
An Institutional Perspective on Regional Economic Development*

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Introduction

Until recently, regional policy has been firm-centred, standardized, incentive-based and state-driven. This is certainly true in the case of the Keynesian legacy that dominated regional policy in the majority of advanced economies after the 1960s. It relied on income redistribution and welfare policies to stimulate demand in the less favoured regions (LFRs) and the offer of state incentives (from state aid to infrastructural improvements) to individual firms to locate in such regions. Paradoxically, the same principles apply also to pro-market neoliberal experiments which have come to the fore over the last fifteen years. The neoliberal approach, placing its faith in the market mechanism, has sought to deregulate markets, notably the cost of labour and capital, and to underpin entrepreneurship in the LFRs through incentives and investment in training, transport and communication infrastructure, and technology. The common assumption in both approaches, despite their fundamental differences over the necessity for state intervention and over the equilibrating powers of the market, has been that top-down policies can be applied universally to all types of region. This agreement seems to draw on the belief that at the heart of economic success lies a set of common factors (e.g. the rational individual, the maximizing entrepreneur, the firm as the basic economic unit and so on).

The achievements of both strands of such an 'imperative' approach (Hausner, 1995) have been modest in terms of stimulating sustained improvements in the economic competitiveness and developmental potential of the LFRs. Keynesian regional policies, without doubt, helped to increase employment and income in the LFRs, but they failed to secure increases in productivity comparable to those in the more prosperous regions and, more importantly, they did not succeed in encouraging self-sustaining growth based on the mobilization of local resources and interdependencies (by privileging non-indigenous sectors and externally-owned firms). The 'market therapy' has threatened a far worse outcome, by reducing financial transfers which have proven to be a vital source of income and welfare in the LFRs, by exposing the weak economic base of the LFRs to the chill wind of ever enlarging free market zones or corporate competition and by failing singularly to reverse the flow of all factor inputs away from the LFRs. In short, the choice has been that between dependent development or no development.

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Partly in response to these failings, more innovative policy communities have begun to explore a third alternative, informed by the experience of prosperous regions characterized by strong local economic interdependencies (e.g. Italian industrial districts, certain technopoles, Baden Württemberg). It is an alternative centred on mobilizing the endogenous potential of the LFRs, through efforts to upgrade a broadly defined local supply-base. It seeks to unlock the 'wealth of regions' as the prime source of development and renewal. This is not an approach with a coherent economic theory behind it, nor is there a consensus on the necessary policy actions. However, its axioms contrast sharply with those of the policy orthodoxy, in tending to favour bottom-up, region-specific, longer-term and plural-actor based policy actions. Conceptually, against the individualism of the orthodoxy (e.g. the centrality of *homo economicus*), it recognizes the collective or social foundations of economic behaviour, for which reason it can be described loosely as an institutionalist perspective on regional development.

This article seeks to develop the institutionalist perspective by bringing together strands of policy action scattered across the literature, as well as suggesting new strands. It claims that the new perspective, taken beyond its current emphasis on local interfirm complementarities, economies of association and tacit knowledge, does open up novel but challenging opportunities for policy action at the local level. It also claims, however, that the 'new regionalism' will amount to very little in the absence of sustained macro-economic support for the regions, notably a secure financial and income transfer base and expansionary programmes to boost overall growth at national and international level. The first section of the paper summarizes the axioms of economic action and governance which emerge from a theorization of the economy rooted in institutional economics and socio-economics. The second section discusses applications of institutionalist thought within regional development studies that seek to explain the importance of territorial proximity for economic competitiveness. Part of the purpose of these two sections is to demonstrate that the new policy orientations, outlined in the third section, are not just ex-post generalizations based on the experience of a small number of regions, but also ex-ante suggestions based on a particular conceptualization/abstraction of the economy and its territoriality. As such, the suggested actions are not crude (mis)translations of unique local experiences, nor are they — on the grounds that abstracted axioms never convert into mirrored practices — a policy recipe.

The economy and economic governance in institutional economics

The rise of institutional and evolutionary economics is now well documented (Hodgson, 1988; 1998; Samuels, 1995; Metcalfe, 1998), as is thought in economic sociology which stresses the influence of wider social relations in economic life (Smelser and Swedberg, 1994; Ingham, 1996). The two bodies of thought stress that economic life is both an instituted process and a socially embedded activity and therefore context-specific and path-dependent in its evolution. Against orthodox assumptions that the economy is equilibrium-oriented and centred on the rational individual or machine-like rules, the stress falls on processes of institutionalization as a means of stabilizing and interpreting an economy that is essentially non-equilibrating, imperfect and irrational.

My aim here is not to discuss institutionalist economic thought in any depth or detail. The arguments are well charted elsewhere and, more importantly, my purpose is simply to provide an abbreviated account of influences on economic behaviour which might be relevant in a discussion of novel actions necessary to encourage regional economic success. Three sets of ideas seem to be especially important in this regard.

First, from economic sociology comes the well-known idea that markets are socially constructed (Bagnasco, 1988) and that economic behaviour is embedded in networks of interpersonal relations. Crucially, therefore, economic outcomes are influenced by

network properties such as mutuality, trust and cooperation, or their opposite (Dore, 1983; Granovetter, 1985; Grabher, 1993; Fukuyama, 1995; Misztal, 1996). Granovetter, for example, has suggested that networks of weak ties might be more dynamic than those dominated by strong ties (e.g. enforced loyalty) or easy escape (e.g. contract-based ties). While weak ties offer economic agents the benefits of both cooperation and access to a varied selection environment for new learning, strong ties, as in many crime networks, pose the threat of both lock-in and restricted selection, and contractual self-reliance poses very high search costs. In addition, the rising influence of actor-network theory has furthered analysis of the powers of networks by stressing the inseparability of people and things within them, producing distinctive properties that weave together actors, organizational cultures, knowledge environments, machines, texts and scripts (Latour, 1986; Callon, 1991).

Second, and against the rational actor model in standard economics, comes the idea from evolutionary and cognitive psychology (Cosmides and Tooby, 1994; Plotkin, 1994) and the behavioural tradition in economics (Simon, 1959) that different actor-network rationalities produce different forms of economic behaviour and decision-making. For example, an instrumentalist or substantive rationality is likely to favour reactive responses to problems, based on a largely rule-following behaviour. Reactive responses may prove to be adequate in relatively unchanging and predictable environments but their underlying rationality is not equipped for a varying environment. In contrast, a procedural actor rationality is one which seeks to adapt to the environment, drawing upon perceptive powers and generally more complex cognitive arrangements for solving problems. Cognitive actor networks behave intentionally and knowledgeably, searching for solutions based on perception and conscious design. They respond heuristically and procedurally in satisfying goals. Finally, while the latter two rationalities tend to assume an invariant environment (therefore largely problem-solving), a recursive rationality is problem-seeking and assumes that the environment can be anticipated and to a degree manipulated through such procedures as strategic monitoring, experimental games, group learning and so on (Delorme, 1997). It tends to generate creative actor networks with the ability to shape the environment, owing to the capacity to think and act strategically and multidimensionally (Orillard, 1997). Thus, the creative, learning and adaptive capacities of economic agents are centrally dependent upon the rationalities of their constituent actor networks.

Third, from the recent rediscovery of 'old' institutional economics (Hodgson, 1988; 1998; Hodgson *et al.*, 1993) comes the idea that the economy is shaped by enduring collective forces, which make it an instituted process as claimed by Polanyi, not a mechanical system or set of individual preferences. These forces include formal institutions such as rules, laws and organizations, as well as informal or tacit institutions such as individual habits, group routines and social norms and values. All of these institutions provide stability in the real economic context of information asymmetry, market uncertainty and knowledge boundedness, by restricting the field of possibilities available, garnering consensus and common understandings and guiding individual action. They are also, however, templates for, or constraints upon, future development. It is their endurance and framing influence on action by individuals and actor networks that forces recognition of the path- and context-dependent nature of economic life, or, from a governance perspective, the wide field of institutions beyond markets, firms and states which need to be addressed by policies seeking to alter the economic trajectory.

From these strands of institutionalist thought derives an understanding of the economy as something more than a collection of atomized firms and markets driven by rational preferences and a standard set of rules. Instead the economy emerges as a composition of collective influences which shape individual action and as a diversified and path-dependent entity moulded by inherited cultural and socio-institutional

influences. In turn, the influences on economic behaviour are quite different from those privileged by the economic orthodoxy (e.g. perfect rationality, hedonism, formal rules etc.). Explanatory weight is given to the effects of formal and informal institutions, considered to be socially constructed and subject to slow evolutionary change; to values and rationalities of action ensconced in networks and institutions; to the composition of networks of economic association, especially their role in disseminating information, knowledge, and learning for economic adaptability; and to intermediate institutions between market and state which are relatively purposeful and participatory forms of arrangement.

On the basis of these principles, we can begin to derive a number of general axioms of economic governance associated with an institutionalist approach. First, there is a preference for policy actions designed to strengthen networks of association, instead of actions which focus on individual actors alone. Second, part of the purpose of policy action might be to encourage voice, negotiation and the emergence of procedural and recursive rationalities of behaviour, in order to secure strategic vision, learning and adaptation (Amin and Hausner, 1997). Third, emphasis is given to policy actions which aim to mobilize a plurality of autonomous organizations, since effective economic governance extends beyond the reach of both the state and market institutions (Hirst, 1994). Fourth, the stress on intermediate forms of governance extends to a preference for building up a broad-based local 'institutional thickness' that might include enterprise support systems, political institutions and social citizenship (Amin and Thrift, 1995). Finally, a key institutionalist axiom is that solutions have to be context-specific and sensitive to local path-dependencies.

These governance axioms and their underlying concepts are now beginning to filter into regional development studies and to generate new policy implications, as shown in the next two sections.

The institutional turn in regional development studies

In recent years, the region has been rediscovered as an important source of competitive advantage in a globalizing political economy (Scott, 1995; Cooke, 1997). In part, this rediscovery is based on studies of the success of highly dynamic regional economies and industrial districts which draw extensively upon local assets for their competitiveness. However, the rediscovery is also based on the insights of institutional economic theory, particularly its explanation of why territorial proximity matters for economic organization. Two conceptual strands stand out.

One strand — perhaps the closest to the economics mainstream — derives from renewed interest in endogenous growth theory, which acknowledges the economic externalities and increasing returns to scale associated with spatial clustering and specialization (Porter, 1994; Krugman, 1995). Places specializing in given industries and their upstream and downstream linkages benefit from the scale economies of agglomeration and advantages associated with specialization. The contention of Krugman and Porter is that the spatial clustering of interrelated industries, skilled labour and technological innovations offers some of the key elements of growth and competitiveness. These include increasing returns, reduced transaction costs and economies associated with proximity and interfirm exchange, as well as specialized know-how, skills and technological advancement.

This 'new economic geography' has gained considerable influence and is undoubtedly appealing, as it provides solid economic reasons for local agglomeration in a globalizing economy (reduced transaction costs, economies of specialization, externalities etc.). It fails, however, to properly investigate the sources of these local advantages (Martin and Sunley, 1996), which, according to a second conceptual strand

developed largely by economic geographers, lie in the character of local social, cultural and institutional arrangements. More specifically, insight is drawn from institutional and evolutionary economics concerning ties of proximity and association as a source of knowledge and learning (Amin and Thrift, 1995; Sunley, 1996; Storper, 1997).

A leading exponent is Michael Storper (1997), who has suggested that a distinctive feature of places in which globalization is consistent with the localization of economic activity is the strength of their 'relational assets' or 'untraded interdependencies'. These are assets which are not tradable, nor are they easily substitutable, since they draw on the social properties of networks in which economic agents are implicated. They include tacit knowledge based on face-to-face exchange, embedded routines, habits and norms, local conventions of communication and interaction, reciprocity and trust based on familiarity and so on.

These relational assets are claimed to have a direct impact on a region's competitive potential insofar as they constitute part of the learning environment for firms. They provide the daily access to the relevant resources (information, knowledge, technology, ideas, training and skills) that are activated through the networks of interdependency and common understandings that surround individual firms. Many of the insights of the literature on the so-called learning regions (Cooke and Morgan, 1998), such as Silicon Valley, Baden Württemberg and Italian industrial districts, derive from analysis of the learning properties of local, industry-specialist, business networks. These networks of reciprocity, shared know-how, spillover expertise and strong enterprise support systems, according to Malmberg (1996), are sources of learning, facilitated through such advantages as reduced opportunism and enhanced mutuality within the relationships of interdependence.

Other observers who note the difference between formal and informal knowledge for economic competitiveness (e.g. Becattini and Rullani, 1993; Asheim, 1997; Maskell *et al.*, 1998; Blanc and Sierra, 1999; Nooteboom, 1999) suggest that geographical proximity plays a unique role in supplying informally-constituted assets. For instance, Maskell *et al.* argue that tacit forms of information and knowledge are better consolidated through face-to-face contact, not only due to the transactional advantages of proximity, but also because of their dependence upon a high degree of mutual trust and understanding, often constructed around shared values and cultures. Similarly, scholars (Becattini and Rullani, 1993; Asheim, 1997; Nooteboom, 1999) have distinguished between codified knowledge as a feature of trans-local networks (e.g. R&D laboratories or training courses of large corporations) and formally constituted institutions (e.g. business journals and courses, education and training institutions, printed scientific knowledge) and non-codified knowledge (e.g. workplace skills and practical conventions) as aspects locked into the 'industrial atmosphere' of individual places. The consensus among these commentators seems to be that in a world in which codified knowledge is becoming increasingly ubiquitously available, uncoded knowledge, rooted in relations of proximity, attains a higher premium in deriving competitive advantage owing to its uniqueness.

The new stress on the comparative advantages of face-to-face learning environments has some obvious limitations (Amin and Cohendet, 1999). One is the tendency to ignore the relational proximity provided by global links of reciprocity, such as the networks of transnational corporations, that also constitute a rich source of informal learning. Another is its inadequate appreciation of the power of organizational environments in combining the fruits of tacit knowledge with science and technology (e.g. design and quality-conscious high performance companies), as well as its underestimation of the normal transaction cost savings associated with size. A third limitation is the under-appreciation of the variety of possible learning outcomes (Odgaard, 1998), which are in part influenced by differences in actor-network rationalities and cognitive frames (e.g. craft networks of incremental learning based on trust and reciprocity versus networks of problem-seeking learning based on reflexive knowledge). Finally, at times it is not clear whether the

strengths of dynamic networks derive from their learning capabilities or their ability to anticipate change and adapt (Hudson, 1996).

Notwithstanding these limitations, the institutionalist geographers offer a much richer understanding of territorial proximity than that offered by endogenous growth theory, which continues to stress well-known but rather tired agglomeration factors. Proximity has come to be considered in ways which acknowledge the territorial parameters of the institutional and social sources of economic action (Barnes, 1995; Thrift and Olds, 1996). This includes the power of local rationalities and traditions of behaviour, the properties of face-to-face networks and the quality of local institutions, social habits and conventions. But, beyond their important differences, the consensus shared across both strands is that regional-level industrial configurations, supply-side characteristics and institutional arrangements continue to play a critical role in securing economic success in a globalizing economy characterized by the increased transnational flows of factor inputs and global-level industrial and financial organization.

Regional policy orientations

Both strands of the new regionalism imply practical action which transcends the limits of traditional local economic development initiatives. The focus falls on building the wealth of regions (not the individual firm), with upgrading of the economic, institutional and social base considered as the prerequisite for entrepreneurial success. Thus, local effort might focus on developing the supply base (from skills through to education, innovation and communications) and the institutional base (from development agencies to business organizations and autonomous political representation) in order to make particular sites into key staging points or centres of competitive advantage within global value chains. In addition, the 'relational' strand of the new regionalism implies that attention might be paid to the nature of local interfirm dependencies and rationalities of behaviour that work to local advantage (e.g. loose ties, interactive decision-making, recursive knowledge).

In my view there are four novel areas of action which emerge from the 'wealth of regions' perspective. I should stress that the recommendations are not offered as templates for action, but as issues that policy-makers need to consider in devising practical solutions to encourage regional endogenous growth.

Building clusters and local economies of association

The experience of some of the most dynamic economies in Europe shows that supply-side upgrading of a generic nature (e.g. advanced transport and communications systems or provision of specialized training and skills), though desirable, is not sufficient to secure regional economic competitiveness. Instead, in small nations such as Denmark and successful regional economies such as Emilia-Romagna, Baden Württemberg and Catalonia, policy action is increasingly centred on supporting clusters of interrelated industries which have long roots in the region's skill- or capabilities-base. This helps not only to secure meaningful international competitive advantage, but also to reap the benefits of local specialization along the supply chain. Firm-specific initiatives, such as small-firm development programmes or incentives to attract inward investors, tend to be integrated within such cluster programmes in order to build up a system of local interdependencies. Institutional support, in the form of technology transfer, training and education and access to producer services such as market intelligence, business innovation and finance, tends to be sectorally specific so that help can be targeted to firms in specific clusters.

In addition, considerable policy attention is paid to building economies of association within clusters. This might include efforts to improve cultures of innovation within firms by encouraging social dialogue and learning based on shared knowledge and information

exchange. It might include initiatives to encourage interfirm exchange and reciprocity through buyer-supplier linkage programmes, incentives for pooling of resources, joint ventures, task specialization and so on. Finally, in order to maximize the efficiency of collective resources, it might include conscious effort to establish contact between sector-specific organizations (e.g. trade associations, sectorally-based service centres) and other support organizations (e.g. large and small-firm lobbies, function-specific producer services agencies, trade unions, chambers of commerce, local authorities, regional development agencies). Building economies of association along these lines would help regions to consolidate local ties and encourage continual upgrading and capacity-building across sectoral networks of horizontal and vertical interdependency.

Cluster programmes are no longer new to the regional policy community. Indeed, following the spectacular translation of Michael Porter's ideas into policy action through his world famous consultancy group, Monitor, most regions seem to have a cluster programme of some sort. And, ironically, in contradiction to the institutionalist stress on context-specificity and path-dependency, the most common tendency beyond the selection of locally-sensitive industrial clusters has been to copy from the experience of successful regions or from some 'expert' manual. Cluster programmes are becoming as standardized a mantra as were the incentive packages of preceding regional policy (Enright, 1998). Very few regions have attempted to develop unique industrial strategies based on deep assessment of local institutional and cultural specificities. To a degree, this failing stems from the inability of the policy community to recognize the centrality of 'softer' influences, such as the three considered in turn below.

Learning to learn and adapt

The geographical strand of the new regionalism stresses learning as a key factor in dynamic competitiveness. Indeed, it is claimed that economically successful regions are 'learning' or 'intelligent' regions (Cooke and Morgan, 1998). It is their capacity to adapt around particular sectors and to anticipate at an early stage new industrial and commercial opportunities that enables them to develop and retain competitive advantage around a range of existing and future possibilities. Their strength lies in 'learning to learn' (Hudson, 1996). By contrast, a very large number of less favoured regions suffer from the problem of industrial and institutional lock-in and that of reactive adaptation to their economic environment, thus preventing the formation of a learning culture.

Vexing from a policy perspective is that there is no received wisdom on the factors which contribute to regional learning and adaptability. However, some of the contributing factors can be discerned from an observation of the relevant regions. One obvious factor is quite simply the scale and density of 'intelligent' people and institutions, as reflected in the skill and professional profile of the labour market, the volume and quality of training and education across different levels, the depth of linkage between schools, universities and industry, the quality and diversity of the research, science and technology base, and the availability of intermediate centres of information and intelligence between economic agents and their wider environment (e.g. commercial media, trade fairs, business service agencies). These are vital sources of codified knowledge, grounded in the regional milieu. Many LFRs display a discernible lack of most of these attributes, with policy actions often geared towards the production of low-grade skills and training or towards disembodied ventures such as university expansion, science parks and training schemes which fail to build the necessary connections.

Less obviously, the quality of ties associated with economies of association is another important source of learning and adaptation, through its impact on the circulation of informal information, innovation and knowledge. Networks of association in the economy facilitate the spread of information and capabilities and the prospect of economic innovation through social interaction. Of course, there is always the danger that ties which are too strong and long-standing might actually prevent renewal and innovation by

encouraging network closure and self-referential behaviour (Grabher and Stark, 1997). On the other hand, in contexts where economic agents have the option of participating in many competing networks on the basis of loose ties and reciprocal relations, often through independent intermediaries, the prospect for learning through interaction is enhanced. Not only is variety in the selection environment for options increased, but so is the potential for uptake and adaptation, through the ties and obligations that bind economic agents, leading, ultimately, to network cultures of permanent innovation. The policy challenge in this regard for LFRs is to find a way of substituting their traditional ties of hierarchy and dependency (e.g. big firms, state provision, family connections) with links of mutuality between economic agents and institutions.

Third, as mentioned earlier, research has begun to appreciate the connection between rationalities of action and adaptive potential. It would appear that rule-based, substantive rationality, which encourages reactive responses to the external environment, is ill-equipped for learning and adaptation. Procedural rationality, on the other hand, based on cognitive and behavioural interpretation by economic agents of the external environment, favours incremental adjustment and adaptation. In contrast, a reflexive rationality, involving strategic and goal-monitoring behaviour (Sabel, 1994), encourages experimental anticipation and actions seeking to shape the external environment. The cognitive frame of regional actors and institutions, in short, is the central source of learning. The culture of command and hierarchy that characterizes so many LFRs has stifled the formation of a reflexive culture among the majority of its economic institutions and, consequently, prevented the encouragement of rationalities geared towards learning and adaptation. Considerable policy attention needs to be paid to the nature of organizational and management cultures and actor rationalities which circulate within a region's dominant institutions. Only too often, policy action has sought to introduce new players and institutions in a region, without giving due regard to the dominant 'mind set' and its effects on learning and adaptability.

Importantly, but rarely addressed by the policy community, the capacity to change lies centrally in the ability of actor networks to develop an external gaze and sustain a culture of strategic management and coordination in order to foresee opportunities and secure rapid response. The key factor is the ability to evolve in order to adapt (Amin and Hausner, 1997). The encouragement of this ability requires effort to identify the potential sources of behavioural alternatives — for example the preservation of diverse competencies (e.g. redundant skills and industrial slack — see Grabher and Stark, 1997); the scope for subaltern groups to break the grip of hegemonic interests which gain from preserving the past; the openness of organizations to external and internal influences; the scope for strategic decision-making through agent-environment interaction; and the encouragement of diversity of knowledge, expertise and capability, so that new tricks are not missed.

Broadening the local institutional base

The last point illustrates the need for wider institutional changes to tackle impediments to economic renewal rooted in institutional dominance and closure. Partly in recognition of this problem, it has become increasingly common to assume that region-building has to be about mobilizing independent political power and capacity. In the European Union this assumption lies at the centre of the discourse on 'Europe of the regions' and has led to strong endorsement for local fiscal and financial autonomy, together with enlargement of the powers of local government and the establishment of vigorous regional assemblies or parliaments. The linkage made with economic development is that local political power and voice facilitates the formation of a decision-making and decision-implementing community able to develop and sustain an economic agenda of its own.

The institutionalist perspective, however, suggests that region-building cannot stop at simply securing regional political autonomy. Equally — perhaps more important — are

matters of who makes decisions and how. Let us recall two institutionalist governance axioms, namely, the desirability of decision-making through independent representative associations and the superiority of participatory decision-making. The added challenge for the regions, therefore, is to find ways of developing a pluralist and interactive public sphere that draws in both the state and a considerably enlarged sphere of non-state institutions. It would be an error if regional institutional reform became a matter of simply substituting government by the central state with a regional corporatism that relies on a small elite drawn from the regional government offices, local authorities, development agencies, the business leadership and perhaps even mayors wielding extraordinary powers.

Governance, especially in the institutionally thin regions, has always been in the hands of elite coalitions, and the resulting institutional sclerosis has been a source of economic failure by acting as a block on innovation and the wider distribution of resources and opportunity. In an increasingly global economy, these elites and their charismatic leaders may undoubtedly help regions to jostle for influence with national and international organizations (e.g. the European Commission or transnational corporations), but they will achieve little in terms of mobilizing a regional development path based on unlocking hidden local potential. This is why it is vital that regional actors ask whether their decision-making processes constitute an obstacle to institutional renewal, away from a culture of hierarchy and rule-following, towards one that focuses on informational transparency, consultative and inclusive decision-making, and strategy-building on the basis of reflexive monitoring of goals.

In the sphere of local state action, such deliberation might well lead towards very new institutional practices. For example, regional authorities — in the search for innovative ideas or unrecognized potential — could extend decision-making beyond the professional politician and draw in — perhaps through specialist committees — experts and representatives from the various professional and civic groups that make up local society. In addition, the principle of learning through social inclusion, taken seriously, might stimulate special effort to draw in minority and excluded interests. In turn, special attention might be paid to how business is conducted, in order to allow full and proper debate, potential for creative decisions, empowerment of the dialogically disadvantaged, and open and transparent interaction with the public and other representative institutions.

But, ultimately, the process of institutional reform has to go beyond the decentralization and democratization of a region's official organizations. Many of the prosperous regions of Europe are also regions of participatory politics, active citizenship, civic pride, and intense institutionalization of collective interests — of society brought back into the art of governance. Within them, associational life is active, politics is contested, public authorities and leaders are scrutinized, public space is considered to be shared and commonly owned, and a strong culture of autonomy and self-governance seeps through local society. They are regions of developed 'social capital' (Putnam, 1993), serving to secure many economic benefits, including public-sector efficiency in the provision of services; civic autonomy and initiative in all areas of social and economic life; a culture of reciprocity and trust which facilitates the economics of association; containment of the high costs of social breakdown and conflict; and potential for economic innovation and creativity based on social confidence and capability.

The LFRs face a daunting task in reconstructing local social capital, damaged as it may be by decades of economic hardship, state-dependency, elite domination and so on. But this is not an impossible task. Some catalyst projects might focus on popular projects which restore a pride of place and belonging (e.g. festivals, the recovery of local public spaces, cheap and efficient public transport), community development programmes, schemes involving public participation, investment in the social infrastructure, civic educational programmes, and initiatives in marginalized communities designed to rebuild confidence and capability. These are projects which need public involvement and

imagination, constituting a small but necessary step towards reconstructing damaged civic identities.

Mobilizing the social economy

The preceding discussion implies that a regional culture of social inclusion and social empowerment is likely to encourage economic creativity by allowing diverse social groups and individuals to realize their potential. This reinforces the view that policies to stimulate regional entrepreneurship should recognize, oblique though it may appear, the centrality of policies to combat social exclusion in this process. This is especially relevant in the context of regions marked by problems of persistent structural unemployment and rudimentary entrepreneurship, both of which act as a severe constraint on economic renewal. In such regions, the depth and scale of unemployment and the trend towards jobless growth in the economy at large, makes a return to full employment highly unlikely through improvements in regional economic competitiveness (via, say, industrial upgrading, clusters and economies of association).

More direct action to stimulate job generation is required, but as a catalyst for building a social economy capable of nurturing skills, expertise and capabilities. The action might involve active labour market programmes targeted towards reintegrating vulnerable social groups such as young persons, the under-qualified or ethnic minorities. It might include sustained effort to monitor and understand the informal economy, perhaps expecting improvements in business practice in exchange for policy supports which firms on the margins of illegality might find acceptable. For example, regions in which the sweatshop economy thrives might consider providing firms with access to bridge-loans and specialized services in order to help firms upgrade and, through this process, emerge into the formal economy.

An interesting contemporary policy innovation in the European Union is experimentation with the social economy as a source of local renewal. In countries such as Germany, France, Belgium, the Netherlands, Italy and Ireland, there is growing public policy support (e.g. subsidies and indirect aids such as training, facilitating legislation, specialized services) for community projects that are run by the third sector and involve excluded groups either as providers or users of socially useful services. This might involve support for a community group that employs school leavers to offer affordable housing to low-income groups or for a cooperative through which the long-term unemployed provide domestic care or transport access to the elderly. In other words, the battle against social exclusion is being combined with reforms to the welfare state, towards building an intermediate economic sphere that serves to meet real local welfare needs. In turn, this intermediate sphere, sustained by both monetary and innovative non-monetary metrics of exchange (e.g. service vouchers or services in kind), is seen as a source of employment and entrepreneurship in 'markets' which are of limited interest to state organizations and private-sector firms. In the longer run, it is seen as a vital source for unlocking social confidence and creativity among the excluded.

The policy implication is that regions need to incorporate a social economy programme into their efforts to improve regional economic competitiveness. It is important, however, for the reasons given in the preceding section, that support is provided with a light governmental touch, leaving a great deal to local actors. For example, regional, or city-based, 'social inclusion commissions' could be established, with an elected chair from a widely-drawn membership of relevant local organizations. The commissions would audit local service needs, propose rules for action, invite and consider applications for funding, work with the local authorities and other economic interest groups and so on. The local authorities and the central government would play a facilitating role, providing, for example, resources and legislation, but they would not provide a direct steer on local priorities and projects.

Conclusion: back to the macro-economy

The new regionalism offers a solution based on the mobilization of local resources. But it does so on the basis of a very broad definition of what constitutes the economy and economic action. It is an approach that builds outwards from a new industrial policy and effort to strengthen local economies of association to actions to improve institutional reflexivity, learning potential and social creativity. The institutionalist agenda threatens the inherited policy approach in three ways: first, by placing faith in long-term, evolutionary actions which tend to span across normal planning and electoral cycles; second, by suggesting new actor rationalities to replace reliance on standardized, off-the-shelf formulae applied mechanically by an unreflexive policy community; and third, by expecting policy actors to considerably broaden their definition of the factors of economic success.

To a degree the focus on endogenous regional solutions has been forced by an uncomfortably pervasive agreement across the policy community around the neoliberal rejection of macro-economic actions in favour of LFRs which might hinder market forces. Thus, for example, little support can be marshalled these days for monetary or credit policies which are monitored for their regional effects on demand or entrepreneurship, or for competition policies which might veto a merger or takeover if proven to be damaging to an LFR. Across the political spectrum, the consensus has grown that national and regional competitiveness is the only pathway to prosperity and that redistributive measures alone will not suffice.

This is a perilous supposition, not least because of the institutionalist axiom that action has to be contextually relevant and medium- to long-term. The policy orientations outlined above are not equally applicable to all types of region, and where they are, they require time to be built up. The orientations are especially appropriate for regions characterized by certain impediments to economic renewal: fragile small-firm entrepreneurship; domination by externally owned or controlled firms with poor levels of local economic integration; restricted diversification, innovation and learning capacity; and state dependency and institutional closure. These are problems which are rather typical of old industrial regions and their particular institutional legacies. Lagging rural regions face a different set of impediments, and their institutional base might also be less equipped for experimenting with learning-based industrial clusters and reflexive goal-monitoring institutional behaviour. Region-building, in short, may not be an option for all regions, owing to the restrictions of context and time.

This is why it is vital that an approach based on mobilizing the wealth of regions does not degenerate into localist sentiment. There is a risk that the institutionalist turn in regional thought and practice reinforces a parochial optimism centred on the belief that building local capabilities might be sufficient for establishing a privileged position within global networks. There are two flaws in this assumption. First, as Hudson (1996) argues, drawing on the example of once-prosperous regions which too were learning regions, such internal connectivity unattended can quite easily end up reinforcing, through institutional lock-in, path-dependencies which are inappropriate for new economic circumstances. Second, and as a consequence, the critical factor for economic success is not the presence of local relations of association and institutional advancement but the ability of places to anticipate and respond to changing external circumstances. Thus it is the management of the region's wider connectivity that is of prime importance, rather than its intrinsic supply-side qualities.

To a degree, the responsibility for the management of this wider connectivity lies in the hands of non-regional actors, notably government. No amount of imaginative region-building will be able to sustain a spiral of endogenous economic growth in the absence of a conducive macro-economic framework. Interregional competition in a Europe in

recession and dominated by restrictive macro-economic policies will continue to work in favour of the core regions. Therefore, something has to be done to secure the less-favoured regions sufficient time and resources to implement boot-strapping reforms. So entrenched is the recent history in the EU and other regional confederations of member-state commitment to macro-economic prudence — from monetary stability to reduced public expenditure — that manipulation of the rules in favour of the LFRs is a dim prospect. For example, inflationary or deficit-inducing expenditure programmes steered towards the less favoured regions are likely to be blocked.

Yet it is imperative that the European economy, with its alarmingly high levels of unemployment, be given an expansionary kick start. Historically, governments have implemented Keynesian, demand-led recovery programmes by financing public building and infrastructure programmes, as well as relaxing investment and credit restrictions in order to stimulate expenditure and consequently industrial expansion. With careful regulation of potential inflationary outcomes, there is no reason why controlled expansion of the economy along these lines is not possible. Without it, there can be little scope for redistributing jobs and economic opportunity to the regions.

Secondly, regional financial security, decoupled from the ideological whims of centralizing governments, needs to be secured across member states in order to adequately fund policy priorities and meet the income and welfare needs of the local population. Controversially, this might involve as bold a step as automatic fiscal transfers to the regions aligned to local income. In this way, tax revenue pooled at, say, the EU level can be automatically, and continually, redirected to the regions. Such a regionally equitable fiscal system would ensure that the less favoured regions are compensated for their inability to generate as high a level of local tax revenue as their more prosperous counterparts.

These are controversial suggestions which need further debate. However, the point of raising them here is that in the absence of a conducive macro-economic framework, it seems irresponsible to ask the regions to embark upon a long-term and comprehensive overhaul in pursuit of an endogenous pathway to prosperity.

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