

# Why Equity trumps Smart Specialisation in Europe's Regional Economies

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paper presented to

***Sustainable Recovery? Rebalancing, Growth, and the Space  
Economy:***

**Regional Studies Association Winter Conference**

London 27 – 28 November 2014

# Structure of the Argument

- **Smart Specialisation (SmSp): *nouvelle vague* of innovation policy into generalised regional economic development strategies in EU but confusion over structure and agency;**
- **Policy logic in search of a theory (Boschma) but its material logic conflicts with its underlying assumptions;**
- **Supply-side and structural reform orientation overlooks Aggregate Demand & does not combat Austerity as *sine qua non* of Eurozone (“little growth and not much stability”)**
- **Potential reinforcing of competitiveness against cohesion and encourages ‘race to bottom’ through promotion of absolute advantage;**
- **SmSp Domains = conflation of growth poles and activity-complex economies**
- **Equity as agency of Inclusive Growth (IMF and even OECD);**
- **Efficiency as complement to Equity in “Domains” of regional economies**
- **Creating vertical and horizontal sustainable growth which may be smarter than SmSP for EU’s regional economies**

# Canard of Equity versus Equity

Missing link in  
EU inclusive growth

Inequality > Growth  
(Picketty)

Greater Equity = larger  
social product

EU Cohesion Policy

Inclusive Growth

Smart Specialisation

Growth *qua* Growth  
Policy Process

Promotes Absolute  
Advantage in regional  
economies

Competitiveness agenda of  
“Race to Bottom”

Austerity as Economic  
Governance

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# Smart Specialisation?

***“Smart specialisation is a industrial and innovation framework for regional economies that aims to illustrate how public policies, framework conditions, but especially R&D and innovation investment policies can influence economic, scientific and technological specialisation of a region and consequently its productivity, competitiveness and economic growth path. It is a logical continuation in the process of deepening, diversifying and specialising of more general innovation strategies, taking into account regional specificities and inter-regional aspects, and thus a possible way to help advanced OECD economies – as well as emerging economies- restart economic growth by leveraging innovation led/knowledge-based investments in regions.” (OECD, 2013; 23)***

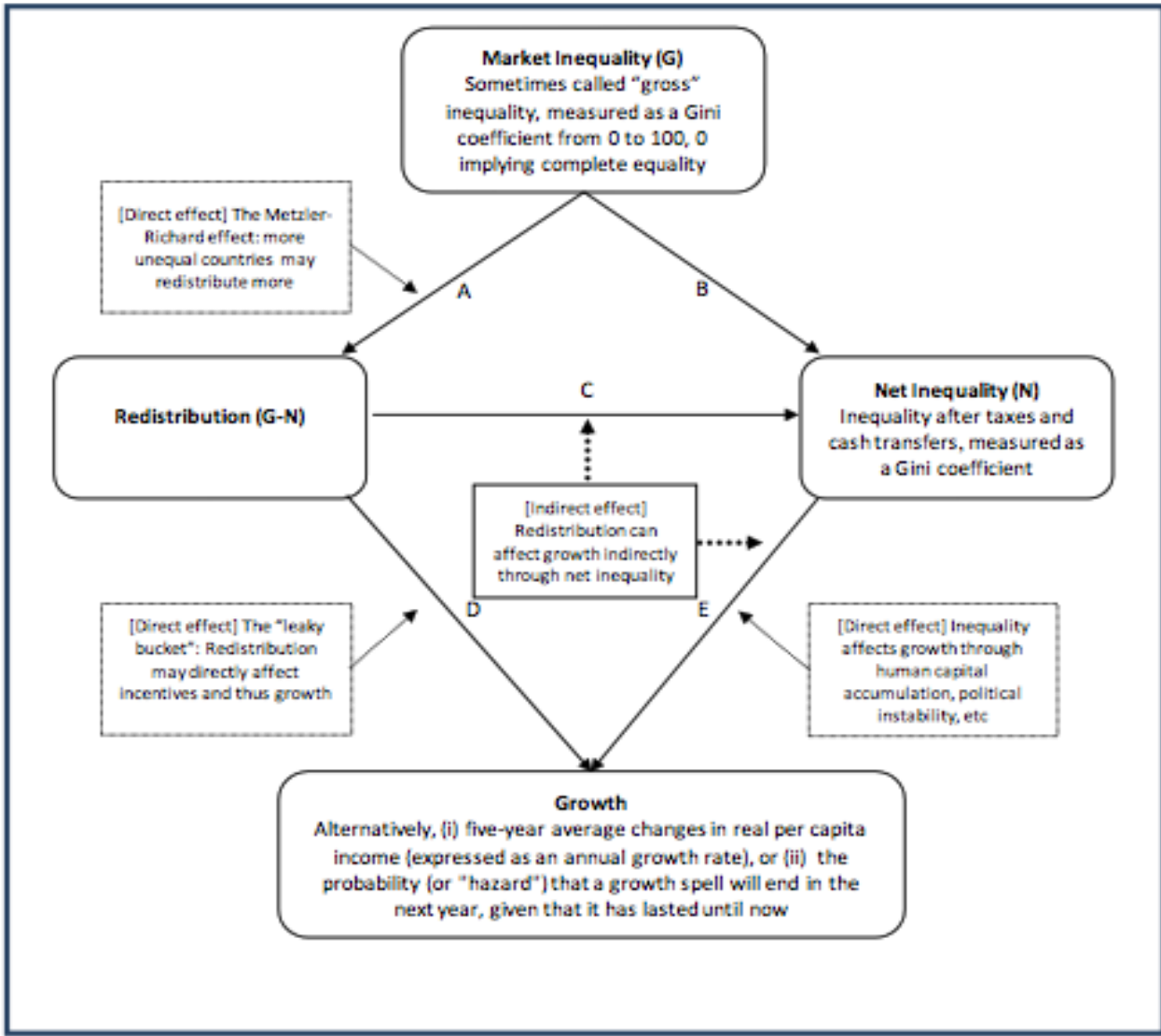
## Critical Issues for SmSP

- **Claims not to be sector based nor “once size fits all” but take-up as the policy mechanism for growth suggests otherwise.**
- **No definition of Innovation: equated with a public good;**
- **Relation to different forms of productivity (as source of growth) not spelt out. Does its application stimulate capital, labour, or total factor productivity or it is another variant of process innovation?**
- **R & D as input and output not accounted for;**
- **Definition of entrepreneur and entrepreneurial so general its is denuded of meaning;**
- **Entrepreneurial discovery ≠ Self-Discovery Process in Development Economics;**
- **No treatment of intra and inter-regional trade;**
- **Is SmSp a euphemism for regional structural adjustment?**
- **Institutional basis for cohesion policy important (Barca, 2009) but are multi-governance arrangements for SmSp a form of regional corporatism?**

- **Measure of inclusive growth refers to both the pace and distribution of economic growth.** In order for growth to be sustainable and effective in reducing poverty, it needs to be. The Commission on Growth and Development 2008 notes that inclusiveness—a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions—is an essential ingredient of any successful growth strategy;
- **Measure of inclusive growth is in line with the absolute definition of pro-poor growth, but not the relative definition.** Under the absolute definition, growth is considered to be pro-poor as long as poor people benefit in absolute terms, as reflected in some agreed measures of poverty. In contrast, under the relative definition, growth is pro-poor if and only if the incomes of poor people grow faster than those of the population as a whole; that is, inequality declines;
- **To integrate equity and growth in a unified measure,** IMF measure of inclusive growth based on a utilitarian social welfare function drawn from consumer choice literature, where inclusive growth depends on two factors: (i) income growth; and (ii) Income distribution;

1. More unequal societies tend to redistribute more. Among OECD countries, more inequality tends to be associated on average roughly one-for-one with higher redistribution, such that there is almost no overall correlation between net and market inequality.
2. Lower net inequality seems to drive faster and more durable growth for a given level of redistribution. These results are highly supportive of previous work by the IMF, controlling for the net/market distinction. Net = after taxes and transfers; Market = general measure.
3. Redistribution appears generally benign in its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth. Thus the combined direct and indirect effects of redistribution—including the growth effects of the resulting lower inequality—are, on average, pro-growth.

Figure 1. Interrelationships between inequality, redistribution, and growth





# Are we back in the world of Competitiveness?

- **Is SpSM a variant of regional competitiveness focused on externalities generated by innovation;**

*“In approaching regional competitiveness, broadly two angles exist  
The existence of firms in a region that are able to consistently and profitably produce products that meet the requirements of an open market in terms of price, quality, etc. The underlying assumption is that the interests of firms and the region in which they reside are always parallel. This notion is difficult to sustain, as firms will strive for productivity and profits,... and Furthermore, though productivity is clearly important, and improving the understanding of what factors raise productivity is an essential input for developing strategies for regional competitiveness, the focus on productivity should not obscure the issue of translating productivity gains into higher wages and profits and, in turn, the analysis of institutional arrangements and market structures. (Martin, 2004)*

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FIGURE 2.1: TOWARDS CONCEPTIONS OF REGIONAL COMPETITIVENESS

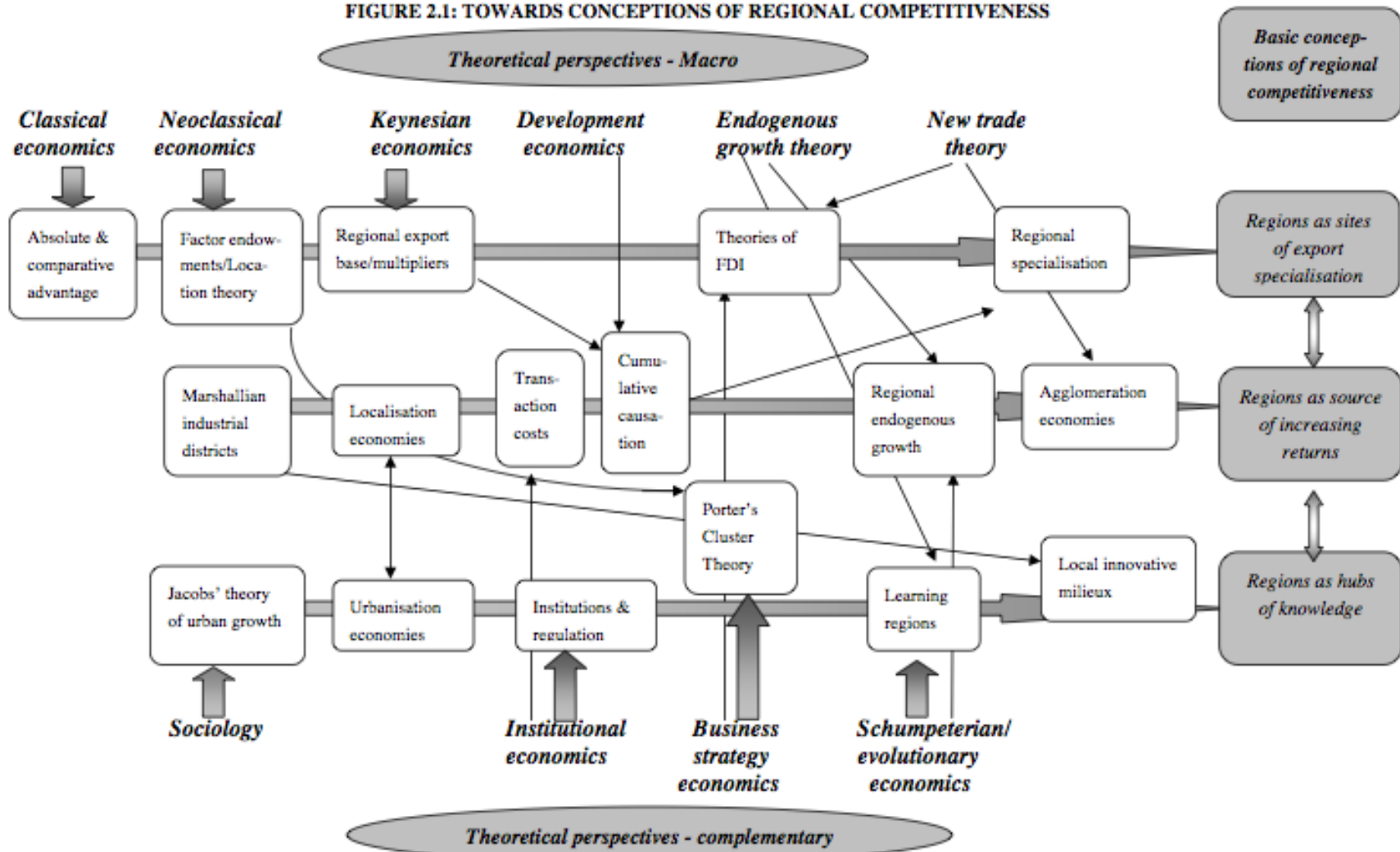
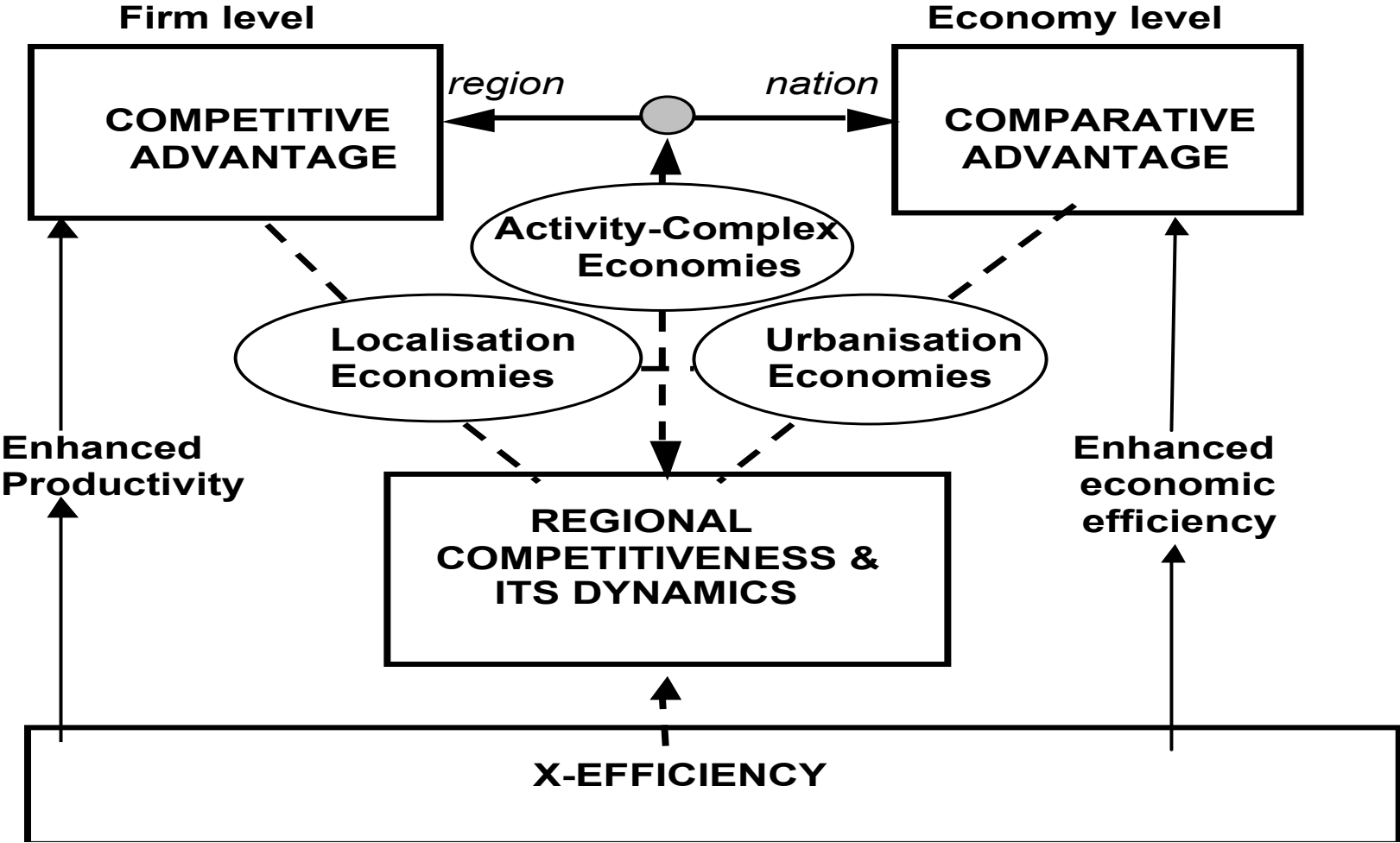


Figure 3: A framework for assessing Regional Competitiveness Capacity (RCC)



# Or Constructing Regional Advantage (CRA)?

*The CRA concept laid emphasis on collective and interactive learning processes that are context-specific, and operate mainly (but not exclusively) at the regional scale. The CRA concept provided an alternative regional innovation policy model for any type of region, instead of focusing on high-tech regions only. Their view on a knowledge-based economy was much broader defined than scientific knowledge per se, and that there are different types of knowledge that should be accounted for in policy (like low-tech and high-tech knowledge, variety in related knowledge specializations, differentiated knowledge bases)....The main strength of the SS concept is exactly about focusing on the nature of the policy process. Instead, the CRA concept focuses on identifying related variety and bottlenecks in a region that prevent related industries to connect and interact, as these provide opportunities for regions to diversify into new activities. (Boshma 2013)*

# In Summary

- ***“If you’re small you have to be smarter”*** (Foray, 2013)? **Bizarre statement given recent performance of many EU regional economies;**
- **SmSP is a second order regional condition to the primary macroeconomic challenge of inclusive growth;**
- **Privileges competitiveness (efficiency) over cohesion (equity) and old EU story that 6<sup>th</sup> Cohesion Plan addresses more comprehensively;**
- **Focuses on short-to medium term structural adjustment that damages growth and cohesion compared to longer term potential benefits;**
- **Little overall impact in EU until “History of a Bad Idea” (austerity) is challenged; but this constrain promise of SmSp;**
- **“Faith in Fakes” or “Travels in Hyper-Reality”:** What difference has SmSp made to youth unemployment in Greece and Spain?
- **QED = EQUITY trumps SMART;**