

TDPC Ministerial Meeting
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Closing Remarks

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This has been a great day for regional policy and for the Territorial Development Policy Committee (TDPC). I want to extend my deep thanks to Minister Kiviniemi for her excellent leadership of this meeting, and to all the ministers assembled here for what has been an extraordinarily rich discussion. I also want to thank the Secretariat for all the hard work behind the scenes to make this possible. I especially want to commend the Background Report and Policy Report. Both were extremely well done, and should be viewed as an essential part of the success of this Ministerial Meeting.

I can assure you the discussions today will be extremely useful as we chart the TDPC's future. Our high-level meeting in Martigny, Switzerland in 2003 was a seminal event in the development of the TDPC. I am confident that Paris 2009 will be just as important to the future life of this committee, if not more so.

What we have heard

There appears to be a strong consensus today that regional policy has much to contribute to our world, especially at this moment of economic crisis. Participants generally agree that economic growth is a bottom-up phenomenon. That is, getting conditions for growth right at the regional level offers the best possible opportunity for achieving the strongest growth at the national level. This worldview takes on added value during this period of turmoil. What is more, participants believe that regional policy provides the best hope for ensuring that the fiscal stimulus packages now being implemented in capitals around the world represent an investment in a brighter future, not just more government spending.

The global economic crisis was never far from our discussions today. Indeed, as the morning session clearly showed, the crisis is *the* backdrop for considering the future of regional policy. In an ironic way, the crisis has provided a potent lens for clarifying the role of regional policy in our world. Participants agree that regional policy has great power and unique capacity to supply answer to today's crisis. This power flows from the new structure of the global economy. To borrow an analogy we sometimes use in the TDPC, regions are now the athletes in the global economic Olympics. Thus, if we want a healthy global economy—which in this dark hour we want more than ever—we must tend to the vigor and competitive strength of each of our

“athletes” as never before. Not only is this good policy, it also promotes the most sustainable long-term economic advantages.

A tantalizing proposition

A tantalizing proposition emerges from four key strands of today’s discussion. That proposition can be stated as follows: *Regional policy has the ability to generate powerful synergies where we can create a positive sum game for public policy.* Put another way, regional policy has the potential to create a virtuous cycle—a very different outcome than the vicious cycle now at work in the global economy. The four strands represent four important dimensions in which regional policy can make significant contributions. Each dimension is important in its own right. Together, the four represent a real “home run,” to use an American metaphor in the best spirit of springtime!

Promoting world trade. Properly framed, regional policy both depends on and encourages gains from global trade. Thus, emphasizing sound regional policy today has the salutary effect of encouraging trade and discouraging protectionism. We must be very clear, however, that growing trade flows from the *new* paradigm for regional policy, not the old. Traditional regional policy focuses on sectors and subsidies, which often restrict trade. Encouraging trade at this moment of global economic crisis is especially critical. In my 28-year career as an economist, I have never seen more protectionist threats around the world. The good news is that focusing on sound regional policy will help dissipate these threats.

Strengthening national economic growth. In this moment of economic crisis, the focus has shifted to the world of central banks and macro-economic fiscal stimulus. Yet regional policy is not an orphan in this policy world. If every region unlocks its unique economic potential, there is the prospect that the whole will be bigger than the sum of the parts, thus maximizing national growth. The opposing view is that sound macro policy spurs national growth that trickles down to individual regions. Neither view has been proven conclusively. Still, the discussion today holds out the potential for a stronger national economy if regional policy is a central part of the policy mix.

Maximizing returns from public investment. What is clear today is that huge fiscal stimulus programs are unfolding in our respective capitals. What is unclear is whether the programs represent spending or *investment*. Some policy officials view fiscal stimulus and regional policy as an either/or policy decision. Yet this appears to be a false dichotomy. If we can identify the investments in public goods necessary to exploit each region’s long-term competitive advantage, then we provide the strongest possible economic growth while at the same time responding to the short-term economic crisis. To identify these investment priorities, however, we must implement far more broadly the new paradigm of regional policy. Too many remnants of the old paradigm persist. And too little capacity exists to implement fully the new paradigm. Such capacity—to identify regional competitive advantages and the corresponding investments in public goods and services critical to seizing them—takes on added value in the current period of crisis.

It may be tempting to ask whether fiscal stimulus is the province of Keynesian actors in central government or the summation of investment priorities across regions. In the best of policy worlds, fiscal stimulus should be *both*. In the current heat of the crisis, however, we must make that case with force and clarity. This Ministerial Meeting can be extremely constructive in seizing this policy synergy.

Fostering innovation. As ministers have peered into the future today, there may be no arena where our tantalizing proposition will have more impact than innovation. The discussion here reveals a strong consensus that innovation is very much a regional phenomenon. As in the other three dimensions, there is the distinct possibility that regional policy can create a positive sum game. Namely, adding a regional innovation system to national policy on research and development seems likely to create a whole greater than the sum of the parts. The key is creating the right conditions in which innovation flourishes. This is decidedly not a matter of picking winners. In this sense, the old paradigm of regional policy—which used sectors as its specific instrument—is the enemy of sound regional innovation systems.

It is also clear that promoting regional innovation will also create the very process by which regions will stay competitive. That is, every region has distinct economic assets, but these can be exploited in more than one way. A vibrant regional innovation eco-system *multiplies* the range of possible combinations. It also equips regions with the best possible capacity to respond to changing market conditions.

What today implies for the TDPC's future

Today provides a strong reaffirmation of the Martigny vision, with an urgency and a potential for this committee that extends far beyond what could be seen even from the Swiss Alps. Together, we have reaffirmed that helping regions seize their competitive advantages remains a laudable objective for regional policy. Yet there is new urgency in this vision. Regional policy has a huge contribution to make in restoring the global economy and putting our collective financial house in order. Yet there is also strong agreement that regional policy can do much more. In addition to its contribution to economic growth and competitiveness, regional policy can also be a powerful framework for addressing innovation, climate change, and how we use natural resources in the most sustainable way.

In light of today's discussion, I see four implications for the TDPC program of work in the future.

1. *Strategies for regional competitiveness.* Regional strategy for competitiveness has been our principal focus since Martigny, but today's discussion suggests we cannot neglect this core work going forward. It is the cornerstone for everything else we want to do. To build this strong foundation, we must continue to pay close attention to the twin drivers of these regional strategies. Diagnosing competitive advantage is critical to sound regional strategy, and work remains in claiming this analytical frontier. Such diagnosis represents the "science" of regional competitiveness. Building robust mechanisms for regional governance, which embody public-private partnerships, is critical to implementing, evaluating, and adjusting the strategy. This represents the "art" of regional competitiveness. Based on the committee's work and my own, it appears that the art trumps the science, and we must be very attentive to developing sound guidelines on governance while pointing out the best ways to enhance the capacity and social capital of regional actors. In short, the TDPC tool kit for regions has never been worth more. But we need to keep that tool kit state-of-the-art, and we also need to make sure it is distributed as widely as possible. The good news is that the tool kit appears to be robust across all types of regions.

2. *Regional innovation.* Like economic growth, innovation is happening at the regional level. The TDPC has a good start in understanding the regional innovation process, but it is only a start and a vast frontier remains. Based on our discussion today, claiming this frontier must be one of the TDPC priorities. A good starting point will be to understand better three critical questions:
- What factors are critical to successful regional innovation systems? We know that many things combine—private R & D, higher education institutions, human capital, networks, financial capital, an ingrained culture of innovation, and the entrepreneurial climate, to name some of them. Yet we need to know much more about which ones matter most in which regions, and which combination of factors provides the most potent recipe for success.
 - Which innovation system works best in which regions? A working taxonomy of regional innovation systems is a critical starting point that is not yet complete. But we then need to analyze in which regions each system type can thrive.
 - How do we measure success in regional innovation? Everyone has agreed here today that regional innovation must be a much broader concept than just R & D. That is a healthy conclusion, but it makes our task of evaluation much more difficult. What are the dials on the dashboard that regional officials should concentrate their attention? Much work remains here.
3. *Public investment.* The discussion today, very much in the shadow of the global crisis, makes it clear that it is not for regional policy to create competitive regions. Nor is it enough to spur regional innovation. We must also make the final crucial step of prioritizing investments in regional public goods and services. This final step is especially vital in this period of huge fiscal stimulus packages.

Happily, the TDPC program of work already includes a focus on public investment. Based on today's discussion, however, I conclude we must redouble our effort here. Specifically, I see three priorities going forward:

- **The toolkit.** New tools are needed that extend our work on regional strategies to yield robust investment priorities. The key will be linking investments to the competitive advantages at the heart of the strategy.
- **Evaluation.** Measuring the impact of investments and helping regions adjust accordingly over time is imperative. The framework for tracking these outcomes is mostly new.
- **Crisis tracking.** An immediate priority must be developing tools to map the implementation of fiscal stimulus packages—with special attention to the regional impact of these. We have a narrow window of time to answer some critical questions. To what degree are regional factors influencing the stimulus packages, or not? What is being spent, by whom, and on what? What lessons can be learned about the best ways to target investment? While we may be too late to shape how governments respond to this economic crisis, we have a responsibility to, at a minimum, capture lessons that can inform responses in the future.

4. *Financial markets.* Much of our discussion today centered on public investments. This is natural given the fact that this is the business of government ministers—and because the economic crisis has now put the focus squarely on the public sector. Still, at several points ministers have reminded us that regional policy only succeeds when the private sector is fully engaged.

Here we face a huge issue that was discussed little today—the looming overhaul of the entire architecture of financial regulations worldwide. Some may regard this task as purely the province of our respective finance ministers. I would suggest, however, that this approach will yield the same outcome as ceding innovation to national R & D officials, or public investment to our emboldened Keynesian macroeconomic colleagues. Specifically, we have a huge stake in three key questions:

- How will financial regulatory reform change the spatial flows of capital?
- How important are regionally based financial institutions to the economic growth of their respective regions?
- How can we best foster a richer network of regional equity capital funds?

Conclusions

When the TDPC began, it was a frontier outpost of policy scouts who dared to believe that regional policy mattered to a world still focused mostly on macroeconomic policy. That tiny band of pioneers would scarcely believe how the world has changed were they all in Paris today. Regional policy is no longer a frontier outpost. It is at the very center of how we respond to the greatest economic challenge the world has faced in seven decades. Framed by the “new paradigm,” regional policy offers at least four powerful contributions to the world of today. It can promote global commerce while thwarting protectionism. It can maximize national economic growth. It can help ensure that fiscal stimulus is an investment in a stronger future, not just spending. And it can foster the innovation that seems sure to drive economic gains far into the future. In touching all four of these policy dimensions, regional policy offers promise to a world now in crisis. Our challenge now is to seize this promise to the fullest.