

## The fundamentals of regional development theories 2

### Theory of mesoeconomics

Stuart Holland (1976) – Marxist theory (divergent)

Thesis: *Uneven distribution of power in society is the major cause of regional problems.*

MNCs create a special sector = mesoeconomy = 2% of large firms make up >50% of the total production in EMDCs => monopolies having power to influence markets and governments.

*Results:* MNCs use cheap workforce in overseas, profit is allocated in a country with the lowest tax rates. Therefore, problem regions in EMDCs lose their only advantage – cheap labour.

*Examples:* hypermarkets, automotive industry, garment industry, etc.

Decrease of transport costs was the main impulse for such a dominance of large companies.

Less developed region's economy is based on SME not able to compete with the large ones. Thus savings are drained to richer areas => *negative cumulative effect* (no FDI, weak production, low incomes, lack of market success) => huge *regional disparities*.

Proposed solutions:

- § strengthening the role of state, national and regional government
- § labor (trade) unions
- § greater influence of the fiscal policy including social benefits (e.g. for the retired, unemployed, etc.)
- § relocation state-owned companies to problem areas (e.g. glassware factories in Poltár)
- § involvement of state in the decision-making process of large firms (e.g. VSŽ)

**Have such approaches ever been implemented here, in Slovakia?**

### Industrial districts theory and flexible specialization

Arnaldo Bagnasco (1977) – Institutional theory (divergent)

Thesis: *The success of a region is based primarily on co-operation among SME and local communities.*

Everyone can be profitable from specialized co-operation among SME. They develop rapidly and are flexible in answering the demand.

Main factors for growth: fellowship with the local culture, confidence, traditional values, local governments.

Economies of scale are to be achieved by: e.g. accountancy companies working for several firms, services enabling purchase of large quantities (e.g. METRO), etc.

However, workforce is divided into:

- Ø well-paid, highly-skilled labour (*reskilling*), e.g. licensed workers sell their services to a firm
- Ø low-paid, unskilled labour, e.g. women in households, retired, students, etc.
- Ø evading the taxation and social insurance, massive *social stratification* in a region.

But the rapid development of a region can be achieved by *intimate co-operation* among firms => *networking*.

Government can support such development by organizing re-skill courses, industrial zones, large-scale purchasing, advantageous loan provision, etc.

*Regional inequalities are therefore influenced by specific local institutional configuration.*

### Keywords

mesoeconomy, cheap labour, flexibility, relocation, labour union, government, fiscal policy, social insurance, reskilling, regional disparities, social stratification, cumulative effect, accountancy, market success, competition