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Beyond Brexit: reshaping policies for regional development in Europe

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BEYOND BREXIT: RESHAPING POLICIES FOR REGIONAL DEVELOPMENT IN EUROPE

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Abstract

Regional development is one of the main EU spending priorities through its Cohesion Policy. Brexit is one of several influences on the future of the policy, whose evolution is part of a wider reshaping of the principles and practice of regional policy in Europe. In the context of emerging policy challenges and recent contributions to the regional policy literature, the article highlights innovation, human capital and effective institutions as three crucial dimensions of future policy. It argues that a shift in regional policy priorities, governance and territorial focus is underway – partly influenced by place-based policy thinking - at EU level under Cohesion Policy as well as under national regional policies in the EU27 and the UK.

JEL Codes

F15; H77; L52; R11; R58

1. INTRODUCTION

The United Kingdom's decision to leave the European Union (EU) is one of a number of strategic challenges confronting the EU, along with the still simmering sovereign debt crisis, varying levels of growth and job creation across Member States, the need for a comprehensive approach to migration, and adaptation to climate change. With relatively low levels of confidence and trust in EU institutions, these challenges are driving a debate on the future policy priorities of the Union. Launched by European Commission President Juncker with a White Paper (European Commission 2017a), the Commission has produced a series of 'reflections papers' exploring different options for policy change that will be formalised in mid-2018 with proposals for budget and policy reform (European Commission 2017b-f).

As the reflection papers acknowledge, there is a strong territorial dimension to the major EU challenges. The EU's growth objectives depend on narrowing the differences in innovation and productivity between frontier and lagging regions (European Commission 2017c). Adapting to the effects of climate change and managing the transition to clean energy will affect some regions more than others (European Commission 2017f). The impact of migration, and the need to integrate migrants, also varies between regions and cities, part of the wider regional and urban policy challenge of social inclusion in marginalised communities (European Commission 2017b).

For decades, the EU has been one of the most enthusiastic proponents of regional policy through its Cohesion Policy, one of the most substantial expenditure programmes in the EU budget. In fact, the adoption of regional policy in 1975, with the establishment of the European Fund for Regional Development (ERDF), was a direct consequence of UK accession to the then European Economic Community. The objectives of the policy have evolved over the years, but its underlying aims include spreading the gains from economic integration, boosting the productive potential of the EU, and fostering a distinctive model of social, economic and territorial development. It complements the single market, ironically in view of the current discourse around Brexit, a dimension of European integration long regarded as most congenial to the United Kingdom. All Member States, and all regions within countries, obtain some support from a policy with resources of €352 billion over the 2014-20 period, much of which are concentrated on less-developed regions in central, eastern and southern Europe.

However, the future scale and scope of Cohesion Policy is now in question (Bachtler et al 2017, Begg 2017). The UK contributes in excess of 12 percent of the EU's gross revenue and, unless net contributor countries are willing to pay more, there will be significant cuts in the next EU Multiannual Financial Framework (MFF) from 2021 onwards. Notwithstanding the importance of the above regional development challenges, resources may be switched to increase funding for other internal EU policies (such as research, SME development, environment, transport, border security) as well as more support for 'external actions' financing development aid to reduce the flow of migrants from outside the EU.

Policy responses to these challenges in the EU are not restricted to Cohesion Policy. While European Structural and Investment Funds (ESIF) account for most regional policy intervention in the poorer EU Member States, many of the more developed European countries have their own domestic regional policies which are also subject to reflection and debate about their post-crisis role in addressing regional imbalance (Davies et al 2015, 2016).

For the UK, Brexit presents the challenge of redesigning policy frameworks outside the scope of EU regulation, in a country where deep-seated regional differences in productivity and living standards

may be compounded by the differential regional impacts of Brexit (McCann 2017). EU Structural Funds have influenced economic development in the UK for over 40 years, but the UK Government and Devolved Administrations (DAs) now have to work out what sort of domestic spatial policies they want to adopt (Bachtler 2017, Bachtler and Begg 2017). An Industrial Strategy published in November 2017 focusing on productivity has provided orientations for a UK-level sectoral policy approach, at least in England, while recognising the importance of place and the role of regional and local institutions (HMSO 2017), and a new UK-wide 'Shared Prosperity Fund' is currently being developed as a direct successor to Structural Funds.

This paper examines the debates underway at EU and UK levels on the future of regional policy. Of particular interest are the questions of whether and how the conceptual basis for regional policy in Europe is evolving, the rationale for policy intervention and the evidence for how this is being translated into practice. The paper begins with a review of the latest data and research on regional disparities and development challenges in Europe, as well as academic and policy research on appropriate policy responses. Drawing on comparative studies of EU and national regional policies,¹ the paper then assesses recent trends in the design and implementation of regional policy at different levels. It argues that there is an important reshaping of policy objectives and practice underway - influenced by place-based policy thinking (Barca 2007, Farole et al 2009, Iammarino et al 2017) – which has significant implications for government responses to territorial inequality.

The paper begins by reviewing regional disparities and development challenges in Europe and discusses the main influences on economic development: innovation; the integration of regional and sectoral policies; and the role of governance and institutions. It then considers the new thinking on regional development and examines how policy is responding in practice at EU level, among the EU27 Member States and in the United Kingdom. The final section draws together the main conclusions to emerge.

2. REGIONAL DISPARITIES AND DEVELOPMENT CHALLENGES IN EUROPE

2.1 Patterns and trends

After several years of recession or stagnation, economic growth in Europe is edging upwards. Unemployment has either stabilised or declined but is still higher than its pre-crisis levels. The years of crisis have left a legacy of accentuated disparities in macroeconomic performance and, perhaps more alarmingly, underlying growth potential. Ireland and Spain have seen a return to robust GDP growth, despite the intensity of their economic downturns, but Italy has languished, with its economy no larger today than it was in 1999 – a trajectory unparalleled in post-war Europe.

Analysis of the regional effects of the crisis by Crescenzi et al (2016) reveal a complex core-periphery pattern; relatively low regional impacts in the core of the EU (Germany, most of Poland, Slovakia, Czech Republic) compared to much more severe effects on the peripheries (Ireland, Spain, southern Italy, Greece, Cyprus, Lithuania, Latvia and Estonia). In the worst affected regions, GDP per head declined sharply, falling by some 25% in Greece, while social exclusion and poverty levels grew by more than 15% in Ireland, Greece and Spain (Cuadrado Roura et al 2016).

¹ The policy research draws on a comparative and longitudinal dataset of regional policies in 30 European countries constructed under the European Regional Policy Research Consortium (EORPA) research and knowledge exchange programme managed by the European Policies Research Centre, University of Strathclyde, Glasgow. For details, see: <http://www.eprc-strath.eu/eorpa>

Recovery has been slow and patchy among Europe's regions (European Commission 2017). The latest EU data show that regional disparities in employment and GDP per head began to narrow in 2014-15, and the European Commission asserts "there are signs that the long-run process of regional convergence, which was interrupted by the economic crisis, has resumed" (Ibid: 4). However, the long-term economic convergence of almost all regions in Central and Eastern Europe contrasts with the major divergence of regions in southern Europe, notably Spain and Portugal. Also, regional disparities in unemployment are substantial, especially for young people in many southern European regions.

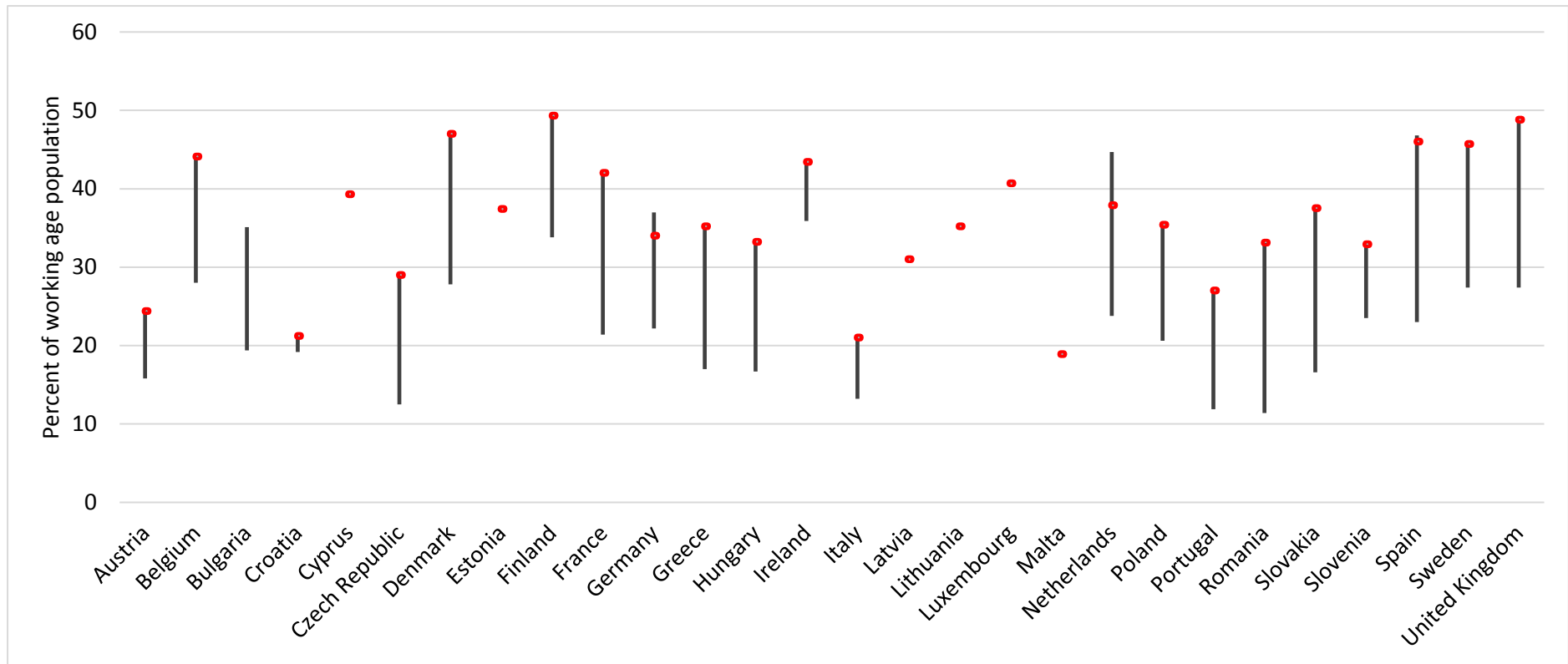
2.2 Explaining regional differences

Productivity growth has declined in many European countries and is becoming a worrying problem in several Member States, not least in the UK where it has stagnated for the last decade. Data on productivity change and employment reveal marked cleavages at both national and regional levels. OECD research argues that this productivity slowdown is due less to a lack of innovation by the most advanced firms, sectors or regions, than to a problem of the diffusion of innovation (OECD 2015). Only a minority of regions in many countries have productivity levels and trends that can be considered favourable (OECD 2015). EU innovation is concentrated in a relatively small number of regions, mainly in northern and western Europe (European Commission 2017). As Bachtler et al (2017) note: *"At regional level, there is an increasing productivity gap between leading 'frontier' regions and lagging regions, a gap that has grown by 56 percent between 1995 and 2014.... while EU market and economic integration has been a successful convergence machine for countries, these gains have not been distributed equally inside each country"*.

An implication is that policy has to focus more sharply on diffusion, and not exclusively on the leading-edge regions. The problems are exacerbated where the country, too, has a weak productivity performance – as is the case notably in the UK. Indicators of regional competitiveness highlight the growing regional gaps in potential for innovation-based growth. Although some of the data are less up to date than would be desirable, they tend to evolve only slowly. Some of these indicators are reasonable proxies for the potential to prosper in knowledge-intensive activities. An example is the proportion of the working age population with tertiary education. In nearly all countries there is a large gap between the highest and the lowest (see Figure 1) and in nearly all cases the highest region is the national capital. What is also striking is the extent of the differences between Member States, with Italy and Croatia recording rates barely 40% of those countries with the best qualified workforces. The gap between the highest and lowest region is three to one in Romania, but relatively narrow in both Finland and Germany.

In the UK, although unemployment is low relative to the EU average, GDP growth has slowed markedly after a brief period of resilience following the Brexit decision. Along with France, the UK is characterised by the biggest differences in regional economic performance over the 2008-15 period. According to Eurostat data, almost every UK region (apart from Inner London West, North East Scotland and Cumbria) had a lower regional GDP head (PPS) as a percentage of the EU28 average in 2015 than in 2004. In Figure 1, the UK has the third largest regional difference in the proportion of working age population with tertiary education (after Spain and Romania). The regional effects of Brexit in the UK are still unclear, depending significantly on the future UK-EU relationship. However, research to date projects differential impacts on regions and cities – at least during the short term - with respect to foreign investment and trade, depending on sectoral specialisation and the importance of trade barriers (Dhingra et al 2017, Los et al 2017).

Figure 1: Proportion of working age population with tertiary qualifications (difference between highest and lowest region – capital city region in red)



Source: European Commission (2016)

Note: there are clearly limitations in using this indicator in making comparisons between countries, given the differences in national education and apprenticeship systems. Tertiary education levels are not always synonymous with high human capital.

In the aftermath of the crises of the last few years, many regions are faced with significant destruction of existing capacity and of the capabilities on which they previously relied, calling for diversification into new areas of activity. Apart from the renewed divergence of economic performance, the crisis has led to an intensification of immediate social challenges in localities worst affected. But it has also disrupted socio-economic models affecting the potential of regional economies, because of how the supply-side of regional economies has had to adjust.

3. INFLUENCES ON ECONOMIC DEVELOPMENT

Behind the observed trends in regional development, new influences have been identified in a growing body of literature. They include innovation, governance, institutional culture and the reconciliation of equity and efficiency. These determinants transcend more conventional analyses of the roles of basic infrastructure or enhancing the attractiveness of regions to inward investors, but also call for a different appreciation of certain influences. Thus, the policy tension between sectoral and regional policymakers that has characterised debates on regional innovation is now being discredited. As lammarino et al (2017: 26) note emphatically: “the notion that any attempt to widely distribute innovation capacities is somehow going to destroy the benefits of agglomeration is sustained neither by theory nor by any robust evidence”.

3.1 Innovation

Innovation has long been regarded as a vital ingredient in economic development, but it has a decidedly uneven geographical incidence (OECD 2015). Many EU regions barely register on indices of innovation, while a few leading regions stand out. Hence, the differences in the receptiveness of regions to innovation and in the form it takes matter. As Camagni and Capello (2013) have illustrated, regions range from those that are leaders at the European level to those which do little more than imitate.

In contrast to previous decades, core metropolitan regions have significant advantages which lammarino et al (2017) argue have two principal causes. First, using long-wave reasoning, they observe that the innovations from the 1970s onwards have facilitated the growth of activities, such as high added-value services, for which agglomeration is a crucial competitive factor. Second, the competitive advantages of hitherto more successful smaller towns and rural areas in the more prosperous Member States of the EU have declined.

It follows that policies need to take account of these differences and be targeted accordingly, building on the concepts of embeddedness and connectedness. A balancing-act is likely to be needed between realism about a region’s innovation attributes and avoiding locking it into an inherited innovation model with limited growth potential. In response, smart specialisation² has rapidly become a core concept in EU policymaking. The approach attempts to reconcile the economic proposition that enhanced innovation is crucial for regional development with the concern that if too many regions attempt to follow the same policies, the aggregate effect will be disappointing.

The distribution (the OECD even uses the term “democratisation”) of innovation is a theme of growing interest and relevance for inclusion strategies, both at the level of territories and marginalised social groups. Inclusive innovation is, in large part, about targeting policies towards

² For a concise overview, see Foray et al (2011).

lower-income and excluded groups and can be linked to the concern about those left behind by globalisation.

Lastly, the role of cities in understanding patterns and trends in regional development, especially for innovation, is crucial. Florida et al (2017), argue for a better understanding of the geography of creativity and entrepreneurial activity. They view innovation as more than technological development, citing concentration of occupations as a key influence on promoting growth. The ability of the city to assemble and organise talent is considered as crucial (Ibid: 92): “place has come to replace the industrial corporation as the key economic and social organizing unit of our time”. Their evidence also shows how concentrated this capacity is, with a small number of dominant localities achieving it while many other cities do not. The logic that cities are the main source of productivity growth was apparent in the greater emphasis placed on urban areas in the 2014-20 configuration of Cohesion Policy although as McCann (2015: 28) observes, “urban scale appears to be a blessing where the economy is growing well and something of a curse where the economy is struggling”.

3.2 Regional resilience and human capital

A core challenge is understanding the key determinants of regional development in a context of rapid globalisation and technological change. Boschma et al (2017) argue that understanding of diversification is deficient and propose a new theoretical framework combining insights from evolutionary and transition theories. Three main pathways to economic strength are identified: regions with innovation-intensive manufacturing; those with high value services; and those with attributes conducive to tourism and cultural activities. There are evident differences between these in not only what they imply for the labour market, but also the factors shaping growth. Regions hosting innovative manufacturing have a strong skills base, pay well and score highly on indicators of innovation, such as patents. Regions dominated by knowledge-intensive services also pay well, but will be more influenced by ICT spending, while tourism regions - even the very dynamic ones – tend only to pay relatively low wages.

At the other end of the spectrum, there are regions trapped, in some cases for decades, into low growth and dependency on net fiscal transfers, testifying to failures or inadequacies of economic development policy. The limited geographical scope of spillovers from leading regions fits with the OECD (2015) conclusion that insufficient diffusion of innovation has damaged the prospects for other regions.

Much of the regional economic debate since the onset of the crisis has focused on factors which explain the resilience or vulnerability of regions to sudden economic change. Faced with a decline in productivity growth, EU policymakers are looking at not just contrasts between leading firms, characterised by robust performance, and a long tail of under-performing firms, but also at differences between regions in productivity trends. These phenomena are, if anything, even more acute in the UK where the contrast between London – widely defined to include adjacent counties in its sphere of influence – and the rest of the country has become more visible (McCann 2016).

Crescenzi et al (2016) argue that human capital and a capacity to find short term solutions are vital. They assert that: *“this capability does not necessarily derive from technology-driven processes supported by R&D investments but is more likely to be boosted by a skilled labour force that enhances rapid process and organizational innovation”*.

Indeed, the initial shakeout of jobs from the crisis had a very uneven incidence, visible both at the national and regional levels. In Spain and Greece, unemployment surged, in stark contrast to

Germany and the UK. Young people, in particular, found entry into the labour market blocked, a problem that has become more acute latterly in Italy as well. Labour mobility is an obvious adjustment mechanism but has also had an uneven incidence. Those with marketable skills can move, but others become stuck.

Italy exemplifies the effects of deeper problems in the labour market. In several regions, particularly in the South of Italy, low demand for skills results in a vicious cycle in which skilled workers leave, deterring employers from offering jobs that demand higher skills. This sort of low-skill equilibrium³ becomes a trap constraining economic development. Discouraged workers are also more prevalent in the South, a reason being the low mobility of relatively less skilled workers, and there are very large difference between the Mezzogiorno and the Centre North in irregular work. Other evidence presented by De Stefanis (2012) reveals a range of structural weaknesses which inhibit innovation and lie behind the relative decline of growth. They include: a preponderance of small firms in relatively low technology industries; poor hourly productivity growth; deficiencies in on-the-job-training; and low expenditure on active labour market policies.

3.3 Governance and institutions

A third important explanatory factor, in addition to innovation and human capital, is the crucial influence of effective governance on regional development. Deficiencies in institutional quality are increasingly recognised as an impediment to regional development (Rodriguez-Pose 2013, Rodriguez-Pose and Garcilazo 2015), yet can be difficult to calibrate, let alone redress. However, the governance of economic development is affected not just by processes and institutions. Other significant influences include strategic orientations for EU policy, such as Europe 2020, and the conduct of macroeconomic policy.

Deficiencies in governance can have a debilitating effect on the results of regional policies for two distinct reasons. First, it can mean, simply, that available resources are not used in a timely manner and may, in the extreme, be lost to the region; the effect is compounded if complementary investment is deterred. Second, they may mean that the coherence and quality of the programmes and projects undertaken may be sub-optimal, and thus that they contribute too little to regional development. Both the 6th and 7th EU Cohesion Reports stress that poor quality administration does not necessarily mean a corrupt one or that there is illegality, though they may coincide (European Commission 2014, 2017g).

4. POLICY RESPONSES: NEW THINKING ON REGIONAL DEVELOPMENT

The starting point for policy responses is the state and priorities of public finances. Fiscal sustainability, as explained in the 2017 Convergence Report by the Commission (2017d), is not just about conjunctural indicators of deficits and debts, but also the longer term influences on the public finances, notably provision for population ageing. Of the six⁴ countries most at risk over the medium-term (up to 2031 and thus covering much of the likely duration of the next two rounds of EU Cohesion Policy), three are in southern Europe (Italy – with the highest adverse score on the composite indicator used – Portugal and Spain), along with Belgium, France and the UK. By contrast, nearly all the countries of central and eastern Europe are classed as low risk.

³ For an extended analysis, see De Stefanis (2012).

⁴ Because it is still under a macroeconomic adjustment programme, Greece is not included in the report.

Given the long-run nature of these national differences in fiscal capacity, there is a case for shifting more of the responsibility for policy interventions to the supranational level in the EU. How large policy interventions should be is, however, open to question because of the evident risk of diminishing returns if more marginal projects are funded. The findings of Becker et al (2012) suggest a transfer worth 1.4% of GDP is the threshold beyond which additional investment becomes less productive. They also suggest spreading the spending more evenly will improve convergence. At EU level, to the extent that EU budget considerations put pressure on the overall size of the Cohesion Policy allocation, new limits on the amounts available for Member States or regions may be needed.

4.1 Broad policy directions

Given the pivotal role of large cities in leading economic development, a new imperative for economic development policy is to improve the coherence of urban and regional policies. Only a minority of OECD members has a national urban policy, as opposed to piecemeal plans for individual urban areas (OECD, 2017a), but even those which do are mainly at an early stage. The OECD notes that they are mainly focused on economic development but are expected to evolve to take greater account of climate change and social objectives. The rationale for such policies is to create conditions conducive to sustainable development, recognising the lead role cities play in achieving change.

A further strand of policy thinking is the role of networks in regional development. Networks are not just about direct connections between economic agents, but also the diversity and openness of the connections (Bergé et al 2017), suggesting a need to look at broader conceptions of being involved in a network in relation to innovation-led growth. Developments in corporate organisation have seen the emergence of new forms of networking and sub-contracting links which, in turn, point to the need for new considerations for regional competitiveness.⁵ Regions with the right sort of connections (and not just spatial proximity) are better-placed to prosper in this context, while those lacking in the relevant attributes will suffer. A fresh look is needed at what can be done to nurture such links and how regional policy can contribute. This line of argument goes beyond some of the traditional emphases on basic infrastructure or bolstering the quality of skills and other factors of production. Crescenzi and Iammarino (2017) note, in particular, the importance of two-way flows of business investment.

The importance of institutions discussed earlier is also influencing policy development. Rodriguez-Pose and Garcilazo (2015) suggest a threshold beyond which regional policy spending becomes less effective unless there are improvements in the quality of government.

Lastly, the territorial dimension is increasingly moving centre-stage in debates about the future of economic development in the EU and UK. The enduring debates on 'efficiency versus equity', often translated into people-based versus place-based (Barca 2007, World Bank 2007), can be regarded as a false dichotomy. Instead, there are persuasive arguments for seeking to enhance the development potential of all regions by fostering different forms of what Camagni and Capello (2015) call "territorial capital". Recent research has argued that regional economic adaptation to globalisation and market integration requires much more differentiated (or place-based) strategies (Bachtler et al 2017b, Iammarino et al 2017). A combined strategy, as advocated by Iammarino et al (2017), would work best by offering tailored solutions at the level of classes of regions – what they refer to as clubs (Storper, 2016). It would also require much better coordination between levels of intervention, and suitable metrics of short and long term success.

⁵ For an overview, see Crescenzi and Iammarino (2017).

4.2 Changing policy agendas

Over the past decade, policies for regional economic development in Europe have been influenced by the causes and consequences of the financial and economic crises. When the crisis struck, some countries used regional policy as a mechanism for supporting employment and investment in the regions, most notably in Germany but also in Denmark, Netherlands and Sweden. National support measures were often channelled to specific regions suffering from economic downturn, especially factory closures, as in Finland, France, Spain (Bachtler and Davies 2010).

EU Cohesion Policy was also used as one of the main EU policy responses to the crisis. As part of the European Recovery Plan from 2008, the European Commission provided scope for national and regional programmes to accelerate spending (e.g. by increasing EU co-financing rates, fast-track approval of modifications to programme objectives), simplified financial management rules and procedures, and provided temporary flexibility under State aid rules (Bachtler and Mendez 2010).

However, regional policy budgets progressively came under pressure – notably in Greece, Italy, Ireland, Spain and the United Kingdom - as national governments focused on bank rescue and stabilisation, and subsequently fiscal consolidation and cuts in public expenditure. Priority was given to national recovery and growth with government intervention through industrial and labour market policies (Bachtler et al 2010). There were also signs of loss of confidence in the relevance of regional policy. In the Netherlands and the United Kingdom, major policy and institutional reforms swept away established policies for regional development in favour of an industrial ‘top sectors’ policy in the Netherlands and ‘localism’ in the UK.

The priority of economic growth was also evident in the 2013 reform of Cohesion policy – the most comprehensive since 1988 – which saw the first real-terms cut in the budget for Structural and Investment Funds in favour of more spending on so-called ‘competitiveness policies’ such as R&D and SME support. The principle of thematic concentration required regional development programmes to focus on specific thematic objectives (innovation, low-carbon, SME competitiveness, social inclusion) as well as being linked to National Reform Programmes and subject to macro-economic conditionalities as part of stronger EU economic governance (Begg et al 2013).

Recovery from the crisis has been slow and patchy, and policymakers across Europe have become increasingly concerned about increased social and territorial inequality (Capello et al 2015). There is, however, less consensus on how to respond. Across Europe, national regional policies have historically struck a balance between promoting economic efficiency goals (national growth and competitiveness in all regions) and equity or social justice goals (supporting development and restructuring in lagging regions). After several years of focusing more on national growth, policy reforms in several countries – Finland, France, Ireland, Poland, Sweden – have shifted or re-emphasised the policy focus on ‘balanced development’ and the reduction of regional disparities (Davies et al 2015, 2016).

This concern with inequality is also evident in the debate about the future of regional and local development policies in the UK following Brexit (Bachtler 2017, Bachtler and Begg 2017). After a decade of declining government spending, the downgrading or abolition of regional development institutions, and a focus on ‘localism’, there is renewed concern with regional imbalance and recognition of the importance of ‘place’. The new UK Industrial Strategy highlights regional disparities in productivity in the UK being higher than across Europe and the potential policy levers (allocation of government spending, investment in research, strengthening local institutions) to achieve greater regional balance (HMSO 2017).

At EU level, in the White Paper on the Future of Europe, the European Commission expressed concern about the precarious state of European integration and the uncertain outlook (European Commission 2017a). It highlighted the legacy of the financial and economic crises, and the loss of confidence in EU institutions and politicians, reflected in a rise in populism, threatening the unity of the EU. In part, the rise in support for Eurosceptic parties is attributable to economic and social inequality (Henjak et al 2012, Chalmers and Dellmuth 2015, Bachtler et al 2017). The subsequent 'reflection paper' on the reform of EU finances noted that (European Commission 2017b): "reducing economic and social divergences between and within Member States is crucial for a Union that aims for a highly competitive social market economy aiming at full employment and social progress". Less clear is whether this should be delivered through EU Cohesion Policy – under pressure because of its complexity – or through strengthened social policy interventions. An earlier Commission reflection paper makes a strong case for increasing the 'social dimension' of EU policies, including additional funding to support skills development, labour market integration, poverty reduction and social innovation (European Commission 2017c).

Notwithstanding the increased concern with spatial inequality, the nature of the post-crisis territorial policy response is still evolving. The following sections assess the recent development of regional policies at EU and national levels, particularly whether there is evidence of the influence of place-based policy thinking in line with Barca (2009), OECD (2015), Iammarino et al (2017) and Bachtler et al (2017). The sections discuss trends in terms of policy objectives (common policy priorities), the approach to policy integration (the supply of integrated goods and services), the emphasis placed on bottom-up strategies (interventions that rely on local knowledge) and the degree of territorial specificity (the tailoring of interventions to contexts).

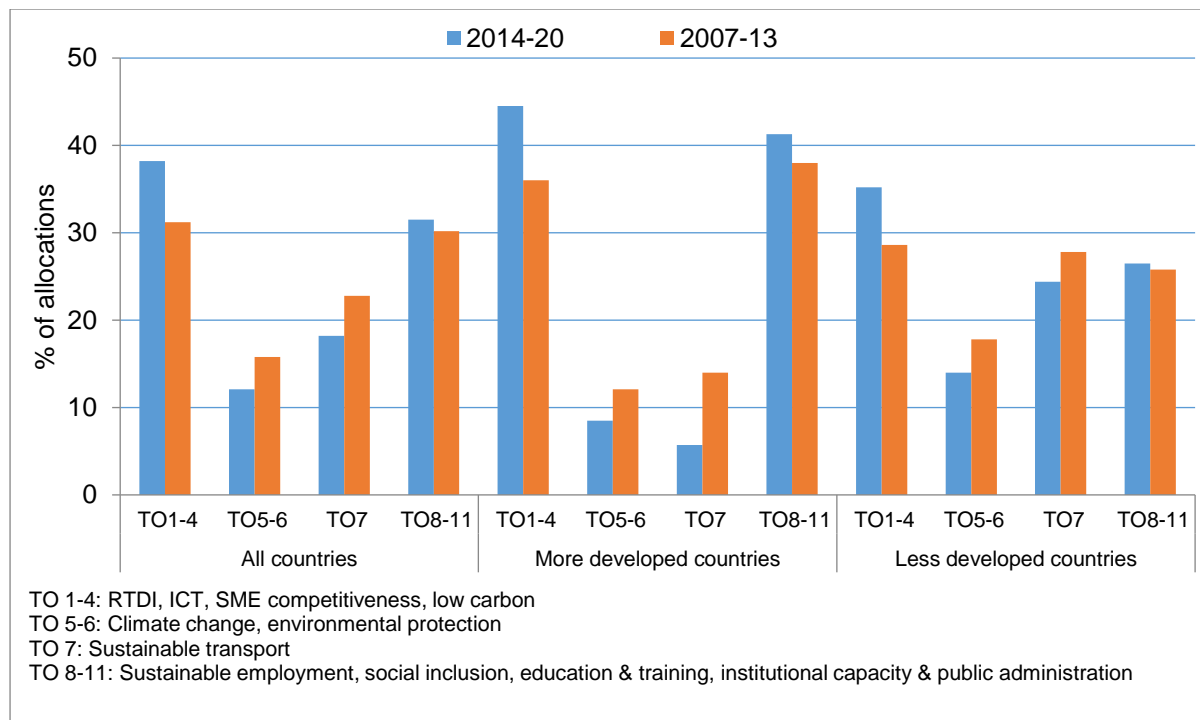
4.3 Policy objectives

One of the striking features of EU-level regional policies in recent years is their reorientation towards meeting broader and longer term strategic objectives and priorities that are sometimes more sectoral than regional. Under EU Cohesion Policy, the so-called 'earmarking' of programme expenditure in line with the Lisbon Strategy was applied in the 2007-13 period, with mixed success (Bachtler and Ferry 2013). Stricter rules for the 'thematic concentration' of spending were introduced for 2014-20, leading to a greater focus on a limited number of objectives set out in the EU's overarching 2020 strategy: RDTI ICT, SME competitiveness and low carbon under the ERDF; and employment and social inclusion under the ESF (see Figure 2). Particularly in more developed countries, most Cohesion Policy spending is now aligned with overall EU objectives, albeit with some tensions regarding top-down prescription of national and regional programme priorities, and the balance between sectoral and territorial development needs (Bachtler et al 2017).

A crucial part of the strategic focus of EU expenditure has been the obligatory development of smart specialisation strategies (S3) to support regional innovation in the 2014-20 period. Building on previous generations of regional innovation support, the S3 approach is intended to promote a more differentiated strategic approach with regional or national priorities identified through an inclusive entrepreneurial discovery process, drawing on evidence of the development challenges and competitive potential, but also taking account of institutional settings and the regional resources available (McCann and Argilés 2013, 2015). This has not been straightforward: variation in institutional arrangements and deficits in administrative capacity has limited the scope for sophisticated S3 strategies (Kroll 2015). This applies particularly in some Central and Eastern European countries which lack local pre-conditions, are dependent on imported technology and FDI, or where the value of future-oriented analysis may be 'lost in translation' because of administrative

and policy inertia (Tiits et al 2015, Paliokaitė et al (2016). More fundamentally, Capello and Kroll (2016) have questioned the narrow focus of S3 on 'industrial renewal; rather than a broader conceptualisation of regional development that also includes intangible assets (such as natural and cultural capital) and social innovation.

Figure 2: Thematic concentration in EU Cohesion Policy



Source: European Commission

Among national regional policies, the agenda for regional policy has also been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, and demographic change (including migration and demographic ageing). The degree to which this policy-thinking is being translated into practice does, however, vary. In some cases, the new policy objectives are contained in long-term spatial planning concepts and vision statements that are intended to serve as guidance for territorial development over the next 20-40 years. There is also a strong path dependency in the strategic objectives of national regional policies, particularly whether they focus on promoting national growth through regional 'competitiveness' (Austria, Belgium, Greece, Netherlands, reducing structural regional economic disparities (e.g. Germany, Italy, Spain), or a combination of competitiveness and equity objectives (e.g. Czech Republic, Finland, France, Poland, Portugal, Romania, Slovenia, UK) (Bachtler et al 2010; Davies et al 2016). Within this overall context, the main recent trends are threefold.

First, regional policies are reinforcing a long-standing emphasis on science and technological innovation, especially in Denmark, Finland, Germany, and the UK. In part, driven by Cohesion Policy regulations and the flexibility provided under EU State aid rules for R&D aid (compared to regional aid), the emphasis on research and innovation reflects international evidence on the drivers of productivity growth and deficiencies of structurally weaker regions. As under EU policies, there is a strong sectoral dimension to the innovation focus in regional development policymaking dictated by national priorities.

From the other direction, there is also recognition of the importance of 'place' in sectoral policies. In the Netherlands, for example, the 'Top Sectors' policy introduced in 2011 is formally territorially neutral with a focus on nine sectors considered essential for international competitiveness (horticulture; agri-food, water, life sciences and health, chemicals, high tech, energy, logistics and creative industries). However, the absence of a territorial dimension is becoming apparent, especially the need for more a targeted and context-sensitive approach to regional and local specificities and a stronger role for regional/local authorities (OECD 2014). Similarly, one of the critical challenges for the new UK Industrial Strategy is how to link its prioritisation of 'sector deals' in life sciences, aerospace, automotive and creative industries with local and regional economies (HMSO 2017, ISC 2017).

Second, regional policies are being used to meet national objectives (and international commitments) to respond to climate change and increase the environmental sustainability of economic development. The Nordic countries are some of the leaders in this regard: the 2014 Swedish National Strategy for Sustainable Regional Growth & Attractiveness identified the environment and climate change as horizontal principles in measures promoting regional growth work (Regeringen, Näringsdepartementet 2016). Regional policy in Germany is also being used to support structural change in areas with lignite (brown coal) industries which are likely to be severely affected by the reduction of coal-based power generation under the national Climate Protection Plan 2050 (BUNBR 2016).

Third, social cohesion is becoming more prominent in some regional policies. A concern with social policy issues is not new in many European countries given the social justice objectives which widely provide the constitutional or institutional foundation for regional policies (though not in the UK), notably a commitment to 'equal living conditions' (Bachtler 2017). The economic agenda of many regional policies has long included support for skills, education and other aspects of human capital development. More novel, is an explicit focus on integration and disadvantaged communities (Hungary, Italy, Portugal, Slovakia), wellbeing (Finland), gender equality (Sweden), and ageing (Denmark, United Kingdom). In Italy, for example, the 2016 Masterplan for the Mezzogiorno and the subsequent 15 Pacts for the South include objectives to improve social cohesion, including the social integration of migrants, and social integration in the 'internal peripheries' of the country.

4.4 Policy integration

The past two decades have seen increasing efforts to achieve greater coordination in implementing regional development interventions reflecting the expansion of the regional policy agenda to incorporate a broader range of sectors, issues and objectives, especially with respect to regional innovation (Keating 2003, Uyarra 2010, McCann and Ortega-Argiles 2013).

A challenge for regional policymakers has been to move beyond multi-level governance mechanisms for improved *policy coordination* (between different tiers of public authority and horizontal coordination of different actors and sectors) to *policy integration* involving the adoption of common objectives across different policy domains with a view to achieving synergies. As Barca (2009) noted, the effectiveness of an intervention under one policy in a particular place depends on other 'sectoral' policy interventions being made in the same place; a place-based approach therefore depends on the ability to integrate 'bundles of goods and services' in line with specific territorial needs. This kind of territorial policy integration is, however, highly demanding and has proved administratively difficult to manage (Schout and Jordan 2007, Zaucha and Komornicki 2014, Catalano et al 2015).

Since the reform of Structural Funds in 1988, Cohesion Policy has sought to promote an integrated approach to regional development with requirements for strategic planning and encouragement of a multi-Fund approach. This has become more urgent as Structural and Investment Funds are explicitly addressing EU policy priorities in the fields of industrial development, SME growth and economic competitiveness, research and innovation, energy and reduction of carbon emission, employment, social inclusion and poverty reduction. At a European level, there are significant overlaps between ESIF and funding streams such as Horizon 2020, the Competitiveness of Enterprises and Small and Medium-sized Enterprises programme (COSME), the Connecting Europe Facility (CEF) and the European Fund for Strategic Investments (EFSI). However, exploiting synergies is constrained by differences in legal frameworks (especially compliance with State aids and public procurement), institutional priorities of different Commission services, and difficulties in combining the shared-management and central management systems used for different EU policies (Ferry et al 2016, Bachtler and Polverari 2017). EFSI, in particular, has been confusing to many economic development practitioners because it is not explicitly targeted at regions and has distinctive aims regarding, for example, a proclaimed focus on riskier investments. Yet it also operates to some extent in the same areas as Cohesion Policy by contributing to infrastructure investment and faces questions about its rationale and additionality (Bachtler et al 2017). Greater progress has been made within ESIF, driven by Common Strategic Framework at EU level, the requirement for Member States to draw up Partnership Agreements governing their use of funding and the promotion of integrated territorial development strategies especially at the urban scale (van der Zwet et al 2017).

Integrated strategy development is also an ambition of many national regional policies, given impetus by the expansion of the regional policy agenda to incorporate a broader range of sectors, issues and objectives (Davies et al 2015, 2016). In several Member States, national-regional contracts or target-driven co-financing arrangements are being used to ensure that national and regional level funding and priorities are coherent, including provisions to negotiate the integration of sectoral and regional development funding. The long-standing French State-Regional Planning Contracts are well-known, and their application has progressively been emulated in other countries.

A second mechanism for more policy synergies is institutional coordination. Regional policy in Germany, which is a 'joint task' between federal and state levels has long been managed by a policy committee and operational sub-committee of national and regional government ministries since the formation of the policy in the 1960s. Less formal, though also long-standing, is the Austrian Conference for Spatial Planning (ÖROK) that coordinates the regional development strategies and measures of different levels. Since the accession of Central and Eastern European countries, inter-ministerial coordination committees have also become common, albeit with significant difficulties in securing political commitment to cooperate from sectoral policy areas in some cases. Over the past decade, the impact of the economic crisis has been a powerful stimulus for greater coordination between government ministries at national and sub-national levels, combined with the rationalisation and merger of authorities and agencies.

Across Europe, policy integration appears to be most effective at the sub-national, local or even project level. Several countries (Czech Republic, Estonia, Netherlands, Poland) have been making more use of local strategies, task forces and action plans to combine specific interventions by national, regional and local government actors (drawn from a range of policy areas), as well as private sector bodies, often in response to structural changes in a particular sector or the closure of a major plant (Bachtler et al 2010, Davies et al 2016, Ferry and Polverari 2018).

4.5 Local knowledge, capacity and bottom-up strategies

An important feature of the place-based approach is the need for policy responses to be developed from the bottom-up, in ways that reflect local circumstances and are also based on local knowledge and subject to local oversight (Barca 2009, Bachtler et al 2017, Iammarino et al 2017).⁶ The challenge is how to elicit the knowledge and preference of local actors and “create the appropriate balance between encouraging local actors’ commitment and discouraging rent-seeking” (Barca 2009). Effective institutions are critical, potentially requiring outside intervention and support to enable local actors to start building up agency, trust and social capital, to change beliefs and to experiment with institutions and democratic participation” (Ibid: 22)

These arguments underpin the 2013 reforms of EU Cohesion Policy, which combined greater top-down prescription of policy objectives and investment priorities with actions or obligations to ensure that ‘appropriate’ policy and institutional conditions are in place and measures to encourage bottom-up strategies.

This begins with the links between Cohesion Policy and economic governance, notably the use of ‘macro-economic conditionalities’ to ensure Member State compliance with EU economic governance rules. At a programme level, ex ante conditionalities have been introduced, requiring national and regional authorities to have specific strategies, regulatory frameworks and institutional and administrative capacity in place (or action plans to provide these) for the Commission to approve programmes. In addition, capacity-building is being supported through ESF public administration reform programmes, a dedicated ‘thematic objective’ (TO11) for capacity building investment, and capacity-building units in DG Regio and DG Empl to work with Member States. For the post-2020 period, there is likely to be an intensification of conditionalities and more focused capacity building (Bachtler et al 2016).

The encouragement of bottom-up strategies is promoted primarily through smart specialisation strategies (discussed above) and support for integrated territorial development. In integrated territorial development approaches, the main focus has been on sustainable urban development and ensuring that urban areas have purpose-designed interventions, but it also includes a new instrument ‘Community-Led Local Development (CLLD)’ to replicate the approach of the rural-based LEADER programme in urban areas. Initial results suggest that it is established local and urban authorities – rather than communities or citizens – that are dominant actors and the take-up of CLLD has been poor, especially in urban settings. (van der Zwet et al 2017).

Reliance on local development and bottom-up strategies is also evident in the regional policies of some national governments. Several countries provide support for such strategies by facilitating the building of social capital and networks, particularly in disadvantaged regions. In part, this obliges local authorities to develop their own strategies or collaborate across local government borders to develop integrated responses to common problems, as under the German Joint Task regional policy framework. In Portugal, it also includes training, knowledge exchange and other capacity-building support for sub-regional or local organisations to undertake small projects or increase the number or competence of staff (Bulgaria, Croatia, Latvia, Switzerland). In Sweden, the 2014 national strategy for regional growth made provision for regional knowledge platforms to share information and expertise on labour force matching, skills and learning, while outside the EU in Switzerland

⁶ In what might now be considered a prophetic statement, Barca stated “there is a need for less elitism in EU interventions and less invasiveness in interfering with national and local practices in an overly-detailed and bureaucratic way” (p.12).

‘regionsuisse’ was set up in 2008 to facilitate knowledge exchange, learning and networking among actors responsible for implementing the ‘New Regional Policy’.

In the UK, the shift from regionalism to localism as a basis for subnational economic development policy support is most evident in the creation of Local Enterprise Partnerships (LEPs) in England, which have been tasked with developing local strategies to manage an increasing range of central government funding. In the context of Brexit, the role of these local bodies in the context of devolution to city-regions is being reconsidered. Given the problems of resourcing and capacity that has affected the LEPs (NAO 2013), the UK has recognised the need to create the ‘right institutions’ and develop capacity of new authorities and networks (DBEIS 2017); the new Industrial Strategy proposes Local Industrial Strategies to ‘build on local strengths and deliver on economic opportunities’ (HMSO 2017: 11).

4.6 Territorial specificity

A further feature of recent developments in regional policy is a more place-specific approach to designing policy interventions at different geographical scales and types of area. For much of the period since the reform of Structural Funds in 1988, EU Cohesion policy has been implemented through national and regional programmes. These have been designed and implemented (following negotiation with the Commission) in response to identified development needs and challenges, but focusing on standard administrative NUTS 2 regions and a relatively uniform set of priorities. This has been fostered by the methodology for allocating Cohesion policy funding, using NUTS 2 regions for determining eligibility, aid intensity and the conditions on spending.

In 2009, the widening of the objectives of Cohesion Policy to include ‘territorial cohesion’ in the Lisbon Treaty introduced the new concept of ‘macro-regional strategies’. Territorial cohesion was taken forward at other spatial scales with the EU policy reforms in 2013 requiring a commitment to integrated territorial development, primarily in urban areas. In response to the growing interdependence of regions, and territorially diverse demographic and social challenges, as well as the spatial segregation of vulnerable groups, the EU required or encouraged countries and regions to design integrated packages of interventions specifically tailored to exploit the development potential of different types of territories. A particular focus was put on fostering sustainable urban development through integrated strategies in order to strengthen the resilience of cities. The initial results indicate extensive innovation with interventions across a range of geographical scales – neighbourhood, city, city-region, urban-rural, rural, and city networks – although some Member States have had great difficulty with this approach (van der Zwet, Bachtler et al 2017). There are also lessons for future EU Cohesion Policy from the long-standing use of functional regions for European territorial cooperation (Mehlbye and Böhme 2017).

A similar diversification in the spatial scale of intervention has been occurring in the domestic regional policies of several European countries. Historically, national regional policies were limited to so-called ‘problem regions’ designated centrally by national governments on the basis of criteria such as unemployment rates and GDP per head, and providing the focus for regional aid to encourage business relocation and investment. Spatially discriminatory regional aid continues to be provided in most European countries, but driven by EU Competition Policy has become increasingly focused on very tightly defined areas, especially in north-western EU countries (Wishlade 2017).

From the mid-1980s, regional policies broadened their support beyond regional aid and widened their territorial approach to provide support in all regions. Increasingly, this was managed through region-specific policies and strategies comprising a mix of interventions to support

entrepreneurship, SME development and innovation (Bachtler and Yuill 2001, OECD 2010). A trend towards regionalisation through devolution or deconcentration led to the governance of these regional development strategies being exercised by regional self-governments (Finland, France, Poland, Sweden) or decentralised State government offices (Bulgaria, Estonia, Lithuania, Portugal), or regional development agencies (Hungary, Romania) (Davies et al 2015, 2016 2007).

The regional scale remains the primary organising level for regional development policies, but the past decade has seen a more complex mosaic of geographies of intervention emerge with four main trends (Bachtler et al 2010, Davies et al 2015). First, the concept of the functional region is being applied in practice. Sweden was one of the early adopters in its 2001 reform of regional policy which focused policy support on functional labour market regions as the optimal basis for promoting economic growth. In France also, the spatial focus of regional policy has been conceived with reference to 'territorial systems'. A similar functional approach underlay the new development strategies and concepts in Finland and Poland which defined regions as 'operational entities' that included urban-rural regions, development corridors and networks (e.g. the Helsinki metropolitan region network).

Second, policy intervention has focused more on urban areas, including measures efforts to integrate regional policy and urban policy (as in Poland). This approach has been encouraged by EU Cohesion policy, especially in poorer Member States, via a focus on 'urban centres', sometimes including capital cities (Bulgaria, Estonia, Poland) and medium-sized cities (Lithuania). Policy concepts emphasise the role of cities/towns as 'growth poles', particularly in catching-up countries. There is also, however, a strong emphasis on the complex social, economic and environmental challenges facing many urban areas, which are characterised by engrained social deprivation and poor quality of life.

Third, regional policy is taking a more granular approach to areas with particular development needs and challenges, through specific programmes or initiative for sub-regions and localities. Many of these were introduced as a reaction to the economic crisis and are intended to support industry and locality-specific structural change, economic transition and regeneration (Czech Republic, Finland, Poland, Slovenia). A more local focus is also due to a reassertion of central government control (Hungary, United Kingdom) due to a combination of austerity policies and the rationalisation of government spending and changing political ideology. The changes to UK regional policy in England were some of the most striking, following a change of government in 2010, with the abolition of RDAs, regional government offices, regional strategies and observatories, and even regional statistics, in favour of localism, channelling central government resources for economic development to 'local enterprise partnerships' (Ferry and Bachtler 2014) and in future 'local industrial strategies'. A similar process was evident in the Netherlands, with the abandonment of a well-established 'Peaks in the Delta' policy based partly in regions and its replacement by a sectorally based industrial policy and leaving 'regional development' largely to provinces and municipalities.

Finally, the geography of regional policy intervention has gone upwards to a 'supra-regional' level. This has historically applied to countries to countries with major disparities - the Mezzogiorno in Italy, the northern parts of Nordic countries, the northern Netherlands and, more recently, eastern Germany. They have been joined by: Poland, which has major programmes for eastern, northern, western, central and southern macro-regions; Switzerland, where the so-called 'New Regional Policy' has been encouraging cantons to work together on economic development in larger entities; and in the UK, where – presentationally at least - major areas in northern and central England have been identified for strategic investment (Northern Powerhouse, Midlands Engine).

5. CONCLUSIONS

Brexit is stimulating a reappraisal of the EU model of integration, including how the EU responds to territorial inequality, but it is only one of several influences on the future of regional policy in Europe. As the Commission White Paper on the Future and subsequent reflections papers stress - as well as a recent speeches and policy announcements by national leaders - Europe has to deal with challenges as diverse as migration, climate change, terrorism and the transition to a digital economy, as well as the need to boost growth, jobs and investment. However, responses to these challenges have to contend with regional differences qualitatively different in character from previous decades when the emphasis was on catching-up by poorer regions or the restructuring of economies affected by the decline of staple industries. In the aftermath of the years of economic crisis, the importance of territorial differences has increasingly been recognised because of both political and economic factors. The origins of regional policy in Europe 70-80 years ago lay in political concerns with safeguarding national stability (Bachtler 2001), a motivation now being rediscovered as important.

In parallel, new thinking on the determinants of sustainable growth – widely defined to include social and fiscal dimensions, as well as the environmental – has come to the fore. The interplay between well-being and different dimensions of innovation has been recognised as especially salient, but has to be complemented by attention to governance, institutional quality and assuring coherence across policy domains. This is particularly evident in the attention being given to ‘place’ and place-based policy thinking. Such thinking is grounded in the necessity of engaging the local level and building on its knowledge, but it also requires more sophisticated economic development strategies with adequate institutional capacity and sufficient time and space to succeed.

Despite the resurgence of interest in the territorial dimension of economic development policy, its translation into new approaches to the role, remit and instruments of regional policy is still emerging. In part, this reticence is attributable to crisis-induced constraints, such as slow growth, the weak and unbalanced trajectory of economic growth in some countries, and the pressures to contain public expenditure. Place-based policies are also demanding in their institutional requirements, particularly the integration of different policy interventions and delivery systems, their administrative coordination both vertically and horizontally, and their adaptation to regional and local development needs and priorities. With the departure of the UK, advocates of market-orientated measures will lose a prominent supporter, and also one favouring a more spatially concentrated regional policy.

Across Europe, governments face a dilemma. Drawing on the ideas discussed above, they could opt for a more comprehensive approach to regional development in terms of policy and governance. However, they could elect to retreat from ‘regional policy’ as previously understood, partly because of a reduction in the EU budget and partly because of the need for wide-ranging sectoral policies to underpin major structural changes, notably dealing with climate change and adapting to the digital economy. In larger countries, some central governments are more concerned with sectoral policy objectives, especially focusing on ‘strategic sectors’ perceived as important for national competitiveness, (with some territorial specificity in implementation). The EU as a whole may be similarly minded. The compromise could be to rely on the sub-national level to implement a place-based approach.

If a significant shift in emphasis is to occur, policy-makers have to be alert to the risk of disrupting long-term economic development trajectories. Continuity in regional policy is a tricky issue (Bachtler

et al 2016). This is particularly pertinent for future decisions on Cohesion Policy, whether because of policy reforms after 2020 in the EU27 or in the UK nations and regions because of Brexit. There is long-run evidence at both EU and national levels, of the impact of phases of policy 'on' and 'off'. For UK regions facing disruption from Brexit, but also for other EU regions potentially affected by its economic effects, there will be tension between assuring continuity and the search for a 'next-generation' approach.

To some extent it can be a natural progression from investments geared towards upgrading basic infrastructure or enhancing human capital towards an innovation-led strategy. However, the magnitude of the implementation challenge is too easily under-estimated. The changes associated with linking Cohesion Policy to first the Lisbon Strategy, then the Europe 2020 strategy, and the introduction of smart specialisation strategies, a performance framework and results orientation for EU Structural and Investment Funds have all been disruptive for economic development practitioners and entailed extensive learning by doing – some of which is far from complete.

At EU level, the most probable outcome will be incremental steps to reform Cohesion Policy, some of which have been signalled in the 2017 Cohesion Report (European Commission, 2017), but reluctance to consider more sweeping reforms. In recent years, longer-term EU strategies have been over-shadowed by short-term concerns about macroeconomic and fiscal imbalances and how to correct them. As a result, the narratives for Cohesion Policy became more blurred. With accumulating evidence that the Eurozone crisis has (at last) been overcome, a more strategic outlook will again be needed, and its core is expected to be innovation, climate change and migration, as well as a stronger link with EU economic governance. Faced with the chronic and extensive disparities in relevant indicators of innovation, care will be needed to go beyond too narrow a focus on R&D in seeking to boost regional capabilities, but also to contain unrealistic expectations. Using regional policy to meet national and EU climate change targets is also not straightforward, while support for the integration of migrants needs to be part of a broader strategy to address the marginalisation of people and communities. In all three cases, getting the balance right between national/EU objectives, sectoral policies and territorial development will be difficult. Institutional capacity and good governance also need to move from plausible rhetoric to deliverable and convincing actions. These need to recognise that administrative capacity-building goes beyond having the 'right' human resources, systems and tools, and that there are powerful political and cultural barriers to good administration.

The United Kingdom will face especially tough choices. Although EU regional policy spending has diminished in the UK, especially since the countries of Central and Eastern Europe acceded to the Union, Cohesion Policy has had a powerful influence over the years in shaping spatial policy in the UK (Bachtler and Begg 2017). The UK-EU agreement in December 2017 indicated that the 2014-20 Structural Funds programmes in the UK will continue until the end of the programme period. A successor 'Shared Prosperity Fund' has been mooted but its objectives, scale and allocation are all uncertain. The Industrial Strategy published in November 2017 is the first indication of a new policy framework; it continues the long-standing UK Government priority of raising productivity levels, but with a more interventionist policy mix of sectoral deals, and investment in infrastructure and the business environment. A departure from UK policy over the past decade is a recognition of the importance of 'place' and the need for local differentiation of policy responses. However, the commitment to regional and local development is weak; there are no signs of any fundamental reshaping of the (in)coherent institutional arrangements for regional, local and urban development in the UK; and there is no recognition of the 'hollowing out' of the capacity of local authorities and

other development actors to implement economic development that has occurred over the past decade.

The scale and distribution of post-Brexit funding are critical issues for many parts of the UK, associated with uncertainty and some apprehension in UK localities accustomed to the multiannual predictability of inflows of resources from EU regional policy and, perhaps more importantly, the modalities of the support. At a political level, a specific sensitivity will be that many of the areas which voted 'leave', especially in Northern England and Wales, will be vulnerable to a diminution of such inflows. New free trade agreements with non-EU countries could also reshape the competitive position of some sectors. As ever, the scope for government at UK, DA and local levels to respond to such challenges will be determined by the available resources, and government spending may be highly constrained in the short to medium terms if forecasts of the Brexit economic impact are realised. Thus, the conclusion of Los et al. (2017: 8) is surely correct: "the Brexit vote appears to have made the job of supporting and improving the conditions in the UK's more deprived areas more difficult".

Several features of the EU approach are likely to be contested in designing a future UK policy, but it is likely to be a starting point, if only because it is already in place. Before long, criteria determining regional eligibility for policy support will have to be devised; integration between policies on cities and regional policy will have to be achieved; and the links to approaches to skills, transport infrastructure and SME support will need to be clarified.

Finally, taking a Europe-wide view, while there are undoubtedly major policy and governance difficulties, there are also new opportunities. For the first time in over a decade, territorial inequality is being recognised across Europe as an urgent political and economic challenge. Whether inside or outside the EU, policymakers are open to potentially radical changes to the interventions and institutions that are used to meet the challenge.

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