regional studies and regional policy. Initiative of organising in Poland, in 1992, the International Conference on Regions of Three Continents - has to be formulated. These three regions are: Europe, Latin America and North America. Using categories of the UN it concerns two spheres of its activity - United Nations Economic Commission for Europe in Geneva and Economic Commission for Latin America in Santiago de Chile.

Proposed conference might be easily connected with two great events of the year 1992:

1. New chapter in the European Common Market and the whole Europe history.
2. Quincentenary of discovery of America, which is fittingly described as the Encounter of Two Worlds Meeting.

If we are able to prepare and organise properly this conference it would be possible - apart from the goals of general and international character - to accomplish special goal of Poland to accelerate the incorporation of Polish regions into the map of modern Europe and to transform Polish regions into partners for efficient international cooperation.

This conference should encompass also an exhibition: Regions of Three Continents which would give a great opportunity to popularize potential of Polish regions. This exhibiton would be also a creative laboratory for integration of Polish science, politics and art and give a chance to perceive regions in a new way.

## **Conclusions**

This article opens new field of studies of European systems of regions and the role of Polish regions within this systems. From our point of view the most important element of this process is positive restructuring of Polish regions.

This article has a controvertial character. Some simplifications have been made and some postulates have been formulated. However, specific statements are not so important. The most important is its general spirit and the idea that it is extremely important nowadays to look with great determination for new ways of restructuring of Polish regions. If real or illusive strenght of my arguments inspires Polish and international discussion on the subject discussed in the article, it would reach its goal.

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## **Dilemmas of Polish regional policies during transition**

### **1. The Polish Dilemmas**

One of the most eminent Polish intellectuals, a sociologist, prof. Jan Szczepański, used to say that he is presently living through the sixth dramatic change of the political system in Poland, some of them of truly revolutionary character. The first one was the regaining of independence in 1918, the last the reintroduction of democracy and market economy in 1989. This example shows how turbulent the Polish history of the XX century was and how often the Polish nation was exposed to fundamental changes in its life, of which only very few were introduced by free choice of the Polish people.

Poland is not unique in Europe in this respect. The XX century by no means could be labelled as a quiet and peaceful time in Europe. However, it was only the eastern part of the continent which underwent revolutionary changes during its second half, while the Western countries enjoyed relatively smooth and uninterrupted development, political and economic stability, social progress and technological advancement, obviously, with the exception of two World Wars.

All countries have their own problems and difficulties. In some of them they can be discussed fiercely and can lead to deep social divisions. However, excluding the ethnic conflicts, it is only eastern Europe where social and economic dilemmas are so acute and so difficult to solve. The newly born democracies of East-Central Europe are passing through one of the most turbulent periods in their history. In fact, all spheres of life: economy, politics, law, social structures and relations, religion, administration, education, culture, foreign relations, military doctrines (to mention only the few most important) are undergoing dramatic changes.

Different people would assign different priorities to problems and dilemmas facing Poland at the beginning of 1992. The following list of such problems should therefore be considered as fully subjective.

### **1.1. Dilemma of democracy versus autocracy**

Democracy - if not mature - may be very inefficient. It may also be unjust for substantial groups of the population. This simple statement reveals one of the most acute dilemmas of the Polish political system.

The Polish political stage is not well-furnished. Over 60 political parties took part in the last parliamentary elections in 1991, and almost 20 of them received sufficient support of the voters to place their members in the lower chamber of the Polish parliament - the Sejm. The highest percentage of votes received by a political party was only marginally greater than 12%, with total turnout at 43%. This means that the strongest party made-up for only 5% of votes of the entire electorate.

The parliamentary political coalitions are unstable and voting results do not reflect any firm majority. At any time the government may be forced to resign. However, there are no justified hopes that any new government would gain a parliamentary majority and that it would be able to perform its duties in more comfortable political conditions.

**Should not therefore a parliamentary democracy be replaced - only even for some time - by a more stable autocratic rule?** This is an appealing solution, at least for some political circles in this country.

Modern democracy means the rule of majority, but a rule respecting the rights of minority. Fulfilling this requirement is often very difficult for the elites of new political parties who are keen to spread their ideology throughout the whole of society. A kind of ideological authoritarianism is expressed by some zealots of "democracy", an authoritarianism sometimes resembling the old times of communist rule. The notion of "*moral unity of the nation*", coined during the 1970's as the main banner of the socialistic propaganda, seems to be returning, albeit with a dramatically different meaning.

### **1.2. Dilemma of neo-liberal doctrine versus state interventionism**

The first non-communist government established in Poland in autumn 1989 adopted a doctrine of state non-intervention into current economic processes. This doctrine has not provided much room for state intervention or for state financed programmes and projects. "*The Market*" was to solve the current problems of the economy and was even supposed to create the market.

The achievements of the first phase of the state programme of economic transformation (1990) should be highly praised. Market equilibrium has been restored, after almost 15 years of open - sometimes very acute - market shortages. The prices came to represent real values due to the opening of the Polish economy to foreign markets. The process of privatisation has been started.

However, the same doctrine persisted also during the second phase of the programme (1991). At that time this was a mistake, leading to the emergence of structural recession still troubling Polish the economy. No state programmes have been elaborated for crucial segments of the national economy. Particular enterprises and even whole sectors collapsed due to exposing them to (crippling) market conditions. The transformation processes instead of leading to positive structural changes relied in fact on negative adaptation to new economic circumstances. Poland has gone through an accelerated process of structural adaptation, comparable only to that introduced in former East Germany. Poland has been, however, deprived, of the gigantic capital pumped from the Western part of that country to the

new eastern *lander*. Poland was also deprived of the well prepared (though not free from mistakes) central policy of economic restructuring which was overwhelmingly present in Germany.

The dogma of "*non-intervention*" applied to the second phase of the restructuring programme appeared to be one of the major causes of present economic and budgetary crisis.

The problem is not so simple, however. There have been arguments that any state intervention would lead to a new version of the old, socialist type of managing the national economy. The past experience produced strong prejudices towards any "*hand-steering*" of the economic processes. Moreover, the new central economic management has not been prepared to undertake a difficult and responsible task of evaluating the future performance of different enterprises, branches and economic sectors, and of devising administrative and economic instruments which would secure development of those "chosen" units. Many would say that probable mistakes which could have been committed could have been even more dangerous than leaving these processes to "automatic adaptation".

### **1.3. Dilemma of populism versus hardships of reforms**

*"We all have the same stomachs"* used to be one of the most popular sayings at the beginning of the 1980's, when the socialist economic system demonstrated its inability to satisfy social demand. To some extent the same attitude can be observed nowadays, when the transformation towards the capitalist system demonstrates its consequences for the broad strata of the population.

Unstable political conditions do not create strong barriers to such attitudes. It cannot be ruled out completely that the populist demands will influence the economic policy of the government. Already some influential political parties - not necessarily those which have socialistic roots - are showing support for populist claims.

This problem should not be easily dismissed. The hardships of the economic transformation are real and strike many social and territorial groups. Two kinds of these hardships should be distinguished:

- those stemming from the economic restructuring, unavoidable in many cases and caused by the collapse of many obsolete industries and industrial centres, and
- those being the result of the financial stress of the state budget which cannot provide sufficient resources for many institutions, social services, social and professional groups.

A real problem presently facing Poland is the following: **what social costs of the economic transformation are permitted and how are these costs to be distributed?** Are all these costs justified by the necessities of economic restructuring, or are some of them the mere consequence of incompetence and mistakes?

Unemployment also exceeded the assumed level reaching by the end of 1991 2,000,000. Some estimates say that this figure could reach 3.5 million by the end of 1992. There are no reliable statistics on poverty, but it is obvious that several million people - the weakest social strata, such as the elderly, the unskilled and the young - have dropped well below the poverty level. The social security system cannot help them much, since financial restrictions apply to it, as well.

In every modern capitalist country the middle class constitutes the core of the social and economic system. This class virtually does not exist in Poland and has to be created (or rather has to create itself) during the course of economic transformation. But in the situation of limited resources accelerated accumulation of the *petite bourgeois* would have to be conducted at the expense of the rest. Would this "rest" permit that somebody else grows in wealth and power and they do not, or even become poorer and weaker?

#### **1.4. Dilemma of present necessities jeopardizing the future**

Economy is an art of choosing the right time of harvesting. The "classical" problem is the following: should we sacrifice the present for the sake of gains in the future or should we do the opposite and consume the greater part of available resources now in order to achieve well-being of the present generation?

The beginning of the Polish crisis could be traced as far back as 1976. This was the year of the first decline in the share of investment in national income. Since then the overall level of investment has been low. In 1990 only 20.8% of the GDP (current prices) was assigned to gross capital formation.

This classical formulation of the problem is not always so simply applicable to real-life situations. The following example clarifies some of the present Polish dilemmas in this respect.

Due to the recession introduced by the economic transformation (and also some external conditions, like the collapse of the East-Central European markets) the state budget cannot be balanced<sup>1</sup>. It is estimated that in 1992 the budget deficit should be kept below 5% of GNP - otherwise the Polish economy would once again move into hiperinflation, and all sacrifices of the past two years would be in vain. But the budgetary cuts have to be done everywhere and therefore, among other spheres, also in education, health care and science. In 1992 Polish science will be provided with only 0.4% of the total GNP, while in other countries this share amounts to 2-4%. How can then Poland develop new technologies, improve the qualifications of her labour force, modernise her economy and integrate with the rest of the world, where science has already become the most important factor of economic development?

One may say: do invest more in education, science and technology right now, since this creates foundations for your future. But from where should this investment come from ? From the pension fund - or from the health service - or maybe from the funds that are being allocated to the police and the army (we should not so easily assume that permanent peace would come to this part of the world). As one

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1 This is a kind of a vicious circle: exposed to Western competition and unable to sell their products on the former Eastern markets, Polish enterprises decrease their production and employment. Domestic demand shrinks. They also do not pay due taxes to the state budget. The state budget, deprived of its incomes, pays less to the state employees and pensioners. Domestic demand shrinks further. Enterprises can sell still less, pay less taxes and shed jobs, etc.

of the Polish economist - prof. W. Maciejewski - has said, the Polish economy resembles a stretched sheet of rubber: if you pull at whichever corner it will shrink on the other corner and the risk that it brakes is very high indeed. This applies to the dilemma of the choice when to sacrifice. It sometimes seems that Poland has to sacrifice her present time **and also** her future.

### **1.5. Dilemma of economic independence versus foreign capital**

There is no available investment capital in Poland. Estimates say that the total assets of Polish banks do not exceed the equivalent of 1 bln US\$, which can produce a total credit of 12 bln US\$. This is not enough for a nation of almost 40 million badly needing new investment and modernisation of its obsolete economy.

Inflow of foreign capital is the only possible solution of this problem. However, this capital does not seem to flow in so readily. Poland is conceived as a country of high investment risk. Not much foreign capital has flown in, not much foreign investment has been placed in Poland. In 1989-1991 some 3,500 permits have been granted to establish companies with foreign participation in Poland, of which foreign capital participated in two thirds. German capital was the most important with a share of 30%, then came Sweden (9%), U.S.A. (8%), The Netherlands (7%), Austria (6%), Italy (5%), France (4%), Great Britain (4%). The average initial capital per company ranged from 246,000 US\$ in the case of companies with Dutch involvement to 95,600 US\$ of those with British capital. Two thirds of companies have foreign initial capital of just over 50,000 US\$. Altogether, some 2 bln US\$ of foreign capital has been invested in Poland in various forms.

Thus the hopes of more massive inflow of foreign capital have, until now, vanished. Poland in fact has been left on her own in the challenging task of restructuring - a task which seems to be exceeding the capabilities of the crippled Polish economy. There are several objective reasons for this reluctance: instability of the political situation; frequent changes in law and regulations relating to foreign investment; unavailability of well prepared sites, fully furnished with technical infrastructure; unclarity of ownership rights of many plots

and estates. One important reason is, however, of purely subjective nature. This is a frequently expressed fear of foreign domination in the Polish economy.

One has to remember the negative(?) experience of the inter-war period, when the Polish economy was subordinated to decision-making centres located abroad<sup>2</sup>. These memories are pretty strong among some of the Polish people and some political parties seeking public support refer to these fears. *"We shall not sell our country to the foreigners"* or: *"we shall not subordinate our country to the neo-colonial exploitation of the world financial institutions, like the IMF and the World Bank"* can be frequently heard in political discussions, and even in some official statements. This attitude, no doubt, makes the potential foreign investors still more reluctant, since such opinions may influence the governmental policy towards foreign investment in Poland.

## 2. The regional dilemmas

The **regional** dimension of recent changes, reforms and problems does not seem to receive sufficient attention from the state authorities in Poland. This should be considered as a mistake. As it will be shown later, the regional breakdown of the socio-economic processes going on in Poland demonstrates several completely different pictures of the reform as such and of its social and economic achievements and costs. Moreover, it could be even prospected that different regions of Poland could follow different development scenarios. In addition to that, the process of adjusting to the (West) European standards will require implementation of new regional policies which would be in accordance with the experience of the Western countries, especially of those integrated within the European Community which Poland (and also other East-Central European countries) wish to join.

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2 The question-mark was placed to indicate that there are no sound evaluations of the role of foreign capital in mid-war Poland. The socialistic propaganda exposed its negative sides, stressing the fact of achieving domestic autonomy after the war (neglecting, however, the subordination to the Soviet economic empire).



Before we move to discussion of these problems let us examine how some of the whole-national dilemmas presented above "translate" themselves into the regional scale.

### 2.1. Dilemma of regional autonomy

In fact, the new administrative division of the country is the only **regional** problem which has been widely publicized in Poland<sup>3</sup>.

The present territorial organisation of the Polish space (49 governmental *voivodships* and some 2,500 urban and rural self-governmental municipalities) is inadequate for the new economic and political conditions. The regional (voivodship) unit is much too small for the new type of regional policy that should be designed and implemented by the central government. As prof. A.Kukliński says, **the Polish regions should be visible on the map of Europe** and that such units should be strong enough to conduct their own development policies and to be economically competitive, also in the international context. The development of the technical infrastructure, necessary for creating favourable conditions for the foreign capital intending to invest in Poland, is another objective of the national regional policy, which calls for bigger spatial units being able to undertake such tasks.

Taking these arguments into account, the State Commission was created in 1990 to discuss the new shape of the territorial structure of Poland and to propose the ways of implementing this reform. The commission came to the conclusion that the reform should produce some 10-14 big regional units. However, quite recently a new commission has been created which proposes that the number of voivodships should be much higher - one speaks about 30 regional units. Nobody would be able to say which solution is going to win and when.

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3 These problems are discussed in more detail in my second paper published in this volume.

The delimitation of the new regional units is only a part of the question, and not the most important one. What competence these units are going to have towards the central authorities is even more important, since the solution to this problem shapes the whole structure of the power system in a country.

Traditionally, Poland used to be a unitary state. Even before Poland lost independence at the end of XVII century and especially since 1918 the regional level has been the governmental structure and the regional administration has been directly subordinated to the central authorities. The 1970's brought further domination of the central level, both in formal respect, but also in the informal political sphere.

Even in a situation when the regions are "governmental" the formal relations between the centre and the regions have several dimensions. One of the most important question is how the regional authorities can manage their regional affairs. There are two clear solutions:

- the chief of the regional administration (in Poland called a *voivod*), who is directly responsible to the prime minister, has general authority over the regional administration, also in budgetary terms;
- the voivod does not have general authority over his region, since several spheres are managed directly from the center by appropriate regional subsidiaries of respective central ministries; this is also reflected in the regional budget which is composed out of different sub-budgets allocated by those ministries to the region.

There exist justified opinions that the present level of centralisation is even higher than during the 1970's. This centralisation is due to even greater fragmentation of the regional state agencies and regional budgets and their stronger subordination to the central ministries. Thus the new democratic governments fell into the same trap as the ones they had criticized so strongly and finally toppled. Moreover, frequent political changes on the central level are immediately reflected on the regional level, since the party ideological perspectives have also been applied to the process of nominating the voivods.

Still, it not clear at all that the voivodship should remain governmental. The spectrum of opinions on the new system is very wide. According to some of them the new Polish regions should become almost fully autonomous and that representative bodies should be elected on this territorial level and Poland should drift to a kind of federal state.

In any case, creation of big voivodships would leave a wide gap between these units and small communes. This gap should be filled by an intermediate level - a reintroduced district (*powiat*). This would restore the territorial unit which has had over 400 years of tradition and which still shapes Polish settlement system and the territorial organisation of infrastructure.

The reform of the territorial organisation of Poland would mean another "revolution" in the country, it has therefore to be prepared carefully and comprehensively. The reform cannot be postponed too long, for the whole-national costs of the present, deficient system of the crippled, small and weak voivodships with wrongly drawn boundaries, are high. This is a fundamental political choice, which - hopefully - should not be made right now, before other major problems of the country are solved.

## **2.2. Dilemma of the existence of regional policy**

It has to be admitted that since the beginning of the 1970's Polish regional policy has been very weak. The regional processes have been the simple outcome of the phenomena occurring in the sectors and branches. The regional/spatial dimensions used to be of secondary importance of any economic decisions taken throughout this period (in this respect Poland resembles other countries, for it seems to be an universal pattern that the regional policies gain in importance during prosperity and become neglected during recession).

The above statement should be even reinforced when discussing the most recent period. According to the doctrine of "non-intervention" the regional policy since 1990 has ceased to exist and regional development of the country and development of particular regions have been almost entirely left to "natural market forces".

In the yearly review of regional incentives applied in Western European countries published by the European Policy Research Centre at the University of Strathclyde even Luxembourg - a country which due to its size could not be assumed to have any regional policy at all - occupies 10 pages of A-4 format. Poland, if included in this report, would use not more than a page. Only very limited incentives not being of a systematic character for some types of activities in a limited number of regions would be described there. This shows the role of the regional policy in the process of economic transformation in this country.

### **2.3. Dilemma of strong and weak regions**

Traditional regional policy focused on the weak and the poor. This perspective has become a kind of a *dogma* in modern regional policy conducted both on the national and on the international levels. Should not this dogma be challenged in a specific situation of a country struggling for economic survival on its way towards a modern market economy?

The regional differentiation of the whole-national processes of economic restructuring are very clear. Only few regions show potential enabling them to cope with the challenges of the market economy open to the world. The majority of Polish regions demonstrate several weaknesses which make their present and future situation difficult, indeed. Here are some examples:

#### **2.2.1. Employment**

In the period of shifting to the market system two types of regions suffer most in terms of unemployment:

- remote, backward, poorly industrialised, like the North-Eastern parts of the country,
- big urban centres with obsolete industry, like Łódź, for example.

Other big urban centres (Warsaw and Upper Silesia, for example) still offer approximately the same number of jobs as the number of registered unemployed.

There is also a difficult situation in South-Eastern regions, with overpopulated agriculture and great share of people having small farms (average size in that region around 3 ha) and employed in near-by industry. The recession, and especially the loss of the Soviet market to which this region exported a great deal of its production, caused a sharp reduction of industrial employment. The people with two jobs were the first to be fired.

Two other regions: already mentioned Łódź and Wałbrzych (South-West) have been struck by the recession even harder. Both are clear cases of declining industry: textile industry in Łódź and coal mining in Wałbrzych. No other employment opportunities could be foreseen and the concentration of social problems grows.

The same fate is likely to hit Upper Silesia. Its economic profile can no longer be maintained and possibilities of building new industrial structures even on the ruins of the old are vague. The environment is too heavily damaged, labour force too monofunctional, infrastructure too obsolete. Therefore it is presumably only a matter of time till the collapse of its main industrial branches would lead to massive unemployment.

Łódź and Upper Silesia could become two **political time-bombs** placed under Polish economic reforms. Should these bombs explode, the course of the reforms would be challenged and very difficult to defend.

Very low spatial mobility of the Polish population is caused by permanent, structural housing shortages. This phenomenon appears to be one the most important factors hampering the economic/regional restructuring. Thus one of the most efficient ways of regional restructuring: moving the labour force from the "dying" regions to the developing ones is, at the moment, unavailable. The regional problems become, in this way, more acute.

### **2.2.2. Infrastructure - location opportunities**

Another feature of the Polish regional pattern is the under-development of technical and social infrastructure and their regional differentiation along two lines: town vs. village, and East vs. West.

Only very few locations in Poland could be considered as fulfilling the requirements of modern business. These could be the ones in which all location factors are combined: well educated labour force, good natural and social environment, good transportation and telecommunication opportunities, close market. From the point of view of high-tech industries, for example, only one urban agglomerations - Warsaw - provides favourable location opportunities, while other three agglomerations - Wrocław, Kraków and Poznań could be the second-choice locations. In fact, no other region in Poland than those four mentioned could count on inflow of the modern business sector from abroad.

### **2.2.3. Private sector**

The regional distribution of the private sector shows clear patterns. The greatest density of private firms occurs in big cities: Warszawa, Poznań, Gdańsk, Łódź, to lesser a extent in Upper Silesia, and also in the rings around these agglomerations. The Warsaw region is the greatest concentration of private business in Poland.

### **2.2.5. Environment**

The state of the natural environment in Poland is not good, and certain areas (Upper Silesia, Legnica-Głogów Copper Region, the regions of Wałbrzych, Kraków, the Puck Bay area at the Baltic Sea) are experiencing an ecological catastrophe.

The quality of the natural environment has a direct influence on the health of the people. It is estimated that about 1/3 of Poland's population lives in conditions that are unfavourable to health. 27 areas of ecological danger are distinguished. They take up 35.200 sq. km.

## **2.3. Dilemma of regional misery versus regional restructuring**

Some of problems which should be discussed in this paragraph have been already mentioned. There are several regions in Poland which had been struck by the economic transformation processes really hard. In some cases this was due to obsolesce of their economic structures (Upper Silesia, Wałbrzych, Łódź); in other regions the problems had ben caused by the collapse of the Russian markets, like in the South-Eastern part of Poland; backward, rural, North-

Eastern regions constitute still another type of regions having severe problems due to the general crisis of Polish economy.

The choices that face the state and the regional authorities are the following: should anything - and if yes then what - be done for the sake of regions undergoing economic decline and social deprivation? What to do with the Wałbrzych region, where coal had been already exploited and further maintenance of the coal pits does not have any economic rationale? What to do with the miners in Upper Silesia who are still being employed in almost the same number as in the times when coal extraction was some 30% higher? What to do with the textile industry in ód not being able to sell its products and releasing employees, mostly women? The list of such questions could be prolonged, since, as previously said, only very few regions demonstrate potential for economic self-restructuring.

**These questions are really dramatic, since they are posed in a country striving to maintain the minimal level of its basic structures, like the state itself, health care, education. The state budget, on the one hand, does not have resources to assist these regions. On the other hand, however, the state is still responsible for the fate of the weakest strata of the population - and the number of them is growing.**

#### **2.4. Dilemma of present expenditure versus investment outlays**

The local and regional budgets are very tight, which is not surprising at all in a country exposed to an economic crisis. The local and regional authorities are therefore forced to choose between spending their budgets on current needs or on improvement of local infrastructure, training and other long-range investment items.

The choices are rather obvious. The pressure of present needs wins with actions aimed at creating better conditions for the future. On the average, Polish local authorities spend some 17% of their budgets on investment, but in some regions this fraction drops to mere 12% (in particular localities this could be even much less). In a country which is deeply delayed in the development of economic and technical infrastructure this ratio does not create good chances for local and regional development.

## **2.5. Dilemma of foreign capital**

The regional pattern of foreign investment in Poland are very clear. Four urban agglomerations, together with rings around them, have attracted the majority of foreign capital. These are Warsaw, Poznań, Gdańsk and Szczecin. German capital locates itself also along the western border of Poland. Eastern parts of the country do not attract much attention of foreign investors.

Two contradictory attitudes of the territorial communities towards foreign capital can be observed. According to the first one, foreign capital is conceived as a blessing for local economy. It brings new jobs (or maintains jobs which otherwise would have been shed), creates local demand, increases local incomes, etc. There are several positive examples of such an influence of foreign capital on the economic life of localities. There are even more examples of efforts undertaken by local and regional authorities aiming at attracting foreign investors. The skills of town marketing, negotiating and making business according to the international standards are much more limited then the hopes and wishes, however.

Opposite attitude is expressed by some other regional/local authorities and communities. It should be openly admitted that such attitudes emerge mostly in the western part of the country and are directed towards German potential investment (although the Norwegian proposal of restructuring a part of Szczecin town center has met with local resentment, as well). Those local communities have been caught between their wishes to attract foreign investors and prejudices towards German economic and political (real or mystified) expansionism.

## **3. Regional policies**

In this chapter we arrive at the final questions and problems of this paper. We shall try to formulate some guidelines of new regional policy which would have to be conducted in the circumstances already described.



### 3.1. For prospective regional policy

Until recently proposals for regional state policy have been based on defensive assumptions, oriented towards **reacting** to processes and phenomena that already emerged (like unemployment). In practice it meant that only the so-called "problem regions" drew the attention of those formulating state regional policies.

However, due to the acute shortage of resources these attempts have been totally unsuccessful. Moreover, there are justified opinions that concentrating on the regions which have just entered the painful process of restructuring - therefore in which negative processes prevail - leads to petrification of old regional structures and counter-veils the restructuring process as such.

Any prospective approach to the processes that will take place has not been frequent enough. Thus the existing assumptions of regional policies have not been directed towards facilitating reforming the national economy but have been rooted in past doctrines of supporting the places facing current difficulties and problems.

It is only the phenomenon of the last days that other options of the state regional policies are being formulated. The principle of **efficiency** has come to be recognized and the possibility of assisting the strong regions (the "locomotives of progress and development") has been taken into consideration. Such an attitude of regional policy could be labelled as "**prospective**" (as opposed to "reactive" presented above), i.e. focusing on the regions which could become the nuclei of modernisation and progress in a troubled economy under transition.

### 3.2. For integrated regional policy

As already mentioned, the state policies have been very weak during last two years. If any, they concentrated on narrow segments of the national economy: unemployment, social security, taxes, duties. No sectoral policy has been conducted. It is only recently when the governmental programmes mention the necessity of formulating and conducting industrial, agricultural, housing and several other state policies.

It has to be stressed that there is an urgent need of creating an **integrated approach** to sectoral and regional aspects of the national economy. Traditionally, both systems (sectoral and territorial) used to be considered and "planned" separately, which left regional policies weak and ineffective, constantly losing to preferences of most powerful economic sectors and branches. If the Polish transformation is to be successful, this integration should become one of the main principles for any policies and actions undertaken on the Polish economic and social scenes.

There may be several suggestions for the regional aspects of the sectoral policies suitable for Poland. They should be oriented towards different goals in particular areas. The main focus should be laid on the crucial problems of particular regions, such as promotion of new technologies in the greatest scientific centres, creation of new employment in the lagging behind regions, reconversion of obsolete industries in the old industrial regions, etc. **It has to become obvious to all decision-makers in this country that no sectoral policy can be conducted without its regional aspects - and vice versa - any regional policy should be filled with concrete economic and social content.**

### **3.3. For internationally oriented regional policies**

The geography of Europe is changing fast. The position of particular countries in this continental division of labour has ceased to be stable, as it used to be since World War Two. The position of Poland has been changed dramatically, too. There are several aspects of this issue:

1. Traditionally, Poland was conceived as being located on the two important European axes: East-West and North-South. The role of these two axes has to be reexamined, as the competitive position of Poland in both of them. It could be supposed that reunification of Germany puts Poland in a less competitive situation on the North-South axis, since more traffic in this direction would be going through the new German eastern *lander*, already better incorporated into Western Europe than Poland. On the contrary, the potential role of

Poland as the transitory area between West and the new East seems to grow. If these suppositions are correct, regional policy should reorient itself according to these lines.

2. The deep changes in all countries neighbouring Poland call for dramatically new methods of cooperation of the border regions. The western part of Poland has been already penetrated by German capital, but the southern and eastern regions still seem not to have taken all their chances of international cooperation. The role of the state regional policy is to facilitate this cooperation by developing border crossings, improving infrastructure, introducing incentives for joint undertakings.
3. As already mentioned, only few locations in Poland could be labelled as possessing a favourable environment for foreign investment. These regions should be strongly supported by regional policy, since (serious) foreign capital would locate there - or nowhere. This should be coupled with strong incentives for foreign capital operating in selected branches and sectors, such as high-tech industries. It should also be followed by state incentives for training and educational activities, since the quality of the labour force is known as one of the most important location factors.

### 3.4. For efficiency-oriented regional policy

We have to come back to the old dilemma: *equity versus efficiency*. This choice has to be reexamined in the situation of dramatic challenges of the country's economic future. The dilemma: which regions should be assisted by the state - the strong or the weak? is not an artificial question. It does also not seem to be an obsolete question in Poland at least, though the answers in favour of the weak had been provided in the West long ago. But Poland - and other East-Central European countries - are in a markedly different situation. Regional policies must be congruent with the general course of reforms, in which, at least in Poland, the **efficiency** principle plays a crucial role.

There are not too many examples of purely "efficiency-oriented" regional policies in the Western countries. In fact, in none of them

strong regions are directly supported. Instead, the Western states focus their attention on the regions needing assistance and help. The same applies to the regional policies of the Commission of the European Communities.

The state may support the strong regions indirectly by creating favourable conditions for the industries which "naturally" locate in such places. These are the strong regions which take care of themselves, conducting their own development policies and competing on the world investment markets. But if this is to be fulfilled, the regions must be capable of conducting their own development policies, they must constitute an economic entity being able to shape their own ways and methods of development. That is why the reform of the territorial organisation of the country should be introduced and should result in creating some 10-12 strong regional units. The question of their constitutional empowerment is not the most important one. One may imagine "governmental" regions having their own budgets and conducting their own development policies with a high degree of freedom. Going into full federalisation of the country would seem too dangerous at this moment, since it would bring another revolution into a country with a rather low level of stability.

The final choices of the type of regional policy and the new territorial organisation of the country will be of purely political nature - but the obvious fact that **regional policy is a part of politics** has to be finally been acknowledged.

## 5. Poland - a typical example?

In several recent papers I have posed the same question: is Poland unique, or are the problems discussed common to other post-socialist countries?

In reference to the topics discussed so far the answer seems obvious: **with the exception of ethnic and national question, all other problems do seem very similar for all post-socialist countries of Eastern and Central Europe.**

That is why the discussions during this conference should be well-structured and conclusion-oriented, since we shall deal with com-

mon questions and common dilemmas. That is also why the exchange of experience and broad scientific cooperation in this part of the continent is so needed and so valid. And that is also why the voice of our Western friends and colleagues should be carefully listened to, since they have passed through similar difficulties and have solved similar problems in the past and their experience should be reconsidered.

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## **Regional policy in Commonwealth and Russia: possibilities of using Western experience.**

It is clear that the Western experience concerning the regional policy would now be useful in Commonwealth/Russia.

Firstly, during sixty years of its existence, the regional policy in developed countries has solved different problems of various types of areas. Our regional problems are not unique and it is possible to find analogous problems in the West.

Secondly, Western regional policy has solved successfully such problems as deglomeration of major agglomerations, the development of new towns and other centres of growth, the reconversion of some depressed areas. Even relative failures of regional policy - in the development of depressed and undeveloped areas are of great interest. It is possible to specify the causes of these failures, which could lie in the principle impossibility of the development of some types of areas, even when they enjoy state help.

Thirdly, Western regional policy combines the interests of different areas. On the EC level these are the national and subnational interests.

Finally, in Commonwealth/Russia, the idea of using Western experience (in any sphere) is at last perceived by the population better than the invention of their own, unique way.

But is it correct to transfer the Western experience in regional policy into different socio-economic conditions? The objection here points to the impossibility of financing, under present conditions, regional policy. These objections are coming to be raised more and more often. Many specialists are of the opinion that under conditions of such severe crisis we shall have sufficient means for solving macro-economic problems only.

It is worthwhile to remember, however, that regional policy was "invented" during the world economic crisis (1929-1932), which according to all indices (for example the decrease of production) could be compared with our present crisis. The regional policy was the answer of the state to the crisis, and was the strategic element in overcoming it. So in the USA regional policy was implemented on the greatest scale in the Roosevelt period (Miernyk, 1982). It was at this time when the programmes of the Tennessy Valley and the Appalachian region were launched. Though the desired aims were not fully achieved, the help of the state stabilised the situation in both areas.

The analogy with the period of the world crisis permits us to draw one more conclusion. If regional policy appears now in the Commonwealth/Russia, then - taking into account the depth of the crisis - it should not be compared to the Western policy carried out now, but to that of the 1930's. However, since the global scene has changed dramatically, this policy must also take into account the experience of latter decades.

Is the system in the Commonwealth/Russia really unique? In both systems there exists one and the same problem - the choice between **"efficiency or equity"**. The development of the problem regions leads to the decrease of the economic effectiveness of location. But the strategy of maximizing the latter promotes the increase of spatial social disparities.

In the realm of both systems there are many social, national and political limits that make it impossible to take into account only the economic factors. This is the case when we compare the Commonwealth and Belgium. It is impossible to imagine the mass migration of the native population of Middle Asia to Russia and the Walloons to Flanders, despite better opportunities for finding work in new places. In both cases the only possible way is to create new jobs in the areas under crisis.

This example permits us to draw one more conclusion. The development of Middle Asia and Wallonia on the base of external resources, that is at the expense of large companies and branch ministries, did not give a sufficient number of new jobs, did not guarantee the stability of economic position and even gave rise to new problems (i.e. the rise of nationalism). For both areas the new strategy of development must be based on local resources and small business. The underestimation of social and national factors has as a menace the disintegration both of the Commonwealth and Belgium.

Thus the most transferable, to our country, are the Western approaches to regional problems, the logic of regional policy realisation.

It is clear that the methods of solving the problems of unemployment (as well as of its reasons) will be totally different. It is evident that the small (i.e. local) business in Middle Asia and Wallonia will be developed in different industries and by different forms, and so on.

Regional problems in both systems are caused by similar processes. Markets are highly monopolized. Industry ministries and companies, not connected with concrete areas and towns, act on the basis of only their own economic priorities. This results in the aggravation of social and economic problems in their areas.

The possibilities of controlling ministries/companies by the regional and local authorities were always minimal. Many Western countries proposed to transfer more rights to regional and local authorities. This was achieved in the Commonwealth/Russia. As a result the economic power was transferred to new territorial monopolies rep-



resented by the republic, regional, town and even district authorities. Regional disparities as well as real antagonism between different territories (even in a mono-national space) became even greater.

In the competition between territorial units the "weakest" ones suffer most. But the real hierarchy of regions/areas and the help to the "poorest" is possible only in the conditions of a centralised state policy. In the developed countries the state forced the companies to take into account its regional policy. In our conditions, however, there is no other way but to place under control monopolies, both industrial and territorial. But this does not mean that the previous rights will be returned to the Centre. Maximum economic rights must be taken out from the state - this is the very sense of privatisation. This may be achieved with the survival of state companies, but they must act independently from the state. The state must only indicate the conditions for the economy which must be more or less universal in all territorial units. At the same time the state stimulates or limits the development of some territories by using the instruments of the regional policy. Such conditions exist in the West and this logic is also suitable in our conditions.

The scientific-technical progress and its spatial diffusion developed according to one scenario (but the Commonwealth/Russia lag behind distinctly). As a result we have similar regional problems. First of all there exists a discrepancy between the center and the periphery. Routine production and services concentrate on the periphery and as a result local resources are not fully utilized and the local population is not satisfied (Artobolevskiy, 1992). The central government is under pressure from local citizens and business in order to make it stimulate the development of peripheral regions.

Recently national problems became more acute, both in the Commonwealth/Russia and in the developed countries. These problems have their regional manifestations too, though these problems are not solved in the West, the regional policy pursued there includes the protection of the interests of native population, the help to migrants in their assimilation, the development of "national districts".

It is possible to find many regions, similar in respect of economic history, industry structure, etc. Here and there the old industrial and underdeveloped regions exist, there exists the necessity of influencing the problems of big agglomerations. So the Urals and Donbass begin to manifest the same problems which exist (or have existed) in many British and French old industrial regions. Now it becomes necessary to perform structural changes in both these regions, similarly to those that took place in the Western old industrial regions between the 1950's and the 1970's. Both in the Commonwealth/Russia and in the West these regions are characterised by deteriorated environment, underdeveloped infrastructure, lack of modern investments and so on.

Similar problems can be found in Mediterranean regions of Europe and in Middle Asia and Transcaucasus. Here we have a high share of agriculture (accompanied with high degree of monoculture), low educational and professional level of the population, overmanning in agriculture, etc. Both in the Commonwealth, as well as in such regions in Western Europe, there exists the most powerful mafia and the national movements assume the most extreme forms (Williams, 1987).

Northern regions of Russia, Scandinavia, USA and Canada are first of all the providers of natural resources. The exploitation of these resources presents a great threat to the environment. The basic problem is the coordination of interests of exploitation and the native population. This is also achieved by spatial separation of areas of exploitation from the local population.

The common regional policy in the EC is now a large scale phenomenon. We have now a compromise between national and sub-national interests. As an ideal, such a regional policy could help the Commonwealth. It would be possible to coordinate undertakings of particular republics and to specify the limits of state help, to create common regional funds, to stimulate the development of border territories.

When using the Western experience we have one more difficult problem. On the one side, it is necessary to take into account our delays in all respects. This could be estimated as a delay of one Kondratieff's cycle, as a minimum. But Kondratieff (1928) regarded

his cycles as universal. According to his idea some countries could not find themselves still in the third cycle, while others were already living in the fourth. Therefore, when adopting Western experience of regional policy, it would be necessary to combine measures of the 1930's and of the 1990's.

One more idea of Kondratieff has a direct connection with regional policy. The new cycle-does not only mean new technologies, new branches and modern methods of production, but also new, different conditions of social life (in its economic, political and social dimensions). If the Commonwealth lags some 50 to 60 years behind the West, then we are exposed to a danger of a possible fascist regime, colonial wars and so on. The general backwardness of the society will be the main barrier, also for the regional policy when it would attempt to utilise the Western experience.

The socio-economic system now existing in the Commonwealth/Russia (if it is possible to speak about it as a singular unit) is very unstable. It is not clear how market development will progress. The creation of "normal" regional policy is possible only as a part of a "dirigistical" approach.

The regional policy may exist only for unseparated social-economical areas. So this policy is possible only in a united state, albeit a confederal one (subnational).

The regional policy is an instrument of transferring means from rich territories to poor ones. All the difficulties of implanting such an idea into practice are quite obvious. But it is necessary to explain to the population all the advantages of a real union: access to the vast market and the possibility to economise on the scale of production, lower prices (be it for the absence of custom duties). Then the price for integration will not seem to be too large and regional policy will not seem to be unnecessary.

The analysis of Western experience allows us to recommend the following steps:

1. The creation of the necessary scientific base for the regional policy and, first of all, implementing regionalisation. Western

- experts must be used for this work, being employed in scientific as well as in state institutions.
2. It is necessary to create a hierarchy of problem regions. It must be known that national and religious factors can be more important than socio-economic ones.
  3. The regional policy can be formulated for and implemented on various territorial levels - the Commonwealth, republics, regions. But the maximum level of help has to be limited, otherwise there will be a competition between particular territorial units (the maximum level of help should be available for the more successful areas).
  4. A common authority formulating and implementing the regional policy is necessary. It must have territorial representation. But it is quite possible that it will not fully control the whole regional policy.
  5. The law and regulations concerning the regional policy must be stable for at least of 3-5 years. At the same time creation of some mechanisms of quick reaction against the aggravation of regional problems is very necessary.
  6. The positive (stimulating) measures of the regional policy counterbalance any negative side-effects.
  7. Special emphasis must be put on the help for small and medium-sized business taking into account its connection with the regional economy.
  8. A stabilised development of problem regions is not possible without the creation of modern infrastructure. This is, by the way, the necessary condition for the inflow of foreign investments.
  9. The regional policy must be concentrated on social and political problems. In this case it will work towards the political stabilisation of the country. Only after this the economisation of the regional policy will be possible.
  10. The regional policy must include spatial expertise of all state decisions.

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## **Dilemmas of Hungarian regional policies during the transition**

### **1. Regional development versus local crises management**

Comparative studies on the transitional process of Central and Eastern European economies often emphasize that while Poland or Russia have adopted a shock therapy, Hungary follows a step by step way of economic restructuring. As far as regional development policy is concerned it would mean that Hungary has to face traditional problems and dilemmas of regional development in the transitional period. There are regions with less favourable conditions of development: underdeveloped infrastructure, less qualified human resources, lack of entrepreneurial traditions. Regional development policy should create the necessary hardware and software preconditions of self sustained development in target regions by redistributing a part of the GBP.

The facts of the change in the last two years suggest that Hungary will to some extent deviate from this peaceful way of economic transition. The main economic and social indicators are (shown in table 1) show a massive decrease of economic performance and dramatic increase of unemployment in the last two years. In 1991

**Table 1.** Economic, social and labour market indicators 1990-1991  
(previous year=100)

	1990	1991
Gross domestic product	96	89
Industrial output	90	81
Agricultural output	96	97
Gross domestic investment	90	85
Private consumption	96	92
Real wage	96	96
Number of registered unemployed (December)	79,500	442,588
Unemployment rate (December)	2.1	8.5
Average duration of unemployment (days)	115	171
Number of registered vacancies (31.December)	16815	10258
Number of vacancies/100 job seekers	21.2	2.3

Sources: Központi Statisztikai Hivatal. Helyzetkép Magyarország társadalmáról és gazdaságáról. Budapest 1992. Országos Munkaügyi Központ. Munkaerupiaci Információk (1991-92).

GBP fell by 11 per cent, industrial output by more than 19 per cent, gross domestic investment by 15 per cent. Real wages fell by 10.6 per cent, private consumption by 8 per cent. Registered unemployment has grown fast in 1991-92, from around 80,000 at the beginning of 1991 to almost 450,000 in December 1991 and to more than 500,000 in April 1992, representing a rise in the unemployment rate from 2.1 per cent to over 9 per cent. At the same time, the average length of unemployment has been increasing, vacancies reported to the labour offices have been falling.

If we have a closer look on spatial differences of economic and labour market indicators of our so called 'smooth' transitional process, the consequences seem even more shocking. Differences of some economic indicators between the 19 Hungarian counties and Budapest are shown in table 2. As far as the unemployment figures are concerned not only the level of unemployment has been increased but the differences between regions as well. While even in the end of the last year unemployment rate in Budapest was relative-

ly low and figures in the most developed western counties (Győr-S-M, Vas, Zala) not exceeded 7 per cent, unemployment rates in the less developed eastern counties (Bacs-Kiskun, Békés, Szabolcs-Szatmar) and in East-Northern regions dominated by declining industries (Borsod-A-Z, Nógrad) exceed 11 per cent.

**Table 2.** Regional pattern of some economic and labour market indicators

Regions	Industrial output	Construction output	Unemployment rate	Unemployment rate
	1990=100%	1990=100%	1990 Dec.	1991 Dec.
1. Budapest	89.9	n.a.	0.3	2.6
2. Baranya	90.9	73.4	2.7	9.1
3. Bacs-Kiskun	86.2	87.7	1.9	11.3
4. Békés	81.3	72.8	3.0	12.6
5. Borsod-A-Z	75.9	78.0	3.9	13.9
6. Csongrad	84.7	73.0	2.0	8.3
7. Fejér	70.0	98.3	2.1	7.7
8. Győr-S-M	78.7	81.3	1.3	5.7
9. Hajdu-B	85.9	74.9	1.9	9.4
10. Heves	70.2	81.8	3.3	10.8
11. Jasz-N-Sz	84.7	69.2	3.1	12.9
12. Komarom-E	102.3	93.1	1.4	8.3
13. Nógrad	79.5	61.9	5.0	16.1
14. Pest	87.7	70.6	1.6	8.4
15. Somogy	76.5	105.6	2.7	8.9
16. Szabolcs-Sz-B	87.8	73.2	5.9	16.4
17. Tolna	88.3	63.9	3.1	10.7
18. Vas	77.4	98.4	0.7	5.9
19. Veszprém	82.8	80.6	2.4	9.0
20. Zala	95.9	95.0	1.6	6.8
Mean	83.5	80.7	2.5	9.7
STD Dev	8.1	12.5	1.3	3.5
Minimum	70.0	61.9	0.3	2.6
Maximum	102.0	105.6	5.9	16.4

Source: Központi Statisztikai Hivatal Országos Munkaügyi Központ



The picture is far more menacing if we consider the labour market characteristics at the level of micro regions or TWRs<sup>1</sup>. Figures 1 and 2 show the differences of the unemployment rate between micro regions in the end of 1990 and 1991. We could see that the number of hard hit regions increased rapidly. In December 1991 the unemployment rate exceeded 20 per cent in 11 out of the 179 micro regions of the country while in Budapest and in 11 micro regions unemployment rate was not more then 5 per cent. In April 1992 in certain regions, dominated by declining industries, the unemployment rate exceeded 25 per cent and in certain underdeveloped rural micro regions unemployment rate was more than 30 per cent<sup>2</sup>.

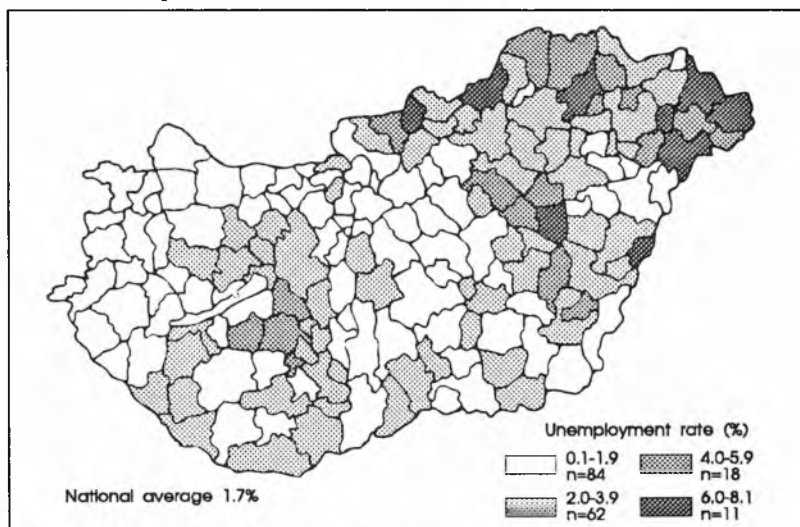


Fig. 1. Unemployment rate in Hungary, December 1990.

- 1 We have unemployment data from the register of the 179 local labour offices of the County Labour Centers. Service areas of local labour offices are more or less the same as the TWRs within counties.
- 2 Up to now the main employers of underdeveloped rural micro regions has been agricultural cooperatives. Redundant employees or members of these cooperatives have the right to register themselves as unemployed and to get unemployment benefit.

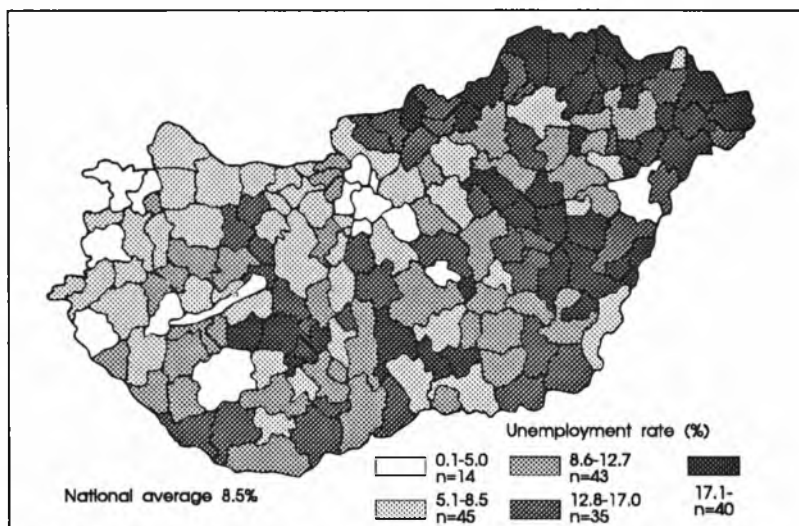


Fig. 2. Unemployment rate in Hungary, December 1991.

In the most hard hit regions we could observe the collapse of local labour markets and local economies as well.

Table 3 shows some labour market figures of micro regions within Borsod county. This county itself could be characterized as a mixed composition of extremely underdeveloped rural micro regions and micro regions dominated by declining industries such as steel and coal. In December 1991 100 unemployed job seeker could find 0.58 registered vacancy in the 13 labour market offices of the county. In seven micro regions with a total of 17,779 registered unemployed there were no vacancies at all.

There is no easy way out of this situation. Neither regional mobility nor decrease of high activity ratio could solve this problem because of underdeveloped transport facilities, collapsed housing market and massive social constraints on emigration from the crises areas. Because of the low level of wages it is almost impossible to change the "two earners family model" in Hungary in a short run.

Decision makers, politicians, economic advisors agreed that in crises regions the only way to reduce unemployment is to develop a new self-sustaining local economy. So the keyword is: local

**Table 3.** Labour market indicators of micro regions within Borsod-A-Z county

Micro regions	Active popul.	Registered unemployed	Registered vacancies	Unemployed rate
Miskolc	138,000	11,312	187	8.2
Encs	21,000	3,492	0	16.6
Kacincbarcika	32,000	4,144	13	13.0
Tiszaújváros	22,500	2,287	2	10.2
Mezőkövesd	22,000	3,707	10	16.9
Ózd	37,000	6,976	28	18.9
Sárospatak	13,000	2,515	0	19.3
Szótoralja.	20,000	3,401	46	17.0
Szerencs	19,500	4,195	0	21.5
Edelény	16,000	3,409	0	21.3
Sajószentp.	8,000	1,163	0	14.5
Szikszo	n.a.	1,837	0	-
Tokaj	7,000	1,168	0	16.7
Borsod-A-Z	357,700	49,606	286	13.9

**Source:** Unemployment data of Micro Regions. Survey completed by Schwerter Janos, Ministry of Labour Department of Employment Policy

employment development. The question is: how to get and how to implement the most effective measures of local employment development in a growing number of micro regions after or just before collapse of traditional actors of local economy?

There is no doubt that up to now our regional development policy could not cope with the problem of an increasing number of crises regions. Hungary as other East European countries has traditional institutions and proceeds of regional development. We have several forms of regional development funds and initiatives covered by the government budget to develop infrastructure and to promote job creation in regions titled as underdeveloped regions. The problem is that all of the traditional measures concerning regional development were created to reduce differences between more and less developed regions and to develop preconditions of long range economic

development. But in the last two years our well trained developer had to recognize: while the government would have to concentrate enormous investment into the infrastructure of the less developed north eastern regions we should use all of our resources available to manage growing local crises to avoid political disturbances and to maintain social peace in the country. What is more in a lot of cases local crises situation has emerged in industrial centers traditionally treated by regional development policy as developed areas within the Hungarian economy.

This situation leads to the main dilemmas of regional development: how to harmonize regional development strategy and local crises management actions? How to use or how to change the traditional measures of regional development in case of crises management of collapsed local economies.

## **2. Main tools and problems of local crises management in Hungary**

There are three main groups of crises management practices used in the last two years:

- traditional forms of regional development policies such as regional development programs financed by regional development funds are used for local crises management purposes,
- active labour market policies such as job creation schemes, retraining programs, public job schemes are implemented in crises regions effected by high level of unemployment,
- various form of promotion systems originally on sectoral - and not regional -- basis such as the Agricultural Reorganisation Fund which is going to finance development programs in underdeveloped rural regions.

The main problems and obstacles of Hungarian regional crises management policy are the following:

- problems of adaptation or know-how transfer of traditional regional crises management models developed in market economies,

- Hungary has no updated regional development strategy so it is impossible to harmonize the aims and tools of short run regional crises management programs and long run regional development strategy,
- the limited sources, underdeveloped institutional framework and existing initiatives of local crises management can not combat with the enormous problems of collapsed local economies in east and north-east part of Hungary,
- traditional top-down characteristic of regional development policy has been remained or even straightened in the last year,
- lack of entrepreneurial tradition and managerial knowledge in hard hit regions,
- lack of local actors, partnerships and networks to elaborate and develop local crises management and local employment development strategies.

Up to now active and passive labour market policies and direct state interventions could help to avoid political disturbances even in regions effected by the highest levels of unemployment. The problem is that Hungary is before and not after the bulk of large scale restructuring of the state owned sector heavily concentrated in certain regions. There is no doubt that in regions dominated by declining industries, outdated technologies, effected by huge or total losses in trade with ex-CMEA countries, there is no alternative policy than "local shock therapy". Even in the last year Hungarian government spent huge amount of money to keep alive traditional main or single employers in certain crises regions to avoid harsh political disturbances. If we consider the forecasted huge deficit of the budget the government inevitably should change this policy. First steps of this "strict budget control policy" have been taken and there is no doubt on the consequences: a new wave of plant closures, large scale redundancies, increasing unemployment, decreasing consumption, increasing criminality, general deprivation communities dominated by declining industries.

Is there a route to escape from this vicious circle? How we could use local crises management techniques and local employment development know how of market economies? Based on the recent

experience in local crises management in Hungary I could advise the following rout in hard hit regions:

- a) we should find special solutions to overcome the gap between destruction of old jobs and technologies and establishing new self-sustaining local economy. There are temporary solutions such as Employment and Training Companies<sup>3</sup> to accelerate restructuring of local economies and to keep social peace at the same time;
- b) we should promote to establish and develop local institutions of interest coordination and strategic orientation such as local development coordination committee or Local Labour Market committee;
- c) we should promote bottom-to-up types of local development programs by government initiatives and know how transfer of local crises management and regional development.

Here we come to the main dilemma of regional development in Hungary: how to adopt software of regional development without the necessary hardware precondition?

Policy advisors and experts in developed market economies often emphasize the role of know-how transfer in restructuring East and Central European economies and especially in case of local crises management and employment development. In many regions having the necessary hardware preconditions of local development - such as infrastructure, training institutions - this kind of programs could give enormous help to develop institutional framework strategy and project development, networking at local level. We could organise

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3 Two Employment and Training Companies /ETC/ were founded in 1992. Both are situated in regions dominated by declining steel industry. ETC are financed by Employment Fund to employ redundant workers of the steel works for up to two years. The very aims of ETC's are to organise provisional employment possibilities, retraining programs and promote redeployment of redundant workers.

conferences, management training programs, animation programs, visiting programs for local central and actors.

The main problem is: what should be done in regions without the necessary hardware preconditions of local development? It is clear that without massive investment to create infrastructure it will be impossible to rebuild a large number of collapsed local economies. All of us know the slogan of western decision makers: instead of giving fish to the East European people we should teach them how to fish. Its is true. But there are lakes in Eastern Europe without any fish and with full of poison and waste. So the first thing to do: to clean the water and to feed the lakes with fish.

# **Polish regional policies: diagnosis - problems - options**

## **1. Introduction**

Regional policy of the state is currently understood as an integral element of its socio-economic policy. Intensity of this policy as well as tools are shaped through the influence of the following factors:

1. Macro-economic factor, viewed not only as a level of economy and economic status of the state, but also in terms of priorities of state policy.
2. Systematic factor i.e. a degree of both direct and indirect engagement of the state in the economy; this engagement is shaped not only by ownership relationships (although their role is very important) but also by the economic doctrine followed by the state authorities.
3. Constitutional factor i.e. union or federation model of the state and territorial division with corresponding structure of public finances.

Depending on these factors and scope, goals and tools of the state regional policy fluctuate between two extreme models:



- levelling; the essence of this model is the transfer of means from better developed regions to problem regions (poorer, underdeveloped requiring far reaching structural changes),
- polarizing, assisting first of all the most dynamic regions ("poles of development", "locomotive of progress" on the assumption that in future they will "drag" other behind them).

The first is, often over hastily, considered immanently ineffective as it is too narrowly and exclusively identified with a centrally planned economy. In reality this model dominated in the sixties and seventies also in highly developed EEC countries, while at present it dominates in some EEC Member states (Portugal, Greece, Ireland).

The latter is practically speaking a self-fulfilling model under conditions of full economic liberalism; the state's support for the most dynamic regions is expressed by, most often, limitation of intervention into the sphere of regional development, and, more rarely, a real transfer of public means to these regions.

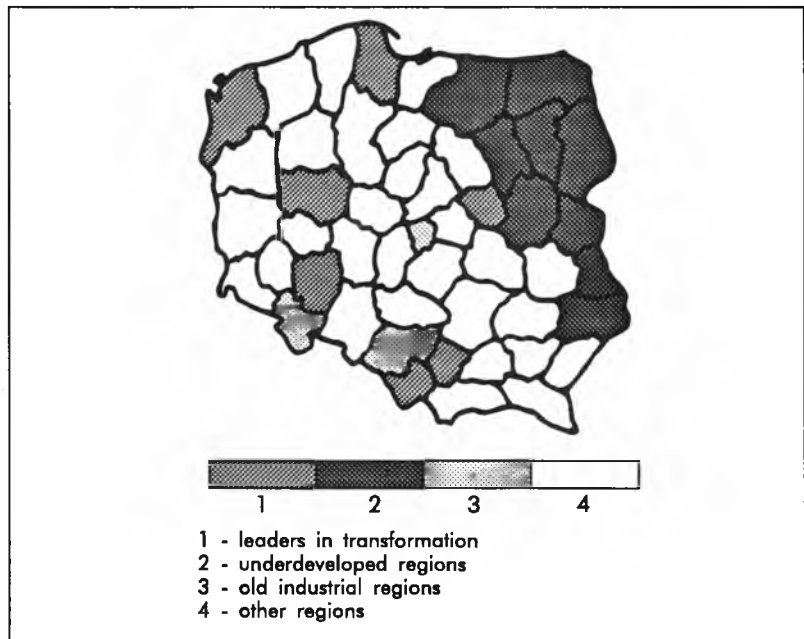
In the EEC practice, none of these extreme models of regional policy, presented here on purpose, is used in a pure form. Beside economic factors also social, ecological, strategic aspects are taken into consideration as a rule. Many years' experience of the EEC countries brings about a number of extremely valuable reasons for carrying out a balanced regional policy, which combine well high effectiveness of development with its balanced, spatial model. Associate member status of the EC enables us to make use of these experiences, and later - to have access to logistic resources of this organisation under the condition of smooth passage through the uneasy procedure of adapting Polish regional policy to European standards.

## **2. Diagnosis**

Spatial differentiation of processes of transformation of the Polish economy is an important element in diagnosing their progress and results. It demonstrates through inter-regional differences in areas such as: unemployment growth, income of the population, privatisation, activities of the private sector as well as the size of foreign

capital transferred. Reasons for these differences result, to large extent from different regional properties of socio-economic structures which make it easier or more difficult to adapt to a changing economic situation. However, adaptation of a transitory nature is only a basis for much deeper structural adaptations the economy is currently facing. As late as at this stage of the transformation process a rigorous verification of socio-economic regional structures and their adaptation capabilities will occur.

Looking at the course of adaptation processes in regions so far brings about the following main observations: (see figure 1).



**Figure 1.** Regional structure of Poland in 1991

Source: Szlachta J., 1991, *Regional Problems in the Period of Political Transformation (Case Study Poland)*, Katholieke Universiteit Leuven, Leuven

**Firstly**, low competitiveness of the economy in eastern and, in particular, north-eastern regions of Poland, a fact consistently pointed out for years, was confirmed. These regions have the highest rate of

unemployment which is accompanied by the lowest rate of ownership changes, including the lowest rate of activity of the private sector. The "Frozen" eastern boarder additionally deepens a syndrome of secondary importance for these areas.

**Secondly**, regions with their structures dominated by concentrated, traditional, and declining industries are threatened by increasing possibilities of mass bankruptcies, high unemployment and socio-economic depression. Phenomena of this type already appear in the cities of Łódź and Wałbrzych and their symptoms can be seen in the Katowice agglomeration.

**Thirdly**, differentiated and multi-functional socio-economic structures of such agglomerations as: Warsaw, Cracow, Poznań, Wrocław as well as Bielsko-Biała, Gdańsk and Szczecin turn out, so far, to be a relatively successful cushion for the results of socio-economic adaptation processes. These agglomerations show the greatest development of the private sector, the most advantageous situation on labour markets, and also concentration of foreign capital transfers.

**Fourthly**, the greatest threats result from the domination of single huge state owned industrial enterprises in socio-economic structures of towns and micro-regions. A bad economic situation and, especially, the downfall of such a potentate result not only in catastrophe on the labour market but also destruction of the economic basis of a town or micro-region. These threats become facts (Mielec, Starachowice, Stalowa Wola). Such situations appear especially in south eastern Poland and partially in the central part of the country. Increasing reduction of employment in the state owned industry in these areas is not fully mirrored by unemployment statistics since it touches, first of all, farm-workers. In fact, hidden agricultural unemployment in these areas increases, in a way replacing visible forms of post-industrial unemployment.

The only, real reaction of the "centre" towards regionally differentiated course of adaptation processes has been, until now, social protection for the increasing number of the unemployed, financed from centralised means i.e. an undertaking of a passive character. As late as in April 1991 a spatial differentiation of one of the tools of

direct influence on economic subjects was introduced: allowing for quicker amortisation of "active" part of newly acquired fixed assets in Łódź and Wałbrzych voivodships and in selected regions of North Eastern and Central Poland characterised by the highest unemployment rate. Assessment of the influencing force of this instrument of economic activity stimulation has to be, of course, postponed until appropriate experiences and data are collected but one can *a priori* say that, although it makes new initiatives more attractive this instrument does not inspire, to a sufficient extent, pro-investment behaviour which would bind the economic activity with a particular place in a permanent way. Opinion polls carried out among economic circles, small business in particular, show also a lack of knowledge or lack of understanding of the advantages of this instrument.

Another instrument for stimulation of the economy in particular regions is of an authoritarian rather than systematic character: the possibility to exempt foreign subjects with equity amounting to 2 million USD and more (decision made by the Ministry of Finance) from taxation duties for a period of 2-3 years. A budgetary reserve of 300 thousand million zloty created in 1991 and devoted to investment into infrastructure in connection with regional restructuring processes is of a similar character.

A number of means at the "centre's" disposal to influence regional consequences of transformation processes has been very limited so far. It has to be stressed, however, that in fact they were adequate to accepted priorities of macro-economic policies in 1990-1991. They practically excluded larger amounts of activity of the state in the area of regional development. As late as 1991 when the effects of transformation processes, especially increasing unemployment in a number of regions showed a necessity to modify macro-economic policy, did the "shares" of regional policy go up. It was, however, expressed by, first of all, verbal incentives for more activity of financial and promotion institutions in problem regions.

Low level activity of the "centre" in the area of regional (inter-regional) policy was accompanied in 1990-1991 by a decline of a potential subject of this policy (intra-regional) on the level of the

voivodship. During the process of territorial reconstruction of the country a gap appeared on the intermediate level between the centre and local governments. This gap is filled neither by a voivod, who is a civil servant, nor by the voivodship assembly which has advisory rights and rights to express opinions but not to legislate.

The organisation of public finances is characterised by direct connection of local government budgets with a central budget, such a situation leaves the voivodship budget reliant on state functions. The demise of the redistributive function of the voivodship budgets is accompanied, naturally, by a significant straightening of "vertical", sectoral arrangement of administering finances. Thus, there is a primacy of administration with specific properties over the one with general properties, which could perform, at least as a substitute, a function of a subject of intra-regional policy.

Voivodship regions are often treated by a significant part of influential circles as a relict of the old system to be eliminated (pressure is being applied to speed up changes in the administrative division of the country - so-called regionalisation of the country). They function, in fact, practically only in the area of administrative procedures. Low level of activity of the "centre" in the area of the intra-regional policy is thus accompanied by disappearance of the subject of intra-regional policy. Activities of local government units are concentrated, for understandable reasons (large disparity between formal rights and real means of activity), on local undertakings, while their activity on the micro- and mezzo-regional scale is insignificant so far.

In this situation revitalisation of regional policy may paradoxically lead towards straightening of the centralistic model of economy since there will be a lack of a partner, a subject of this policy on the regional level. In this aspect, it has to be said that in the present structure of the "centre" the regional policy has a very unclear place. There is a lack of a body equipped with rights to coordinate activities sporadically undertaken by various sectors and central administration units. Finances, concentrated in the hands of Ministry of Finance, are not sufficiently connected with the analytical and forecast base (CPO). Regional policy is made by all sectors sharing budgetary means, Ministry of Labour and Social Policy

(Labour Fund), as well as other sectors such as: industry and trade, privatisation, construction and housing, agriculture and food economy, and directly by the Cabinet Office (distribution of means from foreign aid, cooperation with voivods, local governments, works on the territorial organisation of the state). Uncoordinated actions of central and regional units of Government administration appear also on the level of international contacts, particularly during the search for foreign aid resources. Chaos in this area has been noticed by international organisations cooperating with us. It has to be stated, bearing in mind the existence of many aspects of regional development problems and necessity to take into consideration the regional aspect in the work of most sectors and central offices, that the state of present organisation and the state of function distribution may lead towards chaos, especially with growing activity of the "centre" in the area of regional development. This chaos will appear on the voivodship level in reference to the already mentioned primacy of "particular properties" over "general" ones.

**Summing up** the results of diagnosis of the regional policy of the state in 1990-1991, it has to be said that:

- a) this policy was consciously reduced to soothing the most painful social effects of changes which take place,
- b) it resulted from the assumptions of macro-economic policy, which did not tolerate any deviations from "hard rules of the game",
- c) "non-intervention" approach was probably caused by the conviction about relatively minor intra-regional differences in Poland,
- d) economic tools for the state regional policy were not created, a fact understandable under these conditions,
- e) an appropriate institutional infrastructure of the regional policy was not created so far, neither within the framework of public administration nor outside of it, with a few exceptions (Foundations, Agencies, etc.),

- f) a reasonably accurate diagnostic and forecast base has been in place during this period enabling cooperation with international organisations with lots of experience in regional policies (EEC, OECD, UNIDO, etc.) to start. Thus, professional expertise to carry out effective regional policy has increased. It was partially utilised while elaborating regional restructuring programmes (Katowice, Wałbrzych, Łódź and others).

### **3. Problems of regional policy**

#### **3.1. Problem of existence**

The most important question is whether the state should or should not implement a regional policy on a wider scale than now.

##### **3.1.1. The arguments for "restraint":**

1. Necessity to eliminate ineffective elements from the economy. Any intervention will falsify the true picture of the economy.
2. Relatively small intra-regional differences (in relation to other countries with similar levels of economic development).
3. Still unclear "map of problems" in Poland. This creates a danger of incorrect elaboration of regional policy goals. There is not empirical confirmation of new regional typology, thus it is too early for intervention.
4. Lack of actual means making state intervention in the sphere of regional development possible (budgetary gap, both existing and potential).
5. Lack of experience as well as "in explicit" assessment of foreign experiences in the area of regional policy effectiveness of the state under conditions operating in a market economy.

### **3.1.2. Revitalisation of state regional policy is supported by the following arguments:**

1. Huge territorial differences in the course and results of the transformation process, quickly changing regional structure of the country, which until today was relatively stable.
2. Exceptionally low territorial mobility of labour resources in Poland (shortage of housing, already clearly shaped and traditional social preferences); against this background of territorial balance of the economy will have, at least temporarily, additional importance in relation to other countries with similar levels of development.
3. A necessity to "store" surplus labour temporarily in villages and in agriculture as their transfer to towns will create similar results to ones experienced by metropolises of the Third World.
4. New challenge resulting from a change of geopolitical situation of Poland, imperative to use the opportunity while soothing threats appearing close to the Polish - German border (EC), as well as in the areas near the border with post Soviet eastern neighbours.
5. Opportunities resulting from association with the EC, together with preparation to utilise all possibilities which will open with full membership. Thus it becomes necessary to adapt principles, instruments, and institutions of regional policy in Poland to European standards, basing them, first of all, on experiences and models provided by regional policies of the EC and associated states.
6. Relative character of shortage of means for regional policy stressed by adversaries; emphasis is put on ineffectiveness of the use of protection means (e.g. labour fund used to eliminate negative results, not to prevent unemployment). A possibility to gain foreign aid resources as well as foreign loans to finance regional programmes.

The problem: "whether regional policy should become an important element of socio-economic policy of the state?" will probably be



solved, automatically, when the latter will be directed to overcome the recession, and not to achieve stabilisation at any cost and at any level. It will, most probably, be a positive solution for regional policy under one but very important condition: it will have to be subordinated to the criteria of effectiveness. Intervention of the state cannot, in particular, be based on artificial support for ineffective areas, but on the contrary - it should be directed towards supporting effective undertakings, which will permanently change crisis-making socio-economic structures in some regions.

### 3.2. Problem with the choice of the object

Positive answer to following question: "should the state increase its level of activities aimed at influencing regional development?" brings about another question: where, in relation to what regions? The extreme options in this sphere are the following:

1. Option supporting regions - **"locomotives of progress"**. Advocates of this option stress permanently higher effectiveness of supporting the regions where adaptation processes are most fluent. They assume that the process of economic transformation has to, unavoidably, create polarisation also in its territorial cross section. Increase of capital in regions - "poles of development" will bring about at least a partial transfer of this capital to other regions. This moment should not, however, be artificially accelerated. On the contrary, development of these regions should be supported since only these regions can lead the Polish economy out of depression.

The forecasts for and the course of development of adaptation processes show that the following regions have predispositions for the role of "locomotive of progress": Greater Poland, and the following agglomerations: Warsaw, Cracow, Wrocław, Gdańsk, Bielsko Biała, Szczecin. Their multi-functional structures, highly developed scientific circles, relatively good infrastructure and their connections with the world account for the fact that the course adaptation processes are easier while the scale of recession is lower than in other regions.

2. Options supporting regions where transformation processes bring about the greatest **social problems** (unemployment, recession). Advocates of this option say that in many regions the limit of social endurance has been exceeded, or this moment will come in the nearest future. Outbreak of social discontent may stop or even reverse the reforms. In order to avoid it the regions which are threatened by structural recession and unemployment should be helped in order to restructure their economy in a speedy manner. The means now spent on passive soothing of the social effects of changes (unemployment benefits, subsidies for unprofitable industries) may be used, at least partially, for this purpose. However, considerably more resources are needed especially for restructuring the so-called old industrial centres i.e. Katowice, Łódź and Wałbrzych, and activation of economically underdeveloped regions of eastern and north-eastern parts of the country.

Both options are characterised by reliability of proof and the problem created by their existence looks authentic in all its aspects. The solution is even more difficult since the means for influencing regional development which are in the hands of the state are limited and will remain such in the coming years. Inter-regional transfer of public means will not, probably, show an increase. On the contrary, it will decrease together with the decrease of the redistribution function of the budget. It seems especially difficult to restructure the inter-regional transfer of means in such a way as to give priority to the richest regions. It would mean a final deprivation of economically weaker regions of the chances to stop the recession and sooth the social effects of transformation.

Significant reduction of public means generated by regions - potential locomotives of progress, also seems to be difficult. Putting aside the advisability of such an operation, one can expect categoric resistance from regional circles whose interests would thus be threatened.

Despite these difficulties, the distribution of public means in order to assist regional development is a sine qua non condition of state activity in this field. It can be agreed, however, that allocation of

means should not be established a priori. These means should perform only a supplementary function inspiring introduction of other capital (private, foreign aid) to assist regional development. Decision, where to allocate public means will be, thus, made not according to established Government priorities but according to possibilities of acquiring private capital for regional development.

### **3.3. Problem of means**

Accepting the positive continuation of the Polish economic system transformation process as an overall important target, one has to exclude a priori such solutions to problems connected with the means and tools of regional policy which would make this policy a restraint rather than a factor in the reform. Thus, it seems important to exclude solutions implying an increase of the redistributive factor of the central budget or advocating an increase in state ownership in the economy (e.g. establishment of state owned enterprises in particularly depressed regions). Whereas regional policy may be based on the means from the central budget only to a limited extent, the following potential sources of means may be identified. State regional policy should concentrate on their stimulation and speedy allocation.

1. Private capital, both local and foreign. Territorial behaviour of capital certainly employs a principle of effectiveness i.e. a striving for external profits. In case of renunciation of stimulation of this behaviour it can be assumed, with a high degree of probability, that the capital, foreign in particular, will be concentrated in regions with the most attractive economic and territorial structures, growing business environment, undamaged natural environment i.e. regions called "locomotives of progress". Stimulation of opposite behaviour usually requires the introduction of powerful incentives, higher than external profits. These incentives, however, usually encumber upon, directly or indirectly, the state budget.
2. Foreign aid, both repayable and un-repayable. These means are usually connected with particular undertakings and are accepted through established procedures. Besides PHARE means, structural funds from the EC and various foundations, public means generated through the conversion of the part of

Polish debt into environmental protection and infrastructure development may become a source of regional programme financing. These resources may be used in order to create an attractive external environment inviting capital to given regions.

3. Public means, both governmental and local. Experiences of the EC countries prove that the best method of employing these resources is partial subsidizing of private investors as well as financing infrastructure. On the other hand, attempts at establishment of public enterprises e.g. in order to decrease unemployment, brought about unfavourable experiences. In view of the limited amount of public means in the foreseeable future in Poland, the principles of their employment should be based on proven models. These activities may comprise tax reductions, loans with preferential interest rates and/or partially remitted, and partial subsidizing of investment costs. Experiences of the EC countries show the greatest efficiency of subsidies in relation to small business. Apart from direct forms of influencing investors major importance should be attached to the establishment of an appropriate environment for business (e.g. banks, insurance, consulting, telecommunications, transport, and attractive living conditions for managerial staff).

A proper relationship between the local government and Government resources in financing particular undertakings, particularly infrastructural ones, is an important aspect of public resource deployment. Experiences of EC regional policies show that a principle of assisting participation should be employed here, but not financing entire undertakings from the central sources. This principle may be difficult to function under Polish conditions since there may be a shortage of local means (especially in underdeveloped regions) making appropriate apports impossible. It creates a necessity for the policy to favour increases in gmina incomes and allocation of means from the central budget into "assisting participation".

### **3.4. Institutional problem**

In the process of territorial restructuring of the state organisation and its central offices the problem of regional policy has not been

clearly placed until now. It was, perhaps, acceptable during the period of limited state activity in this field. However, it may become an obstacle in making an effective regional policy of the state in the future. The key demand in this case is to make an intermediary level between local government and the centre i.e. voivodship again a subject of the regional policy. It is a question of such division of powers within local government and Government institutions and such structure of finances so that this level can act on its own behalf and account. An alternative to this direction of transformation is to retain or even increase a paradox phenomenon of extreme centralisation of decisions connected with public finances ("budget" sectors, Ministry of Finance) established after the first phase of the reform of territorial organisation of the state (establishment of local governments).

Solutions in this field should simultaneously go in three directions:

- a) strengthening of the position of a voivod as an organ of Government administration with general properties in relation to central offices (sectors) and local ones (vertically subordinated agencies) possessing specific properties;
- b) gradual, according to the progress of transformation of public finances, providing voivodship assemblies with powers to administer regional (voivodship) resources for development;
- c) redefining relationships between Government officers (voivods) and local councils at the voivodship level.

A perspective of the reform of administrative division of the country, so-called regionalisation, presents a separate problem. Not taking for granted if and when it happens, it seems necessary to say that renowned foreign experts will warn us against precipitate actions in this field. Constitutional aspects of this problem show that practical solutions will be found while elaborating new constitution, which will be carried out by newly elected Parliament. Therefore, it seems that in 1992 - 1994 there will be no systematic changes in this field, only certain corrections. Directions proper for activities defined as functional regionalisation may be recommended in this aspect. One of the important aspects is arrangement of so-called special divisions, created by particular sectors, offices, and central institutions (Chambers of Ac-

counting - Ministry of Finance, agencies of Ministry of Privatisation, Regional Planning Offices of the CPO, Agencies for Regional Development, units of Agricultural Market Agency, and others).

Their orderly location within the network of 9-14 centres should be accompanied by their coordinated activity with, at least, local units of Government administration (voivods), or perhaps with representatives of appropriate local councils. Apart from direct advantages (lowering the costs of logistical base, improvements in functioning) such solutions would help break an isolation between voivodships, in places where it exists, and would support initiatives of regional circles trying spontaneously to establish a number of forms of cooperation.

The next problem is to define proper central state administrative units for regional policy. In view of the reform of the centre's structure it is appropriate to use experiences of the countries with developed market structures, active at the same time, in the field of regional policy. Due to immanently large number of aspects of the regional policy of the state many sectors undertake activities in this field. In any case, however, there is a Government office to coordinate these activities. It may be: strategic planning offices, ministries of economy or industry, Ministry of Internal Affairs and Administration, Ministry of Environmental Protection, as well as special units directly subordinate to the Prime Minister. Under Polish conditions, due to growing strategic position of the regional policy and due to technical reasons solutions placing the regional policy in the hands of the unit responsible for elaborating economic strategy is particularly justified.

#### **4. Options**

On the basis of the above described conditions and problems of the regional policy of the state, a proposal for the following activities for the period 1992 - 1994 may be presented:

1. Regional policy should be treated as an important element of the anti-recession programme. The main aims should be following:

- a) help with inevitable and desired changes leading to establishment of effective economic structures in the regions,
  - b) protection against the most drastic social effects of the transformation process, and if that becomes impossible - soothing their impact.
2. Geographic structure of concentration of activities for regional development should not be definitely established beforehand. On the basis of presently accessible prerequisites following basic directions may be identified:
- a) assistance in necessary restructuring processes of the economy in traditionally industrial regions (Wałbrzych, Łódź, Katowice),
  - b) assistance in undertakings stimulating underdeveloped regions, first of all those in eastern and north-eastern Poland, without endangering degradation of particularly valuable natural qualities (support for "eco-development),
  - c) assistance in fluent restructuring of huge industrial enterprises which monopolise local labour markets; these enterprises are located predominantly in south-eastern Poland and in the Jelenia Góra voivodship,
  - d) help for the necessary infrastructural undertakings creating business environment in regions - "locomotives of progress",
  - e) assistance in development of western regions, on the border with Germany, in order to prevent a deep asymmetry in the level of economy between Polish and German border areas.

The list of potential directions of the state regional policy is as large as, from the nature of things, incomplete. During further course of transformation processes new problems may appear, or some problems today identified as the most difficult may be of less importance. Not only the needs (appearing in every region) but also possibilities will influence actual utilisation of central means in the field of regional development. The possibilities will result not only from

"affluence of the central budget" but also from fulfilment of conditions under which the resources could assist and not replace private capital or local and regional public means. This provision, however, does not refer to temporary "protective" means. They will, probably, be employed, like at present, nearly automatically, within the framework of minimum social guarantees.

3. Employment of central means for regional development (subsidies, tax reductions, preferential loans, Government guarantees) should use the following principles:
  - a) the means will be allocated "anonymously" neither to assist the entire economy in a given area, nor entire sectors or branches. Central means may be used only to assist (supplement) financing implementation of particular projects,
  - b) the means may become a supplement only to private and local government capital engaged in particular project implementation; therefore financing of local [projects exclusively from central means is not taken into consideration,
  - c) central means will not be used to assist collapsing enterprises, but should, first of all, serve in co-financing economic initiatives with an expected multiplier effect on desirable changes in the economic structure of the region,
  - d) central means should be used for partial subsidizing of projects connected with establishment of infrastructure of services in the region,
  - e) central means will be used, first of all, to assist projects of small and medium size enterprise development,
  - f) central means will be used to assist projects of technological changes, particularly where the changes are accompanied by decrease in energy consumption and negative impact of production on natural environment,



- g) central means may assist only investments, particularly in the field of technological infrastructure; the means will not be used to support current production and services,
- h) among ways of central means assistance to new undertakings, small business in particular, simple and suggestive solutions, easy to adapt by investors will be preferred i.e. primarily subsidies.

Therefore, a real territorial structure of employment of central means allocated to regional policy goals will be established not by centrally provided identification of needs and priorities established a priori, but activities of local circles and economic subjects expressed by specific projects of effective activities.

4. International cooperation becomes a more and more important determinant of Polish regional policy. Consequences of changes in the geopolitical situation of Poland in Europe are the following:
  - a) a necessity for preferential treatment of initiatives and undertakings which condition processes of integration with the EC or result from them. Development of border regions with Germany and the EC is, in this respect, of key importance. It is necessary to identify quickly Polish priorities in development of these regions and, on this basis, their wide opening to international capital (not only German). Polish preferences in the area of western border regions development should move towards recognition of the "Odra and Nysa Łużycka" region as a European problem region to be assisted by means from the EC structural funds;
  - b) necessity to establish wide international cooperation between Poland and Czecho-Slovakia. Problems of "black triangle" i.e. Nysa Łużycka region, should be solved through triangular cooperation: Polish, German, and Czech. There are chances to receive EC aid for undertakings in this area. It is necessary to establish as quickly as possible, an intergovernmental commission for border regions and inter-regional cooperation; Polish-Czech and Polish-Slovak. The aim of such a commission would be to

identify the scope and means of cooperation as well as to inspire and pilot regional and local initiatives in order to solve mutual problems;

- c) necessity to initiate cooperation between north-eastern and eastern regions with border regions of newly created states: Ukraine, Byelorussia, Lithuania. Polish presence in the new economic area of Kaliningrad is also necessary. This area may become one of the most interesting places in Europe in future;
  - d) necessity to continue and increase effectiveness of the sea regions' cooperation with similar regions of the Baltic states. Apart from economic and cultural cooperation, a particular importance is attached to possibilities of receiving aid (from eco-conversion included) for important undertakings connected with protection of the Baltic waters;
  - e) necessity of continuation and substantial acceleration of adaptation of EC standards processes in the field of regional policy. The effects of the programme of training specialists in this field (financed from PHARE funds, foundations and other sources) influence to a high degree utilisation of potential aid (mastering methods and procedures in force);
5. Efficient institutional solutions are necessary for effective regional policy.
- a) the main condition of the effective regional policy is subjectivisation of regions (voivodships). This problem is so urgent that the solution should not be postponed until the reforms of the territorial organisation of the state together with the change of administrative divisions are completed, especially if it is scheduled for a distant future. Subjectivisation requires changes in legislation on functions and powers and in a budgetary act and should comprise:
    - increase in powers for the voivod at the cost of sectoral powers in matters of working out and spending the budget i.e. escape from "shelving" means

- establishment of regional (voivodship) development (restructuring) funds based on local government means (together with a simultaneous increase of the number of their sources of income) and providing voivodship assemblies with powers to administer these funds;
- b) at the same time work should be carried out to regulate so-called special divisions, created by sectors and central offices. Their agencies should be concentrated in 9 - 14 centres (the number can be discussed), at the same time clearly defining functional relations of these agencies to the voivods and their officers. It would help future institutionalisation of "horizontal structures" spontaneously created by voivods and regional circles to solve problems appearing above the voivodship level. It would also be a step further on the way to create functional regions and, possibly, future changes in the territorial organisation of the state. Formation of mutual services of voivods such functional regions and their association with some agencies of central institutions may be inspired (e.g. in the sphere of regional policies in nearly all of the voivods' offices function variously called departments of regional policy, in 9 voivodships - Regional Planning Offices of CPO). These activities have their place within the framework of Governmental administration, therefore they do not require complicated legislative procedures;
- c) within the framework of works on the new structure of central state administrative institutions a body should be appointed to take a lead in the sphere of regional policy. Properly it should be placed within the sector responsible for designing strategy of economic development or, alternatively, a small body should be appointed directly subordinated to the Prime Minister.

Regardless of the accepted solution such institutions should be provided with coordinating powers in relation to other sectors in the area of regional policy, as well as it should have proper connections

with voivods and their offices. It should also have rights to cooperate with appropriate international institutions (EC, OECD, and other) in the matters of regional policy.

\* \* \*

A clear disparity between the needs and expectations on the one hand and possibilities on the other appears in the sphere of regional policy in Poland, like in other spheres of social and economic life. It seems to be necessary to mention, however, that means for regional policy are nothing else but means for development of the economy and of the social sphere "in general", though they are used in connection with certain territorial aspects i.e. certain necessary balance of regional structure. Taking these aspects into consideration will not, automatically, "add costs" but, on the contrary, it may become a factor increasing economic effectiveness and increase expenditures to supply social needs. Thus, the problem of means for regional policy is not a separate one but an integral part of the problem of means for overcoming recession and development "in general".

Effective regional policy requires continuity, consistency of activities in the long period of time. The preliminary options described in Section III of this report may include ones which will not have positive effects, or are not going to be undertaken in 1992-1994 due to the shortage of means "in general". Therefore, particular stress should be laid on realisation of small capital projects aiming at facilitating communication and institutional infrastructure of regional policy ("soft regional policies"). Its existence will become an important factor in effectiveness of gradually introduced elements of "hard regional policies" requiring more considerable capital investments.

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# **Regional policy in the Czech Republic in the period of transition**

## **1. Introduction**

Regional policy is usually understood as state intervention into economic and social development in different parts of the state's territory. An actual profile of regional policy tends to be strongly dependent on the role (and strength) of the state in the overall development, on the affluence of the society (and hence the resources available), on the severity of regional disparities and on the structure of ruling political will (which has to define regional disparities as "problems worth considering" and to attach some priority to them).

During the decades of communist hegemony in Czechoslovakia and other Central and Eastern European countries, the political will was "unanimous". Consequently, the communist party was - *de facto* - the state and the state was the owner of almost everything. In such a system, there was hardly a place for regional policy in the usual sense of the word. Without market mechanisms, and under the command of centralised planning, every economic decision, every act of allocation of resources etc., had a character of state intervention. There was nothing but state intervention and the "regional policy" (or rather regional planning) was just one part of the overwhelming cobweb of voluntarist, wilful steering of the economy and society.

The system as described above collapsed in 1989. However, it is extremely difficult to get rid of the past - not only with respect to the inherited regional problems, but also with respect to the inertia in thinking, in reflecting the regional question and in approaching it by both research and governmental bodies. We assume that within the transition of the whole system, the very attitude towards regions is to be changed significantly. Therefore, our goal in what follows is to illuminate the process of reshaping of the former rigid, "socialist" regional planning into a modern regional policy; this process which started in Czecho-Slovakia soon after November 1989 is still largely unfinished.

Due to practical reasons (regional policy is a function of the republics in Czecho-Slovakia), we focus mainly on the situation in the Czech republic, but at the same time we hope that the problems and dilemmas disclosed are more or less relevant for the whole Federation (and to a limited extent also for other Central and East European countries).

It is assumed that it is very difficult to understand most of the issues discussed below without at least briefly describing three important explanatory areas for the contemporary situation in regional policy:

- economic development and approach to the regional question in past decades,
- changing international context,
- general socioeconomic features and problems of present Czecho-Slovakia (transition).

This is the aim of the first part of this paper.

## PART I

### **2. Long-term economic development and the regional question**

The long-term development of the socialist economy in Czecho-Slovakia has been both described in detail and summarized by a vast number of renowned authors (recently e.g. by Dyba, 1992). So the general features of the period after 1948 are well known; they are, among others:

- sweeping nationalisation and elimination of private sector (including handicrafts, small services etc.),
- collectivisation of agriculture,
- abandoning market mechanisms and introducing central planning, the command system,
- extensive growth and over-exploitation of domestic resources,
- restructuring of the whole economic base in favour of heavy industry (so called "socialist industrialisation"),
- substantial refocusing of external economic relations resulting in almost exclusive orientation to the Soviet natural resources and to the Soviet and other CMEA countries markets.

The CMEA itself was mainly an instrument for a "compulsory exchange of goods of poor quality" governed from Moscow and under such circumstances Czechoslovak products soon became largely uncompetitive in the world markets. No wonder, given the strategic orientation of Czechoslovak economy, that a constant drift of the economic "centre of gravity" of the country in an eastward direction could be observed.

On the urban and regional scene, such considerable changes, together with separation from the centuries-grown geographic and cultural context did not proceed without some response. One can trace many important consequences in this respect. Above all, they concern the central planning itself and central decision making resulting in eastward-driven investment strategies accompanied by a massive redistribution of resources and their wilful allocation. From the beginning it was obvious that the communist government had its own very specific way of approaching the restructuring of society including spatial policies and the management of regional/urban growth. Administrative regulation of (communist state intervention into) almost every sphere of life was to be the main vehicle of achieving the utopian ideal of social justice (and its important dimension "spatial justice"); unfortunately, confronted with real possibilities, this ideal lost its shape and usually took on the form of voluntarist projects, bringing about - earlier or later - rather bitter effects.

No surprise that over all the years, with minor exceptions (e.g. the special treatment of areas along the FRG and Austrian border), no explicit, systematic regional policy was articulated. Only Slovakia steadily benefited from the otherwise rather haphazard "planning process". This had its logic - given the above mentioned eastward drift.

The impact of "real socialism" upon regional and urban growth can be briefly summarized as follows (Kara, 1991):

- a) in the sphere of regional development:
  - absence of systematic regional policy,
  - partial achievements in levelling-off regions,
  - setting new dimensions of disparities,
  - emergence of new peripheries, especially due to isolation from the international context;
- b) in the sphere of urban/settlement structure:
  - quantitative growth, prolongation of the image of "industrial city" (especially during the period of so called "socialist industrialisation"),
  - strong administrative control over the settlement growth, fixed hierarchy as a basis for artificial growth selection,
  - isolation from international networks.

### **3. Changing international context**

In course of the four decades behind the Iron Curtain, many "natural" external links of the Czechoslovak economy, culture and everyday life were either abandoned or dramatically altered, and new, both geographically and historically distorted coordinates were imposed upon the whole society (for greater detail see Kara, 1991).

The recent breakdown of the Soviet Empire and the whole East European block (former CMEA), appearance of new states and new international problems, triggered a chain of substantial changes in this part of the world and in the overall geopolitical structuring of Europe. Entirely new perspectives on distribution and access to natural resources have emerged, and flows of international trade were revised considerably. For Czechoslovakia, the traditional trade partners (especially the former USSR) fell into trouble and alterna-



tive markets had to be sought for (figure 1). Many industrial plants, and consequently many localities and regions, were already severely affected in this process; and number of others will probably be hit in the near future.

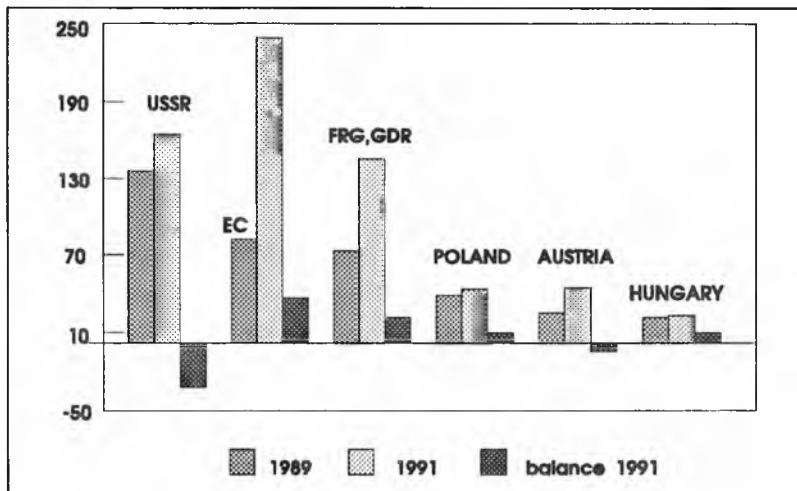


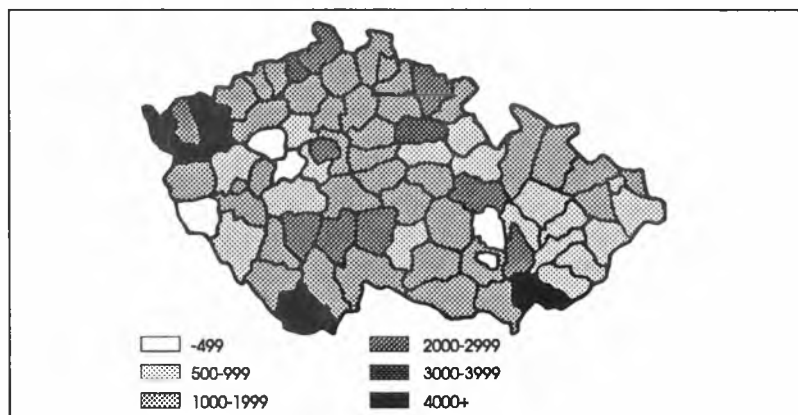
Fig. 1. Foreign trade of CSFR (in thousand million crowns).

At the same time, the opening of the border and inviting foreign capital may have considerable selective effect on local and regional development: also the very border zone (especially along the Austrian and Bavarian border) may develop in a rather specific way due to the "contact zone effect" (Kara, 1991). Altogether, the changing international context is expected to play - both directly and indirectly - a substantial role in defining development possibilities for individual regions, as well as in their fortunes and misfortunes.

#### 4. Economic transition from command to market economy: achievements and problems

Political change at the end of 1989 was accompanied from the beginning by far-reaching reform ideas and after several months of preparatory work, a general program of transition was launched in 1990. But the first substantial implications and the first really deep economic and social

changes could be recorded only in the following year. Prices of almost all kinds of goods and services were left to the market alone, state monopoly in foreign trade was abolished, internal convertibility of our currency for entrepreneurs was introduced. Thousands of retail and service units were privatised in auctions (figure 2) and even higher number of them were reclaimed by the former owners (or their inheritors) under the restitution law. According to minister Dyba the share of private sector in employment reached 10% by the end 1991 (Hospodarské Noviny 16.3.1992). The so-called "coupon privatisation" of big state factories was prepared and it's "first wave" starts in May 1992.



**Fig. 2.** The small privatization. Amount of money spent in auctions per capita in the Czech Republik (2.1.1992).

But there is also a "dark side" of the progressive changes highlighted above. For instance inflation rose by more than 50%, industrial output has fallen by approximately 23% and unemployment reached 4% in the Czech Republic and almost 13% in the Slovak Republic. (figure 3); simultaneously, real wages dropped to almost two thirds of the 1990 level.

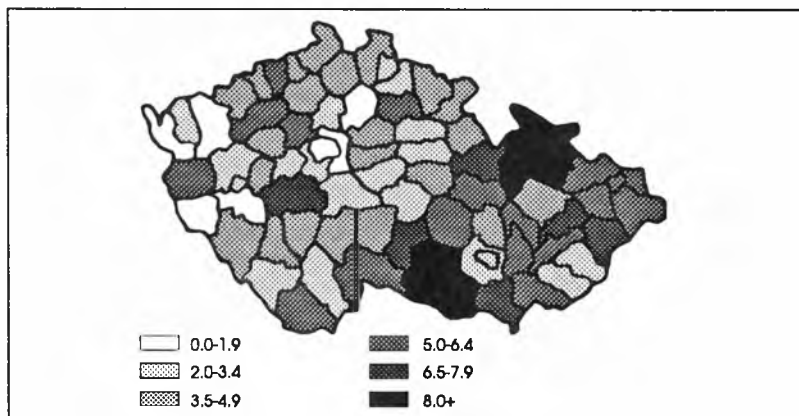


Fig. 3. Unemployment rate in the Czech Republik at 28.2.1992 (in %).

In addition, economic problems are accompanied by growing uncertainty and tension in the society: this is a feedback mechanism which sets political limits on the very conduct of economic reform. And this is also a feature which has a well pronounced spatial (regional) dimension, which contributes to the present shaping of new regional policy.

## PART II

### 5. From regional planning to regional policy

It would not be proper to say that during the past four decades regional issues were not dealt with at all. In fact, attempts to solve regional problems were rather numerous, but efficient tools and mechanisms could not be found in the command economy, with the state in the role of universal owner. Given this, all redistribution took place only within the overall interconnected budgetary system (characterised, according to J.Kornai (1980), by "soft budget constraint" for state enterprises) while other measures stemmed from the administrative power of the communist state.

Excellent insight into the problems and goals of regional policy (or rather regional planning) and evaluation of it's results in the former communist countries is provided e.g. by G. Enyedi (1990), who

makes the following observation: "*Regional and urban development has, to a large extent, been a haphazard outcome of territorial coincidence of sectorial decisions*". This is to stress that the all-embracing planning procedure was geared mainly along the sectoral perspectives, not primarily taking into account regional issues.

Probably the only exception in terms of modern measures included investment grants or increased depreciation allowances which were applied in selected regions (mainly regions along the Iron Curtain) in the late 1960's. But these progressive attempts were abandoned soon due to both political reasons and difficulties with using economic incentives in the non-market economy.

Since the 1970's, a discipline of regional planning has been evolving again with greater intensity and regional planning was (especially after adoption of the Regional Planning Decree in both Czech and Slovak republics in 1977) gradually integrated into jurisdiction of regional and district authorities (as a subsystem of central planning) in pursuit to secure a balanced and even development of territory (see e.g. Buek and Haliena, 1984).

Regional planning was defined as :

*"activity aimed at rational distribution and effective making use of productive forces on the whole territory of the state, and aiming at optimal using of natural and social and economic conditions of the regions with the objective of improvement of the standard of living of inhabitants" (Buek & Haliena, 1984).*

But despite all the ambitious goals proclaimed, the executive side of it remained rather weak all the time.

Just before the outset of the far-reaching political changes in late 1989, four problem regions were targeted by regional planning at central level in the Czech Republic:

1. Prague (special emphasis was put on improvement of technical infrastructure, some services, construction of flats etc.).
2. The region of North-Bohemia.

3. The region of Ostrava (special support for the last two regions was channelled through the regional plans which were in fact only territorial projections of the 5-year plan. The typical feature of these regional plans was redistribution in favour of selected areas).
4. The border zone along the Iron Curtain (selected professions received some supplements to wages; bonuses for immigrants were on offer, construction of both private and state houses as well as construction of infrastructure were supported).

Paradoxically, one of the very last documents approved by the communist parliament in the Czech Republic was the Regional Planning Decree of 15 November 1989. At least three important features of this document are worth mentioning:

- first - emphasis was put on levelling off regional disparities by redistribution of resources among regions;
- second - again extensive development of the economy was supposed and structural changes were not taken seriously, in spite of clear signs of changing international circumstances for the economy;
- third - these plans were not compulsory for state enterprises, so that regional administrative bodies had no right of sanctioning enterprises if they did not comply with the regional plan.

This decree had no time to become subject to implementation.

Instead, several successive steps of the reform approach towards regions can be recorded in the course of revolutionary months. Almost immediately, as in other areas, the term "planning" has been condemned and abandoned. The substitute at hand was "policy" so that the pre-November concept has been re-dressed first. Gradually, some new and progressive elements have been incorporated. These progressive changes reflected the ongoing economic reform and the increasing knowledge about regional policies in western countries; they were concerned mainly with the specific tools as discussed below. However, the general "philosophy" behind regional policy remained largely unchanged. It is still trapped in overestimation of

possibilities of state intervention and it is still dominated by rather proclamatory concepts. This can be seen from the contents of the last draft of The Regional Policy Act:

*"Main goal of regional policy on the republic level is support for regions with economic problems and direction of regional ordering of social and economic activities in the regions".*

But apart from the declarative contents of the document in its general part, the other parts increasingly resemble what might be a modern (and realistic) design for treatment of regional problems. Some of these elements, together with measures taken in other areas of public sector are outlined in the following chapter.

## **6. Present regional policy in the Czech Republic**

In 1991, regional policy was declared by the Czech government to be an integral part of economic policy with the aim of *"creation of preconditions for full-value working and living conditions for citizens in all regions in the Czech republic"*.

The whole question of regional problems is dealt with by The Ministry for Economic Policy and Development, in cooperation with several academic and other institutions. The following priorities were selected:

- environmental pollution,
- structural changes,
- problems in the border zone,
- economically weak regions,
- regions with neglected infrastructure.

With regard to these priorities the problem regions were defined according to the set of criteria (e.i. economic, social and demographic structures, infrastructure, environmental pollution). Particular emphasis has been laid on the rate of unemployment (figure 3) in spite of the fact that the unemployment rate has not the same validity as in the market economies, yet, and therefore cannot be taken as fully representative indicator for the extent of problems in particular regions. A more objective picture of problems will be available only after the "coupon privatisation": than bankruptcy of many enterprises is expected and

generally higher (and regionally more differentiated) rate of unemployment is quite likely to occur. That is why frequent up-dating and re-defining of the problem regions is prepared.

So far, several types of problem regions were recognized following the above mentioned criteria:

1. Regions with economic difficulties:
  - a) regions with the necessity for structural changes (figure 4),
  - b) economically weak border zone.
2. Regions with neglected infrastructure (figure 5).
3. Regions with environmental problems (figure 6).

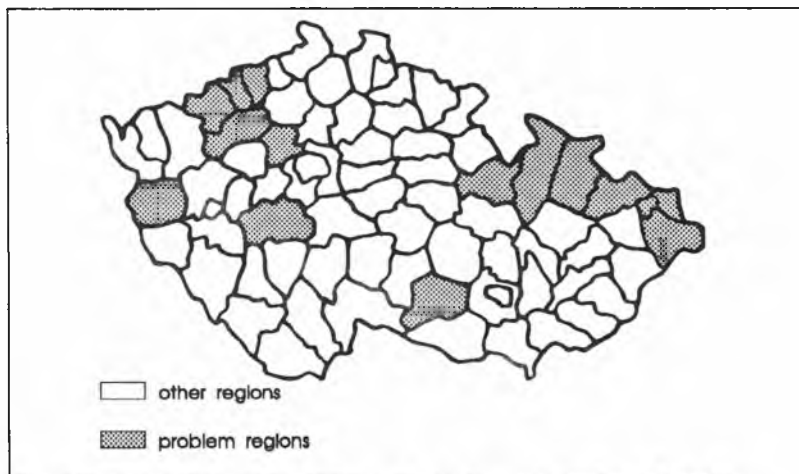


Fig. 4. Regions with necessity of structural adjustment in the Czech Republic.

For regions with the necessity for structural changes (1a) regional programmes are prepared emphasizing the support for private enterprises. The first of these programmes was already accepted by the government at the end of last year. This program has to ease structural changes and environment protection in the region of Ostrava. Approved regional measures are the following:

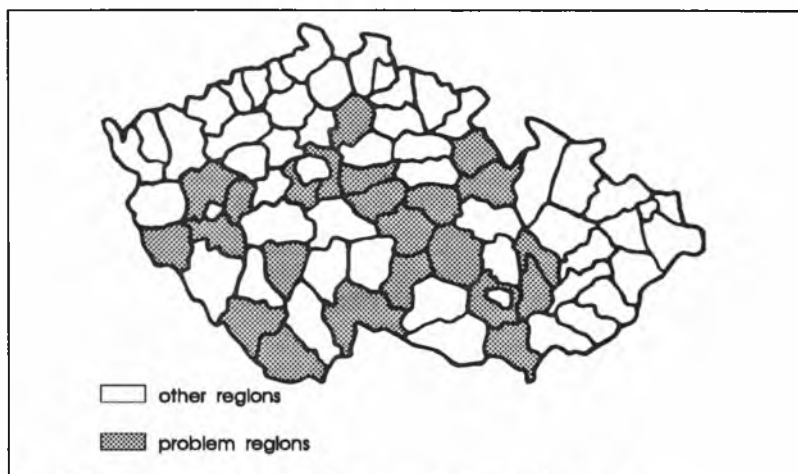


Fig. 5. Regions with neglected infrastructure in the Czech Republic.

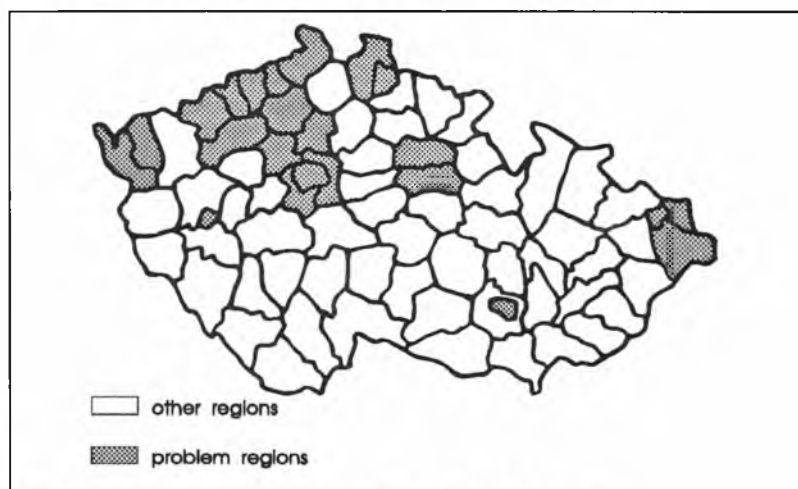


Fig. 6. Regions with heavy air pollution in the Czech Republic.

- two year tax holidays for enterprises offering new jobs and without negative environmental impact on production,
- establishing of a regional bank (Union Bank),
- special grant for support of private sector and job creation,



- "active employment policy" - vocational training, special grants for job creation etc.,
- assistance in attracting foreign capital,
- support for establishing of a Free Zone in Ostrava.

Another positive feature is the rise of several local initiatives e.g. the Association of Self-Governing Towns and Municipalities of the Ostrava region, The North-Moravian economic union etc. A similar regional program for the second region in great difficulties - the North-Bohemia region - is supposed to be approved later this year.

Situation and perspectives of the border zone (1b) with Germany and Austria has changed significantly after 1989. New opportunities for economic development in these areas emerged, but as far as the long term decline and social instability can not be solved immediately, special support for these regions will continue also in the future. In the new Czech government's resolution (January 1992) the border zone was newly demarcated (the border zone is narrower then in the past - only approximately 10-15 km) but the most important change was the involvement of border areas with the former GDR and with Poland. Supplements to wages have been abolished since January 1992, but some new measures were put into operation. In 1991 two-year tax holidays were introduced for selected private firms, special grant for improvement of technical infrastructure was offered, and new border crossings were opened (majority of them with Germany and Austria). Some other financial incentives are on offer in the border zone since March 1992 when a group of four programmes aiming at support of small private firms was launched. "Coordination studies" are also prepared by The Ministry for Economic Policy and Development with the aim of coordinating activities on both sides of the border line, especially in the sphere of transport and environment.

Regions with neglected infrastructure (2) will receive some priority in the distribution system of grants for the local governments.

Environmental issues (3) are beyond the scope of this article, but attention paid to these problems can be illustrated by grants of 1,000 million crowns from the Czech government to both the North-Bohemia and the Ostrava regions for improvement of the environment in 1991.

In March 1992, four programmes aiming at support of small and medium-sized firms were introduced. A new bank (Czechomoravian Guarantee and Development Bank) was established for this purpose. The main financial incentives offered by this bank are guarantees of borrowing and interest subsidies. Three out of these 4 programmes are not regionally restricted. The fourth programme - programme REGION - is supporting small firms in regions with the necessity of structural changes or in economically weak regions. Particular emphasis in this programme is put on job creation - at least 5 new jobs must be created. All applications are individually considered by the Bank. Recommendation from the local authority is another condition for the provision of assistance.

Several other activities with expected positive regional impacts can be listed:

- Free Zones - they exist in Ostrava and Cheb and both offer easier involvement in international cooperation and transfer of advanced technology . Production in these zones is duty free on condition that imported materials or goods are exported again after processing;
- establishing of new universities or departments in some cities (e.g. Frydek-Mistek, Cheb);
- local and regional associations of towns and municipalities as response to the missing regional level of self-government. This issue is particularly hot in the border areas where Euroregions are being established. Some legal issues are not clear yet (e.g. election of representatives and their powers). The most active is Euroregion "Egrentis" with the centre in Cheb and Euroregion "Nisa" with the centre in Liberec;
- establishing of "Centres of innovation" or "Economic and Technology Parks" (Cheb, Ceské Velenice) aiming mainly at support of local initiatives, consultancy in legal, financial and other spheres and research of the area;
- launching the "Program for Renewal of Rural Municipalities" prepared by both the Ministry of Environment and the Ministry of Economic Policy and Development. Originally larger amount of money for improvement of in-

frastructure was expected but later this program was reduced and now the program is not running at all.

Regional issues have received some emphasis also in "The Agrarian Program" submitted to the Czech government by The Ministry of Agriculture. In The Agrarian Program the problem regions are classified into four groups:

1. Regions in the border zone (this zone is identical with the border zone mentioned above).
2. Suburban regions.
3. Regions with pressing environmental problems.
4. National parks and other environmentally protected areas

Measures of regional policy are being prepared for each group of regions, i.e. support for private enterprises in some services and tax exemptions in the border zone, support for high intensity agriculture in the suburbs by grants for investment into greenhouses, dairy etc. In environmentally damaged regions (some of them have very good conditions for agriculture production otherwise) slight restructuring in favour of non-alimentary production is suggested as a temporary solution. In environmentally protected areas limits for using chemicals will be introduced, re-afforestation and grass in some areas will be supported. However, number of employees in agriculture is supposed to decrease significantly in two years, maybe even by 1/3.

## **7. Conclusions**

Regional policy in the Czech republic is just at the beginning. The accepted regional measures are relatively weak (e.g. common tool in EC countries - capital grant for private entrepreneurs - is not on offer). The most important reasons for the present weakness of regional policy are the following:

- restrictive monetary policy which limits volume of state expenditures,
- mistrust of strong state involvement in the economy and making "exceptions" after so many years of the command economy,

- impact of economic reform is only slightly differentiated, so far.

The main problems to be solved in the future can be summarised in the following points:

- lack of experience with regional policy both in the centre and at local level,
- weak involvement of the local authorities in support for the local economy and an unclear division of powers between different governmental tiers in the future,
- unclear legal relationship between regional policy and physical planning,
- strengthening of small and medium enterprises and middle class in general.

In June 1992 general elections will be held in Czechoslovakia and a new spectrum of political power will arise. It is difficult to predict now which political program will win, what will be the course of economic reform then, what will be the political representation of the regions, or how politically pressing the regional problem will be. The array of options for regional policy is therefore wide open. In any case, regional problems themselves are most likely to escalate in the near future.

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## **Regional policy in Slovenia in comparison with the EC countries**

### **1. Introduction**

In the past 70 years Slovenia was a part of Yugoslavia which was one of the most heterogeneous countries in Europe regarding regional disparities.

Yugoslavia was founded in 1918 after the disintegration of the Austrian-Hungarian empire as a new state uniting different nations and nationalities that were living for hundreds of years in a completely different environment and brought diverse ethnic, political, cultural, religious and historical backgrounds into the new state. Slovenia (as well as other northern parts like Croatia and Voivodina) had experienced centuries of foreign domination by the Austro-Hungarian Empire, while South and East had been dominated by the Ottoman Empire. Over the course of time the northern regions benefitted from the spill-over of the industrialisation from Central Europe which laid the foundation for industrial development in Slovenia and other northern regions, whereas the Southern and Eastern parts remained behind in economic development. So it happened that Slovenia which was considered to be, in economic terms, a less developed region in the old Austro-Hun-

garian empire (in total Austro-Hungarian empire 48% of total population derived their living from agriculture and forestry, whereas in the Slovenian parts this share was over 63%) became one of the most developed regions in the new state of Yugoslavia. It was true that in comparison with the South and East Slovenia had a relatively strong industrial base, well developed infrastructures for transportation and utilities and a rather high level of education.

After the Second World War the socialist Yugoslavia led an active regional policy. It is estimated that about 3 percent of GBP was spent yearly to promote the development of less developed regions (republics Macedonia, Bosnia and Herzegovina, Montenegro and the Autonomous Province of Kosovo). The results achieved did not satisfy either the less or the more developed regions. The less developed claimed that more financial resources should be gathered for investments in new jobs and social services, the more developed (including Slovenia) argued that the financial burden for these purposes was too heavy and the resources were frequently used for other purposes. As the whole economic system in Yugoslavia also the subsystem of promoting faster development of less developed regions was inefficient. The institutions and instruments of regional policy were rigid and inefficient since their primary aim was to collect and redistribute the resources with practically no built-in elements which would promote rational use of these resources. More developed regions were advocating **efficiency** as the criterion in economic policy as opposed to the prevailing argument of **equality** in the Yugoslav economic policy and they were drawing attention to their own regional problems (peripheral agricultural regions, regions with obsolete manufacturing, environmental damage). They pointed out that they were increasingly lagging behind the developed countries in Europe.

## 2. Slovenia's regional policy

Slovenia started its own regional policy in the early seventies. In the past twenty years the polycentric concept of development was stressed with the aim of diminishing the big differences in the level of economic development between the communes and geographical areas in Slovenia and establishing more equal conditions for life and work of the inhabitants.

The scope of less developed regions in Slovenia (measured by the area and number of inhabitants) has been changing over time: the number of the communes that were declared as less developed diminished from eleven in the period 1971-1975 to four in the period 1986-1990, but the size of less developed geographical and border areas increased so that the total number of population in less developed regions had not changed much (from 18% in 1971-1975 to 16% of the total population of Slovenia in the period 1986-1990).

The measures for promoting regional development were directed towards investment in infrastructure and social services and towards direct investment in manufacturing and other economic activities. These measures were intended to promote activities of the indigenous population and business community in the less developed regions and combine them with the activities of the economic units in other parts of Slovenia. The aim was to better use and develop their own natural and man-made resources and the labour force available. A detailed analysis of the results, achieved which was carried out at The Institute for Economic Research, indicates that at the beginning of the 1990's there would be no commune which could be declared as less developed according to the officially adopted criteria (rate of employment of working age population, value of fixed assets per capita of working-age population, the rate of growth of population, GBP per capita, the share of primary sector in GBP, the per capita value of turn-over in trade, the enrolment rate of pre-school children in organized child-care, the share of students in total population, the number of doctors per 10000 inhabitants).

But another problem arose. Most of the new investments and jobs were created in the centre of the commune or in a few other industrial site. As a consequence, in many small settlements in the periphery or in the mountains population has been decreasing rapidly. As an answer to these tendencies the Parliament of the Republic of Slovenia passed a new law on the promotion of demographically endangered areas in Slovenia in December 1990 which should replace the old law on promoting a more balanced regional development that expired at the end of 1990. In this law the criteria for demographically endangered regions are defined as well as the



measures to promote their development in order to stop or diminish the exodus of people from these regions. A special government decree has been issued where all these areas are specified (local communities, settlements). The Republic of Slovenia participates in promoting the development of demographically endangered areas by:

- co-financing the elaboration of development programmes of such areas,
- securing a part of resources needed for the development of local infrastructure,
- promoting direct investments in business activities,
- tax concessions,
- special measures in the field of social services (primary education, vocational training, scholarships, culture, basic health services, physical culture and social protection).

The aim of our analysis was to compare the present regional legislature in Slovenia with that of the EC and some other countries. The comparison was centred on the following issues:

- definition of designated problem areas and their spatial coverage,
- composition of regional incentives,
- activity and size coverage of regional incentives,
- project-type coverage,
- incentive administration,
- incentive values,
- regional incentive expenditures.

### **3. Regional incentives in Slovenia**

#### **3.1. Definition of the designated areas**

The present regional legislature of Slovenia knows only one type of problem areas that is the demographically endangered areas (which are in most cases agrarian areas with low per capita income, low employment rates and old population structure). The majority of European countries and EC specify two types of designated areas:

- structurally backward agricultural regions,
- regions in industrial decline.

The present regional legislature of Slovenia does not identify the regions in industrial decline nor the regions with heavy ecological problems. But of course, such regions do exist in Slovenia (regions with coal mines, steel plants, aluminium industry, heavy equipment, textile industry..) and their situation has been deteriorating in the last decade. This situation is a consequence of the old Yugoslav regional policy which acknowledged only the existence of the less developed (agricultural) regions and considered problems of industrial restructuring as sectoral and not regional problems. The same attitude is prevailing now in Slovenian economic policy: Slovenian government intervenes with special measures (tax concessions, social programmes for unemployed, co-financing of the development programmes..) from case to case and not in the framework of a comprehensive regional policy.

Demographically endangered regions of Slovenia comprise about half of the total area of Slovenia and there live 24% of all its population. But if regions in industrial decline were also included in designated areas, this percentage would be much higher. According to the criteria of EC (per capita GBP and the level and rate of growth of unemployment) nearly all of Slovenia would be eligible for regional incentives similar to Ireland, Portugal and Greece (with different rates of awards in different districts).

### **3.2. Composition of regional incentives**

The Slovenian regional legislature prescribes the following direct incentives:

- grants for the elaboration of development programmes for designated areas (up to 50% of total costs),
- grants for investments in local material infrastructure (up to 30% of the investment),
- capital grants, soft loans or interest related subsidies, equity finance for investments in other economic activities (up to 30% of fixed assets investments),
- tax concessions,

- indirect measures connected with the development of primary education, manpower training, scholarships, health services.

However Slovenian regional policy does not prescribe labour related subsidies such as social security concessions or special employment grants (for each additional job created) which are known in many European countries. Neither does it identify depreciation allowance as a special regional incentive.

### **3.3. Activity coverage and size coverage**

All economic sectors can participate in the regional subventions in Slovenia, but the priority is given to local infrastructure, to agriculture and small business. This orientation is understandable in view of specific problems of demographically endangered regions (rural areas, upland regions). However, agricultural projects participate also in specific agricultural incentives which are available in the total area of Slovenia. In the majority of European countries projects in agriculture, forestry and fishery are entitled to development incentives only in the framework of agricultural policy and cannot compete for the regional incentives too (with the exception of certain agricultural activities with industrial characteristics). As in other European countries manufacturing can participate in regional incentives if it creates or preserves high grade jobs and if it is ecologically sound. Producer services (engineering, design, data processing, technical consultancy, software development, etc.) are now eligible for regional incentives almost everywhere in contrast to the beginning of the eighties when the emphasis was almost totally on manufacturing. In Slovenia producer services are eligible for regional incentives, but they are underdeveloped all over the country and it could hardly be expected that they would settle down in demographically endangered regions.

In the majority of European countries there are explicit minimum and/or maximum size limits regarding project fixed investment or number of jobs created. The aim of minimum size limits is to reduce the number of cases involved in the procedure and focus on more significant projects, while the aim of upper limits is to prevent a few

big projects using up all the resources available. In all countries with minimum size limits there exist extra measures directed specifically at small and medium-sized enterprises.

There are no size limits for projects competing for regional incentives in Slovenia. In result in 1991 the number of applications was high in comparison with the population of the country (2500 projects in agriculture and 2600 projects in other economic activities), the process of decision making very long and troublesome and the rate of turndown very high. Because of delays in decision taking and high inflation, the effective value of incentives was much lower than promised.

### **3.4. Project type coverage**

The Law on Promoting Development of Demographically Endangered Regions in Slovenia does not make any difference between project types (as setting up, extension, rationalisation and reorganisation, modernisation, spatial relocation and takeover). Its aim is to promote the development and prevent further depopulation in the regions designated as demographically endangered.

### **3.5. Incentive administration**

In the majority of European countries decisions about regional incentives are bound to administrative discretion of some government institution. The same is true in Slovenia. The decisions are centralised within the Ministry for Planning, but in the process of decision making it cooperates with other ministries, research institutions and with the communes. For the projects in manufacturing and services the applicants must submit also the opinion of the bank, and for the projects for the development of farms the opinion of the agricultural extension workers in the commune. Nevertheless, the final decision and the responsibility for it lies with the Ministry for Planning. As the applications exceed the resources available for regional incentives in the budget of Slovenia tenfold, the selection of projects is very difficult. In other countries decentralisation is the trend in decision making procedures in the last decade, especially for smaller projects and awards (regional and local level).

### 3.6. Incentive values

In considering the incentive values it is useful to distinguish between nominal (advertised) rates and effective value of incentives to recipient firms (that is their value after taking account of their treatment for tax purposes, the timing and phasing of their payment and their relation to the value of eligible items of expenditure).

In all European countries under consideration capital grant is the most important regional incentive. Its nominal maximum rate is different from country to country. As a rule it is higher in less developed countries. In many countries we notice a growing importance of rate discrimination by activity, by area and by project type as a reflection of on-going budgetary constraints and the desire to target assistance more on those activities, areas, project types and size groups where it is likely to have most impact.

In Slovenia the nominal maximum rate of regional capital grant amounts to 30% of the investment cost; only in border areas it can reach up to 50%. No other rate discrimination is available. The values of nominal maximum rates are compatible with the rates in other countries (between 30 and 60%, up to 75% in extreme cases - Portugal). The effective values of maximum rates are much lower (between 10 and 40%, in extreme cases up to 48% - Portugal). In Slovenia the difference between nominal and effective rates are very large due to the long procedure and high inflation. It is estimated that in 1991 the maximum effective value reached only 10 to 15% of eligible investment expenditure.

### 3.7. Regional incentives expenditures

International comparisons of regional incentives expenditures have very limited value because of different methodological approach. Some of the incentives are difficult to express in quantitative values (tax concessions, depreciation allowance), with some other incentives the effective value depends on methods and phases of payment, with the soft loans on interest rates, repayment period, grace period etc. In addition to these problems there are problems of converting the data in national currencies into a common denominator (USD).

**Table 1:** Expenditures for regional incentives

	GBP 1989 per capita v USD <sup>1</sup>	Share of regional incentives expenditures in GBP (in %)			Population in problem in per cent of national population	Expenditures per head <sup>6</sup> in USD, 1988	
		1983	1986	1990		a) of national population	b) in recipient regions
Belgium	16,220	0.15	0.12	0.22	33.1	31.1	93.7
Denmark	20,450	0.06	0.02	0.02	19.7	2.5	12.7
France	17,820	0.04	0.03	0.03	<39.0	3.8	10.0
Germany	20,440	0.20	0.19	0.25	38.0	17.9	61.8
Greece	5,350	0.51	0.41	0.49	100.0	...	...
Ireland	8,710	0.68	0.91	0.60	100.0	54.4	54.4
Italy	15,220	0.82	0.59	0.67	35.6	96.0	269.9
Netherlands	15,920	0.09	0.07	0.10	19.9	14.5	72.9
Portugal	4,250	...	...	0.40	100.0	...	...
Spain	9,330	...	...	<0.50	56.0	...	...
Sweden	21,570	0.09	0.10	0.13	13.5	...	...
United Kingdom	14,610	0.22	0.21	0.14	36.8	20.1	59.1 <sup>8</sup>
Slovenia <sup>2</sup>	5,840	0.45	0.51 <sup>3</sup>	0.31 <sup>4</sup>	16.4 <sup>5</sup>	23.5 <sup>7</sup>	129.1 <sup>7</sup>

1 Source: World Development Report 1991.

2 The data for Slovenia refer to gross material product and are estimated by the author on the basis of relation to the published data for Yugoslavia.

3 The regional measures in social services are not included.

4 The data refer to 1990 and show realized subventions; if we took all approved subventions the share would increase to 0.45% of GBP.

5 Estimation for the period 1986-1990.

6 In USD in 1988 prices; source: European Regional Incentives 1991, calculations in USD by the author.

7 Gross expenditures in 1990.

8 The data refers to Northern Ireland, for the UK it is not applicable.

In our calculations which are displayed in table 1 we present GBP per capita as the basic indicator of the level of development. The data is taken from World Development Report 1991, with the calculations for Slovenia worked out at the Institute for Economic Research in Ljubljana. In the second column the share of regional incentives expenditures in GBP of individual countries is shown.

These are the author's calculations based on the data in the World Development Report 1991 (GBP) and the data in European Regional Incentives 1991 (expenditures on regional incentives in national currencies). In the same table we present also the data on expenditures for regional incentives per head of national population (as an indicator of the burden of regional policy) and per head in recipient regions (as an indicator of the level of regional aid).

The basic observations derived from these data could be summarized in the following points:

- the countries with low per capita GBP and a very large percentage of population living in designated areas allocate from 0.4 to 0.8% of GBP for regional incentives (Greece, Ireland, Portugal, Italy, Spain). According to the share of regional incentives in GBP in the past years (about 0.5%) Slovenia would join this group of countries. Because of political reasons (disintegration of Yugoslavia and the independence process, war) and because of the lack of financial resources in 1991 this share dropped to less than 0.30% of GBP;
- in the second group of countries with high GBP per capita and a much smaller percentage of population living in the designated areas regional incentives expenditures represent a much smaller percentage of GBP (Denmark, The Netherlands, Germany, UK);
- per capita regional expenditures amounted in 1988 from 2.5 USD (Denmark) to 96.0 USD (Italy). The calculations for Slovenia show in 1990 about 23.5 USD per capita, which is two times less than in Ireland and four times less than in Italy, but more than in France, Denmark and The Netherlands;
- the per capita expenditures in recipient regions (regional aid) amounted from 10 USD in France to 270 USD in Italy. Slovenia with about 129 USD of regional incentives expenditures per head of population in recipient areas could be ranked among countries with rather high regional aid.

## 4. Conclusions

The comparison of the regional policy in Slovenia with other European countries reveals that in Slovenia regional policy is not integral but partial; it deals only with problems of agricultural, peripheral, demographically endangered areas. Its fundamental targets are:

1. To improve the conditions for work and life in the rural areas and preserve the present number of inhabitants in those areas which were subject to depopulation in the past.
2. To create for this purpose the possibilities for additional income for the rural population:
  - a) from agriculture,
  - b) from supplementary activities linked with agriculture,
  - c) from new jobs created outside of agriculture.
3. To bring about a socially more attractive environment and improve the quality of life in the demographically endangered regions for the inhabitants so that people - especially the young - would want to stay and live in the region.

One of the fundamental principles of Slovenian regional policy is to utilize as much as possible the domestic resources: land, labour force, raw materials, traditional skills and experiences, etc. Another principle is that the local population is to participate in the preparation of the development projects from the early phases so that they can identify themselves with the development issues, possibilities and variants.

If the decision making would be more decentralised and the procedure more expedient we could say that the problems of agricultural backward and depopulating regions are adequately treated in the present regional legislature of Slovenia.

On the other hand the **problems of regions in industrial decline are not at all treated in the Slovenian regional legislature**. As in other ex-socialist countries the post-war model of industrialisation in Slovenia was a model of forced extensive industrialisation



through huge investments in fixed assets and high rate of growth of employment in industry; preference was given to heavy industry and energy production and a specific sectoral structure was created, which is very intensive as regards the consumption of raw materials, energy and transport facilities. The primary reason for such a wasteful structure was the absence of reliable indicators for investment decisions.

In the changed market economy some of the past pillars of the Slovenian industry have become sick men needing restructuring and adjustment to new conditions. The open unemployment which had been unknown in Slovenia (up to 1989 the rate of unemployment was about 1.5%) started to grow rapidly. In the beginning of 1992 it is estimated to about 10% of working age population. Industrial production fell by about 30% in two years mainly due to the loss of former Yugoslav markets (Serbia, Montenegro, Macedonia) and the collapse of the Eastern European markets which used to be an important foreign trade partner. The economy could not adjust to the more demanding Western European markets in a short time, in spite of the fact that for Slovenian exports the share of western countries was about 30%.

The problems of industrial restructuring have become very acute but they were treated in most cases as sectoral and not as regional problems. In spite of its commitment to the market economy government was helping the firms and regions in trouble from case to case (e.g. coal mines in Zasavje, aluminium plant in Kidrievno, mercury mine in Idrija, the car industry in Novo Mesto, heavy equipment plants in different regions, etc.). The main characteristics of these government interventions is the lack of any system and no a priori criteria for the distribution of these resources among the firms. Just for comparison let me mention that a special competition is issued yearly for the resources for demographically endangered regions, a special commission evaluates the applications according to the published criteria and all the procedure are made open to the public. And these resources are at least five times lower than the resources for government interventions into the economy! With these interventions it is often so that the left hand does not know

what the right one is doing. Through open and hidden subvention huge financial resources are redistributed among firms, sectors and regions and in this manner the competitiveness of the firms is distorted as well as their creative response to the demands of domestic and foreign markets. In the near future the Slovenian regional policy will have to go hand in hand with social and industrial policy, include all problem areas (besides demographically endangered also regions in industrial decline and regions with heavy environmental problems) and treat them rather restrictively and with efficiency criterion in first place. We don't see any other way of becoming an efficient small open market economy.

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## **Lithuania's dilemma - development or national identity?**

The aspirations of contemporary Lithuania date back to the great Occidental civilisation, to reintegrate itself into the process of Europe's history and culture, from which Lithuania has been eliminated for half a century, as well as theoretical considerations of the implementation possibility of this aspiration should not be turned into the schematic and naive theoretical and ideological alternative, put forward by disputes of the 19th century Russian Slavophiles and Zapadniks (westernizers). (In our country these disputes have been continued by intellectuals who believe in the idea of the West, on the one hand, and by Baltophiles).

This alternative could be roughly formulated as follows: do our historical fate and the road of civilisation have to be connected with the foremost region of the world's history, i.e. the West and its civilisation, or do we have our own unique historic fate and road, that will help us to avoid all the obvious drawbacks of the Western world (extreme heterogenisation of cultural creation: differentiation of activity: pragmatism: exoterisation and trivialisation of culture caused by economical fundamentalism: the spirit of expansion: extensive culture that is ousting intensive creative action: evils of mass society)? On the other side of the horizon of such a schematic, binary and fatalistic thinking there is the fact, that the development of

historical culture (civilisation) always is a probabilistic process, not submitting to any pretentious theoretical planning and modelling. While being a supersystem that organises and regulates itself, at the same time culture is also an axionormative dimension of a human being's existence in the world. That is why any preliminary attempts to model culture perfectly, optimally, to make projects of its future, that is, as a matter of fact, to perform a normative action while explaining what culture should be like and what it should not, reveals belief in the unconditionally standardizing and manipulating power of theoretical thought, not speaking about the wish to treat culture and its historical forms instrumentally (this attitude should be strictly distinguished from such things as the strategy of culture and the politics of culture, which though being inevitable and indispensable parts of the instrumental process themselves, stipulate not instrumentalism of culture, but only perhaps its striving to preserve its historical forms and to protect in an institutional way, to take care of freedom, of its immanent dissemination).

From such a normative point of view at the realm of axionormativity, i.e. culture, there is only one step to the position declaring that the world can and must adapt itself to a rational theoretical scheme. If the world has its own ontic vector and systems of orientation - well, the worse for the world. It is hardly necessary to prove to somebody nowadays that every serious theory always tries to speak from the distance of time or even historical perspective, because it is directly caused by the existence and the present. It strives to be the latest concern of research processes and phenomena, so that it is not submerged in them and does not lose conceptional distance.

Such a point of view, standardizing and planning the future of our culture, treating culture as a close, unique and sacred world, or a specific theophany, a monad (here we clearly come into a romantic - ethnocentric and monadal - vision of culture), represents the contemporary Baltophilism, that is, Baltocentrism, or simply Baltic (in this case, Lithuanian) national fundamentalism. But an alternative to this romantic (to be more precise - neo-romantic) point of view, hypertrophying the phenomenon of the nation and the uniqueness of its historical road, does exist. It is enough to cast a theoretical glance into the real (and not

the ideal, that is, possible) history of our own culture and sociodynamics and try to understand to what world regions and civilisations the fundamental forms of life and culture, spreading in the space of Lithuanian history, relate us.

Lithuania is a part of the Christian civilisation, a branch of the Christian Occidental world. That is why it would be naive to describe its cultural reintegration into the West as some sociocultural mimicry or artificial transferring of the Western mode of life and consciousness into the Lithuanian sociocultural context (by the way, it is impossible and irrational in general). Westernism, represented by the ideals of intellect and freedom and their absolute primacy against other possible orientation points of activity and cultural creation, as well as economical and political liberalism, polycentricism and pluralism, actually is nothing else, but openness of society and culture (I use the term of the open society in the sense which was explicated thoroughly and clearly by K.R.Popper).

Openness can be understood as a metaphysical dimension of the Western world, that is, as the dimension of the sphere of existence and substantiality, and assertion of individuality of its phenomena, and as the basic principle of the life of society, that is, as the fundamental and orientation point of organisation, extension of various spheres of activity and creation. Besides, experience of both, Europe and the West, as a metaphysical vector and ontocultural movement are concealed in the forms of Lithuanian historical past without any doubt: in urban culture (though it has not spread in pure and extended European shapes in Lithuania) and in architectural forms, in structures and models of economical and state life (what is proved by the investigations of private property and regional world development concept by our historians medievalists E.Gudavicius and A.Bumblauskas), in great historical and cultural programmes, epochs, in reminiscences and transformations of their styles and physiognomies. It is necessary to acknowledge the fact that the great European processes and historic-cultural phenomena, though they did not leave Lithuania behind, still were very late or reached Lithuania already strongly modified, not in their pure and primary shape (for instance, there were neither Renaissance nor Renaissance

Humanism, nor Romanticism *par excellence* as the great cultural programmes and orientations).

Nevertheless, Lithuania was, and still is, a part of the Western civilisation, though unfavourable world processes and historical circumstances made it a marginalia rather than a fragment of the Western world. Whatever it is, contemporary Europeanisation, or Westernisation, of Lithuanian culture should not be a blind, submissive and poor imitation of Western fashion and standards, i.e. late and hopeless reflection of the Western world, but actualization of its sociocultural potency, spreading of forms of its culture in space and time, not in the shape of national myths, but in the shape of real historical and cultural configuration. Here I would like to explain how an ethnocentric superstition established itself in the minds of many people, according to which national culture is something that is totally strange to the civilisations of the great world regions and world processes; at the same time, it is something extremely fragile, that should be protected from harmful external influences. One could understand or even approve such an attitude - it has been created by constant struggle of the Lithuanian nation for its survival, for preservation of its historical fate, future and identity. So, inevitably, it had to mark the contemporary Lithuanian culture too, which until now seems to take care more of its survival and to be oriented to the defensive function, than to take care of possibilities and perspectives of opening itself to other cultures, that is, of development. (The constant defensive function performed by culture, suppressing the layers of creative experiment and free constructing, left its imprint on the native language which still is in the state of constant standardizing, cleaning, purifying, or simply in fighting trim, and this most probably for a long time will prevent our language from fixating in itself vision and experience of the modern human being's world.)

But one should not miss the facts of history and reality of life. First of all, the idea of ethnically clean, purified national culture (with nearly prevailing elements of prehistorical pagan culture) in the contemporary world is simply a fiction. It is possible and necessary to reconstruct theoretically the times of the dawn of the Lithuanian his-

torical culture, that is, the Lithuanian civilisation. But it is hardly reasonable to provide these theoretical visions with a normative dimension and power, while contrasting them with the contemporary world. Fully localized models of culture (with the exception of primitive cultures) do not exist any more in the modern integrated world.

Secondly, ethnocentric understanding of contemporary culture only mystifies and distorts its real configuration. Nation, as well as its culture, is a multidimensional, multi-layered, polymorphic historical and sociocultural phenomenon, accumulating experience and forms of dissemination of many nations and cultures. National culture and nationality, when discussed seriously and exactly, are nothing else but a specifically concentrated universalism. Only the nations that do not find their place in the world and history can make themselves an object of painful reflection. Besides, modern understanding of a nation itself, ethnocentrism and the ideology of the nation's primacy over other human values (nationalism) are the phenomena of the Romantic epoch in Europe's culture. That is why the juxtaposition of national culture and civilisation of world culture regions is unsubstantiated by anything, even superficial and not correct theoretically. By the way, the term **nation** could be also applied to a big, even not monoethnic, but polyethnic historic-cultural community - the term a **Europe's nation** was used by a famous Russian historian and religious thinker L. Karsavin not in vain (i.e. Europe's *Oikoumene*, or Europe's **superculture**, as American theorist of culture P. Bagby would say).

Thus, the contemporary Occidentalisation of Lithuania can be described in two aspects:

- (1) it is the reflecting of the configuration of the real growth and development of our culture (not letting Lithuanian emigrants - the Western Lithuanian Diaspora - out of sight) and stretching its historical panorama out, so as to clarify the real place of Lithuania in global Occidental processes, and, at the same time,



- (2) opening of the whole Lithuanian civilisation to the world, so that openness of society and culture should not be reduced only to the spheres of economy and policy.

That is, contemporary transfiguration of the Lithuanian civilisation (I would say, its resurrection for new existence in time and space) is in no way any artificial culturing of our society with the help of forms of the Western civilisation. First, it is based on the clarification to what extent the idea of the West with its conceptual sands - freedom, openness and rationalism - and the forms of Western culture (urban planning, architecture, intellectual culture) are conveyed and disseminated through Lithuanian civilisation; then - the clarification how and to what extent the Lithuanian cultural creation can be projected on the Occidental civilisation and, at the same time, integrated into the modern Western world.

A question may arise: why do I emphasize the necessity of opening of our society and culture to the West, that is, the necessity of Occidentalisation of Lithuania? Why are the East and non-Christian *Oikoumene* let out of sight? The answer would be twofold, and very simple, at the same time: on the one hand, Lithuania belongs to the Occidental civilisation (the Western Christian *Oikoumene*) objectively, that is, with its history and, more or less, absorbed European processes and cultural influences; on the other hand, openness of society and culture is a modus of Westernism, which is expressed concisely by liberal democracy in economical and political spheres. So, it is not necessary at all to divide artificially the modern integrated world into the East and the West, the North and the South, providing these world regions only with geopolitical meaning.

It goes without saying, that openness of society and culture is openness to the whole world. To say the truth, not much is said while rendering a strictly defined culturological meaning of the concept **one mankind** and **one world culture** to the concept of a **world region**. Every historical culture is open *par excellence*, first of all, to its own historic-cultural *Oikoumene*. One thing, there is open intellectual and cultural world exchange, free information, free cultural communications and references, without which it is impossible to imagine the present day and future world; and another thing, there

are localized forms of culture, modes of life and thinking, that unite the great historic-cultural regions.

From this point of view, it is enough to start clarifying the real contents of the Lithuanian culture history, that is, the fundamental cultural orientations and programmes, so that to clarify to what civilisation we can really open ourselves. In the first case we would speak about interest in other cultures, wish to interpret and understand them; in the second case - about metaphysical movement, uniting a concrete *Oikoumene* and peculiar to it, about the ontic vector and sociocultural programme. Here it should become clearer, that the Occidental civilisation can be not an object of naive mimicry or an unachievable ideal for Lithuania, but a way of returning back to freedom, rationalism and individuality (the West) as the system of orientation in the world, that has been coded in the Lithuanian history and historical culture itself. A specific vision of existence and of the world is coded in every civilisation, while reflecting it, everyone can experience the unity with the individualized *Oikoumene* of his own.

I would like to mention in a few words a problem, or even a threat, which is connected with the possible opening of our society and culture to the West, and which disturbs many Lithuanian intellectuals. This is the threat and the problem of the Panamericanism, which entered the place of the classical Eurocentricism in the 20th century, and the mass culture, directly stipulated by it. There is hardly any doubt, that the wave of mass culture (the expansion of which can reach its culmination in the nearest future) which is flooding Lithuania of the post-Soviet and post-totalitarian epoch, with difficulty recovering (and nobody knows, when it will recover) after economical and cultural collapse, is really barbarizing and disorienting Lithuania.

Was it possible to expect anything else in our present situation? For the greatest part of our society the West, the idea of the West itself, and the Western liberalism implies by no means the esoteric layer of the Western culture - Europe's classical humanities, intellectual culture, forms of classical art, but namely the mass culture. Thus, not the university culture, not the freedom of academic, intellectual life and independence from political conjuncture, not the possibility to

freely project oneself, to create and realize oneself, but freedom, transmitted by the mass culture - the freedom regarding establishment, sexual freedom, freedom from the conservative imperatives of life and moral superstitions represent the Western liberalism and democracy in the eyes of the greater part of our society (it would be no exaggeration to say that so far our society is not treating the Western liberalism and democracy as the regime of free choice and unpredictability both in economic and sociopolitical spheres). By the way, namely the exoteric (mass) dimension of freedom, or the negative freedom, can especially flourish in our country.

In sovietized totalitarian Lithuania the mass culture of the West symbolized the free world all the time, and the youth counterculture, later integrated by mass culture, was refreshing many representatives of the younger generation of that time, like the source of freedom and personality's autonomy, moulding their way of life, feelings and thinking; proposing an alternative vision of reality to the totalitarian world (one-dimensional reality, a dimension that it cannot comprehend, life-styles and consciousness, programmed hallucinogenically, protecting personality from the intervention of one-dimensional and brutal reality). In the post-Soviet and post-totalitarian Lithuania the forms of totalitarian management and tendencies of authoritarian thinking with all the possible consequences (state paternalism, servilism, constant education of people and moralizing from tribunes of different rank, infantile attachment of masses to the political elite, ritualized worshipping of political leaders, nearly a mystic devotion to the charismatic leaders of the nation, domination of true followers and persecution of dissidents) will appear more distinctly and start prevailing; the Western mass culture will deeply root itself in our sociocultural media. And, inevitably, it will not only start symbolizing liberalism, but will also become the sign of libertarianism (according to the doctrine of which the state and its institutions must refuse all the pretensions to influence people and their behaviour, and, at the same time, all the possible intentions to control and regulate relations of people, with the exception, of course, application of law and regulation of their

formal contacts, when it is necessary) which is quickly becoming more and more popular in the West.

In such a situation of the society mass culture will always manage to integrate people (youth, first of all) by not only suggesting a special rhythm of life and a hypertrophied sensory and visual perception of the world, but also by opening the dimension of the negative freedom (freedom from something, not the freedom for something). It is very easy to achieve the negative destructive freedom (**freedom from**), not like the positive freedom (**freedom for**). One does not need any special act of will or any tense action of consciousness - it is enough to open one's senses for a narcotic trance, hallucinogenic freedom, liminal balancing on the threshold of different realities; not only hallucinogens, but also commanding the world in the supreme manner (heroes of contemporary screened urbanistic fairy tales, gaining victory against gangs of criminals, coping with groups of stupid policemen, neutralizing different maniacs, sexual and moral pervers: as well as the special existential rhythm and sensual expression pressed on or proposed to the mass recipient by rock groups); an alternative world vision, suggested by rock musicians, helps to achieve it.

But, what is most important, mass culture and its different hierarchical levels visualize a human being, make him a visual being (the subject of the mass culture actually is a visual human being) and this in its own turn helps him to liberate himself from various forms of oppression. So, in the sociocultural context of our poor liberalism and immature democracy, by no means, the most prominent phenomena of the Occidental civilisation can represent the West. I am afraid, that even today struggle against the mass culture of the West reminds the fight against windmills, because its expansive dissemination is stipulated not only by the growth of technical culture transmitting media and some liberalisation of our society, but by rapid (and soon it will become even more rapid) commercialisation of our life. Its roots are deep enough: this is the establishing in all spheres of human relations (economical and intellectual competition, risk and success becoming the motive power of life) of **marketing orientation** (as E. Fromm called it) stipulated by

the origin of open society itself; and 'artisation' (theatricalisation, visualisation) of political life initiated by the latter's influence. So, the mass culture is not the apocalyptic expression of destruction, but more likely one of these big and painful problems, which the open society encounters inevitably. Besides, in the Western countries, the elite layer balancing all the sociocultural spheres, is becoming a serious counterpoise to the mass culture; the refined academical and intellectual culture, the inheritance of the classical culture and the esoteric (not commercial) forms of art, becoming the counterpoise to the mass art industry.

It is the elite layer of culture that makes the mass culture harmless to the non-commercial art, to the sphere of theoretical mind, to the traditions and preservation of the classical culture. This is one thing. The other thing is, that absolutely static models do not exist in culture. The former phenomena of the mass culture or even the archetypes of mass consciousness can esoterize eventually and become phenomena of the elite culture. It is enough to mention jazz and rock music forms: **free** jazz, that have become esoteric, and different **avantgarde** jazz, **art** (progressive) rock.

And what is there to say about the phenomena of culture that are balancing in the most paradoxical way between the mass and the elite culture - the big sports, for instance, which are mass, from the point of view of its industrial and show properties, but which are an elite phenomenon, from the point of view of institutional representation and professionalism.

Finally, the obvious convergence of the elite and the mass culture, their confluence in modern cinematography should not be let out of sight. Thus, it is necessary to clarify and understand what the mass culture, this phenomenon of modern culture and the sphere *sui generis*, is. Its conceptual analysis and criticism are required. It will not be easy to investigate this sphere seriously and professionally, until there are no culture sociologists, culture psychologists of Western orientation and Western level, until there is no competent and modern interpretative sociology in our country, not speaking about philosophical and anthropological studies of culture.

But the first movement of the open society is the opening not to something exterior, but the opening to itself -the overcoming of monocentricism and of the cult of strong center, decentralisation of institutions and spheres of culture, establishment of polycentricism. Deliberate dispersion of intellectuals and not their concentration in one intellectual center; rotation of academic forces, spreading of university culture possibilities are necessary for that purpose. An open world is born and is forming, first of all, inside the country and the culture. Only after that it is projected on the exterior -sociocultural environment and history. It is no use having illusions that the open society and culture can be created only with the respect of the outer world. Lithuania at the end of the 20th century should become a place for the open society and culture and, at the same time, their creator. This is the only way to solve Lithuania's contemporary dilemma - development or national identity (rationally and strictly speaking, it is impossible to choose between these origins of the modern world -this dilemma does not exist in the open society). Another way which could open perspectives of successful development and integration into the civilized world simply does not exist.

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# **State policy of economic reform and role of self-government in its implementation**

## **1. The heritage of total planning economy**

Problems of regional development are, no doubt, of great importance for post-communist countries. Certain circumstances make these problems really very poignant. From one side, this is the result of central planning and voluntary administration of the economic development of regions. From the other side, the pressure of the Centre did not find in the recent past any resistance from the developed system of local self-governing, which would have enough power to protect local and regional interests.

The central planning was based on the models of macroeconomics. It was the macrovariables that served as the criteria of optimal decisions in the goal functions. Different regions were presumed to contribute a more or less similar result of work to the gross national revenue, and in return they got some average volume of goods. Still each of these regions had its specific problems determined by economic and geographical conditions, as well as unbalanced specialisation. As the market mechanism of redistribution of capitals, means of production and consumer goods was paralysed by the administrative-planning system, orientation towards generalized indexes of the "macrolevel" and averaged for the country indexes of

the "local level" inevitably led to deep disproportions in the social and economic development of different regions, agricultural areas and cities.

The local social and production infrastructure was oriented towards meeting the demands of economics, and it was only under such a condition that the central government would allot financial and material resources necessary for its development. Satisfaction of the needs of the local population was not considered an objective, but rather restriction, which forced the central government to share some minimum resources, taking the main care of the "state interest". For the pro-Communist society it was just normal to think that a workmen's settlement and its dwellers exist with the only purpose to keep a coal mine going.

Local governments were created and were functioning as instruments for the implementation of central planning solutions on a local level. They were guided by the same macro-indexes, but not by the demands of inhabitants. The local self-government as a way of people's organisation to solve local problems more or less independently has not existed for, at least, some decades.

The market economy as a way of self-organisation of free producers to meet various demands of the population also could not exist under the condition of central planning and state monopoly on all resources. As a natural result of the totalitarian rule we can regard not only disproportions and social injustice on the local level, but also the hostile attitude to any state economic regulations.

Still, some regulation by the state is necessary, particularly in the transitional period from central planning to market relations. The system of socialist production was not effective. But it was a system with some emergent quality, which provided for its self-reproduction and for certain social protection of people, though on a very low level. It provided for the implementation of all-state interests, too, though on an exaggerated scale. It is a hard task, but a possible one to demolish the old system. However, the debris of centralised economy is everything but not the developed market economy, and it is not the best environment for people to live in.



A rather painful transitional period is unavoidable. The problem is to make it as short as possible. We should direct, regulate and optimize the process. The first task of legislative structures is to turn the pyramid from "upside-down" putting the man at the base, who is free to live as he wants and produce the goods and services which can bring him profit. And the state, instead of being a super-subject incarnating a certain Idea to which all the citizens should serve, should become an Instrument protecting the Freedom of actions and Rights of each person. Thus the negative goal of destroying socialism is developing into the super-task of a constructive character - the conversions of the certain model of socialism into a democratic society and market economy. The conversion process should be prognosticated and controlled, at least to an extent which permits the avoidance of chaos, economic decay and stumbling into error for many years to come.

## **2. De-segregation and co-ordination of the functions of state governance under transition**

The requirement to the conversion process to keep under the rule of law would hardly bring about any objection. It means the necessity to elaborate some general norms and regulations along which the processes of decentralisation, de-monopolisation, privatisation, implementation of new modes of economic behaviour should take place. The necessary legislative environment should encourage fast conversion. But at the same time it should meet people's aspirations for social justice and take into account the specific character of different regions and spheres of activity.

Thus the task of normative regulation of the conversion is, in principle, poly-criterial and there can not be a single optimal solution. We can only consider a variety of sub-optimal plans. From them a representative public body should choose not the best, but the preferable one. The more criteria are taken into consideration, the more difficult is the search for the multitude of plans, optimal "according to Pareto", the greater is this multitude and the more difficult is the choice of one of the sub-optimal variants.

For solving such a kind of problem we need to use a combination of the "consequent optimisation" method with the method of desegregating the task into separate blocs.

The consequent optimisation is based on the following: first one chooses an optimal decision being guided by the most important criterion only. At that some minimal acceptable values of other parameters are taken as a limitation. Then the plan is optimized under the second criterion. At that the first stage maximum value of the first criterion is taken as a limitation and could not be diminished. And in each step resources are reserved for the most important goals.

As a practical possibility to solve the task depends directly on the number of unknown parameters and limitations, it is necessary to use the desegregation method. In each of these blocks separate solutions under the priority of criteria have to be made independently from the others. It is much easier to solve ten tasks with five unknowns in each, than one task with fifty unknowns. And in some cases we can win a lot, diminishing mistake risk thanks to better informational provision for the localized task.

Thus from our point of view the governance of transitional processes in post-Communist countries should be preferably divided into two levels. On the upper, the state prerogatives level, only the solutions according to the most important criteria corresponding to the emergent functions of the state as an entity should be made. In this case only a minimum number of parameters should be taken into consideration. The further desegregation of the problem is possible in different ways. When we talk about the economic reform there may be division in terms of production branches or in terms of a "territory". There are just different kinds of people's entities. For socialism it would be natural to adopt the "production branch approach". But if the principle target is not the total amount of production, but the living conditions of each citizen, there is only one way left. That is the way of desegregation of the problem in terms of a territory.

Thus, we can say, that if there were no self-governments, they should have been created. It is not only the way to live in a free democratic

society, but the only way to come to it from "developed socialism". Unfortunately, such an understanding of the role of self-governments in the implementation of economic reform is not wide-spread.

A lot of "freshly-made" state governments, firmly aware of their role and significance, are trying to arrange "from above" all steps connected with conversion on the local level. The independence of local authorities is looked upon as an obstacle curbing the success of the reform. And it does take place, while self-governments, in the line with the old Communist tradition, implement only the decisions of others.

On the local level inefficiency of plans elaborated "at the Top", and sometimes even harm for the inhabitants of a given municipality becomes obvious. As a result, we witness irresponsibility and lack of initiative on the local level. Then the State has nothing else to do, but to form the bodies of supervision and force. Local dwellers are more and more disappointed in local authorities which are "unable to solve any single problem". At the same time, the central bodies are unable to deal with the flood of questions "from below", which is triggered on by their own policy. The reform is being blocked, the time is ticking away, the crisis is getting deeper. Besides, the great intellectual and business potential of the citizens remains unused. They are waiting for the solution of problems by the over-growing and bustling central apparatus.

If one can not see the absurdity of the situation, one can feel it. More so, the wise statesmen never restrain from the temptation to put the whole blame for the reform blocking on the local level officials. This way or another, the central government is forced to delegate some rights to the local level. But very often it is done not according to methodological principles, but by accident and in haste. Under the circumstances self-governments have more chances to get the "right" to tackle those questions, the solution of which is hopelessly tangled by contradictory regulations or is impossible due to the absence of resources.

According to the law on local self-governments in Lithuania, adopted in February 1990, the economic regulation was divided into two levels: the republican level for more significant enterprises, and

the level of local the economy for the enterprises which mostly meet the local demands. The Government has to make a decision about a certain list of enterprises belonging to the "local economy". And during the whole year there was a permanent struggle between the central and local governments. The local authorities wanted to obtain actual rights to govern domestic affairs, but the central government, being guided by "supreme reasons" was trying to hold in its hands not only the authority over the city water supply and transport, but also over hair dressers. As a result of this struggle we had got a list of enterprises of the local economy, which was somewhat "modest". And the act of transition of these enterprises to the municipal property has not been realised till now.

In 1991, as the Prunskiene government was replaced by the Vagnorius government, the situation was changed, but not always for the best. From one side, central government itself started to take initiatives and began to pass city transport, water supply and sewage systems etc. to the "local economy". It was done without consideration of the local authorities, that is just by pressing them. But, from the other side, the self-government's resistance was understandable, as such a "gesture of confidence" in 1991 signified quite a different thing. The Mirage of self-governments' independence is dispersing like a morning fog. They have not got any property at all. All levers of economical regulation turned out to be in the hands of central government. At the city boards special committees and commissions for implementing the economic reform were formed. All these bodies are actually subordinated to the central authorities, which are fully in charge of their activities. At the same time, the Parliament issued a number of acts, restricting the rights of self-governments and state enterprises to dispose of the finances, basic means of production and other property. The resources supply worsened immensely. Direct connections with the enterprises in the former USSR have been destroyed. In many cases it happened due to the efforts of the government, which sharply limited the freedom of economic activity. Even the smallest barter deal has to be approved by Vilnius, and it is not an easy task. It has to be proved that a deal will be useful not only to an enterprise, but to the Lithuanian Republic. At the same time, the distribution of building and other materials from the Centre was ended as a "rudi-

ment of socialism". Thus the new strategy of the Centre has deprived the local level of any guarantees of the socialist planned economy as well as of the possibilities of the capitalist market economy.

The independence of self-governments has sharply decreased and the responsibility to the central government has increased sharply. Finally, the Prime Minister has obtained the right to dismiss mayors and vice-mayors "when they do not follow the central government orders". It is true that later this right was limited and now the Government needs the Parliament's assent for that. Without having material and financial resources and adequate economic mechanisms to carry out numerous tasks, self-governments found themselves facing an enormous responsibility of providing the population with normal living conditions. At that, the central government takes the utmost care to propagate "against the Communists in self-governments who conduct sabotage". There was a wave of dismissing mayors and vice-mayors in the whole of Lithuania. But it does not bring any new buses to city transport pools. And building of the water purification stations is still unfinished.

So the absence of a consequent methodological approach in distributing tasks and resources between the levels of regulation led to complete disarray. Instead of the desegregation of the whole task of conversion, which should consist of transferring the rights and resources to deal with the local problems to the local level, they have "desegregated" the responsibility only. Naturally it produced quite a different result, i. e. actual irresponsibility of local governments in everything referring to the local economy. At the same time, the Central Government is unable to use effectively the rights which are left with it for a simple reason only: the task is too large, and its information base is too poor. Here chance, personal friendship, or other accidents rule. Certainly, it is not the best way to reach the goal.

### 3. Designing of the strategy for transition

To criticize any post-Communist government is a simple and ungrateful task. The qualifications of new leaders who came to power as a result of national movements are nearly always too low to meet the enormous demands of the transitional period. What is more, these tasks can be objectively unsolvable without great sacrifices here or there. And it is an ungrateful task, as the constructive critique implies showing the right decisions, and then the critic himself faces the challenge which is not easy to meet.

Any strategy of transition is a plan of some kind. It can be nothing but a consciously or unconsciously, or rightly or wrongly drawn plan of solving a complicated poly-criterial optimisation task to make a choice among the variety of possible, or apparently possible ways of transformations.

The main problem of making any projects of economic and social reforms in post-Communist countries is the absence of time-reserve for a deep analysis of the situation, forecasting and checking optimal decisions. Time does not wait, and most of the decisions have to be made "on the run", putting aside and forever all the other possible development variants. Two processes - planning the conversion and the conversion itself are taking place simultaneously. It seems to be inevitable. But the reason for "hurrying up" are not only within the sphere of economic necessity.

The main barrier in the way of constructive searching for the best decision are social, political and psychological circumstances, which we are unable to analyze within the scope of this report. We will dwell only upon some questions closely connected with the regional dilemma and the role of self-governments.

The basic difference of local conditions and disproportions in regional development which we mentioned above lead to the fact that any "universal" decision of the central government of a legislative or other character will be perceived differently in different cities and regions. And, certainly, their effectiveness will be different under different conditions.

At one time Stalin's policy of total collectivisation was sharply criticized, as in its process local features and traditions had not been taken into account. At present we witness the same massive and sharp wave of critique of the total de-collectivisation in Lithuania, which results in liquidation of not only the weak and ineffective collective farms, but also of highly productive and effective agricultural units. One should bear in mind that in the country at present there are no possibilities for fast farming development. As a result, we will face general decrease in agricultural production almost for sure.

Let us take one more example, the "Law of Lithuanian Republic on State Language". It was approved in 1989 and it set the same language requirements for all the regions, that is for these where 100% of population speak Lithuanian, as well as for those regions where the absolute majority of population are Byelorussians and Poles who did not know Lithuanian and who could not learn it within the period provided by the Law. It resulted in the wave of discontent and increase of tension between different ethnic groups. Some regional conflicts took place.

Actually it is enough to mention these two examples to demonstrate the danger of decisions of "universal" and "general" character reforming the post-Communist society. Sometimes the central authorities try to compensate for the harm of "universal decisions" by way of special additions and regulations regarding particular regions. This way can not be successful. From one side, it produces some discontent, as it puts regions and their citizens under different conditions (some are provided for "better" than others). From the other side, it deprives people of the right to solve their own local problems independently. And the socialist idea that there, "above", or in the Centre are the most clever and "conscientious" officials who know better how to live "underneath", is nothing else, but an illusion.

What is more, "state interests" as they are understood by the central government, often contradict the interests of local inhabitants. As the result, the central and local authorities may turn out to be enemies, impeding each other in solving their problems. Let us take one example. For more than a year a vivid discussion on building an oil terminal on Lithuanian sea-coast has been going on. The oil ter-

minal is an urgent necessity for Lithuania, but none of the self-governments want to have it on its territory. And it is impossible to implement a central government decision without the consent of the local authorities, which is hardly possible in this particular case.

On the basis of the above statements we will try to formulate some principles of designing the strategy of changes in the transitional period, a strategy which could diminish the urgency of the regional dilemma and result in more effective decisions.

The **first principle**, one of exclusive jurisdiction of the central authorities, requires that only the problems referring to the functioning of the State as an entity should be solved on the central government's level.

The **second principle**, one of minimum regulation, implies that the decisions adopted within the limits of exclusive competence of the central authorities should only set minimal limits and requirements, exclusively with the aim of protecting the State interests.

The **third principle** - one of minimal alienation of resources, requires that the part of all-state resources belonging directly to the central government should not exceed the amount necessary for fulfilling the exclusive functions of the State.

The **fourth principle**, one of maximum diversity, requires the creation of legislative preconditions for full freedom of all subjects (elements, state sub-systems etc.) when choosing different forms of activity organisation, so far as it does not contradict the principle of exclusive competence of central authorities.

The **fifth, the partnership principle**, requires the regions, industry branches and other elements of the public organism to be converted from the objects to the subjects of the reform. Each of them should have a possibility and incentives to plan and implement everything connected with the conversion in line with their views and under their own jurisdiction. In this case we will have more opportunities to find the most suitable and effective forms and then spread the experience. Wrong solutions will be eliminated by themselves. In this way it becomes possible to take all kinds of specific circumstances and local conditions into account.



## 4. The Role of Self-Governments in Reform Implementation

The eternal collision of self-governments is that being in line with its own nature of a self-organisation of inhabitants for solving problems of a local character, they build a governing body which seems very attractive for the central government to be used as an executive body for "all-state" tasks. Similar combination of roles of local authorities is legally adopted in Poland, and the same approach has been widely introduced in Lithuania.

At first sight, one sees no trouble in such a "role combination". But any violation of principles sooner or later causes great harm. The local interest, specifically, can require an opposition to the central government decisions in some questions. Orientation to local interests which is obligatory for local authorities implies dealing with "all-state" tasks as being of secondary importance. The tasks are looked upon as limiting and restricting ones, and it should be like that; they can not play the role of the goal function.

Local authorities are not some abstract thing, but concrete "alive" people, with their personal goals. Too great dependence on the central authorities, whose tasks they should carry out according to contracts or are compelled to carry out, their personal responsibility to central government, inevitably leads to diminished accountability to local inhabitants. The dynamic balance between the self-governments and the State, which in the global perspective should guarantee meeting not only the local, but also the State demands, is degenerating to the monopoly of the central governance.

At first it takes place *de facto*, without legislative changes. Then follows the loss of understanding the idea of local self-governments and democracy. It is an especially easy process in post-Communist countries where the true concept of actual democracy has not become a part of people's mentality.

The situation in Lithuania in 1991 may serve as an example of degradation of the executive bodies of local self-governments into local executive bodies of the central government. At the time the economic and organisational super-aim of the State became

"privatisation", a task of a great political significance as well. Unfortunately, parliamentary discussions of the problem of distributing the State property among its citizens stuck at the very beginning more than a year ago, and have not gone further than this point till now. The task as was reduced to the only criterion, viz. the percentage of the privatised property. The mechanism of distribution of the State property consisted of allocating a certain symbolic sum in the form of "investment cheques" to every Lithuanian citizen, followed by buying items of "national property" for said cheques at auctions. As a result, an average Lithuanian citizen has obtained a possibility of becoming the owner of a small package of doubtful shares. Actually, those who had savings had the chance to double their "Investment Account" by paying the same sum in cash. Now, according to the Law, one can buy some state property only with "investment cheques" at auctions. But a 3-person family, for example, can not afford to buy a kiosk of 4 square meters with the sum they have together on the investment account. Naturally, the majority of people could do nothing else but sell their investment cheques on the "black market", or enter some fictitious "ventures", or use them for buying a state-owned flat in which they have been living already without any "privatisation" for a long time.

There is a joke that was popular in the USSR thirty years ago. It is about the Armenian Radio, our very popular institution in the jokes of that period, which was supposed to know the answers to all the tricky problems of Soviet reality. Thus the Armenian Radio got a question: *"Will money still exist under communism?"* The answer was: *"People who used to have money will have it then, too".*

So the elevated parliamentary debates on social justice finally resulted in the situation when only those people could take part in auctions who had already saved enough money before and who had gained experience in large-scale operations in the black market. "Privatisation" skidded. The greater part of the population stayed aside and lost all interest in participating in the process.

In September 1991 the Government adopted a decision "to take additional measures to speed up the privatisation process": state organisations (municipalities included) were prohibited to lease

premises, equipment etc., to private firms. The motto of the day became "*Let them buy it at the auctions*". But, at the same time, there was no reason for state enterprises or municipalities to sell equipment or premises through the auctions. And those who had invested all their savings and even credits into some business of their own before the privatisation started, can not participate in auctions. Sometimes they have to stop the production or take it out of Lithuania.

That is how the privatisation policy of the Government guided by one and not correct criterion produced an unsurmountable barrier for private business development and free entrepreneurship. It could not but stimulate the emergence of "roundabout" ways and corruption within the administrative bodies both on the central and local levels and in State enterprises. Probably, the guiding criterion of the Lithuanian Government is really one of the most important. But it can not be the only criterion, it can not be regarded as the end in itself, even temporary. Nobody needs privatisation for the sake of percentages.

Unfortunately, the "desegregation approach" which was mentioned above, was not used in Lithuania. Nobody gave self-governments the slightest rights to be in charge of any property. In many cases they were left with the alternative in their pursuit to meet some local demands: either to do nothing or to violate the Law. Under these circumstances the local authority bodies became overgrown with the malignant swelling of various committees and commissions dealing with "privatisation" under the direct control of the state government, demanding that every step should be "coordinated" in Vilnius, every step connected with the privatisation of formerly national, now "state" property.

The demands of the people either working in the privatised enterprises or using their services were completely ignored till the meetings in Vilnius and strikes of the workers of service branches at the beginning of 1992. The meetings were initiated from "beneath", and what is important, passing aside the self-government institutions. The local authorities were left aside hypnotized as a rabbit by

a boa-constrictor by intimidating decrees of the government. They completely forgot their first role and responsibility.

The crisis of local democracy is a political and moral problem of great significance. It is the collapse of an illusion of human rights in a post-Communist society. But the task of this presentation was somewhat narrow and limited showing the dependence of the state policy on the role intended to the self-government and its actual performance of this role. I hope, I was not too great a nuisance by constantly underlining the necessity of self-organisation and enough freedom of activity at the local level.

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## **Foreign capital in Poland**

### **1. Legal framework**

The presence of foreign capital in Poland is regulated by the Joint Ventures Act of June 14, 1991<sup>1</sup>. Compared to previous regulations<sup>2</sup>, the Act has provided much more room for this presence and has unified the rules governing investment by foreign entities.

Before the Act took effect, foreign entities could operate in Poland either as foreign-owned small businesses or as joint venture companies in the form of limited-liability company or joint-stock company (as defined by Poland's 1934 Commercial Code). Now, the only available form is the latter, i.e., a company registered under commercial law. Enterprises operating previously according to other principles are transformed into new forms under the Act's interim and closing provisions.

The extend of operations available to foreign entities in Poland is very wide, and is comparable with that enjoyed by Polish economic agents. Only in some areas a permit<sup>3</sup>, issued by the Minister of Privatisation is required. These areas include: operation of sea- and airports, intermediation and trade in real estate, the defence industry (not covered by licensing requirement), wholesaling of imported

consumer goods, and legal counsel. As in many other countries, there are also sectors in Poland in which operations are subject to a licensing requirement, and which are regulated separately. The establishment of a foreign-owned bank is regulated by the Banking Act<sup>4</sup>. And, obviously, permits cannot be issued where the operations of a joint venture company would pose a danger to the state's economic interests, security, national defence or protection of state secrets<sup>5</sup>.

There are restrictions at present which would prevent any Polish economic agents from acceding to joint ventures. Such access is open to organisations in both the public and the private sector. In recent years, an upper limit on foreign holdings in a company was abolished (a 1986 law put this limit at 49%, unless the Foreign Trade minister decided otherwise), and so was the requirement of minimum contribution brought into the share capital by the foreign party (previously, it was set at US\$50,000)<sup>6</sup>.

Pursuant to Art. 22 of the 1991 Act, and in accordance with treaties on the promotion and protection of foreign investment concluded with other countries, foreign investors enjoy guarantees of the State Treasury.

Joint ventures may benefit from many concessions. For example, periodic exemptions from corporate income tax<sup>7</sup> are granted to those of them in which the foreign parties' contributions to the share capital exceed the equivalent of 2 million ECU<sup>8</sup>, and which at the same time operate in regions affected by structural unemployment or ensure new technology transfer to the national economy, or export 20% of their sales.

The foreign entities and foreign employees may freely repatriate income abroad, after paying due taxes.

The governmental bodies dealing with foreign investments in Poland are: the Minister of Privatisation and the State Agency for Foreign Investment.

## 2. Foreign investment in Poland at the turn of the 1980's and early 1990's

Foreign direct investment was allowed in Poland to a very limited extent in the middle of the 1970's<sup>9</sup>. From then on, it developed gradually - but not uniformly (whether in time or in space). Rather, it was a discrete development, with the numbers of foreign entities increasing substantially in the wake of successive policy liberalisations. But the room for foreign investment had been restricted for so long, and administrative barriers remained so high that few foreign investors saw their projects completed.

Relative expansion of foreign investments in Poland can be seen towards the end of the 1980's and in the early 1990's. This, however, has largely been a numerical expansion, as reflected in an increase in the *number* of joint venture companies, rather than their importance to the national economy. As far as the territorial pattern is concerned, foreign investments have always tended to concentrate in certain areas. (Recently, some tendency could be seen to seek new localities, which may indicate that the areas of concentration have reached the saturation point).

As of the end of 1989, there were in Poland 429 joint venture companies and 841 foreign-owned small businesses<sup>10</sup>. Most of them operated in the sphere of material production, and particularly in industry (60% of the former and 87% of the latter). Only 32 JVs and foreign-owned small businesses operated in commerce.

More than 28% of JVs and 23% foreign-owned small businesses were based in the Warsaw voivodship. The second largest - although much smaller - concentration was in the Poznań voivodship (accounting for 9% in either group). Coming next were the regions of Gdańsk, Katowice, Łódź, Kraków and Szczecin. But there were also many voivodships which by the end of 1989 attracted only a few foreign investors. Not a single JV was formed in the voivodships of Chełm, Legnica, Piotrków Trybunalski and Włocławek, and not a single foreign-owned small business in the Konin voivodship. There were 23 voivodships (out of a total of 49) with fewer than 3 JVs and 25 voivodships with less than 10 foreign-owned small businesses. They formed three

areas: in south-east and eastern Poland (between the Nowy Sącz and Biała Podlaska voivodships), in central Poland west of Łódź (between Częstochowa and Włocławek) and in south-west Poland (between Wałbrzych and Leszno). Other voivodships in this group were: Elbląg, Suwałki and Piła (Cf. Fig. 1a).

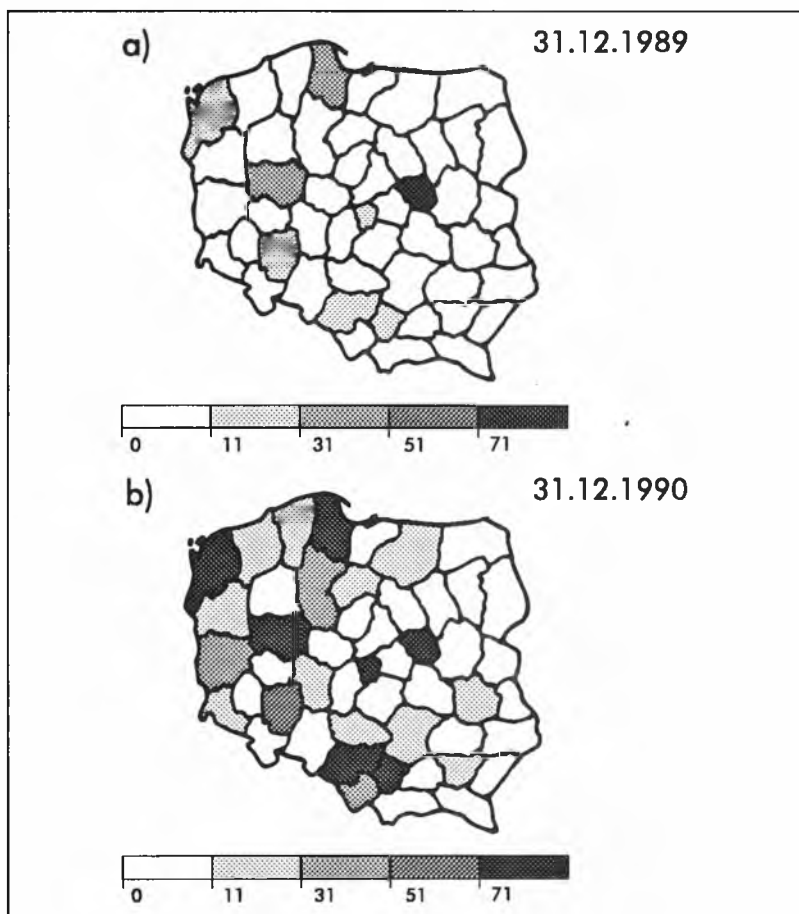
The numerical growth of joint ventures was particularly strong in 1990, taking place in step with a change in the country's political situation, further liberalisation of regulations and the emergence of a better climate for entrepreneurship<sup>11</sup>. For formal reasons, only few new foreign-owned small businesses were established. The number of JVs rose in that year by more than 280%, to reach 1,645. Most of them (more than 90%) were set up in the sphere of material production, of which more than half in industry. But interest in investment outside the sphere of material production rose clearly, as reflected in the establishment of 100 new JVs (up 300% on 1989). For example, there were 23 new JVs in the sector "Physical culture, tourism and recreation" and 14 JVs in "Culture and the arts." In the sector of commerce, the growth exceeded 500%.

At the end of 1990, there were in Poland 853 JVs in industry, 198 in commerce, 71 in construction, 67 in transport, and 48 in agriculture. In the remaining sectors, despite some signs of improvement, the numbers remained insignificant.

The previously-mentioned group of 7 voivodships which in 1989 attracted the greatest interest of foreign investors did not increase. Mention should perhaps be made of Wrocław, which clearly got closer to the last entrant in that group, the Łódź voivodship. Despite relatively high increase in JV numbers in the areas of greatest concentration of foreign capital, their share of the country's total did not change, with the first 8 voivodship accounting for more than 70%. That notwithstanding, mention should be made of an increase in the Warsaw voivodship's share by 1.6 percentage point. There was a clear increase in the activities of foreign investors in the belt of voivodships on Poland's western border and in voivodships surrounding large urban/industrial centres. The least active were voivodships in south-eastern Poland (Cf. Fig. 1 b and 3 a).

As of the end of 1991, the numbers of JVs and foreign-owned small businesses operating in Poland were 4,796 and 787, respectively.





**Fig. 1.** Number of joint venture companies

The former rose by more than 190%, while the latter fell by 8.7%, reflecting the introduction of the new Act, according to which, as already mentioned, all foreign entities should be organised in the form of companies registered under commercial law. The sectoral structure of JVs and foreign-owned small businesses is presented in Table 1.

**Table 1.** Sectoral structure of foreign economic agents, as of December 31, 1991

Sector	Joint ventures		Foreign-owned small businesses	
	absolute	share (%)	absolute	share (%)
Total	4,796	100.0	787	100.0
<b>SPHERE OF MATERIAL PRODUCTION</b>	4,294	89.5	781	99.2
Industry	2,099	43.8	656	83.4
Construction	319	6.7	79	10.0
Agriculture	64	1.3	1	0.1
Transport	207	44.3	2	0.3
Communications	14	0.3	1	0.1
Commerce	1,158	2.1	30	3.8
Municipal sector	14	0.3	1	0.1
<b>OUTSIDE THE SPHERE OF MATERIAL PRODUCTION</b>	502	10.5	6	0.8
Physical culture, tourism & recreation	105	2.2	-	-
Finance and insurance	64	1.3	-	-
Culture and the arts	27	0.6	1	0.1

Compared to 1990, the number of JVs rose in all sectors of the economy (with the exception of "Science and technology", where it fell from 8 to 6). In the sphere of material production, the growth was nearly three-fold, and in the non-material sphere almost four-fold. In the former, steep upward trends continued in commerce (an increase by more than 400%) and construction (by 350%), while industry witnessed a deceleration of growth. As an effect of diversified changes in particular sectors, the whole structure changed. The contribution of the sphere of material production (as a whole) and also of industry and agriculture decreased, while those of construction, transport and, especially, commerce went up (from 12% to 24.1% in the case of commerce). Mentioned should also be made of 9 new JVs set up in 1991 in communications. With a general in-

crease in the weight of the sphere outside material production, the importance of the sector "Culture and the arts" decreased. On the other hand, there was a major increase in foreign investors' interest in other sectors of that sphere: "Physical culture, tourism and recreation" and "Finance and insurance". The directions of these changes were in agreement with those seen in 1990.

The territorial distribution of JVs and foreign-owned small businesses is presented in Table 2 and Fig.2 & 4.

**Table 2.** Sectoral structure of foreign economic agents, as of December 31, 1991

Sector	Joint ventures		Foreign-owned small businesses	
	absolute	share (%)	absolute	share (%)
POLAND	4,796	100.0	787	100.0
	Voivodship with largest JV numbers			
Warsaw	1,565	32.6	197	25.0
Poznań	384	8.0	66	8.4
Gdańsk	375	7.8	33	4.2
Katowice	291	6.1	42	5.3
Szczecin	283	5.9	11	1.4
Łódź	203	4.2	46	5.8
Wrocław	198	4.1	11	1.4
Kraków	192	4.0	21	2.7
Other	1,305	27.2	360	45.7
	Voivodship with smallest JV numbers			
Zamość	6	0.1	3	0.4
Krosno	7	0.1	2	0.3
Chełm	8	0.2	1	0.1
Łomża	8	0.2	3	0.4
Tarnobrzeg	9	0.2	2	0.3
Ostrołęka	9	0.2	10	1.3
Przemyśl	10	0.2	3	0.4
Legnica	11	0.2	4	0.5

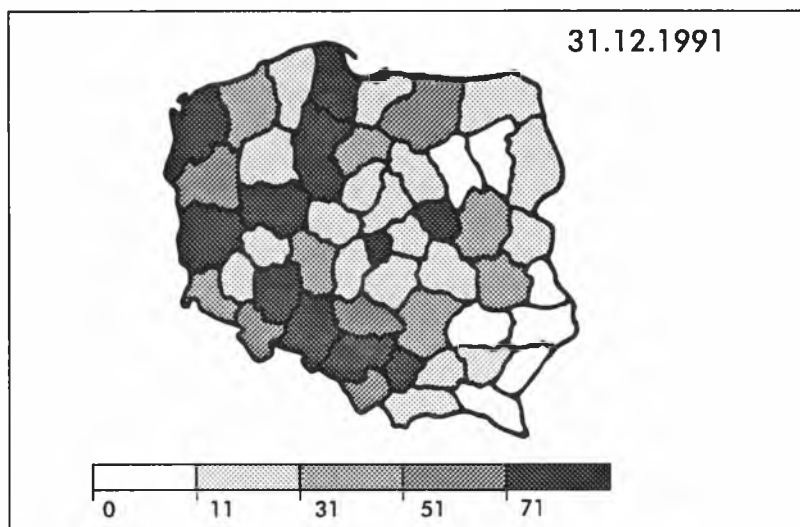


Fig. 2. Number of joint venture companies

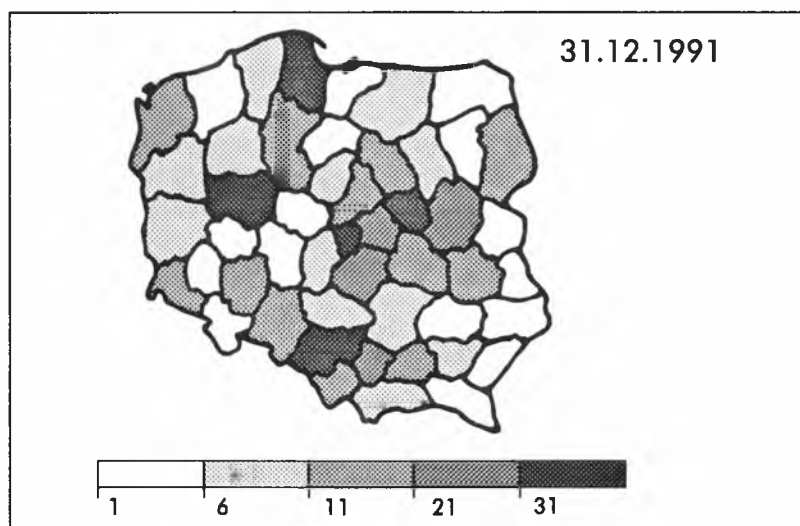


Fig. 4 Number of foreign-owned small businesses.

Throughout the period under discussion (1989-1991), the territorial distribution of foreign entities in Poland did not change much, although in 1991 some small shifts took place which may be worth mentioning. The degree of JV concentration increased in the 8 voivodships with the greatest presence of foreign investment (by 1.3 point), especially in effect of increased contributions by Warsaw (increase by 3.0 pts) and Gdańsk (up 1.2 point). The shares of the remaining voivodships in the group either decreased or stagnated, and their combined growth rate was lower than the national average. There was a perceptible acceleration in the ring of voivodships encircling Łódź and Warsaw. For example, the growth indices (1990=100) for JV numbers were: 633.3 in the Ciechanów voivodship; 444.4 in Siedlce; 420.0 in Sieradz and 311.1 in Skierniewice (Fig. 3 b).

### **3. The foreign sector's position in the national and regional economies**

Despite major acceleration in the numerical growth of foreign investments in Poland at the turn of the 1980's and the early 1990's, the weight of foreign entities in the national economy is still marginal, whether in terms of employment, financial results or invested capital.

Towards the end of 1990, the foreign portion<sup>12</sup> of the private sector gave employment to 167,400 people (against 130,400 in 1989), including 85,300 people employed by JVs and 81,900 by foreign-owned small businesses. The combined employment at foreign entities thus accounted for just 1% of the national economy's total (against 0.7% in 1989).

As already mentioned, industry is the sector in which foreign entities have been most active. In 1990, with the average combined workforce of 127,700, they accounted for 2.7% of the sector's total. Compared to 1989, the figure rose by 32,000. The average employment in a foreign entity in industry was 100<sup>13</sup>, which compares with 13 people for the national economy as a whole (including the domestic private sector, where firms are smaller).

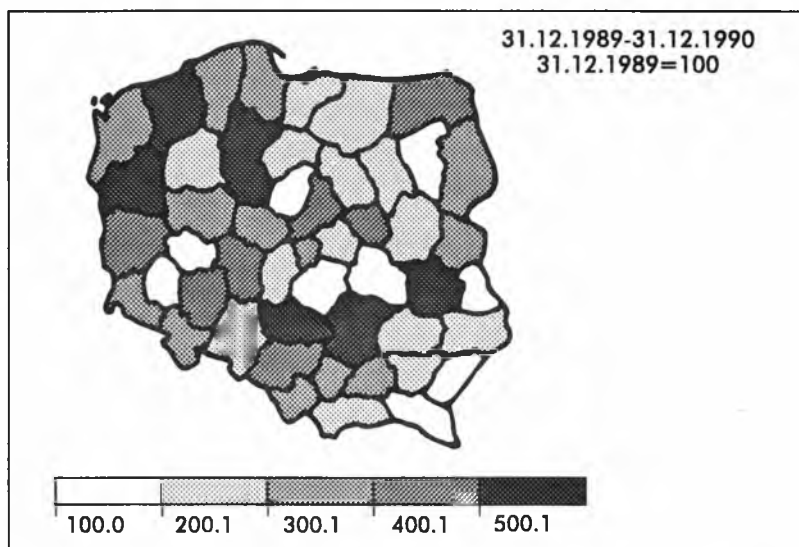


Fig. 3a.

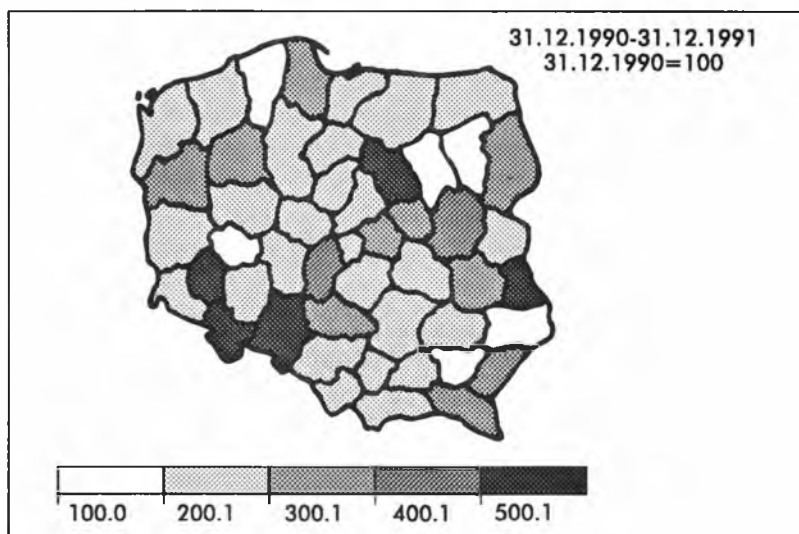


Fig. 3b. Numerical growth of joint venture companies

The pattern of foreign investment by industrial sub-sector is generally similar to that of public sector entities (Table 3).

**Table 3.** Economic agents in industry, as of December 31, 1992.

Industrial sub-sector	Public sector		Foreign entities businesses	
	absolute	share (%)	absolute	share (%)
INDUSTRY, total	6,302	100.0	1,592	100.0
fuel/energy	213	3.4	7	0.4
metal manufacture	77	1.2	12	0.8
engineering	1,936	30.7	421	26.4
chemicals	386	6.1	195	12.2
mineral products	517	8.2	92	5.8
wood/paper	607	9.6	158	9.9
textiles/clothing/leather	977	15.5	366	23.0
food processing	942	14.9	197	12.4

According to a new formal classification of economic agents, the public sector comprises state-owned and municipal (local government) entities. Cooperatives are counted as the private sector-but in this presentation such arrangements would blur the real picture of the sectoral and sub-sectoral structure of industry and therefore they are left here in the public sector.

**Source:** Rocznik Statystyczny [Statistical Yearbook] 1991, GUS, Warsaw 1991; and the author's calculations.

Investors' relatively greatest interest was focused on engineering, followed by the textiles/clothing/leather industry and food processing. The role of textiles/clothing/leather in the foreign sector was much higher than in the public sector. The same holds true for the chemical industry. This observation is in agreement with the general conviction about foreign investors large presence in those particular industries.

The greatest number of jobs created by foreign investors was in the Warsaw voivodship - 36,000 in early 1990 (irrespective of the size of the

foreign party's contribution to the venture) - which was followed by Siedlce, Radom, Ciechanów, Lublin, Bielsko-Biała, Kielce, Poznań, Piotrków Trybunalski and Katowice. On Poland's map, the voivodships in which foreign entities employed more than 10,000 people (except for Poznań) thus formed an integrated area in the centre of the country, jutting towards the south (but without south-eastern voivodships). These regions are, first, close to Warsaw and Łódź, and, second, they are linked territorially with the Upper Silesia urban/industrial centre. The smallest new-job numbers (below 3,000) were in south-west voivodships (Zielona Góra, Legnica, Wałbrzych) in northern voivodships (Koszalin, Elbląg, Suwałki), and also in the voivodships of Kalisz, Konin and Chełm.

In all regional economies, the role of the foreign sector was marginal, although in some of them it was higher than in the national economy as a whole. Whereas on the national level the employees of foreign entities accounted for 2.4% of total employment, the respective proportions stood at more than 10% in the Ciechanów voivodship, more than 9% in Siedlce and Skierniewice, more than 7% in Radom, more than 5% in Zamość, more than 4.5% in Piotrków Trybunalski and Płock, and around 4% in the Biała Podlaska and Tarnobrzeg voivodships. The figure was below the national average in 28 voivodships.

It may be added that tax receipts from foreign-owned small businesses in 1990 were the greatest in the Warsaw voivodship, followed by Łódź, Poznań, Radom, Kraków, Skierniewice, Katowice and Siedlce, and the lowest in the voivodships of Chełm, Kalisz, Łomża, Wałbrzych, Zamość, Częstochowa, Przemyśl, Suwałki, Koszalin and Piła (in Konin, as already mentioned, there were no foreign-owned small businesses at that time).

With few exceptions, the existing and newly-established JVs usually have a low share capital. In 1990, foreign contributions did not exceed US\$60,000 in nearly 70% of all foreign investments in Poland. The average contribution of a foreign party was US\$120,000. Most of the foreign partners came from Germany, followed by Sweden, the USA and Austria<sup>14</sup>. In March 1990, foreign capital investment in Poland was estimated at US\$350 million<sup>15</sup>.



Foreign investors' involvement in the process of privatisation of state-owned enterprises is not significant, either. As of the end of 1991, foreign investors bought majority stakes in 9 Treasury-owned corporations, out of 30 privatised by that time (under the programme of "privatisation by sale of equity"). The value of these stakes was zł 1,092 billion, with the largest portion (zł 375 billion) held by US investors.<sup>16</sup>

#### **4. Present state and prospects for the future**

As this outline indicates, the presence of foreign capital in Poland is marginal and highly diversified regionally. It is strongest in large urban/industrial centres and neighbouring voivodships. The major location criteria have remained virtually unchanged since the mid-1970's, when foreign investors were let in for the first time. These criteria include proximity to markets and legal, financial and organisational institutions, the availability of highly-qualified personnel concentrated in one area, a better technical infrastructure as compared with other regions, transport connections, etc. Foreign investors do not show much interest in what are referred to as problem areas. Generally, they do not locate their projects in high-employment regions, either. This is confirmed by a comparison of the map of unemployment (or, to be more precise, unemployment rate) in Poland towards the end of December 1990 with a map presenting numerical growth of joint venture companies in the period between the end of December 1990 and the end of September 1991. Only in 6 out of 20 areas with the unemployment rate of more than 8% (the national average was then 6.1%), the JVs growth was higher than in the country as a whole. In that period, it seems, the availability of labour was only an auxiliary motive in defining project location. This is entirely understandable, remembering that to foreign investors—who offer better working conditions than other employers - the availability of labour does not have to be a guiding factor. In a competitive environment, highly qualified workers tend to move from the public sector to foreign concerns.

The development of foreign investments in Poland in the past years has been quite spontaneous. The state has not pursued any regional

policies, and potential executors of such policies at the voivodship level have disappeared, following changes in the state's territorial organisation. Any positive effects of two new instruments introduced in 1991 - the exemption of foreign entities from corporate income tax (under certain conditions, as mentioned previously) and the formation of a budgetary reserve (z 300 billion) for infrastructure projects targeted at regional restructuring<sup>17</sup> - may only be felt in several years' time, provided that large investments flow into the country.

In the absence of resources which could be used separately for regional purposes, the Central Planning Office (CUP) treats regional policy as part of overall economic policy. Its cautiously formulated guidelines on measures necessary to maintain a "certain necessary degree of equilibrium of the regional structure" will prove unfeasible unless the regional-policy lobby gets strong enough (something which the authors of the CUP's economic policy guidelines seem to realise). In the circumstances, it is not inconceivable that the processes of regional development will continue uncontrolled. As a result, the emergence of, e.g., regional "centres of attraction" of foreign capital may become a matter of chance.

A special role in providing a good climate for foreign investments is going to be played by local governments. But only with a strong, pro-investment policy of the state could they meet the requirements of western investors. At this point, it may, perhaps, be appropriate to cite the warning of a representative of a reputed international company, who listed several conditions necessary for a country to become a target of foreign investors' location decisions:<sup>18</sup>

- the country must provide such conditions as to convince the investor that he is more welcome in the given market than in the markets of other countries;
- the offers presented to investors must be attractive economically, including, e.g., tax breaks related to R&D, state subsidies to investments, training of potential workers to adjust them to new requirements, tax holidays for longer periods (e.g., 10 years), free transfer of land;

- there must be potential and guarantees of a rapid provision of infrastructure;
- labour force must be cheaper than elsewhere;
- political climate and stable economic policy must provide guarantee to investors that legal regulations will not change;
- investors should be 100% or majority owners.

Most of these conditions cannot be immediately met in Polish conditions - something which foreign investors well realise. Those expecting ideal conditions do not bring their capital into this country and are unlikely to do it anytime soon. Some investors, however, especially those generally interested in markets of Central/Eastern Europe would be willing to take the risk of investment in Poland. It is to them that the state<sup>7</sup> should address its policies. There remains the open question of whether it will be possible to attract such investors, given the deteriorating international perception of Poles' attitudes towards foreign investment. Opportunities for a positive answer will diminish, unless immediate steps are taken to change the image of Polish "econophobia" <sup>19</sup> in the West. The following excerpt is from *Washington Post* (quoted after *Gazeta Wyborcza* daily and retranslated):

*"In the name of capitalism detailed regulations are maintained (in Poland), and in the name of sovereignty foreign investors are scared off. (...) Poland's is a piecemeal policy, neither 'capitalist' nor 'socialist', a policy designed by people who fear free private enterprise. (...) Polish bureaucrats, who take decisions - or rather fail to do that - at various government levels, are capable of halting investments altogether. The method is simple: do not sell land; do not issue licenses; encourage workers to vote against the investor."*

Opinions such as this provoke protests in Poland because of their one-sidedness, generalisations, and assessment of some aspects of foreign investment in Poland through the prism of a mature market economy. But as matters stand, market economy mechanisms are only being created and the administrative and consciousness barriers, emerging in the process of transformation, are only natural.

However, such opinions must not be neglected, either. A proper way is to focus on measures which will provide optimal conditions for foreign investors who are really interested in investment. As far as the local governments are concerned, this may take the form of:

- granting access to land and production facilities at favourable terms;
- organising training courses for potential employees of foreign firms to be located in the area in question, or providing premises on a free-of-charge basis where investors wish to handle training themselves;
- creating special funds for the re-training of unemployed, with account taken of future demand from foreign investors;
- legal counsel for the investors;
- adjusting local infrastructure to the requirements of a given investment project - in step with actual possibilities;
- attracting such enterprises which may become "locomotives" of local growth;
- undertaking promotional activities for the companies already in operation, e.g., by organising trade fairs or exhibitions.

## References:

- 1 The Joint Ventures Act of June 14, 1991, *Dziennik Ustaw* No. 60, item 253.
- 2 In the period prior to mid-1991, the operations of foreign investors in Poland were regulated by the following statutory laws: the Act on July 6, 1982 concerning the conduct of small-business operations within the Polish People's Republic by foreign legal and natural persons (*Dziennik Ustaw* No. 19, item 146); the Act of December 23, 1988 concerning business operations with the participation of foreign entities (*Dziennik Ustaw* No. 41 of 1988, item 325; No. 74 of 1989, item 442; No. 51 of 1990 item 299, and No. 31 of 1991).

- 3 Articles 4. 5. and 6 of the Joint Ventures Act of June 14 1991.
- 4 The Banking Act of January 16, 1989 (*Dziennik Ustaw* No. 4, item 21; No. 54, item 320; No. 59, item 350; and No. 74, items 439 and 440).
- 5 Article 17 of the Joint Ventures Act of June 14, 1991.
- 6 The regulations governing the operation of foreign entities in the period to the end of the 1980's are discussed in detail in: M. Breitkopf, M. Górski, D. Jaszczyński, *Prywatyzacja w Polsce* [Privatisation in Poland], Series: *Polityka ekonomiczna i społeczna*, Vol. 6, Fundacja Friedricha Eberta w Polsce, Warszawa, March 1991.
- 7 Article 23 of the Act of June 14, 1991. Exemptions from corporate income tax are granted by the Minister of Finance, after obtaining a positive opinion from the relevant Minister.
- 8 1 ECU = DM 2.04 (Source: Europa Forum, Informationen aus dem Europäischen Parlament, No. 1/92, January 13-17, 1992.
- 9 A very good analysis of foreign small businesses and their operations in the first ten years is provided in:  
W. Skalmowski, *Rozprzestrzenianie się przedsiębiorstw zagranicznych w Polsce w latach 1977-1986* [Spread of foreign-owned small businesses in Poland in 1977-1986] (in:) B. Jałowicki (ed.), *Percepcja, scenariusze i przedsiębiorczość* [Perception, scenarios, and entrepreneurship] Series: *Studia z gospodarki przestrzennej* Wydawnictwa Uniwersytetu Warszawskiego, Warszawa 1988. A similar period was covered by a study into the whole private sector in Poland, conducted by a team headed by E. Kirejczyk. It also showed the foreign portion of the private sector and its position in the national economy. Cf. E. Kirejczyk (ed.) *Pozarolnicza gospodarka nie uspołeczniona* [Non-agriculture private sector], Series:

*Rozwój regionalny - rozwój lokalny - samorząd terytorialny* Vol. 9, IPG, WGiSR, UW, Warszawa 1988. Some comments on development trends in the foreign sector may also be found in; A. Mync, R. Szul, Private Economy in the Warsaw Region. Against the Background of Development of Private Economy in Poland, *Miscellanea Geographica*, Faculty of Geography and Regional Studies, University of Warsaw, Warszawa 1990.

- 10 Where not indicated otherwise, the statistical data in the second part of the article are derived from successive publications of the Census and Mass Research Department of the Central Statistical Office (GUS): *Zmiany strukturalne grup podmiotów gospodarczych w 1990* [Structural changes among groups of economic agents ] for 1990, the first quarter of 1991, the first half of 1991, and the whole 1991, Warszawa, February, May, August 1991, February 1992.
- 11 Cf. B. Jałowiecki (ed.), *Spółeczeństwo i gospodarka w Polsce lokalnej* [Society and the economy at the local level in Poland], Series: *Studia regionalne i lokalne*, Vol. 5 (38), Europejski Instytut Rozwoju Regionalnego i Lokalnego UW, Warszawa 1992.
- 12 In accordance with the pattern of GUS statistics, the foreign portion of the private sector includes here the entities which are wholly owned by foreign investors or in which foreign parties hold majority stakes.
- 13 Most JVs in industry (56.7%) employed between 6 and 50 people; those giving employment to 1-5 people accounted for 22.7% of the total and those employing more than 50 people represented 20.6%. The respective proportions for the national economy as a whole were: 51.2%, 34.7% and 14.1% (as of December 31, 1991). Source: *Zmiany strukturalne...* GUS, Warsaw 1992.
- 14 E. Czarny, B. Czarny, *Od planu do rynku. Doświadczenia polskie* [From plan to market. Polish experiences], Series

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- 15 J. Danielewski, M. Kloc, *Między Wschodem a Zachodem: Gospodarcze miejsce Polski w Europie dziś i jutro* [Between East and West; Poland's economic position in Europe, today and tomorrow], Series: *Polityka ekonomiczna i społeczna*, Vol. 8, Fundacja im. Friedricha Eberta w Polsce, Warszawa, April 1991, p. 65.
  - 16 Source: *Prywatyzacja przedsiębiorstw państwowych w okresie 1.08.1990-31.12.1991*. [Privatisation of state enterprises between August 1, 1990 and December 31, 1991], Departament Spisów i Badań Masowych GUS, Warszawa, March 1992.
  - 17 *Polityka regionalna w latach 1992-1994* [Regional policy in 1992-1994], Departament Polityki Przestrzennej i Regionalnej CUP, Warszawa, February 1992.
  - 18 W. Markiewicz, *Kto chce nas oskubać? Okiem potencjalnego zagranicznego inwestora* [Who wants to pluck us? The viewpoint of a potential foreign investor], *Polityka* No. 4 (1812) of January 25, 1992.
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## **Local economy as an incentive for regional economic restructuring. The case of Poland**

### **1. Introduction**

Political, economic and social transformation of the postcommunist countries demonstrates very important regional dimension. This paper focuses on the conditions for development of private firms in local environment. The "friendly environment" for private sector seems to gain more and more significance for economic situation of many regions. In particular we examine how people engaged in private economy sector perceive conditions for their activities after two years of reforms in Poland. The existing situation is confronted with the process of regional development seen from the perspective of small-sized private enterprises.

The paper is based on studies which examined the conditions for the development of entrepreneurship in Local Poland. These studies were conducted in 1991 by the European Institute for Regional and Local Development at the University of Warsaw. There were 1017 entrepreneurs running their businesses in rural and urban communes distributed over the whole territory of Poland included in the study.



## **2. Characteristics of the private entrepreneurial sector**

### **2.1. Kinds of activity**

The majority of private firms operate in the following sectors: food-stores production of construction materials, wood and food processing, wholesale trade, manufacturing, variety of services. This situation has been stable for many years. However, the rapid growth of number of wholesale firms is the most recent phenomenon.

Growth of private trade establishments is the most spectacular. Abolition of trade concessions triggered the eruption of new firms and their dynamic development. This was accompanied by the development of transport firms which served new importers. Development of trade was accelerated by the state of the market, haunted by shortages and dominated until quite recently by the state monopolies. It should also be noted that the avalanche-like growth in the number of trade firms occurred just after the political breakthrough of 1989 and during the introduction of the first steps which were meant to bring the economy into order.

The first stage of transformations has been taking place under conditions of very high inflation. At that time trading was the most effective method for accumulation of capital. Energetic private entrepreneurs were taking advantage of existing conditions, changing radically the trade landscape of Poland.

### **2.2. Organisational forms of the private sector**

In the past the situation of the private sector had a dual nature: on the one hand this sector was discriminated in various ways as ideologically undesirable. On the other hand, however, the situation on the market justified its existence.

Growing number of private firms results not only from the awakening of the spirit of private entrepreneurship, but also from the change of administrative rigours, which constitute the formal framework for the realization of private undertakings (Banachowicz 1988).

Family turned out to be very important factor, which helped the private sector to survive all periods of various kinds of social and economic "experiments". The "family" firms constitute the dominant legal form of private firms (see table 1). This might mean that a certain ethical attitude of "*being on one's own*" has been formed and entrepreneurial tradition has been established. It could be expected, as well, that the family relations do, in a way, diminish the business risks. The domination of "family" firms results also from the fact that in the past this form of private business was the only legally possible.

**Table 1.** Legal forms of private firms (as % of total number)

Commercial law company	6.6
Joint venture company	0.8
Contractual agency	8.4
Family firm	46.5
Other	36.7

Some 50% of respondents have established their firms even before 1988.

Particular legal forms of private firms enjoyed different popularity in various periods. It was connected with changing legal regulations and with different amount of capital available to persons who decided to establish a family business. After 1989, side by side with the "family" firms, numerous enterprises have begun to be established according to newly introduced legal framework. In spite of this, though, the shareholders of such firms are often persons linked by kinship.

### **2.3. Motivations of activity of private entrepreneurs**

The social space of local Poland is traditional with regards to its structure, behavioural patterns and values hierarchy. Egalitarian attitudes are also quite popular in local Poland. These facts imply the question of the nature of motivations driving the private entrepreneurs.

Notwithstanding the high share of family firms in this sector of economy it is apparent that family traditions are not the main

motivating force of activity. On the ordinal scale ranging from 1 - "important" to 3 - "of little importance" the average weight of this factor scored 2.49. *"To create something useful"*, *"to make money"*, *"to secure the future for children"* appeared as the most important motivations (see table 2). The private entrepreneurs were the first as a social group to change their consciousness and that these changes were the deepest. The task-oriented and creative attitudes distinguish them from other social groups, infected with torpor and not being able to throw away the incapacitation which dates from the period when it was the state that controlled, distributed, supplied and ultimately replaced an individual in thinking.

**Table 2.** Motivations of private entrepreneurs

family traditions	2.49
to be on one's own	1.41
to improve standard of living	1.37
to make money	1.73
to secure the future for children	1.71
to create something useful	1.97

(averages from the sets of nominal evaluations on the scale from 1 to 3, where 1 - "important" and 3 - "of little significance").

### **3. The local system as the environment for development of private entrepreneurship**

Economic reforms which are being implemented in Poland are very embrace many spheres of socio-economic life. Their success on the local level, in the form of flourishing of private business, will have an essential significance for further stages of transformation of the whole system. Entrepreneurs who locate their activities within a definite territory are doing this for many different reasons, since the attributes of this territory are perceived from many points of view. Irrespective of what motivated them, their decisions uncover certain preferences and acceptance for the existing situation. This acceptance concerns, of course, specific conditions offered by the local systems. The latter, however, are the result of a relation between the

center and the local system, and of the game between the main actors of the local political and economic scene.

The desired situation for local system development is conditioned by appearance of the sense of territoriality among main actors on the local scene, especially local authorities. Territoriality is understood here as a attainment and effective exertion of control over the processes taking place on the territory within the boundaries of the local system (of a commune). Thus crucial role is ascribed to territorial self-government, which should influence the climate for the development of private entrepreneurship.

The short existence of the self-government, as well as the need of deep changes in the legal sphere regulating the relations between the territorial units of various levels has caused that adequate mechanisms, which could make local systems working "*on their own account*" under a relative autonomy, have not yet been elaborated. The main obstacle is the lack of effective tax system and infrastructural shortcomings, as well as generally poor financial situation of communes, which does not only limit the capacities of future development, but also makes current activity more difficult. The democratically elected local authorities have presented in their election campaign a wide scope of actions which they would undertake after being elected. The studies conducted a few months after the elections indicate that the highest priority is attached to the previously declared activities, which should, in particular, consist in preparation of adequate conditions (e.g. in terms of creation of technical infrastructure) for the development of broadly understood entrepreneurship (Grochowski 1991). Because of the short period of time which has passed since the election of new authorities the complete and objective evaluation of the effectiveness of the policies pursued by the new local authorities cannot yet be formulated. The studies on the entrepreneurship in local Poland make it possible, though, to draw first conclusions.

Private entrepreneurs who had conducted their businesses before 1989 evaluate the conditions for private sector as worse than before (see table 3). If we compare the obtained distribution of responses with the fact that 43% of respondents stated: "*presently in Poland,*

*generally speaking, conditions for running a business are not convenient*", we can conclude that private entrepreneurs do not, in their majority, perceive the environment in which they have to function as advantageous.

**Table 3.** Evaluation by persons involved in private business before 1989 of conditions for enterprise activity (in %).

much better	2.4
somewhat better	6.0
no big difference	9.0
worse	27.7
hard to say	3.1
does not apply	51.1

In the group of persons conducting business before 1989 one can distinguish differentiation of opinions depending upon the time in which a given respondent started to run a firm (see table 4). The most negative evaluations with respect to presently existing conditions were provided by businessmen who conducted firms yet before 1980. The same group of businessmen did also most rarely formulate the opinions that conditions had been better or a bit better than before. It seems therefore that the time period during which a firm has been managed is the key to understanding the evaluations of the conditions for development of private entrepreneurship. These conditions, namely, have underwent dramatic changes over time. These changes influenced the strategies of entrepreneurs, in which their experiences, gathered over time, has accumulated.

**Table 4.** Evaluation of conditions for enterprise activity, formulated by businessman active already before 1989 with consideration of the time of starting an enterprise (in %)

	Evaluation				
	Much better	Somewhat better	No difference	Worse	Hard to say
1988-1985	3.4	13.7	22.6	50.4	7.3
1984-1980	6.3	11.1	15.1	61.1	5.6
before 1980	5.8	10.2	14.6	63.5	5.8

When evaluating the situation in the microscale - the scale of the local system - respondents stated that the role of local authorities in promotion of private entrepreneurship was decidedly passive. As many as 66% of respondents answered the question concerning the attitude of local authorities towards the private entrepreneurship by saying that "*they neither help nor disturb*". Only 12% stated that "*they assist as much as possible*", 3% - that they hamper the development of private business, and 19% of respondents stated that it was "*hard to say*".

The specificity of local Poland consists, in particular, in the stability of its social structures which are organised in accordance with the traditionally established relations between definite groups, often based on kinship. Thus, the length of residence in a given locality and the social contacts determine the position of an individual in a given community. An individual may be considered as "*our guy*" or as a "*stranger*". In the everyday practice this may be translated into a more positive and benevolent attitude of the authorities towards a client who is considered as "*ours*" and creation of problems to those who are considered as "*strangers*".

Confrontation of this type of propositions with the results of our studies seems to indicate that a new quality appeared in the relations in a commune. "*Ours*" and "*strangers*" in the population of entrepreneurs became to be treated by the authorities in a similar manner.

Opinions of the entrepreneurs which suggest the passive attitude of local authorities are related directly to the difficulties which are encountered by the entrepreneurs in their activity. A majority of these difficulties are, however, linked to problems the solution of which lies entirely or partly outside the scope of competence of local authorities.

In the opinion of private entrepreneurs the greatest obstacles to their activity are constituted by (evaluations given here are the averages of individual responses referring to the ordinal scale from 1 to 3, where 1 - very significant obstacle and 3 - obstacle of little significance) the following elements of the situation:

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- too high interest rate on credits	1.48
- too high taxes	1.65
- legal disorder	1.71
- too low demand for goods produced	1.77
- too high inflation	1.96

On the other hand, the same entrepreneurs do not consider difficulties resulting from:

- shortage of skilled labour force	2.76
- too high rents on premises	2.18
- problems in acquisition of land or building surface for the development of an enterprise	2.64
- the negative social attitude	2.56

(the values calculated as before).

As can be concluded from the above enumeration, the problems which fall within the competence of local authorities are not perceived as hampering the activity of entrepreneurs. The true problems which they perceive are usually located beyond the reach of local authorities, or cannot at all be solved exclusively with the use of administrative measures.

Entrepreneurs expect that local authorities will:

- ensure improvement of infrastructural conditions (telephones, gas supply, roads etc.) - indicator value 1.27 on the 1-3 ordinal scale,
- enhance the effectiveness of administration and simplify the procedures (1.64),
- lower the land and building rents (1.80)
- lower local taxes (1.83).

There is a significant convergence between the first of these expectations and the development priorities for towns and communes in local Poland, declared by the local authorities. The remaining expectations are often in opposition with the prerequisites of policies of local authorities which nowadays cannot count on grants from the central budget and are forced to look for other sources of finance.

This entails a serious conflict: realisation of short-term plans may take place at the expense of the foundations for the long-run development.

The attitude of the local community towards private entrepreneurs is one of the elements of evaluation of the local business climate. It is rather encouraging that only in the opinion of 24% of entrepreneurs local communities demonstrate hostile attitudes towards private businessmen. 34% of entrepreneurs considered that the attitude was rather indifferent, and 19% - that the society displayed admiration for them and the wish of following their example.

It is apparent that both local communities and local authorities express a kind of neutral attitudes towards private enterprises.

Entrepreneurs act in a certain isolation, relying mainly upon own forces and experience. It should be noted that when responding to the question: *"where do you take models for managing your enterprise from?"*, the most frequent answer was: *"I am following the pattern of similar enterprises in Poland"*. The least frequent answer was that use had been made of advice given by consulting firms.

Private firms lack in an obvious manner the logistic background, which would provide them with skilled assistance and help in solving various problems they encounter in their activities. This background cannot be substituted for by the models of the already existing firms. The lack of the logistic support was confirmed by the responses of private entrepreneurs, of whom only 2% stated that there existed in their locality an association of small businessmen and that this association functioned correctly.

#### **4. Local development - regional development**

Development "from below" may be conceived in two ways: as the development of small-scale entrepreneurship and as the development of entrepreneurship in territorial systems of non-central location. Interviewed entrepreneurs were located in the communes outside of the central areas. 50% of entrepreneurs employed up to 10 persons and 54% of our respondents employed persons from outside



of their own families. Thus, these enterprises satisfied both criteria mentioned at the beginning of this paragraph.

The non-central location should be emphasized here. In case of many regions peripheral location determines chances for the future development. Their own local potential is of crucial importance for economic development. Thus every local system should contribute to create network of localities with potential important from regional perspective. In order to take advantage of this network region must be interested in promotion of local systems development.

It is hard to expect that only firms acting on the local level (in terms of local labour force and markets), may assure harmony in development of the whole region. However, one should not neglect local economic initiatives. They might supplement other plans and programs prepared by authorities and agencies from upper levels. Situation described here proves that in Poland we are still far away from such situation. Deep recession and lack of regional policy result in uncoordinated efforts which can not lead to balanced development within regions.

In addition, the socio-cultural aspect of undergoing changes makes the situation even more difficult. The social relations within local systems in which private entrepreneurs act are strongly personalized (Jałowicki, Swianiewicz 1991). Due to this fact the mechanisms of adaptation of various types of innovations have a specific quantitative and qualitative nature. There exist also specific kinds of constraints and barriers (Kacprzyński 1990). It is very often a difficult task to identify groups of interests and mobilize them to be active and involved into local undertakings. Thus the role of the regional authorities as a supervisor for local systems must not be underestimated.

It seems that after the first stages of reforms in the economic and political sphere we have reached in Poland the situation when the old structures ceased to exist or they exist just as remnants. The everyday practice proves that these structures have not been replaced by the new ones yet. There is a certain emptiness and atmosphere of expectation which sometimes lead to escalation of social demands addressed to the central authorities.

The solutions on the macro level, as can be concluded from the responses obtained in the study, turn out to be the most important for the conditions of conduct of the activities of our respondents. Local authorities, within their competencies, are not capable of effective promotion of the processes of reforming the economic system in the sense of development of the private sector on the local scale. There occurred a particular turnaround of the situation: in the past, authorities of various levels had unlimited possibilities of deciding practically without the risk of being responsible for the wrong decisions. Presently, communes became responsible for solving many problems, while the real power of local authorities became very limited. Local authorities have not been capable until now of defining their role in the socio-economic life of the local systems. Beyond any doubt is the fact of bearing responsibility for a certain territory. It remains an unsolved question whether the authorities should take on the role of a mere observer or perhaps of an organiser of certain actions or even a main supplier of definite service kinds (Swianiewicz 1992, Grochowski 1992).

Solving this question will of course depend on the kinds of problems encountered. It will undoubtedly, however, be related to the formal and socio-psychological aspects of the process leading to appearance of the sense or feeling of territorial identity of local communities.

New regional policy should enable local systems to build their economic basis and to strengthen regions they are located in. To reach the desired impetus, the local economy must be developed according to plans which emphasise relative independence of specific regions. In another case, the local and regional policies would be subordinated too strongly to the policy focused on general, nationwide issues and formulated by the center. It may bring negative reactions of the local people, who have believed that democracy would open also new perspectives in the sphere of economic activity and would change relations between the local systems, the regions and the center.

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## **Part II. Western Experience in Regional Policies**

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### **The reshaping of regional policy in Western Europe**

#### **1. Introduction**

The past five years have been one of the most dynamic and also volatile periods in post-war European history, and the rate of change shows no sign of slowing down. The political constitution of the European continent and the relationship between nations is currently being radically reshaped, a process which is dominated by two apparently countervailing trends.

First, the territorial boundaries of European countries are being redrawn by the aspirations of repressed nations, regional groups and ethnic minorities. The most vivid examples are the new states created by the break-up of the former Soviet Union and Yugoslavia, but the process is also evident, though to a lesser extent, in Scotland and Wales in the United Kingdom, in the Basque country in Spain, in Flanders and Wallonia in Belgium, in the Slovak Republic in Czechoslovakia, and in South Tyrol in northern Italy.

Second, although the shape of individual European countries may be changing, the countries themselves are increasingly cooperating together, sharing or pooling their political and economic interests in a wide-ranging process of European integration. This integration process has been characterised in two ways. On the one hand, there is a "widening" of European cooperation as more and more countries seek to join the European Community. The existing 12 countries of the Community will shortly be joined by Scandinavian countries as well as Austria and maybe Switzerland. Other countries such as Turkey, Hungary, Poland and Czechoslovakia are also queuing up to join.

In addition to the widening, there is a so-called "deepening" of European integration in progress. Within the European Community, the past five years have witnessed a significant acceleration of economic integration with the process of creating a Single European Market which has involved the elimination of almost 300 different physical, technical and administrative barriers to trade. But the Single Market programme has already been superseded by future proposals for economic, monetary and political union among the Community's Member States.

The consequence of these trends has been a heightened concern with economic and social differences within countries and between nations across Europe. Individual countries are aware of the need to contain regional separatist pressures that stem from perceived economic disadvantage; in the European Community context, there is a recognition that integration will be jeopardised if economic and social disparities between countries and regions are not addressed. Hence, economic and social cohesion has assumed a higher political priority.

Traditionally, economic and social cohesion in Western Europe has been addressed primarily at the level of the nation state. National governments have implemented regional policies to tackle the problems of certain disadvantaged regions. However, over the past ten years, these national regional policies have been in decline, and responsibility for economic and social cohesion has been taken over by other levels of government. National policies have been superseded, on the one hand, by the rise of the regional policy of the

European Community; and on the other, by the increasing involvement of local and regional levels of government in economic development.

From a West European perspective, this paper examines these trends - and their implications and lessons - in greater detail: the decline of the regional policies of national governments in Western Europe and the rise, in particular, of European Community regional development policies.

## **2. The decline of regional policy at national level**

### **2.1 The nature of regional policy in Europe**

For much of the post-war period in Western Europe, regional policy has meant the policies pursued by national governments to assist the problem areas of individual countries by promoting investment and job creation by private sector firms. The operation of regional policies in Europe is a response to certain types of regional problem considered to require government intervention. From the perspective of the industrialised north of Western Europe, the nature of the regional problem primarily concerns old-industrialised areas experiencing severe difficulties in adapting to structural change, and is associated with high and long-term unemployment, an issue which is also of increasing importance in the United States. Examples of such areas in Europe include the Ruhr district of Germany, Limburg in Belgium, north-eastern France, and north-east and north-west England.

For the Mediterranean countries, and Ireland, the regional problem relates to underdevelopment - low levels of GDP per capita, poor productivity and competitiveness, high unemployment and underemployment and lack of basic infrastructure. Examples include much of Greece, Ireland and Portugal and the Mezzogiorno in Italy. In addition, other types of regional problem identified by European governments over the past three decades include:

- problems of rural underdevelopment and lack of basic infrastructure, eg. in southern Italy, Portugal, Greece and, to a lesser extent, the northern Netherlands or south-west England;

- the excessive growth and dominance of capital cities (eg. London, Paris or Helsinki); and
- very large, sparsely populated regions suffering from out-migration (such as the Highlands and Islands of Scotland; northern Norway and Sweden; and the west of Ireland).

Intervention by government to address these problems is justified in several ways: through economic arguments, for example that regional differences impede national economic efficiency and performance; on the grounds of "social equity"; and because of the potentially negative political implications arising from regional imbalance. Consequently, almost every West European government has implemented regional policies for much of the post-war period. They utilise - as the main policy instrument - subsidies to individual companies. These subsidies or financial incentives, have generally taken the form of non-repayable grants for capital investment or employment creation. Other financial incentives operated at different times include low interest "soft" loans, tax and depreciation allowances, employee transfer grants, social security concessions and transport grants. Such incentives are not only the main instrument for promoting domestic industry but are also used for attracting foreign direct investment.

The value of these incentives varies greatly by type of firm, sector, project and by location. However, across Western Europe, companies may receive subsidies of between 25 and 75 percent of project expenditure. In other words, an indigenous or foreign company investing in Western Europe may receive non-repayable grant aid of between 25 and 75 percent of its investment costs.

Estimates of the expenditure on regional policies by governments in the European Community suggest that they have been spending almost US\$ 15 billion per year on regional aid. Regional policy accounts for nearly 40 percent of European Community subsidies to manufacturing industry and 15 percent of all EC subsidies<sup>1</sup>.

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1 Second Survey on State Aids in the European Community, Directorate-General for Competition, Commission of the European Communities, Brussels, 1990.

In addition to financial incentives, governments have implemented other regional policy measures such as restrictions on industrial and commercial development in growth regions (to encourage companies to locate elsewhere), and limited support for the provision of local economic infrastructure such as advance factories, industrial estates and technology development centres.

The application of these regional policy instruments is undertaken in certain designated "assisted areas". The delimitation of these areas is frequently a highly complex exercise involving a wide range of statistical indicators - notably unemployment rates, measures of regional income, migration rates, indicators of peripherality and market accessibility. The spatial extent of assisted areas, delimited on the basis of such indicators, is generally defined according to the proportion of the national population living in the designated areas. Thus, the UK, France and Germany have assisted areas covering 25-35 percent of their national population; by contrast, Spain and Greece have 40-50 percent.

## **2.2 The rise and fall of the regional policies of national governments**

The structure and intensity of regional policies have fluctuated greatly during the post-war period, but it is possible to identify a "rise and fall" of national regional policies in Western Europe over the past 40 years.

The first West European regional policy was introduced in the United Kingdom in 1934 in response to extreme levels of unemployment in industrial areas. However, in most European countries regional policies were introduced between 1948 and 1960 following the period of post-war reconstruction.

The "rise" of regional policy began in the 1950's and 1960's - a period of considerable experimentation with regional policy. At that time, the notion gained ground that governments had both the duty and the power to guide economic development. Regional policies were based mainly on ensuring the availability of production factors, especially labour supply. Policy measures included investment incentives (such as non-repayable grants), administrative controls on development in core



regions, the planned location of public enterprises, and planning agreements with large, private corporations to encourage them to invest in specified regions.

During the 1970's, regional policy was at its strongest in Western Europe. Budgets, levels of subsidy, the extent of assisted areas, and the number and diversity of policy instruments were at their greatest. However, already from the early 1970s onwards, there was a recognition of the weakening ability of government to move companies and labour to specific parts of a country. Consequently, more emphasis was placed on the development of measures to promote indigenous regional growth - in other words to promote the full use and productivity of local resources. There was the start of a trend towards administrative decentralisation and regional autonomy. Greater stress was placed on small and medium-sized firms and, in response to rising unemployment, policy instruments focused more on industrial restructuring and employment creation.

Most recently, the 1980's has been a decade of reassessment of the costs and potential of regional policy. Regional development policy, like other policies, has increasingly had to justify itself in terms of its cost-effectiveness. More specifically, there have been three notable trends in regional policy over the past decade<sup>2</sup>.

First, national governments have become much more selective and discriminating in the operation of their regional policies. In particular, policy administrators now exercise much greater discretion in the provision of regional incentives to private firms. At the start of the 1980s, a considerable amount of regional aid was awarded on an "automatic" basis ie. applicant companies often had a legal entitlement to aid as long as they fulfilled certain basic conditions with respect to job creation or investment. As a result, companies frequently made so-called "windfall gains" in that the subsidies they

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These trends are examined in more detail in the annual surveys of regional incentives in the EC countries by the European Policies Research Centre. The latest edition is *European Regional Incentives, 1992-93, 12th Edition*, by Douglas Yuill, Kevin Allen, John Bachtler, Keith Clement and Fiona Wishlade, Bowker-Saur, London, 1992.

received were not really necessary for the assisted project to go ahead. By contrast, in the current climate, policy-makers exercise far more control over to whom and at what levels they award regional aid. They scrutinise awards on a case-by-case basis to ensure that companies really have a need for public subsidies.

A related aspect of the increased selectivity of regional policy is the trend towards greater "targeting" of regional aid which emerged during the 1980's. The award of regional aid is now prioritised much more according to factors such as location, project size, project type or industrial sector. Not only is incentive expenditure being rationalised and the administration of awards becoming more discretionary, but the activities which are eligible for aid are being more closely defined. The start-up of new companies and the development of small firms have been one of the main target areas. Other targets include research, innovation and high-technology and producer services.

Selectivity is also apparent in the nature of regional policy instruments. At the start of the 1980's, many northern West European countries relied heavily on investment-based incentives in support of physical capital. In the course of the decade, the appropriateness and cost of these incentives has been questioned, and such measures have been increasingly complemented or superseded by "softer" policy initiatives, such as consultancy support, believed to be more relevant for contemporary needs. Reflecting the priority accorded to objectives such as entrepreneurship, new firm formation and innovation, these initiatives are designed to promote the development of human capital and assets. Examples include regional support for technology transfer through the acquisition of patents and licensing in Germany or the regional assistance for access to sources of advice, consultancy, education and training in the United Kingdom. More regional policy attention has also been given in some countries to the "general business environment" ie. subsidising infrastructure or communal business measures rather than aiding individual firms.

A second trend of the 1980's has been the concern with the cost-effectiveness of regional policy. Regional policy has had to

demonstrate its effectiveness (in other words, whether it is doing the right thing), and it has had to justify its efficiency (whether it was doing the thing right). As in other areas of policy, there has been a growing requirement for "value for money" in policy design and administration. Consequently, the evaluation of regional aid, which was formerly the preserve of a few countries such as the UK, is now widely given a higher profile among government departments, audit offices and national accounts committees.

Lastly, the effect of these two factors has contributed to a third trend, a sharp and sustained decline in expenditure on regional policy. Important incentive schemes have been abolished throughout the Community notably in the Netherlands, Denmark, the UK and Germany, many of which once formed the core or basis of relatively generous regional aid packages.

The rationalisation of incentive support has not been universally negative, particularly where government intervention is still seen as being economically necessary or politically acceptable. In Spain and Portugal for instance, accession to the European Community has produced a simplified but higher-value incentive system and higher levels of expenditure. However, in many of the richer, northern West European countries, the cutbacks were significant. Overall, it is estimated that during the 1980's the average amount spent annually on regional aid by Community governments may have declined by almost one-third.

## **2.4 Explanations for the reappraisal**

The picture of regional policy in Western Europe, therefore, is one of declining expenditure, much tighter cost-control, and greater discretion and selectivity in the award of regional aid. What are the reasons for this trend? Three main causes can be identified as being of particular significance.

First, during the 1980's there was a general reappraisal of government economic management in Western Europe and elsewhere. Greater credence is now given to market-led strategies. The subsidisation of firms by government, particularly public support for capital investment, has become increasingly unpopular. Govern-

ments in countries such as the UK have become committed to privatisation and the reduction of state involvement and restriction on the growth of public expenditure. The European Commission has also been exerting growing pressure on Community Member States to minimise so-called 'competition-distorting measures'. This trend has been encouraged by negotiations in fora such as GATT which have sought to open up manufacturing and service trade and to reduce competition-distorting measures and protectionism.

Second, in certain countries there has been a "crisis of confidence" in regional policy. In the early 1980's, many developed economies experienced high levels of nation-wide unemployment, and greater emphasis was placed on national growth and development. Significant levels of unemployment in the relatively prosperous regions led to a considerable weakening of the economic rationale for regional policy. More fundamentally, some West European governments have been concerned at the perceived lack of effectiveness of regional policies. For several northern West European countries, regional problems have been an enduring feature of economic geography for much of the post-war period. It is true that some countries, such as the Netherlands, have had considerable success in eliminating regional problems to the extent that regional policies are being downgraded or abandoned. However, in the UK, for example, many of the Special Areas designated in the 1930's are still classified as Development Areas almost 60 years later.

Inevitably, therefore, the question is asked whether regional policy has had any effect. Although there have been frequent and intensive attempts to evaluate the effects of regional policies, particularly through calculating levels of job creation, it has proved difficult to make a conclusive, consistent economic case for the application of regional policy. Ultimately, the survival of regional policy to date has depended on political commitment, either in the short term with a view towards electoral fortunes, or in the longer term, as in Germany, where a policy for reducing regional disparities is required by the country's constitution. Without this political commitment, the justification for regional policy has proved to be weak.

Lastly, the reassessment of regional policy has been prompted by the growing constraints on regional policy by the Commission of the European Community. As the main administrative institution of the European Community, the Commission generally does not decide policy which is the preserve of the Council of Ministers from the Member States. However, in the area of competition policy, the Commission has unique powers under the 1957 Treaty of Rome to take action against any state subsidy which it believes distorts free trade or competition - without recourse to the Council of Ministers.

Under this provision in the Treaty legislation, the Commission has, over the past two decades, intervened effectively in the regional and industrial policies of every Member State of the European Community to reduce the number and the level of subsidies. The action taken by the Commission has been in two main areas. Limits have been placed on the extent of problem regions by questioning the criteria and methodologies by which countries designate their assisted areas and by forcing down the spatial extent of designated areas.

The European Commission has also intervened in the regional policies of Member States to limit the intensity of assistance. Restrictions have been imposed on the maximum rates of grant that governments can award to companies. Aid has been restricted to certain sectors, and the budgetary allocations for particular schemes have been reduced. Control by the European Commission has frequently affected individual awards; some cases have had to be referred to the Commission for approval; in other instances, the Commission has taken action against individual award decisions or financing arrangements which are suspected of being illegal.

The objective of this action by the Commission is to create a "level playing field" for regional aid across the Community. In practice, this means that Commission action to restrict regional aid has been most stringent in the northern, richer countries of the European Community in order to give the southern, poorer Member States an advantage - for them to offer high-value grants to their domestic industry and to potential foreign investors.

### **3. The rise of the regional policy of the European community**

Given all these pressures on the regional policies of European countries, what does the future hold for the regional policies of national governments? There is considerable evidence that the future is bleak; indeed, it is likely that the 1990's will see the continued reduction - and perhaps even disappearance - of regional policies operated at national level in several northern countries of Western Europe. In the place of regional policy at the national level, the regional policies of the European Community are likely to become much more important.

#### **3.1 The involvement of the European Community in regional policy**

The first inevitable question is: why should a supra-national body such as the European Community have a regional policy? Four main arguments are used to justify a separate EC regional policy.

First, the EC believes that the efficiency of regional policy in the Member States can be improved by ensuring that spending is concentrated where it is most needed ie. in the most severely disadvantaged regions of Europe. Currently, some Member States are virtually depressed regions in their own right (eg. Portugal, Ireland, Greece). Second, the EC has a coordination role. The Community can coordinate the regional policies of the Member States to prevent excessive competitive outbidding for mobile foreign investment projects among European countries. There is also a need for coordination of EC policies. Third, a "common interest" argument is used to justify EC regional policy. To ensure social unity within the Community it is considered unacceptable to have major disparities in unemployment or income. Lastly, the most important justification for a separate EC regional policy is the "dynamic argument" which maintains that regional disparities may be a severe barrier to further integration. Over the past five years, this argument has been the most significant reason underlying the expansion of EC regional policy.

Regional disparities across the European Community are nearly twice as wide as disparities across the United States. In the EC league table of relative prosperity, using GBP per head as a measure of economic activity, and with the Community average as 100, the region of Voreio Aigaio in Greece has the lowest GBP per capita with a figure of 39.9, while Groningen in the Netherlands has the highest at 183.1. A total of 35 regions have a GBP per capita of 25 percent below the Community average. The differences in economic development are not just between regions. National disparities in the EC are also considerable. Over the period 1986-1990, Ireland, Spain, Greece and Portugal achieved a GBP growth which was 1.2 percent higher than the rest of the Community. However, by 1990 these countries had only moved from 66 percent to 69 percent of the Community average<sup>3</sup>.

As the Community becomes more integrated economically, there is a danger that the removal of national protection may exacerbate regional disparities, especially if monetary union requires countries to bring their inflation and interest rates into line. Consequently, the EC has had to give a higher political priority to the objective of economic and social cohesion - for political reasons to ensure the agreement of countries such as Spain and Portugal to further economic and monetary union; and for economic reasons to ensure that widening regional and social differences do not undermine the integration process.

### **3.2 The structure of EC regional policy**

With respect to the structure of EC regional policy, the EC has theoretically had obligations in the area of regional policy since 1957 when the Treaty of Rome required the Community to ensure "harmonious development" by reducing regional differences and the backwardness of less-favoured regions. However, in the early years of the Community's existence, no proper regional policy was under-

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3 *The Regions in the 1990s*, Fourth Periodic Report on the Social and Economic Situation and Development of the Regions of the Community, Commission of the European Communities, Brussels, 1990.

taken, and it was only in the mid-1970's that policy measures and budgets were introduced. Until the mid-1980's, the resources allocated by the European Community were very marginal, and it was widely regarded as a convenient budget heading for ensuring that countries which contributed an above-average amount to the EC budget could get a "fair return" (*juste retour*) on their budget contribution.

With the acceleration of EC integration in 1985 through the Single Market programme, and more recently with the proposals for further economic and monetary union, EC regional policy has been upgraded considerably in importance. Two reforms in 1988 and 1992 (awaiting approval) have also revolutionised the structure and functions of EC regional policy.

The current EC regional policy operates through three so-called "Structural Funds" (ERDF, ESF and EAGGF). These three Funds originated independently during the 1970's to address regional development problems, social issues such as employment and training, and agricultural problems in rural areas. Since 1988, however, they operate in a coordinated manner, targeted on six Community-wide objectives.

The most important objective, on which more than three-quarters of EC regional policy expenditure is concentrated, is the development of "structurally-backward regions". These are defined as areas with GBP per head less than 75 percent of the Community average, and covering parts of

Spain, Portugal, east Germany, Northern Ireland, Greece, Ireland and southern Italy. Two subsidiary but also important "spatial" objectives are the conversion of regions in industrial decline which have unemployment levels higher than the Community average, in other words the traditional industrial regions experiencing problems in adapting to structural change; and the development of rural areas.

This system of EC regional policy was set up in 1988 and was extended by the Maastricht summit of EC leaders held in December 1991 which, for the first time, established economic and social cohesion as one of the "pillars of the Community structure". The



statement reflected the dramatic rise in importance of EC regional policy over the past two decades.

From its establishment in the mid-1970's, EC spending will have increased more than 100-fold from US\$ 320 million in 1975 to US\$ 36 billion by 1997; and the importance of EC regional policy within the total Community budget will have risen from less than five percent to approximately one-third of total Community spending. The level of EC spending on regional policy, across the Community as a whole, is rapidly becoming more significant than volume of expenditure on regional policy by individual countries.

#### **4. Conclusions**

This review of recent trends in European regional policies at national and European Community levels has outlined a significant reshaping of the approach to countering regional disparities in Europe. This concluding section identifies some of distinctive changes in regional policy philosophy and practice.

One the key aspects of EC regional policy is that - in theory at least - it is based on the principles of "subsidiarity" and partnership. Subsidiarity in this context, may be defined as keeping functions with the smaller units of government where there is no major advantage in transferring them to bigger ones. EC regional policy is operationalised primarily through operational programmes undertaken by regional and local levels of government, but according to parameters and priorities established by the European Community.

The emphasis on the regional and local levels has also increasingly characterised economic development policies undertaken by West European countries. In many nations, there has been a growing role for regional governments or development agencies. In France, 22 regional governments were created in the mid-1980's; in the Netherlands, the provinces have been given increased regional development responsibilities; in Spain, the 17 Autonomous Communities are progressively being given more power; in the Scandinavian countries, the "free commune" experiment is leading to the relaxation of central government controls on local authorities; and in Italy and Portugal, decentralisation is also on the political agenda. Several

other European countries have longer standing devolved systems of government, for example Germany, Austria, Switzerland and - more recently - Belgium.

It is generally recognised that the effectiveness of economic development can be enhanced by devolution. Decentralisation permits specialisation, with initiatives tailored to local needs; it encourages experimentation, innovation and lesson-drawing; and it can promote potentially healthy economic rivalry and competition between regions.

A further aspect of this focus on the regional level is a growing awareness of the international inter-relationships of regions and cities. In the field of economic development, the links and networks between regions, often based on core cities, are becoming more important than the links between nations. The regional relationships are dominated by so-called "multinational regions" such as South-East England (around London), the Ile de France (based on Paris) and Lombardia/ Piemonte (Milan/Turin). However, networks of secondary and tertiary regions and urban centres are also becoming widespread, linked by functional or geographical characteristics, and based on the perception that where there are political and cultural links, commercial relationships will follow. Many of the most innovative regional development measures operated in Europe over the past few years have promoted inter-company and inter-regional links and networks, encouraging the interchange of trade, investment, ideas and technology.

Closely associated with the importance of the region and locality in economic development is the growing recognition that regional development cannot be limited to support for investment or the provision of basic infrastructure. Instead, it is believed that regional development must involve a broader and more co-ordinated approach - social, cultural and environmental as well as economic. It must also attempt to mobilise as many potential "actors" or "participants" within a region or local area as possible. Under EC regional policy, for example, operational programmes funded by the Community must involve cooperation between all the regional and local agencies with an interest in economic development, employ-

ment and training, environmental protection, the provision of finance and venture capital, innovation and technological development in order to create so-called "synergies".

A logical corollary of this emerging structure of regional development is that future instruments of regional policy must be diverse and flexible. Perhaps one of the most important lessons is that one of the main instruments of regional policy for over 30 years - financial incentives to subsidise capital investment by companies - is seen as outdated. The 1980's was a decade of radical change in attitudes towards the use of financial incentives for aiding industry. Among many countries in northern Europe, there is now considerable scepticism about the justification for providing capital subsidies to individual firms and projects, other than to the smallest firms and to entrepreneurs from disadvantaged social groups. Regional incentives have been a particular casualty of this scepticism as the nature of spatial disparities has become more extensive and complex.

From a regional development perspective, high-value capital incentives may no longer be relevant to contemporary spatial development needs. Such incentives are an instrument geared to an older, system of organising production and to influencing branch plant manufacturing investment in particular. They have been accused of encouraging and attracting non-viable firms and preserving outdated industrial structures. Their targeting is perceived to be narrow, their take-up by firms is random, and their effect may be short-term. In the longer term they are considered to be no substitute for improving (infrastructure) resource endowment.

This view is certainly not universally held, especially among southern European countries where high value regional investment incentives are still promoted. However, for almost the first time in the post-war period, it is now possible to foresee a situation where regional investment incentives might become very marginal as an instrument of regional development and perhaps even eliminated entirely in some European countries. Any subsidies that remain are likely to be "softer" with support for consultancy, technology transfer and "intangible" or "human" assets.

In addition, many of the spatial development policies currently being applied in the north of Western European countries, particularly those funded by the European Community, place great emphasis on infrastructure. EC infrastructure support encompasses a broad range of projects including the improvement of communications (road, rail, waterways and ports) and telecommunications as well as energy supplies, training facilities, welfare and healthcare, and improvement of the physical and social environment. The Structural Funds also prioritise improvements to the business environment through support for business services and technology transfer, and the development of human resources through technical and professional training.

Overall, there are four components of infrastructure provision that appear to be considered particularly important for regional development in the future. First, there is the issue of *amenity*, comprising at its simplest a pleasant working and living environment without urban or industrial blight and with the adequate provision of leisure, health-care and educational facilities. Second a *communications infrastructure* is regarded as being necessary, both in the traditional sense (in terms of road, rail and air access) as well as more modern telecommunications. Third, the newer spatial development policies are placing great emphasis on the *education and training* infrastructure to improve regional strengths in entrepreneurship, management and innovation. Lastly, infrastructure conducive to business development is seen as necessitating an *information and contact-rich environment* through the promotion of inter-regional and international contacts and the provision of, and access to, producer services.

Finally, a more general lesson from the past 30 years of regional development is somewhat of a truism: there is no single solution to regional problems. During the 1960's and 1970's, regional policies focused largely on the attraction of mobile and foreign investment to the problem regions. In the late 1970's, problems associated with branch plants and external control (as well as a diminishing supply of mobile investment) led to a switch to promoting indigenous development and great emphasis was placed on small firms. However, during the 1980's, it was perceived that small firms would cre-

ate only a fraction of the new employment and investment required in the problem regions, and much of the employment created was relatively unsophisticated. Consequently, the current vogue is on regional innovation and technology transfer measures.

The important lesson is that none of these measures should be applied in isolation. Regional development has to begin from an accurate assessment of local problems, needs and potential, and economic development policies should comprise a mix of appropriate measures encompassing exogenous as well as indigenous development support, low tech as well as high tech companies, large and small firms, and organisations in both the public and private sectors.

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## **East-West, Regional policy in transition. A Dutch approach**

### **1. Introduction**

At the moment East-Central European countries are undergoing dramatic political, economic and social changes. All of them face deep economic recession. Most of them have introduced radical reforms, aiming to construct a combination of market economy with political pluralism. The task facing the politicians is not simply to reverse a set of ill-conceived policies. Rather, it is to alter the structure of the economy fundamentally in such a way that it will be able to respond to the challenges of the future more effectively.

This paper is written in the hope it will be possible to learn from each other and that the experience of West European countries in structural change, and specifically regional change, although the circumstances and conditions are rather different, can be helpful to the East-Central European countries.

In the paper attention will be paid to the principles of (regional) planning and policy against the background of the process of transition in which the East-Central European countries are involved. How to design this policy, using the experience of Dutch regional policy of the last 45 years after World War II; and how to implement this policy.

More concretely the paper tries to identify global changes and trends that will play a role in Europe, not only in Western Europe but also in the East-Central European (ECE) countries. Against this background and a "new global awareness of world problems" the economic performance and future prospects of the ECE countries joining or entering Europe will be described. Together with the major political developments in the European Community for the future (chapter 2).

Chapter 3 will pay attention to the process of economic policy in transition reflecting and rethinking the (im)possibilities of planning and policy-making in the field of economics. Dutch experience with economic planning and policy will be elaborated, with special attention to regional economic policy in The Netherlands. Here theoretical considerations and an evaluation of the policy-life-cycle applied on regional economic policies of the last years will be discussed.

In chapter 4 regional economic policy and spatial planning are introduced as a specific Dutch approach. Here attention will be paid to the new policy for locational environment and the institutional context of this approach.

Finally in chapter 5 regional planning and policy will be elaborated for the Randstad Holland (the conurbation of Rotterdam, Amsterdam, The Hague and Utrecht). Against the background of the international competitive position of the Randstad economy the Randstad planning and policy will be explained. The administrative reform with regard to the urban regions will be discussed and the role of the Randstad provinces will be explained.

Last but not least special attention will be paid to the Southern Wing of the Randstad (the urban region Rotterdam-The Hague) for which a special marketing approach has been followed to underpin the Development Sketch of the economic potential of the Southern part of the Randstad.

## **2. Global challenge: changes and trends in Europe and abroad**

### **2.1. The global challenge**

The deep transformation of Europe at the turn of the 20th and 21st century is not only a challenge to the global community of scholars, artists, politicians and businessmen to create, design and implement a new international research programme, as Kukliński wrote in 1991; it is above all an appeal to bridge the challenging gap between theory and praxis in both East and West Europe in this respect. The gap between different images and realities with regard to democracy, market economy, clean environment and efficient technical infrastructure, not only in Europe but in the whole world.

A new global awareness of world problems is needed, already indicated for a long time by Nobel-prize winner prof. dr. J. Tinbergen, who perseveres emphasizing the four main world problems:

- development of the poor countries;
- sustainable development;
- international safety;
- environmental quality.

Just as in the 1970's, when there were great expectations for new solutions, formulated as the New International Economic Order (NIEO) and proclaimed by the UN General Assembly in 1975. A new world order by international "governance" as advocated by the Stockholm Initiative on Global Security and Governance<sup>1</sup>.

But to bridge the gap between image and reality, special attention has to be paid to the major changes in which the main actors of the world scene are involved. For such changes affect the functioning of the entire global world system. So without taking into account the phenomena of global policy and the real actors in the world arena, it would not be only very difficult to understand the global processes (Pajestka, 1991), but even impossible<sup>2</sup>.

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1 Stockholm Initiative, Common responsibility in the 1990's, April 1990



## 2.2. Global changes

The last few years are marked by a further intensification of great changes. Beginning with the development of a powerful network of transnational contacts taking lead in international trade, finance and high-tech transfer and together with the globalisation of the monetary system one may speak of an "accelerated change". In this change transnational entrepreneurship plays an important and superior role on a global scale because it represents the only real institutional form of organised transfer of technology and modern methods of management<sup>2</sup>.

In this context the phrase about joining or entering Europe is attractive of course for the ECE countries, but it will not be a smooth entrance to the style of life and work in the global system of a new multipolar world of Europe, the USA and Japan.

In this three-polar system fortunately Europe has a good chance to find a solution to the integrational problems of the whole continent because it has a potential to absorb immigrants and enough managerial skills and capital to aid. But for the ECE countries joining Europe it will be very difficult to join the mainstream of cooperation and competition because of their very weak economic performance.

## 2.3. Economic performance ECE and future prospects

As said the economic performance of the ECE countries is very poor. Since the early 1970's there has been a secular decline in output performance in all the countries. During the second half of the 1980's exports lagged behind the dynamic growth of world trade, internal balances worsened and hidden or repressed inflation became pervasive. Large government deficits were built up too and unemployment (though disguised) became widespread.

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2 See also S. Ostry, *Beyond the border: the new international policy arena*, in: *Strategic industries in a global economy: policy issues for the 1990's*. OECD, Paris 1991.

3 See also M.E. Porter, *The Competitive Advantage of Nations*; New York, 1990.

At the moment a lot of problems are manifest:

- obsolete industrial structures;
- technological backwardness;
- uncompetitiveness on international markets;
- foreign debt;
- growing unemployment;
- deteriorating level of consumption;
- impatience of people.

With this performance connected with all these problems, however, the ECE countries have to face the future joining or entering Europe. A new Europe efficient to survive the challenges of global competition. An integrated Europe of countries and regions shaped by the intellectual framework of future actions of tomorrow<sup>4</sup>.

Although all the ECE countries have proclaimed their commitment to major economic and political reforms, there are substantial differences between them in practice. Simply considered, as points along a common path, some states began earlier and have progressed further. Roughly speaking one may distinguish between three broad groups:

1. Czecho-Slovakia, Hungary and Poland;
2. Bulgaria, Rumania and the new Commonwealth of Independent States;
3. Yugoslavia divided or not as a special case.

The first group may be distinguished from the second by the degree of its commitment to reform, its more developed economic structure and its cultural background.

Perhaps a typology of the phases through which these countries are passing may be helpful to understand the process of development better. In the first phase a gradual political pluralisation took place,

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4 See also A. Kukliński, *New Europe - Images and Realities*.  
A. Kukliński and G. Gorzelak, *Regional Restructuring of Eastern and Central Europe*.  
Proposal of a Research Programme; Warsaw, 1991.

sometimes already introduced by the old regime in an attempt to overcome deepening economic problems. It will be clear that all the countries passed through this phase. In phase two a rapid radical political pluralisation has taken place, characterized by a high level of chaos. This phase will be followed by phase three involving a process of stabilisation and structural adjustment. Czecho-Slovakia, Hungary and Poland are now in the beginning of phase three executing their first plans. After this phase a final hoped-for fourth phase will come with a rapid economic development. However, this last phase will take a long time. Just as a World Bank assessment, published in April 1991, suggests, Poland, Czecho-Slovakia and Hungary will not regain their 1989 income levels until 1996.

## **2.4. Main economic trends**

Four main trends in the economic organisation of society can be identified, of course mutually influencing each other:

1. Introduction of major new technologies:

We are probably entering the fifth Kondratieff wave, carried by basic innovations in micro-electronics, bio-technology, new materials and telecommunications.

2. Changes in the organisation of production:

In accordance with 1) institutional innovations will play a role too. Flexible specialisation, economies of scope instead of scale, specialisation in core-activities together with co-making and sub-contracting, dematerialisation of product, networks of inter-related firms.

3. Development towards a service economy:

The "post-industrial society" (Bell, 1973) appears to be the "information society" (Naisbitt 1984) in which information and knowledge tend to overshadow capital as the prime production factor. As science and technology advance and industry is re-structured and rationalized on a global basis, the knowledge component of goods and services increases and new location patterns will grow.

4. The ongoing internationalisation of the economy:

New models of transportation and innovations in communi-

cation technology make multinationals operate as service industries on a global scale. But small and medium sized enterprises are participating in international networks of subcontracting and cooperation too. "Thinking on global scale" certainly does not mean that national or even regional cooperation of firms "acting locally" are of minor importance. On the contrary "think global and act local" is the device, in which local resources and competitive advantage achieved by regional networks should be applied. The international promotion of local development initiatives forms in this respect a basis for economic regeneration. Local and regional action in the restructuring process can identify, mobilize and combine diverse potential local resources much better than central policies<sup>5</sup>.

This "global challenge-local response" approach in the ECE countries can best be performed by local government in encouraging local economic development not as owners or managers of enterprises but as partners with the private sector. Institutional support like training, research and development, promotion and marketing, consulting and risk management can help the process. Special attention has to be paid to indigenous enterprises and small businesses, because they can make use of existing resources, skills and networks. The supporting role of local government is important too in connection with environmental and historical preservation and the ensuring of public interest as a whole<sup>6</sup>.

## **2.5. Major political developments in the European Community**

As the main objective of the ECE countries is to be integrated as soon as possible into the global world system, through integration

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5 W.B. Stöhr, ed., *Global challenge and local response. Initiatives for economic regeneration in contemporary Europe*; London, 1990.

6 The Prague Declaration, *Principles for local government reform in Central and Eastern Europe*; Prague, 1991.

within the European Community, more insight in major developments in Europe will be helpful in obtaining this objective.

A major trend which has been operative for a longer time and has become more manifest and dominant now is the transnationalisation of both politics and business in Western Europe. Important factors behind this process are industrial-technology developments, improved international transport and other main trends already described. But there are political factors too, especially the enlargement and improved functioning of the European Community (EC). So far, the Single European Act and its Internal Market White Book are more important as indicators than as factors of this trend.

To understand this process of transnationalisation one may distinguish the following developments:<sup>7</sup>

1. Increase of political interference:

Much more transnational decision-making, especially at the EC level. There will be a change, step-by-step, from a confederation into a federation (European Union).

2. More tensions and antagonisms:

Member states can be overruled more often. Solutions of Europe with "two-or-more speeds" might be applied. In the Europolitical arena not only member states can be losers, national business has to cope with the challenges too. Sometimes by improving its pressure group potentials.

3. More transnational pluralism:

Not only political parties but also trade unions, consumer organisations, educational groups and many other groups strive for transnational cooperation. Regions too, because they can bypass the national Government and will be welcomed by the European Commission. Business has to improve its transnational organisation (by branch-based or-

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7 M. van Schendelen; Business and government relations in Europe; European Affairs, 1990.

ganisations) too; otherwise it will be dominated by non-business interest groups and political forces.

In addition to the EC which is not a static political platform, new memberships may be expected in the 1990's. EC in cooperation with the EFTA countries in the European Economic Area but also ECE countries (already associate member) will follow.

Although the intercontinental relationships will weaken (especially the Atlantic alliances), the world becomes more polycentric as has been told. Intra European trade (including the Commonwealth trade) will play a major role of course. But it has to be placed against the background of G-7 policy and new agreements of the GATT Uruguay Round. For the wider EC the Arab world may become a challenging neighbour too. What China may become for Japan and Brazil for the USA, the Arab world may become for Europe (Arab challenge).

So there are many challenges and not only for Europe. The completion of the internal market and further economic and monetary cooperation to attain EMU and the political union (EPU) in Europe. But also the strengthening of the foreign policy component of the EC activities like EPC and NATO.

### **3. East-West: economic policy in transition**

#### **3.1. Market cum democracy**

As a result of the complete breakdown of the political and economic system in Eastern and Central Europe there is a need to reflect and rethink the (im)possibilities of planning and policy-making in the field of economics. Not only in the East but also in Western Europe.

During the 1980's, industrial and labour market policies in most OECD countries have moved towards more reliance on market forces and competition. After a long period of interventionist policies, the perception - that market rigidities were a cause of the economic slow down - could not hold any longer. So, started in the United States in the late 1970's, deregulation of public utility industries (in particular transportation and telecommunications) took place in many countries of the OECD.

The aim behind this policy of deregulation and privatisation was to increase the flexibility of economics, to improve resource allocation and, ultimately, to enhance economic growth.

In Eastern and Central Europe the weakness of the system became so deep and great that it needed a complete transformation in the way of thinking about future economy. Contributions about holistic thinking in the field of global change and a holistic interpretation of the great transition in Poland are interesting attempts to discover the opportunities and threats connected with a new era of civilisation (see e.g. J.Pajestka and Z.L.Sadowski)<sup>8</sup>. Although a process of degeneration of civilisation has emerged in the course of evolution, our new task is to counterbalance this process by participating in a concerted global effort to achieve sustainable development, in East as well in West (Brundtland Report: Our common future: seizing the opportunity). In this respect each country has to join the main stream of civilisation. And the best tool for achieving this aim is to introduce a market system equipped with institutions and mechanisms most fully compatible with the world economy. Of course with a democratic government and together with political pluralism, which will be indispensable for integration with modern civilisation.

Following Sadowski, a socio-economic system combines a certain type of economic organisation with a certain political set-up. The best possible system, replacing the centrally planned command economy with an authoritarian political system, seems to be a combination of market economy and political pluralism (the case of market cum democracy). A system based on the global economy of the most advanced countries of the world. With the well known goals of humanity (Liberty, Equality, Fraternity) in a modern setting of individual freedom, human rights, tolerance and democracy.

In this respect the idea of a "social interest" is not unique to socialism. "Social interest" can also be connected with a social market system instead of a system of market socialism combined with one-

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8 J. Pajestka, *Changes in Global system and their consequences for Poland*; Warsaw, 1991. Z.L. Sadowski, *Poland, the great transition*; Warsaw, 1991.

party rule. A market system in which social objectives (equity in distribution of income and wealth, full employment etc.) plays an important role and can be characterized as a social market economy. The Dutch socio-economic system is such a system, in which the state is supplementing, not replacing the market. In the section below it will be explained for our country.

## **3.2. Dutch economic planning and policy**

### **3.2.1. Macro-economic policy**

Economic policy had a splendid opportunity in The Netherlands after the Second World War. Not only because of the reconstruction of the economy and the implementation of Marshall Aid, but also because there were highly competent policy-makers and well trained economists.

Soon after the war a law was drafted by the Dutch government on "preparing the assessment of a National Economic Plan". The Minister of Economic Affairs intended to found a Central Planning Bureau (CPB) which would prepare on a regular basis a National Economic Plan to coordinate economic, social and financial policy and help the government in planning and guiding the economic process. The Minister met with strong opposition from the non-socialist parties in parliament who eschewed central economic planning. The CPB should be a strictly advisory body. With the well-known econometrist Professor Tinbergen, as its first director, in 1946 an assessment of the economic situation was offered together with a number of policy measures. In 1947 a law passed in which was established that the Central Economic Plan (CEP) should only contain estimates and guidelines for the national economy. In practice the Bureau emphasized macro-economic assessment and forecasting and the CEP did not contain guidelines. Instead, it offered some alternative policy scenarios to help the decision-making process of the government.

### *Principles and design*

Tinbergen contributed much to establish the role of the CPB. His ideas on the theory of economic policy, principles and design,



played a very important role<sup>9</sup>. He introduced a new type of macro economic planning for better understanding the operation of the economy as a whole. It was highly influenced by the statistical concepts relevant to national or social accounts and by Keynesian and other theoretical concepts. Combined with market analysis and later developed into macro-economic econometric models (a model as a system of relations, describing, in an approximate way, the adaptation process of an economy).

Analytical or prediction models on the one hand and planning or decision models for policy-making on the other hand. Economic policy then consists of the deliberate manipulation of a number of means (instrument variables) in order to attain certain goals (objective variables). According to the nature of the means used, one may distinguish between:

- reforms (changes in foundations);
- qualitative policy (changes in socio-economic structure);
- quantitative policy (changes in the value of the instrument-variables of macro-economic policy).

The procedure of policy-making consists in principle of three phases:

1. Make a forecast under assumption of no change in policy;
2. Find out whether this state diverges from what is considered the most desirable situation;
3. Estimate the effects of possible alternative economic policies.

These first three stages represent the so-called "planning stages". This use of the word planning has of course nothing to do with the type of policy in a non-market centralized or decentralized economy. It stands only for a more scientific advanced preparation of economic policy.

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9 J. Tinbergen, *Economic policy: principles and design*; Amsterdam, 1956.

The fourth stage is that of making a choice, i.e. taking a decision (by government), followed by the fifth stage: the execution or better the implementation of the macro-economic policy.

The first four stages together may be indicated as the design of the policy.

### *Products*

Every year the CPB publishes a Central Economic Plan, a more detailed sectoral overview of the economy for the current year. Since 1961, every year in summer the CPB prepares the Macro Economic Outlook, a guidance for the Ministers who are then preparing the budget for the next year.

As a rule a medium term forecast is published before national elections for parliament. This forecast with "unchanged" policies serves as a baseline for an analysis of the economic policy programmes of the major political parties. After the elections, the negotiating parties usually ask the CPB to assess the economic effects of their draft coalition programme.

To prepare a policy response by the government, the forecasts and analyses of the CPB are frequently discussed in the Central Economic Commission (CEC), which give advice to the Cabinet. A considerable portion of the activities is also devoted to the work for the Social-Economic Council (SER) a tripartite advisory body with great influence on government decisions. Established in 1950, the SER formulated the following generally accepted objectives of macro-economic policy:

- full employment;
- economic growth;
- stability of price level;
- equilibrium of balance-of-payments;
- equitable distribution of income.

It is evident that there is a great difference in status between the various objectives. Maximum prosperity, full employment and equitable distribution are final objectives, the other are more means-to-end objectives, or sub-objectives.

In the 1960's overall growth of the economy had undesirable side effects on the environment. Furthermore, congestion problems resulted from concentration of economic activities. Next, the long term availability of resources was questioned. The policy answer to these problems was introducing a policy of selective growth. With the Brundtland Report "Our common future" new steps have been made to ensure continued human progress by achieving a sustainable development. The Netherlands Scientific Council for Government Policy examined the conditions for achieving sustained economic growth while satisfying the objectives of economic policy, by means of an interactive multiple goal programming approach.

Because the work of the CPB is limited to the field of economics, related aspects of government policy are covered by other bureaus. The Social and Cultural Planning Bureau, the Government Institute for Public Health and the Environment, the Centre for Energy Studies and the National Agency for Physical Planning, they all cooperate with the CPB, especially in the field of long term studies.

### *Unique position CPB*

This extensive explanation of the foundations of Dutch macro-economic policy together with the description of the planning-procedure may give more inside-information about the system of planning and policy-making in The Netherlands.

The CPB has a rather unique position in comparison with similar institutes in other countries. In the United Kingdom official forecasts and model calculations are made by the Treasury. The opposition and labour unions cannot call on the Treasury for model calculations. In Germany we find a similar situation. In the United States the Congressional Budget Office plays a role, however its forecasts are usually disputed by the administration.

The Dutch CPB combines an independent position with a rather strong involvement in the process of policy preparation inside government. All assumptions and results of the model calculations are published and, in principle, can be verified. Also the model itself, the data and the results for the forecasting period are made available.

### 3.2.2. Sectoral planning and policy

Immediately after the Second World War with the reconstruction of the economy and the implementation of Marshall Aid, but more with the foundation of the Common Market, the desire awoke to assess the structural consequences for the economy. Measures to affect production capacity became just as important as demand regulation. Problems of resource scarcity, the effects of changing (energy) prices, environmental side effects and other structural changes made it desirable to carry out analyses at a desegregated level.

Because we live in a market-oriented economy, leaving investment decisions to entrepreneurs, there is an anxiety that sectoral planning may cause detailed and specific government intervention. So sectoral planning can only have an indicative value to ensure long term future prosperity in a situation where private enterprise cannot or will not utilize the potentials for economic growth, so sectoral planning and policy have a reserve function.

After the war a programme of industrialisation was initiated. Policies to attract export-oriented industries were implemented in conjunction with general policies at moderation of wages to avoid inflation and balance-of-payments problems (a kind of stabilisation-growth policy!). Industrial development was supported by general investment incentives.

A second motivation for government intervention arose in the case of structurally stagnating industries, deteriorated technologies and saturation in demand associated with ending product life cycles. Activities had to be revitalized such as coal mining, ship building and textile.

Apart from the stagnation of certain industries, overall growth of the economy caused undesirable side effects on the environment and congestion problems arose. The policy answer was selective growth: a Selective Investment Regulation Act was introduced, which used financial incentives to penalize undesired spatial congestion.

As the general economic situation worsened, the question arose how to make structural policy more "offensive" and to what extent can structural policy really stimulate economic development? The Wagner Commission on industrial policy formulated additional criteria

for project support in terms of major attention fields (internal and external trends in market developments, competitive position, value added, contribution to balance of payments, trends in technology). These criteria refined the selectiveness as incorporated in former policy. But the progress in this field of policy, how necessary in this time it may be, is very limited. Just as had been said in 1966 by the Ministry of Economic Affairs one may say: *"Our knowledge is insufficient for us to have the pretention to pinpoint preset objectives of growth and structure through a combination of the implementation of policy instruments and the working of the market mechanism"*.

### **3.2.3. Regional economic policy**

Restructuring the economy and regional development is a permanent process in a competitive market economy. The development of an internationally integrated economy is increasingly becoming a regional rather than a national matter.

West European experience in regional and industrial restructuring and the policy applied to it can be instructive, because it can provide suggestions of both successes and failures of regional policies from the past. Of course the analysis of Western experiences must be critical. Each region has its own economic structure (constituted by its own composition of enterprises, establishments and institutions) and dynamics. Related to the processes of innovation, we distinguish them as innovative, adaptive and lagged regions. But Western theories too cannot be directly applied to the situation of countries and regions in a transition period from centrally planned to market economies. So it is necessary to have a fresh and critical look at the existing theoretical background and principles of spatial and regional policies in a situation of serious transformation of the entire system as in Eastern and Central Europe.

Comparative studies of regional development processes in other (West) European countries can help perhaps to define the scope of necessary transformations in regional structures and the role of regional and local authorities in promoting international cooperation; as well as the application of instruments of regional policy which seemed to be very successful.

Regional policy plays an important role, not only in The Netherlands, but in whole Western Europe and even in the USA. It has been a subject of outstanding importance, both theoretically and in the applied regional science. It can be defined as specific set of actions by central, regional or local government aimed at improving the profile of (a) region(s).

Several types of regional policy may be distinguished: regional socio-economic policy, spatial planning and policy, socio-cultural policy and last but not least environmental policy.

Of course different types of policies may give rise to conflicts of interest between various groups in society and political actors. Regional policy by some people is regarded as a conscious and deliberate action by some institution that recognizes problems and develops instruments to solve them. In such a situation the problem of regional development is reduced to a technical relation between goals and means. The societal dimensions of the officially formulated goals and instruments then however remain hidden, which makes the process of planning not clear and transparent enough.

### *Theoretical foundations*

With regard to national-regional policy one may distinguish a large number of objectives and instruments. However, they are usually related to two kind of goals: efficiency on the one hand and equity on the other. Goals that are sometimes compatible and sometimes in conflict with each other.

The potential conflict between aggregate (macro, national) efficiency and spatial (interregional) equity, the so-called efficiency - equity controversy, is perhaps the most critical dilemma in regional economies and a major obstacle in the way of effective implementation of regional policies. This seems to be the same question in Eastern and Central Europe, where scenarios of polarisation and global change are confronted with scenarios of equalisation at all levels (intercontinental, international, interregional, inter-local and inter-personal). Will the policy be globally oriented (focused on competitive capabilities of regional economic structures) or socially oriented

(primarily aimed at levelling out social differences between particular regions).

Especially the concept of equity is very fuzzy in Western policy. As Richardson argues there are three faces of equity in mixed economies<sup>10</sup>:

1. Equality of incomes (the egalitarian society).
2. Equal reward for effort (equality of opportunity; a rationale for the market economy).
3. The distributional impact of the supply of public services on equity.

Within the framework of the static neoclassical model, the conflict between aggregate efficiency and interregional equity will not arise. But in reality a trade-off between efficiency and equity is mostly unavoidable. The task facing the policy-maker then becomes one of instrument design so as to minimize efficiency losses and to assure an improvement in as well interpersonal equity as spatial equity. A very big problem, because there are poor people in rich regions and rich people in poor regions! So in most Western countries in Europe the regional objective has been formulated as: "*the promotion of interregional equity at the least sacrifice in terms of economic efficiency*".

The simplest, some may say naive strategy then is to allow market forces to determine the allocation of investment resources, with appropriate intervention to correct for any misallocation due to unpriced externalities.

### *More efficiency oriented*

During the last years regional economic policy in The Netherlands tends more in the direction of an efficiency-oriented approach. The differences between the various regions in terms of unemployment, job opportunities and investments are diminishing. In addition, the

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10 H.W. Richardson, *Aggregate Efficiency and interregional equity*; Los Angeles, 1977.

internationalisation of the Dutch economy is constantly making progress against the background of new opportunities and threats from abroad. Continuous economic growth is of vital importance, but at the same time it will cause conflicts with environmental, spatial and mobility interests. So in the coming years regional policy will be based on the existing long-standing goals:

- a) differences between various regions must be reduced by catching up on socio-economic backlogs;
- b) the contribution to national prosperity by every region must be enhanced.

But with the acknowledgement that regional policy should be based more on the regions' own possibilities, the "endogenous potential". The result of the political illusion of the 1970's and 1980's, in which a very complicated system of licences, taxes and incentives had been built up by means of a Selective Investment Regulations Act.

Besides this argumentation another argument is very interesting in this context. The transition of an economy from an underdeveloped to a developed state is accompanied by spatial polarisation because, although there are diminishing returns to density in the primary sector, there are increasing returns to density in secondary and tertiary industries. So income maximisation requires a higher degree of spatial concentration of economic sectors in space, while income equalisation demands an even distribution of urban-oriented industries.

Of course regional policy has to combine both inter- and intra-regional aspects. Planning must be concerned not only with the allocation of resources among sectors and regions, but also within regions. That is why regional planning almost always includes a physical planning component. Further on this will be discussed in more detail.

### *The policy-life-cycle in Dutch regional policy*

Another point in this more theoretical context which gives more insight in the process of policy-making in a historical perspective is that of the "political life cycle". Within this life-cycle concept



(originated from product-life-cycle theories, e.g. S. Hirsch) G.A. van der Knaap<sup>11</sup> distinguishes different stages of political interest and policy formulation (figure 1).

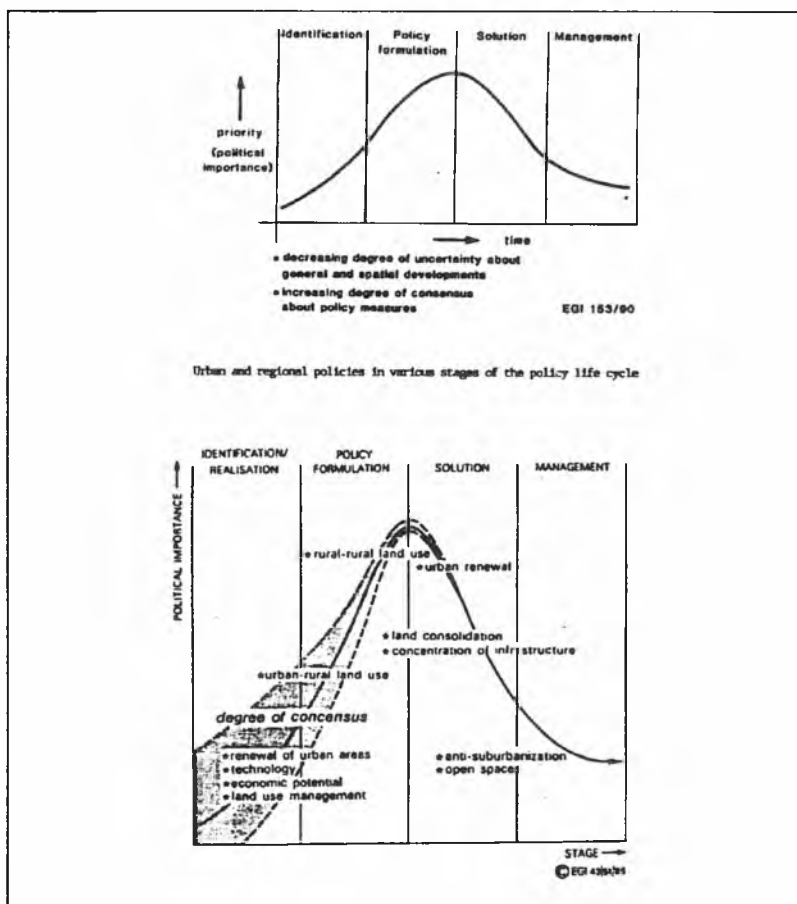


Figure 1. The policy life cycle

11 G.A. van der Knaap and P.J. Louter, Economic changes and strategies for spatial policy; Rotterdam, 1990.

**Table 1.** The life cycle of regional economic policy and economic development in The Netherlands.

Period	stage in economic development	stage in the life cycle	type of policy	nature of instruments
1948-1958 1952-1964	prosperity I	identification	industrialisation	non-classical infrastructure
1958-1967 1964-1972	prosperity II	policy formulation	formulation of regional policy	investments premiums
1967-1973 1972-1981	recession	solution	all-embracing sectoral and regional policy	refinement and enlargement
1973-1983 1981-1990	depression	management	decentralisation with focus on efficiency	reduction and selection
1983-1992	recovery			

Public policies as "products" of political actions have a distinct time dimension. The stages are related to the degree of standardisation of the policy and the proper level of executive government. (In the case of The Netherlands there are three levels of government, viz. national, provincial and municipal.)

The policy-life-cycle concept is not only a useful descriptive tool for the policy field of physical planning. It can also be used to illustrate the main features of national-regional economic policy. Changes in Dutch policy have been compared with the development of the economy in the same period.

Maybe not surprisingly, a rather consistent time lag of about six years can be observed between regional economic policy and economic development (where the general development of the economy is in the lead). The description of the different stages is as follows:

In the first stage it appears that there is little consensus about a regional policy. But the problem has been identified and a policy is formulated in the second stage. Once the policy is accepted, there is an expansion of the policy. This is the case in the third stage where the focus is on management and which leads to a growth and refinement of the associated instruments. In the fourth stage there is a decentralisation of the policy from the national level to the regional

and local authorities with a concern for cost reduction and more emphasis on effectivity of the instruments and less on social equity. At the end of this stage new goals have to be identified and formulated to ensure political continuity in this field. In the last stage a fundamental change in policy is carried through: the beginning of a new policy life cycle. More "offensive" strategy followed the last few years. Financial resources are utilized for new manufacturing activities with high potential for future growth. However, a public investment strategy for new physical infrastructure is still lacking.

Another very interesting point in this context is that the discussed relation between policy-life-cycle and stages in economic development reflects the changing conditions in which organisations have to operate. In a qualitative sense Van Duyn<sup>12</sup> has attempted to formulate these interdependent relations between business organisations and government and how this has been expressed in different types of networks.

**Table 2.** The growth of networks and economic development.

stage in economic development	life cycle of a leading sector	intensity of network development	role of government in network development
expansion rapid growth	expansion expansion	++ +	-regulatory legislation -little government intervention
recession	maturity	+++	-isolated support for weak classes of industry
depression recovery	decline decline and innovation	++++ +++	-restructuring problems -regulatory legislation

The creation of networks appears to be closely related to the stages in economic development as described before. However, there are of course also other forces in business or government which play a strategic role in particular types of networks.

12 J.J. Van Duyn, *The long wave in economic live*; London, 1983.

Finally the results of the investigation of Prins (1986) are relevant in this context too. He identified three distinct periods for The Netherlands in which the type of cooperation between the different levels of government and the public-private partnerships have been quite different in time:

- 1945-1968, characterized by a considerable willingness between public and private organisations to cooperate and where private investment paved the way for cooperation. The planning process in this period can be characterized as "top-down".
- 1968-1978, with a boom of public investment and various types of public-public cooperation. The investment wave was separate from the activities in the private sector. Planning was top-down too.
- 1978-1988, again a development of different forms of public-private cooperation in which no one of the partners occupied a dominant position. The planning mode was more horizontal.

An interesting point of this investigation was that when one considers the role of government - the variation in different types of cooperation shows an inverse relation with economic development.

#### **4. Regional economic policy and spatial planning in The Netherlands**

In The Netherlands the financial and legislative means to execute regional socio-economic policy are highly concentrated at the level of the central government. The twelve provinces have hardly any real authority compared with the physical planning at the provincial level. So the provinces only supervise the municipalities within their territory and they prepare and partly execute global spatial plans.

Regional policy of the EEC is essentially complementary to the regional policies of the member states. It only deals with the problems of specific regions, for which the European Regional Development Fund (ERDF) plays an important role. In this context a programme can be set up per region, but with the intention that the region itself will maintain its own specific role. So ERDF programmes involve

decentralisation in the implementation and management of the various projects.

A maximum of about half of the funds needed for a particular programme are eligible to be met by the ERDF. An option on co-financing by the state can be added to this.

In addition, a limited budget is also available for co-financing options outside the regional programme areas, for instance the co-financing of the RENAVAL-project of our province.

#### **4.1. Regional economic policy; institutional context and set of instruments**

In our mixed economy economic decisions are taken by many agents. The managements of privately owned companies take their decisions: how much of what to produce, why, how, when and where. Of course, government tries to influence these decisions for reasons of public rather than company interests. But on the whole, regional economic policy restricts itself to the use of indirect rather than direct instruments and intends to influence rather than to control. Commands are practically unknown as far as private decisions of consumers or producers are concerned. Even state-owned companies have a high degree of independent decision-making. The only area where direct instruments play a role, are related to the non-market activities of the government itself.

In the policy-field of housing, physical planning and environment there are a lot of instruments, but most of them are of an indirect character too. Only the compulsory purchase in the interest of the implementation of an assigned land-use plan can force; and of course there are orders and directives of environmental policy for the companies too.

National-regional economic policy is usually presented in a white paper and deals with a period of four years. The recent policy proposals refer to the period 1991-1994 and comprise an overview of measures drawn up to stimulate the economy in regions where development is lagging behind, compared to the rest of the country (equity objective!),

But because of the fact that the differences between the various regions (in terms of unemployment, job opportunities and investments) are diminishing and the internationalisation of our country is constantly making progress, more attention has to be paid to strengthen all the regions to meet the new challenges (efficiency objective!) To remain competitive at an international level, local conditions should be able to meet highly qualified demands, especially in areas with strong economic concentrations. That is why the government also emphasizes the possibilities of the region itself (the "endogenous potential"), which will be the new economic base of development, meeting the new opportunities and threats from outside and abroad (the "exogenous forces").

"Internationalisation" and "concentration of activities" are not only new themes in regional policy. They are also connected with the main issues of the Fourth Report on Physical Planning. In this memorandum internationalisation and reinforcement of "urban nodes" (revitalisation) play a very important role too.

In principal, questions connected with these central themes in practice are dealt with at a local level by regional and local authorities and industry. But in certain cases, the state also offers assistance. Especially in areas in which locational conditions are not competitive enough, special regional programmes together with a regional development company (RDC) and the Investment Grant Scheme (IGS) play an important role.

Besides this supplementary policy there is the new policy for locational environment. Locational environment denotes almost anything involving the functioning of a company in its immediate physical environment, and especially those aspects which can be influenced by government policy. In more concrete terms it has to do with the physical conditions necessary for production, logistics and communications (good transport links and communications networks). Table 3 shows how the minister of Economic Affairs intends to allocate the funds available for the period 1991-1994.

**Table 3.** Commitments to be entered into during 1991-1994; amounts in millions of guilders.

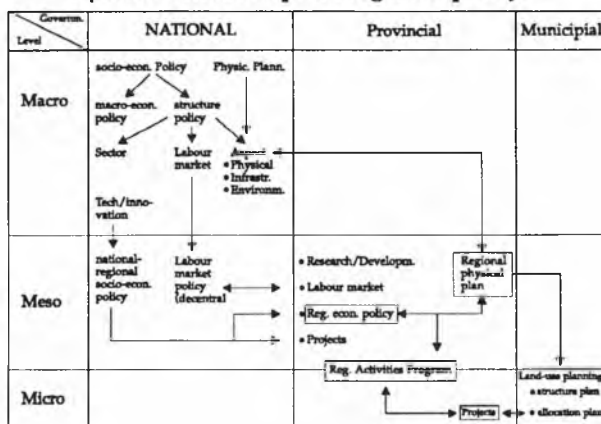
	1991	1992	1993	1994
Regional programmes including ERDF co-financing scheme	104	104	95	95
Other ERDF co-financing schemes, including border regions	10	10	10	15
IPR	229	229	136	136
ROMs (cost of apparatus)*	20	20	20	20
Location environment	25	50	75	115
Total	338	413	341	381

\* Obligations for financial possibilities of the regional development companies in the year ahead are not included in this amount but mentioned in the national budget for 1990.

## 4.2. Physical planning: bodies and instruments

Decision-making in the field of physical planning takes place at three levels: national, provincial and municipal. In combination with the regional economic policy on a macro-, meso- and micro-level one may speak of a multilevel approach. The matrix of spatial-economic planning and policy gives a good picture (see matrix 1).

### Spatial-economic planning and policy



**Matrix 1.**

An essential condition for the proper functioning of this stepped system of planning and administration is of course the collaboration between the three levels of administration and the proper matching of their plans. Planning in this respect is a shared responsibility with serious attention for vertical and horizontal coordination.

The administrative organisation of physical planning has been elaborated in the following way:

- at national level: Government (Minister of Housing, Physical Planning and Environment) and Parliament:
  - official bodies:
    - National Physical Planning Committee
    - National Physical Planning Agency
    - Physical Planning Advisory Council
  - instruments:
    - reports on physical planning
    - structural outline sketches and plans
    - orders, directives, exemptions regulations
    - National Physical Planning Key decision procedure
- at provincial level: Board of Executives and Provincial Council:
  - official bodies:
    - Provincial Physical Planning Committee
    - Provincial Physical Planning Agency
    - Provincial Physical Planning Advisory Council
  - instruments:
    - regional plan (structural outline sketches and schemes)



- consultations, orders, directives approval of municipal land-use plans and "declaration of no objective"
- at municipal level: Municipal Executive (Burgomaster and Aldermen) and Municipal Council:
  - official bodies:
    - Town Planning Department (making use of private planning consultancies)
  - instruments:
    - (inter)municipal structure plan
    - land-use plans<sup>13</sup>
    - building and construction permits
    - (compulsory) purchase

Because of the fact that land is a really scarce commodity in the Netherlands, land-use policy plays a very important role in our society. It resulted in a gradually built up fairly refined system of legislation in which the final decisions are taken by bodies elected in accordance with democratic principles. Started with the Housing Act of 1901 it took several decades to develop, step by step, the Physical Planning Act of 1965 and the amended Act of 1985 (in which procedures have been shortened and the flexibility of the various physical planning instruments have been widened).

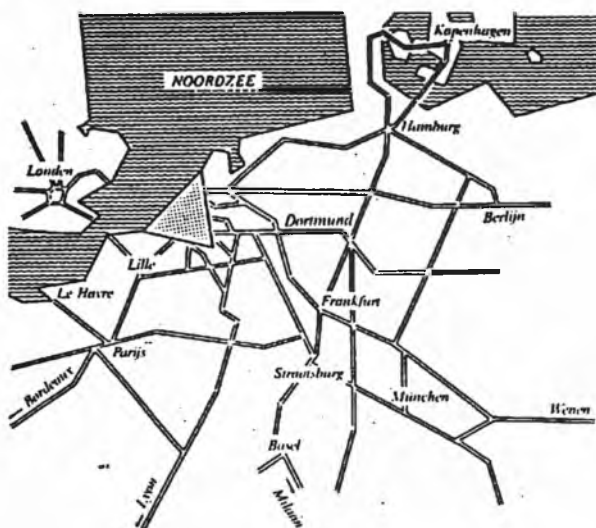
## 5. Randstad Holland: Green Heart Metropolis

The Netherlands is one of the most urbanised countries in the world. Nowhere else the middle class has taken over the nation's government so early in history as happened here. So Dutch culture is deeply rooted in the ethos of this social class. The high level of urbanisation is revealed in an exceptional population density of more than 400 people to one square kilometre.

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13 The land-use plan only has a binding character. Still it is a passive instrument: it prohibits undesired land-use, but it cannot force desired land-use. Furthermore a land-use plan can be implemented in a detailed or in a broad way, according to the need.

### RHINE-SCHELDE DELTA: SPATIAL-ECONOMIC PERCEPTION



The Randstad Holland (the conurbation of Rotterdam, Amsterdam, The Hague and Utrecht) can be seen as one of world's large urban complexes when its size and differentiated functions are considered. However, it is not a metropolitan area as the London or Paris region. Instead of the metropolitan cities of London and Paris, dominating the whole region, the Randstad can be designated as an extended polynuclear metropolis. Both in terms of its appearance and in terms of its spatial and functional organisation. A ring of cities and medium-sized towns interlinked by a highly advanced infrastructure and grouped around a central open space (the Green Heart of Holland). This whole is referred as the Randstad Holland, a name introduced by Albert Plesman, the founder of the Royal Dutch Airlines (KLM) who, flying over the country in 1930, was one of the first who recognized from his bird's eye view the potential quality of this specific urban structure.

### 5.1. International competitive position

A comparison of the production structure of the Randstad with that of other major European region reveals:

- Amsterdam, Rotterdam, The Hague and Utrecht complement each other very well, representing trade, finance and the non-market sector;
- transport and distribution (T. and D.) and the financial sector are very well represented in Rotterdam and Amsterdam;
- the total number of jobs in Amsterdam, Rotterdam, The Hague and Utrecht is comparable with Brussels and Antwerp.

A comparative survey of various metropolises revealed too that the Randstad offers advantageous conditions for headoffices, business services, high-tech enterprises and especially distribution activities (table 4).

**Table 4.** Scores "locational environment" for the different types of industry in Western Europe.

	High-tech manufacturing	Traditional manufacturing	T. & D.	Seaport-oriented Eur. distribution	Airport-oriented Eur. distribution	International Head Offices	International Service Sector
Randstad Holland	4/5	7	4/5	1/2	4	2/3	5/6/7
Brussels/Antwerp	6/7	3	6	1/2	2/3	4/5/6	1/2
London	6/7	5/6	7	5/6	2/3	1	1/2
Paris	1/2/3	1/2	2/3	3/4	1	4/5/6	5/6/7
Dusseldorf/Köln	4/5	1/2	2/3	5/6	5/6	7	4
Frankfurt	1/2/3	4	4/5	7	5/6	4/5/6	3
Hamburg	1/2/3	5/6	1	3/4	7	2/3	5/6/7

Source: BCI.

About 80% of foreign services and trading companies in The Netherlands are already located in the Randstad and besides the Randstad is also a not unimportant seat of headoffices for foreign industrial companies.

## 5.2. Randstad in comparison with other parts of the country

Concentrated on the Randstad region in comparison with other parts of the Netherlands, one may distinguish four types of regions<sup>14</sup> (see fig. 2):

1. Large urban agglomerations within the Randstad.
2. Other parts of the Randstad.
3. The intermediate zone.
4. The national periphery.

Of course our "national periphery", consisting of those parts of the country which do not experience the direct influence of the urbanized Randstad region, should not be compared with peripheral regions like the Mezzogiorno in Italy. Our Limburg province for instance is situated peripherally from a national point of view, but has a central location in the economic centre of gravity in the north-western part of Europe.

Analysis of manufacturing industries makes clear that on the whole these industries are not concentrated in the Randstad region, but more in the intermediate zone and the national periphery. Only a relative orientation towards modern instead of traditional manufacturing can be found in the Randstad. The technologically advanced firms in the Randstad are to a major degree small and medium-sized, while outside the Randstad the firms belong more to the large size categories (often branch-plants of Dutch or foreign multi-plant enterprises).

This analysis is concomitant with the hypothesis of a process of selective filtering down of manufacturing from the Randstad to other parts of the country. And also with the theoretical notion that small and medium-sized firms in "knowledge intensive" industrial sectors need an external production environment in which other firms and institutions are abundant.

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14 Regions on the basis of the position in the "urban hierarchy" (measured by the number of inhabitants) and with regard to the distance to the national economic core region.

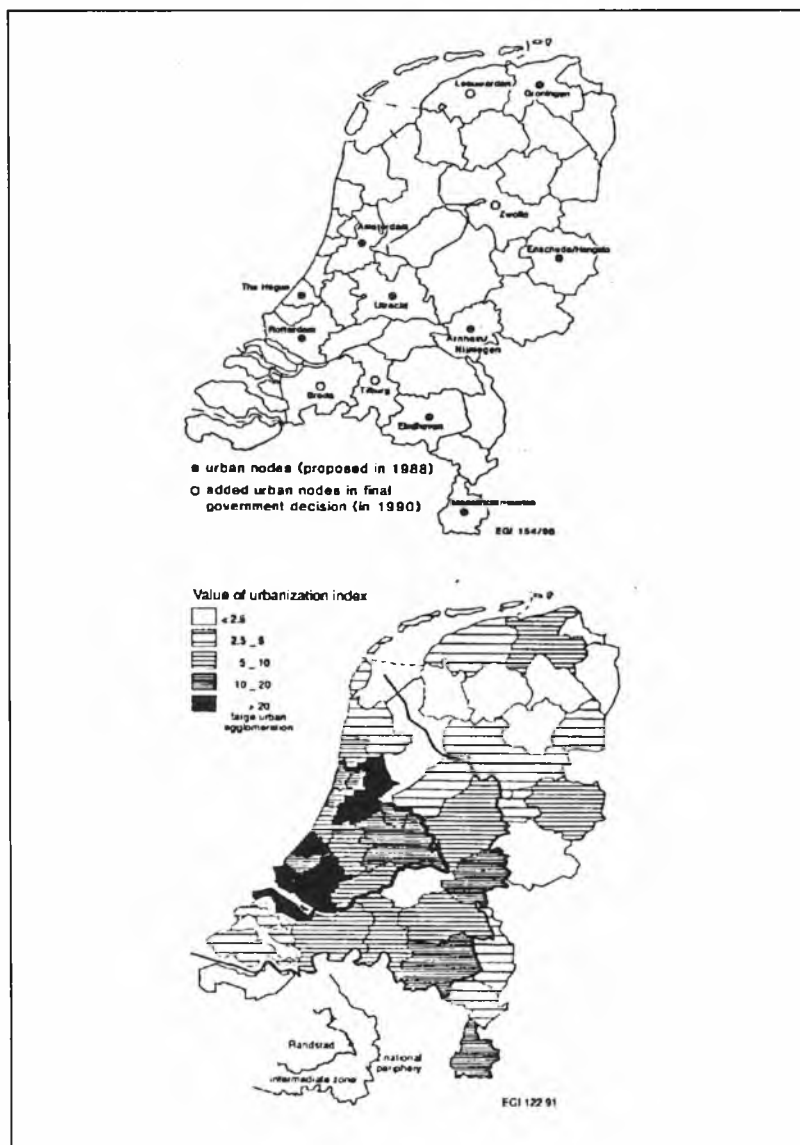


Figure 2. The assignment of urban nodes in the Netherlands

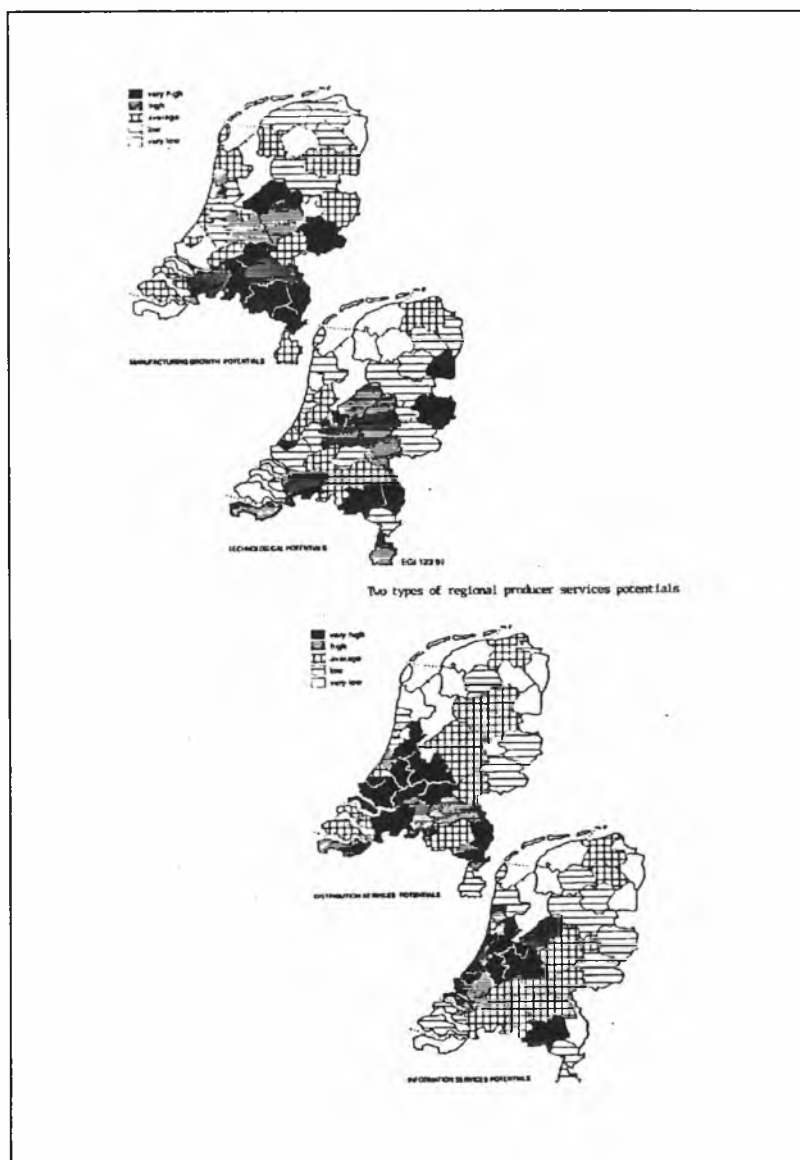


Figure 3. Two types of regional manufacturing potentials

The Randstad shows however a relative specialisation in higher order producer services with a national and often international range (see fig. 3).

The Rotterdam harbour and the Schiphol airport are our international "mainports" and the concentrations of headquarters of large enterprises and business services indicate the opportunities for the Randstad to become a secondary "transactional city" within Western Europe.

### **5.3. Randstad planning and policy**

Against the background of these facts and figures the Randstad authorities decided to give new impulses to the Randstad administration.

Based on former ideas of the Second Physical Planning Report of 1966, the National Physical Planning Agency published a very interesting discussion report: "Spatial Perspectives" (1986). In this report followed by the Fourth Report on Physical Planning of 1988, the Randstad was promoted as "Randstad World City". This perception again considered the Randstad as the economic core area of the Netherlands, although it had been extended in the last years. Together with the Brabant's string of towns the Randstad became Netherlands' central urban ring. The strength of this area lies in its excellent connections: business related to road transport, heavily represented along the axes Amsterdam-Rotterdam-Antwerp and Rotterdam-Ruhr region. But also the axis Utrecht-The Hague plays a important role attracting wholesale business and distribution. And the central open space (the Green Heart) together with the major rivers offers good opportunities for recreation and tourism.

#### **5.3.1. Administrative reform**

At the same time city governments (but also interest groups from the business sector) acknowledged that an appropriate form of authority for metropolitan areas could be very fruitful, the External Commission on Metropolitan Policy (Montijn Commission) recommended an agglomeration municipality for each urban region within the Randstad and a Joint Committee (of national government, provinces concerned and the four big cities) for the Randstad as a whole.

Shortly after the publication of the memorandum "Big cities, big chances" of this Montijn Commission, the Advisory Council on Internal Government published his "Recommendations on the administration of metropolitan areas". A more compulsory enforcement of the Joint Regulations Act had to transform agglomeration municipalities into an administrative entity with the possibility of provincial power at the end of the process.

So thanks to the reports of these two advisory boards, the issue of metropolitan government was back on the political agenda. Reform of public administration is a hot item at the moment. And in the last report "Government on level" of the Minister of the Interior, the administrative reform has not been restricted to the metropolitan areas, but a new balanced administrative structure for the whole country plays a role. Nevertheless the process has to remain controllable, otherwise the solution for the metropolitan region will be in danger<sup>15</sup>.

### **5.3.2. Randstad Holland presents itself**

At the interprovincial level of the Randstad the Randstad provinces decided to make a sketch too. In 1990 the Interprovincial Vision on Urbanisation of the Randstad (IPVUR) "The Randstad presents itself" was published. An outlook on future direction of urban development for the Randstad up to the year 2015. It was the first time the Randstad provinces together produced an integral structural outline sketch on physical planning for their region.

With the idea of Randstad Holland: "Green Heart Metropolis on the Beach" in mind and an inventory of sectoral schemes for accommodating housing, working, traffic and transport and preserving green areas and environmental quality a policy strategy for the long term had been developed. This strategy based on a vision on the physical macro-structure and a formulation of the policy goals (strengthening endogenous economic potential; improving accessibility and improving spatial and environmental quality of life), resulted in a

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15 This discussion has also an international dimension. See e.g. the international conference Governing Metropolitan Regions, towards new administrative structures in urban Europe; Eindhoven, April 1992.



global strategic solution: the preferred model. This preferred model has been elaborated in two lines: a main spatial structure for the non-urbanized inner and outer flanks of the Randstad (the so called "green line"). Integration of both main structures resulted then in the Urbanisation Sketch for the Randstad region.

This sketch together with an action plan, drawn up under the responsibility of the Randstad Consultative Committee on Physical Planning and agreed by the four boards of provincial executives, provide a good point of departure for the provincial regional spatial plans and the (inter)municipal structure - and land-use plans. It also offers directional guidance on private project-planning and financing.

Furthermore, a Randstad Coordinating Committee (COR) was recommended to coordinate planning and implementation of the action points.

### **5.3.3. Randstad International**

To analyze the spatial-economic conditions of the Randstad economy an extended research-programme was set up. Not only with the help of studies of various universities (i.g. the "Urban Networks programme for the Randstad"), but with a great deal of contract-research too, the foundation had been led for a better understanding of the strong and weak points of the Randstad in an international European context.

Together with the four big cities (Amsterdam, Rotterdam, The Hague and Utrecht) and the national government a further elaboration of the competitive locational environment of the Randstad, called "Randstad International" was published.

### **5.3.4. The Southern Wing of the Randstad**

For the Southern part of the Randstad (the Rotterdam urban region and The Hague urban region together) the province of South-Holland started a programme too. But not only a research programme but especially a step by step approach in which "market" and "plan" are coordinated in a more effective way.

The political legitimization of this process had been brought about in 1988. Then the province published the structural urban vision

"South-Holland beyond the year 2000", the provincial counterpart of the national's Fourth Report of the same year.

As the Fourth Report emphasized the importance of the Randstad as a major centre of economic growth, the provincial government promised an elaboration of the economic potential of the Southern part of the Randstad. Together with a more elaborated urbanisation - and mobility strategy for this region, a new base for planning and policy-making in South-Holland could be obtained.

So more concrete, a development sketch of the economic potential of the Southern Wing of the Randstad had been asked.

### *The Development Sketch*

The planning process consisted of three steps:

1. Synthesis of the results of analyses.
2. Market-survey: confrontation with the market.
3. Spatial-economic development sketch.

The first step in the process was to make a SWOT (Strengths, Weakness, Opportunities, Threats) analysis of production - and sector structure of the region in question. Of course in an international, European context. Supplemented by a profile approach for the locational environment.

For a more elaborated impression of this action-oriented approach you will be referred to scheme 1<sup>16</sup>.

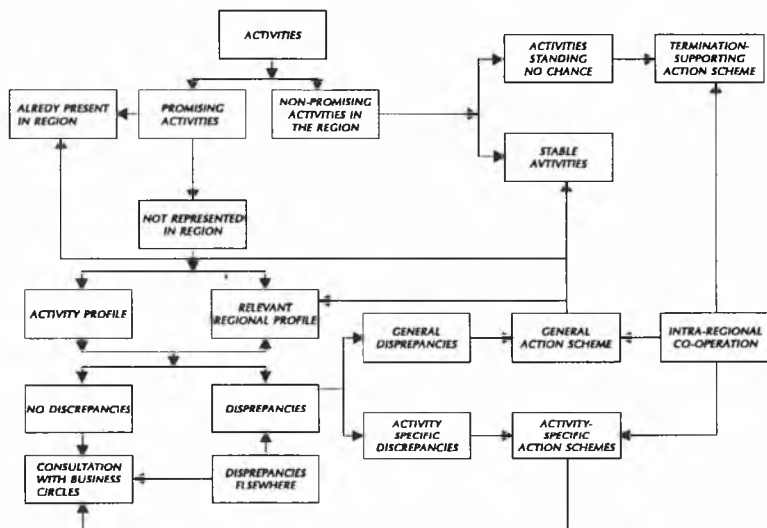
In connection with this analysis a first exploration has been made too of the spatial conditions and consequences of this economic structure. But only as a first step, because we wanted a special marketing approach for the planning and policy process, to find the real spatial conditions.

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16 N. Vanhove, *The packaging of measures for upgrinding industrial areas*; Berlin, 1988.

### Division of activities by the SHADE analysis

	Size of the activity compared with that of a reference area	
Latest regional development compared to reference area	Larger than average	Smaller than average
More than average growth	Strong activities	Growing activities
Less than average growth	Lagging activities	Weak activities



Condition	Sectoral profile	Regional profile	Relevant discrepancy
1. Favourable market conditions for higher skilled workers	+++	+	-
2. Good air connection	0	0	0
3. Favourable living environment	++	+++	0
4. Accessibility to national and international databanks	0	+	0
5. Supply of high quality offices	+	0	-
Total score of region is an relevant to sector			--

**Scheme 1.** Systematic analysis of strong and weak point - Regional Action Scheme

## *Second step: Market-survey*

For urban planning and management a clear vision of future development forms a prerequisite. Within this concept the marketing instrument can be helpful to coordinate supply and demand for the urban product and a successful marketing approach may raise the competitive position of the urban region.

To incorporate this marketing approach in our urban policy, the vision of supplies of urban products had to be confronted with that of demanders; investors, agents in real estate, companies and, of course, people living in the urban region. So we tried to incorporate the results of the market survey in our urban vision, based on the final objective of our regional policy: "improving the prosperity of the region".

Scheme 2 developed by L.H. Klaassen<sup>17</sup>, shows the interdependences which are relevant for this urban development. The scheme indicates the way in which both the living environment and the location environment can be improved.

With regard to the attractiveness of the living environment, three factors are essential:

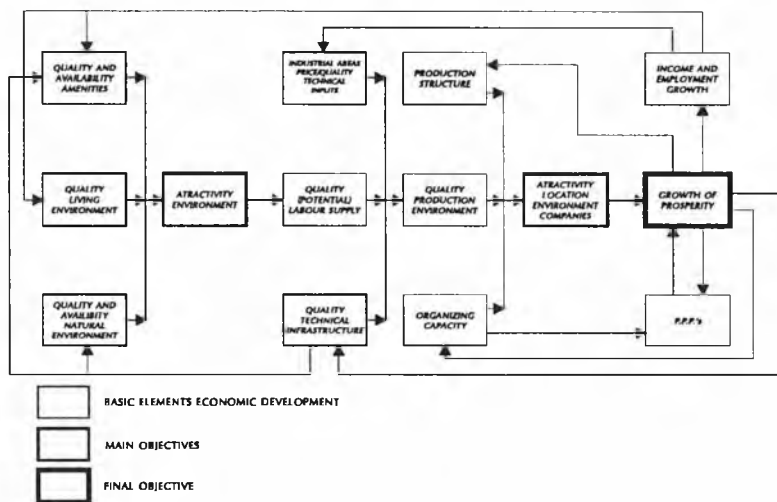
- quality and accessibility of the amenities (public services);
- quality of living environment;
- quality and accessibility of natural environment.

These three qualities should be furthered simultaneously and a good operation of the responsible agencies will be necessary. As far as the production of locational environment is concerned, the quality of labour supply is a main factor. The latter is directly determined by the attractiveness of living environment.

Besides this factor, two elements are vital too: a) the technical amenities which influence the good functioning of a firm (quality and location of industrial parts, price/quality technical inputs as

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17 L. van den Berg, L.H. Klaassen, J. van der Meer, *Marketing Metropolitan Regions*; Rotterdam, 1990.



**Scheme 2.** Interdependencies in urban developments

telecommunication, electricity, gas, water) and b) the quality of the technical infrastructure (railway, roads, airports, urban public transport etc.).

Production environment, production structure and the organizing ability of the firm as well as the public sector, determine the activity level of the locational environment.

And of course there are a lot of feedbacks in the system, which give the whole system a dynamic character.

First: growth of prosperity results in an increase of employment and income and indirectly higher expenditure by the public sector, firms and individuals.

Second: the growth of income also gives new possibilities to the public sector, resulting in a higher level of amenities, technical infrastructure and housing environment (e.g. less criminality, less van-

dalism, better maintenance of streets and parks, more public greenery, traffic sheltered zones etc.).

Together with this dynamic urban system concept we tried to develop an optimal solution for the spatial distribution of (new) activities.

In an urban region one can make a distinction between the city on the one hand and the ring and surroundings, on the other hand. Furthermore one can distinguish the working function (plants, offices) and the living function. Combination of these elements, according to L.H. Klaassen, lead to three spatial options:

1. The central municipality as a centre of employment.
2. The central municipality as a service centre.
3. An optimal distribution of the functions: the "Harmonious urban region".

It will be clear that the "Harmonious urban region" offers a lot of advantages for both the central city as the ring and surroundings, especially for urban and rural dwelling, segmentation of the locational environment, the labour market and last but not least the traffic structure. That is why the "Harmonious region" option has been chosen. How far this option will be realised in practice, depends of course largely on the actual structures at the moment of decision taking. The market sector has to be accommodated in a realistic way (as the market survey has told us!), but any movement of the existing spatial structure towards a harmonious one, means an improvement and is therefore commendable.

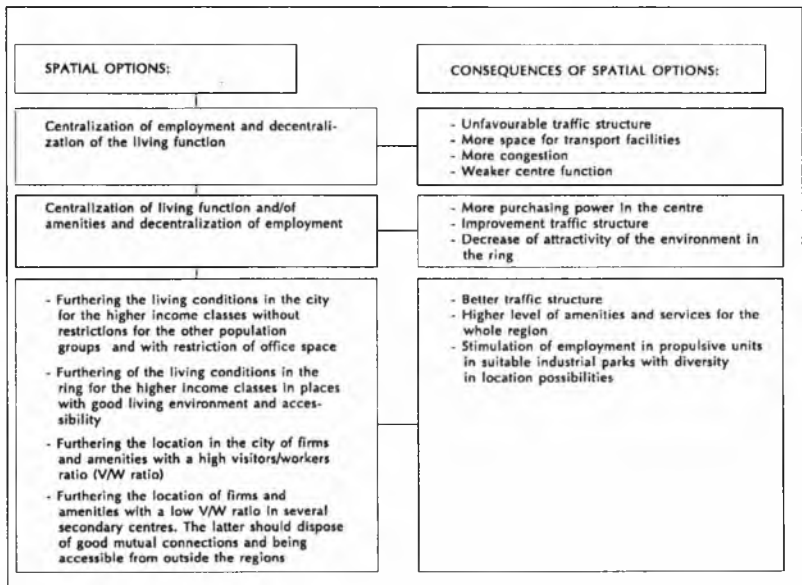
The chance of realising a more harmonious situation is greatly enhanced if necessary measures are taken jointly with the market parties. So choosing for the harmonious option means:

- choosing the right type and places of houses to be built, both in the urban city and the more rural surroundings;
- choosing the industrial sites for the region in consultation with private enterprise and all the municipalities concerned;
- reflection on the use of places that are, or become, empty in the central town.

Marketing of the urban region, based on this "Dynamic urban system" concept, supplemented by the "Harmonious region" option, can give a new dimension to strategic urban management. Then one may speak of a "Dynamic, Harmonious and Accommodating Urban Region".

The implementation of these ideas played a very important role in our Market survey.

Based on the results of the already described SWOT-analysis (step 1) and the above described new ideas about urban planning and marketing, a check has been made with "demand": the market sector. In this respect the Market survey revealed a countervailing vision on spatial-economic development and planning in the region; very instructive for our supply-side planning authorities.



Scheme 3. Three spatial options

The Market survey consisted of many good structured personal and group interviews, stratified both to market segments and sub-regions. It offered not only a good picture of entrepreneurial urban

vision (inclusive of an agenda of action points for the provincial government), but also a vision checked on the level of local government, which was engaged too. So a good example of a market-oriented, politically checked bottom-up approach.

### *Third step: Development Sketch*

As already explained, the Development Sketch, together with the Urbanisation Report and the Mobility Scheme, forms the provincial triangle on urban policy for the Southern Wing of the Randstad. This political triptych asks for further spatial integration to become a trialism. To be helpful in this process of further integration, the Development Sketch consists of three chapters:

1. Economic potential.
2. Strategic vision.
3. Spatial conditions.

Chapter 1 describes the economic potential in a multilevel way: international, interregional and intra-regional. For the Southern Wing of the Randstad special attention has been paid to production- and sector structure of the region, labour market opportunities and locational environment.

After the diagnosis the core-activities are indicated (based on SWOT-analyses amended by the results of the Market survey):

1. Mainport activities: transport, distribution, trade and logistics.
2. High-technology manufacturing connected with R&D.
3. High-order producer services, connected with 1. and 2.
4. Aggro-business.

Of course these core-activities have been elaborated more specifically (sectoral and regional specific).

In chapter 2 the strategic vision has been formulated: socio-economic goals (the trade-off between efficiency and equity, with emphasis on "sustainable growth" and "quality of life") and the instruments of physical and infrastructural planning. A practical policy of improving the locational environment (in accordance with the



"Dynamic urban system - annex Harmonious region" concept) has been elaborated.

Within this framework special attention had been paid to the locational conditions of manufacturing and commercial activities (location sites and premises, offices etc.). But also to the planning of locations for companies and facilities by applying the policy-concept of mobility profiles of companies on the one hand and accessibility profiles of locations on the other hand (to reduce car-use in commuting travel). Here we introduced a practical industrial site typology together with a typology of industrial estates.

In chapter 3 we elaborated the spatial, locational and infrastructural conditions for the various (sub)regions of the Southern Wing of the Randstad. Both for the mainport function of the harbour of Rotterdam and the international competitive locational environment of the (Southern part) of the Randstad as a whole.

By taking advantage of the shift from transport of bulk goods to semi-manufactured products and end-products, Rotterdam (as world's number one port) can strengthen its position in container transport. Together with Amsterdam Airport (Schiphol), Rotterdam can improve its position as "Gateway to Europe" by increasing the share in transport of persons and high-grade goods too. In this way one may speak of Randstad Megaport, a highly qualified multi-modal logistic centre in Europe.

As to the internationally competitive locational environment (locations for companies together with a perfect accessibility in terms of transport links and telecommunications networks), attention has been concentrated on the physical conditions of each sub-region. In this way the decentralized metropolis will offer good opportunities for wholesale, business services and transport industry. Rotterdam will be an attractive location, not only for internationally oriented distribution companies but also for services connected to them. The Hague buttresses Rotterdam's attraction as it offers a good residential environment with international amenities.

To accommodate all these developments for the future, the Development Sketch has paid very much attention to the planning and programming (procedures) of industrial sites and office locations.

Based on global forecasts of demand and supply the "Dynamic urban system - annex - Harmonious region" concept has been elaborated for each sub-region. For each region an indication has been given of excess demand (or supply) for the period 1990-2000; and an outlook for the period 2000-2015. Not only quantitative but also qualitative. Qualitative, especially with respect to the accessibility characteristics of the location. This all with the intention to locate companies with a high potential for use of public transport use near public transport facilities, to reduce car-use in commuting travel.

Finally the results and recommendations of this Development Sketch will be integrated in the spatial overall planning of our provincial regional plans and the land-use plans of the various municipalities, which will be revisited.

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## **New dimensions of regional policy in times of accelerated change**

### **1. Introduction**

The "new importance of regions" became a slogan of the last years, not only in its cultural and political, but also in its economic dimension. Paradoxically we remember just in view of the opening of borders - to the east, but also to the west - more our (regional) individualities. Thus the significance of regions also as economic units gained more importance: origin and core of economic capacity do not depend on the macroeconomic aggregates of national economies, but on the differently pronounced potentials of the particular regions of the national economy. Each national economy represents a mosaic of regions, each of them with its own structure and dynamic in a system of a more and more global economic complexity.

The reasons for this new importance of regions are the increasing internationalisation of the economy with its strong division of labour and specialisation on the one hand, on the other hand the new technological developments enabling this division: the dramatic appearance of new technologies led to a new orientation of the social and spatial organisation of the innovation process. Within this process regions represent a homogeneous spatial unit with very distinct potentials.

Because of their peculiar characters they became competitors; their advantage is their "structural competitiveness" expressing enormous differences concerning the institutional frameworks how they offer economic activity. So the flexible response to changes becomes a fundamental criterion for survival. This "adaptability" does not mean that they have to follow an economic one-way street; it rather means to meet the requirements in a new way.

A future "Europe of regions" also means an increasing responsibility for and of regions. This, however, entails not a quantitative change but a qualitative reorganisation of prevailing problems. This particularly applies to a regionally orientated economic policy, because aims and frameworks of regional development decisively had changed. New developments in economy, technology and policy demand new orientations and new instruments, the more so since the traditional regional policy has a controversial record.

## **2. New frameworks: the global system as a mosaic of regional economies**

Until about 20 years ago questions of regional development were rather simple: the "regional problem" (N. Kaldor, 1970) was understood as consisting of unequal growth rates of national regions. They on their turn were dichotomically differentiated: in well developed (and quickly growing) centres and in underdeveloped (and slowly growing) peripheries. In this "core-periphery-system" fit in very diverging economic philosophies (A. Scott, M. Storper, 1990): the ones which considered the increasing regional inequality as a result of the capitalistic process caused by unequal exchange in an international and interregional division of labour (see e.g. Fröbel et al., 1980), or as the result of specific comparative advantages in production which may be reduced by the reductions of mobility barriers, by the elimination of imperfect markets and by the removal of trade barriers (G. Borts, J. Stein, 1964; J. Williamson, 1964/65).

But the consistency of these conclusions has been shaken during the seventies: suddenly even old centres seemed to decay, suddenly - globally as well as regionally - new centres emerged at points not simply deducible from conventional location factors. In spite of the increasing globalisation of international flows of goods and capital a

tendency towards concentration of economic activity arose at the same time: hand in hand with the world-wide interlocking of economic flows a remarkable re-agglomeration of production took place (A. Scott, M. Storper, 1987).

This reconcentration of economic activity results from the crisis of the "fordistic" mass production in the 1970's which led to the decrease of mass productions and to the increase of flexible specialisation (M. Piore, Ch. Sabel, 1985): the former international division of labour which was based upon the trade of industrial goods for the exchange of raw materials and agrarian products to some extent has been replaced by a new international division of labour based upon the specialisation of different geographic areas in the production and the composition of complex final goods<sup>1</sup>. These spatial cores adjusted to specialised production are characterised by a large scale of mutual interdependence, of flexible production structures within and between firms, by firm's intern specialisation, by - also immaterial - network externalities with a high degree of intra-informational relationship (P. Aydalot, D. Keeble, 1988; O. Crevoisier, D. Maillat, 1991). These areas also show very different labour market structures (I. Kubin, M. Steiner, 1992). Silicon Valley is one of the most prominent examples for such flexible production regions; less prominent but similar in structure are the regionally small textile centres of middle and northern Italy (Prato close to Florence, the industrial areas around Milan), the metal-manufacturing plants concentrated on just-in-time and non-mass production in and around Modena, the small-sized high-tech centres of the Provence, around Cambridge in East Anglia and along the motorway from London to the western part of South-England<sup>2</sup>.

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- 1 This fact also led to a theoretical reorientation concerning the definition of foreign-trade flows. The phenomenon of intra-industrial trade questioned the Heckscher-Ohlintheory and became the basis of an new foreign-trade theory which tries to explain the trade flows as an interplay between product differentiation, imperfect competition and increasing economies of scale (see E. Helpman, P.R. Krugman, 1985).
  - 2 Especially the Italian models were treated largely as "Third Italy" in the literature whereby emphasis was laid upon the historical development, the socioeconomic frameworks and the role of the "collective actors".

These "flexible production regions" have an own compact net of transactional interrelations, at the same time they are incorporated into a world-wide network of interindustrial connections, investment flows and decision hierarchies. This network is cohered by very different institutional forms: by a mixture of market exchange, of hierarchically regulated relations within multinational combines, of sub-contracts between otherwise independent firms, of strategic alliances, of international agreements<sup>3</sup>.

In consideration of these international networks and the simultaneous re-agglomeration of the production the term of a "global system as a mosaic of regional economies" becomes more and more realistic (A. Scott, M. Storper, 1990). The national state is still important, but due to the growing internationalisation it becomes less self-sufficient and on grounds of differently specialized regional manufacturing agglomerations increasingly inhomogeneous.

These developments emphasize the new importance of regions as economic units, they also call for a new evaluation of regional policy measures:

- regional developments and problems were different during the last decades; this also implies different political measures for regional development;
- the future European domestic market, the creation of an European Common Market and the progress of the European integration necessitate the adaptation of regional development strategies to this process of internationalisation;
- the continuous change in technology provoke a change concerning the application of instruments, but also the character of the recipients of economic measures: technological change also implies changes in the importance of big- and small-sized firms, of locational advantages and

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3 These manifold forms of cooperation lead to new behaviour patterns and have as a consequence that individual entrepreneurship becomes weaker compared to the organisation of an interlinked system of firms (see R. Gordon, 1989).



disadvantages, of entrepreneurial strategies and forms of coordination, but also in the character of productive regions;

- due to economic and political reforms in the eastern part of Europe and due to the new relationship to these countries regions anew have to evaluate their ability to exhaust these new possibilities and to take new, unusual risks;
- an "Europe of regions" means more power, but also more responsibility for regions. It means a more active participation of regional institutions in the political and also in the economic decision process.

### **3. New strategies: objective and subjective factors of development**

All these facts bring up several factors which influence the regional development in a new - and different as till now - way. The conventional instruments of economic policy do not aim at those factors which are the most important for regional development at the moment (R. Cappelin, 1992):

- the importance of small- and middle-sized enterprises, the synergetic relations between small and the big firms;
- the absence of entrepreneurial (partial) functions which in their entirety cannot be known simultaneously by the entrepreneurs of this category of firms;
- the low national and international integration of many firms and enterprises keeping a - real and mental - distance to the European centres;
- a lacking regional supply of modern private services; to some extent this lack is due to the fact that the local and regional supply predominantly belongs to the protected sector and is not exposed to international competition.

Traditional public policies for supporting the regional economy are based upon the assumption that economic production factors are mobile. But one of the most essential results of the last one and a half decades is the fact that the factors influencing regional development are immobile: the (physical) infrastructure, the skills of the

workforce, the local economic structure, the local technological and organisational know-how, the social and institutional structures. If they are not sufficiently available, developed, pronounced, they will become 'bottlenecks'. Therefore it is a matter of reducing and eliminating these weak points, a matter of strengthening the potential that - because immobile - has to come from the region itself. That also means a basic change of the emphasis of the factors influencing the production costs to those factors influencing the adoption of process- and especially production innovations (M. Steiner, 1991). Regional development is not predominantly influenced by those factors which may provoke the displacement of manufacturing plants from one region to an other (like e.g. a better accessibility or lower labour costs): more important are the efforts to renew and strengthen local and regional potentials and abilities.

But not only "objective" factors are important for innovative skills: the decrease of the economies of scale, the increase of advantages of mutual transactions. Even more important are "subjective" factors like entrepreneurial behaviour, engineering know-how and management which influence the capacity for innovations within the regional economies. Thus differences between regions are based upon their different innovative abilities, upon their different active and passive adaptability (M. Steiner, 1990). An economic strategy has to aim at the reduction of specific adaptation costs and barriers (R. Cappellin, 1992): they are not only of an economic, but also of a social and cultural nature - technological and economic innovations require social and organisational ones.

This conception of regional development relying on subjective factors and autonomous local potentials emphasizes the necessity of new instruments of regional economic policy - they have to facilitate the access to technological, social and organisational innovations. According to the traditional approach of regional development and regional disparity the focus was put on financial incentives, on material infrastructure and on contracts between the public administration and big industrial firms. The new approach attributes more importance to instruments like technical and managerial education of employees, to the development of interrelations between the local private and public actors, to investments in research and development, to the creation of networks of cooperations bet-

ween the local and external enterprises and organisations, to the development of modern services, to the improvement of quality of the environment and to the more efficient use of property.

A basic element is the shift of the decision power to regionally smaller units and to their greater fiscal autonomy (in the sense of fiscal federalism) and consequently to a "development from below" (W.B. Stöhr, F. Tödtling, 1978) on the one hand, on the other one to a greater awareness of the own abilities, but also of the limits of the firms and enterprises of a region. As a consequence the public supply of resources cannot be ordered "from above", but has to be called for "from the bottom". Regional development is founded on a close and interactive coordination between the special inadequacies of the local firms and their regional surrounding and the network of governmental, semi-governmental and private institutions which may be able to help reducing the lack of these subjective factors.

#### **4. From the "endogenous potential" to the "network economy of a region"**

A strategical approach responding to the actual requirements has to do more than strengthening the so called "endogenous potential". In contrast to a locally defined "endogenous approach" accentuating the importance of the utilisation of local resources in the course of the internationalisation process it is a matter of integrating the regional resources with the external streams of technological information and the financial resources (R. Cappellin, 1989).

A renewed economic and regional policy also has to take account of the change in the organisational form of industrial and service enterprises. The fordistic, hierarchic model rendered the different production units into pure executing organs, the new network form of organisation presumes that entrepreneurial skills are existing in the particular production units and that these units cooperate with each other (R. Cappellin, 1988; R. Camagni, 1991). At the same time the internationalisation process is a gradual learning process and a strategic task requiring permanent efforts. It presupposes a continual adjustment of the specific forms of cooperation with other firms.

Thereby the development of the network model of organisation is cause as well as effect for the increasing importance for service activities in the producing sector. The growing importance of this organisational manner may be explained by the important role of information in the actual phase of economic development. The information and know-how flows are closely connected with the growing integration of services within industrial production (as can easily be shown by the growth of employment within industrial enterprises concerning collection, evaluation and transmission of information). The decision making function within enterprises is embedded in service activities, whereas the producing activities only represent executing functions.

These changes of the organisation of economic activity, but also of the spatial division of these activities between urban and non-urban areas emphasize the fact that the supply of - above all immaterial - infrastructure and of new (semi)public services will become a critical bottleneck of regional development. Just in this phase of economic development modern (service)infrastructures are an indispensable requirement for the development of new, technologically progressive industrial and service activities.

This network character of a modern economic society means not only a change of the factors being decisive for the development of a region and for the strategy and the instruments of development policy; they are also decisive for the institutional and organisational proceedings of regional economic policy. This network character also lays emphasis on the existence of close connections between the single firms within and beyond a region, but also connections between regions, also those between private, semi-public and public institutions, being capable of taking upon the complementary functions of services<sup>4</sup>.

A further consequence of this network character is the need for an active strategy. This strategy aims at the reduction of technological

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4 From these close regional relations results the particular function of cities as information incubator, but also as managing centre within the international network of the transfer of know-how. Thus cities gain an additional function as "gate" to information for the surrounding regions (R. Cappellin, 1989).

and organisational gaps between the economically strongest and weakest regions. Emphasis has to be put on a conception of dynamic competitiveness founded upon the ability to adapt innovations and to increase the internationalisation of enterprises. Therefore it is important to reduce "adaptation costs" for innovations and the "transaction costs" for the internationalisation (R. Cappellin, 1992):

- high adaptation costs result in the fact that the adoption of innovations takes place too slowly, so that the gap to the developed regions cannot be reduced;
- high transaction costs prevent various forms of agreements with extra-regional and foreign firms and organisations and the equivalent transfer of know-how and financial resources from outside.

## **5. Consequences for economic policy**

The new economic policy has different functions: for taking into account the network feature of a modern economic society one has to learn to think and to act in networks by oneself. This means a regional policy has to formulate a relationship between economic and technological policy comprehensively defined. The successful implementation of political instruments requires their integration in a comprehensive strategy. This comprehensive strategy has to consider regional and structural developments, has to correlate the co-operation and communication between firms and branches of different volume, of different innovative potentials and within different regional milieus.

These consequences can be emphasized by the following points (OEPR/ROREP, 1991):

1. The new policy has to be spatially flexible. It should not be restricted to predefined problem regions. It has to take into account that the spatial extension and patterns as well as the set of political units which are affected and the institutional framework are endogenous variables.
2. The new policy should be oriented on innovations. It has to perceive and support the development of regions taking into

account their ability to innovate and their position within national and international networks.

3. The new policy should be understood as a process of collective learning and permanent adjustment. It should not and must not presuppose a "generally valid" objective, but it should be the result of a joint learning process of all public and private actors.
4. The new policy should anticipate the need for adjustment processes and reduce adaption costs. It should help to overcome barriers and (due to high risks) obstacles to development and in particular correct wrong market signals resulting from short-run distortions.
5. The new policy should be a policy of democracy and partnership. It cannot be imposed "from above", but it should include all economic actors forming the extent and the way of their co-operation by themselves.
6. The new policy has to be compatible with Europe. It should be worked out in coordination with the instruments of regional policy within the European Community.

## 6. Some practical approaches

With reference to the realisation of the objectives stated so far three dimensions can be distinguished:

### a) The technological dimension:

The idea of subsidising innovative activities is mainly based upon three points:

1. Even within a perfect competitive market, private firms allocate too few resources (in relation to a social optimum) into research projects, for the results of this research are only imperfectly appropriable (research as public good<sup>5</sup>).

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5 This idea was formulated by J. Schumpeter (1939) for the first time. For a

2. The development of new technologies involves high costs and high risks which in many cases cannot be taken by a single enterprise.
3. Technological leadership secures international competitiveness and a high volume of exports.

For small, open economies like Austria, an appropriate strategy of technological policy is of particular importance (OECD, 1987). In order to compete internationally and to compensate the disadvantages of a small domestic market, it is recommendable to support specialized applications of new technologies (market niches in the field of new, up-coming technologies). These market niches represent a potential of increasing importance, but they are - according to definition - of restricted size and/or of brief duration, so that their adaptation presupposes the ability of adjustment and of quick actioning.

The public support of research and technology was traditionally focused on industrial large-scale projects, but they were less and less able to meet the assignments mentioned above. For that reason, we have to rethink the traditionally hold view that big firms are better prepared for innovations due to their market power and degree of product diversification (making risk taking less costly). In addition we have to question the - very simple - definition of innovative firms by the classification of sectors. This is also a result of the fact that new production processes in traditional industries (chemistry, textile) more and more efface the dividing line between traditional and highly advanced economic branches (J. Schmandt, R. Wilson, 1990). It is neither the magnitude nor the classification of sectors what determines the innovative potential, but it is the ability to gain new markets.

This means first that concrete measures should meet the particular needs of small innovative firms and thus eliminate their characteristic weak points (D. Bickenbach et al., 1989; W. Bornett, H.

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new model taking in consideration risk and sequential decision processes see K. Arrow (1987).

Neubauer, 1985). Management advice, consulting and training, an easier access to risk capital, especially for the early-phase-financing - e.g. by the help of seed-capital-corporations - would be efficient measures.

This means secondly that a dynamic evaluation of the innovation potential is to prefer to the quantification of the technological standard (e.g. by the classification of the industrial structure concerning research intensity of their branches). This dynamic evaluation has to include the whole innovation process from the first idea up to establishment on market, whereby not only entrepreneurial activities shall be analyzed, but the entire transfer of resources from the firm-specific environment into an innovating enterprise.

This dynamic and environment-oriented point of view also takes into account cumulative learning effects: the choice of technique of the first innovator will influence all other firms if learning effects and further improvements depend on whether the particular technique is widely diffused. At the beginning the market is instable and pending on various versions of the new technology, than the "lock-in" follows in a special version. This lock-in is prevailing the direction of necessary adaptations and of further innovations (W. Arthur, 1989).

The successful public support of small, innovative firms is important, but, nevertheless, one should avoid too great (resp. false) hopes concerning this type of enterprises: the history of Silicon Valley - where small 'garage-firms' of computer-tinkerer became globally operating big enterprises - rather is the exception. As a rule these enterprises - even if they operate successfully - stay small, they are important concerning development and realisation of know-how, but they are hardly important concerning employment<sup>6</sup>.

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6 For the estimation of employment-effects of technology-orientated firms especially see Kulicke (1987): Kulicke distinguishes between direct and indirect effects. Direct effects follow from the relatively higher probability of survival compared with other firms, indirect effects result from innovative imitation, from sub-contracting (i.e. producers of special components), from synergy-effects as well as from general demand multiplier effects. Indirect effects also may be negative if the appliers of new products reduce their staff.



Thus, to constrain the scope of policies to high technology will hardly be efficient: successful regional, structural and employment policies often will be based on far less spectacular innovations. This means that public support of small and medium-sized firms has to include firms with only medium technological level as well. Trying to answer the question, to what extent can the growth potential of these firms be enhanced, we see a second dimension emerging:

**b) Support of the adaptability of small and medium-sized firms**

The "employment wonder" in the United States had shown the dynamics of small and medium-sized firms. Since that time also other countries pursue a policy aiming at a better and more efficient use of this potential and subsidize especially these firms (W. Sengenberger et al., 1990; Th. Manz, 1991). But beware of a "naive middle-class euphoria" (M. Fritsch, Ch. Hull, 1987): first, it is not to be expected that the expansion of this type of enterprises may solve all regional and structural problems; secondly, many studies overrate its importance, because there exists only insufficient information on bankruptcies in that category of firms; thirdly, in some cases, where economies of scale and economies of scope are important, merely technical reasons will prevent efficient production by small firms.

But apart from economies of scale, firm (and plant) size have little explanatory value. On the contrary, it is rather that particular characteristics correlate with size (K. Aiginger, G. Tichy, 1984; K. Hüttinger, 1984): the advantages of small and medium-sized firms are their flexibility, adaptability and their above-average return on capital. But above all, employees, on average, will find work more satisfactory. Thus, monetary incentives necessary to induce long-run commitment may be less important. Commitment may be "cheaper to buy" - the contentment with the work and identification with the firm are greater than in big enterprises, the staff is not to be given high monetary incentives to be committed oneself with the firm<sup>7</sup>. Disadvantages are the lower solvency, worse credit conditions and the lower degree of internal financing of investments. But the main problem of small firms probably is the worse endowment with resources - especially the endowment with human capital: due

to few opportunities for promotion and to the poor payment small firms hardly may acquire highly qualified staff. As result of the lack of possibilities to utilize "economies of qualification", small firms predominantly engage labour of average qualification. Such labour necessarily has to perform functions for which a higher or a lower degree of qualification would be needed.

The relation to further characteristics, especially concerning the technological profile of small and medium-sized firms, is rather difficult: small firms often are late adaptors of new technologies on the one hand, on the other hand they can specialize themselves on early phases in the product cycle (see the technology-orientated enterprises of the former paragraph), in which the products yet are not standardized and therefore economies of scale play an insignificant role.

A far-sighted policy for small and medium-sized firms has not only static allocative functions, e.g. correction of the distorted factor price relations, but it also has to take under consideration the development and adjustment potentials of small and medium-sized firms. This means above all to support small firms in their intentions to innovate. As especially in small firms not only the internal endowment determine the firm's capacity, but also the extent resp. the intensity and quality of their outward orientation, all measures are appropriate improving the firm's contact to external information and know-how. This external information and know-how includes information on technical developments, information on the market potential of planned new technologies, but also includes legal and financial advice and services in the fields of informatics, logistics, management and staff training.

### **c) Regional inequalities**

A third dimension results from taking into consideration regional inequalities. They are quite connected with the above mentioned problems of small and medium-sized firms: firstly big and small enterprises are unequally spread out so that the support of chiefly

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7 The new economic theory treats this as the 'principal-agent' problem.

small and medium-sized firms automatically favours particular regions, secondly small firms normally have only one location so that they depend more on the regional surrounding as big ones. But paying attention to regional factors does not mean that local disadvantages are to be compensated by above-average settlement gratifications - because such a policy will often lead to a competition of the city halls to attract more and more innovative enterprises - but the complete employment of instruments of regional policy to strengthen local advantages and to compensate local disadvantages.

But even a mainly regionally orientated strategy may ensue problems. Although the call for re-orientation towards the own regional power is justified, it shall not "decay to a nostalgic strategy of smallness and isolation" (D. Büchel et al., 1991). On the other hand a too strong outward orientation may run the risk of making this regions permanent recipients of subsidies. The advantages and disadvantages of agglomeration centres also have to be analyzed carefully: the concentration of the European traffic networks and communication systems leads to comparative advantages for urbanisation for which other regions have to be compensated. On the other hand it is certainly not efficient to diminish to a great extent the attractivity of conurbations by instruments of regional policy in order to give impulses for firms to move to agglomerations towards the periphery. It is not a matter of adjusting regional inequalities according to an inflexible pattern. The main interest of a regionally orientated economy shall not be a statically defined distinction between regions, but more the potentials of the regions concerning innovations and adaptabilities.

## **7. A new philosophy**

All these dimensions have to be united in one comprehensive conception of a strategically orientated regional policy: contrary to the traditional economic instruments (undifferentiated global financial investment incentives for all investors) the strategically orientated regional policy gives selective financial impulses for the foundation of functions which are important for adjustment and which aim at maintaining and intensifying the competitiveness of the region.

This new orientation also changes the function of regional policy institutions: their main task is to give advice and to evaluate, they organise the network of specific advisory boards and maintain the co-operation between them, they promote the communication between firms having similar or complementary problems, they assume the function of an "intermediary actor" for local and regional affairs.

But not only direct, "process-political" instruments, also appropriate "order-political"<sup>8</sup> measures are to be taken which ensure frameworks orientated on innovations and its necessary surroundings, i.e. which are conducive to the organisation of a "creative milieu"<sup>9</sup>, of a "scope of support" ("*espace de soutien*", R. Ratti, 1989).

This "milieu" is important for the success of the local enterprises: which contact of customers and suppliers exist, which possibilities of utilisation of resources, which access to services, all these are important aspects of entrepreneurial decisions. The development chances of technology enterprises are the greater the better they are integrated into a regional network of information, of advisory, financial and business relations, i.e. that especially innovation-orientated services determine the quality of regional networks<sup>10</sup>.

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8 Unfortunately, anglo-saxon economics does not know the distinction between "Ablaufpolitik" and "Ordnungspolitik" which - also in this context - is very important.

9 According to O. Crevoisier, D. Maillat (1991) the milieu is formed by the kind of connection between production, technology and market relations: "The coherence between the various protagonists consists of a common mode of apprehending situations, problems and opportunities. The spirit of enterprise, organisational practices, corporate behaviour patterns, ways of using technology, apprehending the market and know-how, are both an integral and constituent part of the milieu".

10 Studies (R. Herden et al., 1990; H.-J. Ewers, 1986) have shown that firstly the regional technological network externalities are very important for the success of innovations and that secondly the structures and intensities of network externalities show regionally great differences. See also Malecki (1987) concerning an overview over various studies concerning site's decisions of technology-orientated enterprises and the difficulty "to create creative regions".

If regional policy is not any more understood as correcting statically defined disparities, then it has to deal with new dimensions of time: strategically orientated regional policy is a permanent task, it has to anticipate regional and extra-regional problems.

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# **Swiss regional policy in a changing international environment**

## **1. A changing Europe**

During the past thirty years, economists have become accustomed to considering three different types of Europe : the Europe of integration (EEC), the Europe of cooperation (EFTA), and the Europe of planification (COMECON). But since the second half of the 1980's, the whole continent has experienced such radical changes that these categories have lost all their validity.

First of all, the EEC and the EFTA will sign on June 2nd 1992 an agreement on the creation of an European Economic Area (EEA), thereby reinforcing the already close cooperation initiated twenty years earlier by the 1972 EEC-EFTA free-trade agreement. The creation of a market of 350 million consumers, with goods, services, capital and labour flowing freely throughout the 19 countries, will inevitably lead to greater interdependance between the two main West European economic organisations.

Secondly, Central and Eastern European countries have embarked on the difficult path of replacing central-planning by market-oriented economies. The COMECON is now only part of history.

The collapse of communist regimes and planned economies started at a time when prospects for economic growth in Western Europe seemed relatively good. But since then the picture has changed. The ultra-liberal policies of most Western countries have plunged world trade into deep recession. This failure is however overshadowed by the ideological "triumph" of liberalism on communism. The frequent allegations in post-communist countries that there is no "alternative" only eschew the dilemmas facing the young democracies inexperienced in the often harsh realities of market-economy. Worse than that, the aid promised noisily by the West ends up by serving as an indirect subsidy to their own economies and not to genuine assistance to the reconstruction of the political and economic systems of Central and Eastern European countries<sup>1</sup>.

Thirdly, the whole of Europe is gradually abandoning the painful political division installed by Yalta. From now on European integration must be worked out within the context of a more diversified and unstable Europe, and not within the more "comfortable" environment of an economic space with clear geographical limits. The double-speak that can be observed within EEC circles highlights the dilemma facing them between "deepening" the process of European integration and "widening" it to include EFTA and former COMECON members. Be it in Western, Central, or Eastern Europe, nobody knows what course history will take, even in the nearest future. Change is pursued by itself at a breathtaking pace. Uncertainty has become the everyday menu of policy-makers more used to the relative stability derived from the former political and economic divisions of the continent.

Such changes have of course numerous implications on the balance of political and economic power between the European States, as well as between the different regions forming each one of them. Regional policies have therefore to be defined according to these new realities. The main challenge for most countries is to devise

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1 See Paul Dembiński, "L'Occident et l'Europe de l'Est : le temps des vœux pieux et des mots creux" (The West and Eastern Europe : the time of pious wishes and empty words), *Journal de Genève* (Geneva), 6 March 1992,; a abridged Polish translation can be found in *Spotkania*, (Warsaw), Nr 8 (59), 20-26 February 1992, p. 24

policies capable of profiting from possible change while at the same time limiting exposure to risks due to uncertainty.

## **2. A Changing World**

The recent years have led to certain changes which affect to a great extent regional policy-making in all countries. This requires new methods of analysis and even a reassessment of conventional theories on the nature of economics. Economic integration is gaining pace both on the international level (GATT) and on the mega-regional level (Europe).

### **The new service economy**

It is becoming more and more obvious that the analytical concepts used until now in economic theory have less and less explanatory power. Unfortunately, all financial institutions and economic policies are still based on the categories proposed by the conventional economic theory inspired by analysis of the 19th century industrial revolution and symbolized by Samuelson's handbook *Economics*. New phenomena like the growing importance of service charges in industrial production (R & D, distribution, insurance, recycling, etc.) and the ecological impact of industrial activity only "fit" into classical theory thanks to such extensive manipulation that the essence of the model vanishes.

There are however some promising signs showing that it may be possible to remedy the sterility of contemporary economic thought. A young generation of political economists is starting to advocate that the classical theory of market economy must be replaced by the new theory of service economy. Though related to the division of economic activities into three sectors proposed by the French economist Jean Fourastié, this new approach is not simply an inference of economic laws from observation of the service sector, but a radical change in perspective of what economics actually consist of. The new service economy, supported by the Club of Rome, dismisses the purely monetary analysis of economic activities and puts the stress on real value by refusing to distinguish economy from ecology, quantitative criteria (GNP, inflation rates, exchange rates,

etc.) from qualitative concerns (environment, stress, quality of life, durability, etc.)<sup>2</sup>.

The future will show us if the reluctance of economic science to open up to new concepts may explain some of the apparent aberrations of today's economic reality. Nevertheless, growing concerns with environment protection and space-planning are already starting to seep into policy formulation. Unfortunately these are still perceived as forms of state interventionism and are thus analysed more in political terms than as a strictly economic necessity. As a social science, economics must accept the fact that practice often precedes theory, and that forecasting is more a sign of political ambition than of scientific humility.

### European integration

Although a very small country, Switzerland has one of the highest values of international change per capita in the world. Lacking of raw materials and handicapped by an uneven topography, its wealth has always relied almost entirely on its external relations, especially with the neighbouring countries. 58% of its imports come from the EEC, whereas the latter represents 71.5% of its export market. So far, the country has been able to prosper without threatening its internal equilibrium. But now changes occurring on the continent are starting to affect the traditional stability of the Swiss economy. As explained further, because of its federal structure, Switzerland is much more sensitive than most countries to any changes within the territorial distribution of wealth and income.

The acceleration of European integration within the EEC is undoubtedly the most controversial subject dealt with by the Swiss political class. One just has to look at a map of Europe to see that this small country is literally surrounded by the EEC<sup>3</sup>. But so far,

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2 See Orio Giarini, *Dialogue on Wealth and Wealthfare. An Alternative View of World Capital Formation*, Report to the Club of Rome, Oxford, Pergamon Press, 1980, and Orio Giarini, Jean-Rémy Roulet (eds), *L'Europe face à la nouvelle économie de services*, Paris, Presses Universitaires de France, 1988

3 This is even more the case now that Austria has formerly requested entry into the EEC.

the Swiss government has not taken any clear steps in the direction of full-membership. It is haunted by the souvenir of the referendum that succeeded against the entry of Switzerland into the United Nations. As all international treaties are subject to compulsory referendum, the government seems to be waiting for larger agreement on the subject before making any clear statements on its intentions. For the time being public opinion, political parties and even the government are divided on what future developments the EEA treaty actually implies. The main cleavage is between those who defend the idea that the EEA treaty is the first step towards full integration into the EEC and those who consider it as the final aim. While European integration is gaining momentum, the myth of independence, which the Swiss are so jealous of and have been able to maintain by taking advantage of the divisions within the outside world, is slowly withering away.

### **The GATT talks**

European integration, a mega-regional phenomenon, must also be considered within the more international context of the GATT talks. The issues discussed within the Uruguay Round actually can be to a certain extent compared to those at stake within the debate on European integration : lifting of trade barriers in all sectors, international division of labour, etc. They are however more ambitious insofar as they concern the whole planet and take into account North-South relations. The fact that the Uruguay Round includes discussions on agriculture and services, two formerly "taboo" sectors, might explain some of the difficulties the talks have encountered, but also shows that no activity can escape from the influence of the globalization of the world economy. There is no doubt that progress in the GATT talks would have a direct impact on regional policies in all European countries.

Before trying to assess the possible consequences on Swiss regional policy of the changes presented above, it is necessary to describe the specific political, geographical and economic context of the country, and explain how regional policy has been conducted until nowadays.

### 3. Switzerland: main characteristics

#### The political context: federalism

Switzerland is a federal state. Federal regional policy is only a complement to the policies carried out by the member-states, the cantons. The latter receive the necessary means through the process of financial equalization. Until the beginning of the 1970's, this redistribution of means proved quite sufficient in reducing inter-regional disparities and Switzerland did not feel the need to elaborate a explicit regional policy.

The "weight" of the state is comparatively modest in Switzerland: the tax receipts of public administrations in 1988 amounted to 22% of the GNP, and expenditure to 27%. The "economic weight" of the state is well distributed between its three levels, as can be seen in the following table :

**Table 1.** Tax receipts and expenditure of public administrations in Switzerland, 1988<sup>4</sup>

	Tax receipts (%)	Expenditure (%)
Confederation	44	36
Cantons	32	34
Communas	24	30
Total	100	100
Total as % of GNP	22	27

The economic solidarity between the cantons is inscribed in the federal constitution which aims, among other things, at increasing "*general prosperity*" (art. 2) while "*protecting the economically threatened regions*" (art. 3b)<sup>5</sup>. Like all countries, Switzerland is

4 Martino Rossi, *Political decentralization and balanced regional development*, Paper presented at the colloquy on "Decentralization and the strengthening of local self-government" organized by the Council of Europe, Cracow, 13-14 April 1992, p. 8

5 Articles 22.4, 31b, 42.3, 31.3 and 31.5 are the other constitutional bases of regional policy.

faced with the question of regional economic disparities. But the problem is all the more acute as federalism implies not only the relative equality of all citizens but also that of the different states forming it. As Gaston Gaudard puts it

*"A regional policy which is limited to financial redistribution might be suitable for a unitary state, where, because of the social requirement of democracy, the only question that arises is that of a certain equality between people. In contrast, it is very inadequate in the Confederation, where the additional requirement of federalism requires (...) that a not too disparate future should be guaranteed between the regions of political warding"*<sup>6</sup>.

Federalism can be defined as and. Any increase of the disparities between the cantons can jeopardize the fragile equilibrium between unity and pluralism. On the one hand, if regional disparities grow too much, unity could be challenged by the disadvantaged cantons. On the other hand pluralism could be endangered by a too strong dependence of certain cantons on others in the case when political and economic decisions would be determined more by external factors than by strictly regional considerations. Indeed, the "raison d'être" of a state which has its origin in the free choice of "sovereign regions" which are federated is none other than the reciprocal benefit of this choice. Even then, more direct state intervention has been seen as a means of maintaining the federal equilibrium of the country.

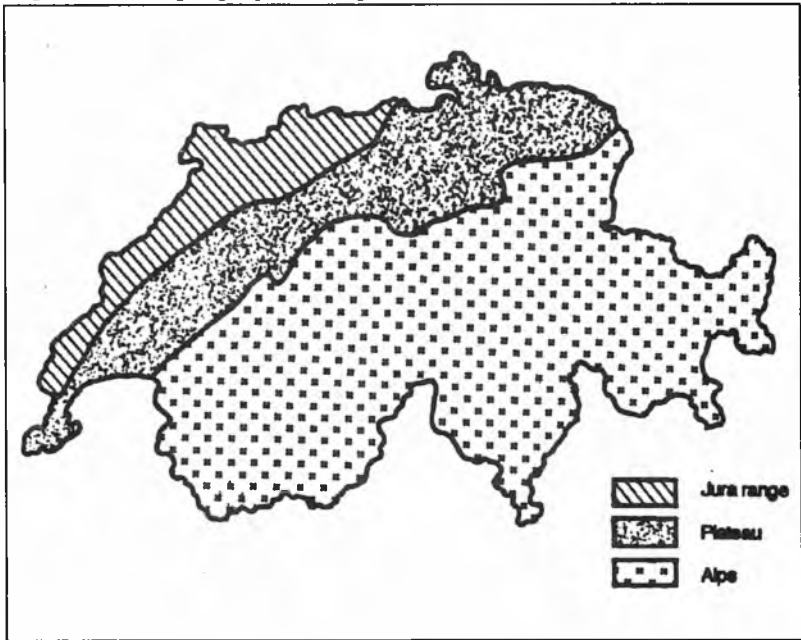
### **The geographical context: an uneven topography**

In spite of its small size, Switzerland is very differentiated as far as topography is concerned. The country can be divided into three entities : the Jura range (10%), the Plateau or plains (30%) and the Alps (60%).

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6 Gaston Gaudard, *Le rééquilibrage économique interrégional pour la Suisse de la décennie 1990*, Institut des sciences économiques et sociales, Working papers No 199, Université de Fribourg, 1991, p. 8, quoted in Martino Rossi (1992), op. cit., p. 6

**Figure 1.** The geographical regions in Switzerland<sup>7</sup>



Such a topography exerts a direct influence on the nature on economic activities that have developed in the different regions. Only 32% of the country's surface consists of plains where industrial activity can be organized without high costs due to transport, infrastructure investment, and access to the administrative services. 65% of the industrial capacity is concentrated in 3% of the total surface of the country<sup>8</sup>.

7 OECD (Organisation de Coopération et de Développement en Europe), *Les problèmes régionaux et les politiques régionales en Suisse*, Paris, OECD, 1991, p. 27

8 Ernst A. Brugger, "Föderalismus als Ziel und Voraussetzung für die Regionalpolitik. Eine regionalwissenschaftliche Analyse", *Handbuch Politisches System der Schweiz*, Bern/Stuttgart, Paul Haupt, 1986, Vol. 3, p. 305



**Table 2.** The geographical diversity of Switzerland<sup>9</sup>

<u>Total surface</u>	32% : plains
41,293 km <sup>2</sup>	18% : mountains
	21% : mountain pastures
	25% : forests
	4% : lakes and rivers

**The economic context: spatial distribution of economic activities**

As one of the richest and most stable countries in the world, Switzerland has always ranked high as far as income per capita, economic growth and unemployment rates are concerned. Until recently all these economic indicators were extremely positive compared to other European countries<sup>10</sup>. Instead of systematically having to fight unemployment and restructure the economy, regional policies acted as a flexible response to changes occurring in the territorial distribution of employment and income generation.

Due to the topographical diversity of the country, territorial distribution of economic activities is very uneven. The Swiss case thus provides a clear demonstration of the principle according to which the distribution of innovation in space, from the pole towards the peripheral regions, is hindered by the existence of "communication costs". Two thirds of the national revenue are generated by seven cantons (on a total of twenty-six) representing 63 % of the population. If we consider the different sectors of activity, the situation in 1991 was the following:

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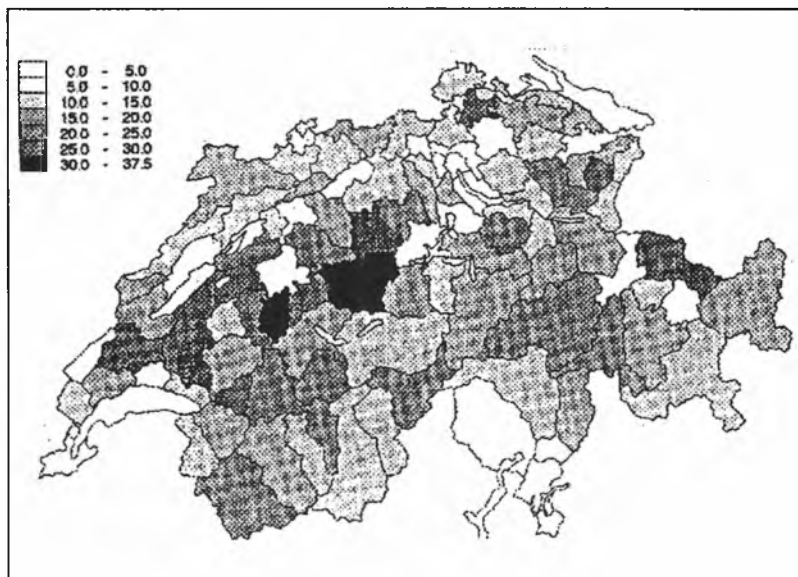
9 OECD (1991), op. cit., p. 26

10 Recent surveys show that unemployment, now at 2.2%, is rising and that inflation is well above the average European rate.

**Table 3.** Employment structure in Switzerland<sup>11</sup>

Agriculture :	5 %
Industry :	39 %
Services :	56 %

As the three following maps show, territorial distribution varies considerably according to the sector we consider. A comparison of Figure 1 with Figure 2, 3, 4 indicates that there is a quite a clear relationship between the distribution of economic activity by sector and the main geographical divisions of the country.

**Figure 2.** Distribution of employment in agriculture and forestry (% in 1985)<sup>12</sup>

11 OFIAMT (Office Fédéral de l'Industrie, des Arts, des Métiers et des Techniques), *Neue Anforderungen an die Regionalpolitik / Nouveaux défis pour la politique régionale* (Contributions à la politique régionale, No 2), Bern, 1991, 2nd part, p. 21,32

12 *ibidem*, p. 22

The proportion of people employed in agriculture and forestry is lower (5%) than in the EEC (8%). Switzerland has the most heavily subsidized agriculture within all the countries taking part in the GATT talks. It is thus not surprising that the farming lobbies support the EEA treaty, but are totally opposed to the propositions actually made within the Uruguay Round. Whereas the process of European integration could enable Swiss agriculture to reconvert to ecological production<sup>13</sup> and concentrate on specific products like cheese, the GATT propositions would mean a straightforward 30% cut in federal subsidies. In one case or the other, specialists estimate that there will be in the coming twenty years a 25% drop of the number of people active in this sector.

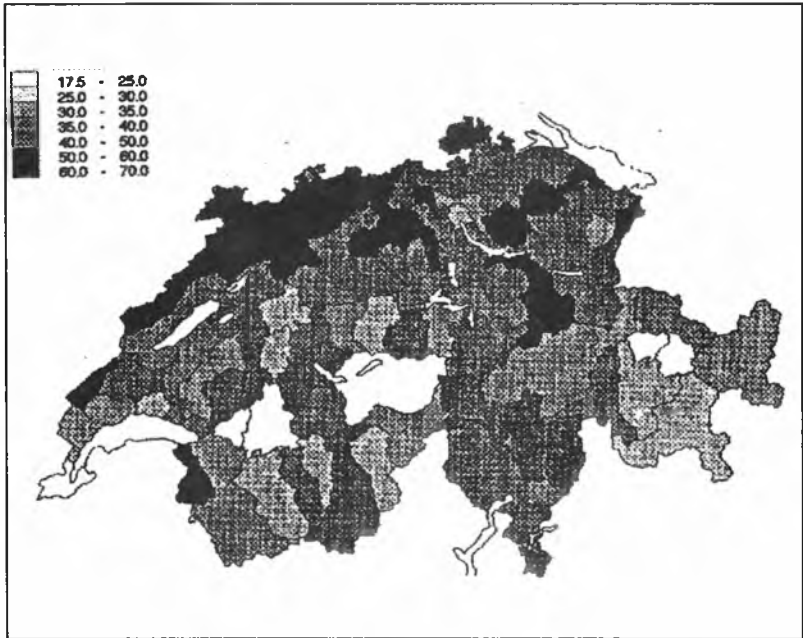
The future of Swiss agriculture depends therefore on its capacity to innovate in production methods and to concentrate on products where the country has a comparative advantage on its European competitors. If this is done, there is no reason to predict any important changes in spatial distribution although there might be an increase in non-rural part-time employment in the mountain regions.

As the map above indicates, people employed in the industrial sector are not concentrated on the Plateau, as one could have expected, but in the Jura range region and in some northern parts of the country. This can be explained by the fact that the Plateau region has adapted much more quickly to the general trend of tertiarization observed in rich European countries. The Jura region is isolated from the international communication network and has been traditionally specialised in light industry, mainly watch production, uninfluenced by the economy of scales. But the introduction of quartz technology and massive production by Japanese firms in the 1970's caused the Swiss watch industry the loss of its traditionally dominating position on the world market.

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13 On January 1st 1992, the Swiss government issued an "*Disposition on the orientation of crop production and extensive farming*". Unlike intensive farming, extensive farming prohibits the use of chemical products.

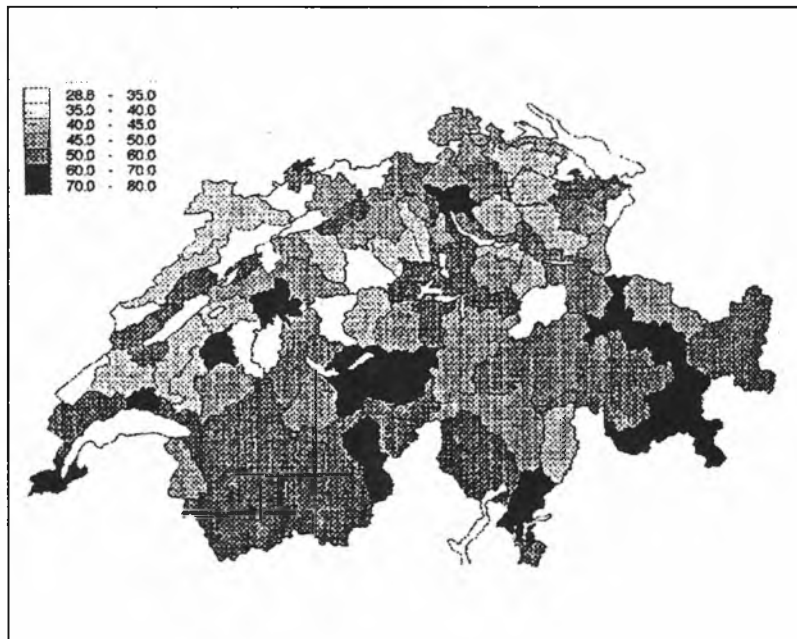
**Figure 3.** Distribution of employment in the industrial sector (% in 1985)<sup>14</sup>



Employing 56% of the total labour force, the service sector is crucial for the Swiss economy. The map below clearly indicates that tertiary activities, in the Plateau region, are concentrated in the big agglomerations (Geneva, Lausanne, Fribourg, Bern, Zürich, Basel). These centres have more than 70% of their population working in commerce, banking, administration, insurances, etc. But the service sector is also important in some parts of the Alpine region. The main activities here are small commerce and tourism.

14 OFIAMT (1991), op. cit, p. 23

**Figure 4.** Distribution of employment in the service sector (% in 1985)<sup>15</sup>



## 4. Swiss regional policy from 1974 to 1991

### Introduction

As already mentioned, the main characteristic of Swiss regional policy is its decentralised nature. The cantons define their own regional policy, which is then more or less coordinated with federal measures. It must be added however that the richer cantons do not always have an explicit regional policy<sup>16</sup>. Instead of going into the

<sup>15</sup> *ibidem*, p. 33

<sup>16</sup> This is in particular the case for Zürich, Basel-Stadt, Geneva, Zoug, Argau and Schaffhausen.

details of the cantonal regional policies, this paper will concentrate on explicit policies carried out at the federal level.

Until the 1970's, financial equalization enabled a relatively successful redistribution of revenue by the Confederation depending on the economic situation of each canton. Poorer cantons paid lower contributions to the federal budget while at the same time receiving more grants than the richer ones. But financial equalization is actually an "ex-post" redistribution operation, and not a policy of direct promotion of competitiveness and growth of the regional economies. The effects of economic imbalances between the regions can be attenuated, but their causes remain for the most part. Therefore, it soon appeared necessary to take new measures intended not only to thwart the consequences of interregional disparities but also to exert direct influence on the causes of the phenomenon.

The backbone of federal regional policy consists of two legal acts, the 1974 Act on investment in mountain regions (LIM)<sup>17</sup>, and the 1978 Decree on assistance to economically threatened regions. These acts were the beginning of an explicit regional development policy in favour of problematic regions, over and above the typically federalist concern for inter-cantonal balance.

### **The 1974 Act on investment assistance in mountain regions (LIM)**

This act came into effect at a time when Switzerland, like most of the Western world, entered a period of recession. The Swiss GNP actually fell between 1974 and 1975. During the following year, 340'000 working places disappeared. The federal authorities decided to introduce urgent measures to assist the worst hit regions, mostly mountain and mono-industrial parts of the country.

Most mountain regions drew their main income from agriculture. Due to the topography of the country, the costs of agricultural production are extremely high. In a period of recession, farming

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17 LIM: abbreviation for the French "*Loi fédérale sur l'aide en matière d'investissements dans les régions de montagne*".

products from mountain areas could not match the competition from less hostile regions and imports from abroad. Without substantial financial assistance from the State, most farmers working in the mountain regions were condemned to bankruptcy, and would eventually leave these regions for the more prosperous urban centres. This law aimed therefore primarily at halting rural emigration by making living and working conditions in the mountain regions more attractive through State assistance to investment in infrastructure.

But what are these regions? They are in reality voluntary inter-municipal associations set up especially to receive assistance from the Confederation. To do so, they have to satisfy a certain number of conditions set by the LIM. This "bottom-up" process is an important aspect of Swiss regional policy. It is important to note that these regions are determined functionally and do not necessarily have to match the borders of the cantons. Regional policy in the mountain regions has integrated the polarisation approach at microregional level : every region must in principle be created around a "regional centre", a small town which can provide impetus for the development of the region and an outlet for the workers who live there and can travel every day (commuters).

*"A region is considered to be adequately delimited if the following factors have been taken into consideration:*

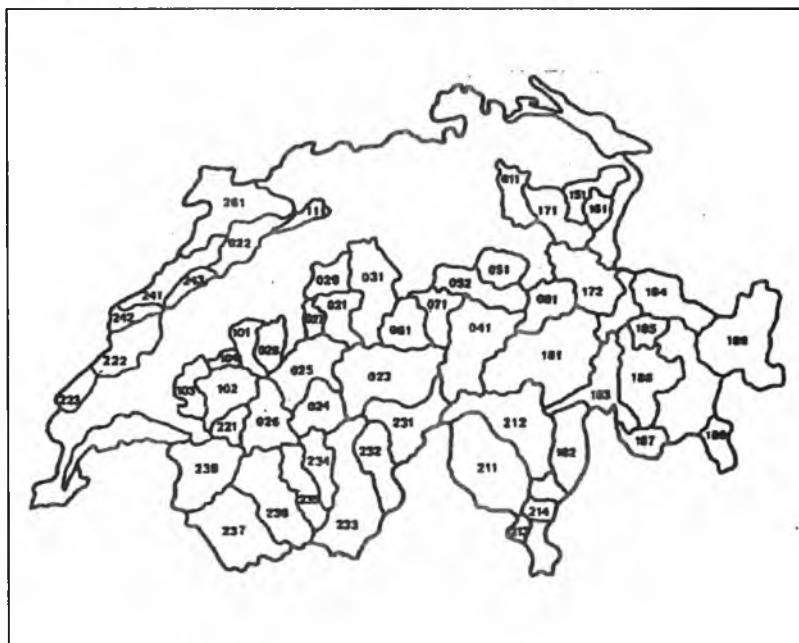
- *topography*
- *social and economic attraction poles and their accessibility*
- *infrastructure already existing or to be created*
- *commuter flows*
- *institutional, linguistic, cultural and religious limits*
- *development needs and potential"*<sup>18</sup>

There are 54 regions which group 40% of the municipalities, cover 70% of the Swiss territory and account for 24% of the population.

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18 *Ordonnance sur l'aide en matière d'investissements dans les régions de montagne, June 9th 1975, Art. 3*

**Figure 5.** The 54 mountain regions as defined by the LIM<sup>19</sup>



Each association elaborates a regional development programme which then has to be accepted by each municipality before being submitted to the Confederation. The programme should assess the situation and the economic perspectives of the region, present a set of measures and actions, especially with regards to collective equipment which could enhance the development of the region. The diversity of the regions actually leads to a great diversity in the programmes proposed, which of course sets important problems of coordination.

The LIM aims at improving living conditions in the economically disadvantaged mountain parts of the country. The State helps invest-

19 OECD (1991), *op. cit.*, p. 41



ment enabling new industries to settle down in the region or contributes to the funding of infrastructure of public utility (roads, water supply, waste management, education, socio-cultural, sport and sanitary equipment). It provides loans at better conditions than those existing on the market. However this financial aid should never amount to more than 25% of total costs and should be totally repaid within a period of thirty years. Between 1975 and 1982, financial assistance was awarded to projects in the following proportions :

**Table 4.** Projects receiving assistance from the LIM<sup>20</sup>

water (supply, purification)	23%
sports and leasure installations	20%
education and training	16%
public health	14%
transportation	10%
others	17%

The balance sheet after 15 years of operation of the LIM is mixed but nevertheless positive. Whereas the mountainous regions lost 8% of the population in the seventies, their population growth from 1980 to 1987 was for the first time higher than the national average : 3.5% against 3.1%. In terms of jobs there was also an increase between 1975 and 1985 (+5.3%), but this was less than the national average (+7.9%)<sup>21</sup>.

Looking beyond these global figures, the LIM result is positive from a socio-political and cultural point of view. Firstly, it reinforced the political identity, solidarity and autonomy of these regions because the communes were obliged to cooperate in shaping and implementing development programmes. Thirdly, in doing so, they have

<sup>20</sup> *ibidem*, p. 41

<sup>21</sup> OFIAMT, *Coordination de la politique régionale. Développement des régions LIM et coopération au sein de l'administration*, Berne, OFIAMT (Contributions à la politique régionale, No 1), 1990, p. 26

created regional development agencies which have progressively become true centres of regional impetus and incentive. Finally, they have acquired more influence within the canton to which they belong and within the Confederation.

### **The 1978 decree on assistance to economically threatened regions**

Technical progress and increasing competition slowly started threatening the watch and the textile industry. This, together with the economic crisis of 1973-74, provoked a sudden rise in unemployment in the "mono-structure" regions located in the Jura area (watch industry) and some parts of Eastern Switzerland (textile industry). To counter that trend, the Swiss government issued in 1978 a decree introducing in a new category of regions, the "economically threatened regions" (ETR's). As shown by Figures 2 and 5, these regions correspond more or less to those where industry has the highest proportion within the persons employed.

Whereas the 1975 law aimed at enhancing investment, this decree was concerned with the conservation of jobs lost to structural change. It was meant firstly to stimulate innovation and diversification, secondly to help certain economic sectors adapt to new international markets and thirdly to create jobs.

What are ETR's ? They are regions where at least 20% of the active population work in the same branch, where the population is diminishing each year by at least 1%, or where full-time and part-time unemployment reach respectively 1% and 3%<sup>22</sup>. The ETR's are therefore defined by objective economic criteria and not by voluntary association and topography like in the case of the LIM. The main actors are not local authorities, but representatives of the private sector. Projects are submitted by the firms active in ETR's. To be accepted they must be innovative both as far as the structure

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22 These figures seem unreal for countries of Central Europe. Switzerland has never known important structural employment. This shows the limits of the comparative ambitions of this paper.

of production and employment and the evolution of the market are concerned.

The means deployed are fairly modest, but interesting in the cooperation and burden sharing they call for between the Confederation, the cantons and the banks financing the assisted undertakings. Existing or new businesses are offered investment credits which benefit from public guarantees (federal and cantonal) and therefore from interest rates that are lower than the market rate. The Confederation and the canton involved also partially assume interest charges and co-finance economic and technical advisory services to the ETR's. The results of this policy have been positive from the point of view of diversification, but less so in regard to the creation of more jobs.

If a project is accepted, the decree provides for three forms of State assistance:

- guarantee of up to one third of the total investment (maximum 10 years),
- payment of interest in a proportion of up to one quarter of the market rate (maximum 6 years),
- tax relief.

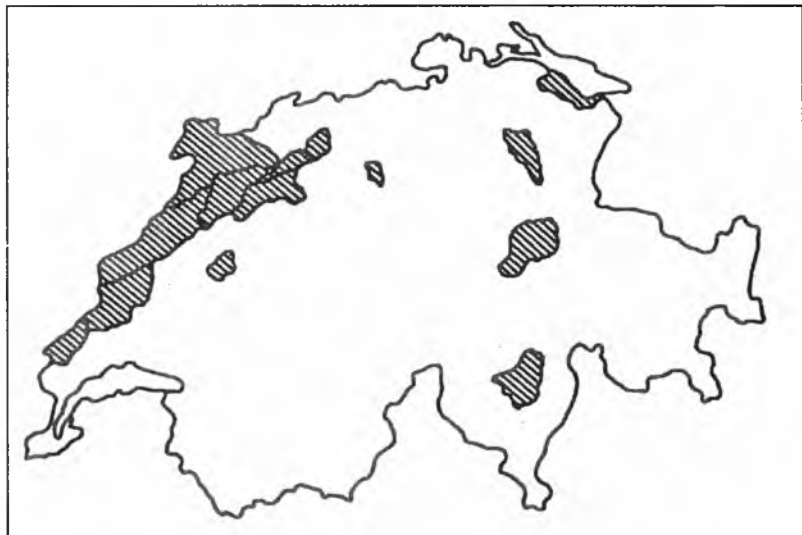
### **Other instruments of federal regional policy**

There are many other instruments that also have direct effects on regional development. Let us mention for example the 1979 Law on space-planning, intended to moderate the use of soil by a planification of activity distribution. Here again, it is the cantons that carry the main responsibilities. The role of the Confederation is to coordinate the different cantonal master plans between themselves and with its own sectorial policies. In addition to these "vertical" policies, federal measures also include "horizontal" or sectorial intervention in agriculture, forestry and housing in mountain districts, as well as arrangements for inter-cantonal tax equalization.

Recently, the federal regional policy seems to be reorienting itself towards a new style of regional development. Experience has shown that it is extremely difficult to coordinate effectively the 26 cantonal

regional development programmes (RDP's). The office in charge of regional policy has therefore issued a series of new directives according to which the RDP's should be more closely related to the cantonal plans elaborated within the federal Law on space-planning. They should also take into account non-economic problems like the protection on the environment in rural and urban areas. Finally there should be better coordination between regional and sectorial policies.

**Figure 6.** The 14 economically threatened regions<sup>23</sup>



## Conclusion

Swiss regional policy is inspired by two principles laid out in the Constitution, the principle of federalism and the principle of liberty of trade and commerce.

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23 OECD (1991), *op. cit.*, p. 42

In its federalist approach to regional development, Switzerland provides us with a good example of the principle of subsidiarity. The Confederation intervenes only for problems the cantons are not able to solve themselves. It is the latter that draw up master plans which, once approved by the federal government, are binding on both sides. Municipal land-use programmes are approved by the cantons. No directives are imposed by higher authority, but there is mutual adjustment between the three planning levels backed up by conciliation procedures. Thus the regions turn out to be bodies receiving financial means directly from the federal state but coordinating policies established at the cantonal and communal levels.

The principle of liberty of trade and commerce is illustrated by the fact that the State tries to influence as little as possible the market forces, be it through its economic policy in general or through its regional policy in particular. It provides only subsidiary assistance aimed at reinforcing self-help schemes drawn up by the cantons and the regions.

Two of the main characteristics of Swiss regional policy are its systemic approach and its pragmatism. The polarisation approach, by considering the growth process to result from the synergies generated in a "pole," can not be applied in a country like Switzerland because it could exacerbate the conflictual aspects of relations between "centres" and "peripheries". The policies based on the systemic approach aim at the construction of "innovative environments" in the regions by enhancing the value of local resources, the motivation of local actors, interregional cooperation between entrepreneurs, research and training institutes, and regional political authorities, with the objective of facilitating the transfer, acquisition and creation of technological innovations, know-how, culture, etc. Such a policy therefore calls for extensive decentralisation of authority, but also a considerable involvement of actors other than those in the region itself.

So far Swiss regional policy has been relatively successful. The former migration from mountain regions to urban centres has been reversed. Unemployment rates have increased in those regions receiving assistance, but at a slower pace than in the more

developed regions. Regional policy has not managed to level out income distribution. Inter-cantonal disparities have grown during the past ten years, whereas they had diminished before. Another problem is directly related to the "bottom-up" process characterizing Swiss regional policy. It is not necessarily the most problematical regions which have benefitted from federal aid, but rather the most dynamic of the relatively disadvantaged regions, since as these are free associations of communes, they were constituted earlier and submitted the best development programmes.

There are although some impressive examples of success. Let us mention the cases of the cantons of Neuchâtel and Jura. Building on the know-how inherited from the former watch industry<sup>24</sup>, both have managed to diversify their structure of employment by stimulating investment in high-tech branches and in the service sector and by using modern marketing techniques<sup>25</sup>.

The success of Swiss regional policy can be explained by two factors, the federal structure of the State and the culture of consensus that characterizes Swiss society in general. Firstly, the people responsible for elaborating the policies and carrying them out are to be found mainly at the cantonal and municipal level. In conformity with principle of subsidiarity, it is assumed that they have better knowledge of the problems to be solved. In a recent report evaluating Swiss regional policy, the OECD clearly states the positive consequences of the federalist approach on the national economy:

*"Rather than resolving the acute problems of unemployment and the restructuring of the economy, this is a matter of im-*

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24 See Michel Fragomichelakis, "Le savoir-faire comme ressource pour le développement régional : le cas d'une région suisse aux frontières de l'Europe", in Bohdan Jałowicki (ed.), *Repenser l'Europe*, Warsaw, European Institute of Regional and Local Development (Regional and Local Studies Nr 6), 1991, p. 141-162

25 See Michel Kostecki, "Marketing regionu jako centrum handlowego (przykład promocji przemysłowej w Neuchâtel)", *Samorząd Terytorialny* (Warszawa), Nos 7-8, August-September 1991, p. 59-62; "Marketing a region as a business centre : lessons from the industrial promotion of Neuchâtel", *Towards Regional Development in Central and Eastern Europe*, Vienna, United Nations Industrial Development Organization (UNIDO), February 1992, p. 48-52

*proving the apportionment of growth over the whole of the territory. This will to reduce regional disparities is particularly well sustained by a federal structure, and the object is to guarantee a balanced development and the welfare of all the people'*"<sup>26</sup>.

Secondly, all regional policies are the result of close concertation between the different (private and public) partners involved<sup>27</sup>.

Finally it must be said that the decentralised approach favours a less narrowly economic definition of the objectives of regional policy. The recognized economic objectives are: the attenuation of disparities; diversification, which improves regional resistance to sectoral crises and short-term fluctuations; contribution to national growth by means of a better use of the production factors of labour, capital and land, which are often under or over-utilized in the various regions. The extra economic objectives, which are equally important, are the protection of the landscape and ecological balance, the safeguarding of regional diversities and identities, the political and socio-cultural autonomy of the regions and the reinforcing of federalism.

## **5. The effect of change on the Swiss regions**

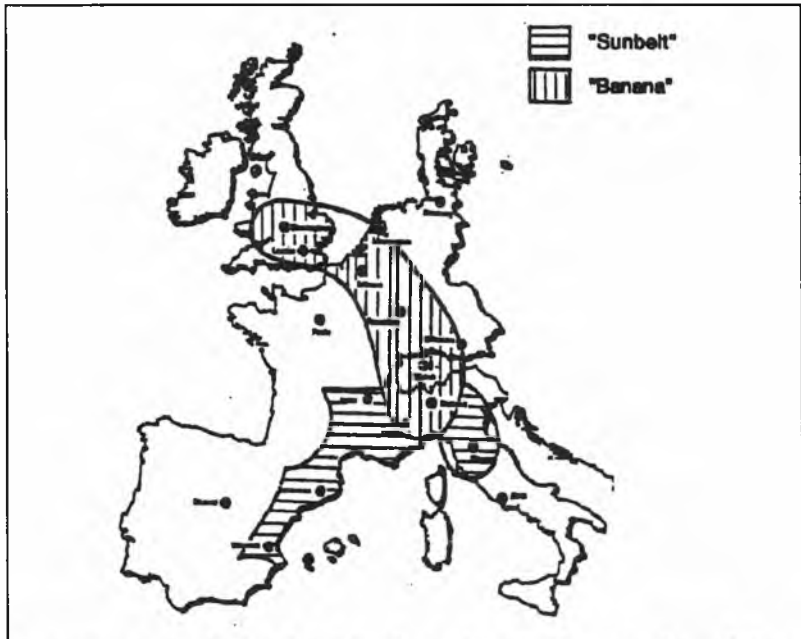
Until now the Swiss economy has had to compete with twelve national markets governed by different norms. Once the Treaty of the EEA treaty is implemented, it will have to compete within a market of 320 million people run by Community law. In the short and medium term, the stronger competition between regions which the process of European integration will entail will be most profitable to the regions and urban centres that already have the greatest potential for quick development. These regions are situated on two axes which run from central England to North Italy ("Banana") and from the Spanish Mediterranean coast to central Italy ("Sunbelt").

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26 OECD (1991), *op. cit.*, p. 9

27 Michel Kostecki shows this well in the case of Neuchâtel.

**Figure 7.** The centres of development in the 1990's<sup>28</sup>



As we can see, Switzerland is situated at the intersection of these two axes. It is therefore reasonable to believe that its economy will profit from the development of the regions surrounding it. But, as it is the case within the EEC, not all regions will draw the same benefit from growing competition. Although the principle of liberty of trade and commerce is inscribed in the federal Constitution, Switzerland has always used tariff barriers to protect its domestic economy. Numerous cartels inhibit market forces to draw on genuine competition. Closer integration with the EEC will inevitably force the country to lift most of these obstacles to international competition. Such prospects give rise to tremendous resistance from small and medium size firms working only for the national

28 OFIAMT (1991), *op. cit.*, p. 7



market<sup>29</sup>. Again, it is the big multinational firms that will draw the biggest advantage from a liberalization of the economy. These firms are concentrated in the already rich urban centres situated on the central Plateau.

One of the challenges for future regional policy will therefore be to stop the agglomeration process before it starts inducing disadvantages (negative externalities) outweighing the advantages of proximity: problems of accessibility and mobility internal to the pole, pollution, technological, social and political risks, deterioration in living conditions and departure of the most skilled and mobile staff, etc.

Another problem lies in the fact that Switzerland is a richer country altogether than most of its neighbours, and that regional disparities are lower. As such the country will not benefit directly from the structural funds of the EEC. On the contrary, it will have to share its wealth with the poorer regions of the EEC. This was one of the most controversial points raised during the negotiations on the EEA treaty, and one of the main causes of the reluctance one can observe in the Swiss population as a whole.

In any case, Switzerland will probably have to review the size of its regions and develop its statistical data-base. These are much smaller than the regions taken into account in the CEE's regional policy, and make it virtually impossible to draw comparisons between the disparities existing in Switzerland and within the European Community.

**The impact of a progressive liberalisation of the Swiss economy will vary according to the type of region considered.**

For the central and intermediary regions of the Swiss plateau, European integration will most probably give a positive impulse to their economies. Their tertiary sector and firms, mostly high-tech and innovative, already have strong international ties. It is mostly

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29 Small and medium-size firms account for 90% of Swiss industry.

the towns that will profit from bigger competition, especially the agglomeration of Zurich.

The economically threatened regions have already partly reoriented their economic activities thanks to the regional policy introduced in 1978. Nevertheless those in which industry is mainly oriented towards the domestic market will certainly suffer more from international competition than those who have initiated genuine innovation. European integration will also spur concentration, causing thereby the loss of jobs. Generally speaking, it seems that in the coming years some ERS's will probably have fight once again against a deterioration of their economic situation.

The effect of European integration on the mountain regions will be different depending on if their main activity is agriculture, tourism or light industry. The prospects seem far better for the second category than for the two others due to the comparative advantage Switzerland has been able to maintain over the years (presence of the Alps, environment protection, touristic tradition). Entry into the EEC would mean firstly a sudden drop in prices of agricultural products, secondly the disappearance of many small farms, and finally a return to the rural emigration trend observed before the LIM came into effect. The regions generating income from the tourist industry will have to adapt, especially as far as prices are concerned, as this is one of the fastest growing sectors within the EEC<sup>30</sup>.

Until now the transfrontier regions have been able to develop thanks to discrepancies between Swiss economic policy and legislation and those of the neighbouring countries. Legislation on "border worker status" will have to be revised. Many firms have survived until now only because they could import cheap labour from other countries<sup>31</sup>.

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30 See Commission des Communautés Européennes, Direction générale des politiques régionales, *Europe 2000. Les perspectives de développement du territoire communautaire*, Bruxelles/Luxembourg, 1991, p. 60-62

31 This is particularly the case in the Italian-speaking canton of Ticino where half of the industrial labour force are commuters from Northern Italy..

In a first stage the dynamism of these regions will probably diminish due to the disappearance of certain economic advantages and to the bigger momentum already given to cooperation between CEE regions themselves. In a second stage however, they will probably be influenced by the development in the neighbouring border regions. Recent opinion polls show that most frontier regions are in favour of Swiss membership in the CEE.

## **6. Swiss regional policy: present dilemmas**

It is undeniable that the structural changes occurring in the international environment will lead to an intensification of regional problems in Switzerland. But as long as uncertainty about the formal relationship with the EEC persists, it is impossible to forecast with precision what will happen. One can only suggest a few hypotheses.

First of all, further integration of the Swiss economy with the EEC does not require formulating an entirely new regional policy, but only an adaptation in certain spheres. Except for agricultural questions, the CEE leaves its member-states with a large scope of liberty with regards to regional policy-making. But apart from the traditional objectives in the spheres of infrastructure, income and employment, Swiss policy-makers will have to introduce new parameters like "regional competitiveness" and the "quality of the environment". The future of the Swiss regions depends therefore less on CEE legislation than on the political will and imagination of the federal and cantonal authorities.

Secondly, as regional disparities will probably continue to grow in the following years. Swiss regional policy will have to keep on trying to attain two seemingly contradictory objectives. On the one hand it will have to ensure that the differences in terms of wealth and income within the 26 cantons do not exceed certain limits. This ambition derives from the federal structure of the state. On the other hand it must inhibit any tendency to an increase in differences within the population as a whole. This is the social dimension of regional policy. And last but not least, Switzerland has to find a global response to the growing international competition due to the integration of its neighbouring countries.

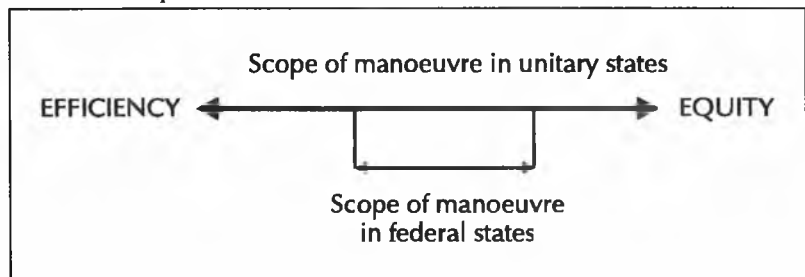
To summarize, one could say that the ambition of the Swiss government is to soothe possible resistance from the cantons by ensuring equal distribution of wealth and income, to ensure support for its policy by guaranteeing to the voters the maintenance of their relative economic position, and finally to maintain the overall position of the country in international trade.

## 7. Conclusion

The restructuring of the economy in Europe is necessary as a response to the globalization of the world economy. The dilemma facing governments is that of a choice between equity and efficiency, between a regional policy aimed at evening out disparities within the boundaries of their own country, and a regional policy meant to enhance the chances of the country in international competition. In Switzerland, like in other countries, priority has been given to equity in periods of economic growth, and to efficiency during times of stagnation.

But because of the federal structure of its political and economic system, Switzerland's scope of manoeuvre in this field is much more limited than in most other countries. This can be formalized in the following way:

**Figure 8.** Scope of manoeuvre in regional policy-making according to political structure



To our knowledge, until now there has been no historical and comparative analysis investigating the link between institutional forms of the States and political determination in the pursuit of regional balance. The choice between the search of equity the search of ef-

iciency cannot be made according to any objective criteria. Therefore, to rule out the first in favour of the second, on the pretext that there is no alternative, is always a purely political choice based on a short-term vision.

Warsaw, 29 April 1992

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## **The role of local authorities in local economic development in the United Kingdom: the case of Bradford**

The West Yorkshire Conurbation, of which Bradford is part, has a population of about 2 million people, and is located in Northern England about 340 kilometres from London. Bradford is the second largest local authority in the conurbation with a population of 470,000 (see Figure 1).

### **1. The Local Government Context**

Local Government Reorganisation in 1974 led to the creation of a new administrative county of West Yorkshire. This Metropolitan County was divided into 5 city regions known as Metropolitan Districts, one of which was Bradford. The Metropolitan Districts were given powers over housing, social services, education, local planning and implementation. The Metropolitan Counties had powers over highway matters, strategic planning, waste disposal, fire and police service.

Since the abolition of the Metropolitan County Councils in 1986 the Metropolitan District Councils are the sole local authority within



**Figure 1.** West Yorkshire district council area, location and context



their areas, there being no regional or, with the exception in some areas of small Parish Councils without significant powers, no more local structures. Some collaborative arrangements between the Districts do exist in the provision of certain services, notably the Yorkshire and Humberside Development Association (YHDA), with its concern for economic development at a regional scale, and the West Yorkshire Passenger Transport, Police, and Fire and Civil Defence Authorities, to which the five West Yorkshire Districts contribute. Although District Councillors are nominated to, these bodies there is no direct electoral accountability.

The Metropolitan District of Bradford extends to some 141 square miles (365sq km). It contains contrasting areas ranging from the heavily industrial and urban setting of the City of Bradford itself, to smaller free standing settlements such as Keighley and Ilkley, and to areas of very high landscape value adjoining the Yorkshire Dales National Park and areas of the rural Pennine uplands. A notable feature of the Metropolitan Districts in West Yorkshire, unlike those in the West Midlands and the Manchester Conurbation, is this inclusion of large tracts of open land within their areas.

British local authorities are restricted in their activities to those functions which have been specifically allocated to them by statute. They have had, for example, responsibilities for most Education at school level but not for Universities, and since the setting up of the National Health Service in 1947, their role in Health provision has been very small. The Thatcher Government of the 1980's, with its policy to "Roll Back the Frontiers of the State," reduced the involvement of local authorities, particularly in housing provision, and restricted their activities in many fields.

Local authorities have developed their role in local economic development without specific statutory powers in this field. In many cases their involvement grew out of their responsibility for Town and Country Planning, particularly forward planning, where the local economy was evidently of central importance. It was originally funded through the relatively small amounts of money available to all local authorities to spend on locally determined activities. Subsequently a large proportion of the funds used for local economic development have come from specific

central government or European Community grants, administered by the authorities, or through the targeting of other spending programmes to economic development purposes.

During the 1980's local authority involvement in economic development has grown rapidly despite the emphasis of central government policy to encourage private sector involvement in local economic development. In the particularly well known example of the Development Corporations, such as London Docklands and Liverpool, this has been achieved with the exclusion of local authorities and considerable public subsidy to private investors. Elsewhere local authorities have been able to remain involved through partnerships with the private sector. Indeed partnerships, in which the local authority plays an advisory or facilitating role, have become a major form of local government involvement in local economic development.

Both forms exist in West Yorkshire. Leeds has a Development Corporation which has responsibility for a number of relatively small areas in the Inner City and all five Districts have an involvement in partnership arrangements of varying kinds. Bradford, for example, is involved, with local businesses in Bradford Breakthrough Limited, a company which aims, *"to encourage private and public sector co-operation and to act as a focus for others in the economic and social improvement and development of the Bradford area."*

Partly perhaps because there is no regional or sub-regional governmental focus, there is a proliferation of agencies involved in economic development. Table 1, extracted from Green and Leigh (1990), gives an indication of the range of agencies operating in the region. Local authorities are only one among many of the agencies involved, many with differing and overlapping responsibilities, interests and sources of funds. Local authorities may be partners, represented on regional organisations, consult voluntary or be consulted by central government agencies, but they are not able to effectively coordinate the disparate efforts within their areas. New initiatives by any of those involved, particularly central government, continue to complicate the position. It is within this context that the activities of the Bradford Metropolitan District Council have to be viewed.

**Table 1.** Development agencies operating in Yorkshire and Humberside, 1990**REGIONAL AGENCIES**

## 1. Central Government

e.g. Regional offices: DTI, Department of the Environment, Department of Employment, Training Agency, English Estates, Small Firms Service.

## 2. Representational Bodies

e.g. Yorkshire and Humberside Regional Partnership, Yorkshire and Humberside Regional Association, Regional CBI, Regional TUC, Association of Yorkshire and Humberside Chambers of Commerce.

## 3. Regional Organisations (Delivery Agencies)

e.g. Yorkshire and Humberside Development Association, Yorkshire and Humberside Tourist Board, Yorkshire Enterprise Limited, Regional Technology Network, The Financial Forum, Hylite, Business in the Community, Yorkshire and Humberside Euro Information Network.

**SUB-REGIONAL AGENCIES**

## 4. Central Government

e.g. City Action Teams, Inner City Task Forces, Urban Development Corporation, Training and Enterprise Councils.

## 5. Local Authorities

acting as agents to provide e.g. small business grants, new business loans, business development loans, employment subsidy schemes, venture capital registers.

## 6. Partnerships

e.g. North Yorkshire Investment Company Ltd., Leeds City Development Company, Kirklees Engine for Growth, Sheffield 2000, Yorkshire Pantry, YORTEK, YORTAG.

**Source:** adapted from Yorkshire and Humberside Economic Development and Future Prospects, YHDA, Leeds, 1990.

## 2. The Bradford Economy

Until the Industrial Revolution, Bradford was a small rural town in the eastern Pennines. Local water power and later coal attracted industrial development, particularly woollen textiles. West Yorkshire became the main centre of the woollen textile industry in the United Kingdom and Bradford became known as *Worstedopolis*: the World Capital of Wool. The District still houses the research laboratories of the International Wool Secretariat. Associated engineering industries also developed and by the beginning of the twentieth century Bradford was a booming industrial city.

The physical manifestation of this boom was characterised by massive mill complexes and attendant rows of terraced housing for industrial workers. The housing was of high density with back-to-backs the norm. Houses were built as close to the place of work as possible and in the overcrowded and insanitary conditions epidemic diseases such as cholera were frequent visitors.

Industrial decline and the loss of industrial employment has been long standing. During the 1960's for example while jobs in the UK as a whole fell by 0.79% Bradford lost 12.5%. In 1961 60% of all employees, 101,000 worked in the textile and engineering industries. Textiles alone employed 73,000. Between 1957 and 1967 jobs in textiles declined by 21%, motor vehicles by 59% and electrical engineering by 49%. Despite this decline, 47% of local employment was still in the manufacturing sector in 1976, compared to a national average of 35%. Between 1974 and 1984 Bradford experienced a net loss of 28,000 jobs, nearly all of them in manufacturing, particularly textiles and engineering. Manufacturing employment declined from 46% of the total to 31% during the same period. By 1989 it had fallen further to 28%, but half of the jobs were still in textiles and engineering. What growth there was occurred in the service sector, which grew from 49% to 64% of total employment. Local authority projections prepared in 1989 anticipated a continuing shift, suggesting that by 1994 services would account for 73% and manufacturing for only 23% of total employment. Textiles, once Bradford's *raison d'être* would by then, it was anticipated, provide only 5% of the total jobs.

Unemployment in 1976 reached 8.3%, one of the worst in the North of England, and a government report ranked Bradford as third in the UK in terms of economic and social deprivation. In the early eighties unemployment rose to 14.8% (1981) reaching a peak of 15.8% in 1985. It had declined to 7.4%, helped by several changes of definition, by 1989, but since has risen again to 9.6% in January 1992. Unemployment in Bradford has been consistently slightly above the average for both West Yorkshire and the UK as a whole.

Unemployment is not evenly spread throughout the District. In January 1990 the two Inner City wards (areas used for the election of Councillors) of University and Little Horton had unemployment rates of 19.6% and 17.3% respectively. Both wards have a high proportion of people of Asian origin, the first of whom came to the city in the 60's to work in the textile mills. This compared to a Bradford average of 7.6% and certain suburban wards with unemployment rates below 3%.

Having experienced a decline in population during the 1970's and early 1980's Bradford population is now growing and is expected to grow into the next century. The population is expected to increase from 470,000 in 1990 to 483,000 in the year 2000. Bradford's growing population is in contrast to almost all the other metropolitan districts in England. This population growth is largely accounted for by higher birth rates found amongst families from the ethnic minorities. In 1981 approximately 56,000 people comprised the ethnic minority population (chiefly people of Pakistani, Bangladeshi, Indian, East African, Asian and other New Commonwealth origin). By 1991 this population had grown to 69,069 and is expected to reach 89,074 by 2000.

### **3. The Role of the Local Authority**

Traditionally Local Authority bureaucracies in the UK were very conservative and characterised by passivity. They reacted to perceived needs within the community, tackling problems in a very bureaucratic way along department lines. Solutions were seen in terms of town planning solutions, or refuse disposal solutions or social services solutions, rather than as comprehensive solutions to real world problems.

Early efforts to boost the local economy were limited to successful pressure for a link to the national motorway system and attempts to attract industry. Thornton argued (Mawson 1984) that by 1976 Bradford had been less successful in attracting industry than other West Yorkshire Districts, notably Leeds and Wakefield, both of whom have better access to major routes and a more plentiful supply of flat land. An Industrial Development Officer was appointed in 1974 and policy concentrated on industrial promotion and grants to local industry. The officer spent the first five years being shunted between the Town Planning, Estates and Chief Executives Departments because no-one could decide where he belonged in the structure.

Further economic decline in the late seventies led to the bringing together of responsibilities in the Economic Development Unit, reporting directly to the Chief Executive. It had become clear that the fragmented departmental plans promoted by the Local Authority could not succeed in turning the tide of decay and despair. The Local Authority did not have the financial reserves to make the huge investments needed and "freewheeling" or "footloose" entrepreneurs were not attracted to areas which displayed such poor social, economic and environmental qualities. In truth the relatively inflexible, bureaucratic, legalistic Local Government structure was unable to address the real problems facing the local economy and at best could only hope to ameliorate the very worst social conditions. The reality for politicians and managers alike in Bradford was a feeling of frustration and impotence at the inability of the organisation to tackle the real problems faced by the District.

Initially the EDU concentrated on conventional activities such as advertising and promotion, the provision of land and premises, financial assistance to companies and the construction of advanced factories. Other activities, notably tourism promotion and the pursuit of special projects were added later.

By the early eighties the authority was becoming concerned by continuing long term unemployment, particularly some of the social and health problems associated with it, and the failure of conventional policies in tackling the problems of the inner area of the city. They

showed all the classic symptoms of deprivation: poor environment, poor and overcrowded housing, poor services, high unemployment and the beginnings of racial unrest. One result was the creation in 1982 of an Unemployment Unit to organise training, liaise with voluntary groups, lobby for outside funds and generally assist local people affected by the recession.

About the same time an interdepartmental Economic and Employment Strategy Group with representatives from a range of authority activities, Economic Development, Unemployment, Personnel, Further Education, Education Research and Policy was formed to consider the authorities approach. The group identified a range of issues which contributed to the economic decline of the area including:

- the loss of manufacturing jobs without compensating growth in the services,
- concentration of unemployment among particular groups,
- low investment,
- low incomes,
- related family and health problems,
- decreasing local authority funds,
- technological unemployment,
- a need for new skills and further education,
- a shortage of flat land for industry and
- out of date infrastructure.

The authority was active in five main areas; economic initiatives, personnel, training, unemployment and community development, but the lack of a coordinated strategy led to confusion and potential conflict between policies. The Group's recommendations urged a major review of all relevant policies, particularly existing training and personnel policies of the authority, better information about the impact of policies on each other, better coordination with central government and broad consultation with local interests. The importance of the City Council itself in the local economy was emphasised by its role as a major landowner, the largest employer in the District and as having a substantial budget which is spent locally on providing services. The limited resources spent directly on

economic development, about GBP 3m in the early 80's, were, for example, dwarfed by the GBP 150m budget of the Education Directorate. Examining the implications of such spending for the local economy and making the most use of it locally, is perhaps the most important step the authority can take. In the British context it is limited, however, by the requirement for competitive tendering and the continued privatisation and hiving off of local authority responsibilities..

In 1983 Mawson noted that the political changes that had occurred in Bradford had little effect on local economic development policy. Party control of the Council between 1974 and 1992 is shown in table 2.

**Table 2.** Political control of Bradford Council 1973-1992

1973-1980	Conservative
1980-1982	Labour
1982-1983	No overall control, Labour largest party
1983-1986	No overall control, Conservatives largest party
1986-1988	Labour
1988-1990	Conservative
1990-1992	Labour

Unlike many Metropolitan Districts in the United Kingdom, Bradford has had few periods of extended one party control, but a tendency to fairly regular change. Mawson's opinion that these changes had little effect on policy towards local economic development remained generally true until 1988.

In 1988 a new Thatcherite Conservative administration came to power and immediately set about the complete transformation of the authority into a model for the "New Right." Following Thatcherite doctrines the local authority was to be transformed from a provider of services to an "enabling authority." As the northern flagship for the Government's Local Government policies Bradford aggressively grasped the more commercial approach. Cost cutting; competitive tendering for service provision; devolution to public/private partner-



ships, direct user organisation and private associations was the preferred strategy. Enterprise became the theme for local economic development. *"The Authority's role is to create the framework within which enterprise can flourish in the District. Enterprise is needed to stimulate further economic growth."* *"Encouraging the enterprise of others is the primary objective of the Directorate of Enterprise and Environment."* (Bradford Policy and Resources Committee 1989) The search for private investment, putting the management of major Council run leisure facilities out to tender and reducing the Council's involvement in municipal enterprises became the major tasks of the renamed Directorate. The role of the authority was to be limited to those services which could not adequately be provided by the private sector. A business planning approach was adopted throughout the authority.

It was during this period that the Bradford Breakthrough partnership was created. A separate company, limited by guarantee, Bradford Breakthrough is closely based on the model advocated by the Confederation of British Industry. Bringing together the private sector, the local authority and the, government funded, City Action Team the partnership seeks to galvanise the interest and commitment of the business sector to economic regeneration. *"It intends to identify and promote a clear vision for tomorrow's Bradford, capitalising on existing strengths, promoting confidence and emphasising the quality of life and to build on that vision through the identification of new economic, cultural and promotional opportunities."* *"It appears to try to impose a Business vision of how Bradford should develop without the legitimacy of broader public involvement and without any financial resources of its own."* In the opinion of Roberts and Whitney it may, *"simply add a further element of local confusion rather than clarity and direction."* (Roberts and Whitney 1992).

Further confusion was probably added by the election of a new Labour administration in 1990. Adopting a very different approach from the outgoing Conservative administration, the Labour controlled Council adopted a strategy which aims to:

- redirect resources on the basis of need
- adopt a neighbourhood/community approach based on consultation
- provide quality services based on commitments to users and staff
- continue partnership, and
- create a change in values and culture - from Bradford plc to Bradford Community Council.

These aims redirect the local economic development and other policies of the Council towards combating discrimination and disadvantage, protecting and enhancing the environment, positive action training for the unemployed and developing the cultural environment.

In setting out its "Strategy for Promoting Economic Development 1991-92" the authority reviewed its achievements in the areas of business support, training, cultural development and tourism. Business support includes the provision of managed workspaces, small industrial units and business advice and information. Bradford is involved in five major workspace schemes ranging from a converted mill containing 67 small units to a newly opened Design Exchange and a Business and Innovation Centre aimed particularly at science and electronics. European Community and Central Government grants have been important in most of these developments. European grants have also played an important role in funding capital schemes and training, coordinated through the Integrated Development Operation, another partnership between central and local government agencies and the private sector. This scheme, which runs for five years from 1988, will invest some GBP 200m and it is expected save or create up to 12,000 jobs.

An IDO is a coherent multi year programme (usually over 3 to 5 years) which establishes integrated financial planning in a schedule of commitments entered into by a partnership of EC, national, regional and local authorities. It co-ordinates the resources of all the public authorities involved in a co-ordinated scheme of work. Rather than each authority setting its own priorities and programme of ac-

tion the IDO programme provides a mechanism for them to agree priorities and a co-ordinated programme of works to achieve agreed targets.

Bradford began its preparatory IDO study in November 1986 and received approval in December 1988. The terms of reference of the study were:

*"... to analyse the structure of Bradford's industry and its structural needs and to look in detail at the role of the Local Authority in helping both existing and new sectors of employment".*

The importance of the study was that it got together all the main parties involved, including the three main political parties and officers in Bradford, key departments from Central Government and from Brussels and other public authorities such as the Water Authority, British Rail and British Coal. The study enabled them to agree what the important problems were and a programme of work to solve them. Because all these bodies were involved in the discussions they all had an "ownership" in the proposed strategy and this feeling of ownership led to greater commitment.

The concrete achievements of the IDO programme in Bradford have been:

- The provision of a new inner ring road with an RDF 50% grant of GBP 9,731,650 for the first 2 phases.
- Culverting Bradford Beck under the city centre with an RDF 50% grant of GBP 6.5 million.
- The creation of a new theatre and entertainment quarter, Bradford's West End.
- Environmental improvement works in run down areas; 50% RDF grant of GBP 1.8 million.
- A training budget of GBP 800.000 per annum for 5 years to assist industry.
- Creation of Business Innovation Centre; 35% grant of GBP 948,000.

- Creation of managed workshops schemes; 35% grant of GBP 863,800.
- Creation of Design Exchange; 35% grant of GBP 959,000.

Training has become an important aspect of local economic policy in many local authorities. Bradford is no exception. A Council report in January 1991 noted eleven training programmes offered by the Council including schemes for women, young people, the disabled and unemployed adults. Training in computing and electronics feature strongly. Fifteen partnerships with central government agencies, local employers and local colleges are listed as, "some of the main" means of training provision, reinforcing the belief that local economic development in Britain suffers from a confusion of agencies performing un-coordinated tasks.

Council expenditure on its road programme, funded by central government and the EC, and urban regeneration schemes are seen as playing a significant part in improving the environment for commercial development. The completion of an Inner Ring Road is seen as an important step in both increasing accessibility and facilitating the ambitious West End redevelopment proposals. This area, immediately to the west of the city centre, and centred on the refurbished Alhambra Theatre and adjacent to the National Museum of Photography, Film and Television, with the only IMAX screen in the UK, is seen as a significant boost to an area that in recent years has, although rather run down, seen a growth of restaurants and Asian run businesses. The Council is also closely involved in other refurbishment schemes for major landmarks in the City. The mills at Saltaire and Manningham, both historically significant to the city, have schemes supported by the Council. Salts Mill in Saltaire, a major conservation area, with historical importance in the development of Town Planning during the Industrial Revolution, is being refurbished with private capital and local authority support.

The most significant development, besides the conversion of some of its space to offices, is the establishment of the 1853 Gallery, largely devoted to the work of David Hockney. Hockney was born in Bradford. One of the more interesting exhibits is an example of "fax art" a "painting" made up of 144 sheets that were faxed from

Hockney's Los Angeles studio to the gallery. The development is an example of the opportunistic approach exploiting two of the District's local resources the industrial heritage with the birthplace of a internationally famous artist. The Lister City proposals for the conversion of Manningham Mills, which include the relocation of the Victoria and Albert Museum's (a major London Museum) Indian collection, offices, a hotel, residential accommodation, craft workshops and a study centre, are expected to create 3,000 jobs and attract an investment of GBP 70m. The relocation of the V&A's Indian Collection seems particularly appropriate considering the large Asian population of the city many of whom live in the area close to the mill.

These developments are intended to reinforce the Tourism Strategy that has been a major part of Bradford's attempts to change its image. The entry of Bradford into the tourist market was regarded as a huge joke in the early 1980's. Bradford in popular opinion was, *"a place where the sparrows woke up coughing and the pigeons flew backwards to keep the dirt out of their eyes."* However, the Council had identified the existence of over five hundred hotel bed spaces, which though full during the week were generally empty at weekends, and numerous local attractions, including Haworth with its connections to the Bronte family, the nearby Yorkshire Dales, the Victorian Spa town of Ilkley, and the industrial heritage of Bradford itself. The area also features in a number of nationally broadcast television programmes, itself an attraction to visitors, exploited through organised TV Tours and a large number of Indian restaurants to which "Flavours of Asia" Tours are arranged.

Bradford set out to establish itself as a short weekend break location. The first tourist was welcomed by the Mayor and a local brass band and given a conducted tour of the City. The event was featured in every national radio and television programme, including the BBC main news, all but one national newspaper and a wide range of trade magazines. It generated an estimated GBP 250,000 worth of free publicity. This followed a decision to set aside GBP 100,000 for tourist promotion. Table 3 indicates the growth of tourism resources in Bradford.

**Table 3.** Tourism resources in Bradford 1983-1989.

	1983	1984	1985	1986	1987	1988	1989
<b>HOTELS:</b>							
Number	12	18	25	25	27	28	31
Rooms	1811	2015	2310	2310	2343	2355	2446
av. size	151	112	92	92	87	84	80
<b>RESTAURANTS</b>							
Number	36	64	84	101	111	118	132
Seats	3070	5543	7355	8955	9642	10287	11289
av. size	85	87	88	89	87	87	86
<b>CONFERENCE VENUES</b>							
Numbers	8	8	16	17	18	18	26
seats	3344	3700	5555	5690	5740	13914	21946
av. size	418	462	347	335	319	319	535
<b>ATTRACTIONS</b>							
Museums	6	8	8	10	12	12	17
Others	17	23	28	30	32	38	44
<b>MILLSHOPS</b>							
					34	36	46
<b>CINEMA SCREENS</b>							
	6	8	8	9	9	9	12
<b>SPORTS CENTRES</b>							
	9	9	11	12	13	13	14
<b>SWIMMING POOLS</b>							
	16	16	17	19	21	22	22

Source: Bradford Travel Manuals, Bradford Metropolitan Council

Clearly, they are also available to local people as well as tourists but one of the advantages claimed for tourism is that it helps improve the image of a place in the eyes of residents as well as those of visitors and potential investors. The tourist initiative has been carefully nurtured through to the present day. In 1985 Bradford successfully bid for the Worlds Speedway Championships attracting 50,000 people (some 20,000 plus from Europe and the USA). One stage of the national RAC car rally now takes place in the district. An annual festival of drama and music has been promoted and successful

events like the one week programme of concerts and events marking the 50th anniversary of the death of Fredrick Delius have been successfully marketed.

In addition Bradford made an aggressive bid for the siting of the National Museum of Photography, Film and Television within the city to bolster its tourism drive. This bid was successful and since 1982 the museum has become one of the major tourist attractions in the United Kingdom attracting over 800,000 visitors per year. The success of this initiative is such that last year it is estimated that some 6,000,000 tourists visited Bradford generating some GBP 64 million for the district. There are now so many different operators offering packaged holidays in Bradford that it is not possible to measure how many bed nights are sold. It is also estimated that in 1991 some 11,330 people were employed in tourist related jobs. The Planning Exchange Local Economic Development Information Service (LEDIS 1986) attributed Bradford's success in attracting tourists to three factors:

- good market research targeted at clearly identified markets,
- a willingness to be opportunistic, and
- a readiness to switch resources from conventional economic/industrial budgets into tourism promotion.

The difficulty now is, if anything the reverse, as tourist pressures on particular locations begin to create their own problems. Hotels, for example, are less prepared than they were to offer weekend discounts, because the occupancy rate has increased and they have fewer empty rooms. The authority is encouraging the development of local tourism management committees to bring together the views of residents, who are often opposed to tourism, the tourist industry and the authority to resolve such issues.

The aims of the Economic Development Strategy adopted in 1991 emphasised the creation of a strong, broadly based economy in which employment and business opportunities for local people were a prime concern. Social aims were expressed in the need to target resources, many gained through partnerships with other agencies, to assist the disadvantaged to enjoy the benefits of economic develop-

ment and equality of access to the labour market. Six main themes form the basis of the Strategy:

- Business support through advice, financial assistance and the provision of information.
- Vocational training for local industry with a particular emphasis on the young, the unemployed, ethnic minorities, women returners and people with disabilities.
- The provision of sufficient industrial and commercial land and premises, through Planning procedures, infrastructure investment and the provision of small units and managed workspaces.
- The improvement and maintenance of the quality of the environment for local benefit and to create the conditions for industrial, commercial, cultural and leisure investment.
- Improvement of accessibility to national road and rail networks and local development opportunities.
- Continued support for the development of the District's cultural, heritage and leisure assets both for local people and to attract visitors making a positive contribution to the local economy.

Initial expenditure proposals indicate a total expenditure on the matters included in the Strategy of GBP 33.8m, GDP 18.1m (54%) being derived from grants and income and the remainder from the Council's own sources. Most of this, however, GBP 10.8m or (60%), is accounted for by one area of expenditure, road maintenance, which would be spread throughout the District and would have only an indirect effect on the local economy. Expenditure on the themes listed in the Strategy is as follows:

Business Support	GBP 0.63m	1.9%
Training	GBP 8.31m	24.6%
Land and Premises	GBP 0.83m	2.5%
Environmental Quality	GBP 1.88m	5.6%
Transport and Infrasrtucture	GBP 21.27m	62.9%
Culture, Tourism and Leisure	GBP 0.91m	2.6%



Considered from this perspective the resources that the local authority are able to put to direct economic development purposes are small. By far the largest expenditure is on roads, including GBP 5.8m on the City Ring Road and GBP 2.4m on a new access to facilitate the redevelopment of Salts Mill.

There is a clear attempt to target this expenditure on schemes which are considered important for economic reasons on the assumption that accessibility is an important factor in development. The other significant area of spending is training. Important though this is it is dwarfed by the authorities responsibilities for Education in schools and further education colleges.

#### **4. Changing the Culture of the Authority**

Once Bradford had taken the decision to become more market orientated a huge training programme was undertaken. Every senior officer in the Authority (several hundred in total) were put through a programme of training known as "Training for excellence". These courses took senior staff out of the office for considerable periods. Every other member of staff received a two day training course followed by regular refresher training. This is in progress now. The political element of the Council also receive training in different degrees.

The aim of this training is to equip the officers of the Authority to cope with change. The Local Authority world is no longer the comfortable place it was. If stability and conservatism were the hallmarks of the past the new world is characterised by uncertainty and constant change. The new ethos is one of taking risks and enabling officers to feel comfortable doing it. Assessing risks, taking chances, making mistakes and withdrawing quickly when you do, are new managerial skills that have to be learned if the organisation is to function effectively and efficiently.

The new approach to Local Government administration which the City of Bradford embarked upon involved a complete change in the "culture" of the bureaucracy. The traditional model of Local Government bureaucracy is of a hierarchical pyramid with a manager at the top, various levels of junior managers below and

with the officers, who are actually involved in dealing with the public forming, the base. In this model the most important figure in the organisation is the manager at the top. The culture is one of control. The manager at the top controls the administrative processes through a hierarchical chain of command and the staff at the base of the pyramid feel constrained to respond to demand of the administrative system within which they work. The hallmarks of such a culture are inflexibility, rigidity and resistance to change.

Such structures are introverted in so far as the working culture is one of responding to the needs of the organisation and tackling problems as seen from the top. Such an organisational culture does not encourage initiative or risk taking by front line staff.

The new Local Government culture evolved in Bradford seeks to invert the organisation pyramid. The new bureaucratic model makes the front line staff the most important people in the organisation. It flattens the hierarchical structure and makes lines of communication within the organisation shorter thereby increasing awareness and speeding response time between the various levels of the hierarchy and with those people who are the clients/customers of the organisation. In such a model the manager still provides the overall direction but his primary role is of facilitator. The task is to enable his staff to solve the problems they face in dealing with the client. The manager is perceived as a leader rather than a commander and one whose primary task is to engage in a service activity to enable staff to do their work more effectively and efficiently.

Such an organisational culture actively promotes experiment and initiative to improve the service given to the client. The hallmarks of such a culture are then flexibility, co-operation, trust, openness to change and willingness to take risks.

This outline of change in organisational culture is of necessity brief and perhaps oversimplified. However, the changing world within which Local Government has to operate makes it imperative that the people involved in its administration and operation are trained and equipped to deal with this change. This is as true for the Polish Local Government officers as it is for the officers employed by the City of Bradford Metropolitan Council. Over the next few years the

most important people in Poland are going to be the Local Government officers sitting across the table from, and negotiating with, the owners of foreign capital. Their performance in securing what the country needs and expects will be closely bound up with their attitude and ability to adapt and respond to the challenges they will be faced with. The way in which they respond will be dictated by the culture of the organisation that employs them. Changing the culture of Government and Local Governmental organisations from a command structure to one which emphasises facilitating new activity is crucial to the change to a market orientated economy.

## **5. Conclusions**

Like most other local authorities in the United Kingdom, Bradford has become increasingly concerned about and involved in the processes of the local economy. As a major employer, though direct employment is being reduced by privatisation and competitive tendering; a significant landowner, though central government has pursued a policy of requiring local authorities to sell land and transfer housing stock to other organisations; and with a large budget to spend, despite the transfer of responsibilities to other agencies; the local authority has a significant impact on the local economy. Its room for manoeuvre is limited, however, by central government controls and requirements and national agreements. The use of this potential for local economic benefit is therefore limited.

Bradford, like other authorities has limited discretion to spend a relatively small amount on direct economic development measures. This has been increased by making partnership agreements with central government, private sector and voluntary organisations, in which the local authority takes a coordinating or facilitating role (often through the operation of its Planning and other responsibilities).

Indeed the first important conclusion to draw from the Bradford experience is the need to involve all the relevant agencies, local, regional and national government, statutory service providers, chambers of commerce and trade, education and training estab-

lishments at the very beginning of the preparation of a strategy for managing economic and structural change.

The activity of being involved in a common process of identifying the main problems faced by a region and the allocation of priorities for action, leads to a feeling of common ownership of the selected strategy to solve the problems identified. "Ownership" of the selected strategy for action tends to lead to a greater commitment and energy on the part of all the parties involved.

Bringing together all the parties involved and instituting a debate on a strategy for the future is essential if the strategy is to be workable and capable of implementation. Bids made for resources must be realistic, both in terms of the size of the bid and the timescales proposed. Schemes which are underbid or overbid or which have unrealistic timescales get short shrift from agencies who hold the purse strings and who have to choose between competing claims on their resources.

The second conclusion, which stems in part from the first, is that "attitude" is one of the keys to success or failure. An open receptive attitude to new ideas is essential if new economic opportunities are to be seized. Local Authorities must identify their strengths, their "unique selling points" and aggressively market themselves in the same way that General Motors or Philips do. They must go out and seek market opportunities rather than wait passively for the market to come to them.

At a micro level the attitude of staff within local authorities who provide services to others is vitally important. Mention has been made "Training for Excellence", which could, in its own right, be a topic for a whole conference. The concept of the manager must undergo a fundamental reappraisal in order that attitudes within the organisation do not impede the necessary change. The concept of the manager, not at the top of the pyramid as a commander, but at the bottom of an inverted pyramid, playing the role of facilitator, servicing the needs of his front-line staff in order for them to provide effective and efficient service delivery, was revolutionary in English local authority bureaucracy.

Some form of Excellence Training Schemes have been adopted in virtually every English local authority and is seen as an essential

part of any modernisation. Clearly the uncertain world that Local Government finds itself in Central and Eastern Europe can only get more uncertain and training to help to cope with the change is of fundamental importance.

There is no single way of encouraging economic reorganisation applicable to every region. Every set of local circumstances will give rise to different problems and to different strategies. In Bradford's case the ability to think flexibly, to learn from mistakes rapidly and to make changes as necessary gave the city an edge in the competition to "win" new enterprises into the area.

Experimental schemes may lead to unexpected advantages over and beyond the initial intention, as in the case of Bradford's tourist industry. The organisational capacity to capitalise on the unexpected is something that must be cultivated at the expense of the old bureaucratic rigidities. The role of the local authority is a vital one but it is a different role and a different type of local authority from the traditional model.

One of the lessons of Bradford's experience is that by adopting a flexible and collaborative approach the local authority can achieve much more than limited statutory powers would suggest. No one policy is going to solve what is a complex and continually changing situation. Economic restructuring is an ongoing process, in a world of rapid change new approaches to new problems will always be needed.

Whether Bradford has had more or less success than other authorities is difficult to judge. Unemployment rates have remained above both West Yorkshire and national averages, but they have not significantly worsened, at a time when employment in the local traditional industries has been in almost continual decline. Either Bradford has managed to keep pace with other authorities, or all of their activities have been of little significance in the face of the wider forces of economic restructuring in an international economy. However, the authority can claim some success in changing the image of the city. This success is recognised by the European Commission, which identifies Bradford as one city which has taken conscious decisions to improve its image and benefitted accordingly

(Commission of European Communities 1991). It has attracted major national museums, such as the National Museum of Photography, and played a significant role in developing the local tourist industry, through its active promotion of the city. It must have been very heartened when a study of the best cities to live in, placed Bradford sixth in the United Kingdom (Rogerson et al 1988). Particularly important were the good retail facilities, access to areas of high scenic quality and the low cost of living. Manchester was 30th, London 34th, Birmingham 38th and Leeds, Bradford's rival, 27th.

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## **Regional policy and small firm support. The view from North West England**

This paper is divided into two main sections. The first part briefly traces the history of regional assistance in Britain since the 1930's and points out the differences in approach taken by Labour and Conservative governments. The second part takes North West England as a case study and demonstrates what type of assistance is available from both national and local sources particularly for small and medium-sized enterprises. It concludes that Labour governments have always shown more commitment to the regional problem largely because it is Scotland, Wales and the north of England which provide the party with most of its electoral support.

A regional problem was first identified in Britain in the 1920's and 1930's when, as a result of the great crash of capitalism, unemployment rose at differential rates in different regions. Initially official encouragement was given to workers to migrate to other parts of the country in order to find a job (a policy which found favour once again in the 1980's when Norman Tebbit exhorted those without jobs to "get on their bikes").

In the thirties and again in the eighties migration on a scale large enough to "solve" the regional unemployment problem proved im-



possible, largely because of the very important mobility constraints related to the social fabric of the society in which people had lived the formative years of their lives. People are not like capital: it is wrong to try to insist that because some are willing to move the unwilling ones should go as well. Another factor comes into play here which is that policy makers and academics have a completely different perception of places, especially distant places, than people who have spent their lives in one place often doing a job which is very place-specific, such as shipbuilding or the manufacturing of textiles. Interestingly, one group of British workers who have been very mobile are coal miners. Perhaps this has something to do with the affinity which is to be found both within and between mining communities. So policies designed to encourage workers to follow work have some value but the policy has severe limitations.

This limitations include the underuse of fixed capital such as housing and the necessity to build new dwellings in the relatively more prosperous areas. Further it is the younger, more ambitious people who consider it worthwhile to take a gamble. The regions they leave are deprived of their potential which adds to the already depressed atmosphere.

Following studies undertaken by the government into conditions in some of the worst hit areas where, typically, unemployment exceeded 40%, a new policy was introduced which was directly interventionist.

Essentially it was the public sector to create jobs and enhance the self-respect of individuals who found themselves living in areas where the prospect of getting a job through the private sector was non-existent. The special Areas (Development and Improvement) Act of 1934 led to the creation of trading estates on which were built advance factories, investment in programmes of public works such as road building and, because it was Britain, the setting up of a Royal Commission of Enquiry into the Distribution of the Industrial Population which reported in 1940 and was hugely influential during the post second world war reconstruction.

In the immediate aftermath of the second world war Britain had a Labour government elected on a mandate to provide the framework

for a new society. The economic effect of the war had been to reduce unemployment to zero and introduce women into the workforce (in some regions for the first time in anything like large numbers, although in the North West mill work for women had been commonplace since the introduction of the factory system). It also produced a fierce determination in the nation generally that there would be no going back to the conditions of the thirties.

The pre-war Special Areas Legislation was scrapped and replaced by the 1945 Distribution of Industry Act which itself was based on the 1940 report of the Barlow Commission which had concerned itself with strategic in addition to economic and social issues. Development Areas were identified which contained within their boundaries the Special Areas (which had been rather tightly defined) as well as adjacent areas in order to produce continuous and compact regions deemed to be more suitable for economic development.

Direct intervention included:

1. Building factories.
2. Making loans to industrial estate companies.
3. Making provision for basic public services such as transport, housing, and health to make the areas more attractive to prospective industrialists.
4. Reclamation of derelict land.
5. Grants or loans could be given for schemes that were commercially sound but for which there was no other source of funding.

Another important control mechanism was introduced in the Town and Country Planning Act of 1947. This was the Industrial Development Certificate which had to be obtained for all new factories or factory extensions of over 500 square metres. Clearly this was a negative form of control but it meant, in practice, that industry could be directed to the Development Areas and stopped from locating in fully employed areas.

In 1960 the Local Employment Act abolished the Development Areas and also the concept of balanced economic development. The notion of the region as a geographical area within which solutions would be found was replaced with the notion of the locality. To some politicians the new approach was attractive because it appeared to target need more precisely. Districts, sometimes very small districts, were now the spatial unit and in order to be a beneficiary of the new system unemployment had to have reached 4.5%. Yes, 4.5% - how times have changed!

Most of the old Development Areas were included in the new legislation but some areas got in whose claims for assistance were much weaker than those of the older industrial regions. Holiday resorts with seasonal unemployment were now competing with places where the staple industry had recently closed. Some districts were so small that although the rate of unemployment might be 4.5%, the numbers involved were frequently less than 200 people. Rather quickly it became apparent that the targeting policy was inappropriate and in the ferment of the sixties regionalism became all the rage.

To some extent the strengthening of the regional notion was linked to the re-emergence of the Labour Party as a political force after being out of office since 1951. Much the Labour Party's support was and still is in South Wales, Scotland, the North East, the North West and Yorkshire, precisely the areas suffering from severe economic problems, although unemployment did and still does vary within the regions themselves.

Soon after the Labour government was elected in 1964 it established Economic Planning Councils in each region - the prosperous as well as the less prosperous - whose members were drawn from local government, industry, the trade unions, the universities etc., and who had ties to the region and a detailed knowledge of it. The Councils were given wide terms of reference. These amounted to a concern with the total welfare of the region - not only with the state of unemployment, but with the associated provision and standard of housing, education, health and hospital services, transport facilities, the need for urban renewal, the siting of overspill population, rela-

tions between industry and universities and so on. The Council brought together the economic and physical sides of planning. Moreover it was charged not only with examining the present structure of the region, but with providing central government with a regional assessment of proposed (or existing) government policies and with studying future developments and needs in terms of population, jobs and housing.

The Economic Planning Boards consisted of the regional officers of central government whose remit was to help the Council in its task and to ensure that the plans of the various government departments were co-ordinated at the regional level. These structures were new and potentially exciting but they were flawed from the start. The Councils were advisory and non-elected and while they succeeded in producing regional studies in truth they did no regional planning because executive power remained with central government on the one hand and with local government on the other.

Prestwich and Taylor (1990) note that in keeping with party "tradition" and economic philosophy the incoming Conservative government initially sought to shift regional policy from the labour subsidy and investment grant approach to one of tax allowances for companies. However, within two years unemployment had risen to over 1 million and the economy was firmly in recession. The Industry Act (1972) represented a complete political turnabout, for it abandoned the tax incentive approach and reverted to grant payments. The Act set the framework for the rest of the decade including the period of the Labour administration from 1974 to 1979.

The Labour government increased financial assistance to the regions and reduced the Industrial Development Certificate thresholds to 465 sq metres in the south east, 930 sq metres in other non assisted areas and retained the level at 1,395 sq metres in Intermediate Areas. In all other assisted areas IDCs were, of course, not required. It introduced Temporary Employment Subsidies to try to stop further increases in unemployment and in 1975 another Industry Act was passed which paved the way for the government to enter into planning agreements with major companies and set up the National Enterprise Board which could lend investment capital to industry,

buy equity shares in companies and even assist firms who were in danger of closing. Unemployment continued upwards because the British economy was in competition with the rest of the world and was losing out to the newly industrialising countries in south east Asia as well as to Japan and closer neighbours in Europe. Monetary policies were introduced in 1976 and the Labour government started to cut public expenditure.

One positive step was taken in 1976, namely the creation of Development Agencies for Scotland and Wales which proved to be very effective in restructuring the economies, clearing derelict land and improving infrastructure. Many times since 1976 there have been calls for similar agencies in the English regions but they have fallen on deaf ears.

In spite of a strong political commitment to the regions the Labour government, with no overall majority in parliament, was forced into accepting that growth anywhere was better than no growth and so, even before the advent of Thatcherism in 1979, new "high tech" industries were locating mainly in London and the south east.

The Thatcher government was determined from the outset to revert to the policies which had been tried in 1970 but quickly abandoned. Instead of experimenting for two years the experiment this time has lasted for thirteen! Government assistance became spatially more narrowly based, emphasis shifted towards urban areas - although, in passing, it is worth noting that the process had started in 1978 under the Labour government with the passing of the Inner Urban Areas Act. Urban Development Corporations in London Docklands and on Merseyside were introduced in 1981 along with Enterprise Zones. Both were designed to reduce the amount of planning control exercised by local government and create conditions in which "enterprise" (the new "in" word) would flourish.

On the regional front the government abolished the Regional Economic Planning Councils and abandoned Industrial Development Certificates as a method of controlling industrial development. The areas eligible for regional assistance were substantially reduced and the proportion of the working population living in assisted areas was cut from 43 to 27 per cent. The government did not slim down

the assisted areas as much as it ideologically would have liked because too many would have failed to qualify for European Regional Assistance. Under the weight of these policies British industry started to decline more rapidly than before. In total over 2,000,000 manufacturing jobs were lost between 1979 and 1986 and unemployment reached 13.5% in 1986, in spite of over 20 redefinitions of "unemployment" British industry and, by implication, the British people were constantly being reminded throughout the eighties that there was no alternative.

With the decline in basic, large scale industry the emphasis shifted to the encouragement of small firms. Regional Development Grants were abolished in 1988 but Development Areas and Intermediate Areas still exist and certain firms benefit from grants and loans.

It is clear that the public sector in Great Britain at both central and local government level attempts to assist industry in a wide variety of ways. The rhetoric of Thatcherism was out of step with reality. Throughout the 1980's the private sector received substantial help through such measures as local tax relief and grants on capital equipment. Whether there has been any coherent policy during the last ten years is open to debate but without question there has been a lot of interference. It is extremely important to stress at this point that an economic strategy must be accompanied by an effective industrial and social policy. In effect all governments interfere because the so called freemarket while creating wealth distributes it very unequally to individuals and to regions. One element in the industrial structure which has received considerable amounts of attention is the small and medium-sized enterprise and it is to this issue which we now turn.

### **The small and medium-sized enterprises (SMEs)**

SMEs dominate the British employment landscape. Since the early 1980's very large firms have been reduced in size partly by increased productivity, which has inevitably led to fewer people being employed, but mainly through the effects of yet another industrial recession which arguably has been deepened by the lack of understanding of the workings of the economy by the advisors of the con-

servative central government. Some have gone out of business altogether while others have been split up into smaller operating units resulting from takeovers or company restructuring. Small firms have continued to be championed as saviours of the economy and in purely numerical terms they completely dominate the British industrial structure. In 1986, for example, 96.4% of the 2,471,000 businesses in the UK employed less than 20 people but they accounted for only 35.9% of total employment while the 1000 firms (in round figures) which contributed less than 0.1% to the total number of firms accounted for 18.2% of total employment. These figures do not include local and central government employees.

David Storey (1983) has commented that political support for small firms came dramatically to the fore when the Conservative government took office in 1979 but he considers it ironic that a political party which stands by a free market philosophy should seek to intervene and to assist (and possibly subsidise) that very bastion of free enterprise, the small firm. Most of the effort in the early 1980's was aimed at small manufacturing firms because manufacturing was considered basic. The multiplier effect was thought to be greater in manufacturing firms than in the service sector and finally the promotion of small firms was seen as part of the restructuring of the British economy, away from an over-dependence on a small number of very large firms.

In a recent paper (Hughes 1991) has argued that new business formation in the 1980's in the UK has led to a significant increase in the number of businesses in the service sectors but to a much less significant increase in manufacturing and production. He goes on to add that official analyses based on the raw Census of Production data and on movements in small firms' shares have been misleading guides to changes in the scale of small business activity in manufacturing - the former because of changes in census coverage of small businesses and the latter because the changes in shares reflect stability or decline in employment in small businesses combined with major losses by larger businesses. Such increases as have occurred in the numbers of small businesses in the economy as a whole and in manufacturing have been of the very smallest sizes. It

is difficult to disagree with Hughe's conclusion that if the smaller business is to hold the key to the future the most pressing issue is not so much how to generate new business start-ups but how to create an economic environment in which expanding firms can make the necessary transitions in overcoming financial, managerial and other barriers to growth, and established maturer small businesses which can maintain their competitive position. What type of help is available?

### **Assistance available nationally in 1992**

The Enterprise Initiative of the Department of Trade and Industry (DTI) is a package of advice for business. It is sub-divided into five main categories and it aims to increase competitiveness.

The **consultancy initiative** involves a two day free 'Business Review' leading to a recommendation as to the most appropriate assistance for the individual company. It is open to any UK based enterprise which has fewer than 500 employees - so it caters for more than just SMEs. Between five and fifteen days of specialist consultancy can be supported financially in the following areas: marketing, design, quality, manufacturing systems, business planning and financial and information systems. Central Government (the DTI) will normally pay half the cost of the consultancy but two-thirds if the firm is located in a Development Area.

The **export initiative** is operated by the British Overseas Trade Board on behalf of the DTI. The service is available to large and small firms and is relevant whether or not the firm is already involved in exporting its products.

The **regional initiative** provides extra help for companies in Assisted Areas (see figure 1). Three types of assistance are available under the regional initiative:

To qualify for **regional selective assistance** projects must be commercially viable, create or safeguard employment, demonstrate a need for assistance and offer regional and even national benefit. Clearly many projects, especially those put forward by small firms, will not qualify and service sector projects serving only a local market are not even considered.





**Regional enterprise grants** are available to small firms with fewer than 25 employees in Development Areas. The grants are given to help companies get started, modernise, expand, or diversify. Grants can help to finance viable projects for investment. The DTI will pay 15% of the costs of plant, equipment, and other fixed assets to a maximum grant of GBP 15,000 for projects in most manufacturing and some service sectors. The DTI will also provide grants for innovation and will pay 50% of the agreed project costs of improving products and processes or developing something new, to a maximum of GBP 25,000.

**Exchange risk guarantees** allow the repayment of loans to Europe in sterling with the government taking on the liability of exchange risk an annual service charge. Loans are available from the European Investment Bank to firms investing in projects which will secure employment in Assisted Areas, but as the minimum loan normally begins at GBP 7,000,000 with no maximum, SMEs are unlikely to benefit.

The **Enterprise and Education Initiative** encourages companies to play a part in shaping local attitudes. Companies are encouraged to offer work experience to pupils from local schools and take teachers on short term placements. The **Teaching Company Scheme** encourages companies to use universities and polytechnics to again expertise not available "in house".

The **Research and Technology Initiative** promotes collaborative research between commercial firms and higher education institutions. The DTI **Technology Transfer Programme** funds initiatives which promote the wider and better use of modern technology among independent companies with fewer than 500 employees. Grants are available covering up to 50% of costs up to a maximum grant of GBP 20,000.

### **Assistance for economic development in urban areas**

In the UK as a whole 57 urban areas are designated as **Urban Programme Authorities**. The Urban Programme is intended to help tackle the economic, environmental and social problems of the inner cities. It provides support for a wide range of projects submitted by local authorities as part of the Inner Area Programme for their district

Tab. 1. North West England - Employment 1989.

Employees in employment (thousands)				Percentage of employees in each industry group in 1989					
Total	Males	Females		Agriculture forestry &fishing Div.0	Energy &water supply Div.1	Manufacturing Div.2.4	Construction, distribution, transport & comm. etc. Div.8 & 9	Other services Div.8 & 9	
		Full-time	Part-time						
North West	2431.7	1284.3	642.4	505.1	0.7	1.8	27.2	31.7	38.7
Cheshire	388.7	215.8	98.3	74.6	1.5	3.0	28.7	33.4	33.5
Chester	55.1	24.8	15.7	14.7	2.5	6.1	7.6	38.1	45.7
Congleton	30.7	17.1	8.5	5.1	1.5	0.1	45.4	24.9	28.1
Crewe & Nantwich	39.6	23.2	9.4	7.0	2.8	1.2	32.8	35.9	27.3
Ellesmere Port&Neston	33.4	22.7	5.9	4.8	0.4	2.2	46.0	30.6	20.8
Halton	49.2	28.4	12.6	8.2			42.0	28.1	29.5
Macclesfield	64.0	32.9	19.0	12.1	1.9	1.6	25.4	32.2	38.9
Vale Royal	36.5	20.6	8.5	7.3	2.6	0.9	30.8	37.2	28.4
Warrington	80.1	46.1	18.7	15.3	0.4	6.9	21.1	35.7	36.0
Greater Manchester	1038.4	548.7	278.0	211.7	0.2	1.5	27.2	32.1	39.0
Bolton	100.0	51.4	25.7	22.9	0.2	1.6	31.3	33.5	33.5
Bury	51.4	26.2	14.1	11.2	0.3	0.4	34.8	27.7	36.8
Manchester	273.0	141.9	82.9	48.2			15.2	32.4	51.2
Oldham	81.4	43.2	22.8	15.3	0.2	1.0	40.8	30.1	28.0

Rochdale	66.8	36.4	17.6	12.8	0.3	0.8	35.9	33.9	29.1
Salford	93.1	49.7	22.9	20.5	0.4	1.5	22.6	31.9	43.6
Stockport	104.7	56.4	25.7	22.6	0.1	1.4	28.9	32.7	37.0
Tameside	72.9	38.0	19.5	15.4			38.7	28.1	31.5
Trafford	102.5	59.5	21.9	21.1			25.6	34.3	36.8
Wigan	92.6	46.0	24.9	21.7	0.3	2.3	31.3	33.6	32.5
Lancashire	519.7	278.0	136.7	105.1	1.5	2.0	31.4	30.4	34.7
Blackburn	56.7	31.3	15.3	10.0			42.1	26.6	30.3
Blackpool	52.8	24.0	14.7	14.2			13.7	41.1	43.5
Burnley	38.8	20.6	10.9	7.3			44.0	25.4	29.3
Chorley	27.5	14.2	7.3	6.0	1.4	1.6	26.8	38.6	31.6
Fylde	34.2	20.6	8.6	4.9	1.7	8.9	32.4	21.9	35.1
Hyndburn	27.0	13.6	7.6	5.9	0.4	1.1	41.9	29.4	27.3
Lancaster	41.7	21.4	10.0	10.3	1.9	6.0	14.5	33.7	44.0
Pendle	30.8	16.9	7.7	6.1	0.5	0.3	53.9	18.2	27.1
Preston	74.5	38.4	21.7	14.4	0.5	1.4	19.6	35.2	43.3
Ribble Valley	15.2	8.9	3.5	2.7	4.2	1.8	30.0	30.9	33.1
Rossendale	22.7	11.7	6.7	4.3	0.6	0.4	46.4	25.4	27.2
South Ribble	35.6	23.5	6.1	6.1	2.3	2.0	42.8	30.8	22.1
West Lancashire	34.8	18.9	9.1	6.8	7.2	0.6	32.7	26.5	33.0
Wyre	27.4	14.1	7.4	6.0	2.8	0.3	24.0	31.1	41.8
Merseyside	484.9	241.8	129.3	113.7	0.2	1.4	21.3	30.8	46.4

Tab. 2. Lancashire - Unemployment December 1991

Travel to work area	MALES		FEMALES		TOTAL		YEARLY CHANGE		MONTHLY CHANGE	
	No.	%	No.	%	No.	%	No.	%	No.	%
Accrington/Rossendale	3535	10.7	1052	3.9	4538	7.6	1454	46.2	412	9.8
Blackburn	5537	12.9	1345	4.4	6882	9.4	1434	26.3	145	2.2
Blackpool	8974	11.4	2381	3.7	11355	8.0	2135	23.2	912	8.7
Burnley	2794	9.9	831	4.0	3625	7.4	622	20.7	-9	-0.2
Clitheroe	341	5.5	146	3.3	487	4.6	191	54.5	4	0.8
Lancaster	3981	13.2	1191	5.1	5172	9.7	1114	27.5	191	3.9
Pendle	2075	9.1	609	3.8	2584	6.9	647	31.9	74	2.8
Preston	9775	9.2	2733	3.8	12508	7.0	3249	35.1	532	4.4
Liverpool	56449	20.5	15152	7.2	71601	14.7	7858	12.3	537	0.8
DISTRICTS										
Blackburn	5303	14.2	1253	4.8	6556	10.3	1347	25.3	140	2.2
Blackpool	6053	16.5	1595	5.6	7659	11.7	1303	20.5	721	10.4
Burnley	2764	11.5	819	4.5	3583	8.5	612	20.5	-14	-0.4
Chorley	2222	8.1	807	4.4	3029	6.6	855	39.3	94	3.2
Fylde	1041	5.5	291	2.2	1332	4.1	396	42.3	113	9.3

Hyneburn	2152	9.7	699	4.3	2950	7.4	970	51.6	316	12.5
Lancaster	3984	12.5	1205	5.4	5189	9.5	1101	26.9	192	3.8
Pendle	2075	9.0	609	3.7	2684	6.8	647	31.8	74	2.8
Preston	5067	15.0	1171	4.8	6229	10.7	1365	28.1	217	3.6
Ribble Valley	637	4.5	254	2.6	881	3.7	336	51.1	28	3.2
Rossendale	1699	9.4	469	3.6	2158	7.0	614	39.5	104	5.0
South Ribble	2246	7.9	577	3.3	2923	5.0	883	43.3	186	6.8
West Lancashire	3590	11.9	1242	6.1	4832	9.5	1195	32.9	144	3.1
Wyre	2099	8.2	553	3.0	2652	6.0	526	24.7	97	3.8
Central Lancashire	13115	10.9	3897	4.7	17012	8.4	4298	33.8	641	3.9
North Lancashire	13187	11.6	3645	4.4	16832	8.6	3325	24.6	1123	7.1
North East Lancashire	14630	10.6	4102	4.1	18732	7.8	4528	31.9	648	3.6
LANCASHIRE	40932	10.9	11644	4.2	52576	8.0	12152	30.1	2412	4.8
North West England	239257	13.3	67572	5.2	305839	10.1	58597	23.6	6410	2.1
Great Britain	1879041	11.9	571416	4.8	2450457	8.8	695646	39.6	79430	3.4

Sources: UNEMPLOYED NUMBERS (All Geographic Areas) - Department of Employment.

UNEMPLOYMENT RATES:

Travel To Work Areas: Lancashire, North West England and Great Britain - Department of Employment; Lancashire District and Lancashire Sub-Regions - County Planning Department.

District and Sub-Regional unemployment rates are calculated by the County Planning Department using as the denominator of the areas being considered 1985 based workforces, including estimates for the self-employed. All other rates are produced by the Department of Employment using the broad-based workforce estimates that have been compiled using the Census of Employment results, incorporating employees in employment as well as self-employed and H.H. Armed Forces. The unemployment rate estimates provided for the Sub-Regions. Districts and wards have been produced to be as directly comparable as possible with the broad-based Travel To Work Areas. County, Regional and National official figures.

Tab. 3. Total Number of Units (U) and Employment (E) by Sizeband (Number of Employees) in North West England in 1987

Sizeband	1-4		5-24		25-99		Over 100		Total	
	U	E	U	E	U	E	U	E	U	E
Cheshire	8222	18816	7813	82649	1734	79950	553	172732	18322	354147
Greater Manchester	22914	51894	20780	215575	4831	220825	1579	527290	50104	1015584
Lancashire	12006	26848	10109	102488	2057	95505	711	256492	24883	481333
Merseyside	9850	23619	10368	106884	2302	102777	664	243648	23184	476928
Total	52992	121177	49070	507596	10924	499057	3507	1200162	116493	2327992

Source: Nomis

Tab. 4. Percentage of Units (U) and Employment (E) by Sizeband (Number of Employees) in North West England in 1987.

Sizeband	1-4		5-24		25-99		OVER 100			
	U	E	U	E	U	E	U	E	U	E
Cheshire	44.9	5.3	42.6	23.3	9.5	22.6	3.0	48.8	100.0	100.0
Greater Manchester	45.7	5.1	41.5	21.2	9.6	21.8	3.2	51.9	100.0	100.0
Lancashire	48.2	5.6	40.6	21.3	8.3	19.8	2.9	53.3	100.0	100.0
Merseyside	42.5	5.0	44.7	22.4	9.9	21.5	2.9	51.1	100.0	100.0
North West	45.5	5.2	42.1	21.8	9.4	21.4	3.0	51.6	100.0	100.0

Source: Nomis

**Tab. 5.** Total Number of Units (U) and Employment (E) by Sizeband (Number of Employees) in North West England in 1989

Sizeband	1-4		5-24		25-99		100+		Total	
	U	E	U	E	U	E	U	E	U	E
Cheshire	10026	22469	8956	92697	2018	91716	564	176172	21566	383055
Greater Manchester	26297	59236	22664	235146	5269	237368	1620	504865	55849	1036615
Lancashire	15657	35563	11683	117103	2200	103183	729	256354	30269	512203
Merseyside	12087	28176	10496	107785	2424	106582	671	241502	25677	484045
North West	64068	145444	53798	552731	11911	538849	3584	1178893	133361	2415918

Source: Nomis

**Tab. 6.** Percentage of Units (U) and Employment (E) by Sizeband (Number of Employees) in North West England in 1989

Sizeband	1-4		5-24		25-99		Over 100		Total	
	U	E	U	E	U	E	U	E	U	E
Cheshire	46.4	5.9	41.5	24.2	9.3	23.9	2.6	46.0	100.0	100.0
Greater Manchester	47.1	5.7	40.6	22.7	9.4	22.9	2.9	48.7	100.0	100.0
Lancashire	51.7	6.9	38.6	22.9	7.3	20.1	2.4	50.1	100.0	100.0
Merseyside	47.1	5.8	40.9	22.3	9.4	22.0	2.6	49.9	100.0	100.0
North West	48.0	6.0	40.3	22.9	8.9	22.3	2.7	48.9	100.0	100.0

Source: Nomis



and, in particular, it provides funding to enable local authorities to make assistance available for private sector projects which contribute to the economic development of inner city areas. Funds under the **Urban Programme** are provided by central government and dispensed by local authorities. Loans or grants can be made available for environmental improvements to land and buildings and for the construction of access roads and parking spaces. Grants of up to 50% can be made for converting, extending, improving or modifying industrial buildings and converting other buildings to industrial or commercial uses.

### **The North West**

The geographical area known as **North West England** includes the counties of Lancashire, Cheshire, Greater Manchester and Merseyside. In 1989 it had a total population of 6.38 million, a working population of 2.43 million of which 660,960 (27.2%) were out of work (Tables 1 and 2).

If we refer to Table 1 a broad picture of the employment structure of North West England arranged by local authority area can be seen. A slightly higher percentage of the labour force is in manufacturing industry than in England as a whole and a slightly lower percentage in other services. As one might expect there is a wide variation between different local authority areas. Chester, somewhat improbably, has only 7.6% in manufacturing while Pendle in the north east of the region has 53.9%. Major administrative centres such as Manchester, Liverpool and Preston score heavily on the non-manufacturing sector.

The Census of Production carried out by the Department of Employment is available on line from the University of Durham. The data set is known as the National On-line Manpower Information System (NOMIS). Sizeband data is available and is presented in tables 3 - 6 by local authority area. Overall it can be seen that between 1987 and 1989 the percentage of firms in the smallest sizeband (1 - 4 employees) increased from 45.5 to 48.0 and the employment share went up from 5.2 to 6.0. Amongst firms in the largest sizeband (over 100 employees) the percentage of units fell from 3.0 to 2.7 and the

employment share went down from 51.6 to 48.9. No less than 88.3% of units in 1989 were in the sizeband 1 - 24 but they employed only 28.9% of the labour force. The manufacturing sector has more people working in larger units and in 1989 - some 61.2% were employed in units of over 100.

It is necessary to appreciate that within the North West of England (excluding Cumbria) the travel to work areas (TTWA) of Liverpool, Widnes and Runcorn, Wigan and St Helens, and Wirral and Chester have Development Areas status while the TTWAs of Blackburn, Accrington and Rossendale, Bolton and Bury, Oldham, Rochdale and the northern part of Manchester are designated as Intermediate Areas. Fifteen towns and cities in the north west are Urban Programme Authorities while the Burnley and Pendle TTWAs qualify for European Regional Development Fund assistance. Certain extra benefits accrue from being in one or other of these assisted areas.

### **Lancashire**

As an example let us now examine the assistance which is currently available to people running small businesses in one area of North West England, namely the county of Lancashire. At the outset it is important to note that assistance is not available to all sectors of the economy and assistance is spatially differentiated partly by central government designation and partly because local government acts on its own initiative so that differential help is available in adjacent areas. In fact, from time to time, local authorities, especially those controlled by the Labour Party, have confronted central government by devising policies to support existing local industries which have been threatened by the effect of actions taken in Westminster. In this connection we can mention the Economic Development Units created by a number of the Metropolitan County Councils in the period 1981 to 1986 which actually purchased equity in firms which were in short-term financial difficulties.

Within Lancashire there are many organisations ready to provide assistance and we can start with **Lancashire County Enterprises Ltd** which is controlled by **Lancashire County Council** and managed by

**Lancashire Enterprises plc**, a management and consultancy company which undertakes economic development contracts throughout the UK and Europe (including Poland). Lancashire County Enterprises is responsible for financing the assistance of industry (large and small) through and a wide ranging business support package.

Small firms, which are the biggest providers of new employment, can take advantage of the **Lancashire Rosebud Fund**, the **Lancashire Rural Investment Fund** and the **Lancashire Business and Innovation Centre**.

### **The Lancashire Rosebud Fund**

This fund provides small amounts of risk capital for commercially viable businesses (clearly a judgement has to be made about commercial viability which demonstrably is difficult with new start-ups) that would otherwise have difficulty raising funds in the conventional way through bank lending. Investments of up to GBP 25,000 are made in the form of any combination of equity, loans and bank guarantees to suit individual businesses. Normally the fund seeks a variable return on its investment related to the performance of the business rather than a fixed rate of interest. The fund considers investments in limited companies, sole traders, partnerships and co-operatives but it is not a source of "soft" finance - it does not give grants.

### **The Lancashire Rural Investment Fund**

The Lancashire Rural Investment Fund was established by Lancashire Enterprises to promote the establishment of small businesses in the rural areas of Lancashire and is managed together with the Lancashire Rosebud Fund. It is similar in all respects to the Rosebud Fund except that there is an upper limit of GBP 8,000 on investments.

### **The Lancashire Business and Innovation Centre (Investments) Ltd**

This Fund is designed to provide 'seedcorn' capital for innovative businesses. Investment is on commercial terms, the maximum amount being GBP 50,000.

## Local sources of financial assistance and business advice

All the fourteen District Councils in Lancashire offer free advisory services and information, especially on sites and premises. Each Council has set up an Economic Development Unit to help and support existing businesses and to attract inward investment from both the United Kingdom and overseas. Ten provide a variety of schemes providing financial assistance. Each council has devised its own unique package of help and, as an example, we may take the case of Blackburn.

### Blackburn

Blackburn has a **grant and loan guarantee scheme** which provides financial assistance for business start-ups or existing businesses within the town. The following criteria apply:

1. The scheme is restricted to firms employing up to 25 people.
2. Retail establishments are excluded.
3. Support up to a maximum of GBP 5,000 is possible.
4. Of the total requirement, 30% will be provided by way of directed grant with the remaining 70% being borrowed on loan account from one the participating banks.

For firms wishing to test the feasibility of all forms of new technology in the fields of design, manufacture, quality control and product testing. There is a **new technology grant scheme** of up to 66% (maximum GBP 2,000) of the total cost of the project. The projects are all carried out under the supervision of staff in the New Technology Centre at Blackburn College.

Blackburn, in keeping with many older industrial towns and cities, has designated two **industrial improvement areas**. Premises located in these areas may be eligible for grants or loans for the following purposes:

1. Converting, modifying, improving, or extending premises where the work will lead to the creation of new jobs or preserve existing employment.
2. Environmental improvements.

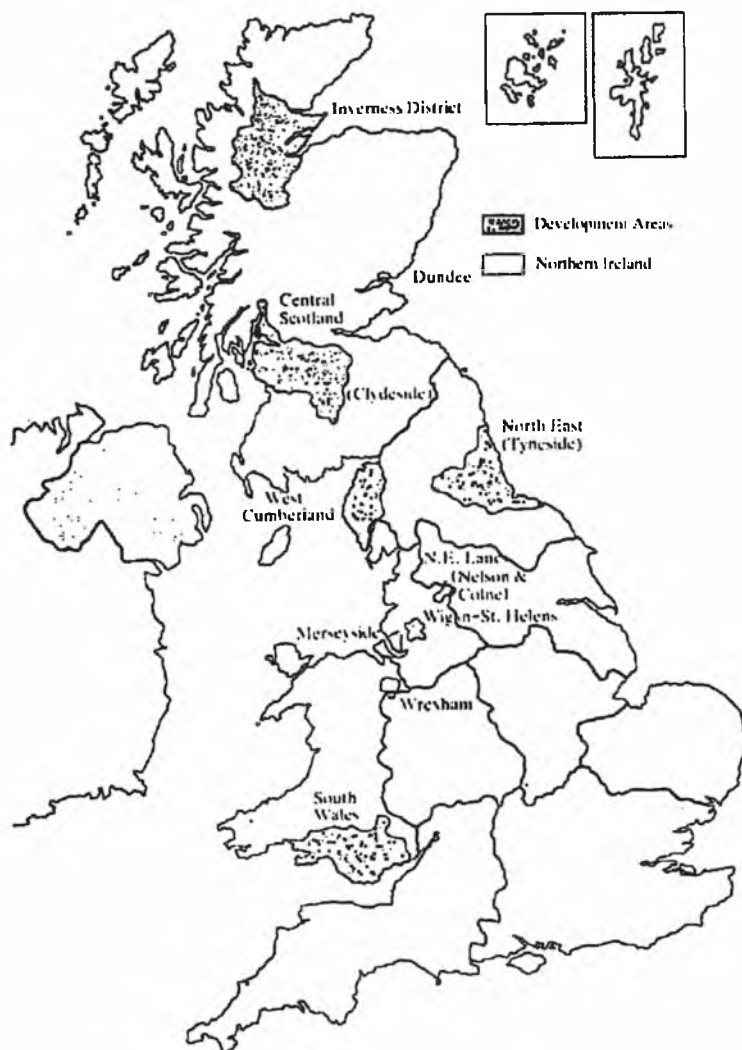
Through the Urban Programme the Council can offer small grants of up to GBP 1,000 towards the setting up of co-operatives

It can be seen that there is a very extensive range of grants, loans and general assistance available to SMEs. Sometimes the assistance is specifically targeted at start up firms, sometimes, as we have seen, assistance is available only in intermediate or development areas but what is abundantly clear is that the British Conservative government, the champion of the free market economy, in fact interferes on a massive scale making a nonsense of its own ideology.

After more than 50 years of government assistance, regional inequalities still persist with the north and west consistently registering above average levels of unemployment. Under Thatcher's leadership regions were expected to "stand on their own feet" and Conservatives have tended to decrease intervention and argue for a more "laissez-faire" approach. The Labour Party has been consistently in favour of intervention and would - if it had a chance - to strengthen regional support after April 9th.

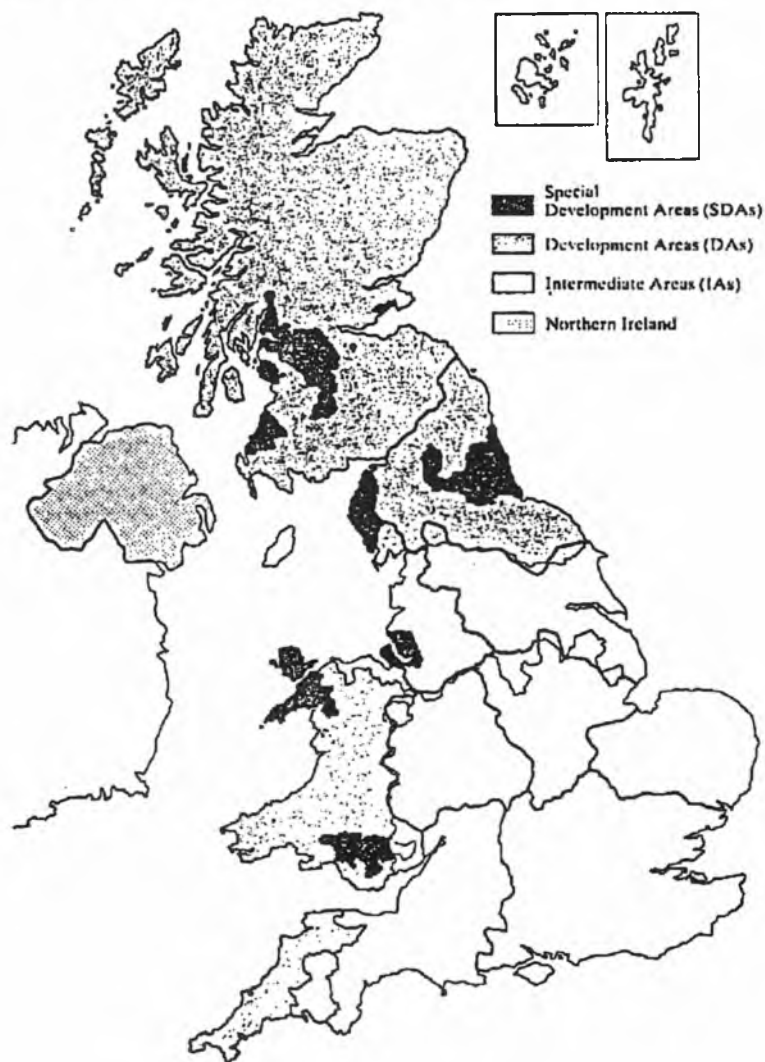
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**Figure 2.** United Kingdom: Special Areas 1934-1945

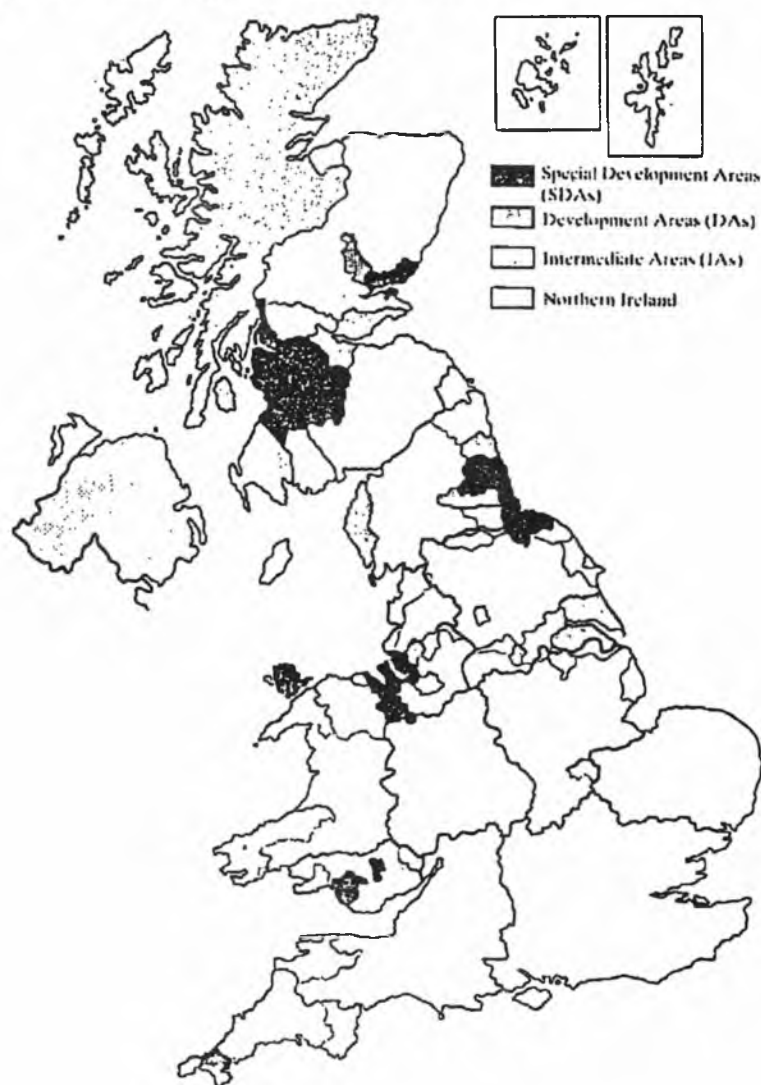
Source: Prestwich and Taylor (1990).

Figure 3. United Kingdom: Assisted Areas 1966-1971



Source: Law (1980).

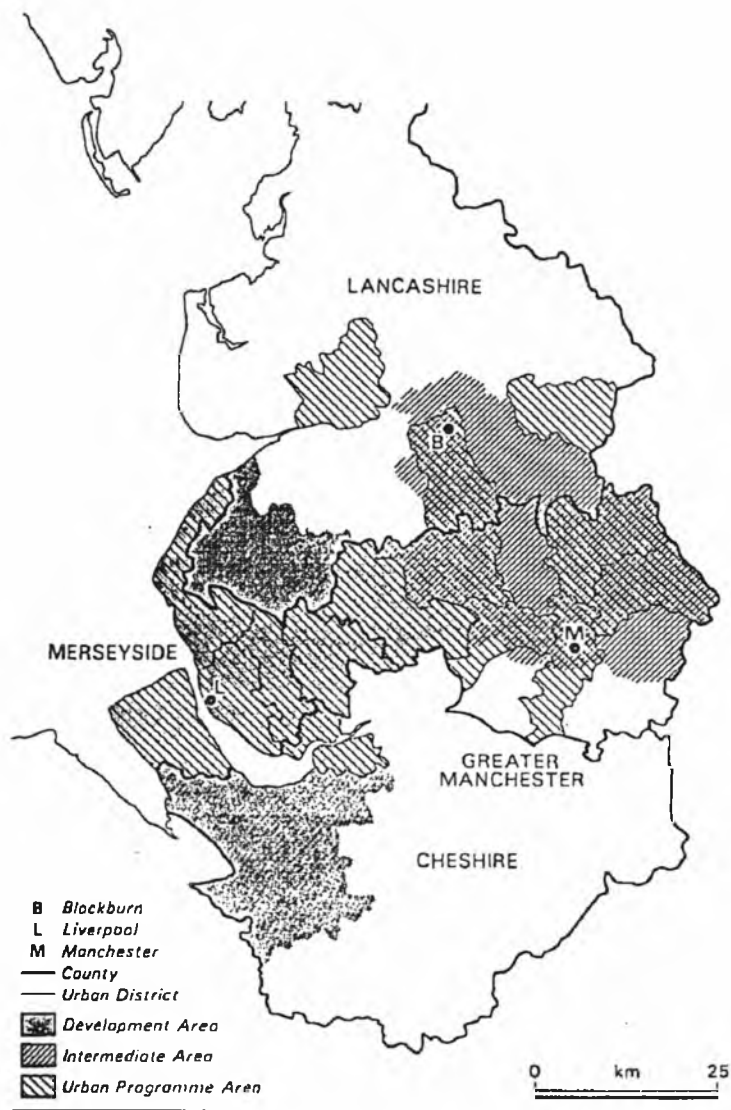
**Figure 4.** United Kingdom: Assisted Areas 1982-1984



**Source:** Prestwich and Taylor (1990).

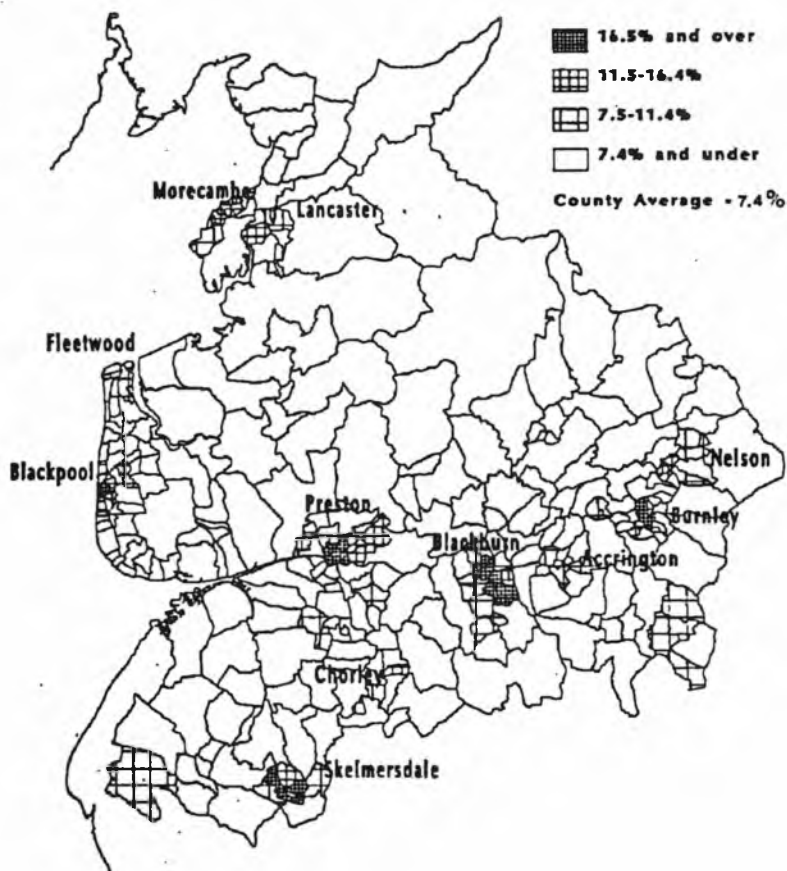


Figure 5. North West England: Assisted Areas 1992



Source: Department of Trade and Industry.

Figure 6. Lancashire: Unemployment Rates by Wards October 1991



Source: Lancashire County Council.

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## **Dublin: the creation of a regional problem**

### **Introduction**

Until recently, the character of the Irish economy was dominated by its colonial legacy. An over-dependence on agricultural exports, particularly to markets in the United Kingdom, resulted from the country's having been largely by-passed during the nineteenth century by the industrial revolution. The Irish economy is therefore unlike many other west European economies where industrial restructuring has involved employment losses in industries which were at the forefront of the industrial revolution. Nevertheless, restructuring has been a constant and painful process in the Irish economy since the early nineteenth century.

Following decades of restructuring out of agriculture, involving slow industrialisation and the growth of employment in the services sector, many of the Republic of Ireland's industrial enterprises which had been carefully nurtured during years of protectionism were eliminated during the 1970's as a result of international competition following entry to the European Economic Community and the subsequent recession of the mid-1970's.

A high proportion of these industries were based in Dublin, and the city's economy was adversely affected by the resultant loss of jobs. Employment growth in the services sector in the Dublin area now also seems to be faltering and there are fears that the single

European market will have further negative ramifications for employment after 1992. Yet, regional development policy has historically discriminated against the capital and recent government policy has done little to alleviate the consequences.

As a small state (pop. 3,520,000) on the north-western periphery of Europe, not well endowed with natural resources, Ireland continues to face major economic problems. The completion of the Channel Tunnel will mean that Ireland will be the only country within the European Community which lacks direct road and rail access to its major markets. As the centre of gravity within the E.C. shifts eastward, Ireland faces the prospect of a growing degree of marginalisation.

## **Economic Background: The Transformation of the Irish Economy**

During the nineteenth and early twentieth centuries there were major structural changes in the rural economy. These resulted from an increasing level of modernisation and commercialisation of agriculture. Rural birth rates which were well above replacement levels also helped to generate a surplus labour force. However, unlike many other European countries, this surplus was not absorbed by the expansion of urban-based industrial employment opportunities.

In the eighteenth century, the Irish Parliament had used tariff barriers, subsidies and grants to encourage the development of industries in Ireland. By the start of the nineteenth century, Ireland possessed a level of industrialisation which was of a similar order to many European countries, such as Italy, Spain and Portugal.

The removal of all such tariffs, required by the Act of Union (1800) with Britain, exposed Irish industries to competition from more efficient British industry. This heralded a lengthy period of widespread de-industrialisation during the nineteenth century. The textile industry, which failed to adapt swiftly enough to the changing conditions of factory production, was particularly badly hit. While in 1841 there had been nearly 700,000 people engaged in the textile industry on the island, mostly in domestic production, this fell to 92,000 by the first decade of the twentieth century. By 1911, in the twenty six counties which were to become the Irish Free State, barely 13 per cent of the labour force was employed in industry (Kennedy, Giblin & McHugh, 1988).

The Great Famine of the 1840's had also been a significant turning point in the country's demographic history. In the century following the Famine, the size of the Irish population declined continuously, resulting mainly from high levels of out-migration. Over 5 million people emigrated during the period between the famine and 1921. By 1921, the population of Ireland was 4,354,000, barely half of what it had been 80 years previously, of whom 3,096,000 people resided in the 26 counties of the Free State.

The 1920's, 1930's and 1950's were years of depressed economic activity. A free trade policy favouring substantial farmers was pursued by the first post-independence government. This was abandoned during the 1930's in favour of protectionism to encourage industrial development. The fortunes of the Irish economy during the 1930's were dominated by the impact of the Great Depression and the Economic War with Britain, yet industrial production and employment grew significantly. As the world emerged from war to reconstruction and rapid economic growth, the Irish economy faced major structural problems. It remained a predominantly agricultural economy whose exports were destined mainly for Britain, which had one of the least dynamic economies in Europe, with inefficient industries operating behind some of the highest tariff barriers in existence. The immediate post-war period saw considerable manufacturing growth in Ireland, averaging over 9 per cent per annum between 1946 and 1951. However, industrial employment growth was insufficient to balance the continued drift out of agriculture, which lost 70,000 jobs between those years.

The 1950's are often described as a period of unalloyed economic stagnation. It was a decade marked by two major depressions, the return of emigration on a scale unseen since the 1890's, and an absolute decline in the population between 1951 and 1958 which was twice as great as during the whole period since Independence. By 1961, the total population of the Republic had fallen to only 2,818,000. Economic restructuring continued, reflected in the inexorable decline in agricultural employment. However, industrial employment also registered an overall decline during the decade. Only service sector employment expanded, and by 1961 it accounted for a greater proportion of the labour force than did agriculture.

However, during the 1950's the seeds were sown for a sustained period of economic expansion during the 1960's and early 1970's; Ireland's 'economic miracle'. It saw the establishment of the Irish Export Board, the Industrial Credit Company, the extension of the functions of the Industrial Development Authority (established in 1949) to include the encouragement of new indigenous industries and the attraction of foreign concerns. An export profits tax relief scheme was also established.

The First Programme for Economic Expansion (1959), covering the period 1959-1963, placed particular emphasis on the creation of non-agricultural employment. Moreover, it was now argued that if domestic capital proved insufficient to meet demand, it would have to be obtained from overseas. This was to be done via taxation relief on exports, capital and re-equipment grants and loans at favourable rates of interest. The First Programme was fortuitous in terms of its timing, the period being one in which it was relatively easy to attract footloose branch plants of trans-national companies. Economic growth was rapid during the 1960's and early 1970's, and the economy continued its transformation. Gross domestic product grew at an average rate of 4 per cent annually between 1961 and 1971.

Advances in the manufacturing sector were particularly significant. Manufacturing output grew by an average of 6.5 per cent per annum and employment in the sector expanded by 2.3 per cent annually and during the 1960's began to exceed the numbers employed in agriculture.

Between 1961 and 1971, for the first time since the founding of the state, the number of jobs created outside agriculture exceeded the number being lost in agriculture (Drudy, 1989). Manufacturing exports rose by an average of 23 per cent per year between 1958 and 1973, and almost matched agricultural exports by that year. The dominant role of the British market, which had accounted for 80 per cent of Irish manufactured exports in 1958, declined to under 60 per cent by 1972 as the E.E.C. became increasingly important as a destination for exports (Kennedy, Giblin & McHugh, 1988).

Although the rate of economic growth subsequently slackened, the G.D.P. rising by an average of 3.8 per cent during the 1970's and by less than 2 per cent during the early 1980's, economic restructuring continued. The proportion of national income accounted for by industry rose from 30 per cent in 1965 to 43 per cent in 1984, and the

sector's contribution to total exports rose from 37 per cent to 78 per cent (Walsh, 1986). Furthermore, market diversification continued, and by 1991 the British market accounted for less than 20 per cent of Irish exports.

But the opening up of the Irish economy and the attraction of investment from overseas has entailed undesirable consequences. They have resulted in a growing degree of dependency on foreign capital and rendered the Irish economy especially vulnerable to external shocks. By 1990, foreign owned companies employed over 90,000 people in the state, accounting for over half of all industrial output and for 75 per cent of industrial exports (Department of Industry and Commerce, 1990). This has transformed Irish industry into a branch-plant economy, highly susceptible to any adverse policies which might be pursued by trans-national corporations relating to the restructuring of production and employment internationally. Deepening integration with in the E.C. has limited the scope for governmental intervention. In particular, entry into the European Monetary System and the policy of making the Irish Punt track closely the international exchange movements of the Deutsche Mark has removed any real control over Irish interest rates.

**Table 1.** Employment by Sector (thousands)

	Agriculture	Industry	Services
1926	653	162	406
1936	614	206	415
1946	568	225	432
1951	496	282	438
1961	360 (380)	252 (259)	405 (414)
1971	272	320	457
1981	196	363	587
1986	168	301	606
1989	163	306	620

**Source:** After Kennedy, Giblin & McHugh, 1988; 1926-51 figures are based on Census of Population data; 1961-89 figures are based on labour force survey classifications. The figures in parentheses are values for 1961 when computed in the manner adopted for previous years.

## **Regional Policy and the emergence of Dublin's Unemployment Crisis**

Another development which dated from the 1950's was to prove of long term significance for Dublin's economic fortunes. The Undeveloped Areas Act of 1952 was the first in a series of measures designed to attract manufacturing industry to the Designated Areas, the twelve counties along the western seaboard with low incomes and a heavy dependence on declining agricultural industry and where there were few alternative employment opportunities. Clearly, Irish regional development policy was based on the criterion of spatial equity.

In pursuit of the policy of export-led industrial development, the Industrial Development Authority (I.D.A.) offers a range of discretionary aids to industry. These include capital grants, employment grants, grants to facilitate feasibility studies, research and development grants and training grants. The Authority has also developed industrial estates, selling or leasing premises to occupiers, and entered into arrangements with private developers to secure the development of industrial properties. Regional development has also been promoted by the I.D.A. through its regional offices and the provision of a network of industrial estates, advance factories and the development of special parks for heavy industry, technology, financial services, aerospace and food (Brennan, 1992).

Measures aiming to encourage regional development in underdeveloped regions included higher levels of grant aid to manufacturing industry in such areas, and these grants remained a permanent feature of Irish industrial policy over a period of thirty years.

This policy was very successful. Throughout the 1960's and for a greater part of the 1970's, development policy was to discriminate against Dublin. Of the net national gain of manufacturing employment over the period 1973-1989, some 98 per cent located in the western peripheral areas of the country (see Drudy, 1991). Simultaneously, Dublin recorded very significant losses. While there might have been a certain logic behind spreading development more widely in a geographical sense, the manner in which this was carried out was inappropriate. It was recognised that it might be advantageous to focus development at a limited number of "growth centres" which could promote local business linkages, create sig-



nificant economies of scale and local economic multipliers. Unfortunately, this strategy proved to be unacceptable to elected representatives from constituencies which would not have contained such a growth centre. A wholly unsatisfactory political compromise was therefore reached, whereby almost any town with a population of more than 2,000 persons was to be regarded as a potential growth centre.

Any attempt at serious economic spatial planning was thereby abandoned as every township asserted its rights to have an advance factory developed in its vicinity. With the exception of the Shannon area where a duty-free zone was established to facilitate export-oriented business activities, this compromise policy effectively dissipated any likelihood of creating long-term self-sustaining economic expansion outside the major cities of Cork and Dublin.

Moreover, the long-term effects of such regional policies on Dublin were dramatic, but have only slowly been recognised. Regretably, vociferous regional development lobbies have lured central government attention away from Dublin's difficulties, and these interests continue to be directed against the capital in an almost 'beggar my neighbour' attitude which erroneously perceives the city as having been favoured by government policies. For example, incredible though it may seem, it remains impossible to fly directly from Dublin to North America as all flights are required to set down in Shannon, in order to ensure the arrival of a steady stream of visitors in the west of Ireland.

Following decades in which investment incentives have discriminated against Dublin, regional policy has succeeded in equalising the problem of unemployment geographically. Indeed, if anything, Dublin now represents Ireland's regional problem *par excellence*.

### **As it is there that the major problem of Irish unemployment lies.**

In 1990, the rate of unemployment in Dublin was at a higher level than in any other region of the country except for in the remote north-west. Moreover, the number of unemployed in the city in that year almost matched the combined totals of the unemployed living in the south-west, west, mid-west and north-west regions of the country (Central Statistics Office, 1991). By 1992, unemployment in the city had risen to more than 20 per cent. It is estimated to

amount to over 35 per cent in the inner-city, which has fared particularly poorly during the past twenty years of economic restructuring, and surpasses 70 per cent in a number of working class residential areas. But in continuing to discriminate against the capital, politicians ran the risk of jeopardising the economy of the one area of the country which perhaps possessed sufficient critical mass to facilitate the development of a sufficient range of economic linkages to permit businesses to function successfully without subsidy on an openly competitive European stage.

## **Dublin's Changing Economic Base**

Dublin (pop. 1,024,400) is the capital of the Republic of Ireland, and is a primate city within the state, accounting for nearly 30 per cent of the total population. It is nearly twice as large as the combined total of the next four largest cities in the state.

It is the hub of economic activity in the state, being its largest industrial and commercial centre and the country's major port. It is the seat of the national government and accommodates most of the headquarters functions of state departments and semi-state organisations. It is also the cultural capital of the state with a thriving theatrical, musical and fine arts scene, and accommodates three universities. However, the past few decades have seen significant changes to Dublin's economic base. Employment in industrial activities expanded slowly throughout the 1950's and 1960's, reaching a total of over 120,000 jobs in the early 1970's.

The entry of the Republic of Ireland into the European Economic Community in 1973 brought important distributional consequences in terms of both geography and class. Large farmers benefitted through the operation of the Common Agricultural Policy, while in Dublin, with its older and less internationally competitive industries, the costs were borne by the urban working-class which experienced a substantial loss in industrial employment and high consumer prices for food. The decline in industrial employment resulted from a number of factors, only one of which involved E.E.C. membership and the opening up of the Irish economy to international competition. Others include changes in the technologies and intra-urban location of production, the re-structuring of local and of international capital, the depressed economic conditions which followed the oil crisis of 1973, and government regional policies which have

promoted industrial development outside the Dublin region, particularly in the depressed rural areas of the west.

During the 1970's, at a time when the industrial employment outside Dublin registered a net increase of nearly 48,000, the city experienced a net reduction of around 9,000 industrial jobs. If employment in "building and construction" is excluded, this reduction is even sharper, exceeding 13,500 jobs. Decline in manufacturing employment in the city has been continuous since 1971. It has been particularly severe in long established activities such as in food/drink/tobacco and the textiles/clothing/footwear sectors. In the latter sector, employment dropped by nearly 45 per cent between 1971 and 1981. In contrast, employment in more modern sectors, such as metals and engineering, grew during the 1970's by over 20 per cent, but even these have registered a decline during the subsequent decade (Dublin County Council Planning Department, 1988).

**Table 2.** Employment in Dublin

Sub-Region	1951	1961	1971	1981	1987	1989
Industry	101,715	108,000	122,000	112,900	84,000	82,700
Services	168,774	162,600	187,800	242,900	242,600	251,800

**Table 3.** Manufacturing Employment in Dublin, 1980-1990

	1980	1990	Net	Change (% change)
Non-metallic minerals	3,840	1,977	-1,863	-48.5
Chemicals	4,199	3,898	-301	-7.2
Metals and engineering	20,676	16,509	-4,167	-20.2
Food	15,510	8,243	-7,267	-46.9
Drink and tobacco	5,819	3,170	-2,649	-45.5
Textiles	2,216	1,228	-988	-44.6
Clothing, footwear and leather	9,142	5,124	-4,018	-44.0
Timber and furniture	2,399	1,486	-913	-38.1
Paper & printing	10,461	8,835	-1,626	-15.5
Miscellaneous industries	3,877	3,634	-234	-6.3
Mining, quarrying and turf	473	110	-363	-76.7
Total manufacturing	78,612	54,214	24,389	-31.0
Non-manufacturing	1,289	5,612	+4,323	(grand aided)
<b>TOTAL</b>	<b>79,901</b>	<b>59,826</b>	<b>-20,075</b>	<b>-25.1</b>

**Source:** Industrial Development Authority

Between 1973 and 1977 alone, over 12,000 jobs were lost in the manufacturing sector in the city, compared to the target of 7,300 additional jobs which the I.D.A. had been predicting would be created without grant assistance (Industrial Development Authority, 1978). It was this unforeseen scale of job losses and the growing political pressure to direct some energy towards the city's problems which obliged the I.D.A. in 1976 to commence promoting Dublin as an industrial centre as well as to become involved in the development of industrial properties (MacLaran and Beamish, 1985). The I.D.A. constructed a number of 'enterprise centres' in the inner city and accelerated its programme of development and purchase of manufacturing premises in other areas of Dublin. In view of the emerging problem of manufacturing decline in Dublin, the Government decided in 1982 to grant Designated Area status (for industrial grants only) to Dublin's inner-city for a five year period, though it was not renewed thereafter.

Designation of the inner-city, with its problems of high land prices, congestion and lack of space, had little prospect of success, and there was no extension of Designated Area status to peripheral areas of the city which might have had greater prospects. Reversing the negative trend was not an easy task and the I.D.A. was severely constrained in its spending on construction and on other activities by government financial retrenchment during the 1980's.

The restructuring of industry in Dublin continued throughout the 1980's. By the end of the decade, Dublin had suffered a net loss of almost a third (32.2 per cent) of the industrial jobs which had existed in the city in 1971 while the rest of Ireland had seen a 9.2 per cent net increase (Drudy, 1991). Table 3 indicates that losses during the 1980's occurred in almost every manufacturing sector, amounting to 31 per cent during the decade. The city's share of national employment in industry thus declined from 37.3 per cent 1971 to 27 per cent in 1989.

Dublin's manufacturing employment decline during the past two decades has been concentrated overwhelmingly in indigenous companies (Drudy, 1991). These account for 20,601 of the 24,929 jobs which have been lost since 1973. As a result, by 1989 foreign companies had increased their share of manufacturing employment in the city to nearly 40 per cent. Changes in demand for traditional products, the city's legacy of a high proportion of traditional declin-

ing industries and the increasingly competitive environment in which Irish companies were obliged to operate after entry into the E.E.C. in 1973, placed indigenous industries in a difficult position and resulted in widespread contraction or closure.

In contrast to the fortunes of the industrial sector, the numbers employed in the services sector have increased substantially since the 1950's, the number of jobs expanding by nearly 50 per cent between 1961 and 1981. There was significant expansion among white-collar occupations in Dublin, the number of office workers in the sub-region increasing from fewer than 64,000 to nearly 85,000 between 1961 and 1971. In central Dublin the rate of growth was even more rapid, from around 42,000 to over 72,000.

Employment growth has been particularly strong in the insurance/banking/business services categories, where an increase of 85 per cent was registered during the decade. Expansion was especially swift in the field of banking. Public sector employment in administration also grew rapidly during the 1980's, from less than 12,000, which was little higher than in it had been in 1951, to nearly 20,000 by 1981.

Growth within the services sector was halted during the 1980's as a result of the coincidence of a number of factors, particularly the serious economic recession of the mid-1980's and cuts in public sector expenditure and recruitment. The number of jobs in services grew by fewer than 9,000 between 1981 and 1989. Indeed, the number actually declined slightly during the period 1981-87 at a time when service sector employment in the regions outside Dublin experienced a net increase of 11.8 per cent. As a result, the city's share of employment in the services sector has declined, from 41.3 per cent in 1971 to 40.6 per cent in 1989.

Table 4 shows that the loss of employment in the services sector in Dublin was spread across all categories of employment with the exception of Professional Services, where an increase of almost 20 per cent was sufficient almost to balance the decline in the remainder. Areas outside Dublin fared considerably better, except in the case of professional services. However, these adverse trends in Dublin were not assisted by a policy of enforced decentralisation of government administrative employment towards the regions.

**Table 4.** Service sector employment changes in Dublin, 1981-1987

	Percentage Change, 1981-87	
	Rest of Ireland	Dublin
Transport & Communications	- 7.1	- 3.8
Distribution, Insurance, Finance	- 9.7	+10.9
Public Administration	- 3.4	+ 5.3
Professional Services (health, education etc.)	+19.6	+17.3
Other Services	- 2.2	+21.2
Total Services Employment	- 0.1	+11.8

**Source:** Central Statistics Office, Census of Population, 1981, Labour Force Survey, 1987

The consequence of declining employment opportunities in industry and, through much of the 1980's, a faltering of employment expansion in the services sector, meant that rising unemployment was the inevitable outcome. In a number of districts within the city, the rate of unemployment is particularly high. Unemployment in the central city grew at a rate which was three times as fast as the growth rate nationally. By 1981, at a time when the national unemployment rate was still below 10 per cent and the rate for the Dublin area was 15.5 per cent, the level of unemployment in the north inner-city reached 24.7 per cent and one ward possessed an unemployment rate of 35.1 per cent. After 1981, unemployment in the north inner-city actually accelerated, growing by 2.7 per cent per annum to reach 41.0 per cent in 1986 (Alliance for Work Forum, 1988). Long-term unemployment of over a year is particularly severe, amounting to 58 per cent of the unemployed in 1989 (McKeown, 1991). The north-east inner city includes one of the most deprived communities in the state, with an unemployment rate of 48.4 per cent in 1981 and which is estimated now to exceed 80 per cent. Unemployment is also a severe problem in the peripheral housing estates and western new towns (developed during the late 1970's and 1980's), where the decentralisation of employment has fallen behind the growth of the labour force.

In some working-class districts there, unemployment rates were estimated to exceed 70 per cent in 1991.

## Conclusions

Irish regional development initiatives have generally represented a reflex reaction to the presence of depressed conditions in rural areas. Such policies were founded on the criterion of spatial equity and

were pursued in the absence of strategic regional planning established within the goals of a coherent national economic development. Now, in an international economic context of seemingly inexorable trends of capitalist organisation towards centralisation and concentration, the challenges presented by the development of an integrated European market and its possible future enlargement appear formidable.

As states, regions and municipalities world-wide embark on the increasingly competitive course of trying to seduce international capital into investing in their jurisdictions, continued failure to construct a strategic regional development policy based upon the criterion of efficiency and involving a limited number of centres possessing the potential for self-generating growth means that the Irish economy will be poorly placed to meet those demands in the future.

## **Acknowledgement**

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# **Environment, politics and the urbanisation process; fragmentation and the politics of production and consumption.**

## **1. Introduction**

Regional urbanisation processes have been studied as if the political landscape did not matter. But there are interests to further and to defend. Here we concentrate on residential interest that may form a blockade to development. We study cases in The Netherlands in comparison to the U.K. and the U.S.A.

These are nations where there is no myth of local autonomy (Gorzelaak 1992) but experience with the complementarity of tasks of central and local government in many issues. But, as Gorzelak rightly remarks, this long experience with central-local and local-local governmental relations does not imply stability. The tension between democratic government and market relations is accommodated differently not only between these nations. The compromise at state level concerning the relative influence of state and market means the existence of groups with opposing understanding of what the position of the state should be. These will not be randomly distributed over the state's territory, particularly not over an urban region. Municipalities within an urban region differ as to function and composition of population which in turn is reflected in local political culture. Central cities and residential suburbs are each others opposite in this respect.

Moreover, as market conditions change, the arrangement between market forces and public authority can not be left out. Competition on the European scale brought Dutch central government to choose for the strong part of the nation (Dijkink & Van der Wusten 1990). The development concentrated around two 'mainports' Rotterdam and Amsterdam, for sea and air traffic respectively. Plans for a more governmentally controlled, more balanced development are not suitable any more. In much the same way, localities (in an urban region) may find themselves in a new situation of choice for or against growth, where either (democratic) public authority or market has to retreat.

The urbanisation process in the countries of Central Europe has now been opened up to new forces. Both the form and functioning of local government are in transition. The myth of local autonomy (Gorzalak 1992) is one of freedom from higher authority. But next to this 'type II' autonomy (in the typology of Gurr & King 1987) is the 'type I': *"the local government's pursuit of interests independently of local and social interests and organisations, be they private, voluntary or statutory"* (King et al. 1990 p. 2). Therefore, dependency of populism and capital will have to be managed along with dependency of central government. As it seems that the present administrative system is still seen as provisional (Regulski 1991) experience with political systems where market forces were allowed a larger (though not a decisive) role may provide insight into external forces that operate in relation to statutory power of local government. Apparently, several characteristics of institutional behaviour are implicitly given with a particular administrative system. In this way, knowledge of the use of formal authority in political praxis may serve to create an administrative system providing the outcomes in urban development that suites local needs best.

To this end we first explore from the literature that is available the position of local government in the development of urban regions in market societies. Then we compare the relative influence of several actors in diverse administrative systems. Thirdly we go into theories used to explain the position taken by several actors. This provides us with means to uncover behaviour of actors in urbanisation processes in more depth. In particular, contrasting forces of residential interest and 'boosterist' city marketing are explored.

## **2. Urbanisation and localised interest; the position of local government**

Urbanisation of an urban region opens up the opportunity for specialisation in places. Instead of the continuity of agrarian use a succession of functions may develop. As a place becomes part of the urban region, that will usually be for the better segment of the housing market. As time goes on and the urbanisation proceeds, the same place may attract new functions and will not be able to hold on to the best part of the housing market. In this way, urbanisation in an urbanising region is a process of succession of functions in places (Vernon 1960). Hoekveld (1964) further developed a typology of urbanised places in this process. In the socio-spatially differentiated environment, there are mainly forces of economy and demography, of market and decay that originate change.

On the other hand there is now much literature on the political fragmentation of urban regions. The interest that people and organisations have in their direct environment for consumption or production will certainly be expressed in the political activity of the (many) political entities of the region. The well to do resident population will not like their houses to go down in both status and in price. Local business likes to expand however, and builders will keep looking for opportunities to develop. Local governments will want to balance their budget. Therefore the pattern of urbanisation in an urban region in space and time will hardly be understood without attention to the political process. The politics of actors with different ideas for the use of a particular piece of land or building and that of municipalities competing to realise the development they prefer. What actors, what interests are dominant? Why is that? Is it determined by the need for capital accumulation, is it the influence of residents in affluent suburbs, or is it the influence of the ruling apparatus, with its relative autonomy (Gurr & King, 1987)?

The first turning point in places becoming part of an urban region is taking up a residential function. One century ago, in a different era of class structure and mobility, amenity rich sectors of the 'urban field' were selected. Where the treasured landscape already existed, as in mature landscaped large country houses have been parcelled out by speculators in estates of country houses. In The Netherlands

these were mostly extensions of existing settlements (de Haan 1990). The municipalities on whose territories this development took place hardly had any influence. That the local councillors were not amused was all to clear, when it came to the provision of even the simplest public facilities. Their thrifty attitude meant that the builders themselves had to provide for, or at least take the initiative for, essential facilities such as roads and schools. This was essential to their success, because according to Hoekveld (1964), migration figures indicate that urban immigrants were quick to opt out as soon as it turned out, that it was not possible to lead their normal urban life. Even the initiative for secondary education in the Gooi area was taken from this perspective. Only from the 1920's municipalities got more deeply involved. The market for large country houses was over and the ascending professional class and less costly mobility asked for tighter build development and urban facilities. Speculators in Bussum and Zeist (Blijdenstein 1984) sold off their remaining land to the municipality. From that time suburban municipalities were setting up land-banks in order to direct developments more closely in the meantime realising 'planning gain' for their budget. Then the question arose whether to bring some relief in the housing needs of the lower paid wage earners.

In the meantime development towards other urban functions takes place. This 'turning point' (gradually) is taking place without control of the local authority. Large country houses that no longer suit the requirements of the wealthy are being converted to small scale industry or hospitals, and later offices. The Dutch planning system still was too crude for a tighter control of land use. After the second world war however, resources of the municipal land banks and the professionalisation of planning bring control within reach. From then explanation mainly from market forces (Hoekveld 1964) seems no longer adequate. In much the same way, considering the planning systems in the U.K. and U.S.A. in the 1970's, Johnson (1974) pays scant attention to the shaping forces of urban politics.

There is now much literature on the opportunities provided by zoning, to specialise development in suburbs for the top of the housing market. Here is the tax mechanism important, keeping taxes low as long as the municipality will be able (by zoning) to keep poorer residents from its territory. A conserving strategy would serve the

present owners best. However, in the typology of Hoggart (1991) not all suburbs fall into the 'consumerist' type of political culture. In some there is a 'growth machine' axis of production and local authority. In the U.S.A. difference in tax systems seems to be duly expressed in the direction of development policy. Dowall (1984) warns, that for budgetary/tax reasons most cities in the San Francisco Bay area prefer business development to house building and that in the long run this will bring economic health into jeopardy. In St. Louis County, the degree of readiness of incorporated cities to accommodate trade, can be predicted from the tax category to which they belong: those cities that are in the county pool of sales tax are not interested, those that keep the sales tax for their own budget are. Local residents as the main electorate apparently cannot simply tailor the political agenda purely to a consumerist fashion.

In The Netherlands during the 1960's and 1970's the quickly expanding category of professional workers did not find enough houses to their liking and which they could own in the central cities while these buildings were mainly for the lower paid.

They were accommodated by newly build residential suburbs, that made the turn from agrarian community to 'metropolitan village'. In this process of unprecedented growth by small municipalities, the 'growth machine' consisted mainly of the nominated burgomaster (then the only professional) (Glasbergen et al. 1979, Ostendorf 1988). Ostendorf concludes from research in the Amsterdam urban region that after the turn to the metropolitan residential function, growth will be stopped. The amenity rich environment, that opened up the opportunity for residence then has been populated by homeowners that will not let the amenities of the environment to be overgrown by further development. The newly acquired social profile of the municipality precludes the growth process. As against this, for firms in the tertiary sector, suburbs offer suitable locations. Especially now that access to the motorway system prevails in location preferences, suburban sites providing this facility are valued highly. This gives the suburban authorities the opportunity to develop more land, financing local infrastructure in the meantime. The 'growth machine' may diversify in this direction.

### **3. Relative influence of actors in urbanisation; comparing western administrative systems**

Apart from being the main body of the electorate, resident population does not always have avenues for influencing in accordance with their interests. While Ostendorf describes the end of growth as the consequence of the changing 'social profile' of the local political community (thereby taking their influence for granted), Short et al. report the activity of Resident Associations in their study area (Berkshire, U.K.). Together with the parish that performs like functions in rural areas these associations cover nearly all residential areas. By their aim they may be typified as either Stoppers or Stopper/Getters. They are united in national associations according to this typology: Council for the protection of Rural England (Stoppers), Civic Trust (Urban Stoppers), National Associations of Community Organisations (Getters). As their membership is fairly widespread in the population, this legitimates their activities. Furthermore, as Short et al. show for Berkshire, these associations are able to make a closed front against growth that is felt as a threat in the region at large. In The Netherlands there is no such general presence of residential groups. On the occasion of the building of large council house estates groups of future inhabitants have been formed to bring details of the project in harmony with their wants. Such Getter-groups owe their formation mostly to council initiatives. Occasionally, when threatened directly by some Locally Unwanted Land Use, there is the Not In My BackYard (NIMBY) type of local residents action group, losing out to more respectable altruist argument. Frequently their reasoning is dressed up in ecological fashion, presenting the disputed development as a threat to the environment.

Residents mostly are reported to act in defence of the 'use value' of their home. It is not clear in how far they realise, that the scarcity of housing as a consequence of 'no growth' heightens the 'exchange value' of their property as well (Schucksmith et al. 1991).

As to what concerns Local Authorities, the scope for the question whether to accommodate for further growth or to conserve the present amenities for the resident population relates mainly to size territorial specificities of local government entities and to their statutory power (not

in the least central-local relations). In England, district planning officers have to cope with parochial district councillors. The County seems to be distant enough from local egotism to be able to adjudicate planning decisions. Even so, central government is so well prepared to intervene, that county and district councils rather cooperate with centrally expressed wishes, than risk being overruled and loose control entirely. According to Short et al. this has been helpful to pave the way for developers. In much the same way the system of 'planning gain', centrally prescribed to ease the strain on local budgets, introduced negotiation with the chance of easing planning principles for developers (Short et al. 1986, Hoggart 1991).

In The Netherlands, local government with planning authority is fragmented in small scale municipalities. (The Netherlands with one third of the population has more than twice as many municipalities as England and Wales have districts.) As long as there were burgomasters (nominated by central government and evaluated according to their performance) that could (and had to, for career reasons) personally promote growth in their not yet professionalised local administration, and who were not yet hemmed in by politicised planning environments, these small municipalities were growing rapidly. The same was true for new town growth centres around Randstad that were heavily subsidised by central government. In the last two decades however policy-making - by politicisation - fell into the hands of locally chosen aldermen. The no-growth option can take hold now. At the same time this localised policy-making may be highly sensitive towards local housing needs. Stopping in this way often has to be legitimated by providing low budget housing for the local population. A dual housing system is the consequence. One protected section of subsidised housing for autochthonous low income population, another high priced section open to the highest bid. In these municipalities, the situation of the metropolitan village with a cleavage between autochthonous and autochthonous communities as described by Connell (1974), in The Netherlands is complicated by the fact that planning authority is vested in it as a political community. Small scale localised politics may be much more inclined to serve local housing needs than large scale authority, provided that the municipality has an enduring autochthonous background. In one of Short's case studies (1986 p. 160)

the parish is inclined to fill up space rather tightly to meet local housing demand. But in the subsequent district-made plans this is not laid down specifically and the plan meets with fierce opposition. According to Short, in the U.K. councils, Labour members are autochthonous (growth for local need), Tory members either belong to local business circles (and are pro growth) or belonging to 'the old guard' and conservationist.

Relations between local government and other actors that influence the character and pace of growth change with the evolution in a number of domains. The business cycle determines investment in real estate; a low market makes municipalities more dependent on sparse investors. In that case does a municipality turn to an other section of the housing market? In the long run, changing categories of home buyers influence the type of residential areas to be developed. Demography, politicisation etc. all find themselves reflected in changing relations between actors in the development of suburbs. Of these evolutions, governmental reorganisation is of particular interest. Short et al. (1986) amply describes the effects of the reorganisation of Local Government in England during the first half of the 1970's. In The Netherlands reorganisation until now has only been incremental. Individual Acts serve to consolidate municipalities. In the 1960's, under influence of conservative cabinets, annexation by central cities of their suburbs was replaced by consolidation of suburban municipalities to provide for equal power among 'partners' in an urban region. Recently, the four urban regions that largely make up Randstad are under way (some of them only reluctantly) to create some form of regional authority.

From the side of Builder/developers the pressure for growth in places that are already rich in amenities originates. In the U.K., developers try to acquire planning permission for land that already is in their hands, the really large developers operating with their own 'land banks'. In the negotiations (on planning gain, on the number of houses that can be build etc.) large developers are most successful in their contact with district or county planning officers. Architectural bureaus are indispensable to pave the way for planning permissions. In the Thatcher era, developers were well received by central government. This was not without consequence because of the power of the Department of the Environment to review local



authorities refusals. In this way, housing development can directly be pressed by central government, rather at variance with central-local relations in The Netherlands.

In the special case of small scale infill development, developers have been more successful than individual owner-occupiers that try to develop their own site (Whitehand 1989). Here development, in the long run downgrading the townscape of low-density residential areas, lead to lengthy conflict. Local residents strongly support local planning authorities in restraining infill development. In the subsequent conflicts, individuals attempting to gain planning permission become entangled in a web of delay for several years (occasionally decades). Developers have the resources and experience to cope with the development control process. They readily resort to appeals, that shorten the process.

In The Netherlands, the rigid planning system precludes infill. However, where local government anticipates downgrading of low density areas or of country houses, that are no longer kept up properly, or where infill is required to implement local housing policy, these planning restraints may be removed, provided that the policy making elite has a firm stronghold in its council.

Small municipalities as they prevail in The Netherlands (and in Belgium) may be completely dependent of the owners of large estates. The famous Belgian sea resort of Knokke le Zoute was largely developed by the 'Compagnie Balneaire du Zoute'. Residential interests in this municipality could not do better than choose the director of this family estate for burgomaster.

The fact that Dutch municipalities nearly monopolise land development (at the beginning of this century only the urban ones, the other following suit until it became routine everywhere after 1945) make relations between developers and local authorities (and growth pressure for that matter) different. 'Planning gain' remains largely in municipal hands, because low priced agricultural land is bought and sold as building land with the improvement needed. Surplus of the municipal landbank may be invested in infrastructure not directly related to the areas developed.

Especially for municipalities in The Netherlands with their minuscule tax base, positive results are very important to realise at least some autonomy

from the centrally provided budget. Of course this applies only as long as the sites are so well situated, that they still allow a profit to be made by the builder/developer. So although its landbank gives the municipality a firm grip on the direction and the pace of development, still there is dependence of investors to bring municipal policy (and spatial policy of central government for that matter) into effect. This once again becomes clear in the reaction of the 'Board of Real Estate Developers' (ROZ) on the Fourth Paper on Physical Planning in its second version (VINEX, 1991). While the cabinet wants development of housing and office space concentrated in the already build up Randstad agglomerations, and located in such a way that auto-mobility is kept down, the ROZ states that they are not satisfied with the sites so far provided. As for housing, they do not like the tendency of urban municipalities to mixed projects. Centrally located office space should be provided with car parks. Central government is in a difficult position, because of the fragmented system of local government. All along the Randstad infrastructure there are municipalities acting as developers. To implement his policy, the Minister would have to buy off the municipal land banks already under way with planning on sites not in accordance with his policy. This makes reorganisation of local government (and consolidation of municipal land banks) an urgent matter.

#### **4. A choice of theories: pluralism, managerialism and the politics of production and consumption**

The succession of phases in suburban development can be explained using several theories. In the explanation by Ostendorf (1988) the succession is as follows. The period of growth at the time that participation in the metropolitan housing market develops is explained by organisation theory (managerialism). This period, by immigration of a different category of population changes the social profile of the municipality. With the viewpoint of pluralist theory, the then dominating residential interest of the new arrivals brings growth to a standstill. To fully answer the question on the relative influence of groups that form the environment to local government (residential and production-related), pluralist and institutional viewpoint can be applied complementary.

The pluralist approach usually applies Dahl's (1961) decision method. The degree of influence is assessed by analysis of decisions on important issues. This method has its problems. The decision usually is not made entirely out in the open. This problem can be evaded by concentrating on policy-alterations in sequence with utterances of actors and interested parties. The problem that some issues are not brought to a decision, or do not appear on the political agenda at all is too dodged by formulating the issue as researcher and analyze influence relations by comparatively researching several cases. In this way Crenson (1971) compares cities where air-pollution is or is not on the political agenda. A clear view may be obscured by the fact that decision making authorities anticipate influence that will confront them. Huberts (1988) reduces this problem by making it clear that anticipation implicates, that decision makers depart from their own view. If the standpoint of decision makers is the same as that of an interest group, this group is in a very comfortable position, but there is no anticipation and no influence from this group.

Research from pluralist viewpoint (alternating dominance of input that determines policy in different ways) is done as well without analyzing decisions. Direct correlation of political colour and policy-output (Denters 1987, Fried 1980) has not been very successful. But the use of ecological factors, e.g. dominant functions of a city (Sharpe et al. 1984) and the relative share of social groups (Renaud et al. 1988) explain better than political colour. This implies that by analyzing political processes more characteristics of the political community are to be included. It does not seem very satisfactory however, that the working of factors remains hidden in the 'black box'.

On the other hand we make use of institutional theories. Apart from the managerial viewpoint that ascribes development to key decision making officers, we apply organisation theory. Goals of (parts of) organisations are important for an explanation of the policy chosen. Competition between organisations, issues of domain are relevant to the explanation. In the decision to take advantage of the expanding urban field by growing for the upper section of the urban housing market the aim of holding on to the autonomy of the organisation is decisive. According to Whetten et al. (1979), for organisations max-

imising autonomy determines the choice of a particular policy. The managerial approach of Young et al. (1977) analyses how 'urban managers' succeed in keeping the territory of their London borough free from council housing. Their successful 'social area management' implies autonomous policymaking, defending the idealised 'village' against the pressure of housing needs of the Greater London Council policy. Young et al. do not make clear, what brings the managers to pursue this policy. It may very well be, that this as well is the aim of being autonomous. For as Hoggart (1991, p. 191) remarks, this country-like idealised territory (Borough of Bromley) in fact contains a population of a quarter of a million, and is promoted for office space. This seems a far cry from a green policy in residential interest.

Residential interest - nor other local interest for that matter - does seem to be expressed as issue in local elections; national cleavages dominate (Tops 1990). In the question of survival of villages however the (no) growth issue may come up in a local election (Groenendijk 1987). This urges to answer the question what factors do make growth issues salient.

Autonomy of local authority has been stressed by Gurr et al. (1987). Their twofold typology discerns autonomy in the relation with central government on the one hand from autonomy in the (local) environment in the relation with production and consumption interests. This as opposed to Marxian functionalism, that sees the (local) state simply as securing capital accumulation. Especially in our subject matter it is clear, that local government depends not seldom on decisions of investors to implement its policy. Simmie et al. (1989) show, that to this end representants of trade and industry have their own direct relation with local authority. These neo-corporatist practices reduce to some extent parliamentary-democratic rule. This only regards production issues. Councillors do not accept that when it comes to matters of consumption, anything less than their full discretion will prevail. In this way, two political styles may be discerned: politics of production and politics of consumption. As for building/developing, especially with respect to housing both apply. When it comes to the development of a residential suburb, local authority may approach this either as an issue of production (use the environment for further profitable investment) or consumption (keep-

ing it in the interest of the residents). Dominance of political styles could very well alternate, which would be very much the same as pluralism.

Theories seem to converge here. From the viewpoint of the organisation, there is more clearly a relationship with the environment: government as one of the partners in a local 'growth machine' (Molotch 1976) or as inspirator of discourse coalitions (Hajer 1986). For the issue of (no)growth it is important why politics of production does not always dominate and on some time and place yields to politics of consumption.

## **5. City-marketing and residential interest; politics of production and politics of consumption.**

City-marketing is now a fashionable policy strategy to attract new firms. It is not exclusively production oriented however. Marketing of an attractive place means that the local authority has to stress the pleasant living character of its territory along with the business proposition.

Although known as marketing, this activity of attracting new firms to a place, to sell it as it were, does not seem to be part and parcel of a complete business plan. Determining just what 'product' (business-location) will be brought on the market, and how this integrates with other policy sectors should be stated in an overall 'business-plan'. Here the analogy with private firms will stop; for the interest of several categories of firms will not be easily integrated with categories of inhabitants in a single structure of goals. But there is an overall policy statement in most municipalities in The Netherlands made up every time a coalition has to be formed upon local elections (once in four years). Analysis of these coalition programs discloses how the conflict of interests is solved.

A survey of coalition programs established after the 1990 municipal council election in the Utrecht urban region makes clear that the substance of these programs is not covering the several sectors of political life satisfactorily. Generally these programs contain highly detailed compromises on subjects of 'collective consumption'. On the production side mention is made of the need for more jobs for people. The establishment of new firms is to be seen in this perspec-

tive. As most programs are not more specific as to what type of business activity will be able to produce these jobs, local authority has a free hand to deal with firms as they like. Residential suburbs reserve building plots for business as well. The programs mostly suggest that this has to facilitate moving local firms to more suitable locations.

As it turns out, however, land developing from its land bank in itself is interesting for budgetary reasons. In this way, suburban business development which in most instances is much bigger than most of the issues that are addressed in the coalition program simply is not included. Clearly, coalition programs are made in line with the electoral process that has to legitimate the local policy makers. This legitimization process concentrates on matters of collective consumption. This gives the local policy makers a rather free hand in their dealings with business investment. Plans for that purpose are prepared in accordance with investors and only after that 'proposed' to the council as a matter to take or leave. This 'politics of production' does not bring the local policy makers into trouble as long as they have the right feeling how far they may go.

The consumption side may be analyzed from the amount and type of houses that are being added to the housing stock (Groenendijk 1992). For this purpose we selected the category of municipalities typified as Luxurious Residential Suburbs (LRS) by Van Engelsdorp Gastelaars et al. (1980). According to Ostendorf's thesis (1988), in view of the particular profile of these suburbs we should not expect large building processes in any of these municipalities. As it turns out, however, there is a considerable variation in amount and type (council/private houses) among the municipalities that make up this LRS class.

Exploration of political processes in a few of these LRS municipalities makes clear, that the older LRS are in a special situation. In their older parts they have had to adapt to the motor car, distracting from the local character. Moreover, their highly cherished amenities (which was the reason they were early in the urbanisation process) may attract high quality shops that bring further change (and still more cars). Of two old LRS municipalities we analyzed, the small one was unable to acquire local consensus on this issue. In this same place, there was a conflict about the infill of spaces left;

whether these had to be used for housing the local low paid or for ageing people of the local villa's. Here the double housing market plays an important part. As the high priced housing stock is on the free market, people living there are coming from everywhere and are hardly being regarded as locals. The case of the lower paid is easily legitimated as they are tied to the local housing market. The other municipality had recently arrived at the point, where consensus could be formed to stop further house building and trying to make the best of the existing stock. Restoration of the amenity rich environment got absolute priority. Even so one first time this new policy had to be implemented (the proposed consolidation of regional hospital accommodation in this suburb) consensus did not exist any more.

The young LRS with more space left on their territory and less well defined amenities seem more easily to remain under the managerial influence. Land development as an instrument to finance local infrastructure remains firmly established policy. In one of them, situated in the Green Heart of Randstad, where central government announced a stop to development, the secretary started a protest against this policy the argument being 'in the best interest of the inhabitants' but referring to the land bank results as well. Another municipality attracts development of office space on a considerable scale but keeping that issue from the local political agenda.

A strong case for managerialism is the development of an old LRS (Zeist) in the attractive wooded area east of Utrecht. Until the 2nd World War the development as a residential suburb proceeded very fast. Under the influence of the owners of the big old country estates the municipality did not control this development. Land was developed privately for country houses as residences for high status commuters to Utrecht and other cities of the West of The Netherlands. For the workers of the local manufacturing industry (hidden behind the beautiful lay-out of the grand avenues) only a small amount of social housing has been provided. Many of them commuted to Zeist (Bertoen 1958). After the Second World War (that did not damage the local housing stock) housing policy changed completely. Now social housing in huge apartment buildings was first priority. The town-planning consultant, serving Zeist as from 1947, had a heavy hand in this development. A professional staff

was established under his consultancy. Although the new policy must have had support, the technical input from professional side was not easily to be curtailed.

## 6. Conclusions

The comparison of research reported from The Netherlands, Britain and the USA allows for some preliminary conclusions to be made.

What factors will be relevant for further analysis? Mainly institutional factors have come to the forefront, especially when comparing research reports from several countries. Municipalities in The Netherlands are dependent of growth in housing stock for their income both from central government grant and land development. This is particularly clear in the younger LRS but this system also had an important impact on the older LRS, that find out that go into budgetary trouble when land development is no longer possible or wanted. In recent public debate in one of them it was suggested that this municipality went on building for so long for budgetary reasons. As all municipalities are dependent in this way, for central government it is rather difficult to arrive at anything else than fairly even spread of development.

In the U.K., larger scale local authorities more easily concentrate growth, or otherwise central government knows how to make them to. In the U.S.A. difference in tax systems produces a variation in the selectivity of growth among local authorities.

In The Netherlands, as far as there is influence of residential interest, this is mitigated by legitimation to local housing needs even in highest income LRS, where one on first sight would not expect these issues to come up. Small scale local authority seems to further this. On the other hand, the new policy start in one of the old LRS could be seen as the beginning of a new trend of converging environmental and residential interest. This has to be brought to a test as in the long run, in the dutch system it could reduce the municipal budget. But of course, residents will grow more sensitive to infill of space to the extent that open space dwindles. In this respect the escape that some municipalities have found in their territory using outlying building sites to steer clear of residential interest is important. Finally it is remarkable, that a long record of LRS building (as in



Zeist) does not preclude policy change. Managerial influence seems to have been instrumental in this case. It has to be analyzed however, what has been the political background to this change and in what way conditions at the time of change are still, or could once more be relevant.

## 7. Concluding remarks

Transition from central state controlled spatial development to local autonomy in a market economy will have a strong impact on the urbanisation process. This will be most markedly experienced in urban regions where several local authorities will try to enforce their new autonomy. To find out what factors will lead into what direction asks for thorough analysis of the political process in localities, and not only for analysis of the effect of the formal structure of authority.

From the analysis presented here - especially comparing the outcomes of administrative systems - effects of institutional arrangements become clear. More than from formal authority structures, this can be established from the twofold way in which local autonomy is managed. Autonomy from the central state may be strengthened by using local resources. This stresses the importance of managing autonomy from local forces: electorate and local investment. In this respect it is remarkable that implementation is secured by 'politics of production'. This neo-corporatist way of policy making is democratic only in last instance. Still it can be more successful than a populist dependence of the local electorate.

Another dimension of the administrative system is the territorial layout. In urban regions the degree of fragmentation may have a considerable effect.

Local government derives its value from the 'accuracy' to which it reflects local community. But in the community, interest in residential development more often is privately sought than it is publicly discussed. Endowed with enough power (e.g. to operate a landbank) local government may be very effective in implementation. However, combination of institutional and private interest concerning housing may lead to segregation on the scale of the urban region.

In this respect, it has to be realised, that housing (environment) is an important part of 'real income' (Harvey 1973). Therefore, when development of a nation is to be measured by the degree to which the gap between income of the masses and the elite is being narrowed, residential quality is not to be left out.

The institutional arrangement of local government can be decisive in creating a residential environment. This may lead to the following dilemma. Residential areas of exceptional quality may be used to attract economic development because it is sought after by a decision making elite. But regional development does not seem successful as long as it does not improve real income of the population at large.

The evaluation of effects of administrative arrangements on urban development could be merely an academic exercise. However, there seems an opportunity for using this type of analysis when change of the administrative system should once more be considered.

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# **Redistribution under neoliberalism in Mexico and East-Central Europe: the demise of regional policy?**

## **1. The unvarying face of neoliberal experiments**

### **1.1. Neoliberalism in Mexico**

After five decades of uninterrupted commitment to a development model based on the principles of nationalism and active state intervention, during the 1980s the Mexican state underwent fundamental changes in its ideological orientation that came to transform its character and its role in the economy and society, in line with the ideas of the vigorous neoconservative doctrine that was emerging in the world by those years. Those changes have given rise to a radical, far-reaching neoliberal reform whose guiding principles may be summarised in the slogan "less state", which means a drastic reduction in the size and functions that historically characterised the Mexican state. This involves a substantial withdrawal of this latter from its welfare and redistribution responsibilities and a virtual abdication of its control over the "commanding heights of the economy", as a new economic regime has been imposed in which the private sector has the leading role.

The Mexican Revolution of 1910-1917 had engendered a strong state which from the outset assumed that leading role and instituted a mixed economy in which market limitations and distortions were supplemented or corrected for through promotion, regulation, and/or redistribution policies, as well as through the creation of public enterprises and other government institutions. The number of these governmental entities increased from 12 in 1930 up to a maximum of 1,155 in 1982 (Table 1).

**Table 1** Mexico: growth of public enterprises and government agencies, 1930-1982

Year	Number of Entities
1930	12
1940	57
1950	158
1960	259
1970	491
1976	845
1982	1,155*

Source: De Olloqui (1991): 48

\* 829 = state enterprises

103 = decentralised government agencies

233 = public trust funds

The state that emanated from the 1917 Constitution was thus intended not only as a governing agency but also as a redistributive and administrative machine, in a figure that would come to be in line with that of the welfare state which was to be inspired by the Keynesian doctrine so much in vogue up until the 1970's.

The neoliberal transformation of that comprehensive state began under the De la Madrid administration (1982-1988). Just a few days after taking office on December 1, 1982 the new government reformed the Constitution - Articles 25 to 28 which have to do with ownership modalities of national resources and the extent of the state's control on them - in a direct reaction to the nationalisation of private banks by President Lopez Portillo three months earlier. These

reforms restricted the areas of the economy reserved to the state and made the provision that any future nationalisations will require to reform the Constitution. These initiatives paved the way for the outright privatisation of the Mexican economy that would be carried through in the following years and continues up to the present.

The privatisation process was undertaken with seeming vigour and firm determination. In just one year 81 public enterprises and agencies were "disincorporated" from the state, the number increasing to 743 by 1988, i.e., over two thirds of the maximum reached in 1982. The number of remaining enterprises and agencies dropped correspondingly from 1155 to 412 over the same period (see Table 2). It should be noted that about one third of those disincorporations corresponded to liquidations.

**Table 2** Mexico: privatisation of public enterprises and government agencies 1982-1988

Year	Entities Disincorp.	Remaining Entities
1982	---	1155
1983	81	1074
1984	25	1049
1985	108	941
1986	204	737
1987	120	617
1988	205	412
Sum	743	

**Source:** De Olloqui (1991): 58

Economic privatisation was at the core of the strategy implemented by the De la Madrid administration, as it directly contributed to the central purpose of reducing the esphere of control of the Mexican state and thus its allegedly excessive entrepreneurial functions. Privatisation thus represented the most conspicuous ideological undertaking within the neoliberal reforms enacted by that government, as it signified the

withdrawal of the state from productive activities so as to let the enterprising energies of private individuals to flow freely across the economy.

The other major elements of the strategy were the liberalisation of trade and the opening up of the economy to foreign capital. Restrictions to foreign investment were relaxed, mainly in relation to multinational in-bound assembly plants - best known as *maquiladoras* - whose operation in Mexico was further facilitated with diverse administrative and legal measures, mainly a major decree on that matter issued in August 1983. The 1973 Foreign Investment Law was, nevertheless, not modified.

On the other hand, the tariff protection system that had been built over the past several decades was abruptly demolished, thus giving way to the opening up of the Mexican economy to foreign imports, in a quite unilateral and seemingly hasty initiative. In 1985 four fifths of the total number of tariff fractions had already been liberated, and by 1988 this proportion had increased to over 96 per cent. Simultaneously the tariff levels were drastically reduced to 10 per cent over the same period, thus leaving Mexico's as one of the most wide open economies in the world in just a few years (See Palacios, 1990). This sudden liberalisation was given international status in 1986 when Mexico joined the GATT and formally adopted the principle of free trade among nations as part of its government development project.

Such project was fully embraced by the Salinas administration which came to power in December 1988. President Salinas has indeed deepened and taken to completion the reform of the Mexican state launched by the previous government, as he, unlike his predecessor, openly adopted a neoliberal orientation for his program right from the outset.

In his inaugural address President Salinas said that: *"..at the dawn of the XXI century, [the state] can not and should not try to be the only one actor, but the conductor of a democratic society; not the biggest but the most just and efficacious"*. A year later, in his first presidential address, he declared that *"the 1917 Revolution created a strong state,...[but] a large, overwhelmed state ends up being a weak state"*.



Those views correspond linearly with those advanced by Italian political scientist Norberto Bobbio in his book *The Future of Democracy* where he asserted that "The ideal of neoliberalism now becomes that of the state at the same time strong and minimal" (Palacios, 1992: 106).

In the name of Modernisation, the Salinas administration has completed trade liberalisation leaving just a few fractions subject to direct import controls, and abating even further tariff levels to a minimum of 6 per cent in average. Moreover, it has taken the first steps toward the liberalisation of the service sector, particularly tourism, transportation, finance, banking, and professional services. On the other hand, this government has adopted measures to open up even more the economy to foreign capital including areas historically reserved to Mexicans and to the state. Among the most important of these measures was a set of complementary regulations to the 1973 Forcing Investment Law, which were issued by the Executive in May 1989 without passing through the legislative sanction of Congress.

Such outright liberalisation has been intertwined with the negotiation of a free trade agreement with the United States and Canada, which represents its culmination. With this initiative the Salinas administration is trying to give its strategy a status of irreversibility, to the extent that the agreement is an international, long term commitment at the governmental level.

In the other major front of that strategy, this administration has continued to pursue the contraction of the state apparatus and the privatisation of economic activities as the measures that best convey the essence of the neoliberal reform it is committed to. In 1989, 33 more public enterprises were disincorporated thus reducing further the number of those remaining in the hands of the state to 379. During the last two years - 1990 and 1991- privatisation has continued with the sale, to both domestic and foreign investors, of Mexico's largest state-owned enterprises excluding PEMEX, the huge oil conglomerate. Those enterprises include: TELMEX, the national telephone company; SICARTSA and AHMSA, the two corporations that made up the national steel works industry; the Cananea Mining Company, a national symbol and one of the largest

in the mining industry; and, FERTIMEX, the country's largest producer of fertilizers and other chemical products for agriculture.

More recently, under the thrust of this neoliberal euphoria which has given place to what I have termed as "capital's feast", the government has reformed the Constitution in its Article 27 to allow private individuals, including foreign capitalists, to invest in collective agricultural holdings - or *ejidos*- in association with *ejido* owners, in a relation whose asymmetrical nature is self-evident. This Constitutional reform has thus prepared the ground for the privatisation of rural lands, and so of agriculture and primary production in general.

It should be pointed out that neither President De la Madrid nor President Salinas have admitted the neoliberal orientation of their respective regimes; both have strongly rejected the adjective "neoliberal" for their administrations and so for the common strategy each in his time have advocated for over the last ten years. In a quite unsuccessful attempt at detaching from such an uncomfortable characterisation, President Salinas recently declared in a speech at the 63th Anniversary of the ruling Institutional Revolutionary Party (PRI), that his regime, far from being neoliberal, finds its inspiration in the principles of "social liberalism", a doctrine whose origins he has traced back to the 1857 Constitution which happens to condense the best liberal tradition of nineteenth century Mexico.

In any event, the fact is that, in spite of spectacular positive results at the macro level such as the abatement of inflation, the reduction of foreign debt, the balancing of the budget, and the recuperation of foreign currency reserves, the De la Madrid-Salinas strategy has at the same time produced negative results. As a consequence of the abrupt liberalisation, foreign trade balance deficits have become endemic, as exports have slowed down and even stagnated in the last three years vis a vis an unprecedented explosion of imports. Due to repressive wage measures and restrictive economic policies in general, the purchasing power of wages dropped 50 per cent between 1982 and 1988, and the poor - those unable to satisfy even their essential needs- increased from 32 to 41 million, or one half of the population, in the same period; those barely surviving in extreme poverty reached 17 million out of the total of 83 million Mexicans in

1988 (*El Financiero*, August 25, 1989: 27). It should be noted that these figures were given by the head of the so called Solidarity National Program (PRONASOL), a government body with seemingly populist purposes created by President Salinas as the main instrument for giving his regime a social facade in compensation for the draconian policies he has undertaken in all other fronts of his strategy.

Malnutrition has been a concomitant of widespread poverty. In 1989 over half of the population - about 43 million- could not afford to drink milk, over three fourths - 64 million- to eat fish- , and a little more than two thirds - 28 million - to consume meat (*El Financiero*, September 14, 1989: 31).

On the other hand, the indiscriminate privatisation of the economy has brought as a result a brutal reconcentration of wealth and economic power. Only 17 private consortia have been the main beneficiaries of the "disincorporation" of public enterprises: these groups already control virtually all of Mexico's telecommunications, sugar, soft drinks, hotel, timber, cement and transport industries, among others (*El Financiero*, May 7, 1991: 4). Moreover, a few private conglomerates of the state of Nuevo Leon, the country's second largest industrial centre, have bought almost half - 44 per cent- of the assets of the twelve national credit societies - commercial banks- that have been reprivatised so far (*El Financiero*, March 16, 1992: 6).

In spite of the above results, the Salinas administration continues with all determination to carry on its development strategy and the reform of the Mexican state, firmly convinced that a withdrawal of this latter from most of economic activities will unleash individual energies so that market forces in free play will bring about the changes this dependent, impoverished and highly indebted country is calling for.

On the external side, the rationale for the abrupt trade liberalisation and for the entire outward-oriented, export-led development strategy rests on the widely shared neoliberal belief that the exposure of the Mexican economy to foreign competition in world markets will result in the rapid modernisation of its structures, as national enterprises will have to be more efficient and productive in order to survive in a globalised economic environment. This doctrine has in

fact been imposed with total disregard of the fact that over 95 per cent of industrial firms in Mexico are small, medium and micro enterprises, most of which are inefficient, unproductive and thus highly vulnerable to the competition of multinational companies to which they are being exposed.

But the Salinas administration, like most governments across Latin America, find ultimate justification for their development models in that the adoption of a neoliberal approach is a universal trend; that even in the ex-socialist countries of East and Central Europe, reforming governments are adopting a "pragmatic" view and thus are reducing the overwhelming size and role of the state, as well as restructuring their economies by opening them up to world markets. Although the setting and the historical conditions are widely different, there exist basic similarities between the experiences of Latin American countries like Mexico and those in progress in East-Central Europe, whose consideration will provide valuable insights for a better understanding of this powerful ideological force that is setting a whole new trajectory in the development of nations around the world.

## **1.2. Neoliberal reforms in East-Central Europe**

The collapse of socialist regimes in East and Central European countries historically coincides with the consolidation of neoliberalism both as an economico-political doctrine, as well as a viable and attractive development alternative. Transition governments all over the region faithfully embraced neoliberal principles as the basis for undertaking a drastic, comprehensive reform of their political and social institutions, as well as a thorough restructuring of their economies.

The measures adopted for the transformation of these countries along the lines of the dominant doctrine can be grouped in four areas, according to a study of the World Bank (Gelb and Grey, 1991):

- 1) Macroeconomic stabilisation and control.
- 2) Price and market reform.
- 3) Private sector development, privatisation, and enterprise restructuring.
- 4) Redefinition of the role of the state.

In the language of this international agency, the first group includes fiscal tightening, credit restriction, external and internal price stabilisation, and the solution of both money overhang imbalances and bank losses. The second has to do with the introduction of competitive markets, domestic price liberalisation, international trade liberalisation, creation of factor markets, elimination of subsidies, and restructuring and demonopolisation of trade and service sectors.

The third group of measures refer to widespread privatisation, the "clarification" - i.e. restriction- of public ownership rights, the establishment of "secure" private property rights, the facilitation of the emergence of new private firms, the breaking up of monopolies, and the elimination of redundant labour. The last group includes measures geared to the withdrawal of the state from direct ownership and control over production, so as to restrict its functions to an "indirect regulatory role that promotes adjustment and private economic activity". This involves to reform both the Constitution and specific legal institutions - property, contracts, banking, and market regulations- , as well as the creation of an appropriate legal framework for collective bargaining and private sector activity that eventually regulates "natural" monopolies. The reform of the state also encompasses the restructuring of social security systems so as to "reduce the need for enterprises to perform wider social functions" (Gelb and Gray, 1991: 8).

The countries that, according to the World Bank, pioneered in such an all-embracing neoliberal transformations are Poland, Yugoslavia, and Hungary, which are also the ones that have gone farther along the transformation road. Progress has been greater in the first two fronts: macroeconomic stabilisation and market reform. All three countries have implemented severe stabilisation programs, have liberalised most product prices, and have restructured their trade systems by replacing import controls with low-tariff schemes. Hungary has also reformed its tax structures extensively, an endeavour that Poland and Yugoslavia are about to embark in.

Progress has also been made by these countries regarding the redefinition of the role of the state. All have established privatisation

agencies; abolished or downgraded planning ministries; and promulgated or drafted new constitutions, new property laws, new company and foreign investment laws, and new antimonopoly and bankruptcy laws (Gelb and Gray, 1991). Given that it is accepted that the transition to a market economy will certainly cause a drastic increase in open unemployment, transition states in East-Central Europe are expected to institute an "economy-wide safety net" that includes unemployment insurance, social security (old-age and disability insurance), and retraining services.

Widespread privatisation is a central goal as well as an essential measure for the success of neoliberal reforms in East and Central European countries. For one reason, the state sector of the economy accounts for about four fifths of value added in average, compared to about 9 per cent in some of the most advanced Western nations (See Table 3). For instance, the number of state-owned enterprises amounts to approximately 2,300 in Hungary, to 7,500 in Poland, and to 26,000 in Yugoslavia.

**Table 3** Share of value added of the state-owned sector in selected countries, mid-1980s

Country	Share
CSFR*	97
GDR	97
USSR	96
Yugoslavia	87
Hungary	86
Poland	82
France	17
West Germany	11
Denmark	6
United States	1

Source: Milanovic (1989)

\* Czech and Slovak Federal Republic

The process appears to adopt different modalities according to the particular political and economic conditions prevailing in each country. The common trend is that small enterprises, mainly in retail

trade and services, are being privatised rapidly, while only a few large state firms have been disincorporated to date. The most notable advances have been made in Hungary, Poland, and East Germany.

In Hungary the dominant approach has been privatisation from below through the sale of assets, which differ from those advocated in the other reforming countries. The instruments have been the 1988 Law on Economic Association (which allows state enterprises to convert themselves into joint-stock companies), the Transformation Law issued in 1989, and the State Property Agency. The process has been slow; so far boils down to about 450 liquidations including 35 large industrial enterprises and 11 large state farms.

In Poland the State Enterprises Privatisation Act, issued in July 1990, establishes that corporatisation and later privatisation can be effected only with the approval of the so called workers' councils. Nonetheless, it allows for a wide variety of procedures: sale of entire firms, sale of assets, liquidation, free distribution of shares, and creation of holding companies. A Ministry of Ownweship Change has been established to supervise the process and specific financial institutions to facilitate it. Five large state firms were sold to the Polish public in early 1991, and 200 more were sold to foreign investors in the same year (Gelb and Gray, 1991).

In the ex-German Democratic Republic, 500 disincorporations had been concluded by January 1991 through the state privatisation agency, the *Treuhandanstalt*, consisting of sales of both entire firms and spin-offs to "qualified" West German and foreign investors, out of a total of about 8,000 large state firms to be privatised. Other advances include the return to their previous owners of one third of the 11,000 small and medium-sized nationalised enterprises, as well as the leasing to private individuals of approximately 7,000 small shops (Gelb and Gray, 1991: 22).

Although privatisation has proceeded much more slowly in the other East-Central European countries under transition - Czechoslovakia, Bulgaria, Yugoslavia and Romania, it remains as a first priority of reforming governments striving to institute a full-fledged market system in their economies.

### 1.3. The case of the ex-Soviet Union

The above is also the case in Russia and the other nations of the ex-USSR where neoliberal winds are also blowing hard. The privatisation process in this region, though, faces two fundamental obstacles: the absence of a true entrepreneurial class and the lack of an appropriate infrastructure for private economic activity - commercial banks, regulatory institutions, communication networks, money markets. Although other reforming East-Central European countries are making progress in building a capitalist infrastructure, the absence of an entrepreneurial stratum is a major difficulty faced by all ex-socialist nations under transition.

One of the main objectives of privatisation in the ex-Soviet Union has been to directly contribute to create such a new class through the sale of assets to the public in what is expected to be a voluntary privatisation. This initiative has encountered a mild response on the part of ex-Soviet citizens. So far the public has offered only 10 to 20 million rubles a year to purchase property, while the value of industrial assets to be privatised amounts to approximately 1.5 trillion rubles; this implies that it would take from 75 to 150 years to sell those assets through public auction (Iasin, 1991).

Given such a public indifference, alternative privatisation procedures have been proposed, including compulsory administrative transfer of control over assets to holding companies; compulsory take over of state firms by consortia made up of large banks, contracting firms and independent entrepreneurs; and, public distribution of transferable assets to the entire citizenry (Flaherty, 1992). However, as even some advocates of neoliberalism have warned, the fact is that "a hasty privatisation will inevitably result in the transformation of the *nomenklatura* into the direct owners of a significant part of de-nationalised industrial assets or enable the shadowy economy 'mafia' to buy up most key holdings" (Flaherty, 1992: 7-8).

In any event, it is becoming increasingly evident that it is unlikely that the private sector can soon become the leading economic force in the ex-USSR. Even some noted advocates of neoliberalism are already cautioning that "*the future of the fledgling private sector*



would depend to a large extent on the evolution of the state sector over the next fifteen or twenty years, and [that] the 'commanding heights' of the economy must remain under government control during this period" (Nekipelov, 1990).

In effect, as the initial euphoria with the launching of capitalist reforms has receded, both reforming governments and their neoliberal ideologues have come to realise that a strong state will be indispensable to carry through their programs. This view has been present even in government plans under Perestroika as an acute analyst has observed: *"For all its genuflections to the free market, the Shatalin Plan implicitly assumed that a strong state would be required to deal with all the vital questions that were studiously unaddressed in the 500-day program, such as unemployment, escalating social tensions, and the administrative maintenance of supply linkages"* (Kliamkin, 1990).

Interestingly enough, a model that is beginning to be considered by ex-Soviet neoliberal advocates is that of the authoritarian regimes of East and South-East Asia. Flaherty, citing another critical observer (Danilenko, 1991), has pointed out that such neoliberals are abandoning their original antistate populism and are now calling for the *"solicitous strong hand of a state which is both ready to correct and assist our entrepreneurs"* in imitation of the Asian NICs (Flaherty, 1992: 11).

Regarding the opening up of the ex-Soviet economy to world competition, the underlying belief has been that the introduction of market forces to any industrial structure will automatically generate innovation and productive efficiency. The experience of the German Democratic Republic so far has revealed that such belief is a fatuous myth. After its integration to West Germany on July 1, 1990, and the abrupt opening up of its economy to foreign competition effected in the following months, industrial production and GDP plunged by 50 per cent and 20 per cent, respectively, in that year; GDP dropped a further 15 per cent in 1991 when unemployment reached 2 million (Gelb and Gray, 1991: 16). As a result the GDR fell from being the thirteenth world's largest producer in 1989 to be the fiftieth by the end of 1990 (Flaherty, 1992: 2).

In the case of the ex-Soviet Union, conditions are so adverse that exposure to outside competition will also have devastating results (Flaherty, 1992):

- more than half of its productive assets are obsolete,
- only less than 30 per cent of its serial machine-building production could compete in world markets,
- two fifths of all ex-Soviet enterprises are not profitable even today,
- at least half of those enterprises would collapse if they are exposed to international competition, laying off up to a third of the labour force.

Given these vulnerable conditions, it can be expected that a development strategy along neoliberal lines would make the newly independent republics to slide down to the ranks of the Third World, even more now when they lack the scale economies, the supporting productive infrastructure, and the political leverage of the former Soviet Union. As is the case of Third World countries, the new republics will be seen by advanced Western nations as large market outlets for their industrial and food products, as well as richly endowed suppliers of raw materials for their economies. Hence the reference to the region in Western circles as "capitalismos new frontier".

That also seems to be the fate of most Latin American countries under the reign of neoliberal thought, where conditions are similar to those just outlined in East and Central Europe. The only advantages that Latin American nations may have over these latter to become full market economies, are that they have progressed more in developing both an entrepreneurial class and a productive infrastructure supportive of capitalist production, and that they are not faced with either major racial and ethnic conflicts nor exacerbated regionalisms and/or nationalisms, as is the case in East and Central Europe. Otherwise, both regions face similar problems of widespread poverty, productive inefficiency, high unemployment, low productivity, and so high vulnerability of their economies to outside competition, as Latin American and East-Central European

countries alike are embarked on the same development path and profess the same faith in the principles of neoliberal thought.

## 2. Neoliberalism and redistribution

As the previous discussion showed, neoliberalism has the same face in every latitude regardless of the economic and social organisation of the societies where it happens to take its hold. Neoliberal reforms and strategies involve essentially the same objectives, the same instruments, and the same policy measures, as all stem from the same theoretical views and underlying ideological conceptions.

These remarkable similarities mainly derive from the fact that those experiments are guided by the same set of prescriptions whose adoption is required by international agencies, i.e., the International Monetary Fund and the World Bank, as a condition for providing financial aid and technical assistance.

The logic of neoliberalism is the logic of the market which propounds to build on the strongest and the ablest. Therefore, a free market system will beget by definition a state of social inequality. By extension, a development strategy based on that logic will hardly accomodate redistribution goals to reduce social inequalities as a central endeavour.

The above analysis of neoliberal reforms in Mexico and East-Central European countries showed that what they are inducing instead is a highly regressive redistribution of income and wealth. The indiscriminate privatisation of economic activities is propitiating the formation and/or consolidation of large, powerful monopolies, as state-owned firms are being sold only to "qualified buyers" which can be either the original owners, new capitalists, the *nomenklatura*, or even investors operating in the underground of the black economy, as may be the case of the ex-Soviet Union. Foreign investors are also among the main beneficiaries in both cases.

Most East-Central European countries are now beginning to create new institutions to deal with the problems that inherently entails a capitalist order, mainly unemployment, homelessness, malnutrition, lack of social security. But, in a context of transition to such an

order, in which the market has to be introduced as the supreme mechanism for resource allocation and economic regulation, no redistribution policies are envisaged nor can be conceived of. They will have to be implemented once the market fulfills its historical task of maximising production and generates the inequalities that will inevitably come with such productive maximisation.

In the case of Latin American countries, Mexico in particular, redistribution objectives have been gradually downgraded and increasingly subordinated to the attainment of economic goals over the last decade, as the neoliberal approach has taken its hold. Although one of the fundamental purposes of the government program of the De la Madrid administration was to create jobs and improve income distribution "among families and regions", its overall strategy was intended to fulfill four central objectives:

- 1) to preserve democratic institutions;
- 2) to overcome the economic crisis that had erupted in 1982;
- 3) to restore the conditions for economic growth;
- 4) to initiate the required changes in Mexico's economic, political, and social structures (SPP, 1983: 12).

To attain the second objective drastic stabilisation policies were adopted, mainly austerity measures, in accordance with the requirements of the agreements that the government signed with IMF and the World Bank right from the outset. As a result, in the De la Madrid period economic growth was equal to zero in average, agricultural production slumped by 70 per cent, unemployment sharply increased from 1.7 up to 8 million, unused production capacity reached almost 50 per cent, wages lost 50 per cent of their purchasing power, and the ability of Mexicans to consume foods with high proteinic value plummeted by 89 per cent (Palacios, 1989). Under these adverse, stagnant environment, redistribution was more a rhetorical posture for legitimisation purposes than an actual government undertaking.

The Salinas administration in turn postulated other four cardinal objectives:

- 1) to defend national sovereignty and preserve Mexico's interests in the world;
- 2) to expand democratic life;
- 3) to restore economic growth with price stability;
- 4) to raise "productively" [quotes are the author's] the living standards of Mexicans (SPP, 1989: 16).

Redistribution, as can be appreciated, is also virtually absent in this governmental scheme. Living standards are to be raised but only as a result of increasing productivity levels. In its 1989-1994 National Development Plan the Salinas administration states that "the global strategy rests on the increase in productivity to promote advances in social betterment. It seeks to fully use the productive potential of Mexicans for raising of their own living conditions" (Palacios, 1989: 6).

The subordination of social objectives to economic goals was even more clearly established in the Plan which asserts that the priority is *"first to grow with [price] stability and only to that extent to augment global resources to respond to [social] demands"* (SPP, 1989: 54).

The only direct redistribution objective of the Salinas administration has been the "erradication of extreme poverty", which seemingly reveals that this latter is conceived of as a separate, uncomfortable phenomenon that can be detached from the production processes of the economy and be given separate treatment, as an undesirable social disease whose eradication is only a matter of administering the appropriate medicine.

The chief instrument for such purpose has been the Solidarity National Program (PRONASOL). Inspired in similar experiences in South American countries, this program is a figure with an ostensible populist flavour, and has actually been used as a means for gaining or regaining votes for the ruling party, specially in communities or groups where voting has been adverse or is declining. As a matter of fact, the program is a mere relabeling and reshuffling of other programs and expenditure items - particularly related to so-

cial infrastructure - that had been executed in previous administrations, but as part of normal budget exercises.

The other major task of PRONASOL is to give the present regime a soft, social-oriented image so much needed to compensate for the spread of poverty, the stiff repression on wage increases, the growing authoritarianism of President Salinas, the increasing tightness of fiscal policies, and the blatant reconcentration of wealth and financial power in private groups propitiated by the neoliberal measures undertaken by this government.

In sum, redistribution is being approached in Mexico through a populist program whose point of departure is a neoclassical conception of poverty as a separate by-product of a free market economy.

## **2.1. Regional redistribution**

Given their outward orientation, neoliberal development strategies are characterised by a virtual disregard for territorial considerations. The liberalisation of trade and the opening up to foreign investment and world competition lead governments to conceive of their countries as single, homogeneous units vis a vis other countries. The need to maximise exports leads in turn to promote exportable production wherever it happens to be located. The other way around, the vital need for foreign investment inherent in neoliberal models like Mexico's, renders irrational any attempt to impose restrictions on the location of multinational firms in any spot of the national territory. Given the harsh competition over productive investment that nowadays exists in the world, multinational corporations have a more powerful leverage over national states to locate their subsidiaries wherever they decide to do so within a given country, for otherwise they would threaten with fleeing to other of the many nations that crucially need foreign capital.

What governments of neoliberal persuasion have come to do is to adopt the figure of the so called "neutral state" which is said to privilege no region or sector in particular in the allocation of investment, but rather makes full use of comparative advantages of each region according to their respective productive specialisation (Daher et al., 1990). This is the case of Chile, specially during the last

decade of the Pinochet regime, but also resembles the position assumed implicitly by the Salinas administration in Mexico. The fact is that macroeconomic policies do have urban and regional impacts greater than those generated by direct public investment, and often contradict regional development policies.

The "neutral-state" position is actually the opposite of the purpose and essential spirit of regional policies which by definition presuppose to undertake deliberate actions in response to social and economic territorial inequalities. What happens is that "neutral" policies end up favouring the best endowed regions in detriment of the less favoured ones. It can be expected, therefore, that in time original inequalities will be reinforced as a result of such unequal allocation of investment and government support over the territory (see Jordan and Villarroel, 1989, for a discussion the Chilean experience).

The fact is that, as redistribution instruments *par excellence*, regional policies have become an historical category in the sense that they are integral part of the ideology and the policies of a welfare, Keynesian state. Hence, such policies, in their genuine sense, can only be adopted by a state with that orientation, that is one whose point of departure is the recognition that the free market inherently begets unemployment and an unequal distribution of income and wealth: a state one of whose main functions is to promote redistribution in order to palliate market inequalities.

The rationale for territorial policies as an indispensable instrument for promoting redistribution may be found in Alden and Morgan's (1974) well-known reasoning that:

*"For an individual, life expectations and self-realisation vary not only as a function of his place in the social fabric, but also with his location in the spatial structure. If this is accepted, it follows that spatial policy can contribute to achieve a greater social equity, or in the last instance, that the attainment of social equity necessarily requires actions and policies directed to the spatial structure (cited in Boisier, 1981: 21)."*

In view that within a neoliberal scheme social equity is considered a desirable side-result but not a sought-for objective, genuine regional redistribution policies hardly fit into a development strategy with such orientation. For, how can they be accommodated into the politico-economic setting of either Mexico or the reforming republics of East and Central Europe?

The fact is that no true regional policy can be envisaged or implemented in an economy wide open to a vitally needed foreign capital. The internationalisation of national economies is a way of throwing them out into the processes that dominate the world scene, specially the powerful drive toward globalisation. But, globalisation is nothing more than the reign of transnational corporations across the world map, and more in particular within the open boundaries of developing countries or of those embarked in a thorough and sudden neoliberal transformation of their social and politico-economic structures.

As Stuart Holland (1976; 1979) has remarked, in such a context a handful of large multinational companies gradually come to dominate the outcome of both national and regional policies, as they control most of the what, why, when, how, and where of resource allocation. In this case, only by harnessing the power of the multinationals through an expanded role of state enterprises will the state exercise a sufficient strategic control over national economic resources, and so be able to carry through government policies capable of coping with existing regional inequalities (Holland, 1979).

But, as discussed before, the backbone of neoliberal strategies is precisely the "disincorporation" of public enterprises and agencies with which the state is relinquishing what seems to be the most effective instrument for harnessing the leverage of one of the most powerful actors in the national scene of dependent countries immersed in a context of globalisation along a neoliberal trajectory. Will this lead to the final demise of regional policy?

Within the foreseeable future, and in the original sense of this latter, it seems it will, at least as long as neoliberalism continues to be the dominant ideological force in both East and West.



## 2.2. The Vanishing of regional policy in Mexico

That seems to be the case in Mexico where that kind of redistributive policies have come to stop being among the main priorities of neoliberal regimes. It was between 1970 and 1982 when the Mexican state designed and implemented the first comprehensive, full-fledged regional policy at the national level as part of a vast redistributive effort intended to abate the wide social and economic inequalities that had accumulated over the past several decades (Palacios, 1985; 1989b). This was particularly on the part of the Echeverría administration (1970-1976).

Under the De la Madrid period (1982-1988), regional policy began to be relegated under the burden of the crisis the Mexican economy was going through by those years, and as a result of the orientation and character of the new development strategy that government began to implement. Nonetheless, one of the basic guidelines of the 1983-1988 National Development Plan was still the "Decentralisation of National Life", and one of the Plan's major chapters was entitled "Regional Policy" proper (SPP, 1983).

No reference is made to such expression in the Salinas 1989-1994 National Development Plan. Only a two-page section is devoted to "Regional and Urban Development" within the chapter on the "Productive Betterment of Living Standards" (SPP, 1989: 108-109). Although the National Solidarity Program (PRONASOL) has peasants and indigenous ethnic communities among its target groups, and large and increasing amounts of federal resources are being devoted to its execution, this program is far from constituting a regional policy as such. As it was discussed above, it earmarks its actions so as to make them appear as coming from the ruling Institutional Revolutionary Party (PRI) for electoral proselytism purposes.

A true territorial redistribution policy in Mexico has to begin by reverting historical patterns of federal public investment which means to reduce its overwhelming concentration in the Federal District, the seat of the nation's capital city where half of the Mexican economy and Mexican life is concentrated. The allocation of public investment is perhaps the most direct and revealing measure of the social, sectoral and regional preferences of a government, as well as

of its political commitment to either equity or efficiency objectives (see Palacios, 1985; 1989b).

As Tables 4 and 5 show, even during the period of most active redistribution (1970-1982) regional investment patterns were not reversed, although concentration at least was not augmented over that dozen years. But in what constitutes a most significant outcome, the geographical concentration of federal public investment in Mexico City under the last two administrations observed an abrupt and substantial increase relative to historical patterns. This is highly revealing for it means that the adoption of a neoliberal development strategy entailed a drastic territorial reconcentration of public investment in the region that has secularly been its main beneficiary. It is also a reflection of the downgrading and increasing relegation of regional redistribution policies by these two governments.

**Table 4** Mexico: federal public investment by state, 1959-1976 average annual share by governmental period

State	1959-64	1965-70	1971-76
Total	100.00	100.00	100.00
Aguascalientes	0.49	0.63	0.45
Baja California	3.26	2.08	2.51
Baja California Sur	0.43	0.89	0.98
Campeche	0.60	0.74	0.75
Coahuila	4.57	4.12	3.64
Colima	0.93	0.61	2.36
Chiapas	2.83	1.85	0.90
Chihuahua	4.10	3.78	3.27
Durango	1.57	1.33	1.19
Federal District	21.18	23.59	22.71
Guanajuato	2.41	3.60	2.79
Guerrero	3.11	2.17	2.63
Hidalgo	1.15	1.41	3.39
Jalisco	2.82	2.72	3.11
Mexico State	4.04	3.75	4.60
Michoacan	3.51	1.95	4.20
Morelos	0.57	0.81	0.74

Nayarit	0.45	0.51	2.62
Nuevo Leon	3.49	2.49	0.86
Oaxaca	2.35	2.07	2.34
Puebla	3.36	1.86	1.73
Queretaro	0.53	1.29	0.99
Quintana Roo	0.66	0.42	0.83
San Luis Potosi	1.42	1.29	1.31
Sinaloa	5.20	4.17	2.45
Sonora	2.86	2.25	3.47
Tabasco	4.55	5.45	4.55
Tamaulipas	6.54	8.16	5.61
Tlaxcala	0.34	0.35	0.48
Veracruz	8.96	11.73	10.62
Yucatan	0.85	1.28	1.08
Zacatecas	0.87	0.67	0.84

Source: Calculated with data from Ian Scott (1982), Urban and Spatial Development in Mexico. Table 3.27, for 1959-1970; from SPP (1980), Información sobre Gasto Público, 1969-1978. Table II.13, for 1971-1976; and from the Annual Presidential addresses, Statistical Appendix, Table 3, for 1979-1986.

**Table 5** Mexico: federal public investment by state, 1977-1991 average annual share by governmental period

State	1977-82	1983-88	1989-91
Total	100.00	100.00	100.00
Aguascalientes	0.39	1.54	0.73
Baja California	2.20	1.84	1.65
Baja California Sur	0.97	1.09	1.11
Campeche	2.38	6.08	4.58
Coahuila	4.82	2.21	3.37
Colima	1.98	1.20	0.62
Chiapas	1.01	2.01	1.58
Chihuahua	3.33	1.78	1.83
Durango	0.99	1.01	1.16
Federal District	22.48	30.55	34.20
Guanajuato	1.84	1.46	1.39
Guerrero	1.93	2.08	2.43

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Hidalgo	2.03	2.05	2.15
Jalisco	2.41	2.74	2.56
Mexico	3.33	3.58	3.91
Michoacan	3.01	6.79	3.55
Morelos	0.66	0.67	0.91
Nayarit	2.89	0.62	1.08
Nuevo Leon	0.82	2.48	1.90
Oaxaca	2.52	2.61	3.14
Puebla	1.41	1.71	1.40
Queretaro	0.81	0.89	0.71
Quintana Roo	0.86	0.81	0.93
San Luis Potosi	1.15	1.48	2.30
Sinaloa	2.53	2.01	2.40
Sonora	2.18	2.19	1.48
Tabasco	7.77	2.90	2.69
Tamaulipas	5.32	2.82	2.13
Tlaxcala	0.40	0.42	0.47
Veracruz	14.01	8.76	9.38
Yucatan	0.80	1.01	1.60
Zacatecas	0.77	0.63	0.66

Source: Calculated with data from SPP (1980), *Información sobre Gasto Público, 1969-1978*, Table II.13, for 1977-1978; and, from the Annual Presidential Addresses, Statistical Appendix, Table 3, for 1979-1986.

If we consider the character and purposes of PRONASOL, what this reveals in addition is that the resources of this program have mostly benefited target groups located in urban areas, mainly in Mexico City where over a third of total federal investment is being concentrated, a proportion with no precedent even in the years of the Mexican Miracle when the overwhelming economic and demographic concentration in the nation's capital city took place, when no territorial restrictions whatsoever were imposed to economic growth wherever it happened to take place.

If President Salinas succeeds in his attempt at making its strategy an irreversible political commitment through the North American Free Trade Agreement, the prospects for a deliberate, equity-oriented redistribution of income and wealth both in a territorial and a social

sense are far from encouraging. However, the high social costs that his neoliberal scheme is implying will add to the high social debt that has accumulated over the last several decades thus raising social discontent up to boiling levels. This may lead to mounting pressures so as to make redistribution measures a political necessity, as it already happened in the late 1960s, when the Mexican Miracle was over.

In the case of East and Central European countries the problem is that for their societies redistribution has been a permanent reality, and now are beginning to face a new order that will reverse such reality. A free market system is quite fast in producing inequality, but overly slow in redistributing at least part of the goodies it is called for to produce. Social and political tensions there may thus come to the boil sooner than in Mexico, as it is already happening in the Russian Federation.

### **3. Concluding remarks**

In spite of the euphoria about neoliberalism shared by governments, politicians, capitalists, and intellectuals around the world during the last decade or so, the view that has recently begun to emerge among an increasing number of advocates in the sense that a strong state will be required either for implementing development strategies or carrying through politico-institutional reforms along neoliberal lines points to grow stronger every day. The fact is that both advocates and critics are converging in that the state should be brought back in again, as has already happened in the past.

The need to restore economic governability, to deal with mounting social tensions, and to sustain basic supply linkages is making clear in the ex-Soviet Union that a strong state should be kept at least to ensure the success of neoliberal reforms. In Mexico and Latin America, a strong state will also be required both to take to completion their neoliberal reforms and to manage the tensions that the growing inequalities caused by their strategies are producing. This need for a solid state coincides with Stuart Holland's (1979) proposal of a re-mixing of economies through an extension of public enterprises so as to give the state direct means to harness the power of multinational corporations and to ensure the desired outcomes of both national and regional policies.

The problem is that Latin American governments are now blinded by the magic of the market and fail to see that need. Perhaps our societies will have to wait until such blind faith that nowadays government in East and West profess for neoliberal principles begins to recede and eventually fade away, as has been the case with market utopias more than once in the pages of modern history.

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# **Part III. The Role of International Organisations**

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## **How the West can assist regional development in Central and Eastern Europe<sup>1</sup>**

### **1. The goal of transition**

Regional development in Central and Eastern Europe should be seen in the overall context of transition from centrally planned to market economy. A useful approach to study the conditions for transition is to take the angle of technological change, because the most successful economies are characterised by rapid and continuous technological change.

The study of technological innovation in market economies shows that the market does not automatically produce technological change. It shows that in all competitive economies government policies play an important role. It is not only competition but also cooperation which is decisive. Innovation and modification of products and production processes

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1 The text only represents the views of the author.



ses rests on an extraordinarily complex variety of instructions, social habits, ideologies and expectations, and it appears that even firm and market structures are to a certain extent outcomes of these underlying social structures. In the West it became apparent that social change is a precondition for technological change. It became obvious that technology is not a tangible artefact, but a combination of knowledge, of competences, of equipment and machinery, of organisation and of culture. In modern flexible production systems, the organisational attributes play the key role. Increasingly, factors of production are not static and given, but human made. In modern production system, human skills and science play an increasingly important role.

Having in mind the available knowledge about technological change in the most advanced production systems, the tasks of transition become much larger, compared with an exclusive focus on the introduction of market mechanisms.

Cooperative networks in regions are important. Technological change has a territorial component to the extent that the physical proximity of cooperating firms may be an important element in an innovation system. Generally the quality of the material, social and cultural infrastructure in a region is a major determinant of an innovation system.

During the last years the regional aspect of science and technology policies and the science and technology component of regional policies came to the fore in the OECD countries<sup>2</sup>. New opportunities emerge also in this field for the Central and Eastern European regions as decentralisation in all fields proceeds. But they are confronted with the heritage of the socialist past which is, in my view, often not sufficiently recognized by Western experts and politicians dealing with cooperation with Central and Eastern Europe.

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2 See: Regionally-based technology transfer strategies draft report, working party nr.6, Regional Development Policies, OECD, 1991 and Promotion of New Technology as a Means to Regional Development - The Relationship between Technology and Regional Policy, OECD, 1987.

## 2. The starting point of transition

Regions in centrally planned economies differed in many respects from regions in developed market economies. Nowadays, Central and Eastern European regions are in the following respects confronted with the heritage of the socialist past. I will summarily list ten characteristics.

1. Regions in the administrative sense are in Central and Eastern Europe weakly developed.
2. Often, administrative units on the regional level do not coincide with historical/cultural regions.
3. Under socialism a de-regionalisation took place and few inter-sectoral links on the regional level developed.
4. In the regions and localities social life is often centred around one or a few large enterprises.
5. Few small and medium-sized enterprises exist.
6. In the regions the infrastructure, especially with regard to communications, is weakly developed.
7. Generally, regions in Central and Eastern Europe are less diversified in their economic structure.
8. In Central and Eastern Europe, discrepancy in development between capitals and other towns and between regional urban centres and the lagging countryside, is much larger than in comparable Western European countries.
9. Due to socialist rule, society became atomized and social and economic life became organised vertically. This complicates the emergence of a region as an organic entity.
10. Networks between public authorities, Research and Development institutions and enterprises are in Central and Eastern Europe weakly developed.

In the regions in Central and Eastern Europe it becomes obvious that the change in social and economic conditions for technological change is lagging behind the creation of the institutional marco-

economic preconditions for market economy to function. In the first phase of transition, under conditions of depression, enterprises are confronted with the quest for survival. State enterprises usually react not strategically and try to avoid organisational changes. They are hardly considering technological change and Research and Development is the first on which to economize. Newly emerged small and medium-sized enterprises are mainly in services. Therefore, in the first phase of transition, conditions for technological change seem to deteriorate.

With respect to regional development in Central Europe, it seems that there are many obstacles in transition which cannot be easily removed at the national level. Local monopolies may hinder restructuring, local authorities may squeeze profitable private enterprises, local bureaucracies, persisting in old modes of behaviour, may hamper economic development and local political elites may not cooperate with local economic elites.

Often, at the micro-level it appears that elements of the old system are often very resistant. Communism had a deep impact at the micro-level. Even within enterprises, departments had often little contact with each other. Horizontal communication channels were blocked and mistrust was widespread. With the political revolution, above mentioned blockades at the micro-level often were not unlocked. In many cases, local communist bosses stayed in power although they changed into confessed capitalists. But their mode of behaviour remained unchanged. The same applies for the way of thinking of most people. Generally, one can say that a change-over from a vertically organised society and economy towards a more decentralised and flexible one is very difficult to accomplish. This becomes especially visible at the micro-level. In the towns and regions civil society was suppressed and public life atomized. Local decision making was almost absent, local interest only played a secondary role in politics. The task is now to build up a new local society and local ecology.

### **3. Local development strategies**

Strategies should be elaborated to guide the development of local communities. It appeared that often the problematic in a specific

locality remained hidden in the sense that it was put under taboo and only partially perceived by the involved actors because the problems could not be discussed, became traumatized and therefore also paralysed action. One method to reveal these problems is to give self-help training courses to cadres within selected regions or towns, bringing them together around a certain problematic. This may be regional economic development in general or the development of one sector in particular. In Hungary there is already some experience with these self-help courses<sup>3</sup>. In these courses also the method of psychodrama is used to reveal non-outspoken conflict material and to enable the participants to speak about in. In such a way, with help of participants, the problematic of a region may be diagnosed. Moreover, during the train sessions, measures may be discussed to overcome the problems. Eventually, external experts may be invited to help participants in analyzing the problems of the region.

In Hungary it appeared that these training courses were successful and contributed to the establishment of new horizontal communication networks, necessary for a regional economy to function and necessary for bringing about innovation and technological change. These courses may act as catalysts for change and transition, may further cooperation at the level of localities and regions and contribute in counteracting the emergence of a parasitary kind of capitalism.

I mention this example to make clear that in my view regional development encompasses all aspects of life and the study of it should be inter-disciplinary in character.

Generally, cooperation between local authorities, enterprises and scientists may free local synergies. Strategies to explore the creativity and expertise of the local scientific community are crucial for the survival of this community, given the cleavage between

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3 See: Zichy, L. Psychodrama in der Perestroika - Ungarn im Wandel, in Psychodrama, Juni 1990, nr. 3.

economic life and the fact that science appears to be one of the first potential victims of transition.

There seem to be various means to redirect activities of scientist towards serving the needs of the local community. There is already the experience in some post-socialist countries with innovation centres. It is yet too early to assess their experiences. Even in the West innovation centres constitute a relatively new phenomenon. Especially in the USA and in Germany they mushroom. Above all in economically lagging regions they fulfill a role furthering innovation and economic development. While attending a conference about East-West cooperation in innovation centres, it appeared that many in the East see innovation centres as instrumental to combining the R&D capacities, the entrepreneurial spirit of unexperienced small businessmen and the services of public authorities at local and regional levels. But I also got the impression that many from the East see innovation centres as the panacea for all problems

Innovation centres may function as:

1. **Business incubator centres.** The innovation centre may provide new businessmen with space and facilities such as communication services, technical advice etc.
2. **Technology centers.** If the centre is linked with a university or research institution, scientists may be involved in the design or improvement of products or production processes. The centre may fulfill a function in technology transfer, especially if the centre participates in the international communication network of innovation centres.
3. **Service centres.** Services may include advice on how to obtain credits, how to deal with public authorities etc.
4. **Training centres.** The centres may provide training courses for managers.
5. **Commercial centres.** The centres may fulfill the role of interchange between various enterprises. Synergetic effects may include commercial cooperation between the enterprises in the centres and those of other innovation centres.

At local and regional levels innovation centres may create new modes of cooperation between local authorities, new entrepreneurs and universities. These centres may even fulfill a role in the bringing about of regional cohesion.

All this depends on initiatives at the local level. Of course, many will say that it is difficult to start up such initiatives due to lack of money. But it may primarily be a question of bringing together already existing resources and building upon already existing networks. For instance, scientists of local universities may use part of their time, and maybe that of students, to be active in innovation centres. Local authorities may provide already available empty buildings.

An innovation policy should not only or primarily be oriented towards the production of world-wide competitive goods. It should be geared towards every innovative activity which may be significant locally and which may improve the general situation of the locality or region. For instance, the housing market may be organised in a more flexible way, better adjusted to the needs of the people; public services may be reorganised in order to better serve the population. Non-productive or counter-productive activities may be stopped, locally bound markets may be created for new goods, i.e. various kinds of new services which were unknown under socialist rule.

To illustrate a broad conception of innovation I will take the example of Brussels. Here a good infrastructure for the bike and a better public transport network may make an end to traffic jams and may make life more comfortable. A stronger municipal council may put an end to speculation and the destruction of historic Brussels and may so contribute in making Brussels more beautiful and livable. It has nothing to do with high-tech and does not have an immediate impact on economic development. But an innovative and creative atmosphere, enhancing the well-being of the citizens, may be conducive for economic development in the long run.

Coming back to Central Europe, such an innovative atmosphere in a region contributing to welfare and well-being, may free and attract forces which may in turn enhance international competitiveness of

enterprises in the regions as well. As mentioned above, innovative firms operate in a network of other innovative firms, in the context of an innovation conducive regional infrastructure. Such a local innovation system cannot be created overnight. It asks for a concerted long-standing effort of many involved parties. I am convinced that in every local community there are many hidden resources, and that it is not primarily money or the lack of foreign assistance which is the main hindrance in developing these potentials.

At the same time, in discussing about the development potentials of the localities in Central and Eastern Europe, one should not forget that the post-socialist economies are opening up and confronted with outside competition and, in a broader sense, with processes of globalisation. But the post-socialist economies are excluded from the core of the world economy in which production endowments are increasingly influenced by multinational enterprises. The invisible hand is governing world-wide and national and regional policies only have limited possibilities to influence the largely autonomous dynamic of international capitalism. Thus there are certain limits upon the impact of policies on the regional and local level. But in order to use to the utmost the available manoeuvring space it is imperative to look at the most successful economies, especially those economies which succeeded in catching up, like the newly industrialising countries.

Generally, it can be observed that most successful economies have a certain degree of social and political cohesion. In my view also actors at the regional level may undertake actions to enlarge cohesion and cooperating at the regional level. This does not run counter with the principle of market economy and competition at the local and regional level. Especially in the field of the diffusion of new technologies and innovations cooperative networks are important.

The Central and Eastern European countries rightly stressed the importance of foreign direct investment for economic development. But often conditions for foreign direct investment are overlooked and foreign investment is scarce and concentrated in the capitals. It does hardly exploit local R&D potential. Moreover, there is little technology transfer involved with foreign direct investment and

technology transfer may be the result rather the cause of successful innovation policies at the regional level,

An analysis of developments at the micro-level highlights the importance of a bottom-up approach, at the national level and also on the level of East-West cooperation.

At the national level, in the Central and Eastern European countries a top-down approach pre-dominates, emphasising the introduction of macro-economic framework for a market economy. A sectoral approach predominates, reflecting the practices of the past. Also, decentralisation does not occur overnight and many activities are being steered at the national level.

## **5. The role of the West**

Also in cooperation between Western governments and the countries of Central and Eastern Europe, a top-down approach is pre-dominating. According to the G-24 data-base in Brussels, in which all assistance projects for the Eastern countries from the side of the G-24 countries and Western institutions like World Bank, EBRD and the EC are listed, there is, among the many hundreds of projects, only one project in the category of regional development. There were a few projects which may be grouped in the category "cooperation with the regions". Most of the money has been used for sectoral projects and measures related to financial stabilisation such as balance of payment support.

Of course, it should be known there are many East-West cooperation projects which are not in this database, because funded by other institutions, such as private institutions, professional groupings, regions and municipalities. For instance, there is a booming network of East-West twin-city relations and also regions in East and West began to cooperate.

But we may say that from the side of the Western governments and the Western institutions, charged with assistance to the East, regional development is a neglected issue and in general, a bottom-up approach is not favoured. This has several reasons. I will take the example of the European Communities for which I work.



In the PHARE programme, the recipient governments are asked to come with proposals although general priorities of the assistance programme are laid down in a memorandum, signed by both partners. In the first phase of transition, partly as a reaction upon state-socialism, in many post-socialist countries the pursuit of industrial policy, innovation policy, technology policy as well as regional policy was suspect. Regional policy and regional development project did not and still do not get priority. They are often exclusively associated with redistributive policies. This is a major reason why so few regional development project are in the PHARE programme. But there are additional complications. The DG XVI of the Commission of the EC, in charge of regional policies and the structural funds, can only deal with the regions in Central and Eastern Europe as far as there is a relationship with the regions on the territory of the Community. But there are projects related to regional development in Central and Eastern Europe, like the OUVERTURE programme, a programme of the mentioned DG XVI which supports inter-regional cooperation between EC-regions and regions in Central and Eastern Europe.

There are also other programmes of the Commission which indirectly support regional development. The European Business and Innovation Centre Network is subsidized by the Commission for its support of small and medium-sized enterprises as well as support for employment projects in the regions.

But, to summarize, in the overall cooperation efforts, regional development is a neglected issue. Apart from developing the existing cooperation programmes with Central and Eastern Europe, there are maybe possibilities to link up in one way or another with other programmes.

At least it would be useful to transfer knowledge about the experiences of a number of Community programmes for regional development, which to various degrees are related to science and technology. There is the STRIDS initiative and the REGEN programme, ENVIREG, INTERREG, REGIS PRISMA, TELEMATIQUE, RECHAR, EUROFORM, HORIZON and NOW. Moreover, there is the SPRINT programme for technology transfer, which also has a

regional dimension and the LEDA programme for employment creation at the regional and local level.

Probably, gradually more attention will be paid to the regions and regional development problematic, related to the sequence of transition phases and the changing assessment of transition problematic both by the Eastern governments as by the Western side. I have the impression that also inside the Commission and especially among those working for the PHARE programme, attention for transition the micro and meso level, and therewith for regional development problematic, grows.

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## **Developments in the Community's regional policies**

### **1. Introduction**

The Community's regional policies need to be understood in the context of its general development. The Community as a whole is set firmly on a course towards closer integration in the political, economic and social fields. At the same time, its principle decision-making body remains the Council of Ministers, which means that the Community, although it has distinctly non-national, shared institutions such as the European Parliament and Commission, retains in some important respects an inter-governmental character. However, the Council while representing twelve distinctive Member States with different levels of economic and social development, a varied political experience and cultural background, has been able to achieve considerable intergovernmental agreement on common policies. The apparent recognition of the unity of the Community by the rest of the world on a wide range of fundamental issues would seem to indicate the measure of this achievement.

The process of integration is, of course, ongoing. The most important step taken towards this end for some time has been the move towards the creation of a Single Market by 1993. With six months to

go, the main elements of a single market, especially the necessary legislative framework, are largely in place to allow the free movement of people, goods, services and capital across national frontiers.

Much, however, still remains to be achieved. For example, in the economic field, the Community does not yet have the fundamental symbol of economic unity, a single currency, while at the political level there is widespread recognition of a democratic deficit which is associated with the lack of powers of the elected representatives of the European Parliament.

## **2. The Maastricht Treaty on European union**

The Treaty concluded by the Member States in Maastricht in December 1991 paves the way for improvement in these and many other aspects of Community integration. Member States agreed to the creation of a single currency by 1999 at the latest and a central bank, while the role of the European Parliament was enhanced (but still falls a long way short of full legislative powers). More particularly, the new Treaty reflected Member States' formal commitment to the aim of economic and social cohesion as one of the central pillars of the political union. In other words, an integral element of the evolution of the Community will be the effort to ensure that its opportunities and benefits are widely shared.

Economic and social cohesion has a clear geographical dimension: consideration must be given to the needs of all regions to ensure that they are not left behind in the economic and social development of the Community.

### **Lessons of the past**

It is the task of the Commission to prepare proposals to carry forward the aims of the new Treaty. This work is ongoing but a major first step has been taken with the publication of the Commission's document "The means to match our ambitions" also known as the Delors II package(1). The Delors II package recommends the way forward in the light of the provisions of the new Treaty while an associated report, "The Community's Finances Between now and 1997"(2), indicates the

resource requirements. A third document "Assessment and Outlook"(3), provides the analytical foundations to both of the preceding documents as far as 'structural policies' for the achievement of economic and social cohesion are concerned.

These proposals will be discussed in the Council, European Parliament and the Economic and Social Committee before final agreement on the budget and the adoption of specific regulations by the Council of Ministers - probably by the end of 1992.

In considering the future of structural policies, the Community and the Commission will be seeking to build on the experience of the reform of the Structural Funds since 1988. The reform created for the first time a genuine Community regional policy; previous actions in this field were in support of national regional policy.

The impetus for Community regional policy can clearly be related to notions of equity. However, if Community regional policies can be described in terms of 'equity in their inspiration' they can also be characterised in terms of 'efficiency in their execution'. In other words, the policies pursued have not been those of a fiscal transfer to weaker parts of the Community but have been designed to improve the competitiveness of enterprise in weaker regions in the context of a single market. The stress on competitiveness is important: Community assistance is intended to compensate for regional disadvantages and not to subsidise inherently non-viable economic activities.

The definition of regions eligible for Community assistance has followed a typological approach: regions where development is lagging behind ("Objective 1"), old industrial regions ("Objective 2") and rural problem areas ("Objective 5b"). Particular priority has been attached to concentrating assistance on the Objective 1 regions with population of 70 million people or around 20% of the Community total in an attempt to ensure that they are not marginalised in an increasingly competitive environment. Up to 80% of the European Regional Development Fund and a considerable proportion of the other two Funds which make up the Structural Funds go to Objective 1 regions, mainly to improve their economic infrastructures in transport, telecommunications, energy and water. The prin-

ciple of concentration has been an important element of regional policies under the reform of the Structural Funds.

The Commission's Assessment and Outlook indicates that Community regional policies have had an important impact. They have financed up to 8% of total investment in the three weakest Member States - Greece, Ireland and Portugal which, with average incomes per head between a half and two-thirds of the Community average, qualify in their totality as Objective 1 regions.

Ireland and Portugal, and most of the Objective 1 regions in Spain, have experienced particularly rapid growth rates over the second half of the 1980's and shown clear convergence on the rest of the Community. The situation in Greece is less encouraging, and incomes per head have been declining relative to the rest of the Community.

A large body of literature exists to explain the causes of regional differences in growth rates. The Commission's own investigations are ongoing preparatory to the next generation of regional policies. Indications will be gleaned from both detailed evaluation of present policies on the ground and from more general comparative research. Early results confirm the widely-held view that there are no simple explanations or panaceas for regional development. The same factors produce different results in different locations. For example, a peripheral location is not always disadvantageous. Peripheral areas often make good locations for particular activities such as the tourist industries of the rapidly growing Spanish and Portuguese islands.

One message which emerges is that it is important to work with the regional endowment which exists, and develop it, rather than attempt to replace it. For example, a large agricultural sector, generally a negative factor in development terms - has been shown to be important as a source of entrepreneurial experience and supplementary income in certain regions which are growing rapidly. More generally, the presence on the ground of human capital and entrepreneurship together with a developed infrastructure and range of (producer) services have also shown to be of critical importance.

## Proposals for the future

The lessons of the past will be incorporated in the next round of regional policies under the Structural Funds beginning in 1994. For this period, the Commission has submitted proposals to the Council recommending increased resources. It is proposed that the total budget of the Community will grow by 5% per year in real terms. By 1997, Community resources would then be equivalent to some 80 billion ECU (1992 prices) or 1.37% of total GNP compared to a ceiling of 1.20% established for 1992. Community expenditures are thus considerably smaller than those which would be channelled through the centre of a federal state.

The additional resources are intended for three priority areas. In absolute terms, the increased resources allocated to these areas would be as follows:

- economic and social cohesion + ECU 11.0 billion,
- greater competitiveness + ECU 3.5 billion,
- increased external action + ECU 3.5 billion.

As part of the drive to increase economic and social cohesion the new Treaty of Maastricht also specifically called for the establishment of a Cohesion Fund, to transfer resources to the four weakest Member States to help them achieve the macroeconomic conditions necessary for a successful economic and monetary union i.e. to help them contain internal and external deficits which would otherwise threaten stability. This transfer, which will contribute further to the aim of concentrating resources on the less developed regions, is intended to ensure that recipients can meet Community environmental standards and finance new infrastructures contributing to trans-European transport networks.

Even with enhanced resources on the scale foreseen by the Commission, differences between the regions will remain significant. Incomes per head in the bottom ten regions of the Community are presently one-third of the top ten regions. Unemployment rates show even wider variation from 3% to 30%(4). Simple arithmetic demonstrates that regional economic growth rates which are 1% to 2% above the Community average have to be maintained for around

20 years to produce a significant degree of convergence in terms of GDP per head.

There are also significant disparities in infrastructural endowments in terms of levels and quality of provision as well as in terms of differences in technical specifications and systems of control of national networks in, transport, telecommunications and energy. One global indicator of infrastructure provision suggested that endowments in the top ten regions were three times those of the bottom ten. Viewed in terms of expenditure needs, it has been estimated that the Objective 1 regions of the Community require investment of 26 billion ECU per year (1992 prices) between 1994 and 2000 to improve endowments in transport, energy and telecommunications networks to levels attained in the rest of the Community. Set alongside even the enhanced resources proposed by the Commission these figures confirm the long-term nature of the catching-up process in the Community.

In pursuing its regional policies, the Community will continue to delegate as much responsibility as possible. The 1988 reforms introduced the principle of partnership where regional development plans are conceived and implemented in concert with national, regional and local authorities. The Commission believes that a genuine partnership contributes positively to the quality and effectiveness of the measures financed. Partnership is especially important to achieve the aim, indicated above, of identifying, and working with, the strengths and resources which already exist in the regions. Experience with partnership arrangements has been patchy and the Commission therefore proposes to strengthen the legislation calling for the association of, national, regional and local authorities in the preparation and implementation of operations.

The Commission also proposes to continue, and where possible to improve upon, two further principles introduced in the 1988 reforms: programming and additionality. Under programming, the Community no longer assists individual projects. Rather, actions on a number of fronts - investments in infrastructures, training facilities, innovation centres, etc. - are combined to produce programmes for economic



development and in that way to maximise overall coherence and produce synergies.

Community assistance is also conditional on additionality, i.e. that aid does not substitute for the efforts of national governments to promote investment for economic growth. In the case of one Member State, failure to meet the terms of the additionality principle disqualified it for Community aid for a period in 1991/92. The precise meaning of the additionality principle has, however, been subject to some uncertainty and further clarification is proposed for the next period. The Community will be looking, in particular, to promote greater transparency in financial flows from the centre to the regions.

### **Overall coherence in the development of Community territory**

During the period since the 1988 reform, the Community has been developing its ideas on spatial relationships at a more general level. While conventional regional policy concentrates its attention on defined regional problem areas, there are also issues which relate to the coherent use of the Community's territory as a whole(5). For example, congestion in the economic centres of the Community does not simply reflect a need for more infrastructural investment but suggests that too much economic activity may be crowding into too limited a geographical area. Member States recognise these problems themselves and generally adopt policies designed to encourage decentralisation.

The Community can add to the coherent use of territory by promoting the understanding of spatial relationships across national frontiers. In its most tangible form, the Community can encourage the development of trans-European networks in a way which improves the economic competitiveness of the peripheral regions, thereby contributing to their economic development potential. These networks - in transport, telecommunications and energy - were recognised in the Maastricht Treaty which specifically required that they be developed in ways which promote economic and social cohesion.

Over the coming months, the Commission in conjunction with the Member States will be attempting to realise this requirement. It will be important to ensure that the territorial dimension is taken into account at the stage of the development of the so-called outline plans for the networks. The Community will also be considering the networks in the context of growing relationships with non-Member countries in Scandinavia, in Central and Eastern Europe (and the Baltic area) and in the Eastern and Southern Mediterranean.

1992 is therefore a crucial year for the Community's regional policies. The Community institutions are debating not only these issues but also others which will set its course for the rest of the decade. These other issues include, of course, enlargement where it is clear that new Member States will join in the course of the 1990s. At the beginning of the next century the Community of Twelve may have become the Community of Twenty (or more). A clear lesson from past enlargements is that regional policies are among the first areas to experience often radical adjustment.

A cursory glance at the list of prospective new members confirms that this is likely to continue to be the case.

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The views expressed in this paper are not necessarily those of the European Commission.

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## **The LEDA Programme and the focus of its activities in Central and Eastern Europe**

### **1. Background**

Operating throughout the European Community, the Local Employment Development Action (LEDA) Programme of the Commission of the European Communities, DG V is concerned with the development of local economies to create additional employment through the improvement of their performance. The LEDA Programme was launched in 1986, with 12 areas in the Network and was further extended in 1988 to 24 areas and in 1991 to 33 areas. The areas vary greatly in terms of size and population and include rural, urban, mixed and industrial regions.

### **2. Objectives**

The LEDA Programme focuses on the development of the "know-how" of local employment development (LED) and its utilisation by all those involved in the development process. Its **objectives** are as follows:

- to generate this know-how from the experiences of different types of area. This includes developing further methods and techniques for local employment development and by bringing

appropriate theoretical approaches to bear in developing models of good practice;

- to disseminate this know-how to Community and national policy makers and administrators, and to local actors;
- to assist priority areas in the Community to apply this know-how in their efforts to achieve employment development.

LEDA adopts an **experimental, interactive, action-research approach** which involves animation and encouragement, as well as analysis and monitoring, across its network of areas in the Community. LEDA activity is a learning process. The Programme emphasises the mobilisation of people, agencies, businesses, and institutions, using existing resources and facilities without introducing new finance. LEDA does not fund projects. An extensive range of expert reports/strategy documents are available in addition to the various seminars and exchanges which are organised through the Programme to facilitate inter-area networking, information dissemination and exchange.

Central to the LEDA approach is **local capacity building** which seeks primarily to facilitate greater effectiveness by improving the responsiveness to employment stimuli. Local capacity building is a new and important domain of Community policy. It seeks to promote improvements in the local labour market through the development of local environments, leadership networks, and institutional responses.

Through its various animation and research activities, the LEDA Programme has been able to observe, analyze and further develop a series of methodological and substantive policy points which can be used for understanding local employment conditions and for making job creation actions more effective. Implicit in the Local Employment Development (LED) approach is the exploitation of under-utilised resources and the development of new and generic skills, new attitudes, know-how, innovation, new enterprises, new products, and new markets. This, in turn, enables the realisation of indigenous potential and the development of new sources of employment creation. The central role in LED strategies of

programmes to promote the creation and development of small indigenous businesses reflects the strong and growing emphasis on endogenous development based on an SME-centred economy as the route to autonomous, diversified growth and employment development at the local level. A further strong general trend is the emphasis on locally-based solutions to problems associated with economic and employment development and local autonomy in the formulation and implementation of strategies.

### 3. Animation and research activities of LEDA

The actions of the LEDA Programme are concentrated mainly in the 33 pilot areas, although the lessons of the Programme are disseminated to policy makers throughout the European Community and in Central and Eastern Europe. The activities in and with the pilot areas include the development, distillation and dissemination of know-how. In relation to **developing know-how** LEDA has:

- supported and monitored the development of local employment creation projects in pilot areas;
- developed a management training programme to help the managers of such projects to enhance their skills under the guidance of professional trainers;
- conducted regular review visits to pilot areas;
- set in motion and continues to support a series of mini-networks through which groups of areas develop common solutions to common problems.

**Know-how is distilled** through:

- expert's Workshops/Reports;
- Technical Workshops;
- a series of "synthesis" papers called Orientations, intended to serve a guidelines to building capacity, local employment strategies and good practice in urban and rural areas.

Finally, this **know-how is disseminated** through presentations to national agencies, to practitioners through an extensive programme

of international workshops and study visits on themes relevant to their needs. A quarterly Newsletter, a bi-annual Magazine and other publications are also other vehicles for the dissemination of the know-how acquired, to policy makers and practitioners.

#### 4. Lessons from the LEDA programme

The LEDA Programme has indicated that the development process must differ in form to suit local needs; it must be adaptable and flexible in order to change over time as new needs develop; it must combine "hardware" (eg. physical infrastructure, training and educational facilities) and "software" (know-how, skills); and it must seek complementarity of local action through the possibilities provided by supra-local actors. Therefore an area's stage of development is of paramount importance in designing and implementing development strategies appropriate to the area's needs. **Three broad stages of development** have been identified:

**stage 1 areas** possess some endowed resources but lack the software preconditions and local stimulators (quite often rural areas fall into the category);

**stage 2 areas** have outdated hardware and ineffective local management and resources;

**stage 3 areas** have attained an autonomous state of development and, generally are capable of economic restructuring. This typology serves not only as a useful means for designing appropriate strategies, but can also be of benefit in the determination of the extent to which external intervention may be required.

In relation to "software", a principal lesson learnt from LEDA is that in most localities facing employment difficulties, the **local capacity for developing and managing projects**, for using resources (especially financial resources), and for assuring the quality and effectiveness of interventions, is underdeveloped. Less-developed areas are particularly disadvantaged in all these respects and therefore suffer from cumulative deficiency. In industrial areas, there often appears to be a much stronger system of structural support built

around branches of state administration and local government with active involvement of professional groups, banks and trade unions. However, the existence of the latter is not in itself sufficient for success. Serious technical and managerial gaps often exist and an equally complex network of partnership relations may need to be developed between the various structures if new developments are to get underway.

The LEDA Programme places much emphasis on **networking and partnership** as key elements in the local development process. Partnership is important because local capacity building is a large, complex, long-term and multi-faceted process. As a result, it is important to stimulate the realisation of these characteristics and encourage cooperation and integration of development action. Local effectiveness can be greatly enhanced by developing common objectives and coordinating action in local economies through partnership.

The experience of the Programme has underlined that LEDA-type activities, focusing on **animation and "software" support**, can be invaluable in the efforts to create jobs through local actions. However they are complementary to more traditional elements of development policy, not a substitute for them. Neither financial aid in isolation, nor animation and know-how development in isolation will be sufficient to solve the problems a given area is facing: both need to be articulated together. In the short-term most areas will need small amounts of financial assistance in order to implement innovative projects, and in order to have the opportunity to adapt and apply new skills and ideas which they may acquire through LEDA-type activities. This form of support to stimulation is also an extension of capacity building as it amounts to learning-by-doing. This is an important transitional stage entailing a move away from reliance on external stimulation. Ultimately, the process aims to create sufficient local capacity for an area to be able to make the best possible use of financial and other resources through the structural policies of the Community and national policies/programmes.

## 5. LEDA and Central and Eastern Europe

### 5.1 Focus of LEDA activities in Central and Eastern Europe

Following the recent **association agreements** between the EC and Hungary, Poland and the CSFR, the Commission has received a request from the Ministers of Labour of these countries to cooperate on issues concerning employment policy and labour market restructuring. EC know-how Programmes like LEDA can provide opportunities for building links at an early stage between the Community and Central and Eastern European countries. In this context, the LEDA Programme will be seeking to forge links with appropriate organisations and programmes in Hungary, Poland and the CSFR over the next twelve months. The links will complement the activities of the PHARE Programme and will form part of a gradual process which could offer access to LEDA documentation and expertise.

In this way, Central and Eastern European countries although unable to join EC Programmes, at this stage, could gain considerable non-financial benefits by having on-going access to Community-wide know-how in a crucial area of EC interest, such as economic restructuring and employment. This know-how could then be usefully applied in the framework of aid programmes, such as PHARE and those of bilateral donors.

### 5.2 What LEDA can offer Central and Eastern European countries

It is essential that the LEDA Programme establishes at an early stage a clear view of the needs of Central and Eastern European countries and regions, in order to associate actors from these countries with the most relevant aspects of the Programme. Having done this, LEDA can offer the following:

- Opportunities for some areas in Central and Eastern Europe to become associates of the LEDA network, attending some of its meetings and benefiting from study visits and similar activities;



- Selecting, adapting and publishing in local languages LEDA documents, and providing access to data bases;
- Experts meetings and advice on issues of common interest in the Community and Central and Eastern Europe, such as methods for local enterprise and employment creation, links between national/regional/local levels in large-scale restructuring, and management development of national and local bodies involved in employment development.

## **Part IV. Regionalism and Regionalisation**

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### **Region, regionalisation, regionalism**

#### **Introduction**

The region, regionalisation and regionalism are at present the matters of mounting interest in Poland. Regionalisation has become a major political problem and is used as a fashionable political watchword. Its implementation is supposed to be a crucial element of the reform of the political, social and economic systems of Poland because of the changes it would introduce in the territorial organisation of the State.

In Europe, too, interest in regionalisation has been growing as a result of two conflicting tendencies. On the one hand, there is advancing integration and elimination of interstate barriers; on the other, separatism, nationalism and ethnic and cultural differences have been on the increase. This strengthens the role of regional and local communities and their self-government.

The interest in these topics is not always accompanied by the knowledge of their theoretical foundations and a deeper reflection on them. This, however, is indispensable both in the research on regions and regionalisation as well as in discussions about them and the formulation of programmes of changes in spatial structures.

This is the aim of the present article to present an outline of the theoretical background of the notions of a region, regionalisation and regionalism.

## 1. The region

The notion of a region gives rise to disputes and reflections concerning its "essence", definition, characteristics, division and types, cognitive and practical roles, etc. An accurate diagnosis of this situation has been offered by Tinkler (1973: 5):

*"... the region as such suffers from an identity crisis. (...) Certainly, much of the controversy surrounding the regional concept in this century derives from a lack of a precise terminology or theoretical background and an inability to provide satisfactory answers to a number of crucial questions".*

It can be supplemented with a statement by Beaujeu Garnier (1976: 79):

*"Few terms can be as imprecise as the word region. It means all things to all men, and is used in both colloquial language and in the technical vocabulary of economists and administrators, in both geographical descriptions and tourist brochures".*

While the concept of a region is used in a variety of disciplines history, economy, socioeconomic statistics, sociology and ethnography, political science, ecology and town planning, it developed in geography, and in the 1960's it became a key notion of a new discipline called Regional Science (cf. Isard 1956, 1960; Chojnicki 1981; Funck 1991).

In geography, the assumption underlying the concept of a region was that the Earth's surface could be divided into areas, each having its own character. Thus, the concept of a region as a marked area provided a basis for dividing the Earth into regions and for their geographical description. Hence the development of the concept of a region as an area of a strictly defined category. It was then used to study and model spatial differences and to make various territorial divisions.

The concept of a region is variously understood and defined. Odum and Moore (1938) mentioned over forty definitions. Since that time a lot of others have been added. Opinions on what a region is cover a wide variety of definitions with different underlying aims and assumptions not always clearly realised. Moreover, defects in the definitions make it hard to systematise the problem and distinguish main concepts.

As a basis of such systematisation, we shall adopt the distinction made by Dzięwoński (1967) between:

- 1) a region as a tool of research,
- 2) a region as a tool for action, and
- 3) a region as an object of knowledge.

He gives the following justification for the distinction (1967: 34):

*"The term 'region' is commonly used (...) in three different, but mutually linked senses corresponding to three different notions of 'a part of an area'. In the first two of these senses the division of space into areas regions serves as a tool either for intended research, i.e. for cognitive purposes, or for the organisation of a specific social activity in space. In the third case, the very division of space is the object of study; in other words, we tend to distinguish regions parts of the space which we are dealing with, which we are investigating. (...) The three notions of a region thus defined are distinct, but in practice there are many interdependences among them. A division of space for the purposes of research will always eventually be reflected in its results. It offers a basis for spatial analysis which, after all, can never go beyond the initially adopted frame of reference, viz. this division. A division of space for the purposes of analysis is usually connected to a greater or lesser degree with an administrative division which, as we have stated already, represents the notion of 'a region as a tool for action'. On the other hand, a rational division into regions tools for action must accommodate, must be adjusted to, a real division of space, i.e. the division into regions objects of study".*

This categorisation will provide a basis for the characterisation of the concept of a region, but the categories will be modified. First of all, we do not accept the assumption that a geographical space, or any space understood as a substance is the reference of the concept of a region. We shall also present the categories in a different order, because it will facilitate a better use of various notional distinctions and assertions made in the course of the characterisation.

### 1.1. A region as a tool of research

The concept of a region as a tool of research or spatial analysis consists in the delineation of homogeneous areas having a feature or set of features relevant to the problem studied. In the words of James (1959: 10):

*"a region is an area of any size that is homogeneous in terms of certain criteria and that is distinguished from bordering areas by a particular kind of association of are ally related features. The region is a device for illuminating the factors of a problem which otherwise would be less clearly understood".*

Thus, the basic conditions an area must satisfy to be regarded as a region are:

- 1) its homogeneity in terms strictly specified criteria of its delimitation, and
- 2) the relevance of the criteria to the problem being solved.

An additional condition is proposed sometimes, as does Whittlesey (1954: 30), namely, that the criteria should refer to spatially cohesive groupings of phenomena, but this condition has usually been disregarded.

This concept has been severely criticised on a charge of subjectivity and formalism. It is said to provide a basis for distinguishing an infinite number of various regions, each delimited by a different set of criteria. This is the kind of criticism levelled by Dziewoński (1957: 722), who claims that

*"the notion of a region as a tool for economic-geographical analysis, as an element which the researcher fixes as his needs dictate (i.e. more or less arbitrarily), has a formal*

*character. The use of the notion of a region as a tool of analysis practically boils down to a territorial grouping of observed facts".*

However, as Wróbel (1965: 17) notes, the selection of criteria for delimiting a region

*"is closely connected with the aim of research; hence, for the fixed aim the choice of the criteria is not 'more or less arbitrary', because only one set of the most significant criteria is pertinent (at least theoretically, that is, given a satisfactory body of knowledge on the matter involved and free availability of data)".*

The notion of the homogeneity of a region, in spite of the objections it had raised, has proved to be a very fertile and, in a broad interpretation, has provided a basis for distinguishing two categories of regions: uniform and nodal. In Whittlesey's (1954: 3637) original words,

*"Uniform regions are so thorough. The uniformity is not complete, for there is always a certain range of characteristics permitted by the criteria, and there are irrelevant differences which are disregarded. But within the limits set by the criteria, regions of this kind are uniform. A climatic region is an example. If it is a multiple-feature region, its uniformity is defined in terms of the association of features. Nodal regions are homogeneous with respect to internal structure or organisation. This structure includes a focus, or foci, and a surrounding area tied to the focus by lines of circulation".*

The concept of uniform regions (also called zonal or scalar) was a starting-point of studies of the spatial differences in various social, economic and natural phenomena and gave rise to the delimitation of uni- and multivariate regions, e.g. agricultural, industrial, tourist regions, etc. Attempts were also made to divide Poland into uniform multivariate regions zonal regions (cf. Czyż 1971).

The concept of nodal regions turned out to be of particular interest. A nodal region is defined as a set of spatial units linked by a network of various mutual interactions and couplings with the main settlement

centre (a town or a group of towns), the boundaries of which determine the range of these links. The links may be services, commuting to work, etc.; they shape the region of a town or urban agglomeration. However, the concept of nodal regions has departed from its assumptions and turned into the principal model of a region in a structural approach.

Apart from this "classic" approach to the region in terms of homogeneity, there appeared a concept of a region as a class of areas. This latter concept, of a region as a class of areas or a spatial class brought into being as a result of a division of geographical (economic) space or a grouping of spatial units, was formulated by Grigg (1965: 481). However, not every spatial class is a region. Only "individuals" possessing their own combinations of features unique in space, can be regions (Chojnicki, Czyż 1973: 13). Proposals are also put forward to extend the notion of a region so as to embrace various types of spatial classes (cf. Parysek 1982: 146). This has brought about a shift of focus from the "essence" of regions to their delimitation, that is, to their spatial typology and regionalisation.

## 1.2. A region as a concrete object

The concept of a region as a concrete object is an expression of the traditionally strong realistic standpoint in geography. According to Wróbel (1965: 8), in geographical literature

*"one can find many statements expressing the thesis that geographical regions (or 'landscapes') are actually single parts of a 'whole' having their own 'form, structure and function'; the assertion often repeated in this context was that geographical regions were 'organisms' more or less resembling living organisms".*

This approach is summarised succinctly by Dumolard (1980: 21), who says: *"regions exist outside scholars; they must discover them, not create them".*

The very concept of a region as a concrete object has, unfortunately, often been formulated in an ambiguous and metaphorical manner. Skipping its various formulations, we shall restrict ourselves to its presentation in a structural systems approach.

The structural systems approach allows the fullest grasp of the complexity and the many aspects of a region as a concrete object. It is based on the assumptions of the systems approach, which has recently come to the fore in the categorisation and interpretation of complex wholes particularly difficult to distinguish, just as the region is, and their conceptualisation.

Systems formulations of the region have found expression in several models of its reference. They include:

- 1) spatial models of the regional economy presented by Lösch (1954), Isard (1960, 1969), Domański (1990) and others;
- 2) socio-ecological models of a region (e.g. Nira 1990);
- 3) models of an urban region (Wilson 1981); and
- 4) socio-territorial models of a region (Chojnicki 1988, Murphy 1991).

When characterising these models, the focus shifts to their different aspects: spatial-economic, ecological, development, or nodal structure. On this basis there emerges a holistic conception of the reference of a region in the structural systems approach. It can be presented as follows.

A region is a socio-territorial subsystem of a country. As any concrete system it is characterised by a specific composition, surroundings and structure (cf. Chojnicki 1988). The composition of a region, besides the human community that occupies, uses and controls a specific area of the earth, i.e. a specific territory, includes also the cultural and technical infrastructure in the form of a settlement system located in a given geographical environment. The surroundings of a region consist of a set of regions as subsystems of the same order with which it is linked by interactions. We can distinguish internal surroundings, i.e. a set of regions of the same country (the regional system of this country), and external surroundings, i.e. regions belonging to other countries with which it is connected. The structure of a region is made up of relational, sectoral and spatial structures. The relational structure of the region can be subdivided into internal and external. The internal one embraces the whole of social, transformational and ecological interactions binding elements and complex components of the region; its external structure



embraces its interregional links. The sectoral structure consists of activity subsystems fulfilling specialised functions, e.g. the industrial subsystem (which embraces a set of interlinked industrial enterprises), the agricultural subsystem, etc. The spatial structure of the region embraces territorial subsystems of a lower order: sub-regional and local.

The identity, or referential distinctness, of a region is determined by the following elements:

- (1) the nodal structure of the settlement system,
- (2) a high level of social, economic and cultural integration,
- (3) a high level of self-organisation, and (4) the nature of the region's closure and boundaries. Let us comment briefly on each of them.

Re (1): The nodal structure of the settlement system with a main urban centre or agglomeration and a network of lower-order centres is the main factor shaping internal links, or couplings. They are generated and polarised by a hierarchical system of towns containing various infrastructure facilities and fulfilling various production and service functions. Their range of impact defines the area of the region.

Re (2): The integration of the region rests on three types of links: socio-cultural, economic, and political. These links can be registered in people's consciousness or take an institutional or material form. The community consciousness and the positive evaluation of the community's specific properties, especially economic as well as civilising and cultural activity, are significant factors of the integration. Apart from them, an essential role is played by economic links in the spheres of production and services affecting the standard of living of the community and its economic development. A major role in political links may be played by ethnic and national aspects.

Re (3): The level of self-organisation of the region as a social-territorial system is defined by the scope of developmental problems solved and the influence on its socioeconomic life. The basic components that define it are:

- 1) the development of the region's own economic base (industrial and service enterprises, banks, etc.),
- 2) the effectiveness of socioeconomic activity, and
- 3) the development of self-government.

Re (4): The region's closure means neither its self-sufficiency nor isolation, but a specific network of internal links and a system of its distinctive properties. In this approach the boundaries of the region are fuzzy; they are fluid zones of impact. In the terminology of Gale and Atkinson (1979: 94), they are nonarithmetic, which "is meant to imply a state of flux, indeterminacy, and context dependency; they are neither crisp nor do they (necessarily) imply a completely partitioned set of territories".

### **1.3. A region as a tool for action**

Let us recall that in Dzięwoński's (1967: 94) conception these regions are tools for organising a social activity in space. Thus, this concept of a region refers to an area which is a unit of the territorial organisation of a State. Hence, it can be called a region of territorial organisation.

The territorial organisation of a country is a single or multilevel system of territorial units into which it is divided, mostly to facilitate administrative performance. The system has two dimensions: horizontal and vertical, which gives it a complex hierarchical structure.

There are two kinds of division in the territorial organisation of a country: general (public) and special administration. Accordingly, we can distinguish administrative and special regions.

The concept of an administrative region refers to decentralisation of the activity of general, or public, administration in a territorial dimension. Hence, these regions are territorial units of a specific level (rank) the authorities of which are endowed with some power to act towards subjects residing on their territory. Depending on the authorities' scope of competence, their functions and way of nomination, the regions can be divided into those of government and self-government administration.

Regions of government administration are units of the highest and medium levels (like voivodships and poviats) which serve primarily to decentralise the power of the State in the field of management. This category of regions is presented by Muir (1983: 132) in the following way:

*"Administrative regions:*

- (a) are territorial units with well defined boundaries;*
- (b) have been inaugurated by central government and designated as functional regions to be used in the performance of one or more administrative services;*
- (c) are distinct from the local government and (should they exist) federal division of the state in which they are found;*
- (d) have administrations with clearly defined terms of reference and which occupy a specified niche in the overall system of territorial organisation".*

Self-government regions, in turn, are the units of a lower or the lowest level of the territorial division, the authorities of which are independent of the government administration and endowed with power to act in matters relating to local and supra-local "problems". The very concept of local regions depends on the crystallisation of the character and functions of self-government and its authorities. It assumes different forms at the local level (self-government of towns and communes) and the supra-local one (associations of towns and communes). Different countries have different types of the territorial organisation of self-government and different relations between self-government and State authorities.

It is hard to present all the complexity and complication of this matter in a short outline. In principle, it is customarily assumed that the higher levels of division are connected with the activity of the State authorities, while the lower ones with self-government ones. This may be an expression of two forms of the democratisation process central and regional-local.

The notion of a region as a unit of the territorial organisation of a country assumes a different meaning in the case of a federal state. Without going into details, let us state that attempts at a definition of

an "autonomous region" in the territorial structure of Poland require a shift of the ground on which such considerations are based to that of the nature of the political system of the State.

For the purposes of some social and economic activities it is necessary to use different units, not coinciding with the administrative division, viz. special regions. They include: electoral districts, church dioceses, electric power districts, railway management districts, state forests districts, water economics districts, etc.

We should add at this point that it is impossible to adjust some divisions into special regions to the administrative one. Nevertheless, we should tend to minimise the number of special divisions. It is a condition of an efficient management of the economy in its territorial aspect.

## **2. Regionalisation**

Regionalisation is the delimitation of regions on the basis of certain methods of research procedure. It can, however, be understood not only as an activity aiming at establishing a specific regional division, but also as a concrete regional division, i.e. a result of this activity. Regionalisation as a research activity and as its product are complementary notions, hence an analysis of one requires reference to the other. In research practice the first meaning of regionalisation (the very act of division) is thought to be primary, and the other secondary.

In turn, each regionalisation procedure requires the adoption of a specific concept of a region and satisfaction of the conditions it imposes on the research activity.

In the present work the starting-point is provided by three basic concepts of a region with their corresponding regionalisation procedures:

- (1) analytical-cognitive,
- (2) structural, and
- (3) practical.

## 2.1. Analytical-cognitive regionalisation

Analytical-cognitive regionalisation follows from the understanding of a region as a tool of spatial analysis. Its aim is to reveal homogeneous areas in terms of phenomena under study. It consists in classification, typology and spatial generalisation.

The result of this approach is the spatial diversification of socioeconomic phenomena produced by various territorial divisions. As a result of this procedure we delimit e.g. regions of the standard of living in Poland, or regions of migration.

The analytical kind of regionalisation plays the same role as classification in natural science. The homogeneity in terms of phenomena in question and areal cohesion characterising a region allow it to be treated as a spatial class. Hence the regionalisation procedure can be regarded as an activity of distinguishing these classes, i.e. as spatial classification.

The concept of regionalisation as a form of classification is of crucial importance for devising an algorithm of regionalisation (cf. Domański 1964, Berry 1967, Wróbel 1967, Chojnicki 1970, Johnston 1970). What it is supposed to do is start with  $N$  basic spatial units having  $!n$  number of features and determine a smaller number  $!k$  of regions ( $k$ ) constituting spatially continuous classes of maximum homogeneity in terms of the given set of features. The methods used to achieve this goal are those of numerical taxonomy, i.e. statistical methods of classification of objects.

The algorithm of regionalisation consists of three basic operations:

- (1) the construction of a matrix of geographical information,
- (2) the estimation of similarity between basic spatial units, and
- (3) a regional grouping or division (cf. Chojnicki and Czyż 1973, Parysek 1982, Nowak 1990).

The starting point is the recognition of the system of basic spatial units. A basic unit is operational in character and usually corresponds to the smallest administrative unit on which there are official statistical data. The system of units is described by inalienable properties called attributes or relative features, i.e. ones referring to relations holding among the units. One should choose only those

features which are adequate to the purpose of regionalisation and significant for the maximisation of the fund of information about the basic units. The significance of the features is determined using statistical methods of multivariate analysis.

The estimation of similarity consists in evaluating the degree of multivariate similarity among the units using similarity functions. Similarity or dissimilarity is the criterion of the grouping or division made in accordance with two types of spatial classification. We can distinguish:

- (1) Typological classification by the criterion of homogeneity which produces discontinuous spatial classes called spatial types. They have a mosaic distribution and derive their names from the nature of phenomena, e.g. agricultural spatial types, demographic spatial types, etc.
- (2) Regional classification by the criteria of homogeneity and adjacency of basic units, leading to the delimitation of regions as homogeneous and spatially cohesive territories. Regions are unique spatial classes not only due to their geographical situation, but also due to the specific combination of phenomena (variables) they represent. This classification procedure produces a specified region, e.g. the north-eastern region of Poland.

Hence, the homogeneity of an area may be considered in terms of: (1) the similarity of attributes of the basic units, or (2) the degree of cohesion of links expressed by relative features of the basic units. This allows the distinction of homogeneous areas (zones) corresponding to the distribution patterns of phenomena, and nodal areas corresponding to the patterns of relations. Each of these concepts of areal homogeneity requires a specific delimitation procedure using specific classification methods.

The criterion of delimiting homogeneous regions is the similarity of basic units with relation to a number of features, expresses as value intervals. Within a similarity interval the whole of a region's area is treated as homogeneous. The delimitation of regions is a procedure grouping similar and adjacent units into spatial classes of the distribution of phenomena using taxonomic methods.

The criterion of the delimitation of a nodal region is socio-economic links among the basic spatial units which are symptoms of their functional complementarity. Relations holding in the system of spatial units can be asymmetrical, especially in the situation when only one kind of links (i.e. one relative feature) is taken into consideration. This asymmetry of relations derives from the domination of some spatial units over others, or from their subordination to others, hence it is a manifestation of hierarchy in the system of units. The set of spatial units containing units of various hierarchical orders organised around one of the highest order, or node, constitutes a nodal region.

The delimitation of nodal regions consists in establishing a continuous set of spatial units which display stronger links among themselves (i.e. internal links) than with units not belonging to this set (i.e. external links), and in the analysis of the hierarchical order of the units, i.e. their respective roles in the system of relations.

To delimit nodal regions, use is made of taxonomic methods of hierarchical grouping, graph methods, principal components analysis (Q technique), and Q analysis (cf. Czyż and Kotkowski 1987).

Thus, the delimitation of regions as tools of analysis consists in the "extension" of the procedure of regionalisation and distinguishing regions *ex post*.

## **2.2. Structural regionalisation**

The structural systems approach to the region as an object entails regionalisation which is a procedure aiming at its recognition in the complex structure of socioeconomic reality. Since in this approach the region is a concrete territorial-social system, it is not merely an area, but a territorial whole distinguishable from its surroundings because of its internal links. Hence, in its delimitation use can be made of the concept of a region as a system of links (i.e. a nodal region).

Thus, a nodal system of links is a crucial element of the model of a structural region. The nodal system is the skeleton of the region; it embraces the principal urban centre and lower order settlement units among which the links hold. The basic characteristic of a region as a

system of links is its closure. The degree of closure is closely associated with the problem of separating regions from one another, i.e. of establishing their boundaries.

The boundaries of a region are the result of its integration produced by strong internal links, social and economic. The boundaries, however, are not clearly defined and are rather fluid zones of influence.

The delimitation of regions as territorial systems consists in:

- 1) determining their hierarchical systems of links, and
- 2) testing their closure.

When delineating regions, it is assumed *ex ante* that an area is a region, and this assumption is verified through the identification of its system of links and the degree of closure. This principle of the research procedure offers the possibility of a positive verification of the system studied via testing successive variants of the initial hypothesis (cf. Dziewoński 1967, Kaczmarek and Parysek 1986).

When delimiting a system of links, one can make use of the methods of delimitation of nodal regions mentioned previously. The measure of the region's closure is the ratio of intra to interregional links, while multivariate analysis of variance can be the method verifying the closure.

There remains an important problem of establishing and selecting measures of social and economic links in a region. For example, Domański (1970) defined the degree of closure of the Konin-Łęczyca-Inowrocław region using production flows. Among social and economic links, those usually adopted as the most significant measures of concrete regional relations are journeys to work and migration, because they are diagnostic features indicative of a wider set of social and economic relations. The choice of these measures is also facilitated by the availability of statistical data. Regional relations are also defined on the basis of theoretical variables from the gravity and potential models.

A particularly valuable measure is the population potential (Chojnicki 1966). It shows a close correlation with a lot of social and economic phenomena, and its use means the introduction of a systems approach to regionalisation. Analysis focuses on the configuration of links in the form of a population potential surface estimated



at the scale of the regional system of a country. Regional peaks of the potential enable the identification of regional nodes in the form of higher order towns. Concentric patterns of isolines near a peak correspond to systems of links. In this way it is possible to determine the number and locations of regional centres and their range of impact.

The boundaries of regions-territorial systems are fuzzy. The assignment of marginal areas to particular regions is not clear cut and gradable. The boundaries are not those of a disjunctive division, but are sets of points of an estimated degree of belonging. The assignment of contact (marginal) areas to a given region can be carried out using L.A. Zadeh's fuzzy set theory (cf. Leung 1985).

The boundary of a region as a limit of influence of two regional nodes can also be delineated on the basis of individual preferences of residents concerning their regional belonging, i.e. by reference to their regional consciousness.

### 2.3. Practical regionalisation

Practical regionalisation is a procedure aiming at establishing or testing territorial divisions for the purposes of practical action, i.e. the formation of the territorial organisation of a State.

According to Wróbel (1965), the division into organisational regions requires the satisfaction of two groups of conditions. The first, of internal ones, refers to the relation between the given territorial division and the existing regional structure. In the words of Wróbel (1965: 62):

*"These conditions need not consist in the statement that the boundaries of the division should map those of some regional systems; more frequently they can be formulated negatively, i.e. as a condition forbidding the division to cross certain systems, or 'cores' of these systems, that is, areas in which the relevant features of space are especially distinct (e.g. it is hard to imagine a division into larger administrative units which would separate the groups of towns of the Upper Silesian Industrial District)".*

An organisational region should be adjusted to the range of nodal systems of socioeconomic phenomena, because it facilitates practical activity.

The other group of conditions is external in relation to the existing regional structure. They refer to the size of an area, its shape, an a priori definition of its regional centre, certain regionally aggregated magnitudes, e.g. the number of the population, and its economic potential. External conditions derive from the assumed functions of the territorial division and the necessity to accommodate the principles of good management and administration, as well as the satisfaction of people's needs with a minimum of effort.

Among external criteria, the conditions especially important for the administrative division are that of an equal "size" of units and that of their minimum economic potential. The latter is significant in a free market economy in which local budgets receive only meagre subsidies from the central one.

As Wróbel (1965: 39) states:

*"In simple cases, like e.g. the delimitation of areas to be served by several wholesale warehouses belonging to a single enterprise and located in various places, its criteria can be purely external. This is so because they are described by a set of equations with the help of which we can find extreme values of certain quantities, like transport costs, distance totals, etc." However, in the majority of regional divisions for practical purposes, and always when such a complex task as a division of a country for administrative purposes is involved, the criteria employed are both external and internal (cf. Kukliński 1974, 1982).*

One thing that should be added here is that relations between a region of territorial organisation and a region-territorial system are bidirectional. A consequence of a division into administrative units regions for economic management is the development of socioeconomic links conducive to the formation of nodal regional structures. Thus, the division of Poland into 17 voivodships in the years 1950-1975 adapted older regional forms and imposed specific spatial framework of development on economic and social life. In

the conditions of the relative stability of this division there developed nodal systems of socioeconomic links within particular voivodships. The result was a degree of coincidence of the division into voivodships and the system of regions-territorial systems. Simultaneously, however, socioeconomic development led to the formation of ever more complex spatial socioeconomic structures and, in consequence, to an increasing diversification of regional structures. This, in turn, has become one of the reasons necessitating an alteration of the administrative division.

In accordance with the adopted division of regions of territorial organisation into administrative and special, different procedures of territorial division should be distinguished. When delimiting administrative regions two strategies are employed. The first is a two-step procedure, starting with the recognition of the country's regional structure and the degree of its diversification and integration. Then structural regionalisation is transformed into one carried out in terms of administrative units and based on additional, arbitrary criteria.

The other strategy consists in the verification of a hypothetical system of administrative regions. An administrative unit established *ex ante* is tested for its conformity with the actual system of socioeconomic links. The role of the hypothetical system may be played by

- (1) the existing administrative division, or
- (2) a standard, regular and geometric, system defined in terms of the models of the spatial organisation of settlement and services presented in the theories of W. Christaller and A. Lösch. In the first case the results of studies only provide a basis for a possible correction of the administrative division.

From the methodological point of view, the delimitation of administrative regions is carried out with the help of taxonomic methods, multivariate analysis (analysis of variance, discriminatory analysis), and models of Markov chains (cf. Cliff et al. 1975, Chojnicki and Czyż 1978, Czyż 1981).

The procedure involved in territorial divisions for special purposes is different; it is based on a single criterion or several ones. The problem

of the delimitation of special regions based on a single criterion consists in finding an optimum solution. For example, the delimitation of school districts on the assumption of transport cost minimisation boils down to solving a transport problem using linear programming (cf. Yeates 1963). The procedure based on multiple criteria is more complicated. For instance, the determination of urban constituencies takes place in two stages and embraces regionalisations by a single criterion (the number of voters, the shape of the district, the indivisibility of town limits) and finding an optimum system of constituencies for each regionalisation variant. When there is no correlation among the criteria features, the procedure does not allow for an optimum solution with relation to the many criteria, but adopts a compromise (Johnston and Rossiter 1981).

Besides optimisation models solved by linear programming methods, in the procedure of the delimitation of special regions use is also made of methods of measuring the effectiveness of the shapes of spatial units, centographic measures, and taxonomic methods (cf. Massam and Goodchild 1971, Haggett et al. 1977).

The boundaries of administrative and special regions must be well defined. They must be distinct and disjunctive territorial units with boundaries established in a suitable legal act. Boundaries are the starting point; by marking out a territory they shape its internal links.

### **3. Regionalism**

The notion of regionalism refers both to the social consciousness dominant in the community of a region and its opinion creating circles, as well as to its economic, cultural and political activity.

Underlying regional consciousness is the sense of links of a human community with the territory it inhabits which is sometimes called regional identity. However, the attitude of the community to the territory is not the only constituent of regional consciousness; it also comprises interpersonal relations on this territory. The bonds people feel with their area and specific habits, philosophies of life and desires associated with them constitute a psychosocial link among the residents and make them aware of their common existence.

Regional consciousness is a form of social consciousness expressing a sense of uniqueness of one's own territory and one's own society.

It produces the conviction that all individuals of the regional community share values associated with the whole of the community.

The state of regional consciousness is characterised by a set of convictions or opinions saying that

- (1) the community has specific economic, cultural and political properties,
- (2) these properties, or at least some of them, are judged by the community to be positive and therefore treated as values which should be maintained and reinforced, and
- (3) it is necessary to pursue those activities in the diverse fields of social life which implements those values and increase its independence.

Thus, regionalism is an exponent of various properties specific to the human community inhabiting a given area and defining its distinctness. In this sense it defines the region's uniqueness.

Regionalism manifests itself in an ideological movement declaring its programmes and in the tendency to institutionalise this movement and on this basis to devote to this end all activities in the various fields of social life, including the enlargement of the scope of self-government.

On the one hand, regionalist movements and tendencies are a response to excessive centralisation and cultural and economic uniformity, and on the other they derive from cultural and ethnic differences reinforced by differences in economic and civilisation levels and opportunities for economic development.

The political, social and economic breakthrough of the 1990's in Poland has also strongly animated regionalist feelings. Regionalism has two aspects: cultural-historical and organisational-reformatory. The first is traditional in character and results from cultural and historical differences. The other manifests itself in the tendency to institutionalise regions as large voivodships in a new administrative division of the country and to provide them with a degree of autonomy, mainly economic.

Regionalism assumes different forms due to a variety of factors at play in particular regions and their inter-twinings. The consequences

of regionalism differ in the perspective of the country and that of Europe (the continent). In the national perspective regionalism is the basis on which develops the unique character and 'identity' of a region, hence the basis for the development of regions as concrete territorial systems and the territorial structure of a country, and on the other hand it provides the basis for increasing their self-government, or even for the struggle for economic and political autonomy. Striving for more economic independence or autonomy is characteristic of regions with relatively strong economies which have more opportunities for effective investment and launching new economic and technical enterprises on their territories. Hence, one of the components of regional consciousness is the opinion that the means produced in an area should also be invested there. However, despite many advantages connected with regional effectiveness and multipliers, this can lead to the fossilisation of the existing disproportions in the development of particular regions and to the reinforcement of the inertia of the existing regional structure of the country.

The consequences of enlargement of regional self-government and autonomy are clearly different in the political-administrative aspect. Putting aside reflections on the advantages of increasing the scope of self-government not only at the local but also the regional level, let us note that it stimulates initiative and activity, especially in those domains where local or regional syndromes have a decisive influence.

Regional autonomy, especially when resting on separate legal and political foundations, is conducive to the disintegration of the State system and diminishes its political and economic resistance and independence. In some cases, e.g. ethnic autonomy, it may release centrifugal tendencies, which may have destabilising effects especially in the situation of some East and Central European countries. A full realisation of the programme of autonomous regions also leads to the transformation of a unitary State into a federal one.

In the European perspective the consequences of regionalism manifests themselves in the ever increasing role of the regional scale over the national (State) one in the processes of society diversification and integration. The decreasing differentiating role of the State and its boundaries in Western Europe due to integration has made regions more important in the formation of Europe's spatial structure and given them a new dimension (cf. Kukliński 1990). A lot of new regional structures have

been emerging, e.g. trans-boundary regions. This, however, is an issue calling for a separate and competent study.

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## **The regional question**

### **1. Introduction**

In some regions of Poland there have appeared recently the tendencies of local populations to acquire greater independence from the central state structures, or, in a more radical version - even to acquire autonomy. In the ideological discourse pronounced by some political groupings the postulates of turning Poland into a regional state are emphasized, and regionalism is perceived as the proper opportunity for acceleration of the development processes of the country. Finally, it is suggested abroad that definite parts of Polish lands be transformed into autonomous areas linked with corresponding areas of neighbouring countries. There is no doubt, therefore, that the regional question emerged in Poland.

It is then worthwhile to ponder how this Polish regional question presents itself against the background of similar phenomena in Europe and what can be the consequences of the processes observed in our country for its future.

## 2. Regionalisation vs. Regionalism

The regional question is the result of assignment of political status to regionalism, that is - to the socio- cultural movement which aims at improvement of the image of a given area. This question has a double dynamics, which on the one hand leads from the autonomy-oriented tendencies to federalism, and on the other hand - from nationalism to separatism (Bassand, 1990).

The basis for regional question is usually laid by the ethnical or cultural differences. Population inhabiting a given area, characterized by a specific culture and/or a dialect may have the feeling of certain underestimation, deprivation or finally discrimination, threatening their identity. In order to deal away with such a disadvantageous situation local population would take up actions aiming at proper evaluation of own culture and defense of own identity against the unification and assimilation threat from the side of a majority.

The regional question might, however, appear also in the perspective of economic differentiation. In such a case two situations usually occur. In the first case, when a region is economically backward its population takes up the activities meant to bring about a better distribution of the national income.

In the second case the region may be a leading one in the economic development, but the redistributive policy of the state causes that a significant part of the wealth produced within its area is transferred to other parts of the country, this fact being felt by the regional population as unjust, so that this population undertakes certain actions directed at definite changes of the situation.

Another method of solving the regional question is regionalisation, i.e. the governmental activity consisting in reorganisation of the territory of the state in such a way as to diminish the differentiation and to stimulate the process of development. The regional policy should first of all account for the regionally perceived availability of the transport and communication network, as well as cultural infrastructure, including protection of local cultural heritage and development of educational institutions, together with permanent education mechanisms and institutions (Bassand, 1990).

Thus, the efforts to solve the regional question may be both oriented from the grass roots upwards and from the top downwards. Regionalisation is the deed of specialists, planners, technocrats moving around in an abstract space, for which they develop various plans and programs, frequently without due consideration of everyday problems and aspirations of inhabitants. Regionalism, on the other hand, is a social movement, based upon the local culture, concrete needs and aspirations of inhabitants, striving for greater justice. Regionalism is as a rule founded upon the feeling of identity.

The essence of identity is on the one hand the feeling of links with one's own group, and on the other hand - a greater or lesser feeling of distance with regard to other groups. The latter feeling of distance must not necessarily mean alienation from a greater social whole, and then a group, while preserving its distinct character, has the consciousness of belonging to a greater community. There are, however, the cases when the distance entails alienation and in place of the feeling of broader community there appears aversion or hostility.

Alienation can result from the incapacity of realization - in given conditions - of cultural values or economic interests which are of importance for the group. The group undertakes then the activities aiming at the change of such a situation. These activities take the form of more or less violent social movements and cause, as a rule, defensive reactions from the side of other groups and the state structures, perceiving regionalism as a threat to integrity of the state. The social movement of cultural or economic nature transforms into a violent conflict, fuelled on both sides by nationalism.

### **3. Minorities and nationalism**

The faces of nationalism are quite differentiated - the more so as they are usually accompanied by a xenophobia, that is - a negative attitude or hostility towards strangers. These strangers can both be the groups inhabiting for centuries the territory of a given country and having the citizenship of the country of their residence, and the true foreigners residing permanently or even temporarily within a given territory. The nationalism of the majority and the xenophobia which accompanies it

result from the conviction and that a definite state territory is an indivisible property of a given nation and therefore strangers constitute a threat to its identity and to the interests of its citizens. The nationalism of a minority results, on the other hand, from the feeling of being mistreated by the state institutions of the national state and/or from their assimilation-oriented activities, which constitute a threat to the identity and integrity of a given ethnic or cultural group.

Van der Berghe, who did apply bio-sociological theories to the analysis of the place of man in the society and the essence of the phenomenon of ethnicity, thinks that human behaviour has certain universal features, such as preference for kinship, aggression, domination and territoriality. These aspects of human behaviour must not be treated uniquely as acquired, but ought to be treated as inborn and proper for "human nature". They link culture and social structure through the intermediary of psychology of behaviour. The author mentioned sees the ethnic groups as a kind of system of broadened kinship, in which nepotist behaviour gives preference to those who are perceived as members of the same group (1975).

Irrespective of the correctness of socio-biological explanations for social phenomena we must note that ethnic conflicts and the human behaviour which accompanies it can hardly be subject to rational analysis.

The problem of minorities emerged as the result of formation of national states, starting with 18th century, European colonization, mass migrations of 19th century and numerous changes of boundaries due to both world wars. One can distinguish a number of types of ethnic minorities resulting from these processes:

- the ones who had not been capable of forming a national state and were included in bigger state organisms, as e.g. Basques, Bretons, Slovaks, Silesians, Cassubians and the like;

- the ones who had become minorities due to boundary changes, like Poles in Lithuania<sup>1</sup> Austrians in Upper Adige, Hungarians in Rumania etc.; - the ones resulting from mass economic and political migrations, like Poles in Great Britain, France or Germany, Turks in Germany, Algerians in France and so on.

The last type of minorities differs significantly from the two first ones. Representatives of a given nation or ethnic group, scattered around the world, had in principle the possibility of choosing a new place for living, although they could be to a lesser or greater degree forced to leave their own country. On the other hand a change of boundaries, causing appearance of minorities, is usually made without asking for the opinion of those most interested, even if less or more honest plebiscites are being organized. Likewise, the first kind of minority had no opportunity of choice, for they have been inhabiting the territory in question always.

The nature of the situation in which a minority lives determines, of course, the attitude of the minority group. Emigrants, scattered around the globe, even if they form greater concentrations, they do this first of all in urbanised areas. These concentrations on the one hand facilitate adaptation to new environment, while allowing preservation of own identity, but on the other hand urban environment is advantageous for disintegration processes and makes the assimilation process quicker. Such possibilities are, of course, not necessarily realized in case of all individuals or groups. The assimilation capacities result not only from the individual predispositions, but first of all from the cultural distance between the environments of origin and of residence. It is obvious that an Algerian has lesser chances of assimilation in e.g. France than a

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1 Historians have established that the origins of Polish population in Lithuania are double in nature: there have been migrations of Polish population into the Eastern areas of The Commonwealth of Two Nations (Poles and Lithuanians), as well as polonisation of ethnic Lithuanians and Byelorussians. Presently, of course, this is of no importance, for it is not the precise origin but the feeling of identity and national belongingness that are essential (Kurzowa, 1991).



Pole. Both of them are worse off in Germany, since, as it was justly pointed out by Rudolf von Thadden, the ethnic notion of community is in force there and a Volga German, whose predecessors settled in Russia two centuries ago is still considered as belonging to Germans from the Federal Republic, while a migrant encounters essential difficulties in becoming an equally treated citizen of that country and even in the second and third generation would still bear the label of a "foreigner". The situation is different in France, where newcomers taking roots in the world of French culture have the opportunity of ascending relatively quickly to even quite outstanding posts.

Migrants can cause numerous troubles in the country of their residence, especially when the magnitude of a given group exceeds a critical point, usually estimated to be at some 10% of local population. On the other hand they often become the object of aggression from the side of representatives of the majority. Still, they do not put forward political requirements nor do they demand autonomy.

The situation is different with the other types of minorities, which are for centuries rooted in a given area, so that the feeling of identity is in this case strongly connected with territoriality. Conjunction of these two factors may cause a drive towards autonomy and a separatism, becoming a good soil for the growth of nationalism.

#### **4. The regional question in Central and Eastern Europe**

The regional question in Poland can be properly interpreted only against analogous processes which are taking place in closer and further neighbourhood. The regional question has here, besides the universal ones, also specific sources resulting from the course of history of Central and Eastern Europe.

The present geopolitical setting was defined in the Versailles Treaty, after World War I, due to which such countries as Lithuania, Latvia, Estonia, Poland, Czecho-Slovakia, Hungary and Yugoslavia were revived or created. In the period between the wars these countries were still going through the process of formation of nations, started in 19th century and not finished yet at that time, in particular be-

cause of previous lack of own statehood. Simultaneously, they were going through the process of adaptation of the shaping nations to their political territories.

State boundaries over this area have an arbitrary nature and they can be in a way compared to division of Africa made at the Berlin Congress. These boundaries were determined by the victorious powers both after the first and the second world wars, to the discontent of almost all those interested. The boundaries are as a rule not questioned by the governments, but large portions of societies do not accept them and therefore they can always become an igniting factor.

The post-war order in Europe, defined by the great powers in Jalta caused essential modifications to the political shape of Central and Eastern Europe. Such countries as Lithuania, Latvia and Estonia disappeared altogether from the map, absorbed by the Soviet Union, Poland lost its eastern territories and moved, at the expense of Germany, westwards, while Rumania lost Moldavia.

The communist rule reigning in this part of the continent stunted the unfinished processes of formation of nations. Using the internationalist slogans the communist regimes would suppress the aspirations of cultural and ethnic minorities to their own identity and especially to expression of this identity. In such a climate the feeling of true or imagined wrong was growing behind the official peace, to then surface with great force in 1990.

The example of Yugoslavia, which presently, in course of a bloodshedding and cruel war, is falling apart into several separate small states, this fact by no means leading to stopping of the explosion of nationalisms, but to the contrary - sharpening yet mutual hostility inside the newly created post-Yugoslavian states, is very characteristic with that respect. Irrespective of the future boundaries of Croatia, defined after the present war, there will certainly be still Serbs on its territory as well as other minorities. The Albanian minority in Kosovo is also dissatisfied with its present state affiliation. It is not excluded at all that another new state - Macedonia - will be wishing to unite all the Macedonians in one state organism. This gives rise to anxiety in Greece, whose government protested even against the very name of

Macedonia, because both the name and the territory of this name belonged to Greece since the time of Alexander the Great.

Somewhat further North the Hungarian minority in Transylvania, belonging presently to Rumania, is also becoming a focus of ignition. Then, there also emerges the question of Moldavia, incorporated in the Soviet Union after the World War II. The present authorities of Moldavia declare their will of the return to Rumania, although there are two important minorities in this country, Russians and Gaugasi, both of which have already proclaimed their "independent republics", Gaugasi and Trans-Dnester ones.

Situation is tense, and there is a possibility of breakdown of the state in Czecho-Slovakia, where a large part of Slovaks are demanding independence, this tendency being not well seen by, of course, Czechs, but also by the Hungarian minority in Slovakia, who perceive Slovak chauvinism as the threat to themselves.

It is worthwhile to ponder over the words of R.Dahrendorf, who writes of the idea of national self-determination as follows:

*"(this idea) is very attractive for people who feel lost in the contemporary world. It seems to offer the feeling of belongingness and sense, decorated with such meaningful symbols as flags and anthems, and also passports and constitutions. People, at least some of them, are ready to give their life for the independence of their nation. It would be a mistake to neglect such a powerful force. But, as a principle of international law, the national self-determination is one of less fortunate inventions. It ascribes the rights to nations, while laws should always concern individuals. Consequently, there appear usurpers who demand this right in the name of nations and simultaneously trample the rights of minorities, and sometimes even the civil rights of both the majority and the minority" [1991b, p.127].*

From the Polish point of view the situation of Polish minority in Lithuania is very important, since this question is perceived symmetrically to the one of the situation of German minority in Poland. Poles, who remained within the present boundaries of Lithuania due

to the Ribbentrop - Molotov Pact and the Jalta Treaty are in principle living in a dense concentration in the surroundings of Vilnius. For the scale of Lithuanian state this group is relatively numerous, since it constitutes 6-7% of the whole population. The magnitude of the group and the fact of deep territorial attachment are the cause of emergence of a regional question, for Poles demand, besides the rights which are granted minorities in the framework of Helsinki Convention, such as protection of cultural values as well as education and information in native language, also territorial autonomy. In the transitory period, when Lithuania was in the process of separating itself from the Soviet Union, Polish minority acquired the possibility of forming own representative and administrative organs on the territory inhabited by them. Some Poles, fearing the Lithuanian chauvinism, well-known to them from the period of Nazi occupation, were looking for allies in the Soviet authorities. This was, of course, a mistake, which provided a comfortable pretext for Lithuanian authorities and which had to be paid thereafter with the liquidation of Polish self-governmental bodies as well as increasingly acute discrimination as to the access to education in Polish language and to the possibility of recovery of property nationalized by Soviet authorities or, finally, to jobs.

Polish government find themselves in a difficult situation, since it is hard to demand greater rights for Poles in Lithuania than there is a will of granting to the German minority in Poland. Therefrom the symmetry of the regional questions of Silesia in Poland and of Vilnius region in Lithuania. On the other hand the stance of Polish authorities with respect to Lithuania does not seem to be justified. Poland is a much greater country and the relation of forces resembles the one between Germany and Poland. Lithuanians have with respect to Poles numerous and long-standing complexes, having primarily cultural background. Higher layers of the Lithuanian society, which had always been a plebeian society, were undergoing rapid polonisation, both in the times of the Commonwealth of the Two Nations and during the czarist Russian rule. In the inter-war period the native population was primarily constituted by peasants. Poles or polonised Lithuanians dominated among landowners. There was a very important Jewish minority in the

urban population. Then, during the Soviet rule the layer of educated people was being russified.

This whole tangle of historical conditioning causes that Lithuanians are especially sensitive to any kind of threat to the shaping national identity. Expansion of Polish culture is perceived as just such a threat, and Polish minority is seen as the forerunner of this expansion. It is of course less important what is the real situation, but it is essential how this question is being perceived, and the actual perceptions, alas, materialize in the form of attitudes of mutually aggressive nationalism.

In this situation the worst possible way of reacting to the situation of Poles in Lithuania is to act offended and to avoid the direct contacts both on the highest official levels and on the lower ones. Continuation of such kind of behaviour of Polish authorities will undoubtedly be one of the causes of further aggravation of the regional question within the area around Vilnius. Some hopes can be attached to the recently signed Polish-Lithuanian agreement on cooperation and good neighbourhood relationships, with the shade casted on this event, however, by the loud pronouncements of the MPs from the Christian-National Union, demanding autonomy for Poles in Lithuania. Similar declarations were also forwarded by the representatives of this party with respect to Zaolzie (Trans-Olza region with Polish majority in Czecho-Slovakia).

Central and Eastern Europe seems to be transforming into Europe of tribes, although similar phenomena, on a lesser scale as yet, can also be observed in Western Europe (the cases of Basque homeland, Scotland and Corsica). This process will not support unification of Europe but to the contrary - it will tend to its disintegration. It is certainly hard not to agree with Ralf Dahrenberg, who turns attention to numerous dangers related to the tribal division of Europe.

What is happening today in Yugoslavia is the vision of what will take shape tomorrow in the western and southern parts of the Soviet Union, perhaps also in Czecho-Slovakia or Rumania. It is this strange alarming process which should be described as the return to tribes, to tribal existence. People do not want or cannot bear to live in the differentiated communities; they are looking for the theirs and, as far as possible, only for the theirs... As did Karl Popper write in "Open Society" -

*"the more we try to return to the heroic epoch of tribal community, the easier we land in the vicinities of inquisition, secret police and romanticized gangsterism"... It is not so that one half of the continent is falling apart while the other one is uniting. The western unification does also have its limits. It is often being limited today by the demands for creation of Europe of regions. The tribes and the Great Whole are to replace the nationally differentiated states. This is not a good advice. This is a doubly wrong advice... I called the Europe of regions a doubly wrong advice. It is on the one hand wrong because it emphasizes tribes against a differentiated community. It is also wrong, because it describes Europe as an undefined horizon within which all the distinct patterns get fuzzy. What would we need the metropolises and capital cities for when we have Europe! This imprecise, dreamlike, in fact utopian Europe will not solve any real problem, and in particular certainly not the tribal animosities... Tribes do not form Europe, they will always conduct wars among themselves." [Dahrendorf, 1991a].*

This, which can be observed in the neighbouring countries of Central and Eastern Europe is not without consequence for the regional question in Poland. It is also not without consequence for this question how the Polish nationalism is put forward in pronouncements of various politicians and how the revision of boundaries is, as of now at a very low voice, alluded to. In the coming decade this area of Europe will be shaken by the paroxysms of nationalism, xenophobia and chauvinism. Poland will not be free from this. It is worth remembering that a conflict explodes suddenly, to a universal surprise, and we must not forget that it has been glowing before, hidden. It is the duty of the scholars and the politicians to perceive sufficiently early even the smallest spark, in order to extinguish it in the germ.

## **5. The regional question in Poland**

The ideas of regionalism are forwarded in Poland mainly by some circles in Silesia and in Greater Poland, as well as by some political

groupings, with the Liberal-Democratic Congress taking the lead. The Silesian regionalism has a clear ethnic-cultural background and strong economic aspect, while the one in Greater Poland is based exclusively on economic and civilisational revindication claims. The drive towards autonomy results in the latter case from the conviction of the inhabitants of Greater Poland that they would be capable of governing themselves better and that they would attain thereby quicker a high level of economic development. The proponents of autonomy of this region refer to the same sort of argument as the representatives of Lombardy League in Italy. Besides this we are of course dealing with the ideological discourse typical for the regionalistic declarations.

The regional question in Silesia is linked to German minority and to native Silesian population, an ethnic-cultural group having lived for centuries within the Polish-German borderland. The characteristic feature of this group is volatility of their national feeling of belongingness - once Polish, once German, as well as a strong attachment to own territory, together with a consciousness of regional identity.

As is known, there are no regular nationality statistics conducted in Poland, so that the number of members of German minority is not exactly determined. The estimates existing differ significantly. The last census which accounted for this aspect, the one of 1950, indicated that at that time there were in Poland about 1 million persons of the so called native populations: Silesian, Cassubian, Masurian and Warmian. Since that time the situation has changed much. A large part of the native population left for Western Germany, and nobody knows how many of them remained in Poland. According to Polish estimates there are still in Poland some 300-400 thousand persons admitting their German origins. On the other hand German sources quote numbers from 400 thousand to 1 million. The activists of the Socio-Cultural Association of German Minority in Opole Silesia inform that 180 thousand members belong to this organisation. There are a dozen of such associations in Poland, but the other ones are much smaller. The number of ethnic Germans is, on the other hand, estimated at some 5-10 thousand (Sakson, 1991).

There are in Upper Silesia two minority associations which are, in a way, in a conflict with each other. The first of them is the Socio-Cultural Association of German Minority, while the second is the Socio-Cultural Association of People of German Extraction. The differences consist mainly in the fact that the first association defines itself clearly as "German minority", while the second one claims that Germans are in Silesia in their own land and are no minority. Apparently this is a small difference, but it has quite essential differences, for the second group expresses hopes for a change of the formal status of Upper Silesia (Nawrocki, 1991).

The regional scene of Upper Silesia is complemented by two Polish-Silesian associations: The Upper Silesian Union and the Movement For the Autonomy of Silesia. The first of them groups, in principle, the persons connected with the cultural and civilisational values of the region, but not necessarily of local extraction. In practice, however, its members are primarily ethnic Silesians, since, according to Tomasz Nawrocki:

*"propagation of xenophobic or even chauvinistic attitudes of members and activists of local circles [of the Association] is effectively frightening potential candidates from joining" (1991, p.405).*

In distinction from the Upper Silesian Union, the Movement for the Autonomy of Silesia is oriented at encompassing with its influence only the native population, irrespective of citizenship and location of residence. The Movement for the Autonomy of Silesia, while proclaiming the slogan of autonomy of Silesia, sees it, anyway, as an element of Poland of regions.

One can read in the "Information Bulletin" of the Movement that the purpose of the association is *"gaining by Silesia of full rights it deserves first of all due to the power of economic potential, natural resources of this Land, minerals and coal. The road we are taking is paved on the foundation of the right to decide of own fate by the people of this Land"*.

Who, however, is the one that has "the right to land", is it the one who was born on it, or the one who lives on it? A few months ago,



in the context of the situation of foreign inhabitants in France, a lively discussion took place in French press on the difference between the "right of blood", proposed by the radical nationalist Jean Marie Le Pen, and the "right to land", formulated by Valéry Giscard d'Estaigne. The liberal press had no doubts. In both cases the nationalist attitudes got expressed, since both kinds of rights exclude, by virtue of definition, the "strangers".

The communities related to the Upper Silesian Union, on the other hand, have generated the concept of the so called "Great Silesia", which would include all the historical Silesian lands, together with the area making presently a part of Czecho-Slovakia.

Before the first round of presidential elections in Poland in 1990 the Union published a letter to the candidates in which it postulated establishment of the Commonwealth of independent regions, encompassing the communities of several million people, inhabiting naturally defined areas around historical centres. These regions would have the right of enacting own laws, of proposing new country-wide laws in Polish parliament, of gaining, accumulation and disbursing financial resources as own activity, of influencing the financial policy of the country, and of participating in conclusion of international agreements and treaties concerning directly these regions. Regions should have the rights of independent activity in the domains of economy, environmental protection, spatial economy, landscape shaping, protection and development of cultural identity, realization of civilisational aspirations, as well as social and welfare protection (List, 1991).

Every social movement has its own dynamics resulting from the activities undertaken, which may give rise to opposition and counteraction from the side of other groups. In such a situation there may appear the vicious cycle of negative attitudes, xenophobes and chauvinisms. Every social movement creates own stereotypes and a kind of folklore. "Oberschlesische Nachrichten" ("Upper Silesian News", in German) published the position of the Upper Silesian Union in Opole concerning the subject of changes of street names. It was stated that a street might be named after a Pole, under the condition, though, that the Pole be related in some way to Silesia. Thus, naming of a street after Tadeusz Kościuszko (Polish, and also

American, national hero) could be treated as *"the symptom of neglect for the cultural heritage and the past of the region, of disrespect for the population living here for generations, and of continuation of the socialist colonial policies with regard to Silesia and Silesians"* (Nawrocki, 1991, p.405).

Additionally, in some Silesian local communities the postulates are being formulated proposing publicly, in case of employment reductions, to fire first the representatives of the newcomers' population.

Taking into account the fact that within the area of Katowice voivodship (a part of Upper Silesian region), as well as in the area of Opole voivodship the native population constitute minorities, we are dealing with the situation which sooner or later will lead to defensive reactions of the majority.

The Silesian "nationalism" - let us use quotation marks for a while - can be understood against the background of the discriminative policies implemented by the authorities of the socialist Polish People's Republic, especially during the first years after the war, with respect to the native population. It is difficult, however, not to look at this phenomenon with a worry, since it is obvious that this "nationalism" will be the source of tensions and conflicts, growing along with the intensification of tendencies towards autonomy.

The postulates of autonomy of Silesia, forwarded by the associations of Polish or German native populations coincide with the similar ideas proposed by the societies of Silesian Germans in Federal Republic of Germany. Here is what the vice-president of the respective compatriot association in Germany, Hartmut Koschyk, suggests:

*"Germans are thinking of the future of Silesia, which should do justice to all the interested parties, which sets an obligation for doing this. Is the model of Euroregion, which has been, for instance, practised several times along the western boundary of Germany, an appropriate answer to the Silesian questions?"*

The starting point for the Silesian Euroregion could be the turn to regions, observed throughout Europe. These tendencies appear also in

Silesia, not only among the native German, Polish and Czech populations, which would be understandable, but also among the Poles and Czechs who were settled there after 1945.

The desire of identification with the closest environment in order to experience a motherland in the historical and contemporary sense is observed first of all in young people...

No wonder therefore that among the regions in Poland it is in Upper Silesia that the drive towards greater independence is particularly strong. An Euroregion, which could encompass all the historical parts of Silesia, would not only constitute a fulfilment of the desires [mentioned], but also provide a perfect opportunity for realization of a place of true mutual understanding and reconciliation, encounter and cooperation. An institutionalization of the Silesian Euroregion should take place both "from the bottom upwards", beginning with communes, counties and voivodships, and from the standpoint of formal adoption in the legal - national and international - terms, concerning Germany, Poland and Czecho-Slovakia. Bi- or even trilingual names of streets and localities should become obvious in the Silesian Euroregion, in the same way as integration of the German dislodged persons with Silesia (Koschyk, 1991).

Besides the Euroregion of Silesia there appear in Germany other designs for establishment of special areas, encompassing also some parts of the territory of Poland. One of such designs concerns the Odra Preferential Zone, proposed by the prime minister of Brandenburg, H.Stolpe. Another design pertains to creation of the Euroregion of "Dreilandereck" i.e. "Three Lands Corner". The authors of this design motivate creation of this international region in the following manner:

*"German designs for creation of Euroregions within the border zone with Poland and Bohemia are quite numerous and they appear more or less simultaneously. This would not give rise to any suspicions if Germans proposed establishment of Euroregions within their other border zones".*

All these initiatives are concentrated, however, in the East, while, for instance, in the northern areas of the country, in the vicinity of Flensburg, there exists an important Danish minority accounting for

20 to 25% of population. The only privilege granted this minority in the constitution of Schleswig-Holstein is the possibility of introducing their representatives to Landtag when the number of votes exceeds 1%, while other political groupings face the threshold of 5%. Creation of an Euroregion with bilingual names of streets and localities in this area would be more senseful, if only because of insignificant differences in the economic development level on both sides of the border. For the moment, though, neither Germans nor Danish propose such a project.

While from the German point of view the designs for the gradual economic absorption of Polish territories are justified, it is surprising how some Polish proponents of transformation of the country into a regional state express their uncritical enthusiasm with that respect. Realization of such kind of concepts will certainly significantly facilitate formation of Euroregions out of a part of Polish land, and consequently - their removal from the reach of Polish jurisdiction.

The ethnic-cultural minorities are not numerous in Poland and none of them, even in the present regional setting (voivodships -provinces), does not form any local majority, and therefore there are no rational prerequisites for regionalisation of the country on the basis of this criterion. The regional question having ethnic foundation exists as of now in Silesia, while in Greater Poland regionalism has sentimental and historical basis. It cannot be excluded, though, that due to a chain reaction there may emerge Byelorussian or Ukrainian regionalisms (although the latter group lives in a great spatial dispersion), or yet some other ones, entirely artificially concocted.

The concept of creation of a regional state in Poland and of participation of some Polish areas in international Euroregions would be - most probably - advantageous, provided our country were surrounded by independent "lands" and were not neighbouring with the powerful Federal Republic of Germany. It could also be advantageous were it not for a great difference of economic potentials between Poland and Germany, were it not for the wave of nationalisms and xenophobiae sweeping throughout Europe, threatening even the previously stable democracies, like in United Kingdom and France,

were it not for the fact that Polish tourists are being beaten and Poles are expelled, as was recently the case with Polish road workers employed in Federal Republic of Germany. Were, finally, the situation along the eastern border of Poland more stable and our neighbours there were the states having democratic traditions, were it not so that the breakdown of national states into tribal communities threatened with the dangers as the ones described by Ralf Dahrendorf.

## **6. The regional question and the dilemmas of regional policy**

The regional question results from the feeling of harm, of spoiled aspirations, and of lack of satisfaction of needs of a given territorial society. There is usually no just one cause, although the regional movement takes up, as a rule, in its initial phase one problem. It can have an economic background, when a given community feels like being discriminated against and is acutely conscious of its backwardness, or when it has more than the others, but the centralized state reaps away from it an important part of the wealth elaborated by it. This problem may also have the ethnic background, when a minority feels being discriminated against by the majority in a country, or the cultural background, when there are insufficient possibilities of exposing the values of own history and culture. The background can be constituted by ecological problems, as well, when a local population clearly bears the consequences of exploitation of the environment in which they live. The motion dynamics causes that all these particular problems start to intertwine with each other and consequently there occurs the globalisation of the regional question. Participants of the regional movement quickly reach the conclusion that the existing problems cannot be resolved without a change in the political status of the region, and therefore politisation of the regional question follows, expressed through the drive towards autonomy or through separatism. Politisation of the movement causes that there must appear an easily recognizable opponent, whom can be the state apparatus and/or the strangers living within a given territory. Definition of a party as the opponent involves, in turn, a more or less violent reaction from the side of this party, and the vicious circle of conflicts starts to deploy.

There are more or less distinct regional problems in every country. The response of the governments should be the regional policy, adapted to the circumstances. This policy should be defined by the problems existing on a given area - economic, ecological, ethnic and cultural. Still, there appear at once several dilemmas which are by no means easily resolved.

The first of them is related to choice between the uniform and polarized development. The second relates to decentralization, and consists in finding of an equilibrium between the necessary coherence of the state and the postulated scope of independence of the regions. The third question, finally, is related to regional delimitation.

As long as the regional movement is taking place within the cultural plane there is as yet no regional question, and it appears in the time instant when the economic and political demands are forwarded (e.g. autonomy). In this instant the dynamics of regional question accelerates, causing that the road segment leading from autonomy to separatism is sometimes quite short, and at the roadsides there lurk the nationalism, xenophobia and chauvinism. The threshold of politisation of regionalism has been in Poland already overstepped.

Warsaw, March 1992.

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# Polish regionalism and regionalisation<sup>1</sup>

## 1. Introduction

The title of this paper contains two terms: **regionalism** and **regionalisation**. Both of them should be explained at very beginning in order to avoid any confusion.

**Regionalism** is understood here as a phenomenon of **seeking own identity by a territorial group** within a greater national system. Purposely the term *local community* is not used in this context. The *territorial group* denotes the inhabitants of a larger territorial unit, who do not express - because they are too numerous and are not tight by close personal relationships - such a strong feeling as would be the case within the local community.

**Regional identity** could be the product of several phenomena: ethnic, religious, linguistic, cultural, economic. In majority of cases

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1 The revised version of the paper presented at the conference co-organised by the Commission of the European Communities and the European Science Foundation "Integration and Disintegration: Regionalism and the State in West and East Europe", Acquafredda di Maratea, Italy, 2-7 May 1992.



these phenomena come together, strengthening the feeling of being different from others. These "others" could live on the same territory, they could also live somewhere else, but still within the state boundaries.

In another paper I attempt to systematise the manifestations of the European regionalism according to its origins and forms of expression<sup>2</sup>. In this paper only a very preliminary ideas concerning a typology of regionalistic movements in contemporary Europe are presented. It is therefore sufficient here to use the suggestions of B.Jałowiecki considering the origins of Polish regionalism. According to Jałowiecki<sup>3</sup>, there are two origins of modern regionalism (at least only these two origins manifest themselves in Poland):

- ethnic or even national differences,
- socio-economic differentiation.

We shall examine both cases of regionalism in Poland in chapter 4. Chapter 5 is devoted to the typology of regionalism in Europe.

**Regionalisation** is something quite different. It is a **process of delimiting the administrative regions** of a country and **assigning competencies to the regional administration**. In this context regionalisation is a part of *territorial organisation* of the state.

There can be strong mutual interrelations between *regionalism* and *regionalisation*. In the simplest case, "strong" - i.e. having wide public support from some territorial groups - regionalism may influence the way the regionalisation is performed. On the other hand, however, the mere fact of the very existence of *regions* which have been equipped with some competencies may lead to emergence of the regional identity feelings thus reinforcing the regionalism as such.

The contemporary problems of the Polish regionalisation are discussed in chapter 6.

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2 G.Gorzelak, T.Hansen, European Regionalism and Regionalisation: a proposal of typology, (in print).

3 B.Jałowiecki, Kwestia regionalna (The Regional Question), "Współnota", vol. 15-16, 11-18.04, 1992.

## 2. The phenomenon of regionalism in the post-socialist countries

It was only very recently when *regionalism* began to manifest itself in the post-socialist European countries (but also Asian, as is the case within the former Soviet Union). This phenomenon should not be left without any comment.

Perhaps we should trace its roots in a major doctrinal change which begun to take place in the late 1980's in the former Eastern bloc. For example, in an official political statement the word "*individualism*" appeared in Poland for the first time in a positive context during the 1988 meeting of the communist parties' leaders in Moscow. This word was spoken out by gen. W.Jaruzelski when he argued that more **individualism** should be introduced into the long-lasting doctrine of the collectivist, socialistic society.

In principle, the ideology of socialism has been based on the notion of **collectivism**, according to which the society should express common interests and should be united around common goals<sup>4</sup>. It has been consequently assumed that no conflicting interests should emerge. In fact, this has led to the implicitly formulated target of uniformisation and standardisation of social systems of values and social behaviour<sup>5</sup>.

Historic experience proves that these goals have never been fully achieved, at least in such a hardly manageable country, as Poland. On the contrary, centrally produced collectivism has in fact been paralleled by social **atomization** on the individual level. The enthusiasm of the first period of independence and recovery after the World War Two, which unified wide strata of the Polish nation, was soon replaced by a clear division between the two layers of social

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4 During the 1970's a doctrine of "*moral and political unity of the [Polish] nation*" was propagated by the party authorities.

5 Thus, for example, local authorities were responsible, in the same time, for realisation of the local interests and the interests of the whole country (the latter being formulated on the central level). No doubt, the central point of view prevailed in all cases when the local and central interests appeared to be in conflict.

life: official and private. As broad research proves<sup>6</sup> collectivism and uniformity have governed in the first sphere, while closure to family and small social groups has dominated the second. Thus, in fact, **the collectivistic doctrine has lead to atomization of the society** and to its breaking up into several smallest social and family groups which have concentrated their activities around their own, "*private*" interests - not necessarily congruent with the goals officially put forward by the central authorities.

The dramatic changes introduced into political, economic and social life of this country since 1989 have changed these patterns. Poland has stepped on the path of building a society in which the obvious existence of conflicts between particular (individual or group) interests should be fully acknowledged. These interests have been - in some cases - institutionalised. Reemergence of local self-government is the clearest example of this process. The society has become more diversified and the social structure more complex.

Institutionalisation of group interests resulted in emergence of the community-like feelings. In this way **individualisation of social and economic life** in many cases has paradoxically **led to increase of social ties and links within the Polish society**<sup>7</sup>.

The above remarks introduce to the problem of **regionalism** not only in Poland, but also in other post-socialist countries. The phenomenon of regionalism would not have been possible in a centralistic, uniform and collectivistic social system. Regionalism, as a representation of sub-national interests, could have been conceived as a threat to whole-national goals<sup>8</sup> and thus could not be an

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6 See, for example, the results of the programme "Regional Development - Local Development - Territorial Self-government", conducted by the Institute of Space Economy (presently the European Institute for Regional and Local Development, University of Warsaw) during 1986-1990.

7 I do not try to say that these processes have only positive sides, as it may seem from the above statements. On the contrary, there are many negative aspects, such as weakening of the social security system which cannot cope with new phenomena, as unemployment and poverty - the results of economic transformation and social differentiation. This evaluation is not necessary, however, for explaining the new grounds for emergence of regionalism in Poland.

issue before the democratic changes in this country. These changes have brought the question up, however. Dismantling of the centralistic state and creation of a pluralistic political system gave way to claims of regional autonomy and sometimes even to challenges of the state unity.

### 3. Historical roots for Polish regionalism and Polish regionalisation

#### 3.1. Poland - a traditionally unitary state

Before we proceed to more detailed description of Polish contemporary regionalism and regionalisation we should provide some remarks concerning the history of Polish regions.

With the exception of one period (from mid-XII to the end of XIII century, when feudal Poland followed the whole-European pattern and was divided into several small, independent states) **Poland used to be a true unitary state**, subordinated to the central authority of the king or - since 1918 - of the government, no matter how weak or strong this authority would be. This was also the case during 1795-1918, the period of partition of Poland between Russia, Prussia and Austria, when different parts of Poland were incorporated into the states of those three countries and Poland disappeared from the map of Europe.

Generally speaking, there is no tradition of regional federalism in Poland, though in different historical periods particular parts of the country achieved some level of autonomy. This happened, however, as a result of weakening of the central authority paralleled by ambitions of several aristocratic families which on many occasions at-

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8 The research programme, mentioned in footnote 2, had its previous, original name: "Local Poland and restructuring of Polish space economy". The term "*Local Poland*" was however challenged in 1986 by high officials who at that time administered Polish science as an expression which could have been understood as an opposition to "Central Poland". Since such a possibility could not happen, the name of the project had to be changed. This real example clearly demonstrates old relations between so-called "whole-national" and group interests.

tempted to establish their independent (fully or in connection with the Polish crown) states. Exceptions from this general rule happened during the times of partition, when some regions enjoyed partial autonomy within the states to which they had been incorporated. This was the case with the Great Duchy of Poznań within Prussia and Galicia within the Austrian-Hungarian empire.

Having said that we should remember, however, that since XV century Poland entered into federation with the Duchy of Lithuania. Both countries formed in mid-XVII century the Commonwealth of Two Nations, unified under the same crown. In fact, Lithuania had been soon dominated by Poland in several forms<sup>9</sup>, but formally the country enjoyed the status of federation. This was not the case of regional federalism, though it should not be stated that there were no federal traditions in this country.

### 3.2. Regions of historic Poland

Present Polish territory to a great degree resembles the shape of the first Polish state from X-XII centuries. Also the regional divisions of contemporary Poland follow the historic regional boundaries (see figure 1).

Until to-day the same names for the great Polish regions as presented on the above figure are in use. These regions are also present in contemporary mental maps of the (macro)regional divisions of Poland.

In fact, as A.Piskozub proves in his book, these regional structures have existed throughout the entire Millennium. The period of partitions was the only time when other regional divisions have been in use on the territory of Poland.

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9 It can be clearly seen nowadays that the independent Lithuanian state expresses some kind of "*Polish phobia*". For example, Polish heritage is completely ruled out from any reports on cultural tradition of Lithuania. This attitude should be however understood as a reaction to the long lasting Polish dominance in Lithuania.



Pomorze Zachodnie=Western Pomerania; Pomorze Wschodnie=Eastern Pomerania; Wielkopolska=Greater Poland; Mazowsze=Mazovia; Małopolska=Smaller Poland; Śląsk=Silesia.

**Source:** A.Piskozub, *Dziedzictwo polskiej przestrzeni* (The Heritage of Polish Space), Ossolineum, Wrocław-Warszwa-Kraków-Gdańsk-Łódź, 1987, p. 96.

We have identified the first historical factor shaping the regional structure of Poland: **traditionally established regional divisions. International level** is another one.

Throughout the ages Poland changed (or was forced to change) her state boundaries. The thousand years of Polish history have been marked by constant pressure on Poland from the West and constant pressure of Poland eastward. It was only as late as in 1945 when the Polish territory was moved back to its origins from the beginning of this Millennium.

The most stable international frontier was that between Poland and various German states, beginning from Brandenburg, ending with the Third Reich. This frontier has changed over centuries, but its influence is clearly seen on the Polish contemporary territory. Figures 2 and 3 present its stability during last 200 years.

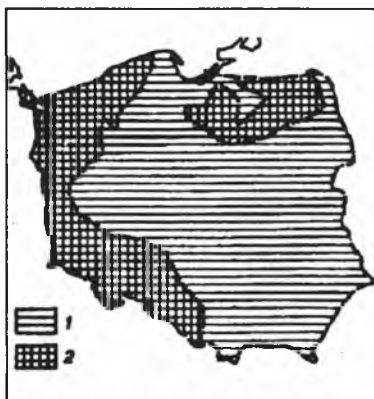


Fig. 2

1: Commonwealth, 1971;  
2: Prussia, 1971

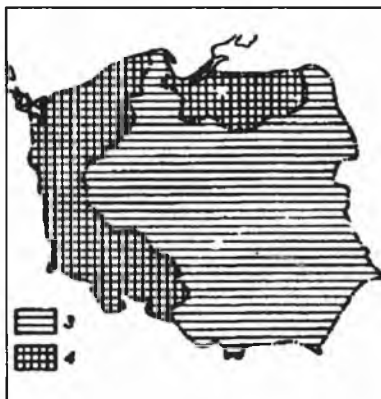


Fig. 3

3: Poland, 1918-1939;  
4: Germany, 1918-1939

Source: A. Piskozub, *Dziedzictwo polskiej przestrzeni* (The Heritage of Polish Space), Ossolineum, Wrocław-Warszawa-Kraków-Gdańsk-Łódź, 1987, p. 147.

### 3.3. Contemporary regional differentiation of Poland

To sum up these remarks on internal differentiation of contemporary Polish territory let me quote a piece from my earlier paper<sup>10</sup>:

*"Basing on several statistical investigations, in most general terms, two basic factors differentiating the Polish socio-economic space can be distinguished:*

- *the level of industrial and urban development, with the gradient from South-West (the highest level) to North-East (the lowest),*
- *the historic factor, differentiating Poland in South-East - North-West,*

*However, nowadays still another factor should be added:*

<sup>10</sup> "What regional policies during transition?", presented at the international seminar: Urban Planning and Environmental Policy in the Context of Economic Change in Central Europe", Prague, 9-12 January 1992

- *the level of modernity of the regional economic structures and their ability to adapt to the requirements of a market, internationally open economy.*

*Poland is a country in which there used to be a clear syndrome of industrial and urban development*<sup>11</sup>. The towns are the sites of industry and industry used to be the main factor responsible for social advancement and infrastructure development. The general direction of the gradient does not exclude, obviously, the existence of several exceptions from the general pattern: Warsaw and Łódź in the centre of the country, or Szczecin in the North-Western corner, are the most clear examples of these exceptions.

*The historical factor distinguishes the regions of different socio-economic composition, in which two structures: demographic and agricultural are the most important. The North-Western territories have, generally speaking, richer settlement system, younger population and much greater share of state or cooperative agriculture and also greater share of bigger private farms, while in the South-Eastern part of the country these characteristics are the opposite.*

*The modernity factor cannot be related to any geographical dimension. In fact, almost the whole of Polish economic space should be labelled as obsolete from the structural, technological and organisational points of view. This is the result of the fact that the socialist economies have missed the third technological revolution and till their end they have remained in the paradigm of heavy industry, energy production, basic chemistry, etc., all being produced at the expense*

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11 See, for example, G.Gorzelak, B.Wyżnikiewicz, *Analiza porównawcza regionalnych procesów rozwoju w wybranych krajach*, (Comparative Analysis of Regional Development Processes in Selected Countries), "Biuletyn KPZK PAN" z. 113, PWN, Warszawa 1981. In this respect Poland appeared to be similar to Japan and Spain and different structurally from the former GDR, Czechoslovakia and France (the analysis was performed for 1974. Since then the regional structures in other countries could have changed - in Poland they remained the same).



*of natural environment and the well-being of their societies. Having said that we may, however, indicate some 'islands' of relative modernity and economic health. These islands exist in some urban agglomerations: Warsaw, Poznań, Kraków, Wrocław, perhaps Gdańsk. In the case of Poznań this island could be even extended to the whole of the so-called Wielkopolska (Greater Poland) region.*

*The cross-product of these three factors shape the general spatial structure of Poland, which, in turn, differentiates the shape and pace of the process of reforming the Polish state, society and economy."*

All these three factors which constitute **social or economic differentiation of the country, together with ethnic differences, can be traced in contemporary Polish regionalism.**

## **4. Polish regionalism**

Let us examine in more detail the already mentioned (ethnic and economic) origins of regionalism in Poland<sup>12</sup>.

### **4.1. Ethnic regionalism**

Due to historic reasons Poland is a country in which the national problems virtually do not exist. Such national minorities as Byelorussians, Lithuanians and Ukrainians, are small. Moreover, Ukrainians are spatially dispersed. None of them is big enough to influence the "regional question" in Poland. This would not be - probably - their intention, as well, since all these minorities seem to enjoy sufficient degree of support for their culture.

The German minority is the only one more numerous. However, the German minority only in its very small nucleus could be labelled as ethnic minority. There are some 5-10 thousand people of German origin in Poland. The remaining part of this minority was composed of people who identified themselves as having "German roots".

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12 This chapter is based on the already quoted paper by B.Jałowicki (see footnote 1).

However, majority of them do not know the German language and have spent their entire lives within Polish culture. Estimates of its overall size vary considerably: from 300-400 thousand according to Polish sources and 400 thousand-1 million according to German reports.

The German minority is territorially concentrated in Upper Silesia. It is represented by two associations: Socio-Cultural Association of German Minority and Socio-Cultural of German Origin People. There is a marked difference between those two: the members of the first one clearly refer to themselves as to a *minority*, while the second maintain that they are in their own homeland in which they should not be regarded as a minority. This second attitude implies future changes of the administrative status of Silesia.

The German minority is not the only ethnic group in this part of Poland. The indigenous population - the Silesians - constitute the second. They are represented also by two associations: Upper-Silesian Union and Movement for Autonomy of Upper Silesia. Though the Union theoretically admits also non-indigenous population, in fact both organisations are composed of ethnic Silesians.

What are the roots of those movements in Upper Silesia? First of all, they stem from the feeling of being different - either German, or Silesian. Different from the genuine Polish population (being in majority in this region) which, in principle, came to Silesia after the World War Two. Secondly, these separatist (or nationalistic) attitudes should be regarded as a reaction to the past political oppression of indigenous population by the post-war authorities and economic exploitation of the region within the system of the centrally planned economy. Thirdly, opinions according to which several people claim their belonging to the German minority for purely economic reasons should not be ruled out.

Separatist claims for Upper Silesia are being formulated by all associations and organisations mentioned above. These claims are being reinforced from outside, mostly from German Silesians. The notion of "*Euroregions*" is frequently used in this context to indicate the desired direction in which Upper Silesia should evolve.

The "**Silesian Euroregion**" - according to these ideas - should be composed of appropriate parts of Poland, Czecho-Slovakia and Germany. It would be subordinated to the international law and juridical systems of those three countries. Streets should have names in three languages. Some special laws should be applied to land and real estate purchases and to activities of foreign capital. In fact, these processes could lead to political disintegration of Polish and Czecho-Slovak states and to direct dominance of the powerful German economy.

It has been already stated that both ethnic groups in Upper Silesia taken together are smaller in number than the Polish population of this region. This relation may lead to a kind of escalation of tension: the more active and "chauvinist" the minority, the stronger the reaction of the majority, etc. Thus the "**Silesian regional question**" may lead to the regional vicious circle, resembling so many other situations in the world.

## 4.2. Economic regionalism

In every regional analysis, no matter if devoted to social or economic problems, Wielkopolska (Greater Poland, with Poznań as the major city) is considered as mostly advanced in Poland. This region has enjoyed its privileged position since centuries<sup>13</sup>. Its urban system is well developed and well structured. It has the best agriculture in Poland. It is well equipped with technical and transport infrastructure. Most of all, organisational skills, managerial abilities<sup>14</sup> and general public activity seem to be the highest in Poland<sup>15</sup>.

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13 It is sometimes claimed that the successes of Wielkopolska should be assigned entirely to German influence. It is a mistake, though the western location of the region no doubt was its great locational advantage.

14 Comparative research demonstrated that two identical factories constructed in Wielkopolska and in South-Eastern region of Poland have operated in very different manner: the first one reached its full capacity as planned and produced according to the foreseen efficiency, while the second has never reached assumed value of production and operated at much higher costs. This was due purely to social factors, since both economic and technological conditions were exactly the same (see. the research of J. Ziolkowski quoted in J. Friedmann, *Urbanization, Planning and National Develop-*

no serious threats for unity or stability of this country which would have their origin in regionalistic movements or attitudes. None of the two regionalisms mentioned above receives wide public support. None of them is strongly supported by major political parties.

This is, however, a static view. All social movements which are based on ethnic or economic grounds have their own dynamics. These dynamics stem from the threats these movement pose (or only potentially could pose) for the unitary or even centralistic attitudes or for other inhabitants of the territories in question. Any action meets its reaction - and Polish regionalism can, in the future, encounter its opposition on both national and regional levels. In this way a process leading to crystallisation of opposite attitudes and values could be triggered, sometimes leading even to regional chauvinism and central opposition to any regionalistic movements.

## 5. Typology of Regionalisms in Europe

Table 1 proposes a way in which the cases of regionalism in contemporary Europe could be systematised. There are two **forms** of regionalism distinguished:

- 1) not challenging the constitutional order of a particular country, but complaining to it or changing it in a constitutional way; within this category three different situation fall:
  - 1a) constitutional changes leading to *decentralisation* of the regional system,
  - 1b) constitutional changes leading to *autonomy* of particular regions,
  - 1c) constitutional changes leading to *federalisation* of the national state.
- 2) challenging the present constitutional order and attempting to change it in a non-constitutional way. As above, three sub-categories can be mentioned:
  - 2a) *separatism*, which may lead (or at least claims) to a creation of a separate state (this could be labelled as a next step of autonomy),

Wielkopolska is another case of Polish regionalism, this time rooted in economics. Let us once again refer to B. Jałowicki. He writes:

*"In this case the claims for [regional] autonomy stem from the conviction that the inhabitants of Wielkopolska could manage their affairs better and in this way would be able to achieve high level of development much faster. Protagonists of autonomy of this region use the same arguments as the representatives of the Lombard League in Italy".*

This region would seek autonomy in order to keep on its territory incomes earned by efficient industry, agriculture, commerce. It opposes redistributive functions of the state. To some extent this resembles the attitudes which have been presented during the discussions before re-introduction of self-government in Poland in 1989<sup>16</sup>:

*"Myth of Prosperity. 'Once we take our affairs into our hands we shall be prosperous and happy'. In general consciousness the funds that are presently being passed from below to the top should be left where they are created - that is on the local level. It is striking, however, that these statements are usually formulated by the representatives of big, industrialised cities and regions and that the remote, rural, backward localities are totally forgotten and their fate seems to be neglected."*

### 4.3. Polish regionalism - a threat to country's unity?

If compared to other cases of regionalism in contemporary Europe, the Polish case should be considered as almost negligible. In fact, there are

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ment, SAGE, 1973).

15 This could be easily proved by the activities of local communities and local authorities. For example, the Wielkopolska region produced the greatest number of the permanent competition "Master of Efficiency" which had been organised during the 1960's and 1970's. Nowadays from this particular region best examples of inter-municipal cooperation come.

16 G.Gorzelak, Myths of Local Government and Local Administration, (in:) P.Dostal et al. (eds.), Changing Territorial Administration in Czechoslovakia. International Viewpoints, Amsterdam, 1992

2b) **annexation**, which is somewhat opposite to separatism and relies on attempts of joining an independent country with some other state,

2c) cases which cannot be clearly labelled as any of the already mentioned - we call them (jumping a bit ahead of our further considerations) as the **no-solution** cases.

There are also two **origins** of regionalism (as specified in chapter 4):

a) **ethnic**, which stays for the whole complex of phenomena and processes which can be grouped into two categories:

a1) national origins of regionalism, which encompass all **cultural, linguistic**, differences between particular social groups and communities within a broader framework of the national state,

a2) **religious** origins stemming from differences of religious beliefs and religious cultures, no matter if of the same general denomination (like within the Christian religion) or differing much deeper.

b) **economic** origins of regionalism, between which we can also distinguished:

b1) regionalism presented by the **strong** regions which oppose the redistributive functions of the central state,

b2) regionalism presented by the **weak** regions which consider their unfavourable situation as the result of "internal colonialism" of the stronger regions.

Superimposition of these categories produces a matrix in which the contemporary cases of the European regionalism can be systematises (table 1):

**Table 1.** Typology of regionalistic movements in contemporary Europe.

<i>Forms</i>		<i>Origins</i>		<i>Ethnic</i>		<i>Economic</i>	
				<i>Lang./Cult.</i>	<i>Religion</i>	<i>Strong</i>	<i>Weak</i>
<i>Constitutional</i>	<i>Decentralisation</i>		Bulgaria (Turks)				
	<i>Autonomy</i>		Upper Silesia			Wielkopolska Lombardy Catalonia	Scotland
	<i>Federalisation</i>		Belgium				
<i>Conflicting</i>	<i>Separatism</i>		Slovenia Dniestr Rep. Baskonia	Northern Ireland		Slovenia	Corsica Slovakia
	<i>Annexation</i>		Moldova				
	<i>No-solution</i>		Serb.-Croatia Serb.-Bosnia Ossetia	Nagorny Karabak			

This table lacks a third dimension - dimension showing the strength or "seriousness" of the regionalistic movements in attitudes in the regions presented there. Some hints in this particular matter will be provided when each of these cases is examined in more detail.

This table does not also include the cases of ethnic (national and religious) as well as of economic tensions within particular European states, which do not have a **regional** manifestation. Thus, for example, the tensions between the Polish minority and the Lithuanian authorities do not find their place in this table, since - though Poles are concentrated in some parts of Lithuania only - there is, in fact, no regionalistic movement there (the self-government of the Polish-dominated municipalities has been replaced by the Lithuanian authorities by the commissary rule and the situation has not, since then, led to any action from the side of the Poles living in Lithuania).

## 6. Polish regionalisation

### 6.1. The previous and present regional structures

From 1950 to 1973 Poland's territorial divisions have been as follows: 17 voivodships, over 300 districts (*powiaty*) and over 4000 communes (*gromady*).

The intermediate level ("*powiat*") was deeply rooted in the country's tradition. For last four centuries this territorial unit has been a major factor in organising Polish economic, social, economic and even cultural space. It was the most stable unit - the changes introduced under several governments (even by the foreign ones during the 123 years of non-existence of Poland on the map of Europe) never destroyed the main logic of this division. As a result, the material structure of the country (transportation networks, distribution of social infrastructure) as well as the mental perception of the Polish space is organised along this territorial pattern.

During the years 1950-1973 the territorial division of the state did not change much. Only the number of the lowest tier units has constantly increased, to reach over 8000 by the end of this period.

In the years 1973-1975 a reform of the territorial organisation of the state was introduced. The two-tier system replaced the old, three-tier one. The number of voivodships was increased from 17 to 49; the intermediary level of a district (*powiat*) was abolished and the number of the basic units drastically reduced to around 2,500 (their name changed into "*gmina*", which, directly translated into English, means *commune*).

Officially, the reform was introduced in order to decentralise the state administration and to bring the government closer to the people. In fact, the true reason for the reform was the intention to break down the strength of the voivodship party apparatus and to destroy the well established local (district-level) elites. But in reality the reform increased centralisation, for the central political and administrative authorities could now exert more control over the regional party and administrative centres of power than it was possible when the number of regions was much smaller and when the regions were much bigger and economically (and, obviously, politically too) much stronger.



The reform resulted in disorganising the Polish space. The measure to increase the number of voivodships was the most controversial. It split up a traditional division of the country. It created several small, economically inviable regions. Their boundaries broke traditional ties and spatial economic, social and cultural relations. The communes appeared to be too small and too weak to undertake the task and responsibilities until then implemented by the abolished district - so those tasks and responsibilities were moved up to the regional (voivodship) level, thus contradicting the claims of decentralising the system of state administration. Moreover, several institutions and organisations recognized the old system to be more rational than the new one and kept to the three-tier pattern of spatial organisation - however, these patterns were usually different in each case. This introduced severe disorder into the functioning of several branches of state administration, for the commune authorities of general competence became in fact subordinated to the managers of the branch administration who operated on the area of several communes. There are approximately 150 such special divisions, not congruent with the general administrative division of the state.

The reform of the 1970's shaped the present pattern of two-tier spatial organisation of the Polish state. In 1990 there were 49 voivodships, 2,121 rural communes and 830 towns (a "town" denominates a basic-level administrative unit of urban character). Some towns and adjacent rural communes form a joint unit (town-commune) - there were 541 such cases. Warsaw is divided into 7 districts which have commune status.

Altogether, there are 2,417 basic units of the spatial administrative division of the state. Table 2 presents the average area and population of voivodships, towns and rural communes (January 1, 1990).

**Table 2.** Territorial organisation of Poland

Units	Area, sq. kms			Population, thds		
	1	2	3	1	2	3
voivodship	6381.3	12326.8	1523.1	774.1	3953.8	245.5
town	24.6	485.3	1.2	27.7	1651.2	0.8
rural commune	137.8	575.5	18.9	6.9	24.7	0.4

1: average; 2: greatest; 3: smallest

New legislation (June 1990) has introduced another quasi-level of this division, called "*rejon*". This unit is a subdivision of the regional (voivodship) administration. It does not have any tasks and responsibilities of its own, but only serves as the territorial deconcentration of the regional state administration for purely technical and organisational purposes. The process of drawing the boundaries of these "*rejons*" has not been completed yet, but there should be around 250 of them. Introduction of this new tier (of purely administrative character) begins the process of another reform of the spatial organisation of the Polish state.

## 6.2. How many tiers in the future?

The present territorial organisation of the Polish space is inadequate to the new economic and political conditions. The regional (voivodship) unit is much too small for the new type of regional policy that should be designed and implemented by the central government. **The Polish administrative regions of the first-order should be visible on the map of Europe** and such units should be strong enough to conduct their own development policies and to be economically competitive, also in the international context. The development of the technical infrastructure, necessary for creating favourable conditions for the foreign capital intending to invest in Poland, is another task of the national regional policy, which calls for bigger spatial units being able to undertake such tasks.

There exist justified opinions that the present level of centralisation is even higher than during the 1970's. This centralisation is due to even greater fragmentation of the regional state agencies and regional budgets and their stronger subordination to the central ministries. Thus the new democratic governments fell into the same trap as the ones they had criticized so strongly and finally toppled. Moreover, frequent political changes on the central level are immediately reflected on the regional level, since the party ideological perspectives are also being applied to the process of nominating of the *voivods* (the chief administrators on the regional level nominated by the prime minister).

Taking these arguments into account, the reform should produce some 10-14 big regional units equipped with strong powers and being able to conduct their own development policies. The immediate problem emerges, however: what units these should be? Should they remain "governmental", or should some representative bodies be introduced on the regional level? Here we may trace the **third group of roots for contemporary Polish regionalism**. These problems are discussed in more detail in section 6.3 of this paper.

### 6.3. The administrative reform

Discussion conducted on the future administrative reform have, in fact, "let the devil out of the bottle". It was the first occasion when the very term *regionalism* got its official status.

In order to institutionalise these discussions, the State Commission was created in 1990 to prepare the new shape of the territorial structure of Poland and to propose the ways of implementing this reform. The commission produced some 500 pages of reports in which all major issues were discussed. These issues can be structured into three big problems:

1. The delimitation of new regions. The commission came to the conclusion that the reform should produce some 10-14 big regional units<sup>17</sup>.
2. The constitutional status of new regions. All solutions between the two extremes: full autonomy (federalisation of the country) - full subordination to the central government were proposed.
3. The role of intermediate level - the district. Should it be self-governmental, governmental, or should it be of mixed nature? The first solution prevailed, though no clear division of competence between the self-government of municipalities and districts were worked out.

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17 However, quite recently a new commission has been created which proposes that the number of voivodships should be much higher - one speaks about 30 regional units. Nobody would be able to say which solution is going to win and when. This confusion affects all other recommendations of the old commission.

The proposed delimitation of the new big regions of Poland is presented on figure 4.



Fig. 4

Source: Bulletin No. 20 of the Task Force to Prepare the Conception of Changes in the Territorial Organisation of the State, Council of Ministers' Office, December 1991.

This proposal was further subjected to a kind of opinion poll open to local authorities. Figure 5 presents the capital cities of the new big regions, as proposed by the majority of municipalities taking part in this poll<sup>18</sup>.

It has to be stressed that the greatest support for new regional division of Poland was given by the strongest metropolitan centres and municipalities belonging to their spheres of influence.

On the other hand, some weak voivodships created in 1975, which would lose their status after the reform, oppose these projects.

M.Kulesza distinguishes four models of regionalisation in Poland which can be applied during the proposed reform:

18 The proposals were sent to all municipalities in Poland. 801 of them replied.



Fig. 5

Source: M.Miazga, Ośrodki regionalne w opiniach samorządów (Regional centres in opinion of local governments), Wspólnota, No 15-16, 11-18 April 1992.

1. **Regional deconcentration** of the central authority. Regional authority (*voivod*) represents the prime minister. Voivodship does not have legal entity - all regional administration is, in fact, a part of governmental system. Self-government does not exist on the regional level.
2. **Combined regional deconcentration and decentralisation.** Some functions are deconcentrated to the regional level (as in model 1), but some other are decentralised, i.e. regional authorities have the general authority to perform these functions. These could be, for example, water management, public roads, development planning, promotion of economic development, etc. Decentralised functions are performed by regional public enterprise. The voivod can combine two functions: the governmental representative and the chief of such an enterprise.
3. **Regional decentralisation, with regional self-government.** The region is equipped with legal entity. The regional council is elected in public elections. The voivod can be elected by the regional council or can be appointed by the prime minister.

4. Autonomous regions with own parliaments (empowered to issue legal acts) and own governments and able to perform their own policies. This model would lead to full *regionalisation* of the country and, in further perspective, to its federalisation.

All these models are theoretically possible, though not all of them do represent equal qualities. M.Kulesza does not recommend the third model (self-governmental region), since - according to him - this model would create a lot of ambiguity in the division of competencies between the local and regional levels of self-government (the situation could get even more complicated when the intermediate level - districts - was created).

M.Kulesza is quite right when he warns against too fast and not sufficiently well prepared reforms. He argues that if the fourth model is to be chosen as an ultimate goal of the regional reform in Poland, it should be introduced gradually. Thus the first model should be adopted at the beginning of the reform, then it should evolve towards the second and then, finally, the ultimate solutions of the autonomous regions could be introduced. Moreover, particular regulations should not be introduced on the entire territory of the country, but only in those regions which would be best prepared for the reforms.

This pattern of gradual reforming the competencies of the regional authorities could - and perhaps even should - be applied in performing the new delimitation of the regional structure of Poland. There is no political power in this country to introduce the new regional boundaries in a form of a parliamentary bill. The new regions should therefore emerge gradually, as a result of bottom-up processes initiated by groups of present voivodships which would decide that combining their potentials would be profitable. Central authorities (the parliament and the government) should only facilitate and encourage these processes. Intermunicipal cooperation which already begins to develop in Poland could be one of the most important factors enhancing the emergence of new regions.

## 7. Conclusions

As it has been already said, regionalism in Poland is not a phenomenon threatening the unity of the country, its political and social order. On the contrary - with the exception of ethnic tensions which could emerge in Upper Silesia - it should rather be conceived as a factor fostering cultural diversity within Polish society and social integration on various levels.

Polish regionalisation, if taking into account the claims of the regionalistic movements and not braking them down, may also result in creation of viable regional units, capable of making the best use of their regional potential. However, this would call for **comprehensive, far-reaching and strong regional policy** of the central authorities. Such a policy should be able to alleviate the negative processes which could emerge if the strongest regions would like to forget that they belong to one country and would begin to oppose redistributive functions of the state.

Polish regionalism should also become more rationalistic and less influenced by fashionable notions and tendencies. "*Euroregions*" or the idea of "*Europe of regions*" are such notions which do not necessarily have their reflection in reality. These ideas could be, however, misused by some nationalistic groups in order to destabilise the European political scene. They can be also applied into policies aiming at creating a dominant economic position of some countries over other or at least over their parts. Proponents of regionalism in Poland - and only in Poland - should be well aware of these dangers.

Finally, more attention should be paid to comparative studies of regionalism(s) and regionalisation(s) in contemporary Europe, and even in a broader context of the Asian part of the former USSR. These studies should allow for some general conclusions on these phenomenons, which would perhaps - following the suggestions we have just made for Poland - make them more rationalistic and less emotional. This could bring more civilised solutions to the problems facing so many countries on our continent troubled presently by - let us still hope unnecessary and avoidable - domestic wars and human tragedies.

June 7, 1992

## **Part V. Research Priorities**

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### **Polonia - Quo vadis Five research programmes**

#### **Introduction**

We are looking at the great drama of Polonia Restituta. We have regained our Independence and in the first days of this Independence we have a deep crisis of the economy, of the society and of the state. The Polish science should not accept the role of a passive witness of this crisis. It should propose a set of research programmes as an inquiry into the fate of Poland in the crucial decade of the nineties.

In order to start the discussion in this field I would like to outline a system of five programmes related to five processes of transformation shaping the face of Poland in the nineties.

These are the following transformations:

1. Technological transformation.
2. Ecological transformation.
3. Economic transformation.
4. Social transformation.
5. Political transformation.



## **1. Technological transformation: the first programme**

We should get a well documented analysis of the process of technological transformation of Poland's process of transition from Soviet to global technology. This process is creating a rapid jump in the rate of depreciation of our national wealth.

This is a unique experience in the Polish history.

In this context we should answer - *inter alia* - the following questions:

- 1) to what extent can our national wealth be adapted to new conditions; which fields of this wealth must - partially or totally - be liquidated;
- 2) how quickly and in what conditions can we absorb the global technology in Poland;
- 3) to what extent is the Polish scientific thought shifted only into the channels of adaptation and to what extent can this thought participate in the creation of the global technological progress.

## **2. Ecological transformation programme: the second programme**

We should get a well documented analysis of the ecological transformation of Poland as a transition from Soviet to European ecology.

We have to expand ecological research in the grand style. Ecology is the biological foundation of our existence. We are discussing the place of Poland on the map of the ecological renaissance of Europe .

## **3. Economic transformation: the third programme**

The transition from the economy of real socialism to the economy of real capitalism is the most important problem of Poland in the nineties.

We should develop a comprehensive system of diagnostic monitoring and prognostic studies of this transformation. We should also promote the role of Polish science in the development of global dis-

cussion on monetaristic versus Keynesian approaches and on laissez-faire versus interventionist approaches.

#### **4. Social transformation: the fourth programme**

The United Nations are organising an international conference in Helsinki - "Social Policy in a Competitive Society". The question should be answered how to develop social policy in the society accepting competition as a fundamental principle of its operation. The development of such a society is one of the most important Polish problems both in the near and in a more distant future.

In this context the fourth programme should *inter alia* answer the following questions:

1. How to diminish the impact of the bureaucratic mentality in the society and how to develop the quality and scope of the mentality of entrepreneurship and innovation.
2. How to shape the system of national education, to educate the members of the competitive society endowed with proper general and professional qualifications.
3. How to shape the system of taxes and wages to stimulate the development of the middle class as a most important engine in the creation and development of Polish capitalism. We should avoid the situation when the entrepreneurial class would be represented mainly by foreign capital. Naturally, I am not an adversary of the presence of foreign capital in Poland. The experience of Spain indicates how important the role of foreign capital is in the transformation of the country and its adaptation to the mechanisms of the European Communities.

I think, however, that our discussion should not be restricted to the development of capitalism in Poland but also it should deal with the development of Polish capitalism both in the country and abroad.

The Polish capitalism should manifest its existence on the map of Europe, and especially in Central and Eastern Europe.

If the ideology of populism kills the ideology of getting rich in an honest and creative way then our dream about Polish Spain will be replaced by the reality of Polish Bangladesh.

## **5. Political transformation: the fifth programme**

The Polish traditions in the development of the state that is both strong and democratic are, unfortunately, rather weak. The fifth programme should analyze the scale and dynamics of forces, factors and phenomena integrating or disintegrating the structure and functioning of the state. In this programme there is also an important place for the problems of internal security, defense and foreign policy.

## **6. Five transformations-Five programmes-Six fields of inquiry**

Let me propose to establish a system of five research programmes related to the transformation of:

1. Technology.
2. Ecology.
3. Economy.
4. Society.
5. State.

In each of these programmes six fields with different methodologies of research can be seen, namely:

- (1) the field of diagnostic studies,
- (2) the field of current monitoring and information systems,
- (3) the field of prognostic studies and scenarios,
- (4) the field of *ad hoc* expert studies,
- (5) the field of synthetic studies,
- (6) the field of international comparative studies.

## 7. Three perspectives in the design and implementation of the proposed 5 programmes

The programmes can be seen in three perspectives:

1. In the analytical academic perspective of *rerum cognoscere causas*.
2. In the pragmatic perspective as a source of materials useful for the design and implementation of a broad spectrum of political, economic and social activities and policies.
3. In the comparative perspective of studies on the transformation of Central and Eastern Europe.

## Conclusion

This is a very preliminary proposal. I am convinced, however, that the idea of a scientific pentagonale of inquiry into the fate of Poland in the crucial decade of the nineties is very important in both theoretical and pragmatic perspectives. The essence of this proposal is the holistic approach - to answer the great question: Polonia - Quo vadis?

### Polonia - Quo Vadis The Research Programmes

Research programmes and fields of transformation	Fields of Inquiry					
	Diagnosis	Monitoring	Prognosis	Ad hoc expertise	Syntheses	International comparative studies
I Technology						
II Ecology						
III Economy						
IV Society						
V State						
VI Holistic approach						

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## **The Decade of Three Continents Latin America - North America - Europe**

The Encounter of the Two Worlds should be seen not only as an Anniversary but first of all, as a great historical process.

The 500 years' Anniversary has generated a big push in the field of comparative studies on Latin America, North America and Europe.

The results of this big push should be recognised as a starting point of a large-scale Research Conference and Publication Programme to be designed and implemented during the last decade of the XX century. This decade should be declared as the Decade of Three Continents - Latin America, North America and Europe. In this context I would like to suggest the following topics for discussion.

1. The Decade.
2. The Three Continents.
3. The Global space, the Atlantic space and the Pacific space.
4. The Three Continents in the framework of PAN-American and PAN- European Visions.

5. Centers and Peripheries - The Experiences of Three Continents.
6. The Latin American analogy in Central and Eastern Europe.
7. Three Continents - The XX Century Experience.
8. Three Continents - The Prospects of the XXI Century.

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## 1. The Decade

The decade of the nineties is one of the crucial decades in the history of mankind. This is the decade closing the misery and glory of the XX century and opening the unknown future of the XXI century.

## 2. The Three Continents

The decade of the nineties should be declared as the decade of a large-scale Research, Conference and Publication Programme examining the experience and prospects of three continents - Latin America, North America and Europe.

It is necessary to develop a Programme of comparative studies which will in this case be especially productive.

Looking at the experience of the three continents we see a very strong set of similarities, related to the common roots of Christian civilization and a strong set of differences related to the heterogeneous economic, social and political structures<sup>1</sup>.

The simultaneous coexistence of strong similarities and strong differences is a most efficient inducement for the successful application of a well conceived comparative analysis.

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1 Compare A. Kukliński, Regional Problem - The Historical and Prognostic Experience of Three Continents (in) G. Gorzelak (ed.) Regional Dynamics of Socio-Economic Change. University of Warsaw, 1988.

This is exactly the case of the three continents incorporated in the activity of two Regional Commissions of the UN - the ECE in Geneva and CEPAL in Santiago de Chile.

### **3. The Global Space, the Atlantic Space and the Pacific Space**

The inquiry into the fate of Three Continents should be developed in the framework of the changing dimensions of Global Space.

Of these dimensions the most important are the relative power and dynamics of the Atlantic and Pacific space. Maybe a shift in this field will be the crucial factor in the evaluation of the prospects of the Three Continents for the XXI century.

### **4. The Three Continents in the framework of PAN-American and PAN-European visions**

It would be both very interesting and useful to promote a set of comprehensive comparative studies analyzing the historical experiences in the field of PAN- American and PAN-European approaches and policies.

The images and realities, successes and failures are a fascinating topic not only in the classical academic perspective of *rerum cognoscere causas*.

These studies will also have a prognostic dimension, trying to answer two questions concerning the future of the North American Integration and the future of the European Communities.

#### **The first question**

The U. S.-Canadian co-operation in the field of economic integration is very effective.

Now this integration has an opening in relation to Mexico with a prospect to incorporate the whole area of Latin America.

Will we see in the XXI century a real PAN-American unity? This is one of the most challenging questions of our times.

## **The second question**

There are two approaches to the future of the European Communities.

The deep approach - to consolidate and develop the Community of the present 12 members.

The broad approach - to open the Community in relation to the EFTA countries and to Central and Eastern Europe, maybe including the whole area of the former Soviet Union.

The final logic of history is clear - sooner or later a vast economic space from Lisbon to Vladivostok will emerge.

If, however, the deep approach will prevail persistently for a long time and, for example, the countries of Central Europe will persistently be treated very badly, then the temptation will emerge to create a free trade zone unifying many postcommunist countries.

Let me say once more that I believe very strongly in the Lisbon - Vladivostok scenario as a long-term historical solution.

## **5. Centers and peripheries - the experiences of Three Continents**

Polarization is a permanent feature in the experience of Three Continents<sup>2</sup>. This mechanism of development has created two centers and two peripheries: the centers of North America and Western Europe and the peripheries of Latin America and Central and Eastern Europe. There are two interpretations of this phenomenon:

1. The center - periphery relations are a natural result of the interplay of market forces on global scale.

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2 Compare Samir Amin, *A World in Chaos*. International Conference on "A New Europe in the Changing Global System" organised by the United Nations University in collaboration with the Hungarian Academy of Sciences. Velence, Hungary, 23-25 September 1991.



2. The center - periphery relations are a special form of dependence and are deeply incorporated in the global organisation of capitalistic development.

We need a strong set of empirical studies to analyse the center-periphery experiences of the Three Continents. This is an issue where the value judgements, accepted by scholars of different ideological denominations, will influence very strongly the academic debate.

The incorporation of that debate in the proposed Research Programme is opening new perspectives related to different ideological and political interpretations of the center - periphery experiences of the Three Continents.

## **6. The Latin American analogy in Central and Eastern Europe**

In the analysis and interpretation of the experiences of Central and Eastern Europe the Latin American analogy is widely accepted<sup>3</sup>.

It is necessary, however, to promote a deep inquiry into the nature, scope and limits of this analogy. Maybe following four topics will be relevant in this the context:

1. A methodological inquiry into the role of analogy as a cognitive instrument of social sciences.
2. A historical inquiry about the analogies in the development processes in Latin America and Central and Eastern Europe.
3. An economic, social and political inquiry into the role of IMF philosophies and policies in Latin America and Central and Eastern Europe.
4. A geographical inquiry to compare two center-periphery boundaries in their present empirical dimensions:

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3 Compare Marcin Kula, *O Brazylii - ale też trochę o Polsce* (On Brazil - and also briefly about Poland), University of Warsaw 1992.

- the US - Mexican boundary,
- the German - Polish boundary.

## 7. Three Continents - The XX century experience

The interpretation of the experiences of the XX century is a very difficult and complicated issue exposed to highly polarized value judgements.

In extreme cases, we find opinions that a large part of the XX century was just an aberration.

Let me present a few quotations from the article of James Morgan<sup>4</sup> published in Financial Times.

*"The fall of the Soviet bloc has left the IMF and G7 to rule the world and create a new imperial age.*

*Shut your eyes and think what would the world be like if the October Revolution of 1917 had never happened? Answer: it would be rather like it is today. If Rip van Winkle had gone to sleep in 1912 and woken 80 years later, he would understand a good deal without knowing anything of Lenin, Stalin, Hitler, communism, fascism, two world wars and the end of empire. Only Russia would be a dreadful disappointment: its present state might seem to mark a step or two backwards.*

*The construction of a new global system is orchestrated by the Group of Seven, the IMF, the World Bank and the General Agreement on Tariffs and Trade [GATT]. But it works through a system of indirect rule that has involved the integration of leaders of developing countries into the network of the new ruling class.*

*It is a daunting to think that the cataclysmic events since 1913 are insignificant historically, but it is obvious that the Russian*

4 J. Morgan, Rip van Winkle's new world order. *Weekend Financial Times* April 25-26, 1992.

*revolution will not play the role in history that is assigned to the French. The period 1914-1990 has already been called 'the short century' and appears even now as an aberration.*

*Rip van Winkle might well be able to understand our world better than we do because he would be free of the baggage of the past 80 years. There would, however, be one misapprehension. At some moment, he would almost certainly remark: 'But aren't you afraid of the socialists?'"*

This hyperliberal<sup>5</sup> interpretation of the experiences of the XX century leads to the thesis that we will enter the XXI century via the XIX century and not via the XX century. The XXI century will be a new imperial age.

It is very difficult to imagine how many eminent social scientists will share this value judgement. I think, however, that this controversy could be very well analyzed in the framework of the proposed Research Programme. It is worthwhile to note that Lord Skidelsky, the biographer of Keynes, has published in *Financial Times* a charming essay<sup>6</sup> to stress how important and valid is now the correct Keynesian interpretation of neo-liberal approaches.

## **8. Three Continents - The prospects of the XXI century**

There is no doubt that the proposed Research Conference and Publication Programme will generate an ample set of valuable materials related not only to the past but also to the Future of the Three Continents.

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5 Compare Robert W. Cox, Structural Issues of Global Governance - Implications for Europe. International Conference on "A New Europe in the Changing Global System" organised by the United Nations University in collaboration with the Hungarian Academy of Sciences. Velence, Hungary, 23-25 September 1991.

6 Lord Skidelsky. Keynes here, how can I help you? *Financial Times* April 4-5, 1992

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These materials can be organised into a System of Scenarios outlining different assumptions and approaches to the goals and mechanisms of development.

This system of scenarios could be treated as the final result of the proposed Programme in the field of pragmatic applications.

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## **Restructuring of Polish regions in an European context**

(a research programme conducted by the European Institute for Regional and Local Development, University of Warsaw, financed by the State Committee for Scientific Research)

### **Outline of the programme**

The key issue confronting the Polish economy in the coming years is the completion of structural changes. These changes will affect all sectors and branches, will change the ownership structure and will change the territorial structures.

Poland was the country which accepted the model of accelerated transformation from a command to a market economy. This model has been usually referred to as "a shock therapy" or "a big-bang approach". The results of the first two years of this therapy are ambiguous. Positive sides (restoration of market balance; curtailing inflation; strengthening of the national currency; structural adjustments in some economic sectors; inflow - however limited - of foreign capital) seem to be overshadowed by the negative effects of the reform (deep recession and drop of national income by some 20%; massive unemployment; slow pace of privatisation; great budget deficit; lack of clear central policies).

The restructuring processes have already had clear regional patterns. Polish regions have demonstrated differentiated capabilities of adapting to new economic, political and social conditions. However, these capabilities only marginally have been the effect of the regional policies performed by the central government or the policies implemented on the regional level. In fact, the regional processes have been the direct result of the changes occurring in particular sectors and branches.

The adaptation of the Polish economy to the new international and domestic situation will depend to a large degree on the capability of individual regions of our country to develop a favourable social, economic and natural environment for innovative thinking and accommodation of new technologies and production methods.

Restructuring in Poland has also led to a process of connecting the Polish economy to the world economy, and, primarily, to European markets. These markets have been shaped by the restructuring processes which have been taking place in the developed Western economies since mid-seventies. The lessons of other countries in overall and in regional restructuring should be therefore learned.

In this new situation research in Poland will have to face the challenges of the future. It should increasingly focus on new developments and try to adopt a wider international perspective. Also methodological foundations of research should be upgraded, the data basis expanded and the scope of analysis broadened. Research should at the same time represent a high methodological and theoretical level if it is to create a solid background for economic, social and regional policies which will have to be devised and implemented if the Polish economy is to recover and enter on the path of development.

The Research Programme presented here has been constructed with the above considerations in mind. It aims to provide a framework for a wide range of studies on regional development in Poland during the restructuring of the Polish economy and its increasing integration with the world, and especially, with Europe.

The research will be focused on the following issues:

1. A critical review of European theories and practical experience in restructuring and regional development.
2. Changes in the territorial organisation as one of the components of restructuring.
3. Differentiation of the regional potential for international cooperation.
4. Restructuring of selected regional and local systems: goals, barriers, mechanisms, and means.
5. The role of Poland in the trans-European network of telecommunications and transport.
6. The theory of restructuring of regions and its practical impact.

## **Scope of research**

The scope of research within each topic listed in the Outline above will now be presented in greater detail.

### **1. A critical review of European theories and practical experience in restructuring and regional development.**

#### **1.1. West European experience**

Western Europe is an excellent source of first-hand experience in regional and industrial restructuring. It seems very useful to examine closely the experience of West European countries in performing deep structural changes, and specifically regional changes. Let it be made clear that not all lessons are equally worthy of attention. What is more, not all exercises in structural change carried out in other countries could be transplanted onto Polish soil in full. Therefore the analysis of Western experiences must be critical, incorporating, as one the criteria, its practical applicability (both immediate and in a longer perspective) to the specifically Polish situation.

It is not possible to present here a complete list of countries whose experience in regional restructuring and its effects could become a subject of examination. However, it is worth mentioning that Polish research in the past had paid very modest attention to countries in the West which represented approximately the same economic potential as Poland, eg. Spain, Portugal, Greece, Ireland, and Scotland. Those countries have already passed the stage of implementing the experience of states representing a higher level of economic advancement, therefore they could provide a wealth of invaluable experience. This Programme gives greater prominence to analytical studies of those countries.

### **1.2. Central and Eastern European experience**

The analysis of the European experience should not be restricted to a look at Western Europe only. The processes currently going on in countries of Central and Eastern Europe, especially those which have already initiated a deep overhaul of their political and economic structures (Czecho-Slovakia, Hungary, former GDR), could prove no less valuable both for the theory and practice of regional restructuring in Poland.

The rationale behind a systematic monitoring of the evolution of economic structures in those countries including regional structures rests, as it seems, on two arguments:

- parallels of the processes of political and economic restructuring in Poland and in those countries promise an exchange, on an almost daily basis, of experiences within joint comparative research programmes;
- it should be recommended that comparative studies were to a greater than so far degree inspired and carried out by way of direct cooperation between the interested countries of Central and Eastern Europe.

## **2. Changes in the territorial organisation as one of the components of restructuring.**

Poland is standing on the threshold of changes in her territorial organisation. The old administrative division is increasingly hamper-



ing the political and economic reforms. It is also jeopardising chances for closer ties with foreign capital. Voivodships today are too small territorially, too weak economically, and have little political legitimacy. This means playing in the hands of greater centralisation of the decision-making process. Also the communes look too weak to be independent self-government units.

The Programme should cover the following research projects:

### **2.1. Poland's big regions on the map of Europe: the past, present and future**

Research should reveal - in a longer historical perspective and also accommodating the future spatial structure of our continent - changes in the role of Poland's regions in a broader European context. The results could provide arguments and clues on how to carry out a new division into voivodships in Poland.

### **2.2. New territorial organisation of Poland and the competencies of different levels**

A start-up hypothesis is the restoration of a three-step division. What is needed is a set of alternative models regarding the size of the new units and also definition of the principles of delimitation. This is inextricable from the definition of the competencies of each level of the hierarchy regarding policy-making, social and economic management. It is no less rational to relate all this to the international experience. The research will require extensive monitoring of public opinion.

### **2.3. New role for local government under a new territorial division of the country**

The new territorial organisation will necessitate new foundations for the operation of the territorial self-government, definition of its competence and position vis a vis local state administration. This will inevitably prove important if the middle (district) level of territorial organisation is restored. In this situation the Programme's research projects should create objective premises for this absolutely topical political choice, namely, what is going to be the territorial foundation of self-government? Will it be the old commune, or

maybe a resurrected district? The research should follow closely the functioning and experiences of the territorial self-government, which should form a separate research topic.

### **3. Differentiation of the Regional Potential for International Cooperation.**

Development under an integrated international economy is increasingly becoming a regional rather than national matter. Only a handful of regions are real champions of progress focusing on new technologies and innovation. The new ideas are then diffused across other areas also through capital and labour flows and a gradual spread of new technologies and cultural patterns. The regional authorities empowered to shape the basic character of regions, their social fabric, economic and scientific potential and natural environment have an important role to play here. Research should concentrate on two groups of subjects:

#### **3.1. The regional potential for entering into international cooperation.**

The social, economic and ecological potential of Poland is seriously diversified. This diversification, traditionally measured by standard statistical categories (relating to the of production, demographic indices, the condition of the natural environment, etc.) categorically differs from individual region's ability to adopt an active attitude toward international cooperation and to grant preferences for potential foreign investors. This could already be seen here and there as individual regions react to the changes of Poland's economic system (unemployment, growth of the private sector, foreign capital). Therefore examination of regional issues would require fresh theories and new analytical tools.

The identification of how easily Poland's regions could adjust themselves to an influx of foreign capital requires a confrontation of prospective offers, on the one hand, and the demographic and social potential (the structure of education, for example), and also economic resources, on the other. This in turn requires continual monitoring of the levels and structures of development in individual

regions of Poland and their comparison with a broader international context.

### **3.2. Regional diversification of the foreign capital activity in Poland**

The influx of foreign capital to Poland varies strongly in territorial terms depending on where the capital comes from and where it is directed (branch and sector structure). Foreign capital in Poland brings with it various consequences for regional economies and population and could also have nationwide consequences. The research will monitor and analyze the regional differences with respect to the economic and social consequences of ties between Polish firms and foreign capital, direct foreign investments in Poland and prospective outflow of Polish capital.

## **4. Restructuring of Selected Regional and Local Systems: Goals, Barriers, Mechanisms and Means.**

Studies on the restructuring of selected regional and local systems should concentrate, among others, on areas critical for the overall national development and should address the following issues:

### **4.1. Restructuring of selected regions in Poland**

The real drama of People's Poland was, *inter alia*, that a gigantic effort had been made to carry out a negative restructuring of a large area of the country, especially in Upper Silesia. The condition of that region in 1990 was worse than in 1950. In effect the region today is less prepared to confront international competition than it had been at the beginning of socialist industrialisation. Moreover, an obsolescent and ineffective structure of the Upper Silesian region is becoming one of the most serious breaks on nationwide structural change.

The Łódź region is another headache of regional restructuring. It is an area handicapped by depreciated productive fixed assets concentrated in a whole complex of industries with no future ahead and burdened with a strikingly backward infrastructure.

Deep structural overhaul is also needed in regions such as Sub-Sudetic region, mining centres of Legnica and Tarnobrzeg, the South-Eastern part of Poland where old-time directions of economic activity are in decline (Wałbrzych region), require re-direction (small-plot and overpopulated agriculture) or suffer a collapse of their regional systems due to ecological catastrophe (Legnica, the sulphur basin, Sub-Sudetic region).

At the same time some regions (Greater Poland, Warsaw agglomeration) are already prepared to accelerate towards international cooperation. Seaside regions and relatively untouched tourist areas find themselves in a similar position. What they all have in common is a need for serious structural remoulding, which would at the same time follow their current regional specificity.

Research should lead to full identification and typology of regions from the point of view of the scale and directions of the necessary restructuring of their communities, economies and the natural environment. Results of investigations would define the potential, suggest possible threats accompanying regional efforts to link up their economies to the European economy, and map out basic directions of structural change necessary to accelerate that process.

#### **4.2. Restructuring of urban agglomerations**

Research should cover such issues as the ways and means of restructuring the economy and urban development in Poland's agglomeration with special stress on their prospective role as international economic, service, cultural and scientific centres. Studies should likewise try to define the role and place of foreign capital in the evolution of urban agglomerations in Poland.

#### **4.3. Dynamics of local economic development**

The national system comprises a set of regional subsystems differing from one another. Similarly, each regional system reveals considerable internal diversity on the local level. The results accumulated so far have revealed the role of endogenous factors in local development as an important component of national development processes. Those factors will acquire greater weight when local

democracy matures and local governments win wider powers to make independent decisions on planning local development.

In the processes of restructuring and internationalisation of the Polish economy a significant role will be played by small and medium-sized firms and projects. Therefore it would be useful to examine the processes of structural change on a local level and supplement them with analyses of regional systems.

Another interesting research subject would be the investigation of the role of foreign partners of Polish regional authorities and self-governments. Foreign contacts bring to Polish voivodships, cities and communes fresh experience as well as material assistance. It would be interesting then to find out how far these contracts are being translated into practice.

## **5. The role of Poland in the trans-European networks of telecommunications and transport**

One of the preconditions of active international cooperation of Poland is the linking up of our country to the network of European telecommunications and transport. There is a real danger of bypassing Poland in an operation of piecing together an extensive network of trans-European road, rail and water systems which may prove disastrous for our economy in the longer run. In order to avert that danger we need not only quantitative but first of all qualitative changes. Drafting new guidelines of development of infrastructure networks in Poland, adequate to the changing situation on the political and economic map of our continent, will be therefore one of the objectives of the research.

## **6. The theory of regional restructuring and its practical impact**

The end result of the research will be preparatory work aimed at assembling elements of a new comprehensive theory of regional development based on an analysis of structural changes and international economic integration. The theory should employ parts of the theory of adaptation and theory of diffusion of innovation. Its scope

should cover a situation of a deep political and economic re-modelling in a moderately industrialised country. In particular, analyses should focus on the following:

### **6.1. Theory and practice of regional development in Poland in new economic and political conditions**

Contemporary theories of regional development prepared in Poland in the past have dealt with a reformed economy under real socialism and are therefore of little applicability to the present situation. Western theories for their part could not be directly applied to the situation of countries in a transition period from centrally planned to market economies and plunged into deep recession. It is necessary to have a fresh and critical look at the existing theoretical background and the principles of spatial and regional policies in a situation of serious transformation of the entire social and political system in Poland.

### **6.2. Methodology of comparative studies on twin regions and communes**

International comparative studies on transformation processes will enable us to define the scope of necessary restructuring of Polish regions, the role of regional and local authorities in promoting international cooperation as well as the instruments of regional policy-making in a country determined to have such cooperation well-developed.

### **6.3. Elements of new regional policies**

Results of research should form one of the foundations of official state policies on the regions. Such policies are presently being drafted because old modifications of the economic model were, in the point of fact, lacking any spatial dimension. Following the stage of basic transformations, the regional and local dimensions of development will acquire a much more important role and consequently will radically enhance the role and place of spatial policies in national development policies.

## **Organisation of research**

### **1. National cooperation**

The Programme is managed by the European Institute for Regional and Local Development, which has attracted the research potential of the University of Warsaw's Institute of Spatial Economy. This institute supervised - between 1986-1990 - the realisation of a Central Programme of Fundamental Research "Regional Development - Local Development - Territorial Self-Government".

The programme has already established close cooperation with ministries and central offices, which are the main consumers of the Programme's results. The links aim at facilitating the operation of the Programme (data base, monitoring of regional processes). The European Institute will cooperate with other scientific centres. Already such cooperation has been established with the Economic Academy from Poznań, Adam Mickiewicz University in Poznań, the Łódź University, the Jagiellonian University of Kraków, the Research Centre at the Central Statistical Office and the Polish Academy of Sciences.

### **2. International cooperation**

The Programme will be implemented in a cooperation with a number of foreign institutions and organisations. Among them are the General Directorates V, XII and XVI of the EC Commission. Also we will seek to intensify further the existing cooperation with other research institutions working on problems of regional and local development in Western and Central and Eastern Europe.

These contacts will hopefully encourage partial funding of the Programme from foreign funds granted for commissioned expertise and consultations on subjects strictly related to the Programme. It is also being considered to link the Programme to the TEMPUS and COST Programmes, specifically as regards international, regional and local comparative studies.

Warszawa, April 1992