

## **INTERFACING REGIONAL DEVELOPMENT THEORY AND PRACTICE**

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## **INTRODUCTION**

It is a truism that theory should underpin practice and vice versa. This aphorism relies on the simple logic that both private and public actions are likely to be more effective where accurately informed about past, present and future conditions, and the processes that create them. In return, theoretical ideas may well be better developed where acquainted with the messiness of practice.

This assertion is particularly important for the ANZRS AI which differs from most of its Regional Science counterparts in that a large number of its members formulate and implement regional policy professionally. Of course, they want to understand regional conditions and development processes, which is Regional Science's traditional focus, but they are also interested in (a) how to make theory less abstract and more relevant to their needs and (b) more effective policy development and implementation. Thus the ANZRS AI provides a unique umbrella for a mutual learning process melding together a wide variety of different perspectives.

Not surprisingly, much of the Association's academic work tends to focus on the important tasks of documenting regional conditions and well-being and of explaining regional growth and change processes. This work is eminently defensible, but, from a practitioner perspective, it often says little about how to translate this less than water-tight knowledge into public policy. The deficiencies that practitioners confront are three-fold:

- the assumptions of many economic models are far too abstract from the real-world circumstances in which practitioners find themselves
- they also down-play the very variables that make economic development happen at the local level - leadership, invention, innovation, entrepreneurship, social values of thrift, trust, etc., and

- there is little understanding of the political - bureaucratic process that translates understanding into action.

This paper considers briefly the nature and dimensions of these three difficulties, which lie at the edges of mainstream Regional Science, and, in a sense, represents a plea for their wider inclusion. It cannot be comprehensive; rather, the discussion employs selective (and perhaps somewhat eclectic) illustrations that reflect the writer's personal interests and experiences over many years. Towards the end, we consider briefly the prospects of an integrated theory of regional policy focusing on both policy development and implementation components, an overdue task in the writer's opinion. Long experience suggests that considerable regional development effort is wasted in pursuing unreasonable aims in amateur ways - often because Regional Science knowledge is itself at best partial, because practitioners have an inadequate theoretical background of the constraining polity in which they operate, and because their political and bureaucratic masters make almost impossible demands.

## THE DEFICIENCIES

### *Excessive Abstraction*

The first of the three difficulties that the practitioner has in translating Regional Science into policy is that economic development models tend to abstract too much from the real-world circumstances in which practitioners find themselves. Typically they omit or down-play such important variables as:

- the local availability of *resources*, which are themselves to some extent *socially, culturally or technologically determined*
- geography - the *relative accessibility of places* determined by the friction of distance imposed by transport and telecommunications technology - especially as *perceived* by those involved
- *demographic change* brought about by the interplay of people's evolving lifestyle preferences, immigration policy (especially in Australia), and medical science
- dramatic changes in citizen's *lifestyle tastes and preferences* that are influenced by shifting moralities or conceptions of individual and collective responsibility, as well as growing average personal wealth. Economics as 'science' finds it very difficult to include such matters without destroying its foundations
- shifts in *the cost and availability of capital* determined by such matters as government monetary and budgetary policy, domestic savings rates, or the efficiency of increasingly international capital markets
- the scope of *international treaties* in respect of trade, environment, labour, or industry policy. Industry policy includes research and development incentives, public purchasing strategies, subsidies & tariffs, and the structure and incidence of taxes - all increasingly scrutinised by such international trades bodies as the WTO and, in the Pacific region, APEC. This issue is

crucially important to regional development in Australia where the External Affairs powers of the Commonwealth Government have been extended massively in the last two decades by new interpretations of the High Court, and that Government has become much more internationalist.

Note the importance of changing technologies, and people's reactions to them, in shaping these variables. Note, too, how much they are interrelated. This is not to disparage academic modelling which can be particularly valuable in elucidating the essence of economic development process by stripping away the 'random background noise' of the real world. However, it is often these social, political, and environmental components of reality, as much as economic processes, that define and constrain what we might term the practitioners' 'development possibility frontier'. The inherent instability of the social and the political, especially when married to large-scale changes in technology and regional comparative advantage, creates major difficulties for static models.

### *Omission of Action Oriented Variables*

The second class of deficiency is that such economic models tend to downplay the crucial action-oriented variables that make economic development happen at the local level: leadership, entrepreneurship, invention and innovation, networking, and the social values of family ties, thrift, trust, etc. Taken together, these attributes facilitate Schumpeter's (1943) 'gale of creative destruction' - his definition of the impact of modern capitalism - and lead to the seeming paradox that vibrant and sustainable local economies have to reinvent themselves continually to keep ahead of their competitors.

Two obvious reasons why leadership is generally missing from economic theory are its slippery nature and rarity (Sorensen and Epps, 1996). We know it when we see it, but leaders fit a wide variety of behavioural and functional moulds - often uniquely tailored to the problem and its context (Gardner, 1990). High quality leadership of the kind that can effectively revive and regenerate a regional economy is also such a rare quality that is difficult to factor into economic theory. Yet case study and anecdote tell us that leadership can be a crucial determinant of local development by identifying the cause of problems, developing effective solutions, and marketing them to their communities. This realisation has led several tiers of Australian Government to play the leadership card as part of their regional development policy. For example, the Keating Federal Government included a leadership component in its *Working Nation* program (Keating, 1994), the New South Wales State Government also emphasises leadership in its current *Mainstreet* program, and Queensland has a Rural Leadership and Business Development Program (Gillard *et al.*, 1996).

However, the first two of these programs arguably embody a fundamental misunderstanding of the nature, origin, and role of leadership, for they incorporate the strange notion that bringing prominent regional businessmen, local government councillors and community activists together in regional committees somehow enhances the mass and quality of leadership. In practice,

effective regional leadership appears to fit no one model in terms of circumstance and response (Judd and Parkinson, 1990). The writer's own studies of the nature of effective leadership in Central Queensland reveal dramatically contrasting experiences: authoritarian approaches in Longreach and collective approaches in Gladstone. Good quality leadership is also difficult to spot beforehand - more often than not it just happens - which makes it difficult to incorporate systematically in our economic models.

Good entrepreneurs are effectively commercial leaders who invigorate local economies by taking risks to seize and develop a profitable commercial opportunity. The greatest rewards tend to come from innovations in products or services, while willingness to innovate is, to some extent, directly related to the magnitude of the expected rewards. Innovatory capacity and reward expectation are, at least in part, socially or culturally determined and, consequently, one would expect their number and impact to be concentrated in some places rather than others. This is obviously the case in Silicon Valley and its parallels in Boston, North Carolina, and elsewhere (Kanter, 1995). As with leadership, classical Regional Science has difficulty building entrepreneurship into its models in a way that yields verifiably accurate forecasts that might guide policy action. The study of entrepreneurship is more the province of case studies in the management literature and the discursive political economy approaches of the Austrian School (Berger, 1991; Lydall, 1992; Kirzner, 1973). The key policy question, then, is just how does one create a society or community that welcomes innovation, embraces entrepreneurs, and rewards their efforts? Given that the level and effectiveness of entrepreneurship is also culturally determined to a significant degree, there is precious little to guide public policy.

The issue of business networking has attracted some academic attention (Coleman and Jacek, 1989; Saxenian, 1991; Howard and Hine, 1997; see also Kanter, 1995), partly, one suspects, because it is measurable and partly because it is a surrogate for leadership and entrepreneurship - both of which typically involve extensive networking in modern democratic capitalist societies. However, the promotion of business networks comes across as something of a second best means of either remedying or circumventing deficiencies in leadership and entrepreneurship. This author considers that networking is a necessary but not sufficient condition for effective regional development and, although it may encourage a degree of entrepreneurship, it is really no substitute for it.

This must be the right moment to introduce Fukuyama's (1996) important ideas on community trust as an important variable shaping economic systems. He argues that the extent to which people can trust the actions of people with whom they deal influences the structure of business in nations. In his view, high trust societies like Japan, Germany, the United States, and other English-speaking countries tend to develop larger scale corporate structures than low trust societies, like China, France or Italy, where small scale family firms tend to dominate the industrial landscape. In short, Fukuyama is saying that business networks can take different forms in different countries according to their social norms and, in particular, the degree of inter-personal trust external to and within the family.

Coleman's and Jacek's (1989) edited collection covers similar ground with respect to business associations in different countries.

Other aspects of social organisation that may have development implications include:

- the extent of workforce unionisation - high unionisation and its collective culture has been seen as a growth deterrent in such Australian industrial cities as Newcastle, Wollongong, and Geelong, and
- the extent of a society's individual or collective thinking - in the Australian context, contrast Aboriginal Culture which is highly spiritual, conservative small town attitudes, and the high-speed, atomistic, and cosmopolitan lifestyles of the larger cities.

Given that social norms therefore vary regionally within countries, the implications could be quite startling: regional development strategies should probably differ from place to place according to their social complexions.

### *Political-Bureaucratic Processes*

Finally, regional development theories and models usually offer little analysis of the critical political - bureaucratic processes that translate understanding into action. This is a veritable minefield of powerful and conflicting theoretical ideas derived from economics, political science, sociology, moral philosophy and elsewhere. Let us start with some general observations about the nature of society in which regional development policy is embedded. Australia, like many western democracies, comprises a large number of competing interest groups, much as described by Olson (1971, 1982), which strive to influence politicians to adopt their private agendas. Thus the public agenda is determined, at least in part, by the power of rent seeking interest groups and not necessarily by objective problems and rational analysis of problem cause - even supposing this were possible in the light of previously discussed theoretical deficiencies. However, Tullock (1989) ingeniously demonstrates that such rent-seeking behaviour is typically much less than would expect on the basis of the rewards available. This he puts down to underestimation of the rent available, the failure of voters to recognise that they are being 'ripped off', a theory of 'efficient rent seeking' that might entail pronounced diseconomies of scale, a free-rider problem among the potential rent seekers, or perhaps moral qualms on the part of the beneficiaries. His hypothetical case of the fate of the Tullock Economic Development Program should interest regional analysts (pp.18-19).

However, the Public Choice and Rational Actor Political Theory (RAPT) schools to which Tullock's analysis perhaps belongs tends to ignore politics' moral dimensions - the notion that politicians seek loftier goals than merely trading in votes and stitching together winning coalitions of interests or that voters seek other than pure self interest (Brennan and Hamlin, 1997). In parallel, there are calls for the inclusion of ethics in economic discourse (e.g. Groenewegen, 1996) somewhat in violation of what philosophers know as Hume's Law. This can be risky if ethics enter endogenously into otherwise positive

economic analysis without suitable qualification or explanation. The inclusion of ethics and morals in economic analysis tends to make it a normative art (akin to political economy or ideology) rather than a science.

It is worth remembering that ideologies of the role of government in economy and society - see for example Olsen's (1988) elegant  $2 \times 2$  matrix of governance types with axes representing social cohesion and government control - have played a large role in the history of regional development policy. Incidentally, this typology is almost identical to that in Coleman and Jacek (1989, p.5). Keynes provided the academic justification for public acceptance of government responsibility for regional well-being in the US, the UK and elsewhere in the 1930s. Conversely, that responsibility was curtailed in the 1980s as Keynesian orthodoxy lost its 50 year battle with the Hayekian inspired Austrian School and was replaced in many countries by the doctrine of small government, market forces, self-help, and user pays. This climate has encouraged the withdrawal of superior tiers of government from regional development policy as witnessed by the (Australian) Howard Government's virtual abandonment of the field shortly after its election win in 1996. For details of ideologically driven shifts in Australian regional problems and policy approaches consult Higgins and Zagorski (1989) or Hansen *et al.* (1990).

Political systems may be dysfunctional for a host of other reasons. Australia's three year electoral cycle means that political parties are almost always in election mode, trying to stitch together winning coalitions of interest and compromising optimal policy in the process. Regional development strategy often has a long - possibly ten years or three electoral cycles - lead time before pay-off occurs, yet changes in party of government and in party platform mean that it is difficult to maintain a single program for any length of time. Nor is it easy to retain the electorate's attention when they cannot see policy outcomes over a long time period, if at all given the slow incremental nature of policy outcomes.

Even if we accept considerable government responsibility for promoting regional economic development, there remain many difficulties:

- the form that the responsibility should take: ranging from (i) a hands-off approach that emphasises getting big-picture macro-economic conditions right for high level investment, to (ii) industry policy that targets particular growth sectors, (iii) a program of subsidies and incentives for designated places, (iv) social security and other transfers to disadvantaged people or communities - the latter perhaps affected adversely by changes to public policy settings, or (v) some combination of all these;
- the appropriate distribution of that responsibility across up to four tiers of government in a federal system: with a current emphasis in Australia on local self-help;
- the high transactions costs of coordinating action within and between those tiers, between spatial and line departments, and between government and the private sector - we know very little of these costs;
- the strong possibility that governments barely control most of the key factors influencing local development - technological change, lifestyle preferences,

demographics, international markets, leadership and entrepreneurial capacity, cultures of thrift or trust;

- the paradox that the level of action best placed to develop regional policy on account of motivation, interest and detailed SWOT knowledge (i.e. the local) is always the one with the least economic and political power; and
- problems endogenous to the bureaucracy responsible for developing and implementing policy.

The last point has been the subject of intense scrutiny from the work of Weber onwards and especially draws on work from the management literature, from political science, and from sociology. For example Saber's (1981) work on the sociology of bureaucracy analyses the cause of endemic sub-optimal policy-making in terms of seven classes: Functional Disruption; Exploitation; Goal Displacement; Provocation; Misclassification; Over-Commitment and Placation. These labels generally accord with Hall's (1980) own analysis of planning failure based on the work of Cyert and March, Downs, and Niskanen (Sorensen and Auster, 1989).

Recent research evaluating the New South Wales Mainstreet Program (Cook, 1997) has turned up an excellent example of Goal Displacement and Functional Disruption. The Program commenced with the urban planning aims of preserving architectural heritage and improving streetscapes to which economic development aims were subsequently grafted - especially when the State Government needed, at short notice, an appropriate program for its year of regional development (i.e. Goal Displacement). However, the people involved in administering the program found it much easier and congenial to continue their focus on environmental matters rather than attempting the rather more uncertain and difficult task of showing regional development leadership and entrepreneurship (Functional Disruption). Typical of public choice analysis of bureaucracy is Tullock's explanation of how the public sector appropriates consumer surplus and tends to over-spend on the delivery of programs or services (Tullock, 1976).

Finally, let us look at evaluation. Rational public policy-making requires periodic program evaluation for fine tuning or replacement purposes. This, too, is problematic, for it is ferociously difficult to evaluate realistically the impact of, say, any public regional development program. Regional economists have attempted the task, but with little success for the simple reason that policy inputs usually constitute an almost infinitesimally small component of factors moulding extraordinarily open regional economic systems.

## SYNTHESIS

The previous discussion has focused on some of the analytical needs of regional development practitioners which differ somewhat from the mainstream focus of Regional Science. If the latter is to become more relevant to the former we need to:

1. emphasise the importance of many behavioural issues, especially in three arenas just discussed - regional growth processes, business development, and politico-bureaucratic decision-making;
2. note the importance and diversity of place, which is especially important in huge, diverse, and empty countries like Australia;
3. caution against over-simplicity in analysis, whatever the attractiveness of elegantly simple models - because regional development policy is one of those 'wicked' arenas where the range of significant determining factors is enormous, extremely dynamic, highly interrelated, subject to fashion, and prone to divergent interest group behaviour;
4. realise that the public sector controls very few of those factors to a significant extent and has considerable difficulty in managing those that fall in its domain (see Sorensen and Epps, 1993, ch. 2); and
5. emphasise future events more than current conditions and, given point 3 above, this will have to include substantial (and imaginative) qualitative appraisal to supplement the forecasts of quantitative models (see for example, Naisbitt's (1994) most recent contribution to the art of futurology). This view is based on the notion that effective policy simply has to anticipate a fast changing world where that is the case, as with regional development practice. The drafting of regional futurologies could become a worthwhile focus of academic and consulting activity.

One obvious final question is whether it is possible to develop partial or even synoptic models of regional development policy-making that take into account regional economic processes, the social and political contexts of policy, together with the inadequacies of bureaucratic behaviour. The response must be 'unlikely' given the complexities of the subject. There is little mileage in pretending otherwise, for regional development policy-making has probably been blighted for generations by overly simple partial understandings of reality. As Regional Scientists we all recognise that there is a long way to go before our understanding of various parts of regional systems are in a state where they can be rolled together into a general whole. The problem only gets worse when we add a policy dimension. Perhaps this explains why the development of regional policy worldwide has tended to proceed on a trial and (largely) error basis.

This raises the awesome prospect of, like Wagner's *Der Fliegende Holländer*, eternally sailing the seven seas in pursuit of a match between preferences of theoreticians and the needs of practitioners. But which is worse? That potentially exciting and socially relevant journey or a studied separation of interests that works to some extent against the interests of both parties?

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