

**Committee of the Regions
Thesis Competition**

2004-2009

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Regions.**

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ISBN 978-92-895-0463-8

Nr Catalogue : QG-80-09-563-EN-C

DOI : 10.2863/23503

Foreword

Since 1996, the Committee of the Regions has engaged in dialogue with the European academic world by organizing an annual doctoral thesis competition, open to young doctors of law, economics, and political and social sciences.

The aim of this competition is to raise the profile of the Committee of the Regions among a wide academic audience, by rewarding theses presented by holders of doctorates obtained at universities in EU countries.

In recent years, the political and institutional situation has provided particularly fertile ground. Since 2004, we have seen the enlargement of the European Union to twelve new Member States, the failure of the treaty establishing a Constitution for Europe, the signing of the Lisbon Treaty, its long and difficult ratification process and finally its entry into force on 1 December 2009.

The new Lisbon Treaty provisions improve the standing of regions and cities in the European Union's political system and boost the institutional role of their representative body, the Committee of the Regions, throughout the legislative process.

In addition to extended consultation requirements during the adoption of European Union legislation, the CoR now also has the right to bring legal actions before the European Court of Justice in two instances: to protect its own institutional prerogatives, and to request the annulment of new EU legislation that it considers in breach of the principle of subsidiarity, in policy areas where the EU requires the CoR to be consulted.

These matters have given rise to new developments, which are of close relevance to local and regional authorities (LRA) and therefore of considerable interest to the Committee of the Regions.

Furthermore, the launch of the Multilevel governance strategy and the establishment of new tools of relevance to LRAs such as the European Grouping of Territorial Cooperation (EGTC) imply new opportunities and

responsibilities for the Committee of the Regions. By supporting academic research through the award of prizes to the best young European researchers in its various areas of activity, the Committee hopes to enhance its increased role in the implementation of the subsidiarity and proportionality principles in the drafting of Community policies.

Since the thesis competition was established, the Committee of the Regions has already awarded prizes to 35 young researchers. During the 2008 contest, the competition saw a considerable increase in the number of participants. This success is probably due to effective coordination and dissemination of information among numerous universities in the 27 Member States.

The purpose of this publication is to present the prize-winners' research, hoping that it will help the prize-winning theses of the CoR's annual competition to reach a wider audience.

Mercedes Bresso
President
of the
Committee of the Regions

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2004

**THE ROLE OF THE REGIONS AND TOWNS IN THE PROCESS OF
EUROPEAN INTEGRATION**

Chairman of the jury

Ms Simone Beissel (Lu), Mayor of the city of Luxemburg

Theses submitted

NUMBER OF ENTRANTS	LANGUAGES		COUNTRY	
13	4	English French German Spanish	5	Germany Italy Spain Sweden United Kingdom

Winners

First prize:

Dr Adam Jay Marshall, *EU Regional Policy and Urban Governance Assessing Reform and Renewal in Britain and Ireland*, University of Cambridge, United Kingdom

Second prize:

Dr Matthias Werner Schneider, *Kommunaler Einfluß in Europa*, Bayerische Julius-Maximilians-Universität Würzburg, Germany

Special mention:

Dr Mary Coleman Murphy for her thesis: "*The European Union dimension to devolution in Northern Ireland: Continuity & change in the policy-making process*" Faculty of Legal, Social & Educational Sciences, Queen's University Belfast, United Kingdom

Adam Jay Marshall, University of Cambridge (UK)

**EU REGIONAL POLICY AND URBAN GOVERNANCE:
ASSESSING REFORM AND RENEWAL IN BRITAIN AND IRELAND**

This study examines the impact of the European Structural Funds on governance in the urban regions of Glasgow, Birmingham and Dublin over the past two decades. It concludes that the interaction of EU, national and local regeneration efforts has an important impact on the administration of cities and, indeed, entire metropolitan regions. At a time when fragmentation and complexity threaten the coherence of urban regions, EU Structural Fund projects have promoted the development of partnership arrangements, long-term planning, and inclusive regeneration strategies. However, institutional norms present at local, regional and national level greatly condition local responses to the Structural Funds. The actions of individual urban players – as well as the shift from hierarchical government to partnership-based governance – are dependent on institutional factors, which constrain and shape the potential for change.

The dissertation uses a historical institutionalist theoretical approach and qualitative research methods to demonstrate the critical importance of the *context* within which political actors are embedded at the urban and metropolitan level, as well as the path-dependent nature of institutional change. National, regional and local institutions, both formal and informal, moderate and structure the impact of European programmes, ensuring that unique policy implementation networks develop in each and every urban region. However, new modes of governance have emerged to manage urban regeneration and metropolitan economic development, modes which reflect both embedded local characteristics and ongoing processes of ‘Europeanisation’ in which local institutions and actors adapt to EU-mandated norms. This research project highlights the fact that European working requires British and Irish urban regions to promote urban capacity-building, institutional reforms and citywide political consensus in order to ensure sustained political and economic vitality in a ‘wider and deeper’ European Union.

Outline of the thesis

In this thesis, I first examine the theoretical debate which surrounds the processes of Europeanisation, urban and regional governance change, economic development and regeneration. Three detailed empirical case studies trace the multi-level territorial structure in Birmingham, Glasgow, and Dublin; describe the Structural Fund programmes implemented therein between 1988 and the present; and examine the unique governance arrangements created to implement EU-financed projects in accordance with Commission-mandated principles of partnership and programming. Part I first reviews the academic debate on the governance effects of European regional policy, and enumerates a theoretical model based on the principles of historical institutionalism and local governance theory. Together, these two perspectives – the former applied frequently to the impact of European integration, and the latter describing the evolution of new administrative arrangements in urban centres provide a powerful framework within which the experiences of individual conurbations can be examined.

Part II, the empirical core of this dissertation, delves into the institutional configurations at national, regional and local level that have shaped governance arrangements in Glasgow, Birmingham and Dublin. The new institutional structures and actor networks developed to implement EU-funded programmes are introduced, and their dependence on pre-existing institutional norms is evaluated. Additionally, the impact of the European Commission's requirements for partnership and programming is assessed with reference to each city's unique endogenous context, thereby testing the 'goodness of fit' between European and local institutions (Risse *et al* 2001). Part III, finally, uses comparative tools to determine whether Structural Fund programmes have provoked significant governance change in the three metropolitan areas in question. Questions posed in the methodology section about the nature of governance are re-examined and evaluated along with the research hypotheses which stem from them, and conclusions are drawn regarding the long-term impact of European working at the urban level. Most critically, Part III emphasises that the unique institutional situation of each urban region demands specially-tailored metropolitan governance regimes with the capacity to manage and enable European, national, local and privately-financed regeneration initiatives.

Institutional change and governance in urban Europe

Empirical studies which address the impact of the European Union on the continent's cities are critical parts of a wider research programme investigating the evolution of territorial governance across Europe (Le Galès 2002). As processes of Europeanisation and governance change continue to move forward at multiple territorial levels, urban areas are undeniably affected; with each passing year, cities are increasingly intertwined with the unique European polity. Increasing interaction with EU institutions means that urban governance is becoming ever more complex.

Using English, Scottish and Irish metropolitan areas as case studies, I explain how European intervention affects embedded urban and regional institutional norms. In Birmingham, Glasgow and Dublin, the arrival of European Structural Funding created pressures for institutional adaptation and governance change beyond those forged by endogenous political and economic trends. However; the scope of change in each city remains highly dependent on its institutional environment; extant national and local norms play a large role in shaping urban responses to Europe. Thus I shall argue that while institutions and actors in the three case cities internalise some EU governance ideals, due to the adoption of European practices and values, a deep divergence remains thanks to established institutional norms. Birmingham, Glasgow and Dublin have all experienced a degree of Europeanisation – but do not seem to be moving toward a common model for economic development, regeneration or urban administration, This argument will be tested through the empirical case studies and analysis below. Simultaneously, I develop some preliminary conclusions regarding the institutional impact of EU intervention in urban areas, an avenue of inquiry what has not yet been substantially explored. It is hoped that this study will provoke further empirical work in different EU cities which facilitates cross-national and cross-systemic comparison of governance change. A broad research programme of this type, sensitive to institutional constraints at multiple territorial levels while mindful of the growing exogenous pressures placed on cities by the European Union, would be beneficial to scholars and ground-level practitioners alike.

Why is this study important?

The careful empirical study of individual urban regions is critical to understanding the changing nature of territorial governance in the European Union. Processes of Europeanisation, to say nothing of globalisation, have an undeniable impact on institutions and actor behaviour in urban regions, just as they affect national governments, hitherto the principal subjects of Europeanisation research (see, *inter alia*, Bulmer and Birch 2000, 2001; Börzel 2002). This dissertation is a first attempt to conceptualise and evaluate the links between Europeanisation and urban governance change. The comparative framework and nuanced case studies deployed herein suggest that processes of Europeanisation, although contingent upon local institutions, have an important impact on the way that cities and metropolitan regions are administered today.

Additionally, this study takes up Aspinwall and Schneider's call (2001) to use historical institutionalist approaches to look at political developments at different territorial levels through a single theoretical lens. By combining an institutionalist theoretical perspective with a series of hypotheses drawn from discourses on urban governance, Europeanisation and partnership, this thesis advances our understanding of the political effects of EU funding below and beyond the level of the nation-state. It also bridges the divide that unnecessarily separates the research programmes of urban studies and European integration, two fields which will intersect continually as the 'deepening' of European Union results in the transfer of additional territorial competences to the supra-national level. While today's EU has a measurable impact on urban regions in the UK and Ireland, as shown here via longitudinal examination of Objective 1 and 2 Structural Funding programmes, the Union of tomorrow may well have direct oversight of urban policy and planning powers affecting every city and metropolitan region from Lisbon to Helsinki.

This study also addresses the important question of convergence: namely, whether the Europeanising effects of the Structural Funds prompt institutional convergence at the urban level. Based on the data collected in the Birmingham, Glasgow and Dublin city-regions, the answer is a qualified no. While there is

some truth to Michael Parkinson's observation that actors in European cities increasingly hold similar views on the problems they face and the sort of solutions needed to address them (2003: 262), the empirical evidence to hand does not point to institutional convergence or the adoption of 'Europeanised' urban governance models based exclusively on Commission-inspired principles of partnership, subsidiarity and social cohesion. As this research has shown, EU policies thus far have affected urban governance within the distinct institutional, geo-political and historical constraints of the city-regions themselves. This is not to deny that the Structural Funds have a significant transformative effect, but, instead, to highlight the overriding importance of embedded institutions, which constrain the development of new modes of urban administration. Scholars of European integration must avoid reductionist or overarching generalisations about the Union's effects on cities and metropolitan regions. Instruments such as the Structural Funds have a crucial role to play in the re-shaping of urban policy networks, institutional structures and actor coalitions, but that role is highly dependent on the unique matrices of local, regional and national factors that underpin governance in every city. If nothing else, this dissertation has confirmed that enthusiasm for the EU Structural Funds must be tempered by the knowledge that they are not a panacea for urban ills or governance problems, but merely one tool among many to be employed in long-term processes of regeneration and administrative reform.

As academics and policy practitioners investigate the growing interdependencies between the urban and European political realms in the coming years, the experiences of Birmingham, Glasgow and Dublin analysed here carry some valuable lessons. First and foremost, their divergent experiences with EU Structural Funding prove that it is impossible to impose a prescriptive model for territorial organisation or European working in cities and urban regions in the British Isles. Second, these examples highlight the need for detailed historical and institutional research in order to identify the distinct strengths, weaknesses, opportunities and threats which face every city seeking to develop a European profile. Finally, this research project highlights the fact that European working requires significant institutional adaptation, urban capacity-building and the development of metropolitan consensus in the face of fragmented and complex systems of governance. If British and Irish cities are to

play central roles in a 'wider and deeper' European Union, they must embark on a voyage of self evaluation and preparation today – or face political and economic marginality in the Europe of tomorrow.

Matthias Werner Schneider, Bavarian Julius-Maximilians University
Würzburg (DE)

THE INFLUENCE OF LOCAL GOVERNMENT IN EUROPE

Any investigation into the role of the regions and cities in the process of European integration is indissolubly linked with the question of the influence that decentralised entities within the Member States have on the legislation process. I would therefore like to bring in my dissertation in the 2004 dissertation competition of the Committee of the Regions, "Local authority influence in Europe". Firstly, I shall show the origin and development of the work and then work out some priorities with regard to contents, in particular why the dissertation considers the problem definition of the competition in such detail.

I. Genesis of the dissertation

The drafting of a comprehensive discussion on the situation of local administrative units in Europe was prompted by the discussion on the "Convention for the future of Europe" at the beginning of 2002. The aim of my work was, firstly, to represent different levels of discussion. The scientific discussion is very often concerned exclusively with the purely institutional aspects. But often the contents of directives, particularly the principle of subsidiarity, are also described. My aim was to make an overall contribution linking together the various stages where local and regional influences were exerted on Europe. My dissertation set out a framework which represents the role of the municipalities and regions in Europe as a whole showing the connections between the existing approaches. I received substantial impetus from my supervisor, Professor Dr Franz-Ludwig Knemeyer, who himself has devoted a number of publications to the municipalities and regions in Europe.

The work was drafted between February 2002 and May 2003. It was accepted by the Law Faculty of the University of Würzburg as a dissertation and given the mark "summa cum laude". It was preceded by several visits to European institutions and establishments, including:

- A visit to a plenary session of the Committee of the Regions and a subsequent personal discussion with members of the CoR and their staff;
- Discussions with members of the European Parliament, in particular through the office of Ursula Schleicher MEP;
- A working lunch with Dr Horst Heberlein, a Commission official, who himself had already carried out and published extensive research on the regions and municipalities in Europe;
- Conversations in the Bavarian local authorities representation office and in the German local self-government head office (which has since been dissolved);
- A visit to the CEMR in Paris; and
- A visit to the executive office of the Congress of Local and Regional Authorities of the Council of Europe (CLRAE) in Strasbourg.

In addition, during the project I deepened the knowledge of European law that I had already acquired through study.

- I also found after my first state examination that the Würzburg Law Faculty places a pronounced emphasis on European law. During the term a number of interns come to the faculty in order to report on their work in Brussels and to give lectures on all fields of European legal matters. The core of the programme is the postgraduate course on European law, which can lead to a master's degree in European law. I used this to educate myself further in the most diverse areas. I passed the master's examination with a mark of 11.8 points in April 2003.
- In the 2002/2003 winter term I applied for a place in the seminar of the expert in European and international law Professor Dr Magiera at the German Civil Service Training College in Speyer. I attended Professor Magiera's seminar on the convention on the future of Europe and the European process of integration. With Dr Johan Callewaert, head of department at the European Court of Human Rights, I also got to know how the Council of Europe operated as an intergovernmental establishment.
- During the entire preparation period I was a scientific associate at the chair for public law, particularly administrative law, Professor Dr Franz-Ludwig

Knemeyer, and at the Würzburg civil service research centre. There I had exclusive responsibility for the subject "municipalities and regions in Europe". Within this framework the high point was the symposium on "Municipal Europe" in June 2003, which I organised and implemented. Among the personalities who came to this event were Dr Heinrich Hoffschulte of the CEMR and Ulrich Bohner of the CLRAE. The theme of the symposium, in view of the eastern enlargement of the EU, was "Local self-government in east and west". This was also the title of the meeting report, in which I myself published a contribution.

I tried to incorporate all these experiences and knowledge into the work. It has therefore not remained a purely jurisprudential observation, but has become a dissertation very much in tune with standard usage, which also dares to carry out a political evaluation of the current situation of decentralised administrative units. It includes proposals on how cities and municipalities should seek to exert influence in the future, so that they can reflect their domestic and Europe-wide importance.

This importance was just as essential to bring out as the common democratic bases. We start from the premise that the European Union is currently dominated by the nation-states, and therefore there is still a long way to go to a Europe of the regions and municipalities.

II. Prioritising of contents

1. Theme of the dissertation and the competition

a) The role of the cities and regions as a blueprint of several layers

At the beginning I suggested that the theme of "The role of the cities and regions in the European process of integration" is itself very multi-layered. "Playing a role" implies that one has the possibility of affecting the process of integration. The fact that there is such a "role" is borne out by the existence of a local and regional representative body in the European Union.

Such an influence can be exerted at many levels. In my work I defined and interpreted the term "influence" myself. These different levels can be initially of an institutional or statutory nature.

The first aspect of exerting influence presupposes that structures exist which make it possible to have an effect on representative bodies. This is conceivable through direct incorporation into the organisation of the European Union itself, as is practised with the CoR. In addition, representatives can influence the law-making process outside the institutional framework, through the so-called lobbying system. To what extent such a twofold system is a help or a hindrance has been stated by me in the work.

I see the exertion of influence in accordance with the law as a second level, as one of the aims of institutional influence exertion, since the functional guarantee of the rights of cities and regions ensures a continuous and usually also enforceable protection through standards that always have to be observed. This level is frequently abbreviated to buzzwords like the often quoted subsidiarity principle. Here too, mention should be made of the European Charter of Local Self-Government, which is the most comprehensive catalogue of local authorities' rights in European law. Consideration is also given to the discussions on the European Regional Charter. In the declared objective of institutional structures to produce normative protective mechanisms, an initial link between the two levels becomes clear, which I have discussed.

The role of the cities and municipalities is thus a complex interlinking system of different levels of effect which often are only considered in isolation. Such interaction is necessary, so that the municipalities and regions can play a "role" in the integration process.

b) Extent of the European integration process

This multi-layered exertion of influence by local authorities does not come about by chance, but is linked to the complexity of the European integration process. For me this includes all procedures and achievements which serve to

bring about a lasting peace and democratisation in Europe with the goal of a coalescence of the peoples of Europe. The fact that the concept of Europe itself goes beyond that of the European Union of the Member States is clearly shown in the present EU enlargement process.

A large number of pan-European organisations and associations also take this variety of states into account. I would like here to take a look at the Council of Europe, an intergovernmental international organisation encompassing 45 states. The European Union was able to profit from the wealth of experience of the Strasbourg organisation, particularly during the period of the first eastward enlargement. As part of this cooperation the Congress of Local and Regional Authorities of the Council of Europe (CLRAE) is of some importance as a local-regional counterpart of the CoR.

Outside the institutional sector there are also a number of bodies representing interests with the most diverse objectives outside the framework of Brussels, for example the CEMR.

The European process of integration is therefore a comprehensive development which, while being limited in the public mind largely to the EU, also extends well outside it. The work written by me therefore fits into this thematic structure, as the process of integration is conceived as an overall procedure, while specifically placing a comparison of different European organisations at its centre.

Comparing the CoR and the CLRAE makes it possible, on the one hand, to emphasise the local and regional policy dimension of the coalescence of Europe and, on the other, to assess the advantages and disadvantages of each of the systems for exerting influence.

2. Structure and contents of the dissertation

The dissertation is divided into five main chapters.

1. Chapters: Foundations and concepts

First of all, some fundamental concepts are clarified. In the European context there is a danger that different ideas of the same concept exist. Here a European aspect has been selected. This becomes clear when presenting different local systems in European states, where the focus was on the Member States of the European Union. The existing literature assessed by me largely neglects this classification, where national administrative units are consulted as a yardstick. In my dissertation I have tried as a supplement to this to pick out some countries and present their systems, thus preparing a pan-European overview.

This also applies to the regions, where national differences are even greater than in the municipalities. The fact that some Member States have no regional level, while regions with legislative powers strive for an adequate representation of their interests, harbours the danger that there is an imbalance in the way in which interests are represented. In order to make a comparison, I have defined the concept of a region.

The different legal status of towns is also dealt with, as is the problem that in the European context the "municipalities" represent at one and the same time both small parishes and large cities within a Member State.

This diversity of decentralised bodies poses a first difficulty when trying to find a model for a common body that can apply throughout Europe and also provides the charged area within which common positions must be found. On the other hand, it is clear that all Member States have local administrative units and most have regional units of the most varied quality. This basis serves as a starting point for subsequent considerations.

The terms "subsidiarity" and "European local self-government" have not been explained in the introduction since, because of their paramount importance, a special section is devoted to them in the last chapter. Here, as well as the pure explanation of the term, there is an in-depth classification and assessment.

Another buzzword that is just as widely used is that of exerting influence. In the end this is the aim and purpose of any representation of interests. Therefore this term is not only included in the title of the work but is also the subject of its own sub-section. Far too often the act of exerting influence is put forward as a basic topos. I have situated what is to be understood by exerting influence and what dimensions "influence" can have within a linguistic and political framework.

2. *Chapters: The Committee of the Regions*

The best known and most important European body for representing local and regional interests merits a special chapter all to itself. This starts with a historical overview, from its beginnings as an advisory body at the Commission to its emergence as an independent institution.

Emphasis has been placed on the legal bases which give the CoR its legitimacy. The latter also results from the representatives of the regions and municipalities of the Member States that meet within the institution, all of whom must be elected. As regards a specific local or regional model for selecting members, the German model, where the federal states dominate, is presented as an example among others. Also included is a look at the internal organisation and work of the CoR as well as the instruments used to exert influence.

As far as it was possible for me to do so on the basis of my personal experience and the relevant literature, I have made a political assessment. In accordance with the task set, the position of the municipalities and their representatives has been examined and compared with that of the representatives of the regions. In addition, I have highlighted various areas of tension which impact on the integration work of the entire union beyond the CoR but which have left their mark on its specific form as a regional and local representative body. For this the talks in Brussels and the visit to a plenary session were a very great help.

In order to determine the position of the CoR it was necessary to situate the Committee within the institutional system of the European Union above and beyond the internal division and handling of tasks. Here a theoretical and historical definition has been given of the CoR as a subsidiary body under the

European Community Treaty and a view of the CoR's cooperation with the other bodies and institutions of the European Union has been attempted. Only thus it is conceivable to determine the location of the committee what again a condition for which in 5. Chapter of made improvement suggestions is.

3. Chapter: The Congress of Local and Regional Authorities of the Council of Europe (CLRAE)

As indicated, a comparison of the two major European bodies for representing local and regional authorities is to be attempted in the last chapter. For this it is necessary to present the CLRAE, which is far less known, in detail. The approach adopted corresponds to that used with respect to the CoR.

The emphasis has been placed on the description of the chamber system, through which a balanced interaction of the municipalities and regions inter-institutionally has already been secured. This appears complex at first glance, but in fact it is arranged in such a way that all issues with local relevance are dealt with by the representatives sent for this purpose. The same applies for regional issues. A carefully thought-out system ensures political balance within the institution.

In the division of tasks within the Council of Europe it is the CLRAE's job, above all, to monitor the European Charter of Local Self-Government. A large part of its work consists of compiling and assessing evaluation reports on the observance of the Charter's provisions. Other major projects include the Charter of Regional Self-Government and numerous other legal texts of the Council of Europe affecting municipalities and regions, such as the European Urban Charter.

Classification within the institutional system of the Council of Europe is problematic. Here there has been criticism of the so-called "pillar model", which - in the opinion of both members of the congress and its executive secretariat - cannot be justified as a simplifying model without reservation but which is laid down in the literature.

At the same time particularities have been mentioned such as the "foreign policy" function of the Council of Europe institution, which takes care of independent projects that form part of the work of the international organisation, particularly in central and eastern Europe.

The way in which European interest groups and establishment interact with one another outside institutions is of interest for the European Union. Major associations such as Eurocities, the Council of European Municipalities and Regions (CEMR) and the Assembly of European Regions (AER) are given as examples.

4. *Chapter: European Charter of Local Self-Government (ECLSG)*

A special chapter has been dedicated to the most important document protecting municipal interests in the process of integration. It should be pointed out that this instrument for exerting influence within the law is also open to regional entities. Because of the understandable difficulties of enforcing the charter in the regions, the congress has begun work on a regional counterpart.

It is only possible here to give an indication of when the charter will be ready, its contents, its impact and its importance.

For further progress to be made it is important to realise that there is no appropriate comprehensive protection mechanism in the EU and there is not likely to be one in the near future. This is already clear from the exactness and the scope of the provisions of the charter. The ECLSG is of particular value in building stable local government systems in the eastern European states, which I have dealt with in detail. It is also important to regulate the financial autonomy of local authorities, at the heart of which lies the connexity principle.

5. *Chapter: Blueprint for a future European scheme for the representation of regional and local interests*

The fifth and most extensive chapter of the dissertation seeks to develop a comprehensive blueprint for representing local and regional interests in the

European Union that provides a sound foundation for giving the municipalities and regions a proper say in the European decision-making process. This is not the same as expressing wishes that, in their details, go far beyond what is realistic.

At the same time, the premise that the regions and municipalities are jostling with many other justified interests to influence the European integration process is a warning to exercise self-restraint. The aim is to achieve optimal influence, and not just influence what is possible. In my view this means looking at the cuts to be made by the municipalities in their legal sphere.

I have therefore described and evaluated the consequences of European legislation for the municipalities in the Member States. Here, among other things, mention should be made of the awarding of local authority contracts and regulations on the provision of amenities. These overlapping areas are to serve as a starting point for the further discussion.

Firstly, it was important to establish which preconditions should be set for exerting influence in order to optimise the way in which views were expressed. For this, the approach of a theoretical model which sets various premises was selected. At the centre is the relationship of a call for the achievable and/or achieved goal. It is questionable within which framework it can be meaningful to make demands in order to achieve the result of increased influence. In this connection an eminently important role is played by what has already been achieved.

From here, the interplay of institutional and non-institutional perceptions of interest is represented. The two conceivable alternatives are the preservation of a momentary two-track approach or the inclusion of local and regional lobbyists in the Committee of the Regions. In order to be able to answer this question, the phenomenon of "lobbyism" and its impact is described and discussed, together with the importance of various interest groups.

This one-sided view of the purely institutional track, as it is to be found frequently in the literature, is to be broken through by linking up with textual

directives. For optimal influence exertion, therefore, there needs to be a progressively increasing legalisation of both local and regional interests hand in hand with each other, which again cannot be possible unless interests are represented effectively.

The fact that the acceptance of a local authority charter as detailed as an ECLSG is not currently on the agenda may also, possibly, result from a primary need. Firstly, it is essential to represent local self-government as an EU-wide phenomenon and thus achieve recognition. In developing a separate "EU right of self-government" it is then almost inevitable, as a second step, to refer back to the ECLSG.

It is in this context that the efforts of the "convention on the future of Europe" are to be seen. For reasons of topicality and importance I have dealt with the composition and impact of the convention from a local authority's point of view. Even if the textual and institutional points are set for the longer term, irrespective of what the municipalities and regions have achieved in detail, the aim of an optimal exertion of influence can never be neglected.

Despite the success achieved in simply getting the term "local self-government" included in a future European constitutional treaty, I do not think we should be under any illusions: the future of guaranteeing the rights of decentralised units within Member States units lies in the consistent application of the subsidiarity principle. Against this background a comprehensive discussion with philosophical roots results, from which emerges a justified recognition down to the lowest unit. This should counteract the long-prevailing understanding of a pared-down form of subsidiarity, which ends at Member State level.

3. Summary

In addition to describing the relevant foundations on which the representation of European regional and local interests is built I have tried to develop a blueprint to show how different points of departure can be brought together into an overall system for exerting influence. From an institutional of point of view the emphasis is on optimising the Committee of the Regions along the lines of the

Congress of Local and Regional Authorities of the Council of Europe with regard to the contents of a consistent application of the subsidiarity principle in keeping with its original roots. This is the only way to ensure that the municipalities and regions can continue to play their rightful role in the European integration process.

Mary C. Murphy, Queen's University Belfast (UK)

THE EUROPEAN UNION DIMENSION TO DEVOLUTION IN NORTHERN IRELAND: CONTINUITY & CHANGE IN THE POLICYMAKING PROCESS

Within the European Union (EU), Northern Ireland is profoundly unique as a region. Aside from the very obvious issue of the conflict, other factors are relevant. Historically, politically, economically and administratively Northern Ireland has novel characteristics which do not fit neatly within a wider West European framework. A small region situated on the Western periphery of Europe Northern Ireland has a population of approximately 1.69 million. Economically, it lags behind the more advanced regions of the EU. In terms of Gross Domestic Product (GDP) per capita, the region recorded a figure of 81 per cent of the EU average in 1996 (see European Commission, 1999a). The region is also one of the least prosperous in the United Kingdom (UK) as a whole, although in recent years, its performance has stabilised and improved and it is no longer ranked bottom of the UK regional economic league table.

In a political and administrative context, the region acquired devolved status within the UK in the wake of multi-party talks which resulted in the 1998 Belfast Agreement. Thus, since 1999 Northern Ireland has had its own regional political institutions with executive and legislative powers in a range of policy areas. Northern Ireland's experiment in regionalisation, albeit for specific reasons related to conflict resolution, is in keeping with similar trends across Europe. A majority of EU member-states have, during the course of the last three to four decades, embarked to varying degrees on processes of regionalisation. The emergence of regionalisation (and regionalism) in Europe has, paradoxically, been accompanied by greater European integration, prompting one author to remark that:

[S]tudents of a wide range of government activities, including industrial, regional, social, and environmental policies, have found that they can no longer understand the domestic pressures and outcomes that interest them

without addressing the role of the European Community (EC) (Pierson, 1996:124).

The ever-increasing policy load and competence of the EU, particularly since the 1980s, is a matter for sub-national units as much as for national units. EU developments have significant implications for regions as they widen the arena within which policies affecting their interests are made and agreed.

Much has been written about Northern Ireland politics generally, but the EU dimension to politics and governance in the region has been disproportionately neglected in academic commentary. There have been few studies and little research placing the region within a wider European context. Indeed, even within Northern Ireland, public and political discussion of the region and the EU has traditionally been confined to issues of funding, and even here engagement has been narrow and minimal. However, among other new functions, devolution in Northern Ireland involves political responsibility for many public policy areas with an EU dimension being transferred to the regional level. Thus, it is no longer desirable, even possible, to ignore the EU context to the political study of Northern Ireland.

Devolution has thus opened up a new chapter in the development of the Northern Ireland region and also in the interface between the region and the EU. In the context of a reformed political environment, the region is now beginning to engage with the institutions and policy processes of the EU and other regional, national and European actors.

The role of the regions and towns in the process of European integration is not emphatic. The nature of the EU is such that it is a creation of member-states. True sovereignty is shared between the member-states and undoubtedly the independent powers and influence of member-states have been compromised via their membership of the European Union. Nevertheless, nation-states lie at the heart of the EU institutional and decision-making machine. This however is not to suggest that sub-national units are without influence, on the contrary, the regions of Europe are increasingly exerting their influence in determining and managing key EU policies.

This thesis tests the extent to which this is the case in Northern Ireland. In the post- Belfast Agreement environment, local political actors and institutions have responsibility for a range of policy areas with a strong EU dimension. This represents a vastly changed political environment and poses enormous challenges for the new political dispensation in the region.

One of the more peripheral regions of the EU, Northern Ireland has traditionally enjoyed a relatively harmonious, albeit low-key experience with the EU. Traditionally focused on the issue of EU funding, the parameters of Northern Ireland's relationship with the EU are showing signs of change and evolution. Jeffery notes that:

[I]t seems commonsensical that SNAs [sub-national authorities] will seek to engage with and influence European decision-making processes to the extent that those processes impinge on their internal functions and responsibilities, however broad, narrow, extensive or inconsequential these might be (Jeffery, 1997:217).

In the wake of devolution to the Northern Ireland region, this factor has been recognised more acutely than before by Northern Ireland politicians who are now charged with governing the region. Speaking at a Northern Ireland conference on the Future of Europe in 2002, Junior Minister James Leslie remarked:

[D]ecisions of the EU have a considerable impact on the activities of this administration. The way those decisions are taken, and our opportunities as a region for influencing the shape of them, are of the utmost importance and of great interest to us (OFMDFM press release, 27 June 2002). This is manifest in the fact that, according to one Northern Ireland MLA, 'up to 60 per cent of our legislation comes from Europe, and 80 per cent of the policies in our Programme for Government relate to, or originate from, European Union policies' (Northern Ireland Assembly Hansard, 8 April 2002).

The terms of devolution, theoretically at least, imply a greater capacity for increased regional political flexibility and a degree of policy autonomy and independence in the management of EU-related policy areas. This is coupled with greater opportunities for the region to engage more decisively with the EU institutions and policy process and to develop a more meaningful relationship with the world beyond its borders. In practical terms, this has to some extent been achieved.

Regional political and administrative structures have changed in the post-devolution era. New political institutions, many of them novel and unique and including the North-South Ministerial Council and British-Irish Council, have been created. These institutional developments significantly alter the arena within which policy is made by effectively introducing new political actors, institutions, relationships and means of doing business. The administrative system has also been reformed. Although not vastly different from the pre-devolution period, new arrangements and mechanisms have been introduced. This is particularly so in relation to EU affairs. A new government department, the Office of the First Minister and Deputy First Minister (OFMDFM) has been created with overarching responsibility for among other issues the co-ordination of EU matters. The region also has a new Junior Minister for Europe while the new directly-elected regional assembly has a Committee of the Centre charged with monitoring EU activities. The committee has examined European matters and produced an important report on Northern Ireland and the EU. The level of contact between Northern Ireland actors and the EU appears to have improved also post-devolution with the establishment of the Office of the Northern Ireland Executive in Brussels (ONIEB). This newly created regional office has established contact with EU officials and politicians in an attempt to optimise Northern Ireland's position and gains from the EU.

To further reinforce the findings, the thesis focused on a case-study of EU environmental policy in Northern Ireland. The case-study examines the environmental situation in Northern Ireland and identifies a number of key failings in relation to the management of this policy area in the region. In summary, the thesis concludes that in post-devolution Northern Ireland, the success of the region in achieving a favourable and beneficial engagement with

the EU policy process is affected by the terms of the devolution arrangements; available financial resources; institutional capacity; policy expertise; political leadership and disposition; and cultural considerations.

Specifically, four main conclusions are presented which summarise the approach of the Northern Ireland devolved entity to the EU policy process. Firstly and most significantly, *the nature of devolution in the UK constrains the freedom of action of Northern Ireland in EU related matters*. The terms of the devolution arrangement are such that the UK government continues to exercise considerable control over the actions of regional units. Although devolved regions enjoy greater levels of policy autonomy, this new power is not absolute. The UK central government remains central to the direction of EU policies in particular.

A result of these constraints on regional freedom of action implies that *in Northern Ireland the primary, though not exclusive, location for influencing the EU policy process is at the national level*. The new Northern Ireland administration has recognised that pursuing their EU interests involves achieving a balance between the national and the European. The position of the region is enhanced when contacts with central government are coupled with proactivity in Brussels.

A third finding is that *Northern Ireland interests are active in Brussels but have not engaged with Brussels*. The process of developing an improved interface between Northern Ireland and the EU has been initiated but as yet is incomplete. Not all Northern Ireland political parties, key political actors and administrative elites are yet convinced of the centrality of the EU to their work. Furthermore, not all political parties are pro-European, a factor which further diminishes the position of EU matters in regional politics.

Finally, *the cultural dimension of devolution in Northern Ireland is an important consideration in the conduct and progression of Northern Ireland-EU business*. This suggests that the process of adaptation to new political realities is ongoing. Political and administrative actors as well as civic society face a steep learning curve in grasping the implications of devolution and by extension the

impact of the EU on domestic politics. Signs are that this is being achieved, albeit slowly.

Clearly, in the period since the signing of the 1998 Belfast Agreement, the Northern Ireland region has in some ways emerged as a more dynamic and active force in the EU policy arena. Northern Ireland regional actors have made some important and noteworthy strides in moving beyond the parameters sketched out by the nation-state but the process remains incomplete.

The significance or extent of these developments must not be over-stated although it should nevertheless be recognised as marking a new period in the relationship between the Northern Ireland region and the EU. The region is beginning to grasp the centrality of the EU to the domestic policy process. As this happens, the greater the likelihood of the region contributing to the creation of an EU which better accommodates the needs and interests of regional units. Consequently, the Northern Ireland region can and likely will play a role in the process of European integration by pressing at the boundaries of possibilities which remain open to the region in the developing European Union.

2005

**THE ROLE OF THE LOCAL AND REGIONAL AUTHORITIES IN THE
SUSTAINABLE DEVELOPMENT STRATEGY**

Chairman of the jury

Mr Albert Bore (UK), First Vice President of the Committee of the Regions
and member of Birmingham City Council

Theses submitted

NUMBER OF ENTRANTS	LANGUAGES		COUNTRY	
4	1	English	2	Sweden United Kingdom

Winner

First prize:

Dr Carl Rova, *Flipping the pyramid: lessons from converting top-down
management of Bleak-roe fishing* Department of Business Administration and
Social Science Luleå University of Technology, Sweden

Carl Rova, Politics Department, Luleå University of Technology (SE)

FLIPPING THE PYRAMID: LESSONS FROM CONVERTING TOP-DOWN MANAGEMENT OF BLEAK-ROE FISHING

Introduction

The fishing of vendace (*Coregonus albula*), in the northern part of the Gulf of Bothnia, is a good illustration of the presumption that institutional arrangements which are too inflexible to cope with changing ecological conditions are unlikely to prosper. The aim of this thesis is to contribute to the development of a better understanding of governance in a relatively small and clearly defined, but complex common-pool resource system. It also aims at providing insights into how different governance strategies affect individual users' incentives, as well as the adaptive capacity in such systems. Thus, the aim is to analyse the role of the local and regional stakeholders in sustainable management strategies.

Since the beginning of the 1960s, the trawl fishery for vendace has been top-down regulated by the State. At the beginning of the 1990s, catches started to decrease dramatically. This happened despite extensive state regulation and despite the fact that the resource is fairly non-migratory and concentrated in a limited area. In this thesis, the institutional framework that contributed to this crisis is analysed in terms of provision of incentives and the capability to adapt to changing ecological circumstances. It was found that despite deliberate state regulation, the existing governance system worsened the resource crisis. In response to the poor performance of the fishery, a co-management system, with sharing of power and responsibilities between the National Board of Fisheries and the trawl fishermen, was implemented.

An extensive survey among trawl fishermen showed that, after three years of co-management, a change in individual behaviour has occurred. The fishermen had, to some extent, redirected their individual catch-maximising strategies towards long-term collective rationality. With regulations implemented through bottom-up, instead of top-down processes, the legitimacy for regulations had also

increased considerably. The management system became more adaptive and created users who had the capability to react to changes in the ecosystem. As a result, catches have increased extensively since co-management was implemented. In this thesis, it is demonstrated how and with what mechanisms this change, from top-down to bottom-up approaches in management, has affected the incentives for individual fishermen and, how this has affected collective action and, thus, the long-term ecological survival of the vendace resource.

It is concluded that, managing fisheries with unexpected changes and complexity in linked social-ecological systems requires actors (both fishermen and authorities), who learn from failures and, when necessary, initiate and achieve institutional change. The creation of social- ecological resilience can be looked upon as a process — a socially generated collective good — which is likely to result in better governance systems. In this context, the role of institutions (local, regional, national, etc.) in building adaptive capacity and supporting collective rationality is important.

The role of authorities in sustainable management

In this thesis, it is argued that co-management is, and should be seen, as a process. With this view, the development that has occurred in governance of the vendace system, and the effects of these changes, are likely to be valid also for other common-pool resources systems (CPR)¹. This assumption (hypothesis) is illustrated in Figure 1. The dotted line should be understood as the “governance line”, which indicates the change in governance, thus, the shift in policymaking procedures, from top-down to bottom-up processes.

¹

See, for example, I3aland and Platteau, 1996; Bromley, 1992; Ostrom, 1990; Pinkerton, 1989; Tang, 1991.

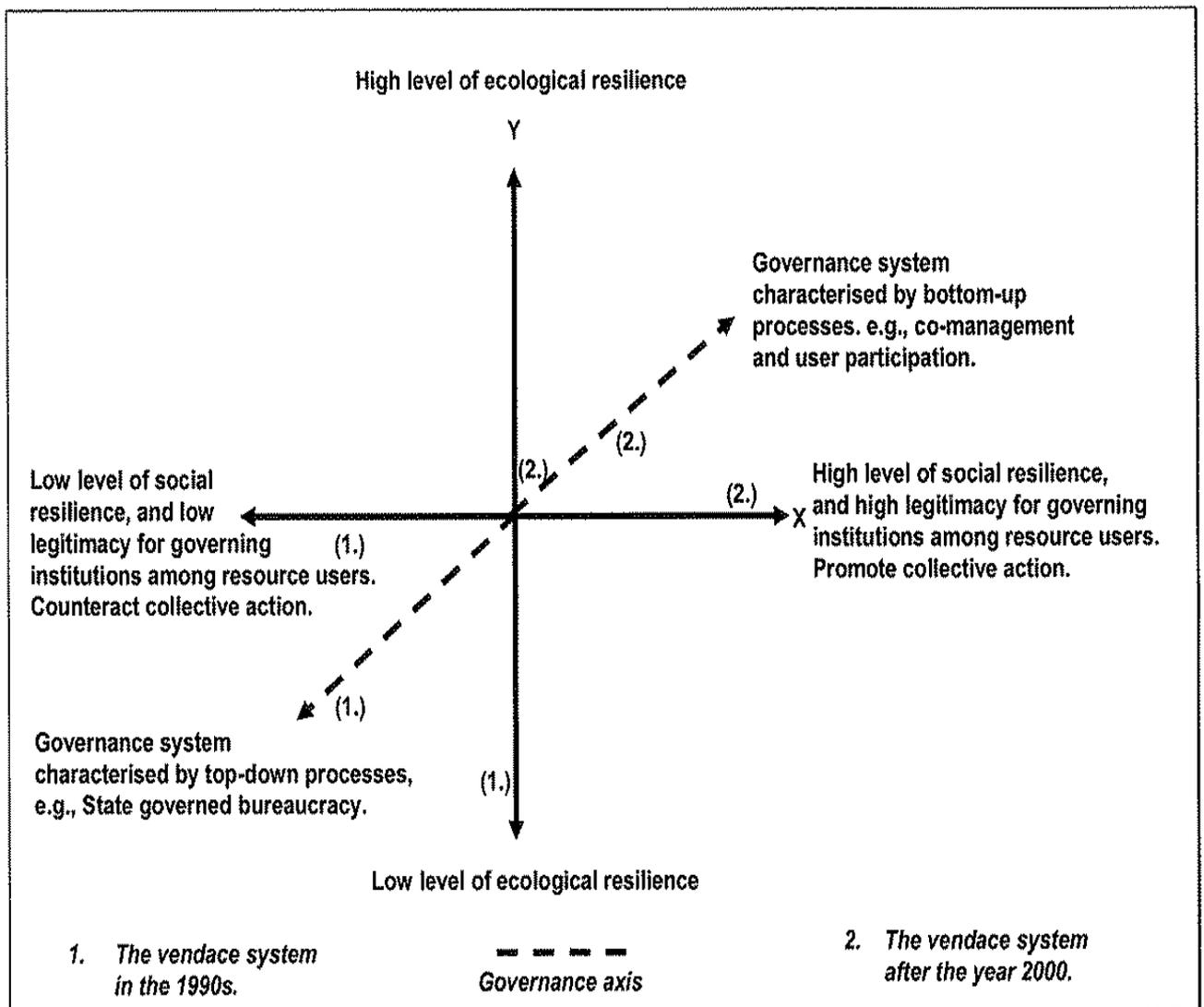


Figure 1. *The relation between governance and social-ecological resilience.*

As been demonstrated in this study, shifts in governance methods, i.e. movements along the dotted line, affect social and ecological resilience (the X and Y-axes). With an increase in bottom-up processes and user participation, social and ecological resilience increase. Inversely, with more top-down methods and more involvement of state-centred bureaucracy, social and ecological resilience decrease. A fish resource is not a static reserve. Even though the governance structure might be rather fixed, there is a constant movement up and down on the X and Y-axes. For example, since the beginning of the 1970s, although subject to a rather fixed governance structure, the vendace resource has been moving downward on the “ecological resilience

axis”. This, in turn, has affected the legitimacy of the governing authorities (X-axis) negatively, even without changes in governance. Given that this view of the dynamics between resilience and governance is true, what are the implications for policymaking?

Non-linear processes in governance

If we assume that, in a complex and modern society, where resource use often is just a way to secure incomes, the formal institutional framework generates the incentive structure for resource users. Thus, the shape of, and, the incentives generated by the formal institutional setting, affect the possibility for collective action in the user groups. This case shows that the changes along the “governance-line” and, on the X and Y-axes, are not necessarily proportional, but non-linear processes. As has also been demonstrated, fairly small changes in the governance system might affect collective action among resource users in an unproportional, but positive way. Logically, if the system moves downward in the direction of the dotted arrow, collective action might decrease rather quickly. Without any claims of precision, it can be concluded that changes in governance are likely to affect social resilience more than ecological resilience, i.e. the increase is not believed to be proportional. However, such changes open up possibilities for the Y-axis to “catch up” with the X-axis, i.e., adjustments in social resilience cause changes in ecological resilience.

Another important lesson from the vendace case is the observation that the incentive structure, generated by governance (regional, local, etc.), is never static. Within the framework of the same institutional setting, the incentive structure for participants might change extensively over time. The co-management experiment in bleak-rope governance indicates that if the process does not continue, the gain in social capital that has been created might vanish rather quickly. Without a continuation of the process, the results that have been gained might easily be converted into a hostile attitude towards governance. In such a “frozen” institutional setting, it is reasonable to assume that, over time, the movements on the X-axis will be to the left (i.e. a decreasing social resilience, etc), which, in turn, will affect the Y-axis (ecological resilience) negatively.

Not only management, but also the overarching governance structure should be looked upon as an ongoing process with potential learning-by-doing capacities. In the same way that conditions for the ecological system constantly change, the conditions and incentives generated by governance systems do so as well. For example, other compositions of user groups, such as the trawl-group for vendace, might understand the incentives generated by management in another way. For instance, an inflow of fishermen without local knowledge and local connections – presumably with other strategies and incentives – might treat the resource differently. This, in turn, affects the ability to successfully govern the fishery with the existing governance system. Thus, the same institutional setting might generate a totally different result, if the composition of user groups (in this case the trawl-group) changes. Other modifications of the “nested institutional” environment that all resource systems are part of, might also give other and unpredictable results. For example, norms and values may change which might challenge existing formal rules and regulations. The inflexibility in governance in changing to new conditions can be seen in many areas in society. The increased acceptance for a “black market in Sweden,” for many products (e.g., alcohol, tobacco, craftsman services), as well as the increased acceptance for a “black labour force”, are two examples; new values related to the preservation of wildlife, consumption of meat, are others. The possible clashes between new values and existing institutional systems might indicate a governance system that is too static. People’s preferences and incentives have changed over time, without an adequate change in governance, which, in turn, affects the legitimacy of regulations negatively. With this development, the “free-ride?” problem is obvious, even if an individual, in reality, considers, for example, that hiring a carpenter without paying taxes or illegally catch a protected species of fish, is wrong, the temptation to do so is strong, because, “it wouldn’t make any difference if I am the only one acting lawfully”.

The complicated issue in governing and for policy makers is, thus, to have a “sensitive ear” for changes in people’s preferences and conceptions. As has been shown in the vendace case (Figure 1), changes in governance and in preferences are not proportional; they are non-linear processes with uncertain outcomes. In the initial stage, the small formal changes in vendace governance in 2000 meant a large change in collective action, rule compliance and social

capital. However, changes in the other direction may be “equally unproportional”. Imagine for example, a shift in vendace governance back to the previous setting; that the National Board of Fisheries would cancel the co-management project. All the trust and co-operation that have been built up between the fishermen and authorities since the year 2000, and perhaps also the trust that existed before the project started, would vanish rather quickly. In such a situation, rule compliance and collective action would probably fall to a level below the level in the late 1990s. The trust in regulations and authorities would be more or less non-existent. From that point, building up a fruitful co-operation and a sustainable fishery would be almost impossible.

This logic is not only applicable to resource governance, but also to society in general. How much do the taxes on labour, services, alcohol and tobacco have to be lowered before the incentives to “act lawfully” have returned? Presumably, much more than the increases that make the “cup run over” to a non-lawful behaviour. Thus, it is necessary for policymakers to carefully consider what incentives that are generated – in different contexts, for different governing strategies. The same institutional rules can have different effects on performance, depending on which incentives that are generated in regard to the particular user-group in focus. Consequently, general policies and laws for dissimilar resources and user groups will, probably, be insufficient in natural resource management.

Imperfect knowledge

We can assume that the incomplete ecological knowledge about the vendace resource, and the surrounding ecological system, is a general picture of the knowledge about many commercial fish species as well as other renewable natural resources. This highlights the importance of, so-called, local knowledge, also in well-developed societies with a high level of scientific knowledge. The importance of the information and knowledge about the ecological system that the fishermen get when they spend hour upon hour on the vessel, should not be underestimated. There is a need to learn from these experiences, and to incorporate this knowledge into the governance system. However, neither fishermen nor state authorities have perfect knowledge of the ecological

processes steering a fish resource. This is quite an important argument for some form of co-management system between the users and the State. However, to succeed with a co-management process is not an easy task:

We cannot vote for more fish in the sea, we know this, we have tried. The reality of nature is not a function of the equity of our decision making process, nor is knowledge of nature equitably distributed among stakeholder groups. Meeting the knowledge needs of community-based fisheries co-management is a very complex process as it is so closely linked to these two objectives (Wilson, 2003:265). The logical consequence for policy-making and the politics of natural resources management would be (to plead for) some kind of deliberative democracy which would include processes such as the ones that have been analysed in this thesis. When it comes to natural resources management in modern industrialised societies, authorities, experts and user groups must find ways to co-operate. Not necessarily by means of formal specifications of different roles, but rather through the establishment of joint arenas for decision-making; arenas that enable the performance of experiment, evaluation of results, monitoring, deliberate adjustment of rules, etc., i.e. the performance of all the features we associate with the concept of adaptive management. For example, if, like in the bleak-roach case, the co-operation and understanding between the fishermen and the biological expertise would increase, then learning capacities would do so as well, which means that a mutual understanding and improved knowledge might result. Policy makers need to incorporate scientific uncertainty in their decisions and in governance. In essence, this is a matter of co-management.

Conclusions

The vendace case shows that even in an industrialised modern society, where the conditions for top-down governance to succeed seem quite favourable, bottom-up processes and user participation, hence, co-management, functions better also for a fish resource with high commercial value.

If the conclusions from the bleak-roel case are applicable to society in general, and, if the situation presented in Figure 1 can be applied to other governance areas as well, this would indicate that, in order to restore the legitimacy of and trust in policy making and governing institutions in society, more bottom-up processes with user participation and engaged citizens as well as local and regional management are needed. Governance which is too static means that the citizens' preferences and incentives might change without adequate changes in the institutional framework. This can cause "unexpected" changes in legitimacy for rules and regulations. Based on the insights from this thesis, it can be concluded that, not only fisheries, but also a well-functioning society, need flexible and adaptive institutions which enhance engagement, trust and collective action among the citizens. How to reach this goal is, however, an issue for policy makers and politicians. What we know for sure is that not only "[f]ish swim across political boundaries and migrate without regard for management plans [...]" (McGinn, 1999:140).

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2006

**LOCAL AND REGIONAL AUTHORITIES IN THE THREE
DIMENSIONS (ECONOMIC, SOCIAL AND ENIRONMENTAL) OF
THE LISBON STRATEGY**

Chairman of the jury

Mr Jyrki Myllyvirta (FI), Mayor of Lahti, Chairman of the EDUC
Commission

Theses submitted

NUMBER OF ENTRANTS	LANGUAGES		COUNTRY	
6	5	English French Italian Polish Spanish	5	France Italy Poland Spain United Kingdom

Winners

First prize:

Dr Osiris J. Parceró, *The optimal country's policy to attract an MNC new
production plant*, Department of Economics, University of Bristol, United
Kingdom

Merit prize:

Dr Francesco Figari, *Federalismo fiscale e redistribuzione: microsimulazioni fiscali relative all'Italia*, Dipartimento di Scienze Economiche e Finanziarie
Università degli Studi di Genova, Italy

Dr Hector O. Rocha, *Entrepreneurship and Regional Development: The Role of the Clusters*, London Business School, United Kingdom

Osiris J. Parcero - University of Bristol (UK)

THE OPTIMAL COUNTRY'S POLICY TO ATTRACT A MULTINATIONAL CORPORATION'S NEW PRODUCTION PLANT

When a multinational corporation (MNC) has to decide where to build a new production plant, there are market and fiscal considerations that make one location more attractive than another. The MNC prefers the location where the difference between the profits it can obtain and the taxes it has to pay are positive and higher than the ones attainable in other locations. On the other hand, governments also want to attract MNCs' investment if they produce a positive payoff to their site (in terms of taxes collected and externalities generated). Indeed, it is well known that, in order to take advantage of positive externalities, governments are willing to offer subsidies with the aim of attracting new production plants to their territory. This results in MNCs holding simultaneous negotiations with different governments to find out which one offers the most profitable conditions for the installation of a new production plant.

There is substantial evidence of this kind of subsidy competition. For example, in 1993 the state of Indiana packaged a \$300 million deal to attract a United Airlines maintenance facility expected to create 6,300 jobs, while Kentucky issued \$140 million in potential tax credits to attract 400 steel jobs (Wall Street Journal, July 6, 1993). A survey of regional incentives programs implemented in other OECD countries can be found in Chandler and Trebilcock (1986). There is also evidence that this inter-governmental competition for foreign direct investment (FDI) is quite common between municipalities, which enter 'bidding wars' using firm-specific agreements to attract plants (King, et al. (1993)). There is also an existing literature that, using different set-ups, models this subsidy competition to attract MNCs to particular locations. A comprehensive survey of it is done in chapter 2.

Thus far we have not been precise about which particular governments conduct these negotiations. However, as it is clear from the previous examples, the competition for new production plants is not just limited to be between

countries. It is well known that the competition is even fiercer between regions of different countries as well as of the same country.

In fact, in the present thesis we abstract from inter-country competition and concentrate only on one country and its regions. The reason for proceeding in this way is the existence of some interesting issues in the way the surplus produced by a new production plant is divided between the host country and the MNC. Indeed, this assumption can be justified in those cases where a particular country has some market power in the world with respect to a particular MNC. This is equivalent to assume that the MNC produces a relatively higher surplus in the considered country than abroad. For example, a particular country could have a location and endowments very much appreciated by the MNC. In addition it could be the case that the externalities that the MNC produces in this country are higher than the ones produced elsewhere. To simplify we will assume throughout this thesis that the MNC produces certain positive surplus when it invests in the host country, which can be a combination of profits for the MNC and externalities to the host region, and zero surplus abroad. This assumption eliminates the problem of inter-country competition and simplifies the problem we want to address.

This problem stems from the fact that to attract an MNC to a country both, the central and regional governments are involved in the negotiation process. That is, there are subsidies and/or taxes coming from both governmental levels. Thus, we model a game among an MNC, one central government and one or two regions. Our aim is to find out what is the optimal central government policy in order to maximise the expected country's welfare.

Before moving on it is important to mention a persistent feature in the countries' negotiation process with the MNCs. Namely, the fact that the subsidies to attract MNCs are more frequently used by local rather than central governments. Indeed, it is rarely the case that the central governments bargain with the MNCs, rather regions often do so. This feature is obviously more common in big and relatively more federal countries.

To highlight the importance of this practice we quote the following paragraph taken from the web page of the Minister of Commerce, Industry and Energy of South Korea.

Lawmakers yesterday criticized the Ministry of Commerce, Industry and Energy for lacking an efficient policy for attracting foreign direct investment in a more systematic manner.

“It’s true that foreign direct investment has been on the rise due to the recently launched series of government policies, but the ministry has failed to coordinate its different divisions and the provincial governments,” Kim Tae-Hong of the ruling Un Party during the National Assembly’s audit of the ministry.

According to Kim, divisions under the Commerce Ministry seem to be competing for foreign direct investment, while the government is failing to join hands with provincial authorities, MOCIE Related News (OCT. - 1 - 2004).

Still, why is there any role for the local governments to play? Had the central government perfect information it could just decide the right amount of subsidy or tax for the MNC and the regional government would play a very passive role or no role at all. So why is the regional government intervention so widespread and persistent? The framework developed in this thesis makes it easier to understand this stylised fact. This is particularly the case in the third and fourth chapters, but a further understanding will be obtained in the fifth and sixth chapters when inter-regional competition is introduced.

Another interesting feature is the fact that the central governments’ taxes affecting MNCs are usually set very well in advance. Sometimes these are specific taxes for MNCs, but also some more general ones as the corporate and income taxes. The main reason for this practice is the existence of international treaties, which are also signed well in advance and put restrictions on the central government.

The intention of the present thesis is to analyse what is the optimal central government policy in this particular negotiation process between a country, composed by a central government (the principal) and one or two regions (the agents), and a multinational corporation (MNC) over the location of a new production plant. Because of non-verifiability and the fact that it has to set the taxes in advance (tax posting) the central government cannot tax-discriminate between different types of MNCs, but tax discrimination is possible under the regional bargaining. The central government optimal policy is examined under three different regional negotiation mechanisms: bargaining, tax posting, and a mixed one (where the region can choose between using bargaining and tax posting).

We first analyse the case where the country has only one region. On the one hand, we find that when the country gets an externality in addition to the tax over the MNC, it is not always the case that “bargaining with reservation price” dominates tax posting. Although in a different context, this contrasts with Wang (1995) result, who does not allow for externalities.

On the other hand, we find the striking result that, under a very feasible range of values (including the case when the MNCs only produce profits and no externalities to the host site) the country’s welfare is higher in the bargaining mechanism than in the mixed one. For the regional choice over the negotiation mechanisms creates a conflict of interests between the region and the country. In particular, it is optimal for the country that the bargaining strategy is used but not for the region. Under the mixed mechanism context we also analyse inter-region competition. Interestingly, we find that the addition of a second identical region, which also operates under the mixed mechanism, resolves the problem produced by this conflict of interests. Then, we move on to analyse the case where two regional jurisdictions, both operating under the bargaining mechanism, compete for the attraction of the MNC. The existence of two regions potentially leads to excessive competition, favouring the MNC. The central government wants to limit the adverse effect on the country's welfare produced by such competition, but it cannot tax-discriminate between different types of MNCs. Among the main results we have the following two: First, the central government would use tax policy to create asymmetries even when the

underlying structure is symmetrical. Second, there are situations where, even though one MNC is more productive in one region, it is optimal for the country to make it go to the other one.

Francesco Figari, Università degli Studi di Genova (IT)

FISCAL FEDERALISM AND REDISTRIBUTION: FISCAL MICROSIMULATIONS RELATED TO ITALY

As part of its agenda to combat poverty and social exclusion, set out in the Lisbon Strategy of 2001, the European Union insists on fiscal consolidation and highlights the importance of quality and sustainability of public finances. In such a framework fiscal federalism is one of the most important tools in order to achieve the objectives of accountability, greater transparency and sustainability of public finance. Nevertheless, the decentralization of expenditure functions across Europe has not been accompanied by a correspondent increase of the own resources of local government, creating a fiscal vertical gap reduced only with intergovernmental transfers. Decentralization of expenditure functions and fiscal autonomy of local government do not proceed on parallel routes.

In such a framework it is interesting to reconsider the optimal division, among the different jurisdictions, of the three main public sector functions: allocation, redistribution and stabilization. It allows us to highlight the role that local government can play in order to achieve the objectives of the Lisbon Strategy in terms of substantial reduction of poverty and inequality.

From the seminal contributions of Stigler (1957), Musgrave (1959) and Oates (1972) most of the literature agrees with the attribution of the redistribution function at the central level. However there are some remarkable approaches related to the decentralization of the income redistribution.

This involves a number of interesting issues under economic and fiscal points of view. Among others are, levels and costs of mobility of citizens within a country, fiscal competition and the incompatibility problem among different tiers of government.

This dissertation analyses the question of the redistributive function from a fiscal point of view focusing on the issue of the differentiation of Personal Income Tax (PIT, hereafter). This is one of the most useful tools in allowing,

not only the central government but also the different jurisdictions, to achieve the redistribution of income and to combat social exclusion.

The redistributive effects of the PIT are well known and widely accepted from a normative point of view: the issue of the differentiation of the PIT has been analysed with the perspective of the welfare and inequality effects and it involves a number of pitfalls. These include the division of the jurisdictions into different categories, the political decisions surrounding a more complex tax design, horizontal inequity among citizens with the same income and the mobility of individuals. Despite these disadvantages, a differentiated PIT should be the central issue of the allocation of taxation to the inferior tiers of government to give them the resources to implement their own social policies. Indeed, it would guarantee the local government a real fiscal autonomy that is essential in such a federalist tax design.

Even if the responsibility for non-benefit taxes belongs almost always to the central government, there are some countries in which there is a system of overlapping taxation combined with separate taxes at each level of government.

The PIT is mainly a tax levied by the central level of government; however there are many countries in which it is also an important source of revenue for the local government. Among the other countries, Denmark, Finland, Sweden, Spain, Canada, Switzerland and the United States experience various levels of decentralization of the PIT. In the United States the sub-national government can autonomously decide the tax base and tax rates. In Denmark, Finland and Sweden the jurisdictions can set their own flat tax rates without defining mechanisms to avoid possible spill-over effects. Moreover, in Finland, Sweden and Switzerland local government supplies different tax relief from the central government. In other countries the degree of decentralization of the PIT is more limited. Often, surcharges on the central PIT are implemented at local level even if they do not allow local government to achieve an appreciable level of fiscal autonomy.

A general concern about the local income taxation is that it can lead to “excessive taxation”. This can be associated to the inefficiency in the delivery of

public services and to the absence of effective tax competition even if the experiences of the US and Switzerland shows that there is no direct connection between fiscal autonomy and high PIT (Keen, 1997).

In the first chapter of this dissertation we review the most recent work related to the decentralization of the redistributive function. The approach is partly different from the traditional literature on fiscal relationships among jurisdictions. The tax competition effects among local government are not considered and the central government is considered responsible for the redistribution of income implemented by the local government. This ensures the national fiscal balance. From Pauly's contribution (1973) in which redistribution is regarded as a local public good, some studies encourage carrying out more research in the field of the decentralization of the redistribution function. Brown and Oates (1987) compared local with national redistribution considering that the altruism of the non poor people deals with the poor only within their own jurisdiction. Lee (1998) extended this model considering possible idiosyncratic shocks. Moreover, he considered that the altruism of the non poor can vary across localities. Tresch (2002) elaborated a model in which each level of government has a Social Welfare Function (SWF, hereafter) to maximize and the autonomy in the decision-making process is preserved at the lowest possible level of government. In this model the lowest level of government redistributes income among the individuals with the addition of grants-in-aid transfers among jurisdictions.

In the second chapter the methodological instruments of the inequality measurement are presented (Lambert 2001). The analysis focuses on the most important normative conclusions developed by the economic theory from Atkinson's seminal contribution (1970) and followed by important work: Shorrocks (1983), Shorrocks and Foster (1983) and Dardanoni and Lambert (1988). The contributions of Ebert (1997) and Atkinson and Bourguignon (1987) extend such conclusions to the case of heterogeneous population, considering more factors other than income in the welfare evaluations. Such instruments allow us to evaluate the redistributive effects of progressive taxes according to Fellman (1976), Jakobsson (1976) and Kakwani (1977) and to justify the normative superiority of such taxes. The most important indexes,

both local and global, (i.e. Liability Progression, Residual Progression, Kakwany index and Reynold-Smolensky index) are presented.

In the third chapter the different approaches developed by the economic theory related to the differentiation of PIT are presented (Cubel and Lambert (2002a), Badenes et al. (2001) and Lopez-Laborda and Onrubia (2003)).

For the first time such theoretical models have been applied to the Italian case using the data contained in the Survey of Household Income and Wealth (SHIW, Bank of Italy). The results of these simulations appear to be particularly interesting in a crucial period for the ongoing process towards a real federalist structure. The decentralization of PIT has not been taken into account in the hypothesized reforms of fiscal structure and the consequences in terms of welfare and inequality could become crucial in the political debate.

The SHIW is conducted yearly by the Bank of Italy from 1965 to 1987 (with the exception of 1985) and every two years since 1987. In 2000, it covered 8001 households composed of 22268 individuals and 14231 income earners.

The basic analysis unit is the household, defined as a group of individuals “linked by ties of blood, marriage or affection, sharing the same dwelling and pooling all or part of their incomes” (Brandolini 1999). The sampling process is defined in two steps concerning the municipalities (divided into Si strata) and the households.

The questionnaire is divided into different sections covering the composition of household, employment status (activity of employees, members of the professions, sole proprietors, free-lances, family businesses, active shareholders, pensioners) and income, payment instruments and forms of savings, principal residence and other property owned and finally non durable and durable consumer goods and forms of insurance.

All the income accounts are expressed as net of taxes and social security contributions. The absence of any information regarding the taxation is one of

the pitfalls of the SHIW and also the main difference regarding the United Nations' Guidelines on Statistics of the distribution of income.

In order to analyze the redistributive effects of the PIT and to carry out the micro simulation exercises related to the Italian case, the values of net income that is only subject to IRPEF (Personal Income Tax) are used. The gross values are obtained by a not straightforward procedure from the corresponding net values. This procedure has taken into account the different income sources subject to IRPEF (salary, pension, rent, maintenance and economic assistance supplements), the composition of the household (according to the fiscal status of the relatives) and the fiscal norm in force in Italy in 2000. Each source of income not included in the tax base of IRPEF (such as the financial assets or other income sources subject to separate taxation) has been excluded. The final dataset regards 13247 individuals with a positive income that is subject to IRPEF.

The models simulated start from Cubel and Lambert (2002a, b) who have identified the necessary and sufficient conditions to ensure that a differentiated PIT is superior, in terms of both welfare and inequality, to a uniform tax model, even if it involves a degree of horizontal inequity. They focused on a marginal reform in a static framework without mobility, analyzing the effects of three different kinds of taxes: Jump sum, proportional and progressive.

This approach involves a division of the regions into two different categories with transfers between them and it permits the application of the methodology developed by Lambert (1992) related to rich-to-poor income transfers.

In testing such model with the Italian data, the division of the regions into donors and recipients is particularly important. This confirms that the differentiated PIT leads to a welfare improvement and inequality reduction only if the transfers are done in the correct sense from richer to poorer regions due to an higher taxation in the first ones. This is a central issue in the identification of the donor and recipient regions and in political relationships. In order to apply such differentiated PIT, the central government must play an important role to avoid that the richer regions, with independent decisions, pay lower tax than

under the uniform scheme. Nevertheless, the interest of this simulation deals with the values of tax differentiation parameters that define the potential relationships between donor and recipient regions in quantitative terms.

In order to be more realistic, Cubel (2002) proposed an extension of such a model considering the potential mobility of individuals and their behavioural changes according to Yitzaki and Slemrod (1991). Her results show that the mobility issue is mainly an empirical issue: the experience of OECD countries show that the differentiation of the PIT does not imply high migration phenomena.

The second model applied to the Italian case is due to Lopez-Laborda and Onrubia (2003) that have elaborated an approach for the decentralization of PIT consistent with the optimal redistribution model proposed by Tresch (2002) and the social welfare framework proposed by Atkinson and Buirguignon (1987). The main point of the Tresch (2002) model deals with the SWF of the different levels of government: each tier of government is supposed to have a SWF whose arguments are not the utility of the residents but the SWF of the level of government hierarchically below. The utility of the individuals is the argument only of the SWF of the lowest level of government. In this model a country is divided into two different levels of government (central government and regions) and both the central and local government can redistribute income. In each region a progressive PIT is applied to the residents depending on their individual ability to pay. The central government can impose an additional taxation, neutral in terms of Residual Progression (Pfhaler 1984), in the form of proportional deduction and/or surcharge of post-regional tax income which may or may not ensure the global equal yield. In such a case, the PIT model presented by Lopez-Laborda and Onrubia (2003) at both regional and central government is welfare superior to the proportional equal-yield tax.

We applied such a model to the Italian case guaranteeing equal global revenue with a scheme of central deduction and surcharge of the tax liability, respectively for the residents in the recipient and donor regions. According to our microsimulation exercises, the differentiated PIT leads to inequality reduction and welfare enhancement at central level without any change at

regional level because the reform implemented is neutral in terms of Residual Progression. Such results are interesting in order to evaluate the relationships between different regions and the potential role of the central government.

A greater differentiation across regions has been guaranteed by Badenes et al. (2001) who have developed a model in which the PIT was simplified in an equal yield flat tax at the central government level with a reduction of the tax liability in proportion to the post-tax income. This enables the local government to apply a surcharge on tax liability. According to the conclusions of Pfahler theorem (1984) and Dardanoni and Lambert theorem (1988), such a decentralized PIT is superior in social welfare terms. Badenes et al (2001) pointed out that the combination of the RP neutral tax cut at the central level and the LP neutral regional surcharge leads to the highest possible reduction in income inequality in each region i with respect to the uniform PIT.

Nevertheless, the income inequality effects should be evaluated both at the central and the regional levels. At the central level, it is more complex to draw a conclusion. It depends both on the inter- and intra-regional effects. The inter-region level of inequality does not change if all regions tax their residents in the same way of the central government before the decentralization of the PIT. The nationwide inequality is reduced if all regions establish the same surcharge, and if the “intraregional inequality reduction offsets the possible overlap effect between the income ranges in the regions”.

We hypothesized an equal-yield, double crossing tax reform and the results show that such a reform is superior in terms of welfare both at central level and within each region. Due to the differences among Italian local government, the surcharge rates appear to be very heterogeneous. The communities with a higher per capita income have a higher redistributive effect and the poorest regions have rates more progressive.

The introduction of a new degree of Horizontal or Vertical Inequity in the tax system, as a consequence of the differentiated PIT, is at the core of the theoretical debate. There is not agreement on the kind of inequality introduced

in the system, even if the literature concludes that it does not compromise the results in term of welfare and inequality effects.

The theoretical approaches of the differentiated PIT, and their fiscal micro-simulations, represent an important base for the political debate concerning the overall fiscal policy, the federalist tax design in a country and the strategy to implement social policies compatible with the revenue constraints. Is the reduction of inequality a main objective of the political programs at national and regional levels? Is the fiscal autonomy of local achievable? In a dualist country, such as Italy, are the separatist tendencies compatible with the fiscal relationships between donor and recipient regions?

These issues deal with the real applicability of the subsidiarity principle and with the role that local government can play in order to combat social exclusion. The differentiated PIT could be an instrument, coherent with general objectives in terms of inequality and welfare, to allow the local government to become responsible for a number of functions and financially independent. This aim is enforced by the well known disadvantages of a financing system of local government based on grants and shared taxes. Moreover, in the European Union, the increase in local expenditure, in public deficit and in borrowing is not permitted by the European Union's Stability and Growth Pact. Therefore, the definition of new relationships between the central and local government is considered as one of the more pressing points to be defined immediately not only in terms of sustainability of public finance but also in terms of efficient social policies.

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ENTREPRENEURSHIP AND REGIONAL DEVELOPMENT: THE ROLE OF CLUSTERS

1. Motivation and Research Problem

Persistence of high unemployment is one of the main policy concerns in the European Union. Traditionally, researchers and policy makers have tackled the unemployment issue from either a market-led microeconomic or a government-led macroeconomic standpoint. In effect, on the one hand, neoclassical economics argue that flexible and deregulated labour markets are the solution for long-term unemployment. It is argued that large and persistent unemployment differentials across Europe are caused by inflexible wages and low labour mobility. Therefore, the solution rests in improving labour market flexibility, on the other hand, Keynesian and institutional oriented economists propose regulations of institutions such as social benefits, work protection, and institutions regulating wage rates based on the existence of information asymmetries and therefore power differentials.

When a more place-based framework is considered, the dominant approach is a top-down one, scaling-down either the market-led or government-led prescriptions at the sub-national level. In effect, the microeconomic options focus on labour and capital mobility while the macroeconomic ones aim at changing aggregate regional income and expenditure (cf. Armstrong and Taylor, 2000; Rocha, 2004a). Despite the place-based nature of these approaches, the emphasis is on factors external to the region because regional specific capabilities such as SMEs and local innovation are not included in the analysis. These latter indigenous factors are the focus of the endogenous development approach, which emerged as an alternative explanation to the exogenous approach to regional development.

This thesis aims to complement the market-government, micro-macro, and exogenous-endogenous approaches with a more mixed approach to regional

development. To this end, it analyses the impact of clusters - i.e. geographically proximate group of interconnected firms and associated institutions in related industries- on entrepreneurship and on the relationship between entrepreneurship and regional development.

Both entrepreneurship and clusters have emerged as important issues in the policymakers' agenda, and also as strong lines for research during the last decade. At least two interrelated reasons explain the increasing interest in entrepreneurship and clusters. Firstly, they are viewed as a solution to generate jobs and increase competitiveness in light of the drastic changes in the economic, institutional, and technological environment since the 1970s. In effect, the intrinsic rigidity of the independent large firm-based system was incompatible with the fast pace of change and the consequence was an increase in unemployment, due to both closures and productivity imperatives. Therefore, entrepreneurship and clusters were viewed as two elements of the new productive system replacing the previous one to generate jobs and increase competitiveness. A shift of emphasis from mass to flexible production, from independent firm-based to regional network-based system, and from established large firms to new and small firms emerged as part of the solution (Piore and Sabel, 1984; Saxenian, 1994; Conti, Malecki, and Oinas, 1995). Secondly, as a consequence of the previous reasons, academics revisited and empirically researched the old ideas of industrial districts (Marshall, 1920 [1890]) and entrepreneurship as innovation by newly created firms (Schumpeter, 1934:66). The works of Birch (1981) in the entrepreneurship field and Porter (1990) in the cluster one have definitively placed these topics as a priority in the policymakers' and academics' agenda.

Despite this interest, research on the impact of clusters on entrepreneurship and their joint impact on development at the regional level is lacking. In effect, researchers have studied specific kinds of clusters, such as industrial districts (Sforzi, 1990; Visser, 1999, Fabiani et al, 2000) and high technology clusters (Keeble and Wilkinson, 2000), using established SMEs as the unit of analysis (focus on size) rather than entrepreneurship (focus on new firms). Those researchers studying regional factors affecting firm births (cf. Reynolds, Storey, and Westhead, 1994) have not focused on clusters as such, but on the proportion

of SMEs or economic specialisation in a region. Finally, those studying founding and failure rates (Hannan and Freeman, 1989; Baum and Mezias, 1992; Lomi, 2000; Sorenson and Audia, 2000) have focused on only single industries and one dimension of clusters —that is agglomeration of economic activity-, without analysing entrepreneurship societal level outcomes (Low and MacMillan, 1988; Low, 2001; McGrath, 2003:5 15).

These research limitations have their policy correlate, because defining the object and targets of policy (conceptual level) and the actions to achieve the desired outcomes (theoretical level) are the necessary steps to evaluate those outcomes in a later stage (methodological level). Policymakers have no clear guidance upon which to base coordinated policies on entrepreneurship, clusters, and regional development, given that to know how and why clusters are associated to entrepreneurship and regional development is an important requirement to design and evaluate policies.

2. Objectives and Research Questions

This dissertation aims to make a theoretical and practical contribution meeting the need for studies on the impact of clusters on entrepreneurship and entrepreneurship societal outcomes To this end, four criteria are put forward to set the framework and formulate the concrete research questions of this dissertation in order to make a theoretical and practical contribution: the *what* (phenomena and concepts), the *how* (relationships), the *why* (theories and assumptions), and the *what for* (implications) (cf. Reynolds, 1971; Whetten, 1989; Singleton and Straits, 1999). The first three criteria are the basic building blocks for a theoretical contribution and are related to the theoretical goals of understanding, describing, and explaining (Reynolds, 1971; Whetten, 1989; Singleton and Straits, 1999); the fourth criteria is the basic building block for a practical contribution and is related to the practical goal of control, change (Reynolds, 1971:4) or prescription.

A first criterion to tackle the research problem and make a theoretical contribution is to clearly define the phenomena: entrepreneurship, clusters, and development

Once the phenomena are conceptualised and measured, a second criterion to tackle the research problem empirically is to analyse how the concepts are related (Whetten, 1989; Singleton and Straits, 1999). This dissertation formulates the relationships of interest comparing regions with clusters and regions without clusters to isolate the contributions of clusters at the regional level. The few studies that have used comparative research designs (Westhead and Storey, 1994; Visser, 1999; Fabiani et al. 2000) have focused on specific clusters to evaluate firm level rather than regional level outcomes, and used small and medium-sized companies – that is focus on size- rather than new firms – that is focus on age – as units of observations.

Therefore, given that the first relationship of interest of this dissertation is the impact of clusters on entrepreneurship at the regional level, the *first research question* is the following: *Is the level of entrepreneurship in regions with clusters higher than that of regions without clusters?*

In addition, the entrepreneurship field calls for more studies on societal level outcomes, rather than relative performance among firms (Venkataraman, 1997; Low and MacMillan, 1988; Low, 2001). In effect, given the corporate scandals at the end of the millennium together with the newness of the entrepreneurship field, there is both an opportunity and a pressing need for a social justification of entrepreneurship (McGrath 2003:524; Stinchcombe, 1997), critically assessing the assumption that profit-maximisation at the firm level directly translates to societal level outcomes (Rocha and Ghoshal, 2004).

The need for societal level outcomes studies in the entrepreneurship field, leads to the second relationship of interest of this dissertation: the moderating impact of clusters on the relationship between entrepreneurship and development at the regional level. Therefore, the second *specific research question* of this study is the following: *is the relationship between the level of entrepreneurship and regional development stronger in regions with clusters than in regions without clusters?*

The previous two research questions fulfil the *What and How* criteria for a potential good theory, but they say little about the *why* (Whetten, 1989). The *Why* criterion is especially relevant given the important gap between the academic and policy interest in clusters and entrepreneurship, and the little existing research on their relationship and joint impact on development at the regional level. Therefore, to move from description to explanation the *third and final specific research question* of this study is the following: *if regions with clusters are associated with different levels of entrepreneurship and stronger relationships between entrepreneurship and regional development. What factors explain those differences?*

The *What*, the *How*, and the *Why* are the basic ingredients for a theoretical contribution. The *What* and *How* describe, while the *Why* explains (Whetten, 1989:491). Therefore, taken together, these three criteria provide the basic elements for achieving the theoretical goals of understanding, describing, and explaining. The final criterion, the *What for*, directly aims at the practical implications of this dissertation.

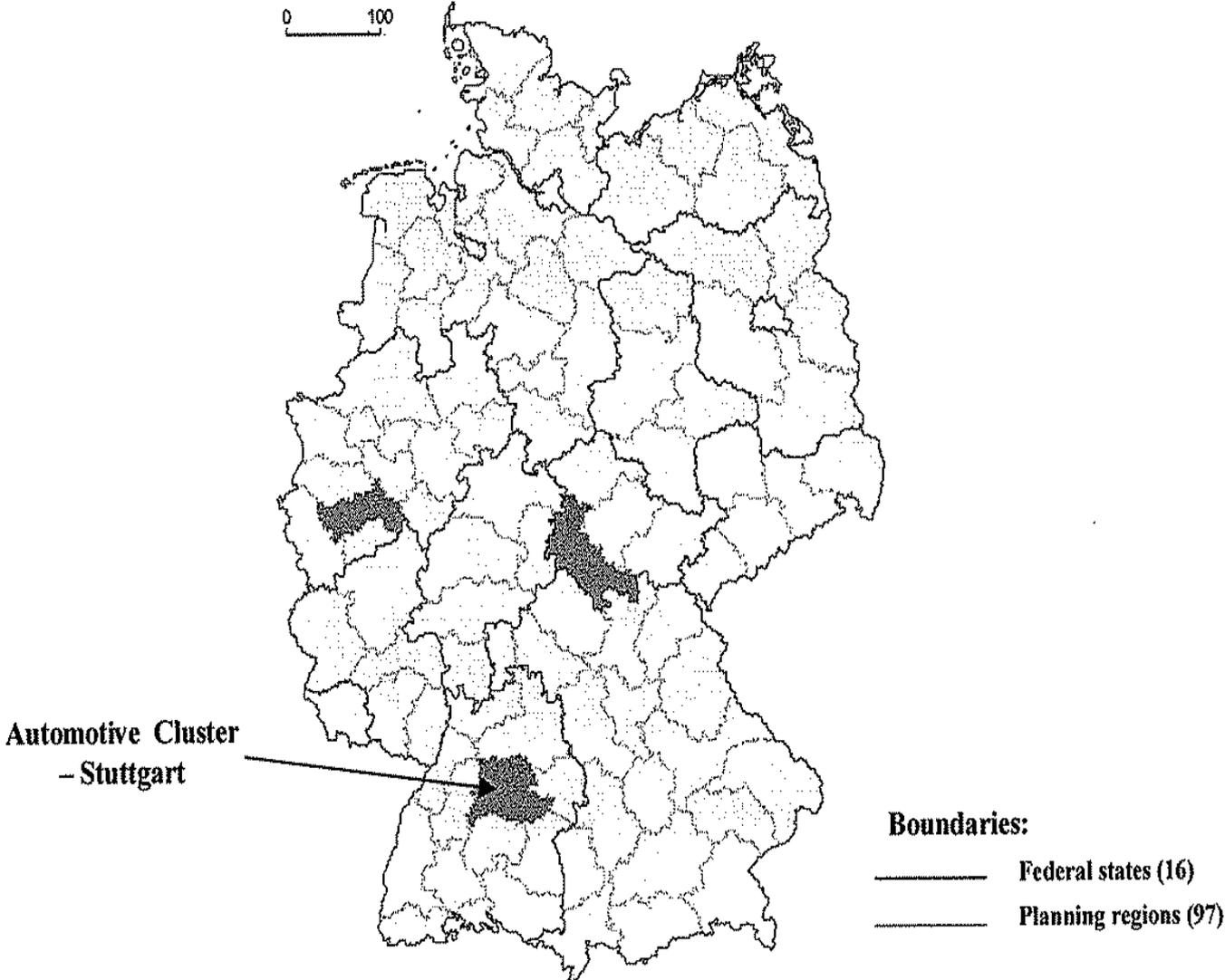
Summing up, the *overall aim* of this dissertation is to answer the previous three research questions and based on the *What*, *How*, *Why*, and *What for* criteria make a theoretical and practical contribution. The theoretical contribution is related to understanding and explaining how and why clusters impact on entrepreneurship and on the relationship between entrepreneurship and regional development. The practical contribution is related to prescription, providing theoretical and empirical bases for future research and policymaking on clusters, entrepreneurship, and regional development.

3. Unit and Level of Analysis

The unit of analysis of this dissertation is the region and the units of observation are start-ups and new firms less than 42 months old and clusters. Both clusters and entrepreneurship are measured at their own level and then aggregated at the Planning Region level to answer the research questions. Figure 1 shows the

geographical relationship between German Federal States, Planning Regions (units of analysis), and one example of clusters (units of observation). It also shows how the entrepreneurship variable is aggregated at the Planning Region level (entrepreneurship rate or number of start-ups and new firms over the population 18-64 years old).

Figure 1: German Federal States, German Planning Regions (units of analysis), and Clusters (units of observation)



Source: adapted from Rocha and Sternberg (2005).

4. Phenomena and Theoretical Grounding (Chapter 2)

There is no unique theory to describe and explain the relationships depicted in the conceptual model. Therefore, this study brings together several theories to understand and explain the impact of clusters on entrepreneurship and their joint impact on regional development. Chapter 2 develops a socio-economic approach, presenting two basic conceptualisations of the phenomena under study: the instrumental and the intrinsic one.

The instrumental conceptualisation focuses on industry or industry-region growth, considers entrepreneurship as entry, and conceptualises clusters as industrial agglomerations. Its main theoretical manifestations are neoclassical economics (Becker, 1976; Romer, 1990), industrial organisation economics (Geroski, 1995; Porter, 1990), population ecology (Hannan and Freeman, 1989), and new economic geography (Krugman, 1991). Its ontological assumptions are that entrepreneurship is essentially profit-driven and therefore mobile, that regions are support for economic activity, and that clusters are basically economic phenomena. As a consequence, the unit of analysis is the industry or the industry-region. Finally, as to epistemological assumptions, its main research strategy is theory-method-data driven methodological individualism and its theoretical goal is explanation. I call this view instrumental because it does not consider the intrinsic nature and specific features of the phenomena under study (cf. Rocha and Ghoshal, 2004).

The alternative intrinsic conceptualisation focuses on regional development, considers entrepreneurship as creation of organisations, and clusters as the systemic integration of geographical density and local inter-firm and institutional networks. Its main theoretical manifestations are the capability approach to development (Sen, 1999) and endogenous development theory (Garofoli, 1992), entrepreneurship context approach (Gartner, 1985), and the combination of the economic (Porter, 1998), socio-cultural (Saxenian, 1994), and innovation (Camagni, 1991) approaches to clusters. Its ontological assumptions are that entrepreneurship is driven by heterogeneous motivations, regions are entities subject to analysis, and clusters are socio-economic phenomena. As a consequence, its unit of analysis is the cluster-region or the

region. Finally, as to epistemological assumptions, its main research strategy is phenomena-driven holism, and its theoretical goal is first to understand and only then to explain and prescribe. I call this view intrinsic because it aims to understand the very nature of the phenomena rather than reducing it to the existing theoretical, methodological, or data requirements (cf. Rocha and Ghoshal, 2004).

Figure 2 summarises these two basic conceptualisations and their main underlying theories, which together with additional theories reviewed in Chapter 2, are used in subsequent chapters. In effect, Chapter 3 uses these theories to build the hypotheses of the study; Chapter 4, guided by theoretical considerations, develops the operational definition of each construct; and finally, Chapter 6 uses these theories to interpret the results and provide a tentative answer to the research questions of the study.

The rest of this section defines regional development, entrepreneurship, and clusters based on the intrinsic perspective described above. Table 1 summarises the conceptual definitions and their theoretical sources.

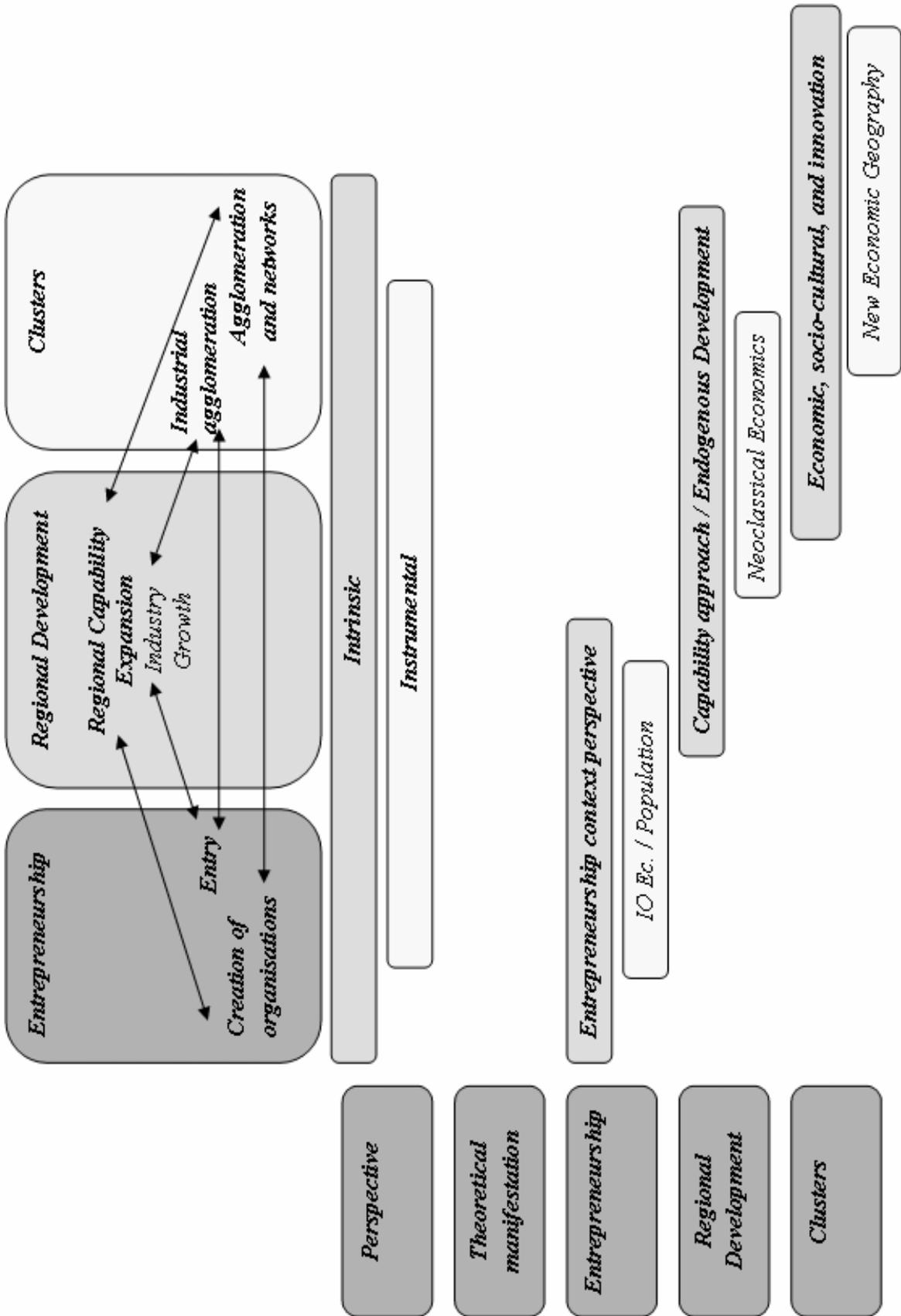


Table 1 Conceptual Definitions

<i>Phenomenon</i>	<i>Conceptual Definition</i>	<i>Theoretical Sources</i>
Entrepreneurship	Creation of new businesses	Entrepreneurship Context or Demand Side Perspective (Low and MacMillan, 1988; Gartner, 1989)
Cluster	Geographically proximate group of firms and associated institutions in related industries, linked by economic and social interdependencies	Competitiveness Theory (Porter, 1990; 1998) Social capital (Coleman, 1988; Putnam, 1993), embeddedness (Polanyi, 1957; Granovetter, 1985) and social networks (Powell, 1990) approaches
Industrial Agglomeration	Proximate groups of firms belonging to the same industry or closely related industries that may or may not interact	Location Theory (Weber, 1929)
Regional development	Enhancing the factors of productive capacity of a regional economy	Capability Approach to Development (Sen 1990; 1997). Endogenous Development Approach (Garofoli, 1992)

a) Regional Development

Regional development is defined as the expansion of capabilities (Sen, 1990; 1997; UNDP, 1994) at the regional level. It is important to distinguish between economic growth, economic development, and development. Economic growth is a quantitative change in the scale of the economy and is usually measured in terms of GDP / capita (Sen. 1999; Todaro, 2000). Economic development is a qualitative change in the structure of the economy and is measured in terms of

innovation measures such as R&D and patents or in terms of productivity measures such as total productivity factor (Malecki, 1997; Todaro, 2000). Finally, development is defined as the expansion of human capabilities and is measured in terms of either multi-item indexes such as the Human Development Index – i.e. weighted average of income per capita, literacy rate, and life expectancy – or more simple ones such as employment (Sen, 1997; 1999; Malecki, 1997; Stewart and Deneulin, 2002).

This dissertation defines development as expansion of capabilities for three reasons. The first reason is to contribute to the line of research that distinguishes between economic growth and development. The review of the historical evolution of development shows that growth and development are different phenomena that not necessarily vary in the same direction. The second reason is to highlight both the economic and non-economic dimensions of development, complementing the traditional view of development that focuses on economic prosperity. The third and final reason is that choosing capabilities rather than outputs is more aligned to the nature of both the entrepreneurship and regional economics fields, given the importance of entrepreneurship in changing the economic and social structure of the economy (Schumpeter, 1934; Etzioni, 1987; Low and MacMillan, 1988; Davidsson and Wiklund, 2001; McGrath, 2003) and the focus of regional economics on explaining how regional disparities and “patterns of employment opportunity” (Malecki, 2001:4085) arise, and why they persist over time (Armstrong and Taylor, 2000:3).

This dissertation measures regional development as employment growth also for three reasons. The first reason is that having a job implies much more than earning an income and expanding the economy. In effect, employment has both an intrinsic and an extrinsic dimension. The intrinsic dimension relates to the impact of employment on the person as such – i.e. his or her habits, psychology, and social relationships- and the societal consequences of such impacts, while the extrinsic dimension relates to the impact of employment on both the income the person earns and the growth and change in the economy. The second reason is the lack of data on complex indicators such as HDI at the regional level. Given the socio-economic implications of employment and data availability on employment growth, this dissertation uses this latter indicator as a measure for

regional development. The third and final reason is that employment growth is the most used indicator in entrepreneurship literature for measuring regional development (Reynolds, 1994; Davidsson et al. 1994; cf. Acs and Storey, 2004).

b) Entrepreneurship

Entrepreneurship is defined as the creation of organisations (Gartner, 1989) at the regional level. The extensive review of the literature done in Chapter 2 shows that the different approaches to entrepreneurship are not incommensurable (Kuhn, 1962) but complementary, which allows a broad conceptualisation of entrepreneurship as the discovery of opportunities and subsequent creation of new economic activity (Low and MacMillan, 1988), often resulting in the creation of new organisations (Schumpeter, 1934:66; Gartner, 1989; Brush et al 2003), or the pursuit of innovation by independent entrepreneurs (Schumpeter, 1934) or large firms (Schumpeter, 1950).

This dissertation defines entrepreneurship as the creation of organisations at the regional level, based on the contextual perspective of entrepreneurship. Three reasons explain this decision.

First, *organisation creation* has long been an important topic for entrepreneurship researchers (Gartner, 1985), and such creation occurs at multiple levels of analysis (Brush et al 2003).

Second, the *contextual perspective* is concerned with how contextual factors at different levels impact on rates of start-up, and acknowledges that entrepreneurship involves interaction between the environment and individuals (Venkataraman, 1997; Brush et al 2003). Therefore, it avoids bipolar thinking such as either people or contexts are important for entrepreneurship. In addition, the interaction between the individual and the environment is key to understanding the impact of entrepreneurship at the societal level. The link between entrepreneurship and societal outcomes is not only one of the purposes of entrepreneurship research (Low and MacMillan, 1988; Low, 2001) but also the parameter for analysing whether entrepreneurship is productive, unproductive, or destructive (Baumol, 1990). Just focusing on firm outcomes

(Shane, 2003:5) does not assure that entrepreneurship is beneficial at the societal level, unless it is assumed that firm level outcomes automatically translate to societal outcomes through an automatic coordination of self-interested individuals in a world without externalities, This assumption is neither real nor useful for prediction (Rocha and Ghoshal, 2006) and therefore it is necessary to develop a better understanding of how entrepreneurial outcomes are distributed and what kind of institutions are necessary to mediate the process.

Third, the focus on creation of organisations at the regional level highlights that entrepreneurship is essentially a regional or local phenomenon, which has been demonstrated both theoretically (Malecki, 1997) and empirically (Reynolds, Storey, and Westhead, 1994).

This dissertation measures entrepreneurship as start-ups and new firms less than 42 months old, based on the Global Entrepreneurship Monitor research programme. The main reason for this decision is construct validity, given that although the limit of 42 months could be arbitrary, the measure relates to age rather than size.

c) Cluster and industrial agglomeration

A cluster is defined as a geographically proximate group of firms and associated institutions in related industries, linked by economic and social interdependencies (adapted from Porter, 1998).

This dissertation defines clusters as the intersection between geographical, inter-firm, and institutional networks for two reasons. First, the historical evolution of the concept reviewed in Chapter 2 shows that clusters encompass these three dimensions. Second, this conceptualisation allows clusters to be distinguished from other concepts such as industrial agglomerations. In effect, industrial agglomerations are proximate groups of firms belonging to the same industry or closely related industries that may or may not necessarily interact. When interactions occur, they are basically buyer-supplier interactions based on

market transactions guided by price considerations, rather than social relations or norms, which are seen as frictional matters (Granovetter, 1985:484).

The distinction between clusters and industrial agglomerations is both theoretically and empirically relevant. Theoretically, industrial agglomerations lack inter-firm and institutional networks that are necessary to both link the different actors within the agglomeration and embed their actions within the local economy. Therefore, they are industrial rather than regional phenomena (cf. Glaeser et al. 1992:1134 n.I, 1140 n.6). On the contrary, clusters include both spatial proximity and inter-organisational relationships that make cluster entities different from the simple sum of their component individual actors. Interaction is driven not only by price signals but also by interpersonal and associational relations among people and firms. Therefore, while every cluster is an agglomeration, not every agglomeration, such as a city or a single concentration of firms, is a cluster (Malecki, 1997:152). Empirically, the distinction is important given the different expected impacts of clusters and industrial agglomerations in terms of entrepreneurship and regional development.

This dissertation measures clusters in terms of the simultaneous presence of the geographical agglomeration, inter-firm, and inter-organisational networks within clusters, which help both to improve construct validity and to distinguish clusters from industrial agglomerations.

5. Argument (Chapter 3)

The overall argument of this dissertation is that well-established clusters positively affect entrepreneurship and positively moderate the relationship between entrepreneurship and regional development. In effect, the geographically dense and bounded inter-firm and institutional networks within clusters foster entrepreneurship providing external economies, a competitive business environment, established relationships, legitimation processes, and complementary linkages that contribute to overcoming the liability of newness that new firms face. However, the same socio-economic factors could also create cluster myopia and inertia, inhibiting entrepreneurship. These negative

factors can be overcome when clusters develop external networks. As for the moderating impact of clusters on the relationship between entrepreneurship and regional development, clusters enhance this association, facilitating knowledge diffusion and providing a network structure and a sense of purpose to channel entrepreneurship outcomes to the regional level. However, the same socio-economic and cultural cluster factors could negatively moderate the relationship between entrepreneurship and regional development, curbing new firms dynamisms, innovation, and collective outcomes.

This argument integrates both economic and sociological explanations. In effect, economic approaches focus on the geographical agglomeration dimension of clusters and explain their impact in terms of external economies, competitive environment, and endogenous mechanisms to generate growth. The specific theories that contribute to understanding the economic dimension of clusters are neoclassical economics, economic geography, and competitiveness theory. Sociological explanations focus on the inter-firm and institutional network dimensions of clusters and explain their impact in terms of embeddedness of economic activity, social networks, un-traded interdependences, and the role of new firms in society. The specific theories that help to understand the network dimension of clusters are institutional theory, social capital theory, the new industrial district, innovation, and cultural-institutional approaches to clusters.

I argue that an explanation of clusters' effects based on either their economic or sociological nature is incomplete due to the socio-economic nature of clusters, entrepreneurship, and regional development. In effect, there is a difference in kind rather than in degree between clusters and industrial agglomerations, entrepreneurship, entry, and innovation, and regional development and industry-region growth. Reductionism considers these phenomena as fairly equal because they show some overlapping, for example independent start-ups as one type of entry or clusters as one type of industrial agglomerations. However, the underlying ontological and epistemological assumptions are different and therefore different theories and causal mechanisms explain what appear to be similar phenomena.

An integrative paradigm such as socio-economics captures the socio-economic nature of entrepreneurship, clusters, and regional development and therefore is more appropriate to understand and explain their relationships. To this end, this dissertation integrates specific arguments from the theories and empirical studies extensively reviewed in Chapter 2. Therefore, the theoretical explanation on which the hypotheses of the model presented in Chapter 3 hinge their roots is a socio-economic integration of economic, organisation, and sociological theories that explains partial aspects of the cluster phenomenon.

6. Research Approach (Chapter 4)

Chapter 4 links the theoretical and the empirical part of the dissertation in five sequential steps. First, it describes the functional definition of the German Planning Regions and how it relates to the socio-economic nature and definition of clusters. It shows how empirically defining the regional boundaries at the level of Planning Regions capture most of the theoretical arguments underlying the entrepreneurship and cluster phenomena.

Second, this chapter describes the sources of data used to measure the variables of the model. The source of data to measure entrepreneurship is a four-year (2000-2003) pooled cross-sectional dataset built up as part of the German participation in the Global Entrepreneurship Monitor research programme (GEM) (Reynolds et al. 2002; Stenberg and Litzengerger, 2003). As for clusters, the literature reviewed in Chapter 2 suggests the use of both quantitative and qualitative techniques and therefore multiple sources of data to measure clusters. The present dissertation follows this suggestion, using location quotients based on plants as quantitative method, and more than 70 cluster studies and a questionnaire answered by 62 experts as qualitative methods. Third, it provides the operational definition of the entrepreneurship and cluster variables based on the conceptual definitions of Section 5 and the theoretical sources surveyed in Chapter 2. Fourth, it summarises the validity criteria underlying the whole process and the generic strategies for improving validity used in this dissertation during the process of creating and applying the cluster measure. Fifth and finally, Chapter 4 describes the research methods that have

been chosen to consider the nature of the phenomena and the research questions of the study.

7. Results and Contributions (Chapters 5 and 6)

This dissertation develops and tests the first theoretical model to understand and explain the differential impact of industrial agglomerations and clusters on both entrepreneurship and the relationship between entrepreneurship and development at the regional level. The results show that clusters matter to both entrepreneurship and the relationship between entrepreneurship and development at the regional level, but industrial agglomerations do not (Chapter 5). These results are robust due to both the research strategies used to control for omitted variable bias, as explained in Chapter 4, and the running of sensitivity analysis in Chapter 5. Sensitivity analyses show that results do not change when different industrial agglomeration, cluster, and entrepreneurship measures and different time lags between entrepreneurship and regional development are used.

Chapter 6 elaborates on the theoretical contribution and practical implications of this dissertation in terms of the *What*, *How*, *Why*, and *What for* criteria and research questions, which aim to narrow the gap between the current academic and policy interest in entrepreneurship and clusters and the little research on their relationship and joint impact on regional development. In the particular case of practical implications for policymakers, the basic rationale for a combined cluster and entrepreneurship policy is that there is a strong synergy between the liability of newness faced by new firms and the provision of external economies by well-established clusters. For example, clusters provide economies of specialisation, labour supply, and specialised skills that help to overcome liabilities of newness such as an unknown work force, the learning of new roles, and other resources. However, echoing the theoretical distinction between the instrumental and intrinsic paradigm, this dissertation shows that there would be potential disagreement on the rationale for policy design and evaluation based on different conceptions of clusters, entrepreneurship, and policy targets. Based on these differences, it elaborates four main paradigms relating to policy conception, design, and evaluation: neoclassical,

competitiveness, indigenous development, and development paradigms (cf. Table 2). The policy implications are formulated within the latter paradigm.

8. Policy implications from a development paradigm (Chapter 6)

The development paradigm focuses on regional development, and its policy target is the development of the potential of people, relationships – both internal and external – and local factors. The basic assumption is that economic growth (outputs) and development (economic capabilities) are means for social and human development. Both social and human development also have an instrumental value – i.e. social and human capital, respectively – but the development paradigm stresses their intrinsic dimension as an end rather than their instrumental dimension to achieve economic prosperity. This is the reason why employment creation is considered an indicator of regional development, and clusters and entrepreneurship are defined by their local socio-economic nature as means by which to foster regional development.

Based on the insights of the capability approach to development (Sen, 1997; 1999) and socio-economics (Etzioni, 1988; Smelser and Swedberg, 1994), the rationale for fostering combined cluster and entrepreneurship policies is that entrepreneurship is a human and collective endeavour, and the socio-economic nature of clusters creates the conditions to develop the entrepreneurship potential of would-be entrepreneurs. The geographically dense and bounded inter-firm and institutional networks within clusters foster entrepreneurship providing external economies, a competitive business environment, established relationship, legitimation processes, and complementary linkages that contribute to overcoming the liability of newness that new firms face. In addition, given that both entrepreneurship and clusters are local phenomena, clusters also create the conditions to channel entrepreneurial activity towards regional development. Clusters positively moderate entrepreneurship and regional development, facilitating knowledge diffusion and providing a network structure and a sense of purpose to channel entrepreneurship outcomes to the regional level.

Based on the theoretical contribution and the policy conception and rationale described above, this dissertation proposes the following four policy implications (Table 2, last column):

- a) *Clearly define the object and goal of the entrepreneurship and cluster policies.*
- b) Be aware of the assumptions underlying the object and goals of the policy and make them explicit to be subjected to public scrutiny
- c) Design policies based on the socio-economic and local nature of entrepreneurship and clusters.
- d) Evaluate entrepreneurship and cluster policies in terms of socio-economic processes and outcomes rather than policy actions.

Table 2. Four paradigms underlying potential policy prescriptions on

	<i>Paradigm</i>	<i>Neoclassical</i>	<i>Competitiveness</i>
Policy Stage			
Policy conception	Target	Economic growth	Competitiveness
	Key indicators	Income per capita Job creation (as proxy for economic growth)	National competitiveness Regional wages Regional innovation
	Cluster	Industrial agglomeration	Clusters (sectoral emphasis)
	Entrepren.	Innovation and entry	Opportunity driven start-ups
Policy design	Policy rationale	Economic growth depends on the innovation rate, which is fostered by knowledge spillovers. Physical proximity fosters externalities and these externalities foster growth. Therefore clusters foster growth.	Entrepreneurship increases rivalry and competition and put pressure to innovate, which spurs competitiveness. This beneficial effect is enhanced when the competitive diamond is geographically localised.
	Policies	Macro-economic policies fostering factor (capital, labour, entrepreneurship) mobility and R&D	Microeconomic policies to influence the competitive diamond and clusters
	Theories	Endogenous growth theory (Romer, 1990) New Economic Geography (Krugman, 1991)	Competitiveness theory (Porter, 1990; 1998)

<p>Policy evaluation</p>	<p>Empirical results</p>	<p>Agglomerations have negative effect on entrepreneurship and regional development (Chapter 5; Chapter 6, Section 6.1.2)</p> <p>Technology has negative impact on employment growth (Chapter 5).</p>	<p>Technology has a negative impact on employment growth (Chapter 5). High-tech clusters provide innovations, wages, but not employment (Porter, 2003b)</p>
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clusters and entrepreneurship.

<i>Indigenous Development</i>	<i>Development</i>	<i>Policy implication (table 6-2)</i>
Endogenous development	Development	Clearly define the object and goals of entrepreneurship and cluster policies
Poverty reduction Income inequality / Social exclusion / unemployment Local innovation	Human development (income, life expectancy, literacy rate) Quality job creation Public bad	
Clusters of local SMEs	Clusters (regional emphasis)	Be aware of the assumptions underlying the object and goals of the policy and make them explicit to be subjected to public scrutiny
Local start-ups / SMEs	Creation of organisations	
The source of development relies on the local socio-economic system where entrepreneurship, SMEs, innovation, and embedded local links play a key role	Clusters foster entrepreneurship and regional development providing external economies, a competitive business environment, established relationship, legitimation processes, and complementary linkages that contribute towards overcoming the liability of newness	
Local policies targeting SMEs, new technology, and local linkages	Coordinated national-local policies fostering local capabilities and embedded external linkages	Design policies based on the socio-economic and local nature of entrepreneurship and clusters
Endogenous development theory (Friedmann and Weaver, 1979; Garofoli, 1992)	Capability approach to development (Sen, 1997; 1999) Socio-economics (Etzioni, 1988; Smelser and Swedberg, 1994)	

Clusters negatively correlated with unemployment and positively moderating entrepreneurship and regional development (Chapter 5; Chapter 6, Section 6.1.2)	Clusters / cluster with external networks positively affect entrepreneurship and positively moderate the relationship between entrepreneurship and development at the regional level (Chapter 5; Chapter 6, Section 6.1.2)	Evaluate entrepreneurship and cluster policies in terms of socio-economic processes and outcomes rather than policy actions
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2007

**THE THESIS COMPETITION WAS CANCELLED DUE TO LACK OF
PARTICIPANTS**

Only one thesis was submitted.

2008

LOCAL AND REGIONAL AUTHORITIES IN THE EUROPEAN UNION

Chairman of the jury

Mr Jean-Louis Destans (FR) Président du Conseil général de l'Eure, Chairman of the French National Delegation of the Committee of the Regions

Theses submitted

NUMBER OF ENTRANTS	LANGUAGES		COUNTRY	
23	6	English French German Italian Portuguese Spanish	9	Belgium Finland France Germany Ireland Italy Portugal Spain United Kingdom

Winners

First prize:

Dr Ana Maria Dobre, *Europeanisation from a neo-institutionalist perspective: experiencing territorial politics in Spain and Romania*, Katholieke Universiteit Leuven, Belgium

Merit prize:

Dr Claire Barthélémy, *Régionalisme et institutions territoriales dans l'Union européenne: Belgique, Espagne, France, Italie, Royaume-Uni*, Université Paris 1 – Panthéon Sorbonne Faculté de Droit, France

Dr Sonia Royo Montañés, *El gobierno electrónico en la rendición de cuentas de la administración local*, Faculty of Business and Economics Department of Accounting and Finance Universidad de Zaragoza, Spain

Dr Conor Patterson, *The success of local economies what contribution does social capital make? The case of Northern Ireland*, Kingston University London, Faculty of Business and Law, United Kingdom

Dr Dan Stegarescu, *Decentralized government in an integrating world: quantitative studies for OECD Countries*, Georg-August-Universität zu Göttingen, Wirtschaftswissenschaftliche Fakultät, Germany

Ana Maria Dobre, Katholieke Universiteit Leuven (BE)

**EUROPEANISATION FROM A NEO-INSTITUTIONALIST
PERSPECTIVE: EXPERIENCING TERRITORIAL POLITICS IN
SPAIN AND ROMANIA,**

The aim of this doctoral study is to investigate and explain the emergence of the phenomenon of regions' institutionalisation in two different national and historical contexts, namely Spain and Romania during their respective democratic transitions and EC/EU pre-accession periods. We have focused on the role of the national, regional and local authorities in their relations with the EU in the field of regional policy. We have tried to identify the role played by these internal actors, either opposed or in favour of regional reforms, in the process of nation-state territorial changes. For Spain, we concentrate on the period from 1976 to 1986, which corresponds to end of the Franco regime, the transition to democracy and the EC pre-accession process. For Romania, we analyse the period from 1990 to 2007, which refers the end of the communist regime, the democratic transition and the EU pre-accession process.

The key research questions to be investigated are: What factors or variables determine the internal institutional change (or lack of change) towards the institutionalisation of regions during the EU enlargement process? Under which conditions can we expect change towards the regions' institutionalisation? Is this phenomenon caused either by external EC/EU pressures and requirements for institutional reform, or by domestic institutions and actors' interests and norms such as national, regional or local authorities? Or is it generated by the interplay between these external and internal variables for change?

In order to answer these questions, we have constructed a theoretical and methodological framework that would be useful for the empirical data analysis and which is based on the combination between different strands of literature, namely Europeanisation, comparative regionalism and new institutionalism (rational choice, historical, and sociological). The purpose was to identify in this literature a number of hypothesised variables or conditions for domestic change that may explain the regions' institutionalisation in the two selected EC/EU

candidate countries. In the process of identifying these conditions, which cause change or uphold stability in the state institutional and territorial structure during the EU enlargement process, we focussed on the EC/EU external conditionality in the regional and territorial policy field and on domestic national and subnational elements of explanation.

First, we hypothesised that domestic institutional change is supposed to happen either in response to the EU pressures, be it material or normative pressures, or as a usage of the EU, without necessarily the presence of an important frame of external conditionality.

Secondly, from a rational-choice new institutionalist perspective, it was hypothesised that institutional change depends on the presence of “formal institutions” and of “veto players” opposed to territorial reforms.

Thirdly, from a sociological new institutionalist perspective, it was expected that the regions’ institutionalisation is likely to take place in the presence of “norm agents”, a “cooperative-type of political culture” and/or a “legitimizing discourse” in favour of regionalisation.

Fourthly, from a historical new institutionalist perspective, it was hypothesised that the phenomenon of regions’ institutionalisation is likely to occur in the presence of the “historical regionalism state tradition” and of a “path-setting sequence” favourable to territorial and regional reforms.

In methodological terms, this doctoral study subscribes to a case-oriented methodology, also known as the comparative method. It follows the method of “comparing few countries”, focussing therefore on a small number of cases chosen “purposefully rather than at random” and which generally supposes the use of qualitative analysis. In operationalising the qualitative comparative method, we mainly used a number of sources of evidence namely: archival records, documents, interviews and direct observation during our field work. We have constantly cross- checked these different types of data.

In terms of results, we have tested, confirmed and disconfirmed the hypothesised explanatory power of the selected new institutionalist variables and we have come to the following conclusions.

In Spain, we assert, in light of the test of the work hypotheses against the empirical data, that the phenomenon of regions' institutionalisation is explained by (1) the ethnic-nationalist state tradition, (2) the initial path-setting sequence towards the institutionalisation of regions (the pre-autonomy and the constitutional autonomy system), (3) the reform supportive internal institutions, (4) the important action capacity and access to decision-making of norm agents, promoters of regionalisation and autonomy, (5) the cooperative, consensus-building political culture between the representatives of Spanish nationalism from the central establishment and the representatives of ethnic-nationalist regionalism, (6) the domestic discourse favouring territorial and regional reforms, associated with democracy and peaceful transition, and (7) the weak action capacity and restrained access to decision-making of veto players. This internal domestic conjuncture favourable to the regions' institutionalisation was as well externally strengthened by the presence of supportive external EC institutions.

The Romanian case of regions' institutionalisation is explained by a combination of causal variables such as: (1) the material and normative EU conditionality, (2) the blocked access of veto players to the national decision-making system, (3) the emergence of a prevailing consensual type of domestic political culture and relations between the centre and the periphery, (4) the incipient existence of formal institutions providing the basis for regional development and assuring the possibility for cooperation between the different state territorial levels, and (5) the emergence of a dominant legitimating discourse which associated the regions' institutionalisation to economic development and successful EU accession.

Accordingly, in light of the comparative analysis approach, we have come to the conclusion that not all the causal variables selected from the literature have an explanatory power in both cases. The comparative analysis confirms and thus allows us to make modest theoretical generalisations about the causal links

between the dependent variable under investigation and the following explanatory variables. First is the presence of a consensual political culture between centre and periphery. Second is the existence of formal institutions which can provide interested actors with the necessary means for regional and territorial reforms and for regional development. Third is the prevailing presence of a discourse favouring the regions' institutionalisation and legitimising the minorities' autonomy claims. Fourth is the existence of a feeble or blocked access to decision-making of veto players. Both cases agree on these four variables, by which we understand that these variables are the causes of the phenomenon under investigation. From the angle of this generalisation, we can assume that whenever these causes or conditions occur, then, their combined effects produce change towards the regions' institutionalisation.

Finally, this doctoral research has thus contributed to both the refinement and development of theoretical propositions derived from new institutionalism, but also to the refinement of the literature on Europeanisation and comparative regionalism. It has also contributed to empirical knowledge related to the comparative analysis of domestic territorial and regional reforms in two candidate countries, Spain and Romania in the double context of democratisation and adaptation for EC/EU membership.

Claire Barthélémy, Paris 1 University – Panthéon Sorbonne (FR)

REGIONALISM AND REGIONAL INSTITUTIONS IN THE EUROPEAN UNION: BELGIUM, SPAIN, FRANCE, ITALY AND THE UNITED KINGDOM.

A number of European countries would appear to be composite States, which establish an institutional and legal asymmetry that benefits certain regions that are well placed to take political action, as a result in particular of their legislative powers. How, in legal terms, can regional diversity fit into the State set-up?

This is the question that this thesis attempts to answer, on the basis of a study of Belgium, Italy, Spain, the United Kingdom and France.

The concept of institutional regionalism will help take account of changes in sovereignty and the State and in the workings of a legal system that achieves balance between political unity and regional diversity.

Catalonia has recently adopted a new statute on its autonomy, which increases its powers and affirms the existence of the Catalan nation. In the EU Member States, such institutional and constitutional demands and developments at the regional level have multiplied in recent years and raise questions about the legal form they take.

We therefore decided to establish the concept of institutional regionalism, which should take account in legal terms of the relation between political regionalism and regional territorial institutions.

Institutional regionalism is thus a concept of constitutional law that we are putting forward, following a study of comparative law, to give legal status to certain European regions' capacity for political action. Belgium as a Federal State, Italy and Spain - the so-called 'regional' States - are thus the models for the emergence of this constitutional concept, meeting the conditions for developing institutional regionalism, using different methods. The United

Kingdom meets some criteria but this cannot be described as a fundamental political decision of that State, given the principle of the Westminster parliament's sovereignty. Lastly France, in its current State framework, serves as an example of what our study is not about.

In this work we attempt to establish the conditions and methods for the development of institutional regionalism and its implications for the legal concept of the 'State'. We consequently present the workings of a State legal system that includes regional political institutions. We also look at the issue of regional sovereignty, which is actually becoming institutional and territorial in nature. The concept of institutional regionalism thus helps take account of changes in the concepts of sovereignty and State and the workings of a complex and pluralist legal system that adheres to the hierarchy of laws, whilst developing an equal relationship with national and regional legal systems.

The concepts of Constitution and State are central to our work, because they provide the context for the development of institutional regionalism but are also threatened by it. In studying these aspects, we base our approach in particular on the institutional theory of S. Romano and on the thesis by L. Le Fur. A number of principles and mechanisms established in the Member States we looked at tend to ensure balance between the political unity of the State and the regional diversity created by the regions' ability to adopt alternative policies. The principles of freedom of movement, equality and solidarity, in addition to international policy and the State's responsibility for implementing international commitments are undermined by the development in law of this phenomenon.

The aim of this thesis, which focuses on studying the regions, is to establish the conditions, methods and implications of the current development of institutional regionalism in the European Union. What, for example, is the scope of regional powers, how are the different levels of interest coordinated, how can regional disparities be addressed and what becomes of equality between citizens in such States? Constitutional theory, the theory of the State and comparative law are the tools of this work, which also makes a contribution to these areas.

This thesis in comparative public law, supervised by Professor Gérard Marcou, is based largely on research carried out in Germany, Spain and Italy.

Sonia Royo Montañés, Universidad de Zaragoza (ES)

E-GOVERNMENT AND LOCAL GOVERNMENT ACCOUNTABILITY

This thesis focuses on electronic government (e-government), one of the most recent developments in public sector modernisation programs all over the world. E-government involves the introduction of Information and Communication Technologies (ICTs), and especially the Internet, for the purposes of information dissemination, service delivery and the transformation of public sector relationships with citizens, business entities and society at large.

Several positive claims are frequently made in support of e-government efforts. Nevertheless, to date, very few studies from academic researchers have evaluated the usefulness of these reforms. Furthermore, most of the studies carried out in the e-government field have focused on the analysis of US local governments. Therefore, studies like this, taking local and regional EU governments as their sample, are especially relevant in order to understand the degree of maturity and the factors influencing the adoption and development of these initiatives in European countries.

We have chosen local and regional governments for our study because of their relevance to e-government, since most online public services and those related to the “welfare state” are managed at the local level. Studying e-government developments at the local level is important because of the increasingly important role that municipalities play in the everyday lives of citizens, both in the administrative and service delivery fields and in the sphere of democratic participation.

The general purpose of this thesis is to further knowledge about the application and impact of e-government in local and regional EU governments and to go deeper into the relationship between the context in which different initiatives are carried out and the results achieved. Achieving this general purpose entails giving answers to the following four research questions:

- What is the degree of development of EU local and regional e-government initiatives?
- What are the main priorities, drivers and barriers guiding e-government developments?
- To what extent do contextual factors have an impact on the implementation of e-government and the degree of development achieved?
- What is the contribution of ICTs to enhancing transparency and public sector accountability?

In order to answer these questions, this thesis has been divided into two parts. The first part is made up of two chapters presenting the theoretical framework for the study of e-government in western democracies². The first chapter analyses the role of ICTs in the context of public sector reforms. Our main assumption is that e-government makes use of ICTs to enhance public sector transparency, accountability and promote good governance reform initiatives. We analyse how ICTs, and particularly the Internet, can contribute to fostering transparency and accountability, to achieving the entity's strategic goals and to improving efficiency and effectiveness. Nevertheless, we always try to bear in mind that the existence of technology, by itself, is not sufficient to guarantee the achievement of all the desired benefits. In the second chapter the e-government literature is reviewed, studying e-government definitions, different dimensions – internal processes or external relationships – affected by the introduction of ICTs into public sector entities, e-government maturity models, priorities sought with the introduction of these initiatives and e-government drivers and barriers.

The second part is made up of three empirical chapters. In the first, our objective is to identify what aims are being sought in e-government implementation, the benefits obtained and the most important drivers of and barriers to these initiatives. We fulfilled this goal through a questionnaire sent to the agents directly involved in the development of e-government projects in the five biggest cities and all the regional governments of each of the EU-25 countries.

²

These two chapters have been summarised into one in the English version of the Thesis.

The second uses a web content analysis to assess the overall level of e-government development in the five biggest cities and all the regional governments of each EU-15 country³. Websites have been evaluated for the presence of 73 features grouped into four categories: transparency, interactivity, usability and website maturity. We have created a final score for each website. Taking these final scores as dependent variable, we have conducted a regression analysis in order to assess whether the number of inhabitants of the city, the kind of public administration style and the level of development of the information society are explanatory factors of e-government development at the local level.

The third empirical chapter analyses the use of the internet to disclose financial, budgetary and performance information by 75 European local governments (EU-15), as well as the characteristics of local government authorities that influence the dissemination of this information on the internet.

As conclusions of our research work we can highlight the following:

- ICTs, by themselves, are not contributing to the achievement of public sector transparency, accountability and citizen participation. To be effective, e-government must be implemented in close connection with other aspects of the administrative modernisation agenda and an adequate strategic planning is also necessary.
- All the local and regional European governments analysed have begun to use new technologies to provide information through the Internet, although most of them present websites with low interactivity levels and a limited extent of online service delivery.
- By implementing e-government, public managers aim at favouring the achievement of the objectives pursued with NPM reform initiatives rather than enhancing governance processes such as increased accountability and higher citizen participation in the democratic process.

³

This chapter has not been included in the English version.

- In general terms, the United Kingdom and the Nordic countries show higher levels of e-government developments, but Austria, Germany and Spain also show significant advances. Therefore, e-government initiatives fit well into all kinds of public administration styles.
- Transparency in financial accountability does not seem to be a primary goal of e-government initiatives at the local level. The different degrees of accrual accounting implementation and traditional levels of accountability seem to influence the level of Internet use as an instrument of financial accountability to citizens.
- ICTs and e-government are not revolutionising the relationships between government and citizens or increasing citizen participation in public issues. It seems, rather, that entities embark on this kind of initiatives to convey an image of modernisation, sophistication, professionalism and responsiveness towards citizens' needs instead of introducing significant changes in management structures, accountability processes and pre-existing governance arrangements.

The potential beneficiaries of this research are local and regional governments, and other public sector organisations that are willing to implement e-government or to improve their existing projects. This research is not a “how to do it guide” but it highlights most of the aspects that should be considered, shows the advantages that can be achieved and emphasises that significant improvements are not achieved by simply using ICTs.

We hope that this thesis will be a starting point for the development of future research in the field of ICTs and e-government in the context of public sector reforms. Rather than an isolated project or reform initiative with a limited lifespan, e-government is an evolution that will never really end. Therefore, longitudinal studies are needed, in the near future, to assess the progress of e-government.

Conor Patterson, Kingston University London (UK)

**THE SUCCESS OF LOCAL ECONOMIES – WHAT CONTRIBUTION
DOES SOCIAL CAPITAL MAKE?
THE CASE OF NORTHERN IRELAND**

This doctoral thesis examines the association between social capital and local economic success at the level of the District Council Area in Northern Ireland. Research suggests that the association between social capital and economic success differs across the USA, within Europe and within the UK. Social capital, the form it takes and the significance which it may have with respect to the functioning of the structures of society and of an economy appears to be context-specific. There has, however, been no substantive attempt to empirically isolate the economic impact of social capital in Northern Ireland or at the intra-regional level within any other UK (or Irish) region. As a result there has been only a limited understanding among academics and policy-makers of the extent to which the endogenous collective actions of communities in Northern Ireland might have shaped the destinies of their economies; something which this research has attempted to rectify.

A number of challenges have had to be addressed to progress this analysis. “Economic success” has had to be defined as a series of outcomes. These outcomes have been synthesised into an Economic Success Index to provide a comprehensive measure of economic success. “Social capital” has been defined as one of a series of potential economic success inputs. A set of social capital indicators has been identified. In order to put the association between social capital and local economic success into context, clusters of other potential inputs have also been identified and their association with economic success measured.

The analysis of economic success outcomes, social capital and other potential economic success inputs has revealed how internally complex Northern Ireland is. The region’s heterogeneity is proposed as an explanation for the small number of inputs whose association with local economic success prevailed across enough of Northern Ireland’s local economies in 2001 to be statistically

significant. Social capital is found not to have been associated with local economic success across Northern Ireland as a whole. This is in line with studies of social capital and economic performance at the level of large intra-national regions in the UK, Europe and the US which have found either no association or contradictory and inconclusive sets of statistical relationships.

This thesis has also, however, analysed social capital and local economic success outcomes at the intra-regional, district level. That analysis has revealed that at a sub-regional level in Northern Ireland in 2001 there was a high level of co-terminosity in some areas between the presence of social capital and the attainment of local economic success. In particular, a sub-region of contiguous Catholic District Council Areas is identified which was economically successful and in which social capital was highly developed.

Some of the findings in this research suggest that there has been a fundamental socio-economic change in Northern Ireland. It is revealed, for example, that by 2001 there was no longer a West/East, Catholic/Protestant intra-regional differential in economic success. Catholic areas were no longer less economically successful than Protestant areas. Catholics overall were, in fact, more likely to have been living in economically successful areas, a significant improvement in their historic position of relative economic disadvantage. A factor may have been that self-employment, which in 2001 was positively associated with economic success, was much higher in Catholic areas than in Protestant areas. Social capital is also found to have been more highly developed in Catholic areas. A new geographical disparity had emerged by 2001 between an economically less successful northern coastal arc and the rest of the Northern Ireland region. Other findings are that self-employment was positively associated with economic success, areas with higher numbers of women who became economically active were more economically successful (although female entrepreneurship as measured by women running their own businesses, was higher in less economically successful areas) and proximity to an international airport and a large metropolitan centre was associated with economic success as was the presence of higher than average numbers of people who had been born overseas. Perhaps unsurprisingly areas with a relatively high

percentage of residents who were long term sick and/or disabled were less economically successful.

This Phd thesis has unravelled some of the complexity of economic success and the functioning of social capital in a European region which has overcome apparently intractable intra-regional divisions to achieve political stability and a level of economic prosperity which is remarkable given its recent history as an EU Objective One region.

The local economic success model which has been constructed as part of this research has been able to reveal the diversity of economic outcomes experienced by districts within a relatively small region of 1.7 million people. Demonstrating the extent to which the success of local economies varies within a region is an achievement which is likely to be of interest to the economic development research community across the European Union, and not just those only interested in Northern Ireland. Useful insights have been generated into the way that different communities react to particular sets of circumstances and the way that a cultural milieu may influence economic outcomes: in this case the propensity to act co-operatively which generates social capital seems in Catholic sub-regions of Northern Ireland to have contributed in some way to the generation of economic success outcomes.

This research suggests that the functioning of social capital as an economic lever needs to be better understood – why might it be strong in some areas and not in others and why, more importantly, does it seem to be associated with economic success in some areas? What catalyses social capital and how does social capital in turn catalyse a community to attain economic success? Given its apparent significance in parts of Northern Ireland, especially in Catholic rural areas with relatively high historic levels of multiple deprivation, an understanding by policy-makers of social capital may be just as (if not more) important to the future of those areas as studies of technology transfer or the so-called "knowledge-based economy".

Dan Stegarescu, Georg-August-Universität zu Göttingen (DE)

DECENTRALIZED GOVERNMENT IN AN INTEGRATING WORLD: QUANTITATIVE STUDIES FOR OECD COUNTRIES

Since the 1970s and especially during the last decade, in several industrial and developing countries, government functions and tax-raising powers have been reallocated from central government to regional or local governments. Formerly highly centralized countries like Spain, Belgium or Italy are increasingly plagued by secessionist movements and gradually evolve into federal or quasi-federal states, and countries with long-standing federal traditions like Germany and Austria currently debate on the reform of their federal structures in terms of larger subnational autonomy. At the same time, an increasing number of supranational authorities have emerged both at the global and the regional level. These two concomitant, though opposing trends in the public sector seem to be the result of the same driving force, increasing economic integration. This parallel is even more striking with regard to European Union countries. In the course of economic and political integration, fiscal and political powers have been transferred from the national governments both to a supranational authority and particularly to regional governments (“New Regionalism”). According to the “Sandwich” hypothesis, national governments are expected to be further pushed back in the course of European integration, this process ultimately leading to a “Europe of the Regions”. Yet, the form and pace of regionalisation and decentralisation differ considerably among EU countries.

These issues therefore raise the question about the common economic and institutional factors which determine observed differences in the distribution of spending and revenue-raising powers between central and regional/local government across countries and over time. While explaining cross-country differences in the vertical government structure, the theory of fiscal federalism fails to give an adequate explanation of the recent process of decentralisation. This work takes an empirical approach to investigate the determinants of vertical government structures and particularly the causal relationship between those two broad trends, increasing economic and political integration, and concomitant decentralisation of government structures in OECD countries with

long-standing democratic traditions, particularly focusing on EU countries and the process of European integration.

The work begins with the discussion and quantification of the extent of fiscal decentralisation. The share of subnational government expenditure or revenue in consolidated general government expenditure or revenue as derived from financial statistics is widely used in the literature as a proxy for the degree of fiscal decentralisation. However, without taking into account the structure of decision-making, decentralisation tends to be misrepresented and both cross-country comparisons and the description of long-term trends might be seriously distorted. Drawing on an analytical framework of the OECD, a new indicator of fiscal decentralisation is constructed which accounts for actual tax-raising autonomy of subnational governments by relating revenue from taxes which are significantly controlled by local and regional government to total tax revenue of consolidated general government. Taking account of changes in the assignment of local and regional decision-making competencies over the course of time, new time series of annual data are provided for 23 OECD countries over the period between 1965 and 2001. It is shown that common measures usually employed tend to overestimate the extent of fiscal decentralisation considerably. Evidence is also provided of increasing fiscal decentralisation in a majority of OECD countries during the last three decades.

In the next step, the factors explaining cross-country differences in the degree of fiscal decentralisation are examined empirically, the focus being on the contribution of preferences and institutions. Recent theoretical work on fiscal federalism shows that apart from preferences, spillovers and economies of scale, institutional rules underlying decision-making processes in democracies considerably influence the costs and benefits of decentralisation. The delegation of decision-making to elected representatives is shown to create a common-pool problem, collusive behaviour leading in the end to inefficiently high public spending and centralisation. However, the implications of specific institutions of collective decision-making for government decentralisation have only partly been examined empirically on a cross-national level. For this purpose, a detailed analysis and quantification of institutions providing for local, regional or direct citizen participation in central decision-making processes is carried out

for the 23 OECD countries from 1965 to the present. The effect of these specific decision-making institutions on the degree of fiscal decentralisation is tested empirically, explicitly considering institutional changes over time, and controlling for inter-regional heterogeneity, preferences and economies of scale. The results of the panel analysis indicate that political institutions have a significant impact on the degree of fiscal decentralisation. Only using the new measure of decentralisation which accounts for subnational tax autonomy, the evidence supports the collusion hypothesis. Accordingly, delegation of decision-making on the assignment of competencies and national legislation to representatives of the regions leads to centralisation of taxing powers, whereas direct participation of the citizens of the subnational entities has the opposite effect. Yet, contrary to expectations, direct democracy at national level is associated with increased centralisation.

Once the factors generally determining government structures have been identified, we turn to the theoretical and empirical investigation of the specific causal relationship between those two trends, increasing economic and political integration on the one hand, and increasing fiscal decentralisation on the other hand, particularly with respect to EU countries. The analysis draws on recent literature on secessions, which mostly neglects the resulting implications of integration for the vertical government structure and provides only little empirical verification. A few studies tend to support a positive relationship between integration and fiscal centralisation. A theoretical framework is set up which relates the degree of fiscal decentralisation to economic integration, preference heterogeneity, and economies of scale in order to illustrate the opposing effects described in the literature. It argues that by reducing political and economic transaction costs, economic integration increases the size of the market and strengthens local and regional agglomerations. As a consequence, integration raises the benefits of local provision of public goods and enhances demands for regional autonomy and decentralisation. Political integration might further contribute to decentralisation, since market integration is intensified and the costs of supplying certain public goods from now on in the competency of the supranational level are reduced. On the other hand, by increasing economic risks, economic integration is also expected to enhance the demand for inter-regional risk-sharing or other policies carried out by the central government. A

panel analysis relates the degree of fiscal decentralisation to economic and European integration, considering country fixed effects and controlling for interregional heterogeneity, economies of scale, and institutions. The results mostly support a decentralising effect of economic integration in general, whereas in case of participation of subnational governments in central decision-making the opposite effect prevails. Evidence for the “Sandwich” hypothesis postulating a diminishing role of national governments in the course of European integration is only provided for heterogeneous EU countries. Also, a certain causal relationship is reported between the end of the Cold War and decentralisation.

The studies carried out for OECD countries show that federal fiscal structures and institutions barely change over time. The final part of the work therefore investigates the long-term trend and the underlying determinants of fiscal decentralisation, drawing on the history of Germany from 1871 until today. The institutional and quantitative review of Germany’s fiscal federal structure provides no conclusive evidence for a continuous process of government centralisation as suggested by Popitz’ “law”, but rather for some distinct developments caused by the effects of wars and regime changes. Accordingly, whereas the role of the central government increased continuously at the expense of the state governments until World War II, after 1950 the state level regained importance in terms of stronger participation in central decision-making. An empirical analysis for the period 1950 to 2001 reveals a significant decentralising effect of per capita income growth, but provides no clear evidence for a causal relationship between economic and European integration and fiscal decentralisation in the case of Germany.

In summary, the most important contributions of this work can be briefly outlined as follows. First, a new attempt was made to improve the measurement of fiscal decentralisation, helping to compare countries and to detect common trends over time, and providing a new data set for future empirical work. The different results yielded in the empirical analyses show how important it is to use an indicator of decentralisation which accounts for subnational decision-making autonomy instead of received expenditure and revenue shares. Second, the work contributes to the positive theory of fiscal federalism by providing

empirical evidence from panel analyses on the role of costs, preferences and institutions for fiscal decentralisation. Third, the implications of the recent literature on secessions for the vertical government structure were investigated on theoretical and empirical grounds, providing some evidence for a causal relationship between integration and decentralisation, particularly with respect to EU countries. And, finally, the historical experience of Germany was used to explore the determinants governing the long-term development of the public sector.

2009

LOCAL AND REGIONAL AUTHORITIES IN THE EUROPEAN UNION

Chairman of the jury

Mr Anders Knape (SV) President of the Swedish Association of Local Authorities and Regions, Chairman of the Swedish national delegation to the Committee of the Regions.

Theses submitted

NUMBER OF ENTRANTS	LANGUAGES		COUNTRY	
52	15	Dutch Slovene French English Spanish German Hungarian Latvian Italian Lithuanian- Czech Romanian Greek Bulgarian Slovak	16	Austria Belgium Bulgaria Czech republic Finland France Germany Greece Italy Latvia Lithuania Netherlands Romania Slovenia Spain United Kingdom

Winners

First prize:

Dr Simona Milio *Explaining Differences in Regional Performance: Administrative Capacity and Political Factors. The case of Structural Funds Implementation in Italian Objective 1 regions* London School of Economics, United Kingdom

Merit prize:

Dr André Fayaud. *Management par la qualite Et Organisations Publiques - Etude sur les facteurs de longévité des démarches qualité engagées par les collectivités territoriales* Université de Poitiers, France

Dr Laurent Malo, *Autonomie locale et Union Européenne* Université de Pau et des pays de l'Adour, France

Dr Petra Pfisterer, *Kommunale Selbstverwaltung und Lokale Governance vor dem Hintergrund des europäischen Integrationsprozesses* Deutsche Hochschule für Verwaltungswissenschaften Speyer, Germany

Dr Irma Potocnik Slavic *Endogeni razvojni potenciali podeželja (Endogeneous Development Potentials of Rural Areas)* Univerze v Ljubljani, Slovenia

Simona Milio, London School of Economics (UK)

**EXPLAINING DIFFERENCES IN REGIONAL PERFORMANCE:
ADMINISTRATIVE CAPACITY AND POLITICAL FACTORS - THE
CASE OF STRUCTURAL FUNDS IMPLEMENTATION IN ITALIAN
OBJECTIVE 1 REGIONS.**

This thesis starts from the question: Why do some regions after 15 years of receiving Structural Funds still have difficulties in spending their allocated resources? Empirical evidence shows that Funds implementation rates have varied widely among European Union Objective 1 regions. Particularly Italian regions overall performance has consistently lagged behind other countries. However, by investigating individual Italian Objective 1 regions, it appears that not all follow this general trend. Indeed, some regions have remarkably outperformed others. So, although on the national level there has been a lower than average ability to implement allocated funds, in contrast, some southern Italian regions have demonstrated a higher than average ability to spend the resources. Why this case and what has been happening in some Objective 1 regions vis-à-vis others? How can we explain these contrasting regional performances?

This research explores these differences and aims to identify potential variables that may have influenced the evident variations in implementation. Southern Italy can no longer be treated as one homogenous zone, as it has been by many authors in the past (Pescatore, 1962; D'Antonio, 1979; Ammannati, 1981; Cercola, 1984; Barone, 1986; Tamburino e Villari, 1988). Indeed, intra-southern differences are extremely relevant and when analysed in detail may identify internal factors that account for the successful performance of some regions relative to others.

An initial review of the existing literature on Structural Funds implementation establishes the lack of an in-depth analysis of the implementation process, given that the vast majority of authors have been more concerned with the policy-making process or the final economic impact of the resources on the regional socio-economic structure.

Public policy and planning are little more than statements of intent without successful adoption (GERSTON, 1997, p. 97). Indeed, as much as implementation constitutes the last major component of a policy cycle, it is important to understand those factors that encourage or prevent its occurrence.

After suggesting and showing the importance of the implementation stage, I demonstrate that the observed regional variation is not fully explained by social capital theory, absorption capacity, or economic factors, which makes room for research into other possible explanations. In doing this, my investigation aims to further the hypothesis that suggests administrative capacity as a means of explaining regional differences in performance.

My central hypothesis is that differences in implementation are strongly dependent on the degree of administrative capacity existing in the recipient regional government. Due to the deficiency in the existing literature of a clear definition of administrative capacity, I attempt to fill this gap by introducing a novel characterization, which allows me to operationalize and measure the concept. Hence, I establish that administrative capacity is defined by four key actions: 1. Management; 2. Programming; 3. Monitoring; 4. Evaluation. I define each action and suggest indicators to measure their degree of functioning.

The method chosen for measuring the degree of each key action, based on the selected indicators, is by progressive stages: Absent, Starting, Developing, Consolidate. This is an adaptation of the Institutional Development Framework (IDF) Method used by the Centre for Development and Evaluation of USAID (2000).

The core of the methodology is an in-depth case study of two regions supported by field research based on personal interviews and documented questionnaires. The selection of these regions was done to ensure that two contrasting performances were taken into consideration: Sicily as an example of low fund implementation and Basilicata as one of high implementation. I measure their respective degree of administrative capacity and provide evidence to suggest that this latter is positively correlated to Structural Funds implementation.

The investigation is conducted over the three periods of implementation of the EU cohesion policy and the expenditure of Structural Funds – i.e. 1989/1993; 1994/1999; 2000/2006. The data collection was based upon three techniques to ensure the reliability of the findings: 1) document analysis; 2) interview data – i.e. questionnaires, semi-structured interviews; 3) direct observation. The result of the analysis has brought to light that in Sicily, the management, programming, monitoring and evaluation capacity for implementing Structural Funds appears to be, after 15 years, still at a “starting” level. This is mainly due to inadequate strategic direction, poor communication and coordination between levels of the administration, delays in establishing clear monitoring systems, and weak evaluation activities. In contrast a significantly different situation exists in Basilicata, where the administrative capacity’s key components are all in place and have achieved a considerable level of consolidation. The overall result is a different pace of expenditure, lower in Sicily and higher in Basilicata.

Answering my first query has stimulated a further question: if it is true that the variation in resources implementation among regions can be explained by the different degree of regional administrative capacity, then, what is it that determines administrative capacity degree at the regional level? In studying this second question I further test the hypothesis that the level of administrative capacity is strongly influenced by three key political factors, namely: political interference, government stability and political accountability.

The main findings of this second line of investigation are threefold: (i) in Sicily a strong political interference has determined the level of weak management performance and the incoherence in the programming documents; high government instability has had negative repercussions on the continuity of management, programming punctuality, and the development and improvement of monitoring and evaluation activities; (ii) an opposite situation has emerged in Basilicata, where the level of political interference has appeared more limited leaving space for manoeuvre to the technical staff in charge of management; the government has always been very stable and this has favoured coherence in programming activities; (iii) as far as concerns political accountability, it has emerged that where the political class tended to interfere and was unstable it

also lacked in accountability, as exemplified by the Sicilian example. This has had repercussions on the overall administrative capacity.

The originality of the thesis is based on the investigation of whether the regions of the EU-15 Member States did possess an adequate level of administrative capacity to implement the funds according to the stipulated rules and regulations. While there is a rich case study literature, which looks at the CEECs, there is a lack of systematic comparative research that has tested the administrative capacity explanations among the EU-15. This thesis attempts to fill the research lacuna. Moreover it suggests explanations for understanding why administrative capacity varies at the regional level. This further investigation, which has not previously been addressed, provides useful insights into the full functioning of the regional machinery and how it works in terms of interaction between the political and the administrative sphere.

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QUALITY MANAGEMENT AND PUBLIC ORGANISATIONS – A STUDY OF FACTORS FOR THE LONGEVITY OF QUALITY MEASURES ADOPTED BY LOCAL AND REGIONAL AUTHORITIES

The research carried out for the purpose of this thesis concerns quality measures implemented in the local public sector and the determinants for their sustainability. The study that has been carried out concerns the measures adopted to improve management and which are intended to have an impact on the workings of the organisation as a whole. This quality-based approach should be distinguished from traditional quality measures, which address a particular aspect of an organisation's workings. Examples of this include putting in place a queue manager, reducing delivery times for administrative documents, and taking steps to preserve confidentiality. Organised quality, which is a relatively well-established concept in the private sector, has only been in continual development in the public sector since the early 2000s, through ISO 9000 certification-type measures and total quality management and EFQM measures.

A number of factors explain the movement towards quality measures. First of all, the growing range of interests that has gradually built up and which is forcing the public sector to improve its practices. This range of interests consists of users who are unhappy with the services provided by the public sector, taxpayers annoyed at the sometimes whimsical use of public monies and elected representatives who, coming from the private sector, are bound to compare the authority for which they are responsible with the business or department previously under their command. Secondly, the desire to achieve greater quality comes from international comparisons. In the last ten years, boosted by the *Innovative Public Service Group*, a number of studies have been produced on the quality of public services in Europe. The study carried out in 2000 on the administrations in the main OECD countries (*Van de Walle 2005*, p 439) showed how far France was lagging behind in this area. Lastly, a third factor is the public authorities' willingness to set the public sector on the track towards quality. The highest State authorities have repeatedly insisted on the need for

administrations to question their economic and social cost-effectiveness and the need to launch reform-based policies.

Despite the plethora of quality measures, a number of factors for weakness are likely to hamper the sustainability of the measures that have been adopted. Two types of problem, in our view, should be mentioned. Some are linked to specific features of public administration (the status of officials, bureaucratic structure, etc.) Others arise from the measures' origins. This often applies to local administrators who, in the event of transfer or non-re-election, or due to a lack of interest, risk condemning the measure to decline or abandonment.

Bearing these three aspects in mind, the existence of a range of interests that support quality, the resulting increase in quality measures and the constraints and factors for weakness inherent in their creation, we questioned the factors for the longevity of quality measures when set up in the local public sector. This is the research issue that underpins this thesis. In order to answer this question, we put forward the idea that, to be sustainable and productive, a measure should be deployed within a structured framework, called the conceptual quality framework. The idea of a framework stems from two observations: Firstly, the observation of the limited benefit of viewing a measure locally, within a service or a department. It is true that a number of quality-related weaknesses are created at the interface between services, which can only be remedied through coordinated action. Secondly, the observation that to be sustainable, a measure must bring together a number of key factors for success (contingency keys), for example, strong commitment by management, staff involvement, making users/clients the authority's prime concern, etc., factors that a solid framework can help to implement effectively.

These two observations led us to develop a discussion of drawing up a conceptual framework for quality, based on a set of contingency keys, able to provide a superstructure for deploying quality measures in a way that ensures their sustainability. This is the main set of issues running through our research.

Once the idea of a framework had been raised, we sought to provide a theoretical basis for it. This task was carried out through two complementary

theoretical approaches. The first is based on systems analysis and the second on convention theory. Through systems analysis, we have shown that quality measures require an organisation to be viewed not as a self-contained hierarchical unit but as a collection of processes that directly involve inputs and outputs. This process-driven vision of organisations can be seen in the main determinants of systems analysis. Convention theory proved valuable in analysing ways of developing the conceptual quality framework. It appeared that this framework exists not due to a decision taken by a public body (the public authorities) but due to the implicit coordination (in other words a shared conviction) between all the key players involved in quality.

Having raised these theoretical aspects, we deemed it necessary to confirm empirically in a sample of local and regional authorities that there are links between implementing a quality measure within a conceptual quality framework and its sustainability. On a deductive basis, before drawing up the text, we drew up a set of ten hypotheses:

- 1) the user must be public authorities' main focus;
- 2) the measure carried out must be driven by senior management, which must explicitly demonstrate its support;
- 3) all staff in the department committed to quality must invest in the measure;
- 4) a structured organisation responsible for quality must be in place;
- 5) a strategic policy for quality that is integrated, global and consistent must be observable;
- 6) a process analysis must be observable;
- 7) continual improvement is a distinctive feature of an organisation committed to quality;
- 8) a monitoring system outside the organisation committed to quality must be in place;
- 9) the different decisions concerning the measure must be based on rational and incontrovertible facts;
- 10) long-term relations must be established with suppliers.

The sample selected consists of five local authorities in the Greater Paris region: Elancourt, le Pecq sur Seine, Rambouillet, Marly le Roi and Sartrouville. Our

sample contains only local authorities, for reasons of consistency and practicality.

The empirical study was carried out in line with two protocols which, although distinct, reveal an identical set of issues. **We first carried out a qualitative study.** This took the form of a two-year longitudinal study in the five local authorities. Our aim was to observe the measures that had been implemented to determine whether or not different contingency keys were present. **We then complemented the qualitative study with a quantitative study.** This took the form of distributing a questionnaire to the heads of the departments committed to quality. The aim was to hear their views on the factors that they felt would help ensure the sustainability of the measure being implemented in their municipality. The empirical study was carried out first by calculating the correlation coefficient of the Spearman rankings and secondly by conducting a factorial analysis of links. The aim of this test was to highlight a number of correlations between the contingency key distributions in the different municipalities.

The study enabled us to demonstrate a number of benefits:

- the first concerns the structuring role of the ISO 9000 certification-type measures. The empirical study demonstrated that there is a divide between municipalities that develop a quality measure awarded the 150 mark and the others. We were able to observe substantially better completion rates in the former than in the latter. This procedure certainly requires work to design and put in place a number of tools, for example document management, audits, quality indicators or satisfaction surveys, which are less common in more markedly empirical measures. When a quality measure is developed under the auspices of protocol 150, local and regional authorities are, incidentally, obliged to structure their measures strictly according to ISO rules.

- a second conclusion concerns the contingency keys, which appeared to depend on the context of their use. Our research did not enable us to conclude that all respondents shared a vision of the existence of a set of keys that is universally

recognised and likely to guarantee the success of any measure that is implemented.

- a third aspect concerns the fundamental role of the mayor in boosting a quality-based approach. The authority of the council leader makes it hard for people to object to his/her instructions. In our view, all the other aspects of a quality measure are clearly subordinate to the goodwill of the council leader. There are some major constraints on quality, especially the existence of internal and external audits, the need for operators to find regular improvements to make and the fact that they have to write a description of their task and then comply with it. It therefore appears that quality can only be established and sustained when it is imposed. The role of the mayor is thus crucial.

- we also found that the act of implementing a quality measure was as important as the measure itself, that its formal launch, the attendance of the mayor and elected representatives at an official meeting on the matter helped motivate the players concerned. This brings us to the discussion on the basis for a quality measure and the performance-based nature of quality - a discussion that has consequences.

- Lastly, we felt that quality could be seen as the axiological constraint on a State's modernisation and the determinant on which the legitimacy of modernisation policies is founded. Quality, or rather the lack of quality, justifies the commitment to modernisation measures.

Thus, developing from an unidentified theoretical object (*Chevallier* 2003, p.95), quality has gradually acquired conceptual solidity to become the reference point for modernisation and a basis for legitimising State action. **Earlier dynamics opposing quality and the rejection of an unwieldy technique based on negative underlying concepts have actually become its main driving force.**

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LOCAL AUTONOMY AND EUROPEAN UNION

The European States' political and legal systems have experienced major upheaval, in particular since the mid-20th century. In this connection, a number of studies have attempted to highlight a gradual undermining of the State model in Europe. The greater power now wielded by local and regional authorities and the European Union in these States, however, is one of the main factors frequently put forward as contributing to this undermined position. Despite the low interest originally shown by the Community institutions in Member States' sub-national authorities, this parallel development suggests it would be worth studying relations between the principle of autonomy for these authorities and the European Union. The Europeanisation of public life thus raises the question of its impact on local autonomy. Similarly, the almost universal development of this autonomy also leads one to question its impact on the process of Community integration. This type of systematic approach to relations between local autonomy and the European Union requires from the outset a three-partner coalition on the ground, consisting of the European Union/Member States/local and regional authorities and not simply adopting a reductionist approach based on the two-partner coalition made up of the EU/local or regional authorities. All aspects of relations between the European Union and sub-national authorities actually show how pointless it would be not to include States in this study. On the basis of this three-partner approach, it becomes clear, however, and contrary to a commonly held view, that European integration does not necessarily benefit the development of local autonomy.

First, the idea frequently put forward, according to which Community integration would include and encourage the development of local autonomy within Member States, was examined without prejudice or preconceptions. This part of the study enabled the author to show that the integration process does actually take account of local autonomy. Whether from the institutional or material point of view, however, the autonomy of sub-national authorities is certainly formalised in the process of European integration. The European

Union does generally take account of this autonomy, but in a minimal and relative manner.

The representation of local and regional authorities, whether informal, through representative offices, or institutional, through the Committee of the Regions, shows how difficult it is for their voices to be heard in the European institutional set-up and thus to have an influence on the decision-making process. Whilst initially local and regional authorities used lobbying activities to make their voices heard by the Community institutions, the creation of the Committee of the Regions later gave rise to great hopes for the flag-bearers of the 'local' cause in Europe. It should be pointed out, however, that whilst demonstrating progress in the account taken of local autonomy, this Committee, which is just an EU body, remains of limited effectiveness. The benefits for local autonomy of local and regional authority representation to or within the EU institutions are thus limited. This observation also holds true for the distribution of powers between the different tiers of government. Whilst the principle of subsidiarity and the new model of multilevel governance undoubtedly represent progress on developing local autonomy in Europe, they nevertheless remain at an embryonic stage. First and foremost, their implementation remains closely dependent on the goodwill of the central States. The distribution of powers between the European Union, the Member States and sub-national authorities often is often carried out, in France in particular, to the benefit of the State level.

In material terms, the same cautious observations apply to the account taken of local autonomy. The European Union is continually developing local public policies such as regional policy, for example, and more recently, territorial cooperation. Sub-national authorities are directly affected by these public policies and are supposed to play an active role at all stages of their implementation. Regional policy, for example, marks a clear change in this direction. Whereas originally local and regional authorities had no say in this area, they have gradually become full participants, in particular through the principle of partnership. Although these policies have made it easier for the demands of these authorities to be heard at the adoption stage and have led to greater involvement at the implementation stage, the central States retain ultimate power. It is they that lay down the arrangements for the partnership

and monitor national implementation of funds that are allocated and they are responsible for dealing with any consequences of poor implementation. Some States are therefore particularly reluctant to delegate power to their local or regional authorities. Similarly, territorial cooperation, an area that the European Union has recently developed, certainly denotes progress in taking account of local interests in the integration process, but this emerging area of law cannot really open up new prospects for local and regional authorities, especially as regards autonomy. Cooperation measures between local and regional authorities in the Member States are not a means of extending local powers but rather a factor for using these as effectively as possible to the benefit of local interests. Whilst Community law on territorial cooperation can thus enable local and regional authorities to exercise their own powers more effectively, it cannot help achieve local autonomy.

The second part of the study aims to analyse the conditions under which local autonomy is directly and indirectly hampered by the European Union. The Community legal system gives Member States the means to channel this autonomy and EU law severely hampers this.

Thus, requirements linked to the implementation of Community law have an indirect impact on relations between powers at the national level (both executive and legislative) but have no major effect on the relationship between the central State and lower authorities. This situation is the result of Community law's well-meaning indifference to the State's internal bodies. Article 42 of the (future) TEU therefore effectively refers to decisions taken by States. Community law can consequently only intervene, for example, where local autonomy could be identified as a prerequisite for the rule of law. This would not appear to be the current situation in France, however. Furthermore, the institutional and procedural autonomy granted to Member States, which looks as though it should protect local autonomy, is not absolute. This principle should actually reflect the effectiveness of Community law. The EU's much-vaunted neutrality is not, therefore, demonstrated in practice. The principle of institutional and procedural autonomy, which is supposed to guarantee the neutrality of European integration as regards the internal organisation of Member States, is actually proving to be a tool that enables States to curb the autonomy of their sub-national authorities.

The Central State, and France in particular, thus appears to be a mandatory partner, especially because the Community system relies heavily on State mediation. With regard to responsibility for breaches of Community law or in the case of local and regional authorities' access to EU courts, the State filter remains supreme. The glaring disparity between their internal powers and the rights granted to them by the EU institutions also reveals the extent to which the attractiveness of the concept of the State works in one direction only. In other words, when it helps pit the national authorities against the obligations imposed on them under Community legislation. This is precisely why the Court of Justice always refuses to place local and regional authorities on the same footing as States, when it comes to their legal protection.

Substantive Community law also contributes considerably to hampering local autonomy in Europe. In fact, local authorities find themselves bound by the European Union to accept laws in the adoption of which they have little or no say. These authorities are constantly obliged to implement and comply with law and public policies adopted by the EU institutions. Furthermore, and despite some progress made recently by the European Court of Justice on the issue of State aid, the Community legal system's policies and underlying principles have a detrimental effect on the workings of sub-national authorities and the tasks traditionally assigned to them. The example of local economic interventionism speaks volumes in this regard. Community law systematically fluctuates between turning local and regional authorities into State bodies and establishing differences in line with the areas covered. Community law on local public contracts and services also reveals a desire to submit these to the rules of competition whilst taking account of their specific characteristics. Conversely, Community law heavily regulates local aid and finances, but in the same way that it does for States, which seriously damages local autonomy.

To conclude and moving away from accepted ideas about the supposedly devolutionary effects of Community integration, it is clear that this process, whilst taking increasing account of local autonomy, often does so either for its own gain or for the purpose of constraining it. The reasons for this are simple: firstly the desire to ensure the smooth operation of the Community legal system and secondly but closely linked, the desire not to interfere in the internal

organisation of the Member States. This observation also refers directly to the recurring questions about the status and future of States within the European Union, which are regularly claimed to be weakening, although evidence of this is hard to see.

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LOCAL SELF GOVERNMENT AND LOCAL GOVERNANCE IN THE DYNAMICS OF EUROPEAN INTEGRATION

A. Object of Research: Developing a dynamic concept of Local Self Government

The object of the dissertation is to develop a dynamic concept of Local Self Government in the dynamics of European Integration. Therefore the principle of Local Self Government is tied to the governance debate with its special implications.

The basic assumption of the dissertation concerning Local Self Government is, that there is a shift in the political discussion in the nation states to elements we know from the governance debate.

B. Advantages of the approach

1. The dissertation links questions of jurisprudence to the science of politics or public administration.
2. By linking Local Self Government and Governance for the first time a broader view of Local Self Government is achieved. Local Self Government is “reframed” by aspects of governance and the dissertation examines these aspects.
3. The governance debate is seen from a local perspective and local governance is developed within the legal framework and aspects of nation-state constitutions.
4. The development of Local Self Government and its actual structures is analyzed for two nation states, Germany and France.
5. Multi-level aspects are considered for both paradigms: Local Self Government and Governance.
6. A case study shows the implementation of Local Self Government and Local Governance in Bosnia and Hercegovina. The example of Bosnia and

Hercegovina illustrates the development of structures of Local Self Government by introducing laws on Local Self Government in both entities of Bosnia and Hercegovina: the Federation of Bosnia and Republica Srpska.

C. Contents of the dissertation

The dissertation consists of six parts. Part I introduces to the objects of research, in Local Self Government and Governance and describes the (technical) methods used. A scheme of categories of Local Governance is developed by working out several characteristics of Local Governance in local and multi-level perspective.

Part II describes the framework of the Governance paradigm in the science of public administration and economics. Governance is also put in relation to “classic” theories and paradigms of European integration like intergovernmentalism and neofunctionalism.

Local Self Government is described as part of national traditions with path dependence in the nation-states Germany and France. As one important aspect, on the one hand overlapping elements of Local Self Government and Governance in the two nation states become explained, while on the other hand problematic aspects of linking Local Self Government to Governance are described, to.

Part III contains the legislative framework and European implications for Local Self Government and Governance. The dissertation examines the role of the local level, especially the possibilities of participation of the locals in the multi-level European arrangement. One example is to study the Committee of the Regions as a body of the European Union. As it represents the sub-national levels of the European Union in the legislative process, its institutionalized and non-institutionalized role as partner in network-governance is examined. Attention is also paid to the principle of subsidiarity under the aspects of Local Self Government and Governance.

Part I to III of the dissertation are “bottom-up”, whereas Part IV is dedicated to

“top-down” aspects. “Top down” in this case means from the level of the European Union to the local level and is illustrated in several relevant policy fields. The fields are chosen to show how Europe and its politics and policy have a direct influence on the municipalities in the nation states.

Part V shows the actual developments: The ongoing discussion about European

Constitution and the Treaty of Lisbon are mentioned, but also the European Charter of Local Self Government (ECKS) of the Council of Europe, which is signed and ratified by Germany and France and also by Bosnia and Hercegovina.

The case study on Local Self Government and Governance in Bosnia and Hercegovina is designed to demonstrate how transnational development leads to institutional change. The dissertation therefore considers not only member states of the European Union but also Bosnia and Hercegovina which is part of a stabilization and association process leading to the European Union. This also means that the role of the international community is stressed.

The last Part of the thesis ties the results together and names eighteen conclusions. These conclusions concern the developments in multi-level-context, in the nation states and also local and multi-level aspects. Convergence and aspects of divergence are identified and named.

D. Further advancement and future development

The thesis leads to ongoing and further discussions about issues like:

1. What can be done to support municipalities to adopt instruments of local modern or participatory governance in the local political sphere? Can the legal framework of the nation states supply support or should the framework be adapted or modified? How can the mole of the elected municipal council be guaranteed in the framework of laws of the nation states?

2. What are further implications? How can “control” about public money-spending be exercised, concerning working in networks as part of participatory governance?
3. What can be done to further encourage civil society and citizens to participate in the local sphere? Is the actual discussion about administrative burden reduction for citizens an effective toolkit?

These issues are to be discussed under the influence of demographic change and solutions have to be found.

ENDOGENEOUS DEVELOPMENT POTENTIALS OF RURAL AREAS

Globalization and rural areas. Contemporary globalization has created new opportunities and challenges for rural regions that have historically been characterised as periphery and marginalized within the social and economic territoriality of nation states. At the same time, however, globalization has also reinforced structural disadvantages and introduced new threats for rural regions. The opportunities and threats associated with globalization will balance themselves differently in different rural regions as well as between localities within rural regions (Woods, 2007).

Diversified rural areas. The reconstitution of rural areas under globalization results from the permeability of rural localities as hybrid assemblages of human and non-human entities, knitted-together intersections of networks and flows that are never wholly fixed or contained at the local scale, and whose constant shape-shifting eludes a singular representation of place. Globalization changes rural places, but it never eradicates the local. Rather, the networks, flows and actors introduced by globalization processes fuse and combine with local entities to produce new hybrid formations. In this way, places in the emergent global countryside retain their local distinctiveness, but they are also different to how they were before. Globalization, it appears, is more significant in remaking some rural areas than others.

Contemporary Slovene rural areas. Contemporary rural areas are very heterogeneous, dynamic and complex, multifunctional, fluid, hybrid and globalized space, not definite and closed category, not geographically limited and do not possess their own problems (Hidle, Shank, Nesje, 2006). The contemporary rural areas are not just spatial, economic, social, analytical, developmental etc., but complex category. Therefore, rural areas require small-scale in-sight research which will try to explain their restructuring and help to develop sustainable rural governance. It is a fact, that new socioeconomic circumstances and their spatial effects claim for fundamental changes in the way of observing, surveying and understanding the contemporary (Slovene) rural

areas. We have to bear in mind, that the definitions are complex and changeable by nature, therefore the dissertation defines rural area as territorial entity, which is considered as "rural" by its population, with local/regional network structure connected to the broader network system.

Knowledge on rural restructuring. Extensive research has been undertaken in many parts of the economically developed world, exploring the drivers and dynamics of social and economic restructuring in rural localities. Our research is focused on the capacities of local actors of rural restructuring, endogenous potentials and development possibilities of rural areas, herewith employing the neoendogenous development approach. It is important that we practice the place-based research, focus on micro-processes and micro-politics through which place is reconstituted, and be sensitive to the historical legacies. Notwithstanding the richness of geographical research of Slovenian rural areas, we are able to establish huge shortage on integral analysis of rural areas endogenous development potentials.

Dissertation emphasis. We tried to answer following questions: which are endogenous development potentials of Slovenian rural areas, how can they be evaluated, what are the foreign experiences regarding their activation, how could they be developed, is it possible that their appropriate use and strengthening leads towards the sustainable rural development, how effective are the past, nowadays and future rural development policies from the endogenous development potentials point of view?

Research approach. The resources and amenities form the fundament for different capitals (as economic categories); potentials, as category of value, can be introduced not till we have the capability to develop the capitalised resource and amenity by respecting the capital stock. Such development potentials could be evolved in development possibilities. Due to the complexity of rural areas, we were confronted with the explanatory shortages of functional and sociogeographical concept of rurality. Although it possesses some insufficiencies, we considered the political economy concept as the most useful for explanation of development disparities among Slovene rural areas. We tried

to overcome the shortages by using the geographical research methods (questionnaire, interview, field work cartography).

Using complex methods we tried to define, identify, measure and evaluate different forms of tangible (economic, partly human) and intangible (social, environmental, countryside) capital. We used the available statistics, but also extensive field work:

- pilot survey of 15 settlements in Bikini region (60 households);
- questionnaire for farm households with registered supplementary activity on farm (63);
- questionnaire for municipalities (57), enterprises (457) and local population (879) on business/enterprise zones; a telephone questionnaire for all Slovenian municipalities (210) on future development intentions regarding business zones;
- questionnaire for local population on selected case study rural areas (4) regarding their view on development problems, possibilities etc. (241 households);
- interviews with local authorities and experts.

Endogenous development potentials of surveyed rural areas. The presented method of evaluation of total capital stock and actual capital use is highly time and costs demanding, but gives very realistic results – much better than the usual statistics practice on aggregate data at bigger space units. But the real problem is ponderation and comparison of individual tangible and intangible factors with the total capital assessment. If we would be able to solve this methodological problem, then it is realistic to conceive the long-term goal: the ranking system for small peripheral rural communities adaptable at different levels. It would allow fast and systematic diffusion of good practices and development strategies. The empirical analysis stated that currently only few potentials for activation of regional economic cycles are used and that capabilities for higher value-added are yet to be developed.

Rural areas typology on activation capability of endogenous development potentials. We indicated three types of local communities regarding their activation capability: the network, zone and cellar activation capability. The surveys in case study areas proved the existence of mixed types of spatial-geographic-social and local economy structure. Therefore, it has been confirmed again, that contemporary Slovene rural areas are at present in the exceptional situation, when the traditional elements (either in anachronistic or in revitalized modern form) are interwoven with the contemporary trends (heterogeneity, fluidity and hybridization). We confirm at the same time, that at least a part of its heterogenic structure will turn up as a constant also in the future, but in a slightly different form – therefore constructing a basic starting-point for planners of modern rural development policies. If they choose the uniformed approach they would/could damage, hinder or even destroy the existing activation capacities of endogenous development potentials; this would be an irreparable damage, as the factors, structure and networks of their activation is usually a long time process.

Final statements and comments.

We confirmed and partly disproved that it is possible to overcome the rural areas lagging behind by appropriate use, empowerment and development of their endogenous development potentials. Amongst the rural areas that have already identified, evaluated and are marketing their potentials, we were able to recognize mostly very positive economic effects (empowerment of economic capital and higher income), positive demographic trends (as a result of wider tendencies, but favourable for these areas), better social connectivity but also stronger and frequent land use conflicts (environmental perspective). The empowerment of endogenous potentials improves their development ability, but on the other side the local disparities are even bigger. The positive impact is evident only in local communities that possess the activation capacity of endogenous development potentials. As this is a long-term and very demanding process and as the state deteriorates a big part of these responsibilities on local communities, consequently the new geography of uneven rural development is being produced.

We confirmed the hypothesis, that geographical (rural) regions with better and balanced developed endogenous development potentials are being developed faster and sustainable. Evaluating the stock and actual use of endogenous capitals in four case study areas, the best development performance is connected to areas with the sustainable capital stocks and use of all forms of tangible and intangible capital (Goriška brda region). If a certain form of capital is un- or under-developed or has shortage on stocks (with no substitute), the responsibility for sustainable development is being transmitted to other capital forms (especially social, organisational and human), which can not be developed on demographically eroded areas (Brkini region) or are developed in slower pace (Suha krajina region). The factors (economic, political etc.) influencing the endogenous potentials development are generating development disparities (the case of unbounded wood market in Upper Savinja Valley region).

We partly confirmed, that the activation of endogenous potential of rural areas is evident through the empowerment of regional economic cycles. Their activation was surveyed on the smallest spatial-social unit (household), later on with the existing voluntary local network (associations), locally and widely connected economic structures (entrepreneurship). Positive development impulses are to be seen through the activation of regional economic cycles in Goriška brda region (wine production); a kind of stagnation is evident in Upper Savinja Valley region (wood-processing). Due to long-term attachment to outside economic cycles the situation is slowly improving (Suha krajina region) or are their factors, actors and potentials so weakened (although they were very strong in the past) that nowadays they do not appear in the recognized form (Brkini region). There are also rural areas which activate and empower their development potentials, but are not involved in regional economic cycles for various reasons (e.g. tiny product quantities, limited recognisability, fear of fast changes on world market and awareness of rural areas fragility etc.). Slovene rural areas constitute enormous endogenous development potentials that should be developed by neoendogenous development approach, enabling its sustainable use, but also demand the appropriate restructuring of national/regional/local institutions, local population activation and responsible acting of all stakeholders.