Government Interventions in Pursuit of Regional Development: What Have We Learnt?

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Introduction

The questions of why regions grow or fail to grow, and what, if anything, governments can do about it have attracted considerable interest and debate for many years. Both domestically and internationally, the economic and social development of regions has remained an important concern of governments due to the uneven effects of dynamic processes such as globalisation, structural adjustment and technological change on their rate of development.

This article summarises a select review undertaken by the Bureau of Transport and Regional Economics (BTRE 2003) of previous government intervention approaches and experiences in pursuit of regional development. The review provides some useful insights into the purpose and outcomes of various government-sponsored interventions in Australia, and in a number of other comparable countries, including the European Union, United States, Canada and New Zealand. The study has drawn on a select number of ex-post evaluations and other similar assessments of key Australian and international regional policy interventions.

Regional Objectives

Government interventions in regions are undertaken for a number of explicit social purposes that are often framed under generic 'regional development' policies. The rationale for regional interventions may include a range of economic, social and environmental objectives (see Table 1).

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In many cases a regional intervention strategy may encompass some combination of these objectives - the so-called triple bottom line - to address sustainable development principles.

The principles of economic efficiency and equity often underpin the explicit purposes of government interventions. The notion of economic efficiency implies the achievement of a given output at least cost, or the greatest output for a given cost. When resources are allocated to their most highly valued uses, the combination of goods and services produced in the economy result in the most efficient allocation of resources that maximise social benefits. Market failure, whereby markets are unable to provide the most efficient allocation of resources, is a common ground for government intervention to improve social benefits. Market failure can occur when there exists:

- non-competitive markets (e.g. regional monopolies leading to less than optimal production);
- externalities, where prices of goods and services do not reflect the full social costs and benefits of these activities (e.g. pollution spill-overs from one region to another);
- poorly defined property rights (e.g. common property resources such as an unregulated fishery); and
- a lack of perfect information (e.g. impediments to labour mobility and adjustment through lack of information on job market opportunities and training).

Table 1: Regional Interventions - Common Goals and Objectives

Economic	Social	Environmental
• Employment growth • Income/output growth (wealth creation) • Distributional equity: reduce regional disparities between lagging regions and the rest of the economy • Address market failures to regional development and non-market benefits (improve efficiency) • Structural adjustment assistance: facilitate transition from declining to productive industries and/or mobility between regions • Economic diversification: improve resilience of regions to external shocks	• Equality of opportunity: access to services and benefits across regions • Social cohesion: enhance quality of life and community vitality of regions • Diversity: maintain cultural and social diversity • Population decentralisation: reduce urban congestion • Political/administrative decentralisation: improve governance and democratic structures • Defence: strategic development	• Biodiversity: enhance life support and ecological services from ecosystems • Quality of life: address pollution and landscape impacts (externalities) • Resource stewardship: ecologically sustainable use of renewable and non-renewable resources (sustainability) • Structural adjustment assistance: in the case of environmental pressures such as global warming and increasing salinity

Intervention policies that address market failures attempt to improve economic efficiency by increasing the net social benefit derived from the use of scarce resources, so long as the benefits to particular groups within society offset the losses to other groups. Policies aimed at improving equity objectives, on the other hand, address issues related to the disparate distribution of income and other benefits or opportunities (e.g. access to services) that may exist between different groups within society or regions.

Evaluation Issues

One of the key findings of the BTRG report is that evaluation of regional interventions is made complex by the difficulty of isolating the cause and effect of specific interventions from other macro-economic and local factors, particularly in light of the complexity of the economic growth process itself. In many instances the efficacy of government interventions is uncertain due to such factors as the cumulative effects of a wide range of policies and macro-economic influences on regions and the diversity of regions themselves. The varying quality and paucity of comprehensive evaluation studies partly reflects difficulties in measurement or assessment of impacts. Other evaluation difficulties include the:

- diversity in economic and social structures of regions;
- multiple levels of evaluation (strategies, programmes and projects);
- significant methodological issues (e.g. treatment of displacement effects and less quantifiable aspects of development such as social capital);
- long run nature of realisable benefits from interventions; and
- relatively short timeframe and changing nature of many intervention policies.

This highlights the importance of effective and ongoing monitoring and assessment of intervention strategies that includes both ex-ante (before) and ex-post (after) evaluations so as to improve our understanding of causal links and maximise the potential impact of future activities. Effective policy assessment must identify the *counterfactual* - that is, anticipated performance in the absence of the intervention - taking into account private sector activities that would probably have occurred irrespective of the use of public subsidies or other forms of assistance, and the possible displacement of other productive activities. Regional policy evaluation is supported by development of clear, unambiguous objectives for interventions, flexibility in approach to allow for incorporation of improvements through periodic monitoring, and analysis to guide future evidence-based policies.

The range of evaluation methods available to policy analysts varies, depending on the availability of data and purpose of evaluation. The more common methods adopted in evaluation research (see, for example, Bridgman and Davis 1998) include:

- interviews and surveys of recipients and stakeholders;
- use of statutory commissions and committees of inquiry;
- benchmarking with similar interventions in other jurisdictions and/or regions;
- cost-benefit analysis;
- social impact analysis;
- longitudinal research studies, that may use controlled experiments or quasi-experimental research between control and target groups;
- historical and descriptive evaluation; and
- performance indicators.

Despite the general paucity of evaluation materials, the study reveals several common themes linking Australian and international experience. Regional policy has clearly evolved through several ideological generations.

Intervention Phases

In the early to mid 20th century, strategic infrastructure development, protectionist sectoral policies, and generation of depression era employment were common instruments used to develop regional economies.

The policy focus of the 1950s and 1960s was on strategies aimed at attracting large national or multi-national firms and other external investment to specific locations through firm specific subsidies and other financial incentives. These strategies are commonly described as exogenous strategies in the sense that policies were designed to attract investment from large firms located outside the target region with sufficient capital and employment potential to stimulate regional economies. Over time, these policies suffered from the 'footloose' nature of firm investments, the reduced long-term competitiveness of subsidised industries, and weak connections between external and local businesses. By the mid-1960s, despite many western nations experiencing post-war growth and prosperity, it had become apparent that some regions and sectors were lagging.

In the early 1980s regional policy makers turned toward revitalising under-performing regions by promoting sectoral (or industry) strategies: facilitating industry clustering, providing essential infrastructure and location development (including urban regeneration, business and technology parks). These policies recognised the 'business enterprise' as a key determinant of economic growth, and sought to encourage balanced external and internal (or locally driven) investment in regions, particularly through the encouragement of new and existing local businesses. Evaluations indicate that facilitation of local businesses and inter-firm linkages through local capacity building and advisory services, business incubators and low-interest loans were cost-effective interventions that generated positive employment and investment impacts in some regions. However, dominant financial and tax incentive programmes, such as enterprise zones adopted by many US state governments since the early 1980s, were found to be generally ineffective in attracting investment and long-term employment to distressed regions.

Since the mid-1980s, regional policy has increasingly acknowledged that regions, not just companies, compete against each other in a global market. Policies have evolved from a sectoral focus to a region-specific focus. Promotion of local enterprises that capitalise on region specific resources, know-how and locational advantages are encouraged. These are known as endogenous strategies in the sense that policies are designed to facilitate greater local investment and business activity from firms and communities located within the target regions themselves, and seek to overcome the challenges encountered through incentive driven external investment strategies. A long-term location-specific approach is viewed as more productive for building on the comparative advantage of regions, than direct short-term firm-specific subsidies.

Endogenous (or local) development strategies are closely aligned with human and social capital development. By promoting linkages between industry, governments and communities in the regional development process, spatial planning becomes a social process that through sustained effort can improve a region's ability to respond to internal and external challenges. This is particularly important in light of the increasing pressures of globalisation, structural adjustment and technological change. Capacity-building is facilitated through knowledge clusters, education and vocational training, devolution of administration to the lowest appropriate level of government, community engagement in 'bottom-up' spatial planning, and promotion of networks and partnerships. European regional development programmes, such as the LEADER initiative, have capitalised on these instruments with positive effect.

The emergence of sustainable development principles since the late 1980s has emphasised the integration of economic, social and environmental values (the so-called triple bottom-line) into national and regional level policy making decisions. Sustainable development is regarded as a unifying framework to promote durable social and environmental outcomes and inter-generational equity - defined as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Recent European Union experience suggests that this is best achieved through well-coordinated and complementary policy that promotes the various economic, social and environmental objectives of regional interventions.

Australian Experience

From a broad regional policy perspective, State and Federal interventions in Australia have been driven by a number of high level goals, including:

- population decentralisation objectives in response to perceived congestion and other costs of expanding capital cities, particularly in the mid-1970s;
- federal fiscal equalisation principles (i.e. federal revenue sharing through general purpose grants) to support common standards of public services provision by State and local governments; and
- specific measures to address the disparate regional and social impacts of structural adjustment pressures, including changes in employment, business activity and service levels in many non-metropolitan regions.

In particular, there has been:

- an initial focus on population decentralisation rather than regional economic disparities, partly reflecting the highly urbanised development of capital cities and homogenous nature of economic development across the States compared to other countries (Higgins and Savoie 1994), and compensating effects of federal fiscal equalisation;
- a general shift away from population decentralisation objectives and specific industry based objectives (e.g. secondary and tertiary sector promotion) using location based incentives (i.e. to attract large external firms and investment) to policies more aligned with promoting the long-term economic potential of regions based on their respective comparative advantage and market opportunities;
- increasing use of community participation processes (e.g. Area Consultative Committees) and industry and government partnerships in driving self-help approaches and locally based solutions;
- provision of regional infrastructure for public services and to improve industry competitiveness; and
- greater emphasis on education and training in building human and social capital (i.e. civic leadership, knowledge, networks and degree of social trust) and the role of businesses, particularly at the local level, in generating sustained economic growth.

The general shift away from location firm based incentives for external investment strategies may partly reflect the 'footloose' nature of these investments and the artificial nature of public inducements that may detract from the long-term competitiveness of industries and regions. Competition among the States, and regions, for mobile capital on the basis of discretionary, firm-specific incentives may also contribute to wasteful bidding between competing regions and the scope to increase one region's welfare at another's expense where the net benefit for the nation may be negative (Industry Commission 1993).

The shift away from firm-specific subsidies in particular locations does not undermine the importance of a locational approach to issues of uneven regional development and the correction of market failures. Rather, it supports the case for focusing on intervention strategies that are complementary to promoting long-term competitiveness rather than subsidising inefficient development.

In line with many other countries, there has been limited comprehensive ex-post evaluation to assess whether regional interventions have been effective in achieving desired outcomes. However, since the early 1990s there have been a number of Commonwealth government reviews and public inquiries into regional policy issues (see, for example, Taskforce on Regional Development 1993; McKinsey and Company 1994; House of Representatives Standing Committee on Primary Industries and Regional Services 2000). These have identified the important role governments can play with respect to:

- provision of efficient infrastructure to enhance regional competitiveness;
- facilitating labour market opportunities through targeted human capital development such as education and vocational training;
- fostering local business innovation and expansion through leadership training and social capital building;
- promoting the underlying competitive strengths of regions rather than compensating for their weaknesses; and
- providing better coordination between the various tiers of government to reduce administrative impediments to development.

Key Lessons and Policy Implications

International regional policy experience has borne witness to a variety of intervention approaches - from the United States approach with modest federal intervention, to the highly structured and coordinated European Union administrative and programmatic arrangements. Nevertheless, common themes emerge across Australian and international experience with policies aimed at promoting effective regional development.

Well-integrated and stable governance

Overall, there is general agreement on the role of government in maintaining fundamental policy settings for enhanced competitiveness and reduced uncertainty with respect to private sector investment. While assessments of where governments fit into the process of regional development differ, there is broad agreement that at a minimum it is vital for governments to get the 'fundamentals right' (Bureau of Industry Economics 1994). These fundamental conditions are taken to include:

- efficient management of the public sector and system of taxation;
- provision of efficient infrastructure;
- provision of effective education and training systems;
- operation of effective financial and labour markets;
- development of an effective regulatory and competitive framework; and
- stability and predictability in policy settings.

It is apparent that there is a clear role for government interventions that improve productivity and competitiveness such as the development of infrastructure and removal of impediments such as inefficient administrative arrangements. Improvements in productivity and competitiveness are regarded as a win-win situation for regions as well as for the economy as a whole (Industry Commission 1993). These kinds of policy settings are also likely to reduce the overall degree of risk facing investors and businesses operating across regions. The need for effective coordination between government jurisdictions and agencies is therefore paramount. Well integrated governance structures, particularly the role of local governments and regional authorities in developing and implementing strategies, also provides stability, reduces duplication and encourages the use of concentrated resources to regional issues.

Role of businesses as a key driver of economic development

There is strong recognition of the role of business development in generating economic and employment growth. Recognition of the 'business enterprise' as a key determinant of growth extends to the particular significance of local businesses in generating sustained growth for particular regions. Within Atlantic Canada and many regions of Europe, for example, there have been numerous positive experiences with local SME promotion, as well as the use of business incubators for developing new businesses in distressed regions in the United States.

The alleviation of impediments facing private sector investment in rural areas, such as access to finance and venture capital, has also been a major focus of North American and European Union regional policy. In Canada, for example, it has been recognised that special tax incentives often did not provide the immediate financial assistance of greater use to small local businesses - that being initial access to capital. Programmes have promoted improved mechanisms for facilitating access to capital for SMEs, primarily through public lending institutions and concessional loans and guarantees. Direct market intervention also raises the issue of the appropriate balance between public and private lending and the extent of perceived market failure in the provision of capital. Importantly, there needs to be a clear case for addressing market failures through concessionary public lending. The most common instruments used by agencies to promote local business development have included:

- small business incubators: where entrepreneurs receive business support and advice, and subsidised facilities and access to technologies, often in a multi-tenanted business centre;
- entrepreneurship training: to enhance skills and knowledge, especially for disadvantaged groups;
- export promotion: where firms receive information and advice on export opportunities and networks; and
- access to capital: through subsidised loans or guarantees and direct public lending in light of perceived market failures.

Evaluation

The importance of monitoring and evaluation for review of the design, implementation and performance of interventions is increasingly being acknowledged (Hill 2002). Monitoring and evaluation is an increasingly prominent feature of the European Union Structural Funding strategy, and has been an ongoing element of the US Economic Development Administration regional programme structure.

The quality of ex-post evaluations varies, with methods ranging from recipient surveys, economic impact assessment and multiplier analyses, to more comprehensive cost-benefit studies. A key issue in evaluation is the need to take appropriate account of counterfactual scenarios and possible displacement of other productive activity in measuring estimated benefits (Hill 2002). In the United States, calls for improved evaluation practices and research methods highlight poor evaluation practices by many administering agencies, such as the failure to document a casual link between programmes and local economic outcomes or improper use of cost-benefit analysis (Buss and Yancer 1999).

Development of human and social capital

There is recognition of the potential importance of policies that develop human and social capital as contributors to economic growth and feelings of social well being. Policies considered essential to these goals include education and vocational training (human capital) and the enhancement of networks, partnerships, and degree of trust and reciprocity within the community (social capital). While conventional human capital development approaches are recognised as significant contributors to economic development (see, for example, Barro 2000), the extent to which less tangible and quantifiable aspects of social capital contribute to economic development and growth is an area warranting further research.

Public support for positive lifestyle attributes (e.g. clean environment and amenities, diverse sporting and cultural facilities and efficient transport networks) has similarly been identified as part of the potential labour market solution for the attraction and retention of professionals, skilled labour and businesses in many non-metropolitan regions.

Internal (endogenous) development strategies, industry clusters and innovation

The experience of government interventions since the 1950s with traditional external investment strategies that attempted to attract large industry-specific investment through firm-specific subsidies and other financial incentives has identified a number of problematic issues. These issues have included the footloose nature of such investments where the withdrawal of public subsidies can remove incentives for further investment and lead to costly firm shutdowns or relocations to other regions. The economic efficiency of such incentives has also been raised in terms of diverting economic activity from other locations and reducing the long-term competitiveness of industries in particular locations. The European Union experience with external investment strategies over the 1950s and 1960s also highlighted the fact that external investment, particularly in the case of large enterprises, was difficult to attain and retain, ambivalent to local development aspirations and could potentially lead to sectoral dependence and community deskilling. Finally, the interaction between different industries and intra-industry firms was found to be quite limited with significant duplication of research, service provision and resource consumption.

A result of these issues is the recent generation of policies that have been directed towards stimulating growth from within the assisted regions themselves, within a context of global competitiveness and a balanced approach to attracting external direct investment. Closely allied to endogenous development is the emerging view on the importance of innovation and learning to promote *sustained regional* investment and prosperity. This has led to strategies based on building human and social capital and the linkages between local industries, governments and communities to foster innovation and ongoing economic activity. The most common instruments for promoting these strategies include research and development, education, vocational skills, technology transfer and industry cluster initiatives.

Long-term locational approach

Most assessments have stressed the benefits of taking a long-term locational approach to build on the comparative advantage of particular regions rather than direct firm-specific subsidies that can lead to inefficient bidding and competition between regions and the pitfalls of associated footloose industries. The experience of governments has also been for greater emphasis on locally driven bottom-up approaches compared with top-down centralist policies that are tailored to each particular region. The benefits of bottom-up approaches include a stronger commitment by local communities and the use of local knowledge to develop relevant projects to match regional needs. Many bottom-up approaches rely on community economic development initiatives and the empowerment of local communities in project design and implementation strategies (e.g. New Zealand, European Union and United States).

The concentration of activity over a long planning period is also considered important to build capacity and generate sustained growth in depressed regions (as per European Union approach). Intervention activity spread too thinly has been attributed to the ineffectiveness of early Australian State government population decentralisation policies (Vipond 1989). An early evaluation of the United States EDA programme similarly attributed a low correlation between expenditures in depressed areas and changes in per capita income over 1965-1977 to the thin spread of funding activity (Miernyk 1980).

Further Research

Evaluation of government interventions is an important component of public policy since it can assist decision makers to assess programme outcomes against stated objectives, as well as provide information for improving the development and design of existing and future interventions. More ex-post evaluations and assessments of interventions are needed to provide systematic feedback and information to better understand regional development processes and the effectiveness of alternative instruments and approaches. Development of appropriate evaluation methods is required to address both theoretical and practical problems, including the less tangible aspects of regional objectives such as valuing environmental and social cohesion outcomes. More research on long-term impacts (e.g. longitudinal studies) and evaluation methods is needed to better identify the causality of regional changes.

These issues are demonstrated by reference to the evaluation of tax incentive programmes such as enterprise zones widely adopted by state governments in the United States. Extensive surveys of the US evaluation literature have found that the effectiveness of enterprise zone strategies is still an open research question (Buss 2002), with uncertainty of results also reported in the United Kingdom (Gunther and Leather 1987). In addition, there is debate within Australia on the perceived effectiveness and benefits of enterprise zones as a potential regional development tool in an Australian context (see Collits 2002; Apthorpe 2002). It is apparent that issues associated with enterprise zone strategies are more complex than merely providing selective financial incentives to attract external businesses.

Further research is needed on the extent to which integrated land use planning and other social conditions such as education, human services, public safety, and infrastructure can influence investment decisions and renewed development. This would include more research on the potential role and effectiveness of related instruments such as business incubators, technology transfer initiatives, management assistance and venture capital provision.

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