Neoliberal economic approach and regional development

Neoliberal economy

Main features

It is another contrary to Keynesian economic approach which has occurred since the 1970s ⇔ limited possibilities of economic control within a society. New belief in *self-regulation* of a market refers to the neoclassical economic approach.

- aim = to explain:
  - the *relation between the money supply and economic stability*
  - *the relation between micro-economic and macro-economic processes*
- state market control => *unpredictable business climate* and *negative trade balance*
- *Monetarism* (management of the money supply thus inflation of a currency) => active engagement into the economy policy of a country
- *behavioural characteristics* = micro-economic subjects (individuals, households, firms) try to *maximize their benefits* (reference to *homo economicus*)

Basic assumptions and results

- money supply influences the price levels
- *inflation devalues the savings* => discourages the saving => lack of *disposable capital*
- inflation is caused by the greater supply of money than the production of goods
- high tax rates create the “grey” economy
- *No government interventions are needed* but problems with *monopolies* can occur.

Geographic implications

- Supporting those who create the wealth (who invest and save) = rich people => *tax decreasing*
- Funds saved by *lower taxes* can be reinvested thus enhance the economic growth.
- *Competition, individual initiative and the market* are the main stabilizing elements enhancing the economic growth.
- *Motivation* = the most important factor of economic growth ensured by the individuals.
- *Homo economicus* => state should secure the *conditions* to promote more efficient growth

Regional policy influenced by the Neoliberal economy

1980s: it has led to wider *social stratification* (UK, USA) into the richer and poorer. Variety of deregulations and decentralizations were used.

Instruments:

- supporting the SME, i.e. easier loans, provision of information for beginning businessmen by consultancy
- supporting the innovation, e.g. diffusion of new technologies used by different firms
- supporting the co-operation among firms by *networking* of individuals
- stabilizing positive financial climate for investments, e.g. lower tax rates, tax holidays for self-entrepreneurs
- securing the fair market competition
- decision-making process decentralized to regional and local levels in wider competitions of the authorities
- establishing the business parks while the costs for construction are paid by the public sector
- after-care programmes to support FDI, e.g. co-operation with local sub-suppliers

Keywords

market self-regulation, money supply, unpredictable business climate, negative trade balance, monetarism, to maximize the benefit, devaluating inflation, government intervention, tax decrease, social stratification, networking