The fundaments 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 loose 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.
- ð 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