

# Urban and Regional Horizons

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## Contemporary Crisis Across Europe and the Crisis of Regional Development Theories

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HADJIMICHALIS C. and HUDSON R. Contemporary crisis across Europe and the crisis of regional development theories, *Regional Studies*. This paper explores the prima facie puzzling issue of why so much contemporary theory in economic geography and regional planning – specifically New Economic Geography (NEG) and New Regionalism (NR) – has so little to say about the causes of the current post-2007 crisis and its geography globally and in Europe. It is argued here that this reflects its obsession with the regional ‘success stories’ of the 1970s and 1980s, its failure to appreciate the onset of crisis and the reasons for it in these regions in the 1990s, and its failure to appreciate the nature of capitalism as a crisis prone social system of combined and uneven development. Thus, the current economic crisis pushed dominant regional development theories into a homologous deep theoretical crisis. It is concluded that the time is ripe for a paradigm shift in theory and that this should involve a reconsideration of earlier theoretical approaches that fell out of fashion for a variety of intellectual and political reasons and of current radical social movements.

Uneven geographical development    Eurozone    Neoliberal discourse    Theoretical crisis

HADJIMICHALIS C. and HUDSON R. 欧洲的当前危机，以及区域发展理论的危机，*区域研究*。本文探讨初步看来令人困惑的问题，意即为何众多经济地理学与区域规划的当代理论，特别是新经济地理（NEG）和新区域主义（NR），未能说明2007年以后的当前危机之导因，及其在全球与欧洲的地理。本文主张，该现象反映了这些理论着迷于1970年代以及1980年代的区域“成功故事”，未能领会这些区域在1990年代中的危机开始与缘由，以及无法评价资本主义的本质做为联合与不均发展，且具有危机倾向的社会系统。因此，当前的经济危机已将支配性的区域发展理论推向一致的深切理论危机。本文总结认为，目前已是寻求理论典范转移的成熟时机，而这需要再思考由于各种知识及政治理由导致过时的早先理论取径，以及当前的激进社会运动。

不均地理发展    欧盟区    新自由主义论述    理论危机

HADJIMICHALIS C. et HUDSON R. Crise contemporaine en Europe et la crise de la théorie de développement régional, *Regional Studies*. Cet article aborde la question déroutante a priori des raisons pour lesquelles tant la théorie contemporaine en géographie économique qu'en aménagement du territoire – dans le cadre de la Nouvelle Économie Géographique (NEG) et du nouveau régionalisme (NR) – n'a presque rien à dire ni sur les causes de la crise actuelle après 2007, ni sur sa géographie au niveau mondial ou à l'échelle européenne. On affirme que cela reflète son obsession des « histoires de succès » des régions aux années 1970 et 1980, son incapacité à apprécier le début de la crise et à s'en rendre compte des raisons dans ces régions aux années 1990, et son incapacité à comprendre la nature du capitalisme comme système social de développement combiné et déséquilibré en proie à la crise. Ainsi, la crise économique actuelle a fait glisser les théories de développement régional dominantes vers une crise théorique homologue profonde. On conclut que le temps est venu pour un changement de paradigme dans la théorie et que cela devrait impliquer un réexamen des approches théoriques antérieures, qui sont tombées en désuétude pour une variété de raisons intellectuelles et politiques, et des mouvements radicaux sociaux actuels.

Développement géographique déséquilibré    Zone euro    Discours néolibéral    Crise théorique

HADJIMICHALIS C. und HUDSON R. Aktuelle Krise in Europa und die Krise der Theorien der regionalen Entwicklung, *Regional Studies*. In diesem Beitrag untersuchen wir die aus erster Sicht rätselhafte Frage, warum ein Großteil der zeitgenössischen Theorie in Wirtschaftsgeographie und Regionalplanung – verwandt mit der New Economic Geography (NEG) und dem New Regionalism (NR) – so wenig zu sagen hat über die Ursachen der aktuellen Krise nach 2007 sowie über ihre Geographie weltweit und in Europa. Wir argumentieren, dass sich hierin ihre Obsession mit den regionalen ‘Erfolgsgeschichten’ der 1970er und 1980er Jahre, ihre Unfähigkeit, den Ausbruch der Krise und die Gründe dafür in diesen Regionen in den 1990er Jahren zu verstehen, sowie ihre Unfähigkeit, das Wesen des Kapitalismus als ein krisenanfälliges soziales System der kombinierten und ungleichen Entwicklung einzuschätzen, widerspiegelt. So hat die aktuelle Wirtschaftskrise die dominanten Theorien der regionalen Entwicklung in eine ähnlich tiefe theoretische Krise geführt. Wir schließen daraus, dass die Zeit reif ist für einen Paradigmenwechsel in der Theorie und dass dies hierfür eine Neubewertung der früheren theoretischen Ansätze, die aus einer Vielzahl von geistigen und politischen Gründen aus der Mode kamen, sowie eine Untersuchung der aktuellen radikalen sozialen Bewegungen erforderlich sind.

Ungleiche geographische Entwicklung    Eurozone    Neoliberaler Diskurs    Theoretische Krise

HADJIMICHALIS C. y HUDSON R. Crisis contemporánea en Europa y la crisis de las teorías de desarrollo regional, *Regional Studies*. En este artículo analizamos la cuestión sorprendente a primera vista de por qué mucha de la teoría contemporánea en la geografía económica y la planificación regional – en concreto la Nueva Geografía Económica y el Nuevo Regionalismo – tiene poco que decir sobre las causas de la actual crisis a partir de 2007 y su geografía en el mundo y Europa. Creemos que esto refleja su obsesión con los ‘grandes logros’ regionales de los setenta y ochenta, su incapacidad de apreciar el comienzo de la crisis y sus causas para estas regiones en los noventa, y su incapacidad de apreciar la naturaleza del capitalismo como un sistema social de desarrollo combinado y desequilibrado susceptible de sufrir crisis. Por tanto, la actual crisis económica ha empujado las teorías dominantes de desarrollo regional hacia una crisis teórica homóloga y profunda. Concluimos que ha llegado el momento de cambiar de paradigma en la teoría y que esto debería implicar una reconsideración de los enfoques teóricos anteriores – que dejaron de estar de moda por una serie de motivos intelectuales y políticos – y de los actuales movimientos sociales radicales.

Desarrollo geográfico desequilibrado    Eurozona    Discurso neoliberal    Crisis teórica

JEL classifications: P, P1, P16, R, R1, R5, R10, R11, R58

## INTRODUCTION

It is generally recognized that capitalist development occurs unevenly over space and time, and that such unevenness is one of its defining characteristics. Equally, it is generally recognized that capitalist development is characterized by periodic crises, of varying extent and severity. Not surprisingly, then, several authors and commentators have recognized that uneven geographical development is an important component of the current crisis of capitalism, both globally and specifically in the European Union (EU) and Eurozone (HARVEY, 2010, 2011; SMITH and SWAIN, 2010; MARTIN, 2011; HADJIMICHALIS, 2011; NOVY, 2012; SMITH, 2013).

From the house price and mortgage loan bubbles in the United States in 2006–2007 analysed by HARVEY (2010) as ‘a class project’, the crisis spread around the world and it took various forms depending on local conditions and on the form of geo-economic and geo-political integration of each particular country and region into the international division of labour. The causes of the crisis and the diffusion of its effects have been from the outset highly geographically uneven but this attracted less attention than its macro-economic explanations. These spatially variegated causes and effects largely resulted from a combination of three elements: the real estate sector, the banking system and public–private debt. A unified process linking these three elements was (and remains) global

financialization and its geography (AALBERS, 2009; LEE *et al.*, 2009; PIKE and POLLARD, 2010). Although global financial markets appear as space-free, this is far from the truth, not only because of different national and regional banking systems, but also more importantly because of, first, significant unevenness in their local regulations and the intense competition among major financial centres, such as London and New York; and second, due to spatially differentiated financial innovations and increased banking leverage (HARVEY, 2010; MARTIN, 2011).

In Europe the first signs of crisis emerged in Spain’s real estate sector (particularly tourism real estate), in the former Communist countries of Eastern–Central Europe and in the Irish banking sector. To this should be added Iceland’s bankrupt financial sector, a non-EU country but with many financial ties with EU banks. For East–Central European countries and regions offensive privatizations and dispossession of public assets, internationalization of the financial sector, cheap credit, and increasing reliance on exports and foreign investments paved the way for rapid crisis transmission (SMITH and SWAIN, 2010; RAE, 2011). Hungary experienced a fiscal crisis because it was suddenly unable to finance its relatively large budget deficit; Ukraine and the Baltic states experienced a severe banking crisis, and in Russia the crisis was due to worldwide decline in demand. In general, the eastern expansion of the EU occurred under conditions of uneven geographical development between both

Eastern and Western Europe as well as within Eastern Europe among its regions. These socio-spatial inequalities have been exposed by the global crisis and the new 'capitalist' economies and societies in East-Central Europe suffered a major downturn despite the initial euphoria following the entry into the EU (RAE, 2011).

The crisis was transmitted from the USA and other rich countries of Europe to the global South through declining export demand for southern products and a decline in capital flows. Nevertheless, contrary to expectations that countries in the global South would be hit harder than rich countries of the North, several of the Asian economies experienced lower declines in economic growth and they recovered more quickly, while in Latin America Brazil, Venezuela and Argentina showed remarkable growth during the same period (REDDY, 2009; CHANG, 2011; DAS, 2012). Some countries in Asia, such as Japan, experienced a deep decline in gross domestic product (GDP), while others like China, South Korea and India were expected to be least affected despite their recent lower growth. In India, for example, strong state interventionist policies emphasize growth, financial stability and some form of distributional policies by providing an easy flow of credit to socially sensitive sectors such as agriculture, small and medium-sized enterprises (SMEs) and housing (REDDY, 2009). In addition, the lower level of development of financial institutions and the lack of 'innovative' financial products in most countries of the global South made them less exposed to such crisis and easier to regulate.

Although the crisis is global and concepts of regional development and policies need a more thorough reconsideration, the present paper focuses on Southern Europe (SE) while acknowledging that other parts of the world and of the continent, particularly in the east, face similar problems. The focus in SE derives not only from the authors' particular knowledge of the region, but also from their theoretical stand point that, first, capitalist development and its crisis are contested and must be analysed in the context of particular social formations and not in the abstract; and, second, because some formerly 'successful' regions in SE, such as the Third Italy, were among the prime empirical cases informing regional development theories and policies on which the critique focuses. After all, the current capitalist crisis is a good example of 'glocalization', as MARTIN (2011) suggests, and its causes and effects should be understood and analysed accordingly.

The paper is structured as follows. First, it discusses what is called here a decisive moment, that is, the decline of regional dynamism in SE during the 1990s and the formation of the Eurozone since the 2000s. Second, it switches the focus of the comments to theory in geography, and especially those forms of theory that became dominant in political-economic geography and regional development in the last two

decades of the twentieth century which took some SE regions as their models. Following similar debates in economics, where the financial crisis has thrown economics itself into crisis, it is argued that the geographical foundations of the crisis and its effects on 'model' regions pushed dominant regional development theories to an homologous deep theoretical crisis. And third, the paper proposes a paradigm shift involving a reevaluation of older political economy approaches and for attention to be given to current radical social movements in providing regional alternatives worldwide.

### A DECISIVE MOMENT: THE EROSION OF 'MODEL REGIONS' AND THE FORMATION OF THE EUROZONE

An appreciation of the importance of uneven development is especially important in understanding the causes and consequences of the crisis in SE. Three dimensions of uneven development are of particular significance in this context. Firstly, there is a well-established structure of uneven development globally in which SE is located. Secondly, there are historical and recent structures of unevenness as between the North and South of the EU. And thirdly, there is an equally well-established structure of uneven development within SE. This was amplified, however, as a result of major restructuring in production structures and conditions of trade there that underlay the emergence of crisis in the late 1980s and 1990s in those formerly successful industrial districts that had been held up as 'model regions', to be emulated and mimicked elsewhere. As will be argued below, this takes on a particular significance in relation to geographical theory and the inability of dominant forms of theory to speak to the crisis. Rather than focus only upon recent public and private debt in the first decade of the twenty-first century as the causes of crisis in SE, and without denying the serious effects of debt on SE, its origins are looked for in changes in productive and trade structures that exacerbated uneven development in the previous decade.

The emergence of crisis in the 1990s in the formerly successful industrial districts reflected some or all of the following. Firstly, there was the erosion of protectionist measures, with the ending of the Multi-Fibre Agreement in 2004, the disappearance of the opportunity of national devaluation in 2001 following the formation of the euro, and the reduction or outright abolition of the ability of national states and regions to help local companies via regional incentives and services to firms (ALBERTI, 2006; HADJIMICHALIS, 2006). Secondly, new competitors entered the global market producing products similar to those made in SE but with lower production costs, resulting in a massive delocalization of SMEs from SE as they sought to maintain cost-competitiveness (for example, HUDSON, 2003; LABRIANIDIS, 2008; LURASCHI, 2011). Thirdly, at

the same time there was a reduction in global demand for products manufactured in SE with growing subordination to the demands of customers and pressures from technological changes (BRIOSCHI *et al.*, 2002). And finally, there were significant endogenous weaknesses in the mode of social reproduction of the systems of SMEs such as demographic decline, strategic myopia, a shortfall of cooperative capability, and cultural and social changes in the labour force, particularly after massive immigration from Africa and Asia (IL SOLE 24 ORE, 2002; LANZIANI, 2003; YBARRA, 2006; NESI, 2010). Difficulties in industrial districts followed similar negative developments in the tourist sector, where second-home real estate bubbles, overcrowded tourist resorts and price increases made other holiday destinations more attractive (MELISSOURGOS, 2010). Finally, in agriculture changes in the Common Agricultural Policy (CAP) led to increased production costs and competition from non-EU countries (following trade liberalization) contributing to a further decline of regional competitiveness, despite the massive presence of cheap immigrant labour in southern fields (MOYANO-ESTRADA *et al.*, 2001). These developments negatively influenced SE's regional economic performance, considerably weakened regional tax bases – thus increasing public debt – and finally have reduced national and regional competitiveness.

The formation of the Eurozone in 2000 brought together the regions of Northern and Southern Europe in a common currency space, at a moment when the latter confronted important internal problems. From the outset – indeed well before the Eurozone actually came into being – it was clear that it could only exacerbate problems of uneven development within the EU and amplify the emergent crisis in SE. Despite this, very few people in key political and policy positions in SE and in the European Commission – under the influence of neoliberal doctrine – paid much attention to the major qualitative differences between the Northern 'core' of the Eurozone and Southern European economies (and this was also the case in relation to the Eastern periphery), to pre-existing highly unequal regional production systems and specializations, to their structurally different regional labour markets and to their unequal accessibility to markets, economically, institutionally and spatially (MEDELFAERT *et al.*, 2003; OVERBEEK, 2012). The major – indeed sole – policy focus in the very formation of the Eurozone was the priority given to the so-called 'national convergence criteria' (price stability, low interest rates, stable exchange rates, and limits on the size of budget deficits and national debts) and the total neglect of spatial or regional convergence. In the debate on the euro in the early 2000s very little attention was paid to geographical differences and that continued to be the case in the subsequent debate on the debt crisis. Yet the fact that the common euro currency space would unavoidably exacerbate uneven development within this

policy framework and priorities should have come as no surprise because the recognized four conditions for a successful monetary union were all violated (MAGNIFICO, 1973; THIRLWALL, 2000; MARTIN, 2000). For a monetary union to be successful, the economic and social structures of regions within it should satisfy the following conditions:

- They should have a degree of economic and productive similarity and equality in the value of flows of exports and imports in order to avoid trade surpluses in export regions and trade deficits in importing regions. In the absence of such similarities and complementarities restrictive neoliberal monetary policies will produce new and exacerbate existing geographically uneven levels of employment/unemployment.<sup>1</sup>
- There should be high rates of geographical mobility not only for capital, but also for labour. If such mobility is weak, especially as regards labour, as was and remains the case within the EU, cyclical crisis may lead to persistent regional inequalities.
- Regions should have similar propensities to inflation.
- There should be an automatic fiscal mechanism that through a centrally organized tax and benefit system will compensate for different national and regional shocks and growth rates. There should also be a central bank that should operate as the 'lender of last resort'. This last condition is absolutely critical.

Crucially, none of these conditions existed at the time of the introduction of the euro. As a result, SE regional economies, including those formerly seen as 'success stories', together with Ireland, became the weak link in a very unstable monetary union and the old social and spatial division of labour between North and South in Europe began to be reproduced in a heightened manner. This spatial imbalance was further exacerbated by the changing contours of the global economy, and especially the rise of China and other parts of Southeast Asia in particular, which intensified cost-based competition for many of the products in which the SE economies had specialized (for example, DICKEN, 2011).

By 2010, the EU, European Central Bank (ECB) and International Monetary Fund (IMF) – the so called 'troika' – launched a controversial rescue plan based on ultra-austerity, designed supposedly to help one of the so-called, in a typical neo-colonial way, PIIGS, namely Greece.<sup>2</sup> Ireland became the second victim followed by Portugal, while Spain and Italy suffered homologous crisis without a coherent rescue plan but with similar extreme austerity measures. These developments highlighted the magnitude and the structural foundations of the Eurozone crisis, further exacerbated by Cyprus in 2013 and the 'haircut' of its bank savings. After three years of implementation of so-called rescue plans, SE countries and their regions continue to face negative growth, increasing public debt, high unemployment and deep impoverishment of their population



(BELINA, 2013; HADJIMICHALIS, 2013). Although some voices in the European Commission and the IMF speak about 'deep structural inefficiencies in the Eurozone architecture' (see the report by THE ECONOMIST, 2013) and a few others raise the issue of 'major social and regional inequalities' (EUROPEAN CENTRAL BANK, 2012), the key issue of uneven geographical/regional development and related policies remain unspoken.

### SOME COMMENTS ON THE IRRELEVANCE OF DOMINANT GEOGRAPHICAL AND REGIONAL DEVELOPMENT THEORIES

At this point, the paper switches the focus of comments already made to theory in geography, and especially those forms of theory that became dominant in political-economic geography in the last two decades of the twentieth century. If the argument about the social and geographical/regional foundations and components of the current crisis in the Eurozone is valid, then it is reasonable to ask what was the reaction from researchers in our field, from economic geographers, regional planners and policy-makers? As far as the authors know and until finishing this paper, with honourable exceptions, it was very limited indeed, almost a guilty silence. This again is nothing to be surprised about, however, as the dominant policy views on European integration and regional development in Europe and beyond over the last three decades were informed by neoliberal thinking and theories (for the United States, see, among others, HARVEY 2010; and PECK, 2012) and as such it is hardly surprising that they had little to say that was self-critical. The authors equally did not expect reactions from those on the Left whose perspectives were narrowly confined, seeing only the capital-labour conflict as the problem and the EU as evil. While one could agree that capital-labour conflict remains a crucial dimension of inequality, it is by no means the only aspect of inequality that matters. And while it can be agreed that the current form of the EU and the Eurozone is problematic, that is no reason to jettison a concern for a European project that gives greater attention to issues of socio-spatial justice.

What might – prima facie at least – seem more surprising though is the silence of those progressive and leftist colleagues who, following a kind of 'Third Way thinking', were responsible for developing new theoretical approaches and shaping local and regional development policies before and after the crisis, promoting new ideas on trade and geographical economics, on innovative, networking and learning regions, on clusters and agglomeration, on branding, on local social capital, reciprocity, trust, and so on – people who today remain silent. As is by now well known – and so they are simply briefly mentioned here – this 'Third Way of thinking' is identified with two major schools of thought: first, the so-called New Economic Geography (NEG) or

'geographical economics' with key thinkers such as KRUGMAN (1991), FUJITA and KRUGMAN (2004) and VENABLES (1996);<sup>3</sup> and second, New Regionalism (NR) with key advocates including COOKE and MORGAN (1998), AMIN and THRIFT (1992), ASHEIM (2000), BECATTINI (1990), STORPER (1997), and SCOTT (1988), among others.<sup>4</sup>

There is no doubt that these scholars contributed positively to a major renewal of the local and regional development repertoire and have opened promising research windows. However, their treatment of local and regional problems, together with that of modernized versions of old neo-classical theories which effectively deny the problems of uneven development and are linked with macroeconomic top-down planning (such as the work of BARRO and SALA-I-MARTIN, 1995), is – or perhaps better, can be seen as – often, whether deliberately or inadvertently, compatible with and supportive of a neoliberal view. All cities and regions can become 'winners', finding a successful niche in the globalizing economy – provided that they adopt appropriate institutional arrangements, appropriate social attitudes and successfully utilize their resource endowments, whatever they may be. While not eliminating problems of uneven development in the same way as the neo-classically informed theories – that is by assumption – the practical effect of the claims made by policy makers drawing on the 'Third Way' approaches is in effect the same as the problems of uneven development can apparently, so it is claimed, be eliminated via institutional innovation and modernized social attitudes to development. To be clear: the authors are not claiming that theories of NEG or NR are neoliberal *stricto sensu*, or that their exponents are neoliberals. Indeed, quite a few of them would see themselves as on and of the Left. Nor is it being denied that clustering, networking, agglomeration, etc. could form part of a progressive regional policy. All that is being stated is that the way in which they have formulated – directly or indirectly – and framed the original question posed in the 1970s by Doreen Massey (MASSEY, 1979) and the ways in which they have theoretically responded was (at best) de-politicized at a time when what was needed was a frontal attack against neoliberalism.<sup>5</sup> It is unclear as to whether this de-politicization was deliberate or an inadvertent and unintended effect because policy implementation based on these theories is blind to their effects on socio-spatial inequality. It is known, however, that this has made it easy to absorb their views into neoliberal policies, as a result making it sometimes difficult to differentiate progressive from regressive applications and policy directions. In that sense there was a gradual slide towards the dominant neoliberal discourse and, when the current global crisis arrived in European regions, neo-classical, NEG and NR theories were all caught unawares and remain unable to understand its multi-scalar geographical/regional causes. Thus, the

current economic crisis pushed dominant regional development theories to an homologous deep theoretical crisis. This claim can be amplified with four points:

- A basic common characteristic among neoliberal, NEG and NR theories and policies is their acclaim of the market, their championing of entrepreneurialism, competitiveness and labour flexibilities, all seemingly raised to the status of divine law. While they do not quite naturalize markets, they take a very partial view of the ways in which and purposes for which markets are politically constructed and socially regulated. Not only do they ignore issues of social and spatial redistribution, socio-spatial justice and interventionist regional policies, which were the cornerstones of 'old' welfare regionalism, but also they see them as a drag and a brake on regional development itself, as counterproductive rather than as a necessary step in addressing both spatial inequalities and the deeper structural crisis in which they are inextricably embedded. Within the perspectives of NEG and NR, cities and regions are viewed as quasi-individuals, as actors responsible for finding their own ways to economic prosperity in competition with others. What regions (or cities) need, according to these perspectives, is less politics (that is, of an interventionist and progressively redistributive sort, acknowledging that the success of some regions is related to the failure of others), more competition, more innovation experts, more pluralism, more learning and more tolerance. In this respect they have been associated at the sub-national scale with the wider de-politicization that has been a key objective of neoliberalization at the national and global scales. Furthermore, de-politicization has been essential for the legitimation of the undemocratic and authoritarian EU, ECB and IMF intervention to 'help' SE and Ireland (BALIBAR, 2012). Similar de-politicization experiences were typical under neoliberalism in other places and are observable worldwide, as the cases of the USA, Mexico and above all China demonstrate. Seen from another perspective, however, this is of course neither more nor less than saying that they promulgate a different kind of politics, a regressive politics that privileges particular socio-spatial class interests and ignores others.
- NEG theories and NR focus exclusively on a few successful 'super-star' regions and cities, neglect all other 'ordinary' places, and base their explanation of success mainly on internal, endogenous factors within the region or the urban area in question, ignoring exogenous forces (HADJIMICHALIS and HUDSON, 2007). This emphasis reflects a cognitive shift towards seeing places as discrete entities to be studied in their own right, as actors responsible for their own economic fate. This perspective is highly compatible with neoliberal discourse which promotes the success of the few, applauds idealized competitive individual

efforts, ignores relational politics, and downplays wider social and spatial conditions, especially of those people and places that were deemed to have failed. In these successful places, NEG theorists look for increasing returns to scale via spatial agglomeration as the critical determinant of success and they prioritize large metropolitan regions as the locations in which this is best attained. They further constrain their conceptualizations of social process to fit with mathematically tractable solutions to their models. In addition, this particular focus helped the establishment and reinforcement of arguments that the causes of the crisis are only endogenous (for example, a result of corrupt governments, or of firms that lack innovative capacity, of cheating citizens, and so on). Without denying that there are instances where such explanations have validity, such a focus left crucial exogenous forces, such as the very operation of global markets, the Eurozone and global capital flows, undiscussed, unexamined and seemingly unproblematic. It seems that decades of studies on global uneven geographical development and on the impacts of the international division of labour never existed.

- Following the previous emphasis on regions and urban areas as the pivotal spatial scale for capitalist success, these approaches ignore the regulatory role of the national state and EU institutions, particularly their potential in the struggle to ameliorate the lives of people in the places that 'failed' (MACLEOD, 2001; HUDSON, 2007) and/or in providing protectionist measures for particular sectors. In a period in which major governance rescaling and the widespread introduction of public-private partnerships took place across Europe, NR approaches continued to focus only on the cultural and institutional conditions of particular successful regions and cities while the proponents of NEG emphasized the interplay of agglomeration and economic success and neo-classically inspired approaches emphasized general equilibrium models with a spatial geometry in which transportation costs are the only parameter entering the picture (BARNES, 2003). On the one hand, underplaying the role of the national state and EU institutions is again compatible with the neoliberal dogma of 'less state – more market', followed by class-biased policies for deregulation and deconstruction of the welfare state and a massive re-regulation shaped by the needs of capital. On the other hand, their overemphasis on 'successful' regions did little to help these approaches to understand the geographical/regional foundations of the current crisis and to recognize the major spatial governance change introduced by the Eurozone. In other words they failed to recognize that the Eurozone is a new spatial arena for capital accumulation based on uneven development.
- Although these mainstream views pay attention to particular regions and cities and have provided pioneering analyses of local productive and institutional

structures, they have overemphasized the supply side, giving scant, if any, attention to understanding the empirical dynamic of the demand side, to global capitalist competition and to a balanced consideration of international trade. The question of the share of value added received by labour is crucial and became a major competitive element after the introduction of the euro and creation of the Eurozone. The inadequate analysis of the commercialization, distribution, and retailing of products and services coming from 'model regions' became a major handicap for NR, but this was realized only after the year 2000 and the emergence of the first signs of crisis. On the other hand, NEG gives particular attention to trade in the context of imperfect competition. However, despite its new terminology it essentially conforms to a partial equilibrium model analysis, continuing to use variables in which productive factors are partly fixed and partly footloose, make simplistic assumptions about transportation costs and to ignore unequal terms of trade. The latter helped to mask unequal trade among Eurozone regions, in particular how debts in the European periphery are related to trade surpluses in the Centre–North. Finally, a major problem in NEG and NR theories and policies is their neglect of the role of financial capital in regional development and how the invention of new financial products such as derivatives and securitized income streams from fictitious capital has undermined investments in industrial production, providing higher profit rates to speculative investments in real estate and other toxic assets. This negation also played its role in the silence of major protagonists during the current financial crisis.

These four points summarize the distance between NEG and NR and older progressive formulations of welfare regionalism, to say nothing of Left-wing views of combined and uneven regional and geographical development which focus upon the systemic features of capitalist development. However, NEG and NR clearly cannot be blamed for all problems in the Eurozone or for the character of EU, ECB and IMF interventions, nor for their influence on regional policies beyond Europe. And although these theories have inherent limitations in their initial assumptions and they neglect the conflict-driven character of capitalist societies, the message being read and the conclusions that are drawn cannot be attributed to these theories alone. The argument is a different one: that is, that the dominant discourse in the field, by sliding consciously or unconsciously towards neoliberalism – as has happened in other fields such as economics, public health, labour legislation, higher education and cultural activities – now has had serious negative practical effects. Firstly, it resulted in an inability to understand the geographical/regional foundation of the crisis. Secondly, it helped to direct regional development questions into

inoffensive paths by seemingly – because surely these paths are very political – de-politicizing them, as is evident in major policy documents, such as the European Observation Network for Territorial Development and Cohesion (ESPON). Above all they have destabilized the central pillar of progressive regional policies: institutions for collective action at multiple scales.

Perhaps the biggest failure of the neo-classical, NEG and NR approaches is their failure to develop a systemic view of capitalism and as a result their neglect of periodic capitalist crises – euphemistically referred to 'systemic failures' by neoliberal economic advisers – as a necessary and recurrent feature of capitalist development (HARVEY, 2011). Crisis is endemic to capitalism: the issue is the forms and places in which it emerges, the distribution of its effects across social classes, groups and places, and the capacity of states selectively to mitigate its effects, privileging some places/social groups over others. Fundamentally, the current crisis reflects the disjunction between the volume of value produced and the claims made upon it, in particular as a result of speculative financial activities. The failure of NR and NEG approaches to appreciate the centrality of capitalist crisis seriously weaken their explanatory power and so practical utility. This negation – the refusal to recognize that crisis and uneven development are inherent to capitalism – is typical of all apologetic analyses of capitalism. As such, it is to be expected from proponents of both the neoliberal and neo-classical perspectives.

But it is perhaps more surprising that very few 'Third Way' NEG and NR researchers paid much attention to the capitalist crisis that was already visible from the 1990s in the Third Italy, in Valencia, in Murcia, in Oporto, in Kastoria, along the Mediterranean tourist coasts and other emblematic regions (RENZI, 2002; FONDAZIONE NORDEST, 2003; BERTONCIN *et al.*, 2009). Just at the very moment that policy prescriptions based upon the assumed bases of success in these regions were becoming generalized within regional and urban policies across the globe, the conditions on which success had been based in these exemplar regions were being eroded. This failure to appreciate the significance of the onset of crisis in formerly successful regions was symptomatic of a broader malaise and the neglect of capitalist crisis noted above. It would seem that nowadays many people are either unaware of Keynes and what he really stood for, and do not know of Myrdal's work on 'cumulative causation' and 'backwash effects' (MYRDAL, 1957), or if they do, consider them of little relevance. Furthermore, combined and uneven development evidently sounds 'too political' and for many understanding and appreciation of the continuing relevance of Marx is likewise negligible (for example, HUDSON, 2006; HARVEY, 2010).

#### TOWARDS A PARADIGM SHIFT?

The crisis of dominant regional development theories indicates clearly that it is time for a paradigm

shift – and this may involve a double shift: one back to earlier political economy paradigms that fell out of political and intellectual fashion, although without repeating the mistakes of the past, particularly those related to clientelism and bureaucratic statism; the other is a step forward integrating lessons from emancipatory grassroots social movements and social struggles across Europe and beyond which never found a place in NEG and NR. Both shifts are important (see also MACKINNON *et al.*, 2009; HARVEY, 2010; HADJIMICHALIS and HUDSON, 2007; VAIYOU and HADJIMICHALIS, 2012; HADJIMICHALIS, 2013), so this section can only briefly sketch some of its aspects.

NEG and NR contributed to a substantial renewal of local/regional development theory and there is no need to throw them out with the dirty bathwater, as did their advocates with welfare regionalism. One can retain some aspects of their approaches, while searching for radical alternatives pursuing greater socio-spatial justice. In doing this and following the critique, first, one's thinking and practice have to be re-politicized, and questions such as who is losing/benefiting, why and where have to be asked (for example, PIKE *et al.*, 2007). Second, one needs to go beyond the endogenous development paradigm to understand cities, localities, and regions as open to and often in large part constituted through global flows and international relations, albeit they are unique and locally embedded places. Development trajectories are always the outcome of both internal and external factors and it is important to understand for each case how the regional problem is defined, instead of only asking for more competitiveness, innovation, creativity and the like. Third, an inclusive approach is needed that encompasses all cities and regions, including those 'ordinary' places that have never attracted the interests of recently dominant regional development theories. At the same time, there is a need for an appreciation of the fact that capitalist success is always temporary and place specific. Fourth, the national state and EU institutions have to be restored in the planning agenda as agents of active intervention in support of those people and places 'left behind'. As David Harvey has recently emphasized:

[t]he question of the state, and in particular what kind of state (or non-capitalist equivalent), cannot be avoided even in the midst of immense contemporary scepticism [...] of the viability or desirability of such a form of institutionalization [...].

(HARVEY, 2013, p. 153)

Institutions are not 'out there' only to serve firms and support regional success in a social conflict-free environment; they are multi-scalar arenas of bitter power struggles. Here the avoidance of past mistakes is essential, together with a re-examination of budgetary issues, of the role of the ECB and other institutions. As everything depends on the balance of class and political forces, the question of political parties and their

policies remains a key factor, so 'think carefully for whom you vote'. Finally, a new radical theoretical framework needs to include issues that NEG and NR never spoke about. These include, among others, an analysis of the changing contours of global accumulation, in short how the global economy is changing sectorally and spatially (for example, DICKEN, 2011); the crucial issue of the economy as material transactions/transformations (HUDSON, 2012); ecological sustainability and environmental justice from a radical political ecology perspective (KEIL *et al.*, 1998; KALLIS and NOVGAARD, 2010); the importance of financialization of the economy (HARVEY, 2011; PIKE and POLLARD, 2010; MARTIN, 2011); and the rupturing of the link between the production of surplus value in the circuit of productive industrial capital and its reinvestment to expand productive capacity as realized surplus value was sucked into circuits of fictitious capital, new financial commodities and speculative investments.

Finally, one has to think seriously about all those local/regional grassroots mobilizations, some of which provide progressive development solutions beyond formal institutions, the capitalist firm and beyond antagonistic relations within the capitalist division of labour (KLEIN, 2002; NOTES FROM NOWHERE, 2003; GIBSON-GRAHAM, 2006; FEATHERSTONE, 2012; HADJIMICHALIS, 2013). Examples exist everywhere from movements against dispossession of public or natural assets to proactive movements introducing alternative, non-exploitative forms of production and distribution in Argentina, Brazil, Peru, the United States, Canada, Australia, Spain, Italy and, recently, Greece. They vary in terms of tactics and goals; some are 'accommodative' others 'transformative', following the work of Nancy Fraser (FRASER, 1995) and no one knows how long they will last. But after all, especially those movements that are 'transformative', they challenge from below the one-dimensional neoliberal emphasis that 'there is no alternative'. They can teach one how local culture, habits and reciprocity, particular forms of clustering, innovation, local institution and path-dependent development trajectories – precisely these characteristics studied by NEG and NR in successful regions as competitive – could have an alternative reading and to study whether they have succeeded in creating a less competitive and more just social and spatial structure. Of course, the key point with much of the above goes back to Raymond Williams' question as to the transferability of locally based radical initiatives and 'militant particularisms' (WILLIAMS, 1989), but this the authors believe is a question of political practice rather than of theory.

## FINAL COMMENTS

There are those who argue that crises of capitalism provide opportunities for some people and places,



acknowledging thereby the role of speculation and speculative developments. And it is undeniable that within the rationality of capital crises do create opportunities for some capitalist firms and entrepreneurs. Crises, in that sense, have a positive role in capitalist development (as Marx and later SCHUMPETER, 1962, ch. 7, emphasized in their concept of creative destruction), but at considerable human and socio-spatial cost (thus triggering what POLANYI, 1944, referred to as the double movement as people sought to contest the negative consequences of marketization and deepening capitalist development). Radical social scientists are interested in understanding what triggers that double movement – and maybe even a triple movement (FRASER, 2013) – in supporting it and in the search for opportunities for more progressive local and regional development policies and trajectories. The task then is to search for theories and policies beyond neoliberalism, to re-establish the values and priorities for social and spatial justice, and to learn from radical initiatives across Europe and beyond, without forgetting the lessons of the past.

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## NOTES

1. The exchange rate against countries outside the euro area is the same for all the euro countries. The rich regions get an exchange rate at a lower level than before, and the poorer regions get an exchange rate at a higher level than before. This gives a positive stimulus for export industries in the richer regions. German regions have profited as a result of this mechanism, while the price of exports from other regions has risen due to the same mechanism. The Mediterranean regions in particular were affected by low manufacturing growth and the closure of factories as a result.
2. PIIGS = Portugal, Italy, Ireland, Greece and Spain.
3. To be fair, Krugman in his *New York Times* column has been repeatedly very critical of austerity measures imposed on SE and showed the dead end of these policies. Here Krugman's geographical/regional contributions are referred to and how they have been used by others.
4. There are many well-known works by these authors and only a few of them have simply been indicated here. Also, this paper will not discuss here, for reasons of space, another sub-branch of 'Third Way thinking', that of evolutionary economic geography (EEG) (see among others the special issue of *ECONOMIC GEOGRAPHY*, 2009). It can only be said that the authors are in agreement with the critique to these approaches provided by MACKINNON *et al.* (2009), who, while acknowledging many positive contributions by EEG, recognize the need for consideration of labour relations, the dynamics of capital accumulation and uneven development, and to a general need to rediscover a sense of political economy.
5. As well as the destruction being reaped on SE regions as a result of neoliberal doctrine, regions such as north-east England and south Wales were being ripped apart economically in the 1980s via the same process.

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