

REGIONAL DIFFERENCES HAVE REMAINED FAIRLY PERMANENT BOTH IN EUROPE AND AROUND THE WORLD.

While regional differences in Europe lessened in the 1990s, this decrease has come to a halt at the beginning of this century or, in many places, has even taken a sharp turn upwards (*Alcidi et al. 2018*).

REASONS

- The current technological development, globalisation, and elimination of trade restrictions have encouraged the businesses and skills to cluster into one place.
- Economy is based more and more on knowledge intensive activities that thrive in (larger) cities where the businesses concentrate to make use of the economic advantages offered by the better choice of labour force and innovation capabilities.
- People's willingness and ability to move are over-estimated: those able to move have moved; those who have not, either lack the necessary skills or have other reasons.
- Improvement of transport connections has further favoured large centres and has turned more distant regions into hinterland instead of independent economic regions.
- Every region has a different development perspective, which is why a regional policy using only uniform measures is not always the best solution.

RESULTS

- Many peripheries and stagnating industrial regions have failed to find a place in the “new economy” – jobs are disappearing, the choice is narrowing, and the skills do not meet the requirements.
- According to the liberal economic model, the regional variations should have been temporary and should have disappeared under the influence

of market forces. The present experience shows that differences can be very enduring.

- After a “brain drain” from a region, the remaining residents start to “protect the place”; that is, they become hostile towards new businesses and immigrants moving into the region.

The permanent and growing differences between urban and peripheral areas form a background that highlights the regions that are not happy with their current situation or the imagined future. The growing discontent sets a number of challenges to the society, because it jeopardises national economic development, social cohesion, and political stability. This has already become apparent by the rise of populism in several developed countries in Europe and the USA, but also in developing countries.

The ordinary liberal economic policy is also worryingly helpless in solving the problem of regional inequality because it fails to offer any clear directions or justifications for intervention by the state, and expects that in the long term the differences would level out under the influence of market forces. At the same time, the current experience indicates that there are no self-generated adaptation mechanisms in the open globalising economy. Rather to the contrary; thus, labour mobility has instead amplified polarisation, and people with different skill levels have increasingly concentrated into certain regions.

We have no reason to expect all regions to become equally wealthy, as the development of every region is guided by local structural economic factors (level of education, scientific and technological capability, quality of infrastructure and institutions) that change pretty slowly. Every region has its role and functions in a wider national economic system. Thus, in short

and medium term, every region has a different development perspective, which is why a regional policy using only uniform measures is not always the best solution. Instead, in order to work on the reasons behind regional discontent, we need to strive towards a simultaneous maximum usage and development of each region’s development potential.

Reflecting the general European trend, the focus of Estonia’s regional policy has extended beyond a “social policy” directed at reducing regional differences to also include increasing regional competitiveness.

REGIONAL POLICY FOCUS BY COUNTRY

	Reducing regional differences	National economic growth and reducing regional differences	Development of all regions and reducing regional differences	Development of all regions	National economic growth
2017	Germany Spain Switzerland	Bulgaria Cyprus Greece Hungary Latvia Lithuania Malta Poland Romania Slovakia	Czech Rep. Finland France Italy Norway Portugal Sweden United Kingdom (Scotland and Wales)	Austria Belgium Denmark Estonia Ireland Slovenia United Kingdom (England and Northern Ireland)	Cyprus Luxembourg Netherlands
2005	Germany Spain Switzerland	Bulgaria Cyprus Estonia Greece Hungary Latvia Lithuania Malta Poland Slovakia Slovenia	Czech Rep. Denmark Finland Ireland Italy Norway Sweden United Kingdom	Austria Belgium France Netherlands Portugal Romania	Luxembourg

Source: EoRPA (2017), „Regional Policy in a Changing Europe: Annual Review of Regional Policy in Europe“.

In developing national strategies, Estonia is increasingly conscious of regional features and goals of regional development. At the same time, the process of taking regional development plans and planning documents

into consideration in sectoral development plans and the state budget has remained unregulated (e.g. the status of county development plans in directing state level investments has been modest).

The study *Review of Regional Economic Growth Theories and the Factors Driving the Harmonisation of Revenue Levels* was conducted by Kadri Kuusk on the commission of the Foresight Centre. The purpose of the study is to receive an overview of the regional economic growth theories and their treatment of space, and identify the factors that impact regional development and political choices.