1 INTRODUCTION

1.1 Background: setting the rural scene

Nearly everybody has some relationship with rural areas, be it as a place to work, to live or to visit for holidays. These relationships affect the performance of the rural economy in various ways: through direct contributions to economic activities, through demand for housing and consumer services or through demand for recreation facilities. The extent, however, to which the rural economy in individual areas benefits from these activities, largely varies. From a recent analysis, it appears that there were dynamic rural regions which showed an employment performance above the national average during the 1980s, and that there were also rural regions whose employment growth lagged behind (OECD, 1996a). This observation directly prompts the following question: why do some rural regions show a higher employment performance than others? Can the sectoral mix of employment explain these differences? Or are these differences mainly the result of factors like local resources, natural and cultural amenities, entrepreneurial tradition, work ethics, public or private networks? This study aims to provide answers to this question by giving a thorough analysis of how economic development theories conceptualize the driving forces behind economic development in rural regions.

In traditional economic development theories, used to explicate industrialization processes over the last few centuries, economies tend to be modelled in terms of a dual system with a stagnating agricultural sector in rural areas and a modern, industrial sector in urban areas. These theories usually assume that the function of the agricultural sector in the process of economic development is to provide labour for the urban industries and for the construction of infrastructure, resulting in an outmigration from rural to urban areas. Another role prescribed to the agricultural sector by these theories is that it provides savings for investments in the industrial sector, foreign exchange earnings from agricultural exports, food for the urban labour force and a market for the sale of industrial products. Although the agricultural sector may profit from this development process by modernization and productivity increases, it may be clear that according to these theories, agricultural and rural development tend to be externally determined by the urban industrial sector (Slee, 1994: 186; Szirmai, 1994: 243-73).

Sectoral dichotomy of rural and urban areas no longer adequate

However, most rural areas in EU member states no longer reflect this image of dominance of the agricultural sector and outmigration of labour. The same applies for rural areas in other advanced economies in the OECD. It appears that economies in rural areas are characterized by a wide range of economic activities and that in 1990 even in the most rural regions of the EU, the agricultural sector accounted for less than 20% of the regional labour force (see Section 2.3; OECD, 1996a). Besides, since the 1970s the outflow of labour from many rural areas has been outweighed by an immigration of economically active people and retirees from urban areas. This so-called ‘counterurbanization’ largely varies among regions and countries, but it seems to be a general feature in the OECD (Dahms and McComb, 1999: 129-132). Another interesting phenomenon is the already mentioned differentiation in economic performance among
rural areas. These developments illustrate that the sectoral dichotomy of rural and urban areas, as assumed in traditional economic development theories, is no longer adequate to describe economic developments that rural areas in advanced countries have experienced during the last decades, and suggest that there are other factors at work which affect the economic performance of rural areas in different ways.

**Rural and urban areas expressed as territorial units**

Moreover, a closer look at the sectoral dichotomy of rural and urban areas reveals a paradox: as soon as non-agricultural activities become dominant in rural areas, these areas become labelled as semi-rural or peri-urban. This means that it is impossible for rural areas to diversify their economy without simultaneously losing the label of ‘rural’ (Saraceno, 1994:467-70). As an alternative for the rural-urban division, Saraceno proposes a local economy approach, in which spatial differentiation is based on compact territorial entities like labour market areas. In this approach, each territorial entity includes agricultural, industrial and service activities and consists of one or more centres and open space. Based on the density of economic activities and population, some of these entities can be labelled as ‘(more) rural’ and others as ‘(more) urban’. Such an approach is attractive in socio-economic analyses, as these territorial entities can be expressed in terms of distinct socio-economic structures. This approach has been applied by the OECD in analyses of economic performance of rural regions (OECD, 1994, 1996a). The present study also follows this approach.

Within this constellation of rural and urban regions, it can be questioned whether factors affecting economic growth in rural regions differ from those in urban regions. Saraceno has put forward another interesting view which postulates that the competitiveness of rural and urban regions is based on different forms of economic organization. The attributes of rural regions, like low population density, a structure of small and medium sized enterprises, mixed forms of integration with external markets, quality and niche products, seem better suited to economies of scope (diversification), while urban regions with high population density, large firms, mass markets and well-established international connections tend to be associated with economies of scale (Saraceno, 1996:5). Several objections can be raised against this idea. It ignores, for example, the existence of large industrial firms - often affiliates of multinationals - in rural areas. Such firms are in fact exponents of economies of scale. In addition, urban areas include a high number of small and medium sized enterprises. Despite these objections, the suggestion that the economic organization in rural and urban areas may differ deserves further attention, as this may have consequences for the conceptualization of economic development in rural regions.

**Valorization of rural amenities**

Due to the increasing levels of welfare, people are in search of a wide range of recreational possibilities. Rural areas meet this demand by offering all kinds of rural amenities like cultural landscapes of outstanding scenic beauty or high natural value, settlements with a rich history and architectural remains, and protected areas like regional or national parks. The valorization of these rural amenities and the related employment opportunities affect the economy of rural areas, but there is insufficient knowledge about how tourist activities can be exploited in the rural economy in a sustainable way.
Different approaches to rural development policy

Disparities in economic development among regions have not only attracted the attention of academics, but that of policy makers as well. In order to reduce regional disparities, a wide spectrum of policy makers from the local to the EU level are involved in the process of designing and implementing rural development policy. In the debate on rural development policy, at least two major dialectic pairs of rural development strategies can be distinguished: exogenous versus endogenous development and top-down versus bottom-up direction (Von Meyer et al., 1999: 18-20). Each of these pairs addresses a particular aspect of development. In the exogenous-endogenous dialectic the focus is on the origin of employment growth: according to the exogenous development approach, employment growth is considered to be transplanted into a region and mainly externally determined, while the endogenous development approach assumes that employment growth is produced by local impulses and largely based on local resources. The top-down versus bottom-up debate deals with the competences of administrative tiers: in a top-down approach, national (or EU) administrative layers take the lead in the development process, and they are in charge of decision making on policy objectives and policy implementation, whereas in a bottom-up approach local actors are the initiators of the development process and are responsible for decision making and implementation of policies. After World War II, the exogenous and top-down approaches dominated rural development policy in Western European countries. This resulted in a direction of rural development policy towards modernization of the agricultural sector, and as this proved insufficient to stabilize the rural economy, towards branch plants as well, in which manufacturing firms from urban areas were encouraged to move into rural areas in order to create employment opportunities for the rural population. By the late 1970s, these policies fell into disrepute since they did not result in sustainable economic development of rural regions (Lowe et al., 1995:89-91). Considering the success of industrial districts at that time, the emphasis in rural development policy began to shift towards the endogenous and bottom-up approaches, paying attention to support for local business, encouragement of local initiatives and provision of suitable training. The EU has strongly encouraged this shift: the reform of the EU Structural Funds (1988) resulted in the inclusion of the principles of partnership, programming and additionality into EU structural policies (CEC, 1990:12). These principles were immediately spread to the member states, as they had to adopt these principles in their structural (including rural) policies in order to be eligible for EU co-financing.

This emerging shift in rural development policy from an exogenous, top-down towards an endogenous, bottom-up approach is a complicated process, as it requires changes in the institutional structure, changes in competences between different administrative layers, and sufficient capacity of local actors to initiate and sustain economic growth in the local economy. Many bottlenecks exist and have to be dealt with before an endogenous, bottom-up approach in rural development policy can work. Despite these difficulties, the EU still intends to continue with this approach. In the design of the EU structural policies for the period 2000-2006 in Agenda 2000, this approach figures prominently in the plans for LEADER+ (Liaison Entre Actions de Développement de l’Economie Rurale), which is referred to as an integrated rural development policy. The word ‘integrated’ emphasizes the interaction between actors, sectors and projects. LEADER+ policies should be implemented by means of strategic development
programmes designed in mutual consultation with local actors, entrepreneurs and administrative layers. However, due to lack of knowledge on the working of decisive factors in the rural development process and main features governing the interaction of local and external actors, it is difficult to achieve the aim of such rural development programmes.

1.2 Aim, position and research design of this study

The various aspects of the rural scene in the EU - as outlined in the previous section - give rise to two broad questions: first, which factors can be considered to be the main driving forces behind economic development in rural areas in the EU during the last decades, and second, how can policy makers more successfully implement measures to encourage economic development in rural areas? This study does not pretend to answer these questions fully, but it attempts to contribute to the answer on the first question by giving a systematic overview and critical analysis of some relevant theories on economic development in rural regions of the EU that especially pay attention to factors like networks, capacity of local actors and power relations. As a next step, the insights achieved in this examination can be used in the design of development strategies for rural areas, which may be helpful for policy makers. In order to achieve this aim, the focus of this study will be on the following four objectives:

a. Analysis of regional economic growth theories, which can be used for the explanation of economic development in rural regions in the EU;

b. Analysis of development trajectories in selected rural regions in the EU, and examination of applied development strategies in those regions;

c. Pattern-matching in order to analyze whether development trajectories identified under (b) accord with one or more of the theories discussed under (a);

d. Design of a guideline for economic development strategies for rural regions in the EU.

Before we continue with an explanation of these objectives, we first focus on the impetus behind this study and its positioning within scientific disciplines. This provides a scientific context, from which the objectives can more easily be understood.

OECD territorial scheme impetus behind new research questions

A main impetus for carrying out the present study on factors behind current economic developments in rural regions was given by two OECD studies (1994, 1996a), in which a territorial scheme of rural regions was launched and territorial indicators for these regions were analyzed. These studies showed that there were quite large variations in economic performance among rural regions across the OECD during the 1980s. These economic differentials had hitherto not been noted. Hence, the OECD approach stimulates a new range of research questions on comparative analyses of socio-economic performance among rural regions, in which, in particular, comparisons of so-called leading and lagging rural regions are appealing. Such comparative studies have been carried out, for example, in the EU in the RUREMPLO project (Terluin and Post, 2000) and in Canada through the New Rural Economy project (Reimer, 2000). In the RUREMPLO project, in which research teams from nine EU countries participated, employment dynamics in nine pairs of leading and lagging rural regions in nine EU
countries for the period 1980-1997 were analyzed. The RUREMPLO project provides a rich source of empirical evidence on socio-economic dynamics in rural regions, which offers interesting opportunities for further research. Moreover, it also revealed some gaps in rural research, one of which is the lack of a systematic overview of theories on economic development in rural regions in advanced countries (Terluin and Post, 1999:42).

As one of the two scientific coordinators of the RUREMPLO project, it was challenging for this author to contribute to such an overview of theories on economic development in rural regions in advanced countries, and as a next step, to use the case studies of the RUREMPLO project in order to analyze whether the identified theories are supported by empirical evidence. This close relationship between the present study and the RUREMPLO project made it sometimes unavoidable to recall some findings of the RUREMPLO project like, for example, at the end of Section 2.2, in Section 2.3, Chapter 5, Section 7.2 and Section 7.4. In all these cases, this author was a major contributor in the generation of the results (see Esposti et al., 1999; Terluin and Post, 1999, 2000; Terluin et al., 1999a). Moreover, in all instances, the RUREMPLO results required extensive reconfiguration in order to fit into the specific purpose of the present study.

**Positioning of this study**

In order to achieve more insight into factors behind current economic developments in rural regions, we have mainly used literature put forward in the multidisciplinary field of rural studies and in the discipline of regional economics. By doing so, we tried to link the ‘rural aspect’ with the ‘regional economic aspect’. Rural studies seek to understand the interaction between spatial structures and socio-spatial processes in rural areas. It addresses a wide range of subjects in rural areas like people, settlements, landscape, environment, agriculture, economy, policy, minorities, gender and cultural issues. Contributions to the multidisciplinary field of rural studies mainly originate from rural geography, rural sociology, agricultural economy, demography, ecology, rural planning and administrative sciences (Cloke, 1985 and 1997; Huigen, 1996). In order to get in touch with ideas from the more ‘hard core’ economics, a rich body of literature from the discipline of regional economics was consulted. The said literature attempts to explain the economic behaviour of regions (Armstrong and Taylor, 2000:1) or more specifically, to describe and explain the distribution of economic activities over regions (Heijman, 2001:2). This literature covers abstract spatial-economic analyses based on neoclassical assumptions as well as institutional perspectives on regional economic development, in which regions are embedded in a complex of social, cultural, political and historical factors (Boekema et al., 2000:461). Apart from economists, economic geographers also contribute to the debate in regional economics.

**Research design of this study**

Having discussed the impetus of the study and its position within scientific disciplines, we now turn to the research design of this study, in which a brief explanation about the four stated objectives is given. In the preceding, the term ‘rural region’ has already been used several times. For the purpose of this study, we can describe a rural region as a territorial unit with one or more small or medium sized cities surrounded by large areas of open space, with a regional economy and a relatively low population density. Usually,
the size of a rural region reflects that of a labour market area. These rural regions are our basic research units. By examining the debates in rural studies and regional economics, we will compose an overview of theories on economic development in rural regions. From this overview we will select a number of theories for further analysis. We use the method of ‘pattern-matching’ (Yin, 1993, 1994) to test whether these theories predict the development trajectories in 18 case studies in rural regions in the EU. The method of pattern-matching consists of three steps: first, the construction of theory patterns, second, the construction of case study patterns, and third, the matching of the theory patterns and the case study patterns. A development trajectory is interpreted here in terms of a development path or the course that a region follows over time. As case studies we used those which were carried out in the scope of the RUREMPLO project (Terluin and Post, 2000). Based on the findings of the pattern-matching and the experiences in the case study regions, we formulate recommendations for economic development strategies for rural regions in the EU.

Finally, this study is restricted to economic developments since the beginning of the 1980s. We presume that most rural regions have completed their transition from an agrarian economy to a modern industrial or service economy before the 1980s, a step which can be testified by the already drastically reduced size of the agricultural sector in 1980 (maximum 20% in the most rural regions; see Annex Table A2.1). So it can be said that we analyze developments in a post-agricultural economy. Of course, demarcations of time periods always embody a certain extent of arbitrariness, unless an event with enormous repercussions occurs. In a sense, the oil crisis of the 1970s can be considered to be such an event. As such, 1980 as a starting point in this study is justifiable. A more pragmatic reason is that we intend to use empirical data from the RUREMPLO project, which is available from 1980. It is rather difficult to extend these data to earlier years.

1.3 Plan of this study

The plan of this study is as follows. In the next chapter we focus on main issues and trends in rural regions in the EU. We start with a discussion of the various approaches to rurality after which we indicate the point of view used in this study. Then we turn to socio-economic developments in rural regions in the EU since the beginning of the 1980s. Finally, we pay attention to rural development policy and identify several shifts in this policy. In Chapter 3 we review a number of theories on economic development in rural regions. We have divided this review in theories put forward in the debate in regional economics and theories developed in the debate in the multidisciplinary field of rural studies. From these debates a number of theories are selected for further research. In Chapter 4 we introduce the method of pattern-matching, in which three stages can be distinguished: the construction of a theory pattern, the construction of a case study pattern and the matching of both patterns. In Chapter 4 we also construct theory patterns for the selected theories. In Chapter 5 we deal with the second step of the method of pattern-matching: the construction of case study patterns. From these case study patterns, we derive development trajectories in the 18 case study regions during 1980-1997. In Chapter 6 we focus on the third step of the method of pattern-matching: the matching of the theory patterns and the case study patterns. The findings of this matching show which
theories are widely supported by empirical evidence from the case studies and which theories are not. In the last chapter we make some concluding remarks on theory and practice of economic development in rural regions in the EU, with recommendations for economic development strategies for rural regions in the EU and some suggestions for further research.