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EU Recovery Plans, Inclusive Knowledge Economy and Overcoming Regional Disparities

MATJAZ NAHTIGAL

Abstract The EU has adopted the Recovery and Resilience Facility (RRF) as the key instrument help to ensure that the EU, its member states, regions and local communities emerge stronger and more resilient from the pandemic crisis. Its main goal is to achieve climate neutrality by 2050, and it sets Europe on a path of digital transition, creating jobs and spurring growth in the process. The EU recovery plans should be seen as an opportunity not merely to address the post-pandemic health, social, economic and financial crisis – further exacerbated by the ongoing war in Ukraine – but primarily to develop a more inclusive and innovative institutional framework for European economies with more resilient local communities, small and medium sized firms, and high-quality public services across the EU. New forms of participation, more policy space, tools and instruments to support local and regional development strategies are necessary to establish an overall environment more hospitable to sustainable and inclusive development. Diversity of European local communities and European regions at different levels of development require tailored-made approach to realize their development potential. Institutional innovations, such as the regional public venture funds, may be the key to overcome regional disparities and build regional knowledge economies. The positive experience with the recovery, sustainable transition and inclusive knowledge economy across the European Union may serve as an important experience and encouragement to many other parts of the world, coping with the post-pandemic recovery, implementation of the Sustainable Development Goals and inclusive development.

Keywords: • EU Recovery and Resilience Facility • inclusive knowledge economy • institutional innovations • regional disparities • development dilemma

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1 Introduction

The EU has adopted the Recovery and Resilience Facility (RRF) as the key instrument help to ensure that the EU, its member states, regions and local communities emerge stronger and more resilient from the pandemic crisis. Its main goal is to achieve climate neutrality by 2050, and it sets Europe on a path of digital transition, creating jobs and spurring growth in the process (European Commission, 2021a).

Based on common goals and common guidelines, the member states prepared their national plans for revision and approval by the European Commission. To many member states and their regions, the RRF presents an opportunity to restructure its economy and improve infrastructure and the public services.

After a decade of stagnation as a consequence of the global and European financial crisis, after the decade of austerity measures, economic stagnation, a lack of public investment, the RRF offers a unique opportunity for stagnating regions and countries across the EU as well as for the technologically advanced European regions and countries.

The research questions of this article are what institutional and policy preconditions would support successful, inclusive and sustainable recovery of the stagnating regions across the EU. What potential risks and pitfalls may lead to diminished outcomes of this European project in the period of international poli-crises (climate change, rivalries and conflicts between the major international powers, depletion of resources, and energy transition…)? An additional research question addresses what lessons can be learned from the European economic, social and institutional restructuring for other parts of the world that are similarly dealing with the multiple challenges and unresolved development dilemmas.

Overall, the EU successful restructuring can offer encouragement to other regions from around the world to adopt similar plans to revive and restructure their economic and social conditions. It can lead to the more inclusive and sustainable pattern of global developments. On the other hand, the failures and missed opportunities along the path of the RRF can lead to more uneven European developments and to new European divides that may have negative consequences beyond the context of the European common market. The objective of the article is to show the potential advantages and potential pitfalls in embracing the challenge of knowledge economy in the context of European recovery efforts The broader objective is to articulate the modern development dilemma at the level of European regions and regions in other parts of the world while coping with the challenges of climate change, social inequalities and uneven technological progress.

2 Literature overview

The research method of the present article is based on the comparative institutional approach, on normative and empirical analysis of European regional policies as well as on the broader concept of the varieties of institutional models in modern economic and social development context, European and global.

The causal linkages between institutional innovations and modern knowledge economy are still not sufficiently analyzed and understood in the literature. The EU recovery plans offer a new opportunity to assess the causal linkages, especially in the context of European regional development. Most recent reports on European regional developments, European innovations scoreboard, OECD studies on new economic challenges with respect to the knowledge economy will be presented below (European Commission, 2021; Eurostat 2021, OECD 2016; OECD 2019; WIPO 2021). The literature on assessment of quality governance at the regional levels in the European union and the literature on comparative institutional innovations, theoretical and empirical, will be presented below.

The literature overview considers the diversity of European regions, as well as the diversity of regional development institutions as potential vehicles of more inclusive development (Nielsen et al., 2022). The research focuses primarily on the stagnating regions in Spain and Italy, which presents a limitation of the research.

3 Research

3.1 EU development dilemmas

Everyone who closely followed the negotiations on the EU recovery plan understands the arduous path toward reaching an agreement. Although the decision to authorize the European Commission was not the first effort in EU history to approach collective debt, the extent, scope and goals of the common European debt are a step forward in the European integration. The decision for common EU debt to finance post-pandemic recovery and establish resilient, sustainable and advanced European economies marks a departure from the decade of austerity measures across large parts of the EU. It marks the departure from the period of erosion of social services, low levels of public investments, and increased inequalities between the advanced European regions and the rest of the stagnating European regions.

What remains unknown, however, is the likelihood that such a substantial departure of EU policies will lead to the structurally improved development of the entire common European market and European societies. If not carefully articulated and implemented throughout the EU, and especially in the stagnating European regions, the risk is that the EU as a whole may emerge from this comprehensive effort similarly unequal, unbalanced and divided. Another risk is that the technologically,

scientifically and organizationally advanced European regions will not only maintain the competitive edge due to their superior institutional and policy foundations, but the technological gap will only expand. Of equal importance, and intrinsically interconnected, social divisions and gaps between the relatively privileged social groups and the rest of the society may only further grow. Social and economic dualism entrenched in the European common market and its institutional foundations may only further deepen.

Therefore, the EU recovery plans should be seen as an opportunity not merely to address the post-pandemic health, social, economic and financial crisis – further exacerbated by the ongoing war in Ukraine – but primarily to develop a more inclusive and innovative institutional framework for European economies with more resilient local communities, small and medium sized firms, and high-quality public services across the EU. New forms of participation, more policy space, tools and instruments to support local and regional development strategies are necessary to establish an overall environment more hospitable to sustainable and inclusive development. Therefore, to impose the recovery plans mechanically on the existing institutional and policy foundations will not likely lead to the structural improvements of the European social and economic polity. Instead, it will likely lead to incoherent, often contradictory policy approaches, such as a combination of austerity, structural adjustment in a form of labor market flexibilization, privatization without development strategy, constraints in public services and other similar measures from the repertoire of economic orthodoxy.

Even on the surface, the policy dilemmas stemming from the new recovery plans will not be easy to solve. In a rush to implement the recovery projects and to show tangible results to the electorate – an understandable approach after years of austerity, social and economic anxieties and crisis prone global environment –more nuanced, strategic and long-term thinking is necessary. The absence of high-quality institutions, participatory decision-making processes, and other important institutional elements for comprehensive structural transformation may lead to ready-made projects, mostly in building infrastructure. This is not to say that such projects cannot yield positive outcomes to the society, but the broader institutional framework and strategic steps require more deliberative and collective thinking to secure structural transformation. From the past experience with fiscal and monetary stimulus measures in the EU and elsewhere (the United States, Japan and other examples), we have learned that there is no automatic translation of infrastructure projects toward increasing productivity and long-term growth.

Only by establishing institutions of inclusive development and combining coherent long-term strategies with adequate policy tools and instruments can the one-time recovery plan turn into a sustainable development under the conditions of strategic uncertainty (Rangoni and Zeitlin, 2021).

Sustainable development assumes a collective learning process, based on a trial-and-error approach, that enhances capabilities, skills formation and innovative models of production. In place of traditional models of economy and society, based on laissez-faire tradition, the dirigiste tradition or a variety of models in between the most extreme traditional versions, new models of decentralized but strategic partnership between the public and private sectors can emerge. These new models can be based on constant flows of information, assessment, evaluation and revision of the strategies when needed or appropriate. The developmental localities and regions should be characterized as participatory in form, experimental in content and transformative in the sense of constant adaptation, improvement and development of resilience.

The European development dilemma stems from the following observation: the common market was established under the assumption that the deepening and widening of the common market would inevitably lead to the improvement of the productivist position of all the participants, but this has not materialized. The accompanying measures, such as the structural and cohesion funds to reduce the regional differences, were insufficient. The coordination of European economic and social policies in the form of structural adjustment policies (Crespy & Vanheuverzwijn, 2019) did not substantially add to overall transformation.

Many experts and scholars (for example, Rodriguez-Pose, Nielsen, Zeitlin, Crespy) have noticed insufficiencies in the European institutional and policy design and provide important proposals for reforms. Some of the experts argue convincingly to include and follow more social indicators within the European semester, such as the indicators in measuring the distribution of socio-economic performance in the member states directly (Alcidi et al., 2021). Others advocate for the establishment of the "social imbalances procedure" to focus on unequal access to childcare, education, training and lifelong learning opportunities (Sabato et al., 2022).

To avoid taking the EU recovery plans as a one-off effort to improve the valuable goals in public health, green transition, digitalization and other similarly important goals, but as an effort in structural improvements of the European polity, institutional innovations should come to the fore. Institutional innovations should occur at the local, regional, national and supranational levels. At almost the same time the citizens conference on the future of Europe was launched, the two important European initiatives – the recovery plans and the conference on the future of Europe – did not come together as one large initiative for structural improvements at all levels of European polity. Although many elements of the Lisbon Treaty need improvement, clarification and enhancement of the original European social-market economy, the debate between the European constitutional futures and the futures of more resilient, inclusive and sustainable polities were not established. It was as if the links between the European normative thinking and the space for European institutional innovations are not inextricably linked.

To make the debate on the unresolved European development dilemma even more demanding and complex, we have to add that the European development is only one of the elements of unresolved global development dilemma. The global normative, conceptual and institutional framework has been in place since the end of World War II and reformed in the aftermath of the collapse of the original Bretton Woods system toward liberalization of financial flows and trade, retreat of the governments in steering and coordinating international economic developments, primacy of financial markets and the role of multinational companies. These goals are firmly embedded and articulated in international rules, norms, practices. Without going into the details, the outlined model of global economic governance leads to a global normative and governance framework that is essentially not hospitable to local development initiatives, local innovations and bottom-up development strategies.

The insight about the constraining global context should not serve as an alibi for local communities and regions across the EU not to search for social and economic reconstruction of their respective entities (Korzhenovych & Bröckerm 2020). The insight serves instead as a caveat that the global institutional context narrows the local and regional policy space and limits the tools and instruments for development strategies. The context of a European semester without adequately incorporating social imbalances, technological progress, environmental improvements and citizen participation further narrows opportunities for the stagnating European regions.

Certainly, there are regions and localities across the EU, as well as in other parts of the world, that present important exceptions to the general trend of the inability to catch up with the limited number of leading European and global regions. These exceptions serve as a source of encouragement for many other stagnating localities and regions (Zaman & Goschin, 2015; Goschin et al., 2021). From the normative and conceptual perspective, European and global, the search for more policy space and for diverse development initiatives bottom-up that are tailored made for the niches, opportunities and potential of the stagnating regions remains a challenge of overcoming structural impediments toward inclusive and sustainable development in the future. Without adequate structural changes, the redirection of overall development despite positive initiatives, such as the European recovery plans, will have limited opportunities to provide the desired social and economic outcomes (Mogila et al., 2022; Fidrmuc et al., 2019).

Transformation from the insulated knowledge economy to the knowledge economy for the many requires structural, institutional and policy changes. Otherwise, the effects of different stimulus packages, structural and cohesion funds, and development aid policies may be only of limited, ephemeral and temporary nature (Best, 1990: 269 – 277; Best 2001: 234 – 241). New forms of inequalities, divisions and dividing lines may be reproduced and even deepened. This reproduction occurs at the EU level, in other developed parts of the world, and at the global level. The

development dilemma requires new development models in the context of reformed institutional global and regional frameworks. Therefore, to establish truly resilient European economies and societies, the global context also requires reforms and redirection toward global inclusive and sustainable developments. The European development dilemma cannot be solved without solving the global development dilemma. To a large extent, the European structural reforms toward decentralized, inclusive and sustainable developments can positively influence the redirection of global developments toward a more sustainable and inclusive pattern than the one that we have witnessed during the last four decades.

3.2 Institutional innovations of the knowledge economy for the many

To avoid new forms of inequalities and divisions after the recovery plans come to an end, the discussion on the institutional prerequisites should be put in place. The idea is not to settle with mere superficial improvements in certain economic sectors or improved public services, no matter how welcome and beneficial such improvements may be. With the recovery plans to build more resilient economies and societies, the bigger ambition should be to broaden opportunities for the excluded parts of the population, for the precarious workers in stagnating regions across the EU, and to improve long-term prosperity chances for all.

The transition from the traditional Fordist-style of mass production of standardized goods and services toward post-Fordist production of specialized, tailored-made goods and services assumes comprehensive educational and training shifts and requires changes in the organization of the production and relations among managers, teams of experts and workers. It requires changes in the institutional external foundations, such as the support of financial institutions, research and training centers, support of the public infrastructure, and broad participation of all of the stakeholders. Broad participation of stakeholders encompasses trade unions, entrepreneurs, experts, local communities, bankers, non-governmental organizations, and others. New modes of production, collaboration and competition require policy changes at the regional level of policy-making and institutional setting, as well as adjustment of macroeconomic policies at the national and supranational levels (OECD 2019: 6-9; Unger 2019: 19-25).

A knowledge economy and a knowledge-based society have the potential to establish more resilient, inclusive, participatory and innovative structures of firms, employees, local communities and public institutions. It has a capability of constantly reinventing itself to adjust to new circumstances, global market volatilities and other uncertainties. On the other hand, the knowledge economy in the absence of a reformed institutional and policy framework can lead to the concentration of knowledge, technologies, skills, finance in a handful of large firms and a handful of advanced regions (WIPO, 2021). The rest of the firms, workers and society remain unable to tap the benefits of advanced modes of production and

innovation to the large segments of the economy and society. Hence, economic and social dualism is established, where a divide between relatively small, privileged and advanced sectors of economy and society on one hand and a relatively large stagnating and backward sector of economy and society becomes entrenched (OECD 2019: 10-21; Unger 2019: 71-83).

The knowledge economy can thus become a part of the solution if supported by institutional innovations, policy adjustments and structural improvements. If no such structural adjustments take place, a modern knowledge economy can extract itself from the rest of the economy, it can insulate itself from the rest of society and it can become a destabilizing social factor by creating an unsurpassable divide.

Some of the key characteristics of the knowledge economy are the capability to combine production at scale with the destandardization of production, therefore a combination of traditional mass production and craft production. The knowledge economy leads to decentralization of initiatives while maintaining coordination of production. It can even loosen the traditional constraints of diminishing returns and establish the process of permanent innovations to loosen the principles of diminishing returns and redefine the relations between production and inventions. Unlike traditional mass production based on a hierarchical chain of work instructions and low levels of trust between managers and workers, the knowledge economy operates in the context of trust, cooperation and communication (OECD 2019; Unger 2019).

The knowledge economy today exists in every sector of economic activities, including the advanced precision agriculture. However, it exists only as part of the advanced mode of production in each sector, largely disconnected from the rest of firms, employees and society at large (Arzenšek et al., 2021; Franca & Strojin Štampar, 2021). Instead of deepening and disseminating the knowledge economy across entire sectors of the economy and society, the knowledge economy remains confined to the advanced firms and networks (Unger 2019: 1-8). Consequently, the divide between the advanced and the stagnating parts of the economy reproduces inequality and limits opportunities for the local and regional entities to exploit their potential fully. Instead of establishing resilient, dynamic, innovative economies and societies, the economies are vulnerable and prone to protracting a crisis.

The experience of recent repeated crises, such as the global financial crisis, the pandemic, and the current poly-crisis (post pandemic period, war in Ukraine, climate and energy crisis) may serve as evidence of this claim. Despite massive monetary, fiscal and other public interventions in places around the world that could have afforded such measures of support, most economies, firms, and societies remain unequal and ill-prepared to face the manifold of challenges effectively (European Innovation Scoreboard, 2021). Building truly resilient economies and societies requires forward thinking and a collectively deliberate approach, not

merely societies that respond to macroeconomic shocks, financial crises, climate or health crises, and security crises as one-time events, all the while hoping to return to the (new) normal.

Without building an institutional framework that supports the inclusive knowledge economy and enables its deepening and disseminating across the economy and society, the knowledge economy confined to fringes threatens to reproduce social and economic inequalities, stagnation and discontent (Vesan & Corti, 2019). Failing to grasp the deep characteristics and full potential of the knowledge economy and failing to meet complex requirements as preconditions for establishing an inclusive and sustainable knowledge economy jeopardizes the EU recovery plans.

Based on the debates during the adoption of the EU recovery plans and public debates during the preparations of the national recovery plans, the conceptual and normative thinking behind these plans remains inadequate. It does not sufficiently grasp the complex character of the modern knowledge economy and the demanding requirements to ensure that the potential of the knowledge economy truly develops as an inclusive, sustainable model of development. The sense of urgency due to the pandemic and other imminent crises and the lost decade for many European regions and their citizens due to austerity, erosion of social welfare and access to high quality of public services preempted the need for deeper conceptual and normative thinking. The same applies to the national and supra national policy-makers. After the somewhat unexpected EU recovery plan was finally adopted, they found themselves pressured to deliver the projects to the citizens as soon as possible. The ready-made projects along the guidelines carefully drafted by the European Commission after national plans were approved by the European Commission preempted any longer-term development thinking.

Given the low level of public investments across the EU and most notably in the European (semi)periphery, it is perfectly reasonable for the member states to start channeling additional funds from the recovery plans toward infrastructure projects in railway, renewable energy, public health and digitalization (Eurostat, 2021; Drobne & Brezovnik, 2021). What is more questionable, however, is the missing conceptual thinking and overall development strategy to strengthen capabilities, skills, innovations of firms, workers, local communities, start-ups, young entrepreneurs, young farmers, public research institutes, and support centers to ensure the long-term resilience of economies and societies, particularly in the European periphery and semi-periphery.

Without long-term conceptual and normative thinking about how to establish social, institutional, legal and cultural conditions for the inclusive and sustainable knowledge economy, even improvements in infrastructure, public services and digitalization will not overcome structural divides among the advanced European regions, advanced European firms in a limited number of European member states

and the remaining European regions, economies and societies. The reproduction of European disparities, inequalities, and lack of opportunities will continue, albeit within a somewhat more developed public infrastructure and public services across the European Union. The novelty of the article is that it combines the research on institutional innovations with the impact on the inclusive and sustainable knowledge economy and society. The novelty of the article is also that it extends the discussion on the European regional disparities to the international context of regional disparities.

The reproduction of inequalities despite repetitive organized attempts in the form of monetary and fiscal stimulus, as well as in the form of structural and cohesion funds, is not inherent only to the European common market. It is a frequent phenomenon that takes place in the context of globalization where the social, economic, financial, and technological divides are widening. It is a phenomenon that takes place also in the context of leading industrial countries, such as the United States, with the disparities between technological, scientific and financial hubs and with the leading global companies and the stagnating American states and localities. This phenomenon is also observed in China with the differences between its advanced coastal regions and the less developed regions in inner China.

There are regions in developing and developed parts of the world that managed to escape the vicious circle of stagnation and backwardness. However, they are exceptions to the general pattern of reproduction of global inequalities. To fully grasp fully the potential of the modern knowledge economy as a vehicle toward more inclusive, sustainable and decentralized developments in the global and European context, the conceptual development thinking should enter the domain of institutional innovations, primarily bottom-up, and the structural ingredients of overall social and economic transformation (Lothian, 2017: 214-217).

4 Discussion

4.1 Quality of regional governance and regional institutional innovations

When they make comparative analysis of the quality of regional governance across the European Union, experts on regional development identify four key components: government effectiveness, the rule of law, government accountability and control of corruption. None of the components is easy to quantify, measure and organize in appropriate models. Leaving aside the methodological difficulties, the comparative findings largely correspond to the challenges of realizing the potential of the inclusive and sustainable knowledge economy at the levels of disparate European regions.

Similar to the report on European innovations scoreboard or the persistent European divergencies reported by the European Regional Yearbooks, the findings on the

quality of regional governance across the European Union are quite similar. Namely, as analyzed by the experts on regional development:

Knowledge production structures in lagging regions are massively affected by quality of government. Relatively small improvements in government effectiveness or the control of corruption may yield substantial benefits for the creation of sound regional innovation systems and for new knowledge generation in the periphery of Europe (Rodriguez-Pose & Di Cataldo, 2015: 694).

From an institutional perspective, each of the components that contribute to the quality governance, its accountability, and its pro-active long-term development approach, is highly complex. For example, the rule of law component needs to be further disaggregated into many subcomponents to make a substantive contribution to good governance. Similarly, the ability to control for corruption certainly requires a more nuanced analytical assessment.

A puzzling question remains. What is contributing to what? Do the social and economic stagnation and the decline of certain regions without a strategy for reconstruction lead to the more corruption prone governance, or does the more corruption prone governance lead to further stagnation or the decline of a given region?

It is certain, however, that the modern knowledge economy requires high-quality public governance with highly competent, motivated and talented public officials and policy-makers (Barbero et al., 2022). Especially in the stagnating regions and regions in decline, there is generally a lack of highly competent and talented officials that are long-term future-oriented to support the long-term development efforts of their respective regions. Even this important detail indicates why it is so difficult for stagnating regions to restructure, and why the gap between the handful of advanced regions and the majority of stagnating regions tends to be so persistent. In short, as the comparative studies firmly establish, there is "a positive relationship between regional governance and the level of innovative capacity" (Rodriguez-Pose & Di Cataldo, 2015: 682).

The quality of human capital in the stagnating regions is an important element, but it is only one of the missing requirements to enable the stagnating regions to become development knowledge-based regions. Among many complex characteristics of the knowledge economy is that there is no one single institutional model that is applicable to all of the diverse regions with different productive potential. Instead of a one-size-fits-all approach, often designed top-down, the social and economic restructuring requires institutional innovations tailored-made to the productive potential of the diverse European regions. There is no blueprint or exhaustive list of institutional innovations that supports long-term development strategies.

As examples of institutional innovations at the local level, one can nevertheless envisage a variety of supportive institutions, such as regional public venture funds that provide equity to the start-ups and the necessary long-term support to young entrepreneurs. Furthermore, regional development banks and a regional network of public banks can be enlisted among such institutional innovations. At the next level of development, a productive and long-term oriented ownership structure with the inclusion of employee stock ownership funds should evolve. A variety of ownership structures serves multiple purposes, such as a collective learning process to develop the best modes and structures of production and the inclusion of all stakeholders to the goals of common prosperity in the context of a competitive environment. To avoid the risk of clientelism, the independent and competitive management of the fund requires high levels of competence (Unger, 2019: 117-128).

The role of public institutions does not end with transparency, accountability, the rule of law and control of corruption. To establish a modern, inclusive and sustainable knowledge economy, the role of public institutions is to articulate and implement a modern, sophisticated industrial policy in close cooperation with all stakeholders. The modern industrial policy has gone beyond the traditional interventionist policy or policy of favoring certain firms or sectors. The modern industrial policy (Roblek et al., 2021) focuses primarily on the dissemination of knowledge, technologies and skills from advanced firms and sectors to the rest of the economy and society. The intermediate institutions, such as the network of regional development funds, training centers and support centers, must bring together the deliberate and organized public policies and the decentralized private initiatives.

Institutional innovations, dense networks of associations, decentralized model of public – private strategic cooperation, and enhanced participation of all stakeholders are required to establish the inclusive and sustainable knowledge economy. These requirements go beyond the established model of good governance and present an upgrade toward enhanced capabilities, skill formation and comprehensive institutional support. Successful catch-up strategies of stagnating regions cannot merely copy the institutional frameworks of the most advanced European regions in a hope to replicate their successful models of production, innovations and overall economic, scientific, participatory democratic and cultural development.

To exploit the potential of divergent European regions and localities, the stagnant European regions need to develop their own institutional and policy framework. One of the perilous strategic mistakes of the countries in transition – the countries in Central and Eastern Europe – was to simply adopt the established social, economic, legal and policy framework without its own proactive, deliberate strategic approach toward institutional innovations and improvements. This Central and European path dependency during the last three decades is only one example of integration with the European and global markets without a long-term development

strategy. Moreover, mere emulation of the institutional framework does not automatically lead to structural improvements.

While having in mind all the structural, institutional and policy constraints that limit the policy space for EU member states in their recovery and resilient efforts, we should not discount the importance, scope and opportunities offered by the RRF. In Italy, for example, the EU recovery plan will focus on six key areas: the digitalization, climate and environmental investment, infrastructure, education, health, and boosting gender inclusiveness and social inclusion (Miles & Fleming, 2021). The investment plan includes comprehensive investments in high-speed trains, in the electricity grid, in hydrogen power projects, in other renewable energy sources and in many others.

Similarly comprehensive is the plan in Spain, which some of the key ministers describe as a "once in a life-time chance to fight climate chance" (Dombay, 2022). The areas of planned investment include electric vehicles and green transport, energy efficiency in buildings, renewable energy and green hydrogen.

Policy-makers in Spain, Italy and other member states are well aware of the opportunity and risks of such large-scale investment projects. Among them, the formation of a workforce, unprepared for such a large-scale structural transformation toward the inclusive and sustainable knowledge economy, could prove to be one of the key challenges. There are even serious practical challenges and issues, such as whether all the member states in Europe and in fact in the whole world will at the same time commit themselves that "everything has to be digital, renewable and green: this creates tension in the supply chain and generates inflation", as pointed by the Spanish environment minister (Dombay, 2022). On the other hand, such a global commitment could open opportunities for more decentralized initiatives with more stakeholders engaged in efforts to overcome existing supply chain bottlenecks via new modes of production, innovations, collaboration and competition (Knez et al., 2021).

One of the requirements to establish the modern inclusive knowledge economy is the legal and institutional reinvention of the market economy (Krygier, 2020). As stated in one of the recent OECD reports, when dealing with productivity, all individuals need to be furnished with better and more relevant skills for expanding the productive base of an economy; innovation policies must be adopted without privileging the positions of incumbents; regulation needs to ensure that the financial sector supports access to finance for all; spatial (local and regional) policies play a major role in facilitating the efficient allocation of resources and improving access to opportunities and essential services; and public governance needs to ensure coherence and efficiency (OECD, 2016).

There is apparent asymmetry between the investment plans and the time-lag due to inadequate institutional dynamic and insufficient policies and instruments at the disposal for development strategies particularly at the local and regional levels. The risk is that, despite good intentions to make the best out of the national recovery plans to strengthen the resilience of economies and societies across the European Union, the initiative in itself will not make up for inherited divergencies. The decades of the primacy of negative integration – dismantling of barriers while assuming the minimum role of public policies, instruments and public interventions at the local, regional and national levels – with the slow evolution of positive integration at the supranational level led to passive and retrospective adjustment of localities and regions.

Without an institutional framework that is more supportive of economic and social restructuring toward the inclusive, sustainable knowledge economy for the many European citizens and European local communities and regions, European regional disparities may persist. The already visible discontent in many parts of Europe may again become a source of future tensions and may hamper the future development of the European integration.

The quality of regional governance in its most essential framework is certainly a necessary requirement to achieve successful economic and social restructuring. But it is far from sufficient. Institutional innovations, more instruments and supportive policies aimed at enhancing capabilities, skills and technological improvements are additional requirements. There are no shortcuts or reliance on historic luck in establishing inclusive, sustainable knowledge economies at the regional and, therefore, decentralized and participatory trajectory of European development. The varieties of regional development models can serve as a conceptual and normative response to support ground-up development strategies with the broad-based participation of all the stakeholders. The prime role of supranational institutions and their policy-makers is to disseminate good practices, encourage institutional innovations tailored to the productive potential of divergent European regions and coordinate recovery and resilience efforts across the European Union. Inclusion of social pillars to the European semester, support for national and supranational research, science, technology and promotion of entrepreneurship can comprise another step in the development of European integration (Vesan & Corti, 2019).

Analogous to the development dilemma in the European Union is the development dilemma in other parts of the world. The proclaimed goals and commitments to implement Sustainable Development Goals are not sufficiently accompanied with the institutional innovations, instruments and policy-tools to launch comprehensive development strategies. Hence the global inequalities and the gap between advanced knowledge economies and the rest of the stagnant economies around the world remain persistent.

Quality of governance around the world matters equally to the quality of governance in the European context. It is the first step toward launching development strategies that will lead to more inclusive, sustainable and resilient local economies and societies around the world. Without reconceptualizing global developments toward the empowerment of local communities and regions, and without more policy space, instruments and tools, the international efforts in implementing Sustainable Development Goals (SDGs) or their equivalents in the form of the Chinese Belt and Road initiatives, will not address fundamental issues of capabilities, skills, resilience and productivism in the excluded parts of the world.

To overcome the unresolved dilemma at the European and the global levels, a decentralized initiative, policy-space for ground-up development strategies, and global coordination to preserve global goods can be envisaged. Ongoing global rivalries, persistent inequalities, inequities and lack of opportunities to the large parts of the populations in many different parts of the world leads only to the continuation of the negative and harmful effects of the limited, insulated knowledge economy, reserved only for the advanced sectors of industry and services in the handful of the most advanced regions in the world.

5 Conclusions

To build developmental regions across the European Union and around the world, institutional innovations are needed. For example, it took Taiwan many decades of developing an ever more complex and advanced nexus of coordination between the public sector policies and business initiatives. There are comprehensive and detailed studies of many institutional, policy and development aspects of Taiwan's climb up the ladder of industrialization and development, including the highly competent, committed and relatively autonomous role of the public sector capable of supporting and developing a variety of sectors, and firms, primarily small and medium sized companies. One of the interesting innovations developed in Taiwan, for example, is a dualist industrial policy adjusted to the large and small firms. Especially in the higher-technology sectors, the support of public policies, scientific, education and research policies, financial support for start-ups, and other measures proved to be decisive in developing the current state-of-the art technological hub.

Development strategies, local and regional restructuring, is never, however, a linear process (Jamnik, 2022). In practice, it is often a complex, trial and error process, that requires the trust and collaboration of all of the stakeholders. It requires the constant evaluation of policies and supportive measures and the collective ability to adjust to the new domestic and international circumstances. It requires the capabilities to anticipate future developments, opportunities and constraints, as well as proper assessment of the productive potential of the home base, local and national. Such a complex institutional, policy and learning process is measured in years, if not decades, as we can witness in the case of Taiwan or the cases of Irish

local public-private partnerships, Finnish technological and educational policies, Portuguese transition toward renewable energy and elsewhere.

The most recent interesting example is the restructuring of the East German economy. Despite extensive support and subsidies from the federal German budget for several decades, the East German economic and social transition was a synonym for a lack of progress and the inability to restructure and improve local or regional economic and social conditions. Recently, however, it appears that East Germany has finally developed a more workable model of knowledge economy and society. After years of industrial decline, the new infrastructure gradually emerged in combination with academic research that modern companies need to develop. The rapid transition of traditional car manufacturing toward electric cars requires a different technological and infrastructure support to build new advanced "eco-systems" in a wide variety of areas. A prepared infrastructure, a strong tradition of industrial development prior to a decline, a tradition of academic research and, above all, the adaptability and resilience of several generations of local population serve as an attractive base for the modern inclusive knowledge economy in many parts of East Germany. At this stage, it remains uncertain whether such a shift can constitute a long-term structural improvement of regions in decline, but it serves as a good reminder about the conceptual, institutional and practical requirements necessary for economic and social restructuring.

The biggest risk according to the analysis of this article is that, despite an important attempt by the European Union in the form of the RRF, the regional and social disparities of the European Union will persist. The modern knowledge economy has a characteristic of remaining insulated and concentrated in the handful of advanced European regions and the limited number of advanced firms. Institutional innovations, regulatory reforms and policy space, and more policy instruments are necessary for the stagnant European regions to launch comprehensive development strategies. Equally important, participation of all of the stakeholders at the local and regional levels is necessary to promote the modern, inclusive and sustainable knowledge economy and to replace the existing model of economic and social developments at all levels of the European polity. Such a structural transformation can serve as a source of encouragement for other stagnating regions in other parts of the world that are trying to resolve their own development dilemmas.

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