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## Micro-regions versus macro-regions: The issue of the adequate institutional setting in the recent debate on Swiss regional policy

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**Micro-regions and macro-regions: the issue of the adequate institutional setting in the recent debate on Swiss regional policy**

Swiss regional policy has been born at the beginning of the seventies with the intent to correct regional disparities in income per head between the more urban regions of the Swiss Plateau and the mountaneering regions in the Alps and in the Jura chains. In order to pursue this objective, the Swiss parliament introduced a special legislation to promote the construction of private and social infrastructure in these regions. At the end of the seventies, as a reaction to the increasing restructuring in the manufacturing sector ( in particular in the watches industry), the Swiss parliament introduced a second regional programme with the aim of incrementing innovation and diversification in the manufacturing sector in regions, which were knowing particularly high unemployment rates and were characterized by an unfavourable industry-mix (Rossi, 1997)

Both these programmes were divided for very small regions. In the case of the programme towards the development of the mountaneering regions, the average region counted between 15'000 and 20'000 inhabitants. By the second programme, the regions in which the programme was applied were even smaller, this at least at the beginning of this experience, i.e. in 1978. The declared goal of both these programmes was to intervene only there where a situation of particular need was ascertained. The values of the indicators chosen, in order to define the perimeter of the helped regions, were in both cases extremes, a long range over oder underneath the national average values. Even if the mountaneering regions (there are more than fifty) covered a large portion of the Swiss territory, their population represented only a quarter of the resident population and their income less than 20% of the national income (Wachter, 1995). The population concerned by the second programme was partly resident in the mountaneering regions. For the rest, it represented an even smaller percentage of the resident population.

In other words, the programmes of the federal regional policy were considered as exceptional measures which should be restricted, in their application, to very small

regions and to a very tiny number of economic subjects, this in order not to disturb the normal working of the markets.

This orientation, which was considering the regional policy at the federal level as an exceptional intervention, to be limited to very small regions, began to be contested at the beginning of the nineties. In a report they wrote for the federal Office for Manufacturing, Crafts and Labour in which they discussed the changes that the regional policy at the federal level would have experienced if Switzerland had joined the European single market, Brugger and Hanser showed, that the regions for which the European regional policy was targeted were 5 to 10 times larger than the Swiss planning and policy regions (Brugger, Hanser, 1991)

Table 1: A comparison in size of European and Swiss regions

	Average Surface in 1'000 Km <sup>2</sup>	Average Population in 1'000
NUTS II	13.3	1'839
NUTS III	2.8	390
SWISS REGIONS*	0.4	60

\* These are in general planning regions, including sometimes also urban areas  
Source: Brugger and Hanser 1991

If Switzerland had joined the single market, the regional development strategy should therefore have been conceived in terms of larger regions than the ones which were concerned by the two regional policy programmes which we have evoked. In other words, to be put on an European map, the Swiss regions should have been larger than those of the regional policy programmes at the federal level.

A year later, in her manifesto "With reference to Europe 1993", the Swiss study society for planning and regional policy attacked the existing policy criticizing what she thought was a too narrow conception (ROREP, 1992). In the eyes of the authors of this manifesto, the existing regional policy was not suited to deal with problems like

- the regional consequences of the European integration
- the mounting economic competition among the regions
- and the changing nature of the regional economic problems.

To deal with these changes, the Swiss study society for planning and regional policy suggested among others, that the regional policy at the federal level should be conceived for different groups of regions, according to a "variable geometry" principle which did not exclude the creation of regional policy programmes also for large regions like the urban ones (Rossi, 1995). A year later, this proposal was taken up by the federal administration in a white book containing the proposals for the regional policy reform (EVD, 1993) and finally it was included, as a strategic principle, in the regional policy reform, which was introduced by the Swiss parliament in 1997 (Botschaft, 1996). In the report of the government to the parliament which contains the main proposals for this reform one maintains in fact, that the future regional policy could contemplate two kinds of regions, namely:

- on the one side, small regions in which one would go on to apply different development programmes focussed on the particular development needs of these regions,
- and on the other side, larger economic areas, which should promote the internal cooperation to strengthen their position with respect to the national and the international competition, in particular at the European level. For this new type of regions, the federal government did not foresee any kind of programmes or measures.

Micro and macro-regions were not to be considered as two conflicting alternatives for the implementation of the regional policy, but rather as the adequate spatial contexts for two different policies, namely, on the one side the traditional policy of spatial equilibrium, and on the other side, a new policy orientation by which one tried to preserve the international attractiveness of the larger regions. In the present paper we concentrate on the larger regions, which represent an institutional novelty for the Swiss regional policy, as they ask for the cooperation of several Cantons or for the cooperation of border regions in Switzerland and in the nearby countries. It is interesting to discuss this subject in an European context, because it represents, in a certain sense, an exception to the general trend. While in Britain, Italy, and Germany, to name only three cases, recent reviews of the national regional policy targetted the regional policy into fewer and smaller geographical areas (Temple, 1994), in Switzerland one proposes to create, next to the smaller regions of the traditional regional policy programmes, new and larger ones, which should pursue new policy objectives. This subject has not drawn, for the moment being, a lot of attention from the Swiss regional scientists, probably because the experience in this field is relatively new (for an exception, see Treina, Rupp, 1996).

The discussion we present in this paper is to be considered as a first exploration of the items which could be relevant in an evaluation of the proposed institutional reform. We propose to first present a series of criteria by which the need for larger regions could be evaluated. With this in mind, we will discuss, in section 2, the relationship between regional policy and size of the assisted regions. Section 3 will instead be devoted to an analysis of the nexus between size of the region and its attractiveness. Section 4 will have a look to the same problem from the point of view of the institutional economics. After having reviewed some of the methodological questions which are relevant for the evaluation of the larger regions, we will in section 5 briefly resume the information available on the present Swiss experience. Finally, we would close our paper, with some conclusions and critical remarks.

## **1 Size of the regions and regional policy**

In free market oriented economies, regional policy is conceived as an intervention of the state whose aim is in general to correct some insufficiencies of the working of the market mechanism in space. The general assumption is, however, that the market mechanism in general allocates resources in an optimal way, even in space. Consequently, the assisted areas should be considered as temporary exceptions. One of the main effect of this orientation is, that the regional policy at the national level, which can contemplate a large number of instruments, is applied to a changing number of relatively small regions. In our opinion, the only case in which the national regional policy interests a large share of the national

surface or of the national population is when the economy of the nation considered is a dual system, composed of a highly developed and of an underdeveloped region. This was the case, for instance, of Italy, at the end of the second world war, and explains the regional policy programmes in support of the Mezzogiorno, which covered a very large portion of the national area (Holland S., 1972).

We can look at this problem from a theoretical as well as from a more pragmatical point of view. Theoretically we can consider this problem as one of the trade-off problems which the national authorities have to clear, before introducing their regional policy programmes. The optimal size of the assisted regions can be determined by taking into account the trade-off between two contrasting phenomena, namely:

- the impact of the assisted share in the national total on the efficiency of market allocation at the national level, on the one side,
- and the positive impact of the average size of the assisted regions on the conditions necessary for an autonomous economic development process at the regional level, on the other side.

In deciding about the size of the assisted regions and their number the national authorities have to consider the impact of these two phenomena. The programmes and measures of the regional policy should not disturb, on the one side, the operating of the market allocation mechanism. Consequently the regional policy programmes and measures should not last too much in time and should be implemented only to a small number of small regions. With respect to the national totals, the shares in population, area and GDP of the assisted areas should be small. The relationship between the size of assisted regions and market efficiency is therefore an inverse one. As a matter of fact, the smaller the values of these shares, the higher the efficiency of the market allocation mechanism.

On the other side, if the objective of the regional policy is to strengthen the assisted areas economies so that they can rapidly enter in a process of autonomously sustained growth, the size of the regions should be large, as the possibility of autonomous growth increases with the size of the region. Threshold growth and gravity models of different sources can be quoted to justify this assumption. The greater the size of the regional economy, the greater is her possibility to grow autonomously. If  $S$  is the average regional size,  $T$ , the national total,  $N$  the number of regions, the share of the assisted areas in the national total can be defined as:

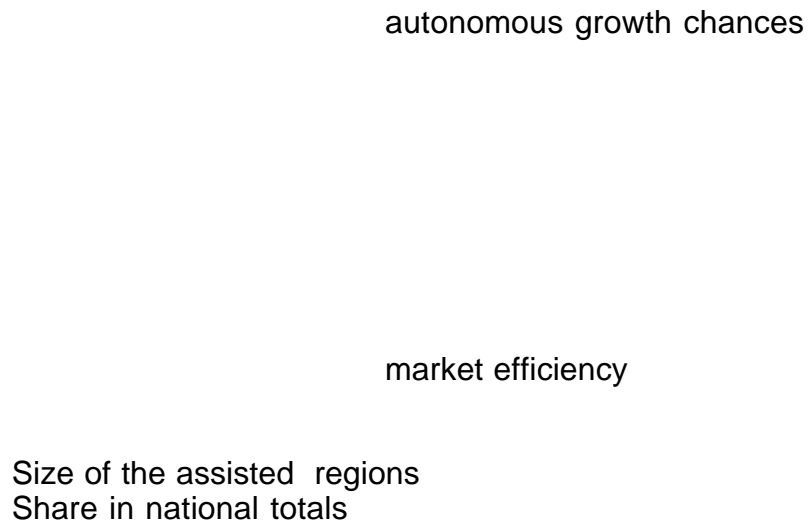
$$\text{Share} = (S \times N / T)$$

If, as it is normally the case, the number of assisted regions is given, an increase in the average size of the region will increase the value of the share. On the basis of these assumptions we have drawn the following figure which reveals that an optimal solution for the size problem is possible.

In real national systems of regions, the determination of the size of the assisted areas, as well as the determination of her number, is more a pragmatical political process in which other factors play a role. In the Swiss case, these decisions are much more related to the intensity with which the development problem, with which the regional policy programme wanted to deal, was manifesting itself in the considered area, than to considerations related to the long term impact of the

regional policy at the national level. Efficiency considerations were however leading the government in the seventies and provided for the recognition of a limited number of small areas. In the two programmes, we described before, the perimeter of the regions was therefore defined with the help of a series of criteria which characterized the position of the chosen region with respect to the national average.

Figure 1: The trade-off between size of the region and regional policy



In the case of the mountaneering regions programme there was, at least at the beginning, a provision specifying a minimum size in term of inhabitants as well as a minimum demographic size for the regional center. Consequently the mountaneering regions correspond either to the surface of a district or to that of several districts, the district being an administrative unit between the local authority and the Canton. For the second programme the regions were built up on the basis of indicators of the employment situation, which were computed for each local authority. As, at the beginning of the programme, one had fixed relatively high values of the unemployment rate and of the concentration of employment in one industry in order to define the regions' borders, the resulting regions were very small.

In other european countries, the size of the assisted areas can be setted by the size of the budgets, which the central governments are willingly to spend for the regional policy. As in general these budgets over the last years have been reduced, the assisted areas were in many cases reduced in size. The limitation in size of traditional assisted regions derived also from the fact, that, owing to different reasons, new categories of asssted areas have been defined ( the inner city areas in Britain, or the new Länder in Germany ) to which a part of the budgets for the regional policy have been diverted (Temple, 1994).

## 2 Attractivity of the region and regional size

The larger regions which are suggested by the reform of the Swiss regional policy are to be seen, according to the government reform report as the spatial unities for the definition of regional policy strategies in an european context. The improvement of the international attractivity of these regions and the strenghtening of their competitiveness have therefore been accepted as new objectives for the regional policy. Attractivity and competitiveness are often considered as synonymous in discussions on regional policy. This is however not correct. The attractivity of a region concerns, in our view, her capacity to attract factors of production and customers ( for instance tourists). In this sense, the attractivity of a region in a given period of time can be measured and forecasted. The competitiveness of a region is a far more unclear concept. In Porter theory of the competitive advantages, the competitiveness of an area is given by the long term competitive strenght of her firms on the world market (Porter, 1994). This is however a concept which is difficult to measure and for which forecasting is practical impossible. It is possible however that measures conceived to improve the attractivity of a region, with respect to factors of production and customers of other regions, can also contribute to improve the competitiveness of this region's exporting firms ( for instance some deregulation provisions). In this paper we will focus on regional attractivity.

Is there a relationship between the size of the region and her attractivity at the interregional level? We can answer this question in an affirmative way, recalling that the volume of economic interactions between nodal regions depends in fact on the regional size. Using a gravity model approach to explain this relationship, we can write:

$$I_{ij} = K \cdot M_i \cdot M_j \cdot d_{ij}^{-a}$$

with  $I_{ij}$  = interaction volume between region i and region j

$M_i$  and  $M_j$  =masses of the two regions (for instance regional GDP)

$d_{ij}$  = distance or transportation costs between the two regions

$K$  = a constant

$a$  = a constant

If the distance between the two regions, or the cost of transportation, remain constant, the volume of interaction will positively depend only on the sizes of the regional variables retained in the computation ( for instance the regional GDP). As Richardson has pointed out, the gravity model " provide an universal approach for interpreting nodal regions" (Richardson, 1969). On considerations of this kind are based both the studies on regional economic potential in the EU-regions as well as those on the attractivity of european urban centers. In these kinds of approaches, one does however not look for optimal solutions. On the other hand , gravity models allow to predict what is likely to happen.

If the size of the numerator variables increases, than the economic interaction will also increase. Supposing that the numerator variables represent GDP figures for the considered regions, a doubling in size of the GDP of one region will, anything else remaining constant, double the amount of economic interaction. Up to now the

reasoning has been based on the assumption that the increase in the size happens in the regional node. If the increase instead happens through the enlargement of the region area, the increase in the economic interaction will probably be less than the increase in the regional size variable. The more spatially dispersed is the increase due to the enlargement of the region and the smaller will be the ensuing increase in the economic interaction. In principle one can however assume, that by the enlargement of the regional area, the indicator measuring economic interaction will increase and that therefore an increase in the size of the region will lead to an increase of her attractiveness. By areas enlargement, the amount of increase in attractiveness will also depend on the goodness of the transportation system internal to the enlarged area.

In conclusion, the size of the region, in terms of her economic potential, influences her attractiveness. This is however also influenced by the position of the region with respect to the other regions of the regional system considered.

#### **4. Regional policy and institutional reforms**

Institutions and particularly public institutions have long been considered as exogenous in discussions about the effectiveness and the efficiency of public policy programmes. This position seems to have changed in the last years, not only in Switzerland (Lane, 1995). Today one thinks that the efficiency and the effectiveness of public policies can depend not only from the policies instruments and the way they are used, but also from the institutional arrangement in which the policies are conceived. Institutional innovation which was for a long time taboo begins to be seen again as useful, there where it is necessary to react to the structural change or to an unwanted change in regional competitiveness. In the case of the Swiss regional policy the more interesting institutional innovation is the proposal to create larger - intercantonal and international - regions as unities in which the regional development strategies should be conceived. The size of these regions could vary between half a million and a couple of millions inhabitants. They would therefore lie between the NUTS III and the NUTS II level of the EU-regions. The larger regions should allow

- i) to put up a more effective development strategy
- ii) to profit from possible economies of scale in the implementation of the regional policy
- iii) to get access to possible cooperation synergies, when the regions which compose the new region have complementary production systems
- iv) to cut down transaction costs for the external economic agents which would like to locate in the region

##### **i) Development strategy**

As far as the development strategy is concerned, the enlargement of the regional size allows at first the new region to get the benefits of a more deconcentrated industrial mix. The presence of a larger number of industries in the region contributes not only to the reduction of the negative repercussions of the business cycle but create also the possibility of an improvement in the interindustrial relationships, reducing the economic dependence of the region from the rest of the world (clusters building). As most of the new larger regions can count on a large



urban center, the creation of the larger regions can reinforce the spread effects from these centers towards peripheral locations. Further, in the urban centers of larger size are concentrated the services to the firms which play a very important role in strengthening their competitive position.

## **ii) Economies of scale**

In the implementation of regional policies the enlarged region can profit of economies of scale especially there when the instruments of the policy are conceived not for the individual firm, but for a branch or for a group of firms. This is often the case when the region develops her marketing policy: the costs of the participation to fairs or exhibitions, or the costs of an advertising campaign per participant firm can be in this way reduced. The same is valid for other information actions which can take place within the region (like for instance the creation of a data bank, or of an internet site, or of an information office). The enlargement can lead to a better use of existing capacities. It is also possible that a larger region can better lobby contributions from the central government for structural or infrastructural projects whose aim is to strengthen the regional attractiveness (like for instance investments in the educational or in the cultural sectors).

## **iii) Co-operation synergies**

In a federal system like the Swiss one, the co-operation between the Cantons is already well developed. However, as we will show in the next section of the paper, there still are fields in which this co-operation can be enlarged. A relatively new case is instead represented by the border regions, which can take part to the INTERREG projects of the EU. Although the participation to these projects does not impose the creation of a new institution, in many cases the need to improve international cooperation between border regions have led to the creation of an international regional institution which allows today to better co-ordinate the efforts of the border regions of two, or more countries (in the case of the Basle urban agglomeration this institution interests regions of three countries) in different fields like planning, transport, net infrastructure, tourism or regional development strategy.

## **iv) Transaction costs**

In the context of this paper, transaction costs will be considered only in relationship with the costs arising for the economic agent when they try to get access to the information concerning public policy programmes. This question is especially relevant, with respect to the issues of regional attractiveness and of regional competitiveness, in countries with a federal setting. In these countries legislation on planning, building, taxes, labour conditions and wages can differ from one region to the other. The external economic agent who has to collect the information which is needed in order for instance to create a new firm, to build a factory, or to appoint workers and employees, can run into important search for information costs not only because of differences in the regional legislations but also because federal legislation can be applied differently in different regions. The greater the administrative fragmentation of the country and the greater the regional and local autonomies, the greater will be the transaction costs for information search to an economic agent who does not live in the region. Institutional re-arrangements by which one creates more uniformity in regional legislation regulating economic

activities or in the application of federal legislation and programmes can contribute to a reduction of the transaction costs. On the other hand, greater regions can develop a more effective marketing policy at the national and at the international level.

Resuming now the main content of the arguments presented in this section, we can maintain that institutional innovation can today be used to improve the efficiency of governmental policies, the regional policy included.

## **5 The Swiss experience up to now**

As far as regional policy is concerned, one can say that, for the moment being, Switzerland experiences a kind of institutional turmoil. In 1997, the Swiss parliament approved a re-orientation of the federal regional policy, which opened the door to the creation of large regions as institutional frame for the development strategies whose objectives were to strengthen the national and the supranational competitiveness. This is a top-down process, which, for the moment being, has remained to the state of declaration of intents. On the other side, however, larger intercantonal and supranational regions have emerged as the result of a bottom up process. No provision or mechanism of any kind ensure that the emerging larger regions do correspond, as far as their activities are concerned, to the large regions promoted by the federal government. The federal government does not try, for the moment being, to influence the creation of larger region, even if the federal statistical office has already produced a proposal of larger, intercantonal, regions for statistical purposes. One has instead the feeling that the top down process tries to rationalize what has already emerged from the bottom up one initiatives.

With respect to these initiatives, it is useful to distinguish between two kinds of large regions, namely:

- i) the supranational border regions
- ii) and the intercantonal regions

### **i) The supranational border regions**

Border regions with different forms of institutionalization and different intensity degrees of co-operation and of co-ordination activities do exist in the Basle and in the Geneva regions, for the co-ordination of the activities inside these two urban agglomerations which cross national borders. In both these cases, the main urban center lies in Switzerland, while the border regions in France and in Germany can be considered as suburbs of the Swiss cities. The relevant problems of these two regions are those which are currently to be found in growing urban agglomeration and are provoked by the suburbanization of population and jobs. A third important border region is the "Insubrica" which concerns the border regions of Ticino and Italy. Here the situation is different because the most important share of the region, as far as population and jobs are concerned, lies in Italy. But the Ticino participation is important, because a considerable number of Italian border workers (more than 30,000) prefer to work in Switzerland because of the higher wages. The problem here are those of a polycentric urban area, with two centers in Italy (Varese and Como) and one in Ticino (Lugano). The co-operation has just started and will probably embrace a larger number of policy fields.

## ii) The intercantonal regions

While the co-operation in the supranational institutions of the border regions has already an historical dimension, in Switzerland, the intercantonal regions are still in the project phase. The first example of an intercantonal region is represented by the so-called "Espace Mittelland" a region formed by the german speaking canton of Solothurn, by the french speaking cantons of Neuchâtel and Jura as well as by the two bilingual cantons of Berne and of Fribourg. This region has a population of 1.6 million inhabitants and 800 thousand jobs and produces 20% of national GDP. In the "Espace Mittelland" one finds regions whose economic base was strongly settled in the mechanical industries (watches industry) and which face therefore the same kind of restructuring problems. The region lies in the center of the Swiss Plateau among the main urban regions of Zurich, Basle and Lausanne and Geneva. One of the reasons for the creation of this region was therefore also the need to face the competition of these urban regions which have a leading position inside the Swiss economy. Through the promotion of co-operation one thinks that the economic potential of the region will be strengthened and at the same time, that the region will be able to strengthen her position abroad, in particular on the european markets ( Treina, Rupp, 1996).

The region grounds, for the moment being, on a common declaration of intents, signed by all the participants cantons, which defines the objectives and the fields in which the co-operation is possible and on the list of actual projects, which the Cantons would like to realize together. According to Treina and Rupp, the co-operation fields have been defined on the basis of the results of interviews, which have been conducted with 40 experts. Next to the definition of the co-operation fields, the region has also chosen 7 projects for which the intercantonal co-operation seems to be very important. Next to projects in the transport and in the educational fields, next to the organisation of a national exhibition one finds also the idea of creating a pool of private consultants who should promote the creation of new firms both in the profit and in the non-profit sectors.

Table 2: Main co-operation fields in the region "Espace Mittelland"

- 1) Improve the rapidity of administrative decisions ( especially building and planning decisions)
- 2) International and national transport nets
- 3) Public Transport
- 4) Environmental policy
- 5) Improve the skills of the labour force
- 6) Technology policy
- 7) Promotion of the strategic more important industries
- 8) Co-operation in cultural matters
- 9) Co-operation in tourism and leisure activities
- 10) Promotion of locational quality

## 4 Conclusions

As we have already recalled, for a long time regional policies have been implemented in assisted areas of relative small size, which were defined on the basis of criteria which were measuring the intensity in which the problems, one wanted to easy up, manifested themselves. In a period in which the pressure put up by the international developments on national policies has become more important, one begins to ask whether the institutional arrangements in which the regional policy takes place are best suited. We have discussed this question with respect to the Swiss case, which is an interesting one, because it preaches the principle of regions of variable size. Next to the small-sized regions in which one applies traditional regional policy programmes with which one tries to improve the public and private capital dotation of the region, one sees today the possibility to create larger regions, gathering several cantons, or border regions of different countries, to put up new development strategies for the improvement of the attractivity of the region.

In the paper we have considered some of the aspects, which can be discussed in relationship with this institutional innovation.

- Theoretically for each programme of regional policy, i.e. for each regional policy objective, there could be an optimal size for the assisted regions. In our paper we assumed that the choice of the optimal size will result from the trade-off between on the one side the objective of market efficiency and on the other side the objective of autonomous growth. In our discussion of the trade-off, these objectives were considered as conflicting, because we supposed that the regional policy was using the traditional instruments of investment subsidies. If, on the other hand, the objective of the regional policy is only to promote cooperation in the region and the marketing activities of the region with respect to the rest of the world, with no recourse to measures of financial help, it is possible that the negative impact of larger regions on the market efficiency will be negligible. As far as the Swiss case is concerned, one can recall that while by the approval of the traditional programmes, which foresaw financial help, the market efficiency argument was prominent in the parliament discussion, this argument was not quoted in the discussion on the opportunity to create larger region.

- The economic attractivity of a region is a function of her size. We have shown in the paper that this is true especially of the nodal regions. The enlargement of the regions, as it is promoted by the new regional policy legislation in Switzerland is not necessarily going to increase the attractivity of the region, then the possible increase will depend from the spatial distribution of the economic activities in the new region. If the new region does not have an important urban node and if her activities are dispersed in space, the effect of the enlargement on attractivity will not be very significant.

- Institutional innovation of this kind can however have other effects on the regional development. In the paper we evoked the possibility of improving the cooperation inside the region, to promote the image of the region at the national and at the international level, to profit from possible economies of scale in the implementation of regional policies, as well as from the possibility to reduce transaction costs for the economic agents which would settle in the region. These are in fact aspects which have to be taken into account, by the evaluation of the actual projects of larger regions.

If the result of the evaluation is positive, intercantonal regions of the kind of the "Espace-Mittelland" or supranational regions of the kind of "Regio Basiliensis" could effectively strengthen the competitive position of regions which, left to themselves, would not attain the critical mass for putting up a suitable strategy of development. From this point of view the larger regions which the reformed regional policy of the Swiss government will promote can be welcomed.

Finally it is important to stress, that the intercantonal co-operation in matters of economic development will not be easy. Conflicts on the location of the infrastructure and structure, which should reinforce the attractiveness, can arise any time. The common interest in co-operation have to be proven, as the larger region does neither correspond to an institution which is legitimated by history or by the cultural identity, nor to one which would better represent the spatial dimension of the modern economic process. Both the border and the intercantonal regions are the result of a more pragmatcal view of the necessity to co-operate in order to strengthen attractiveness and competitiveness. The experience of the next years will show which are the real possibilities of the new institutional approach to the regional policy.

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