



Regions and Nations

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Urban and Regional Economics Study Group,
Glasgow, January 10th-11th, 2008

Introduction

Traditional concern of regional policy is to improve the national spatial balance between economic activity, population and environment (Barlow Report, 1940)

Regional policy is therefore national policy

This has important implications for:

- regional analysis

- policy evaluation

- regional governance

This perspective needs reasserting

Regional analysis

Broadly there are two approaches to regional analysis:

1. Developmental/growth approach:

Focuses on the development of individual regions.

2. Allocative approach:

Focuses on the allocation of resources over space.

Want to look at the regional analysis from the second view point: regional problems are national problems.

Regional analysis: allocative perspective

Applied general equilibrium

Heterogeneous regions

Regional interaction

National constraints

Comparative static

Impact analysis

Often reaction to policy shock

The regional economy: characteristics

Open

Trade

Migration/commuting

Capital flows

Technology transfer

Policy instruments

Key policy variables set at national level

Limited macroeconomic economic constraints

Regional economy: analytical implications

Openness to trade:

- Industrial structure is important

- Regional competitiveness is important

Openness to factors of production

- Many resource constraints are not binding in the long run

Modelling characteristics

- Multi-sectoral analysis

- Incorporate demand and supply-side influences

Regional Input-Output accounting

Regional IO accounts: rich source of data

Trade

Sectoral cost structure

Linkages

Consumption expenditure

GVA

Basis for satellite accounts:

Tourism

Environmental

Regional multi-sectoral modelling

IO analysis:

Through increased computing power, IO analysis now mainstream

“Benchmark model”

Computable General Equilibrium models:

Extend IO by incorporating resource restrictions, transfer payments and competitiveness effects.

Gaining acceptance in the UK at government level

A major constraint is data (but much less so in Scotland)

Inter-regional analysis

Set of accounts: inter-regional Social Accounting Matrix

Identify size and nature of inter-regional flows:

- Trade

- Transfers

- Migration

Other important spillover effects

- Wage competitiveness

- Technology transfer

National Constraints

Population

Inter-regional migration endogenous

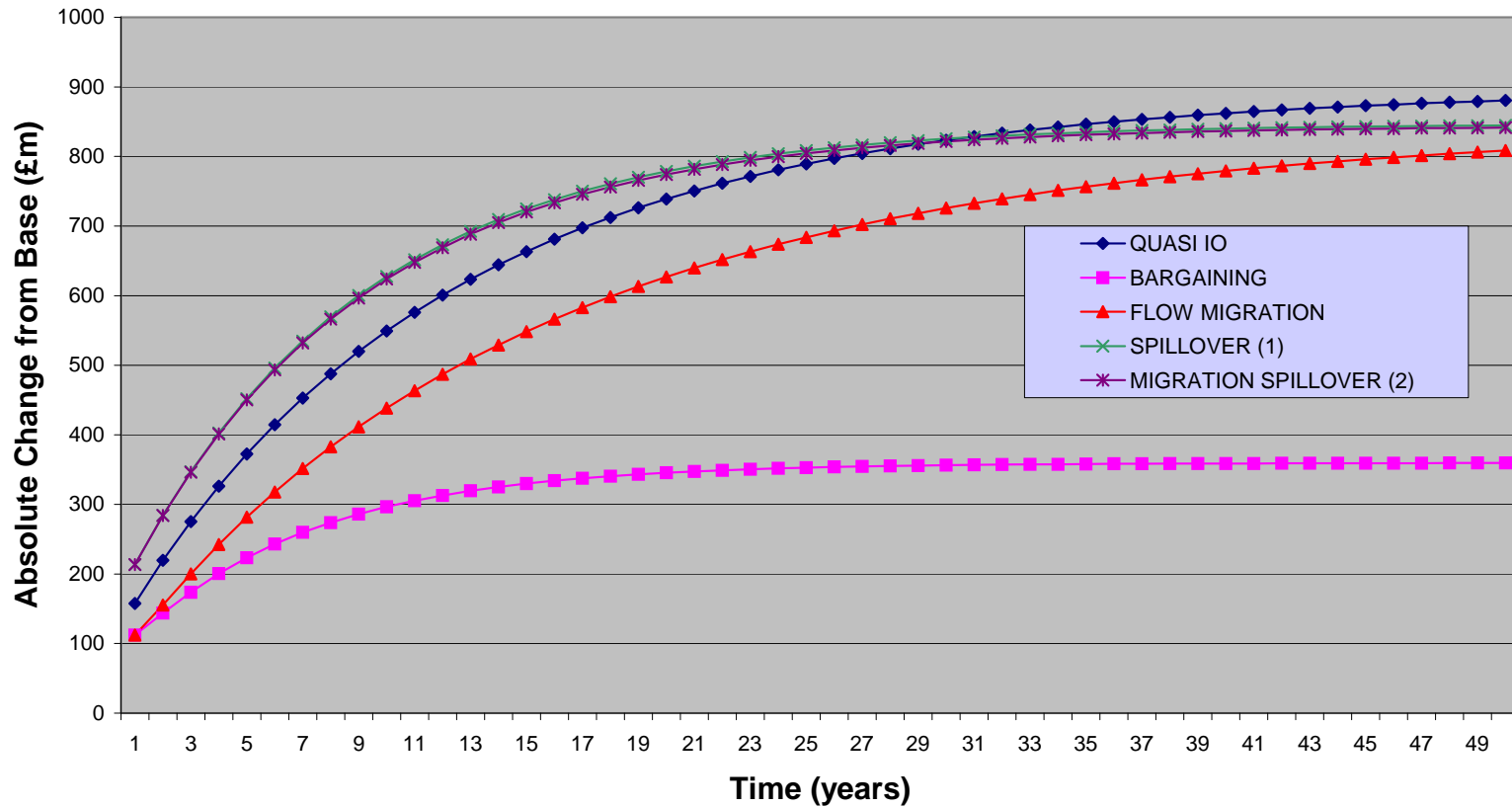
Inter-national migration exogenous

Macroeconomic constraints

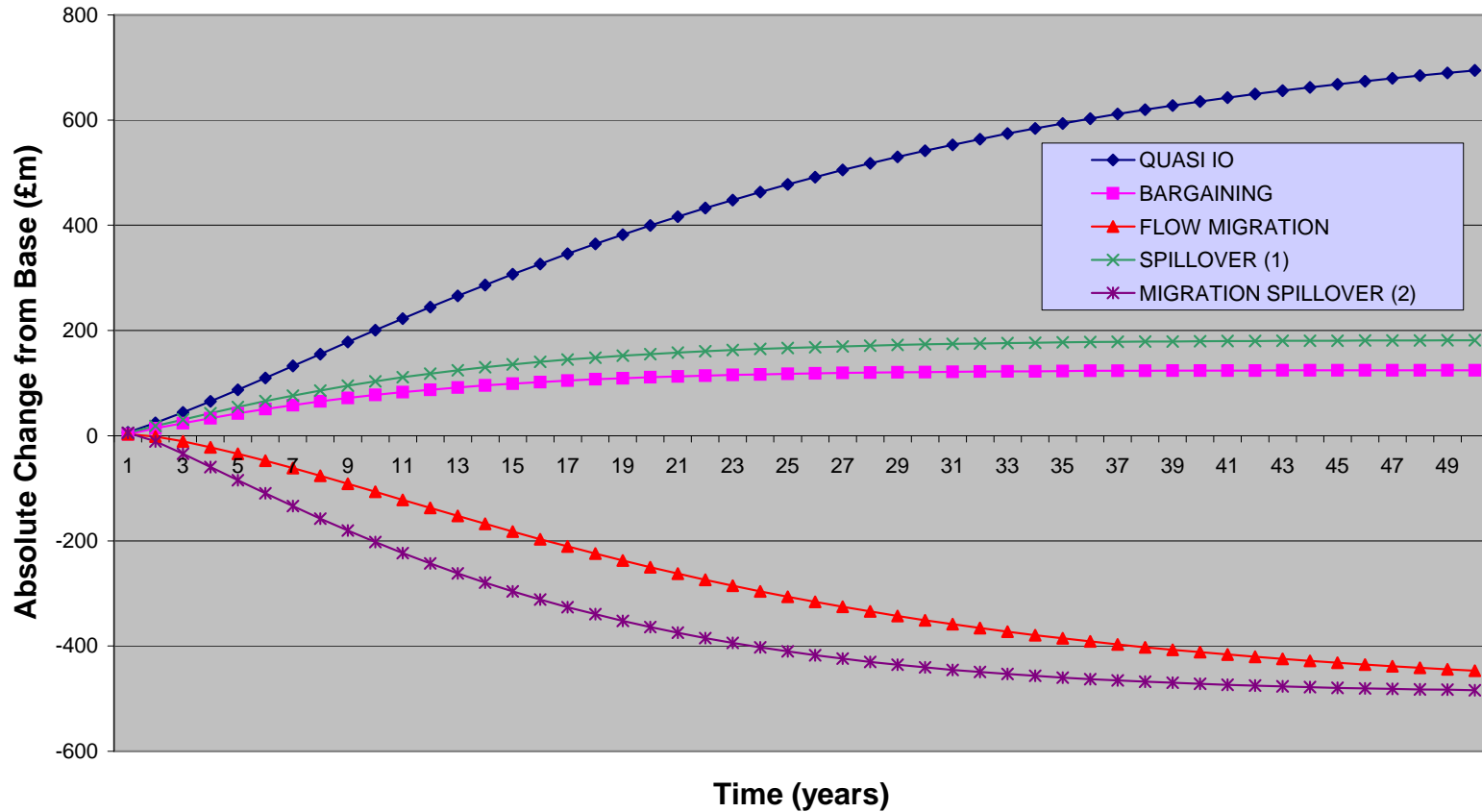
Government's budget constraint

Balance of payments constraint

Scottish GDP: Absolute Change from Base (£m)



RUK GDP: Absolute Change from Base (£m)



Regional and national impacts of regional demand change

Taylor (2002) “The “big” question is whether regional policy yields economic benefits for the economy as a whole. We need to know, for example, if whether the non-assisted areas benefit from regional policy and, if so, to what extent.”

For the region, many long-run labour market closures give similar results.

But for the other region (and nation)

Inter-regional IO suggests good news for all regions (and the nation)

Classic Treasury “crowding out” approach implies negative impacts on non-target regions

We expect the truth to lie somewhere in between: but where?

Regional Policy

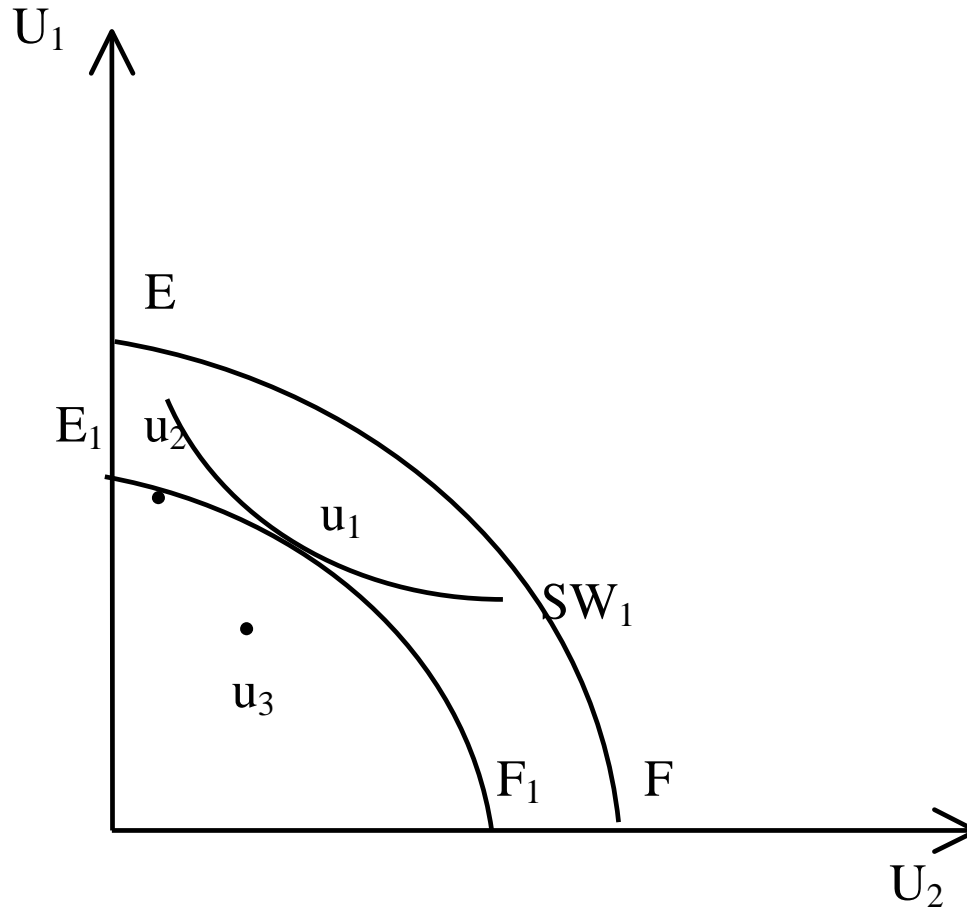
The national perspective suggests a very conventional approach to evaluation of regional policy.

Market failure

Equity (distributional) and efficiency considerations

Operationalised through cost benefit analysis

Welfare Economics Approach



Distribution

Territorial Equity

A prima facie argument for spatial policy activism?

How should this be accounted for?

Green Book gives no explicit instructions

Evans et al (2005) suggest using interpersonal income distribution weights to formulate regional weights.

Efficiency: Market failure over space

Labour market

Concern for employment generation

Capital market

Typically subsidies capital

Co-ordination problems

Stressed in post 1997 policy

Spatial Externalities

Congestion

CBA:shadow pricing

Regional problems are perceived as market or public failure over space.

The appropriate way to evaluate market failure is Cost Benefit Analysis.

Central to the operation of CBA is allocation of shadow prices that differ from market prices.

Requires:

Analysis: nature of the problem.

Quantification

Costs and Benefits of CBA

Benefits

Consistency

Transparency

Strong theoretical base

Familiar technique

Costs

Resource intensive: need rules of thumb

Too transparent?

Progress on evaluation?

2003 Green Book opens the door to a wider evaluation

”If ... the supply-side impact of a proposal is ... positive, the net impact on economic welfare will need to be measured.”

However: it gives no rules of thumb as to how to proceed.

How does evaluation sit with targets?

Regional Governance: English Decentralisation

Regional delivery of national policy: target driven

Rationalisation

- Constrained discretion

- Informational advantages

- Benchmark competition

- Local scrutiny

Problems

- Regional data

- Spill-overs and co-ordination

- Target setting

Regional Governance: Devolution

Devolution: decentralised delivery but even greater local autonomy and scrutiny through elected representatives

Advantages and disadvantages of decentralisation magnified

Two key issues

Asymmetric devolution:

- the English problem

 - funding arrangements

 - representation at Westminster

 - is there still a UK regional policy?

Regions and Nations: Independence

Economic arguments for nation size (Alesina and Spolaore, 2003)

Trade off between average cost of national public goods and regional diversity

Justification for preferential treatment for peripheral regions.

Are regional institutions important (Grief, 2005) and how significant are national boundaries?

Conclusion

Current UK regional policy fails to reflect the issue of spatial balance: this should be redressed.

Debate within Scotland in the next 18 months will raise issues about:

- The economic implications of national boundaries

- The nature of the existing inter-relationship between Scotland and the RUK.

Ideal opportunity to review the more general relationship between regions as a national system