7. What Future for the Regions?[40]

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1. Introduction and Context

A striking aspect of the aftermath of the collapse of Ireland's economy is the fact that so much of the discourse, analysis and policy response has had a national focus. It is clear that the economic downturn has affected places differently and that the failures in policy and planning and in the functioning of democracy were detrimental to the regions. It follows that there is a need to take account of regional differences in geography, resource endowments and economic and social profiles in constructing the recovery. Perhaps it is inevitable that, in times of crisis, national demands eclipse regional concerns on the policy agenda. However, this has happened at a time when there is strong international recognition of the contribution of lagging regions to growth and the need for geography and place-based factors to be included in the structural policy agenda. Now that Ireland's exit from the Programme of Financial Assistance is imminent, it is opportune to turn attention to the link between national recovery and regional development and to ask what kind of future we want for regions and localities.

In this paper I want to consider regional development issues from the perspective of policy and practice. I do this from the vantage point of having been actively engaged with regional development policy and practice during the boom years and their aftermath.[41] This was at a time when there was considerable awareness of the gap between developed and lagging regions. From the late 1990s onwards, there was a resurgence of regional and spatial consciousness, much of it driven by the obvious spatial impact of Ireland's rapid economic growth, particularly in Dublin and surrounding counties, but also in the other major urban centres. As employment growth continued and exchequer buoyancy meant that there were increased resources for public investment, it seemed possible that Irish public policy freed from the need to

40 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".
41 From 1999-2009 at the Western Development Commission (WDC)

focus narrowly on job creation could finally begin to address entrenched regional disparities and the emerging regional impact of prosperity.

For the first time, balanced regional development (BRD) became a key national objective as set out in the National Development Plan 2000-2006 and retained in the current National Development Plan 2007-2013. The National Spatial Strategy, published in 2002 to provide a framework for spatial development to 2020, aimed at achieving a better balance of social, economic and physical development across Ireland through more effective and integrated planning. The sense of promise and possibility that this activity reflected was paralleled at international level by a new focus on the importance of regions for national development in advanced economies. Regional economies were being regarded as 'keystones' of the performance of national economies in the international literature so that regional development and national growth are inextricably linked. The 'crash' brought this momentum to an abrupt end, both in terms of its direct socio-economic impact and the effect on public investment of the crisis in the public finances. Five years on, I believe it is possible to make some assessment of the impact of the boom years in the regions, identify mistakes and consider how we might address the challenges that face us. The remainder of this paper is divided into five short sections in which I consider the focus of regional development; explore how the regions fared in the boom; discuss the impact of the collapse; draw on international insights to ask whether there is a future for the regions; and set out some challenges for regional development in Ireland.

Before turning to a discussion of how regions fared in the boom years and what has happened since, I want to focus briefly on the rural/regional dilemma as I believe that the conceptual confusion about regional and rural development inhibits policy coherence in Ireland's approach to tackling regional disparities.

2. The focus - regional or rural development?

In recent years, academic and policy debates have blurred the distinction between the concerns of 'rural' and 'regional' development and the two terms are often linked, most notably in OECD and EU discourse.[42] While

42 See OECD (2009, 2013a) and Barca (2009)

lagging regions are often characterised by rurality in terms of population density, and in Ireland this is certainly the case, the impact of globalisation, increased competiveness, the diversification of rural economies and commoditisation of rural space are among the forces that increasingly dissociate the term 'rural' from its traditional association with agrarianism. Rurality is now associated with the idea of region across Europe, with cities seen as the driving forces of regional economic development within an increasingly competition-oriented space economy.

Thus, in practice, the concept of 'rural' has evolved into a residual or relational concept defining non-urban or non-metropolitan areas so that the parameters of what is rural have become less obvious. A significant complication is that there is huge variation in how 'rural' is defined in official statistics and no widely agreed designation of the term at international level. Definitions vary and can be based on population density, settlement size and commuting distance[43]. Rural areas vary widely particularly in terms of remoteness, dependence on primary production, and human resource capacity. Typologies based on combinations of variables seek to capture the interaction between global processes and local conditions. Among the most complex is the EDORA Cube - a three dimensional framework which includes three typologies based on rurality and accessibility, degree of diversification and performance which was developed to try to capture rural differentiation across Europe and link it to macro-scale processes which are best captured at regional level.[44]

In Ireland the segmentation of rural and regional discourse and policy is both historical and practical. The agrarian base of the economy in the early decades after independence meant that rural economy and rural development were major national concerns. But, as far back as the 1950s, there was recognition that tackling the problems of the non-farm economy required an integrated approach to regional development. In the 1960s and early 1970s this was given concrete expression in various regional initiatives and in debates about growth centres.[45]

Entry to the then European Economic Community in 1973 shifted the focus back to rural development because of the dominance of farming in the

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43 See Walsh and Harvey, B (2013) p. 58
44 See Copus et al.(2011)
45 See Buchanan, (1968) and O'Hara and Commins (1991)

transfer of EU funds to Ireland through the Common Agricultural Policy (CAP). Two models of support to rural development based on CAP remain to this day. The dominant model has a strong agricultural focus and is associated with payments to farmers while the second is associated with locally based rural development. Rural development has become increasingly associated with what is referred to as the 'second pillar' of the CAP involving a specific set of supports to farmers (inside the farm gate) and funding to local action groups (known as Leader groups). The current Rural Development Programme Ireland (RDP) 2007-2013 will deliver €2.3bn in EU funds to Ireland, more than €2bn of which will go to supporting measures 'inside the farm gate'. The remainder of the monies go to supporting interventions aimed at improving the quality of life in rural areas and supporting the diversification of the rural economy which are delivered by Leader groups. A new CAP Rural Development Policy has been agreed for 2014-2020 and will provide funding to rural development on much the same lines.

EU support to regional development 'per se' has been much less significant but following the establishment of a Single European Market in Europe in the early 1990s, Ireland as one of the more disadvantaged member states was able to secure substantial monies from the reformed EU Structural and Cohesion Funds to support particular territories. Regional authorities and assemblies based on the NUTS3 regions and NUTS2 regions respectively were set up at the behest of the EU authorities primarily to oversee the disbursement of European funds but with no executive powers.[46] Meanwhile, Ireland's exceptional economic growth and EU enlargement reduced the amount of non-CAP EU funds available to Ireland.[47] Structural Funds are now by and large targeted at poorer regions in the EU and regional policy must be financed primarily from the national exchequer.

Ireland's approach to rural and regional development policy therefore was to a considerable extent funding-led in the years before the boom. The dominance of the CAP and the strength and sophistication of the farming lobby ensured policy focus for the rural economy. Regional concerns, being more diffuse, and without an articulate lobby, received less attention, with

46 Ireland is made up of eight NUTS3 regions: Border, Midlands, West, Dublin, Mid-East, Mid-West South East and South West. These can be combined into two larger NUTS2 regions – Border, Midlands and West (BMW) and Southern and Eastern (S&E).

47 The Border, Midland and Western Region, and Southern and Eastern Region are both concluding Operational Programmes (2007-2013) which are co-funded by the European Union.

the exception of the establishment of the Western Development Commission in 1999. As the economy grew, rural development came to be associated with the EU Rural Development Programmes and regional development shifted from concern with rural decline to the task of managing spatial development. The effects of the very rapid economic growth of the 1990s had made the disparities between the urbanised East and South and the rural West and North West more apparent. These spatial imbalances were characterised by differences in incomes, output, and productivity as well as demographic depletion and the incidence and risk of poverty. However, the management of spatial development was to be a much more politically fraught issue involving as it did decisions about spatial preference and planning.

There was sufficient concern with regional imbalances to include 'balanced regional development' as a key objective of the National Development Plan 2000-2006. This was followed up with the National Spatial Strategy (NSS) published in 2002 to provide the strategic framework for the realisation of economic growth in the regions and set out a hierarchy of urban centres – gateways and hubs – as the focus for growth and development in the regions. Urban-generated development was expected to have a beneficial spillover effects on rural areas, and while priorities for rural areas were identified, they were poorly specified.[48]

Meanwhile the first White Paper on Rural Development in 1999 conflated regional and rural development by specifying the rural development policy agenda as

.. all Government policies and interventions which are directed towards improving the physical, economic and social conditions of people living in the open countryside, in coastal areas, in towns and villages and in smaller urban centres outside of the five major urban areas (p.20).

By widening the compass of rural to the territory of all areas outside of Dublin, Cork, Limerick, Galway and Waterford, the White Paper shifted rural development policy from the narrow focus of the CAP supported measures to more broadly based regional development. This same definition is part of the terms of reference of the Commission on the Economic

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48 See special issue of Administration *Revisiting the National Spatial Strategy ten years on* (2013)

Development of Rural Areas (CEDRA)[49] set up by the Ministers for Environment Community and Local Government and Agriculture, Food and the Marine in September 2012 to *inform to the medium term economic development of rural areas for the period to 2025* which is due to report shortly.

While the definitions of rural areas are varied, the Commission will adopt a holistic view of rural as being outside the main metropolitan areas. It recognises of course the relational nature of economic and social development and the interconnections between rural and urban areas. The research report will be short and specific and will take a multi-sectoral approach with specific focus on rural areas.[50]

Thus, while the term rural development continues to have particular meaning in the context of the CAP, the focus of rural development policy and intervention has become synonymous with the development of non-metropolitan areas. From a policy perspective, this can have an obfuscating effect. For instance, the concept of 'rural proofing' whereby policies are analysed for their impact on the well-being of rural communities, is problematic when all of Ireland outside the cities can legitimately be considered to be made up of rural communities. More importantly, it can lead to concentration on growth centres and divert attention from, or obscure, the problems of smaller places such as small and medium-sized provincial towns and villages including their relationship with larger centres.

3. The Regions in the Boom

Job growth drives population increase: The most striking impact of the boom in the regions was employment growth and the associated population increases. As job opportunities improved, Irish people and migrants chose to live and work in the regions in considerable numbers. In all but the remotest parts of Ireland outside of the five main cities, population growth has continued since the historical pattern of decline was reversed in the mid-1990s. Even with the downturn and the resumption of emigration, there were 1.7m people living in aggregate rural areas (effectively open countryside) in Ireland in 2011, up 5% from 2006. Indeed, among the seven Western counties,[51] the most rural counties experienced

49 CEDRA is due to complete its report within weeks of the time of writing.
50 See CEDRA website www.ruralirealnd.ie
51 The counties included in the Western Development Commission (WDC) operational area Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

the highest levels of net inward migration over the 2000-2006 period. The quality of life and sense of well-being that rural living can provide is strongly valued particularly when it is associated with access to kinship networks, a clean environment, outdoor sporting and recreational pursuits and the sense of community that is characteristic of smaller places. This is borne out by experience of the WDC's LookWest.ie campaign, where individual's decisions to relocate were linked to well-being and by the finding from their exploratory study on the relocation of public offices to rural towns.[52] The attraction of relocation varies between individuals, but quality of life emerges as the primary motivating factor. [53]

Towns became more important: While Ireland has become more urbanised as the population has grown over the last fifty years, it is a nation of towns rather than growing large cities. In 1961, Dublin accounted for more than half of the urban population (51%) and the five main centres more than three-quarters (77%). By 2011 the proportion in the five centres had fallen to 53%, as the numbers in smaller towns increased. The numbers living in small towns (< 3,000 population) have doubled since 2002 and the numbers in larger towns (over 10,000) have also grown significantly accounting for a quarter of the urban population in 2011. So while the population generally is becoming more urban, a fifth of the urban population lives in small towns of less than 10,000 population. These towns are very significant for the regions and most of them thrived during the boom. Analysis of travel to work patterns nationally showed that the share of national employment in hubs and other towns increased between 2002 and 2006 while the share in gateways combined decreased in the same period.[54]

Employment grows but mainly in a few sectors: During the boom years the share of employment in construction, services and the public sector increased across all regions while that in agriculture and manufacturing declined. Male unemployment halved (from 18% to 9%) between 1991 and 2006 and women's labour market participation rose dramatically in all regions with many taking up jobs in the public service. The dramatic growth in construction accounted for much of the increase in male jobs, and this was widespread across all regions. Services was the other big growth sector accounting for 76% of net job growth 2000-2006 and 61% of all jobs in

52 See www.lookwest.ie and WDC (2008).
53 The fact that wellbeing matters and that we need to measure it is now widely acknowledged following the Stiglitz Commission Report in 2008, the OECD's work in this area and NESC, 2009.
54 WDC (2009)

2006. However, much of the growth in service employment in small towns in the regions was in locally traded services such as the wholesale and retail sectors which are dependent on local consumer demand. These services together with public sector employment became the backbone of many small town economies.

Little impact on regional differences: If we examine the most widely accepted economic measure of regional development i.e. Gross Value Added (GVA) per capita – we see that the gap between the regions narrowed only slightly during the boom. Dublin and the South West continued as the highest performing regions, being consistently above the national average. At peak, the BMW regions reached 72% of the average in 2006, while in the same year the Southern and Eastern Regions were at 110% with Dublin and the mid-East at 124%. This reflects structural weaknesses in the economies of the regions and their relatively low share of national output in key sectors. For instance, the dramatic growth in internationally traded services and financial services was mainly confined to the Dublin region where the great majority of jobs are located. Apart from Cork and Galway, the regions had limited success in attracting foreign direct investment during the boom; job growth in the regions came primarily from the indigenous sector with some regions recording significant net gains.

Human capital improves: Education attainment levels also improved with share of those with third level increasing significantly. This, together with the increase in the proportion of population in the economically active age groups due to in-migration, greatly improved the human capital resources in the regions. However, strong regional imbalances remained and these were associated with the nature of employment and age structures. The rapid growth of the Greater Dublin Area (GDA) and the South West regions during the boom was based to a significant extent on the availability of young well-educated graduates from weaker regions. It is ironic that the poorer counties continued to show the highest patterns of participation in third level education[55] but were unable to absorb their own graduates into employment within the region.

Community and voluntary sector expands: Integrated approaches to local development had begun to emerge in the 1980s largely at the behest of the

55 O'Connell et al (2006)

European Commission which made funding contingent on a partnership approach involving statutory, private and community groups. Over time the 'bottom up' or community based approach became the hallmark of locally based development initiatives and a qualifying condition for both EU and exchequer funds. Representatives of the sector became involved in national social partnership talks and achieved recognition as key providers of services to achieve social targets. In 2001 the Government White Paper *Supporting Voluntary Activity* set out policy for the sector and funding was substantially increased in the following years so that by 2004 there were a great number of locally based groups delivering a range of services on behalf of the state but with little spatial coherence. Government-led reforms in 2004 and 2007 reduced the number of local development companies from 94 to 52 by merging local development and Leader groups and community development projects into single mainly county-based entities and 15 specialised delivery structures. The range and complexity of services delivered by 52 local development companies and a range of other non-governmental agencies in local areas became extensive and complex during the boom, and ranged from training, employment activation and business mentoring to social care, counselling and mental health support. Being locally-based enabled these initiatives to respond particularly to the diversity of local needs, but the organic evolution of the sector meant services could be patchy and uneven in terms of availability and quality with some overlap and duplication also inevitable.

How did people react? The social, psychological and cultural effects of the boom are less easy to quantify. After years of decline or stagnation in many regions, all parts of Ireland experienced an unprecedented period of prosperity and social transformation in less than two decades. The availability of local employment meant that parents, accustomed to tailoring their own and their children's expectations to a limited set of local opportunities could look to a future where migration was not inevitable. The boom allowed earlier migrants to return home and the influx of 'new Irish' created unprecedented social and cultural diversity. Cherished and culturally valued ways of life such as farming, shopkeeping, crafts and other family businesses could flourish when combined with other occupations, or driven by local affluence. Greater mobility and access to technology afforded better choice of where to work and live. Although not everyone benefited, there was a sense of hope, possibility and optimism that was palpably evident to those of us working in the regions.

It is not so surprising in this context that the construction boom was seen as a blessing when the impact on local income generation, employment and affluence was so pervasive. Certainly, in regions where population loss and limited capacity to generate local revenue had persisted for decades, authorities were under considerable pressure from local politicians and voters to facilitate and/or encourage construction investments, even if they harboured doubts about their viability. The localistic and clientelistic nature of Irish politics, lack of regulation from the centre and the proliferation of tax driven investment schemes combined to create a culture in which housing provision was disconnected from need, and investment in residential property was deemed a route to quick profit for ordinary citizens. There seemed to be very few losers and a great many winners.

Did policy deliver? Despite the buoyancy of public finances, and the commitment to 'balanced regional development', government policy and practice during the boom years cannot be said to have addressed regional issues in any coherent or systematic way. Policy structures which had for decades become accustomed to addressing the challenges of a lagging economy with high unemployment were mostly uncertain and unsteady when it came to managing prosperity. Commitments to balanced regional development and maximising the potential of regions in the NDPs were not easily translated into practical investment projects based on convincing evidence, value for money and rigorous ex ante analysis. The administrative system was unaccustomed to the norms associated with large scale investment projects and often lacked the necessary data to provide a strong evidential base for investment. Regional development policy and structures which had been set up to maximise the transfer of structural funds to Ireland, and comply with the reporting demands of the EU, were under-resourced and ill-equipped to respond to the uneven spatial impact of rapid economic growth and there was little appetite for institutional reform. Central government, operating in policy silos, and besieged by competing demands, either ignored or inadequately addressed the need to invest in basic infrastructure to revitalise regions or introduced measure that were inappropriate to regional needs. The National Spatial Strategy was operationalised in only a very limited way, with most of the focus on gateways and relatively little exploration or understanding of the relationships between gateways, hubs, provincial towns and rural areas. Moreover, given the lack of real political commitment to the strategy at both national and local level and the ambiguities regarding its implementation, it had little chance of being taken seriously.

Failure to invest in basic infrastructure: The failure to invest adequately in water infrastructure is a significant example of policy failure. The Environmental Protection Agency [56] has reported that, in 2009, 114 of Ireland's 525 settlements had no secondary water treatment plants. Of those that had secondary treatment 190 did not meet the required standard. Thus, a total of 304 or 58% of towns had either inadequate or non-existent waste water treatment. This means that treatment for waste water has not kept pace with the requirements of the EU water treatment Directives, and discharge of waste water with inadequate or no treatment is still evident. Even where the treatment is in place, it is not always up to standard due to inadequate capacity or the poor performance of the treatment plant. This is a serious public health issue as well as a major cost to the tourism industry, food production and other manufacturing for whom clean water is a prerequisite. Similar problems exist with the quality of drinking water as evidenced by the presence of cryptosporidium and other contaminants in public water supplies. According to the EPA[57] more than 140 public water supplies need remedial action to ensure that their water supplies are safe for drinking.

Property and planning: One of the most striking examples of a policy measure completely inappropriate to regional needs is the Upper Shannon Rural Renewal Scheme (1999-2008) which provided for tax breaks on residential and commercial property investment to *help stimulate the development of the Upper Shannon Region*. This scheme is the primary reason for the explosion in housing growth and the high number of ghost estates in the five eligible counties[58] which doubled their housing stock over the period 2002-2009. In the decade 1996-2006, 30,695 houses were built while household numbers grew by only 18,896. While the Scheme sought to *encourage people to reside in the area and to promote new economic activity*[59] , instead it has left a legacy of 'ghost estates' inappropriate housing and a huge oversupply of housing stock. For instance, Co Leitrim had a housing vacancy rate of 31% in 2011 compared to a national average of 15%.

This over-reliance on property investment as a vehicle for the development of lagging regions, facilitated speculation and reckless planning decisions and can be seen as a failure to devise and implement more appropriate

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56 EPA, 2012 Focus on Urban Waste Water Discharges in Ireland, Wexford.
57 See EPA Drinking Water Remedial Action List Q2 of 2013
58 See Kitchin et al (2010)
59 Department of Finance, 1999

regional policies that would have positioned lagging regions to increase their contribution to national economic growth. Strategies to address structural deficiencies in the regions – to improve infrastructure, the skills pool and quality of life so as to attract inward investment and grow indigenous enterprises were much more likely deliver sustainable regional development.

4. The Regions after the Collapse

The global recession and economic crash of 2008 impacted on Ireland more severely than on many European countries. The banking collapse necessitated the Programme of Financial Assistance from the European institutions and the International Monetary Fund which is expected to conclude at the end of 2013. The resulting set of major fiscal adjustments involving tax increases, decreases in welfare payments, and reductions in public expenditure has exacerbated the impact of the recession.

Those who have lost jobs, experienced business failures, seen large falls in wealth or carry a large debt burden have been particularly affected. Unemployment has once again become the key national issue, increasing from 5% in 2007 to 14% in 2012 while there was a cumulative contraction in jobs of 15% over the same period. Joblessness is particularly acute among young people and older, unskilled men. Long-term unemployment is a particular concern with more than half of those jobless out of work for over a year. In more than a fifth of households (22%) there is no member in employment. Poverty, deprivation and indebtedness have increased significantly, with expenditure exceeding disposable income in 38% of households.[60]

The economic crisis has resulted in an increased demand for public services, but expenditure on such services has been cut resulting in reduced budgets, staffing and programmes. For instance, over the period 2008-2011 public expenditure on health services fell by 11 per cent, while costs and Ireland's population continue to rise.

Regional economies – the gap widens: The impact of the recession on the regions has been to widen and deepen the differences between them. While

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60 NESC, 2013

the gap between the highest and lowest performing regions persisted but lessened during the boom years, the most recent data from 2010 show that the gaps between the NUTS2 regions has widened since the collapse.[61] In 2005, GVA per person in the BMW regions was 71% of the state average; by 2010 it had fallen to 66%. By contrast, the GVA per capita in the Southern and Eastern Region rose from 111% of the national average in 2005 to 113% in 2010.

Within the BMW Region, the shifts in relativities are more striking. From 2005-2010 the per capita GVA in the Midlands fell by ten percentage points from 69% to 59% of the state average, and by 13 points in the Border from 71% to 58%. Within the Southern and Eastern Region, GVA per capita in the South East fell from 75% to 68% of the State average while that in the South West rose from 113% to 121% So while the BMW regions are falling behind, the South East is also performing relatively poorly.

The reasons for these differences, and the widening of disparities, are rooted in the sectoral structures of the regions' economies. As noted above, the service sector is the most significant in terms of value and employment, accounting for almost three quarters of total GVA in 2010. What is significant is that half of this was generated in Dublin and only 17% in the BMW Regions. More than three quarters of all workers were employed in this sector in 2012 and close to nine out of ten of these were in Dublin (89%).

Industrial output is also quite spatially concentrated with one-third of GVA produced in the South West in 2010, 23% in Dublin, and just 19% in the BMW regions, with the Midlands contributing only 3%. Agricultural output accounted for just 1.5% of total GVA in 2010 and while spread throughout the regions is also significantly concentrated with more than one quarter (26%) of output produced in the South West nearly one fifth (19%) in the South East.

The level of spatial concentration is even more uneven when we examine the distribution of the value of output between the modern and traditional sectors. Dublin and the South West together accounted for more two third of the value (67%) of the modern sector in 2010. The BMW regions contributed just 10%, but accounts for 30% of the value of output in the

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61 CSO, 2013

traditional sectors. These patterns are reflected in the spatial distribution of the numbers employed with the nearly two thirds (64%) of high tech manufacturing jobs located in Dublin, the Mid-East and South West in 2012.[62]

Employment falls dramatically and unemployment increases: While difference in employment rates between the regions lessened during the boom, the rise in unemployment since the recession has led to a substantial increase in the rates in all regions as well as increased divergence **between** regions which is especially evident since 2010.[63] It is notable that the three regions with the highest unemployment rates back in 1998 also had the highest rates in 2012 (South-East, Border and Midlands) while the economically stronger regions were the least hard hit (Dublin, Mid-East and South West) with rates below the national average in 2012. It is striking that the numbers of unemployed in the Midlands rose from 4,900 in 2007 to 22,200 in 2012.[64] Moreover, these rates obviously do not take account of those who have emigrated in search of work.

Changes in employment reflect the sectoral mix in the regions as well, and while dramatic effects of the collapse of the construction sector were experienced across all regions, large declines in employment were also experienced in retail, industry and agriculture. Furthermore, there was a substantial fall in labour force participation rates across all regions during 2007-2012 which also depressed the employment rate. For instance, there was a drop in the participation rate in the Border Region of 13%. This probably reflects a retreat of agricultural workers back into agricultural activities associated with the decline in construction – a fact borne out by the negative correlation between share of employment in farming and unemployment.[65]

Impact on the voluntary and community sector: The crisis in government finances and resulting cuts in funding to the community and voluntary sector has severely affected them. Harvey has estimated that between 2008 and 2012 there was an overall reduction of 48% in government supports for the sector.[66] In the period 2008-2012 funding to the Community Services Programme fell

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62 FAS 2012, p.8 Tables 6 and 7.
63 See Morgenroth, 2012 p.70
64 More recent data from the QNHS Q2 2013 do show falls in the rates in all regions except the mid-East with the South East, Border and Midland continuing to have the highest rates.
65 See Morgenroth, 2012
66 Harvey, 2012

by €10m, a decrease of 18%. The Local Development Programme which is focused on tackling social exclusion in local communities had a reduction of 35% over the same period, while the social housing budget for the sector declined by 54%. Cuts to Health Services Executive (HSE) funded health and social care services provided by the community and voluntary sector ranged from between 2-7% during 2010 -2011.[67] The overall impact of the reduction in state support to the sector from 2008 will be a contraction of 35% by the end of 2013, with a reduction in staffing of over 11,000. When taken with the inevitable drop in public donations, due to the recession, this has resulted in considerable downsizing in the sector. This has implications for the delivery of services in local areas.

Depressed regions, depressed towns: It is clear that after five years of economic downturn all parts of Ireland are hurting both from the impact of the sudden crash and the outcome of mistakes of the boom times. Some of these outcomes are measurable in socio-economic terms while others are evident but less amenable to precise measurement. For instance, we know from the recent comprehensive survey of emigrants[68] that emigration has a greater impact in rural Ireland and that one in four households in extremely rural areas lost at least one member since 2006. The great majority of recent emigrants had third level education so that we are losing some of the best and brightest of our young people. Emigration is clearly an expression of disillusionment, and a loss of faith in the capacity of Ireland to deliver the quality of life and sense of well-being to which well-educated young people feel entitled. This is evidenced by the fact that nearly half those surveyed had jobs before they left, and that less than a quarter were unemployed before leaving.

Apart from the human cost and the visible effect on the landscape of poor planning regulation and the excesses of the property boom, it is in towns in the regions that some of the most observable effects of the downturn can be discerned, as job losses in construction and locally traded services have been very significant. These towns are heavily dependent on public sector employment,[69] and even allowing for job losses, the wholesale and retail sector remains one of the largest employers accounting for at least 15% of jobs in each region in 2012.

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67 2012 data not available.

68 Glynn I, Kelly, T and MacÉinrí, P (2013)

69 In each region at least one quarter of total regional employment was in public administration, education and health, FAS, (2012).

Businesses in Ireland are in the main very small with more than 90% employing fewer than ten persons (micro-enterprises) in 2010, with the highest share in the Midland and Border Regions. In all regions, less than 3% of businesses employ more than 50 people. Such enterprises, often dependent on local demand, have been badly hit by the recession. These trends are visible in the numbers of closed premises, the depressed property prices and derelict buildings in many Irish towns. Poverty rates too are higher in small and medium sized towns[70] which also have the highest proportions of working age households with no member working. Consumer spending has fallen and saving increased as a hedge against uncertainly. The numbers with mortgage arrears continue to grow with one study showing that in the Midlands, Border and Mid-East Regions there were proportionately more mortgage-holders in arrears of at least ninety days. These regions were also shown to have higher vacancy rates and distressed properties in negative equity.[71]

The towns in Ireland's regions are varied in size and character and their origins are diverse e.g. market and administrative centres, dormitories for larger urban centres, seaside resorts and ports. Almost all act as focal points for their rural hinterlands. The lack of a coherent towns' development strategy during the boom years has left many town centres depleted as out of town retail centres leech business away from the centre. While economic recovery and the return of consumer confidence might eventually provide some boost to towns, there is a pressing need for both a new strategic approach to town development and an immediate stimulus to boost their existing strengths.

5. International Experience

Lagging regions can and do make a vital contribution to growth: In recent years the OECD has focused considerable attention on how regions develop as well as their contribution to economic growth and recovery. This analysis, which is based on extensive empirical investigation, concludes that lagging regions have unused growth potential and can make a strong contribution to national growth. The promotion of regional growth is economically justified and geography and place-based factors need to be part of the policy agenda for economic growth and more inclusive, sustainable and fairer societies.[72]

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70 Towns and environs with populations of greater than 1,000 but not cities or suburbs, CSO SILC (2011).

71 Kennedy, G and McIndoe, Calder, T. (2011) The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, Research Technical Paper, 12/RT/11, Dublin: Central Bank of Ireland

72 OECD (2009 a), (2009b), (2013a). See also WDC, 2010.

The starting point for their most recent study entitled Promoting Growth in All Regions[73] was that regional growth patterns are not geographically uniform. As was evident from the dominance of the Dublin region in the data discussed above, economic activity tends to concentrate in large metropolitan areas which are often considered engines of national economic growth. This has led to a lack of understanding of the growth potential of other regions and their relevance for national economic performance. Statistical and econometric analysis of fast and slow growth and higher and lower income regions across the OECD together with the results of 23 detailed case studies showed that less developed regions make a vital contribution to national growth and accounted for 43% of total aggregate OECD growth during 1995-2007.

Concentrations of population are neither necessary nor sufficient for success; nor is rurality an inhibitor of growth. In fact, predominantly rural regions have, on average, enjoyed faster growth than intermediate or predominantly urban regions. It makes good economic sense then to invest in lagging regions as they can contribute significantly to economic growth as long as their assets are nurtured. Underperforming regions mean declining taxes, costly service provision and inequalities whereas regional growth brings national benefits in terms of equity, resilience and financial health. OECD concludes that geography and place-based factors need to be included in the structural policy agenda of countries to increase their growth potential. Apart from delivering efficiency, place-based policies also have the capacity to create a more inclusive and fairer society through their ability to mobilise local actors and ensure that they are involved and engaged in the development process

Place-based policies give efficiency and equity the same status: The place-based approach has also been singled out by Barca[74] within the context of an agenda for reform of EU cohesion policy. Barca defines place – within the context of a policy – as a social concept, a contiguous/continuous area within whose boundaries a set of conditions conducive to development apply more than they do across boundaries.

He defines a place-based development policy as:

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73 Promoting Growth in All Regions (2013)
74 See Barca-Report (2009)

- a long-term development strategy whose objective is to reduce persistent *inefficiency* (underutilisation of the full potential) and *inequality* (share of people below a given standard of well-being and/or extent of interpersonal disparities) in specific *places;*
- through the production of bundles of *integrated,* place-tailored *public goods and services* designed and implemented by eliciting and aggregating *local preferences and knowledge* through *participatory political institutions*, and by establishing linkages with other places; and
- promoted from outside the place by a system of *multilevel governance* where grants subject to *conditionalities* on both objectives and institutions are transferred from higher to lower levels of government. (p.5 Italics in original)

This approach can be particularly effective since it is based on the idea that policy measures and institutions should be tailored to local conditions. This need has been stressed by recent advances in the theory of growth and development. More fundamentally, it challenges the tendency not to give equity the same status as efficiency in public discourse and policy. As mentioned above, there is a growing recognition that both are relevant features of development and that societal progress cannot just be measured by GDP but requires an assessment of the multi-dimensional features of well-being. Barca argues that place-based policy interventions should be aimed at improving opportunities and changing economic institutions.

Human capital matters most: Unsurprisingly, the OECD found that international experience is that human capital is a robust determinant of regional growth. Perhaps more surprising is the finding that overall, reducing the proportion of people in a region with very low skills seems to make more difference than increasing the share with very high skills. Low to medium-skilled workers tend to be less mobile than their highly skilled counterparts. We have seen evidence for this in a recent study of emigration in Ireland, cited above, which showed that only a minority of emigrants (23%) were unemployed before leaving and that nearly two thirds of them (62%) had a third level qualification. Markets for highly skilled labour are national or even global, but lower skill demand and supply is more regional and local. So labour market and skills training policy need to be well adapted to local conditions.

For this reason the FAS study of regional labour markets published in 2012 for the Expert Group on Future Skills Needs is an important development as it provides detailed data on demand and supply of skills in the regions for the first time, and bears out the OECD's findings. The Irish data showed a similarity in the distribution of job seekers across regions in that the highest share had previously been employed as crafts persons or labourers, with managers and professionals among the lowest. Those with lower skills tend to be less mobile. According to the OECD, increasing the skills of low-skilled workers is critical, and may be as important for growth as expanding higher education.

How important are other factors? While investment in infrastructure is important, investment needs to be coordinated with other polices to be really effective. Innovation is shown to be important in more developed regions but less important in explaining growth in other regions – innovation tends to be concentrated in high-technology core regions. Other regions depend on less tech intensive forms of innovation which are less easy to measure. The barriers to growth vary widely so place based-approaches tailored to local conditions work most effectively. For less developed regions and intermediate regions, the most common formula for success appeared to be a simultaneous improvement in policies, infrastructure provision and human capital development.

Does the way policy is delivered matter? Yes, it is critical, particularly the way that policy-makers frame the challenge. The OECD case studies showed that a conscious shift toward a growth oriented policy framework that focuses on endogenous (bottom up) development is most effective. Policy packages are more important than individual measures and policy synergies across related domains can make a real difference. Formal and informal institutions play a vital role when they facilitate negotiation and dialogue among key actors so as to mobilise and integrate them into the development process. One of the challenges is to create institutions that strengthen the region's 'voice' in dealing with other entities both national and regional as well as the public private and educational sectors.

Exogenous (top down) policy intervention needs to have enough power, capacity and credibility to trigger institutional change. Well-being and social inclusion are determined by the success or failure of public institutions to deliver public goods and services including health, education, security, social care. Informal institutions and social enterprises can be supported indirectly through the delivery of public goods and services.

The key institutional factors in delivering successful regional policy are **leadership, governance, capacity, continuity and mobilisation.** Among the most important institutional bottlenecks are **lack of coherence and continuity in policy implementation by institutions, institutional instability, lack of a common and strategic vision, lack of capacity and gaps in multi-level governance framework.** These lists identify some of the challenges for Ireland as discussed below.

6. Some Challenges for Ireland

Leadership: It is clear from the account of how regions fared, before, during, and after the boom that the rhetoric of policy – balanced regional development and strategic spatial planning – was not matched by the reality of political commitment and leadership that could deliver sustainable growth for the regions. The international evidence is now compelling that regional development can make a vital contribution to economic growth while simultaneously addressing social exclusion, and that policy intervention is a key enabling factor. While larger metropolitan regions will continue to drive economic growth, the unused growth potential of lagging regions can be realised and contribute significantly to national development, provided the right mix of leadership, governance and capacity is mobilised.

If non-metropolitan Irish regions are to contribute effectively to economic growth and recovery, there is an urgent need for a clear strategic vision for more balanced regional development based on the kind of spatial structure best suited to Ireland's social values, history and geography, and on what has been proven to work elsewhere. This should involve setting out a coherent statement of policy priorities, how they would be operationalised, and those responsible for implementation. We know that the drivers of successful delivery are political leadership, accountability, resources and a sound strategy based on clear and measurable objectives and outcomes. However, 'implementation deficit disorder' continues to dog the realisation of policy objectives in Ireland. The experiences and lessons of the past five years and the current state of many of our institutions provide convincing evidence of the urgency of the need for reform, but also, perhaps, of our capacity to 'rise to the occasion' in times of crisis.

But changing things will require political courage and effective leadership throughout the delivery system. There are some encouraging signs. The recent appointment of an expert group to prepare a scoping report on the principles for a successor to the NSS is a welcome development and should provide an opportunity to identify the broad parameters of how Ireland might develop a place-based approach to regional development. The much-needed reform of governance structures also offers huge potential for change as discussed below.

What needs to be done? There is no shortage of analysis and reports outlining the key drivers of local and regional development or various action plans for employment creation.[75] Strategies for regional economic growth need to enhance regions' competitiveness and capture opportunities for wider spatial distribution of economic activity, by building on their existing strengths and resource endowments, and by recognising the importance of human, social and cultural capital. In practice, this can include positioning them to participate effectively in the knowledge economy, to compete for inward investment, supporting innovation in indigenous industry (both high-tech and traditional), encouraging business start-ups and targeting natural resources-based sectors such as tourism, agri-food , renewable energy, the marine and the creative sectors. What needs to be done is not usually contentious, but whether and how are matters of priorities and resources.

Fundamentally, a place-based development policy should reduce under-utilisation of resources; turn people's knowledge and preferences into projects; be promoted and resourced from the top; and involve multi-level governance.

Governance: In 2012 the Government published *Putting People First* [76] a major programme for fundamental reform of local government based on a vision of local government as the main vehicle of governance and public service at local level. The changes involved are quite far reaching involving a substantial reduction in the number of regional and local authorities. The existing eight regional authorities and two assemblies will be replaced by three new assemblies for the regions – Connacht-Ulster, Southern and

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75 See: OECD LEED, 2013b; Enterprise Strategy Group (2004); NESC (2005); WDC, (2010), 2011; Action Plan for Jobs (2012); O'Hara, et al (2008).

76 Department of Environment, Community and Local Government, (2012)

Eastern-Midland – who will have responsibilities for formulation of economic and spatial strategies, functions in relation to EU programmes and oversight of local authority performance and national policy implementation. The county or city will continue to be the core element of local government but extensive change is proposed at sub-county level with municipal districts to be created based on towns and their hinterlands. Councillors will be elected in these districts which will be the main units of local spatial planning.

Local authorities will have a stronger role in enterprise development and business support through Local Enterprise Offices (LEOs). The reforms envisage that community and local development activities will be more closely aligned with local government with a view to improving local service delivery to citizens, achieving greater efficiency and effectiveness and enhancing the role of local authorities in the delivery of local and community development programmes and functions. This includes responsibility for developing a five-year City and County Local and Community Plan encompassing all state funded local and community development interventions.

These reforms are undoubtedly the most important in the history of the state in terms of their potential to radically reform the nature of policy delivery and its impact on Irish regional and local development. [77] They could address some of the problems which have beset the Irish institutional system for years including: insufficient coherence and integration in policy implementation; lack of regional focus in economic development policy; and the disconnect between locally based development and local government structures.

To give effect to the commitments on citizen engagement in *Putting People First* a working group on citizen engagement has been established to make recommendations on more extensive and diverse input by citizens into the decision-making process, and to facilitate their input into decision making at the local government level. Implementation of all of the PPF reforms will be challenging and will require strong political commitment and institutional support from the centre.

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77 A forthcoming OECD report *Delivering Local Government: Ireland* examines the impact of the proposed local government reforms on local economic and community development. See OECD (2013c)

While it is desirable to encourage and enable an active citizenry, this will not automatically empower communities. They also need to have some control over decisions that affect their quality of life and development, including provision of public services. Moreover, it is important that there is capacity to engage with and build on the work of locally based development groups, and involve them in the new governance structures, in a spirit of openness and experimentation. Implementation of these reforms is still in the initial stages, pending enactment of legislation and the institutional arrangements have yet to be worked out. However, there are concerns among those involved in local development about the prospects of greater integration into local authority structures where there can be little institutional knowledge or experience of community-based development. Authorities, on the other hand, are also breaking new ground and face the challenge of shedding old habits and finding new ways of working.

To paraphrase Barca: too much ‘bottom up’ can lead to dilution of exogenous policy intervention and the rationale gets lost; but if conditionality is over-played, mobilisation of local knowledge and preferences is weakened, and top down intervention is ineffective or counterproductive. Perhaps Ireland can get some of it right this time around.

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