Regional policy from national strategy to EU bargaining framework

What was lost in translation?

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Introduction

- My lecture shall focus on **regional policy** and, more specifically, on ‘where are we’ in addressing regional disparities.

- My point of departure is the annoying **persistence of intra-national regional disparities** in many **European countries**.

- 50-60 years after the first theoretical contributions and the first structured policies addressing intra-national regional disparities in a number of European countries, these have **not lessened**. In some cases (**Italy**, the **UK**), **after a brief period of convergence** in the 1960s and 1970s, they have **actually increased**.

- **Why is that?** What is wrong with regional policy? And in the case of regions that did make some progress in the 3rd quarter of the 20th century and then fell back behind, **what was lost in translation** – or rather in transition – **in the shift from the national regional policies** of the 1960s and 1970s **to the EU Cohesion policy** from the 1990s onward?

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Outline

1. Regional disparities in Europe and Italy
2. How did we get here? The evolution of regional policy
3. The two pillars of EU the Cohesion policy
   - Decentralisation
   - The local development paradigm
4. What was lost in translation?
5. What can we do...

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A few specifications

- I am addressing the issue of **intra-national regional disparities** in **Europe**, with particular attention to the **largest countries** that were historically characterised by relevant regional inequalities (**Italy, the UK, France, Spain**) and with a **special focus on Italy**.

- My review and assessment are obviously **stylised**. I am perfectly aware of the immense variegation of contexts and processes. But I shall cut things with an axe, with the provocative aim of triggering discussion …

- My reading is **biased**: I am **conditioned** by my work on the ever lagging **South of Italy**, which certainly explains my limited faith in the local governance of development.
1. Regional disparities in Europe
Figure 1. GDP per head (PPS) in Europe 2011

Index EU-28 = 100

- < 50
- 50-75
- 75-90
- 90-100
- 100-125
- > 125

A rather depressing picture: the bigger countries in the EU-15 are still plagued by important internal disparities

Source: 6th Cohesion Report

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Measuring regional disparities

- At **EU level** several studies and reports exist, but very aggregate data and no consistent historical series.

- Chief **indicator** (with all its limitations): **coefficient of variation** of **per capita GDP** (in Purchasing Power Standards or PPS) at NUTS2 level for groups of countries.

  - Very **different trends depending on groupings**: EU-15, EU-12 (new entrants) or EU-27.
  
  - **Two components** (Theil index): ‘between countries’ and ’within countries’ variation.

- A bit more accurate (and with longer time series), but scattered, are **national statistics** on **regional per capita GDP** measured against the national average.

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Trends in regional disparities

Europe (since 1980)

- Monfort (2009): regional variation in per capita GDP for EU-15 countries decreased from 0.33 in 1980 to 0.28 in 1999, but had increased back to 0.29 in 2006. However, convergence is mostly explained by a decrease in disparities (Theil index) between countries, whereas disparities within countries have actually increased (from 45% of total variation in 1980 to 86% in 2005).

- The last Cohesion report (EC 2014) shows that since 2006 the ‘within countries’ Theil index for the EU-28 has increased.

Within the UK (since 1971)

- Some convergence observed between 1971 and 1981: per capita GDP in the North region increased from 86.1% to 92.2% of the GB average and in Scotland from 92.2% to 94.8% (Crafts 2005, in Martin et al. 2016).

- Since 1988 in all regions, but London, the South East and the South West, per capita GDP as a % of the UK average declined and the UK coefficient of variation increased from 18.8 to 26.9 (Martin et al. 2016)
Trends in Italy

Table 1. Per capita GDP and investment in the South, as a % of North-Central Italy, 1951-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita GDP in the South as a % of N-C Italy (current prices)</th>
<th>Per capita gross investment in the South as a % of N-C Italy (constant prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>53,4</td>
<td>55,2</td>
</tr>
<tr>
<td>1956</td>
<td>55,2</td>
<td>62,2</td>
</tr>
<tr>
<td>1960</td>
<td>53,1</td>
<td>62,0</td>
</tr>
<tr>
<td>1964</td>
<td>56,5</td>
<td>72,8</td>
</tr>
<tr>
<td>1969</td>
<td>58,0</td>
<td>77,6</td>
</tr>
<tr>
<td>1971</td>
<td>61,3</td>
<td>91,8</td>
</tr>
<tr>
<td>1974</td>
<td>60,7</td>
<td>84,2</td>
</tr>
<tr>
<td>1980</td>
<td>57,8</td>
<td>71,6</td>
</tr>
<tr>
<td>1986</td>
<td>58,0</td>
<td>73,3</td>
</tr>
<tr>
<td>1992</td>
<td>58,0</td>
<td>63,5</td>
</tr>
<tr>
<td>1997</td>
<td>54,6</td>
<td>48,7</td>
</tr>
<tr>
<td>2000</td>
<td>56,1</td>
<td>61,0</td>
</tr>
<tr>
<td>2004</td>
<td>57,0</td>
<td>61,9</td>
</tr>
<tr>
<td>2008</td>
<td>58,2</td>
<td>63,8</td>
</tr>
<tr>
<td>2008</td>
<td>55,2</td>
<td>56,0</td>
</tr>
<tr>
<td>2011</td>
<td>54,9</td>
<td>53,4</td>
</tr>
<tr>
<td>2014</td>
<td>53,7</td>
<td>51,5</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration on data from Del Monte & Giannola 1978; Svimez 1993, 1999, 2015
Trends in regional disparities

Italy (since 1951)

- The contrast between the third quarter of the 20th century and the subsequent years is striking: convergence up to the first 1970s and then divergence.

- Per capita GDP in the South as a % of N-C Italy increased from 53% at the beginning of the 1950s to 61% in 1971 and then steadily decreased in the subsequent decades, falling back to 53%, i.e. the departure level, by 2014.

- Similar trends were observed for gross per capita investment, which increased from 55% of N-C Italy in 1951 to a striking 92% in 1971 and then steadily decreased to 52%, i.e. less than the initial level, in 2014.

- As I will argue, the convergence observed from 1951 to roughly the mid 1970s was primarily the result of a massive national intervention in support of Southern regional development.
2. How did we get here? The evolution of regional policy

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The evolution of regional policy


Among institutions, the state is a key actor (Jessop 1990; 2002), and its role is a key analytical variable in assessing regimes.

In what concerns the time dimension I contrast two main regimes (and relative modes of regulation):

- The Fordist-Keynesian (henceforth FK) regime (1945-1980)
- The Neo-liberal (henceforth NL) regime (1980 –>)

Each of these regimes is characterised by distinct interrelated sets of ideologies, discourses and principles about the state and the market; policy objectives, strategies and tools; actors.

Timing of transition and ‘actually existing’ (Brenner et al. 2005) configurations in different spatial contexts vary greatly, but a number of invariant features can be identified.

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Regional policy in the Fordist-Keynesian regime

- Dominance of large **national Fordist corporations** (‘national champions’)
- Strong role of the **national state**, with a top-down (paternalistic) approach:
  - In the **economy** (‘developmental’ state; ‘mixed economy’) → to ensure a **balanced growth**
  - In **society** (welfare state) → **redistribution**; also support to **accumulation** (Jessop 1999)
- ‘Nation-strengthening’ strategy
- Intervention in the social/territorial domains (‘spatial Keynesianism’) had **redistributive and developmental aims** (inequalities considered inefficient)
- Class compromise between two main collective actors: capital and national trade unions, mediated by the state
- Weberian state → a hierarchical bureaucracy, with formalised accountability processes

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Regional policy in the Fordist-Keynesian regime

- **Regional development agencies** established to tackle regional inequalities:
  - In **Italy** the Cassa per il Mezzogiorno (1950)
  - In **France** the DATAR (1963)
  - In the **UK** the Regional Economic Planning Councils and Boards (1965) and the RDAs (1975)

- Important differences among countries but:
  - Regional development policies were cast in **national development strategies**
  - **Relevant national public resources** were devoted to the task
  - Policies **centrally** designed and implemented. Top-down, ‘paternalistic’ approach.
  - High degree of **efficiency** and **consistency**, albeit also culture of dependency
  - In many countries, **reduction of regional disparities**

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Regional policy in the EC-6 during the Fordist-Keynesian regime

Figure 2. Less favoured regions covered by ‘national’ regional policies in the EEC. 1964


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Regional policy in the Neo-liberal regime

- **Mid 1970s** → crisis of Fordism, subsequent **de-industrialisation** and incipient **fiscal crises** → neo-classical economics re-surfaced and supply-side strategies gained consensus: the market recovered centre stage and the **state** was portrayed as an encumbrance

- By the end of the **1980s** → neo-liberal paradigm hegemonic: **liberalisation** and **deregulation** of markets (esp. the labour market), **privatisation** of public activities

- In the **1990s**, with the globalisation of trade and finance, the intensified international competition and the diffusion of NICT → **sistemmatic dismantling of established national systems of economic regulation and public responsibility**

- By the turn of the **21st century**, **radical changes** in the role of the state:
  - A generalised **retrenchment** of the **national state** from its regulatory, steering, redistributive and direct involvement in both the economy and society
  - A **vertical ‘re-scaling’** of government authority → ‘hollowing out’ of national state
  - A **‘horizontal’ broadening** of responsibility → enlarged governance

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Regional policy in the Neo-liberal regime

- Major changes in regional policy, with relevant EC/EU responsibilities

- **Single European Act of 1986**: completing the Single European Market by 1992 involved the removal of all barriers to the circulation of people, goods, services and capital:
  - End of state monopolies
  - End of ‘state aid’

- National governments lost sovereignty in policy domains that were key to redressing regional disparities: industrial policy, regional policy, public services of general interest, as they were deemed ‘unfair’ competition (Schiek 2013; Colomb and Santhina 2014) → this also affected social policy (Scharpf 2002)

- In the 1990s, national regional policies were substituted by the EC ‘Cohesion policy’, a compensatory programme of expenditures to counterbalance the possible negative effects of competition policy, financed through the reformed European Structural Funds.

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The EU Cohesion Policy

- Cohesion policy was to ensure social, economic and (since 1998) territorial cohesion, in Europe, i.e. to reduce disparities within and among member states.

- A complex system of resources allocation and a multi-scalar re-articulation of authority was progressively established → successive multi-year programming rounds (5 so far: 1989-93; 1994-99; 2000-06; 2007-13; 2014-20).

- Subsidiarity a key principle → with the 3rd round, a NUTS2 ‘meso’ programming level was introduced and strong emphasis was placed on local actors as key agents.

- Multi-level governance structure (see Stephenson 2013 for a review):
  - EC/EU: regulation, funding and definition of strategic priorities
  - National governments: co-funding, strategic contextualisation and programming
  - Regional governments: further contextualisation of strategies and programmes
  - Local actors (governments, NGOs, QUANGOEs, firms, associations): formulating projects, bidding for resources and implementing funded projects.

- National government had limited room for independent policy and in some cases were all too happy to abdicate their regional policy responsibilities.

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Regional policy in Italy

Italy is a very good illustration of the policy shifts I have described (Martinelli 2009, 2013, 2016):

- 1950-80: Cassa per il Mezzogiorno regional development agency
  - Massive public infrastructural investment (1950 →) and active industrialisation policy (1957-80);
  - Centralised planning, regional policy integrated into national development strategy;
  - Massive outlays. Public investment were the spearhead, but also private industrial investment.
  - Significant reduction of economic, social, cultural disparities: modernisation of the South

- 1986-92: The national Law 64/1986 introduced a more decentralised system, with greater planning power to regional governments
  - Reduction in financial outlays and limited efficacy: 'death rattle' of national regional policy

- 1992 to date: Termination of national regional policy (also because of diminished political consensus, especially from Northern regions), imperfectly substituted by EC Cohesion policy.
  - Impasse in first two rounds (1989-93; 1994-99): Italy last in spending among Objective 1 regions
  - Better spending performance in the 2000-06 round: timid resumption of national investment and support from national Department for Cohesion Policies headed by Fabrizio Barca

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## Regional policy in Italy

### Table 2. Regional policy expenditures in the South. 1950-92

<table>
<thead>
<tr>
<th>Periods</th>
<th>Infrastructural investment (%)</th>
<th>Financial incentives for investment (%)</th>
<th>Transfers to regional and local governments (%)</th>
<th>Total expenditures (%)</th>
<th>Average annual expenditures (Billion Liras at constant prices 1992)</th>
<th>Total regional policy expenditures as a % of Italian GDP (current prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-57</td>
<td>84,8</td>
<td>4,8</td>
<td>-</td>
<td>100,0</td>
<td>2 295.8</td>
<td>0,70</td>
</tr>
<tr>
<td>1958-65</td>
<td>55,8</td>
<td>16,7</td>
<td>-</td>
<td>100,0</td>
<td>3 582.3</td>
<td>0,74</td>
</tr>
<tr>
<td>1966-70</td>
<td>42,8</td>
<td>33,8</td>
<td>-</td>
<td>100,0</td>
<td>4 893.4</td>
<td>0,70</td>
</tr>
<tr>
<td>1971-75</td>
<td>52,7</td>
<td>34,1</td>
<td>-</td>
<td>100,0</td>
<td>8 226.9</td>
<td>0,90</td>
</tr>
<tr>
<td>1976-80</td>
<td>66,3</td>
<td>26,1</td>
<td>-</td>
<td>100,0</td>
<td><strong>9 753.0</strong></td>
<td><strong>0,90</strong></td>
</tr>
<tr>
<td>1981-86</td>
<td>72,8</td>
<td>19,7</td>
<td>-</td>
<td>100,0</td>
<td>8 051.4</td>
<td>0,65</td>
</tr>
<tr>
<td>1987-92</td>
<td>47,5</td>
<td>24,2</td>
<td>15,9</td>
<td>100,0</td>
<td>7 708.5</td>
<td>0,53</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration on data from Marciani (1993) and Svimez (1993)

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## Table 3. Overall per capita public investment* in the South as a % of North-Central** Italy %. 1991-2007.

<table>
<thead>
<tr>
<th>Years</th>
<th>Central state</th>
<th>Regional and local governments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>146,0</td>
<td>143,8</td>
<td>144,1</td>
</tr>
<tr>
<td>1994</td>
<td>122,8</td>
<td>117,5</td>
<td>119,2</td>
</tr>
<tr>
<td>1996</td>
<td>161,9</td>
<td>85,9</td>
<td>106,4</td>
</tr>
<tr>
<td>1998</td>
<td>95,1</td>
<td>79,1</td>
<td>88,6</td>
</tr>
<tr>
<td>1999</td>
<td>82,4</td>
<td>74,1</td>
<td>79,0</td>
</tr>
</tbody>
</table>

*) Public investment include both ‘ordinary’ public investment and ‘additional’ public investment (i.e. resources coming from national regional policy and EU Cohesion policy)

**) Nort-Central Italy does not include the Latium region.

Source: Author’s elaboration on data from Svimez 1999, 2006
Table 4. Per capita public investment in the South as a % of Nort-Central Italy. 2001-2012

<table>
<thead>
<tr>
<th>Years</th>
<th>‘Ordinary’ public investment</th>
<th>EU Cohesion policy + national co-funding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>50.7</td>
<td>800.2</td>
<td>120.6</td>
</tr>
<tr>
<td>2007</td>
<td>47.7</td>
<td>805.1</td>
<td>99.3</td>
</tr>
<tr>
<td>2010</td>
<td>60.5</td>
<td>420.0</td>
<td>94.4</td>
</tr>
<tr>
<td>2012</td>
<td>72.2</td>
<td>390.3</td>
<td>106.0</td>
</tr>
</tbody>
</table>

Source: Author’s elaboration on data from Svimez 2015
Regional policy in Italy

Table 2 shows how public expenditures for regional policy increased steadily from 1951 to 1975, both in absolute terms (quadrupling – in constant prices – from the 1950-57 period to the 1976-80 period) and as a % of Italian GDP (from 0.7 to 0.9)

The impact was humongous: as I have shown, the gap in per capita GDP and gross investment was significantly reduced, reaching its historical low just before the oil crisis of 1973. But also social indicators improved: education and health, as well as female activity rates also recorded the sharpest improvements from 1951 to 1981, almost catching up with the rest of the country.

In the 1980s, when resources and responsibilities were transferred to regional governments, and especially in the 1990s, when regional policy was terminated, public resources for regional policy were dramatically reduced: Table 3 shows that overall per capita public investment (both ordinary and ‘special’, including EU cohesion resources) fell from 144% of the N-C value in 1992 (meaning the South received about 40% more than the North) to 79% in 1999, meaning that the South received 20% less than the North on a per capita basis, even including EU resources. .

Things improved in the new millennium (Table 4), but the ‘additional’ resources devoted to the South, i.e. EU + national co-funding resources for cohesion ended up substituting for ‘ordinary’ spending, making the overall per capita public investment in the South lower than in North-Central Italy. Regional disparities remained high not only in terms of per capita GDP, but also of social infrastructure and services (DPS 2010)

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3. The two pillars of the EU Cohesion policy

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The two pillars of Cohesion policy

- EU cohesion policy, especially starting with the 2000-06 round, was significantly influenced by the contemporary shifts in the scientific debate and the politics of place and especially:
  - The discussion and trends concerning administrative/political decentralisation or devolution
  - The consolidation of what I call the ‘local development paradigm’

- Despite a few critical voices – mostly in the first years of the 21st century (Lovering 1999; MacLeod 2001; MacKinnon et al. 2002; Pyke and Tomaney 2004; Hudson 2005) – both debates have brought about an almost blind faith in the advantages of the ‘local governance’ of development strategies and policy

- In what follows I will briefly review these debates and how they have conditioned Cohesion policy

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Decentralisation/devolution

- The first pillar of the EU Cohesion policy is the **faith in local government/governance**, based on the principle of **subsidiarity**, introduced in 1985 and made official with the Maastricht Treaty of 1992.

- **Ambiguous concept**, generally used counter-intuitively. Went hand in hand with the EC discourse/slogan about ‘**A Europe of regions**’.

- **Decentralisation** processes, throughout Europe, although engineered from above, reflected rising pressures for greater administrative/political autonomy from below, especially in the case of strong cultural/linguistic subnational identities. In some countries autonomy was first sought by rich regions, which ill-tolerated the redistribution of their tax revenues to poorer regions (e.g. Italy, Spain); but in others it was the opposite (e.g. Scotland and Wales).

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Decentralisation/devolution

- In Europe extremely *variegated landscape* (OECD 2016a, 2016c, OECD-UCLG 2016):
- With few exceptions (notably Germany), most European countries historically ‘unitary’ states.
- But, starting in the 1970s, processes of decentralisation/devolution:
  - Belgium achieved full federalist status in the 1990s
  - Spain experienced a rather strong process of devolution since the 1980s (with the establishment of the *Comunidades autónomas*), albeit asymmetric.
  - Italy experienced progressive regional decentralisation since 1971; acceleration towards full federalism since the 1990s.
  - The UK also experienced an important devolution process since 1998, albeit incomplete, asymmetrical, and stratified (MacKinnon 2013).
  - France implemented some administrative decentralisation (with the establishment of the Régions in the 1980s), but to a much lower extent.
Decentralisation/devolution

Initially, broad consensus on the merits of administrative/political decentralisation, in the economic (Tiebout 1956; Oates 1972) and the political science circles (Hooge and Marks 2001), on both efficiency and equity grounds:

- Sub-national governments (SNGs) were deemed more efficient because they have better information on – and can better respond to – local needs and preferences
- SNGs were deemed also more efficient because they can better enforce taxation and are more budget conscious
- SNGs were deemed more democratic, because of less distance between the elected and their electorate → more transparency and accountability, as well as more potential for participatory governance
- A healthy competition could develop, whereby SNGs learn from each others and adopt successful policies experimented elsewhere

- Ultimately, SNG were supposed to better govern economic development policy, as they can better exploit local strengths and adapt to the challenges of global competition
Decentralisation/devolution

However, a number of scholars have highlighted how decentralisation is neither more efficient nor more democratic per se (Rodriguez-Póse & Gill 2004; Pike 2004; Ezcurra & Rodriguez-Póse 2013). Its effects depend on several factors.

First, decentralisation is not a uniform process → at least 5 dimensions of autonomy (Hooge et al. 2008; Bach et al. 2009; Martinelli 2017):

- Legislative/regulative autonomy
- Autonomy in raising resources (fiscal autonomy) vis-à-vis transfers (block grants) from the central government
- Spending autonomy (i.e. whether resources are earmarked by the central government or not)
- Coordination/implementation autonomy
- Which policy fields are involved (policy scope)

Which dimensions are decentralised, how they are combined and the type of inter-governmental relations strongly affect outcomes.

Secondly, the positive effects of decentralisation are contingent on the ‘quality’ of SNG institutions, which cannot be established by decree, is spatially differentiated and strongly path-dependent (administrative structures and culture) (Rodriguez-Póse & Garcilazo 2015)

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Main risks of decentralisation/devolution

- **Fiscal autonomy**, in the absence of compensatory central transfers, is inherently regressive.
- **Spending autonomy**, in the absence of central ear-marking, can enhance regional/local differentiation.
- **Autonomy in economic policy** can lead to inter-regional competition, e.g. to attract inward investment or bidding for public resources → ‘zero-sum game’ effects (Rodriguez-Póse & Gill 2004) at national level.
- **Asymmetric autonomy**, e.g. a mismatch between policy responsibilities and resources often hides ‘blaming the victim’, ‘blame avoidance’ or ‘austerity localism’ strategies (Keating 1998; Hudson 2004; Featherstone et al. 2012).
- **Transparency, accountability and democracy** are contingent upon electoral systems, quality of local governments, local elites and local power relations (Bache 2008).
- At the local level there are less checks and balance mechanisms; this can favour local power blocs at the expense of collective interests.
- There can be transaction and coordination costs, depending on multi-level government design: wasteful complexification/fragmentation of procedures; bureaucratic redundancy/duplication; inconsistencies/conflicts among levels.

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Decentralisation/devolution

Most importantly, and these are my main concerns:

- Decentralisation can involve the **loss of a unitary strategic governance of economic development policy** and a fragmentation of regional and local strategies (see also Pike&Tomaney 2009)
- Decentralisation can **undermine the principle of national social citizenship** (trade-off between equity and diversity/autonomy)

In the end, growing agreement among scholars, that decentralisation:

- Is a **complex multi-dimensional process**, 
- With **very differentiated ‘really existing’ institutional arrangements** (OECD 2016a, 2016c, OECD-UCLG 2016, MacKinnon 2013);
- Encompasses a very **differentiated quality of SNG institutions** (see Charron et al. 2014; ).

Hence, a process with **no uniform or predictable outcome**.

This complexity/variegation partly explains why **no clear-cut/conclusive correlation has been found between decentralisation, economic growth and the reduction of regional disparities** (see extensive work by Rodriguez-Póse et al.)

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The ‘local development paradigm’

The second pillar of EU Cohesion policy is what I call the ‘local development paradigm’

- As stressed by many scholars, globalisation triggered in the 1990s a revival in the study of regions (‘New regionalism’).
- Opposite to regional studies of the 1960s and 1970s which viewed regional inequalities as the product of structural capitalist dynamics, ‘New regionalism’ focussed on explaining the development dynamics of specific ‘successful’ local production systems.
- Forerunners: Italian ‘Industrial districts’ (Becattini 1975, 1979, 1990; Bagnasco 1977; Brusco 1982) and the French ‘Milieux innovateurs’ (Aydalot and the GREMI). Sequels were the US ‘New industrial spaces’ (Scott 1988; Storper 1995, 1997) and high-tech production complexes (Saxenian 1994); other European works on ‘Regional innovations systems’ (Lundvall 1996; Maskell & Malmberg 1999) and the ‘Learning region’ literature (Cooke & Morgan 1998).
- Despite differences, all these streams of inquiry shared a set of common facets: a) The focus on ‘internal factors and relations, especially immaterial assets; b) the focus on factors explaining the capacity of places to innovate and compete.

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The ‘local development paradigm’

- Many of these works contributed to – and were in turn powered by – the so-called ‘Institutional turn’ (Martin 2002; Tomaney 2014), whereby the role of institutions in the broad sense – organisation, culture, values, habits, routines, knowledge, trust – gained centre stage in development studies.

- The ‘local development paradigm’ undoubtedly enriched the development debate, bringing in institutions and other immaterial assets and focussing on their territorial embeddedness (Amin & Thrift 1994). But the constituent elements of the paradigm are also its ‘Achilles’ heel’. Two main limits:
  - The almost exclusive focus on competitiveness, i.e. on the role of specific endogenous and embedded factors in making regions able to innovate and remain competitive (see Mouflaert and Sekia 2003 for a critical assessment).
  - The dominant focus on the local scale and endogenous factors, neglecting the broader uneven development dynamics of capitalism (see the critical review by Lovering 1999; MacLeod 2001; MacKinnon et al. 2002; Martin 2001).

- But the greatest problem, in my opinion, is the normative dimension the paradigm ended up assuming: the place-specificity of assets and trajectories were dropped at some point and the performance of ‘successful’ regions became a ‘blue-print’, a ‘one-size-fits-all’ recipe, for every other region.

- The local development paradigm became the reference model for regional development policies, regardless of local characteristics.

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From explanation to ‘policy’ paradigm

From explanation to ‘policy’ paradigm

- Merging with some of the ‘collaborative planning’ (Healey 1997) and ‘strategic planning’ (Albrechts; Kuntzman) approaches (in Italy we also had the ‘Territorial Pacts’ experience in the 1990s), the ‘local development’ paradigm became a policy paradigm: the local was the best level for expressing and implementing self-determined development strategies and ‘unlock the endogenous potential’ of places.

- Despite a few voices, who stressed the importance of local institutional capital and how this institutional capital was highly differentiated across places (Amin 1999; see also Gertler 2010; Farole et al. 2011; Rodriguez-Póse 2013), by the end of the 1990s the ‘local development policy paradigm’ had become hegemonic.

- Functionally merging with the decentralisation paradigm (already featuring through the subsidiarity principle and the ‘Europe of regions’ discourse) the ‘local development policy paradigm’ was adopted in the EU Cohesion policy.

- Its full implementation began with the 3rd programming round (2000-2006), when a formal ‘regionalisation’ of the programming framework was introduced for Objective 1 regions (the Regional Operational Programmes) and the responsibility for formulating, negotiating, bidding and implementing local development strategies and projects was further explicitly entrusted to local actors.
The local development paradigm revisited: ‘place-based’ strategies

Between 2008 and 2009 a review of the implementation and impact of the 3rd Cohesion policy round was commissioned by DG REGIO and a number of reports were published (Barca 2009; Farole et al. 2009; Manzella and Mendez 2009). A revisited version of the ‘local development policy paradigm’ was proposed: the ‘place-based’ development strategy.

The place-based approach is admittedly inspired by ‘the paradigm of development policy that has gained international consensus over the past twenty years’ (Barca 2009:4), referring also to the OECD position (OECD 2009; McCann & Ortega-Argilés 2012).

It confirms the faith in decentralisation, as ‘the primary means of dealing with [...] failures, by allowing closer control by citizens and pressure on policymakers’ (2009:40), and the key role attributed to local actors and local governance ‘to promote a process for eliciting and aggregating knowledge and preferences in the places targeted’ (Barca 2009:4).

It allegedly conjugates exogenous intervention (in terms of resources) with an endogenous programming process, whereby such resources are best tailored to local needs.

This ‘new paradigm’ is contrasted to the ‘old’ regional policy approach, allegedly inefficient because top-down and based on subsidies to firms and sectoral investment, often with the exclusive aim of creating employment and infrastructure (Barca 2009).

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The local development paradigm revisited: ‘place-based’ strategies

- The proponents of the ‘new’ strategy are aware of the persisting risks and failures of local development governance, such as the weakness of some local governments, the existence of rent-seeking interest groups appropriating benefits, the absence of national strategic guidance.

- Nonetheless, ‘place-based’ strategies remain – according to Barca (2009) – the only ‘feasible option’ in a union with weak political authority and legitimacy, but also the ‘best option’ to ensure development.

- To overcome potential risks and failures Cohesion policy must place greater emphasis on ‘institution-building, social capital formation and a participatory approach’ (Barca 2009: xv). Only in the case of persisting failures, then subsidiarity must kick in and the higher scales of governments must intervene.

- To ensure a more ‘result-oriented’ approach, the introduction of ‘conditionalities’, indicators of achievement and sanction/reward mechanisms are recommended.

- And indeed, the ‘place-based’ approach, ‘institution building’ strategy and conditional system feature prominently in the 2014-20 round of Cohesion policy.

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EU Cohesion policy and the local development paradigm in Italy

Several reports (Svimez 2010, 2016; EC 2010), some coordinatedaby Barca (DPS 2009; 2010), have documented how in the South of Italy the local development policy paradigm has yielded very poor (albeit differentiated) results in the 2000-06 programming round. They all agree that:

- EU resources ended up compensating for absent national public investment
- Few regional government were capable of engineering strategies appropriate to local conditions and applied extremely ambitious ‘one-size-fits-all’ recipes
- Local governments proved mostly incapable of designing integrated strategic projects at best a laundry list of traditional public works
- In many places strong interest groups hijacked EU resources

The 2007-13 round has yielded even poorer results, partly because of the financial crisis, austerity measures and the ensuing difficulties in co-funding (Polverari 2013).

Ultimately, despite some modest improvements observed in some macroeconomic indicators in the first decade of the 2000s (see Table 1), Cohesion policy has not managed to arrest the socio-economic decline of the South of Italy and the resumption of pre-national policy disparities.

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4. What did we lose in translation/transition?
Why the persistent regional disparities?

- Since the period of relative convergence observed in the third quarter of the 20th century, **regional disparities have not lessened and have even increased** in a number of EU-15 countries. What went wrong? What did we lose in translation/transition from the FK to the NL regime? What’s to be done?

- The persistence or resumption of regional disparities after the 1970s is the result of at least two **structural factors**:
  - The **end of the Post-WW2 boom** (the ‘golden age’ of European growth), which had provided **ample financial resources** to fuel **public policies** and made it easier to re-distribute growth.
  - The intensified **global competition** and the recent **financial crisis**, which have limited both the financial resources available for regional policy and the room for manoeuvre.

- Thirdly, however, we must call in cause the **Neo-liberal shift** in ideology and in what concerns the **role of the state**, especially in **social and regional policy**. I contend that the current **EU regional policy framework** – Cohesion policy – has fully embraced the Neo-liberal approach based on market competition and is hence partially responsible for the little headway made in redressing regional disparities.

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What was lost in translation?

A unitary perspective, a central planning authority and a shared overall commitment

➤ The first problem with the current EU regional policy framework is the loss/absence of a central government authority (EU/national) capable of designing and implementing a coherent plan and enforcing choices/policies ‘for the greater overall good’ that may not be shared by every national/regional/local government.

➤ This loss of centralised decision-making authority is the joint result of two processes:

➤ On the one hand, explicit ‘abdication’ choices made by national political elites, often with ‘blame avoidance’ and/or ‘decentralising penury’ strategies.

➤ On the other hand, the progressive loss of political legitimacy of national states vis-à-vis increasingly fragmented and particularistic constituencies, which no longer identify with and/or recognise the authority of the national state (‘post-modernism’; ‘post-democracy’)

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What was lost in translation?

A unitary perspective, a central planning authority and a shared overall commitment (continued)

The weakening of the national state legitimacy also involves the loss of a shared national commitment to social and territorial justice. As stressed by Kay (2005), in a context of increasingly fragmented polity it is much more difficult to agree on what constitutes social and territorial justice and the means to achieve it, than in the context of a single, bounded community.

The absence of a central planning authority with a strong legitimacy and the lack of a shared commitment to social and territorial justice is particularly bad for less favoured regions, which need massive exogenous public investment and targeted multi-scalar strategies that are well beyond their own capabilities.

The above issues are amplified at the EU scale: Cohesion policy does not have either the legitimacy or the authority to fully commit to and implement a fully-fledged regional policy.

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What was lost in translation?

Substantial, truly additional public resources for LFRs

- Current **Cohesion policy resources** – even when matched with national co-funding – are in many cases **much lower** than the **national public resources** mobilised during the FK regional policy period.

- A related problem is the **missing additionality**. As stressed in many reports (Barca 2009; EC 2010), in many instances, Cohesion policy resources have ended up ‘**substituting’** for national resources. This was certainly the case of Italy, as I have shown. The problem has worsened since the 2008 global financial crisis, when austerity measures began to further condition public spending.

- The reduction in the overall public resources for LFRs is a key problem, since these regions **need massive additional investment resources** to fill the accumulated deficit in their infrastructural and productive basis.

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What was lost in translation?

Leverage

- Through the **direct ownership of strategic services and manufacturing** the national state could make a difference, by moving around productive investment and creating employment in LFRs.

- Most importantly, the national state had significant leverage to both **condition** and **entice** – through financial incentives, tax exemptions, infrastructure – **large (national) corporations**.

- This **leverage is now lost**, because of both EU regulation and globalisation.
  - With the advent of the Single European Market, **state ownership** (monopolies) has been prohibited or discouraged.
  - With globalisation, **transnational corporations** are more difficult to influence and can play national states one against the other.

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What have we got instead?

The shifting sands of a multi-scalar governance structure …

- The EU Cohesion policy features a very complex and cumbersome system, which needs highly efficient and perfectly synchronised inter-governmental relations to work and presumes that every government level carries out its tasks efficiently.

… with risks of intensified costs and decreased accountability …

- If these conditions are not in place, concrete risks arise of higher governance costs: multiplied transaction costs, bureaucratic redundancy, delays (Kaiser & Prange 2004)
- Moreover, multi-level governance is strongly affected by power relations (Bache 2008)
- Furthermore, the shared governance with private actors or special institutions (PPP, QUANGOs, etc.) involves concrete risks of decreased accountability (Olsson 2003; Harlow & Rowlings 2006; Papadopoulos 2008; see Stephenson 2013 for a review).

… and a great burden placed on local governments

- In this system, the higher government levels have a strategic and coordinating role. But it is ultimately on local actors – especially local governments – that rests the responsibility for designing and implementing local development strategies/projects.

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What have we got instead?

... with very different levels of institutional capacity

- Despite the apparent step forward performed by ‘place-based’ strategies, the normative idea remains that local governance is best. Strategies and projects must hence come out of local participatory planning process geared at revealing needs and goals and negotiating among local actors interests.

- But, as I have stressed, this approach does not work where local institutions are weak, hence are either incapable of engineering/steering a participatory process and/or designing strategies and projects, or are prey to rent-seeking local interest groups.

- The emphasis on – and the resources targeted to – ‘institution-building’ and ‘social-capital formation’ in the 2014-2020 programming round do not make clear ‘how’ and ‘who’ should carry out such a task.

.... and the risk of fragmented strategies

- In the absence of a ‘strong’ central coordinating role, the sum of local strategies, does not automatically bring about a coherent overall strategy. There can actually be duplications and conflicts, with loss of efficiency.
What have we got instead?

A (complicated) management and competitive bidding system …

- Moreover, in the current Cohesion policy architecture, local actors and governments must comply with complex *ex ante* and *in itinere* requirements and compete against each other for resources.

- As a consequence, resources are allocated to places not in function of needs, but in function of their capability to comply with the increasingly complex requirements of programming and calls, i.e. making capabilities and competitiveness a pre-requisite for cohesion, rather than the opposite (see also Avdikos and Chardas 2016).

- Such a bidding system is also costly: significant resources (human and financial) are invested by both public and private actors in the process of drafting projects, often with no results.
What have we got instead?

A diminishing commitment to regional policy

▸ With the enlargement of the EU to the Central and Eastern countries, there has been a shift in EU cohesion policy from intra-national disparities to inter-national disparities. This is witnessed also in financial terms: while in the 2000-06 round about 70% of the Structural Funds was targeted to the Objective 1 regions of the EU-15, in the 2007-13 round about 50% of the overall resources was targeted to the new member states, almost entirely classified as ‘Convergence’ (former Objective 1) regions.

▸ The 2008 financial crisis and its aftermaths – budget cuts and deflationary measures – have further dampened the already weak commitment to intra-national regional disparities, especially in Southern European countries. In many instances, regions and states use EU Cohesion policy resources to keep afloat.

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5. What can we do?
Reproducing or addressing regional disparities?

- In the absence of an efficient multi-scalar governance and effective subsidiarity mechanisms in case of weak local institutional capital, the net result of the above competitive bidding system is that precisely those places that are in greater need are most excluded from the limited resources/benefits of Cohesion policy.

- Less favoured regions and places cannot – and should not – be expected to solve on their own and with the limited additional resources afforded by Cohesion policy problems that do not (only) depend on endogenous factors, but rather on broader exogenous dynamics.

- The current Cohesion policy, despite its attention to ‘building local institutional capital’, de facto penalises LF regions and places, and keeps ‘blaming the victims’.

- What can we do in rural regions that are depopulating or in urban areas plagued by unemployment and deteriorating public infrastructure? Should we ‘give them up’?

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Inputs for further work

I do not have miraculous policy recipes. I can only propose a few directions of work, both research- and policy-wise.

- **Research-wise** we should certainly:
  - Work for a ‘paradigm shift’, i.e. challenge the hegemonic ‘decentralisation’ cum ‘local development governance’ paradigm, resuming interest on and analysing in greater depth **regional disparities**, with a **systemic and historical approach**, i.e. recovering the political economy approaches of the 1960s and 1970s (Lovering 1991; Hadjimichalis & Hudson 2014)
  - Focus more on **policy options and tools**. Here I cannot but re-iterate Ron Martin’s call from more than 15 years ago (2001) for more policy-oriented research, **challenging the hegemonic paradigms**, resuming some lessons from the past and creatively exploring new options.

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**Policy-wise** I propose a few pointers:

- **National citizenship**

  The idea that we are more than the sum of diverse regional and cultural identities, i.e. we are part of broader national – and European – communities, with universal basic rights, has lost appeal. The progressive circles are somewhat prisoners of diversity and self-determination claims, whereas national identity has been appropriated by the nationalist/populist and right-wing movements and parties.

  We should escape this trap and re-launch the idea of universal social rights, which involves re-establishing the importance of national polities and the legitimacy of the national state – and possibly of the EU – as opposed to accepting particularism and competition as inevitable.

- **Infrastructural (both physical and social) public investment**

  This type of investment (from transport to schools) is considered an ‘old’ policy tool. It is a powerful driver for reducing regional disparities. It should be relaunched and (re)targeted to LFRs to reduce their accumulated physical and social infrastructural deficits. This investment should mobilise additional resources, allocated according to regional needs rather than regional bidding or negotiating capacities.
Inputs for policy

- **Public activities (and employment)**

  Despite the drive to privatisation and the cutbacks in public employment, the state, at its various levels, still operates/controls a significant amount of public services (and employment). The targeted territorial distribution of these activities was a major tool to create employment in the LFRs during the FK regime (see e.g. the DATAR’s ‘Metropoles d’équilibre’ policy in the 1970s). This strategy should be resumed.

- **The social economy.**

  Many scholars have great faith in the social economy and in alternative (innovative) local micro-practices, as a way to lessen unemployment and improve the quality of life, with empowering effects (Evers & Laville 2004; Moulaert et al. 2010; Moulaert et al. 2013; Evers & Ewert 2015). This is a strategy that has worked in many places, also contributing to build social capital. But it can only be a concurrent strategy; it cannot be expected to solve the deep structural social and economic problems of less favoured regions and places.

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The foundational economy (FE).

Launched by the CRESC at the University of Manchester (Bentham et al. 2013; see also Morgan 2015) this strategy is rather interesting as it explicitly links local development initiatives with national policy, bottom-up action with top-down public policy.

- The FE includes sectors such as social services (education, health, care), utilities, transport and communication, retail (especially food, but also gasoline and banking), and food processing, that are locationally rigid as they are distributed throughout the national space following the population they serve. These activities also operate in markets that are still somewhat regulated and are also relatively sheltered from global competition.

- Although not as glamorous as ‘high-tech’ or innovative sectors (which are the focus of the little industrial policy currently implemented), these activities are central to the working of national economies and collectively account for up to 40% of employment and value added in most countries.

- It is typically in these activities that local socially innovative initiatives occur (social services, food production and distribution), but the FE strategy provides a link with the national scale, since the national government can re-establish its regulatory and steering role, backing local authorities and civil society in their claims for better jobs and better services, without fearing that companies will migrate to other places.
Many thanks for your kind attention!

For those interested, a full article will be produced out of this powerpoint later in 2017.

I take the opportunity to warmly thank, once more, the organisers – Andy Pike especially, but also Sally Hardy and the RSA all – for inviting me. It was a great honour to open the celebrations for CURDS’ 40° anniversary. Regional disparities and regional policy have been a core concern of CURDS since its foundation in 1977. And the research carried out at the Centre – theoretically informed, empirically grounded and, most importantly, policy oriented – has greatly contributed to strengthen the status of urban and regional studies nationally and internationally.

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