Mowat Centre for Policy Innovation
PAPER
JUNE | 2010

FROM ENTANGLEMENT TO ALIGNMENT:

A Review of International Practice in Regional Economic Development

David A. Wolfe

MOWAT

School of Public Policy & Governance
UNIVERSITY OF TORONTO

MOWAT APPLIED PUBLIC POLICY RESEARCH
INFORMED BY ONTARIO'S REALITY

EXECUTIVE SUMMARY

The establishment of FedDev Ontario, a regional economic development agency for Southern Ontario, creates an opportunity for the federal government to support innovation and economic transformation within Ontario. In determining how to invest its resources, FedDev should learn from recent international experience with economic development and the new understandings that have emerged over the past two decades.

Regional economic development agencies have often been criticized in Canada for having failed to narrow economic disparities in the country. Yet, around the world, governments continue to invest in regional economic development.

This paper provides a survey of international practice with regional economic development policy, with a focus on the European Union, the United Kingdom and the United States. This research finds that new approaches to regional economic development are playing an important role in supporting innovation and economic transformation.

The recent experience of regional development policy in these three cases shows the need to focus resources on enhancing regional strengths in support of those sectors and clusters with the potential to achieve sustained economic growth, rather than seeking to equalize outcomes, eliminate disparities or engage in a zero-sum game of subsidizing businesses to choose one region over another.

Regions vary considerably in their growth potential and innovative capacity, and the most effective strategies build on local strengths. This place-based approach underlies regional economic development in other countries.

The research also shows a consensus has emerged on the need to align resources more effectively across varying levels of government, different departments and various sectors of the community in support of common economic strategies. This requires collaborative planning processes to engage a broad cross-section of local and regional actors in the formulation and implementation of regional strategies. This can be understood as the strategic management of a city or region, with an economic development agency facilitating this management and playing the part of one actor in this management.

This collaborative governance must mobilize those outside of government if it is to be successful. Successful economic development initiatives around the globe typically involve local actors in strategy development and program design.

Further, all levels of government spend considerable resources on innovation related programs and economic development related initiatives. Too often, there is insufficient policy alignment across different program areas and levels of government.

The creation of a new regional development agency for Southern Ontario affords an opportunity to learn from the growing consensus around best practice in regional development policy in Europe and the US. FedDev can play an important role in developing 'place-based' policies that support the regional and urban economies in southern Ontario.

For more Mowat research on regional economic development, see:

REGIONAL ECONOMIC DEVELOPMENT AGENCIES IN CANADA:

Lessons for Southern Ontario

By Neil Bradford

&

TOWARD A TRANSFORMATIVE AGENDA FOR FEDDEV ONTARIO

By Neil Bradford & David A. Wolfe

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Canadian federalism has long since ceased to consist of watertight compartments, and the two senior levels of government find their actions increasingly intertwined across a wide range of policy jurisdictions. Nowhere is this truer than in the area of economic development policy. Since the 1980s, provincial governments across the country have moved to expand their range of activity with respect to economic development, research and innovation. The growth in overlapping areas of jurisdiction and blurred responsibilities results in a general case of what Richard Simeon, following the Government of Ontario, termed 'entanglement' (Simeon 1977, 26–29). Entanglement takes several forms, including duplication of programs, fragmentation, incursion, and spillovers. The creation of the new Federal Development Agency for Southern Ontario (FedDev) represents a clear case of entanglement, with the potential for duplication and fragmentation of program responsibilities. It is therefore incumbent on all levels of government—from the federal to the local—to align economic development policy more effectively in order to minimize the negative consequences that can flow from entanglement.

Policy outcomes are not merely the product of legislative or administrative actions taken by national, provincial or local governments, but the product of a complex pattern of interaction between several levels of government and an array of social and economic actors in the community where the policy is implemented. More effective policy alignment can be achieved if this complex set of governance relations is recognized at the outset and the perceptions of the relevant groups of actors are taken into account in both the formulation and implementation of that policy. Nowhere is this need more relevant than in the case of the existing and new regional development agencies in the country. The Regional Development Agencies represent the major federal agencies for influencing regional and local economic development across Canada.

Nonetheless, there is a considerable tension in both the conceptual and the empirical literature over the most appropriate focus for regional development support. At the risk of over simplifying, the focus of regional development policy can be separated into three categories: infrastructure, business support, and science and innovation. While the former two have traditionally been the primary focus, recent initiatives suggest there is a growing recognition on the part of national and regional governments that the economic future of their regions lies in mobilizing the innovative competencies and potential of their research and innovation infrastructure. This is leading to two important developments: 1) a greater focus on initiatives to enhance and mobilize the innovative potential of less developed regions within the national economy; and 2) a greater emphasis on the need to integrate regional development spending with broader national and, in the case of the European Union (EU), supra-national initiatives to promote research and innovation. There is evidence of this shift in a number of recent developments in the EU, the United Kingdom (UK) and the United States (US) that will be analyzed in this paper.

This paper provides both a brief survey of international practice that highlights the past experience of national and supra-national governments in Europe and North America, as well as an examination of new and innovative approaches to regional economic development policy. The paper focuses on three specific cases of regional development policy. First is the role of the Structural Funds and Cohesion Policy within the E. U., and its predecessor, the European Community (EC.). Particular attention is paid to a series of innovative programs that were undertaken from the late 1980s onwards to promote greater innovative capacity in the less developed regions. With the adoption of the Lisbon Agenda by the EU. in 2000, the tension between that objective and the Lisbon goal of promoting European-wide areas of expertise and concentration that were competitive on a global basis with other leading and emerging countries became more pronounced. There are some important lessons to be learned by Canada and Ontario from the evolution of European thinking in this policy area.

The second case examines the creation and expansion of the Regional Development Agencies (RDAs) in the UK. The decentralization of a substantial portion of responsibility for economic development was one of the most significant policy developments in the UK from 1997 onwards. The role of the RDAs is to further economic development, promote business efficiency and investment, and promote employment and enhance skills. There is also, however, a good chance that the RDAs will be seriously cut back or wound down with the election of the new coalition government in early May 2010. Despite the fact that they may prove to be a short-lived experiment on the British policy terrain, there are important lessons from their experience for the current Ontario situation.

The final case is the role of the federal government in the US in promoting regional economic development. While there are no federal agencies in the US comparable to the RDAs in Canada or the UK, numerous federal programs and agencies play a critical role in regional economic development. Furthermore, the Economic

Development Administration in the Department of Commerce has long had responsibility for promoting economic development across the country. This role has assumed greater relevance for the current study in light of the series of initiatives in the President's Budget for 2010 that was sent to Congress. An overview of these initiatives will be presented and their relevance for the role and mandate of FedDev Ontario considered.

The focus of this paper is how to move from 'entanglement' to effective 'policy alignment.' The expanded role of the Structural Funds and Cohesion Policy in Europe as part of the creation of the Single European Market in 1992 witnessed the introduction of a new concept into the policy literature—multi-level governance. The core idea of multi-level governance is that the national level must engage in collaborative decision-making processes with other levels of government and relevant actors. In Canada, the notion of multi-level governance underscores the fact that there is considerable overlap in the respective areas of federal and provincial jurisdiction. Recognition of the interdependent nature of governmental roles and responsibilities is essential for achieving successful economic outcomes. The more effective alignment of policy initiatives across both levels of government follows logically from this recognition.

REGIONAL DEVELOPMENT POLICY IN THE EUROPEAN UNION

Nowhere has the practice of regional development policies been more fully analyzed and carefully formulated than in Europe. Since the formation of the EC. in the 1950s, but more significantly, since its steady expansion from the original six members to the current twenty-seven from the mid-1970s onwards, the proportion of community funds allocated to regional development has increased steadily as a proportion of total outlays. Throughout this process there has been an inherent tension between Europe's desire to close the gap between its rate of growth with that of its leading competitors and the pressure to reduce internal disparities between the most advanced countries and regions on the continent and lagging ones. The tension has become more apparent since the adoption of the Lisbon Agenda in 2000, which established the explicit goal of bringing Europe up to the level of innovation found in the leading industrial countries. The adoption of this goal almost simultaneously with the agreement to extend membership to a host of countries in Eastern Europe has further accentuated the tension. The way in which this tension has been reconciled in the evolution of European regional development policy over the past five decades is instructive for other countries and regions confronted with a similar challenge.

THE EVOLUTION OF EUROPEAN REGIONAL DEVELOPMENT POLICY

The roots of European regional development policy can be traced back to the first decade of the Common Market's existence. The current framework was set in 1975 with the establishment of the European Regional Development Fund (ERDF) in response to the accession of the U. K., Denmark and Ireland to the Community. Although the ERDF was initially set up as a Community-level policy instrument, it was structured such that the member states had virtual control over the disposal of the funds in their own jurisdiction. The areas mandated to be eligible for ERDF assistance were determined by individual states under their own regional policies. Assistance provided under the ERDF was initially limited to grants for infrastructure investments and investments in industrial and service sector development. The initial structure and operation of the Fund was described as a "virtual paragon of intergovernmentalism" (Manzella and Mendez 2009, 8–10; Armstrong 1997, 35–38).

The process leading up to the creation of the Single European Market (SEM) triggered significant changes to the ERDF as a result of the Single European Act passed in 1986. The SEM introduced the specific objectives of promoting the harmonious development of the Community and strengthening economic and social cohesion by reducing the disparities between the various regions and the backwardness of the least-favoured regions. It launched a further process of reform with respect to the regional development funds, resulting in a series of regulations that took effect on January 1, 1989. The reforms to regional policy were designed as part of a comprehensive approach to ensuring that all three Structural Funds (the European Social Fund and the Guidance Section of the European Agricultural and Guidance Fund, as well as the ERDF) tackled the problems of regional development in a more coordinated fashion. They set out five priority objectives, three of which had a distinctly regional focus: 1) the development of structurally backward regions; 2) the conversion of regions in industrial decline, and 5.b) the promotion of development in rural areas. For the first time in 1989, the EC drew up its own map of the areas eligible for support under the terms of the new policy. Increasingly, the disbursement of regional development funds was concentrated in the regions most in need, with Objective 1 regions receiving about 80 per cent of assistance and Objective 2 regions most of the remaining 20 per cent. The reform process also involved a virtual doubling of funding available for the three Structural Funds (Armstrong 1997, 41–50; Marks 1992, 206–12).

The major reforms introduced into European regional development policy in 1989 also undertook to streamline and coordinate the policy process more effectively. It required the member states to generate regional plans developed through a consultative process with the European Commission that resulted in Community Support Frameworks (CSFs) which covered expenditures under all three structural funds and provided a means for involving a wider range of local and regional authorities in the planning process with national level governments and the Commission itself (Armstrong 1997, 48).

A smaller, but important set of reforms followed in 1993. The major change witnessed the creation of a new fund, the Cohesion Fund, directed specifically at the four member countries with a per capita GDP less than 90 per cent of the EU average—Ireland, Spain, Portugal and Greece—and concentrated on environmental and transportation infrastructure projects. The expenditures under this Fund were to have a major impact in modernizing the economies of key regions in the countries affected. At the same time, there was a concerted effort to decentralize control over implementation to the member states by assigning them greater responsibility for program content, management, monitoring, evaluation and control. In return for this greater degree of decentralization, however, a number of changes were introduced to enforce the effectiveness of expenditure control within the overall program guidelines (Manzella and Mendez 2009).

The most recent and current programming period for Cohesion Policy is 2007-2013. This period has been marked by two major and somewhat contradictory trends that have given rise to a conflicting set of concerns within the EU—the first is a growing preoccupation with the rise of new international economic powers in Asia and the changing international terms of competition which have given rise to a growing concern with the overall innovativeness and competitiveness of the European economy, as reflected in the adoption of the Lisbon Agenda in 2000. The second is the accession to membership of ten new countries from Eastern Europe, all of whom had significantly lower levels of income and GDP per capita. Following a period of lengthy negotiations, the main features of the new Cohesion Policy were agreed to in April 2006. Under the new agreement, Cohesion Policy was more tightly integrated into the Lisbon Agenda with a much stronger focus on knowledge creation and innovation than had previously been the case. Four particular areas were identified in order to focus regional development spending more clearly on these objectives: investing more in knowledge and innovation; unlocking the business potential of small-and medium-sized enterprises; improving employability through flexicurity; and the better management of energy resources (Koschatzky and Stahlecker 2010, 9–10).

The total amount of funding allocated to Cohesion Policy from 2007 to 2013 €346 billion, which represents 35.7 per cent of the European Union budget for the period. The budget is now divided among three funds: the ERDF (58 per cent), the European Social Fund (22 per cent) and the Cohesion Fund (20 per cent). The previously numbered objectives discussed above were replaced by three sets of objectives: Convergence, Competitiveness and Employment, and Territorial Cooperation. Roughly 80 per cent of the resources allocated for Cohesion Policy are dedicated to the objective of convergence, and the vast majority of those funds are directed to the less developed regions of Europe, whose GDP per capita is less than 75 per cent of the EU average. In those countries where the regional or territorial governments enjoy a strong degree of autonomy, principally Germany, Italy and Spain, the preponderance of the funds are managed at the regional level, but in the remainder the funds are managed at the national level.

A number of key principles have been adopted to guide investments in this period. Among these are the principle of additionality, that community expenditures should not substitute for planned national expenditures, and partnership, that member states should organize the design and implementation of EU regional development programs in partnership with key regional, local and urban authorities, as well as with economic and social partners and those representing civil society and non-governmental organizations. There is greater emphasis in this period on earmarking resources towards expenditure categories that correspond closely to the objectives of the Lisbon Agenda, such as research, technological development and innovation, support to firms' investments and information society objectives (Manzella and Mendez 2009, 19; Barca 2009, 60–68).

MULTI-LEVEL GOVERNANCE IN THE EUROPEAN UNION

The reform process leading up to the establishment of the SEM and the specific role of the structural funds in promoting the social and economic development of all the member countries of the Community sparked a wave of interest in the new governance mechanisms introduced as part of the reforms. The new mode of governance was captured in the phrase "multi-level governance," which highlighted the increasingly shared and intertwined nature of the decision-making process among Community-level organizations with both state-level and sub-national actors. It represented a new model of political decision-making, where political authority and policy-making influences are dispersed across the different levels of the state as well as to non-state actors. The core of the idea of multi-level governance is that the national level no longer monopolizes policy-making, but instead engages in collective decision-making with other levels of government and relevant actors. In so doing, it cedes primary control of the policy-making process. Decision-making competencies are therefore shared among all actors with no one level exercising monopoly over another. Accordingly, sub-national levels are connected to national, and at times, supra-national arenas rather than nested within the national state. The concept of multi-level governance has subsequently gained wide acceptance in the literature and been applied in a variety of contexts to analyze the changing nature of intergovernmental relations among national, provincial and local-level governments in Canada (Marks 1993).

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SUPPORT FOR INNOVATIVE ACTIONS UNDER THE ERDF

One aspect of the reforms introduced in the late 1980s was to devote a small proportion of the total funds available under the ERDF to support innovative actions to assist regional development—the Article 10 Funds. The initial set of innovative actions was launched in the period from 1989-93. Actions funded under Article 10 focused on themes such as the need for spatial planning, cross-border cooperation, cooperation networks between towns and regions, and issues relating to urban problems. The innovative nature of the initial projects funded under Article 10 lay not only in the type of activities supported, but also in the partnerships they fostered by involving local and regional authorities with a wide range of private actors (European Union 1995a, 7). The rationale for expanding the use of ERDF funds to stimulate innovative actions in the less favoured regions (LFRs) was clearly articulated by Mikel Landabaso: "The assumption here is that businesses and small and medium-sized enterprises in less favoured regions, in particular, because they are working in imperfect markets with limited information access (including access to know-how), may need assistance in tapping the necessary resources (mainly related to knowledge) in the form of technology or qualified human capital, in particular, in order to face up to the new forms of competition developing the global economy" (Landabaso 2000, 75).

Decision-making competencies are therefore shared among all actors with no one level exercising monopoly over another.

Following on the early experience of the Article 10 initiatives, two directorates of the Commission, Regional Policy and Cohesion, and Telecommunications, Information Society and Exploitation of Research Results, announced the launch of pilot projects in a number of LFRs to draft Regional Technology Plans (RTPs) in 1994. The RTPs were to focus on the relationship between the supply of, and the demand for, technology within the region and its implications for economic development. Particular attention was to be paid to the capacity of SMEs within the region to adopt and diffuse new technologies. Finally, the results of the RTPs were to be integrated into local, national and Community programs and strategies with the goal of improving the transfer of technology into networks of SMEs within the LFRs. In the initial phase, RTPs were undertaken in four pilot regions: Limburg (Netherlands), Lorraine (France), Wales (UK) and Saxony (Germany). Subsequently, four more pilot projects were launched in Norte (Portugal), Macedonia (Greece), Abruzzo (Italy) and Castilla-Y-Leone (Spain) (European Union 1995b). The primary goal was to overcome the traditional bias of most Community research and technology programs towards being top-down and focusing on technology push. In contrast, the pilot projects funded under Article 10 were to follow a bottom-up approach; they were to be demand-driven, based on the needs identified by firms within the region, emerging out of a dialogue between the firms, regionally-based technology transfer organizations and the public sector. The strategies were to reflect a regional approach by forging a consensus among the principal actors at the regional level on the priorities for action. They were to adopt a strategic approach by elaborating a set of short- and medium-term objectives for enhancing the technological capabilities and innovativeness of the firms in the region. The approach was to integrate the roles of both the public and private sector in order to increase the overall productivity and competitiveness of the region (European Union 1997, 17).

During the same period, the Directorate for Regional Policy also supported a number of complementary initiatives known as Regional Innovation and Technology Transfer Strategies and Infrastructures (RITTS). The RITTS were more limited in scope and more applied in their objectives than the RTPs. The goal was to support regional governments or development authorities in analyzing the state of the technology transfer infrastructure in the region and to determine what actions were necessary to optimize the infrastructure and policies for supporting innovation and technology transfer. The process used to develop RITTS was less complex and inclusive than that for the RTPs. The projects were not necessarily carried out by the regional authorities; they could be undertaken by an innovation agency or institution of higher education.

Based on the initial success of the pilot projects under both programs, the EU expanded the range of innovative projects supported during the next funding period. In September, 1995 the two directorates issued a call for a next round of Regional Innovation Strategies (RIS)/RITTS. The RIS initiative provided regions with a flexible approach that respected regional differences and underwrote 50 per cent of the cost of developing a strategic plan. In the period from 1996 to 2000, an additional twenty-four regions in the EU engaged in RIS. In addition, another seventy projects were engaged in formulating RITTS with funding from the Innovation Program of the Fourth RTD Framework Program. In total, during the period from 1994 to 1999, approximately 7 per cent of the funding for regional development and cohesion was dedicated to supporting innovative actions (European Union 1999; Landabaso and Reid 1999).

A number of evaluation studies identified the key elements that contributed to the successful implementation of the RTP/RIS process: the participation of a legitimate animateur to stimulate the process, the ability to surmount both individual and institutional rigidities to allow for new forms of dialogue among the participants, and the presence of an innovative and strategic capacity within the public sector to support the process. It also takes time to establish the sustained dialogue that the RTP/RIS process needs to let trust relations grow and develop. However, the eventual results can more than justify the investment involved (Nauwelaers and Morgan 1999). Subsequent evaluations of the RTP and RIS programs in the 1990s identified three important policy lessons that could be drawn with respect to sustaining an innovation focus in regional development policy: 1) the need to focus investment and direct funding support on business innovation in general and strengthening the linkages in the regional innovation system, rather than on the research and technology infrastructure itself; 2) the most effective programs were those developed and supervised by strong regional partnerships with the support of RIS funding; and 3) the need for more effective evaluation tools to afford policy-makers better insight into what measures work best (Musyck and Reid 2007).

In the programming period from 2000 to 2006, funding for innovative actions was provided under the rubric of Regional Programs of Innovative Actions. The budget for this program was set at €400 million, although the Commission estimated that nearly 11 per cent of the total €195 billion allocated to Cohesion Policy was directed to innovation. In total, 180 operational programs were funded in the original 15 EU countries. The objective of the program was to demonstrate greater synergies between regional development policy and other Community programs directed at supporting business innovation at the regional level and promoting the establishment of the European research area (a key objective that flowed from the Lisbon Agenda). The programs funded were targeted at strengthening regional research and technology infrastructures in line with the needs of business innovation, connecting SMEs to the regional knowledge infrastructure, and providing direct support for clusters and industrial districts (Landabaso 2010). The strategic evaluation of the program noted a number of successes in enhancing research and innovation potential in both the lagging countries, as well as disadvantaged regions in more developed countries. However, it also noted the need for further improvements with respect to developing multi-level systems for the governance of innovation including all relevant levels of government authorities, as well as other key actors, such as business and universities; identifying the appropriate investment priorities and policy mix for individual regions; and focusing on the demand side of innovation with respect to clusters, networks and poles of excellence (Commission of the European Communities 2007, 9).

EU objectives continued to evolve in the direction of greater support for innovation and competitiveness over the course of the 2000s. As a result, in the current programming period from 2007 to 2013, the guidelines for cohesion policy concentrate Community resources on measures to support research and innovation, entrepreneurship, the information society and the training and adjustment of the labour force. One consequence of this shift was that support for innovative actions was done away with as a separate program. In its place, the Commission published a directive offering guidelines for national and regional authorities on how to link programs supported by Cohesion Policy more effectively with the programs of innovation and research funding provided under the Seventh Research Framework Program and the Competitiveness and Innovation Program. In effect, innovation has now become a central feature of cohesion policy for the new funding period and no longer just a separate article of the ERDF. In the current program period, the Commission estimates that approximately 25 per cent of the total budget of €347 billion allocated for Cohesion Policy will be directed toward innovation and the four related components: better targeting of investment in research and technology development; facilitating innovation and promoting entrepreneurship; fostering the information society for all; and improving access to finance. In addition, three new financial instruments, *Jessica*, *Jeremie* and *Jaspers* were introduced to provide public and private funds for venture capital and urban regeneration purposes and to help local authorities define potential investment projects more effectively. The Commission also recommended that an indicative amount of the funds should be allocated for experimentation of new approaches to regional innovation policies and that these should be tested in a number of pilot projects (Commission of the European Communities 2007, 11, 18).

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SUMMARY OF CURRENT STATE OF REGIONAL DEVELOPMENT POLICY IN EUROPEAN UNION

The practice of regional development policy has undergone a continuous process of change and evolution since it was first introduced in 1975. In turn, it has become one of the cornerstones of the EU's programming efforts, and the focus on improving cohesion among the member states has taken on even greater significance in the past decade with the accession of ten new members from the less developed and less prosperous regions of Europe. During this period, the size and scale of cohesion policy (including regional development) has increased significantly. From a scant 5 per cent of the total Community budget when it was first introduced in 1975, it has grown to €347 billion in the current programming period, which accounts for fully 36 per cent of the total EU budget. In some of the regions which have benefited the most, especially some of the Mediterranean countries such as Spain and even more specific regions in Spain, EU contributions have represented a substantial part of the total national and regional budgets.

Over the course of the past three and a half decades, both the overall objectives and the operational design of regional development policy in the EU has changed as well. The focus has shifted from an interlinked set of programs and funding mechanisms with a primarily redistributive mechanism tied to the national objectives of individual member states to a more effective regional development policy geared to community-wide goals and objectives. While the most recent review of the state of cohesion policy and the role of the structural funds has identified a number of limitations and shortcomings, there is little doubt that there has also been a progressive embedding of regional development policy within the framework of the broader social and economic objectives of the Union, particularly, the goals and objectives set out in the Lisbon Agenda. In the process, the role of Cohesion Policy has shifted away from an exercise primarily devoted to redistributing funds from richer member states to poorer ones, to channelling resources across the continent towards a common set of economic development objectives and to improving regional planning and administrative practices in all parts of the Union (Manzella and Mendez 2009, 22).

There continues to be an underlying tension between the EU's goal of promoting the international competitiveness and innovative capabilities of the continent as a whole and the sometimes conflicting goal of facilitating the convergence of different member states in terms of levels of income and employment opportunities.

This shift has not been without its own challenges. There continues to be an underlying tension between the EU's goal of promoting the international competitiveness and innovative capabilities of the continent as a whole and the sometimes conflicting goal of facilitating the convergence of different member states in terms of levels of income and employment opportunities. In starkest terms, this conflict has often been portrayed as a choice between concentrating greater resources (particularly under the Framework programs devoted to improving research, development and innovation) in those regions of Europe which already enjoy the greatest concentration of research capabilities—sometimes referred to as 'islands of innovation' (Hingel 1992)—and seeking a more equitable redistribution of resources across a wider array of European regions, at the possible cost of undermining or restricting the competitiveness of the most advanced regions. This trade-off has received considerable attention in the recent Barca report on The Future of Cohesion Policy in the European Union prepared as part of the planning process for the design of regional development policy in the post-2013 period.

According to the Barca Report, the rationale for Cohesion Policy in the EU should not be that of financial redistribution from richer regions to lagging or so-called 'convergence regions', as in the past. Rather, the rationale should be to foster economic development in all places where economic efficiency exists through the provision of public goods and services. The Report labels this alternative conception, a 'place-based' development policy, a term borrowed from recent OECD reports. The strategies adopted under a place-based development policy are territorially grounded, multi-level in their governance structure, innovative and tailored to the specific reality of different regions. The goals of such an approach include building institutional capacity, improving accessibility to goods, services and information in the region, and promoting innovation and entrepreneurship. Policy interventions must be tailored to the prevailing reality of specific regional contexts and based on the input, experience and 'local knowledge' of key regional actors. The report defines a place-based development policy in the following terms:

- a long-term development strategy whose objective is to reduce persistent *inefficiency* (underutilization of the full potential) and *inequality* (share of people below a given standard of well-being and/or extent of interpersonal disparities) in specific places;

- through the production of bundles of *integrated*, place-tailored *public goods and services*, designed and implemented by *aggregating local preferences and knowledge* through *participatory political institutions*, and by establishing linkages with other places; and

- promoted from outside the place by a system of *multi-level governance* where grants subject to *conditionalities* on both objectives and institutions are transferred from higher to lower levels of government (Barca 2009, 4–5).

While it is far too early to know the extent to which Cohesion Policy after 2013 will follow the directions suggested in the Barca report, its emphasis on the need to move away from a dichotomous framing of the debate between convergence and competitiveness goals towards a more holistic place-based development policy holds instructive lessons for Canada. The other area in which the evolution of regional development policy has made a major contribution is in the formation of a unique model that integrates multiple levels of governance from the Community to the local level in a participatory framework for designing and implementing commonly agreed upon regional development goals and objectives. While the organizational systems for implementing these goals reflect the wide differences in administrative practices and culture that exist across Europe, the common framework adopted under Cohesion Policy has promoted a common set of practices with respect to integrated multi-year planning, the establishment of partnerships between public and private sector actors, sharing and learning from best practice across a diverse set of regions and countries, and building common conceptual models and frameworks for regional development policy. In this respect, the evolution of multi-level governance in the EU has helped bring about a greater degree of what the OECD refers to as 'policy alignment' (OECD 2007).

REGIONAL DEVELOPMENT AGENCIES IN THE UK

Prior to 1975, regional development policy was exclusively the focus of national-level governments, not the EC. Despite increased levels of funding available for regional development from the Community, most national governments in Europe pursue their own regional development programs, often in partnership with community initiatives. In fact, EURADA, the European Association of Development Agencies, claims 150 member Associations across the continent, plus countless more around the world, through its participation in the International Economic Development Council. The proliferation of economic development activities at the regional level has led some observers to reaffirm the point that policies and programs which were previously the exclusive preserve of central governments have become shared across three or more levels of government throughout Europe.

The ideal typical regional development agency in Europe has been described as a semi-autonomous agency that acts at arm's length from the central government and performs a multitude of functions.

The ideal typical regional development agency in Europe has been described as a semi-autonomous agency that acts at arm's length from the central government and performs a multitude of functions. Its autonomous position affords it the scope to develop integrated policy approaches and act as a nexus for an inclusive network of public and private actors engaged in economic development activities. A number of similar features characterize many of these agencies:

1. the regional development authority brings together a diverse group of independent actors across both public and private sectors around a common agenda and set of projects;

2. relevant programs and services are delivered in a relatively decentralized manner;

3. the regional authority does not merely act as a mediator and coordinator, but goes beyond that to actively build relationships among networks of local and regional partners;

4. the authority actively seeks out and recruits these partners;

5. regional development agencies provide the focus for a range of different regional networks concerned with promoting greater inter-firm cooperation, technological innovation and regional planning (Ansell 2000, 318).

A full analysis of the broad range of regional development agencies operating across Europe is beyond the scope of this paper, so, for illustrative purposes, the next section examines the specific case of the Regional Development Agencies (RDAs) in England. The eight RDAs outside of London came into existence in April, 1999 as part of the commitment by the UK government elected in 1997 to devolve more political authority to the regions to increase their capacity to promote the regeneration of the regions and competitiveness. The Regional Development Agencies Bill passed in November 1998 created the eight agencies in England, plus the London Development Agency which was established in July 2000 following the creation of the Greater London Authority. The original White Paper which laid out the objectives for the Agencies included the following:

- to further the economic development and regeneration of their regions;

- to promote business efficiency, investment and competitiveness in the region;

- to enhance the development and application of skills needed to stimulate employment in the region; and
- to contribute to the achievement of sustainable development in the UK (Roberts and Benneworth 2001).

It also specified a number of roles and functions for the RDAs, including the preparation of a Regional Economic Strategy for their respective parts of the country, regional coordination of inward investment, taking a lead role on the management of EU structural funds available for English regions, promoting technology transfer and providing advice to Ministers on selective regional issues (Roberts and Lloyd 2000, 76).

One of the first tasks set for the RDAs was the preparation of Regional Economic Strategies, which were intended to formulate a coherent vision for the development of their region by integrating local needs and goals with national policies. RDAs were also mandated to foster regional cooperation and partnership and to work with other regional organizations that had developed economic strategies. The early experience of the agencies in formulating their strategies was quite mixed. The local institutional dynamics and the preceding history of the individual regions pulled the agencies in a variety of different directions. In some cases, the strategies had to be fashioned on a relatively weak institutional basis, with little experience in regional cooperation, while in others the scope for developing the strategies was constrained by previously existing agreements. Some of the agencies also experienced problems with assembling their staff. The result was a high degree of variation in both the process followed to craft the strategies and the content of the strategies. Despite these limitations, the first set of strategies demonstrated clear signs of the role played by regional partners and stakeholders in formulating the strategies of most agencies and, in those cases where the strategy was mainly the product of the RDA, it involved a strategy for the whole region, not just the agency itself. Despite their divergent origins, the strategies reflected the dominant themes in economic development policy in the current period: the need for technology-based economic development; the creation of new, or the promotion of already existing, clusters; and the need for greater competitiveness (Roberts and Benneworth 2001).

The diverse institutional environments in each of the eight regions and the considerable variation in their past history of working with regional partners have meant that the eight agencies operate in very diverse ways. Furthermore, the fact that the RDAs are viewed by the central government primarily as facilitators and coordinators in the regions has meant that they must work, not only with their regional and local partners, but also with a wide range of central government departments that control the main levers of public spending that affect regional economic development. An additional challenge for the RDAs is that, unlike the Scottish and Welsh Development Agencies which had existed for some time, they lacked the benefit of regional assemblies to provide a forum for the articulation of regional interests. They were also constrained by the fact that many of the policy instruments needed to implement their strategies remained firmly ensconced in the hands of central ministries at Westminster and despite the greater devolution of authority to the regions, the central government maintained very tight control over fiscal authority and accountability, leading one observer to label it 'a modern Janus' (Morgan 1999; Morgan 2001, 344).

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One policy area in which relations between the RDAs and the central government are particularly complex is the field of business support and development activities. Within their overall mandate to coordinate business support services to firms with their regions, the RDAs were instructed to promote the development of industry clusters as the central government believed these forms of business organization promoted innovation and competitiveness. This activity took the form of fostering the formation of cluster forums or cluster organizations, whose role was to bring together private and public sector organizations and identify priorities. Up to 2002, these activities were funded through the Department of Trade and Industry's Regional Innovation Fund, which was created out of the merging of two previous funds available to support cluster activities. Project funding was targeted at those clusters deemed to be of strategic significance for the regional economy. As in the case of the ERDF programs, there was an inherent tension between the DTI's cluster emphasis which tended to target the economic potential of sector-specific industry clusters, and a range of programs from the Department of Environment, Transport and the Regions that required the RDAs to provide funding for economic forums that focused on deprived areas in the region. The mandate to support cluster formation and growth within the regions was also hampered by the limited resources actually provided to the fund that was supposed to make this happen (Fuller, Bennett, and Ramsden 2002, 424–25).

The RDAs are also responsible for working with and managing key business support services to a broad cross-section of regional firms. In the early part of the decade, this involved working with the regional teams of the Small Business Service (SBS), which held the main resources for business support activities. The coordination of the two organizations was facilitated by the co-location of the SBS teams in the RDA offices. However, early research on the role of the RDAs observed a tension with the cross-cutting or matrix form of organization that the central government had imposed on the provision of regional support for business. The tensions in evidence between these overlapping organizational structures were replicated in other areas of the RDAs mandate, such as skills development, in their relations with the Local Learning and Skills Councils. In most cases, the RDAs had a broad mandate to support the coordination and integration of regional development activities, but were compelled to cooperate with a wide array of much better funded organizations (Fuller et al. 2002, 425).

With the reorganization of the Industry Department in 2007, the RDAs continue to play a role as a regional gateway to the small business services of the Department of Business, Innovation and Skills in the regions, such as the Business Link Service and the Business Support Simplification Program, whose mandate is to ensure that all business support services are easy to access, represent value for money and are of direct benefit to business. Business Link serves as the gateway to the government's range of advisors whose task is to link start-up and growing businesses to the available set of government programs and services. The RDAs also work with a range of regional partners to improve access to finance for start-up firms and growing businesses. In this capacity, they oversee a range of funding programs available to businesses at all stages of their development.

The RDAs have also taken on an expanded role in promoting the more effective exploitation of the science base in English regions. They were initially encouraged to foster more effective linkages between the research infrastructure, especially higher education, and industry in the regions; the role of the universities in regional economic development featured prominently in many of the Regional Economic Strategies. However, the pattern of interaction between the RDAs and research institutions varies considerably from region to region. In the North East, which has developed a system of knowledge brokering between SMEs and the universities, the Higher Education Research Association (HERA) has developed close ties with the RDA. In several other regions, the RDAs worked closely with their regional higher education institutions on a variety of initiatives, which ranged from establishing Centres of Industrial Collaboration based on university expertise in Yorkshire and the Humber, to a joint effort by the North West Region and the Manchester Universities to retain a critical research facility—the Diamond synchotron radiation source—at the Daresbury Laboratory in Manchester. The potential loss of the synchotron facility to the research-rich southeast of the country mobilized the region around the importance of science and innovation as critical tools for regional development. In the end, the North West lost the contest, but the struggle set in motion a process that highlighted the increasing centrality of science policy and research infrastructure for the regional development process. In general, the creation of the RDAs was followed by a period of relationship building with the universities and higher education associations in their respective regions (Kitigawa 2004; Perry 2007, 1056).

Following the decision to relocate the Diamond research facility to the southern part of the country, the North West Science Council (NWSC) was created in 2001 to advise the North West Development Agency on science matters and foster a productive relationship between the research infrastructure and industry in the region. The NWSC took the lead on drafting a regional Science Strategy released the following year. The strategy created a framework for the promotion of science in five priority areas, chosen from among the sixteen clusters that had been identified in the regional economic strategy. While the NWSC had a minimal budget to devote to implementing the strategy, it was seen to have set the framework for a wide range of investments in research infrastructure that flowed into the region over the next few years, including funds to finance the merger of the University of Manchester and a combined investment with the ERDF in venture capital for early stage high-technology enterprises. The focus on the role of science and technology in the North West region had a spillover effect across the country, with other regions following with their own science strategies and investments in an array of initiatives. By 2006, all of the regions had formally constituted Councils for Science, Industry and Innovation with the RDAs encouraged to support their institutional development through the Science and Innovation Framework in 2004. As a consequence, the RDAs have come to be recognized as important co-funders of the research infrastructure within their regions (Perry 2007, 1057–60).

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The focus on science and innovation was also reflected in its increasing importance at the city-region level as well, as reflected in Manchester's initiative around the 'Knowledge Capital.' In 2004, the Chancellor of the Exchequer designated six northern cities as 'Science Cities' to highlight their position in the forefront of a campaign to make science and innovation the engine of growth in the UK economy. The move was further enhanced by the Northern Way initiative, a strategy launched by the Deputy Prime Minister to reduce the gap in prosperity between the northern and southern parts of the country. A central part of this initiative was the formation of the Northern Science Alliance, or N8, a research collaboration between the most research-intensive universities within the Northern Way aimed at delivering on the government's Science and Innovation Framework. There are also science and innovation managers within the RDAs who meet regularly and have a designation as lead agency to represent their common interests with the national agencies. These various scales of policy action are closely intertwined with the science cities initiative embedded in the regional science and innovation strategies, with multi-level governance arrangements existing both on the regional scale, as well as at the national and European scales. The growing role of the RDAs is also evidenced in a set of linkages with other regional institutions, such as the Research Councils-UK, the HERAs and Government Offices. Despite this increasing presence, the RDAs play a very limited role in the national allocation of scientific resources, with almost no devolution of national science budgets to the regions. A recent survey of these trends concluded that "(t)he dominant national approach can be characterized as devolution of responsibility for regional science-based development without resources, liberty without endorsement" (Perry 2007, 1061).

The economic crisis of the past two years has marked the emergence of a new set of challenges for the RDAs. The task is made all the more difficult by the fact that despite the origins of the crisis in the financial sector, the traditional industrial heartland of the UK in the North East, North West, Yorkshire and Humberside and West Midlands, has experienced the sharpest rise in unemployment. The lasting impact of the recession is seen in the increased number of business failures in the affected regions. In response to the crisis, the RDAs reallocated £110 million to fund increased demand for business support services to help companies manage through the recession; implemented Transition Loan Funds to help businesses gain access to finance; accelerated £100 million of regeneration spending to support employment in the construction industry; and were expected to invest £1 billion between 2008 and 2011 in programs that provide support for new and existing innovative businesses (Athey 2009).

In addition, as of April 1, 2010, the RDAs took on new responsibilities jointly with a Local Authorities Leader Board to integrate their economic development efforts with planning, housing and transport into an integrated Regional Strategy, drawing in a wide range of partners from civil society and the public sector. Despite this significant track record of achievements over the past decade, the future status of the RDAs was cast into question by the outcome of the General Election on May 6, 2010 that resulted in the formation of a Conservative-Liberal Democrat coalition government. The Conservative Party had expressed its reservations about the role of the RDAs, and many British observers expect its election will eventually result in the termination of the agencies. While this has yet to occur, the first round of fiscal measures announced by the new government included a £270 million cut to the current budget of the agencies, representing 20 per cent of their overall budget for the year (outside of London). The agencies responded that they would meet their obligations, but it would be difficult given that they were already six weeks into the fiscal year. As of this writing, the question remains as to whether the agencies will continue to play a role in the administrative architecture of the UK or prove to have been a relatively short-lived experiment in devolution.

REGIONAL ECONOMIC DEVELOPMENT IN THE U.S.

It is generally believed that the federal government in the US does not play a significant role in regional economic development, especially not on a scale comparable that of the EU. However, the history of the US is replete with examples of major measures adopted by the federal government to promote local and regional development across the country, most notably, the creation of the Tennessee Valley Authority at the depths of the Great Depression in the 1930s. In the period since 1980, the US federal government has adopted a wide range of measures to promote the economic development of the country, many of which have a strongly regional dimension. Even the ones that have not been explicitly designed as a regional development policy have frequently had a strong impact on promoting regional growth and development.

Recent reports from both the Federal Reserve Bank of Kansas City and the Brookings Institution have documented the range of expenditure programs in the US that are most directly comparable to the program spending under the Structural and Cohesion Funds in the EU. The study by the Federal Reserve Bank of Kansas City defined economic development policy in the US quite broadly to include: planning and developing economic strategies, establishing business incubators, constructing industrial parks, constructing and repairing municipal infrastructure, workforce training, technical assistance and technology transfer, and business development. On the basis of this definition, the study estimated that more than 180 federal programs, ranging across the Departments of Agriculture, Commerce, Defense, Health and Human Services, Housing and Urban Development and the Interior, contributed to economic development across the country. Between 2000 and 2004, average annual spending on these programs amounted to almost $190 billion per year. The vast majority of the programs and the bulk of the spending are targeted at building physical infrastructure, not unlike the EU. When they narrowed the focus to those programs directly focused on regional economic development, the total spending was considerably smaller, amounting to just under $17 billion per year. By their definition, the regional development category includes spending on community development, area and regional development and disaster relief and insurance. The defining characteristic of both the broader economic development programs and the more focused regional development ones is the largely ad hoc and incremental fashion in which they have grown up since the Depression and the lack of an overriding goal or strategy that coordinates the federal government's efforts in this area (Drabenstott 2005).

A more recent report by the Brookings Institution takes issue with the broad and inclusive definition used by the Federal Reserve Bank of Kansas City regarding what qualifies as economic development policy. Brookings undertook its own analysis of federal programs that support regional economic development and excluded a number of those in the Drabenstott report, notably 'broad-based' development programs such as transportation, housing or K-12 education, which it considered to be foundational investments. Of the remaining ones, it found 250 programs across 14 different federal departments and agencies with total annual spending of $76.7 billion for grants, direct loans and guaranteed or insured loans. The report reaches similar conclusions about the policy coherence behind this effort, noting that federal programs "have evolved in a wildly ad hoc, idiosyncratic and uncoordinated fashion" (Mills et al. 2008, 24). The diverse range of regional development assistance on activities such as small business assistance, workforce development and support for R&D operating in the same region, rarely work in tandem with each other, as they are managed within separate agency silos and answer to different Congressional oversight committees. It is clear from the substantial difference both in the number of programs and the total amount of program spending identified as regional development, there is little consensus within the US over the precise role the federal government plays despite its substantial presence in this important policy field.

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Within the broad array of federal agencies included in these studies, the one with the mandate most clearly focused on regional economic development is the Economic Development Administration (EDA) of the Department of Commerce. The EDA was established under the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121), as amended, to generate new jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically-distressed areas of the US. EDA assistance is available to rural and urban areas of the US experiencing high unemployment, low income, or sudden and severe economic distress. Its mission is "to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy." To achieve this end, its investment priorities, which are selected through a competitive grant process, support the development of regional innovation clusters, encourage business expansion in clean energy, sustainable manufacturing, green technologies and broadband infrastructure, enable high-growth businesses to expand into global markets, and support distressed regions that experienced disproportionate economic losses (www.doc.gov/eda). As in the case of the EU, there is a sense that federal funds have been concentrated on 'convergence' goals, at the expense of formulating a consistent strategy to support regions with the potential for sustained high growth. For this reason, there is growing support within the policy relevant communities in the US, that regional economic development efforts by the national government need to be more clearly targeted around innovative clusters with a strong potential for sustained growth and development (Mills, et al. 2008; Sallet, Paisley, and Masterman 2009).

The reasoning behind the growing support for this perspective is the substantial contribution that US federal government policies have made, often inadvertently, to the emergence and development of regional technology clusters, ranging from Silicon Valley to the Washington-Baltimore corridor (Wolfe and Gertler 2006). The various lobbying efforts for a more concerted federal strategy in support of regional innovation clusters as the focus for regional development policy at the federal level found strong resonance in the federal budget for Fiscal Year 2011, introduced in February 2010. The budget introduced several different proposals to support the growth of regional innovation clusters through measures in several different departments. The centrepiece of these measures is the EDA's proposal to establish a $75 million program to support Regional Innovation Clusters with funds for regional planning efforts and matching grants to support cluster initiatives. The Small Business Administration of the Department of Commerce also will receive $11 million to assist the participation of small business in regional clusters through the provision of funds for business counselling, training and mentorship. The Department of Labour will be able to deploy up to $108 million from its new Workforce Innovation Fund to help align workforce development with cluster initiatives by promoting collaboration among training and employment service providers to link worker training more effectively with emerging job opportunities. The National Science Foundation will receive $12 million to invest in "innovation ecosystems" that support efforts by faculty and students in universities to commercialize research results and stimulate start-up firms. The goal of these budget initiatives is to provide funding across multiple federal agencies, all targeted at supporting the growth of stronger regional clusters (U.S. Office of Management and Budget 2010, 22).

The rationale for the federal government's new approach to regional economic development was spelled out clearly in a speech given in January 2010 by John Fernandez, the former Mayor of Bloomington, Indiana, and current Assistant Secretary of Commerce for Economic Development. He noted that dynamic and innovative companies thrive in places where scientists, businessmen, highly skilled workers and venture capitalists cluster together with similar and interrelated firms: " . . . place matters. Entrepreneurs and researchers and innovators want to be around each other. They want to feed off the shared creative energy. They want access to a shared talent pool. They want to build relationships." In order to support this process, the federal government was replacing what it referred to as the previous 'buckshot approach' with a more focused strategy to support the growth and development of innovative clusters in a multitude of regions across the country. The purpose of the new approach is to provide a framework for local and regional actors to assess their regional strengths and fashion a strategy to bring together the technology, human resources and financial capital to help transform the region's unique assets into the basis for its future economic growth and prosperity (Fernandez 2010).

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In a presentation of the agency web site in March, the EDA lays out the approach it will use to implement this cluster strategy. The role of the federal government will be to identify existing regional innovation clusters (RICs) across the country, convene meetings of key stakeholders, create a framework to support national networks of clusters and provide targeted capital investments to the clusters. In practical terms, this broad approach will take the form of conducting research on best practices to support RICs, technical assistance grants to disseminate research results, implementation grants to operationalize the EDAs research and provide targeted funding for incubators and other business infrastructure projects, establish revolving loan funds that are aligned with RIC strategies, and support Community Economic Development organizations that adopt RIC best practices. While this strategy is obviously in the initial stages of being rolled out, two key conclusions can be drawn from it. It is clear that the US is moving in a similar direction to the EU. in focusing on an approach that is geared to growing globally competitive centres of innovation strength in as many parts of the country as possible and doing so in a collaborative and consultative fashion that involves bringing a wide range of stakeholders from the private sector and other levels of government to the table to draft viable economic development strategies.

CONCLUSION

The recent experience of regional development policy in the three cases considered here—the EU, the UK and the US—all point in the same direction. There is an emerging consensus on the need to align resources more effectively across varying levels of government and discrete departments or agencies in support of regional growth strategies. This reflects the need to focus resources on enhancing regional strengths by concentrating local resources in support of those sectors and clusters with the potential to achieve sustained economic growth. This involves the recognition that regions vary considerably in their growth potential and innovative capacity and the most effective development strategies must build on local capabilities to exploit that potential. There is also a growing consensus on the need for and value of collaborative planning processes to engage a broad cross-section of local and regional actors in the formulation and implementation of regional strategies, in other words, what has been referred to elsewhere as the strategic management of cities and regions (Audretsch 2002). This also involves the recognition that in a complex and interdependent world of policy formation, no level of government holds all the policy levers to implement a successful strategy and that effective policy design requires some form of multi-level governance. The evolution of regional development policy in both the EU and the UK points the way towards a process that overcomes these weaknesses; it adopts an approach that involves all three levels of governance in the EU in a coordinated effort, as well as works outside the bounds of a traditional state structure. While this concept reflects the legacy of its origins in a distinctly European context, evolving practice in North America is clearly moving in the same direction.

There is an emerging consensus on the need to align resources more effectively across varying levels of government and discrete departments or agencies in support of regional growth strategies.

The current tension found within the debate over the future direction of European regional development policy is strongly reminiscent of that often found in Canadian debates over the virtue of concentrating greater economic resources in the most dynamic and leading cities and regions of the country and the goal of distributing regional development funds to the less advanced parts of the country. Echoes of the trade-off between the convergence goals of EU cohesion policy and the competitiveness and innovation goals of the Lisbon Agenda resonate with Canadian debates over the way in which regional development and redistributive objectives enter into a wide array of federal government programs at the expense of the leading research and innovation centres of the country. The gradual evolution of EU cohesion policy towards a tighter integration of its convergence and competitiveness objectives suggests that Canada has much to learn from the past four decades of regional development policy in the EU.

One of the key virtues of this approach is the emphasis that it places on involving key actors at the local level in thinking about how to design effective regional innovation strategies within the framework of existing supra-national, national and

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regional policies. The relevance of this analysis for regional development policy in Canada highlights the need for a better understanding of the way in which policies at all levels of government affect the innovative capabilities of firms across a wide range of diverse industrial sectors and geographic regions. Considerable resources are expended annually by all levels of government on innovation related programs and economic development initiatives, but they are designed and implemented in a hierarchical and siloed fashion. There is little attempt at policy alignment across different program areas and levels of government. The creation of a new regional development agency for Southern Ontario affords us the opportunity to learn from the growing consensus around best practice in regional development policy in Europe and the US and fashion our own 'place-based' policies to support the regional and urban economies in this province. MC

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About the Author

David A. Wolfe is Professor of Political Science at the University of Toronto and Co-Director of the Program on Globalization and Regional Innovation Systems (PROGRIS) at the Munk School for Global Affairs. In July, 2009 he was named Royal Bank Chair in Public and Economic Policy at U of T. His research interests include the political economy of technological change and the role of local and regional economic development. Past research projects have included Innovation Systems and Economic Development: The Role of Local and Regional Clusters in Canada and the Social Dynamics of Economic Performance: Innovation and Creativity in City Regions.

David has also served in the Cabinet Office of the Government of Ontario and has been a research associate at the Canadian Institute for Advanced Research's Program on Law and the Determinants of Social Ordering. He has also advised numerous provincial and national governmental and private organizations and was a 2008/9 CIBC Scholar-in-Residence. David also recently published the book *21st Century Cities in Canada: The Geography of Innovation*.

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