

THE IMPACT OF REGIONAL DEVELOPMENT PARADIGMS ON SMALL AND MEDIUM SIZED CITIES

Attila Korompai
MRTT VÁNDORGYŰLÉS
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Motivation

- *Enyedi, Gy.:* Terület- és településfejlesztéssel kapcsolatos tudományos kutatások fő irányai és feladatai, Területi Statisztika, 2010.04.
- The evergreen dilemma of regional development – i.e. efficiency and/or social solidarity – seems to be unresolvable.
- In the footnote there is an important comment: In other way, the state supported development of lagged regions decreases the economic efficiency only in short term time horizon – in the long term it can prevent the dramatic devaluation and erosion of local resources in the supported regions.
- **The main task of regional development is not to decrease territorial-social inequalities but to elaborate a new regional development paradigm.**

Motivation

- We try to influence territorial-social processes which are not dominating or even they are inadequate in our age –
- this is behind the failures of regional development policy and activities, and not only organisational, political or planning deficiencies.
- **In this situation the question may be emerged that is there any opportunity for any regional equalisation policy in national frames in the present development phase of capitalism?**

Motivation

- Is it true that the dominating power determines the functional division of urban areas and the process of urbansation in various historical ages?
- The types of power are:
 - Physical power – protecting cities
 - Economic power – by the dominant economic sector:
 - Agricultural /market towns
 - Industrial towns
 - Service sector dominated towns
 - Information power – Smart cities
 - Moral / Ethical power – Sustainable cities

CLASSIC PARADIGMS OF REGIONAL DEVELOPMENT

Neo-classical growth theory

- Disembodied or independent factors of growth => exogenous growth theory:
 - Technological change
 - Human capital
 - Population growth
- Regional growth disparities are explained by
 - The rate of technological progress
 - by the relationship between capital and labour
 - ‘capital deepening’ is the positive relationship between capital and worker (capital supply) [$Y/L=f(K/L)$] but !
Diminishing marginal returns!!!
- **When the marginal product of labour reaches zero, then an equilibrium position is achieved => no incentive to increase K/L ratio**

Neo-classical growth theory

- ASSUMPTIONS

- Perfect knowledge about factor prices
- Economically rational and efficient choices of buyers in response to market signals
- Economically rational and efficient choices of suppliers in response to market signals
- Constant economic returns to the increasing scale of economic activities
- Perfectly functioning markets are capable of ameliorating or reducing geographical disparities in economic and social conditions
- Perfect mobility of factors of production offering the highest relative rate of return

Neo-classical growth theory

- The adjustment mechanism:
 - Firms look for the most profitable locations
 - Labour seeks the highest wages
 - Regions with high K/L ratios have high wages and a low return or yield on investment, therefore they lose capital and attract labour
 - Regions with low K/L ratios have low wages and high returns on investment, therefore they lose labour and attract capital
 - Over the long run regional disparities are to be reduced through these self-correcting movements, and an equilibrium position is achieved

Neo-classical growth theory

- Types of regional convergence:
 - **Conditional convergence:** movement towards a steady state growth rate resulting in constant per capita incomes, consumption levels, K/L ratios between regions.
Conditional because important differentiating factors (saving rates, depreciation rates, population growth rates) are treated as external.
 - **Absolute convergence:** growth model parameters are equal. Richer regions tend to grow slower than poorer ones. Beta (β) convergence / Sigma (σ) convergence

Neo-classical growth theory

- Theory of comparative advantage
 - Relative price differences stimulate trade between regions

Country	Wine	Wool
GB	20	10
P	5	20

Neo-classical growth theory

- Summary

Dimensions	Characteristics
Theoretical approach	Neo-classical economics, Supply-side flexibility, Correcting market failure
Causes of economic disparities	Market failures, inefficiency problem in regions due to labour market rigidities, Lack of entrepreneurial culture, Excessive state intervention
Political ideology	New Right/neo-liberal, Popular capitalism, Deregulation, liberalisation, Privatisation, Small state sector, Enterprise culture
Approach to reviving disadvantaged regions	Correction of market failures, Deregulation of regional labour markets, Tax incentives to promote efficiency
Regional policy	Minimal expenditure, Selective assistance

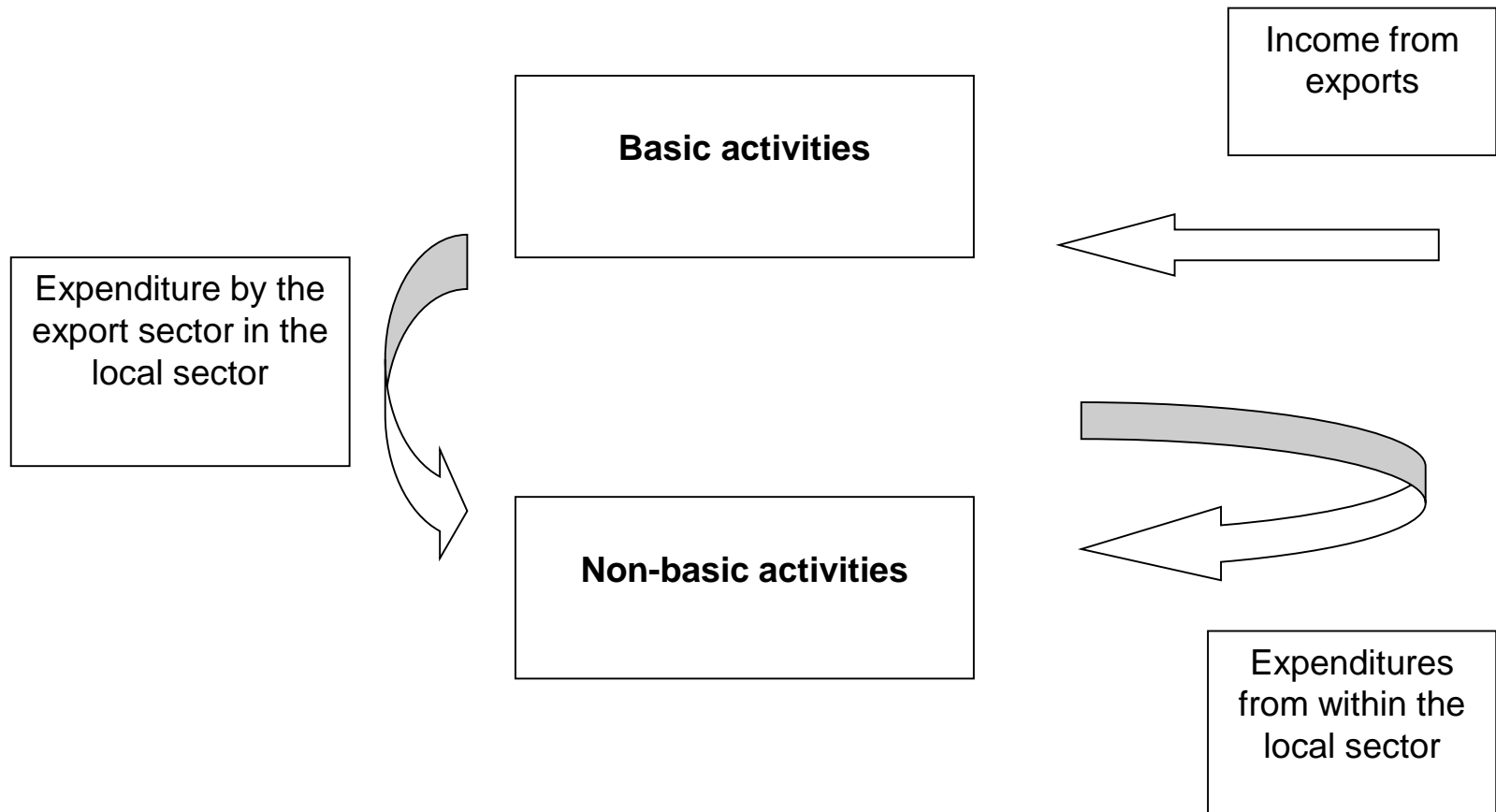
Keynesian theories

General characteristics

- Focus:
 - upon the reduction of regional growth disparities
 - Region
 - on medium term development
 - The role of demand
- Mechanism: market forces left to their own devices lead to disequilibrium because of self-reinforcing forces, therefore they have to be influenced through demand creation and some regulation.

Keynesian theories

Export base theory



Keynesian theories

Cumulative causation

- Regional growth per capita is explained by the region's capability to specialise and exploit scale economies
- Manufacturing is the 'flywheel of growth' capable of
 - fostering innovation
 - generating productivity benefits
 - faster growth
- Increasing returns -> cumulative growth

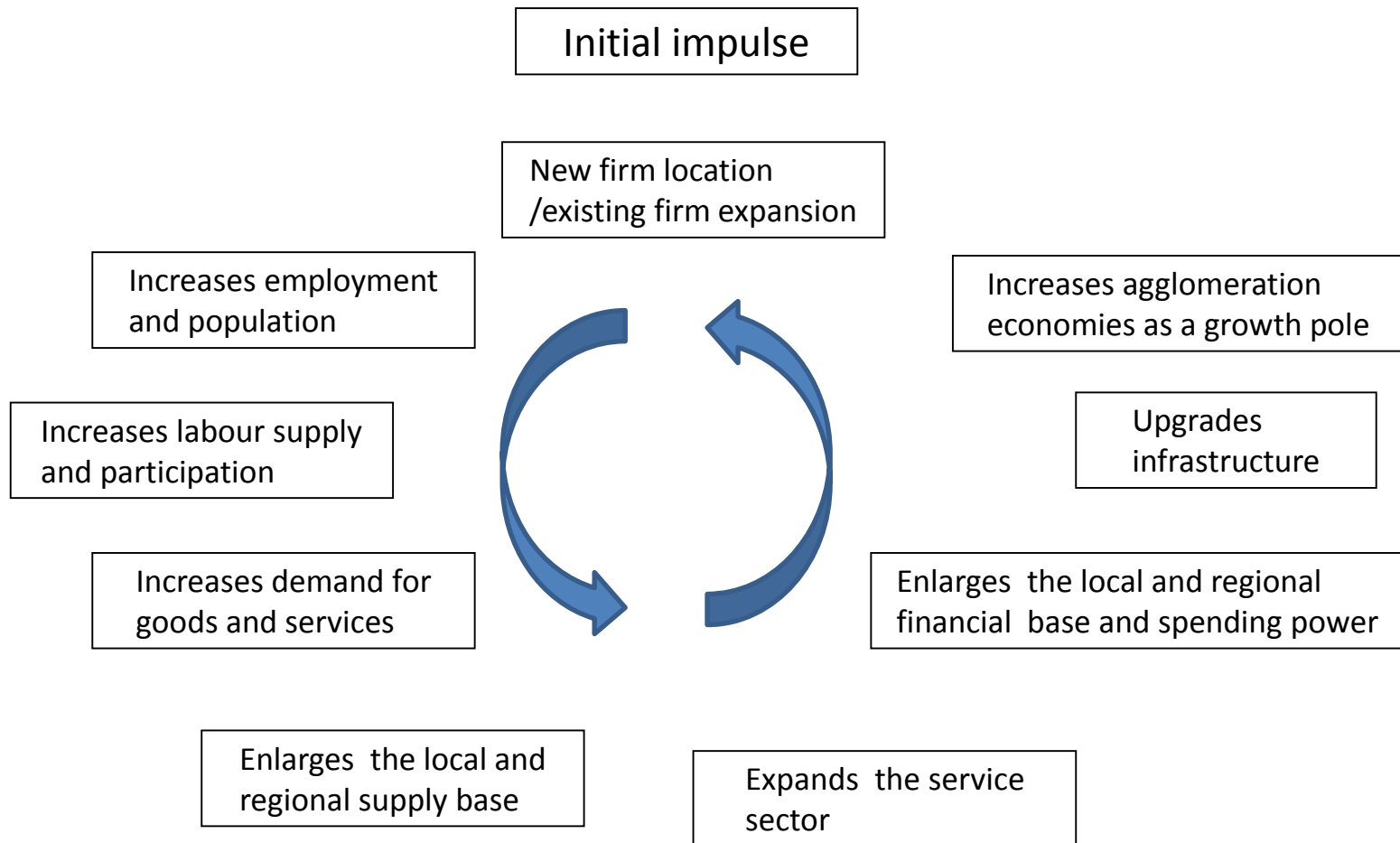
Keynesian theories

Cumulative causation

- Spread effects ('trickle down' effect)
- Backwash effects
- Core-peripheral regions
 - centrifugal/ centripetal forces
 - the impact of liberalised trade
- Actual monetary wages may be the same in all regions, but efficiency wages (=monetary wages/labour productivity) tend to be lower in industrialized regions due to scale economies. Regions with lower efficiency wages can produce more output leading to further reduction in efficiency wage
=> growth may build on itself

Keynesian theories

Cumulative causation



Keynesian theories

Growth pole theory

- Verdoorn effect: the growth in labour productivity is partly dependent upon the output – the changes are reinforcing
- Dixon and Thirlwall explanation of growth: there is a feedback of the region's growth upon the export sector's productivity and competitiveness, that is to change the output in the same direction
- Growth pole theory draws particularly on the potential linkages between propulsive firms capable of generating induced growth through inter-industry linkages, and localised industrial growth (agglomeration economies)

Neo-Keynesian regional policy: the ‘interventionist’ approach

Dimensions	Characteristics
Theoretical approach	Reconstructed Keynesianism, Demand-side stimulation, Supply-side support for industry and services
Causes of regional disparities	Market deregulation and liberalisation, Structural weaknesses, Low investment, Drain of capital to developed regions, Inadequate and insufficient government participation in regional development
Political ideology	State intervention, Social democratic, National territorial cohesion and solidarity
Approach to reviving disadvantaged regions	Proactive policies at the local and regional level, Public investment in infrastructure
Regional policy	Extensive regional aid, Automatic assistance, Decentralisation of regional regeneration powers to local and regional agencies and authorities

Innovation, knowledge and learning

- **Development** is the enhancement of the region's ability to produce, absorb and utilise innovations and knowledge through learning processes
- The linear model of innovation: one-way flow
Idea/knowledge – design – development to production – sale => specialised hierarchies in space
- The interactive model of innovation: interactive and iterative, and closely interrelated stages => integrated in space, co-location

Strong and weak regional systems of innovation (RSI) potential

	Institutions	Firms	Policy
Strong RSI potential	Cooperative culture Associative learning disposition Change orientation Public-private consensus	Trustful labour relations Workplace cooperation Worker-welfare orientation Mentoring Externalisation Innovation	Inclusive Monitoring Delegation Consultative Networking
Weak RSI potential	Competitive culture Individualistic 'Not invented here' Conservative Public-private dissension	Antagonistic labour relations Workplace division 'Sweating' 'Sink or Swim' Internalisation Adaptation	Exclusive Reacting Centralisation Authoritarian 'Stand-alone'

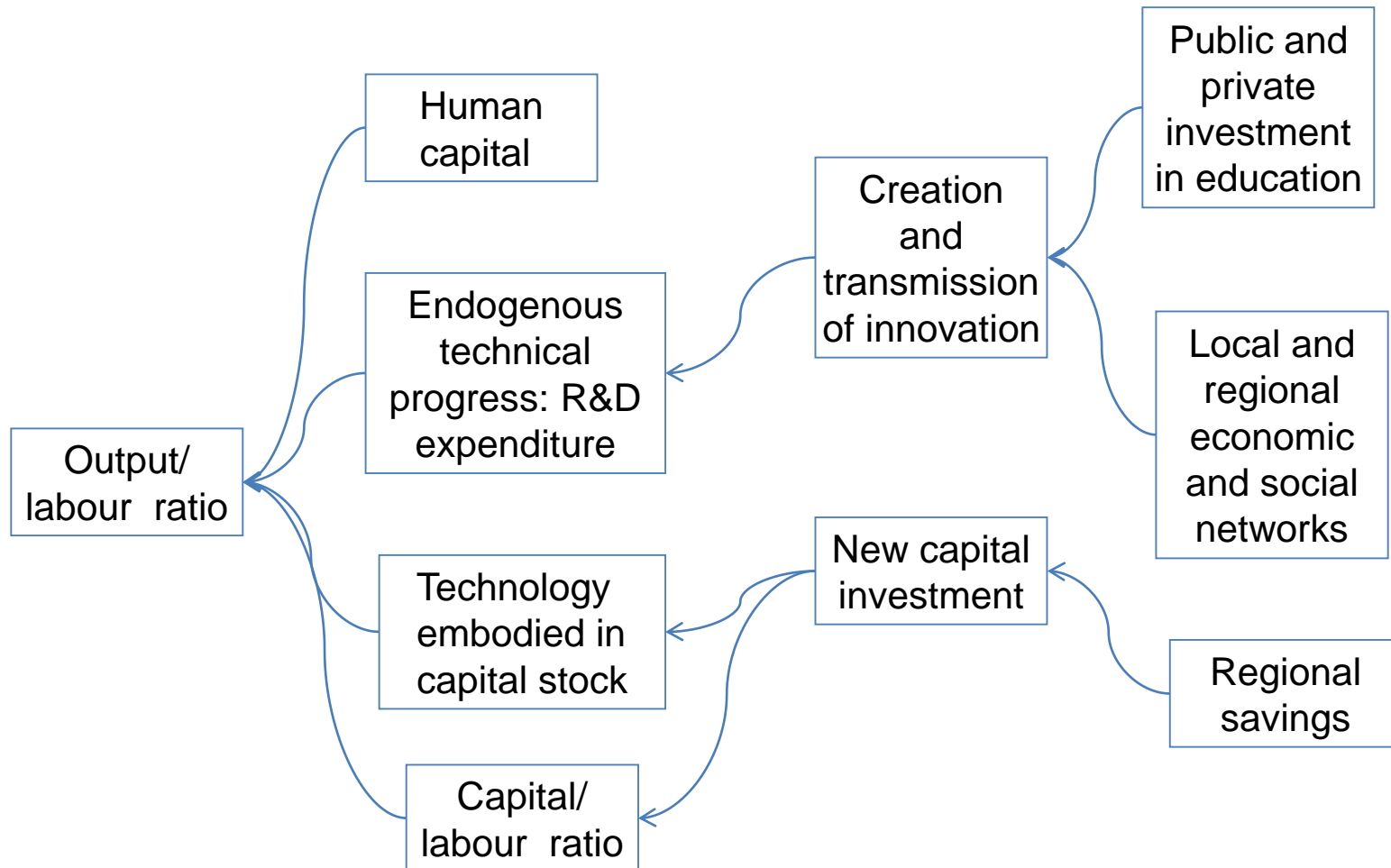
From mass production to learning regions

	Basis of competitiveness	Production system	Manufacturing infrastructure	Human infrastructure	Physical and communication infrastructure	Industrial governance system	Policy system
Mass production region	Comparative advantage based upon natural resources and physical labour	Physical labour as resource of value, separation of innovation and production	Arm's length supplier relations	Low-skill, low-cost labour, Taylorist workforce, education and training	Domestically oriented	Adversarial relationships, top-down control	Specific retail policies
Learning / knowledge creating region	Sustainable advantage based upon knowledge creation and continuous improvement	Continuous creation, knowledge as a source of value, synthesis of innovation and production	Suppliers' system as a source of innovation	Knowledge workers, continuous improvement of human resources, continuous education and training	Globally oriented	Mutually dependent relationships and network organisation	Systems / infrastructure orientation

A typology of ‘new’ growth theories

	Augmented	Type of growth theory		
	Neo-classical	Endogenous broad capital	Intentional human capital	Schumpeterian endogenous innovation
‘Engine of growth’ convergence	Physical and human capital, exogenous technological progress universally available. Slow and conditional convergence within clubs of countries with similar socio-economic structures	Capital investment, constant returns through knowledge spill overs. Cumulative divergence, but shaped by government spending and taxation.	Spill overs from education and training investments by individual agents. Convergence dependent on returns to investment, public policy, and patterns of industrial and trade specialisation.	Technological innovation by oligopolistic producers, with technological diffusion. Transfer and imitation. Multiple steady states and persistent divergence likely. Possible club convergence and catch-up.

Endogenous growth theory: the determination of labour productivity



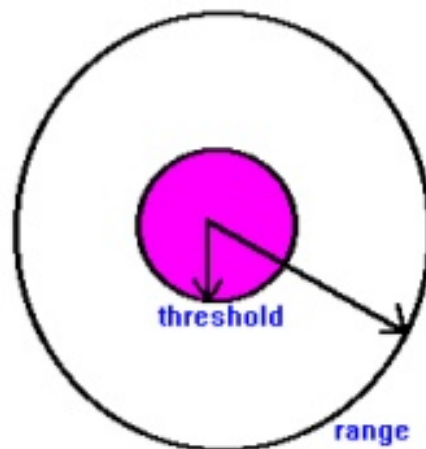
Donor /recipient models , pp.104., 106.

Central place paradigm –
POLYCENTRICITY?

TERMINOLOGIES

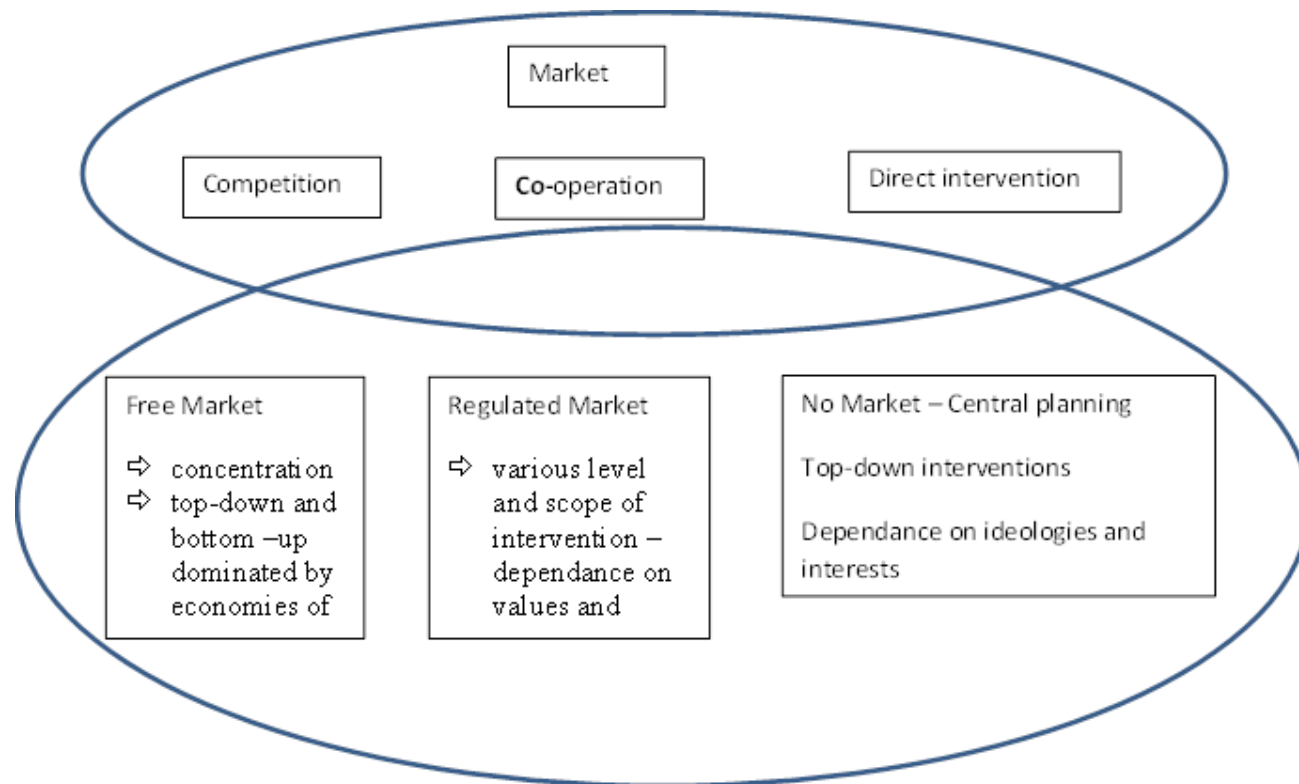
- Central place is a market center for the exchange of goods and services by people attracted from the surrounding area.
- Centrality is crucial to the development of urban places and their service areas.
- Hinterland refers to the area surrounding a central place from which consumers are drawn.
- The urban hierarchy of settlements is based on the functions available in a given settlement.
- Functions and services attract people from the urban areas as well as the hinterlands.
- Every urban center has an economic reach.

- In theory low order goods have a low range and low threshold. less people needed to support it, smaller the distance people are willing to travel.
- Low range and threshold goods are sold in small towns, villages etc.
- Higher ranges and threshold are sold in large towns.
- Range is the maximum distance people are willing to travel to use a service.
- Threshold is the minimum number of people required to support the service.



Division of labour and institutions

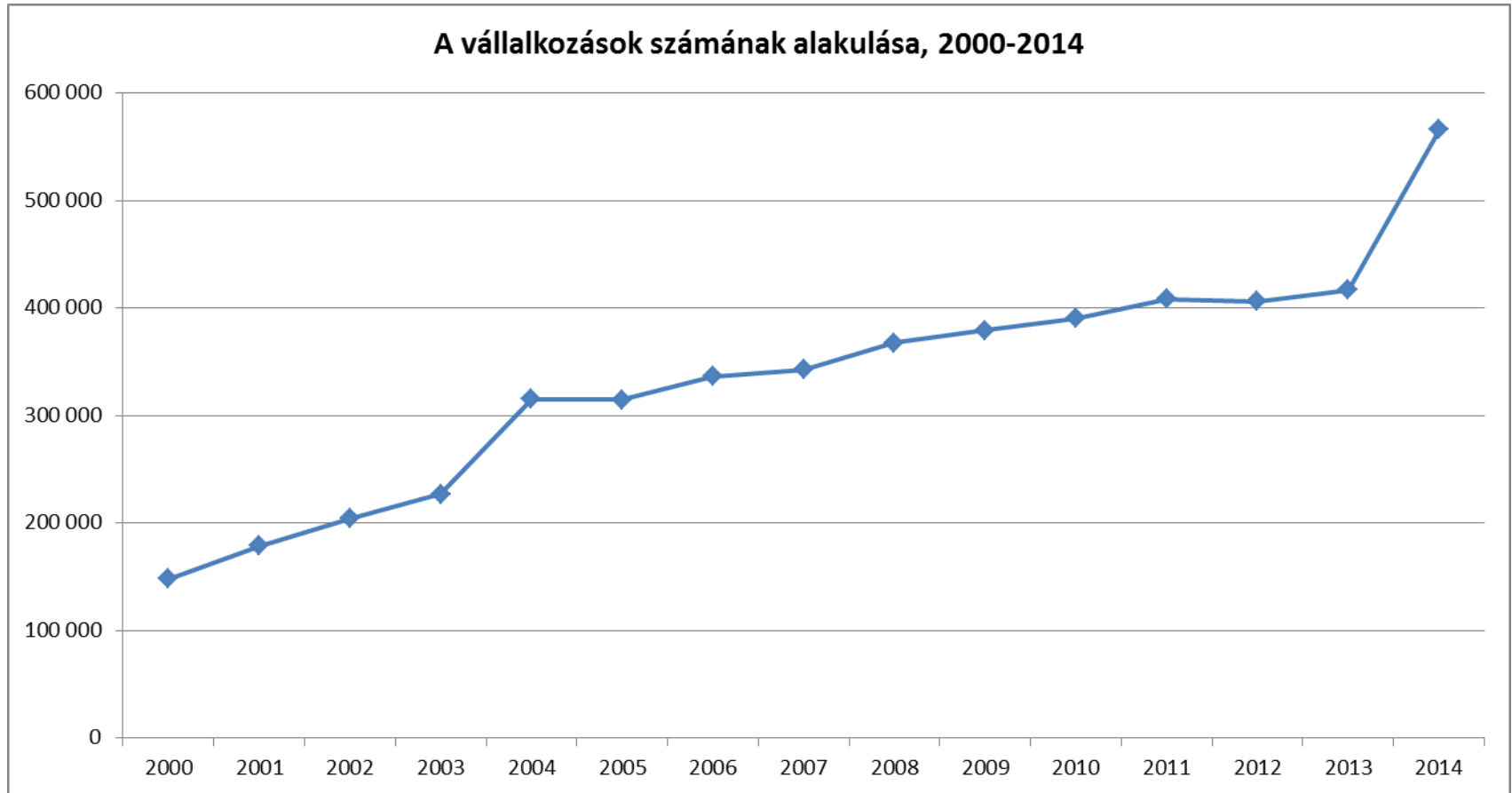
- Hierarchy in polycentricity
- Ways or regulation:



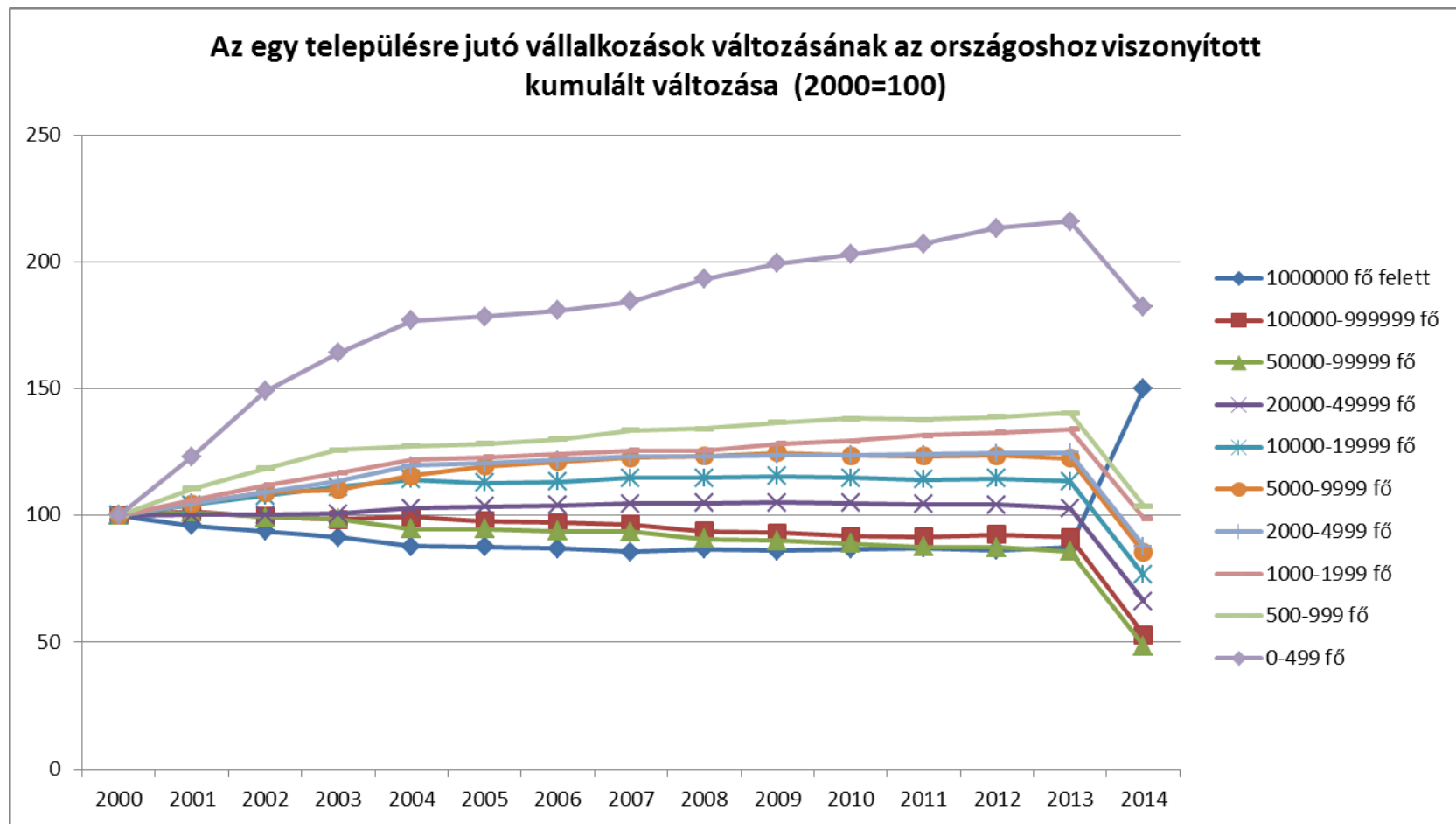
Top-down and bottom-up development

Traditional development policies	Local and regional development
Top-down approach: decisions about intervention areas are taken in the centre	Promotion of development in all territories with the initiative often coming from below
Managed by the central administration	Decentralised, vertical co-operation between different tiers of government and horizontal co-operation between public and private bodies
Sectoral approach to development	Territorial approach to development (locality, milieu)
Development of large industrial projects, that will foster other economic activities	Use of the development potential of each area, in order to stimulate a progressive adjustment of the local economic system to the changing economic environment
Financial support, incentives and subsidies as the main factor of attraction of economic activity	Provision of key conditions for the development of economic activity

Some tendencies in Hungarian settlement system

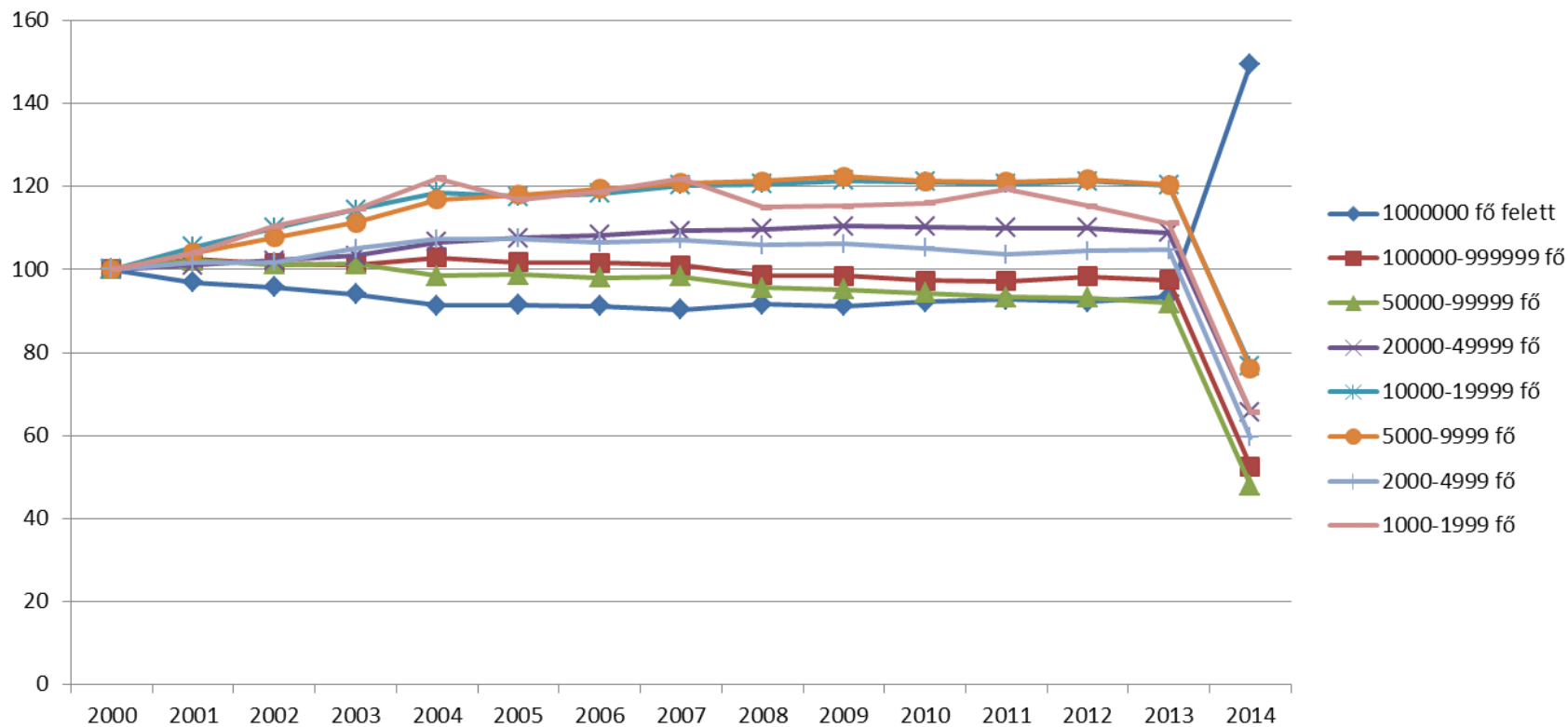


Some tendencies in Hungarian settlement system

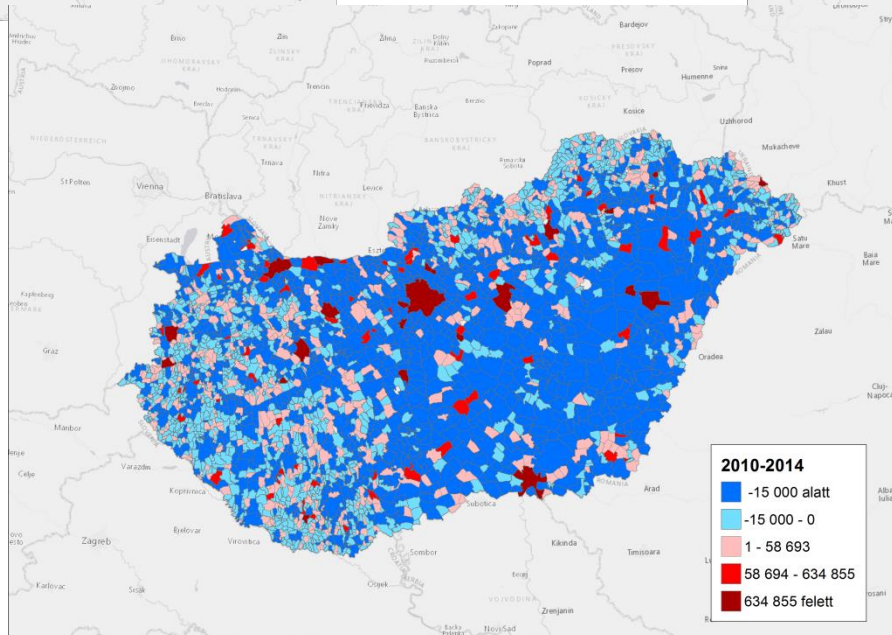
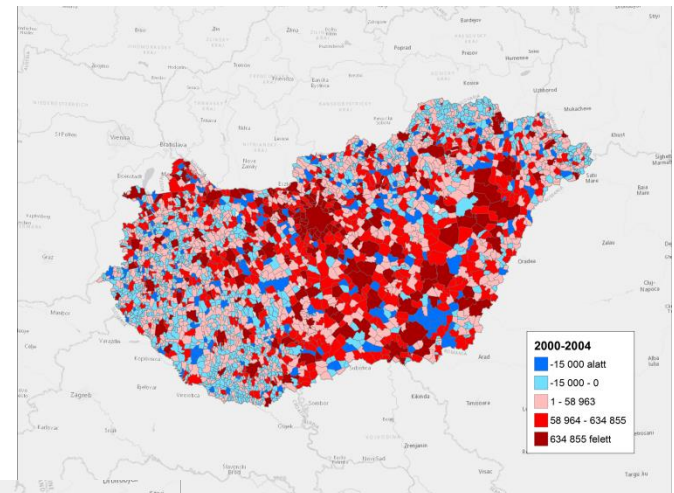
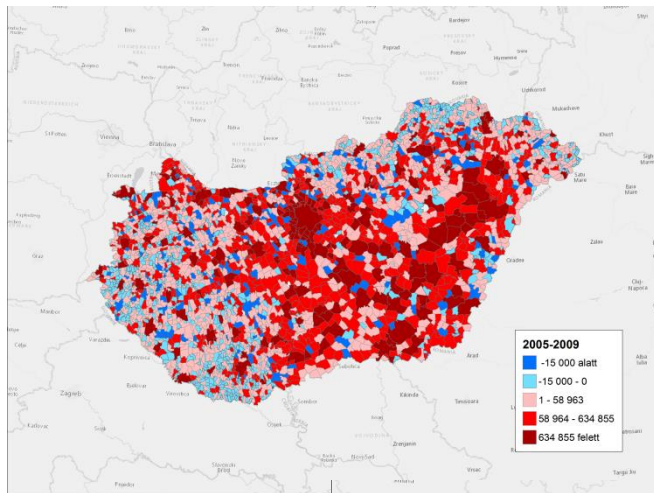


Some tendencies in Hungarian settlement system

Az egy városra jutó vállalkozások száma változásának az összes városhoz viszonyított kumulált változása (2000=100)



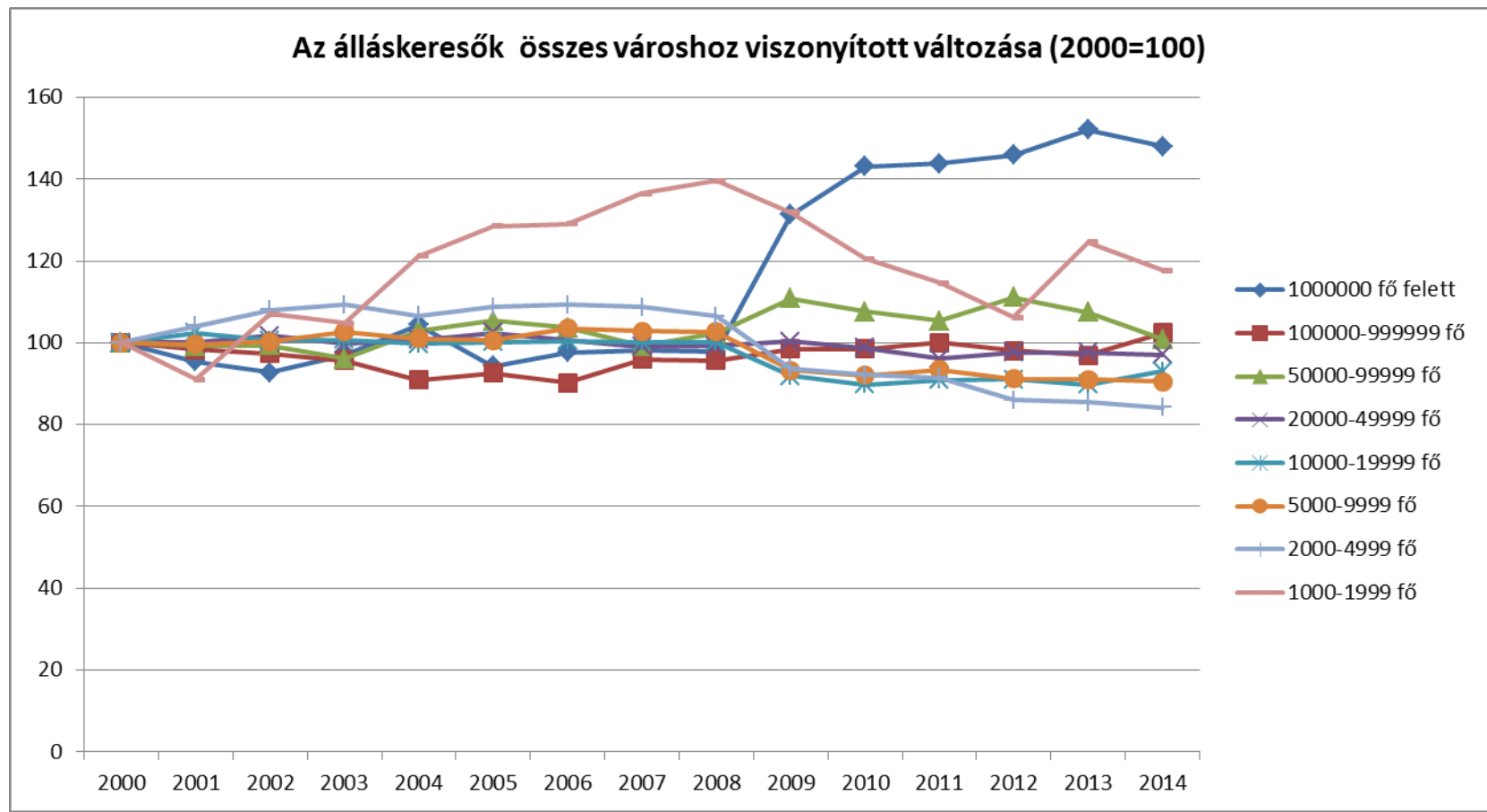
Some tendencies in Hungarian settlement system: the level of profits after taxation in Hungarian enterprises



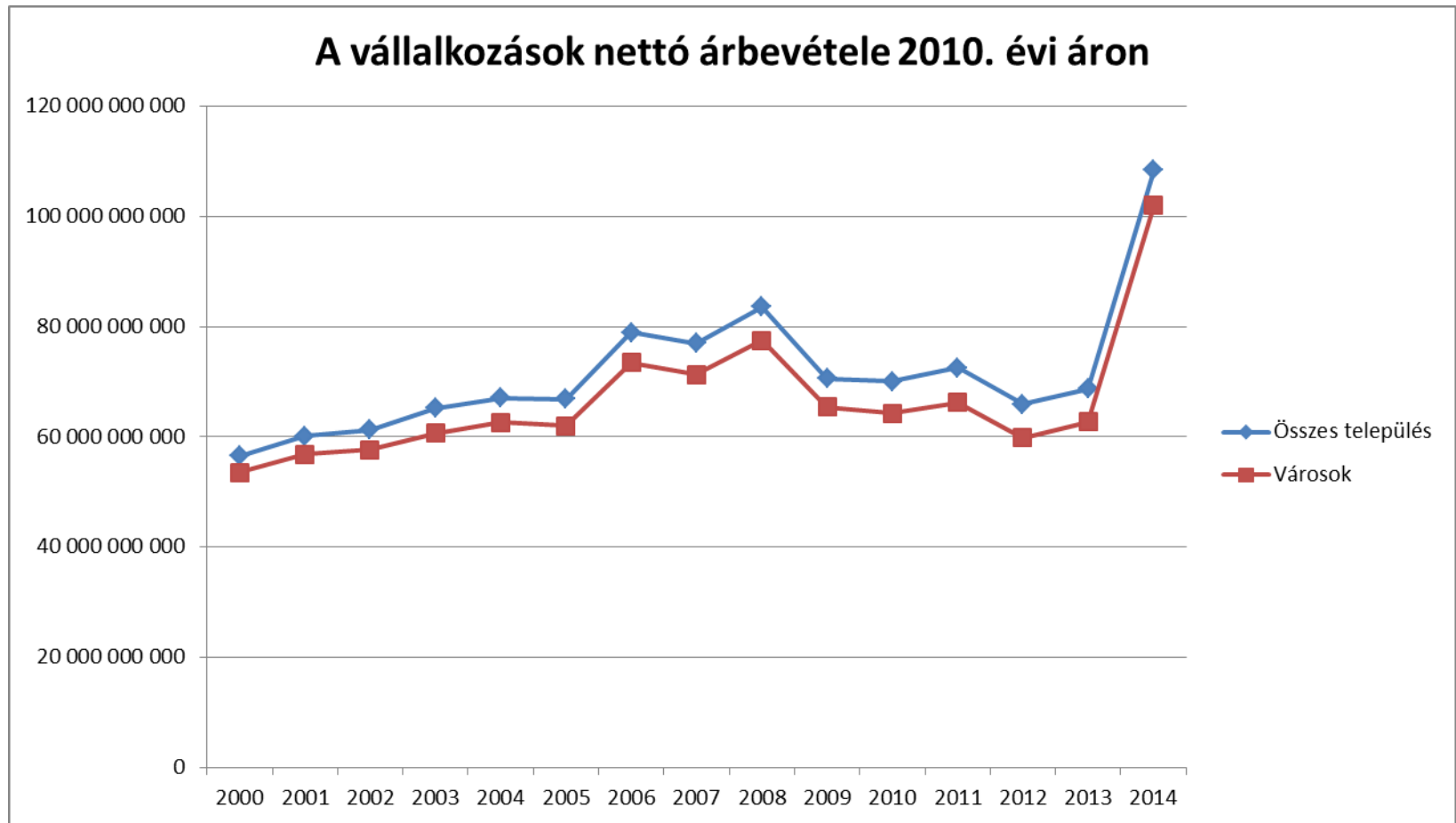
Some tendencies in Hungarian settlement system



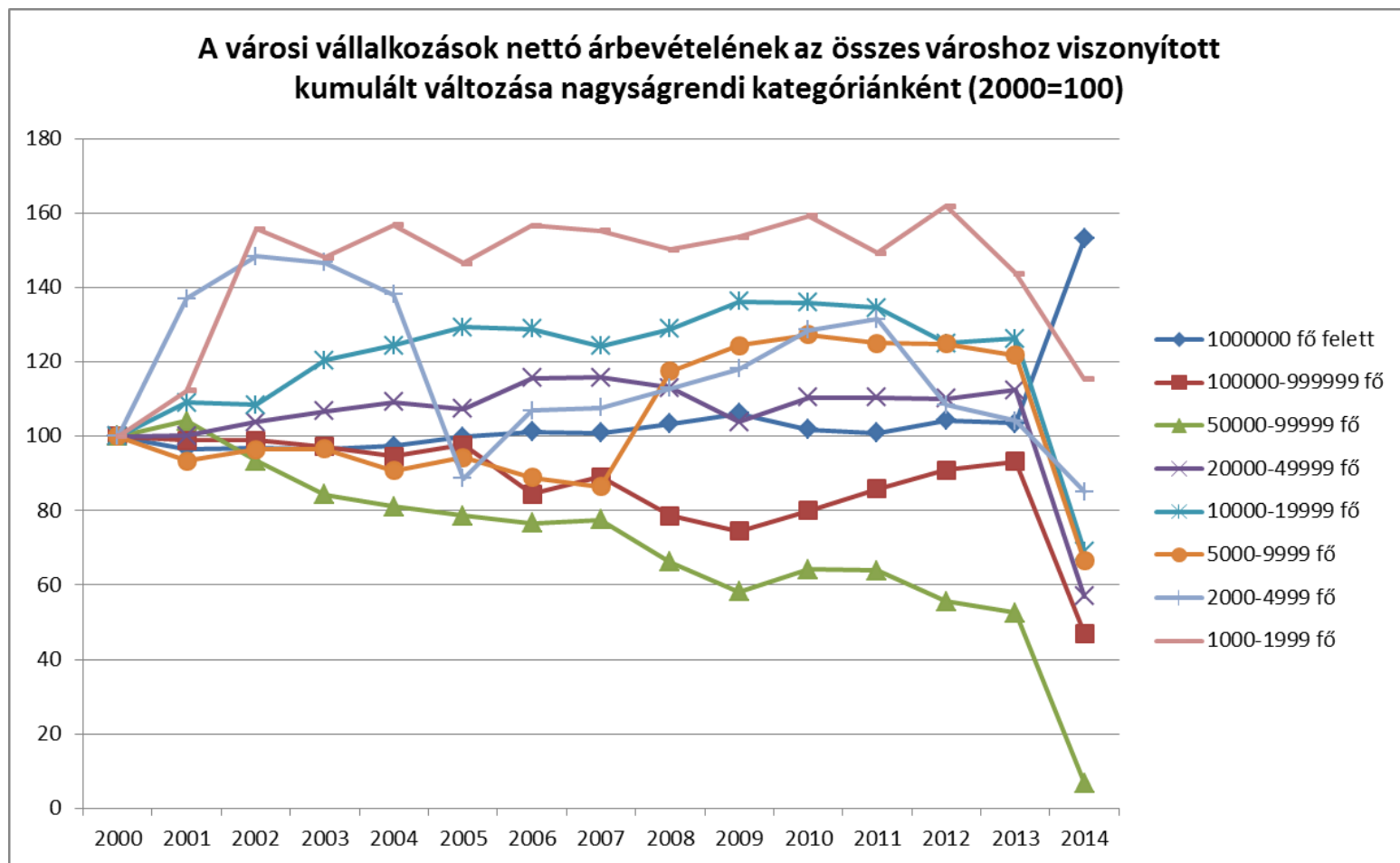
Some tendencies in Hungarian settlement system



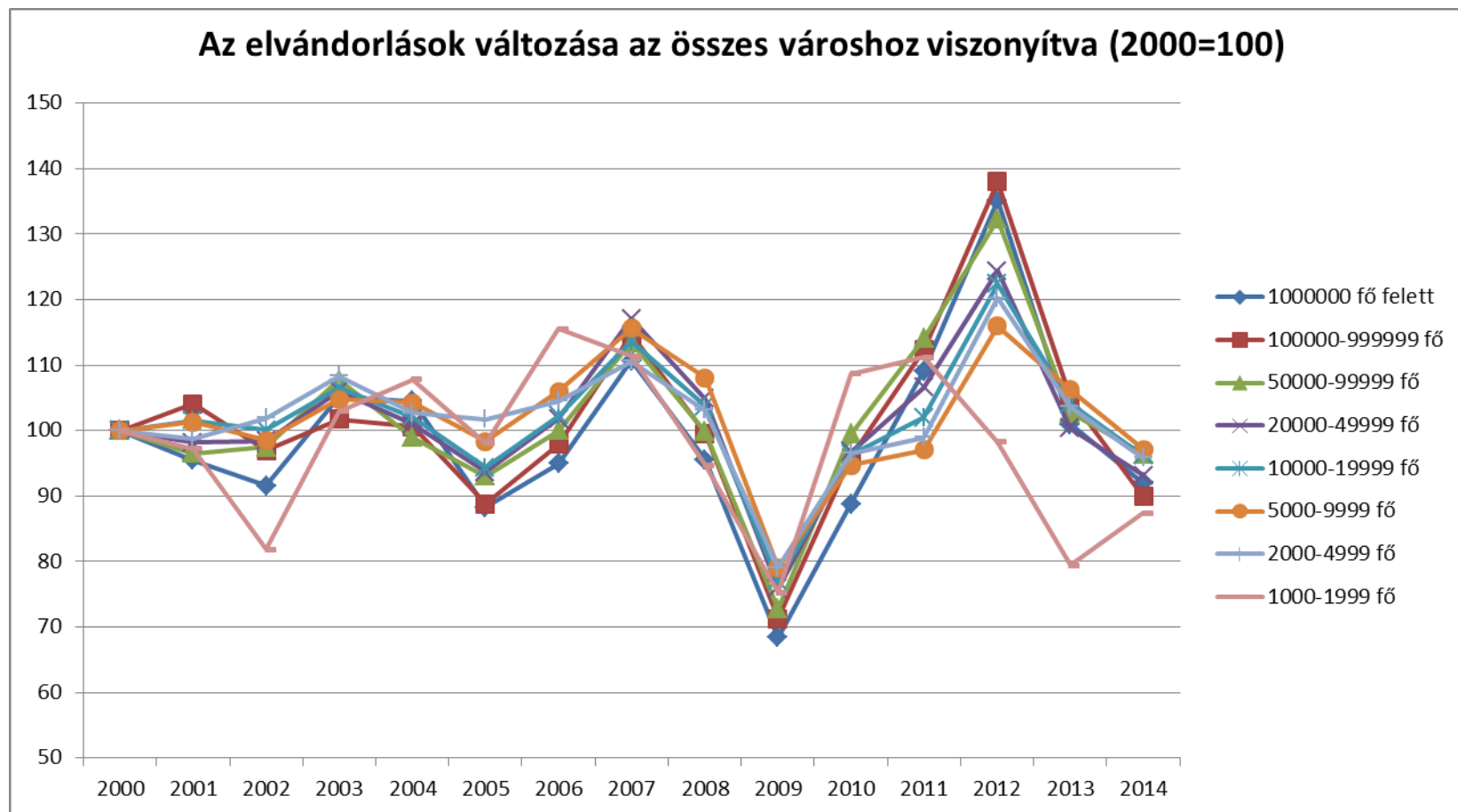
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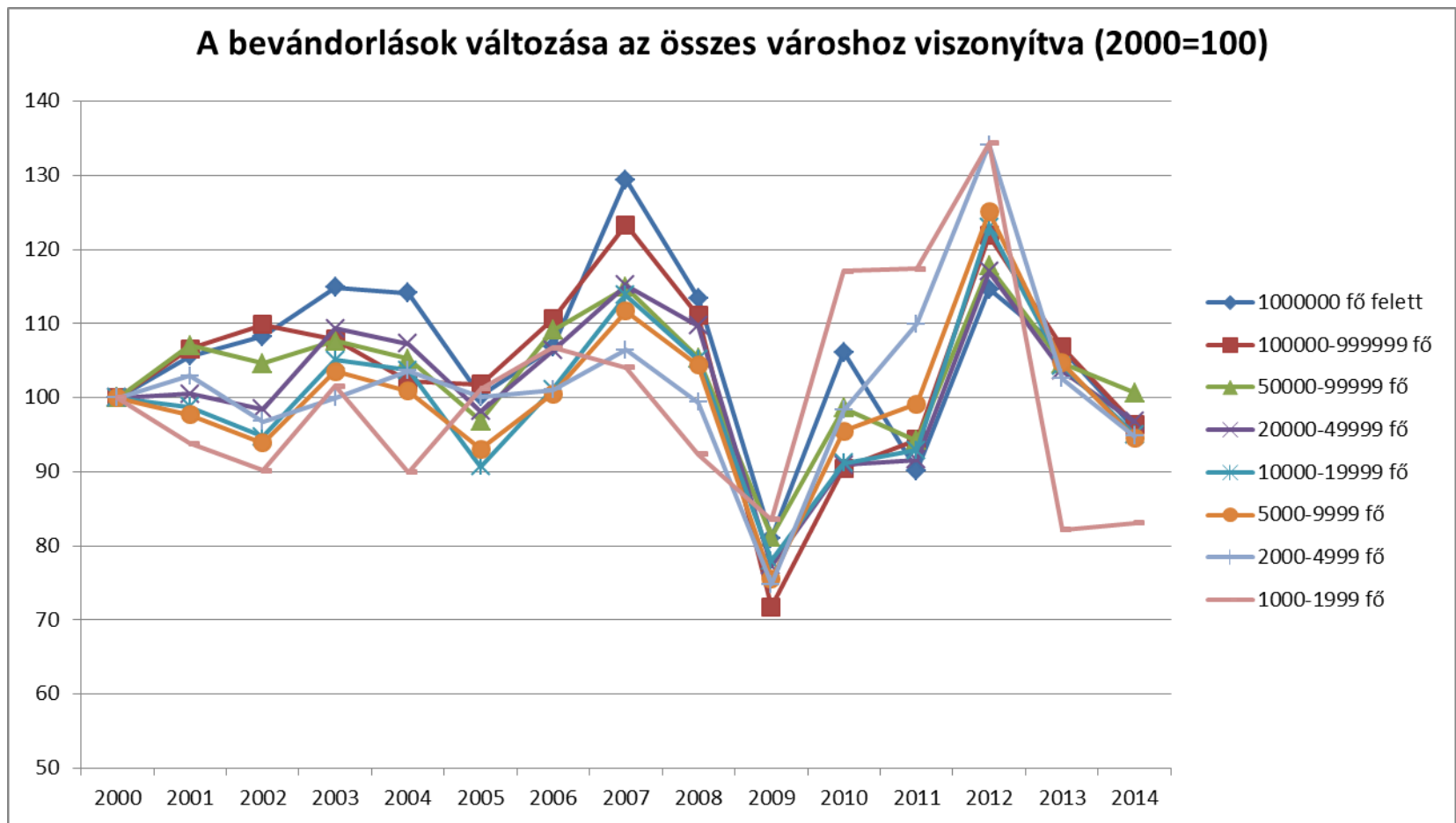
Some tendencies in Hungarian settlement system



Some tendencies in Hungarian settlement system



Some tendencies in Hungarian settlement system



The key points for a new regional development policy paradigm are on the basis of Enyedi's (2010) concept:

- The role of multinational companies in regional policy and processes – engines and motivation from the side of corporations and changes in regional structure as well as in the influencing factors
- The mainstream neoliberal economic policy in the turn of the millennium does not prefer any state intervention into market processes while managing social conflicts and problems is mostly connected to state intervention. The question: what are the new guiding principles of state and market relationship which are relevant in our age? Interdependence on – global – macroregional – regional – microregional – local markets and social processes in the age of globalisation
- Closing the gaps at international and at national level – even at regional or local level – is difficult to co-ordinate. Preferring the international level emphasizes the development of growth poles, large cities, while branches disprefer lagged regions.

The key points for a new regional development policy paradigm are on the basis of Enyedi's (2010) concept:

- Policy prefers more the homogenization, typologies, while regions and cities are unique.
- Environmental aspects get more social attention but mainstream economics misses them.
- Integration at EU level must be harmonised with place-based approach.
- Social responsibility and participation versus relation to the type of power on the basis of cultural attitude and background – recognising the embeddeness of individual well being into social well being. – The human being is bio-psycho-social being.
- Leadership and networks (social, economic, professional, civil)
- New criteria for urban settlements, new urban-rural differentiation
- ?

Criteria for successful small communities

(McMahon 2014)

- 1. Have a vision for the future
- 2. Inventory assets
- 3. Build plans on the enhancement of existing assets
- 4. Use education and incentives, not just regulation
- 5. Pick and choose among development projects
- 6. Cooperate with neighbors for mutual benefit
- 7. Pay attention to community aesthetics
- 8. Have strong leaders and committed citizens