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-destribution 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