

9 SUMMARY AND CONCLUSIONS

9.1 Summary

9.1.1 Introduction

The research object of this book is the role and the effectiveness of regional policy in orienting firms' decision to relocate. In other words, the investigation was on the relative weight of policy measures amongst the numerous drivers that influence such a determination. In particular, the study has been focused on subsidies, whose use – after a massive intervention in the decades after the second world war – was criticised by modern location theories, but still survives in the reality. The research is based on both theoretical and empirical studies, that have looked at three European countries: Italy, the Netherlands and the United Kingdom.

In the last twenty years, the globalisation of trade and finance has obliged local economic systems to cope with new competitive challenges. Accordingly, the interest on firm delocalisation has shifted from a single country to Europe or, more precisely, to the regions in Europe. Firm relocation boundaries have been extended to embrace foreign countries and the focus is on cross-border delocalisation rather than firm movement within the country of origin. Because cross-border delocalisation is becoming, in fact, a substitute to core-periphery relocation, national regional policies have to be revised to assure that peripheral areas still maintain some competitive advantages in the attraction of investments coming from the core areas.

9.1.2 The theoretical approaches

Scholars distinguish four different approaches to firm relocation, typically defined as neoclassical, behavioural, institutional and evolutionary.

According to the neoclassical location theory – diffused in the early part of the twentieth century, when industries were mainly basic and heavy – the entrepreneur (*homo economicus*) was assumed able to maximise his/her own profit.

In the 1960s, the behavioural location theory starts looking at the entrepreneur as a *satisficer person* with his/her conflicting goals, limited levels of knowledge and control of his/her environment, irrationality of perception and behaviour, etc.; the studies of this period have used a behavioural approach, while (neo-) classical location theories became increasingly criticised as being unrealistic and not reflecting real-world circumstances.

During the 1970-1980s, an increasing emphasis was put on the society's cultural institutions, value systems and innovation. These new issues have been embraced in the institutional approaches and, in particular, in the geography of enterprises, which considers location behaviour to be the result of a firm's negotiations with a

variety of local and national players.

More recently, the 'evolutionary' approach proposes a sort of "socialisation" of the behavioural theory, in the sense that it looks at the routine behaviour of the organisation rather than that of the entrepreneur himself, reducing the relevance of economic rationality as determinant of a location choice.

According to neoclassical approach, relocation is a costless exercise because a firm decides to move to another location when the former is no longer within the spatial margins of profitability and the new might be a profitable one. Thus, in the context of core-periphery relocation, regional incentives are necessary to make the firm overcome the diseconomies of the new location in a depressed area. Instead, in the behavioural, institutional and evolutionary theories, relocating firms incur in sunk costs (*set-up*, *accumulated* and *exit* sunk costs) which are not so much related to spatial conditions but to 'internal' and 'external' factors. In other words, whereas in neoclassical theory firm relocation determinants are the 'traditional' cost-related location factors (i.e. transportation cost, labour cost, market size, policy incentives), in the behavioural theory relocation determinants are 'internal' factors (i.e. information, abilities, perception), in the institutional theory they are 'external' or 'institutional' factors (i.e. trust, networking) and in the evolutionary theory firm location behaviour is ruled by a firm's path dependence, routines and competencies.

9.1.3 Firm relocation studies and regional policies

From 1945 to the 1970s, there has been an interesting parallel between the evolution of regional economic policies and the research focus on studies on core-periphery relocation. In this period, regional policy relied heavily on steering manufacturing industry into the problem areas by means of regional incentives and on promoting urban renewal and firm relocation to the outer zones of the cities and beyond by means of disincentives to invest in the most developed areas. This approach to regional policy was labelled 'traditional' and based on the theories of regional development (i.e. von Thunen, Weber, Marshall, Christaller and Losch) whose common feature was to explain firm relocation with reference to the traditional location factors (i.e. cost of land, transportation cost, market size, labour availability, regional incentives). In order to reduce regional disparities, the traditional approach focused on influencing these factors through the use of regional incentives.

From the mid-1980s onwards, the traditional approach to regional policy has been partially superseded by the contemporary approach which emphasises the role of endogenous local factors in promoting economic growth. Consequently, peripheral areas are stimulated to reduce regional unemployment disparities emphasising their own capabilities and energies to promote an endogenous local development. For this purpose, policy measures need to focus on lowering the barriers to firm creation and helping existing firms to migrate into sectors of production where local areas have a comparative advantage (Leonardi, 1995).

In this period new regional development theories came to the fore, such as those concerned with industrial *milieux* (Andaylot, Storper and Camagni) and the role of clusters and networks (Porter, Morgan): the idea is that traditional factors are unable to explain the relocation of activities, and new emphasis must be placed on immaterial economic aspects, institutional relations and interdependencies. Scholars start to use new concepts, such as human capital, institutional-political resources and social-cultural factors; policy interventions are oriented to reinforce the local environment (in terms of human resources and infrastructures) and to encourage network linkages.

As a consequence, framework measures and regional development strategies were more and more frequently adopted by policy makers, while, at least in principle, regional incentives to promote relocation were progressively reduced. In fact, the shift in paradigm of regional policy and regional development has been more in the philosophy than in its practice.

9.1.4 Firm relocation in Italy, the Netherlands and the United Kingdom

From a methodological point of view, the most important limit to comparative studies in different countries is given by the lack of reliable sources to register businesses' birth, movement and death. Comparisons are problematic also because different systems use different definitions and one cannot give for granted what unit of analysis should be measured (i.e. headquarters, branch plants, holding companies, etc.).

Nevertheless, these asymmetries do not bias the core of the study, whose objective is the role of regional policies rather than a comparison of quantitative information. The propensity to relocate over long distance in the last decade is not as high as in 1945-1970s. The reduction of core-periphery relocation is partially due to the broader, structural change of contemporary economy: whereas in the past the scenario was dominated by manufacturing industry, since the 1990s the most mobile sector is the service. In the three countries (and in periods of analysis) small companies account for the highest percentage of moves, that are mainly short distance in nature. Clearly, the long-distance move from the Northern Randstad to North Brabant and Limburg cannot be compared with the long-distance migration of firms in the United Kingdom and in Italy: long-distance migration in the Netherlands corresponds to 'overspill' in larger countries.

Firm relocation analysis showed that the core regions in the three countries in the 1990s have increasingly attracted firms instead of the reverse, as was the case in the recession period in the 1970s and early 1980s. This may be explained by the focus on the producer and networking services and the office sector that received more investments.

9.1.5 Core-periphery relocation in Italy, the Netherlands and the United Kingdom and the role of regional policies

Macro analysis

In order to investigate the number of initiatives that have been subsidised by policy measures to locate in the peripheral areas, a macro-analysis has been carried out. This analysis is based on the literary review to present core-periphery relocation from 1945 to the 1970s in the three countries, while data on the granted investments are described to provide evidence on firm relocation over the last fifteen years.

In 1945-1970s, regional incentives were offered to firms in Italy, the Netherlands and the United Kingdom, mainly in the form of capital grants, as stimulants to locate in the problem areas. Since the 1980s, although there was a shift from the traditional to the contemporary approach, policy incentives continued to be offered to firms locating in the peripheral areas. In Italy, for example, Law 488, Programme contract (PC) and Area contract (AC) promote the relocation of external investments to the Mezzogiorno. In the Netherlands, among the policy tools, the Centralised and Decentralised IPR premiums support relocation to the northern provinces. In the UK the regional incentives which subsidise core-periphery relocation are the RSA and EGS 'discretionary' grant schemes.

The macro-analysis of the grant-receiving projects in the three countries has shown that core-periphery relocation decreased in the past twenty years, however there is not evidence that can explain the reduction of long-distance moves with a change of regional policy measures. Others might be the causes, such as the growing international delocalisation, promoted by the progressive removal of trade barriers and other constraints on the free movement of labour and capital. In order to exploit location advantages and cost-reduction, firms relocate cross-border rather than towards the periphery. Regional policy measures, in general, did promote core-periphery relocation in the three countries but with varying degrees of success. This may be related to the premium percentage for business investments, which, for instance, in 1980-2000s totalled to 15-30% in the Netherlands, 50-70% in Italy and 10-350% in the United Kingdom.

The majority of investments, in both the periods (1945-1980s and 1990-2000s), are in the manufacturing sector and they are capital-intensive, as a consequence of the incentive provided. Nevertheless, in 1990-2000s the Italian Mezzogiorno shows a concentration of 'scale-intensive' and 'traditional' sectors, which does not induce a diversification of the southern production basis. The investments subsidised by the IPR are mainly in capital- and labour-intensive industry sectors and knowledge-intensive sector ranks third but it registers the highest level of job creation. The main beneficiary of the RSA grant is industry and the larger investments are

foreign mobile projects. Besides, in the three countries, policy measures have subsidised more indigenous investments than external investments.

Micro analysis

In order to investigate the role of policy measures as well as other pull factors in promoting core-periphery relocation a micro-analysis of a sample of grant recipient firms that invested in the peripheral areas, and of some of the local and national actors involved in the relocation process, have been carried out. The difficulties encountered in collecting firm-level data as well as securing a reasonable number of respondents, led to the use of both primary and secondary information. The Italian and the Dutch cases are based on surveys carried out by the author, while secondary information has been used for the British case (AEP, 2000). Nevertheless, both primary and secondary data collection refers to direct interviews with managers of randomly selected samples of AC-, IPR- and RSA- assisted firms. The survey in Italy is, however, much bigger than the other two because of the easier access to information in that country as well as the larger number of grant-receiving firms that invested in the Mezzogiorno which is more extensive than the peripheral areas in the Netherlands and in the UK.

The Italian sample is composed by 254 firms, 17 actors involved in the relocation process and 8 scholars/experts. In the Netherlands, 24 firms answered and additional interviews have been carried out with four actors involved in the relocation to the North and with ten scholars in the fields of economic geography, economics and regional policy. Of the 24 firms, 10 have been grant-recipients and the other 14 do not (contract group). The secondary data analysed for the UK case, refer to a survey on 165 firms that have been RSA grant recipients to invest in the Assisted Areas are presented. Besides, as for the other case studies, 8 additional actors (scholars in urban and regional economics, economic geography and planning, consultants of private companies dealing with regional policy and location economics, a few staff members of the RDAs and someone working at the DTI) have been interviewed.

In terms of comparability of the three situations, while in Italy and in the Netherlands the majority of granted 'external' investments come from the core area, in the UK foreign investments dominate the scenario, partly because attracting foreign investors is one of the priorities of the regional policy in the UK – and of the RSA in particular. Government incentives play a much more important role in the location and relocation of activities to the Italian Mezzogiorno than for the Dutch and the UK cases. However, this is partly due to the differences of the peripheral areas in the three countries as well as the different amount of incentives offered by the three policy measures. In other words, the Mezzogiorno cannot be compared to the Dutch Northern provinces as far as the level of economic development is concerned; similarly, the AC tool cannot be compared to the IPR or the RSA because of the different amount of public grants available, as stated earlier.

In the end, the macro-analysis, presented earlier, and the micro-analyses allow us

to state that labour market and policy incentives were important determinants promoting the core-periphery relocation in 1950s-1970s, while nowadays ‘softer’ factors (i.e. image of the location, quality of the local environment, etc.) are the most important determinants.

The outcome of the research does not lead to the same conclusion as for the three national cases. Certainly, the hypothesis is not fully acceptable for the Italian case, where investors coming from the centre-north, consider the supply-side (availability of industrial land, low cost of land, location facilities and relocation incentives) and demand-side (new market opportunities and accessibility) the most important determinants. Instead, the hypothesis is acceptable for the Dutch and British cases. In particular, 10 Dutch respondents out of 20 and 20% of the investors in the United Kingdom declared that they would have invested in the peripheral areas regardless the incentives. Besides, the Dutch respondents emphasised the image of the location and the quality of the local environment as important factors.

Although more research needs to be done, these results support the EU debate about the utility of financial aid schemes to foster the development of depressed areas. It might be necessary to revise discretionary policy tools such as the AC, IPR and RSA because a large part of the investments, with different degrees in the three countries, would have taken place regardless the incentives.

9.1.6 Cross-border delocalisation

As concerns cross-border delocalisation, the study focused on the Italian and Dutch firms investing abroad while the United Kingdom has not been studied because of lack of information on this specific aspect.

On the theoretical ground, the focus is on the socio-economic impact of international delocalisation on the home countries or regions: regional policy does not go in the direction of promoting international relocation *per se*, because without a parallel evolution of the domestic production system (in terms of capability to go for high added value activities), the transfer of production abroad might simply cause the loss of jobs and a decrease in competitiveness.

In Italy, for instance, the peripheral areas and the foreign countries are not always competing systems because the activities transferred in the two areas are not substitute: labour intensive and low-valued added activities are delocalised from the core areas to the SEEC; services, medium-high value added activities to the Mezzogiorno. On the other hand, cross-border delocalisation by means of horizontal investments (i.e. towards other industrialised countries such as Germany and France) represents a risk for the Mezzogiorno.

Similarly to the Italian case, the Dutch periphery seems not to suffer the competition of the Central-Eastern European countries in the attraction of production activities, whilst there is a threat for the whole country, core and peripheral areas as far as “soft” activities are concerned (horizontal investment).

The new challenge for regional policy is to accompany firms in a dramatic, structural change from a production- towards a knowledge-based economy.

9.2 Conclusions

Following the research questions, in this book four Hypotheses have been tested.

The review of location and relocation theories (Chapter 2) and of regional policy approaches (Chapter 3) allows to state that the traditional approach is based on the neoclassical location and relocation theory, while the contemporary approach is linked to the behavioural, institutional and evolutionary theories.

The analysis of regional policies in Italy, the Netherlands and the United Kingdom showed that the promotion of core-periphery relocation has been induced by old-fashioned policy measures (mainly regional incentives), also when the contemporary approach was in fashion (Chapter 6). In fact, the shift from an old to a new theoretical approach does not necessarily imply a consistent and complete change in terms of instruments, that takes longer.

The micro analysis (Chapter 7) showed that government incentives seemed to have played a much more important role in the location and relocation strategies in the Italian Mezzogiorno with respect to similar situations in the Netherlands and the UK. The difference may be partly explained on the ground of the three policy measures' characteristics (in particular, the amount of public grants available ranges from 50-80% of the investment in the case of Italian AC, compared to 15-30% and 10-35% in the Dutch IPR and British RSA, respectively).

Finally, the last Hypothesis tested in Chapter 8 was that vertical international delocalisation which occurred since the second half of the 1980s to some extent replaced previous core-periphery movements. The analyses on the Italian and Dutch cases did not entirely support this hypothesis: as for the former, the evidence is that the Mezzogiorno and the SEEC are not competing systems because these two areas attract different type of activities. Instead, the Southern Italian regions suffer the competition of other industrialised countries, where companies based in the Northern core areas delocalise by means of market-seeking horizontal investments.

The outcome of the overall research is summarised as follows:

Table 9.1: Conclusions and accepted hypotheses

Chapter	Question/Hypothesis	Accepted/ Rejected
Ch. 2 Ch. 3	Hypothesis 1: The traditional approach to regional policy is based on the neoclassical location and relocation theory, while the contemporary approach is linked to the behavioural, institutional and evolutionary location and relocation theories.	ACCEPTED
Ch. 6	Hypothesis 2: Although regional incentives promoting firm relocation have decreased over time, the contemporary approach to regional policy still makes use of these ‘old-fashioned’ measures. In other words, not all the policy measures belonging to the contemporary approach are in line with its philosophy.	ACCEPTED
Ch. 6 Ch. 7	Hypothesis 3: Labour market and policy incentives were important determinants promoting the core-periphery relocation in 1950s-1980s, while nowadays ‘softer’ factors (i.e. image of the location, quality of the local environment, etc.) play a relevant role.	ACCEPTED for the Dutch and British cases REJECTED for the Italian case
Ch. 8	Hypothesis 4: The globalisation of financial and industrial markets has dramatically increased the phenomenon of firm internationalisation and cross-border delocalisation has become a substitute for core-periphery relocation.	Partially ACCEPTED

9.2.1 Trends for regional policies

The macro and micro analyses described in this research as well as the various public policies analyses undertaken show how difficult is to assess the effect of regional policy: the investment and location decisions are based on a rather complex set of variables and it is not thoroughly clear whether or not firms indeed know exactly the role played by regional policy measures. From the foregoing, it can be concluded that the effectiveness of regional policy measures is at least questionable. Given the doubts about the contribution of regional policy measures to the solution of regional disparities, the question that arises is about whether or not regional policy should be terminated, and particularly the old-fashioned type incentives. The change of national regional policies, as the new trends in Dutch regional policy have shown, acknowledges the partial failure of old-fashioned measures.

As far as the UK case is concerned, it is a common view that peripheral areas might profit from the decentralisation from the central to the local bodies. If an increased responsibility will be given to the RDAs, they could increase their competitiveness, by lifting their performance, especially in productivity and skills, closer to that of the more prosperous areas of the country. As for the Italian case, some experts argue whether government incentives represent the best way to utilize the relatively scarce public resources. In particular, they question the choice to concentrate the government expenditure for the South into incentives rather than into the promotion of those “public goods” that are so important for the long-term growth (Viesti and Capriati, 2003). Besides, in the Mezzogiorno, the ‘grant culture’ should be redesigned in favour of a policy encouraging self-sustaining projects.

Although more research needs to be done, these results support the EU debate about the utility of financial aid schemes to foster the development of depressed areas. It might be necessary to revise discretionary policy tools such as the AC, IPR and RSA provided that a large share of the investments, with different degrees in the three countries, would probably have taken place regardless the incentives.

9.2.2 Further research

One of the most relevant findings of the present research is that policy measures seemed not to be able to give an efficient answer to the new demand coming from the business community: in the framework of a global economy, companies look at new frontiers, beyond national borders – where the differentials are less and less significant. Starting from this assumption, the present research might be broadened in several directions. One possibility is to undertake an empirical analysis at the firm level on business's moving propensity by focusing on the national determinants of the relocation process (for example, national legislation, size of the country, density of population, unemployment, GDP, etc.) and controlling for a large number of characteristics (i.e. size of the firm and sector).

Besides, new research is required to investigate the impact of international delocalisation in the home and host countries. As concerns the home countries, it might be analysed whether international delocalisation towards low-wage countries tends to reduce the demand of relatively unskilled workers, resulting in either falling relative wages for, or increased unemployment of unskilled labour. As far as the host countries are concerned, the main issue is to show whether, and to what extent, (inward) internationalisation might influence the development process of low-wage countries, such as central eastern Europe, towards a sustainable and socially responsible pattern. Among the pull factors that attracted investments to central eastern Europe, indeed, some are particularly socially tricky: the low cost of labour, as well as the less strict regulation of environmental and social concerns. Western companies found central eastern Europe attractive as long as social costs were lower and local governments were keen not to turn down new investors and, in some cases, promoted social dumping as an asset of their country.

Nevertheless, in the international literature, the debate on the impact of internationalisation activities on the economic systems is very lively and far from conclusive. As a whole, there seems to be a convergence on the idea that the net effect is likely to be positive both for the home and the host countries. Nonetheless, empirical evidence provided so far is rather scant and unsatisfactory, mainly because of lack of reliable data.

Finally, to date, there has not been an extensive discussion of how governments should respond to the widening wage and employment inequality in Europe in the face of globalisation and technological change, particularly regarding policies concerned with training and income redistribution (Anderton *et al.*, 2002). This is another issue that warrants further research.