Rethinking Partnership in Development Policies: Lessons from a European Policy Experiment

Fabrizio Barca

A shift is called for and is slowly taking place in Europe in development policies for rural and less developed areas. This shift moves away from subsidies and sectoral interventions towards supply-side, area-specific actions–both public investments and institution building–aimed at improving framework conditions and increasing indirectly the productivity of private investments in these areas.[1] These actions can be pooled together under the name of Territorial Competitiveness Policies (TCPs) since their end result is to increase permanently the competitiveness of less developed areas.[2]

The failure of previous regional policies to reduce development gaps among subnational areas, the creation of the European Monetary Union, the elimination of the exchange rate among most European countries as a tool to compensate for lower productivity growth, the slow growth Europe as a whole: all these factors make the move towards TCPs necessary and urgent.

Together with enhancing competition in labor and product markets, TCPs are directed at *improving communications and social infrastructures* and at two innovative targets: *increasing the externalities of existing entrepreneurial agglomerations; enhancing accessibility to natural and cultural resources*. These targets call for both tangible and intangible area-specific projects. These include: improving communication infrastructure in order to increase site accessibility and enhance opportunities for exploiting the local heritage; maintaining natural and cultural sites and diversifying their use; providing public services; educating, training, and capacity building of local actors; building business networks and developing area-linked quality labels; enhancing endogenous innovative initiatives; etc.

All these projects are highly knowledge-intensive. Knowledge is required of: the idiosyncratic features of local heritage, the strengths and weaknesses of human resources, the technologies needed to produce and to adapt local products to consumer trends, the skills and the "animal spirits" of local entrepreneurs, the quality of relations among local actors, the existence of potential leaders, etc. This knowledge tends to be dispersed among several private, largely local, agents. This is the main reason why public action is needed: if the projects are to be designed and implemented, very high costs of coordination among many private actors need to be sustained. Furthermore, the State can guarantee credibility in the use of the acquired knowledge for common purposes, while the returns on projects are often public in their nature.

This paper draws from the experience and the result of a three-year project at the Italian Treasury to change radically the rationale and the procedures of regional and public investment policies for the Italian Mezzogiorno. Any strength in the arguments owes a great deal to all Treasury officials and functionaries and to the experts who have been and still are involved in the challenging project; any fault is obviously to be attributed to the author. I am particularly thankful for specific comments on a previous version of the paper to Fabrizio Cafaggi, Mark Drabenstott, Mario Pezzini and Flavia Terribile.

Two problems must be solved before TCPs can be implemented. First, knowledge must be extracted from several local private agents and then combined with global knowledge in order to devise territorial, multisectoral integrated projects. The right incentives must then be put into place in order to encourage private agents to reveal knowledge under the expectation that their own well-being will be enhanced. Second, the right incentives must also exist for local governments to perform this policy role properly and so that efficient interaction can take place among different levels of government. To solve these two problems, a territorial governance promoting an adequate mix of *contractualization* and *partnership* among levels of government must be designed.[3]

This paper outlines some problems and some solutions to this governance issue by reporting on a Territorial competitiveness policy experiment, implementing a European policy for economic development, recently undertaken in the Italian Mezzogiorno.

The first section outlines the Mezzogiorno policy experiment and gives a brief sketch of the vital statistics of the area. The second section describes the European policy framework. The main novelties of TCPs implemented through the Mezzogiorno Plan are then outlined in the third section, and the governance model which was enacted is presented in the fourth section. Finally some preliminary inferences relevant for the U.S. case are drawn in the fifth section.

The Italian Mezzogiorno, EU Structural Funds, and the New Plan

With the expression Mezzogiorno reference is made to the whole territory of southern Italy comprising 123 thousands square kilometres, about 21 million inhabitants (respectively, 40.8 and 36.2 percent of Italian values), and eight regions out of 20. The size of the Mezzogiorno is not very different from that of Louisiana or Mississippi, but the latter have about 20 and 8 percent, respectively, of the population of the Mezzogiorno. New York state is similar both in size and population.

Population density and "economic distance"

Population density is thus quite high, both by absolute and by U.S. standard—about 170 inhabitants per sq. km (96 in the U.S.)—and differs much between regions: from a range between 60 and 75 in Basilicata, Molise, and Sardinia, to 425 in Campania—similar to New Jersey (392)—due to the metropolitan area of Naples. These densities do not properly convey a measure of the distance between the communities of the Mezzogiorno, in terms both of communication and cultural background.

A very large share of the territory of the Mezzogiorno (81.7 percent with 60.9 percent of the total population)[4] is either hilly or mountainous—i.e., is made up of municipalities (the smallest administrative unit) mostly lying above 700 meters (Istat 2000). For rural areas, defined as sets of municipalities with less than 150 inhabitants per sq. km (which represent 75.1 percent of the total territory of the Mezzogiorno), the share of hilly or mountainous territory goes up to 90.4 percent.

Even more relevant is the fact that almost all these "highlands" are very fragmented. Forty percent of the whole Mezzogiorno is made of two large islands (Sardinia and Sicily, of similar size), to which several small but inhabited islands must be added: Sardinia lies 120 km from the Italian coast; Sicily is about 3 km off the Calabria coast. Furthermore, the land of both the islands and the Continental Mezzogiorno is very rugged, with high alpine peaks, three major active volcano, and seasonal streams often dividing the highlands into hundreds of patches difficult to get to. Finally, Mezzogiorno has 5,600 km of seacoast (3,350 km in the two islands), often not easily accessible (except for the Adriatic side)—75 percent of the whole Italian sea coast, 16 percent of the European one.

The nature of the land increases the cost of commuting. This shows up in the small dimension of the local labor system—a set of contiguous municipalities where internal commuting is particularly relevant and external commuting low: their average dimension is 336 sq. km in the Mezzogiorno (426 in the Centre-North), including 57,000 inhabitants (88,000 in the Centre-North).[5]

All these data make clear that, while the population density of the Mezzogiorno and of its regions is high, as a result of natural factors a large share of the population lives in areas which are rather self-enclosed in terms of communication and civic and cultural relations with contiguous areas. "Economic distance" among communities and entrepreneurs' establishments is high. From this point of view, similarities between rural areas in the Mezzogiorno and in the U.S. are greater than what traditional population density seems to suggest.

Core economic features

As for Mezzogiorno's economic system, the basic features are as follows:

- Agriculture still produces about 5.2 percent of value added, against 3 percent in Italy as a whole, about 2 percent in the European Union, and about 1.5 percent in the U.S.

- Active population is only 53 percent of total population, against 59 percent in Italy as a whole, 68 percent in the EU, 78 percent in the U.S.; unemployment is about 21 percent (11, 9, and 4 percent, respectively, in the other three areas).

- Domestic product per capita is about 67 percent that of Italy and the EU.

- Public administration is very inefficient, as measured by any standard of services to citizens and firms.

- The variance of all these features among different Mezzogiorno's areas is very high.

Since 1992-93 profound changes have taken place in the Mezzogiorno's economy and society, which have created new opportunities for its development. They have followed three concurring events: the end of a 40-year top-down economic policy; a strong tightening of law enforcement; the beginning of a radical devolution of political and administrative power.

After 1995 the turnover rate—birth rate net of death rate—of southern nonagricultural enterprises started rising and became higher than in the Centre-North (3.2 percent against 2.5 percent in the year 2000). An increase in the competitiveness of the Mezzogiorno's enterprises also took place, as shown by a strong and continuous rise since 1993 both in exports and in the inward flows of foreign tourists (about 10 percent growth a year in real terms). Since 1997, after a long period of stagnation, GDP growth was affected and rose to an average of about 2-2.5 percent a year. Employment started rising again at the beginning of 1999.

In spite of these new signals, a much higher growth is both warranted by the high unexploited potential of the area and needed for the risk of a vicious circle to be avoided. Following Italy's entry into the European Monetary Union in 1998, a new policy was devised to address the issue. The opportunity to start innovating was offered by the implementation of a new cycle of EU structural policy.

The EU Structural Policy

Since its beginning in 1957, overcoming development gaps between member states' regions was one of the objectives of the European Economic Community. This objective was embodied in the 1960 Treaty, but it was only in the 1970s, with the first enlargement of the Community to include less developed states, and with the post-1973 economic slowdown, that the EU regional policy started playing a substantial role. With the 1992 Treaty on European Union, "economic and social cohesion" became one of the three pillars of EU (together with the single market and economic union). About one third of the EU budget, amounting today to 0.5 percent of EU GNP, is assigned to this task as "structural funds," the second most heavily financed item after agricultural policy. Both public investments and subsidies for new investments and jobs can be financed with structural funds, which are allocated among member states according to criteria agreed by them at the beginning of each cycle.

Although structural funds might have helped reduce development differentials among member states and hold up democracy in Greece, Portugal, and Spain, they have so far failed to reduce gaps between European regions. A reform was introduced in 1999 for the new 2000-06 programming cycle. It tried to address some of the main faults of the previous cycles. These included a lack of focus on few targets, cumbersome procedures, and concentration of decision making both in the states' central administrations and in Brussels. Although these issues have not been adequately addressed and tensions are now arising on the implementation of the new programming cycle, the principles of decentralization and concentration provide an appropriate framework for pursuing TCPs.[6] The same is true for the role that the reform formally assigns to evaluation as the primary tool for selecting the projects to be financed. The monitoring role played by the European Commission also enhances the credibility of whatever rules, incentives, or sanctions that national authorities decide to set.

For the 2000-06 cycle, 195 billion euro have been assigned to structural funds, of which 135.9 billion go to regions whose development is "lagging behind"—rather schematically selected as those which had an average per capita income in the years 1994-96 below 75 percent of the EU average—the so-called Objective 1 regions (Figure 1).[7] Italian Mezzogiorno was assigned about 22 billion euro—to be matched by the same amount of national funds; the funds must be spent by the end of year 2008, which explains the choice to refer to the 2000-08 period. These funds amount to about 30 percent of all public investments and incentives to be spent in the area in this period.

According to EU structural funds regulation it is up to each state to draw a plan for the use of these funds. The plan allocates the resources among "targets," allocates the responsibility for managing the resources and selecting projects among the levels of government, establishes the selection criteria and the evaluation and monitoring methods which must be followed, introduces incentives and sanctions, sets administrative reforms and actions that must be enacted, etc. The plan must be approved by the Commission before the spending cycle can start.

The Mezzogiorno experiment

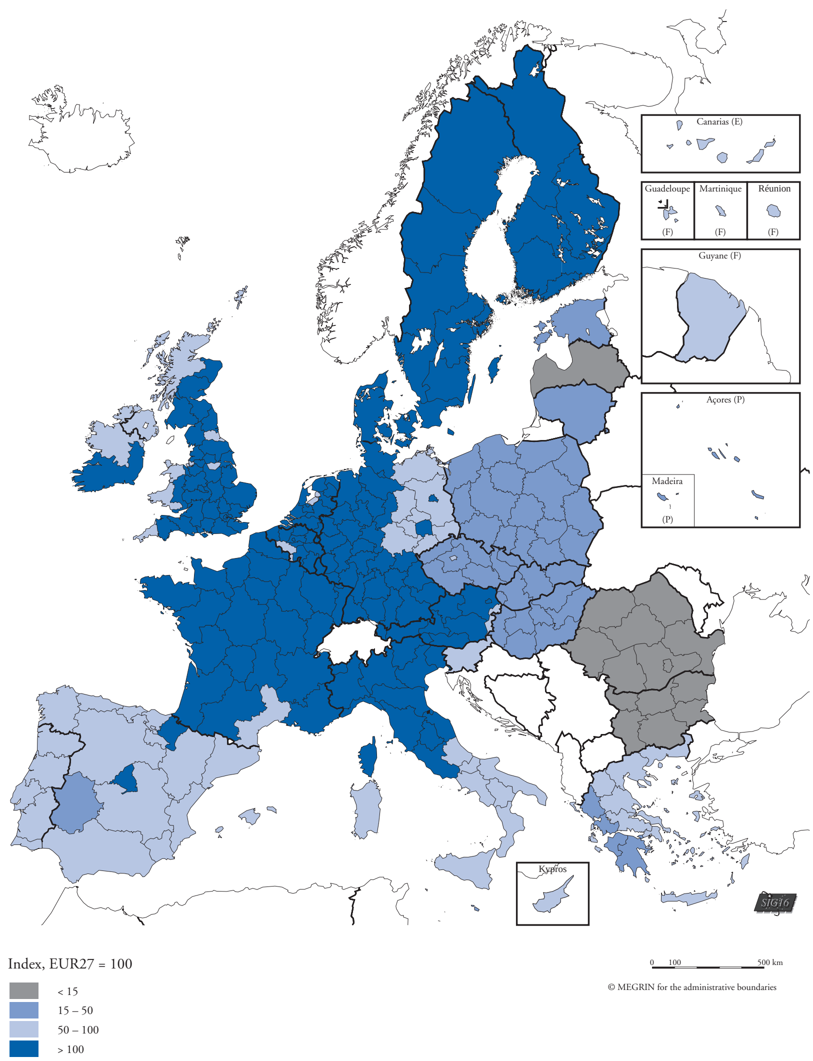
The drawing of the plan was taken as the opportunity to initiate a new regional policy for Mezzogiorno. It offered a way to enact at once a completely new set of principles, many of which were indeed coherent with those of the structural funds 1999 reform.[8] Most of all, EU guidance and supervision provided Italy, as it had already happened in the case of macroeconomic restructuring, with an external bonding to enact a much-needed internal change.

The task of writing the plan was taken by the Department of Development and Cohesion Policies (DPS) of the Treasury. Drawing up the plan took 18 months of technical and political negotiation between the central state, regions, municipalities, and social partners. The negotiation itself was a way to experiment and refine a new interactive approach between local and central powers. It was also the way to devise, through a consensus-building process, the governance structure of the plan, the allocation of responsibilities, and the checks and balances on which its success depends. It was approved by the EU in July 2000.

The main decision and rules of the Plan can be summarized with reference to five general principles:

Figure 1

GDP PER HEAD BY REGION (EURO), 1998



Source: *Second Report on Economic and Social Cohesion*

- *Setting targets and devolving and enhancing responsibilities*: 71.4 percent of funds was allocated to Regions, the rest being assigned to central administrations in charge for law enforcement, nationwide communications, reduction of school dropout rate, research and development, allocation of automatic capital incentives; local governments were entrusted with the role and means to devise and submit projects. The allocation of funds among six general targets was set: 18.8 percent to natural and cultural resources (water infrastructures, natural parks, etc.), 6.0 percent to cultural resources, 16.7 percent to human resources (training, R&D, school dropouts, etc.), 32.9 percent to local development, both for rural and urban areas (including 10 percent for automatic incentives), 4.4 percent to cities, 19.5 percent for tangible and intangible com-

Table 1
THE MEZZOGIORNO DEVELOPMENT PLAN:
ALLOCATION OF FINANCIAL RESOURCES
(Total public funds=100)

Priority axes	Public funds: Central responsibility	Public funds: Regional responsibilities	Public funds: Total	Private funds
Natural resources (water, land,…)	0	18.8	18.8	5.6
Cultural resources	0	6.0	6.0	.9
Human resources				
Training and active labour market policies	0	10.7	10.7	.9
Education	1.8	0	1.8	0
R&D	4.2	0	4.2	.8
Local development systems	10.2[1]	22.7	32.9	0
Cities	0	4.4	4.4	.7
Communications and networks				
Tangible and intangible networks	8.3	8.4[2]	16.7	4.7
Law enforcement	2.8	0	2.8	0
Technical assistance	1.3	.4	1.7	0
Total	28.6	71.4	100	13.6
Total *(euro million)*	**11,400**	**28,500**	**39,900**	**5,400**
Performance reserve (10%)	-	-	4.6	-
Total funds *(euro million)*	**11,400**	**28,500**	**44.500**[3]	**5,400**

[1] Data include resources managed by the Ministry of Industry on behalf of Regions allocated through regional ranking.
[2] Includes some regional measures for law enforcement.
[3] The figure is made up of EU resources (euro 23.8 billion) and national resources (euro 20.7 billion) according to the additionality principle.

Source: Ministry of the Treasury—Department for Development and Cohesion Policy

munication (including law enforcement), 1.9 percent for technical assistance to the managing authorities. While resources assigned to central administrations were set for specific targets, those transferred to the Regions were not: Regions were asked to negotiate among themselves on how much to allocate to each target so as to comply with the pre-set general target allocation. Because of the radical changes introduced by the plan and the need to deeply adjust the public administration entrusted with their implementation, the financial spending scheme was very back-loaded, with only 13 percent of all funds to be spent in the first three (out of nine) years.

- *Evaluation and administrative modernization*: the plan was devised—and is presently being carried on, making the most of a path-breaking experience at the Treasury—to create public investments evaluation and monitoring units in all regional and central administrations, highly integrated with administrative units, so as to back them up and at the same time create the premise for their renewal; a preferential lane was created for projects equipped with feasibility studies and a new generation of such studies was started which is presently being implemented; sanction and rewards were designed—to which the allocation of 10 percent of total resources at the end of 2002 is partly linked—in order to accelerate some administrative reforms (the so-called Bassanini laws, from the name of the minister that enacted them);[9] a project financing unit, as in the UK, was established at the Treasury for promoting all public administrations with technical assistance in order to devise investment projects attractive to private capital.

- *Incentive and diagnostic monitoring*: quantitative target values were set for macro and micro variables to be used to measure projects' effectiveness; a monitoring system concerning financial and output effects was implemented; use was made of the 10 percent reward resources also to create an incentive for Regions to actually favor truly integrated projects; a diagnostic monitoring system was created so as to provide falling-behind areas with the assistance needed in order to compete with the other areas.

- *Institutional and social techno-partnership*: a system of institutional partnership was set through which each Region can cooperate with its local governments and the central administrations, namely the DPS, can cooperate with the Regions; the network of regional and central evaluation units which is being created should provide a solid technical framework for such partnership; the setting and the current activity of regional monitoring committees comprising representatives of central administrations, municipalities, and social partners should strengthen the partnership and enlarge it to social partners.

- *Enhancing credibility*: the role of general supervisor for the implementation of all rules was entrusted to one national authority only, the Treasury Development Department (DPS), directly committed with the European Union via international agreement.

It is too early to assess results. The strong visibility and accountability of EU funds, the chance to make their use conditional on the implementation of a new and binding set of rules and on strong decentralization of responsibilities, the credibility that all targets derive from being written into the framework of a European international agreement, as was the case for macro-targets through the Maastricht Treaty: these are all reasons why the 2000-08 plan has chances of success. The task, though, is no easy one. Its achievements require time, while political instability does not create the right incentives to wait for results. Furthermore, the methods implemented by the plan are strongly resisted by coalitions of local interests that have traditionally benefited from barriers to competition, subsidies, and the inefficient and unmonitored allocation of public funds.[10]

While the work to implement the plan is proceeding, the guidelines of the plan, the first steps in its implementation, as well as previous TCPs-like experiences that have taken place in the Mezzogiorno during the 1990s, allow to draw from the whole experiment some general lessons to which I now come.

Territorial Competitiveness Policy: An Outline

The rationale for TCPs implemented in the Mezzogiorno Plan is that for a given heritage of natural, cultural, and human resources, and for a given physical agglomeration—or dispersion—of entrepreneurship, the competitiveness of an area, as measured by returns to be expected from local investments, can be strongly influenced by "framework conditions." Six specific factors come to the fore:

- Market competition for labor, products, and capital
- Tangible and intangible communication with other areas
- Training of human resources and opportunities for innovation
- Social infrastructures
- Internal relations and externalities of entrepreneurs' agglomeration
- Accessibility of natural and cultural resources

For the quality of all those framework conditions the "institutional capacity" of the area—the efficiency and effectiveness of its public administration, of its judiciary system, etc.—is clearly very relevant.

The first four factors are by now quite well established. Market competition, while putting peripheral areas under stress, is an indispensable requisite for their growth, since it allows the full exploitation of comparative advantages and a proper matching of demand and supply for resources.[11] The same holds for both tangible and intangible communications, once the initial negative impact due to the opening up of alternative supply sources is taken into account. In particular, Internet linkages can now allow remote and small producers to market directly and worldwide to consumers the specific features and producing conditions of their products.[12] Training of human resources and support to innovative action in entrepreneurial activities are both requisites for comparative advantages to be fully exploited. As for social infrastructures, the quality of housing, hospitals, and schools is very relevant for the choice of location of both managers and workers and for their job satisfaction.

The other two factors deserve closer attention, since they represent the core of the new perspective for regional and rural policies.[13] A way to approach the issue is to start from Krugman's New Economic Geography (Neg). At the cost of some drastic simplifications (David 1999), Neg has given "macro respectability" and revised longstanding ideas of development theory and several schools of thought on economic geography.[14] It links the development opportunities of an area to its ability to attract mobile resources with strong bargaining power (let's say scarce resources): entrepreneurs, capital, skilled labor.

Together with relative prices, Neg emphasizes those cumulative factors of an area that, once set into motion, and together with "given" natural and cultural resources, attract mobile resources and by doing so tend to perpetuate themselves as a reason for the superior profitability of that area. The externalities of agglomerations are cumulative factors of this kind.

Externalities stem from the size of entrepreneurs' agglomerations. The first relevant factor, as it is well known, concerns the volume of *demand* for consumer goods and intermediate inputs set into motion by the scale of the agglomeration: the higher the scale, the stronger the demand effect that is bound to set the agglomeration into a virtuous circle. *Supply* side effects (Marshallian factor) concern *labor pooling* (chance of exchanging information on the skills of existing workers and managers and to find for them the best matching to labor places), *input specialization* (the accumulation of idiosyncratic knowledge by input suppliers), *technological spill-over* (the contamination of information among entrepreneurs which can allow a continuous flow of minor but highly productivity-enhancing innovations) and *knowledge pooling* (as I would call the information sharing that can take place among the agglomeration's entrepreneurs on what public or quasipublic goods would enhance the productivity of their investments). For externalities to emerge entrepreneurs do not need to operate in the same sector—as it is indeed the case in many northern Italy well-known industrial districts, in clothing as well as in sophisticated mechanical products—since similar effects can take place if the agglomeration includes firms of a given vertically integrated activity or part of a given *filiére* where similar technologies or skills are shared.

The role of agglomerations' externalities shows up in the fact that firms operating inside agglomerations have a higher productivity and rate of return than those not operating inside an agglomeration. This result has been recently proved for the Italian industrial sector by a research project run at the Bank of Italy (Signorini).

As a result of the working of the externality effect, initial conditions of an area matter significantly. Whether, as a result of past history or accidental circumstances, an agglomeration comes into existence can indeed set an area on a virtuous path. The same is obviously true for economic policy, which can change those initial conditions.

This is by now well known. But it is also where problems start. What kind of policy is warranted by this way of reasoning?

The incentive option

One might be led to think that the safer way to go is for economic policy to devise incentives directed at peripheral areas that can compensate for whatever profit differential they have accumulated relative to areas with strong agglomerations. The idea is to use incentives in order to create *artificial agglomerations*, relying on the fact that, once they are set into motion, agglomerations can become self-sustainable thanks to the externalities they develop, so that incentives can later be removed. Incentives are not asked here to play the traditional role of making up for failures of the capital market to finance profitable but uncertain business, but rather to play the role of making up for failures of firms to coordinate and to invest together in a given area and then to produce new agglomeration externalities.

This policy has indeed been and still is often implemented (Puga; Cheshire and Magrini). But that occurs at the cost of severe problems and dubious results. Reasons for these failures are clear-cut.

First, in order to achieve its purported results, incentives must be discretionally directed to specific areas; which criteria should preside over the territorial allocation have turned out to be highly arbitrary, thus lending itself to unaccountable inefficiencies and, most of all, to state capture by private interests. Second, and more important, policies aimed at compensating accumulated disadvantages via incentives and creating artificial agglomerations are bound to degenerate into rent shifting wars (Puga; Cheshire and Magrini). Different states and internal territories fight to attract firms and set into motion virtuous externality circles, and therefore attract rent creation, *with no effect on total welfare*. Furthermore, in this war, unless a financial compensatory mechanism exists, backward areas have a disadvantage since their smaller financial resources reduce the weapons they can use in attempting to shift rents (Puga). On the other hand, if central compensation is at work it is bound to fall under the growing criticism of advanced areas, i.e., its political sustainability is rather low.

To sum up, the logic of sectoral incentives runs contrary to the reduction in competitive barriers, is bound to lead backward regions into a zero-sum rent-shifting war, and assumes a centralized knowledge about opportunities in the various territories that is simply not available.

A fresh perspective

An alternative emerges when, by drawing from many insights of pre-Neg theories—those contributions that David (1999) pulls together under the label of Old Economic Geography—it becomes clear that neither cultural and natural resources, nor the externalities of agglomerations, can be taken as given.

First, natural and cultural heritage, though given in physical terms, is not at all given in any moment as a source of development. That depends on the opportunity that historical contingencies and institutional arrangements are giving to entrepreneurs to access it and use it in a sustainable way. As David (1999) puts it, a given estuary can be drained and put to use as a harbor, or rather lay unused. An archeological site can be left unexcavated; it can be uncovered but lay inaccessible to viewers and firms owing to a lack of communication or of clear-cut rules for exploiting it; it can be turned into a unique cultural and tourist opportunity without threatening its preservation; finally, can be overexploited, creating the premises for its demise. The same can happen to a natural area. The long-term contribution of a "given" natural and cultural heritage to economic development can then be strongly increased by projects changing the accessibility of that heritage. The design and implementation of those projects cannot directly depend on the choice of private agents because of the high coordination costs that they would require. The state is precisely the institution to which private agents entrust the task to devise those projects.

Second, for a given agglomeration, externalities can widely vary, depending on institutional factors.

This is first the case of demand externalities. For a given agglomeration, its consumer demand externalities depend on how dispersed residential areas are for workers employed in the agglomeration; this in turn depends on urban planning, cultural factors, and other factors linked to the local government provision of public services.

It is also the case for supply-side externalities. For a given agglomeration, supply-side externalities depend on whether market and informal relations exist among entrepreneurs making up the agglomeration: whether they purchase inputs from each other, exchange or share clients, exchange information on practices and technology, pool labor in order to improve matching between demand and supply, share business services. For the success of the agglomeration it is also very relevant whether entrepreneurs pool together their knowledge in order to ascertain the needs of the area for infrastructure and immaterial public investments (in training, research, networks) and to devise projects to submit to the local governments. The relational capital of an area is then a crucial factor for externalities to come about.

Physical proximity certainly helps "economic proximity" necessary for bringing about input specialization, labor pooling, technological spillover, and knowledge pooling; but it does not necessarily imply it. Formal and informal relations necessary for economic proximity to occur strongly depend on past history. A strong path dependency exists, since starting up of formal and informal relations is costly. But at any point in time appropriate institutional arrangements implemented by local governments can enhance the establishment of such relations:

- The very perception of agglomeration as such by its members, beyond, if this is the case, existing administrative boundaries
- The existence of a robust and development-oriented business ethic in the community that allows for the establishment of informal relations and the exchange of private information among entrepreneurs

- Whether the local government offers local private agents the opportunity to come together, pool their knowledge, and devise proposals for public projects of general interest

The Italian Mezzogiorno provides good examples of how both natural and cultural resources and agglomerations' externalities can be underexploited and how much room for development exists in their greater exploitation.[15]

Protected natural areas represent 7 percent of the Mezzogiorno, the same share as in the Italian Centre-North. They include vast and uncontaminated territories, home to many rare plant and animal species as well as archaeological sites dating back to Greek colonization, and cultivated slopes on the fertile volcanic land of Etna. In spite of this variety, the number of visitors per hectare of land is one-third that in the Centre-North. Archaeological sites cover 1,400 hectares, against 1,000 in the Centre-North; but only 38 percent of these areas are open to the public, often only very partially. On a composite index of tourist attraction, Mezzogiorno scores 36 against 32 for the whole of the Centre-North. But natural and cultural sites are often locked, inaccessible or insufficiently manned; marketing is inadequate and no proper strategy is implemented; opportunities to develop manufacturing—traditional crafts as well as sophisticated software products offering virtual reconstruction of sites—and agro-industrial productions linked to those sites (as it would be the case for a wine or any other product whose production dates back to the original inhabitants of the site) are rarely exploited. There are 62 tourists per 100 inhabitants in the South against 163 in the Centre-North.

Firms' agglomerations in the Mezzogiorno are also not exploited to their full potential. Entrepreneurs fail in their propensity to build a strong network of formal and informal relations within the agglomerations. Firms in the Mezzogiorno's agglomerations buy less from each other than in the Centre-North, and prefer to deal with firms outside the agglomerations, while subcontractors have less diversification of clients (Mazzola and Asmundo; Omiccioli); firms also fail to cooperate in setting up common high-quality services, in creating risk-sharing institutions that allow for lower credit costs, in lobbying together for specific improvements in their business environment. The reason for this differing behavior largely lies—as interviews show—in the lack of trust relations inside the clusters (Mazzola and Asmundo).

An alternative: providing welfare-enhancing public goods

A clear policy conclusion emerges which is of general interest. Competitiveness of a peripheral territory can be enhanced by providing public goods in the form of comprehensive public investment packages—a mix of infrastructures for communication, for social purposes, and for the use of natural resources, local heritage preservation and enhancement, training, R&D, etc.—and institution building specifically designed to reap the opportunities of that territory.

In order to make natural and cultural resources fully accessible, public investments must be realized to protect natural areas, to restore archeological and historical sites and monuments, but also to improve transport communication to these sites, to establish attractive museums, to set aside areas and provide light infrastructure so as to allow the development of appropriate hospitality services for all types of tourism, but also to promote or to bring back to life sustainable and environment-friendly agricultural productions (or to introduce new ones) that fit the climate and the cultural and public image of the territory and to market them through virtual networks.

More in general, existing agglomerations—or would-be agglomerations, comprising entrepreneurs and agents with specific skills and knowledge who share similar technologies or products—must be empowered with the requisites to develop cooperation and to pool their knowledge together. Among policies aimed at this target are the following:

- Modernization of local administrations, with the introduction of accountable procedures for the selection of local projects, so as to create an incentive for firms in the agglomerations to pool their knowledge together and to lobby transparently by means of local associations to enact public projects which enhance their profitability (as it is the case in the Mezzogiorno Plan of setting reward criteria for integrated project complying with given requisites; or of creating regional evaluation units)

- Institution building, whereby private and public local actors are encouraged to come together and to contribute to the design of projects (as it is the case in the Mezzogiorno Plan of only partly successful territorial pacts)

- Strategic integrated planning in urban and rural areas (as it is being experimented in the Mezzogiorno)

- Promotion of knowledge networks and innovation capacities, making full use of new information technologies, offering high-quality small firms operating in the agglomeration the opportunity to market the "diversity" of their products with distant consumers

- Enhancing business services affecting externalities

The TCPs described, if successfully implemented, are welfare-increasing and can command a consensus much greater than traditional policies aimed at subsiding peripheral areas. Incentive policies are openly aimed at reallocating firms from one territory to another: insofar as they produce additional externalities via "artificially" increasing the scale of a given agglomeration, they are at the same time reducing the externalities of an other agglomeration. By shifting externalities from one territory to another they tend not to produce any improvement in general welfare. Welfare can actually be reduced if some of the negative effects of incentive policies were to apply. A very different situation holds for TCPs: state intervention is aimed at turning potential externalities into effective ones, with no "artificial" reallocation taking place. Capital and entrepreneurs will move only if truly superior opportunities arise; general welfare will thus be increased.

There is obviously no guarantee that TCPs will succeed. They are indeed complex and knowledge intensive. They require strong discretionality by the state in order both to assess which specific interventions are more suitable to any agglomeration and to implement them. The high discretionality and high knowledge content of TCPs suggest that much care should be put into their institutional design—an issue to which I now move.

Governance

In order to draw the institutional framework most suitable for devising and implementing TCPs, the following six features deriving from the targets of TCPs can be pinpointed. Three of them concern the type of knowledge needed to perform the policy; three others refer to the requirements of public administrations devising and implementing them.

A knowledge-based policy

First, TCPs are strongly *knowledge based*: knowledge is largely held by private agents; public agents must extract this knowledge, combine it and use it in order to devise and implement projects.

Second, general knowledge is needed (new technologies, information on international opportunities, quantitative, well-established methods for evaluation), but the distinctive feature of TCPs is the need for *local knowledge* (on agglomerations' boundaries, failures of its relational features, existence of unused resources, etc.). Local knowledge is particularly necessary for any local project to be properly devised and implemented: as pointed out by Cheshire and Magrini (1999), only local coalitions have the knowledge to devise agglomeration-enhancing projects, and the incentive to actually reveal information—each member of the coalition to the others—to be pooled together in the project.

Third, since knowledge is scattered among many local and central agents, the necessity arises for *knowledge pooling* to take place, both horizontally, at the local level, between different branches of the administration, and vertically, between local and central agents.

Fourth, TCPs are nothing but essential functions of the State—mostly in its "minimal" version—that are to be aimed at *specific territories*: education, provision of public services, institution building, urban planning, market regulation, planning (not necessarily financing) of infrastructure: TCPs amount to solving State's failures.

Fifth, since TCPs projects are complex and of a highly integrated, multisectoral nature, high reliance is needed on *ex ante evaluation*, to be performed via feasibility studies: public administration is asked to act as project allocator, largely relying on the market to perform these studies, but endowed with in-house capacity to allocate, to monitor, and to make use of these studies.

And sixth, public administration and the State must be *highly credible* in devising and enacting policy and in performing the fourth and fifth functions.

In order to draw from these six features the consequences for the governance to be devised, let's start from the classical issue of whether TCPs should be run by local or central governments. Two very strong arguments suggest devolution of responsibilities.

Local vs. central control

First, only local governments have the knowledge to pool together local coalitions of private agents capable of devising projects, to monitor their work in progress, to enact the institution building activities than can increase the economic vicinity of an agglomeration (Trigilia). Projects supervised by the European Investment Bank show that the very lack of responsibility or competence by local authorities in pooling local knowledge and interests and in designing appropriate negotiating procedures among different private interests is often behind project failures (Rossert).

Second, better monitoring can be exerted by local political markets on the project achievement record of local governments: the incentive of local governments to act properly can be increased by territorial competition among different administrations. Furthermore, adjustments of projects to unforeseen contingencies can be devised and implemented by local governments in a more timely fashion.

On the other hand, three classical arguments exist that reduce the efficiency of a strong devolution of power in devising and enacting TCPs.

First, some externalities can fall, as it was suggested, beyond the limits of administrative boundaries, making necessary a cooperation among local governments (Puga). Second, some interventions of TCPs can still degenerate into rent-shifting wars (David 1984, 1999; Markusen; Puga): this could be the case of several territories all investing in the development of similar niche products exceeding existing demand, or in the direct transport communication between local and global markets. Finally, renegotiation of allocation rules can more easily take place at the local level between local government and local private agents: the monitoring of the political market could be too slow to prevent it.

A solution to these trade-offs between devolution and centralization can first be used by choosing an appropriate allocation of responsibilities.

Local *cum* central control

Central responsibility will then be retained only in those areas of TCPs where strong indivisibility or wide externalities exist (mainly, local to global communication). Otherwise, all TCPs aimed at devising territorial projects for increasing accessibility to natural and cultural resources and for increasing relational capital inside agglomerations should be devolved: local governments will then be responsible for promoting, selecting, and managing projects, and for cooperating with other local governments whenever they perceive that the appropriate area of intervention exceeds administrative boundaries. This is the rationale that is behind the choice made in the Mezzogiorno Plan.

As in the plan, central administrations will focus their role on rule-setting, monitoring, and providing technical assistance. General guidelines and rules will regulate the allocation of resources and guarantee a proper project cycle. Diagnostic monitoring will be aimed at assessing performance while policy is being enacted and at detecting those circumstances where local governments fail to cooperate in projects which exceed their administrative boundaries. Technical assistance will be provided for local governments so as to improve the quality of the project cycle, namely of evaluation and feasibility studies, and to ensure that project competition among local governments for the allocation of resources does not damage more backward areas where leadership and administrative capacity are weaker.

This general solution needs first to be adjusted to take into account the fact that the levels of government involved in devising and enacting regional policies are generally more than two. A four-level government—federal, state, regional, local—is a better representation of the present state of affairs in most areas of the industrialized world. It certainly fits the Italian case, where the traditional central State (57 million inhabitants) is currently shifting an increasing share of responsibilities to the European Commission in Brussels, while at the same time a process of devolution is taking place from the Italian State to 21 regions—with an average of less than 3 million inhabitants (ranging from 118,000 to 9 million)—and from regions to local governments—103 counties with an average of half a million inhabitants and about 8,000 municipalities.

The allocation of responsibilities among levels of government adopted in the 2000-08 plan implementing TCPs in the Mezzogiorno can then be taken as a useful point of reference. The "division of labor" looks as follows:

Counties and municipalities—which can be identified as truly local authorities—have been assigned the task of pooling together local actors to devise and elaborate on local projects: drawing from various experiences of local projects planned in the 1990s by coalitions of private and public agents (territorial pacts, local action groups for rural projects, and urban and territorial projects),[16] counties and municipalities can perform this task by forming horizontal coalitions which pool together administrative areas with similar opportunities.

Regions have been given the responsibility for managing about three-fourths of all plan resources by selecting projects submitted by local governments and promoting some top-down interventions: regions have primary responsibilities for implementing monitoring procedures for both financial and economic results.

The central State, as well as being assigned responsibilities for managing funds to improve law and order, national communication, research and development and reduce school dropout rates, has been entrusted with the three above-mentioned central responsibilities: guidelines and rules; diagnostic monitoring; technical assistance. All these coordinating functions are performed by a single department at the Treasury Ministry.

The European Commission, by exerting autonomous diagnostic monitoring, plays the role of guaranteeing the full compliance of all rules set by the central State in accordance with EU Regulations: it then gives credibility to the whole process.

For such a clear yet complex division of administrative tasks to be operational and efficient, governance must include a well-defined contractualization of relations among different levels of government.

Contractualization and…

If one were to take the traditional principal-agent paradigm to describe the relation among different level of governments, one would say that each level acts both as a "principal" that delegates functions to a lower level, which thus behaves as "agent," and as an "agent" receiving delegations from an upper level, which thus acts as "principal." To create the right set of incentives, delegation of tasks must then be accompanied by targeting them, monitoring their accomplishment, and linking to them sanctions and rewards. This system also allows the political market to focus on the tasks of their appointed governments and on those of public managers and demand results from them.

The institutional framework that arises so far is reminiscent of New Public Management (NPM), a system of public management that has been increasingly experimented in several industrial countries (O'Donnell and Sabel). A similar contractualization is called for in ruling horizontal relations across agencies at each level of government: devising multisectoral projects requires in different sectoral branches to make clear-cut commitments one to the other.

NPM represents a significant step forward in the implementation of TCPs especially for countries where the accountability of regional policies has long been extremely inadequate. But it can hardly be the whole story (O'Donnell and Sabel; Dente).

In the many countries (mostly Anglo-Saxon) where NPM has been more widely experimented, it has become clear that a full contractualization of relation between different levels of government or among branches of the same level cannot suffice. Conceptualization and execution of policies cannot be fully separated, making the very principal-agent paradigm inadequate; there cannot be full verifiability of targets, while general targets can highly bias local governments' actions. Both horizontal and vertical crosscutting are necessary.

These concerns are particularly relevant in the case of TCPs, where local knowledge plays such an extensive role.

Each level of government has some of the knowledge needed for enacting general guidelines, but much of it is "tacit," in the sense that it cannot be transferred via formal procedures but only via informal interaction with other levels of government. Local governments, in order to design local objectives, to select projects, and to exert diagnostic monitoring need general guidelines from the top and information about how other local actors have been, and currently are, acting. At the same time, the central government cannot *ex ante* establish fully defined and verifiable targets without the local knowledge specific to each territory that alone can turn those targets into proper incentives. Let's consider the second issue in more detail.

If the center insists on specifying targets in detail, serious biases can be introduced and local authorities are induced to satisfy those targets even at the cost of reducing the effectiveness of the actions. On the other hand, a very general specification of targets runs the risk of losing any binding power.

Take from the Mezzogiorno Plan the example of targeting by the state level the establishment by regional governments of evaluation units with the mission of carrying out the *ex ante* evaluation of projects, to monitor the execution of such studies by outsourced private consultants, and to become part of a federate evaluation network (this is indeed one of the targets of the Italian 2000-08 Plan).[17] If a detailed description of the tasks of such units, of their required skills and methods, of their organizational setting, were to be carried by the central government, one would run the risk of overseeing the specific requirements of each regional government. In order to comply with the target, wrong choices would very likely be made. Very general targets, on the contrary, run the risk of not guaranteeing minimum quality requirements necessary for promoting a sound basis for project selection.

Similar problems concern, at each level of government, the relations among specific sectoral agencies. Contractualization is necessary, but account must be taken of the fact that both horizontal and vertical "contracts" are bound to be largely incomplete, i.e., to contain provisos that cannot be specified in a way that can be fully verified by third parties.[18] While the governance of TCPs should aim to contractualize the delegation of responsibilities as much as reasonably possible, it should also aim to manage contract incompleteness. A complementary governance tool is clearly called for.

…institutional partnership and…

Contract incompleteness can be managed in two complementary ways: by setting targets in a way that takes incompleteness into account, i.e., by treating them as open-ended duties to be clarified along the way; and by setting a flexible system of partnership, both horizontal and vertical, among government agencies that allows to clarify, case by case, the meaning of those duties through a continuous exchange of information and knowledge.

While contractualization of relations among different levels of government (via targeting, incentives, and monitoring) is necessary, these relations must then be governed by a partnership network that allows these "incomplete contracts" to be completed via technical cooperation. Targeting can become more effective and biases can be avoided. Take the previous example of evaluation units. One can now be content with a very general target of "establishing evaluation units of high quality, with the task of assessing feasibility studies": the implementation of this target can now be promoted, monitored, and assisted by a partnership technical unit, made up of representatives of both regional and central governments (this is again the solution adopted in the Italian 2000-08 plan).[19]

Institutional partnership must be both horizontal and vertical. Different sectoral branches of government, both at central and local level, will then cooperate in devising *ex ante* evaluations needed to assess the feasibility of integrated projects. Together with this horizontal partnership, vertical partnership will be established among different levels of governments: to establish and monitor targets (and, by doing so, to give meaning to them), to develop standards and methods for evaluation of local projects, to monitor major feasibility studies, and to implement projects and devise compensatory mechanisms for the differentiated impact on local interests.

A similar kind of partnership, based on knowledge pooling, is required in the relationship between public and private agents.

…social partnership

As it has been made clear, a great deal of knowledge is unavailable to public agents; only private agents, whether local or external to the area, whether holding specific local interests—entrepreneurs, rent-holders, workers, citizens, unemployed, etc.—or acting as professional consultants, are often privy to it. Inside knowledge of this kind can only be "produced" and made available for devising territorial projects via interactions among many of these agents, all (or most of all) opportunistically motivated by their private interest. For such knowledge pooling to occur, local governments need to make a relevant and preliminary part or their TPCs the establishment of technical partnership with some or most of these agents, taken either individually or via their coalitions or associations.[20]

As the Mezzogiorno experiment once again shows, this is a very delicate part of the whole strategy. Local private agents behave in an opportunistic way and they individually favor direct, exclusive relations with local governments, in the pursuit of the highest return; this attitude goes strictly against the implementation of knowledge-pooling, which is the main requirement of good projects. Furthermore, private agents tend to be particularly resilient to cooperation in backward areas where this behavior has not yet been seen as a catalyst for growth. Nor can the problem be circumvented, as it is often believed, by relying on the knowledge of private consultants. First of all, they themselves can only design good projects if, together with some crucial general knowledge, they pool together the knowledge of several local actors. Secondly, they have an incentive to do so only if the local government has the skill to ask the consultants the right questions and to monitor closely their work.

Several TCPs-like experiences in the 1990s and the first steps of the 2000-08 plan offer some guidelines in this field. The chance of coming up with a good local project depends on the degree of cooperation between local agents, and this in turn depends on five major factors that make up the governance of the project.[21]

Partner selection. Quite obviously, a reduction in the (perceived) likelihood of including in the process ignorant types increases the chance of a good project. Similarly, the inclusion of "cooperative" agents, i.e., agents known to be more likely to reveal knowledge, contributes to the same result. Local governance can help in these directions by setting up a competitive-enough process through which participants get "selected."

Timing and deadlines. A tendency might arise in partnership—once repeated interaction is allowed for, as it is often the case—of diluting negotiation and postponing decisions about whether to reveal knowledge or not, every partner waiting for the other partners to make the first step. This tendency is increased if the political market rewards politicians more for the announcement and startup of partnership tables than for these tables actually producing tangible results. Local governance can then improve results by fixing deadlines and attaching costs to any time-delay.

Accountability, transparency, and uniqueness. A strong incentive for local agents to take partnership seriously and to reveal knowledge comes from their truly believing that no alternative ways will be provided by the state to design and select local projects. If, on the contrary, partnership is perceived as being merely formal—just a way to comply with formal procedures—and agents believe that the local government or other levels of government will separately carry out "direct consultations" with each agent—or with other agents—in order to build local projects, a very strong deterrent to cooperative behavior will arise.

Project evaluation. For local partnership to work, agents must truly believe that only good projects will be selected, i.e., that regional governments, which have the responsibility to select among projects submitted by several local governments, make use of well-established evaluation procedures. If that is not case, neither private agents nor local governments will have enough incentive to go through the procedure itself. The implementation of proper evaluation procedures also allows local governments to establish a well-defined language through which knowledge can be better extracted from agents at the negotiation table. Care should also be put into avoiding any rigid preallocation of resources by the regional government. If resources are fully committed, i.e., if the regional government's mission is to allocate resources by a given date, an incentive exists for local governments to collude, not to embark in costly, long, and uncertain local partnership and to directly aim at their "share" of resources by submitting to the regional government whatever project they can come up with that complies with the existing formal requisites.

Combining different professional skills. Finally, the success of local partnership depends on whether local governments command skills as different as those of urban planners, scientists, economists, sociologists, and lawyers (to mention only the main ones). Local governments rarely have all these skills among their administrative and technical ranks and need to rely on external assistance (consultancy). But for that assistance to be fruitful, the local government, possibly through the support of regional and national governments, needs to have in-house skills capable of orienting and supervising the assistance itself.

Preliminary Conclusions

The success of governance rules very much depend, as the Mezzogiorno experience from which they are largely derived shows, on the existence and working of a super-game enhancing their credibility.

In the Italian case the super-game works as follows. The Italian Treasury-DPS has set the rules, monitors them, and cooperates with the regions in adjusting, interpreting, and putting into practice those very rules. In doing so a risk of undue renegotiation—rather than due interpretation—arises, which could threaten the whole scheme. In preventing this degeneration, and enhancing the credibility of the rules, the European Commission plays a very important role, but if it were to interpret this role too rigidly and were to try to enforce the "strictest interpretation of rules," it would also threaten the scheme. A complex but indispensable interaction between several layers of government that requires trust is called for. The future of the Mezzogiorno experiment largely depends on this interaction.

For now it is safe to note that a change is indeed taking place inside most of the regional administrations entrusted with the enactment of the plan, while central administrations look much more resilient. Important changes are also taking place in the project cycle which lies behind the design of TCPs, with hundreds of studies proposed by local authorities (and financed by the regions) being presently carried out to test the feasibility of territorial projects. While the participation in the process of local "leaders" has often been the driving force behind the proposal of territorial projects, and the mayors of small municipalities have often played a very relevant role, associations of either union, business, or citizens' interests have not yet proved adequate to the new phase.

It is therefore appropriate not to draw any final conclusions from the experiment. Some very general guidelines, though, can be inferred which could be of some use for other countries where, as in the U.S., some areas lag behind, and where unexploited natural and cultural resources, as well as physical agglomerations of entrepreneurial capacities lacking relational capital, exist.

First, rather than attempting to create new agglomerations in selected areas and making use of incentives to influence firms' location—with a high risk of starting rent-shifting wars—a better course of action is very often that of pinpointing existing, although weak, agglomerations and enhancing their relational capital and framework conditions.

Second, for this target to be pursued, substantial funds should be allocated to territorial policies, shifting them away from traditional sectoral interventions. Integrated, knowledge-intensive, area-specific projects should be the aim. Local, often largely unexploited, heritage of natural and cultural resources generally provides the best focal point for these projects.

Third, local governments—municipalities, counties, self-organized coalitions of municipalities—are best suited to design most of these projects and carry out their feasibility checks. Regional governments—possibly, in the case of the U.S., state governments—should retain the power to select project proposals submitted by local governments and to allocate resources to them. A higher level of government—federal—is probably best suited, as well as to design interregional projects, to set the general guidelines, pinpoint the main targets (and possibly allocate funds among them) and carry on a diagnostic monitoring of the whole process.

Fourth, the criteria for project selection should be known in advance so as to create a strong incentive for local governments to implement good partnership and to extract knowledge from local private actors. A governance system must be put into place that makes those criteria truly accountable and that allows no undue renegotiation to take place. At the same time there should be a continuous process of adjustment of criteria and rules on the basis of what all levels of government learn by implementing the policy.

Fifth, for local partnership to be successful several factors must be carefully taken care of: opening the selection of partners to less established associations of interests; setting credible deadlines that cannot be renegotiated; guaranteeing the uniqueness of the partnership table; implementing evaluation procedures; and combining different professional skills.

Sixth and last, in order to put good partnership into place, to supervise the design of projects by private consultants, and to assess them, local, regional, and super-regional governments need to have in-house evaluation capacity. The quality of the public administration is the indispensable tool of Territorial Competitiveness Policies.

Endnotes

[1] See OECD; Pezzini; Barca 2000; and the forthcoming OECD Territorial Review on Italy.

[2] For the expression see Cheshire, Magrini.

[3] On the theoretical underpinning see Dorf and Sabel.

[4] The equivalent figures for Italian Centre-North are 73,5 and 47,4 percent.

[5] See Istat (1997).

[6] See speech by Wolfgang Clement, Minister President of the German Land of North Rhine-Westphalia, at Humboldt University, Berlin, February 12, 2001.

[7] 22.5 billion euro—earmarked Objective 2—go to areas "in structural difficulties" other than those chosen as Objective 1 (rather than leaving to individual states the choice of these areas, a cumbersome and fuzzy set of parameters was set to choose them, a solution that is going to be revised for future allocations due to the serious problems of implementation that have arisen); 24.05 billion euro (Objective 3) go to "measures for human resource development" outside Objective 1 areas; the balance goes to specific initiatives. To the structural funds 18 billion euro must be added—called "cohesion funds"— which are allocated to finance transport and environment infrastructures in the states whose per capita income is less than 90 percent of EU average.

[8] That was not the case for the move away from sectoral policies—which is part of TCPs . In spite of some announcements (European Commission 1999), a strong segmentation into sectoral policies and structural funds' sub-funds—Social Fund, Agricultural Guidance and Guarantee Fund, Regional Development Fund, Financial Instruments for Fisheries Guidance—have been retained by the EU reform.

[9] See Bassanini.

[10] On this and on some countervailing factors, see again Barca 2001.

[11] For a classical reference, see Krugman 1991.

[12] See, for example, Friedman.

[13] For a full presentation of this view, see Barca 2000.

[14] See Krugman 1995 for a survey. See also Brusco and Becattini for the Italian contributions on the Marshallian concept of industrial districts.

[15] For a presentation of these features and the policy that was drawn from them, see Barca 2001.

[16] For a survey see Ministero Lavori Pubblici 2001.

[17] Together with 19 more targets to which the allocation to Regions of 10 percent of all resources of the plan has been linked. See European Commission (2000), Anselmo, Raimondo (2000).

[18] For a definition of "incomplete contracts" see Hart and Barca 1998.

[19] See again European Commission 2000; Anselmo and Raimondo.

[20] See Isham, Deepa, and Lant.

[21] The factors derive from direct experience of several Mezzogiorno projects as well from the findings reported and commented in Rossert.

References

Anselmo, I., and L. Raimondo. 2000. *I Criteri di Premialità Nel QCS 2000-2006*, mimeo, presented at the Fourth European Conference for the Evaluation of Structural Funds, Edinburgh, September 18-19.

Barca, F. Forthcoming. "New Trends and Policy Shift in the Italian Mezzogiorno," *Daedalus*.

__________. 1998. "Some Views on U.S. Corporate Governance," *Columbia Business Law Review*, no. 1.

Barca, F., and G. Pellegrini. 2000. "Politiche per la Competitività Territoriale in Europa: Note sul Programma 2000-2006 per il Mezzogiorno d'Italia," presented at the *First Annual Workshop of the Bologna University Centre at Buenos Aires*, April 26-27.

Bassanini, F. 2001. "Italie, Notre Révolution Silencieuse," in R. Fauroux and B. Spit, eds., *Notre État*. Paris: Robert Laffont.

Becattini, G. 1979. "Dal 'Settore Industriale' al 'Distretto Industriale.' Alcune Considerazioni sull'Unità di Indagine dell'Economia Industriale," *Rivista di Economia e Politica Industriale*.

Brusco, S. 1975. "Organizzazione del Lavoro e Decentramento Produttivo nel Settore Metalmeccanico," in Flm di Bergamo (a cura di), *Sindacato e Piccola Impresa*, reprinted in Brusco S. (1989).

Center for the Study of Rural America. 2000. *Beyond Agriculture: New Policies for Rural America*, Federal Reserve Bank of Kansas City.

Cheshire, P., and S. Magrini. 1999. "Evidence on the Impact of Territorial Competitive Policy and the Role of Transaction Costs in Conditioning Collective (In)action," *Research Papers in Environmental and Spatial Analysis*, no. 57, London School.

David, P. 1999. "Krugman's Economic Geography of Development: NEGS, POGS and Naked Models in Space," *International Regional Science Review*, no. 22.

__________. 1984. "The Economics of Locational Tournaments," *Silicon Valley Research Project Discussion Paper*, Stanford University.

Dente, B. 1999. *In un Diverso Stato*, Bologna: Il Mulino.

Dorf, M.C., and C.F. Sabel. 1998. "A Constitution of Democratic Experimentalism," *Columbia Law Review*, no. 2.

European Commission. 2000. *Community Support Framework for Objective 1 Italian Regions 2000-2006*, August.

__________. 1999. *The Structural Funds and Their Coordination with the Cohesion Fund—Guidelines for Programmes in the Period 2000-2006*, Communication of the Commission, July.

Friedman, T. 2001. "For the Villages, Global Good Sense," *International Herald Tribune*, March 20.

Hart, O. 1993. "An Economist's Perspective on the Theory of the Firm," *Columbia Law Review*, vol. 89, no. 7.

Krugman, P. 1995. *Development, Geography and Economic Theory*. London: MIT Press.

___________. 1991. *Geography and Trade*. London: MIT Press.

Isham I., N. Deepa, and P. Lant. 1995. "Does Participation Improve Performance? Establishing Causality with Subjective Data," *World Bank Economic Review*.

Istat. 2000. *Annuario Statistico Iitaliano*.

___________. 1997. *I Sistemi Locali del Lavoro 1991*, Argomenti, no. 10.

Markusen, A. 1995. "Interaction Between Regional and Industrial Policies: Evidence from Four Countries," in *Proceeding of the World Bank Annual Conference on Development Economics*, World Bank.

Mazzola, F., and A. Asmundo. 1999. "Sistemi Locali Manifatturieri in Sicilia. Analisi dei Potenziali Distretti Industriali," *Quaderni di Ricerca*, Banco di Sicilia.

Ministero dei Lavori Pubblici, Di.Co.Ter. 2001. "Le Domande di Territorio—Otto Confronti per l'Innovazione," presented at the Conferenza Nazionale del Territorio, Genova, February.

Ministero del Tesoro, del Bilancio e della P.E.—DPS. 2000. *Quadro Comunitario di Sostegno per le Regioni Italiane dell'Obiettivo 1 2000-2006*, August.

O'Donnell, R., and C.F. Sabel. 2000. "Democratic Experimentalism: What to Do about Wicked Problems after Whitehall," mimeo, presented to the OECD Conference, "Revolution and Globalization Implication for Local Decision-makers," Glasgow, February.

OECD. 1996. *Ireland: Local Partnership and Social Innovation*, Territorial Development Report, Paris.

Omiccioli, M. 2000. *L'Organizzazione dell'Attività Produttiva Nei Distretti Industriali*, in F. Signorini F.

Pezzini, M. 2001. "Rural Policy Lessons from OECD Countries," *International Regional Science Review*, vol. 24, no.1, January.

Puga, D. 1998. "European Regional Policy in Light of Recent Location Theories," mimeo, November.

Rossert, B. 2000. "Contributing to Regional Development Through Project Selection," *Cahiers Papers*, vol. 5, no. 1.

Signorini, L.F. 2000. *Lo Sviluppo Locale*. Roma: Donzelli.

Trigilia, C. 1999. "Capitale Sociale e Sviluppo Locale," *Meridiana*, no. 3.

UK Cabinet Office—PIU. 2000. *Improving Whitehall's Management of Cross-cutting Policies and Services*, February.