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## REGIONAL DEVELOPMENT IN CENTRAL AND EASTERN EUROPE: A NEW APPROACH

*Current approaches to regional development are considerably dependent on their previous evolution. However, the situation in Central and Eastern Europe is more complicated as transition/post-transition economies find themselves under pressure stemming from the effort to apply modern neo-endogenous approaches to regional development. The cause of this tension consists in the presence of deformed system macrostructures, which form the milieu in Central and Eastern European countries and embody the heritage of socialist past. These ill-fitting system macrostructures largely undermine the applicability of vogue neo-endogenous approaches to regional development. Formation of original and tailored regional development conceptions that would be in compliance with the needs of Central and Eastern European territories represents an unquestionable challenge for this part of the world.*

*Keywords:* regional development; transition economies; Central and Eastern Europe; system macrostructures.

*JEL codes:* B00, B52, R10, R50, R58, R59.

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## РЕГІОНАЛЬНИЙ РОЗВИТОК У ЦЕНТРАЛЬНО-СХІДНІЙ ЄВРОПІ: НОВИЙ ПОГЛЯД

*У статті показано, що сучасний стан регіонального розвитку значною мірою залежить від процесів його тривалої еволюції. Ситуація з регіональним розвитком у Центрально-Східній Європі в першу чергу визначається спробами країн з перехідною економікою застосувати найбільш сучасні підходи до свого регіонального розвитку. Це проходить в умовах існування деформованих системних макроструктур, що є спадком із соціалістичного минулого. Застарілі макроструктури практично унеможливають застосування найбільш прогресивних підходів до регіонального розвитку. Тому однією з найважливіших задач для країн регіону є формування своєї концепції регіонального розвитку, яка б врахувала всі потреби та проблеми регіону.*

*Ключові слова:* регіональний розвиток; перехідна економіка; Центрально-Східна Європа; системні макроструктури.

*Табл. 1. Рис. 1. Літ. 15.*

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## РЕГИОНАЛЬНОЕ РАЗВИТИЕ В ЦЕНТРАЛЬНО-ВОСТОЧНОЙ ЕВРОПЕ: НОВЫЙ ВЗГЛЯД

*В статье показано, что современное состояние регионального развития во многом зависит от процессов его длительной эволюции. Ситуация с региональным развитием в Центрально-Восточной Европе в первую очередь определяется попытками стран с переходной экономикой применить наиболее современные подходы к своему региональному развитию. Это происходит в условиях существования деформированных системных макроструктур, являющихся наследием социалистического прошлого. Устаревшие макроструктуры делают практически невозможным применение наиболее прогрессивных подходов к региональному развитию. Поэтому одной из важнейших задач для стран региона является формирование своей концепции регионального развития, которая бы учла все потребности и проблемы региона.*

*Ключевые слова:* региональное развитие; переходная экономика; Центрально-Восточная Европа; системные макроструктуры.

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## Introduction

There is an increasing interest in the issues connected with local and regional development. It concerns not only scientific and research disciplines but also practical policies. The above interest is motivated primarily by the fear of possible socioeconomic tensions or even dysfunctions of the whole socioeconomic systems as a consequence of large spatial unevenness in the distribution of wealth and power.

Basically, we search for the compromise between the need of economic efficacy and competitiveness on one hand and sociopolitical and environmental sustainability on the other. And since the stability of the entire countries can be reached providing stability and appropriate functional interconnectedness of their individual territorial units or regions, it is natural that regional development became a rather frequented notion of our times (Johnston, Gregory, Smith, 1994; Armstrong, Taylor, 1993; Bucek, Rehak, Tvrdon, 2010; Hudec et al., 2009).

Thus, it is not surprising that the number of theories related to local and regional development has a steadily growing tendency. Individual theories differ as to the notion of development, main actors and mechanisms as well as in the field of recommendations on the creation of regional policies. It should be underlined there is nothing like commonly accepted paradigm of regional development so far.

In spite of this fact, last two or three decades witnessed a distinct move from exogenous concepts of regional development to the remade, inner developmental potential of individual territories stressing approaches. Nonetheless, we are not entitled to talk about mere purification of original endogenous conception from the dust; it is rather qualitatively new, neo-endogenous concept that accentuates the formation of the framework supporting the stimulation of endogenous territorial developmental possibilities. New approaches to local and regional development emphasize profound spatial differentiation of institutional as well as wider socio-cultural characteristics.

Original neoclassic approach to regional development was distinctively non-interventionist. Its follower, Keynesian concept of regional development, already relied on interventionism. Concurrently developing Marxist-Socialist paradigm of regional development turned out to be extremely interventionist. And current, in a way eclectic stage is essentially non-interventionist, albeit there are endeavours to create development-oriented regional milieu. Adequate regional socioeconomic milieu then provides a sufficient room for the activities of local and regional actors (see Table 1).

The objective of the article consists in the analysis and interpretation of the evolution of regional development concepts, which substantially influence the contemporary state of regional development in virtually all transition/post-transition countries. As it is shown, transition/post-transition economies find themselves under pressure stemming from the effort to apply modern neo-endogenous approaches to regional development in the milieu soaked by deformed system macrostructures and unfavourable institutions evolving during the socialist era. Although this problem is stated only seldom, its theoretical and policy implications are rather relevant.

Regional development can be defined only with difficulties. In contrast to regional economic growth it is represented by a much wider spectrum of components

of regional life. Regional development includes economic, social, environmental, cultural, institutional, psychological as well as some other aspects. It is safe enough to claim that regional development can be barely accomplished without regional economic growth (Vanhove, Klaasen, 1987; Suchacek, 2008).

The number of concepts striving for explanation of developmental processes in territories, corresponds to the wide perception of territorial development. Quantity and different character of regional development theories lie behind numerous classification problems in this field. So far, we have nothing like united and commonly accepted evaluation system of regional development theories. That is why teleological principle is quite frequently utilized when creating the typology of regional development theories.

As it can be derived from Table 1, regional development approaches can be divided into interventionist ones (i.e. Keynesian and extremely interventionist Marxist-Socialist) and non-interventionist ones (i.e. liberal, which is strongly non-interventionist and modern neo-endogenous conception that is relatively non-interventionist).

From an alternative perspective, we are entitled to dwell upon bottom-up concepts, which stress inner developmental possibilities of territories. These bottom-up concepts concern traditional endogenous, i.e. liberal and modern neo-endogenous doctrines. Concepts relying on top-down approach apply to exogenous, i.e. Keynesian and Marxist-Socialist approaches to regional development.

Regional development theories were strongly affected by socioeconomic philosophies and paradigms prevailing in given periods. These paradigms reflected the experience of politicians and important socioeconomic representatives, mainstreams of previous periods as well as generally felt socioeconomic needs. We can find 4 pivotal directions in regional development theories: liberal endogenous doctrine, Keynesian exogenous doctrine and Marxist-Socialist exclusively interventionist doctrine as well as modern and to a large degree vogue neo-endogenous concept.

#### **Liberal paradigm of regional development**

This stream of regional development is from the wider point of view classable under liberal economic-political doctrine. This doctrine answers all important economic questions (i.e. what, how and for whom to produce) in a largely unified manner: undisturbed functioning of market forces.

Any state interventions are treated as inadequate and it is argued why governments should not intervene into market mechanism. According to this economic-political direction, market system enables optimal allocation of resources and at the same time it also provides the best satisfaction of consumers' preferences. This happens so mainly due to price mechanisms and competitive environment. Proponents of this approach underline the market orientation of the whole society and pursuing individual interests as it brings the benefit to the whole economy.

State interventions are accepted only in the case the fundamental attributes of market system are endangered. It concerns mainly market functioning and sound velocity of money. Any larger state interventions are perceived as a road to market distortion. The role of state should be reduced to keeping the inner and outer security, protection of ownership rights as well as the protection of frame conditions assuring the right functioning of the market.

The basics of liberal stream of regional development can be found between 1920-s and 1930-s. This strongly non-interventionist approach leaned on neo-classical economics. Basically, we are not entitled to call this regional development conception a genuine one because interregional disparities were comprehended as a temporary phenomenon.

According to the neo-classical theory, regional problems should not be existing in the long run. For instance, spatially differentiated unemployment was treated as a consequence of discordance between capital or labour and market principles. Technologies and macroeconomic conditions were perceived as given and subsequently non-influencing important categories, such as economic growth. Early supporters of this doctrine neglected an institutional framework but it has to be stated that a lot of later or contemporary versions of neo-classic theory strives for the elimination of these imperfections.

**Table 1. Evolution of the approaches to regional development**

General Paradigm	Characteristic Features	Typical Regional Policy
Liberal / non-interventionist / <b>endogenous development</b>	Convergent spatial development, there is no necessity to intervene in market forces. Non-interventionist approach.	"Workers to work" school, instruments increasing labour mobility.
Keynesian / interventionist / <b>exogenous development</b>	Divergent spatial development, it is necessary to intervene in market processes. Interventionist approach.	"Work to workers" school, tools supporting the inflow of investments into problem regions.
Marxist-socialist / extremely interventionist / <b>exclusively exogenous development</b>	Divergent spatial development, necessity of planning and management of spatial development. Extremely interventionist approach.	Central planning and management of spatial development, ignorance of spatial-market signals
Modern / "transformed" <b>neo-endogenous development</b> / formation of frame conditions for endogenous initiatives	Divergent spatial development, however, it is necessary to stimulate inner regional potential. Rather non-interventionist approach.	Support of milieu, which facilitates networking, development of small- and medium-sized firms, innovations and learning. Augmentation of institutional thickness, competition (cooperation + competition)

Source: Author's development.

Paradoxically, in spite of the fact that neo-classical theory is practically non-interventionist, in the 1920-s and 1930-s there existed instruments concentrating on the rise of labour mobility. In other words, regional practice in the UK at that time endeavoured for strengthening of insufficiently working market mechanism at the labour market. This concept is also sometimes called "workers to work" (see Preswitch and Taylor, 1990). Applied regional policy instruments included financial support related to mobility, help with finding a new flat in immigration region, retraining schemes etc. This type of regional policy has been widely criticized mainly for the sake of the fact that it does not identify causes of the problems but strives for the mitigation of their effects.

#### **Keynesian paradigm of regional development**

Neo-classical doctrine was prevailing until the great depression of the 1930-s. That crises opened the space for the Keynesians, which contrary to proponents of

previous liberal paradigm stressed the importance of interventions from the public sector. At the beginning, there was the work of J.M. Keynes "The General Theory of Employment, Interest and Money" where he showed the influence of aggregate demand on market balance. His thoughts found numerous followers.

Europe witnessed a growing interest in the solution of interregional socio-economic inequalities, namely after World War II. This interest was stimulated by objective social, economic and political needs and was reflected also in the rising number of divergence conceptions focusing on rising spatial imbalances. These conceptions outweighed previously almost exclusive convergence conceptions advocating spatial balance. Calls for more intense state interventions into the economy became increasingly audible.

This was in consonance with Keynesian doctrine preferring full employment, regulation of aggregate demand, support of economic growth or priority of fiscal instruments over monetary ones. In contrast to mid- and long-term orientation of liberal economic policy (or at least its relatively optimistic nature as to economic tendencies), the Keynesians think in shorter terms and admit the inflation growth or external imbalance.

Until the 1950-s regional policy – at that time still hidden under general economic policies – of majority of European countries was motivated primarily by social and economic reasons. There existed interest in the creation of higher quality and more just living standards in post-war time. However, territorial character of the vast majority of abovementioned measures finally led to the beginning of genuine regional policies.

Between 1950-s and 1960-s a true boom of regional conceptions started. While neo-classical growth models concentrated mainly on supply side (capital growth, labour growth, technological changes), the Keynesians on the contrary prefer the demand side and emphasize export potential of individual regions. As for the automatic tendencies of the economy to the balancing of spatial differences, the Keynesians were much less optimistic than their neo-classical predecessors. On the contrary, they stress balanced regional development should be the subject of interventions and active measures of public sector.

Actually, the 1960-s are frequently called "the golden age" of regional policy as related expenditures in many countries reached high levels (Preswitch, Taylor, 1990). Regional problems were treated as a long-term phenomenon rather than a short-term trouble. Basic regional policy of that time is expressed as "work to workers". States were responsible for the solution of regional problems and endeavoured to geographically more even distribution of working opportunities. Large spectrum of regional policy instruments developed and they ranged from various kinds of subsidies to tax reliefs, constraints on expansion in large agglomerations or relocation of headquarters of state-owned enterprises or institutions (Vanhove, Klaasen, 1987).

At the beginning, Keynesian regional policy focused primarily on economic sphere, but with growing knowledge on the complex nature of regional problems it started to concentrate also on social and institutional realms. Nonetheless, the prevailing principle of regional policies was still expressible as "top-down".

The most important element of Keynesian period was however relative compliance between the transformation of system macrostructures and prevailing paradigm of

regional policy. Although the Keynesians claimed that market mechanism often fails and state interventions are necessary they acknowledged the coordination of activities through market as the main principle of economy's run. They also conceded that society so far did not find the system that could act as an adequate substitute for market.

That is why contrary to concurrently existing totalitarian political system and central planning in Central and Eastern Europe the important components of societal life in the West were not beset by profound deformation. Countries, which applied Keynesian direction of regional development, formed approximately even developmental conditions for their regions. In other words, there existed a guarantee that activities of local and regional actors could find more objective manifestations in the development of individual territories.

Countries of evolutionary based decentralized character, such as Germany or the Netherlands further kept or even strengthened – both qualitatively and quantitatively – their spatial patterns and mechanisms during the Keynesian era. Their system macrostructures and settlement systems were balanced enough. More centripetal countries, such as the UK or France at that time underwent an intense transformation that led to the modification of their system macrostructures towards geographically more harmonic distribution of social, economic, transportation and other infrastructures and activities.

#### **Marxist-socialist paradigm of regional development**

When the political map of the world was divided after World War II, its Eastern part followed the direction, for which negatively affected societal life was symptomatic. These unfavourable trends naturally concerned also regional development. Thus, the main developmental paradigm after World War II avoided Central and Eastern Europe or more precisely, Central and Eastern Europe disregarded this main stream of regional development.

From a political perspective, Central and Eastern Europe was befallen by totalitarian political regime and from economic point of view by central planning. Economic doctrine of that time perceived the failure of market mechanism as an absolute one. Market signals, which are traditional determinants of economic and regional policies were replaced by command system. All policies were centralized and the only decisive bodies were ruling parties and governments. State was treated as an universal administrator of the whole economy. Central plans and measures finally led to extreme unbalances at the markets. The desolating influence of central planning was further multiplied by isolationism from the world markets (Suchacek, 2013).

Although there existed some variations, hierarchically organized systems of national, regional and local planning in individual countries largely determined not only economic sphere but settlement system as well. The role of physical planning consisted in spatial accomplishment of objectives defined in national economic plans. Economic policies accentuated topics, such as industrialization or sector economic policies. Constructions of large blocks of flats were led by the endeavour to manage spatial distribution of labour. It should be repeated that practically all investments, such as apartment construction, new industry or transportation infrastructure were allocated on the political basis.

Severe institutional and financial centralization in individual countries partly disabled efficient accomplishment of these plans, nonetheless certain geographical

socioeconomic equalization has been achieved. Urbanization processes were also managed and controlled centrally.

After the fall of the Iron Curtain in 1989 and large societal transformations that followed, unduly applied and often chaotic liberal measures were determining further development of Central and Eastern Europe. These measures were utilized within the milieu of deformed and inadequate system macrostructures that evolved in Central and Eastern Europe as a consequence of socialist past. In some countries, regional development started to be perceived as something, which is in discordance with the principle of free market.

Spontaneity in spatial development of the majority of Central and Eastern European countries was soon transposed into the large augmentation of interregional disparities. After these effects, the above economies, which still suffer from inadequate system macrostructures as well as unfavourable institutional memory, re-oriented themselves to modern neo-endogenous paradigm of regional development.

#### **Modern neo-endogenous paradigm of regional development**

Modern paradigm of regional development can be characterized by large variety of methods and methodologies, different delimitation of principal actors and mechanisms as well as quite motley recommendations for practical regional policies. This stream pragmatically supports utilization of various instruments related to the development in territories. It is very often inspired by institutional but partly also neo-liberal roots. This conception is largely of ideographical nature and often emphasizes that one size does not fit all.

Industrial districts (Brusco, 1982; Becattini, 1978), flexible accumulation and flexible specialization (Piore, Sabel, 1984) or learning regions (Lundvall, 1992; Florida, 1985; Saxenian, 1994) can be ranked among typical modern, neo-endogenous conceptions of territorial development. All these concepts differ as to their basic categories, as mentioned before.

Industrial districts concentrate on the quality of sociocultural and institutional structures as well as networking of small- and medium-sized firms as it is shown on the example of the so-called Third Italy enjoying relative economic success. Flexible specialization and flexible accumulation stress the importance of both formal and informal institutions and emphasize again the role of small- and medium-sized firms. Learning regions represent further vogue conception, which accentuates various kinds of learning and capability of pivotal actors to learn.

What do have these conceptions in common is the focus on the quality of socioeconomic and institutional milieu as well as the formation of framework facilitating endogenous development. However, as mentioned before, due to the presence of modern topics and qualities, such as networking, small- and medium-sized firms, innovations, public private partnership, institutional thickness, competition etc., this paradigm does not represent mere purification of traditional endogenous development from the dust. Neo-endogenous development reflects post-fordist rationalization trends that underline uniqueness of every locality and region. Next distinctive trait of neo-endogenous paradigm of regional development is the effort to solve the causes of regional problems and not just to cure the unfavourable consequences of previous developments. The latter was the symptom of all preceding regional development paradigms.

There appeared also new, qualitatively wider regional policy instruments, such as follow-up or after care programs. Contemporary regional policy in advanced economies is also increasingly linked with social and industrial policies. Formerly sector oriented policies are currently often enriched by regional dimension. Monitoring and evaluation of effectiveness and efficacy of individual regional policy measures and instruments represent further modern themes of regional development. Majority of these new qualities appeared in the framework of the European Union regional policy as well as in its individual economies.

### **Discrepancy between system macrostructures and regional development paradigm in Central and Eastern Europe**

Contemporary regional development paradigm in advanced countries emphasizes the importance of endogenous territorial potential. Concurrently, this approach does not pay sufficient attention to the quality and spatial distribution of system macrostructures as they are considered to be standard, i.e. enabling objective developmental opportunities for individual territories based on their potential and activities. Spatial dimension of system macrostructures substantially affects their quality.

Endogenous development is possible provided that it is framed by quality system macrostructures adequately spatially distributed. In transition/post-transition economies the occurrence of quality and geographically adequately distributed system macrostructures is rather exceptional. These countries generally suffer from ill-fitting system macrostructures – no matter whether administrative-political or infrastructural ones – which considerably rises transaction costs.

Totalitarian regimes centralized these important system macrostructures and befallen also both formal and informal institutional framework shaping the developments in Central and Eastern European economies. During the transformation shock, both physical and intangible structures reproduced themselves and centripetal spatial pattern of transition/post-transition countries remained essentially unchanged.

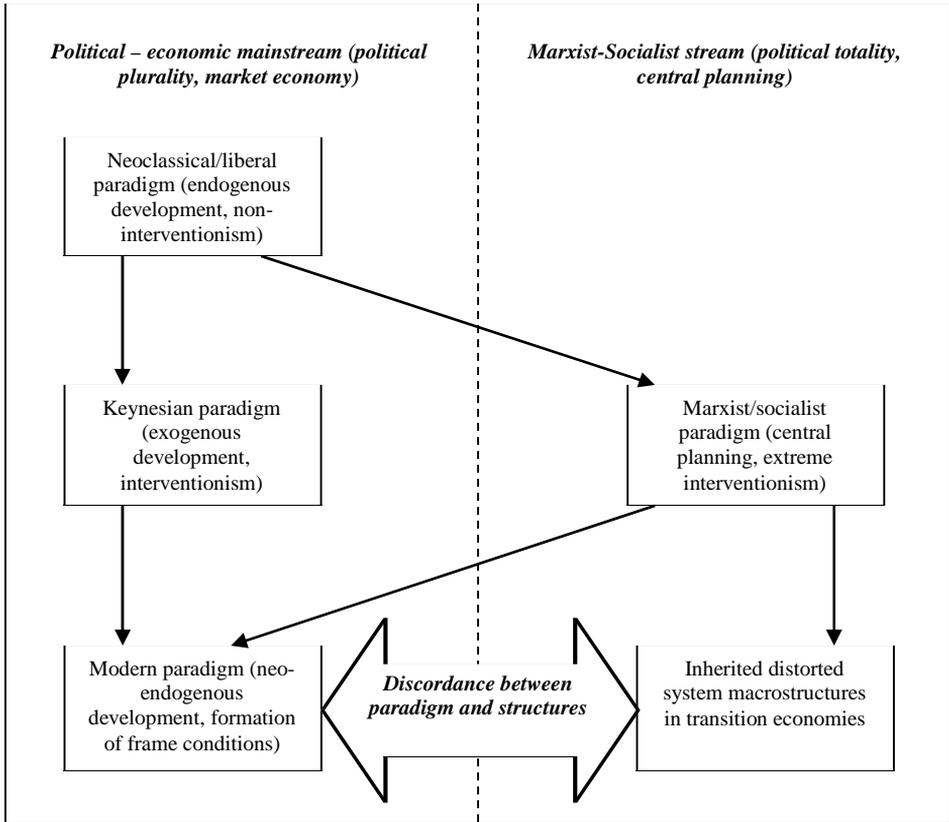
The pivotal problem is that developmental paths of socialist countries "skipped" the Keynesian stage of regional development. Deformed system macrostructures subsequently disabled the reasonable application of modern regional development approaches as we know them in Western economies (Figure 1).

All modern neo-endogenous regional development concepts implicitly consider system macrostructures decentralized and enabling at least roughly objective projection of endogenous territorial activities. Individual localities and regions in advanced economies go from comparable technical, competence and financial categories that evolved naturally in the framework of market economy and political democracy.

As to territorial transformation winners and losers, physical system macrostructures in combination with both formal and informal institutions played the cardinal role. Lack of competences and financial resources is a common illness of non-central territories within Central and Eastern Europe. This substantially reproduced the centripetal patterns of transition/post-transition economies.

Endogenous regional development in Western countries is mostly effective and efficient because contrary to the exogenous approaches it transforms the inner qualities of both economic and social structures. It does not apply, however, to Central and Eastern Europe as its deeply heterogeneous system macrostructures and so far also inadequate institutional environment distort the activities of local and regional

actors. Developmental conditions in Central and Eastern Europe are spatially strongly differentiated.



Source: Author's development.

**Figure 1. Discrepancy between modern regional development paradigm and system macrostructures in transition/post-transition economies**

Thus, transition/post-transition economies suffer from the tension stemming from the endeavour to apply modern, neo-endogenous regional development paradigm within the milieu penetrated by inadequate system macrostructures and inertial institutional memory. Formal institutions were not defined in transition/post-transition economies for a long time. Their gradual creation is a lengthy and often painful process. Informal institutions were exposed to 50 years of Marxist-Socialist regional development paradigm. Their remedy is undoubtedly the question of longer time and experience shows that it takes two or three generations (Suchacek, Seda, 2011).

It is thus only hardly surprising that contemporary transition/post-transition economies find themselves vis-a-vis the large challenge of creating tailored and non-copied regional development concept. Modification of system macrostructures towards higher consonance with existing settlement system as well as overall territorial socioeconomic potential constitutes a *conditio sine qua non* and the first step on this enormously complicated road.

### Conclusions

The article revealed that the contemporary state of regional development conceptions is strongly dependent on previous evolution. Advanced countries enjoyed continuous development, for which natural crystallization of institutions was typical. Central and Eastern European countries on the contrary suffered from numerous developmental discontinuities that substantially befell their institutions. Transition/post-transition economies find themselves under large tension stemming from the endeavour to apply modern neo-endogenous concepts of regional development within the environment encapsulated by unfavourable system macrostructures and partly dysfunctional institutions.

The distinct inertia of system macrostructures and institutions in Central and Eastern Europe disallow the appropriate application of neo-endogenous approaches to regional development well-proven in advanced Western countries. Regional development conceptions in Central and Eastern Europe should be thus adapted accordingly. Tailored regional development in transition/post-transition economies represents a true challenge for contemporary regional studies that should bear in mind the influence of history on contemporary situation.

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