REGIONAL DISPARITIES ACROSS EUROPE: FUTURE PERSPECTIVES OF REGIONAL DEVELOPMENT IN ENGLAND

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Abstract

The paper introduces experience with regional disparities in the EU and focuses mainly on regional development in England. Based on information from the EU, there is no complex methodology to classify the indicators of regional disparities across Europe. European Statistical Office (Eurostat) generally uses twelve main groups of indicators (demography, GDP, income, labour market, labour productivity, urban statistics, science and technology, structure of entrepreneurship, transport, tourism, education and agriculture). As an example of the evaluation of regional development in the EU, ESPON regional classification of Europe can be used. Each EU member applies a different regional policy and methods to eliminate differences between regions within a state. The second part of the contribution briefly introduces an approach to the regional disparities in the Czech Republic and its regional policy. The last part of the paper is focused on the regional policy in England and its future perspectives connected with the establishment of the Local Enterprise Partnerships (LEPs).

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Introduction

A regional policy and disparities can be understood and classified from two different perspectives: at European and regional levels. To compare regional differences at the international level, it is necessary to use a unified methodology to differentiate regional levels. In the EU the NUTS (LAU) classification is used. The NUTS classification is used within the EU for regional statistics for many decades, and it has always formed the basis for the regional funding. The EU methodology of the regional development is usually based on a comparison of regions at NUTS 2 level; disparities at the national level identify differences of the micro regions of LAU 1 or LAU 2 level. Regional statistical data are an important tool for understanding and quantifying the impact of political decisions on citizens in a specific territory or area.

In the European Union several documents have recently been published about an approach to the regional disparities in the EU (Eurostat Regional Yearbook 2010, Growing Region, Growing Europe 2008, the 6th report on economic and social cohesion, Statistical Requirements Compendium 2010, European Regional and Urban Statistics – Reference Guide
2009). Nevertheless, there has been no complex approach to or methodology for this topic. Examples of the structure of indicators are introduced below.

1 Regional disparities in the EU

Individual indicators or some synthetic indicators (indexes) formed from some partial indicators are the main ones which are usually used. GDP (converted according to the parity of the purchasing power) is used very often as a key factor. One of the options is to compound a synthetic index where three groups of indicators classifying economic, social and territorial cohesion can be included.

1.1 Economic cohesion

The main indicators can be identified as GDP, GDP per capita (head).

The aggregate indicator is dependent on:

- labour productivity;
- level of employment;
- people activity.

The economic development of a region is, as a rule, expressed in terms of its gross domestic product (GDP). This indicator is also frequently used as a basis for comparisons between regions. Regions of different sizes achieve different levels of the regional GDP. However, a real comparison can be made only by comparing the regional GDP with the population of the region in question. (Eurostat regional yearbook, 2010)

1.2 Social cohesion

In general, factors evaluating the balance between social groups in a society are included. For example, the following ones can be mentioned: the level of unemployment, its quality and availability, labour qualification, the level of education, but also the ability of immigrants to integrate in the Schengen area. In comparison with economic cohesion indicators it is not possible to construct an aggregate one.

1.3 Territorial cohesion

Territorial differences are often termed as a territorial imbalance. Territorial differences are typically deep between metropolitan areas and the rest of the country. On a regional level territorial differences can be classified by the level of pollution, social exclusion, decrease of the number of inhabitants. Regional disparities often show a large imbalance in physical and human capital. (Farrugia, Gallina 2008)

2 Indications of regional differences in the Czech Republic

Regional disparities mean the disparities in the level of economic, environmental and social development of the regions to the extent which is acknowledged by the society as undesirable. For instance, disparities result from diverse conditions of individual regions and the differences in the quality of life resulting from these conditions. (Ministry for Regional Development of the Czech Republic, 2006)
2.1 Strategy for regional development in the Czech Republic

The regional development strategy is based on the “Czech Republic Strategy for Sustainable Development” (Government Resolution No. 1242/2004), which represents a long-term framework for maintaining the fundamental civic values, quality of life of the society and also the basis for the preparation of other conceptual documents. The objectives and tools of the Sustainable Development Strategy are directed at the reduction of imbalance in mutual relations between the economic, environmental and social pillars of sustainability.

The basic levels of the regional development and the implementation of the regional policy of the Czech Republic are as follows:
- the cohesion regions (NUTS 2) – statistical areas,
- self-governing regions (districts) (NUTS 3) – higher-level local administration units,
- districts – regional units for the specification of regions with concentrated state aid,
- administrative districts of municipalities with extended powers – administrative areas,
- municipalities – municipal and city authorities.

In the Czech Republic the regional development aid follows two main streams:

a) regions with the concentrated state aid, which are divided, in accordance with the nature of their stagnation, into structurally affected regions, economically weak regions and rural regions,

b) the other regions, whose support by the state is desirable for other reasons: e.g. cross border regions, former military areas, regions affected by natural disasters, regions with heavily affected or damaged environment, regions with less favourable conditions for the agricultural development, regions with the unemployment rate exceeding the average rate in the Czech Republic. (Ministry for Regional Development of the Czech Republic, 2006)

Focusing the support in structurally affected regions

These regions are characterized by deep structural changes and massive increase in unemployment, which is caused by the inadequate structure of skills in the labour market, which corresponds to the past economic structure, in terms of inadequate technical and business infrastructure, etc..

Focusing the support in economically weak regions

Economically weak regions are characterized by their low economic performance, connected with low wages, weak economic activity, high unemployment rate, unfavourable geographic location and undeveloped technical infrastructure.

3 Regional Development: case of the United Kingdom

The United Kingdom occupies a very specific position among the EU member countries in many different regards. The U. K., being an island in Northwest Europe, possesses several specifics. They have resulted from its relatively isolated location, which has been reflected in its historical and/or political background with its corresponding ramifications for the regional development. Not only is the UK noted for its specific regional structure, but it has also implemented a rather original approach to the promotion of the regional growth and/or reduction of regional disparities.

The analysis focuses primarily on England because Scotland, Wales and Northern Ireland have freedom over their policy design in support of the regional development. It is to be highlighted that the regional development issues have currently gone through essential changes at both legislation and practical levels. As one system is phasing out another, one is
being phasing in, which makes it a bit difficult to give full details about the existing system of the regional development.

### 3.1 The regional aid scheme

The pursuance of a meaningful regional policy requires a fundamental question to be answered: how to identify eligible areas in need of support in order to ensure the most efficient way of utilise public expenditures. Thus construction of a reliable economic indicator for the evaluation of the general socio-economic position of the region among others is normally considered as a pre-condition for the establishment of a regional aid scheme.

Currently, considerable effort is made to create indicators that would embrace not only the economic progress, but also social and environmental conditions of certain areas. Alternative concepts of measuring the regional well-being in the UK were created in 2008 by the new economic foundation (nef). Such attempts try to identify relative strengths and weaknesses in securing sustainable economic well-being for their communities. Then this information is used to share successful strategies or to formulate a coordinated policy to support weaker areas in their catch-up effort.

Nevertheless, as for the regional aid scheme both at national and European levels; measures of purely economic progress prevail. Across the EU, a common methodology has been implemented to identify regions in need of development support from the ERDF. It has been based on two criteria: GDP per capita (in PPS) and the unemployment rate.

The national regional aid drawn up in the member countries has to be in compliance with the common market under the Article 87(3) (a and c) of the EC Treaty. In October 2006, the UK notified the Commission of its regional aid map for the period 2007 -2013. In total 23.9% of the population was proposed to be eligible to receive the regional investment aid, out of which 4.6 % represent eligible regions based on Article 87(3)(a)¹ (means having less than 75% of the community average and one region which has a GDP per capita of more than 75% of the EU-25 average, but less than 75% of the EU-15 average) and the other 19.3% under the derogation set out in Article 87(3)(c)² of the Treaty. An overview of the regional aid coverage in the UK is shown in the Tab. 1 (see below). In the UK two regions were proposed for eligibility for the regional investment aid.

#### Tab. 1 Regional aid coverage in the UK, 2007-2013

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>Regions</th>
<th>GDP/capita</th>
<th>Population covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Article 87(3)(a)</strong></td>
<td>Cornwall and Isles of Scilly</td>
<td>70.16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>West Wales and the Valleys</td>
<td>73.98</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Statistical effect</td>
<td>Highlands and Islands</td>
<td>77.71</td>
</tr>
<tr>
<td><strong>Article 87(3)(c)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total population coverage 2007-2013</strong></td>
<td></td>
<td></td>
<td>23.9 %</td>
</tr>
</tbody>
</table>

*Source: Official Journal of the EU, 2006, Annex V*

¹ aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;
² aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;
The UK authorities created the UK regional aid map to prioritize areas for selection based on four indicators (EC, 2006, p. 2):

- employment rate,
- adult skills at Level 2 or above,
- incapacity benefit claimants,
- manufacturing share of employment.

“To be eligible for coverage, the situation must be worse by either one standard deviation than the Great Britain average on any one of these indicators, or by half a standard deviation than the Great Britain average on at least two of these indicators” (EC, 2006, p. 3).

To sum up, there are regions proposed for receiving the regional aid for the whole period 2007-2013 by virtue of their respective GDP per capita (Cornwall and West Wales); then there are so called “statistical effect” regions which lost their eligibility for a full time support as a result of the EU enlargement (Highlands and Islands); and finally, there are so called economic development regions with the GDP per capita of less than the EU-25 average or with the unemployment rate higher than 115% of the national average.

A link between public expenditure and prosperity of individual regions in the U.K. is illustrated in the following Fig. 1.

![Fig. 1](image)

*Fig. 1  A scatter plot of per capita public expenditure and the GDP: UK Regions and Territories, 1999 - 2000*

*Source: ODPM, 2003, p. 27*

Apparently, a fairly strong inverse correlation between the GDP per capita and the public spending per capita exists in England (excluding Northern Ireland, Scotland and London). In comparison to Scotland, the six least prosperous regions exhibited lower GDP per head as well as a lower public expenditure per head in 1999-2000 (ODPM, 2003, p. 27).

### 3.2 The historical background of the regional policy in the UK

The regional policy has represented an important component of the British government’s economic policy since its foundation in the 1930s. During its existence, the regional policy has been noted for swings between economic and social objectives. Nevertheless, what has mostly remained is the virtual monopoly of the national government in the regional policy.
Since the very beginning, the main objective of the regional policy was to reduce regional disparities in unemployment. This approach changed slightly in the 1960s when a regional policy was seen as helping to achieve a faster rate of the national growth (Armstrong, H. and Taylor, J., 2000, p. 216). After a short period of strengthening of the regional policy in the 1970s, a radical cutback in the areas eligible for assistance and correspondingly in the regional policy spending followed during the periods of the Thatcher government in the 1980s. The regional policy was focused on encouraging self-help, regional development ‘from within’ and especially a commitment to enterprises. That period may in many ways remind of what has been proposed recently for the future direction of regional policy (see below). The regional policy was noted for another shift in the early 1990s; its aim then was to strengthen the competitiveness of the British industry and thus, the regional policy became firmly entrenched as a component of the nation’s industrial policy (Armstrong, H. and Taylor, J., 2000, p. 219-220). Social objectives slowly prevailed again in the late 1990s, known as social exclusion.

A turning point for the British regional policy was represented by the Britain’s accession to the EU in 1973. Since then, new agents involved in regional issues have appeared distinct from national government: regional-level agencies, local-level organizations and particularly the EU.

3.3 The current situation and regional development reform

In the last ten years, the institutional framework for the regional development consisted of a system of made up of a devolved administration and elected bodies at different regional levels. The government provided has spent mainly on programmes which assist the regional development, but without any special regard to the economically deprived areas. At the regional level, each devolved administration developed its own policies and priorities. According to the Government’s proposal 2002, elected assemblies were to be established with a significant autonomy in those regions that voted in a referendum to have one. In reality, only one referendum was held in the north east of England resulting in rejection of an elected assembly for this region. Moreover, in all English regions the Regional Chamber, Regional Development Agencies (RDAs) and the Government Offices (GOs) operated.

**Government Offices**

GOs were the key representatives of the central government in the regions, and as such, they managed government programmes and expenditures. The 2010 Comprehensive Spending Review confirmed that the Government Offices for the Regions closed in March 2011. Responsibilities for the remit of the Government Offices have been transferred to a number of different government departments.

**Regional Development Agencies**

Nine Regional Development Agencies have represented a major influence in the field of the regional development since 1999. The responsibility for sponsorship of the RDAs was held by the Department for Trade and Industry (DTI); more recently, as a result of the department restructuring, the liability was transferred to the Department for Business, Innovation and Skills (BIS). The main purposes of the RDAs were compiled in the Regional Development Agencies Act 1998 as follows (Regional Development Agency Act, 1998, p. 2):

- promotion of economic development and regeneration,
- business efficiency, investment and competitiveness,
- promotion of employment,
- enhancement of development and application of skill relevant to employment,
contribution to sustainable development.
Regional agencies were given the same power through government legislation, but they have had some autonomy in application. They were all non-elected organizations, which were financed from many different sources, yet the largest source of income for the RDAs was represented by the central government grants. RDAs have been a key element of the government economic policy and significant sums of money have been invested in their regions each year.

Due to strong criticism of the RDAs activities as well as budget constrains as a result of the financial crisis, the national government decided to introduce a new approach to the regional development. As the first step, the abolition of the nine Regional Development Agencies in England was announced in June 2010. They are supposed to cease their operation by March 2012.

In November 2010, a new document relevant for the new direction of the regional development in England was presented by the Secretary of State for Business, Innovation and Skills, titled “Local growth: realizing every place’s potential”. This document is supposed to give a totally new dimension to the solution of the regional issues. It claims to end the top down approach ignoring varying needs of different areas and proclaims to grant local communities both more power and finance. That means that the overall responsibility for the regional policy is assumed to be transferred to communities and the local government. Another major change is represented by the establishment of local enterprise partnerships (LEPs) that should reflect the natural economic areas of England.

**Local Enterprise Partnerships (LEPs)**

The idea of a new concept of LEPs is to rebalance the economy, and to drive sustainable growth by focusing on three key themes:

- shifting power to local communities and businesses
- by establishing dynamic local enterprise partnerships of local business and civic leaders, operating within an area that makes economic sense, which can provide the vision, knowledge and strategic leadership to set local priorities and empower communities to fulfil their potential,
- increasing confidence to invest - by creating the right conditions for growth through a consistent and efficient framework for investment, an effective planning framework and new incentives to make sure local communities benefit from development,
- focused investment - by tackling barriers to growth that the market will not address itself, and by supporting investment that will have a long term impact on growth.

Devolution of functions to the local level should happen only where it is reasonable. On the other hand, at national level remains just a coordination of functions where there are significant economies of scale; where there are national or international market failures; or where consistent national delivery is important. (BIS, 2010, p. 16). One rather interesting fact is that the local enterprise partnerships are not specified in legislation. It may differ across the country in both form and functions, and constitution and legal status of each partnership depends utterly on the partners’ agreement. Hand in hand with the shift of responsibilities from top to lower level agents, the government promised to strengthen the tools that local areas have for promotion of growth. According to some experts, this new approach is reminiscent in several aspects the business-led strategy adopted during the 1980s.

With the aim of rebalancing the economy from public sector dependency to a sustainable private sector led growth, the Regional Growth Fund will be operating across England from 2011 to 2014. Its main objectives are to stimulate enterprises with a potential for the economic growth and creation of the private sector employment as well as to support
particularly those areas that have been lately heavily dependent on the public sector. All areas of England are eligible to bid for the £ 1.4 bil. fund (even though some parts of the country may hardly meet the second objective). The local enterprise partnerships can also submit bids to the Regional Growth Fund but without any preferential treatment.

Conclusion

The regional economic policy has become a key component of the government’s economic and social strategy changes. The main objectives have turned from the social issues to the economic competitiveness in the past. The key representatives of the regional development since 90’s till now have been the nine Regional Development Agencies. As entities responsible for the delivery of the national regional development, objectives and redistribution of financial support from the national and European sources, they have placed an emphasis on the specific local level needs from the many perspectives explained in the text above. It is to be pointed out that the concept of the regional development policy and its practical application through the RDA did not primarily focus on the deprived or economically weak areas; on the contrary, it searched for some potential even in such classified places. In contrast to, e.g. the Czech Republic methodology classification of the economically deprived areas, England does not have any system of criteria to identify these places. The Regional Agencies used an elaborate system of targeted objectives financed by many different programmes drawing on national or European funds. In this respect, only criteria to evaluate regions implementing financial sources from individual funds can be found. For more than one decade of the RDAs represented many successful projects supporting urban or rural areas. Despite apparent achievements, the economic crisis’ demand for budget cuts as well as criticism of the RDAs led to the introduction of a reform in 2010, which terminates RDAs activities in 2012 and launches a new agent of the regional development - local enterprise partnerships (LEPs). The existence of the LEPs should shift power in the regional development to local communities and business and help them create a long-term strategy for sustainable economic growth. It is difficult to assess whether the LEPs will meet the high expectations that are associated with their establishment. In comparison with the RDAs, the LEPs seem to be both understaffed and underfinanced and thus, their power to affect local planning and development may be limited, not to mention their role in reducing disparities in the regional performance. Nevertheless, the idea of economic growth reliant mainly on the private sector activity and/or funding, and being driven by local stakeholders, had enormous potential. Only in hindsight will we be able to evaluate their contribution to the regional economic growth fully.

Literature


Ing. Miroslava Lungová, Ph.D., Ing. Kateřina Maršíková, Ph.D.
REGIONÁLNÍ DISPARITY V EVROPĚ: PERSPEKTIVY REGIONÁLNÍHO ROZVOJE V ANGLII

Příspěvek seznamuje s pohledem na regionální disparity v evropském kontextu s důrazem na podmínky regionálního rozvoje v Anglii. Obecný pohled na problematiku regionálního rozvoje přináší tři skupiny indikátorů, ekonomické, sociální a územní (teritorialní) soudržnosti. Jako příklad ukazatelů pro hodnocení územního je představena tzv. regionální klasifikace Evropy zpracovaná v rámci programu ESPON. Hlavní část příspěvku seznamuje s přístupem k regionální politice a k řešení rozdílů mezi region v Anglii a hodnotí budoucí perspektivu vývoje v souvislosti se zrušením regionálních rozvojových agentur a založením uskupení tzv. Místní podnikatelské spolupráce (partnerství). V závěru jsou shrnuty poznatky vyplývající z analýzy přístupů k otázce řešení regionálních disparit na mezinárodní i národní úrovni. Příspěvek vznikl za podpory projektu zaměřeného na problematiku regionálních disparit „Inovační přístup k řešení disparit na úrovni regionů“ pod akronymem InoReDis (Reg. č. WD-30-07-1).

REGIONALE DISPARITÄTEN IN EUROPA: KÜNFTIGE PERSPEKTIVEN DER REGIONALEN ENTWICKLUNG IN ENGLAND


DYSPROPORCJE REGIONALNE W EUROPIE: PERSPEKTYWY ROZWOJU REGIONALNEGO W ANGLII