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Regional and local employment policies: the rise of New Regionalism

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1. Introduction

Despite a prolonged period of economic growth internationally, full employment has not been restored in countries with a constrained macroeconomic environment. Even in countries reporting unemployment levels at their lowest level in decades, particular geographical areas have experienced persistently high unemployment.

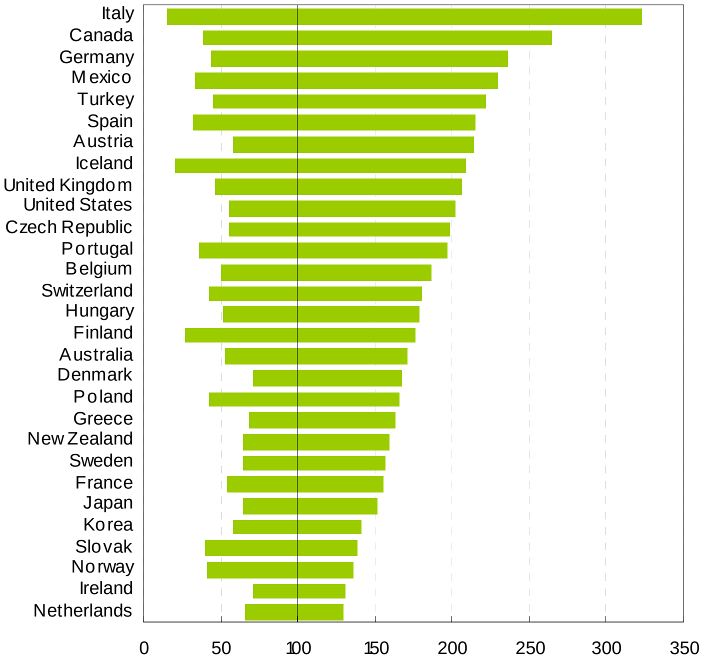
One of the problems encountered in the examination of regional disparities in GDP, employment or unemployment rates, is determining the appropriate ‘region’. While it is generally agreed that the relevant territory should relate to functional labour markets, much of the economic data is gathered at an administrative level such as states, provinces or counties that have little relationship to functional areas. In Europe, regions are defined using the Nomenclature of Territorial Units for Statistics (NUTS) while, in the US and Australia, states are the main basis for determining regions. Thus, regions include large geographical areas with considerable variations in internal economic and labour market conditions and it is hardly surprising that significant intra- as well as inter-regional disparities exist.

The OECD (2005) reports that GDP, unemployment and labour market participation exhibit a high degree of geographical concentration. In 2001, 10 per cent of regions in the OECD produced 38 per cent of GDP, and accounted for 37 per cent of unemployment and 33 per cent of the national labour force. The degree of concentration varied significantly between countries. Australia recorded high concentration levels for all three indicators and also exhibited large differences in growth rates. Performance in reducing unemployment displayed similar tendencies: between 1996 and 2001, 10 per cent of regions in Australia accounted for the entire reduction in unemployment (OECD, 2005).

In addition, there is a high degree of persistence. Between 1993 and 2003 3 out of 4 of the European regions with very low unemployment rates remained in that position as did regions with high unemployment rates (OECD, 2005). Most of the changes in position were recorded by regions with unemployment rates in the intermediate range. The OECD (2005) points out that if the unemployment rate in the regions with the highest unemployment rate in Australia fell by 1 per cent, it would reduce the national unemployment rate by 0.7 percentage points. The OECD concludes that the uneven spatial distribution of unemployment provides a justification for specific policies targeted to regions with high unemployment.

Importantly, the OECD stresses the primacy of labour demand by concluding that “All in all, demand-side factors thus seem to play an important role in accounting for regional disparities in employment rates.” (2005: 83).

Figure 1 Variation of regional unemployment rates in OECD countries, 2003

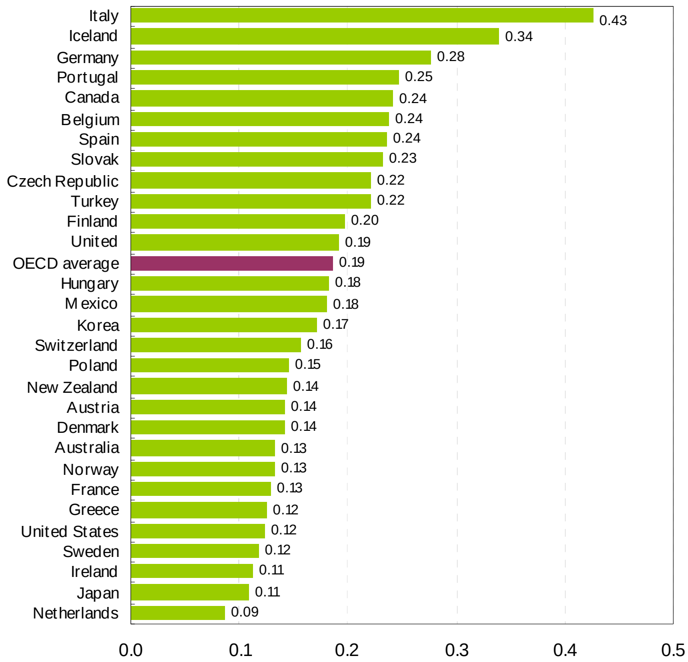


Source: OECD (2007b)

Figure 1 displays the variations in regional unemployment rates in OECD countries in 2003. The minimum and maximum regional rates are shown as a proportion of the national average. Italy has the largest variation in regional unemployment rates. In the region with the lowest unemployment rate, unemployment stood at just 15 per cent of the national average, while in the region with the highest unemployment rate, unemployment was almost 3.25 times the national average. Unemployment in the lowest unemployment region was only 21 per cent of the national average in Iceland and 27 per cent in Finland. High unemployment regions in Germany and Canada recorded unemployment rates two and one third, and two and two thirds higher than the national rate. In Australia the lowest unemployment region had an unemployment rate just over half the national rate while the unemployment rate in the region with the highest unemployment was 1.71 times the national average.

Figure 2 shows the Gini coefficient for regional disparities in OECD countries in 2003. The most uneven distribution of unemployment between regions occurred in Italy where the Gini coefficient was 0.43. The lowest regional disparity in unemployment was in the Netherlands where the Gini coefficient was 0.09. The situation in Australia was more even than the OECD average; the Gini coefficient was 0.13 compared to the OECD average of 0.19. However, it must be stated that the OECD analysis defines Australian regions by state and this disguises significant intra-state variations in unemployment rates. In particular, unemployment rate disparities are evident when capital cities are compared to the rest of the state or other regional boundaries are used. This issue is discussed in greater detail in Cook (2008b).

Figure 2 Gini indexes of regional disparities in unemployment rates, 2003



Source: OECD (2007b)

We now examines the trajectory of regional employment and development policies in the post welfare state period which has been marked by a retreat from demand oriented policies designed to promote balanced growth and an increased focus on assisting lagging regions toward the implementation of 'new regionalism' that emphasises the development of global competitiveness at a regional level.

2. What is new regionalism?

In recent years a range of strategies and institutional arrangements have emerged which highlight the importance of regional and local economic development and fit broadly under the rubric of 'new regionalism'. While there is no universal definition of 'new regionalism' it includes a number of features (Haughton and Counsell, 2004; Rainnie and Grant, 2004). The overriding principle is that space is important and that aggregate economic development is an insufficient condition to assure regional development and employment outcomes. Rather, coordinated regional policies pursued through a variety of institutional and funding arrangements are essential to promote balanced growth. Within the new regionalism literature concepts such as clusters, networks, partnerships, the knowledge economy, co-operatives, social entrepreneurship and social inclusion are prominent and intertwined.

According to Jessop (2004) the role of the state has fundamentally changed due to the advent of globalisation. His theory of the 'hollowing out' of the state posits that the Keynesian welfare state has been transformed into the Schumpeterian workfare state as a consequence of the internationalisation of production and financial markets. The regulatory control of nation states has been lost and state facilitation of the accumulation process has changed. Under the welfare state, national capital was geographically tied to the nation state and had an interest in the availability of a healthy, educated workforce. However, unfettered capital flows after the demise of Bretton Woods meant that production could be shifted to areas offering reduced costs due to lower labour, infrastructure or regulatory costs, or proximity to markets. Jessop points to the shifting of some nation-state responsibilities to supra-national organisations such as the EU, while other functions have been devolved to sub-national spheres such as regional levels. The latter development is consistent with the view that the traditional welfare state functions have been retrenched through the implementation of neo-liberal policies by the nation-state that include abandonment of the commitment to full employment and a withdrawal from functions such as provision of infrastructure. In this new scenario, the state focuses on the attraction and retention of mobile international capital and increasing international competitiveness at the expense of coordinated policies to promote balanced growth. Jessop's theory identifies common interests at a regional level as regions compete in the global market.

As noted, the emergence of new regionalism is closely associated with globalisation. The coexistence of regions that have been successful in the global economy and regions that failed to prosper, motivated an examination of factors contributing to successful adaptation to the new conditions and focussed attention on several 'successful' international regions such as Silicon Valley in the US, Baden-Württemberg and Emilia Romagna in Europe. Proponents of new regionalism claim that:

> …the nation state has been (or should be) displaced by regions both as a source and a locus for policies aimed at promoting institutional collaboration, organizational learning: policies facilitated by political devolution of authority for management and coordination to local governments. Accordingly, macroeconomic policies are deemed to be irrelevant for regions that can increasingly rely on inward flowing foreign direct investment, on the one hand, and the international export of goods and services, on the other (Juniper, 2006: 6).

Thus globalisation is credited with decoupling regions from national macroeconomic settings. Clusters are viewed as the drivers of economic growth through networking activities that facilitate provision and sharing of market information, research and development and skills and knowledge transfers within a region (Goodwin *et al.*, 2002).

In a related development, there is a shift from government to governance along the lines advocated by Osborne and Gaebler (1993) of 'steering not rowing'. Regional delivery of labour market policies and service delivery are viewed as superior to national policies that were the norm during previous time periods. New policies include the withdrawal of national governments from service provision in favour of devolution to lower tiers of government, place management approaches managed by local branches of government departments in partnership with business and non profit agencies, or contracting out to the private sector. Within this model, community development is to be achieved by the promotion of social enterprises, self-employment and small business development, training and work experience (Beer, Maude and Pritchard, 2003).

3. Clusters

In the forefront of the new regionalism phenomenon is the concept of industry clusters that have been promoted as the driving force for economic and employment growth through a dynamic process of competitiveness, productivity and innovation. Clusters came to prominence due to Porter's 'diamond of competitiveness' comprising: firm strategy and rivalry; demand conditions; related and supporting industries; and factor conditions (Porter, 1998a, 1998b). Competitiveness is determined by the degree of development and intensity of the interaction of these four components, and is enhanced when firms are clustered. Porter proposed that clusters occurred in locations that provided superior competitive opportunities in relation to these four components. Clusters vary in size and composition; they can comprise predominantly small to medium firms, a mixture of large and smaller firms, specialise in high-tech or traditional industries, or have a mixture of high and low technology manufacturing and service companies.

Porter defined a cluster as:

> a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The geographic scope of a cluster can range from a single city or state to a country or even a network of neighboring countries (Porter, 1998b: 199).

Clusters include a range of industries that are important to competition including suppliers of raw materials, capital equipment, financial and business services, educational and research institutions. The two core elements of clusters are geographical proximity and that firms must be linked in some way (Martin and Sunley, 2003; Malmberg and Power, 2006; Simmie, 2006). Arnould and Mohr (2005) list the characteristics of clusters:

- Forward, backward and horizontal economic and social linkages
- Geographic circumspection
- Innovative products
- Generate new firms within the cluster
- Active and passive efficiencies in the flow of information, ideas, and technology
- Shared behavioural norms

The process of cluster development is explained by Belussi (2006). Locations with favourable conditions of competitiveness initiate growth and attract new business to the area attaining critical mass. The initial cluster is then reinforced by the institutional system that is conducive to growth and the extensive co-operation between firms produces network benefits that enforce further growth.

According to Rosenfeld (1997), access to raw materials, capital equipment, education and training facilities, a skilled labour force, specialised services and finance are essential factors for successful operation of clusters. In addition, he emphasises the importance of: entrepreneurial activity in the form of business start-ups and attraction of needed firms; innovation to develop and adopt new technology; social infrastructure such as business associations, to facilitate effective networking; and a shared vision and strategy for maintaining competitiveness.

3.1. Benefits of clusters

Proponents claim clusters can raise productivity, innovation, competitiveness, profitability and job creation of participating firms, regions and the national economy (Martin and Sunley, 2003), as well as increase wages and higher rates of firm formation (Henry, Pollard and Benneworth, 2006). Porter (1998b) states that clusters enhance productivity through access to specialised inputs and employees, access to information, complementarities between products of firms within the cluster, access to institutions and public goods and rivalry. Clusters are also credited with assisting firms to understand new consumer needs and management practices, concentrate knowledge and information, thereby facilitating assimilation of new technology, and foster ongoing relationships with institutions such as universities (Simmie, 2006).

Beneficial effects of clusters include reductions in transaction costs, transmission of contextual and tacit knowledge (Wolter, 2004), and are delivered through both passive and active processes. Passive benefits relate to advantages from agglomeration elaborated by Marshall. (1925, cited in Gordon and McCann, 2000) These include: the development of a specialised labour force to enhance labour market efficiency, local provision of specialised supplies of raw materials and intermediate goods, and the maximisation of the flow of information (Gordon and McCann, 2000). In addition, collocation provides access to transport, other infrastructure and markets (Arnould and Mohr, 2005; Belussi, 2006), can enhance reputation, and reduce moral hazard due to shared norms (Arnould and Mohr, 2005).

However, the major avenue for positive cluster effects is active participation through networks and relationships with other firms in the cluster to enhance innovation. According to Belussi (2006), increasing returns are generated by systemic properties embedded in local systems. Nooteboom (2006) elaborates 3 types of embeddedness. First, relational embeddedness refers to the strength of ties between firms in the cluster; the frequency and duration of interaction, mutual understanding, trust and openness. Secondly, structural embeddedness relates to the number of participating firms, the number of direct ties and the rate of entry and exit. The third concept, institutional embeddedness, includes regional characteristics such as regulation and norms of conduct, taxes, subsidies, legal systems, infrastructure, education, research and the labour market.

It is also claimed that networks enhance opportunities for interactive learning through face-to-face contact by providing opportunities for direct observation of competitors and exploitation of collective knowledge (Bell, 2005; Malmberg and Power, 2006). Lorenzen and Maskell (2004) elaborate on how clusters enhance the process of incremental and experimental knowledge creation through face-to-face meetings and personal networks of people with similar cultural and social beliefs. Vertical interaction between different types of firms in the cluster produces knowledge spillovers through the dissemination of information. Horizontal relationships between similar firms enable them to closely monitor the processes and performance of rivals and opportunities to informally trade knowledge. Experimental knowledge creation occurs in situations of uncertainty regarding changes in technology or demand when firms with complementary capabilities collaborate to develop new products. Furthermore, clusters are credited with the diffusion of leading-edge knowledge, products and services due to international spillovers from sophisticated customers (Simmie, 2006).

3.2. Towards a typology of clusters

Martin and Sunley (2003) argue that the diversity of the size and composition of clusters, combined with differences in organisation, dynamics and development paths is at odds with Porter's attempt to fit the theory to all clusters. This has important policy implications since Porter proposes that cluster theory provides governments with effective policies to secure economic development.

Asheim, Cooke and Martin (2006: 4) contend that Porter's cluster theory is only one of several perspectives on the role of localisation as a source of increasing returns, with 'each having different theoretical foundations and employing different terminology' (see Table 1). The first local industrial district they identify consists of export-oriented small firms. Based on the Italian Neo-Marshallian Industrial Economics perspective of external economies, the inter-firm division of labour and social capital drive increasing returns. The second type is geographical agglomeration, based on New Trade Theory and Marshallian Localisation Economics. In this case external economies and increasing returns are the bases of trade. Third, localised technological progress and divergent regional growth is underpinned by New Endogenous Growth Theory and relies on educated labour and R&D for increasing returns.

Clusters constitute the fourth type, with Firm Strategy and Marshallian Localisation Economics as the underpinning theory and is driven by external economies and competitive rivalry. The final type identified by Asheim, Cooke and Martin is the local entrepreneurial milieu, learning regions and regional path dependence. This is based on Neo-Schumpeterian and evolutionary Economics and relies on institutions, innovation and learning.

Rosenfeld (1997: 10) proposes a typology consisting of three types of clusters. First is the working or 'overachieving' cluster consisting of 'an agglomeration of connected companies that are aware of their interdependence, value it, act on it, and collectively operate as a system to produce more than the sum of their individual parts'. Well developed social infrastructure ensures knowledge transfer and an environment suitable for innovation, learning and new firm start-ups. The second type of cluster is termed the latent or 'underachieving' cluster which is deficient in networking or lacks a shared vision so that the potential benefits of the cluster are not fully realised. The third type of cluster identified is called the 'potential' or 'wannabe' cluster which has some but not all requirements of a cluster. Thus, it is somewhat of a misnomer to include this category in the typology.

Gordon and McCann (2000) and Maskell and Kebir (2006) developed a broadly similar typology of three clusters. The first model is the Marshallian (Maskell and Kebir, 2006) or Pure Agglomeration model (Gordon and McCann, 2000). This model is characterised by specialised labour and education that increase matching efficiency in the labour market, service economies of scale and scope related to specialised suppliers and the use of capital, and efficient transfer of technology since proximity facilitates sharing of product and market knowledge. This model does not presume co-operation between firms, nor any formal or strong long-term relationships.

The second model is the Porter (Maskell and Kebir, 2006) or industrial complex model (Gordon and McCann, 2000). Stable inter-firm relationships in the form of trading links govern locational behaviour. Transaction and local production factor costs are reduced by locating close to other firms in the input-output production and consumption hierarchy they belong to. In the industrial complex model all firms have made substantial capital investment to set up the appropriate trading links and the cluster is able to reap monopoly profits that are shared between the firms (Gordon and McCann, 2000). In the Porter model firms may exchange R&D and engage in joint problem solving and transfer information and innovation (Maskell and Kebir, 2006).

The final model is the Innovative Milieu (Maskell and Kebir, 2006) or Social-network model (Gordon and McCann, 2000). This model is broader than the pervious two models and assumes strong inter-personal relationship based on trust. The strength of relationships is described as the level of embeddedness of the social network. Strong, ongoing relationships encourage firms to engage in joint actions in pursuit of mutually advantageous goals. The innovative milieu fosters collective learning and innovation (Maskell and Kebir, 2006).

Martin and Sunley (2003: 13) contend that typologies should "be based on in-depth comparative analyses of cluster profiles and processes." Paniccia (2006) contends that a typology must have predictive and explanatory power and the types must have internal coherence and be self-reproducing. Paniccia's six category typology incorporates industry size and specialisation, spatial scale, related industries and types of interdependencies and institutional arrangements. Canonical industry districts are characterised by a large number of small, competitive firms with highly skilled workers and a dense network of inter-firm relationships encompassing flows of information and goods, and strong ties to supporting institutions such as banks, trade unions, trade associations and training institutions. Paniccia claims that these areas exhibit good economic performance, with above average employment levels and below average unemployment rates and are capable of withstanding economic fluctuations. However, they are vulnerable to technological change and likely to experience lock-in effects.

Table 1 Cluster typology

Asheim, Cooke and Martin,	Rosenfeld	Gordon and McCann	Maskell and Kebir	Paniccia
Local industrial districts	Working or over-achieving	Pure agglomeration	Marshallian	(Semi)canonical
Export-oriented, small-firms	clusters	economies model	Cost advantages:	Family-based firms
Flexible specialisation	Interdependence of firms	Agglomeration economies	Specialised suppliers	Dense network of relationships
Inter-firm division of labour	Social infrastructure	Specialised labour	Specialised labour	Skilled workers
Social capital	Innovative	Technology transfer		Entrepreneurial competencies
Geographical agglomeration	Latent or under-achieving	Industrial complex model	Porter	Diversified or urban
Localised specialisation of	clusters	Stable relationships between	Shared culture	Final firms and subcontractors
industry	Weak social fabric	firms	Low transaction costs	Diversified relationships
External economies	Limited networking	Low transaction costs	Exchange R&D	Diffused entrepreneurial
Increasing returns		Innovative	Joint problem solving	competencies/worker skills
Localised technological	Potential clusters	Social network model	Innovative milieu	Satellite or hub and spoke
progress and divergent	Some aspects of cluster but	Strong networks	Technology	Large firms and subcontractors
growth	not enough to be classified as	Co-operation, joint ventures	Strong relationships:	Little co-operation
Educated labour	a cluster		Collective learning,	Low labour division
R&D			Innovation and networks	Weak institutional role
				Limited entrepreneurial skills
Local clustering				Co-location areas
Localisation Economics				Low agglomeration economies
External economies				Economic institutions rare
Competitive rivalry				Specialise in similar activities
Local entrepreneurial milieu				Concentrated or integrated
Institutions, innovation and				Dense economic institutions
learning				Reciprocal interdependence
				R&D, finance, marketing
				High-technology
				Science-based or technology
				agglomerations
				Range of products with short
				life cycle
				Research institutions
				Dense relationships
				Co-operation between firms

Sources: (Rosenfeld, 1997; Gordon and McCann, 2000; Asheim, Cooke and Martin, 2006; Maskell and Kebir, 2006; Paniccia, 2006).

The second type of geographical agglomeration is the diversified or urban industry district, containing a smaller number of firms and a high proportion of subcontractors. Diversified districts capture the benefits of specialisation of inputs, have diffused entrepreneurial competencies, skilled workforce, strong ties to social and educational institutions but a lesser role for economic institutions. They are able to adapt to short-run market and technological changes.

Satellite platforms, or hub and spoke agglomerations, are Paniccia's third category and consist of small firms subcontracting to larger firms which have a major impact on economic development in the area. There is a low level of co-operation between firms and a limited role for economic institutions. When transnational corporations (TNCs) are the commissioning firms there is an absence of R&D, product design and marketing functions and economic performance is threatened by the possibility of relocation of foreign direct investment (FDI) elsewhere.

The fourth category, co-located areas, is comprised of firms specialising in similar activities to supply local and regional markets. Paniccia explains that these areas may be considered as the preliminary stage of canonical or diversified areas, primarily because of underdevelopment of horizontally related industries and economic and social institutions. In particular, there is a lack of demand for specialised public services and an absence of active trade unions and employer associations.

Concentrated or integrated industry districts contain two types of firms. Larger or vertically integrated firms displaying market or technological leadership market products in the global or large regional markets. Smaller firms specialise in the supply of components or services to the large firms. These industrial districts are characterised by dense economic institutions and extensive relationships between firms, with both horizontal and vertical integration, and feature high levels of technology and knowledge institutions.

Finally, Science-based or technology agglomerations may be considered as a special case of integrated industry districts. A range of small and large competitive firms including TNCs produce a range of products with short life-cycles. Extensive relationships exist between firms and supporting institutions, including collaboration on R&D which reduces risk and stimulates innovation.

3.3. Identifying clusters and evaluating performance

A difficulty flowing from the absence of a universal definition of clusters is that identification, and therefore evaluation, becomes problematic. In addition to the lack of clear boundaries, both industrial and geographic, the threshold for the strength of relationships is not specified (Martin and Sunley, 2003). Simmie (2006) contends that cluster theory provides no a priori criteria that can identify cluster boundaries. Porter (1998b) suggests that the constituent parts of clusters can be identified by starting with an individual firm or a concentration of similar firms and then identifying vertical and horizontal linkages with other firms, institutions, that provide specialised services, and regulatory bodies.

Two major evaluation strategies have been employed; a macro approach that defines clusters using data relating to industry share, relative wages and growth rates, and a micro approach that starts with individual firms and examines their relationships with other firms in the geographical area. Martin and Sunley (2003) explain that top-down identification of clusters can be approached by selecting internationally competitive industries and constructing input-output tables to determine the trading linkages, or by focussing on a sub-set of industries regardless of whether they are internationally competitive. Analytical frameworks including top-down (Henry, Pollard and Benneworth, 2006) and bottom-up (Anderson, 1994; Mayer, 2005) approaches are summarised in Table 2.

Table 2 Methodological framework for analysing industry clusters

Mayer	Anderson	Henry, Pollard and Benneworth
Define the region Identify the area where economic activity takes place	**Define the region** Geographical area where most day-to-day relationships occur	
Identify key partners Industry and trade associations, researchers, local economic developers, venture capitalists, others		
Quantitative analysis Identify candidate clusters: • Location Quotient • Average wages • Growth rate	**Quantitative analysis** Calculate Location quotient	**Identify agglomerations** Location quotients Input-output analysis
Qualitative analysis Interviews or focus groups with industry. Collect data about the industry sector in general, cluster connections and relationships, cluster drivers, support factors, and challenges	**Qualitative analysis** Validate and refine clusters: • Interviews with business to determine major suppliers and customers • Map the clusters	**Investigate broader range of connectivities** Labour markets Knowledge systems Institutions Socio-economic characteristics
Competitiveness analysis-indicators Gain in employment in industry clusters compared to other regions Knowledge creation evidenced by patents Venture capital investments New firm formation and entrepreneurial activity Government funding for science and technology Labour market skills and education	**Calculate importance of cluster to the overall economy of the region and to determine growth trends in each cluster** Employment share as proportion of total employment in the region Personal income in each industry Growth trend of the cluster	**Competitiveness analysis** Test performance of firms in cluster compared to matched firms outside cluster Test propositions for or evidence of explanatory relationships for differential performance
Identify economic development policies Identify policies/actions in collaboration with key partners, including state, regional and local scale Identify metrics and performance indicators.		

Sources: (Anderson, 1994; Mayer, 2005; Henry, Pollard and Benneworth, 2006)

Using the top-down approach Henry, Pollard and Benneworth use location quotients and input-output analysis to identify possible clusters. They then investigate a range of conditions and systems operating in the area: socio-economic characteristics, labour market conditions, knowledge systems and institutions to confirm the existence of a cluster. Competitiveness of the cluster is then measured by comparing the performance of firms within and outside the cluster and identifying.

Martin and Sunley (2003) caution that the top-down approach contains several potential problems. The use of standard industrial classifications and geographical boundaries rarely coincide with the reality of the clustered activity. Over-identification of clusters occurs if the geographical area is too small, while cluster activity may be obscured if the area examined is too large. Further, they comment that there is no agreement on the degree of spatial concentration that constitutes a cluster and the top-down approach provides a shallow view with little insight into the 'nature and extent of inter-firm linkages (traded and untraded), knowledge spillovers, social networks and institutional support structures argued to be the defining and distinctive features of clusters (Martin and Sunley, 2003: 21).

The bottom-up approach involves identifying the geographical area where economic activity takes place. Mayer then identify the key industry partners such as industry and trade associations, research institutions, developers, venture capitalists and other service providers. The next step involves quantitative analysis to identify potential clusters based on the theoretical attributes of clusters. Locational quotients identify the proportion of industry employment in the region compared to the national employment share in that industry. Clusters should exhibit locational quotient greater than 1. Similarly, if a cluster exists, wages and the growth rate would be expected to be higher than the national average. A comparison of location quotients and employment growth provide an insight regarding the type of agglomeration under investigation. Mayer (2005) explains that areas with high location quotients and high employment growth, are clusters that enjoy competitive advantage and are likely to export their products to other regions. In contrast, areas with high location quotients but low employment growth, exhibit a dominant position but are not experiencing significant growth. A combination of low location quotients and high employment growth indicates that the products of the region are in demand and may signify potential emerging clusters. Finally, those areas with low locational quotients and low employment growth are not clusters.

Quantitative analysis does not capture all the firms that are part of the cluster, especially firms providing professional services (Mayer, 2005) Therefore, qualitative analysis in the form of interviews to elaborate relationships is required to provide richer data to validate and refine clusters. After identification the performance of clusters relative to other areas can be evaluated by examining economic and wage growth, knowledge creation, venture capital investments, new firm formation and labour market skills and education levels. Mayer (2005) suggests that polices or actions to improve performance may be developed in collaboration with the key partners in the cluster and national, state and local governments. This proposal accords with Porter's assessment that cluster theory provides a policy tool for managers and governments (Porter, 1998b). However, it is necessary to examine inherent problems and limitations of clusters.

3.4. Problems and limitations of clusters

Any assessment of clusters needs to counterbalance the proposed benefits outlined previously with potential risks. The major negative consequences of successful clusters are congestion, escalating prices for land, labour and services (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006; Maskell and Kebir, 2006; Swann, 2006). The attraction of firms and workers to the geographical area puts pressure on transport systems, resulting in congestion and the necessity to increase infrastructure investment. Competition among firms bids up prices for inputs, property, and services, increases wages and housing costs. Benefits accruing to the cluster should be balanced against negative distributional consequences since certain individuals or industries within the area as well as rural and regional areas may be excluded from the benefits (Asheim, Cooke and Martin, 2006; Henry, Pollard and Benneworth, 2006; Swann, 2006).

Several other issues arise as clusters mature. Martin and Sunley (2003: 18) claim that clusters have a life cycle; economies of agglomeration erode over time and "relative if not absolute decline is an inherent systemic feature of cluster dynamics." Porter contends that when competitiveness is waning the 'diamond' processes reinforce the decline so that it is difficult to arrest. Firms may shift to low cost countries or regions (Martin and Sunley, 2003; Maskell and Kebir, 2006). Clusters may be adversely affected by external shocks such as technological change or changes in consumer preferences, especially clusters with a high concentration of similar firms (Rosenfeld, 1997; Martin and Sunley, 2003; Maskell and Kebir, 2006).

Nooteboom (2006) identifies inherent tensions in requirements for the effective operation of clusters related to cognitive distance; differences in how individuals perceive, interpret and evaluate the world. Minimal cognitive distance is required for networks to operate effectively to determine and achieve common objectives. On the other hand, diversity is required to foster innovation. Thus, there is a trade-off between flexibility to enhance innovation and stability in order to exploit existing capabilities. Nooteboom explains that the importance of exploitation and innovation varies over time and that developing new capabilities may require significant changes to embedded systems and relationships. Inability to effect necessary changes reduces innovation and results in lock-in and hysteresis (Martin and Sunley, 2003; Asheim, Cooke and Martin, 2006; Maskell and Kebir, 2006).

3.5. Critiques of cluster theory

Porter claimed that the major function of clusters is to contribute to national competitiveness and subsequently asserted that export-oriented clusters drive regional prosperity (Simmie, 2006). Porter (1998a) proposes that national, state and local governments develop policies to reinforce existing or nascent clusters by investing in the creation of specialised factors such as education and training centres and specialised infrastructure. In particular, he recommends that regional development policies for disadvantaged regions adopt this approach rather than policies that attempt to lure firms to an area by offering subsidies which are generally ineffective in creating competitive advantage. Similarly, Nooteboom (2006: 160) endorses facilitation of cluster development by "giving a nudge here and there" but warns that policies that may be appropriate at one stage of cluster development may be counter-productive at another.

There is consensus that cluster promotion strategies are unlikely to succeed in creating clusters from scratch (Porter, 1998a; Martin and Sunley, 2003). Several commentators point to the difficulty of transplanting successful strategies that arise in unique local circumstances (Martin and Sunley, 2003; Belussi, 2006; Nooteboom, 2006). As Maskell and Kebir (2006: 41) stress:

> Countless well intentioned but ineffectual cluster policies from all parts of the world seem to highlight the limits of the nation state, or any other political authority, in creating economically sustainable competitive advantages by design from above. No kind of vogue phrasings or remolded instrument packages can apparently alter the fact that the role of policy in the

> development of cluster advantages can only be marginal, indirect and long-term. Results are measured in decades if measurable at all.

Other potential problems to be confronted include developing a strategy to integrate clusters into national and international networks, maintaining the benefits accruing from co-operation without becoming bureaucratic, and the difficulty of sustaining growth in fledgling clusters (Asheim, Cooke and Martin, 2006).

Appropriateness of policy prescriptions depends on whether clusters deliver the benefits that the theory predicts. Cluster theory has been the subject of critiques on several grounds. Some authors have accepted that clusters make a valuable contribution to economic growth but contend they have been oversold and should be considered as ‘a’ policy option rather than ‘the’ policy (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006). Others have stressed that the benefits of clusters are not automatic (Simmie, 2006; Swann, 2006), and in any case, where clusters succeed, policy interventions are superfluous since new entrants will be attracted (Swann, 2006). Further, Amin (1999) cautions that supply-side measures recommended by Porter, such as upgrading transport and communication systems and specialised training, do not ensure economic competitiveness. Swann also cautions that the implicit assumption of proactive policy, that there is an insufficient level of cluster activity due to barriers, may overlook the fact that negative feedback effects limiting the size of clusters may be efficient to the extent that they prevent congestion.

More substantial challenges exist to the proposition that cluster promotion constitutes an effective policy instrument for stimulating regional economic and employment growth. Importantly, cluster theory ignores the importance of aggregate demand and conforms to supply-side prescriptions emanating from neo-liberal economic policy. Mitchell and Juniper point out that by ignoring the macro-economy, new regionalism accepts and reinforces neo-liberalism, and warn: “While distributional changes between regions can occur at a given level of activity, it is a compositional fallacy to assume that all regions can lift themselves without a buoyant aggregate climate.” (Mitchell and Juniper, 2005: 20)

Significant confusion has been generated by the lack of clarity and definition in cluster theory. Martin and Sunley (2003: 18) comment that cluster theory is abstracted from other aspects of the economy and should be re-situated “within the dynamics and evolution of industry and innovation more generally.” Simmie (2006) challenges the claim that concentration of innovation in a limited number of city regions provides support for cluster theory, claiming instead, that international linkages may be at least as important as local cluster dynamics.

Cluster theory assumes that causation runs from clusters to productivity, competition and economic growth. However, Henry, Pollard and Benneworth (2006: 281) claim that the “difficulty (even failure) to link competitive performance benefits with active participation in the cluster by a firm, or firms, represents a significant fissure in the theoretical contentions of cluster advocates.” Martin and Sunley (2003) challenge attempts to generalise the results of case studies claiming that this is likely to constitute a fallacy of composition. Further, they contend that the existence of high-growth industries and geographical concentration “does not mean that this concentration is the main cause of their economic growth” (Martin and Sunley, 2003: 29).

Citing UK data, Simmie (2006) contends that only 5 or 12 clusters identified were competitive on the basis of their export performance. The Community Innovation Survey of innovation in European Union countries in 2001 demonstrated that innovative firms have higher levels of collaboration than non-collaborative firms but that the collaboration was higher with national, and international firms rather than local firms (Simmie, 2006). Similarly, McDonald *et al.* (2007) investigated the performance of clusters in the UK and concluded that there was no strong evidence to support the proposition that local supply chains enhanced international competitiveness. They agreed with Simmie that national and international networks may be more important than local networks. Further, McDonald suggests that a focus on employment growth and income redistribution may contribute more to economic and social objectives than policies to develop international competitiveness. Hendry and Brown (2006: 722) examined the UK cluster in the Opto-electronics industry and found that differences in performance between firms within and outside clusters could be attributed to "the stimulus and growth trajectories of the different markets in which they operate, not from the interactions within clusters stimulating innovation."

4. Regional and local development strategies

An integral component of the 'hollowing out of the state' thesis is the decentralisation or devolution of regional development and employment policies to lower levels or government, non-government organisations or individuals. These measures have involved the transfer of responsibility for provision to lower levels of government or newly created regional agencies with or without transfer of resources to perform the task. As a consequence there is a danger that national governments may absolve themselves of responsibility and jeopardise service delivery by state or local governments that are financially constrained. There has also been a large degree of supra-national involvement in regional development, particularly through the EU structural funds.

According to Beer, Maude and Pritchard (2003), regional development strategies can be classified as institutional, supply-side, or demand-side. Supply-side strategies primarily aim to enhance the business environment. Provision of physical infrastructure such as road, rail, ports, and telecommunications are important for business efficiency. In addition, human capital development can supply a skilled workforce and enhance profitability, while improvements to local services may attract skilled workers. Economic efficiency may be enhanced through business advice, mentoring and networking (Beer, Maude and Pritchard, 2003). Governments have attempted to entice businesses to particular regions or countries through the controversial strategy of 'corporate welfare' through the provision of tax exemptions, subsidies or reduced infrastructure charges. Beer, Maude and Pritchard (2003) argue that this industrial recruitment strategy has failed, but persists due to political expediency; the chances of succeeding in attracting business are low, but the kudos for success is high.

Demand-side policies focus on marketing the region through various initiatives such as advertising campaigns, the development of a regional website, attendance at trade fairs, hosting events, or 'Main Street' programs to encourage patronage of local businesses (Beer, Maude and Pritchard, 2003). Another strategy is to foster the development of new value-adding industries to process the regions products, contribute to economic diversification and skill formation.

As mentioned previously, full employment policies were abandoned following the economic crisis of the mid 1970s. Subsequently there was widespread adoption of neo-liberal policies: fiscal restraint, inflation targeting, labour market deregulation and the opening up of profit-making opportunities in areas previously outside the ambit of the market. The latter included essential services, education, health and social services. The promised 'trickle-down effect', whereby neo-liberal policies were supposed to deliver economic growth and international competitiveness, with the benefits flowing to those displaced from the labour market or disadvantaged by economic restructuring, failed to materialise.

Decades of entrenched high levels of unemployment and underemployment, combined with retrenchment of income support and social service provision, resulted in high levels of social exclusion. As the legitimacy of neo-liberal policies was increasingly threatened, social democratic parties developed the Third Way to “transcend both old-style social democracy and neo-liberalism” (Giddens, 1998). Third Way advocates accept the necessity for neo-liberal economic polices and use the existence of social exclusion and disadvantage to argue for the adoption of supply-side policies of inclusion, primarily in the form of workfare and local initiatives to generate employment.

The OECD defines local development as a:

> bottom-up attempt by local actors to improve incomes, employment opportunities and quality of life in their localities in response to the failure of markets and national government policies to provide what is required, particularly in underdeveloped areas and areas undergoing structural adjustment (OECD, 2001: 22).

Local development is viewed as a complement to national and supra-national programmes that can “significantly reduce unemployment and equality” (European Commission, 2004c: 1). Local employment strategies have been promoted and supported by direct EU funding or participation in pilot projects with other international partners through initiatives such as the Local Employment Development Action Programme, Territorial Employment Pacts, and the Third Sector and Employment Programmes (European Commission, 2004a).

There are four major objectives of local employment strategies (European Commission, 2004a). First, local policies aim to create new jobs by promoting the location to inward investors, encouraging new business creation including self-employment and social enterprises, and identifying employment opportunities in adjoining areas that could be accessed by local job seekers. The second strand of policies addresses the employability of the labour force. Strategies may include training the unemployed to meet the skill needs of local industry or identifying future skill needs and implementing training programmes to ensure the adequate supply of skilled labour. Other initiatives include recognition of skills and abilities, creation of ‘intermediate’ labour market positions to assist disadvantaged groups in the transition to work, or encouraging inward commuters. The third strategy revolves around assisting people to return to work by providing ancillary services such as child care, better labour market information, transport or forums for employers and job seekers. Finally assistance to the most disadvantaged will reduce inequality. These can be achieved by designing jobs that are suitable for disadvantaged job seekers, intensive job search assistance or encouraging employers to consider these job seekers by breaking down skill or attitudinal barriers.

The OECD examination of local development stressed that it is not possible to identify a “single model of best practice” due to the range of initiatives that have been adopted at different times across diverse areas (OECD, 2001: 29). Table 3 summarises the OECD elaboration of the essential components of best practice in local development, including the motivation behind local development, strategies, operational structures, evaluation methods and the consideration of transferability of local development initiatives to other areas (OECD, 2001).

Improving economic performance is the major motivation for regional development. Job creation is the major objective and can be pursued through strategies including micro-enterprises, efforts to improve the competitiveness of existing firms, programs to attract businesses to the area and public sector job creation. Local development can also enhance quality of life through the provision of community and environmental services such as housing, transport, communication, public facilities, water and waste management, environmental protection and remediation, child and elder care, and home help for the elderly and people with disabilities.

Key factors for the successful implementation of local development initiatives are coordination of local strategies with regional and national policies (European Commission, 2004a). Development of an effective strategic plan depends on the involvement and agreement of all relevant parties including government, business and the local community. The plan should determine the geographic area of operation, identify attainable, measurable objectives, roles and responsibilities of various participants and the initiatives that will be established. Initiatives usually focus on job creation and may incorporate training. This process needs to involve an examination of the strengths and weaknesses of the area, having regard to current and future resources and capacities, including natural, human and infrastructure.

Successful regional or local development is critically dependent upon institutional thickness which includes effective and professional structures and processes for implementation and evaluation of the strategy as well as inclusive partnerships with wide community support and clearly defined roles (OECD, 2001; Beer, Maude and Pritchard, 2003). Partnerships consist of individuals and organisations with diverse interests; including business and training organisations, trade associations, community groups and representatives of various levels of government. The strategy must be professionally managed and effectively promoted to business and the community. The literature stresses that local development agencies or partnerships must remain autonomous and retain control over implementation of the strategy (OECD, 2001; Beer, Maude and Pritchard, 2003) although reliance on public sector funding often means that autonomy is restricted.

In addition to the development of strategies, structured evaluation mechanisms form an integral part of the planning process and are critical to successful implementation (OECD, 2001). The plan should set measurable goals, timing, and procedures, and nominate the body responsible for evaluation. Success should be measured using a combination of quantitative and qualitative measures (European Commission, 2004c). Quantitative indicators may include the numbers of jobs created, the number of people completing training programmes, or expenditure, while qualitative indicators include a wider range of outcomes that may include progress toward the labour market due to increased confidence or improvements in inter-personal skills (European Commission, 2004c). In addition, there should be a process for reviewing the effectiveness of the program and a facility for considering improvements or alternatives and a feedback mechanism.

The final consideration is the issue of transferring successful local initiatives to other areas that have similar problems or characteristics. Policy transfer involves complex assessments of the factors that have made the program successful and the extent to which these factors exist in other areas. The bottom-up process means that even when good practices have been identified, they may not be successfully transferred to other areas. Issues that need to be considered include the degree to which place specific characteristics have been responsible for the success of the program. For example, local partnerships may succeed due to motivation and dedication of individuals and may not be transferable. The institutional structures in the new area may not be as well developed as in the original area. Similarly, the new area may not be resistant to the introduction of initiatives that have not been proven in the area.

The OECD concludes that some aspects of regional strategies are more easily transferred than others. While methods, techniques, know-how and operating rules may be transferred, aspects such as ideas, programmes, institutions, and philosophy may not be readily transferable:

> The main lesson that can be learned from existing knowledge on transfer processes is that policy-makers should not attempt simply to transplant policy form one area to another in a passive and one-directional manner. This is unlikely to succeed. Instead, exemplary initiatives and experiments should be put together in a network to enable co-operation and exchange with other areas (OECD, 2001: 37)

Table 3 Best practice in regional, local and community development

Motivation

Stimulation of economic development and restructuring
- Creating jobs, raising incomes and encouraging structural change

Encouraging social progress and improving quality of life
- Improving community facilities and services and combating social exclusion

Conserving and enhancing the environment

Improving governance
- Strengthening institutions
- Community involvement

Strategies and actions

Development of strategy
- Shared vision
- Territory and timetable
- Resource commitment
- Development agency
- Strategic audit
- Develop action plan
- Set goals
- Capacity building
- Include niche strategies

Evolution of strategy
- foundation stage
- using the know-how
- self-sustaining development

Identification of actions
- Job creation
- Training
- Flagship initiative

Operational Structure and methods

Partnership
- Community support
- Roles for each actor
- Results orientated
- Maintain autonomy
- Communication
- No one model of partnership-vary with local conditions

Professional management and local development workers
- Manage funds
- Local workers to promote strategies

Visible and autonomous structure

Leadership

Mobilisation of local population

Evaluation

Statement of rationale

Statement of objectives

Monitoring expenditure, activities and output

Procedures

Assessment of impacts
- **Quantitative**
- **Qualitative**

Assessment of processes

Consider Alternatives

Establish feedback mechanism

Transferability

Challenges and issues
- Identify best practice
- Bottom-up policy makes policy transfer difficult
- Resistance to change
- Weak institutional structures.

What is transferable?
- methods, techniques, know-how and operating rules

Conditions for exchange
- Enterprising and innovative people
- Viable activities
- Adapt programmes to local conditions
- Local development networks
- Identify recipients

Source: (OECD, 2001; European Commission, 2004c)

Importantly, the OECD (2001) stresses that development and implementation of effective regional development strategies is a three stage, long-term project. The initial period of four years is termed the foundation stage consisting of development of the 'know-how' necessary to implement successful plans. Activities during this phase include the development of human resources, establishment effective institutions and communications and liaising with government departments. The second stage, 'using the know-how' spans the fifth to tenth years and is when the strategy is implemented using the experienced people and institutions. The final goal is 'self-sustaining development' which may be attained if the conditions are right.

Strategies designed to promote place-based community development concentrate on the advantages that can be achieved by including local actors (Bradford, 2005). First, place-based strategies provide an opportunity to tap local knowledge, including clients, community organisations, agencies of federal or state governments and local government. A considered assessment of experiences with previous programmes and preferences for the scope and delivery methods for future policies is considered to maximise outcomes. Secondly, the development of programmes at the local level provides the flexibility to incorporate issues of importance that could not be accommodated within a rigid framework of nationally designed policies. The third major advantage of place-based policies is that all the local branches of government can collaborate to deliver coordinated programmes that address a range of issues of importance to clients rather than the much criticised 'silo' approach of each department implementing a narrow strategy in one area without consideration of how other policy areas will impact on achievements. Establishment of local partnerships between government agencies, business, community and resident organisations maximises opportunities for development of programmes that meet local needs and encourage residents to exercise voice and ownership.

5. Social entrepreneurship (SE)

Social entrepreneurship is promoted as the solution to regional development and entrenched unemployment. The concept of social entrepreneurship emerged in the 1990s and has been promoted as a means of addressing regional disadvantage but has also been widely criticised or given qualified approval. It includes a conglomeration of activities by innovative organisations (Austin, 2006; Mair and Noboa, 2006; Perrini and Vurro, 2006), who use business techniques to attain social goals (Latham, 2001: 23; Haugh, 2006).

In order to understand social entrepreneurship it is necessary to examine why it happened, what it is, and whether it represents an adequate response to the employment and social needs of communities. The literature identifies two related causes for the development of SE. First, SE is viewed as a phenomenon that arose in response to the retrenchment of state welfare provision in a period of increasing need due to persistently high levels of unemployment and significant demographic change (Cook, Dodds and Mitchell, 2003; Roper and Cheney, 2005). In addition, Wallace (1999) comments that provision of some products and services by social entrepreneurs is the result of withdrawal of the private sector. The second major factor credited with the rise of SE is increased competition in the non-profit sector for limited funding opportunities, combined with the move away from untied funding to financing tied to performance of government-identified functions (Eikenberry and Kluver, 2004), especially with the advent of contracting out of services previously provided by the public sector. The development of for-profit activities by the non-profit sector has blurred the division between the private and third sectors.

A social enterprise has been defined as:

> any business venture created for a social purpose–mitigating/reducing a social problem or a market failure–and to generate social value while operating with the financial discipline, innovation and determination of a private sector business (Alter, 2006: 5).

Dees (2001) defined social entrepreneurs as change agents in the social sector who: create and sustain social value; pursue opportunities to serve their mission; engage in continuous innovation, adaptation and learning; act boldly; and have a heightened sense of accountability to their constituents. Martin and Osberg (2007) characterise entrepreneurs as individuals who are inspired to alter an unpleasant equilibrium, and demonstrate courage and tenacity in implementing innovative and risky strategies.

In addition, Botsman (2001) defines direct community participation and attacking the fundamental causes of problems as an essential component of social entrepreneurship. Martin and Osberg (2007: 31) insist that any definition of social entrepreneurship must start with a clear conception of 'entrepreneurship' and then determine how the 'social' component moderates this. They state:

> Entrepreneurship describes the combination of a context in which an opportunity is situated, a set of personal characteristics required to identify and pursue this opportunity, and the creation of a particular outcome.

Most commentators agree that the primacy of social benefit is what differentiates social entrepreneurs from other entrepreneurs; they seek profit-making opportunities as a means of achieving their social mission (Dees, 2001; Alter, 2006; Perrini and Vurro, 2006; Martin and Osberg, 2007).

Major dimensions of social entrepreneurship include the types of organisations and activities considered to constitute SE. While there is no consensus in the literature, SE is frequently conceptualised as finding practical solutions to social problems (Seelos, Ganly and Mair, 2006), including both non-profits and for-profit entities that pursue double- or triple-bottom line outcomes (Dees, 2001; Thompson, 2002; Eikenberry and Kluver, 2004; Roper and Cheney, 2005; Robinson, 2006; Martin and Osberg, 2007). Public sector activities and cross-sector partnerships including business, government agencies and community organisations have also been classified as SE (Roper and Cheney, 2005; Austin, 2006). In support of inclusion of the for-profit sector, Perrini and Vurro (2006: 63) posit that restricting social entrepreneurship to the non-profit sector would strip it of "that character of innovativeness in dealing with complex social problems" although they fail to clarify why innovativeness is restricted to the for profit sector. Others restrict SE to the non-profit sector (Boschee and McClurg, 2003; Alter, 2006). Alter (2006) claims that socially responsible businesses are not usually considered to be social entrepreneurs, with the exception of for-profit subsidiaries of non-profit organisations.

Many activities characterised as social entrepreneurship do not involve business activities but rely on private or government funding (Botsman, 2001; Latham, 2001). Boschee and McClurg (2003: 1) contend that organisations relying entirely on funding from philanthropic or government sources cannot be categorised as social entrepreneurs, stating: "Unless a nonprofit organisation is generating *earned* income from its activities, it is *not* acting in an entrepreneurial manner." They stress that social entrepreneurs must strive to achieve sustainability through a combination of philanthropy, government funding and earned income, or alternatively, self-sufficiency by relying entirely on earned income. Wallace (1999) includes community businesses, co-operatives, community development trusts, local credit unions, community-based housing associations and community development corporations in the list of social enterprises. Thus, the essential characteristics of SE are engagement in income generating business activities with the primary purpose of performing of funding the social purpose of the organisation rather than generating profits.

Table 4 Typology of social enterprises

Fundamental models	
Employment	• Operates an enterprise to provide employment opportunities and job training for disadvantaged groups and sells its products in the open market
Fee-for service	• SE sells social services to individuals, firms, communities or third party payer • Mission –rendering social services such as health or education
Enterprise support	• Sells business support and financial services to clients, self-employed individuals or firms • Mission is facilitating financial security of clients
Market intermediary	• Provides services to clients to help them access markets to facilitate client's financial security. • May purchase the products from clients and sell
Market linkage	• Facilitates trade relationships between the target population and external market through brokerage or research
Service subsidisation	• Sells products or services in the external market and uses the income to fund social programmes • Business activities and social programmes overlap sharing costs, assets, operatives, income and often programme attributes
Organisational support	• SE sells products and services to an external market, businesses or the general public • Business activities are separate from social programmes. Often structured as a subsidiary business owned by the non-profit parent
Combining models	
Complex	• Combines two or more operational models
Mixed	• Multi-unit entities combining social and business entities. Subsidiaries or departments to diversify social services and capitalise on opportunities
Enhancing models	
Franchise	• Franchise successful social enterprise model to other non-profits to operate as their own business
Private-non-profit partnership	• Social enterprise conducted by for-profit and non-profit organisation as joint-venture, licensing agreement, or formal partnership • Leverages the non-profit's assets such as relationship with target population, community, brand or expertise

Source: Derived from (Alter, 2006)

Alter (2006) developed a typology of social entrepreneurship comprising seven fundamental models, along with combined models, and enhancing models, differentiated by business structure and the relationship of the social enterprise to the social programme or mission of the organisation (Table 4). The ***employment*** model is designed to create employment opportunities for the target group, usually disadvantaged job seekers such as people with disabilities, ex-offenders, or youth at risk. The enterprise may operate services such as landscaping and cleaning, or businesses such as cafes, bakeries, book shops or used clothing shops. They often provide a plethora of support services to employees including counselling, training and living skills. The second type of social enterprise is ***fee-for-service*** provision of social services such as education or health to the target population, firm, communities or to a third party payer.

A number of models provide support to facilitate business success for clients. The third model, **e*nterprise support***, involves provision of business support and financial services for the purpose of ensuring financial security for clients. Businesses may include financial institutions and management consulting. Both the ***market intermediary*** and ***market linkage*** models assist clients to access markets. Under the market intermediary model, the social enterprise provides assistance with product development, production or marketing and may purchase products from clients for on-selling. Examples of market intermediaries include cooperatives, fair trade, agriculture and handicrafts. Market linkage social enterprises also facilitate relationships between the target group and the market, often providing brokerage or research services but, in contrast to the market intermediary model, do not directly sell products. Examples of this model include trade associations, cooperatives, private sector partnerships and business development programmes.

The final two models, ***service subsidisation*** and ***organisational support***, constitute business operations that are separate from the social mission. These models involve selling products to raise revenues for social programmes. ***Service subsidisation*** social enterprises are integrated with the social programme and may share premises, staff and often programme attributes. A wide range of products and services can be included in service subsidisation; consulting, counselling, employment training, retail activities, printing. The organisational support model is similar but it is usually organised as a separate subsidiary of the parent organisation.

In addition to the fundamental models, social enterprises may consist of a combination of two or more models, the ***complex*** model. Alter (2006) notes that the employment model is often combined with other models to add social value to other activities. The ***mixed*** model consists of multi-unit entities such as subsidiaries or departments for each technical area. According to Alter (2006) mixed models are the norm for mature social enterprises.

Enhancing models include the ***franchise*** and ***private / non-profit partnership***. Franchising facilitates the duplication of successful social enterprises to other areas. Mutually beneficial partnerships with the private sector may consist of joint ventures, licensing or a formal partnership. The non-profit organisation achieves financial gain while the private sector partner benefits from lower costs, reduced regulations and improved community relations that provide access to new markets and increased sales.

As the previous discussion demonstrated, there are significant benefits that accrue from SE. The major advantage is the additional funds that are available to achieve the objectives of the organisation and the absence of restrictions on the use of those funds. In addition to these benefits, the quality of services to the community may be enhanced because social entrepreneurs may be trusted and welcomed into disadvantaged communities and because they can design more flexible services than government departments. The introduction of a business culture and management techniques is claimed to increase innovation, efficiency and cost effectiveness (Eikenberry and Kluver, 2004; Roper and Cheney, 2005; Alter, 2006). However, Eikenberry and Kluver (2004: 135) caution that these benefits are "at the expense of the nonprofit sector's role in creating and maintaining a strong civil society – as value guardians, service providers and advocates, and builders of social capital – may well be too high a price to pay."

There are fundamental issues that must be discussed in relation to social entrepreneurship. At the very least business risk taking and the non-profit model that concentrates on social values, community participation and advocacy for disadvantaged groups, make odd bedfellows (Cook, Dodds and Mitchell, 2003; Eikenberry and Kluver, 2004; Roper and Cheney, 2005; Cho, 2006). The first issue that must be considered is the effect of entrepreneurial activities on the organisation's mission. Engaging in SE runs the risk of prioritising the bottom line rather than social objectives. In addition, the demands of running a business may force organisations to divert resources from service delivery or advocacy. A more insidious consequence could be the gradual erosion of the culture of the organisation as a result of the adoption of business methods. On the one hand, staff may lose confidence in the organisation's commitment to service delivery and leave the organisation. On the other hand, over time staff inculcated with the necessity to generate revenue may change their attitude to the organisation's original ideals. The use of business methods may erode the very characteristics that made these organisations effective in achieving outcomes.

Second, involvement with contracted services previously delivered by the public sector endangers autonomy of the social enterprise (Cook, Dodds and Mitchell, 2003; Eikenberry and Kluver, 2004). Organisations entering into these arrangements are obliged to comply with strict contract requirements. In an environment where disadvantaged groups are blamed for not being self-sufficient due to inherent personal failings, the potential exists for the transformation of organisations with long histories of assisting disadvantaged groups, into enforcers of repressive policies detrimental to the very clients they seek to assist. For organisations engaged in ***service subsidisation***, and particularly ***organisational support***, it is conceivable that staff from different sections of the same organisation could be engaged simultaneously in assisting and punishing the same client. Moreover, reliance on contracts for financial resources undermines the ability or willingness of social entrepreneurs to act as effective advocates or criticise government policy. Another threat to autonomy comes from partnerships with the private sector where social entrepreneurs promote business using their relationship with the community (Cook, Dodds and Mitchell, 2003).

Thirdly, social entrepreneurship is overwhelmingly presented as an unmitigated good in relation to employment outcomes. Small programmes with employment outcomes are frequently portrayed as a blueprint for significant employment creation through duplication. This approach neglects the fact that these projects are not necessarily generalisable. In addition, the possibility of a negative impact on private sector employment is usually ignored.

A major issue rarely broached in the social entrepreneurship literature is the transformation of the relationship between the state and individual citizens (see Cook, Dodds and Mitchell, 2003). The welfare state ensured delivery of certain services as a right of citizenship or acknowledging societal responsibility to citizens wellbeing (Jamrozik, 2001). Advocates of social entrepreneurship promote initiatives designed and implemented at the community level, according to priorities developed at the community level. This approach presupposes that determining 'society's' interest is uncontentious; the potential for 'discord between sections of the community with divergent priorities, including intolerance of minorities' (Cook, Dodds and Mitchell, 2003: 66) is ignored. Everingham (2001) points out that transferring responsibility for social provision to communities absolves government of responsibility.

SE is based on two false premises (Cook, Dodds and Mitchell, 2003). The first is the failure to understand causes of unemployment. Acceptance of the non accelerating inflation rate of unemployment (NAIRU) proposition, that attempts to stimulate employment above the natural rate, generates inflation but has no long-term impact on employment levels, results in abandonment of expansionary macroeconomic policies to combat unemployment and support for supply-side policies that attribute unemployment to inherent deficiencies in the unemployed or labour market rigidities. The second misconception is that expansionary Keynesian policies are no longer possible because of ‘what has become known as the fiscal crisis of the welfare sate – that is, the gap between the revenue raising capacity of an internationally competitive taxation regime and the public outlays required to fund social democratic programmes and the local costs of economic adjustment’ (Latham, 1998: 31).

As mentioned previously, the rise of Social Entrepreneurship is attributed to the decline in welfare state provision and social entrepreneurs are portrayed as proactive, innovative individuals (organisations) who (which) seek to mobilise the resources necessary to fill the void and overcome disadvantage in communities. Advocates of Social Entrepreneurship claim that it gets to the root causes of problems (Botsman, 2001; Dees, 2001). In reality, Social Entrepreneurship becomes an activity that provides the illusion that problems are being adequately addressed while governments continue with neo-liberal policies. Cho (2006: 47) points out that rather than asking what can be done to fill the vacuum left by withdrawal of services, the question that should be asked is ‘Why does the issue exist; why is it that the state welfare system can’t or won’t meet this need?’ He warns that social entrepreneurs may well be addressing the symptoms rather than the root causes:

> If these gaps are actually symptoms of macrolevel political problems, Social entrepreneurship may alleviate the patient’s immediate discomfort without solving deeper problems, becoming a palliative, not a curative measure. The entrepreneurial turn is therefore substantively different from an approach that attempts to preserve the autonomy of ‘civil society’ to participate in concerted, critical evaluation of the operations of the ‘system’; to assemble and integrate information holistically for collective evaluation and action (Cho, 2006: 51).

Social entrepreneurship provides opportunities for expanding social services through the use of entrepreneurial methods. However, it does not compensate for the retrenchment of services previously provided by the public sector and is not capable of creating enough jobs to deliver full employment. One major problem with the promotion of SE is that it becomes a vehicle for assisting governments intent on retrenchment to cover over the withdrawal of services and shift responsibility to the community and individuals. For the social entrepreneur, there is the danger that the adoption of business techniques may divert resources from their central mission and bring about a change in the organisational culture that causes services to deteriorate. In short, social entrepreneurship cannot be distinguished from neo-liberalism and does not represent a viable solution to the problem of unemployment which is caused by systemic failure rather than the failings of individuals.

6. International regional policies

Regional policies are predicated on the belief that interventions are necessary to deliver acceptable outcomes in terms of convergence in economic and employment growth between regions. This section considers the major thrust of regional policy in the United States and Europe. In the United States the emphasis is firmly on improving regional competitiveness. In Europe these objectives are moderated by a concern for addressing regional disparities as an important component of regional economic and social development (SGS Economics and Planning, 2002).

6.1 Regional Policy in the United States

Governments in the United States traditionally played a minimalist role in regional development with the exception of attempting to address market failures, although there have been interventions to address persistent unemployment, poverty and regional disparities (Bureau of Transport and Regional Economics, 2003). During the depression in the 1930s the government provided extensive job creation schemes centred around provision of infrastructure to sustain the large unemployed population. Since the 1960s there have been several phases of regional policies. Economic Development Districts were established in the mid 1960s to provide infrastructure funding and community development loans due to persistent regional disparities (Bureau of Transport and Regional Economics, 2003). The Districts operate through partnerships of local officials, business and community representatives in cooperation with state and federal government departments.

The roles of state and local governments in regional development have changed over time. The emphasis has moved from provision of infrastructure to a wider range of activities to encourage the establishment and expansion of business in the region. Initiatives have included "pro-business tax systems, state sponsored enterprise or development zones, assisted loans, and direct grants for business training and community partnerships" (Bureau of Transport and Regional Economics, 2003: 43). Government have fostered the development of industry clusters to promote regional development. Strategies to improve competitiveness include: transport and infrastructure provision; research and technology incentives; trade promotion and market development; tax and regulatory incentives; education and workforce development; financing assistance; economic and community revitalisation; and, business development and attraction initiatives.

<u>Promotion of industry clusters</u>

Important industry clusters have been identified in San Francisco, Phoenix, North Virginia, San Diego, Seattle, Salt Lake City, Denver, Austin, Atlanta and Boston. While there is no federal cluster development programme in the US, several federal departments become involved in cluster activities. Economic Development Administration research had identified the importance of clusters in innovation and economic development and initiated programmes to encourage innovation and entrepreneurship in depressed regions. It has also realigned funding to concentrate on developing economic regions and improving regional competitiveness through collaboration and innovation (OECD, 2007a). The American Competitive Initiative seeks to increase R&D investment from US$10 billion to US$20 billion over a 10 year period and a Research and Experimentation tax credit will encourage private sector expenditure (OECD, 2007a). In addition, the Workforce Innovation in Regional Economic Development (WIRED) programme will provide US$195 million over 3 years to assist lagging regions affected by global trade to develop strategies involving public, private and community partnerships. The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (SBTT) programmes also enable SMEs in high technology clusters to access funding.

Cluster initiatives are supported at the state level. OECD (2007a) details developments in Georgia. Georgia has a number of programmes that support cluster development. The Georgia Research Alliance (GRA) is a private-sector organisation that commenced in 1990 and distributes state R&D funds to collaborative research projects in science and technology. It includes academics, research centres, business incubators and centres of innovation. There are six partner universities and hundreds of firms involved with the GRA. The alliance supports Technology Development Centers that assist emerging companies access R&D resources of universities and refine the commercial potential of technology being developed. GRA supports development of technology through VentureLab which has pre-incubator services to identify the commercial potential of technology developments. In addition, the GRA Innovation Fund provides grants for projects in advanced computing and communications, bioscience and nanotechnology (OECD, 2007a). In addition to the GRA programmes, Georgia also runs the Centers of Innovation programme to support innovation in industries outside the ambit of GRA such as aerospace, agricultures, life sciences and maritime logistics. The Intellectual Capital Partnership Programme provides linkages between the academic and business communities to ensure access to the latest research and business advice.

Local employment development policies

Deprived urban areas have been a major focus of place-based policies since the mid 1960s Community Development Block Grants (Bureau of Transport and Regional Economics, 2003). During the 1980s most states initiated enterprise zones to attract business investment in specified areas by offering tax advantages in return for job creation (Krupka and Noonan, 2008). There were over 1500 enterprise zones operating in 35 states by the late 1980s (Oakley and Tsao, 2007b).

In 1994 the Clinton Administration announced a similar federal programme, with the creation of Empowerment Zones / Enterprise Community Sites for depressed urban and rural areas (Krupka and Noonan, 2008). Empowerment Zones were designed to stimulate employment, encourage economic self-sufficiency and revitalise economically distressed areas by providing financial incentives to firms and federal funds for community development. Empowerment Zones have operated in the era of welfare reform emanating from the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the number of Empowerment Zones has increased over time.

Empowerment Zones received a block grant of $100 million over a period of 10 years and were also eligible for $150 million federal tax credits (Rich and Stoker, 2007). Employers in Empowerment Zones are eligible for an annual tax credit of $3,000 for each employee who lives and works within the Empowerment Zone. An additional credit of $2,400 is available for the first year of employment of each 18-39 year old employee who lives in the Empowerment Zone. Businesses are eligible for deductions of up to $35,000 for equipment purchases. Other incentives include low interest bonds issued by local and state government for construction projects and no interest bonds for public school programmes.

In a study of 18 Empowerment Zone / Enterprise Communities sites in the initial phase of the programme, general employability training was the most widely implemented job training initiative, followed by industry specific training (The Nelson A. Rockefeller Institute of Government, 1997). Enterprise Communities in Charlotte and East St. Louis established training programmes in construction skills and assistance for participants to locate apprenticeship opportunities. Other common programmes included literacy training, job search assistance, life skills, childcare, and other initiatives such as transport services to assist people access employment and training opportunities.

The Baltimore Empowerment Zone commenced in 1994 with a grant of $100 million over 10 years (The Jacob France Institute, 2005). Operating under the Empower Baltimore Management Corporation (EBMC), the programme concentrated on: job creation; community capacity; quality of life, reflected through housing and crime rates; and workforce development. Initiatives included loans to local business, business development services, main street programmes, establishment of an Ecological Business Park, restoration of historic buildings for office, residential and commercial purposes, a BioPark and Bioresearch Park to foster collaboration between the university, biotechnology and medical community, and community development corporations. Estimated job creation from 1994 to 2004 was 5,777 direct jobs from EBMC job creation programmes (The Jacob France Institute, 2005).

The Knoxville Empowerment Zone commenced in 1999 and covered 16 square miles of the inner city with a population of approximately 50,000 in a community with high unemployment, poverty, substandard housing and low educational achievement. However, these problems were not considered to be "too overwhelming or deep-rooted to solve" (The Center for Neighborhood Development and The University of Tennessee Community Partnership Center, 2002: 6). Federal funds could be used for job creation, entrepreneurial activities, small business expansion, job training, and job support services but not for other priorities such as housing rehabilitation that were identified by the local community (The Center for Neighborhood Development and The University of Tennessee Community Partnership Center, 2002) .

The governance structure was designed to maximise community involvement and included: broad-based participation in governance and implementation; accountability to funders; flexibility; and on-going evaluation and monitoring. The City of Knoxville retained responsibility for managing grants, administration and conducting audits. There were 3 other components of the governance structure. The Governance Board included representatives from business, financial institutions, religious institutions, government, philanthropic organisations, and service providers and was responsible for deciding how funds were to be used, and policy setting in accordance with regulations of the programme. Secondly, there was a Zone Advisory Council established in each of the 6 areas of the Empowerment Zone. Membership incorporated residents, employers, civic and non-profit organisations, schools and public institutions. Each Zone Advisory Council has a Board elected by members.

The third component of the governance structure consisted of the Knoxville Empowerment Zone-Wide Planning and Evaluation Committees. The Planning Committee has representatives from each Zone Advisory Committee and other members appointed by the Governance Board. The Planning Committee decides which projects to recommend to be implemented on an Empowerment Zone-wide basis, or on a more localised basis and also develops implementation plans after gathering and assessing information, assessing the feasibility of projects and the resources needed. The Evaluation and Monitoring Committee oversees preparation of an annual report to residents, conducts surveys of stakeholders, evaluates the effectiveness of projects, and identifies changes needed or gaps in services. Reports are forwarded to Zone Advisory Councils and Governance Board.

There were several programmes implemented to support the Knoxville Empowerment Zone. Business grants were provided to train people for occupations in demand and refer them to employers, grant and loan programmes for home improvement, business startup and expansion (The Center for Neighborhood Development and The University of Tennessee Community Partnership Center, 2002). Qualifying businesses may also be eligible for a number of tax incentives. Businesses employing long-term unemployed people are eligible for Welfare to Work tax credits of up to $3,500 in the first year and $5,000 in the second year (City of Knoxville, 2008). Work Opportunity tax credits of up to $2,400 were available for employment of individuals from disadvantaged groups such as residents aged 18 to 24, welfare recipients or ex-offenders. In addition, businesses could increase depreciation of equipment and machinery up to $20,000 and claim deductions of expenses related to clean-up of hazardous materials on Brownfield sites (City of Knoxville, 2008).

Residents are eligible for grants for further education, and grant and loan programmes were established for home improvement. Other projects included development of office buildings, shopping centres, and health facilities. Community information centres provide family counselling and information on money management and investments, legal advice, and incorporated a career centre for job skills training. Recreation facilities planned included a skating park and bowling alley; gym with fitness classes; recording studio; theatre; and a resource centre to provide internet access, computer training; and pre school programmes (The Center for Neighborhood Development and The University of Tennessee Community Partnership Center, 2002).

The Nelson A. Rockefeller Institute of Government caution against raising unrealistic expectations regarding the outcomes of Empowerment Zones:

> Three decades of job training and workforce development experience should temper our expectations for the development and implementation of job training and workforce development activities in the EZ/EC communities…. Anticipation of easy and early success of such programming should, for the most part, be limited at best. (The Nelson A. Rockefeller Institute of Government, 1997: 108)

The efficacy of spatially targeted strategies such as enterprise zones or Empowerment Zones to reduce disparities in employment and economic development has been disputed. Krupka and Noonan (2008) claim that early research found significant positive benefits for enterprise zones but more recent research has failed to find significant impacts (Bureau of Transport and Regional Economics, 2003; Krupka and Noonan, 2008). An evaluation of the first 5 years operation found that there was significant job growth but this did not always correlate with zone programmes, businesses had not used incentives extensively and importantly, the zones were not successful in placing the long-term unemployed (Oakley and Tsao, 2007a).

Several reasons have been put forward as possible explanations for the limited success of such policies. Some have commented that tax incentives have not been generous enough to overcome other perceived locational disadvantages for business while others have suggested that positive benefits for new firms have been counter-balanced by negative effects for existing firms (Krupka and Noonan, 2008). In addition, the fact that most job growth in enterprise zones is attributable to existing business, suggests that new business development may require initiatives such as business incubators, technology transfer programmes or assistance with obtaining finance (Bureau of Transport and Regional Economics, 2003). Another major finding of evaluations is that improvements in Empowerment Zones are not necessarily attributable to the programme (Rich and Stoker, 2007).

Oakley and Tsao (2007b) used census data to examine changes in various socioeconomic indicators between 1990 and 2000 in Empowerment Zones and comparison areas in Chicago. They found that Empowerment Zones performed better in some indicators; unemployment fell by 6.75 per cent compared to only 3 per cent in comparison areas; household income increased more in employment zones. The number of people on public assistance fell in both areas but there was no significant difference in performance. However, Oakley and Tsao (2007b) contend that the educational initiatives in the Empowerment Zones were ineffective because high school completion rates declined in these areas while they rose in the comparison areas.

Other research suggests that “there is substantial evidence that empowerment zone programmes created measurable benefits” (Rich and Stoker, 2007: 1). Rich and Stoker (2007) found that there was significant variation in performance between Empowerment Zones and contended that effective local governance was critical to success of the programme, including extensive community involvement. In comparison to control areas, the Empowerment Zones in Baltimore, Detroit and New York performed better in terms of job creation, while Atlanta and Chicago performed worse, and there was no significant difference for Philadelphia. With the exception of Atlanta all areas performed better in terms of poverty rates. The impact on unemployment rates compared to control areas was mixed. Improvements occurred in Atlanta, Detroit and Philadelphia but deteriorated in Baltimore and New York.

<u>Social entrepreneurship in the United States</u>

The US was a pioneer of the use of the non-profit sector as a delivery mechanism for government programmes dating back to the 1970s (Young, 2003). The turn to neo-liberalism by the Reagan government in the 1980s severely restricted funding of non-profit organisations and initiated a search for financial security through self-funding, a process that was to become known as social entrepreneurship, as earned income became the main source of revenue, outstripping government grants and donations (Young, 2003). The non-profit sector currently has involvement in a wide range of industries.

The sector currently employs 8.4 million workers and accounts for 5.2 per cent of GDP (Wolk, 2007). Advocates of social entrepreneurship acknowledge that its impact on meeting need is "limited by its ability to sustain or scale initiatives" and suggest a closer relationship with governments and the private sector to obtain the financial resources necessary to solve the serious social problems confronting the US (Wolk, 2007: 13). Governments currently support social entrepreneurs by: encouraging social innovation by providing seed funding; creating and enabling environment by removing barriers and supporting collaboration; rewarding performance through financial support; scaling initiatives' success by funding programmes at other sites; and producing knowledge about problems and solutions that enhances social entrepreneurs' efforts (Wolk, 2007).

Young (2003) details various types of social enterprises in the US that provide employment opportunities for disadvantaged job seekers: a bakery that employs and trains workers; provision of retail services to disadvantaged neighbourhoods that also provides employment opportunities to residents; manufacturing, warehouse services and restaurants that provide employment and rehabilitation to ex-offenders and people with drug dependency. Addressing the dearth of long-term programmes for drug addicts, Triangle Resident Options for Substance Abusers Inc. (TROSA) provides a two-year residential programme that combines counselling with education and vocational training; clients work at the centre or in one of several businesses operated by TROSA (Wolk, 2007).

More recently the non-profit sector has been in direct competition with the for-profit sector in a range of services such as child care, family services and job training, including competition for government contracts. Non-profits have also formed associations with for-profit businesses that have provided financial assistance such as grants and scholarships and in-kind resources such as employee volunteer programmes. KaBOOM provides quality playground equipment to underprivileged communities by partnering with major companies that provide donations, service fees and employee volunteers in return for corporate team-building and social marketing by KaBOOM (Wolk, 2007).

There are dangers for the non-profit sector as organisations increasingly resemble for-profit organisations. Dedication to making profits from commercial activities, and the increasingly corporatised management model, risk the loss of the very attributes that set the non-profit sector apart and endanger the primacy of the mission.

6.2 How successful has regional policy been in eliminating spatial disparities in unemployment rates in the US?

Beer (2004) claims that regional policy is more developed in the US than in Australia. Dedicated local government tax revenues can be used for economic development with advantages of scale and a strong focus on meeting business needs. Regional policy is geared to attracting business to the region and developing marketing opportunities in other regions of the US (Beer, 2004).

Nevertheless, regional employment and development policies have not proven capable of eliminating regional disparities in employment. An examination of demand shocks in the United States over 40 years to 1990 found that most of the adjustment following an adverse shock is due to out-migration, rather than job creation or attracting firms to the location (Blanchard *et al.*, 1992).

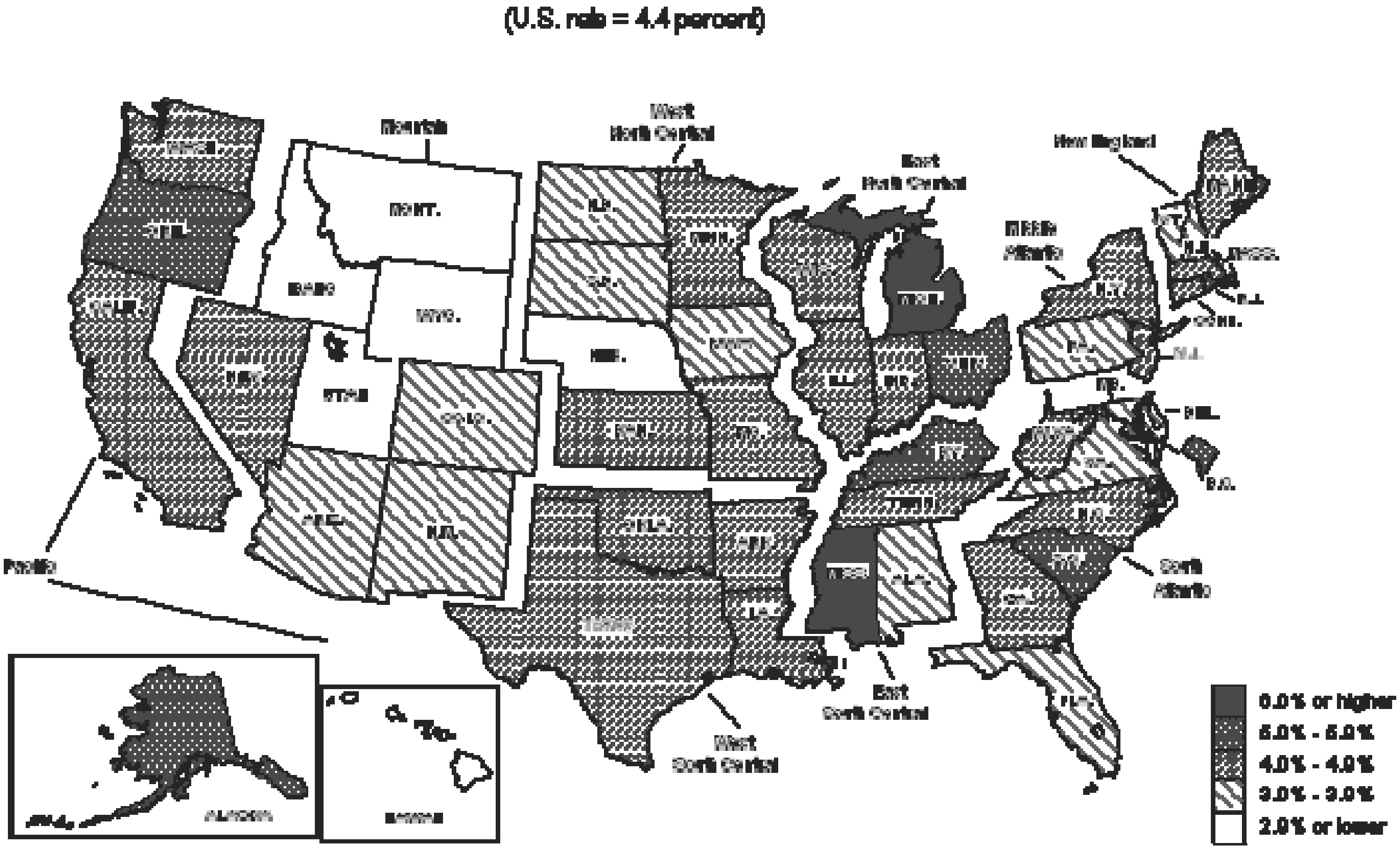
Figure 3 displays unemployment rates in March 2007 by state and shows that unemployment rates vary considerably. This variation is also evident in Table 5 which lists the states where the unemployment rate varies significantly from the nation unemployment rate of 4.4 per cent in March 2007. Unemployment is highest in Mississippi (6.9 per cent) and Michigan (6.5 per cent) and lowest in Montana (2.0 per cent) and Utah (2.4 per cent).

Table 5 States with unemployment rates significantly different from the national average, March 2007

State	Unemployment Rate
Alabama	3.4
Alaska	5.9
California	4.8
Colorado	3.6
Delaware	3.4
District of Columbia	5.5
Florida	3.3
Hawaii	2.5
Idaho	2.8
Iowa	3.2
Kentucky	5.4
Maryland	3.6
Michigan	6.5
Mississippi	6.9
Montana	2.0
Nebraska	2.6
North Dakota	3.1
Ohio	5.2
Oregon	5.2
Pennsylvania	3.8
South Carolina	5.9
South Dakota	3.1
Utah	2.4
Virginia	3.0
Wyoming	2.6
National average	4.4

Source: (Bureau of Labor Statistics, 2007)

Figure 3 Unemployment rates in the United States, March 2007



Source: (Bureau of Labor Statistics, 2007)

6.3 Regional policy in the European Union

EU regional policy is premised on reducing disparities in economic growth and labour market access as the way to address social exclusion, reduce bottlenecks and inflationary pressures and maintain social cohesion (Commission of the European Communities, 2005b). Regional employment policy is implemented through a combination of the European Employment Strategy (EES) and nationally based policies. A local dimension was added to the EES in 2001 and National Action Plans from member countries outlined national, regional and local policies to support job creation (Employment and Social Affairs, 2004). The relaunched Lisbon strategy in 2000 re-iterated the objective of reducing regional disparities in employment and unemployment rates by ensuring that regional and national employment programmes targeted less prosperous regions (Commission of the European Communities, 2005c). National Action Plans (NAPs) from member countries outline national, regional and local policies to support job creation.

Delivery of the EES is underpinned by the Structural Funds that support regional programmes to combat unemployment and develop human resources to ensure a high level of employment. For the period 2000-06 there were 3 major priorities for the Structural Funds (European Commission, 2004a). Objective 1 funding promoted development and structural adjustment for lagging regions (regions with per capita GDP less than 75 per cent of the Community average). Financial support for infrastructure, investment, human resource development, and industry restructuring was provided to enhance productivity and competitiveness of the designated regions, and ultimately produce convergence. Objective 2 supported areas experiencing structural difficulties in industrial or service sectors, declining rural areas, depressed urban areas or areas reliant on fisheries. Modernisation of education and training, along with labour market integration of youth, the long-term unemployed and those at risk of exclusion, constituted Objective 3. For the period 2000-2006 expenditure on Objective 1 of €150 billion accounted for 74 per cent of total Structural Fund expenditure, while Objective 2 expenditure amounted to €24 billion and Objective 3 spending was €26.5 billion (European Commission, 2006c).

From 2007 the Structural Funds came under the reformed Cohesion Policy that focuses on knowledge and the information society, entrepreneurship, the environment and employment (European Commission, 2006b). The bulk of the funding is available to the poorest or ‘Convergence’ regions while ‘Regional Competitiveness and Employment’ funding will: assist innovation and knowledge transfer; stimulate enterprise by promoting business clusters assisting with finance and incubators; promote social entrepreneurship, employment and public services; regenerate deprived neighbourhoods; and contribute to sustainable development, and improve accessibility to training projects (Third Sector European Network, 2007).

In addition, funding is provided under the Community Initiatives and Innovation Scheme and the Cohesion Fund. Community Initiatives expenditure of €11.4 billion supported 4 programmes: cross-border, interregional and transnational cooperation (Interreg III); support of innovative strategies in cities (URBAN II); rural development (Leader+); and EQUAL to combat labour market discrimination. Cohesion Fund expenditure of almost €20 billion co-financed major environmental and transportation projects in countries with GDP less than the EU average.

The Cohesion Fund was established in 1993 to provide financial assistance to countries with GDP per capita below the Community average (Boldrin and Canova, 2001; European Commission, 2006a). Funds are used to assist poorer countries with development of infrastructure and environmental programmes while complying with Maastricht Treaty requirements. Major beneficiaries of Cohesion Fund assistance from 2000 to 2006 were Greece, Ireland (until 2004), Portugal, Spain and the 10 new member states from 2004.

Priorities adopted in the Employment Guidelines in 2006 included:

- Preventing long-term unemployment and helping the unemployed and those not in the labour force to find work;
- Creating more jobs and encouraging entrepreneurship;
- Addressing change and promoting adaptability;
- Promoting human capital development and lifelong learning;
- Ensuring adequate labour supply and promoting an active older workforce;
- Ensuring gender equality;
- Integrating the disadvantaged into the labour market;
- Making work pay;
- Reducing undeclared work ;
- Reducing regional employment and unemployment disparities.

For the current funding period, 2007-2013, the Structural Funds come under the reformed Cohesion Policy which focuses on knowledge and the information society, entrepreneurship, the environment and employment (European Commission, 2006b). Three priorities replaced Objectives 1 to 3 and funding has been increased to €308 billion (1994 prices). The bulk of the funding (82 per cent) is available to the poorest or 'Convergence' regions which are similar to Objective 1 regions and include most of the new Member States. The second priority 'Regional Competitiveness and Employment' will receive 16 per cent of Structural Funds to assist innovation, sustainable development and to improve accessibility to training projects. The final priority provides 2.5 per cent of total funding for 'Employment and Territorial Cooperation' or cross-border cooperation.

The EU has a number of programmes designed to support clusters and regional specialisation to increase the international competitiveness of regions. Since the mid 1990s RITTS/RIS has assisted more than 100 regions to develop regional innovation strategies while Innovation Relay Centres have been established in 33 countries to assist innovation and transnational technological co-operation by supporting SMEs (OECD, 2007a). The 'regions of knowledge initiative' facilitates transnational mutual learning and co-operation between research-driven clusters through partnerships of regional authorities, industry, and research organisations (OECD, 2007a). Similarly, the Europe INNOVA initiative encourages networking between clusters to establish joint research projects and business initiatives (OECD, 2007a). The 'mapping and analysis of innovation clusters in Europe' project is developing a database on European clusters to identify best practice and develop future policy. In recent years there has been greater emphasis on developing effective local strategies (Section 4) and encouraging social entrepreneurship (Section 5). Cook (2008a) provides case studies of 2 EU countries, Sweden and the United Kingdom, that outline labour market and regional polices pursued at the national level and in conjunction with the EU.

<u>Evaluations of effectiveness of regional policies in achieving convergence in the EU</u>

EU policies have been credited with varying degrees of success in the objective of eliminating spatial disparities in unemployment rates, and growth rates. For example between 1994 and 1997 structural interventions in Objective 2 regions were estimated to have been responsible for the creation of 700,000 jobs and unemployment declined more rapidly in these areas than the EU as a whole (European Commission, 2004b). However, the old industrial areas have persistently low rates of economic growth. Regions in the north-east of England, the northern areas of Germany and northern Sweden have growth rates around half the European average (European Commission, 2004b).

Moreover, there has been a wide variation in GDP per capita growth rates which ranged from 189 per cent of the EU average in the 10 top regions to 36 per cent in the bottom 10 regions in 2002 (Commission of the European Communities, 2005a). Large internal disparities in GDP share exist in Hungary, the Czech Republic, Slovakia, the UK and Belgium, while Italy is the only country where this has declined over time (Commission of the European Communities, 2005a). Employment rates in many regions are below the target of 70 per cent that was set for the Lisbon Strategy by 2010 and 22 million jobs are required to meet the target (Commission of the European Communities, 2005a). This section reports the findings of macroeconomic studies into the phenomenon of convergence in the EU.

There is widespread agreement that Europe experienced convergence in the period from 1950 to the 1970s, however many claim that convergence slowed or ceased from the late 1970s or early 1980s (López-Bazo *et al.*, 1999; Boldrin and Canova, 2001; Martin, 2001a; Cappelen *et al.*, 2003; Castro, 2003; Canova, 2004), or that divergence commenced from the mid 1970s (López-Bazo *et al.*, 1999; Terrasi, 1999). López-Bazo *et al*. (1999: 367) attribute the transformation from convergence to divergence to fundamental differences in the economic conditions between these periods. Some peripheral regions were able to improve their economic situation due to the diffusion of mature manufacturing activities in the earlier period but have subsequently been unable to successfully compete with more developed regions in high-value activities that have benefited from agglomeration economies. Others claim that there has been convergence (Beutel, 2002; Ezcurra and Pascual, 2005; Paas and Schlitte, 2006). A more nuanced view identifies alternating periods of convergence and divergence (Dunford, 1993; Dunford and Smith, 2000; Rhodes, 2000; Terrasi, 2000) which is proposed as an explanation for disparate findings of studies spanning these different time periods (Terrasi, 2000).

Empirical studies in EU regions have used regressions and dispersion measures of per capita income, employment, unemployment rates, and labour productivity to test for convergence. Analyses have been conducted over different time periods using different Nomenclature of Territorial Units for Statistics (NUTS) levels to define regions, and have found differences between regional disparities at the country and intra-country level. In addition, spatial polarisation has been found at the intraregional level. Difficulties associated with empirical investigations include determining which indicators to use since different indicators have produced different results for the analysis of trends and determinants of inequality (Dunford, 1993). More importantly, results are sensitive to the choice of geography which is usually restricted to NUTS administrative regions which are not necessarily functionally meaningful (Dunford, 1993).

Several investigators have used a regression approach to test for **convergence** of per capita income. Paas and Schlitte (2006) used data for NUTS3 regions to test for conditional and unconditional convergence between 1995 and 2002 and found that a slow rate of absolute convergence for both EU-25 and EU-15. They concluded that with a rate of convergence of 1.4 per cent per year it would take 49 years for half of the initial differences in regional income levels to disappear. Similarly, for the EU-15 it would take 47 years for half the initial income disparities to vanish at a convergence rate of 1.5 per cent per annum.

Castro (2003) used Eurostat GDP per capita at purchasing power standards (PPS) data for 141 EU-12 regions between 1980 and 1996 at the NUTS0, NUTS1 and NUTS2 regional levels to calculate a variety of inequality indicators. Both the Gini and Atkinson index indicated a reduction in income disparities but the rate of convergence varied between time periods. They then decomposed total inequality using the Theil index to determine the contributions of inter- and intra-country factors and found that three quarters of spatial inequalities are attributable to intra-country disparities and only one quarter is due to inter-country income variation. Castro (2003) concludes that policies to facilitate convergence in the EU should concentrate on addressing internal inequality.

The traditional regression approach has been criticised because it represents comparisions of an average economy but conceals information about the dynamics of regional income distribution (Quah, 1996; López-Bazo *et al.*, 1999; Martin, 2001a). Measures of dispersion, inequality, density and polarisation have been used in several studies. López-Bazo *et al.* (1999) used spatial association tests to examine regional dynamics and convergence with Eutostat GDP per capita and GDP per worker data from the early 1980s to the early 1990s. They found the richest regions exhibited a larger increase in inequality in GDP per capita in the first half of the 1980s, then a larger decrease in inequality in the late 1980s. In contrast, there was convergence in GDP per worker throughout the period. They concluded that integration may result in convergence of productivity but not income, and that richer regions in poor countries appeared to be catching up with rich countries while poorer regions were being left behind (López-Bazo *et al.*, 1999: 347).

Qualified support for convergence has been found using measures of inequality and dispersion. Dunford (1993) used a weighted Gini coefficient and mean absolute deviation to test for convergence in between 1977 and 1989. At the country level he found that inequalities increased until 1986 then declined, while at the NUTS3 level they increased in several countries. At the NUTS2 level regional inequalities declined in Greece and Portugal in contrast to increasing disparities in most other countries. Ezcurra and Pascual (2005) used net income per capita from the European Community Household Panel data for NUTS1 regions between 1993 and 1998. They constructed a density function of the Gini index for each region and found evidence of convergence which they attributed to the reduction in inequality in the regions that had relatively high levels of inequality in 1993. National and spatial factors were examined by Terrasi (2000) who used various decompositions of the Theil index and various EU country groupings for the period 1975 to 1997. The decompositions include between and within country comparisons, and productivity versus employment rates. Terrasi concludes that the process of convergence has been discontinuous due to the changing environment, including disruptions due to the enlargement of the EU, and recommends different strategies for weak regions of old and new member states.

Another phenomenon that is considered in the literature is the existence of **convergence clubs** or the tendency for regions to “cluster around a small number of poles of attraction” (Canova, 2004: 49). Convergence clubs could exist due to the existence of some threshold level that is a precondition for convergence but not attained by all regions. The existence of convergence clubs would suggest that existing policies are not achieving the goal of assisting poorer regions to catch up with more developed regions. Canova (2004) used NUTS2 Eurostat data and OECD per capita income data to test for the existence of convergence clubs and concluded that there were two distinct groups at the national level and four groups at the regional level. In both cases there is a rich-poor division and the poor regions do not tend to move up the income distribution.

Similarly, Dunford and Smith (2000) decompose per capita GDP to determine the share of the differential that is attributable to productivity or employment disparities between 1993 and 1998 and found evidence of four groups of countries. The first two groups consist of richer countries; the first with high employment rates and average productivity, while the second has low employment rates and average to high productivity. The remaining groups consist of poorer countries. The first group characterised by lower than average productivity and employment rates, while the second has average productivity with low employment rates. They concluded that there was a trade-off between productivity and employment rates in poorer countries.

Martin and Tyler (2000) analysed employment growth at the national and regional level. At the national level they identified 3 groups and found no evidence of convergence. At the regional level they found that divergence in employment growth was greater in the 1980s, a period coinciding with the decline of manufacturing, then slowed in the 1990s. Divergence was higher in Italy, Spain, the UK and Greece, therefore there is no support for the proposition that that the Objective 1 regions are catching up.

Martin (2001b) investigated the dynamics of productivity growth between 1975 and 1998. Using gross value added per worker (GVA) as a proxy for productivity he found evidence of weak convergence in productivity of around 0.4 per cent per annum but that all of this occurred between 1975 and 1986 and was attributable to reductions in between country variance. Martin (2001b) also analysed regional employment growth using the cumulative change in the logarithm of regional employment relative to that in EU-16 total employment and found that regional employment diverged from the mid 1970s with the majority of employment growth occurring in the Ireland, southern England, the Netherlands, parts of Germany, Austria and northern Italy. Conversely, the older industrial areas of northern UK, Sweden, Finland, southern Italy, and Spain recorded declines in absolute terms. Moreover, Martin found a strong inverse correlation between productivity and employment growth.

An examination of regional unemployment rates by Overman and Puga (2002) found that polarisation of the unemployment rate increased by 37 per cent between 1986 and 1996. They concluded that regional unemployment rates are driven by spatially related demand shifts that reflect agglomeration effects rather than supply. They point out that if labour force growth had been more even, unemployment would have been even higher in high unemployment regions. Also they content that “variations in national institutions cannot be the main explanation for variations in Europe’s regional unemployment rates (Overman and Puga, 2002: 131).

Successful outcomes from Objective 1 funding require that lagging regions perform at a level above the EU average for all major indicators (Boldrin and Canova, 2001). Evaluations of the impact of Structural Funds in assisting Objective 1 regions to converge with the EU average have produced varying results. Beutel (2002) used a dynamic input-output model to estimate the impact on growth, employment and capital use between 2000 and 2006. Projected outcomes indicated that Objective 1 interventions induce regional GDP of 133.1 per cent, that is, for expenditure of 1 Euro GDP increases by 1.33 Euros. They also change the demand structure towards more investment, and the supply structure towards development of human resources. In addition, projections indicate employment gains of 1.4 million and capital stock growth of 3.6 per cent. The European Commission (2004b) concluded that convergence occurred between 1994 and 2001 since Objective 1 regions grew at an average annual rate of 3 per cent compared to the EU average of 2 per cent. GDP in 1999 was estimated to be 1.5 per cent higher in Spain, 2 per cent higher in Greece, 3 per cent higher in Ireland and 4.5 per cent higher in Portugal, then it would have been without Structural Fund assistance (European Commission, 2004b).

However convergence did not occur with respect to employment with strong employment growth in Ireland and Spain counterposed by lower growth in Portugal and little employment growth in the new Länder of Germany or Mezzogiorno region of Italy. Indeed, Martin and Tyler (2000: 615) point to the "dismal employment growth of the Mediterranean Bloc, apart from parts of Italy, stands out clearly and this despite considerable support from the European Union Structural Funds." Rodriguez-Pose and Fratesi (2004) examined the standard deviation of nationally weighted regional GDP for the EU, Greece, Italy, Portugal and Spain for evidence of convergence from 1989 to 1999 and found that regional disparities increased in the EU, Greece, Italy and Spain and concluded that the Structural Funds have not been successful in achieving convergence. Dunford and Smith (2000: 180) concur with this view, pointing to World Bank modelling that indicates convergence to 75 per cent of EU per capita GDP for Objective 1 regions would take 15 years for the Czech Republic and 91 years for Slovenia if current national economic growth rates continue.

While the evidence of convergence is inconclusive there are some comments that can be made. The disparate findings suggest that the process of convergence is complex and sensitive to the time period considered, the variables used in the analysis and the regional level considered. In particular, at higher levels of aggregation regional disparities are likely to be less obvious and the use of average per capita income at the regional level disguises intra-regional variations.

There are several findings that cast doubt on the efficacy of EU regional policy that is predicated on the belief that assistance will deliver balanced growth by enabling poorer regions to catch up with richer regions and thus ensure social cohesion. Evidence of convergence is weak and suggests that any convergence that is occurring is very slow (Martin, 2001b). Convergence is greater at the national level than the regional level, suggesting that it is dominated by privileged regions in poor countries catching up with richer countries and thereby leaving behind the poorest regions. Many studies have found evidence of divergence. Convergence clubs indicate that regions cluster and there is no tendency towards convergence.

Evidence of an inverse relationship between productivity and employment growth is of more concern for employment and social cohesion outcomes. This suggests that productivity catch-up will not ensure employment catch-up or reductions in unemployment. The consequences for regions with low rates of employment growth are higher unemployment and entrenched long-term unemployment with attendant social problems, outward migration of the youngest and most able people, and the potential of regional imbalances to inject an inflationary bias (Rhodes, 2000).

7. Conclusion

In recent years the traditional approach of concentrating regional policies on assisting lagging regions has been jettisoned in favour of encouraging all regions to concentrate on local assets to increase competitiveness in a rapidly globalising economy where it has been proposed that regions are becoming more important and less dependent on the fortunes of the national economy. In the new regional paradigm, the emphasis is on developing the innovative, knowledge intensive assets of the region and effective linkages between businesses.

Porter's contention that clusters are responsible for increased productivity and economic growth has resulted in promotion of clusters as the vehicle for economic development that is appropriate to all regions. The major policy recommendation is that governments should facilitate cluster development through a range of supply-side measures. Moreover, policy prescriptions ignore the fact that clusters are a specific form of development that arise due to an often unique range of factors that are not easily replicable. The causal link between clusters and productivity growth has not been conclusively proven. Even if the benefits of clusters could be demonstrated, there are several impediments to widespread use for economic development. First, and most importantly, cluster theory ignores the critical importance of macroeconomic environment in stimulating growth. Second, as the preceding discussion has demonstrated, transplanting strategies used by successful clusters is far from straightforward, precisely because these clusters are the product of unique and spatially specific conditions. These conditions, including dynamic networks and inter-firm relationships are not easily reproduced. Some authors contend that clusters have been oversold and should be considered as ‘a’ policy rather than ‘the’ policy (Martin and Sunley, 2003; Henry, Pollard and Benneworth, 2006). Thus, any positive impact of clusters should be considered as one of several tools to promote economic and employment growth; used in isolation policies to promote clusters are unlikely to have significant impacts, especially in disadvantaged areas.

The turn to social entrepreneurship and other local development strategies is closely related to new regionalism and government abrogation of responsibility for full employment and the desire to outsource services previously delivered by the public sector. While social enterprise is eulogised as a solution to unemployment, particularly in deprived neighbourhoods, McCabe and Hahn (2006: 396) point out that “there is a gap between the rhetoric attached to social enterprise and its capacity to deliver economic and social policy imperatives” and conclude that it has only a marginal impact at the macro level and is highly reliant on government support.

These strategies are inadequate for the task of restoring full employment in the presence of macroeconomic constraints and a situation where private sector job creation has proven to be insufficient to provide jobs to all those willing and able to work. While development of clusters may provide tangible employment and income benefits in particular regions, this may be at the expense of other regions, and is not capable of producing the quantum of employment necessary. Similarly, local strategies and social enterprises may increase the total number of jobs or they may simply replace some of the jobs lost in the public sector. Even if there is net job creation it is extremely doubtful that it will be on the scale required to restore full employment. The fundamental issue is that the various components of the new regional approach to employment generation accept the tenets of neo-liberalism, concentrate on supply-side interventions and ignore the primacy of aggregate demand in determining the level of employment in the economy.

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