

# BALANCED REGIONAL DEVELOPMENT: ISSUES AND INSIGHTS

Neil Ward <sup>1</sup>  
Newcastle University

## **Introduction: Disparities in Regional Development**

Across the advanced capitalist countries, marked disparities continue between the economic performance of regions (see, for example, Figures 1 and 2) and this remains an enduring conundrum for scholars in the fields of economic and territorial development. In the OECD, it is commonplace for a small number of regions to dominate national economic growth, with the rest lagging behind. For example, in 17 OECD countries in 2003, more than one-third of the national population, 38% of GDP and 57% of all patents were concentrated in only 10% of the regions. These ‘successful’ regions contribute disproportionately to national economic growth. For example, between 1998 and 2003, more than half of the employment growth and over 40% of GDP growth in the OECD occurred in this 10% of regions (OECD, 2007). For some countries, the differences are quite extreme. In the UK, for example, GDP per capita ranges from five times the national average in the richest region to just above half the national average in the poorest. There are also significant territorial disparities between regions in Turkey, France, the US, Mexico and Poland, where income per head in the richest region was at least four times that in the poorest. Of course, economic disparities between regions are not a new phenomena — it has long been recognised that regions develop differentially. Regions rise and fall and rates of regional economic growth vary within nation states as well as between them. Indeed, the OECD’s analysis suggests that disparities are often greater between regions within a nation-state than between OECD countries.

Accounting for regional economic inequalities has long been the preoccupation of regional economists and geographers but prevailing ideas about the nature of the ‘regional problem’ evolve and change. Neo-classical economics, for example, traditionally showed little interest in regional problems. The market was conceptualised as a self-equilibrating mechanism, and so regional problems were understood as no more than the spatial manifestation of adjustment failures on the part of the factors of production. Over time, the market would ‘sort things out’. Subsequently, Keynesian and social democratic analysts were more concerned about disequilibrium and promoted the role of governments in managing tendencies towards imbalance. The dominant approach to regional policy in post-war Europe was a form of ‘spatial Keynesianism’ (Martin, 1993) which involved the improvement of infrastructure in assisted regions and the provision of support to firms and incentives to mobile investors. The philosophy was to achieve a more ‘balanced’ form of national economic development by redistributing investment to regions suffering from insufficient demand. This development model can be seen as an exogenous one – based on the injection of resources from ‘outside’. These policies had some success in creating jobs in disadvantaged regions, but came under criticism for creating ‘dependent development.’ Growth in lagging regions was only achieved through the construction of ‘branch-plant economies’ and the underlying problems of productivity and innovation were left unaddressed.

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<sup>1</sup> Professor of Rural & Regional Development, and Director, Centre for Rural Economy, Newcastle University, Newcastle upon Tyne NE1 7RU, UK. E-mail: [neil.ward@ncl.ac.uk](mailto:neil.ward@ncl.ac.uk). New address as of 1st July 2008: Faculty of Social Sciences, University of East Anglia, Norwich, NR4 7TJ.

The last two decades have seen increasing interest in ‘the region’ as a spatial unit for governmental intervention through economic development policies across the OECD. In the 1980s, it became asserted that international processes of economic restructuring in the advanced capitalist economies meant the end of the ‘mass production’ model of economic development and that ‘the region’ might be fundamental to new models of development (Storper, 1997; see also Storper & Walker, 1989). Storper (1997) pointed to the importance of ‘untraded interdependencies’ – positive externalities which “take the form of conventions, informal rules, and habits that coordinate economic actors under conditions of uncertainty”. These relations are place-specific and are crucial in determining the “geographical differentiation in what is done, how it is done, and in the resulting wealth levels and growth rates of regions” (p.5).

A wealth of academic work has followed which has sought to identify the success factors in those regions where economic growth and development has been most impressive — in North-eastern central Italy and Baden-Wurttemberg in Europe, and in Silicon Valley and Route 128 in the United States. These were pointed to as examples of new, flexible production systems, with a heavy emphasis on innovation and dense networks of trust and reciprocity between firms, and between private businesses and other types of local institutions. Thus the quest began to reproduce Silicon Valleys and Third Italys the world over. Crucial in this quest has been an emphasis on the importance of place-specific factors such that economic and territorial development have come into much closer alliance.

The direction of policies to address regional inequalities has therefore evolved from exogenous to more endogenous approaches. The OECD (2007) argues that the main factors explaining regional variations in economic performance and GDP per capita include differences in labour productivity, degrees of industry specialisation, education levels among the labour force, and rates of employment and labour force participation. Thus external support remains central to regional development but to assist regions in strengthening and developing their own endogenous resources, especially human capital and institutional infrastructure.

In the European Union, Cohesion Policy has gained impetus following successive enlargements which have accommodated new Member States with levels of economic performance lower than existing Member States. For example, the accession of Spain, Portugal and Greece in the mid-1980s prompted a marked expansion of the Structural Funds in 1988 and 1994. The accessions of 2004 and 2007 have meant Cohesion funds have been increasingly concentrated on the areas of greatest need (*e.g.* the new Central and Eastern European Member States) but spending on Cohesion Policy remains a significant component of the overall EU budget (35% in the current Financial Perspective).

The European Commission’s Fourth Cohesion Report (CEC, 2007) argues that convergence is now occurring both between Member States of the EU and also at the regional level. For example, between 1995 and 2005, Greece reduced its gap with the rest of the EU27 by moving from 74% of the EU average to 88%. Over the same period, Spain and Ireland had moved from 91% and 102% respectively to reach 102% and 145% of the EU average (CEC, 2007, p.x). The Cohesion report also suggests that economic prosperity in the EU is becoming less geographically concentrated (p.xii), although this depends on the scale of analysis employed. The proportion of EU GDP generated by the traditional economic core Member States of Europe declined between 1995 and 2005, although within Member States

economic activity has become more geographically concentrated in capital city regions (except Berlin and Dublin) (2007, p.xiii).

For the 2007-13 Financial Perspective, EU Cohesion Policy has become more strongly linked with the Lisbon Strategy for growth and competitiveness. The conclusions of the European Spring Council in 2005 (quoted in CEC, 2007, pp.125-6) stated that:

*“it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital.*

*To achieve these objectives, the Union must mobilise to a greater degree all appropriate national and Community resources — including the cohesion policy — in the Strategy’s three dimensions (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development. Alongside the governments, all the other players concerned — parliaments, regional and local bodies, social partners and civil society — should be stakeholders in the Strategy and take an active part in attaining its objectives.”*

The goals of competitiveness and cohesion are cast by some as in fundamental conflict with each other. However, EU policy-makers tend to conceptualise competitiveness in global terms – that is in terms of the competitiveness of the EU economy in a globalising world. As a result, it is argued that social and economic cohesion within the EU helps contribute to the competitiveness of the EU as a whole.

### **City-Regions and Regional Development: The North of England Experience<sup>2</sup>**

In England, as elsewhere, there has been increased interest in the idea of ‘city regions’ among economic development professionals involved in regional development over the past five years. This is largely a consequence of the loss of political momentum behind the process of devolution to the English regions. The notion of city regions has become a feature of academic debates about economic development, both in newly industrialising countries and advanced economies. Although the term ‘city region’ has been in use for almost a century, there have been particular periods of heightened interest. Three such periods can be identified, each corresponding to notable phases in the development of urban and regional planning.

The first phase (in the first half of the twentieth century) was characterized by the settlement planning responses to the massive socio-economic changes in the late nineteenth century, when the rapid urbanisation of population and economic activity transformed the geography of Britain. The earliest use of the city region concept is found in an essay by Patrick Geddes (1915) entitled *Cities in evolution* which examined city development and the new urban geography of industrial Britain. Geddes pointed to the growth processes that were enlarging industrial towns and cities and argued they would ultimately result in their gradual unification

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<sup>2</sup> This section draws on work with colleagues Sara Gonzalez at Leeds University’s School of Geography and John Tomaney and Newcastle University’s Centre for Urban and Regional Development Studies and published in *Town and Country Planning* (Gonzalez *et al.*, 2006, see also Ward, 2006).

into vast city regions. The term 'city region' essentially applied to the emerging conurbations — a word coined by Geddes.

A second phase of heightened interest in city regions began in the post-war period. The key socio-economic changes of the time, and particularly greater personal mobility through wider car-use, were calling into question the pattern of local government. The Redcliffe-Maud review of local government revisited the concept of city regions and the claims about its potential utility in delivering larger-scale strategic planning that integrated rural and urban areas. The Ministry of Housing and Local Government had argued that the city region should be the planning unit of the future. City regions, as all-purpose authorities, would cover the entirety of England and be 30 to 40 in number.<sup>3</sup> The main difficulty with the concept was the relationship between rural and urban areas, and this difficulty ultimately led to its failure to be adopted as the new local government structure following the change of government in 1970.

Later, Mike Coombes and colleagues (1982) at the Centre for Urban and Regional Development Studies (CURDS) at Newcastle University developed work on functional urban regions. Essentially, such areas were constructed through analysis of daily urban systems, commuting patterns to employment cores with boundaries identified as a result. In developing urban regions as a tool for exploring functional relationships, two pre-requisites were identified: self-containment of activity and power of internal control. "The only candidate ... at the intermediate scale between household and state [possessing these characteristics] is the city region," it was argued (pp.69-70).

The recently renewed interest in the city regions concept dates to academic and policy debates that have been underway since the mid-1990s. However, the election of the Labour Government in 1997 and its programme for decentralisation and devolution gave new impetus to efforts to understand the dynamics of economic and sustainable development in the English regions and at the sub-regional levels. This phase is essentially driven by an interest in economic development, and particularly in the drivers of economic development among England's larger cities. In short, city regions are a political concept rather than an empirical reality.

It is worth reiterating that the first two phases of interest in city regions were the product of profound changes in the socio-economic geography of Britain, first as a consequence of urban industrialisation and the development of the railways, and second as a result of the growth of the motor car. The rapid growth of cities and of urban economies inspired Geddes's work. The revolution in personal mobility helped prompt the Redcliffe-Maud review. The current context is also one of profound changes, this time as a result of globalisation and the ICT revolution. Yet the current preoccupation with city regions seems to be more about shoring up the settlement patterns of the past. The idea that city regions are at the cutting edge of a new age of urban economic competitiveness in a globalising world is open to question, not least because the technologies that are playing such a key role in current socio-economic

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<sup>3</sup> See: Cmnd 4040 (1969) *Report*. Royal Commission on Local Government in England 1966-69, Chairman: The Rt.Hon. Lord Redcliffe-Maud; & Cmnd 4040-I (1969) *Memorandum of Dissent by Mr D. Senior*. Royal Commission on Local Government in England 1966-69, Chairman: The Rt.Hon. Lord Redcliffe-Maud. HMSO, London.

changes can be seen as fundamentally decentering technologies. ICT allows people to live, work and run businesses in polymorphic urban forms.<sup>4</sup>

The major regional cities of England – Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield – have collectively become known as the ‘Core Cities’ group and have become the focus of government attention in its attempt to deliver urban renaissance (sustainable urban living and working environments) and greater regional economic competitiveness (aiming to reduce the gap between regional growth rates and increase national and regional growth capacities). Central to the core cities initiative is the claim that cities play a major, pivotal role in advanced European economies, particularly in determining the economic performance of their regions (Office of the Deputy Prime Minister, 2004). However, this claim is not well-founded and not well-researched.

In the North of England, city regions have been given new impetus through the *Northern Way Growth Strategy*, launched in 2004 (Northern Way Steering Group, 2004). This pan-regional initiative involves the three northern regions (the North East, North West and Yorkshire and the Humber) in a growth strategy to raise the economic performance in the North. A key orienting principle in the *Northern Way* is to focus efforts on eight ‘city-regions’ (Liverpool-Merseyside; Central Lancashire; Manchester; Sheffield; Leeds; Hull and the Humber Ports; Tees Valley; Tyne and Wear).

The city-region approach adopted in the *Northern Way* is strongly influencing the work of the three Regional Development Agencies (RDAs) for the Northern regions. In these regions, city regions feature prominently in regional economic strategies. RDA investment priorities, and regional land use planning priorities, are being reconfigured from the perspective of strengthening the economic performance of city regions. It is therefore fair to say that the city region concept is already having a deterministic influence on the planning of regional development. However, this is advance of anyone really having a clear sense of what city regions are.

The Northern Way Growth Strategy suggests that the city regions encompass “90% of the North’s population and more than 90% of the North’s current economic activity and economic assets” (para B1.1). However, the way that city regions are defined (even for the purposes of such statistics) remains shrouded in mystery. (Regional economic and spatial strategies tend to dodge the definitional issue by claiming that city regions have “flexible geographies”). Rural development interests in the northern regions also reasonably ask: what of the remaining 10%?

### **Rural Areas and Regional Development**

There are two ways of seeing the role of rural areas (and their businesses, communities and landscapes) in the development of regions. One is as passive beneficiaries of urban-centred strategies. This assumes that rural areas will benefit from overall regional growth, and that any interventions focussed on city regions will bring ‘trickle out’ benefits to wider rural areas. A second is to see rural areas and their assets as active contributors to regional development. This need not, of course, be to suggest that rural development can drive regional development, but it is to suggest that market towns and villages, and rural landscapes and

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<sup>4</sup> Figure 3 illustrates how rates of employment growth in OECD countries in rural regions compare favourably with those of predominantly urban areas. Figure 4 uses the new rural classification in England to show how rates of growth in GVA in rural areas compare to urban areas.

assets, make a contribution to the offer of city regions. This is not just as a space of consumption, but also as attractive locations for growth-oriented businesses.

In the Northern Way Growth Strategy, the importance and contribution of rural areas is acknowledged in the introductory analysis. However, when it comes to the priorities and actions to deliver the Strategy, the role of rural areas all but disappears from view. In effect, the contribution rural areas might make to the development of the North is taken for granted, with the implicit assumption that rural assets will 'look after themselves'. It then follows that under the Northern Way nothing needs to be done to maintain or develop the role and contribution of rural areas for the wider benefit of the North.

### **Conclusions**

In the UK, the debate about city regions has been in danger of becoming reduced to the simplistic and narrow view that urban and regional policy should be concerned principally with the task of making cities more competitive. The rapid rise of 'the city-regions agenda' has created a confusing scene with little consideration of the consequences of adopting city-regions as a policy framework.

The city regions approach embodied in the Northern Way and more widely at play in northern England suffers from three main shortcomings. Its rationale has not been sufficiently explained and justified, with the result that it looks like a faddish idea that has been imposed from 'on high'. The basis for what constitutes a 'city region' has been left vague and obscure, with the result that all places beyond what sometimes gets called the 'urban core' of the city region (including all types of towns and smaller cities, as well as rural areas) risk being marginalised from this process. Having places 'beyond the city region' risks a two-speed, twin track approach to regional development, in which the positive benefits that flow from increased rural-urban relationships and interdependencies go unrealised and under exploited.

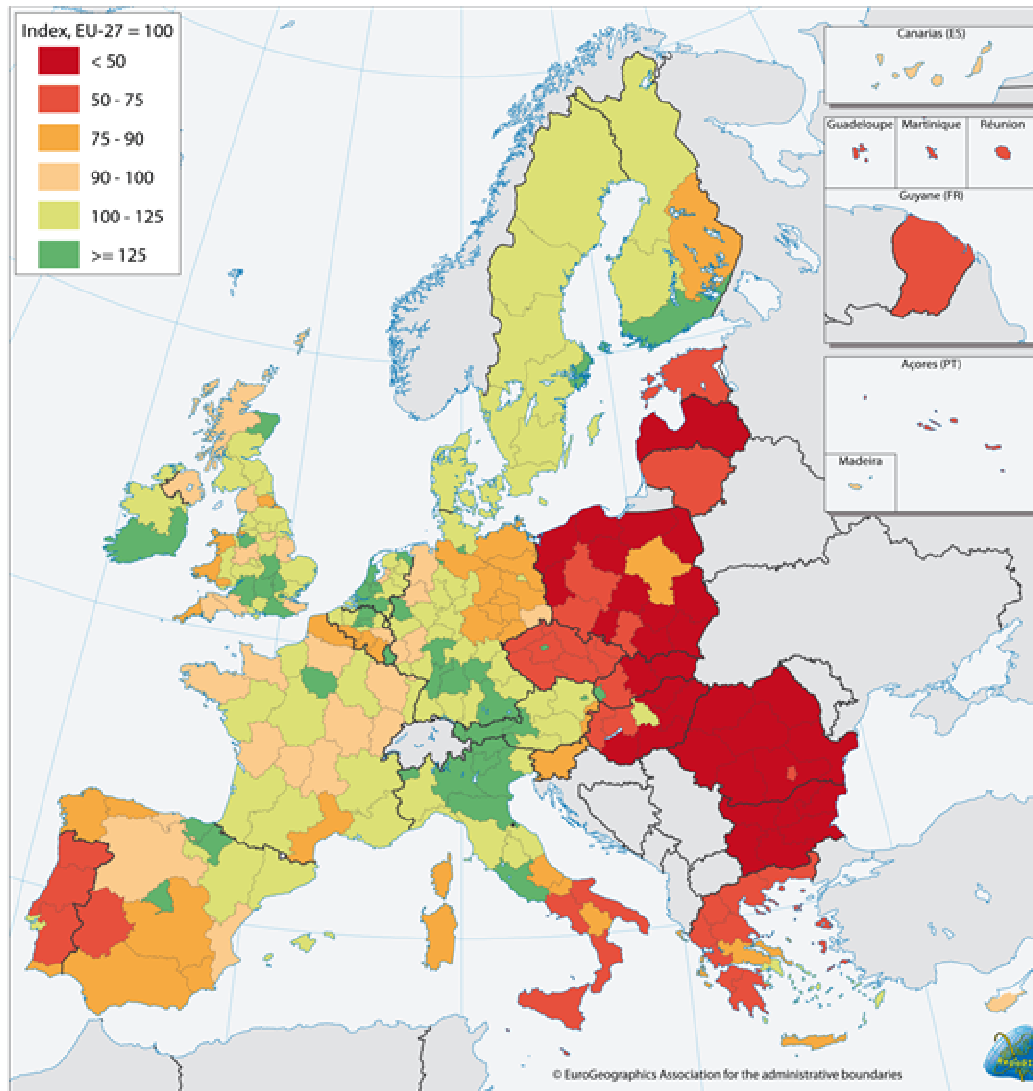
The city region is an essentially economic notion of geographical solidarity, but cohesive communities derive their cohesion from things other than wealth. The failure of elected regional assemblies in England has meant that we are left with no significant means of enabling people to think they have a stake in regional governance, so we have seen a retreat to an economic model. The city regions approach, currently embodied in the Northern Way, reproduces a rural development problem. It establishes and reinforces out-of-date notions of geographical centrality and hierarchies and it actively marginalises places, consigning them to the periphery, dividing and polarising. The challenge is to produce strategies for territorial development that recognise small towns and rural areas as active contributors to national and regional development, especially including their role as attractive locations for growth-oriented businesses.

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Figure 1 - Regional Disparities in the EU

## GDP per head (PPS), 2004



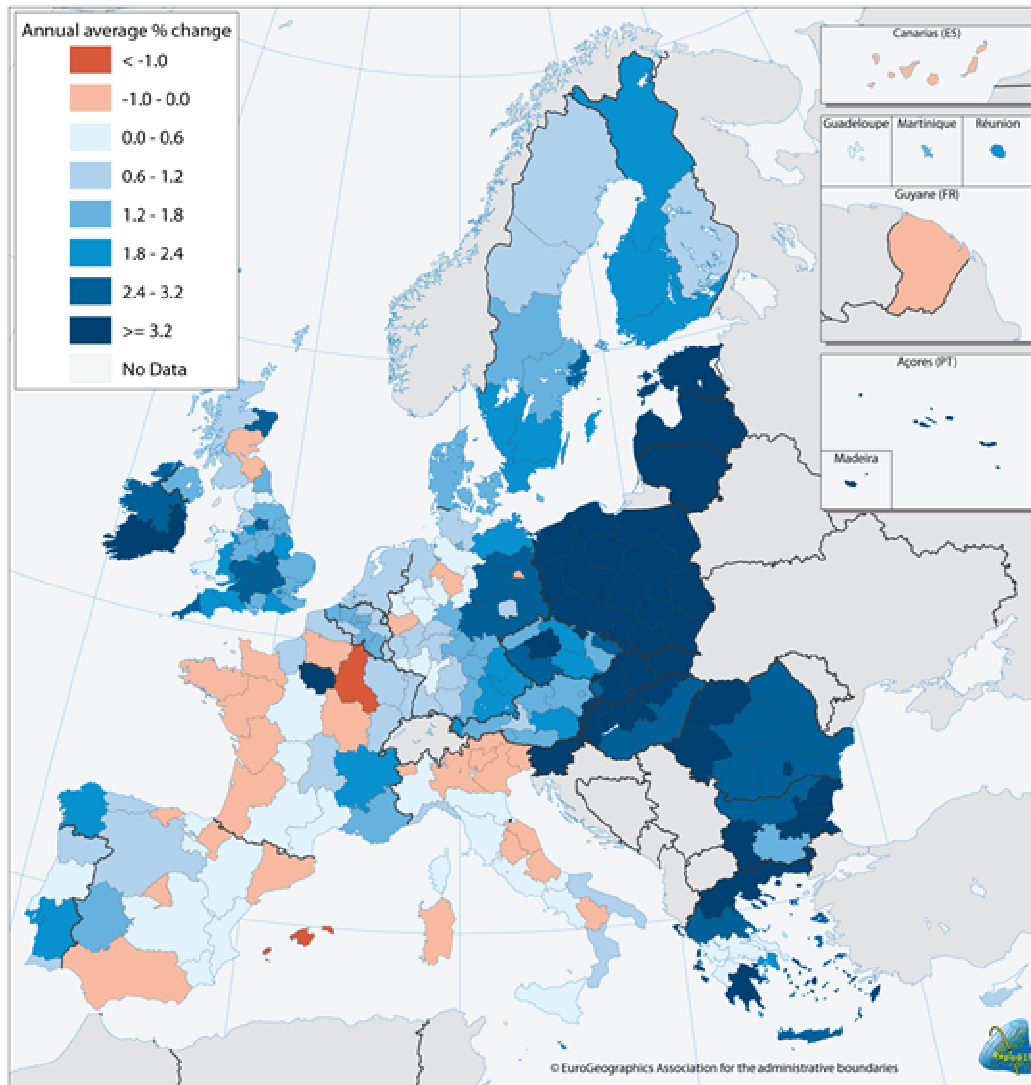
In 2004, the top regions (with 10% of the EU population) had a GDP per head that was almost 5 times higher than that in the bottom regions (with 10% of the EU population), while in 2000 it was 6 times higher

Source: [http://ec.europa.eu/regional\\_policy/sources/slides/slides\\_en.htm](http://ec.europa.eu/regional_policy/sources/slides/slides_en.htm)



Figure 2 - Change in GDP over Time

## Growth of GDP/person employed (Euro), 1995-2004



Over the period 1995-2004, growth of productivity has been high in the regions of the new Member States. Yet, in 29 regions (notably in France, Italy and Spain) productivity has decreased.

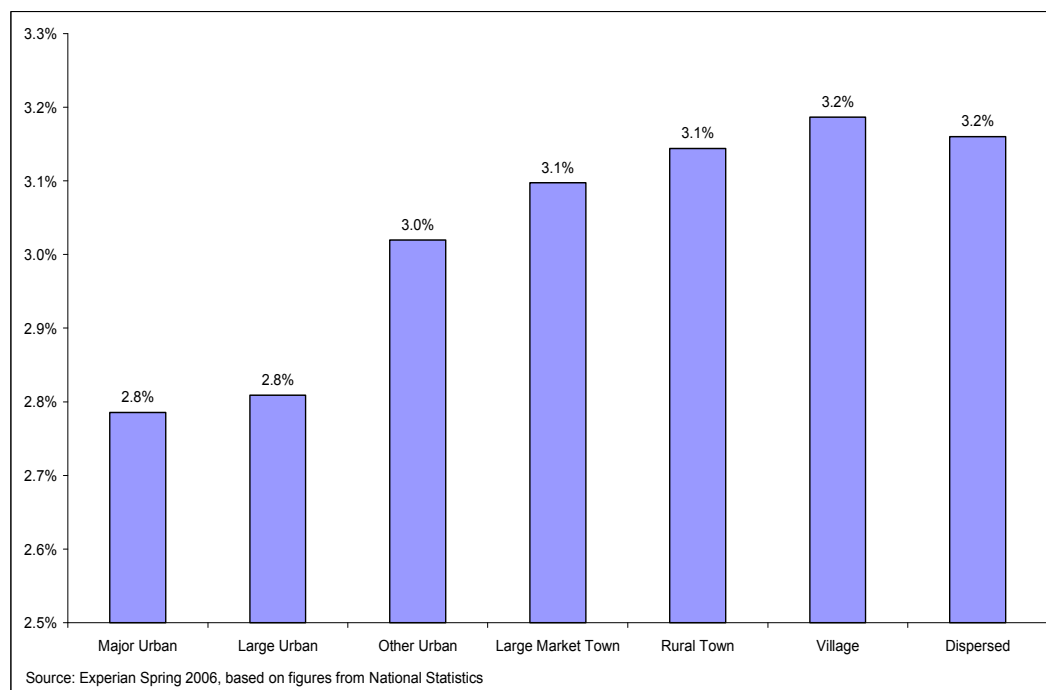
Source: [http://ec.europa.eu/regional\\_policy/sources/slides/slides\\_en.htm](http://ec.europa.eu/regional_policy/sources/slides/slides_en.htm)

**Figure 3 - Employment Growth Rates in the OECD in the 1990s**

	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>	<b>All sectors</b>
Predominantly urban regions	-3.0	-0.8	1.7	0.9
Intermediate regions	-2.9	-0.1	1.8	1.0
Predominantly rural regions	-2.3	0.5	1.9	1.0
All regions	-2.6	-0.2	1.8	1.0

Source: OECD.

**Figure 4 - In England, Rural areas outperform urban areas over the last decade...**



Average annual GVA growth by type of rurality in England, 1995-05 (from Experian and Nesta, 2007)

Source: Naylor, 2007.