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# Region and place I: Institutions<sup>1</sup>

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## Abstract

The role of institutions in the promotion (or hindrance) of regional development has attracted increasing attention from scholars and policy-makers. This paper reviews recent contributions to this debate before sketching elements of a research agenda which addresses some key conjectural, methodological and political issues.

## Keywords

development, institutions, local, politics, regional

## I Regions and the ‘institutional turn’

The role of institutions in the promotion (or hindrance) of regional development has attracted increasing attention from scholars and policy-makers. In contradistinction to neoclassical and neoliberal approaches (and the neo-orthodoxy discussed below), recent contributions to the debate on institutions and economic development share in common a concern with the constructive role of the state, including the local and regional state, in shaping patterns of development. Political and administrative decentralization – to a variety of spatial scales – is one of the most important global trends in government and governance, representing in part a search for improved development outcomes. In the field of regional policy studies, these literatures have profoundly influenced the current interest in ‘place-based’ approaches to territorial development, which rest on the claim that effective institutions make a significant contribution to the process of regional growth because of their key role in the interpretation and mediation of broader economic contexts and through their

leading role in shaping and coordinating incentives for investment and enterprise. It is the role of political institutions and the claims made for the role of local and regional governance in the promotion of regional development that forms the central focus of this paper.

## II Institutions: neo-orthodoxy and its limits

The neo-orthodox analysis of local development is encapsulated in Glaeser’s influential *The Triumph of the City* (2012), which accounts for uneven development in terms of the advantages that densely developed cities (or city-regions) derive from agglomeration economies, which are used to explain both urban/rural disparities and the relative performance of different cities. In this perspective, which draws on a mix of urban economics and the new

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economic geography, the role of local government is limited beyond the provision of basic guarantees of property rights and social order. Indeed, 'the best economic development strategy may be to attract smart people and get out of the way' (Glaeser, 2012: 261). Regional disparities reflect the rational response of agents to market signals indicating where the best returns on skills and capital are obtained. This thinking has contributed to a policy paradigm emphasizing that interventions should be limited, 'spatially blind' and focus on 'people' not 'places' – an approach which is reflected, for instance, in the proposals of the World Bank (2009), of the Policy Exchange (2008) in the UK, and of the Grattan Institute (2011) in Australia.

For Glaeser, local and regional politics contains more dangers than promise:

It's easy to idolize democracy, but effective city governments need leaders who govern with a firm hand, unencumbered by checks and balances and free from the need to heed the wishes of every disgruntled citizen ... robust democracy with its various entrenched constituencies, often impedes the forceful action that must be taken to substantially improve urban life. (Glaeser, 2012: 95)

Thus, the successful public health improvements and crime reductions that occurred in New York City at the turn of the 20th century are ascribed to the 'quasi-military leadership' of Colonel George E. Waring Jr, the city's Street Commissioner. Later examples of successful urban leaders, according to Glaeser, include Lee Kwan Yew and Mayor Daly in Chicago. The naivety of this approach, however, is revealed in Glaeser's analysis of the secession of Singapore, which is attributed to 'irreconcilable differences between the puritanical, intellectually ferocious Lee and the pleasure-loving, aristocratic leader of Malaysia [that] led Singapore to become an independent city state' (Glaeser, 2012: 228). As an account of the racial tensions,

geopolitics and ideological conflicts that prefigured the Singaporean city-state, this is, of course, hopelessly inadequate. Moreover, Singapore is hardly an exemplar of the market-driven urban development with its extensive industrial policy and state intervention in housing and labour markets (Olds and Yeung, 2004). The sophisticated econometrics that underpin Glaeser's arguments about the productivity advantages of densely developed cities are largely absent from his discussion of urban governance, which leaves him resting, ultimately, on the explanatory power of the 'great man of history' approach in the manner of Thomas Carlyle, the 19th-century English Whig historian.

Some of the inadequacies of the neo-orthodoxy of local development, including its treatment of institutions, are highlighted by a recent study from the Organization for Economic Cooperation and Development (OECD, 2012). While the power of economic concentration is incontestable, the OECD's analysis questions the extent to which economic growth is solely associated with densely developed mega-cities. Statistical analysis demonstrates that sources of economic growth among OECD regions are heterogeneous, while the potential for growth exists in a diversity of locations with human capital and innovation as key factors. The study explores *why* these patterns emerge, including why some regions become trapped in low growth equilibriums. A key explanatory factor for poor economic performance turns out to be 'institutional bottlenecks'; including poor mobilization of stakeholders, lack of continuity and coherence in the implementation of policies by institutions, institutional instability, lack of a common and strategic vision, and lack of capacity and gaps in multi-level governance frameworks. For the OECD:

Formal and informal institutions that facilitate negotiation and dialogue among key actors in order to mobilize and integrate them into the development process are vital, as are those that

enhance policy continuity ... the challenge is to create institutions that strengthen the region's 'voice' in dealing with other regions and countries and those that foster linkages among the private, public and education sectors. (OECD, 2012: 25)

The OECD study simultaneously calls into question the overriding importance of economic concentration as the source of economic growth and draws attention to the importance of local and regional institutions in the process of economic development, identifying a 'new paradigm' of regional policy. This focuses on tapping under-utilized economic potential, creating integrated development programmes, and developing soft infrastructures organized in relation to functional economic areas rather than administrative boundaries, all of which require the development of multi-level governance capacity. However, the OECD's work also highlights some of the limits in the theory and understanding of institutions: while the role of human capital, innovation and physical infrastructure can be statistically modelled, the role of institutions cannot, so they appear in the analysis as a *deus ex machina* or 'magic dust' revealed only by qualitative, case-study research, which makes comparison difficult, the results difficult to generalize and policy implications uncertain. Nevertheless, the OECD study is evidence of the growing policy salience of the role of institutions in local and regional development and has been used to justify the effectiveness of 'place-based' development policies, which have been advocated also in other major recent official contributions (Barca, 2009; White House, 2010; see also Barca et al., 2012).

The focus on 'place-based' regional policy in the EU prompts Charron et al. (2012a, 2012b) to address the variations in the 'Quality of Government' (QoG) between and, especially, within Member States. Quality of government (QoG) refers to government that is impartial, efficient

and non-corrupt and which leads to outcomes such as better economic performance. It refers not to formal rules as such but qualities of day-to-day functioning of governments, which are examined using proxy measures of citizen satisfaction. Accordingly, within the EU, subnational differences in QoG are often more important than national differences. Thus, in addition to a 'place' effect and a 'people' effect, a 'government' effect may also contribute to emergence of geographic inequalities. Charron et al. conclude that in the EU context a region with a low QoG will not be able to use Cohesion Funds efficiently and effectively and will remain trapped in a low growth and low QoG equilibrium protected from its consequences by structural funds transfers.

### III Uneven geography of regional institutions

Gertler has argued recently that economic geographers have tended to ignore the role of institutions in shaping patterns of development and, as a result, are 'standing on the sidelines of the social science' (Gertler, 2010: 12); an outcome of the discursive dead end of postmodernism. In fact there are a number of ways in which a concern with the role of regional institutions has been reflected in recent geographical work that theorizes the economy as a sociocultural process, founded on contested norms and values to which institutions give expression and which shape the incentives for investment and enterprise (Martin, 2000; Wood and Valler, 2011). Amin and Thrift (1995) proposed the presence of 'institutional thickness' as explanation of the superior performance of some regions, although recent research has questioned the value of this metaphor and instead has emphasized quality and performance of institutions rather than their density because 'very similar institutional settings work in different ways in different territories' (Farole et al., 2011: 74). Analysis has

involved the search for an elusive ‘devolution dividend’, while the role of institutions looms large in discussions of the ‘learning region’ or the performance of development agencies (Bellini et al., 2012; Morgan, 2006, 2007; Pike et al., 2012; Rodríguez-Pose and Gill, 2005). ‘Leadership’ has been suggested as another ingredient in ‘regional success’ (Sotarauta et al., 2012). Regional institutions have also been analysed in terms of their contribution to economic ‘lock-ins’ that account for the failure of industrial regions to adapt to economic crises (e.g. Grabher, 1993; Hassink, 2007) and more broadly to patterns of path dependency (Martin, 2010). Surveying the treatment of institutions, Hanssen et al. (2011) conclude that, in economic geography, government is treated instrumentally as a support for development and growth, while questions of politics, democracy and multi-level governance are neglected.

Paasi (2009, 2011) has focused on the process by which regions are formed and institutionalized. Here, the region is considered as a cultural and political construction which takes on a territorial and symbolic shape – becomes bounded – as a prelude to institution building, before being incorporated into the territorial system of society. Rather than instruments responding to the exigencies of market pressures, regional institutions here give expression to identities and ‘come to exist and take on significance only in the context of their wider political and institutional settings’ (Agnew, 2013: 12). Regional institutions are the outcome of territorially based political struggles, while multi-level governance ‘is itself an endogenous outcome of struggles among the powerful for advantage’ (Faguet, 2013: 9). In sum, in human geography, regional institutions tend to be viewed through (largely separate) lenses, one which emphasizes their instrumental contribution to economic performance and one which emphasizes their role in the expression of politically constructed spatial identities (Cumbers and Mackinnon, 2011; Mackinnon et al., 2009). In

practice, the discourse of regional institution building typically mixes both ‘identity’ and ‘economy’ claims at different times and in different places (Rodríguez-Pose and Sandall, 2008). Farole et al. (2011) conclude that it is the interactions between formal societal institutions and the texture and pattern of group life – community – that determines how institutions perform and shape the process of economic growth.

Within the policies of international development organizations, local and regional institutions (‘decentralization’) are frequently tied to the debate about ‘good governance’, which emerged as a response to perceived failures of development policies as a result of corruption, inefficiency, lack of transparency and accountability (e.g. World Bank, 1997). Good governance offers a ‘hygienic’ or ‘technical’ approach to what are essentially contentious political questions (Grindle, 2012: 267) and overlooks the political constraints that shape economic and institutional change (Dellepiane-Avellaneda, 2009: 214). However, the sense in which economic development is a technical exercise which is disturbed by an excess of politics is a theme of the literature on regional institutions. In their study of the impacts of devolved government on regional development in Sweden, Hanssen et al. (2011) claim that policies:

bear signs of a compromise among political parties, more than being a suitable and effective strategy for enhancing economic development in the region ... Thus, politicians, often being political players and responsible for fulfilling their political promises in many sectors and for many geographical areas, might therefore be less suited for setting tough, discriminating objectives to ensure economic development than national agencies that represent professional competence. (Hanssen et al., 2011: 48; see also Walker, 2002)

The literature on ‘varieties of capitalism’ emphasizes the degree to which the behaviour of firms is embedded in national institutional environments that manage sectional conflicts in ways that

shape social and economic trajectories (Hall and Soskice, 2001). Although providing an important corrective to blandishments about globalization, the emphasis on institutions as equilibrium solutions neglects how actors mobilize resources to impose or defend an institutional order, 'even when the outcomes of these arrangements are suboptimal, inefficient and inequalitarian' (Peck and Theodore, 2007: 755). As Acemoglu (2003: 29) observes, 'institutions not only affect the size of the social pie, but also how it is distributed', and this makes institutional change politically contentious. A similar insight emerges from literature on the 'developmental state' which emphasizes how relationships between government, industry and labour shape patterns of growth, but pays attention to the distributional consequences of these arrangements (Chang, 2010; Evans, 2010). Regional institutions frequently are presented as mechanisms for the mitigation of collective action problems in the face of the challenge of development, but cooperation exists alongside conflict and in this context 'politics mediate the relationship between institutions and economic performance' (Dellepiane-Avellaneda, 2009: 211; see also Wood, 2011) – a point which requires more attention from economists and economic geographers.

#### **IV Institutions, regions and the political economy of development**

The literature on the political economy of growth, which is frequently referenced but less often analysed in the discussion of regional institutions, offers important insights on the role of political institutions in the development process. There is a strong case for geographers to pay fuller attention to this literature (cf. Farole et al., 2011). Helpman's (2004) survey shows how differences in rates of economic growth can be attributed to the accumulation of physical and human capital and improvements in total factor productivity, together with the

effects of technological change and how these shape patterns of trade but, after accounting for these contributions, substantial variation in rates of growth remains. He concludes that more research is required into the role of 'political institutions', because these 'frame the struggle between the proponents of change and their opponents and thereby affect the ability to innovate and to implement new technologies' (p. 112).

For North (1990, 1991, 2005), the long-run evolution of the political-economic structure of a society is key to how choices are made and how they are able to shape economic policies and contribute to 'adaptive efficiency'; that is, the ability of some societies to adjust to shocks in a world characterized by ubiquitous uncertainty and ergodicity and under conditions of bounded rationality (cf. Simon, 1972). Institutions are the 'scaffolding that shapes human interaction' (North, 2005: 48) or 'the rules of the game in a society; more formally, the humanly devised constraints that shape human interaction' (North, 1990: 477). North eschews the rationality assumption which is central to conventional economics and asks for a deeper understanding of cognitive processes and how these are shaped by an inherited 'artifactual structure'; that is, the slowly accumulated beliefs, institutions, tools, instruments and technology that shape the choices of agents. Institutions integrate the diverse knowledge and beliefs that are necessary to solve economic problems, but the structure of the decision-making process determines whose beliefs matters, and there are limits to choices arising from 'the combination of beliefs, institutions, and artifactual structure that have been inherited from the past' (North, 2005: 80). North asserts the primacy of politics: 'It is the polity that defines and enforces the economic rules of the game and therefore is the primary source of economic performance' (North, 2005: 57). Political decisions are of a different character to economic decisions, reflecting complex, moral, ethical and

‘non-rational’ reasoning – or ‘diverse rationalities’ (DiMaggio, 1998) – but create the conditions in which markets and economies evolve. In this sense the development process is never simply a technical exercise.

Economic growth, in this perspective, is the result of the interaction of demographic change, knowledge and institutions, while growth is inhibited when the artifactual structure ‘gives rise to organizations whose survival depends on the perpetuation of those institutions and devote resources to preventing any alteration that threatens their survival’ (North, 2005: 52). Successful institutions often have ‘heterodox elements’ and combine ‘orthodox elements with local heresies’ (Rodrik, 2003: 13). Thus, Helpman (2004) concludes that institutions affect the incentives to reorganize production and distribution and to accumulate physical and human capital and, therefore, ‘are more fundamental determinants of economic growth than R&D or capital accumulation, human or physical’ (p. 139).

Despite the growth of scholarship in this field, Dellepiane-Avellaneda (2009: 203) emphasizes ‘our imperfect understanding of how politics interacts with institutions in shaping development policies and outcomes’. Acemoglu and Robinson (2012) explore this relationship, distinguishing between inclusive and extractive institutions in both the economy and polity. Societies characterized by inclusive institutions distribute power broadly, ensuring the proceeds of growth are allocated equitably. Societies characterized by extractive institutions limit political rights and redistribute resources to elites that have few incentives to invest and innovate. History matters because of the importance of ‘critical junctures’ – that is, major events or combinations of factors disrupting the existing economic or political balance in society that shape the path of economic and political institutions and lead to the creation of inclusive or extractive institutions through a process of ‘institutional drift’ – a

process which is not predetermined but entirely contingent (Acemoglu and Robinson, 2012).

The literature on institutions and development, which has its roots in scholarship on the political economy of growth, has been developed chiefly to explain differences in economic growth between countries and has tended to provide general inspiration to the debate on regional institutions rather than informing detailed research designs. Apart from suggestive statements about the institutional change in the American South (Acemoglu and Robinson, 2012: 351–357; North, 1990) and in La Rioja in Argentina (Acemoglu and Robinson, 2012: 384–388), this literature pays little attention to differences in subnational economic performance. But this body of theory has great relevance to the discussion of qualities and capacities of regional institutions, the nature of path dependency and, especially, the political factors that shape incentives for economic action. Farole et al. (2011) emphasize that geographers can enrich this debate by synthesizing and systematizing their insights into the embeddedness of economic agents in both territories and networks and how these affect micro-economic outcomes in a local context.

## V Research agendas

The contribution of political institutions to regional development has garnered increasing attention from scholars and policy-makers, but this remains a nascent field of study which opens many avenues for further research, some of which are addressed below.

The global trend to decentralized governance occurs at a critical juncture. Notably, the contemporary rise of regional institutions has been theorized as an aspect of the crisis of the Keynesian/Fordist state and the search for a new institutional order. The Keynesian state typically accorded a subordinate role to local and regional institutions which ‘were generally perceived as entities through which the state

fulfilled its objectives, rather than places of policy-making that needed to be legitimized in their own right' (Tijmstra, 2011: 37). The crisis of the Keynesian state has destabilized the nationalized scalar fix and sparked the search for new (multi-scalar) ones (Brenner, 2009; Pike and Tomaney, 2009). A perceived failure of the Keynesian/Fordist state was its suppression of 'the necessary role of local knowledge and knowhow' (Scott, 1998: 6) in the flawed pursuit of 'legibility', that is total mastery of social and economic processes. The rise of regional institutions reflected in part the belief that nationally managed Keynesianism was insufficiently adept at overseeing large-scale and diverse regional change, providing evidence that 'illegibility ... remains a reliable resource for political autonomy' (Scott, 1998: 54). A diversity of regional institutions, moreover, creates the conditions for political innovation, as expressed in Louis Brandeis' famous dissenting US Supreme Court judgement: 'It is one of the happy accidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory, and try novel social and economic experiments without risk to the rest of the country' (New State Ice Co. v. Liebmann, 285 USA 262, 311, 1932).

In the post-Keynesian era, regional and local institutions assume, then, 'an increasingly formative role in shaping economic activity' as part of a general shift from macro-economic regulation to a more decentralized regime of 'micro-socio-institutional regulation' (Martin, 2000: 91; see also Crouch et al., 2009). Hall and Soskice (2001) seek to explain the institutional 'varieties of capitalism' in terms of differences in the micro-economics of firm behaviour and labour markets and their regulation (see Crouch et al., 2009, for an attempt to extend this approach to the regional scale). However, while it is vital to assess how regions with ostensibly similar assets and endowments adapt differently, we also require an awareness of how regions are embedded in wider political-

economic-territorial frameworks (Mackinnon et al., 2009).

To date, research has demonstrated the variable quality of regional institutions but has yet to illuminate the processes which produce such differences, leading Charron et al. (2012a: 15) to ask 'which cultural legacies, economic variables or institutional factors may explain the notable regional differences on governance?'. Farole et al. (2011) identify the need 'to shed light on when such identities bring groups together under a common governance framework in such a way that there is ongoing growth-enabling problem solving, and when such identities effectively lead to paralysis and stasis' (p. 71). Brenner and Wachsmuth (2012) suggest that territorial alliances to promote economic growth within a particular city or region are generally embedded in social groups that are themselves entrenched in immobile infrastructures and fixed capital. But even in regions with similar economic profiles, the forms and outcomes of such alliances are diverse (Putnam, 1993; Safford, 2009). In short, we need 'a richer account of where good institutions come from, the shape they take, and how they need to evolve to support long-term growth' (Rodrik, 2003: 12).

The methodological challenges of studying the impacts of regional institutions are significant. As Rodríguez-Pose (2013) notes, the question of endogeneity looms large in this debate: institutions are both cause and consequence of economic development and this makes the study of their impacts especially challenging. From markedly different theoretical starting points, both Chang (2011) and Glaeser et al. (2004) dispute the evidence that institutions cause economic growth rather than growth improving institutions. To date, quantitative analyses have been better at highlighting differences in the quality of institutions but largely unsuccessful at providing explanations for these differences. Rodrik (2003) argues that case studies and econometric analyses are not substitutes in the study of institutions, but rather are



complementary, and makes the case for the use of ‘analytical narratives’, albeit this approach to date has rather narrowly drawn on rational choice and game theory to develop its explanatory frameworks. But there is a strong case for developing approaches – such as the extended case method proposed by Burawoy (1998) – that recognize the importance of both context specificity and the historical contingency of institutional development. Farole et al. (2011) observe that geographers have contributed important insights into how local institutions matter that could enhance this debate; the challenge is to systematize these findings through larger-scale quantitative and qualitative studies grounded in generalizable frameworks in order to identify the regularities in how institutions shape economic performance.

Finally, we must place our deliberations about the role of local and regional government in the context of debates about the relationship between democracy and development. For Sen (1999: 153), ‘debate, criticism, and dissent, are central to the processes of generating informed and reflected choices . . . [and] are crucial to the formation of values and priorities’. Preferences cannot be given independently of public discussion, while open dialogue is often underestimated in assessing social and political problems. However, as the literature on the developmental state highlights, rapid economic growth can occur under authoritarian political institutions. Despite the recent growth in the number of democratic jurisdictions, moreover, such societies are themselves being transformed by the growth of judicial activism, the decline of mass politics and electoral participation, the growth of corporate influence and the rise in inequality (e.g. Crouch, 2004). These arguments are amplified under conditions of austerity, where democratic institutions, including local and regional governments, become transmission mechanisms for the priorities of ‘global capital’, ‘bond markets’ and other such abstractions (Streeck and Schäfer, 2013; Tomaney et al., 2010).

A number of conclusions for the debate on regional development can be drawn from this discussion. First, institutions develop over the long run. The creation of effective institutions might be critical for regional development, but they cannot offer a quick fix. Second, institutions are concerned not merely with establishing the technical conditions for growth but also with the production of social and political values and are the focus for questions of what kind of local and regional development and for whom (Pike et al., 2007). Finally, the task of translating these insights into policy recommendations has hardly begun.

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