16 Economic Capabilities and Strategic Clusters: New Perspectives for National and Regional Economic Policy

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16.1 Introduction

Since the early Nineties, national economic policy in the Netherlands has been limited to market liberalisation and safeguarding adequate market conditions and adequate collective factor conditions, including physical and knowledge infrastructures. Because of past policy failures and EU regulation, micro- and meso level industrial policy has become marginal. Some years ago, national policy makers were inspired by Michael Porter’s diamond framework for the explanation of industrial competitiveness (Porter, 1990; Jacobs, Boekholt & Zegveld, 1990). Porter’s concept of economic cluster formation became for some time a buzzword, but this did not lead to actual policy change. At the moment of writing, there is a growing awareness in national policy circles of the limits of liberalisation, particularly in the case of the network provision of products and services such as railroads and electricity and telecommunication networks.

In this chapter, a new case is made for meso level industrial and spatial-economic policy, not as a substitute but as a complement of policy aimed at general market and factor conditions. There are various reasons for a renewed meso level policy, some of which are rather pressing. First of all, the competitive strength of nations and regions depends not only on market efficiency and other general conditions but also on industry-specific and cluster-specific conditions at a deeper level which have been forged by long term investment and which are hard to copy. Such conditions, among which specific knowledge infrastructures, networks of synergetic and pre-competitive collective entrepreneurship and shared regional and national pools of experience and specialised labour, will gain importance in liberalised international markets. These specific conditions do not evolve through the market mechanism and self-organisation alone. Some collective action is needed, both by entrepreneurs and by government agencies. Adam Smith’s invisible hand of the market needs the visible hand of
entrepreneurs and policymakers in order to produce optimal economic results in the realms of labour productivity, innovation, and competitiveness. Of course, the relevance of this Schumpeterian line of reasoning varies from one industry and economic cluster to the other. Second, and most importantly, the functioning of the market mechanism itself depends on some crucial capabilities of the economic system that cannot be produced by the market system only. Core capabilities in this respect are physical market access, governance capability (in its widest sense) and innovation capability. Specific clusters of business activities and specific competencies within business firms play a key role in the formation of these capabilities within the economic system.

In this chapter, an argument is made for industrial policy aimed at these activity clusters in particular. In the next section, three vital capabilities for productive and flexible market economies are explained in some depth. The key to competitive strength lies in combinations of these capabilities. The section concludes by referring to various avenues for national and regional economic development, while taking strategic capabilities into account. A subsequent section focuses on the contemporary Dutch economy. The productivity, innovativeness and competitiveness of various industries in the international market are explained by the development and intersection of strategic capabilities and activity clusters. The chapter concludes with some implications of the analysis for economic and spatial policy at the national and regional levels in the Dutch context.

16.2 Inside the grey box: vital economic capabilities

Are there any welfare theoretical grounds upon which we might assess the composition of industrial activity of national and regional economies? Must some activities be deemed more important than others? According to pure micro-economic theory, such assessments are futile. Industrial composition is a non-issue and a grey area for mainstream economics. It is not a black box, as innovation and technological development are a black box for economic analysis, since the activity composition of economies can indeed be perfectly explained by market theory (Rosenberg, 1982). The composition is a grey box in mainstream economics: explainable, but meaningless.

According to pure micro-economic theory, changes in the industrial composition of the economic supply-side follow from changes in the composition of final demand. Final demand composition is a datum for mainstream economic science and escapes economic analysis. Only the