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*Grzegorz Gorzelak**

Facts and Myths of Regional Development[1]

The paper critically discusses several widespread views about regional development and how it can be stimulated by regional policy. It is argued that in the current development paradigm it is neither possible nor expedient to achieve regional convergence, which in effect would lead to a deep change in understanding the very assumptions of the EU Cohesion policy. It is indicated that external stimuli do not lead to an accelerated growth in lagging regions, which is especially true in the case of infrastructural projects, especially those which are related to incidental events, like expositions or sports championships. One of the most broadly used models for an *ex ante* evaluation – the HERMIN model – is also discussed.

Today, regional issues have become major components of development policies. It is not only central and regional level politicians or local government representatives who show an interest in them, and quite understandably so, in view of the fact that these issues lie at the core of their professional duties, but also citizens themselves, who follow press coverage and news reports about programmes, projects and the influx of the 'EU' funds allocated to their region, some of them being also interested in the development strategies of their voivodship (region), city or municipality.

This is often accompanied by intense emotions that readers give vent to in their comments on Internet forums or in letters to the editor. Such reactions are totally understandable. Although sociological studies reveal that Poland's citizens do not always demonstrate a strong identification with their region (Jałowiecki 1996), they see in the state policy determining the funds' allocation between individual regions, opportunities for themselves, or threats, if in their opinion, the decisions made are not sufficiently generous for their region.

However, the so-called man in the street cannot be expected to possess expert knowledge about the mechanisms and principles of regional development, nor about the assumptions and rules governing the regional policies of the European Union, Poland or individual regions. However, regional policy makers should be privy to such knowledge because – as the well-known saying has it – 'there is nothing more practical than a good theory'. Knowledge of theory, not least the lessons drawn from the consequences of the projects planned within the frame of regional policy, is a precondition for the formulation of proper policy goals and taking rational steps aimed at achieving such goals.

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* Centre for European Regional and Local Studies, University of Warsaw.

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Nevertheless, contacts with some representatives of both central and regional administration and, quite surprisingly, with researchers specialising in regional studies, show that in many cases one can encounter opinions which are completely at variance with the contemporary ‘standard’ of knowledge in this area. Arguably, regional studies, just like any other social science, are fraught with subjectivity and dependence on the adopted system of values (usually with some ideological underpinnings). Nevertheless, despite incomplete objectivity, we can identify many examples of situations when, on the basis of research, the cause and effect relationships can be detailed quite accurately. This, in turn, can, and by all means should, become a premise for designing regional policy objectives and actions in a way which will ensure that the goals are attainable and the actions efficient and effective. In addition to that, it is possible to identify wide-ranging international experiences on the basis of which the rationality of the goals and the efficacy of the tools may be evaluated on a scale allowing a broader comparison.

The aim of this paper is to identify the most common myths about regional policy, unfounded ‘fashions’ and fallacies concerning its possibilities, functions and mechanisms.

1. The myth of convergence

Viewed spatially (territorially), development takes place between the two poles of opposing trends: concentration and deconcentration of settlement and business activity. Nearly all of theoretical literature dealing with regional development issues focuses on an analysis of forces driving these two tendencies. International experiences, corroborated by theoretical works, prove that the tendency for concentration prevails over that for deconcentration. Naturally, this does not mean that one can entirely eliminate the other; on the contrary, we can witness a concurrent operation of these two tendencies in the socio-economic reality, albeit on different planes, in various economic sectors and in different spheres of social and economic life (the reasons for this situation will be expounded upon below).

Despite the prevalence of concentration over deconcentration, the striving to equalise disparities between regions still remains the most common objective of regional policy, both one implemented by governments and one pursued at a supranational level. Likewise, in many cases, regional authorities see improving the region’s standing vis-à-vis other regions and the national average values as the key task among the development goals for their region[2].

Equalising interregional disparities enshrined as the over-arching policy goal has its roots in the origins of modern regional policy – a response to the Great Depression of the 1930s. Even the wealthiest countries at the time experienced

[2] One is tempted to think that all of them would have the ambition to go above the national average.

poverty reaching the limits of physical survival in their less affluent regions[3], which prompted responses on the part of public authorities. At the same time, Keynesian doctrine advocated that the state should stimulate demand, a task which was easy to accomplish by embarking upon large-scale public works projects. It should not be surprising therefore that such projects have primarily been launched in less-developed regions, e.g. in Tennessee in the 1930s, and in the 1960s in the Appalachia (the entire Appalachian region has comprised the largest US regional assistance programme so far, put in place on the initiative of President J.F. Kennedy, cf. Gorzelak 1997).

Arguably, the very rise of regional policy was tainted by its ‘original sin’ – a belief which asserted that the development of the poorest (and thereby the least developed) regions can be accelerated so much that their rate of growth will be faster than that of highly-developed regions. Spatial convergence, that is reducing the concentration of development, may only take place due to a faster economic growth of the least-developed territorial units as compared to more-developed ones[4]. This, however, poses a difficult challenge owing to the prevalent tendency for concentration over that for deconcentration. **Δ**-type convergence occurs in specific conditions only; globally, it is best manifested in the development of the Far East countries. Although in Europe it is visible in the EU-27 (cf. *Fourth Cohesion Report*, CEC 2007) – as research indicates (Berbeka 2005) – in the ‘old’ Member States economic **δ**-convergence is extremely weak[5], being however much stronger in the social dimension, and non-existent in the post-communist countries (Próchniak, Rapacki 2007), with the exception of CEE countries (those which joined the EU in 2004)[6]. This invites the conclusion that, in the EU, the faster growth of post-communist countries than that of the ‘old’ EU Member States is a crucial factor underpinning convergence.

Nationally, convergence is accompanied by a distinct internal divergence. Table 1 below shows regional differentiation processes taking place in the EU

[3] This was superbly captured by J. Steinbeck in his celebrated novel, *Grapes of Wrath*, published in 1939.

[4] There are two widely acknowledged types of convergence, **β** and **δ**: the former is when less developed entities show a higher rate of growth than more developed systems, and the latter – when the absolute values for the measures of development level become even. Due to the fact that in many cases higher relative increases with a lower basis can in effect produce lower increases in absolute terms than those achieved at a lower rate of growth but with a higher basis, it is possible to imagine a situation when the occurrence of **β**-convergence will not be accompanied by **δ**-convergence – absolute differences will only start to diminish after a lapse of time. However, when **δ**-convergence takes place, **β**-convergence is bound to follow suit. Cf. e.g.. Wójcik 2008.

[5] However, as D. Hübner pointed out, in the period 1960–2002 there was a clear **β**- convergence among the 14 ‘old’ EU countries (without Luxembourg) (Hübner 2004).

[6] It can be expected that those trends will be disturbed by the current economic downturn. The Baltic countries which reported high rates of growth, suffered a considerable slump in this regard (down to negative values), which, on the one hand, was a result of the overheating of their economy and growth which was financed on credit, but on the other hand, it will most likely halt the catching up processes in those countries for some time at least. A similar scenario is also possible in the region’s poorest economies, i.e. Bulgaria and Romania. In effect, convergence could be replaced by divergence for some time, even on a Europe-wide scale.

Member States. As we can see, in as few as five of these countries, regional disparities at the NUTS III level have decreased (with a fall close to zero in Italy), and have increased only in three of them, in relation to the NUTS III scale (which seems far better than the generalised NUTS II scale). This can be viewed as clear proof that the range of territorial differences has increased in nearly all EU Member States, both at the level of large regions (NUTS II), and within these regions.

Table 1. Weighted regional variability ratios of per capita GDP in the EU countries

Country	NUTS II		NUTS III		
	1995	2005	1995	2005	2005:1995
Italy	0.268	0.267	0.303	0.891	2.94
Hungary	0.327	0.481	0.570	0.789	1.38
Latvia	.	.	0.454	0.714	1.57
UK	0.307	0.406	0.468	0.577	1.23
Bulgaria	0.229	0.330	0.395	0.569	1.44
Estonia	.	.	0.390	0.546	1.40
Slovakia	0.387	0.463	0.419	0.513	1.22
France	0.183	0.241	0.507	0.512	1.01
Romania	0.226[a]	0.381	0.320[a]	0.508	1.59
Greece	0.152	0.387	0.234	0.507	2.17
Poland	0.181	0.300	0.461	0.495	1.07
Portugal	**0.257**	**0.254**	0.443	0.453	1.02
Germany	**0.245**	**0.238**	**0.454**	**0.449**	0.99
Czech Republic	0.258	0.392	0.272	0.422	1.55
Lithuania	.	.	0.160	0.374	2.33
Austria	**0.269**	**0.221**	**0.413**	**0.359**	0.87
Belgium	0.087	0.180	0.327	0.338	1.03
Slovenia	.	.	0.261	0.327	1.25
Ireland	**0.214**	**0.205**	0.265	0.322	1.22
Finland	0.464	0.814	0.231	0.298	1.29
Netherlands	0.118	0.156	0.203	0.281	1.38
Denmark	.	0.204	0.182	0.267	1.46
Sweden	0.109	0.218	0.170	0.251	1.48
Spain	**0.218**	**0.205**	**0.213**	**0.198**	0.92
Malta	.	.	0.121[b]	0.159	1.31

[a] 1998, [b] 2000.

Source: Petrakos 2008.

When analysing the increasing regional disparities in the Member States, it is difficult to spot any consistent regularities. A considerable growth of disparities can be observed in countries with minor interregional inequalities (Sweden, Denmark, the Netherlands), and in those where such disparities have traditionally been wide (Italy, Hungary). The only, and still rather weak, regularity has been a stronger growth of interregional disparities in the new Member States rather than in the old ones.

Figure 1 shows overlapping convergence processes in the EU Member States and divergence processes on their regional scales.

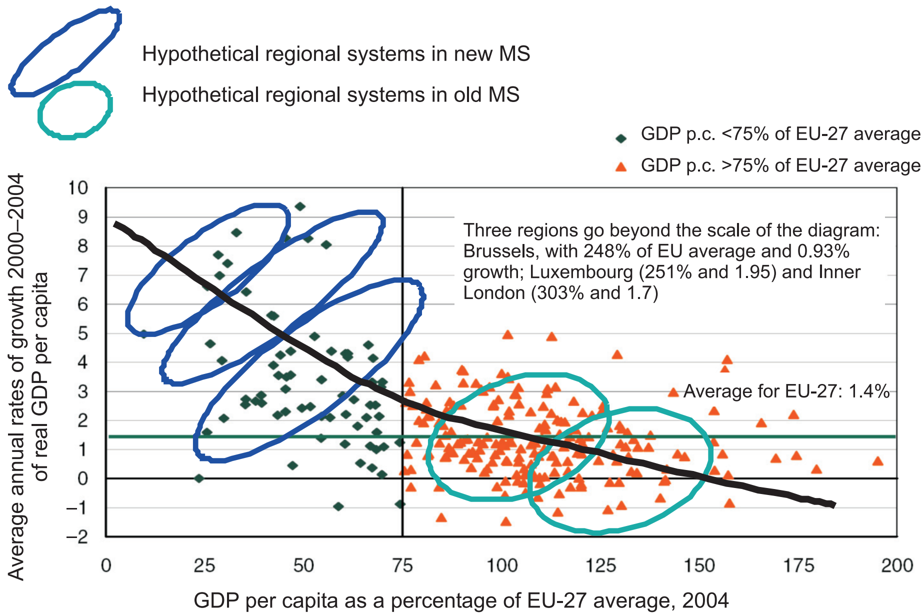

Figure 1. Correlation between GDP per capita growth rate in 2000–2004 and the level of GDP per capita in 2000, in PPS.

Source: CEC 2007; also Gorzelak 2007.

How can this double-pronged differentiation of the European Union's socio-economic space be explained? It can be viewed as a consequence of two phenomena: segmentation of the global economy and facilitation of business linkages due to lower transaction costs.

Put in simple terms, segmentation of the global economy means that there has evolved: a high segment where competitive advantage is gained through innovations, and a low[7] segment where comparative advantage is being sought through the manufacturing of goods and provision of services at the lowest

[7] The simplification at play here is using the juxtaposition of two opposite situations – in reality, however, there occurs a continuum involving the level of technological advancement and innovation as well as dependence on production costs.

possible price (a distinction between these two advantages was proposed by Porter 1990; 2001). The high segment is dominated by the processes of concentration as the generation of innovations requires very specific conditions to be fulfilled by the socio-economic environment (an innovative milieu, *milieu innovateur* – a term coined over 20 years ago by Philippe Aydalot). Such conditions may occur in locations which have already reached a high level of development, with well-developed physical and institutional infrastructure and extensive R&D facilities. In addition, as Florida observed (2004; 2005), innovations are produced in locations which are appealing to the 'creative class', which makes the standards of living an important factor among the location criteria.

In effect, a distinct metropolisation of growth can be observed in recent years, i.e. the concentration of the high segment in the largest cities, whose qualities allow them to occupy a prominent place in the global metropolitan network (Friedman 1986; Taylor 2004; cf. also Gorzelak 2008). The biggest cities and the areas lying in their closest vicinity have reported the highest rates of growth, and increased their already manifest advantage over other regions in their countries even further (cf. Fig. 2). As we can see, in the past 10 years, the majority of metropolitan regions have increased their shares in the GDP of their respective countries.

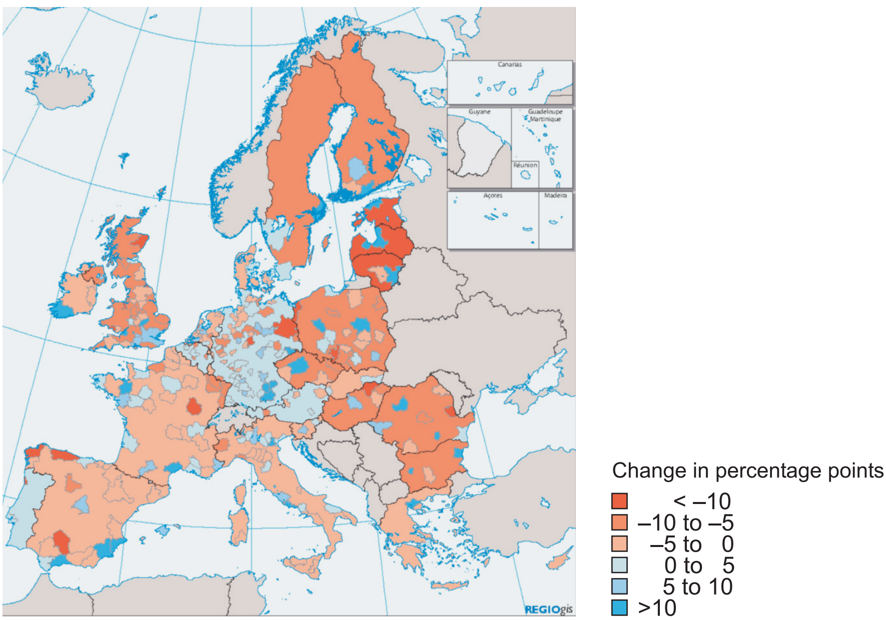

Figure 2. Change in the GDP shares of metropolitan regions in 1995–2005.

Source: CEC 2008.

More detailed analyses conducted for post-communist countries (cf. Gorzelak, Smętkowski 2009; also Smętkowski, Wójcik 2009) indicate that in most cases when we eliminate regions including metropolises from the investigation, we find that the interregional disparities in the period 1995–2005 remained practically unchanged. This can be viewed as proof of the leading role of metropolisation in the shaping of the statistical rendering of the regional disparities in those countries where metropolisation has progressed at an accelerated rate. It can be anticipated that similar processes, albeit slower, are taking place in the remaining EU countries.

Convergence between countries predominantly takes place as a result of the deconcentration of activity in the low segment. To minimise the costs of production (or service provision), enterprises are relocated to cheaper countries which ensure the required standard of the material and institutional infrastructure and the needed quality of the workforce (often accompanied by the absence of trade unions and fewer employee rights) – that is to the Far East, Latin America, Eastern Europe, Turkey, etc. Lower productivity in a cheaper country is substantially offset by much lower production costs; hence, profitability is higher in such countries. In this way, less-developed countries receive an injection of capital, attract new technologies and secure new sales markets. All these factors tend to accelerate their growth, which leads to convergence on an international scale.

With their arrival in a cheap country, investments are located in regions which offer better conditions for economic activity, i.e. regions with a higher level of development. In these regions, production costs are somewhat higher than in less developed regions of the target country, yet productivity is substantially higher, which is due to a higher level of investment, better qualifications of the workforce, more diverse socio-economic structures and in many cases, better transport accessibility. In the context of the new Member States, the border regions were in a particularly difficult situation due to being located at the farthest distance from metropolitan centres (cf. Gorzelak, Smętkowski 2009). Consequently, a country attracting inward investment undergoes the process of spatial differentiation.

We can witness a similar situation in countries which are relatively more developed, from which the capital is ‘backwashed’ to cheaper locations abroad. However, the high segment activities (R&D, most innovative production, and the generation of culture) are not relocated abroad. These sectors tend to remain in the most developed regions, mostly in metropolises as these ensure a conducive business environment and a creative atmosphere. By contrast, less technologically advanced sectors, which are frequently located in less developed regions with long industrial traditions and often with a prevalence of traditional industries, will flee. In effect, the wealthiest metropolitan centres further increase their advantage over non-metropolitan areas, including their regional hinterlands, and the economic ties with them become weaker and weaker (see: Gorzelak, Smętkowski 2005).

To sum up, both in the countries which ‘lead the race’ and those which strive to ‘close the gap’ the prevalence of territorial concentration over deconcentration can be observed, alongside further differentiation in the development level of regions. International capital flows significantly influence these phenomena as they foster the differentiation of indigenous potentials between individual territorial systems, and this, in keeping with the cumulative causality process, leads to the increasing of the differences between their socio-economic space even further.

The above interdependence implies that aiming for a regional convergence in the level of economic development lacks rationality. Firstly, it cannot be achieved. Secondly, 'natural' economic processes steer towards divergence, and any policy that is oriented towards objectives which go counter to economic and social trends cannot be effective. Thirdly, and lastly, very often, the explanation which is offered to justify the ambition to achieve economic cohesion is phrased incorrectly.

The need for making economic convergence one of the crucial, if not critical, goals of regional policy is underpinned by the assumption that reducing the gaps in the level of economic development between regions will lead to the improving of the living conditions in the poorest regions. This means, however, that an equitable social goal is sought to be attained by unrealistic assumptions of economic policy, whereby social policy is mistakenly confused with regional policy[8].

2. The myth of cohesion

The notion of 'cohesion' was first introduced into the Community legislation in the S*ingle European Act* of 1986. Its Article 138a highlighted the need to strengthen social and economic cohesion of the European Community with the aim of reducing excessive disparities in the development of regions and their potential for growth, which was expected to accelerate following the introduction of the single market. The Maastricht Treaty establishing the European Union allowed the notion of cohesion to take root. From then onwards, particularly after the Cohesion Fund had been established, the notion of cohesion has become one of the leading directives in EU policies. The Maastricht Treaty indicates that promoting 'harmonious development' by strengthening social and economic cohesion will 'in particular' be pursued by "reducing the disparities[9] between the levels of development of the various regions and the backwardness of the least-favoured regions, including rural areas' (Article 130a). We can say therefore that cohesion is unambiguously defined in equalising terms. Achieving

[8] The relationship between these two policies could be summed up as follows: regionalised social policy should be pursued, as opposed to social regional policy, which should be avoided.

[9] This notion is certainly abused. In reality, before we speak of 'disparities', or 'disproportions', we should define what 'proportions' are. Without doing so, any difference may be called a 'disparity', which would, naturally, be absurd. In a similar vein, one often hears that the 'differences are excessive', which is unwarranted as long as we do not define the extent to which differentiation is acceptable.

cohesion is tantamount to the elimination of territorial disparities in the level of economic development (economic cohesion) and in the access to work and income (social cohesion). Such an approach to cohesion has underpinned the EU doctrine of regional policy until today as the Union allocates some 60% of the Cohesion Policy expenditure (i.e. without the Common Agricultural Policy funds, which are also largely directed to less-developed regions) to support regions with a low level of development (below 75% of the EU-average GDP per capita in purchasing power standards).

At the same time, nearly in the same breath, the need for competitiveness is reeled off[10] (cf. e.g. *The National Development Plan 2007–2013*, in which cohesion and competitiveness were equivalent goals). If we understand cohesion in equalising terms, and therefore for all practical purposes as a synonym for convergence, we will instantly see an inevitable clash between these two goals, arising from the classical dilemma of regional policy, known as the dilemma of 'equality or productivity'. This is acknowledged even by the World Bank which, in its last report (WB 2009, p. 2), points out that: 'geographic unevenness – the first attribute of development – implies that governments generally cannot simultaneously foster economic production and spread it out smoothly'. This is because of the principle of circular causality which, aided by benefits offered by neighbourhood, leads to a distinct concentration of economic activity. In effect, therefore, according to the authors of the Report, contemporary development is characterised by three dimensions: density (local dimension of concentration), distance (between centres of concentration) and division (internationally, *ibidem*, pp. 8–9).

The striving towards achieving cohesion, equated with the equalising of economic or social disparities, as well as those between various territorial systems, is an unrealistic task, as is the ambition to attain convergence. Does this mean, however, that the notion of cohesion, to which territorial cohesion has been added recently (if only verbally for the time being) should be refuted? This would be unwarranted because it has a profound meaning, which however should be rearticulated.

Whilst convergence can be understood as a process intended to bring closer static conditions (captured at specific points in time), cohesion should be looked at as a feature of processes taking place at time intervals. By this token, these are terms which refer to different categories used for the description of economic, social and spatial processes. Given this, the 'equality or productivity' dilemma should be related to the contradiction between growth and convergence.

[10] While it is fairly easy to define what 'competitiveness' means for enterprises, this is a much more demanding task in the case of regions or countries. In our discussion, the region's competitveness is understood to mean its ability to win in the global game for capital (particularly innovation-generating capital) and creation of such conditions for the region's businesses which give them a competitive edge. In a sense, these are two sides of the same coin, either of these two dimensions of competitiveness is dependent on the other, and they mutually support each other.

Relationships between development and cohesion are invariably more complex.

Cohesion may be juxtaposed with entropy. Cohesion is an indispensable attribute of organisms and organisations; without attaining and maintaining cohesion, the organisms and organisations would cease to exist. For this reason, cohesion incorporates such aspects as harmony and cooperation; the lack of destructive tensions and irreparable conflicts; possibilities for co-existence and collaboration between individual elements of the whole. Cohesion understood in such a way can have many dimensions in relation to such systems as a country or a group of countries. Most often, three types of cohesion are listed: economic, social and territorial, even though some approaches also identify cultural and political cohesion (Tarschys 2003).

The economic dimension of cohesion refers to the possibilities for effective cooperation between individual components of the economic system; reducing transaction costs; harmonising the relationships between businesses and their institutional environment. Economic cohesion denotes harmonisation of the functioning of the whole, complicated economic system and fullest possible use of the potential inherent in its constituent parts. To date, the key measures that the European Union has taken to promote economic cohesion include the creation of a single market, the introduction of a common currency, and the adoption (although with a degree of hesitance) of uniform regulations to liberalise economic activity across the EU.

The essence of social cohesion is to strive to eliminate barriers in horizontal and vertical mobility, which in effect will ensure possibilities for overcoming disparities in the level of education, career and status advancement, and unrestricted movement within and between the EU Member States. Strengthening social cohesion is assisted by social solidarism and the redistributory functions of public authorities at various levels.

Achieving territorial cohesion should be understood as eliminating barriers and limitations caused by imperfect spatial economy which hampers economic and social cohesion from being attained. Therefore, spatial cohesion may be achieved by the development of efficient and reliable transport systems which operate at different territorial levels (international, national, regional and local), and also by the development of widely accessible network of telecommunication connections. As a matter of course, the penetration of transport infrastructure and its parameters in a given area should be attuned to the actual economic and social needs, which will safeguard that the expenditure made on its development and maintenance will be rational (Gorzelak 2005; 2007).

Such a functional approach to cohesion is in tune with Manuel Castells's concept (2008 – originally published in 1997), which claims that, contemporarily, development takes place in the space of flows, and not in the space of places, as was the case in the past. This implies the need for exerting comprehensive influence on the whole set of interlinked territorial systems, and not on each of them separately.

Such an approach to cohesion does not impede striving for competitiveness. Quite the reverse, cohesion, understood in functional terms, acts as a factor which increases the competitiveness of territorial systems, as it reduces transaction costs of companies operating in a region with good telecommunication and transport connections, furnished with institutions which facilitate cooperation, and inhabited by a mobile and informed workforce.

Appeals to abandon the 'equalising' approach to cohesion are slowly beginning to gain ground. The aforementioned World Bank report (WB 2009) clearly points to the need to reformulate the goals of development policies, including foreign policy, which should aim to gain benefits from regional differences rather than work to eliminate them.

Similar tendencies can be observed within the European Commission, which tries to operationalise the notion of 'territorial cohesion'. The *Green Paper on Territorial Cohesion* (CEC 2008) identified two major considerations: it recognised unevenness as a development factor, and emphasised that no region in the European Union is isolated from its environment, which makes cooperation one of important stimuli fostering development. This can be seen as a desirable step towards a functional approach to cohesion, at the expense of its traditional, pro-equalising interpretation.

The Polish stance on this issue seems to go even further, and this deserves highest praise. The preliminary draft of the interpretation of territorial cohesion proposes to look at it as 'such shaping of the European Union's space as to maximise the unique potential of all the EU territories to achieve the Union's development goals, including socio-economic cohesion'. And, further on: 'The new and critical factor associated with territorial cohesion is a functional approach to the linkages and relationships between the constituents of a region or space; functional network relationships; coordination of policies having a territorial impact' (MRR 2008b).

As we can see, the myth of convergence and cohesion understood as the ambition to equalise differences between various regions has recently been considerably debunked. Nevertheless, it is still present in many documents prepared several years ago, mostly by regional authorities, which support their expectations associated with EU funds with the view that these will help them 'close the gap' with the more-developed regions, and this leads us to yet another myth.

3. The myth of external assistance

The issue of external assistance in development processes, introduced in the literature in connection with the assistance extended to the developing countries, has been the topic of multifaceted research (cf. e.g. Bauer 2000; also Pronk 2004; and Samecki 1997). The evaluation of external aid is, on the whole, moderately negative in relation to developing countries, as a majority of studies indicate that it fails to accelerate development (although some studies also provide positive examples).

Two topics of discussion on external assistance seem to be of particular interest: the role of indigenous and exogenous factors in development and possible directions and effects of such assistance.

Assistance is granted on the assumption that it will serve to create the foundations for accelerated growth. Such aid is intended to help break out of the vicious circle of poverty and provide a stimulus for growth, which, once put in place, will trigger independent, speedy economic development, thereby enhancing convergence. By definition, assistance should be relatively short-term, because offering it on a permanent basis would mean that it fails to initiate or accelerate growth and has significance predominantly as a social measure.

This invites the question on the conditions for using such assistance for development. It is two-fold: firstly, can every kind of assistance act as a pro-growth stimulus? And, secondly, how should it be used?

Let us start with the latter question, pertaining to the relationship between indigenous and exogenous development factors. The author of this study investigated this issue several years earlier (Gorzelak 2003), and reached the following conclusions: 'What, then, represents the key for the development of a region, group of regions, a country, or a group of countries: indigenous or exogenous factors, external opportunities or internal mechanisms for making use of such opportunities? Reflection on the nature of regional development invites the conclusion that both of these sets of factors, indigenous and exogenous, have a considerable role to play, albeit they make up different mixes in various types of regions. In a rapidly changing, competitive world, no one can be certain of their relatively strong position. Nowadays, everyone is required to have an ability to predict the future and adapt, anticipatorily, to the new, only just looming, challenges. Such an ability is particularly required in backward regions and those which suddenly, through no fault of their own, lost their competitive edge. (…) The elites in weak regions mainly look for opportunities outwards, in state aid, and remain blissfully unaware of the necessity to radically transform their own social and economic structures. Instead, the elites and the communities of the 'loser' regions, live on remembrances of past prosperity, which makes it difficult for them to become reconciled to the fact that a dramatic process of adaptation to the new requirements of the market is inevitable if former affluence is to return'.

The essence of these statements is the following: external assistance – just as other exogenous factors, e.g. increased demand for the raw materials present in a given country or region – can only have a pro-growth significance if indigenous conditions allow it to be used for accelerating the structural change needed to adapt the features of a given territorial socio-economic system to the current (or, even more desirably, future) development mechanisms and the resultant location criteria. Pronk took a similar view (2004, p. 14) when he wrote that: 'Benefits of growth may occur to the poor through trickle-down effects, but often only if additional parallel or subsequent action is taken.'

The key to benefiting from such assistance mainly rests with the political and economic elites as they decide how a series of favourable external factors will be utilised. It is the very reason why the message of one of the most important books in recent years, *Culture Matters*, is so pertinent (Harrison, Huntington 2003). Institutional change is particularly crucial as it often (mostly in the developing countries) poses a serious obstacle to modernisation and primary accumulation of capital (cf. De Soto 2002; North 2005).

History offers many instances of inappropriate use of a 'window of opportunity'. Poland and Spain of the sixteenth and seventeenth centuries can serve as model examples. Both of these countries were offered a historic opportunity which, however, obstructed their development instead of bolstering it. As D. Landes wrote (2005, p. 201/1997, p. 175), 'Spain became (or stayed) poor because it had too much money. (...) The Spanish (...) indulged their penchant for status, leisure, and enjoyment.' And, he went on to say (p. 202/173) that: 'Easy money is bad for you. It represents short-run gain that will be paid for in immediate distortions and later regrets.' By the same token, Poland's dependence on grain exports, which was extremely profitable owing to the 'price revolution' following the Age of Discovery, led to an excessive economic, political and military strengthening of the gentry, deterioration of the King's power, return to feudalism, becoming dependent on agriculture, underdevelopment of cities and industry – consequently leading to the erasing of Poland from the map of Europe for 123 years[11].

Assistance to poorly-developed regions, which in the 1970s was expanded by aid to regions losing their traditional economic base (industry, fishery), represented the 'canon' of the regional policy so far. However, the list of cases when such assistance mostly played a social role and not a pro-development one is quite long. The *Mezzogiorno*, Appalachia, former GDR, eastern Poland, these all belong to the best-known regional systems which have for centuries remained underdeveloped, despite receiving substantial inward assistance for several decades. Some measures aimed to overcome the negative consequences of restructuring have been successful, yet also extremely costly.

We know the results of studies looking at the effectiveness of EU's pro-equalising regional policy. Boldrin and Canova (2001) point out that:

– poorer regions tend to develop faster in periods of expanding economy, and slower during an economic slump;

[11] Some analogies to these historical cases may be drawn with the current situation of countries with economies based on natural resources exports, mostly oil countries. Their future hinges on the prices of the exported raw materials, which are generally beyond their control. Spending the proceeds from exports on the luxury consumption of the elites and not on the modernisation of the society (education!) and the economy is tantamount to squandering the chances for future development. This is a much more serious omission than the consequences of the so-called Dutch illness.

– increasing the scope of free trade between EU countries may engender a faster growth of poorer regions;
– three factors are responsible for a region's low level of income: overall low productivity of the factors of production; low employment figures and a high share of agriculture;
– regional and structural policies mostly serve to promote redistribution goals which arise from the desire to achieve a state of political equilibrium (stability); '(...) they have little in common with the strivings to accelerate economic growth.'

The overall conclusion from the report was unequivocal: funds directed to less-developed countries and regions mostly play a social, and not developmental, role. Statistical analyses failed to prove that external funding could result in a lasting and substantial acceleration of their development.

Rodriguez-Pose and Fratesi went a step further (2004), writing that structural funds were not able to generate sustainable development of backward regions, and that, in the long term, the traditional approach (described below) may even have a negative influence on underdeveloped regions by crippling their competitiveness.

As we can see, assistance will not necessarily foster convergence. On the contrary, there are reasons to suggest that it can lead to divergence. This is so because of the following two considerations:
– More developed regions tend to use the assistance more effectively than less developed regions owing to their greater indigenous potential. An analysis of the utilisation of the funds transferred to the former GDR can be viewed as a proof here (Lenz 2007). Also, preliminary evaluations of the impact that EU funding has made in Poland indicate that these funds contribute to a more considerable acceleration of the development of the most developed regions rather than of weaker regions (MRR 2008a);
– Projects – mostly larger-scale infrastructure projects – initiated in less developed regions are for the most part carried out by external companies as these regions lack the sufficient potential, which in consequence leads to the retransferring of the funds to more affluent regions.

Furthermore, the possibility to receive unconditional (due just because a region is poor) external transfers often develops attitudes of 'benefit-dependence'[12]. This is a most undesirable approach which weakens the indigenous potential for growth and 'dulling' the local elites, which believe that making the frequently painful structural changes is not necessary because they can 'always' hope for receiving external assistance.

In addition, becoming dependent on external assistance can also lead to replacing a region's own preferences and development priorities, consistent

[12] The author met with such an opinion in 1995, during a discussion with the regional authorities of Alentejo (Portugal), the poorest of the EU-15 regions at the time. The answer to the question on their strategy offered by the representatives of the regional administration was clear and simple: 'get as much funding as possible from Lisbon and Brussels.'

with the real needs of the region, by goals and tasks for which funding can be received. The majority of the current development strategies of the Polish regions (*województwa*, or voivodships) can be seen as a proof of this. These documents list three objectives: achieving economic, social and territorial cohesion. This is but a mindless repetition of the framework rules adopted by the 'donor', in the conviction that this will secure a steady inflow of funds. There is also a tendency to look for problems which may be resolved using available sources of funding; this in place of seeking funds to solve problems which are pertinent for a given territorial system.

It should also be noted that historical considerations are a barrier that is difficult to overcome in a short period. In Poland, the old borders between the Partitioning states are visible even today, not only as disparities in the development level of the entire historic regions, but also as belts of underdeveloped municipalities (or *gminas*) situated along the borders from the years 1815–1918. Contemporarily, it can be observed that those regions of the former GDR which had a more varied socio-economic structure and a relatively higher share of private enterprise reported more robust dynamics after the Reunification (Kawka 2007).

As we can see, 'easy money' is not always a pro-growth factor. In some cases, it can even work against its recipient. This should serve as a warning for the European Commission officers, Member State governments, and in particular, for the territorial authorities which are the final beneficiaries of external assistance.

4. The myth of 'hard' infrastructure

Traditional regional policy interventions in poorly developed regions as a rule focus on 'hard infrastructure', mostly in transport. And, this is usually what the authorities of the regions receiving assistance look for. It is taken for granted that furnishing a region with good roads and railways (and, optimally, an airport), will directly contribute to adding a momentum to its development. This belief underpinned such initiatives as e.g. the Appalachia Programme. In its manifesto, the Commission preparing the programme wrote that (PARC 1964, p. XVII): 'It [investment] must be directed to the stimulation of growth, and not to the problems that result from growth, as is the case with most of our present public investment. (...) The Commission proposes an investment program founded on a reverse concept (…). We submit a highway program to create traffic – not a traffic count to create highways.'

As we can see here, roads were regarded as a sufficient precondition to stimulate a region which is relatively underdeveloped. In effect, around two thirds of aggregate investment was directed to this particular task, which led to the construction of several thousand kilometres of dual carriageways intersecting the Appalachians in all directions (cf. Gorzelak 1997). Unfortunately, the most backward region, Central Appalachia, despite being equipped with good roads and overcoming its problems related to transport within and outside the region, still has the highest concentration of the most distressed counties in the US, more than forty years after the programme was initiated. It turned out that, contrary to expectations, the region's opening outward failed to attract inward resources, but 'backwashed' them instead to a better developed, more appealing environment.

Seville, the Expo '92 organiser, suffered a similar fate. Seville got connected with Madrid via a high-speed railway (the first in Spain). In addition, a new airport, a motorway and a ring road were built. The telecommunications infrastructure was upgraded considerably. These projects came as direct consequences of the organisation of a global-scale event in the city on the one hand, while on the other they were expected to spur the development of the city and the entire, relatively poor, region of Andalusia. In 1985–1992, the sums expended in Andalusia in connection with the Expo, and the ambitious techno-development strategy, totalled some 10 billion US dollars.

However, this huge investment effort did not translate into an acceleration of economic growth. Post-1992 Andalusia was ranked in the middle among Spanish regions in terms of growth rate and developed more slowly than the similarly underdeveloped regions located east of it. In the period after 1992, Andalusia's rate of growth was slower than in the earlier years.

Pike, Rodriguez-Pose and Tomaney (2006) attributed this lack of success mainly to excessive investments in infrastructure. Unquestionably, the construction effort was well visible and provided many an occasion for ribbon-cutting rituals, but it failed to foster the region's development, if not encouraged phenomena obstructing growth. The good transport connections of Seville, a relatively weak urban centre situated in an underdeveloped region, led to the 'backwashing' of many resources to the Madrid metropolis, also including those which were developed in the course of the preparatory effort for the Expo and the implementation of the regional strategy (cf. also Puga 2002). Lacking the potential to create a strong market of its own, Seville, owing to its substantially improved transport accessibility, 'opened up' to the Madrid market, which came out as a winner in the competition with the weak local and regional potential of Seville and the whole of Andalusia.

In their 2004 paper mentioned above, Rodriguez-Pose and Fratesi outlined the reasons for the failure to stimulate accelerated growth in the poorest EU regions through the transfer of EU funding to them. The main reason for this was leaning too heavily on investments in infrastructure, which, in a situation when no other development mechanisms were put in place, either remained underused or affected the region's development in a manner contrary to expected, just as was the case with the Appalachia and Seville. By contrast, too little funding was earmarked for broadly understood education, a factor which is capable of developing the indigenous potential of backward regions in a way that makes the newly created infrastructure genuinely needed and conducive to their development.

Some light on the impact that various types of investment have on the development of different types of regions was shed by the research done by de La Fuente and Vives (1995, see also De la Fuente, Doménech 2007). They studied the relationships between the productivity of investment in infrastructure and education in various Spanish regions. The results were unequivocal: in the least developed regions, investment in education plays a much more pro-development role than outlays on transport infrastructure. An opposite correlation can be observed in the best developed regions (Fig. 3). Each region should be provided with the stimuli whose relative lack poses a barrier to its development.

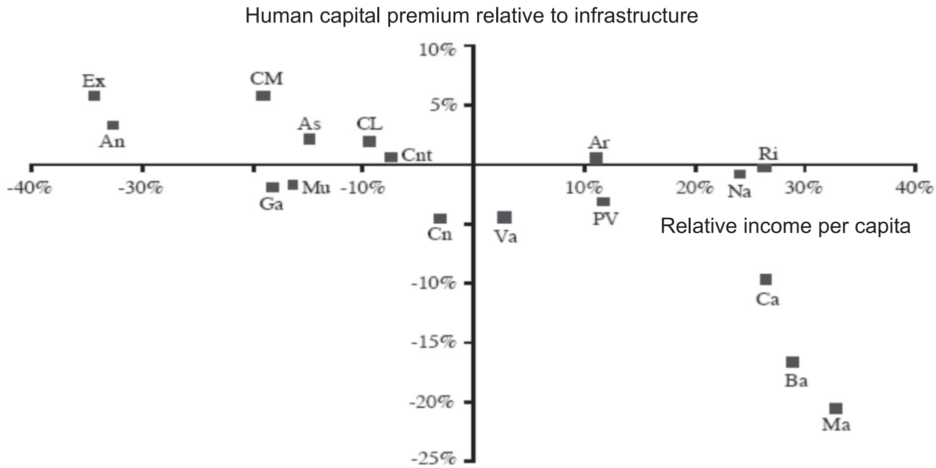

Figure 3. Human capital premium relative to infrastructure vs. relative income per capita in Spain's regions, 1995.

Source: de la Fuente, Doménech 2007.

Regionalists studying development processes in the former GDR arrived at similar conclusions (cf. Schädklich, Wagner 2007, p. 15). They argue that infrastructure alone cannot overcome barriers to development arising from insufficient qualifications or underdeveloped local institutions (experts specialising in rural development take a different view as they see in infrastructure the most effective cure for the underdevelopment of peripheral rural areas).

Investment made in connection with one-off international events of considerable prestige can serve as an exceptional example of substantial expenditure on infrastructure (such as Expo, Olympic games, sports championships, etc.). There is ample and unequivocally critical literature on this subject, at least with respect to peripheral cities and regions (cf. e.g. Kozak 2009). These differences well illustrate the case of Expo '92 in Seville, discussed above, and a similar event held in Lisbon six years later (cf. Sotirios 2002). While Seville gained nothing, if not lost, from the organisation of the universal exposition, the Expo '98 in Lisbon brought positive and lasting effects for the city itself and for Portugal at large. In preparation for the exhibition, a district with declining industries and low-quality residential development was revitalised. In effect, the district did not grind to a standstill following the exhibition but remains a major tourist attraction, and the scenic bridge on the River Tagus not only adds even more charm to the city but also acts as an economic stimulus for the whole area. These differences may be explained by utterly dissimilar functions that these two cities perform in the socio-economic space of their countries: Lisbon is the capital, and enhancing its strengths is beneficial for the city itself and for the country, whereas Seville remains a peripheral centre in one of Spain's two poorest regions. At the end of the day, similar investment efforts brought completely dissimilar effects since they were made in different location contexts.

More thorough analyses (cf. e.g. Baade, Matheson 2008) indicate that the multiplier effects anticipated as a result of the event which entails considerable spending on infrastructure, are overestimated. In addition to that, many of such effects 'leak out' beyond a given area because many suppliers of goods and services sold during the event come from outside of this particular territorial system. Also, some of these expenditures would have been made even without the event being organised, still their positive effects are attributed to the event. Further, some of the investments made are directed to one-off projects (specific sports or exhibition amenities which are later used only sporadically), which effectively precludes investing in projects which could bring greater and more permanent developmental effects. Last but not least, the 'displacement' effect can be observed, whereby those who come for the 'big event' replace guests who would have come to the destination anyway, and/or the event attracts visitors from neighbouring regions, this way curtailing the inflow of tourists to them, as a result of which they suffer losses in absolute terms[13].

In 2007–2013, around 60% of funds expended in Poland from the structural funds and the Cohesion Fund are to be spent on infrastructure (of which 3/5 on transport, and 2/5 on environmental protection). These might be the right proportions in a country with infrastructural backwardness as outstanding as Poland. However, hopes for a fast boost arising from such proportions of the EU funds utilisation seem to be unrealistic, despite the optimistic results of *ex ante* evaluation exercises (explained below). Likewise – despite the widespread yet completely unfounded enthusiasm – the organisation of Euro 2012 in Poland should be seen as a pointless undertaking, and one that is detrimental to the country's development in the long-term perspective.

[13] Quite strikingly, many of the phenomena described above are perceived as effects of 'recognised' regional policy instruments. Displacement, replacement, substitution and backwashing of gains are frequently the consequences of the operation of special economic zones or financial incentives to start business activity in specific areas (cf. Kryńska 2000).

5. The myth of *ex ante* evaluation

What is the process that leads to decisions such as applying for Euro 2012 or making such huge investments in infrastructure? In the former case, it is a hurrah-optimistic political decision with a huge PR appeal, which was not preceded by any serious research or rational considerations. In the latter situation, the expenditure profile was backed by an *ex ante* evaluation, performed with the use of, seemingly, objective statistical and mathematical methods.

One of such methods is the HERMIN model, widely used by the European Commission and by the governments of various countries to evaluate the effects of EU structural policies for the development of these countries and their regions (cf. e.g. Bradley et al., 2004; 2006). In each case, the results obtained using the HERMIN model are positive, and show favourable effects of the Structural Funds and the Cohesion Fund for a given national or regional economy, as the GDP is on the rise and unemployment is falling. Quite possibly however, this could be the consequence of the model's construction and its underlying assumptions.

The HERMIN model consists of two components: the 'demand' and the 'supply' side. The demand side is based on the legitimate assumption that provision of substantial volume of external funding to an economy will induce local demand, which, owing to multiplier effects, will produce new 'waves' of demand, and have a stimulating effect for the economy at large, because being a market economy, it is limited on the demand side (unlike the shortage economy of real socialism which, as we know from J. Kornai's studies, was limited on the supply side). The model's demand effect gives rise to no objections.

However, the operation of the supply side of the HERMIN model does raise doubts. Here, it is assumed that investments in physical capital (mostly infrastructure) and in human capital (education, training, vocational retraining, etc.) will lead to increased efficiency of the economy, and therefore will boost the supply of goods and services generated in the national (regional) economy, at a given level of expenditure. Arguably, this can indeed be the case, but should not be taken for granted. The difficulty lies in the fact that, as a model used for *ex ante* evaluation, it cannot incorporate actual data, but must of necessity be based on forecasted data (coefficients), which are either estimated *per analogiam* with other countries (regions) or adopted based on the researcher's individual 'instinct'.

However, based on the existing literature, it is not possible to adopt the assumption that, at all times and in all places, the expenditure made (especially if the bulk of it is spent on infrastructure, as in the EU structural policy) has a positive impact on the efficiency of the economy. Rodriguez-Pose and Fratesi (2004), as mentioned above, go as far as to claim that such a traditional approach focused on transport infrastructure may adversely affect the long-term competitiveness of poorly developed European regions. Researchers analysing the effects of foreign assistance (e.g. Pronk 2004) point out that, depending on how the assistance was utilised, varied effects for development may occur. These effects can be insignificant (if not negative), if projects which have a particularly long period of return are financed from external funds or if these are activities which are poorly rooted in the specific socio-economic context – e.g. developing too technologically advanced R&D and production structures in a maladjusted socio-economic environment (this was one of the reasons why the Seville strategy failed)[14].

It is economic policy – regional development policy – that determines how external injections of capital are used. This is illustrated by the diagram below (Fig. 4).

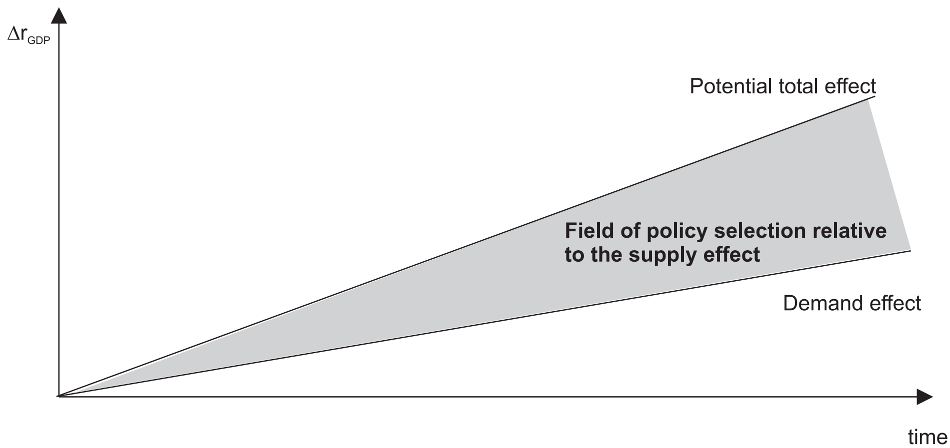

Figure 4. The demand and supply effects of using external assistance

Source: prepared by the author.

We can imagine, hypothetically, such utilisation of EU funding where the supply effect will be so strongly negative that it will obliterate the demand effect, as a result of which the total effect will also be negative. For instance, were such funds utilised to erect a statue to the EU in the form of a concrete block with a side of 1/3 km, which would require 20-years' concrete output at today's rates (and, owing to investments in the cement industry, production of concrete could be stepped up and the statue could be finalised by 2015), this would certainly slow down the development of the Polish economy at large. No other investments would be possible, transport would almost entirely work for the needs of this project, etc.[15]. It goes without saying that this example is

[14] Attempts to accelerate the development of underdeveloped regions by the location of technological parks or high-tech centres there, backed occasionally by the overused concept of 'clusters', is another myth of regional development – but we will leave it out of our present discussion.

[15] In a way, sports stadiums which are to be built for Euro 2012, play a similar role to this absurd 'monument'.

purely fictional, but it still proves, as a *reductio ad absurdum*, that the adoption of *a priori* judgments about the size of supply effects is not justified at all, and that such models as HERMIN should offer fields of potential effects rather than provide one-sided estimates.

6. Conclusions

Regional development is a complex and multifaceted process. Regional policy should be humble and modest as it cannot change powerful spontaneous and natural processes, which are, as a rule, well-rooted in long-duration processes. For these very reasons, regional policy should be pursued with the use of accumulated knowledge and its theoretical generalisations. No country or region is so exceptional as to prevent it from using the experiences of others. A rational analysis of such experiences should replace the received (though not necessarily true) wisdoms and beliefs concerning the possibility of effecting social or economic change and the funds that should be used to make this change happen.

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