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WHY ARE ECONOMICALLY SUCCESSFUL REGIONS IN EUROPE SUCCESSFUL?

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INTRODUCTION

What makes economically successful regions successful? There are no simple answers to this deceptively simple question. There have been numerous attempts to explain success and failure. Recently, such attempts have increasingly focused upon the internal and socially created characteristics of regions. Originating from varied starting points within the social sciences, there has been a convergence upon the significance of such endogenously-produced features. Economists such as KRUGMAN (1991) and ROMER (1986) emphasise the importance of increasing returns as a result of cumulative economic advantages arising endogenously from the process of growth itself rather than initial factor endowments, enabling regions to capitalise upon initially randomly arising advantages. Other social scientists draw upon more heterodox approaches in evolutionary and institutional economics and sociology (HODGSON, 1993; GRANOVETTER, 1985; POLYANI, 1957). Some emphasise the cognitive dimensions of knowledge and learning in seeking to explain the path-dependent character of urban and regional developmental, stressing the significance of "knowledgeable production" and regional institutional capacities to help create and disseminate relevant knowledge (MORGAN, 1995; MASKELL *et al*, 1998). Others put more emphasis upon "untraded dependencies", the non-economic social relationships that underpin urban and regional economic success (STORPER, 1995, 1997). And yet others put the explanatory emphasis upon institutional capacities and the "thick" institutional tissue of regions that sustains these strongly territorially embedded "soft" sources of competitive advantage (AMIN and THRIFT, 1994; MALMBERG, 1997). The message that emerges strongly from these literatures is that, at least in part, "successful" regional economies in Europe (and elsewhere) are dependent upon conditions and processes internal to the region and are not simply dependent upon external conditions and broader processes as the basis of their success.

The next section of the paper explores the socially-produced internal characteristics of regions that underpin economic success in Europe (drawing upon detailed case studies reported, *inter-alia* – in BENKO and LIPIETZ, 1992; DUNFORD and HUDSON, 1996a; GAROFOLI, 1992; MASKELL, 1998). The key features of these regions and their relationship to economic success is summarised, and examined critically. The next section examines why this explanatory turn towards the internal socially produced characteristics of regions came about, relating this both to the perceived limitations of competing explanatory approaches and more general debates about the changing character of contemporary capitalism. The following section considers the continuing salience of the national in accounting for regional success and the importance of different forms of national regulatory regime in relation to regional economic success and failure in an (alleged) era of globalisation. Finally, some conclusions are briefly drawn.

THE CRITICAL CHARACTERISTICS OF SUCCESSFUL REGIONS

Social Cohesion and a Culture of Commitment

In many of Europe's economically successful regions social cohesion and inclusion *do* appear to be pre-conditions for, and not simply products of, economic success (a view that has found its way into policy discourse: European Commission, 1996). This symbiotic relationship between cohesion and success is manifest in a variety of ways, expressed as a culture of commitment, which revolves around a variety of network relations of co-operation and trust. Different forms of regional social cohesion underpin different models of regional economic success, however. Moreover, in some of Europe's successful regions the character of social inclusion is manifestly problematic – for example, many workers in Germany's successful regions are international migrants lacking citizenship rights. This suggests that in some circumstances economic success may be predicated upon partial and selective views of cohesion. Not all social groups necessarily have an acknowledged or equal stake in the project of regional success.

Co-operation, Trust and Networking

Many of Europe's economically successful regions are characterised by inter-firm relationships which emphasise co-operation, trust and networking. Often these networks

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are place specific, industrial districts of interlinked small and medium-sized enterprises (SMEs). As their experiences make clear, small size is no barrier to corporate success and competitiveness, as the networks in which such companies are enmeshed allow them to overcome the potential disadvantages of small size. Many SMEs are dynamic, relying upon innovative design, customised production and quality in order to remain competitive. Embedding in networks enables them successfully to pursue such Schumpeterian competitive strategies. Co-operative networks facilitate learning, innovation, the sharing of knowledge, and the creation of territorially specific types of knowledge that are central to competitiveness. Locally specific, often tacit, knowledge is crucial in creating environments that are sensitively attuned to the competitive requirements of production in specific sectors and companies (MASKELL and MALMBERG, 1995). More generally, the mutual benefits of intra-regional co-operation for firms seeking to compete on national and international markets, typically with a sophisticated division of labour between firms within an industry, spanning the conventional boundaries of the manufacturing and business services sectors, are clearly recognised. As examples such as the Third Italy and a range of Scandinavian regions (Maskell *et al*, 1998) make clear, particular forms of industrial organisation are more important than the particular industrial sectors present in a region.

There are, however, important differences between regions in which "horizontal" networks of SMEs are the dominant feature of the corporate landscape (as in parts of north east and central Italy) and those dominated by major companies (such as Baden-Wurttemberg). In the latter, and in contrast to more "horizontal" egalitarian networks based around "trust" and informal agreements, there is typically considerable evidence of (quasi)-vertical disintegration and sharply asymmetrical power relationships between firms in the production filière. Relationships between companies are structured around formal contracts, often linked to meeting performance targets of various sorts as a condition of renewal, rather informal relations of trust. The network relationships of large firms are at least in part typically transnational. Even in industrial districts of linked SMEs, however, network relations may span regionally boundaries, with critical links into a broader global economy.

Embedded Factories and New Forms of Inward Investment

In many of Europe's regions changes in the character of transnational investments and marketing policies have opened up opportunities for more "embedded" branch plant investment, involving higher value-added activities and greater linkages with the regional economy as companies seek to devise new strategies of global localisation. They could therefore become the basis of new "clusters", which commentators such as PORTER (1990) see as a key element in competitiveness. Alternatively, regions can seek to attract specialist component suppliers, with links to companies further up the value added and assembly chain across a variety of sectors and in a variety of locations, thereby spreading the risks of decline in any one market segment. Attracting such investments requires – *inter alia* – the provision of appropriate "hard" and "soft" infrastructure, focused labour market and training policies, sophisticated transport and communications infrastructure, and policies for improving and sustaining environmental quality. As such, embedded transnational investment may well be drawn to existing "successful" regions. Such "quality" inward investment can both create substantial numbers of new jobs and have a range of other positive impacts on the regional economy (HUDSON, 1995). Much branch plant investment in Europe's peripheral regions, however, can still be characterised as the "classic" Taylorist "global outpost" employing unskilled workers in mass production (AUSTRIN and BEYNON, 1979) or "experimental" factories in which companies try out new ways of producing without prejudicing production in established factories elsewhere (HUDSON and SCHAMP, 1995).

Co-operation, Compliance and New forms of Industrial Relations

Successful regions in Europe tend to be characterised by co-operative industrial relations and flexible working arrangements; they employ skilled and well paid workers, on permanent contracts, committed to the companies for which they work, compliant and flexible in their attitudes to work. They are often members of trades unions, but unions that see co-operation with employers as the route to secure well-paid employment for their members. At the same time, local educational and training institutions are sensitive to the needs of local companies for particular types of skilled labour and this can be important in maintaining both competitiveness and social cohesion in the region.

It is, however, important to distinguish between regions in which there is genuine co-operation and commitment to common regional goals based on a shared understanding of the reciprocal relationships between cohesion and competitiveness and those regions in which the labour force is malleable, flexible and compliant because of the fear of unemployment. In regions of high unemployment in Europe companies have been able to recruit workers very selectively and introduce new production concepts and "flexible" working arrangements. This resembles the labour regulation régimes of Taylorism rather than governance arrangements grounded in genuine trust and co-operation (HUDSON, 1997). Moreover, some economically successful regions in Europe have deeply and multiply segmented labour markets, with ethnicity and gender often important cleavage planes (see HUDSON and WILLIAMS, 1998).

Regulation, Governance and Institutions

While regional policy incentives remain critical in persuading companies to locate in peripheral regions, successful industrial growth in many European regions has generally been at best only tangentially related to regional policies. Indeed, by definition "successful" regions are ineligible for regional policy assistance, although some of them may benefit greatly as a result of the unintentional spatial consequences of other aspatial policies, such as those concerned with competition or R&D (European Commission, 1994, 1996). Furthermore, other central government social and welfare policies can help promote regional economic success. So too can national regulation in relation to environmental improvement (REFELD, 1995). The issue is not central government policy or no central government policy, but the type of national regulatory régime and the ways in which central governments facilitate regional success.

What is undeniable is that in successful regions local and\or regional government economic development policies have had an important influence. Such regions also tend to have distinctive forms of local regulation and governance, encompassing supportive local state forms and local government policies. The plethora of local development agencies that have sprung up in many successful regions, spanning the boundaries of the state and local civil society, has decisively helped create conditions conducive to and facilitative of the formation and growth of local SMEs, enabling learning, and promoting the sharing of intelligence about markets, products and technologies. Regional transmission mechanisms help facilitate a self-reinforcing process of learning and regional specialisation that underpins competitiveness. Such local institutions thus underpin local competitiveness. A decentralised political system is not in itself a guarantee of regional economic success, however, even within a strong national economy (see DUNFORD and HUDSON, 1996b).

The importance of local institutions, of a local tradition of entrepreneurship and self-reliance, of a culture of democratic associationalism that facilitates co-operation and self regulation, and of labour market conditions that permit flexible production strategies to be developed and deployed is readily apparent in many successful regions. Such institutional forms and cultural traits are, however, as much a product of specific local and regional cultures as they are mechanisms that facilitate their reproduction. Furthermore, the local conditions that nurtured successful growth in the past may not continue to do so in the future (see DUNFORD and HUDSON, 1996a). On the other hand, in an "intelligent" or "learning" region, this may simply stimulate a search for new ways of producing or new things to produce. Such regions possess the institutional capacities to learn and change "ahead of the game", and have the collective capability not only adapt to change but to anticipate it and change accordingly – they have "learned to learn" (see MORGAN, 1993; but also HUDSON, 1998).

Explaining the turn to endogenous regional capacities in explaining regional economic success

The recent shift in explanatory emphasis towards the internal capacities and features of regions is a superficially surprising move, seemingly echoing a regional approach within geography that became discredited precisely because it eschewed explanatory questions in favour of a pre--occupation with description of the unique. The recent regional turn also breaks with that tradition in several ways, however, most importantly in shifting its concerns to explanation, often engaging in a sophisticated way with contemporary social theory (JOHNSTON *et al*, 1990; MASSEY *et al*, 1998). As such, the "new" regional approach draws in more cultural and sociological elements. This change in emphases is the product of a complicated, and to a degree linked, series of changes in theory and practice. In part, it reflects the perceived limits of more "traditional" explanatory approaches. Traditionally, the explanation for differences in regional economic performance was sought by economic geographers and regional economists in differing factor endowments, or in differing location relative to sources of key raw materials or major markets. More sophisticated explanations arose from critiques of these and emphasised the effects of distanciated social relations of production within spatial divisions of labour. The latter approaches often drew heavily on Marxian political economy, seeking the causes of spatially uneven development in the structural contradictions of capitalist development. HARVEY (1982) eloquently states the case as to why spatially uneven development is unavoidable within a capitalist economy but equally sets out the limits to a structuralist account in explaining *which* places will succeed and develop, *which* will fail and decline. Others failed to heed this warning. In some instances, the emphasis upon structural determinism was taken to counter-productive lengths, denying space for conscious human agency, with people reduced to the status of "cultural dopes" or even "structural dopes of even more stunning mediocrity" (GIDDENS, 1979, p. 52). It sought to deduce regional uneven development from immanent laws of capitalist development (see LAPPLE and VAN HOOGSTRATEN, 1980) and saw state policies as unavoidably captured by, and simply a reflection of, the interests of monopoly capital (Baran and Sweezy, 1968).

More sophisticated versions of Marxian political economy, and related critical realist approaches, heeded the warning and took a more nuanced view of the relationships between the interests of the state, capital and other social groups (see CLARK and DEAR, 1984; O'NEILL, 1997) and of the variety of possible links between the social relations and geographies of capitalist production (MASSEY, 1984). This produced more sophisticated understanding, on two counts. First, it explicitly recognised that relationships between spatial pattern and social structure were reciprocal: patterns of uneven regional development are a product of the social relations of production but equally spatial differentiation influences the ways in which social relationships are formed and reproduced. Secondly, such approaches granted a variable degree of "relative autonomy" to the state and paid much more attention to the forms and content of state policies and to the implications of the structures of state apparatuses for policy formation and implementation (OFFE, 1985). Consequently, considerable emphasis was often placed upon the intended and sometimes unintended effects of national government regional policies, informed by a view that governments could ameliorate conditions in problem regions via policy interventions to enhance their attractiveness to private capital. Sometimes emphasis was also placed upon sectoral policies with unintended (and perhaps at times intended) strongly differential territorial impacts, underpinning economically "successful" regions by concentrating public expenditure in them (HUDSON, 1989; HUDSON and WILLIAMS, 1995).

In summary, "traditionally" much of the explanatory focus in studies of regional economic growth and decline has been upon political and economic relations extending beyond the region and connecting it a wider world as well as upon the natural resource endowment of regions. This at best gave a partial account of the reasons why some regions were economically successful and others were not. Both on theoretical and practical grounds, the limits of "traditional" approaches (although some were much more limited than others in this regard) created a space into which alternative discourses could be projected and within which alternative conceptualisations and explanations could flourish. These alternatives shifted the weight of explanation more to the specific features of places, and in particular their institutional capacities and resources, rather than more general social processes of capitalist development. In seeking to go beyond structural determinism, therefore a number of issues were raised as to how best to conceptualise "middle level" processes, the particular institutional forms in which the structural relations of capitalism were cast, and the relationships between the economy and the (re) production of places. Thus while a great improvement in explanatory terms, such approaches gave only a partial account of the determinants of regional success or failure and set the scene for a serious engagement between evolutionary and institutional approaches in the social sciences and issues of territorially uneven development.

Alongside the debate about how best to comprehend persistent differences in regional economic performance, there has been a parallel debate as to how best to grasp significant changes in the more general character of the contemporary capitalist economy. Proponents of globalisation claim that national states have been undermined by intensified processes of globalisation, as formerly successful modes of national regulation have become untenable. There has undeniably been a degree of "hollowing out" of the national state, a transfer of competencies and regulatory powers from the national to other levels of state power, upwards to supra-national levels and downwards to regional and local levels, and outwards to non-state organisations and institutions in civil society out of the ambit of the state (JESSOP, 1994). One element of this has been a growing decentralisation of territorial development policies to local and regional levels (DUNFORD and HUDSON, 1996b; HUDSON *et al*, 1997), in part in response to regionalist claims while at the same time seeming to vindicate regionalist arguments.

Thirdly, the shift to privilege specific – even unique – regional characteristics in explaining regional success and failure can in part be related to the move in some academic circles away from concerns with grand modernist narratives with normative political implications to little local histories in a depoliticised and amoral post-modern discourse (COOKE, 1990). Rather than grand narratives that would provide general explanations of spatially combined and uneven development and systemic tendencies towards some regions "winning" and others "losing", the emphasis shifted towards local stories of little local victories.

THE CONTINUING IMPORTANCE OF THE NATIONAL IN EUROPE

There certainly has been a diminution in national state capacity to control monetary and fiscal policy (especially in the EU, with the onset of EMU and the Maastricht convergence criteria), but – contrary to the claims of proponents of both regionalism and globalisation – national states retain considerable power and authority in other policy domains. The national level remains of decisive importance in many spheres of governance and regulation of economy and society, in innovation and technology transfer (LUNDVALL, 1992), in environmental policy (HUDSON and WEAVER, 1997), and education, training and the labour market (PECK, 1994). GERTLER (1997) has suggested that what are commonly seen as differences in regional culture are more accurately understood as strongly shaped by differing national industrial policies and regulatory regimes. The strong regional economies of Europe are strongly clustered in the strong national economies, within national regulatory regimes that have made fewest concessions to Anglo-American neoliberalism (DUNFORD and HUDSON, 1996a). The critical issue thus concerns the form of national state, the type of regulatory regime that it maintains, and the form of capitalist economy that it seeks to encourage.

There undeniably have been significant changes in the forms and balance of regulatory relationships between the global, national and regional levels. Consequently, the mode of regulation at national level has altered in significant ways, with a nationally-variable degree of "hollowing out". This has altered the mode of state regulation and the links between state and non-state institutions and organisations in the structure of governance. Nevertheless, the national, and more specifically the national state, remains central to and the new arrangements in Europe (Mann, 1993), even in the EU where the process of "unbundling territoriality" has gone further than anywhere else (Ruggie, 1993). The mix and balance of forms of national state involvement and policy making has qualitatively and significantly altered but "neo-medievalist" claims that the national state is being largely rendered redundant as structures of governance in Europe alter are fallacious (Anderson, 1995). As a result, for the foreseeable future, national states will have a continuing central role in processes of policy innovation, formation and implementation. This state role, however, is and will continue to be, a different one to that in the era of Fordist regulation and the welfare state, with more emphasis upon the state as enabler and facilitator rather than as a provider of goods and services. The national remains critical in explaining differences in economic performance and well-being at the regional level. The real issue is, then, what sort of national state? There is insufficient space to discuss this question here but there is now a lively debate that seeks to address it (see for example Boyer and Drache, 1995; Cerny, 1990; O'Neill, 1997).

There is also a further caveat that needs to be entered at this stage. While Ruggie (1993) argues that in the EU the process of unbundling territoriality has gone further than anywhere else, but nonetheless state power remains strongly nationally based, he was referring to a situation prior to the immanent emergence of the European Monetary Union and the implications of national states meeting the nominal convergence criteria on variables such as inflation rates and public debt. These will effectively reduce by a considerable margin the "room for manoeuvre" in economic and fiscal policy terms open to national states. Adherence to them will confine national policies not only more to a common mould, but to one deeply marked by neo-liberal concerns. The implication of this is that the national bases of regional success in those regions of Europe that have been economically successful will be weakened, if not abolished. This will undoubtedly re-shape the map of regional "winners" and "losers" in Europe, sharpening inter-regional inequalities further in a Europe in which the numbers of "losers" will increase further.

CONCLUSIONS: WHY *ARE* "SUCCESSFUL" REGIONS SUCCESSFUL?

As EMU increasingly influences trajectories of economic change in Europe, the European level will become increasingly significant in shaping the map of regional uneven development in Europe. For the moment, however, and notwithstanding the emphasis placed upon specifically regional conditions and processes in much of the recent literature, the most significant influence on regional economic success (or failure) remains the character of the national mode of regulation and the strength of the national economy. This is not to deny the significance of regional capacities and institutions; it is to argue that these regional characteristics have been, and for the moment still are, strongly marked and shaped by national regulatory régimes. A strong national state regulatory régime, enabling, encouraging and steering policy networks, but prepared to act directly if need be is a critical necessary – though not sufficient – condition for regional economic success.

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