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THE SIGNIFICANCE OF REGIONAL POLICY TO SCOTTISH ECONOMY

GERALD MUNYORO

Graduate Business School, School of Entrepreneurship and Business Sciences

Chinhoyi University of Technology, Chinhoyi, Zimbabwe

Department of Economics, School of Business, Dundee University, Dundee, Central Lowlands, Scotland, Scotland

ABSTRACT

The focus of this study is to examine the significance of regional policy to Scottish economy because, Scotland is experiencing unprecedented levels of redundancy and unemployment, in many parts of the country – including, most surprisingly, the cities of Glasgow and Edinburgh - despite the fact that, for many decades they have been seen as the backbone of the Scottish economy. Poor performance by Scottish regions is blamed mainly on the collapse of the traditional basic industries, such as shipbuilding and heavy industry in cities, and a lack of investment in rural-based regions. Therefore, the region is now being seen as the appropriate level, for formulating strategies to improve business competitiveness and create employment and for that reason, such policies are principally aimed at reducing unemployment in areas, where it is persistently high and industrial clusters are seen as a constituent of the solution, to this problem. The introduction of industrial clustering strategy will enhance the promotion of innovation, as well as the performance of individual companies for the reason that, innovation is of significance not only for increasing the wealth of nations in the narrow sense of increasing prosperity, but also in the more fundamental sense of enabling people to do things, which have never been done before. For this reason, it is essential to identify a set of industrial clusters, that can be used to resuscitate the Scottish economy.

KEYWORDS: Scottish Economy, Regional Policy, Economic Growth, European Union, European Market, Deindustrialisation

INTRODUCTION

The focus of this study is to examine the significance of regional policy to Scottish economy because Scotland, in common with the rest of the UK, is experiencing unprecedented levels of redundancy and unemployment in many parts of the country – including, most surprisingly, the cities of Glasgow and Edinburgh - despite the fact that, for many decades they have been seen as the backbone of the Scottish economy. Poor performance by Scottish regions is blamed mainly on the collapse of the traditional basic industries, such as ship-building and heavy industry in cities and a lack of investment in rural-based regions. This, it has been argued, has also subsequently resulted in low economic growth, low expenditure, low investment in new plant and physical infrastructure and poor training programmes and development, especially in comparison to other developed countries, such as Japan and the USA. The other reason for poor economic growth, it has been suggested, is the economic and political changes that have been witnessed in recent years and that have led to changes in the formulation of regional policy in Scotland and the whole of the United Kingdom. One of the sources of such policy shifts was the formation of the European Union. Following the resultant completion of an innovative single European market, this has resulted in the formation of many new trading possibilities. Another major change, meanwhile, is the move by former COMECON countries from state-controlled to market-oriented economies, which has gone hand in hand with a shift from closed markets towards greater liberalisation of global trade. Throughout its existence in the 1920s, upto the present the principal objective of UK regional policy has been to make available economic assistance, to the country's most heavily depressed and least well-off areas, such as Scotland's Highlands, Western Isles, Orkney Islands and Shetland Islands regions, all of which are predominantly rural in character. However, it is critical to note that, there has been a change of direction in economic policy, from state intervention to a market-based approach. Thus, this study will look at the significance of regional policy to Scottish economy. This will include, issues related to what a region is, explain the causes of regional disparities and how they are measured, look at the merits and demerits of the market based approach and intervention approach.

THE LITERATURE REVIEW

The Concept of a Region

The notion of regions is a very significant concept in geography, economics and other related subjects. A region, alongside location, place, human-environmental relations, movement and human systems, is one of the central themes of geography and economics and other related subjects. As noted by Fawcett (1995), there are no absolute or naturally determined regions, and thus, the definition of a region remains essentially complex and qualitative in many respects, influenced by convention and custom, as well as by administrative convenience or sometimes even economic cohesion. In addition, McCann (2001) suggests that, the definition of a region is even more complex because, areas can be defined as individual regions in terms of their topography, climate, economy, culture or administrative structure. With regard to the UK, Scotland offers a good example of the difficulties of applying a simple definition to a 'region', since it is a nation with an independent judiciary and separate education system, but at the same time it is also an administrative region of the United Kingdom of Great Britain. In addition, Scotland consists of regions such as Strathclyde, Lothian, Grampian, Tayside, Fife, Central Scotland, Scottish Borders, Dumfries and Galloway, the Highlands, Western Isles, Orkney Islands and Shetland Islands. The ambiguity of the term 'region' can also be demonstrated by Martin's (1999) definition, in which he identified a region as any geographic entity, irrespective of whether this entity corresponds with national or sub-national boundaries or a group of countries. According to McCann (2001), a region is defined as a spatial area, which is larger than a single urban area, but which is different from the spatial definition of a single nation. He also refers a region to national or sub-national administrative areas. As well as this, it is important to recognise that, a region is also an economic concept defined by its endowment factors, their combinations and mobility and in addition it can theoretically be defined as a geographical area that consists of adjoining particles, with similar unit incomes and more interdependence of incomes that, exists between regions. In this study, however, a region is a spatial unit which can differ greatly in size from a micro-region such as a city (Dundee) to a continent (Europe, for example: a region of the world). What is of interest here is that, in spite of size, regions are spatially contiguous areas and take two distinctive forms: heterogeneous and homogeneous. It is clear from the discussion that, some regions have higher income levels and better job prospects than others. In addition, some regions are more productive and competitive than others, hence the need to investigate how regions with lower income levels and poorer job prospects can be assisted by the government and other regional economic development agencies, such as Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE), as well as the European Union (EU) and how significant the regional policy is to Scottish economy.

The Causes of Regional Disparities

Any discussion about regional disparities will be incomplete, without first outlining and understanding both the forms that they take and then their causes. According to Temple (1994), deindustrialisation is certainly seen as the chief cause of regional disparities due to the fact that, it has caused declining employment and output in traditional industries such as coal mining, steel, shipbuilding, mechanical engineering and textiles, as indicated in tables below. What this means is that, areas which have been reliant on a narrow range of business and industry found themselves vulnerable to economic change. Examples as shown in tables below include the former mining towns in Lanarkshire and Ayrshire, the Scottish Borders's mill towns and North East fishing ports. In North and East Ayrshire, Inverclyde and West Dunbartonshire the decline in manufacturing has not been compensated by new employment, in the new industrial sectors. In Dundee, many traditional industries have had difficulties in adapting to new technologies and volatile markets resulting in high unemployment, social deprivation, fall in population and significant areas of vacant and derelict land, whilst Scotland's rural areas such as Highlands and Islands are also experiencing major structural changes, with the continuing decline of farming and fishing accompanied by a sharp fall in the value of timber in the late 1990s, which adversely affected the economic viability of the forestry industrial sector, particularly in the remoter West of Scotland. For example, some of the remoter areas such as the Western Isles and parts of Sutherland and Caithness continue to decline. This has resulted in a fall in the number of people in employment in the early, 1980s and late 1990s, leading to the number of unemployed people, the unemployment rate and the claimant count to increase as shown by figures in tables below which shows that, although Scotland's rural areas, just like urban areas, are experiencing major structural changes with the continuing decline of farming and fishing accompanied by an expansion of the service sector, diversification into new activities such as, the growth of the leisure economy seems to have helped to a degree parts of Scotland's rural areas, such as Aberdeenshire and many parts of the Highlands and Islands, create new job opportunities resulting in the increase in its population. The Moray Firth area has also experienced substantial growth, while Orkney and Shetland have benefited from oil-related activity. The expansion of salmon farming, tourism, food processing, small-scale manufacturing and service provision has also contributed to growth in areas such as Skye, Mull, Arran, Wester Ross, Ardnamurchan and Mid Argyll. Although, the whisky industry is on the decline, it continues to make an important contribution to the economy on Speyside and in parts of the West Highlands, according to the Scottish Government (2004) and this might be the reason why some rural areas have lower unemployment, than some urban areas.

However, it is imperative to note that, in some areas eventhough new firms and plants have been established, sadly they tend to have been short-lived and as a result have not provided a stable foundation, for the economic growth of regional economies. In addition, the expansion of service sector supplying consumer needs has been limited by low income growth. Although, traditionally disparities have not affected the UK economy evenly, this time all regions have been affected to some extent, but evidently the outer regions such as rural areas have been particularly negatively affected. The good thing is that, urban areas are more likely to create jobs than rural areas, due to various reasons. Nevertheless, regional disparities adopt numerous forms, including not only differences in income levels per capita, rates of growth or rates of unemployment, economies of scale, externalities, output and consumption structures, productivity and access to public services, but also age structures, population density and the pattern of migration, as stated by Jovanovic (2001). Vanhove and Klaasen (1987), divide the causes of regional disparities into geographical factors; differences in the availability of resources; education of management and training of the labour force; regional economic structures such as the prevalence of ageing technologies and modern technologies within a region's industries; institutional factors such as the centralization of public institutions; national wage setting in spite of differences in productivity; and labour market conditions across different regions. Nevertheless, the most commonly used indicators for differences in economic development at a national as well as a regional level are, according to Martin (1999), per capita income levels and unemployment. Therefore, the tables below shows how deindustrialisation affected Scotland in the 1980s and the economy recovered after the introduction of industrial clusters, among other wider set of regional economic development policies, that were adopted by the Scottish Government in conjunction with British Government.

Table 1: Indicating the Claimant Count Unemployed by Gender in Scotland: 1975-2005

YEAR	NUMBER OF CLAIMANTS MEN WOMEN TOTAL			CLAIMANT RATE
1975	69000	18000	87000	3.5
1980	117000	53000	170000	6.6
1985	223000	94000	317000	12.2
1990	147000	52000	200000	7.7
1995	153000	45000	198000	7.5
2000	90000	26000	116000	4.5
2005	65000	21000	86000	3.2

Source: Claimant Count: Office for National Statistics: https://www.nomisweb.co.uk and http://www.scotland.gov.uk

Please note: Unemployment rates are all people claiming unemployment related benefits divided by the number of economically active people.

Table 2: Showing the Claimant Count by some of the Local Authorities in Scotland's Urban and Rural Regions from 2000-2007

LOCAL AUTHORITY	2000	2001	2002	2003	2004	2005	2006	2007
ABERDEEN	3640	2628	2450	2651	2665	2340	2130	1804
ANGUS	2503	2229	2057	2010	1914	1821	1783	1481
ARGYLL & BUTE	2123	1922	1713	1564	1481	1334	1385	1205
CLACKMANNANSHIRE	1310	1127	1160	1083	1050	1017	968	848
DUMFRIES & GALLOWAY	3562	3209	2828	2525	2270	2209	2297	2104
DUNDEE CITY	5187	4990	4724	4403	3796	3731	3767	3489
EDINBURGH CITY	7872	6898	6744	7394	7059	6870	7069	5949
FIFE	8664	8905	8914	8444	7911	7770	7777	6438
GLASGOW CITY	21172	18557	17566	17528	16419	15296	15967	14424
HIGHLAND	5219	4636	4074	3913	3376	2993	2883	2402
INVERCLYDE	2118	2114	2237	2673	2565	2345	2349	2011
MORAY	1791	1301	1173	1145	1101	1079	1213	1045
ORKNEY ISLANDS	288	272	229	213	211	165	170	136
PERTH & KINROSS	1931	1741	1632	1608	1583	1476	1435	1219
SCOTTISH BORDERS	1640	1468	1411	1210	1131	1016	1108	902
SHETLAND ISLANDS	357	202	238	260	249	241	227	150
STIRLING	1505	1347	1358	1341	1186	1087	1074	956

Source: Claimant Count: Office for National Statistics: https://www.nomisweb.co.uk and http://www.scotland.gov.uk

It is also vital to note that, there are several other economic variables that can be used to mirror inter-regional disparities, apart from the ones mentioned above. Gross Regional Product (either aggregate or per capita), Growth rates of Gross Value Added (GVA), either aggregate or per capita and the rate of new firm formation, among others could be used to reflect regional disparities. For example, GVA measure the economic wealth of a region whilst GVA growth rates insinuate the degree of dynamism in the regional economy and new firm formation is an indication of the level of innovation and entrepreneurship in the region. A growth in the number of firms will lead to the creation of employment and hopefully a reduction in unemployment. Unemployment rates are commonly used to measure intra-regional disparities because, regional policy is often directed at reducing regional unemployment differentials and regional unemployment rates are published with little delay, thus affording a "current" perspective on the regional situation. One might imagine high levels of unemployment, other things being equal, being associated with low GVA, low GVA growth rates and a low rate of new firm formation. For example, Table 3 below shows that, the regions of the UK, exhibit varying economic performance levels. For some variables, for some regions these figures confirm to the generalisation at the end of the paragraph above. For Yorkshire and The Humber, West Midlands and Wales, the indicators are uniformly negative. These regions exhibit low GRP per capita, low growth per capita, low firm birth rates and high unemployment rates. However, in all other regions, the variables do not all conform to this pattern. So much so that, the correlation coefficients shown in table 3 are generally lower than one might a priori expect. This illustrates the complexity of regional problems and suggests that, one should not hope to find a simple solution.

Table 3: Indicating Regional Gross Value Added at Basic Prices of 2007

Region	Gva/Head (£)	Growth /Head Rate (%)	Unemployment Rate (£)	Firm Birth Rates (%)
UNITED KINGDOM	20,000	4.9	5.2	0.42
NORTH EAST	15,700	5.1	5.8	0.29
NORTH WEST & MERSEYSIDE	17,600	5.0	5.9	0.38
YORKSHIRE & THE HUMBER	16,000	4.5	5.3	0.35
EAST MIDLANDS	17,700	5.0	5.2	0.38
WEST MIDLANDS	17,100	4.0	5.8	0.37
EAST	18,900	4.9	4.4	0.42
LONDON	33,100	5.1	6.6	0.69
SOUTH EAST	21,100	4.6	4.5	0.49
SOUTH WEST	18,200	4.8	3.7	0.40
WALES	14,000	4.6	5.1	0.29
SCOTLAND	19,000	5.4	4.9	0.35
NORTHERN IRELAND	16,400	5.1	4.2	0.31

Source: Office for National Statistics

CORRELATION COEFFICIENTS

Table: 4

	GVA/H	GR/H	UR	FBR
GVA/H	1			
GR/H	0.253664	1		
UR	0.42207	-0.02145	1	
FBR	0.966463	0.083943	0.374243	1

The Paradox of Market-based and State Intervention Approaches

Although regional policy was traditionally used as an economic intervention tool, for promoting economic growth in regions hit by high unemployment, due to the collapse of traditional basic industries such as coal mining, steel making, whale fishing, jute, shipbuilding and other heavy industries (Danson, 1999), it is worth remembering that, the current regional policy in Scotland is designed to liberate and stimulate the forces of the market (Roberts, 1997; Cappellin, 1997). Although, the use of state intervention has been popular in a number of countries, especially former Eastern bloc countries, there has been a line of thought in recent years, that the use of market forces when formulating regional policy is more effective and as a result, these have now become a more permanent feature of regional economic development policy in developed economies, and in Scotland in particular. In the same way, there have been also some moves to alter Scotland's approach to solving regional problems, and most notable among them is the move from a top-down to a bottom-up system. For example, the UK government has been perceived over the past few decades as excessively inflexible and too slow to react to problems being experienced by its regions. As suggested by Beer et al (2003), the region is now being seen as the appropriate level, for formulating strategies to improve business competitiveness and create employment and for that, reason, such policies are principally aimed at reducing unemployment in areas, where it is persistently high, and industrial clusters are seen as a constituent of the solution to this problem. According to Bryan et al (2007), the promotion of industrial clusters is seen as one way of revitalising depressed regions because, they are believed to have the potential to deliver economic benefits, by virtue of their local linkages and through the added value they create. They also suggest that, industrial clusters (key sectors) actually contribute to both regional and national competitiveness, and this it is believed can only be achieved through the use of market forces.

Therefore, market based and state intervention approaches will be discussed in detail below:

The Market-Based Approach

This approach focuses on increasing the flexibility of local labour markets, as suggested by Taylor and Wren (1997), and argues that, persistent high unemployment is due to factors, which inhibit the free working of local labour markets, including government regulation and other rigidities. The result is that, wages are kept above their market clearing level meaning that, they need to fall in order to reflect local supply and demand conditions. In turn, this eliminates the excess supply of labour as employers are induced to take on new workers and some of the unemployed drop out of the job market, due to the lower wages on offer. Some of the policies used in market-based approaches, that are aimed at increasing labour market flexibility are as follows:

The Government should remove all Statutory Controls that Guarantee a Minimum Wage

In essence, minimum wages are intended to protect the incomes of the lowest paid workers, and this is done through workers' unions and the government. Unions set wages for their members, whilst governments enact specific minimum wages, which essentially define the lowest wage rates that may legally be paid. In simple form, a minimum wage law is a regulation that makes it illegal for employers, to pay less than a specified wage rate. Any rise in wage rates and hence, prices would therefore, lead to a large fall in sales and consequently to unemployment. In order to overcome this problem and attract firms to Assisted Areas, Taylor and Wren (1997) argue that, the government should remove all statutory controls that guarantee a minimum wage.

The Government should Abandon National Wage Bargaining

In the UK, workers' unions have numerous functions, among them bargaining about pay and working conditions. Although, the minimum wage law sounds a good and rational idea, the principal argument against imposing a national wage concerns its impact on employment. One of the problems of raising wages above their competitive levels is the emergence of a supply of workers, who would like to work at the going wage rate, but cannot find employment and will spend prolonged time searching for work. Many fear that, unemployment will rise as employers' response to higher wage costs will be, to shed their labour force, since raising wage rates above the equilibrium level leads to surplus labour and this in turn means unemployment. Traditionally, the economists' argument, for using the market-based approach has been based on the fact that, persistent high unemployment is due to factors, which inhibit the free working of local labour markets, including government regulation and other rigidities. The result is that, wages are above their market clearing level and need to fall to reflect local supply and demand conditions. As a result, this eliminates the excess supply of labour as employers are induced to take on new workers, while some of the unemployed drop out of the job market, due to the lower wages on offer. In order to overcome this situation, then there is a need to remove all statutory controls guaranteeing a minimum wage, as well as to abandon national wage bargaining by weakening the role and power of the trade unions, the end result of which is that, wages are negotiated locally is at plant level, rather than at national level.

The Government should Reduce the Costs of Hiring and Firing

On balance, it is evident that, from an economic perspective, the benefits of reducing the costs of hiring and firing will enable more firms to invest in assisted areas and hence, the need to encourage governments to enhance labour flexibility. Flexibility in labour markets will reduce costs and thus, enhance international competitiveness, as firms will have money to spend on research and development, rather than on the costs of hiring and firing. In labour-intensive industries costs are a major factor in location decisions. Hence, the need is to keep them as low as possible. Reducing the costs of hiring and firing is of importance in that it is seen as the best way employers can be induced to take on more workers.

The Government should Reduce Unemployment Benefit and Income Support

The aim of the market-based approach, of encouraging the government to reduce unemployment benefits and income support, is to stimulate the unemployed to take low paid jobs. If the government does not reduce the benefits discussed above, firms lose the profits that could have been made; had there been full employment. To make matters worse, the proponents of market forces believe that if people receiving benefits do not bother looking for a job and therefore remain unemployed for a longer period, they will become more deskilled, thereby reducing potential as well as actual income since they will not be able to find a job in the future due to a lack of skills. Businesses will then not be attracted to assisted areas as there will be no skilled labour. In addition, the government will lose tax revenues, since the unemployed pay no income tax and national insurance. Since they suffer a lack of reasonable disposable income and therefore make fewer purchases than those in employment, they also create less revenue from VAT and excise duties. In addition, the government will incur administration costs associated with the running of benefit offices and may also have to spend extra money on health care, social services and the police.

The State Intervention/ Market-Failure Approach

Although there have been some suggestions that the state should leave the formulation of regional policy to regions and market forces, Clarke (1996) argues that the exclusion of government from intervention in regions is not the best option. He thinks instead that the government has a role to play, especially in the creation of a competitive domestic environment, as well as in enabling firms to match their competitors' strengths. In fact, there is a general agreement that the functions of stabilisation and distribution should be concentrated in the hands of the national government, or rather at the highest level of government. Even at lower levels, such as the regional level, there are some suggestions in regional economics that state intervention will cover for the failure of market mechanisms and ensure an optimal allocation of resources, especially in rural regions that might need economic support, such as Central Scotland, the Scottish Borders, Dumfries and Galloway, the Highlands, Western Isles, Orkney Islands and Shetland Islands. This, then, provides a rationale for state intervention as long as the government is decentralised, as argued by Newlands (1999). Therefore, the principle behind the state intervention approach is that of eliminating persistent high unemployment, meaning that it is necessary either to increase the demand for labour or to improve the supply of labour. In essence, the state intervention approach argues that sometimes markets do not locate resources efficiently and as result government intervention may improve economic performance.

Encourage Indigenous Development

Over the last twenty years there has been a growing awareness of the significance of small firms to the development and health of the Scottish economy at both national and regional levels. Consequently, and as observed by Danson (2003), there has been a perceived need for the Scottish Government to intervene in the market both to ensure that of the high proportion of small firms which fail each year are replaced, and to promote the creation of new businesses as a way of compensating for the decline in large plants. Regional policy makers and analysts have become conscious that the growth of smaller firms is a vital element in the wealth creation process of any country, since they are perceived to be potentially very creative at developing new technological and market opportunities. Experimentation and growth are central mechanisms in a competitive enterprise economy like Scotland, and it is therefore essential for the Scottish government to ensure that small firms operate effectively and vigorously for the benefit of the national economy. With this in mind, then, it is obvious that small firms play a significant role in innovation and are a major source of new competition as well as the new employment opportunities that regions desperately need. Policy makers also believe that the encouragement of indigenous development, through new firm formation and the growth of existing small firms, may only be achieved through the provision of business support, industrial sites, premises, loan guarantees and financial support, which, as noted by Armstrong and Taylor (2003), market forces cannot provide without government backing. The criticisms levelled against subsidizing indigenous firms, meanwhile, have been based on the quality and quantity of jobs created as a result of the formation of small firms. Critics have questioned the benefits of subsidizing projects that often create relatively few jobs at considerable expense, as well as the fact that labour subsidies can be seen to encourage firms to employ a larger workforce than they might otherwise have done, thereby promoting inefficiency.

Encourage Foreign Direct Investment

Armstrong and Taylor (2003) have noted the significant role played by foreign direct investment (FDI) in the economic development plans of many countries. FDI in this study is defined as the movement of long-term capital to finance business activities abroad, whereby the investor control at least 10 percent of the enterprise. In other words, foreign direct investment takes place when a firm in one economy (home country) makes a long-term investment in another country, and secures effective control of a company (the affiliate) resident in another economy (the host country). Such a firm is called a multinational enterprise (MNE), on account of its ownership of productive activities in more than one country. It is important to note that not only does FDI provide capital, but it also brings with it up-to-date technology, which is seen as key tool to regional economic development. Similarly as noted by Cross (1999) foreign direct investment also creates many externalities in the form of benefits available to the whole economy, which include the transfer of general knowledge and specific technologies in production and distribution, industrial upgrading, work experience for the labour force, the introduction of modern management and accounting methods, the establishment of finance-related and training networks, and the upgrading of telecommunications services. It is therefore clear that FDI is essential to the development of the Scottish economy and its assisted areas because it provides a unique combination of long term finance, technology, training, technical know-how, managerial expertise and marketing experience. Accordingly, the policy makers appear to have recognised these advantages in recent years, hence their acceptance of the need to use FDI in the development of regional economies.

Improve the Physical Infrastructure and the Environment

Improving the physical infrastructure and environment of less well-off regions is essential, in that it raises competitiveness and makes those regions more attractive to potential investors, especially foreign direct investors. Education, health, roads, bridges, telecommunications and buildings are all desirable forms of investment, and among those most urgently required by a disadvantaged region. Creating the appropriate factors of production within a region also is critical to create comparative advantages in products that are manufactured for potential export. Demonstrating its commitment to the improvement of disadvantaged regions, the Scottish Government is working on broadband to ensure that access to terrestrial broadband (DSL) and equivalent services in Scotland rises from 40 percent population coverage level in 2003 to 70 percent by 2010. In transport, the Scottish Government identified 10 priority projects, with the majority focusing on what business really wants and needs, such as the new 7-year Scottish passenger rail franchise; re-development of Waverley station; developing rail links for Glasgow and Edinburgh airports; progressing the central Borders rail link; delivering top priority public transport projects from the A8, A80 and M74 corridor studies; fixing Aberdeen's congestion problems; developing an effective, modern 21st century public transport system for Edinburgh, as well as examining how the vital motorway links on the A8 and A80 might be completed. £450m was expected to be invested in three Intermediary Technology Institutes - covering energy, life sciences and communication technology - as well as commissioning research in key areas of economic and business development potential by 2010 (DTI, 2003).

Improve the Skill Level of the Labour Force

It is important from a regional economic development point of view to develop and improve the standard of education in general, as well as in trade schools and other appropriate institutions of formal education. Assistance in the provision of on-the-job training within firms and regions is also necessary in order to improve regional efficiency and competitiveness. So the development of workers and the population at large as part of an overall human resource strategy in a region should be a prerequisite not only for organisations but also for the region and the country as a whole. The significant benefits of formulating and implementing such a policy include the attainment of business and regional goals and accelerated organisational and regional development, and can be felt first and foremost but not exclusively in the workplace by the firms themselves. Such efforts to improve the skill level of the labour force are being made in Scotland and other parts of the UK, as witnessed by the reported enhancements to be gained from the use of formal qualification-based programmes for human resources development. In addition, there are an increasing number of partnerships between education providers, such as colleges and universities, and employing organisations to tailor the content and delivery of such programmes. Taking these facts into account, it is not surprising to note that vocational education and training (VET) is not only near the top of national political agendas and the centre of UK public policy in general, but is in itself also a political issue, being closely connected to levels of unemployment, industry competencies, national efficiency and productivities. In order to secure competitive advantage in global markets, the region's labour force must be proficient at meeting the needs of the region’s business organisations in terms of its magnitude and expertise composition, and one way of achieving this is through VET.

Bring the Long-Time Unemployed Back into Work

Bringing the long-term unemployed back into the effective labour force is an ideal both noble and desirable, as the British and Scottish governments have recently suggested by offering temporary employment subsidies targeted at these individuals. However, history seems to suggest that this strategy is problematic, since few among the long-term unemployed are actually willing to take up the offer of work, and at the same time employers are also very reluctant to recruit such individuals. Both of these facts exist despite the government's belief that work experience would greatly improve the probability of these workers obtaining permanent jobs on the long run, resulting in long-term benefits for areas of high unemployment.

Reduce Job Search and Relocation Costs

It has been suggested, as observed by Taylor and Wren (1997), that there is a need to reduce job search and relocation costs to the unemployed. By improving the information on job vacancies, making more low-rent housing available in areas of unemployment areas, and also by offering inducements for relocation, the unemployed would more easily be able to take up jobs in such areas. Nonetheless, even though in the general assessment there is a line of accepted wisdom in the field of economics as a whole and regional economics in particular that the market-based approach is more effective than state intervention, it is undeniable that, at times, policy makers are compelled to want both at the same time, although their premises are contradictory and possibly even mutually exclusive. For that reason, economic strategists and regional policy makers will have to somehow resolve the paradox of market forces and market failure as has always been the case in previous debates surrounding these economic approaches. The other issue of importance that has so far been ignored when discussing regional policy is that of how to classify and discuss about the types of regional assistance that are available to policy makers in Scotland in particular and UK at large.

The Types of Regional Assistance Aimed at Reducing Regional Disparities in Scotland

One must remember that it is the DTI that has been at the forefront of formulating and implementing regional policies intended to improve the nation as well as the regions’ efficiency and competitiveness. To achieve this, the UK Government, the Scottish Government, the Welsh Assembly and the Northern Ireland Assembly all put in place regional policy instruments that they believed would improve the efficiency, innovativeness, competitiveness and skills of individuals, especially in the Assisted Areas and the inner cities. These instruments are often directed towards entrepreneurs and factor owners, and can be employed either directly, for example by supporting existing technologies or shifting towards new technologies or business activities, or indirectly, through facilitating improvements to the infrastructure and suchlike. Together, their joint effects may alter and increase employment, investment and output in the assisted regions, at least in the short term, as noted by Taylor and Wren (1997). The available policy tools include those that provide incentives and disincentives to firms to move and to locate in or out of geographical regions, as noted by Jovanovic (2001), and are as follows:

Regional Selective Assistance (RSA)

The main instrument of UK and Scottish regional industrial policy, Regional Selective Assistance (RSA) is one of the few kinds of state aid to large firms that was permitted by the European Commission and the key tool that has been retained by the Scottish Government to promote foreign direct investment in lagging regions. Since its origins in the1970s, RSA has been a significant factor in attracting a substantial amount of inward investment to Scotland as well as the UK as a whole (Taylor and Wren, 1997), and provides discretionary capital grants to help meet the cost of projects that create or protect jobs. RSA grants were originally made towards projects of any size in both the manufacturing and service sectors, but are now open only to international investors requiring assistance with the investment costs of projects that have capital expenditures of above £500,000. Despite these changes, the objectives of RSA are still to create and safeguard jobs, to attract and retain internationally mobile investment, and to contribute to improving the competitiveness of disadvantaged regions. Funds are usually administered as either a capital-related or a job-related grant, and while capital-related project grants are normally used to assist with land purchase and site preparation costs or the acquisition of plant and machinery, job-related project grants are usually intended to help cover the costs of hiring and training (Regional Studies Association, 2001).

The Regional Innovation Fund

A new Regional Innovation Fund (RIF) was introduced in the Budget of 2000 to support business clusters and ‘incubators’ in the regions. The aim of the RIF is to support collaborators and joint innovation projects among participating companies, such as universities and private firms and this is ideal for industrial clusters.

The Assisted Areas (AAs)

One increasingly favoured route by which governments across the western world can intervene in regional affairs without increasing public expenditure is by spending more of what they have never actually collected, through offering tax relief. During the 1990s, there were three types of areas which were designated for such assistance, namely Development Areas (DAs), Intermediate Areas (IAs) and ‘split’ areas, which were a mixture of Development and Intermediate Areas. Designated according to the degree of economic deprivation in their regions, as measured by indices such as structural unemployment, long-term unemployment and economic activity rates, the degree of assistance given to these areas varied from those which needed most help (DAs), to those which needed less help (IAs), and in-between areas with pockets of localized problems, which are known as ‘split’ areas (Regional Studies Association, 2001).

The European Union Regional Policy

In addition to the above, Scotland has also benefited from European Economic Community regional policy. Armstrong (1997) interestingly notes that there are suggestions that the goal of some European politicians is to create a complete political union, with a central federal government functioning as a ‘United States of Europe’. The European Economic Community was formed after the signing of the Treaty of Rome in 1957 by Belgium, France, Italy, Luxembourg, Netherlands and West Germany, and came into operation on 1 January, 1958. The aim of this organisation was to gain economies of scale and to sanction more effective competition with the USA and other foreign competitors such as Russia, China and Japan, something that was then achieved by allowing a complete free trade of all products, and totally free movement of labour, enterprise and capital between members. In 1973, the UK, Denmark and Ireland joined the EEC, with Greece joining in 1981, Spain and Portugal in 1986, and Sweden, Austria and Finland in 1995. New waves of membership negotiations began in 1998 with Cyprus, the Czech Republic, Estonia, Hungary, Poland, Slovenia, and later several other Central and Eastern European countries. On 1 November, 1993, after final ratification of the Treaty on the European Union, known as the Maastricht Treaty, the European Union came into existence (Bulmer, 1997). The EU is involved in many economic activities, among them the formulation and implementation of regional policy. Indeed, regional policy is seen by policy makers as a central part of the union’s efforts to take economic integration forward, and this has so far been achieved without eliminating the member states’ individual regional policies. The EU’s own regional policy has been targeted at inducing inward investment into designated assisted areas, stimulating indigenous growth in designated assisted areas, and regeneration through investment in the economic and social infrastructure of designated assisted areas. While the regional assistance aimed at reducing regional disparities in member states such as Scotland, the most interesting thing about the EU's regional policy and that of its member states is that they all have the same objectives (Armstrong et al, 1997). The 1989 reforms established a set of common objectives for the structural funds, and six objectives were formulated and implemented. Scotland, however, has benefited most from the two under-mentioned:

The Economic Adjustments of Regions whose Development was Lagging Behind

These areas are structurally backward regions with GDP per capita under 75 per cent of the EU average. Comprising the most disadvantaged of the EU’s problem regions, they are dominated by the Southern Mediterranean together with East Germany and Ireland, although some of them have seen improvement in their affairs since the introduction of the development funds. Within the UK, the regions of Northern Ireland, Merseyside and Scottish Highlands and Islands were eligible for Objective 1 help between 1994 and 1999. All structural funds were responsible for the redevelopment of Objective 1 areas, while Highlands and Islands also benefited from Objective 5, with funding disbursed through six regional development programmes, among them Scottish Islands Agricultural Development Programme, Rural Enterprise Programme, and financial intervention in fisheries structures, according to Bachtler et al (2002).

The Economic Conversion of Declining Industrial Areas

The European Regional Development Fund (ERDF) and European Structural Fund (ESF) were charged with helping these regions. Western Scotland, which comprised Strathclyde and travel-to-work-areas of Ayr and Girvan, and Eastern Scotland, consisting of Tayside, Fife and Central Region, both benefited from Objective 2.

European Regional Development Fund

EU funds became available in the UK in 1975, that is, after the establishment of the European Regional Development Fund (ERDF). The ERDF was specifically aimed at redressing the main regional imbalances in the Community by supporting industrial investment and local infrastructure projects, especially in areas seriously affected by crises in the steel, shipbuilding and textile industries. Programmes such as STAR and VALOREN, intended to develop telecommunication services and energy development respectively in the less-favoured regions of the Community, and progressively supplemented by RENAVAL (conversion of shipyards) and RESIDER (restructuring of steel areas), were implemented in 1988. From 2000 to 2005, the Highlands and Islands, an Objective 1 area, received support in its efforts to provide infrastructure such as road, ferry and electricity supply links, while Strathclyde was given assistance with its steel and shipbuilding industries. Tayside was included in similar Community support aimed at restructuring textile areas, mainly in Dundee. In addition, Scotland benefited from assistance with projects such as the Edinburgh Bypass; Stepps Bypass; Dundee Inner Ring Road; rail-line extensions at Airdrie, Cumbernauld and Paisley; renovation of Glenrothes railway station; deepening of Fraserburgh harbour and Dighty Sewer; as well as vocational training in the form of the North Atlantic Fisheries College, Shetland, and Cambuslang college extension in Lanarkshire.

The European Union’s Structural Funds

The central aim of the European Union’s Structural Funds is to enhance the competitiveness of less well-off areas and help them towards self-sustained growth. These funds have increasingly become as important as a means of improving the economic performance of Scotland’s less well-off regions (Taylor and Wren, 1997). It is important to note that the main thrust of the EU’s regional policy lies with structural funds and these funds’ main objectives are to promote the development of less developed areas; promote the development of rural areas; help restructure areas affected by industrial decline; help develop areas suffering from long-term unemployment; help areas where young people are in particular need of training to find jobs; and help areas where the agricultural and forestry industries need to adjust their protection. Martin (1999) further notes that the reasoning behind this ‘financial targeting’ argument is that if poor member states have insufficient resources to target their regional problems themselves, the EU must therefore provide the necessary resources for the good of the Union as a whole. Also known as the ‘vested interest’ argument, this approach is based on the belief that solving regional problems in one member state will be beneficial to others.

METHODOLOGY

As noted by Munyoro (2017) the research methods are selected depending on the requirements of the research objectives, along with their flexibility. In addition, the methods should be chosen depending on their appropriateness to the study as suggested by Reiter et al (2011). In this study, desktop research, also known as secondary research was used in the study. Desktop research, in short involves the summary, collation and/or synthesis of existing research, in which data are collected from, for example, research subjects or experiments. Furthermore, secondary research is taken to include the reuse, by a second party, of any data collected by a first party or parties (Crouch and Housden, 2003). Principally, Secondary sources include previous research reports, newspapers, magazines and journals as well as government and NGO statistics. As stated by Munyoro (2017) the good thing about the method selected in this study is that it is convincing, dependable, fast and easy to use, as well as being relevant to the study (Ball, 1991., Lapin, 1998., Saunders et al, 2000., Curwin and Slater, 2004). The only negative aspect of using secondary data is that, the data has been collected for purposes other than the current study (Saunders etal, 2000). In order to evaluate the significance of regional policy, this study reviewed the relevant literature on the history of Scottish regional policy and thus, was able to investigate and compare how different regional policies have evolved over the years (Munyoro, 2017). As shown below, the study developed a framework of analysis with the help of literature in the fields of regional and urban economics, which enabled to discuss the significance of regional policy of Scotland in particular and UK at large.

FINDINGS AND RECOMMENDATIONS

The overall goal of the policy was to ensure that there was sustainable economic growth and stability in all the regions and the country as a whole according to DTI, Highlands and Islands Enterprise, Scottish Enterprise and Scottish Government's publications of 1999. This involved investment in the development of industrial clusters but unfortunately did not target industries with potential but rather regions with serious economic disparities. Although the policy was, amongst other things, intended to generate industrial clusters, there is little evidence to show that industrial clusters were particularly favoured as the policy making organizations were supporting regional economic development in general terms rather than potential and high technology industrial clusters in particular. This had the unfortunate by-product of some industrial clusters underperforming, quite possibly due to lack of innovativeness and productivity as predicted by Porter (1996 and 2003). Significantly, there has been a revolution in thinking about how regional policy could be used to bring about faster indigenous development in Scotland. For that reason, there has been a change in focus from declining industries such as coal, textiles, whale fishing, mining, steel and shipbuilding, to high technology industries such as ICT, biotechnology and creative industrial sectors. The EU and its individual members are increasingly focusing their regional policy on the development of indigenisation in these high-technology industrial sectors rather than relying on foreign direct investment as argued by the Regional Studies Association (2001). Thus, regional policy is now designed to help new firm formation and the growth of small business (DTI, 2003), and to encourage innovation within a geographical area, as can be seen in the oil and gas industries in Aberdeen, financial services in Edinburgh, biotechnology in Dundee, and ICT in Glasgow and Edinburgh. The high technology industrial sectors are attractive to policy makers because there is high demand for their services and they are a major means of boosting the efficiency and competitiveness of firms. The Scottish Government recognises that science, engineering and technology will continue to underpin of national productiveness as well as competitiveness and so promotes innovation. As such, technical know-how and skills in these areas are also becoming increasingly vital to Scotland as more businesses become even more dependent on high-value added and knowledge-based products, processes and services. In addition, the Scottish Government also realises that innovation and research and development are inherently high risk processes, since results take several years to reach the marketplace and often require considerable financial investment which enterprises cannot afford, hence the financial incentives that they are providing in order to overcome the difficulties that small enterprises experience when raising finance for research and development of new ideas.

In Scotland, policy makers have also realised that technology is the key element in regional growth and that high-technology firms are dynamic, offering high-quality, high-wage jobs for workers, hence the need to promote these industries in disadvantaged regions such as the Highlands and Islands. Such a policy is intended to simultaneously improve the innovativeness of the firms in these regions and to help indigenous firms upgrade their technology to the latest level, and this has led to the establishment of innovation centres and transfer agencies such as colleges, universities and regional research centres in Aberdeen, Edinburgh, Glasgow, Dundee and Ayr, to name but a few. The presence of high-technology firms in these areas is obviously supported by financial incentives, and Regional Selective Assistance (RSA) is the main investment grants scheme for business in designated areas of Scotland also known as the 'assisted' areas. Powers to offer RSA in Tier 1 and Tier 2 areas are under Section 7 of the Industrial Development Act 1982 and Article 13 of the EC General Block Exemption Regulation (EC) No 800/2008. Powers to offer RSA to Small Enterprises in areas not covered by Article 13 are under Section 8 of the Industrial Development Act 1982 and Article 15 of the EC General Block

Exemption Regulation (EC) No 800/2008, and these areas are referred to as Tier 3. In addition, the Scottish Government have also realised that it is tough to finance lengthy research and development and more difficult to find the necessary backing, even though research and development is more fundamental to international competitiveness. This fact explains the need to help firms with Research and Development Grants. All these grants are intended to support businesses of all sizes with developing new products, processes and services to improve small enterprises' competitiveness and to benefit the Scottish economy. There is also a school of thought that the intended beneficiaries of these grants are small firms whom the government aims to encourage to invest in Research and Development as well as creating jobs in designated areas of Scotland, according to Scottish Enterprise (http://www.scottish–enterprise.com). Tier 1 is mainly administered by Highlands and Islands Enterprise whilst Tiers 2 and 3 are mainly administered by Scottish Enterprise.

Nevertheless, critics of regional policy have long argued that in the past, regional policies in both Scotland and the UK at large have relied too heavily on encouraging firms from outside the assisted areas to locate their plant in the assisted areas, rather than promoting firms within such regions through indigenous development. In particular, according to Armstrong and Taylor (2004), too little attention was paid to stimulating new firm formation, inducing small firms to expand and encouraging firms to develop the latest technology. Although FDI in the 1980s did contribute a great deal towards job creation, generated work for local suppliers, and brought state-of-the art technology and management methods that vastly improved Scotland's export performance, the Scottish Government feels that there is a need to move on and create a broadly-based entrepreneurial culture which will enable local people to start their own businesses.

Evidently, then, the small firm sector has come to occupy a central position in government policy thinking. The main arguments of promoting this sector are that small firms have the ability to create large numbers of new jobs and stimulate intense competition for small and large firms alike, leading to an energetic enterprise culture and stimulation of innovation, among other factors. Unfortunately, however, one telling criticism of entrepreneurship is that the types of jobs that are created by this sector are not as good as is sometimes claimed. In the past, as well as in recent years, small firms have been attacked for their poor health and safety record, for creating more part-time jobs, lower wage rates and longer working hours, and for their poor training and fringe benefits, and so on. In addition, some regional policy makers argue that small firms are now engines of job creation, especially at a time when large firms in manufacturing are engaged in the process of retrenchment. The only worry has been the rate at which these small firms are failing to overcome barriers to growth. In response to this problem, many policy makers feel that the way forward is to try to encourage small firms and large firms to concentrate in one geographical area, as well as specialising in one industrial sector. By doing so, it is hoped that small firms will survive by serving niche markets in which they have the added advantage of being able to provide specialist expertise, directly targeted at areas where the newer high technology industries such ICT and biotechnology are located.

In fact, as well as promoting the growth of small firms, this policy was and still is deliberately designed to encourage industrial clusters. The theory of industrial clustering is based on the assumption that regional specialisation in interlinked activities by complementary firms, along with their cooperation with public, semi-public and private research and development institutions creates synergies, increases productivity and leads to economic advantages. Hence, as suggested by Steiner (1998), regions should specialise and policy should create, develop and support such clustering. This also results in suppliers benefiting from close proximity and frequent interaction, which manifest themselves in the form of accelerated product development and enhanced marketing. Furthermore, it is assumed that the development of firms will also attract finance, thus enabling small firms to overcome barriers to growth. Nevertheless, policy makers, academics, economic and business strategists are aware that industrial clusters bring competition that may result in increasing returns from production as costs of production are lowered because of the concentration of suppliers that develops in the area. There is only one problem with this policy, however, and that is the apparent struggle that many policy makers have with understanding the industrial clustering phenomenon (Munyoro and Dewhurst, 2010; Munyoro, 2017).

Nevertheless, Scotland is still optimistic that the introduction of industrial clustering strategy will enhance the promotion of innovation as well as the performance of individual companies for the reason that innovation is of significance not only for increasing the wealth of nations in the narrow sense of increasing prosperity, but also in the more fundamental sense of enabling people to do things which have never been done before (Munyoro and Dewhurst, 2010). Innovation is critical, therefore, and not only for those who wish to accelerate or sustain the rate of economic growth of a country or region (Weinstein, 1992; Freeman and Soete, 1997). As suggested by Fields (2004), there is a significant body of evidence and economic analysis which demonstrates the importance of innovation to economic growth. For example, the growth and development of nations has always been closely linked with access to and the effective exploitation of science and technology, hence the need for industrial clusters (Munyoro, 2017). This is despite the failure by academics, practitioners and politicians to understand whether clustering is a theory or a practical phenomenon (Benneworth et al, 2003; Martin and Sunley, 2003). For this reason, it is essential to identify a set of industrial clusters (Perry, 1999; Ketels, 2003; O'Donoghue and Gleave, 2004; De Propris and Driffield, 2006), as discussed in Munyoro and Dewhurst (2010) paper.

CONCLUSIONS

It is apparent that this study was intended to examine the significant issues relating to the use of regional policy in developing the Scottish economy. The study also discussed the significance of regional policy to the Scottish economy, especially industrial clustering policy as seen by policy makers as a key regional economic development tool and a solution for the economic development of depressed Scottish regions. There was also a discussion on the merits and demerits of using both market-based and market-failure approaches. Although there is an accepted conviction that market-based approach is more effective than state intervention, as has always been the case with these paradoxes, the conclusion was that policy makers are sometimes undeniably compelled to want both at the same time, although their premises are contradictory and possibly even mutually exclusive.

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