

Working Paper

REGIONAL ECONOMIC POLICY IN
A CHANGED LABOR MARKET

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May 1981
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Paper to be presented at the European
Regional Science Association Conference
in Barcelona, Spain, 25-28 August, 1981

**International Institute for Applied Systems Analysis
A-2361 Laxenburg, Austria**

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FOREWORD

Sharply reduced rates of population and industrial growth have been projected for many of the developed nations in the 1980s. In economies that rely primarily on market mechanisms to redirect capital and labor from surplus to deficit areas, the problems of adjustment may be slow and socially costly. In the more centralized economies, increasing difficulties in determining investment allocations and inducing sectoral redistributions of a nearly constant or diminishing labor force may arise. The socioeconomic problems that flow from such changes in labor demands and supplies form the contextual background of the Manpower Analysis Task, which is striving to develop methods for analyzing and projecting the impacts of international, national, and regional population dynamics on labor supply, demand, and productivity in the more-developed nations.

This paper discusses the implications of changes in labor demands and supplies for regional policy making in the Netherlands. The authors argue that the current policy strategy, which is basically the same in several European countries, is no longer appropriate in the new context. The alternative policy options they present are rather radical diversions from current practice. With this latter characteristic, the authors also intend to contribute to the exploration of the role that IIASA might play in analyzing consequences arising from the transformation of the international industrial structure.

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ABSTRACT

Recently, important structural changes have occurred on the supply and demand side of the labor market. This paper discusses the implications of these changes for regional policy making in the Netherlands. Suggestions for a new attack on regional problems are presented, which seem to be more radical diversions from the current practice than most other proposals which have recently been formulated. It is argued that the emphasis of policy on the demand side of the labor market is no longer self-evident. As alternative strategies for obtaining more equality in the interregional distribution of economic welfare, we propose policies oriented towards the supply side of the labor market and towards interpersonal transfers of income to compensate for interregional differences in earning capacities.

CONTENTS

1. INTRODUCTION, 1
 2. REGIONAL ECONOMIC POLICY IN THE PAST, 3
 3. THE NEW DEMOECONOMIC CONTEXT, 8
 4. A NEW APPROACH TO REGIONAL ECONOMIC POLICY?, 13
 5. CONCLUSION, 24
- REFERENCES, 25

REGIONAL ECONOMIC POLICY IN A CHANGED LABOR MARKET

1. INTRODUCTION

In many countries more than thirty years of regional economic policy has not resulted in a significant decrease in disparities between regions. It is even the case that for the most frequently used problem indicator: employment-opportunities a widening of interregional differences has occurred during the last years (see Wettmann and Ewers 1979, for more information). Regional policy making thus has not been able to fulfill the expectations of its designers. Dissatisfaction with the results of regional policies, and the observation that economic and demographic conditions determining the overall situation at the labor market now differ widely from those thirty years ago, have generated new concern about the basic motivations for, and contents of, regional economic policy (compare, for example, recent discussions in Bade 1979; CEPG 1980; Chisholm 1976; Ewers and Wettmann 1980; Goddard 1980; Kleine 1980; Nicol and Yuill 1980; Randall 1979; Sant 1980; and Wettmann and Ewers 1979).

In this paper we want to discuss the implications of recent structural changes on the supply and demand side of the labor market for regional economic policy. Is there still a place for separate regional policies? If so, can we still consider the old

basic elements of the policy strategy as relevant in the new situation? Questions like these will be posed, and the validity of different answers will be compared.

The discussion which follows is in the first place restricted to the design of that part of *economic* policy that aims at affecting the economic development of the regions. Hence, we do not deal with the broader area of regional welfare policy, which may include, for example, policies to obtain a more equal access to all kinds of services or to eliminate large differences in the incidence of negative externalities. (With this restriction we do not deny the important place which this welfare policy has taken in policy making; compare Sant 1980, for a more general discussion.) However, we shall interpret economic policy rather broadly, including different policy influences on both quantitative and qualitative characteristics of the demand and supply side of the labor market, and on the conditions determining the participation of individuals in material welfare. Both specific regional policy measures and more general economic policy instruments with regional differentiated effects will receive attention.

A second restriction is the focus on regional problems and policies in one specific country: the Netherlands. However, it is believed that this country can serve as a typical example of an economic welfare state (i.e., a country with a low share of employment in agriculture, a jobless growth in industry, and a quite extensive scheme of interpersonal transfer payments). It is also believed that many arguments in the discussion also have a certain validity for other countries with similar levels of socioeconomic development. We shall therefore stress our arguments with references to the situation in other western European countries. We recognize, however, that the discussion which follows has little relevance to the design of a policy strategy for notorious European problem areas, like southern Italy and Ireland, where the dependence on a large agricultural sector with low productivity constitutes the main cause of underdevelopment.

We start with a brief description of the context in which the first regional economic policies were designed and the contents of these policies. After that, we outline important structural changes in demographic and economic factors affecting the labor market that have occurred in the last decade and which we believe will have significant implications for regional policy making. The implications are considered in detail, and from these we derive suggestions for a new attack on regional problems in the changed circumstances. Our suggestions are more radical diversions from the present situation than most of the other ones which have recently been formulated by students of regional policy (for example, CEPG 1980; Ewers and Wettmann 1980; and Nicol and Yuill 1980). It is our belief that drastic changes in demographic and economic circumstances which have occurred or will occur in the near future, justify the consideration of possible radical shifts in regional policy making. Specifically, we shall argue that the common emphasis of regional economic policy on the demand side of the labor market (both in traditional policy and in the new proposals for an innovation-oriented policy strategy) is not *a priori* the most preferable choice in the present situation. As alternative strategies for obtaining more equality in the interregional distribution of economic welfare, we propose policies oriented towards the supply side of the labor market and towards interpersonal transfers of income to compensate for interregional differences in earning capacities.

2. REGIONAL ECONOMIC POLICY IN THE PAST

Although a few policy measures were taken to attack regional economic problems in the thirties (e.g., in the Netherlands and in the U.K.), in several European countries the takeoff formally occurred at the end of the forties and the beginning of the fifties. This is illustrated by the introduction of the Investment Development Certificate control in the U.K. in 1948, the establishment of the Southern Economic Development Agency (*Cassa per il Mezzogiorno*) in Italy in 1950, the enactment of the

first development program for a declining area in the Netherlands in 1951, the selection of emergency areas (*Notstandsgebiete*) in West Germany in 1951, and the enactment of the Underdeveloped Areas Act in Ireland in 1952 (see Yuill, et al. 1980). However, the first years of these new policies were characterized by a somewhat passive attack on regional problems. A change in the attitude of policy makers occurred around the end of the fifties and beginning of the sixties, when a period of very active regional policy making started. This was demonstrated by new regional economic policies in several countries (in 1958 the Regional Development Act in Denmark and in 1959 the Regional Expansion Law in Belgium) and an intensification in policy efforts in other countries, e.g. the Netherlands and the U.K. (see Nicol and Yuill 1980, and Yuill, et al. 1980).

The background of regional policy making in the fifties and sixties may be sketched by mentioning some typical indications for economic and demographic developments in the Netherlands.*

The *demographic* development was characterized by a *natural increase* of the population of 1.5% at the beginning of the fifties, which decreased to 1.0% at the end of the sixties. Total population growth was of the same order of magnitude: on the average 1.3% per year. The growth of the *labor force* was in the order of 38,000 persons yearly in the fifties and 52,000 persons yearly in the sixties (for comparison: the size of the labor force was approximately 4.2 million in 1960). The *spatial distribution* of the population changed as a result of internal migration and differing natural growth rates. The share of the traditional economic core (the provinces of Noord-Holland and Zuid-Holland) decreased, that of the bordering intermediary provinces increased, while in some of the peripheral provinces a declining share of the population was registered. However, in none of the provinces a decrease in population could be observed in these years.

*The information on economic and demographic developments is mainly taken from the following sources: Bartels (1980), Bartels and Van Duijn (1981), CBS (1979), and De Wolff (1980).

On the *economic* scene we observe a *high rate of economic growth* (real income per head doubled from 1950 to 1970), which implied, however, *drastic changes in the sectoral employment structure*. Between the census years 1947 and 1971 employment in agriculture decreased from 747,000 to 291,000 persons, and in mining from 54,000 to 20,000. In manufacturing the number of people employed increased from 1,043,000 to 1,257,000. The most remarkable extension took place in the services sector, however: from 1,733,000 persons in 1947 to 2,677,000 in 1971. The matching of labor supply and demand resulted in a rather *favorable national labor market situation* over most of this period: from 1955 to 1970 the national unemployment rate exceeded the 2% level in only 4 years. A *steadily growing concern of government* with the economy during this period is illustrated by the expenditures of the Ministry of Economic Affairs. Measured in constant prices, in 1970 these were approximately three times as high as in 1950. The *spatial distribution of employment* was characterized by a stable share of the economic core, an extension of the bordering intermediary provinces, and a decrease in the share of peripheral provinces. Part of this spatial dispersion was caused by mobility of firms. Research has revealed that such mobility was mainly motivated by the search for free sites and labor, in order to make further expansion of production possible. Another important location factor was spatial accessibility, which explains the preference for location near the economic core.

The differences in the regional growth rates of population and of employment (mainly caused by different impacts of changes in the production structure) resulted in certain imbalances on regional labor markets, which were most severe during the fifties. (In 1952 provincial unemployment rates ranged from 3.0% to 13.3%; in 1967 from 1.1% to 6.4%.) These imbalances became the principal concern of regional economic policy, which attempted to diminish regional differences in job opportunities for the labor force. Regions with relatively large shortages of jobs, as manifested by, e.g., high unemployment

low activity rates, and net outmigration, therefore attracted the most attention from the policy makers. Minor attention was devoted to the situation in the traditional concentration areas, where especially in the sixties the perceived congestion problems asked increasingly for a restrictive economic policy.

The policy strategy which was followed in order to solve regional economic problems in the Netherlands was based on the basic idea that the equal availability of employment opportunities to people had to be the central concern of socio-economic policy. Three types of motivation seemed to explain the great concern with the employment factor. (This distinction is based on Sen 1975, who uses it in the context of development planning.)

- The *production aspect*: employment yields an output; therefore, full employment throughout the country was considered an important means of maximizing national economic welfare.
- The *income aspect*: employment gives an income to the employed; it was therefore considered an important means of obtaining a more equitable distribution of welfare between people.
- The *recognition aspect*: employment gives a person the recognition of being engaged in something worthwhile.

Regional economic policy emphasized the stimulation of employment growth in areas with a structural or temporal shortage of job opportunities. This policy was known as bringing "work to the workers" rather than "workers to the work". There were several important motivations for this policy strategy.

- It was believed that this strategy would help to reduce cost-push inflation, as far as this originated from labor shortages in the economic core region.
- Large scale emigration of people out of problem areas was considered as unacceptable because of the personal resistance of people against moving, the possible negative effects of selective out-migration on the regions of origin, and possible negative effects on the regions of destination.

- It was assumed that the social costs of such a policy (caused by a possible reduction of the efficiency of production as a consequence of higher transport costs and fewer agglomeration advantages) would not exceed the social benefits of increased production by formerly idle production factors, thus making the policy economically attractive as well.

Public investment in economic infrastructure (including the building of factories in the U.K.) and investment subsidies, both directed at the manufacturing sector, were the principal instruments which were used for employment stimulation in the problem areas. (In the Netherlands expenditures for infrastructural investments in most years exceeded those for investment incentives.)

This summary characterization of regional economic policy in the Netherlands seems to be valid for several countries in western Europe. Only in two countries was there concern with agglomeration disadvantages during this period, resulting in the introduction of restrictive policy instruments for concentration areas (the U.K. and in France, see Nicol and Wettman 1979), although these policies were also put forward as a means of improving employment opportunities in the problem areas. Other minor deviations of this general picture were the introduction of labor subsidies in the U.K. in 1967 (in Sweden such subsidies also existed since 1965, in the form of regional training aids) and the use of direct investments in the state industry in Italy as an important instrument of regional policy.

With respect to the effects of regional economic policy on employment in the problem areas, a bulk of recent British research suggests that these may have been quite favorable (compare, for example, MacKay 1979; Moore and Rhodes 1973; and CEPG 1980; for a rather positive view on this matter and Marquand 1980, for a very careful discussion of the required assumptions underlying such estimates). Also research done for some other countries shows a positive picture of the policy

effects (compare Krist 1980, for an appreciation of German evaluation studies, and Ohlsson 1980 for an estimate of employment effects of Swedish regional policy). But the few evaluation studies that have been done for the Netherlands show a more ambiguous picture of the possible employment effects (see Bartels and Van Duijn 1981 for a discussion). However, most of this empirical research has used a very simple approach in distinguishing between policy and nonpolicy influences on employment growth. (The different approaches which have been used in evaluation studies of regional economic policy are extensively discussed in Bartels, Nicol, and Van Duijn 1981.) Therefore, it is not difficult to criticize most of these empirical estimates (see, for example, Ashcroft 1979; Chisholm 1976; Massey 1979; and Schofield 1979 for critical comments). The safest position in the evaluation debate seems to be that regional economic policy has had some positive effect on employment in some problem areas during some periods, but that it is impossible to make a highly reliable quantitative estimate of these effects. Of course, this statement does not imply that the nonpolicy option would have resulted into a relatively worse situation of the problem areas. That we simply do not know.

3. THE NEW DEMOECONOMIC CONTEXT

Above, we described the background of regional policy making in the fifties and sixties. The experience of the last decade is characterized by a number of important changes in the demoeconomic context, which seem to represent rather structural breaks with the situation which existed before. It is important to analyze these structural changes in more detail, since we feel that they reveal important new circumstances for which policy will have to be designed in the near future. This fact was recognized several years ago by Chisholm in an illuminating paper on the subject, which began with the statement that "in the field of regional policies a *secular* change has occurred/ is occurring in the relevant economic conditions" (Chisholm 1976). Since then, evidence of structural changes has grown and widened.

We hope to present some additional information on the changed circumstances which will make it even more clear that it is "urgently necessary to reexamine both the assumptions on which the regional policy analysis is based and the conclusions that are derived therefrom" (Chisholm 1976:201).

On the *demographic* side we *first* notice a remarkable decline in the natural increase of population: at present the Dutch growth rate is 0.4% per year. At the provincial level even lower rates are registered, e.g., approximately 0.3% per year in the province of Noord-Holland. The implications of this low growth for the spatial distribution of the population are twofold. In the first place, it implies that internal migration flows have become of equal or even more importance than natural growth, in determining regional population and labor force. In the second place, the present pattern of births and deaths points at a declining population in some provinces within two or three decades, taking into account expected mitigating or reinforcing migration flows (see also Chisholm 1976). It seems that a population decline can first be expected in the two traditional core provinces: Noord-Holland and Zuid-Holland because these provinces possessed during the seventies the lowest natural growth rates and a relatively large net outflow of internal migrants, while the net inflow of people from abroad in these regions can be expected to become less important in the future (because of the diminished efforts for attracting foreign labor).

A *second* demographic factor is the development of the potential labor force, e.g., the number of persons at working age who offer themselves at the labor market to get a paid job. Under some reasonable expectations concerning the development of participation rates, the increase in labor supply in the period 1975 to 1990 has been estimated at approximately 60,000 man years annually; this figure is significantly higher than in any other period since World War II (see De Beer and Veeneklaas 1978). This large increase is first of all caused by a change in the age structure of the population, and secondly by an increasing labor participation of women.

A *third* demographic factor requiring our attention is the internal migration pattern. A completely new and lasting picture has appeared in the last decade: net immigration of people in all three traditional problem provinces in the peripheral north of the country, and net outmigration of people from two core regions. (The latter situation has existed since the beginning of the sixties.) This picture is also valid for *labor* migration: in spite of relatively high unemployment rates in the north and low ones in the west, there exists net labor immigration in the north and outmigration from the west. The spatial mobility of people seems now to be determined mainly by environmental and housing preferences, rather than labor market considerations. This can be concluded from several recent empirical studies of interregional migration. For example, in Suyker 1980, it is demonstrated with a careful statistical time series study that labor market variables lost their significance in the beginning of the seventies, and that most variation in netmigration rates could be explained by indicators for the housing supply and the quality of the natural environment. However, it is not yet clear if the situation has changed recently or will change in the near future, as a reaction to the deterioration of the labor market situation (see below).

On the *economic* side the Dutch economy was and is facing similar difficulties as other countries are, in spite of the favorable situation with respect to the supply of energy (caused by large deposits of natural gas): a slowdown of investment activities, lower rates of economic growth, still considerable increases in labor productivity and as a result a very slow growth of employment opportunities. In the private sector a decline of some 70,000 jobs occurred in the period 1970 to 1978, which resulted from decreases in employment in agriculture of 55,000, of 219,000 in manufacturing, and of 47,000 in building, and an increase of 250,000 jobs in the tertiary sector. The extension of government employment (with approximately 100,000 persons in the period 1970 to 1978) was not large enough to avoid a sharp rise in the number of persons unemployed. At the end of 1980 a total number of 322,000 persons was officially

registered as unemployed; prudent estimates of the amount of hidden unemployment (an important share of the persons registered as disabled to work; unemployed persons not satisfying the somewhat arbitrary criteria for inclusion in the official unemployment figures; persons who do not register themselves, discouraged by the bad job opportunities, etc.) extend this number by at least 300,000. The national shortage of jobs would therefore at present be at least in the order of magnitude of 600,000, which equals approximately 12% of the total labor force. With this figure the Netherlands is among the leaders in the European Community (E.C.). (Total registered unemployment in the E.C. reached 7,000,000 in 1980.)

Especially the sharp decline of employment in industry has evoked much alarm. (This fact is best illustrated by a recent publication of the Scientific Council for Government Policy on the "Place and future of Dutch industry"; see WRR 1980.) As in other industrial countries, concern with international competitiveness has caused policy makers to implement several new instruments to encourage investment in innovative projects. Besides, an impressive set of policy measures on the demand and supply side of the labor market is now in use, as part of an attempt to solve the prevailing large imbalances in the labor market.

The growing concern of the state with socioeconomic life may be illustrated with some figures. The expenditures of the Ministry of Economic Affairs, measured in constant prices, doubled from 1970 to 1979. The share of taxes and social security premiums in national income increased from 44% in 1970 to 54% in 1980, which gives some indication of the present importance of inter-personal income transfers.

The problematic state of the national economies and labor markets has already exerted a notable influence on regional economic policy. The traditional type of regional problem, differences in job opportunities, has remained or even worsened in several countries. In the Netherlands, for example, provincial unemployment rates at the end of 1980 ranged from 4.7% to 11.7%.

If unemployment is measured by including also part of the remaining economically inactive people, who could potentially take a job, we would arrive at a range of 6-20% approximately. This can be compared with the official unemployment figures for 1952, which ranged from 3-13.3%* and with the unemployment rates for Great Britain which ranged from 4.1% to 9.3% in 1980 (CEPG 1980) compared with 1% to 3.6% in 1960 (Cameron 1974). The reaction of policy makers in the first half of the seventies has been an intensification of regional policy. New instruments were introduced: regional development funds and relocation of government offices in the Netherlands, subsidies on certain transport costs in Sweden, labor subsidies in the Netherlands and Italy. Besides, old instruments have been extended (application in a larger geographical area, increase in the level of financial assistance, extension of investment subsidies to the service sector), and in several policy instruments applied in other policy sectors an important regional component was introduced (labor market policies, sector policy, etc.).

More recently, however, enthusiasm for regional economic policy seems to be on the decline (see also OECD 1977). Regional disincentive policies have been relaxed or even more or less abandoned in all countries where they are applied. The Office Development Permit in the U.K. was abandoned in 1979; the Dutch government is considering abandonment of the SIR investment levies, which apply to part of the country; the regional development premium in the U.K. was withdrawn in 1976 and the conservative government has cut back regional aid drastically since the financial year 1979/1980 (CEPG 1980); while in the Netherlands the share of regional funds in the budget of the Ministry of Economic Affairs decreased from 24% in 1973 to 15% in 1981. Furthermore, evaluation studies for some western European countries, however tentative they may be, seem to suggest that the impact of policy has weakened significantly in recent years

*At that time hidden unemployment also existed but was mostly concentrated in small farms having low labor productivity. This type of unemployment may still exist now but in other sectors of the economy, e.g., the government sector. Estimates of its size are of course very difficult to make, and therefore we have left this type of hidden unemployment out of our figures.

especially because of a large decrease in the number of potential mobile firms to which regional economic policy has been mainly directed. (Compare Nicol and Yuill 1980; and also Calame 1980, for a discussion of the impacts of several types of labor market policies.)

4. A NEW APPROACH TO REGIONAL ECONOMIC POLICY?

The above description of some important developments in the seventies helps to draw the context within which regional problems will arise in the near future. This could be briefly described with the following key words: declining population of some regions, continuing job shortages in the country as a whole and presumably also in each of the separate regions, sharp international competition in the conquest of markets for new products, an internal migration pattern which shows very little reaction to prevailing labor market conditions, a loosening of the link between employment and personal income due to a well developed system of social securities, and the not very convincing effectiveness of traditional instruments of regional economic policy. It is our belief that these characteristics describe a completely new structural context for regional economic policy. In this new context, the old type of policy has lost much of its attractiveness for a number of reasons which we shall now discuss.

First, we believe that the policy strategy followed up until now will not be very effective in eliminating differentials in regional unemployment and economic welfare. One reason for this belief is that in the past thirty years the extent of regional economic problems has hardly diminished, in spite of an enormous increase in the intensity of regional policy. It could be argued, therefore, that a further increase in policy intensity is still required to solve the problems, but this option is now inconceivable because of financial constraints on policy implementation. Another reason is that the evidence which we have on the positive effects of the traditional policy instruments is not so convincing that we simply can rely on these instruments as the best components of a successful policy package. The linkage of

traditional instruments, like investment incentives and infra-structural investments, with the ultimate goal variables of regional economic policy is so complicated that a direct positive policy impact cannot easily be demonstrated.

Second, it has become clear that the traditional emphasis on general employment creation as an instrument for obtaining equal job opportunities between regions is now much less self evident than in the past. This is because of the doubts concerning the feasibility of full employment policy and the effectiveness of this instrument for improvement of opportunities for the most needy groups.

The objective of full employment, at least at current labor time per worker, is totally unrealistic. This observation is not unique for the Netherlands; for the E.C. all current forecasts seem to agree on a further increase in unemployment, at least until 1985. The "right to expect continued employment in the communities in which people live" (compare CEPG 1980), therefore, cannot be guaranteed under present circumstances. In this context government-induced employment creation in one part of the country may very well result in unemployment creation elsewhere, and so contribute only to a more equal distribution of unemployment over space, instead of resulting in a net increase of employment opportunities in the country. The logic of such a possibly costly unemployment distribution policy is not very clear.

The causal link between creation of employment and improvement of job opportunities for the most needy groups in the problem areas is not as straightforward as is generally assumed. The jobs which are actually created may not be appropriate to alleviate the situation of very specific problem groups (compare also Sant 1980). For example, in all Dutch provinces the highest unemployment rates were found among the less educated (compare Bartels 1981) and therefore conformed to a filtering down process in which the better qualified job searchers crowd out the less qualified. Furthermore, the existence of important migration flows (towards the problem areas!) may imply that the new jobs are filled by people from other regions instead of the original regional labor

force (see also Metcalf 1979, who cites evidence that reduction of local unemployment by one person, required the creation of an additional five jobs in British metropolitan areas).

Third, the objective of equal job opportunities itself has become less self-evident, because of a weakened motivation for the great concern with the employment factor and for a "work to the workers" policy, the increased importance of an efficient national economic strategy to maintain a competitive position in the world market, and the looser connection between employment and income at present.

The strength of all three reasons for emphasising employment, as mentioned above, has weakened drastically. The income aspect has lost most of its importance, since in a country like the Netherlands a good system of social security payments and unemployment benefits implies that the part of income directly related to employment has become very small. (In net income this seems to lie somewhere between 0 and 20%.) Also the production aspect is no longer convincing, as national production possibilities have been severely restricted by a limited demand for the products produced. Finally, the recognition aspect for a significant part of the population seems to have lost much of its value, which is quite understandable with such a small part of the population actually engaged in paid work.

Several arguments which were used to motivate a "work to the workers" policy are no longer appropriate: the link between regional unemployment and inflation has been broken (compare Chisholm 1976), and the presumed disadvantages of labor mobility have proved only partially true [e.g., migration does not seem to have created expected problems of under- or over-utilization of social capital, has not led to an overall worsening of the congestion problems in regions of origin and destination together, and has not had very impressive negative influences on the region of origin; see Beaumont (1979) and Cameron (1974) for more details on these arguments]. The general social argument of "preventing large-scale involuntary migrations from the problem areas" (compare CEPG 1980) is also not very convincing, since if policy really intends to present people with employment and houses at

places which satisfy their preferences completely, a drastic change in the present spatial distribution would have to occur. (According to a survey in the Netherlands the economically most important province of Zuid-Holland would then lose 42% of its population, whereas the peripheral problem province Drenthe would gain 68%; compare Heida and Gordijn 1979.)

Maintenance of the relative position of the country in the world economy at present requires very concentrated efforts in the field of restructuring the national economy (compare WRR 1980, and also De Wolff 1980).* International competition, primarily from Japan and the U.S.A., but also from other European countries and from the newly industrializing countries, requires a maximum efficiency in the use of government funds aimed at improving the general level of job opportunities. Also Chisholm stresses that for Britain "the over-riding aim of policy must be to maintain Britain as a viable advanced economy in a competitive world", Chisholm 1976:209. The tremendous intensification of regional policies in several countries during the seventies (one third of the E.C. population living in areas that receive some form of national aid, compare Nicol and Yuill 1980) has to an important extent been motivated by the need for policy instruments to influence international competition. (See also Balassa 1973 and OECD 1977 for this view. In CEPG (1980), this is presented as one of the arguments for the continuation of present regional incentive schemes.)

But more than thirty years of regional policies have shown that stimulation of economic activities in problem regions requires a continuous government compensation for the economic disadvantages associated with these mostly peripheral locations

*Maintenance of the relative position among countries is simply accepted here as a common objective of policy makers in developed countries. This does not imply, however, that the endeavor is, in our personal opinion, also the most desirable. If such a policy were successful, a stabilization or even worsening of the relative position of most Third World countries might follow. The inequality in the distribution of economic welfare in the world may therefore become even more poignant. More negative consequences of national economic strategies in developed countries could be mentioned, suggesting that a more critical view on this objective would be desirable.

(in general, higher transport and communication costs, and fewer agglomeration advantages). This experience is not in accordance with the belief that existed when regional economic policy started. The first schemes for investment subsidies were intended to be temporary, since the policy makers believed that a short period of incentives was enough to compensate for the structural disadvantages of the problem areas; in the longer run, production costs would not differ significantly, they believed. Some empirical research, however, that has been done to measure possible structural differences in production costs has produced an ambiguous conclusion (see Cameron 1974, and Marquand 1980). But the continuous existence and even increase of governmental assistance to private enterprises in the peripheral areas seems to indicate that important structural economic disadvantages or severe rigidities in the locational decision making process were always present.*

Also for the present policy emphasis on restructuring of the economy by means of stimulation of innovative projects (Rothwell 1980), it is clear that successful realization of such projects in the problem areas in general requires more public assistance than elsewhere. Recent investigations of some western European countries have shown that among smaller firms in particular, the creation and application of innovations occurs more often in urbanized regions because of the more favorable external circumstances (more qualified labor and information accessibility) and the existing functional spatial specialization of activities (see Ewers and Wettmann 1980, Wettmann and Ewers 1979, and Kleine 1980, for more details).

*In Marquand 1980, a different view is taken: "We cannot conclude that there is any evidence that diversion of activity through regional incentives leads to any long-term reduction in the efficiency with which resources are used, nor that creation of additional activity in the Assisted Areas is in any way a less efficient use of resources than its location elsewhere." The studies on which this conclusion is based, however, do not seem to consider regional incentives as an explicit component of regional rates of return on capital. Therefore, equal rates of return among regions do not imply equal efficiency levels.

These remarks suggest that the traditional policy tradeoff between equity and efficiency is more relevant now than before. The statement "in its early days, regional policy was often viewed as a social venture involving 'costs' to the nation and conflicts between the national and the regional interest; it is now generally seen that such conflicts do not exist and, indeed, that regional policy is to the advantage of the nation" (Allen et al. 1979) may be appropriate for the general opinion some ten years ago, but it certainly does not reflect the situation today. The importance now of an efficient national economic strategy, seems to present a good motivation for giving a lower weight to dispersed employment stimulation. On the demand side of the labor market, a concentration of national efforts on promising projects, not especially selected for their locations, seems thus required.

Since the connection between employment and income is much looser now, job opportunities are not necessarily the best instrument for attaining an equitable distribution of material welfare among the population. Individual income earning capacity is mainly determined by the educational background of individuals. This fact points to the important role of *educational opportunities* as an instrument for influencing the regional distribution of economic welfare. Besides, in a situation of structural labor supply excess, a good system of interpersonal *income transfers* (unemployment benefits and other social security payments) serves as an indispensable instrument for the attainment of regional welfare goals (compare also Haveman 1976, for other arguments for using personal income as the primary indicator for regional welfare).

Fourth, the minor second objective of regional economic policy, restriction of the concentration of activities and population in certain congested areas of the country, has moved to the background. The mainly autonomous decentralization of people and jobs out of the most congested large towns motivated by people's preference for better living conditions has created confusion about the question of whether this is really the goal of policy makers. There have been even several proposals (which have

already been implemented in the U.K. as part of the inner city policy) to extend traditional regional economic policy also to those parts of large agglomerations where relatively high unemployment rates exist. Such a reversal of the policy strategy towards the concentration areas, however, seems not very well founded. These areas continue to be the places where problems of environmental deterioration are most severe and where pollution levels frequently exceed minimum standards set to guarantee public health. (WRR 1980 shows that several of these standards are not met at present.) In such a situation a control on land use, based on environmental norms, continues to be a more appropriate strategy than one of economic stimulation.

The discussion above implies that we challenge the appropriateness of an employment-oriented regional economic policy strategy like the policies used in the past and some proposals for a new innovation-oriented regionalized restructuring policy which have recently been put forward (Ewers and Wettman 1980). Our main objections against this employment orientation are that it may be detrimental to the attainment of important national economic objectives in the present situation, that it rests on some old fashioned ideas about the determinants of personal welfare and the patterns of regional development and that it cannot guarantee attainment of the full employment objective. Our conclusion is not, however, that policy concern with the welfare position of people in backward regions is superfluous. Instead, a different use of collective spending should be considered. Looking for alternatives, our previous discussion suggests in the first place a more direct policy of redistributing personal incomes. As long as high levels of regional unemployment remain causes of public concern, a second policy strategy oriented towards the supply side of the labor market is believed to have more effects on the regional incidence of unemployment. These two different strategies will now briefly be discussed.

In the *first* strategy, preference is given to a national economic policy that strives to maintain the present relative level of economic welfare by stimulating new activities that are promising at locations where this can be done most efficiently. It is

elderly people out of work, in a regionally differentiated way. For example, in 1977 in the problem area of Limburg 19% of the dependent labor force was disabled and in the core province Zuid-Holland this figure was only 10% (see Bartels 1979)

- d. The creation of a regionally differentiated average working time, by means of regionalized stimulation of part-time work or even regional differences in the length of the work week or in holidays. Experiments with regionalized stimulation of part-time work have started in 1980 in the Netherlands on a very small scale. This instrument seems to be particularly attractive for the solution of the present and future labor market problems, since an important part of the increase in the labor force consists of women, who have in many cases a strong preference for part-time work. Besides, we have the impression that also among men the demand for part-time jobs exceeds the supply. In the case that income opportunities may not be affected by such measures, income transfers to the people involved would be necessary. At first sight this seems a rather expensive scheme, but *a priori* it is not certain at all that it is more expensive than the alternative options: large payments to unemployed people or large amounts of investment incentives to private enterprises. But there is also much to be said in favor of only a partial or even no financial compensation for the people involved, because free time may be considered as an important element in the utility function of individuals. A situation with regional differences in incomes and working times would offer people the possibility of choosing a desired combination of both by means of spatial mobility. At present, however, a preference choice is largely impossible. The length of working time for most workers is almost completely institutionalized, with work weeks of a fixed length of some 40 hours and holidays also of a prescribed length.

- e. The introduction of selective incentives for the spatial mobility of labor, which could be related to the regional imbalances existing for specific segments of the labor market. The present migration pattern seems to create additional labor market problems in the environmentally attractive areas (see also CEPG 1980, for some evidence in the U.K.), and therefore attempts to control these flows could be justifiable.

In both strategies the traditional employment-oriented regional economic policy is missing. Strategy 1 simply does not incorporate much regional policy at all (although some people may like to place the required interregional income transfers under this heading), while in Strategy 2 the emphasis of regional policy is on the supply side of the labor market. In the short run, when policy makers still may be very much concerned about the presence of large numbers of unemployed people, Strategy 2 seems easier to implement than Strategy 1. For a good understanding of our position, we have to stress that in both strategies there is place for:

- a policy of spatial dispersion of employment in the government sector, as long as this does not create important losses in the efficiency of this sector (This is simply a matter of diminishing regional discrimination.)
- an active environmental policy, which confronts enterprises and individuals with the external effects of their activities
- a general policy of creating the necessary economic infrastructure at places which serve both objectives of natural environmental policy and of national economic policy (These places are not necessarily concentrated in the traditional core regions; certain locations in the intermediary regions and even in the peripheries can also satisfy these objectives.)

5. CONCLUSIONS

In the above we have presented arguments for a careful and critical consideration of possible options to attain a more equitable distribution in space of economic welfare in view of the important structural changes that have recently occurred in economic and demographic development. In our opinion there are strong arguments for a rather drastic change in the current approach to the definition of regional economic problems and their solution. A shift of emphasis from employment to income opportunities, and from regional employment creation to regional supply manipulation has been proposed.

For policy makers an important question is, of course, which policy option presents the best cost-benefit ratio. It seems, however, that the existing knowledge within the regional science discipline is of little help in obtaining objective insight into this question. Even a complete quantitative evaluation of single policy instruments seems beyond our present knowledge. However, for heroic attempts see, e.g., Black (1973), Marquand (1980), and Moore and Rhodes (1975). Hence, a cost-benefit analysis of complete packages of policy measures is still more utopic. The best the policy maker can do, therefore, is to discover by trial and error whether a completely new policy strategy produces more satisfactory results than the old strategy.

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