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# NEWGOV
# New Modes of Governance

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Priority 7 – Citizens and Governance in the Knowledge-based Society

## Governing sub-national/regional institutional change: Evolution of regional (sub-national) development regimes – challenges for institution building in the CEE countries and sub-national institutional experimentation

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## Summary

The new Central European member countries of the EU face a double governance challenge: the first is to find new modes of socio-economic governance that could make sub-national economic development sustainable and more inclusive, the second governance challenge they face is to find the mode of governing sub-national policy making and implementation that could effectively monitor and support experimentation with newer forms of socio-economic governance. The paper outlines a conceptual framework for the discussion of diverse modes of governing regional development and contrasts the evolution of the regional developmental regimes in the Czech Republic, Hungary and Poland prior to the introduction of the rules and procedures of the EU's regional policy making and implementation regime – the oldest of the 'new forms of governance' within the EU.

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## Introduction: Governing sub-national/regional institutional change[1]

That development is about building and transforming institutions is growing accepted in the literature on economic transformation and development (Evans, 2004). What exactly the 'right' institutions are that could serve development and what is the 'right' way of governing institutional change is, however, a contested issue. The traditional view, dominant until the 1990s was that identifying the right institutions is a technocratic expert business and it should be the prerogative of states and different developmental organizations to impose these institutions on the subjects of development wherever they are. This view has been challenged both in the scholarly literature and by international developmental organizations who claimed that institutions that fit one environment might not have the same effects in another environment, softer methods of coordinated institution building involving diverse types of stakeholders both in the design and the implementation might produce more lasting institutions and in a world where actors have to adjust continuously to rapid and uncertain change institutional 'monocropping' might just undermine the adaptability of the units of development (Evans, 2004, Sabel, 1994, 1996; Helper, MacDuffie, Paul and Sabel, 2000, Grabher and Stark, 1997). The goal, the representatives of this new approach hold, should be to encourage institutional experimentation on the ground, and, govern institutional change in a framework that distributes authority among stakeholders and helps the dialogue and learning across units of development.

These issues are particularly important for the Central European new member countries of the European Union that have converged to the EU15 at the level of market making during the last decade, but have diverged from them at the level of nurturing new, non-hierarchical forms of governance both at sub-national levels, and within the economy. Throughout the last decade the would-be new member countries of the East were busy to fulfill the so called Copenhagen criteria of convergence in building the institutions of a functioning *domestic* market order. This process was largely about strengthening central state capacities to uphold economic freedoms, and, to administer and regulate domestic markets (Bruszt, 2002a). During the same period the countries in the West were at least as busy to diverge from them in the process of fulfilling the so called Maastricht criteria of building a functioning *transnational* market order. This process, among others, involved the transfer of large part of basic domestic state capabilities to govern markets to supranational level, and, in most of the countries of the EU 15, the spreading of non-hierarchical institutions of governing voluntary cooperation among diverse state and non-state actors, largely with the function to substitute for the lost central state capacities to coordinate among the diverse goals of economic and social development. While by the time of the enlargement most of the countries of the EU15 had weakened central governments, stronger non-state actors and a host of (re) invented 'new' forms of governance, various non-hierarchical modes of coordinating among diverse actors and across policy areas, the new members have arrived to the EU with strong administrative and regulative states, weak sub-national institutions, weak non-state actors and with weak forms of economic and policy governance that could make their markets more inclusive.

At the sub-national level the new Central European member countries face growing a double governance challenge. At the level of local and regional economies they have to search for new forms of governance that could substitute for the deficiencies of the defunct hierarchical steering of development and correct for market failures by way of coordinated action among

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1 We will use the term sub-national because the concept of region came to these countries only in the second half of the 90's. The closer we get to the late 90's the more we will be interested in the emergence of the region as a unit of analysis. For the earlier part of the 90s' the focus is on the local and county levels (except of Poland) and than on the remaking of the relationships among the actors and institutions at the different levels of the state.

various local state and non state actors to mobilize scarce resources and increase local and regional level problem-solving capacity. In this search for new forms of socio-economic governance, these countries do not have to start from the scratch. Throughout the nineties, a variety of new economic and developmental governance structures have emerged at the level of local and regional economies. These include among others different types of inter-enterprise networks; various forms of co-operation between local and regional state structures, educational institutions, labour offices and NGOs; voluntary developmental associations among local self-governments, firms and local civic organizations, different types of flexible project networks with actors continuously combining goals and participating partners or diverse kinds of regional development agencies acting in some places as semi-independent NGO's and in other places as share-holding companies (Dornish, 1997, 2002, 2003; Keune, 2000, Keune, Kis and Toth, 2004, McDermott 2002, Stark and Bruszt, 1998, McDermott, 2002, 2004). Also, during the nineties one could witness the rapid transnationalizing of the "local" as firms became parts of transnational production chains, local governments and civic organizations engaged growing in diverse forms of transnational forms of interactions and representatives of different transnational development assistance schemes appeared in the region to promote new collaborative institutions. As a result, regions and localities have became sites of institutional experimentation where local, regional, national and transnational actors interact, and where various types of public-private co-operation have emerged (Stark and Vedres, forthcoming; Keune, 2000, Keune, Kis and Toth, 2004, Bruszt and Vedres, 2005).

In most of the cases these experimentations with new forms of governing local problem solving are weak, have limited scope and durability, they are weakly monitored, face problems of collective action, and in general, they depend excessively on the very same hierarchical development regime the deficiencies of which they are supposed to correct. In most of these countries, decision making about both the priorities of sub-national development and about the right means to achieve these goals happens in a hierarchical framework in which agencies of the central state dominate, state and non-state actors at the local and regional levels can play at the best marginal role and that gives little autonomy to local and regional state actors to experiment with new forms of local problem solving. Instead of helping local experimentation with new forms of socio-economic governance, this institutional framework of sub-national developmental decision making and implementation promotes institutional monocropping and does not encourage local and regional governments to monitor and nurture institutional experimentation on the ground. In other CEE countries, there is some policy coordination that involves the different levels of government in defining the goals and means of economic development and central governments empowered a variety of national and sub-national government actors to explore new institutional roles to support collaborative problem-solving institutions in local and regional economies (McDermott, 2003). Even in these cases, as we found in this present research, formalization of the distribution of powers and roles among the different actors is weak, and if it conflicts with their interests central state actors can retake the rights of lower level actors, they can take away large part of their resources and re-establish the hierarchical mode of governing sub-national development.

All in all, if the first governance challenge CEE countries face at the local and regional levels is to find new modes of socio-economic governance that could make sub-national economic development sustainable and more inclusive, the second governance challenge they face is to find the mode of governing sub-national policy making and implementation that could effectively monitor and support institutional experimentation.

For those regional actors in these countries who were most concerned with this second challenge, the early 1990's version of the EU's regional policy regime served as the template for a 'higher order governance arrangement' (Herrigel, 2004) that can make developmental policy making more inclusive and, at the same time, administer, monitor and nurture the search for new forms of socio-economic governance and serve as a mechanism for transferring knowledge produced in one locality to others. Linked to the Structural Funds, the EU's regional policy making and implementation regime is the oldest of what is now called 'New Forms of Governance' within the EU (Hooge, 1998, Keating, 2000, 2004, Ansell, 2000). In its organizing principles and operating mode, at least in its early version, it represented roughly the opposite of the hierarchical state centered regional developmental governance that is dominant now in the CEE countries. Labeled sometimes as networked form of policy governance or multi-level governance, its principles included *distributed authority* in defining the goals and means of regional development, *integration* that implied policy coordination across levels and branches of government and *partnership* that first implied the inclusion in the decision-making lower level state actors, to be extended later to include diversity of social partners and NGOs.

One of the most important organizing principles of the early nineties version of this new form of governance was extended *political* accountability that did not allow any state and non state participant in the different levels to impose a single definition of priorities and/or means to achieve these priorities, forced actors in the several levels of governance to take into account diverse definitions of the goals to be served and institutionalized continuous search for accommodation among diverse interests and principles of evaluation.

In the pre-accession period, local and regional actors in the CEE countries got acquainted selectively with the diverse elements of this new mode of governing regional policy making and implementation through the mediation of diverse EU assistance schemes. Some of the EU programs have stressed more the principle of partnership, others put the stress somewhat misleadingly on decentralization and until the late 1990s the Commission has stressed a vaguely defined multi-level governance and 'regionalism' (Hughes, Sasse and Gordon, 2004). By the time the European regional policy making regime has actually reached these countries and the new member countries had to adopt its rules and procedures its organizing principles have dramatically changed. Perhaps the most important of these changes was that the Commission put the stress in building an EU conform regional developmental regime on *technical and financial* accountability, leaving the issue of extended *political* accountability largely on the side and giving central states the prerogatives to control regional policy making and implementation.

In this project we are interested in the examination of the evolution of regional developmental regimes, diverse modes of governing sub-national policy making and implementation in three Central European countries: the Czech Republic, Hungary and Poland.. In the first period of our research our focus is on the emergence and evolution of different developmental regimes in these countries prior to the application of the NMG, i.e. rules and principles of the EUs regional developmental policies[2].

Based on the existing secondary literature and interviews with regional actors in these countries we have also tried to get an overview about experimentation with diverse 'neither state-nor market' modes of socio-economic governance primarily with the goal to identify mechanisms that mediate between the characteristics of the mode of governing sub-national policy making and the new modes of socio-economic governance. We will come back to the study of these mechanisms in the third stage of our research, in this first stage our goal was solely to get a sense about the way the characteristics of the regional developmental regime shape (enable and/or deter) experimentation with new forms of socio-economic governance.

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2 In separate deliverables, we provide detailed account on the evolution of regional developmental regimes in these three countries.

Our focus, however, was on the emergence and evolution of different developmental regimes in these countries. This prepares the ground for the second stage of our research. In that second stage, we want to explore how the divergent legacies of the previous experimentation with regional developmental regimes interacted with the uniform regional developmental policies of the EU and how these interactions might change the properties of the regional developmental regimes in these countries and with that – a research question for the third period of our inquiry- institutional experimentation on the ground. We thus study the role the oldest of the European NMGs played in altering regional policy making and implementation in the CEE countries. This NMG looked very old by the time it has arrived to the CEE countries. It would be even tempting to get to the fast conclusion that the implementation of the rules and procedures of the European regional developmental regime (ERDR) has just reintroduced central planning in these countries. Sectoral ministries bargain with each other involving largely in informal ways sub-national actors in preparing National Developmental Plans; regional and local governments have limited or no autonomy to define their own developmental programs and non-state actors in this regime have the right to compete for participating in the *implementation* of developmental programs the priorities of which were defined largely in their absence[3]. The picture is, however, not so simple. Experimentation with different state reforms and reforms to alter the mode of governing regional developmental policy making and implementation has left different institutional legacies in these countries that have effects on the way the ERDR was implemented in these countries. In some countries the rules and principles of ERDR have just strengthened ongoing (re)centralization processes, in others they have conflicted with ongoing reform attempts. Different EU assistance programs related to the preparing of local and regional actors to the implementation of the ERDR have familiarized local and regional actors with principles like partnership and have linked them to Europe wide policy networks. How and with what chances will these actors will be able to use the multiple levels and mechanisms of this multilevel policy making regime to alter/modify the ‘new’ rules is still an open question.

A related question that we would like to explore during the different stages of this research is the effect of the ERDR on state capacities. The EUs new regional developmental policies put the stress on strengthening administrative state capacities in order to increase the ‘absorption capacities’ of these countries and cared much less about extending the political accountability of central states. The effects of these new rules might be deleterious. The strengthening of the decision-making prerogatives of central states in these countries might go hand in hand with the weakening of their political accountability and their capacity to use the organization of diversity of heterogeneous interests to counteract the factional pressure of the organization of homogeneous interests[4]. In more simple terms: the stress on technical and financial accountability at the price of extended political accountability might have the paradoxical effect that in the end central states will be ‘absorbed’ by territorial and sectoral interests and clientelistic coalitions.

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3 Here I talk, to use the word of David Dornish, about the ‘projectification’ of regional development, in this case by the new rules of developmental planning that forces local actors to combine and compete for the right to implement parts of the developmental programs that were prepared largely in their absence. This procedure pretty much looks like the market economy version of the ‘socialist work competition’ whereby local communities and socialist brigades competed for the honour of fulfilling the goals of the five year plan

4 On the concept of extended accountability see Stark and Bruszt, 1998 , and, Bruszt, 2002b

## Institutional experimentations

Our research is somewhere between those projects in the consortium that examine new modes of policy governance primarily at the EU level, and those, like the one directed by Colin Crouch, that are primarily concerned with new or not so new modes of socio-economic governance. Our study of the evolution of the mode of governing regional policy making and implementation focuses on a meso-level governance mechanism that is intimately linked and shaped by (changes in) EU level forms of policy governance and that represents a higher order governance arrangement from the viewpoint of the diverse socio-economic modes of governance within local and regional economies shaping and constraining their developmental possibilities. The simple idea that lies behind the assertion that this meso-level mode of governance represents a higher order governance arrangement for the diverse experimental or new or non-hierarchical ( I use these words interchangeably) socio-economic modes of governance, is that it is not 'The State' but a concrete state with specific characteristics and embedded in a particular way in its social environment that effects the sustainability, developmental capability, problem-solving capacity or the sheer survivability of the new forms of socio-economic governance. Here I draw on the literature on developmental states, flexible developmental states, the embedded politics approach and works on decentralized institutional experimentation (Evans, 1995, 2004, Sabel, 1994, 1996, Dornisch, 1997, 2002, 1996; O'Riain, 2004, McDermott, 2002, 2004).

As Colin has noted in his paper, and as it is stressed in many contributions in the NewGov consortium, the state as a form of governance plays a basic role in the coming about, functioning and the developmental possibilities of different non-hierarchical modes of socio-economic governance. By changing the distribution of power among different actors in the local economies and societies, by altering their incentives, by setting the rules of co-operation and monitoring collective action, states can bring about and develop collaborative network forms of governance, developmental association in situations where lack of trust, fear from holdup and other problems of collective action prevent local actors from moving out from non-collaborative low equilibrium traps (Sabel, 1994, 1996, McDermott, 2002, 2004). By providing resources to actors in these governance mechanisms according to rules that nurture competition, states might induce learning on the ground and by providing and organizing channels for mediating among diverse local experimentations, states might induce knowledge transfer across domains and among different levels of the state.

State capacity to play a role of nurturing and monitoring institutional experimentation on the ground is, however, largely the function of the way political power is distributed within regional policy making and implementation regimes and the way decision making is embedded in regional and local societies. A state that is centralized, has fragmented decision making structure, has no regularized ties to lower level state and non-state actors and that defines the goals and the means of local and regional development in an exclusionary way has different capacities to monitor and support experimentation with socio-economic forms of governance than a state that defines the goals and means of local development embedded in a network of local and regional state and non state actors and that gives autonomy and incentives to local and regional governments to experiment with new roles and new ways of directing development. The 'political economy problem', as Peter Evans put it, of local institutional experimentation is that it is dependent on the way political power is distributed in its environment (Evans, 2004). Experimentations with new forms of governing social and economic action might imply redistribution of political authority and controlling rights over resources and situations that might make the self-interest of central authorities, technocrats and political parties in a centralized developmental regime to redistribute authority and opportunities might be exceptional and infrequent.

In this part of our research we have tried to get a general overview about experimentation with diverse 'neither state-nor market' modes of socio-economic governance primarily with the goal to identify mechanisms that mediate between the characteristics of the mode of governing sub-national policy making and the new modes of socio-economic governance. We will come back to the study of these mechanisms in the third stage of our research, in this first stage our goal was solely to get a sense about the way the characteristics of the regional developmental regime shape (enable and/or deter) experimentation with new forms of socio-economic governance.

By institutional experimentation we refer to more or less stable arrangements that were created by local, regional and national actors to coordinate, govern their interactions in order to face the diverse challenges of the economic transformation. Unlike Colin and his collaborators, we did not concentrate at this stage of our research on the ecology of governance mechanism in a given specific territorial unit, our goal at this stage was solely to get a 'directory', a general overview of non-hierarchical forms of problem-solving in these countries in two sub-fields: firm restructuring and addressing problems of labour market dislocations.

Primarily states and markets governed economic change in these countries in the first years of the economic transformation and, except of the diverse inter-enterprise ownership networks linking local and national state and economic organizations, experimentation with other, or newer forms of governance started only few years after the starting of economic reforms (Stark and Bruszt, 1998). During the first phase of market making state power was excessively centralized in these countries, state reforms gave only minor powers to local self-governments and the weakly organized non state actors could play only marginal roles in influencing economic restructuring.

There are several studies that have discussed different elements of institutional experimentation in the CEE countries and several conceptions have been used to make sense of these developments.. The impression that one could get from the overview of this literature is that the sub-national level was a place of hectic experimentation throughout the 1990s with a wide variety of more known or invented institutions of solving problems of economic restructuring, addressing the problems of social and economic dislocations, or at a later stage, to nurture inter-firm relationship and bring in and use well FDI. We can find references to corporatist institutions that took over state functions to solve county level employment problems; developmental associations of self-governments formed by enterprising majors or entrepreneurs specialized in networking; national and sub-national state agencies with or without co-operation with private actors and/or their associations to try to influence economic restructuring; regional financial institutions helping firms restructuring; private entities who were involved as shareholders in regional development agencies; grass-roots involvement of local residents in financing or even carrying out infrastructural investments like water or telephone lines, deals of local authorities with foreign investors assuring that local residents would benefit from infrastructural improvements as a result of investments; business incubators, business zones and other business supporting organizations.

Some of these experiments where short-lived, others became more enduring frameworks for collective problem solving. Overall, we found big variation across our three countries at the level of institutional experimentation. In the Czech Republic and Hungary regional and local level institutional experimentations were limited both in their numbers and their scope and the central state stood behind most of the more encompassing institutional experimentations. We found much more extensive institutional experimentation in Poland as well as a greater range and durability of relevant institutions. It was also in Poland that we find more extensive institutional experimentation initiated and sustained by actors in the regions (Dornish, 1997,2002, McDermott, 2000, 2004). While large part of variation among regions and localities *within* these countries can be explained primarily in a path-dependent way with reference to good endowments in social capital and/or routines of inter-enterprise or cross-sectoral collaboration, the leading post communist countries did not differ much in these types of endowments and variation *across* these countries was closely linked, according to the primary evidence that we have collected during this stage of the research, to the distribution of authority among the different levels of the state and the way non state actors got involved in developmental decision-making. In Poland the central state has started to experiment early on with devolving authority to regional and sometimes to lower levels of state and non-state actors, primarily in informal ways, to try to solve problems of economic restructuring and firms creation and it has created a host of supporting institutions to improve the conditions of collaboration among diverse state and non-state actors (McDermott, 2002, 2004). In the Czech Republic and Hungary local self governments were fragmented and weak, intermediary levels of the state were either absent or were deprived of the room to experiment large scale with local problem solving. In these countries primarily central state programs tried to alleviate local and regional labor market problems and problems of economic restructuring and if the central state gave some powers to local actors to experiment on their own during times of crisis, these powers were retaken after the crisis was over. One example for this pattern of devolution of central state power was the creation of tripartite County Labor Market Councils (CLMC) in Hungary. In 1991, when the labor market dislocations were at their worst, the government, partly under the pressure of the trade unions allowed for the creation of CLMCs in all the 19 counties and created a tripartite National Labor Market Council (NLMC) to monitor and coordinate the activity of the CLMCs. The NLMC and the CLMCs controlled the state funds designed for solving labor market dislocations, decision-making rights were evenly distributed among the participating actors and in their experimentations with diverse forms and modes of solving labor market problems the councils were given also the right to propose changes in the legislation that has created them to improve their capacity to monitor the effects of their decisions. Once the hard times were over, after the first change in government, incumbents retook the control over state funds and marginalized the role of local actors facing only weak resistance from the highly dependent counties, the weak unions and business associations.

Similar was the story of Regional Developmental Councils (RDC) and Regional Developmental Agencies (RDA) that were created largely in order to fulfill the requirements of the rules of EUs Structural Funds. The RDCs were never given more than minimal amount of resources, their scope of activity has been limited, the central state has packed their board with appointees from the central ministries and despite the explicit rules of the European regional developmental policies, it has prevented social partners and civic organizations from participating in the work of the RDAs until 2005 (see the detailed analysis of RDAs in the Hungarian report). While in Poland the regional and local governments were in several places key shareholders in RDAs that were formed as shareholding companies and could administer large scale territorial restructuring programs, in the Czech Republic until the lat nineties RDA were closer to weak associations of local elite fractions (interview with RDA Most).

All in all, in Hungary and the Czech Republic we found that the dominant form of problem solving in these two fields was hierarchical, state directed, involving local state and non state actors only in consultative status at the best. Most of these institutions focused on specific problems without much policy coordination. In both countries there were several non-hierarchical institutions for local-regional problems solving. All these were more inclusive and associative in their nature, they have accommodated diverse selective criteria, had multiple accountability to diverse constituencies and had a non-hierarchical, deliberative decision-making style. Also in common in these modes of institutional experimentation was that all of them had low durability and local actors could not defend them from re-centralizing and re-fashioning by the central state. Both the RDAs and the CLMCs got under central state control that has drastically reduced their autonomy, directly intervened in defining their developmental goals and reduced the status of participating local state and non-state actors to consultative status. In the case of the voluntary developmental associations of municipalities, state regulation has altered the incentives of the participating municipalities with the effect of formally excluding non-state actors from developmental decision-making. In Poland most of the forms of institutional experimentation we found were related to economic restructuring and firm creation. Here we find more examples of grassroots level experimentation with regional and local developmental agencies and examples of central and regional state created institutions of governing economic restructuring with the inclusion of sub-national state and non-state (primarily business) actors. Most of these institutions are non-hierarchical, deliberative in their decision-making style. What differentiates them most from the Czech and Hungarian mechanism of governing local problem-solving is their durability and their capacity for learning.

## Regional developmental regimes

By regional developmental regime we refer to the overall patterns of relationship among local, regional, national state and non-state actors with a focus on the rules of making binding decisions on the goals and means of sub-national development, and, on the distribution of resources and opportunities for autonomous action for actors at the lower levels of the state.

The definition of developmental goals and the means to achieve them might happen in a centralized exclusionary way with or without coordination among the different branches of government. Alternatively, it can also happen in a more consultative way involving coordination among the different branches and levels of the state with the inclusion of diverse types of non-state actors. The rules of decision making define who with what resources and in what roles can participate in the making of binding decisions on regional developmental questions and what sort of arrangements are created by the state to nurture institutional experimentation.

The specifics of the distribution of resources and opportunities for autonomous action for actors at the lower levels of the state are defined primarily by the outcomes of state reforms in these countries. The room and or incentives for institutional experimentation given by these reforms might range from low to high, from situations where sub-national actors have little or no resources and/or autonomy to create and uphold experimental forms of governance to situations where both are high. This might be called the ‘vertical’ dimension of the regional developmental regime in contrast to the decision making rules at the central level that we might call the ‘horizontal’ dimension of a regional developmental regime.

These two elementary dimensions of a mode of governing regional developmental policy making and implementation might not go hand in hand. **Devolution**, or **decentralization** of some powers, involving increased decision-making rights and fiscal autonomy at the lower levels of the state might or might not go together with de facto or de jure inclusion in the defining of the developmental priorities of the central state. In the later case we speak of **distribution** of authority that might happen with or without formal decentralization and regionalization.

Distributed authority also implies distributed intelligence meaning that no actor participating in the decision-making has the exclusive prerogative to know what is the ‘right’ definition of the priorities of the development, and the goals and means of development are determined in a deliberative way, in ideal cases with participating actors having veto powers and thus forced to search to find complementarities among diverse priorities[5].

In concrete cases some actors might be ‘more equal’ then the others and decision-makers can be forced to take into account other definitions of the public good represented by other state

[5] On the concept of distributed authority and distributed intelligence see Bruszt, 2002

and non state actors to different degrees ranging from low to high. In a minimalist sense, we can speak of extended political accountability of decision makers (what is the synonym for non-hierarchical decision making) when binding decisions reflect the accommodation of some diverse interests. Extended accountability, or non-hierarchical decision-making is not solely about degree (what range of interests and considerations can have a chance to count), it might be also about variation in kind (what types of actors can have a voice and see their priorities represented in binding decisions)

We refer to the combination of the rules of developmental policy making at the central level and the distribution of resources and opportunities for institutional experimentation at the sub-national levels as a developmental regime.

A regional development regime of a given country can be described and analysed from the viewpoint of:

1. how it shapes and constrains the incentives, the room of action and the availability of different types of resources for sub-national actors to experiment with diverse mechanisms of governing local problem solving, and
2. how it tolerates, upholds, nurtures and organizes sub-national experimentation by the way of the distribution of authority and intelligence within the area of making binding state decisions on regional developmental policies.

Based on these above two dimensions we can differentiate four ideal types of governing sub-national institutional experimentation each with different expected effects on the evolution and the dynamics of sub-national institutional experimentation.

1. In a hierarchical and centralized regional developmental regime specific central state agencies have the exclusive monopoly to define regional developmental goals and the means to achieve these goals. There is weak policy coordination and consultation if there is any at all. One definition of priorities dominates, the sub-national actors do not have access to policy making and they have weak incentives and capacity to experiment with alternative solutions. The ecology of sub-national experimental institutions in such a developmental regime is likely to be sparse; the dynamics of institutional development might go from the testing of one centrally imposed institution to the testing of the other one. We might find in the regions several modes of governance (e.g. state, market, association, hybrid), but their functioning is defined by the central state and they have limited or no accountability to local actors. In the 'shadow of the hierarchy', some decentralized experimentations might be tolerated but their scope is limited and their durability is low.
2. In a hierarchical and decentralized regional development regime lower levels of the state have some formally defended rights, resources and room to act, but the 'right' distribution of latitudes is continuously contested and in key areas of regional development policy the central state maintains the right to define policy priorities and the right ways to implement them without consulting other central state agencies or sub-national actors. Sub-national actors might have some room for institutional experimentation and might have some powers to force the central state actors to take part of their considerations into account when defining developmental goals. The ecology of sub-national experimental institutions might be more diverse than in the first ideal type but the dynamic of institutional development is largely dependent on the outcomes of ongoing struggles and compromises between actors at the different levels of the state.
3. In a regional developmental regime that combines inclusive policy making at the central level with vertical centralization, giving limited autonomy to actors from the lower levels, regional and local actors have to continuously negotiate the boundaries of their room. This ideal type differs from the second type in that in this regime there is a continuous search

for finding complementarities among the competing priorities of regional policies as defined by different central state agencies and the inclusion of sub-national actors are part of the normal policy process. It differs from the ideal type of networked polity (the fourth ideal type, or the idealized version of the EUs regional developmental regime) in that the vertical disaggregating of state powers is not institutionalized, lower level actors do not have clearly defined rights and might play a more limited role in defining developmental priorities and ways to implement them. The ecology of the experimental institutions could be much more diverse then in the previous two types, the state might help with diverse supporting institutions for local experimentation, but the dynamic of institutional development primarily depends on the outcomes of deliberations and compromises among the different types of central state institutions in which sub-national actors might play second fiddle.

4. Finally the forth ideal type of regional development regimes is the national version of Ansell's networked polity and it is the closest to the idealized version of multi-level governance, applied to the policy area of regional developmental policies (Ansell, 2000). Distributed authority and distributed intelligence are the major characteristics of this regime in which local and regional actors have significant room for institutional experimentation. The state actively nurtures local experimentation with supporting institutions and helps in the transfer of locally generated knowledge by way of softer methods of coordination.

While none of our three cases corresponds exactly to any of these ideal types, the Hungarian regional developmental regime seems to be closer to the first ideal type than to the second type. The Hungarian regime contains some weak elements of regional decentralization, but the developmental priorities are primarily defined by central state agencies with some limited inclusion of non-state actors. From time to time there was experimentation with some functional decentralization, like the devolution of labour market policies to tripartite county labour market councils, or the creation of more encompassing territorial development councils, but weak sub-national actors did not have powers to defend these institutions from re-centralization.

The Czech regional developmental regime has moved from somewhere close to the centralized hierarchical pole in the direction of the decentralized hierarchical pole. Finally, the Polish regional developmental regime might have moved to a point between types 2 and 3.

Based on our operationalization of the two dimensions of the regional development regimes in these three countries we have summarized the characteristic differences across our cases in the table below

**Table 1: Regional Developmental Regimes in the Czech Republic, Hungary and Poland**

| | | Czech Republic | Hungary | Poland |
|---|---|---|---|---|
| 1 | **Level of fragmentation of municipalities** | High | High | Medium/ Low |
| 2 | **Level of financial autonomy of municipalities** | Low | Low | High |
| 3 | **County level** | No counties | Elected Assemblies | Elected Councils |
| | **Financial autonomy of Councils** | Low | Low | Low |
| 4 | **Regional Government** | Elected Assemblies at NUTS3 level<br>Statistical Regions at NUTS2 level | None | Elected Assemblies and Marshall |
| 5 | **Powers of regional government vis-à-vis deconcentrated state organs** | Medium | Weak | Power Sharing between elected Marshall and PM appointed Wojewoda |
| 6 | **Coordination among deconcentrated state organs** | Weak | Weak | Weak |
| 7 | **Capacity of regional government to make autonomous developmental programs** | Medium/Low | None | Medium/Low |
| 8 | **RDA/RDC**[6] | Loose ties to Regional Self. Government | Half of RDC Members Central State Appointed | Shareholding Company<br>Link to Marshall's Office |
| 9 | **Inclusion of SNGs in central state developmental programs** | Low | Low | Low |
| 10 | **Inclusion of non-state actors in regional policy making** | Low | Low | Low |
| 11 | **Inclusion of non-state actors in national developmental policy making** | Low | Low | Low |

Source: Based on the case studies on regional developmental regimes done by the research group in the Czech Republic, Hungary and Poland

One piece of evidence for the above characterization of the three countries can be found in the situation of their municipalities. Poland, with a population of 38 million, has about 2500 municipalities, whereas the Czech Republic, with a population of 10 million, has 6249, and Hungary, also with a population of 10 million, has 3130. Thus it is clear that the municipal level of administration in the Czech Republic and Hungary is extremely fragmented. This implies far-reaching inefficiencies (inability to realize economies of scale) and financial weakness of

6 Regional Developmental Agency (RDA) and Regional Developmental Council (RDC)

the smaller municipalities (e.g., a single municipality, especially in a rural area, is often unable to afford its own waste water treatment system). Moreover, the system of municipal finance has been much less stable in the Czech Republic than in Poland since the beginning of the transformation. Polish municipalities receive shares of income taxes collected on their territory, whereas tax sharing in the Czech Republic is from the general pool of taxes collected by the state; thus the link between local government revenues and local economic development is weaker in the Czech Republic than in Poland. A further indicator of the greater fiscal autonomy of Polish municipalities is the much greater share of revenue obtained from the local property tax in Poland than in the Czech Republic.

Further evidence can be found in a comparison of the three countries' experience with reforms creating autonomous subnational administration above the municipal level. Hungary has done the least in this area, not going beyond reintroduction of democratic elections in its counties in October 1990. Democratically elected county administrations were reconstituted in Poland on 1 January, 1999, and the 13 Czech counties were introduced in late 2000, and some differences indicate the more decentralized and distributed nature of power in the Polish system. For example, in both Hungary and the Czech Republic, labour offices are deconcentrated state offices rather than county offices (this is not the case in Poland, where, after a struggle in 1999 by the labour ministry to retain control over them, they were handed over to the counties). At the NUTS 2 (regional) level, only Poland has a genuine administrative unit – the *województwo* or voivodeship. In the other two countries there are no autonomous, elected regional governments. Sixteen autonomous regional governments were introduced in Poland on 1 January, 1999. The seven regions in Hungary and eight regions in the Czech Republic have no elected government and serve a largely statistical purpose, though they have Regional Development Councils (with representatives of the central government and the counties – including large cities with county rights) and Regional Development Agencies. In Poland, we observe a model similar to that of France, with regional administration divided between a self-governing part and one which carries out deconcentrated central state functions (as in the case of the French prefect).

The following table illustrates the level of fiscal decentralization in the three countries. As we see, on the basis of the indicators used, Poland is fairly far ahead of the other two countries in terms of fiscal decentralization, but all three are way behind leaders in the OECD (especially Scandinavian countries).

**Table 2: Indicators of fiscal decentralization across countries in 1990s**

| Country | Subnational government taxes as % of total taxes, 1995 | Summary indicator of taxing powers[1], 1995 | Subnational share of government expenditure, 1999 |
|---|---|---|---|
| **Sweden** | 32.6 | 15.5 | ... |
| **Spain** | 13.3 | 2.9 | ... |
| **Germany** | 29.0 | 1.4 | ... |
| **Poland** | 7.5 | 1.4 | 27.6 |
| **Czech Republic** | 12.9 | 0.5 | 18.3 |
| **Hungary** | 2.6 | 0.3 | 23.7 |

[1] The summary indicator is the product of (a) the ratio of sub-national government taxes to GDP and (b) the percentage of their total taxes for which sub-national governments hold full discretion over the tax rate, the tax base, or both the tax rate and the tax base.

Sources: OECD Revenue Statistics and OECD (1999), cited in Joumard, Kongsrud (2003); OECD (2001, 2002), cited in Meloche et al. (2004)

Looking at total revenues as opposed to total taxes (thus including, e.g., user fees), Meloche et al. (2004), using data from OECD (2001, 2002), show that among ten Central European transition countries, Poland has both the highest share of subnational government revenues in total government revenues and the highest share of subnational government own revenues in total government revenues. Hungary is in second place with respect to the share of subnational government revenues in total government revenues, and Hungary and the Czech Republic are roughly equal with respect to the share of subnational government own revenues in total government revenues (but far behind Poland).

If we look specifically at the regional level of government, we see very little fiscal autonomy of regional authorities in any of the three countries. In Hungary and the Czech Republic, as mentioned, the regional units simply serve statistical purposes and have no autonomy whatsoever, though they have some regional councils which are to participate in the regional development planning process. Only Poland has regional authorities with any fiscal autonomy.

The process by which the Czech reforms were introduced illustrates the country's shift toward a more decentralized approach. As in Poland, work on a reform creating an autonomous and democratically elected intermediate level of administration between the municipality and the state began shortly after the introduction of local self-government in 1990, but its completion was delayed by many years. Some of the delay was probably due to the ideological hostility of Václav Klaus, who opposed President Václav Havel's vision of a civil society with a wide range of channels for citizen involvement in public life, including non-government organizations and local political life. Klaus' vision was based, on one hand, on a Thatcherist form of radical individualism which was sceptical about any kind of collective behaviour, and on the other hand, on a preference for channelling the public behaviour of citizens through the mechanisms of representation by political parties at the central state level. The Klaus government did not make a serious effort to move the regionalization initiative forward until 1997. In the final months before the government's collapse, legislation was passed establishing thirteen regions (plus Prague); however, this legislation was of a purely geographic nature and left the questions of the competencies, organs and finances of the regions open. These questions were dealt with by the new social democratic government which took office in early 1998 and resolved in legislation adopted in March 2000, and the Czech regions saw their first elections in November 2000.

A major problem facing all three countries is the large amount of funding for regional development tasks which goes through deconcentrated state organs instead of autonomous subnational authorities' budgets. The lost opportunities created by the proliferation of special-purpose, off-budget funds and agencies represent one of the most important barriers to significant fiscal decentralization. Various off-budget funds, agencies and foundations are responsible for an enormous range of tasks including, for example, retirement insurance, highway construction, the restructuring of agriculture and rural areas, the rehabilitation of the handicapped, labour market policy implementation, and the regulation of weights and measures. In Poland in 1999, such central state off-budget funds accounted for over 16% of public expenditures (Owsiak et al., 2001).

Turning from fiscal issues to the question of policy-making powers in the area of regional development, we would like to briefly examine the question of regional development policy autonomy and the inclusion of sub national actors in the national level policy making process. With respect to the first question, we observe almost no regional policy-making autonomy in Hungary: county development councils and RDAs were established in 1996, but the level of funding is too low to allow for activity of any real significance; moreover, in only one of the three funds available for financing their activities are the monies not subject to earmarking by the central government. In the Czech Republic a number of regional development tasks are carried out at the county level (NUTS 3 regions). These include policy-making prerogatives in such areas as spatial planning and regional development, education, culture, transport and communications, healthcare, social welfare, environmental protection, and the protection of public order. Moreover, the statistical "cohesion [NUTS 2] regions" have councils to which the NUTS 3 regional councils delegate representatives; these cohesion regions are to play a central role in programming EU Structural Fund assistance to the country. In Poland, policy-making autonomy has, since 1999, been significant in theory but limited in practice due to the lack of financial resources (Polish policy-makers more or less explicitly designed the country's autonomous regional authorities as vehicles for absorption of EU Structural Funds which have only been available to them since May 2004).

What is the role of subnational actors in the regional level policy making process? Hungary has regional development councils and regional development agencies which are made up of representatives of counties and the central government. In addition to the fact that representation of regional actors is on a par with representation of the central government, these councils are characterized by the same problems (to an even greater degree) referred to in the case of the county development councils. In the Czech Republic, municipal associations were involved in the creation of the social democratic government's labour market policy in the late 1990s. Local and regional actors played a role in the decentralization policy making process, and although many municipal actors feared that the creation of another level of subnational government would weaken the municipal level, the Union of Cities and Municipalities played an important role in the reform process (it was, for example, consulted in the legislative process). In Poland since 2001, via a mechanism referred to as the regional contract, regional authorities create development plans and then receive funding for their implementation from the central budget. However, since the moment of birth of this institution, the central government has marginalized it, first by declaring the "contracts" to be non-binding and then by reducing the amounts of funding initially allocated for the contracts. Prior to the creation of autonomous regional authorities in 1999, one of the most interesting observations in Poland concerns the "identity crisis" of the state-appointed regional officials (voivodes). While they were officially to represent the state in the central regions and had no fiscal autonomy, cases were observed in which regional crises led to their siding with other regional actors in battles with the central government and used such resources as they had at their disposal to develop initiatives independently of the central government (see Dornisch, 1997, 2002, 2003). Finally, we note that associations of municipalities had some influence on the decentralization policy making process in the 1990s, as did councils in each of the 49 regions made up of delegates from the municipalities and the national self-government assembly made up of delegates from the regional councils.

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