Keynesian economic approach and regional development

Keynesian economy
Main features
It does not assume the existence of universal rules about market balance or rationalisation of individuals (firms). It is very interventional approach.

- aim = not just to describe the economics but also to reform and intervene to the market eliminating the unemployment and poverty
- but only short-term elimination of these problems
- demand = basic element influencing the equilibrium of a market
- few mathematical models ⇔ strong criticism of neoclassical economy
- study of macro-economic variables, e.g. unemployment rate, GDP, etc.
- emphasis on psychology (e.g. salary negotiations) and social processes (e.g. government policy + decision-making process and their impacts)

Basic assumptions and results
- the crisis was caused by isolated decision about savings (households vs. firms)
- savings = investments but there is no mechanism to ensure this equality
- investments from public sector should stabilize the investments from private sector
  ⇒ securing the appropriate volume of investments
- low levels of consumption or investments will lead to high unemployment
- ⇒ state control is needed
- ⇒ regions of the world diverge
- regional divergence is normal process which results in further economic development.

Geographic implications
- Government should support the demand ⇒ demand will influence the production
  ⇒ unemployment will decrease.
- Huge state budget, great degree of money re-distribution and support of the old industrial segments led to only short-term solutions and debts.
- Keynes: “In the long run we are all dead.” ⇒ short-term solutions are appropriate

Regional policy influenced by Keynesian economy
1950s-1960s: as the answer to the crisis in the 1930s (UK) ⇔ basic premise: regional problems are long-term event ⇒ state should control the employment ⇒ relocation of jobs (new factories) to the problem regions = “work for workers”

Instruments:
- state financial incentives to companies expanding in a problem region
- state financial support to every newly created job opportunity in a problem region
- provision of loans
- state investments into the problem regions
- lower taxes or tax holidays
- restrictions for firms expanding in the wealthiest regions (e.g. London)

Keywords
interventional approach, unemployment, poverty, demand, decision-making process, savings, investments, public/private sector, state control, regional divergence, long-term event, loans