Neoclassical economic approach and regional development

Neoclassical economy

Main features

Walras and *Marshall*: they tried to generalize the ideas of *Smith* and *Ricardo*

- focused on micro-economy
- emphasis on behaviour of individuals and firms
- widespread use of mathematical methods

Basic assumptions and results

- *simplification of reality* according to mathematical models
- rationality of individuals (*homo economicus*) – everyone wants to gain the greatest profit
    - perfect competition
    - perfect mobility of production factors
    - market equilibrium (balance)
- total production is dependent on the supply (amount) of resources
- every change in the goods quantity will result in new prices stabilized at new balance
- the highest efficiency of resources´ usage can be achieved only by the *market principles*
- => state control is *unacceptable*
- => regions of the world *converge*

Economies of scale
They are accomplished by the expansion of a firm thanks to enlarging the production size while the production costs of an unit diminish, e.g. training of workers, know-how, efficient organisation, innovation of a product, etc.

Geographic implications

- Neoclassical economy did not assume regional problems.
- Hence the chronic, high unemployment (rate) was explained as the result of non-adjusting of the capital and labour to the market principles.
- According to the *monopolistic competition theory*, *economies of scale* depend on the size of a market.

New theory of trade

The production and trade specialization of states and regions depend on economies of scale => some countries have strong position in manufacturing and export segments. These long-term specializations are explained as the result of *agglomeration effects* (processes):

- share of highly-skilled labour
- availability of technological improvements
- local firms mutually interconnected by sub-supplying relations and common use of the infrastructure
- transport costs are still an important influencing factor of labour mobility

Examples: car manufacturers, aircraft industry, electronics, steel production, etc.

Regional policy influenced by neoclassical economy

1920s-1930s (UK) ⇔ basic premise: *capital is more flexible (mobile) than the labour force* => employees should have commuted for work from larger distances = “workers for work”

Instruments:

- support to commuters
- financial incentives or migrants
- help with accommodation arrangements
- retraining schemes, etc.

Keywords

micro-economy, behaviour, simplification, rationality, market principles, state control, regional problems, capital, labour, economies of scale, monopolistic competition theory, production costs, agglomeration effects, labour mobility, commuters, retrainings