

Local and National Competitiveness: Is Decentralisation Good for the Economy?

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June 2005**

1. Introduction

The central question posed for this paper is whether competitiveness benefits from local institutional capacity to support economic activity and employment creation. This can be couched more pointedly as: is decentralisation good for the economy?

This is an important question, but a complicated one that defies a simple answer, especially as the arguments in the literature tend to be broad-brush and evidence is limited. The author is not aware that any systematic review of international evidence has been undertaken, and this would have been beyond the scope of this short paper. There is some parallel with the principle of subsidiarity, whereby policy should be assigned to the lowest level of government with the capacity to achieve the objectives, but it has also proved difficult to establish what this should mean in practice.

From casual inspection of international experience, there is no automatic link between decentralisation and strong economic growth: the UK, US and Japan grew strongly during most of the 20th Century while becoming increasingly centralised. Many of the fastest growing economies of the last two decades are highly centralised, such as Korea and Taiwan, and now China and India. Looking within Europe, there is some suggestion that in recent years smaller economies (such as Ireland, Norway, Finland and Denmark) have performed better than larger ones (such as Germany, Italy and France). This raises the possibility that size and sensitivity to local/regional conditions is a factor in effective policy-making, although Germany and France have reasonably devolved systems of governance. It is also important to take cognisance of the trend towards economic decentralisation in many countries, although apparently more towards regional government than local (e.g. OECD, 2001, 2003, 2004).

To anticipate the conclusion of this paper, the answer to the question posed at the outset is probably highly contingent on the specific circumstances and evolution of governance in the country concerned. Within particular countries it depends on how centralised current arrangements are, what the local competences are, and what the nature and scale of the powers and resources being considered for decentralisation are.

The paper begins with some definitional issues. The bulk of the paper is then taken up with exploring the main arguments for and against the proposition that decentralisation improves economic performance. It then considers the relationship between local and national competitiveness. It ends with a few key conclusions and implications.

2. The concept of competitiveness

The notion of competitiveness has become pervasive in economic analysis and policy during the last decade. It is supposed to represent the fundamental source of prosperity in an increasingly market-driven, global economy. However, it is a difficult notion to define and measure because it is multifaceted and not directly observable. Some of its causes and consequences are measurable, but not competitiveness itself. Consequently it has been used in a variety of ways and contexts, the most common feature of which is an outward-looking perspective.

The concept is particularly complicated to apply to spatial units such as cities or nations. Their performance is influenced both by the sum total of activities of a changing set of firms or branches that are sited there (and whose performance may have very little to do with local conditions), and by the ability of these places to attract, nurture and retain such firms. This in turn may depend on a range of other factors, such as the common physical, economic, social and institutional *assets* of the place, and its capacity to retain and attract *people* to live, work, visit, study or invest.

In practice such subtleties are usually ignored when the term is applied to cities or nations and it is often simply equated to their economic position in relation to other cities or nations. This is often measured by per capita incomes, output or employment. There is nothing new about this, but the main reservation is that these indicators tend to reflect historical performance and inherited positions more strongly than current performance or economic potential, which is what the notion of competitiveness is supposed to convey.

A pragmatic position is to define competitiveness as covering three interrelated determinants of economic growth and prosperity (Turok, 2004):

- the ability of a place's firms to sell their products in contested external markets ('trade'),
- the value of these products and the efficiency with which they are produced ('productivity'), and
- the extent to which local human, capital and natural resources are utilised (e.g. the 'employment rate').

3. Differences between local and national economies

There are important differences between local and national economies. There are bigger barriers to trade and mobility of labour and capital between nations, although this is diminishing with globalisation. Nations have a larger number and a wider range of competitors than localities. National governments have more economic levers available to affect their competitive position, including interest rates, exchange rates, most taxes, science and technology policy and control over investment in many forms of infrastructure. They have much wider scope to regulate businesses too, through enforcement of competition, environmental standards, labour protection, consumer rights, etc. Governments also have basic control over national education, health, housing and welfare systems, all of which can affect economic performance indirectly and in the longer-term.

Some of the macroeconomic and regulatory powers are diminishing in importance with more integrated financial markets, increasing competition for foreign direct investment and the growth of international agreements between governments that limit their freedom of manoeuvre and ability to influence aggregate demand. This is partly why there has been increasing interest shown in micro-economic, supply-side and decentralised local and regional policies geared to improving the efficiency of firms and the value of their products, and thereby securing their share of world markets and jobs. Productivity in this broad sense of creating or enhancing competitive advantage is increasingly seen as central to long-term economic progress. Localities play a part in influencing business productivity because this is the source of many vital inputs, such as skilled labour and advanced business services. This implies consistency between local and national competitiveness, with the former reinforcing the latter by strengthening the capabilities of individual firms.

However, the issue is not so straightforward. Much of economic activity involves competition for domestic markets rather than exports and the competitors are firms in other localities rather than other nations. Consequently, the gains from competitive success for one area may come at the expense of other areas, with no net gain for the economy. Much depends on the form of competition and the location of competitors and markets. There is also an important question of how economic development policies are financed and the extent to which taxes depress overall economic performance. We return to these issues in the penultimate section when we seek to simplify and deliberately contrast the differences between local and national economic interests. For the moment we continue with the assumption that the national economy is simply the aggregate of all local economies (with no displacement of trade, replacement of one firm by another, or mobility of firms or labour between areas). The more successful each local economy is, the more successful the national economy will be.

4. How local is 'local'?

What are the appropriate spatial units or levels of government for decentralising economic development powers? There is no easy answer to this question either. It is sometimes presented as a choice between regional or local authorities. We deliberately limit this discussion to some extent by assuming that local means local authority, rather than English administrative regions. Even so, there is still an issue about whether local authorities are an appropriate scale for assigning *economic* policy rather than delivering various social, welfare and environmental services to individual households. Generally speaking, the demands for local responsiveness to problems, accountability to communities and democracy tend to mean smaller units, whereas the pursuit of economies of scale, efficiency in delivery and technical competence tend to mean larger units.

There is a view in some quarters that British local authorities are rather small for economic powers because of extensive (and increasing) cross-boundary flows of people and trade (especially between city cores and commuter suburbs). This means that the incidence of the costs and benefits of economic development are uneven, with the risk that policies and priorities may get distorted as a result. For example, if all the

jobs from a major city centre investment go to suburban commuters, there may be no incentive for the core city authority to incur the costs of encouraging that development, especially if they are funded by taxes on local residents. In theory, optimum decisions arise from ‘internalising the externalities’, i.e. having spatial units that correspond to the functional area (this may be the metropolitan area or the ‘city-region’). Because most English cities are ‘under-bounded’, formulating effective economic development policies at the city-region scale may require cooperation between neighbouring local authorities (i.e. some form of metropolitan governance arrangement).

An argument against policy-making at this larger scale may be that a separation between core city and suburban authorities allows for a clearer focus on economic and physical regeneration in the core because the issues facing suburban authorities are likely to be different (e.g. they may be more about maintaining the quality of the environment and limiting development). A jurisdiction that covered the whole city-region would dilute the agenda. This discussion echoes the tension between smaller units for responsiveness and larger units for efficiency.

In considering potentially enlarged powers for local authorities, one also has to consider who these powers would be drawn from - would any existing organisations be giving up their powers? Alternatively, if it was more a case of sharing responsibilities, what division of labour would be established with organisations that retained their powers, such as Regional Development Agencies, Learning and Skills Councils, Small Business Service, English Partnerships and Jobcentre Plus. Perhaps one might be more strategic and the other operational? This is beyond the scope of the present paper, but it raises the important concern about potential duplication of effort and confusion of responsibility. Similar points about overlapping functions arise with the relationship between local authorities and other local bodies, such as Urban Regeneration Companies and New Deal for Communities initiatives.

5. What responsibilities could be assigned?

The list of economic powers that could potentially be assigned to local authorities is extensive. The following table indicates the broad possibilities, but is not exhaustive. The list can be structured in different ways: for example whether the focus is on (i) improving labour supply or increasing labour demand; (ii) people, place, business or organisational development; or (iii) physical capital, human capital, finance capital, knowledge/innovation, marketing or capacity building.

Powers of provision	Taxes and Regulations
Derelict land reclamation	Power to vary local property taxes
Physical infrastructure provision	Power to vary business rates
Telecommunications infrastructure	Power to capture a share of the rise in business rates (buoyancy)
Property development & management	Power to set other local taxes – tourism tax, sales tax, road charging etc.
Inward investment attraction & aftercare	Power to issue licences and charge for various trading activities
Place marketing	
Promoting entrepreneurship & business start-ups	

Small business advice and training Financial assistance & investment Support for business innovation & R&D Commercialisation of university research Development of industrial clusters (e.g. tourism or creative industries) Development of cultural facilities to attract visitors & retain population Promotion of events and festivals Matching labour demand and supply Activation and employability of workless groups Training and skills development Recruitment subsidies to employers	Power to vary environmental regulations Power to regulate land-use & new development Power to vary health and safety regulations Power to vary labour market and welfare policies, e.g. to ‘passport’ welfare benefits
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The first column indicates the powers to take positive actions, provide public goods and services, and commit resources. This raises the obvious question about the source and scale of funding available for these actions. The availability of resources is generally a more important constraint on local authority provision than the permissive power to act, especially with the new power of general competence. There is another important distinction to be made: whether local authorities have the authority to formulate policy, or simply to administer or deliver policies shaped at the centre? This is, or should be, partly a function of their strategic capabilities as well as wider arguments. If local authorities have the power to shape policy they may of course decide to implement it through an arms’ length agency (public or private sector) if they consider that this would be most effective. So the issue of policy-making and practical delivery need to be kept separate to some extent.

The second column identifies a range of other potentially important powers to affect the business environment by strengthening or relaxing a variety of taxes and regulations. These powers tend to be more closely circumscribed by central government, for reasons indicated below. There is an obvious connection between the two columns in that additional tax powers could raise the revenues to enable more of the positive actions to take place. In federal systems such as the United States, Germany, Switzerland, Canada and Australia local authorities have stronger tax-raising powers compared with Britain (Joumard and Kongsrud, 2003). Local authorities in Britain (and countries such as Ireland and Netherlands) rely far more heavily on direct grants from central government. The devolved Scottish and Welsh parliaments rely completely on direct transfers from central government.

The literature on ‘fiscal federalism’ suggests that the separation of local spending from tax-raising decisions (‘vertical imbalance’) is a source of inefficiency, since local policy-makers do not have to face the consequences of their spending decisions by raising taxes. Spending is more likely to reflect the outcome of politically driven negotiations between central and local authorities than any calculation of the benefits and costs of the policies themselves. There is little incentive for local authorities to restrain expenditure if the money is raised elsewhere, and little reason for central government to fund local authorities from the national tax take if the political and economic gains are purely local.

A related argument is that if income (from local taxes and other sources) bears no relationship to the performance of the local economy, there is no incentive for local authorities to support economic development rather than more popular social and community facilities. This was the case in the UK, until the recent scheme in England allowed selected local authorities to capture a share of the buoyancy in business rates. Also, if they have no economic competences at all they may unwittingly obstruct growth by failing to understand the importance of responsive planning and regulatory policies (e.g. to protect employment land from the demands of other uses, such as housing).

One of the arguments against the decentralisation of tax and regulatory powers is that it carries a risk that in order to attract jobs, local authorities compete by cutting local taxes and environmental standards to reduce the costs of production and pollution control for firms within their areas. This competition can cause environmental degradation and inferior public services for the resident population (a so-called “race to the bottom”). The usual solutions advocated include tax-sharing arrangements between levels of government and harmonised environmental measures across localities and regions, i.e. some degree of centralisation. Other solutions might include more inclusive and transparent decision-making at the local level and more cooperative relationships between central and local government.

One of the issues raised by this discussion of powers and responsibilities is whether the fundamental objective is to improve the relative economic position of poorer places and poorer people, or to increase economic efficiency and growth irrespective of distribution. If the former is more important, a centralised approach could target resources more deliberately than a decentralised approach, which would tend to spread the effort. If a decentralised approach included significant tax-raising powers it might well favour the prosperous places with stronger local resource bases, creating a virtuous circle as growth reinforces itself.

6. The case for decentralisation

The pros and cons of decentralisation are difficult to assess in the abstract. The rationale varies – at least in terms of emphasis – between places depending on the type of policy, the nature of the area and the national institutional and geographical context. The case also ranges from principled arguments with a conceptual basis to more practical considerations related to policy delivery. In the absence of detailed empirical analysis we resort to illustrative examples where possible.

6.1 Responsiveness to diverse economic conditions

The first and most important argument for decentralisation is that it enables policy to reflect local circumstances more effectively than centrally determined policies that tend to ignore geographical differences. Policy-makers are closer to the situation on the ground and are more likely to understand the particular industrial mix, ownership structure, skill-sets, infrastructure deficiencies and other competitive strengths and weaknesses of the local economy. They are likely to be more sensitive to local needs and preferences, and can use their knowledge to adapt broad policy instruments to

distinctive local conditions. They are also better placed to identify under-used potential and to exploit neglected opportunities.

A simple example is in the field of entrepreneurship and business formation. The Treasury recently launched a 'Grant in Your Hand' programme to anyone under 30 starting their own business. It is one of a succession of national schemes introduced over the last two decades to encourage individual enterprise. However, universal programmes of this kind are prone to high levels of deadweight, i.e. many of the beneficiaries would have started up anyway. In addition, areas in greatest need (e.g. those traditionally dominated by large industrial employers) tend to perform relatively poorly in terms of rates of new business formation and survival. Local policies respond with more careful targeting of awareness raising and business mentoring in order to widen the net of prospective entrepreneurs and to provide proper advice and support to make a genuine difference to their prospects of survival and growth.

A more specific, contemporary version of the general argument is that certain attributes of locality or 'place' matter more than ever to international competitiveness in a knowledge-based economy, since this is where distinctive economic processes come together. These positive externalities depend upon intense concentrations of related businesses and they enable localities to gain a distinct competitive advantage over other places through collective learning, innovation and specialised shared services. The special strengths of these 'industrial districts' or 'clusters' arise from business networks, knowledge spillovers and thick labour markets that accumulate particular skills and capabilities. The same is true of particular cities whose unique strengths in creative industries, financial services or international tourism are partly attributable to dynamic local interactions. Economic development policies need to be tailored to local institutions and carefully embedded in order to make a difference. Standard national policies will be more remote and far less likely to resonate with local conditions.

A well-known example is from the 'Third Italy', a region in the north of the country famous for its relatively competitive clothing, footwear, engineering and ceramic industries (Balestri and Cavalieri, 2001). These clusters are dominated by family-owned small and medium-sized enterprises. Part of their historical success is commonly attributed to active local authority support through shared technical expertise, marketing and machinery, based on trust and a close understanding of local firms built up over many years.

One of the potential risks of a decentralised system is that national economic needs get neglected through a more insular mindset and an exclusive focus on local priorities. For example, local training programmes may focus only on local skills shortages and ignore national requirements. Major research institutions typically resist local control on the grounds that they have a national or international mission. Some form of shared responsibility between local and central government may avoid polarised policies.

6.2 Policy experimentation and innovation

A second argument is that decentralisation allows for greater diversity and therefore innovation in economic development because different places pursue different approaches. In effect there is more experimentation and learning than would occur

with a single national policy, so better policies emerge over time. Locally based 'laboratories' can simplify the task of piloting new approaches and take more risks with new ideas. Local control permits improved learning from experience and adaptation of policy in the light of practical implementation. A variant of this argument is that decentralisation encourages competition between local authorities in order to improve their relative positions. It creates incentives for them to increase their efficiency (it is a discipline on spending decisions) and to improve their effectiveness (it encourages better quality policies and programmes).

Some of the best examples arose during the late 1970s and early 1980s when local government began to take economic development more seriously than at any time since the 19th Century. The economic slump following the oil crisis, restrictive macroeconomic policies and an unsympathetic government prompted a flowering of local economic initiatives. They covered labour market and training projects, sector-specific business support programmes, venture capital schemes and innovative public-private partnerships in property development. Many were subsequently imitated by other local authorities and indeed incorporated into many national employment and business development programmes.

There are many contemporary examples of local creativity from the US, including Tax Increment Financing schemes that have enabled local governments to attract private investment and overcome the extraordinary costs of redeveloping derelict and contaminated by anticipating the increase in property values that comes from development without raising property taxes (Johnson and Man, 2001).

A more specific version of the general argument outlined above is that the flexibility typically afforded to local policies allows for better adaptation to places with particularly complex and entrenched problems, and therefore allows for additional support or a more interventionist approach than might be countenanced nationally. A local focus and resources that are not too bound by rules can produce more imaginative and relevant solutions, especially important in a more diverse and flexible labour market. Discretion allows services to be tailored more closely to individual needs and circumstances, targeting people who are beyond the reach of mainstream national programmes because of their educational or social backgrounds. Local initiatives may increase the take-up of employment advice and training by being more independent and visible, accessible and credible to the local community.

Danish labour market policy offers a good example. There is discretion available at the regional and local levels to adapt welfare and employability programmes to the distinctive needs of each area. This process of adaptation is informed by dialogue and negotiation with a range of economic and social partners (Hendeliowitz, 2003). This helps to overcome some of the disincentives built into the UK system that can make it more difficult for people who are unemployed or economically inactive to enter employment, including high marginal tax rates and uncertainty about eligibility for repeat claims.

A potential drawback of a highly decentralised system is that there is unnecessary duplication of effort, and at worst unproductive competition between places. Institutional capacity is also bound to be uneven, resulting in a complex patchwork of policies and variable service standards and effectiveness in different areas. Small

businesses, unemployed people and other service users may regard this as confusing and unfair. This is evident in media exposures of any apparent ‘postcode lottery’ that emerges in public services. National government may have to guarantee minimum standards and a safety net for failing struggling areas to limit this criticism (Greffé, 2001).

6.3 Stakeholder involvement and social stability

A third argument for decentralisation is to involve representatives of key communities of interest in making and implementing decisions about the future of their area. They include particular interest groups such as small business owners, major employers, property owners and developers, as well as religious, cultural and residential communities and voluntary organisations. Mobilising participation at the local level is often easier than at the regional or national scale because it is easier to find common cause and build inter-personal relationships and a shared sense of purpose around local prosperity and social cohesion. Local authorities can build upon civic pride and a sense of belonging and loyalty to encourage people to commit their time and resources to getting involved. Or it may simply be that greater transparency and predictability in decisions because they are made locally inspires greater trust and confidence among investors and other groups.

The European Commission has encouraged regional partnerships between public agencies, employers, trade unions, universities and other segments of society for more than a decade, sometimes against the wishes of national governments. The rationale includes the view that more inclusive problem-solving and decision-making should improve the relevance of the services and facilities provided and reduce popular disaffection with remote bureaucracies and the threat of disorder from disadvantaged communities. Several recent OECD studies have documented the increasing popularity of partnership arrangements within Europe and further afield (2003, 2004). Ireland was one of the leading lights during the 1990s, partly because of the weakness of local government (Turok, 2001).

There is also an increasing belief that promoting economic development ‘from within’ by encouraging self-reliance and exploiting indigenous strengths is more sustainable than reliance on external investment and government transfers. There may be valuable ideas, energy and expertise to be harnessed by mobilising local actors. The capacity of government is finite so places must learn to ‘stand on their own two feet’. Participants may play a constructive role in development as active citizens rather than passive beneficiaries. There may be a large infrastructure of interest groups and community organisations that could reinforce development objectives by using their social networks to spread financial and organisational skills more widely. Equipped with greater expertise and confidence, people may be better placed to take advantage of emerging opportunities.

Local authorities are better placed than central government to extend control over services and facilities to residential communities and expand the ‘social economy’. The benefits of community credit unions, managed workspaces, local co-operatives and development trusts may include enhanced human capabilities and motivation, more enterprising behaviour, additional local jobs and services delivered in a more user-friendly manner.

One of the risks associated with the expectation of greater self-sufficiency is that increasingly uneven outcomes emerge over time, because the economic potential of different areas is bound to vary through natural resource endowments or cumulative developments. Territorial inequalities (cumulative winners and losers) will be exaggerated if the tax rewards of success are retained locally.

A concern with the opportunity for increased local stakeholder involvement in economic policy-making is that decisions may get distorted by sectional interests exercising undue influence to further their own positions. There are all sorts of possibilities, including local property owners (who may resist further physical development), commercial property developers (who may favour particular kinds of policy, such as retail development) or major multinationals (who may demand unreasonable subsidies by threatening to move elsewhere).

6.4 Co-ordination and integration

This argument is that decentralisation allows for better coordination between different economic policies because it simplifies the task for a range of practical reasons. ‘Joined-up’ policy also becomes much more meaningful to people, places, firms and markets if undertaken at the local level. For example, most labour markets are inherently local, so any attempt to match labour supply-side interventions with the level and nature of labour demand is most appropriate and effectively done at the local level. Looking more broadly, if areas are caught in a vicious cycle of stagnation, low confidence, low investment, etc, then a broad-based and integrated regeneration strategy may be required to address multi-dimensional nature of the problem.

Decentralisation can also give national sectoral policies in fields such as science, technology, arts and culture, transport and other basic infrastructure an essential spatial context to ensure proper alignment with and relevance to local circumstances. A place-based perspective can help decision-makers to identify the essential connections between expanding centres of employment, housing provision, educational needs and access to public transport, and to respond in a coherent manner. It is generally difficult to do this from the bottom-up without effective buy-in from national decision-makers, who hold the key levers. ‘Bending’ and connecting sectoral programmes requires consistent commitment across government departments. Current complex funding arrangements from diverse sources results in substantial administrative costs and obstructs the development of a longer-term strategic perspective within cities and towns (Audit Commission, 2004). The complicated mixture of national programmes, initiatives and targets plus multiple local partnerships confuses responsibilities and hampers delivery. The Audit Commission argues for greater simplification, streamlining and localisation of the system.

Without central support, local policies may lack profile and economies of scale. Part of the argument for national programmes such as the New Deal is that their visibility and impact are enhanced by national marketing, celebrity endorsement and media coverage. This increases participation by employers as well as job seekers. National government may also have greater power and determination to push through controversial changes, such as welfare to work reforms requiring unemployed people to participate. It may also make sense for central government to manage important information functions, such as analysing external market opportunities or forecasting future labour market skill requirements.

Local authorities may also be too small for some forms of economic decision-making and coordination. They may be too small to reflect the functional realities of their local housing and labour markets, and therefore fail to internalise key externalities and interactions, resulting in various inefficiencies and cross-boundary problems. Local authorities are clearly too small for decisions about major transport infrastructure, costly research and technological developments, or industrial support where firms in key sectors are geographically dispersed rather than concentrated.

7. The relationship between local and national competitiveness

For the purposes of this discussion it is useful to draw a simple distinction between essentially ‘diversionary activities’ (where there is little overall benefit for the national economy, because the success of individual local economies comes only at the expense of other local economies) and ‘productivity enhancing activities’ (where there is a clear benefit to the national economy through increased efficiency, innovation or more productive use of resources). In its rules for evaluation spatial policies, the Treasury traditionally regarded all local and regional economic development and regeneration programmes as purely diversionary (‘displacement’), although this view has become less dogmatic in recent years.

The table on the following page summarises the differences between these activities and the implied approach to the pursuit of competitive advantage. The dualism is clearly a simplification of reality, but nonetheless useful for clarifying some differences in emphasis in economic policy from a local and national perspective. National governments are mainly interested in businesses targeting international markets for exports of goods and services in order to expand output and productive capacity. In relatively high cost, high-income economies, that tends to require relatively sophisticated, high value products made by relatively innovative firms with advanced technologies and employing highly skilled labour. They depend on the supply of specialised inputs and support services that will enable continuous improvements to their techniques and processes. They may also share knowledge with other local firms about products, techniques and markets, and generally learn, compare, compete and collaborate in a way that enhances the general productivity of the local economy.

Not every locality will be endowed with the thick labour markets, advanced business services, range of sophisticated suppliers and knowledge-based infrastructure to enable these highly productive firms to compete effectively, so there may be winners and losers and a widening gap between successful and less successful places. This is also a dynamic scenario requiring a high level of adaptability to change and flexibility on the part of all actors – business owners, managers, labour and support organisations. There is likely to be a high rate of ‘churn’ among businesses, with some striking successes but also failures of those that fail to keep abreast of developments. A cultural and legal environment needs to be created to foster and facilitate initiative, creativity and change. Tolerance of social diversity, in-migration and upward mobility may be part of the recipe for competitive success and economic advancement.

	Mainly diversionary activities	Productivity enhancing activities
Basic goal	Spatial equity	National efficiency
Focus	Regional & national markets	International markets
Form of competition	Business attraction or retention Attraction of population to live or visit	High value products produced by innovative and efficient local firms
Nature of growth	Extensive	Intensive
Key competitive advantage	Lower costs or greater resource availability (Static)	Quality, sophistication and reliability: 'smart' capacity (Dynamic)
Form of economic support	Relatively routine: Basic locational subsidies Place marketing Physical infrastructure Strategic sites & premises Looser regulations	Relatively specialised: Advanced business advice Management development Technical support Research and development Human capital
Benefit to the local economy	Positive but temporary? High employment	Positive and enduring for selective localities with the requisite assets
Benefit to the national economy	Zero sum or displacement	Positive and enduring High income
Dangers	Predatory poaching Concessions on environmental standards Wasteful duplication	Less employment, especially of low skilled High risk of failure Winners and losers

From a local perspective, a focus on mainly diversionary activities may appear to offer a more realistic and worthwhile approach, at least in the short term and for poorer places with less advanced resources. In high income nations, the focus may be on attracting firms from other places within the same national economy through offering lower costs of production or better availability of labour, land or other resources. Back offices, call centres and branch plants would be obvious examples. There may also be an emphasis on attracting population by offering a lower cost of living or better availability of housing or popular amenities. Forms of local support are likely to be more routine than specialised, including financial incentives, modern physical infrastructure, accessible business sites and premises, or relaxed regulations governing the use of land or labour. There may be substantial economic and employment benefits to the locality from these policies, but they may not prove to be very durable or sustained since other competitor locations are bound to emerge offering lower costs, better resource availability or fewer regulations, especially if these were the reasons why firms were located there in the first place, rather than a deeper business logic.

In the extreme, this diversionary approach may be wasteful and generally damaging (negative sum) if subsidies become inflated and employment or environmental standards get progressively eroded through predatory poaching and competitive bidding ('territorial tournaments?'). It may amount to beggar-my-neighbour policies

or boundary hopping by businesses to exploit area-based incentives, such as Enterprise Zones. There is also evidence of multinationals manipulating local and regional grant systems by playing places off against each other when establishing new facilities or extracting concessions by threatening to move existing plants elsewhere.

There can be circumstances where diversionary activities may contribute positively to national efficiency and competitiveness. Where there are significant disparities in economic conditions across the country, business relocation from congested, high cost regions with shortages of labour to places with spare productive capacity and surplus labour may help to establish a better balanced economy and allow the national economy to grow faster without running into inflationary pressures and bottlenecks. Migration of labour in the reverse direction (from depressed to buoyant regions) may also have positive national economic effects, although possibly at the expense of local economy of the original areas by denuding them of skills and talent.

These circumstances are highly relevant to the UK in the first decade of the 21st Century. Central government discourages diversionary policies on the grounds that they are wasteful and may lead to firms making inefficient location decisions. The emphasis on reinforcing indigenous strengths lies behind the Sustainable Communities plan and its four growth areas in the South East. The complex relationship between London's success sucking in productive resources from the rest of the UK and spreading benefits out through increased prosperity remains unclear.

8. Key conclusions

- 8.1 There is limited international evidence on the connection between decentralisation and economic growth. The strength of the case for decentralisation is likely to depend partly on the starting point in terms of national context. The UK is quite a large economy and still comparatively centralised, so the arguments may be stronger than they would be, say, in the US, Germany or France, where localities and states already have significant economic and fiscal powers. The argument is complicated by the presence of multiple tiers of government and a variable balance between regional and local levels. There are bound to be costs as well as benefits from decentralisation.
- 8.2 The case is likely to vary according to the powers and competences under consideration. The argument may be stronger for selected powers of provision, but perhaps weaker in relation to tax and regulatory powers because of the risks of tax competition and widening spatial disparities. If there is a commitment to devolve policies it is important not to re-centralise control through rigid targets and micro-management of government funding streams. The UK is particularly centralised in its labour market policies, so the scope for decentralisation may be greatest here. There may also be a case for stronger local powers in the field of enterprise and small business development, where responsiveness to individual and local circumstances is important and the economies of scale from national provision may be modest.
- 8.3 The strength of the case also depends on the spatial unit being considered. It is stronger where the local authorities correspond broadly to functional economic

areas, such as local labour markets, and weaker where they represent only small districts within larger metropolitan areas. Incentives to encourage stronger cooperation between neighbouring authorities may be helpful in ensuring that decisions are made for appropriate territories, e.g. for the provision of metropolitan transport systems and coherent city-wide marketing.

- 8.4 Decentralisation is a process rather than an event. It may involve progressive increases in discretion and autonomy, and require the building of all kinds of institutional capacities – analytical, strategic, technical, delivery and monitoring. It is also not simply about the transfer of power: it also involves a greater degree of cooperation. In the complex and dynamic economic and governance environment of the 21st Century, it is important to build greater understanding and trust between different sectors of society and the economy. It is also important to share knowledge and strengthen collaboration between different levels of government.

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