

## Consortium Conference 2008: Synthesising NEWGOV Results

On 5<sup>th</sup> and 6<sup>th</sup> of June 2008, at the European University Institute in Florence, the New Modes of Governance Project convened for its fourth and final annual [Consortium Conference](#). Researchers from all clusters, projects and task force discussed their final research results, focussing on the emergence, execution, evolution and evaluation of new modes of governance. The NEWGOV Project will end on 31 August 2008.

Earlier this year, the NEWGOV Steering Committee drew up a list of 14 key questions that should help to systematise the results of the NEWGOV project and structure the final report for the Consortium as a whole. The conference discussed these questions both in separate cluster workshops and during two plenary sessions.

A number of scholars were invited to comment on the results presented. Maurizio Ferrera, leader of project no. 18a (see pages 7ff.), underlined that the Integrated Project has accomplished a tremendous amount of research and has generated many original and innovative empirical findings. Ferrera observed that the notion of new modes of governance is not totally uniform across the various clusters but it has a common core – the proposed questions provide a useful analytical container that will allow the reader to capture the substantive assets of what has been done.

Beate Kohler-Koch, co-ordinator of the CONNEX Network of Excellence and member of the NEWGOV Steering Committee, noticed that the empirical research of the projects has contributed to a more sober view to the enthusiasm that has embraced new modes of governance a few years ago. After all, new modes of governance have the tendency to push governing towards more informal, network ways of governing which are not that compatible with the standards of democratic representation and accountability.

Jacqueline Heinen, member of the NEWGOV Monitoring Group, point to some possible problems in synthesizing the results across clusters, with sub-projects producing a number of contradictory findings. She advocated a strategy of highlighting rather than suppressing the differences. Especially on the question of comparing Eastern and Western Europe, the project is commendable precisely for comparing and showing these differences. Heinen however regretted that while the gender dimension has been very present in the composition of the NEWGOV consortium, it was not much of a research topic despite many opportunities.

The final issue of the NEWGOV Newsletter (to be published in late autumn 2008) will be dedicated to the policy relevant questions addressed and answered by NEWGOV.

### NEWGOV's External Newsletter

The aim of the NEWGOV Project is to examine the transformation of governance in Europe (and beyond) by mapping, evaluating and analysing the emergence, execution, and evolution of what we refer to as 'New Modes of Governance' (NMG).

The pan-European Project is funded by the European Union under the Sixth Framework Programme from 2004 up to 2008. NEWGOV includes 24 projects and 2 transversal task forces and has around 120 participating researchers from some 35 institutions in Western and Eastern Europe.

The Newsletter can be downloaded at the project website [www.eu-newgov.org](http://www.eu-newgov.org) (fully hyperlinked) and is sent to a special email distribution list. To subscribe to this Newsletter, please send an email to: [NEWGOV@eui.eu](mailto:NEWGOV@eui.eu).

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## NEWGOV Cluster 4: Learning, Experimental Governance and Participation

The research projects in Cluster 4 study a wide range of modes of socio-economic governance at supranational, national and subnational levels, including the 'micro-level' of firms. Many of these modes present a mix of 'new' and 'old', or are relatively well-established governance modes emerging in new places. Still others are more clearly 'new modes of governance' (NMGs) and more completely substitute for older approaches.

The critical questions for analysis are:

1. Why did these socio-economic governance arrangements arise in the first place? Perhaps the main common thread for these changes in modes of governance is the set of challenges of socio-economic governance under European economic integration;
2. What do they have in common? One path forward is to think of them and their internal dynamics as 'commitment devices', i.e. institutional structures and relationships of governance with various attached incentive and opportunity structures, ex-ante costs and gains of membership, and penalties for defection. In that light, reform and innovation in these modes of governance can be seen as attempts to secure commitments and loyalty and render their functioning more effective and legitimate;
3. What are the implications of these developments for power structures and the allocation of competences across levels and among political and economic actors?

### 1. The Emergence of New Socio-Economic Modes of Governance

Regarding reasons for the emergence of new modes of socio-economic governance, although we find it difficult to generalise, global economic pressures, the expansion of EU policy authority, a reduced capacity for economic management by national governments, the demands of coordination in regional economic integration, and the growth in bottom-up demands for actor participation, all seem to be important factors.

Pressures from the EU seem to be especially important, above all in the proliferation of functional interest governance at numerous levels. The latter seem to provide the European Commission with an entry point for exerting influence in national policy arenas (e.g., via EU-oriented advocacy coalitions – see Obradovic *et al.*, project no. 24) that they cannot usually wield vis-à-vis parliamentary representatives and political parties. This trend can be seen as a form of multi-level 'state-building'. Technocratic and functional interest partnerships

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### Projects of Cluster Four

- 18a. [Distributive Politics, Learning and Reform: National Social Pacts](#)  
Project leaders: Martin Rhodes (EUI and Denver University), Jelle Visser (University of Amsterdam)
- 18b. [Distributive Politics, Learning and Reform: Administrative Partnerships](#)  
Project leaders: Maurizio Ferrera and Paolo Graziano (Bocconi University), and collaborators.
- 19a. [New Approaches to Economic Governance](#)  
Project leaders: Iain Begg and Waltraud Schelkle (LSE)
- 19b. [New Approaches to Economic Governance](#)  
Project leaders: Nicola Jabko (FNIS, CERIS)
20. [Varieties of Capitalism and Economic Governance in Central and Eastern Europe](#)  
Project leaders: Bob Hancké (LSE)
21. [New Corporate Governance Regimes in Europe](#)  
Project leader: Luc Renneboog (Tilburg University)
22. [Changing Governance Architecture of International Taxation](#)  
Project leader: Claudio Radaelli (Exeter University)
23. [Learning and Local Innovation System](#)  
Project leaders: Colin Crouch (EUI, Warwick Business School)
24. [Democratisation/Participation of Civil Society in New Modes of Governance](#)  
Project leader: Daniela Obradovic (Amsterdam University), Michal Federowicz (Polish Academy of Science), Martin Kay (Limerick University), David Lane (Cambridge University), Zdenka Mansfeldova (Czech Academy of Science, Institute of Sociology), Heiko Pleines (Research Centre for East European Studies at Bremen University)

gradually gain in influence against and in contest with conventional forms of political representation and policy making. The search for accountability and legitimacy tends to be infused into many of these initiatives.

At the subnational and national levels level, economic development and competition imperatives have inspired a proliferation of new relationship between private and public actors in all countries at the regional level (Graziano, Vesan and Regalia project no. 18b, Hancké no. 20, Crouch no. 23). In all of



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these cases, partnership with functional interest groups reveals that new problem loads and new complex economic development tasks lead relatively weak governments to engage other actors in forging and attaining 'common' goals. These all take the form of 'commitment devices' with relatively low *ex ante* costs of membership, and in which 'loyalty' is gained by side-payments and effective outcomes.

Public-private actor relationships and partnerships at the national level also take the form of new commitment devices (e.g.

'social pacts', with varying levels of *ex ante* membership costs and 'soft' penalties for defection) and have emerged in line with new policy loads and external pressures (from EMU and adaptation to the single market), especially where state-capacity has been limited in the presence of minority governments (Avdagic *et al.*, project no.18a). Open-ended experimentation and instability has been common in the adaptation, demise and revival of such partnerships. Also at the national level, we have seen significant innovations in corporate governance which create 'harder' commitments, including many changes in national corporate governance regulation (corporate law, codes of conduct which are legally enshrined) and a trend for individual firms to signal their 'quality' by adopting stricter corporate governance rules (Renneboog *et al.*, project no. 21).

At the supranational level, there has also been a period of experimentation and adaptation over the last decade or so as earlier modes of governance have been adapted to changing circumstances or in response to perceived ineffectiveness or failure. Schelkle and Begg (project no. 19a) explored the revision of the Stability and Growth Pact (SGP) in 2005. Schelkle argues that the revision of the Pact (creating SGP2) seems to have been another step in the creation of a regulatory state in fiscal surveillance – but one in which the reputational costs of defection from this particular commitment device are now more important than in the 'hard-rules' regime of SGP1.

In international tax regulation (Radaelli project no. 22), there has been a similar shift from an earlier experimentation with a hard-rules, formal framework –

in the context of the multilateral agreements that replaced the earlier bilateral conventions, and actions against non-member states listed as 'tax havens' – to a use of softer instruments (dialogue and information exchange, peer review, 'naming and shaming', timetables) which have turned out to be much more effective.

A vast number of declared policy goals have been pursued by NMGs. We would specify the following as being amongst the most important:

- The quest for greater policy efficiency and effectiveness;
- The search for strategic capacity by various level of government in the face of considerable economic uncertainty;
- The attempt to develop a medium-term orientation in policy making via policy community management to which certain key goals can be attached.
- The search for stability and control of increasingly heterogeneous policy communities;
- The greater inclusion of 'stakeholders' as 'partners' but simultaneously also their co-optation into EU-managed as well as nationally and locally-coordinated policy processes.

## 2. Governing via New 'Commitment Devices' and Regulatory Innovation

It is evident from our projects that the development of new 'commitment devices' have been central to the emergence of many NMGs. Thus, greater accountability and transparency have aimed to increase the scope of reputational assessment; and deliberation and network membership (or 'stakeholder ownership', to use Com-

mission jargon) have sought to reduce conflict and eliminate contestation of core policy goals. New regulatory systems have sought to use accountability and transparency as a source of self-policing via exposure to external scrutiny, increasing the reputational (and not just the financial) costs of rules infringement. Deliberation processes, meanwhile, seem everywhere to be linked simultaneously to building trust and loyalty, eliminating conflict, and mobilising joint resources.

In an example of the latter from corporate governance, Renneboog *et al.* (project no. 21) show how some parts of regulatory systems in member states have been harmonized through market pressure, leading to the enhancement of disclosure and transparency standards (e.g. the disclosure of control structures). Jabko (project no. 19b) argues that a variety of techniques (disclosure of minutes, of forecasts, and of monetary policy deliberations, etc.) have been designed to enhance transparency and accountability in central banking.

Schelkle and Begg (project no. 19a) show that in the case of the revised Stability and Growth Pact, reputational costs were raised by creating a number of legitimate exceptions. The policy was no longer 'one size fits all' (i.e. rigid inflation, deficit and debt criteria) but rather 'no more excuses' for repeated defection. More detailed surveillance creates a quasi-regulatory network among Treasury officials, national central bankers and national statistical offices, along with Eurostat and DG Ecfm.

Deliberation, on the other hand, is the aspiration of the revised Lisbon strategy which, post-Kok report, supposedly pushes for national ownership of reform processes. It does so in

part by calling for extensive consultation in the preparation and monitoring of the three year National Reform Programmes and for governments to appoint national 'Lisbon' co-ordinators. Neither has been as effective as promised. Surveillance and deliberation are not exactly compatible goals – revealing one contradiction in contemporary NMG development.

Avdagic *et al.* (project no. 18a) reveal that in the world of social pacting, deliberation and *quid pro quo* agreements, sometimes in the shadow of hierarchy, are the key features of partnership frameworks. Soft sanctions, reputational costs and shared recognition and commitments, play differing roles depending on country, policy area, and specific time frames.

Graziano, Vesan *et al.* (project no. 18b) show that, in some circumstances, such new modes of governance can lead to important improvements in policy formulation and implementation at the local level. This is the efficiency side of the equation. Regalia (also project no. 18b) reveals the control and conflict-management side of that equation. These NMGs – based on negotiated and/or deliberative methods – she argues, aim at the involving the recipients of economic and social policies during the policy design phase, creating *ex ante* costs of defection and forestalling objections and vetoes in the implementation phase.

Unsurprisingly, given their 'commitment-device' characteristics, horizontal and vertical arrangements and both hierarchy and heterarchy often seem to go together in NMGs – note that we are not just referring to the 'shadow of hierarchy' here; hierarchy is often a part of the NMG arrangement as such –

and new modes rarely completely substitute for their older counterparts: 'old' and 'new' usually co-exist or are in close relationship, even if there is a spectrum of 'devices' ranging from those with stronger to those with weaker commitment mechanisms.

Schelkle (project no. 19a), argues that if you scratch a 'new' mode you are quite likely to find an 'old' one. Thus, Renneboog *et al.* (project no. 21) point out that most of the old corporate governance structures (share control concentration) and institutions (supervisors) remain in place. Only part of corporate governance regulation has been modernised. Regalia (project no. 18b) notes an effective distinction between 'horizontal' regulation, based on agreement among organised groups at the local-level, and the 'vertical' authoritative-hierarchical regulation, of traditional type, by public actors. Sometimes the two can be functionally related. Thus, local concertation programmes can develop, for example, by exploiting windows of opportunities explicitly or implicitly arranged by traditional modes of governance.

Graziano, Vesan *et al.* (project no. 18b) also see an interpenetration of the two kinds of governance mode. They view partnerships for local development as forms of administrative innovation process wherein the sequence plan / control / incentive (in which the local authority plays the role of principal in the principal-agent relationship) has been only partially and incompletely substituted by the sequence plan / evaluation / learn through deliberative processes among local stakeholders.

Schelkle and Begg (project no. 19a) go further and argue that new modes are frequently thin

disguises for more traditional ones, and less 'deliberative' than standardizing, automatizing and depoliticizing policy processes that become too conflictual and salient if ruled by hard law that cannot lead to effective sanctions. Jabko (19b) makes a similar point regarding the evolution of central banking. There a shift toward transparency and accountability has been combined with increasingly stringent reporting requirements.

Likewise, Obradovic *et al* (project no. 24) argue that internet-based consultations in EU policy processes (e.g. impact assessment) involve the codification of

already existing informal consultation, and predict the parallel future coexistence of old informal consultative practices with newer consultation processes subject to strict participation requirements.

Avdagic *et al.* (project no. 18a) envisage a spectrum between 'old' and 'new' modes, ranging from traditional neo-corporatism with explicit commitments and political exchange to loose and flexible deliberation in which the partners exchange little in the way of resources, but whose 'agreement' facilitates or legitimises a policy shift or innovation.

### 3. The Structure and Allocation of Power

If many new modes of socio-economic governance involve the creation and redefinition of 'commitment devices', then the implications for the structure and allocation of power should be significant.

A key set of arguments here regards the role of the state, which is seen by many of our projects as no longer the "unique decision-maker" (to use the words of Graziano, Vesan *et al*, project no. 18b), but rather "the promoter, the referee and the guarantor of processes

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## Living Reviews in European Governance



LREG is an innovative and multidisciplinary E-journal, publishing solicited state-of-the-art articles in the field of European integration and governance research that are fully refereed according to highest international standards, and will regularly be kept up-to-date by their authors. Living Reviews in European Governance is an entirely web-based, peer-reviewed journal, publishing reviews of research on core themes relating to European Governance. LREG is a joint enterprise by CONNEX (Connecting Excellence on European Governance) and NEWGOV (New Modes of Governance).

The articles in LREG are solicited from specialists in their fields and are directed towards the scientific community at or above the graduate student level. The articles provide up-to-date critical reviews of the state of research in the fields they cover. They also offer annotated insights (and where possible, active links) into the key literature and describe online resources available in these fields. LREG is unique in maintaining a range of high-quality reviews and all articles are subjected to strict peer-review. In addition, the journal is offered as a free service to the scientific community. One of the most important features of LREG is that its articles are kept up to date by their authors. This is the significance of the word "Living" in the journal's title.

LREG is the third Living Reviews journal following Living Reviews in Solar Physics and Living Reviews in Relativity and it is the first in the social sciences.

The website is: <http://europeangovernance.livingreviews.org/>. Published so far:

- Eising, Rainer (2008), *Interest groups in EU policy-making*, [lreg-2008-4](#).
- Benz, Arthur; Zimmer, C. (2008), *The EU's competences: The 'vertical' perspective on the multi-level system*, [lreg-2008-3](#).
- Goetz, Klaus H., Meyer-Sahling, J.-H. (2008), *The Europeanisation of national political systems: Parliaments and executives*, [lreg-2008-2](#).
- Loveless, Matthew, Rohrschneider, Robert (2008), *Public perceptions of the EU as a system of governance*, [lreg-2008-1](#).
- de Vreese, Claes H. (2007), *The EU as a public sphere*, [lreg-2007-3](#).
- Finke, Barbara (2007), *Civil society participation in EU governance*, [lreg-2007-2](#).
- Schimmelfennig, Frank (2007), *Europeanization beyond Europe*, [lreg-2007-1](#).
- Sedelmeier, Ulrich (2006), *Europeanisation in new member and candidate states*, [lreg-2006-3](#).
- Lord, Christopher J. (2006), *The aggregating function of political parties in EU decision-making*, [lreg-2006-2](#).
- Treib, Oliver (2006), *Implementing and complying with EU governance outputs*, [lreg-2006-1](#).

which are partially left to the interaction among ‘stakeholders’”. Power and competencies have drifted in this scenario from politicians and traditional political processes to specialist committees, technocratic experts, and functionalist interest groups. Although civil society groups are often also addressed, their influence is usually symbolic or curtailed.

This latter view is supported by Obradovic *et al.* (project no. 24) who observe that the introduction of the social dialogue strengthened the position of the Commission vis-à-vis the European Parliament, because while the Parliament does not play any role in this procedure, the Commission retains substantial control thanks to its role in providing logistic support to the participating social partner actors.

Schelkle and Begg (project no. 19a) argue that in the case of the revised Stability and Growth Pact, new arrangements also strengthened the role of the Commission but also the ‘fiscally minded’ parts of national administrations. The Commission has also enjoyed a strong leadership role in many of the Lisbon-linked mega-processes. Political representatives – and once again the European Parliament – have struggled to have much impact when expert committees have played the central role.

Political representatives have done better, according to Jabko (project no. 19b) in central banking. He argues that greater central bank transparency and accountability have given unprecedented oversight over monetary policy to parliaments. His point seem to be that, having surrendered control of monetary policy when central banks were first made independent by politicians, a second round of reforms has increased

political oversight of an otherwise thoroughly technocratic process.

Regalia (project no. 18b) argues that transformation in the power structure and allocation of competences depends largely on origins and the motivations that lie behind specific initiatives. She usefully distinguishes four types of local NMG: i) problem-solving coalitions empowered by higher-level institutions; ii) partnerships as routinised forms of access to resources and opportunities; iii) partnerships for experimentation with unconventional concerted solutions; iv) and partnerships for innovation in local policy-making and implementation. Regalia argues that NMGs affect established traditional allocations of power and competences especially in cases iii) and iv).

Graziano, Vesan *et al.* (project no. 18b) see partnerships as new political arenas for the distribution and redistribution of power, sometimes creating opportunities for actors traditionally excluded from the decision-making process. But regarding arguments about the ‘hollowing out’ of the state, they argue that state power is not so much decreased as redefined and, in some cases, rebuilt at a higher level.

Regarding national social pacts, Avdagic *et al.* (project no. 18a) argue that depending on the country and policy sector, there may be a reallocation of powers, but not so much in the mode of governance itself. Most such deals seek to work within existing power distributions. However, as a ‘second order’ effect, the consequences of such bargains may result in significant power shifts – especially, for example, in those rare cases where such deals strongly ‘rearrange’ pre-existing wage bargaining

institutions.

The rather popular notion that new post-Lisbon policy innovations have empowered new actors in deliberative fora is debunked by Schelkle and Begg (project no. 19a). As one rises to the national and supranational levels, the range of effective participation by a range of public and private actors is actually reduced. They argue that at the EU level of economic governance, the only venue where social partners could be included alongside technocrats and government ministers – the Macroeconomic Dialogue – is now defunct. And while the social partners and, to a lesser extent, other civil society actors do feed into the preparation of so-called Lisbon ‘mega-processes’, there is great variety across countries in how profound and influential these consultations are, and at best their influence is weak.

In sum, innovations in modes of socio-economic governance have taken the form of the creation and redefinition of new ‘commitment devices’ that seek to induce rather than coerce actor participation, agreement and compliance. Most ‘commitment devices’ are, however, prone to defection or reneging and the presence of the ‘shadow of hierarchy’ (or of market sanctions) may be necessary to make them function. It does seem, however, that even if most of these devices are beyond the reach of traditional democratic processes, they may also have empowered a wider range of policy actors than hitherto.

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# Project 18b: Distributive Politics, Learning, and Reform: Emergence and Evolution of Administrative Partnerships

## 1. Project Objectives and Scope

This project studies the dynamics of learning and innovation in socio-economic governance, focusing on administrative partnerships. Administrative partnerships are interpreted as innovative attempts to introduce new modes of governance and targets, enhancing the level of coordination among private and public actors, and also across policy areas (local development and labour policy), in order to achieve stability, growth, competitiveness and employment. As forms of 'networked governance' they involve a social dialogue process in which (private and public) actors inform each other of their intentions and capacities, elaborate and exchange information provided to them, clarify and explain their assumptions and expectations, and adopt decisions which are beneficial for different stakeholders within the territory.

The project seeks to investigate the nature of learning-promoting governance mechanisms in social partnership and the conditions influencing their use and development by participants. More particularly, it seeks to define the most appropriate method to study the sources and dynamics of learning and innovation of socio-economic governance with respect to the so called 'administrative partnerships'. They are seen as part of an array of 'concertative arrangements', which involve different dimensions: the degree of formalisation of the interaction among the parts; the range and scope of policy fields involved; and the degree of involvement

of non-public actors.

The project also delves into issues of evolution patterns—i.e. partnership consolidation. It looks at the different evolutionary paths experienced in Italy and in Spain, pointing out the relevant features of consolidated partnerships and providing information on how (and why) they get consolidated. The research reflects on possible virtuous mechanisms of partnership consolidation which could also apply elsewhere in the European Union.

This research makes a couple of remarks concerning the effects of pacts from the point of view of their capacity to influence the governance process. It identifies a paradoxical aspect of judgments on European pacts, namely that their positive effects tend to be underestimated precisely in relation to the countries of central-northern Europe, which have developed some of the most interesting experiences. Aside from evaluations of individual national cases, observations on pacts tend to highlight



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## 2. Project Findings

### 2.1 The conditions influencing the use and development of pacts

Most studies have restricted their focus to the start-up phase of concertation schemes, seeking to identify some very simple quantitative indicators, or relying on qualitative assessments by experts and key informants. But, the evaluation of the effects exerted by pacts has been indeed one of the most controversial topics.

the crucial point that the real meaning of local partnership schemes cannot be appreciated outside of the specific institutional contexts in which they take place.

These solutions should not be viewed as intrinsically good in themselves. In many cases they are simply not necessary. Or again, they may be so closely in line with the consolidated tradition of the public policies of a given country that they simply cannot be distinguished from the standard practices of good administration. On the other hand,

the achievement of local concertation schemes requires factors (social, organizational, etc.) which are not always already in place, and might imply that these schemes can simply fail. Between the risks of irrelevance and of failure, the cases that may be most successful in terms of their role and visibility, seem to be those 'intermediary' cases. That is, those created when there is much to improve in the workings of the institution and those where the preconditions are in place for a mobilization of local actors.

A final remark concerns the effects of local concertation schemes. When they are not part of previously defined programmes, these experiences are unpredictable and characterized by low visibility. More pertinent is also the observation that, in these cases, the relations with the institutions and public policies are likely to be less important. Not in the sense that these experiences are free from external conditionings, but in the

sense that they are even more strongly embedded in the surrounding environment, on which they closely depend. That would imply greater freedom in comparison to outside conditionings. This may finally enable the emergence, in unpredictable ways, of highly innovative solutions even in apparently less favourable national contexts.

Yet, these are general considerations, which do not exempt one from the task of examining case-by-case the objectives, the resources available and used, the results achieved, and so on. But they are considerations that open up new future directions for the analysis and understanding on the potentialities of the concertation method at the various levels in the management of social policies in Europe

## 2.2 The conditions influencing the consolidation of pacts

This research also shed light on the main aspects that can ex-

plain the different consolidation processes of the partnerships examined: 1) the characteristics of the decision-making process concerning the concertation of initiatives; and 2) the presence of specific facilitating conditions that can promote the maintenance or the development of local cooperative experiences.

Starting with the first group of factors, we found that the strategic choices which mark the internal dynamics of a partnership may have a strong imprint on its evolution. There are at least three main features that seem to have a positive impact upon the consolidation process:

- a. the inclusive nature of the decision-making process, explicitly addressed to give space and visibility also to the 'minor' partners;
- b. a pro-active attitude on the part of the main actors involved, who believe in partnership and consider it as their own creation;
- c. the adoption of specific conflict-resolution strategies, for

## NEWGOV Policy Briefs

The NEWGOV Policy Brief Series has been set up to aid the dissemination of research results to a broader academic and especially practitioner community beyond the Consortium. Briefing papers are short executive type summaries of Working Papers or articles written by NEWGOV partners, or they can be related to specific and topical events. The [Policy Briefs](#) can be downloaded from the NEWGOV Website (section [publications](#)).

Albert Weale, *New Governance and Public Reasoning – Towards a Better Quality of EU Deliberation*, NEWGOV [Policy Brief no. 19](#), Spring 2008.

Heiko Pleines, *Czech Environmental NGOs: Actors or agents in EU multi-level governance*, NEWGOV [Policy Brief no. 20](#), Spring 2008.

Dirk Lehmkuhl, *Arbitration and European Competition Policy: Traditional and New Roles*, NEWGOV [Policy Brief no. 21](#), Spring 2008.

Stefan Griller and Andreas Orator, *Empowering European Agencies – or How to Tame the Sorcerer's Apprentice*, NEWGOV [Policy Brief no. 22](#), Spring 08.

Luigi Burrioni, Colin Crouch, Monika Ewa Kaminska, and Andrea Valzania, *The governance*

*problem of the shadow economy*, NEWGOV [Policy Brief no. 23](#), Spring 2008.

Bob Hancké and Alexandra Janovskaia, *Industrial restructuring in Central Europe*, NEWGOV [Policy Brief no. 24](#), Spring 2008.

Tomasz Grzegorz Grosse and Lena Kolarska-Bobinska, *New Modes of Governance in New Member States*, NEWGOV [Policy Brief no. 25](#), Spring 2008.

Fabrizio Cafaggi, *Internal market, Contract law and New Governance*, NEWGOV [Policy Brief no. 26](#), Spring 08.

Sandra Lavenex, Nicole Wichmann, and Dirk Lehmkuhl, *Extended Governance: The European Union's Policies towards its Neighbours*, NEWGOV [Policy Brief no. 27](#), Spring 2008.

example through the distribution of offices and posts among the main actors involved.

The empirical analysis, carried out in two of the most developed Italian areas—the Provinces of Torino and Milano—has shown that the presence of these aspects has paved the way for the maintenance and the consolidation of partnership experiences in *Zona Ovest* (in the Province of Turin) and North Milan areas. These characteristic processes played two important functions for partnership consolidation: initially, they avoided making partnership enemies of the cooperative experience. In the course of partnership cooperation conflicts might arise since the distribution of benefits and costs creates both winners and losers. Yet, such characteristics of the decision-making process can give partners strong motivations for maintaining the commitment to the partnership, enabling them to easily perceive the advantages due to their active involvement.

Furthermore, other factors—which have favoured the consolidation process—deal with more specific conditions. First, the availability of economic resources certainly constitutes an important condition for the consolidation of partnership experiences. The trust in cooperative relationships between local actors has to be maintained not only by the general belief that the partnership represents an appropriate mode of governance for local development policies, but also for the reason that the partnership is a useful tool for the implementation of development projects in a specific territory. Second, the presence of a policy entrepreneur appears to be a common feature of *Zona Ovest* and North Milan cases—

the most consolidated partnerships. The hypothesis that the role of some specific actors able to activate the interests of partnership members not only during the emergence of a partnership experience, but also in the following phases, seems to be confirmed by our empirical analysis. Nevertheless, the policy entrepreneurship at this phase seems to be more focused on the capacity to explore new ways of deepening and extending the ongoing local development strategy through flexible and ‘creative’ alliances with different actors, even those not included in the original partnership. Third, in order to achieve this goal, the policy entrepreneur needs the support of an *ad-hoc* organisational structure provided with specific resources. The *Zona Ovest* and North Milan cases clearly show the crucial role played by local development agencies in the consolidation process. Third, our empirical analysis has illustrated the importance of building a shared vision of local development strategy among actors. That appears to have been favoured by the homogeneity of political as well as geographic characteristics of the Municipalities involved, which has made it easier to reach joint collective agreements. In the *Zona Ovest* and North Milan areas such a capacity of shared vision has also led to the creation of a perception of a new territorial identity, absent or weakly developed before the partnership experience. In conclusion, the combination of these three different conditions seems to have constituted a fertile terrain for the maintenance and the promotion of partnership. Yet, none of these facilitating conditions can explain, taken alone, the good level of partnership consolidation in a determi-

nistic way.

Another aspect that has emerged from the analysis of most consolidated partnership is a transformation of the partnership over the years. A local partnership implies a combined process of ‘institutional concertation’ among different public authorities and a process of ‘socio-economic concertation’ with the involvement of trade unions, employers associations and, in some cases, third sector organisations. During the consolidation process, the maintaining of this double pattern of interest representation is usually hampered by a phenomenon of ‘partnership fatigue’ suffered by partners. As a matter of fact, cooperative arrangements require a continuous effort that cannot be sustained for a long time—especially without receiving adequate and prompt compensations. More in detail, we have observed that the active involvement of socio-economic actors is likely to decrease over time, even if they have been strongly involved in the initial phases of local initiatives concertation. At the same time, it can be noticed that during the consolidation process, a third vector of partnership legitimacy emerges: the expertise of local development agencies involved. Therefore, one of the results of the partnership consolidation is its (partial) metamorphosis into a more formalised network, with its own *ad hoc* administrative structures. In this transformation, local development agencies play a pivotal role.

Since the agencies play a crucial role in enhancing the institutional capacity of local authorities to deal with the planning of intermunicipalities initiatives, it may be put at the centre of future research agendas on partnership. In particular, we can

point out three main questions that should be addressed by future research efforts:

- a. In what circumstances a partnership, and subsequently its consolidation, may represent a suitable strategy for the development of local collective competition goods?
- b. Can a local development agency gain sufficient credit and institutional recognition for its action, without replacing the political legitimacy of the concertation board in the governance of socio-economic issues?
- c. Can the activities of local development agencies positively combine with the presence of partnership arrangements and hierarchical decision-making processes in the local regulation of socio-economic issues?

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### Further Reading

Further information on this project and online publications can be found on the NEWGOV website, see the relevant project section.

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## Project 23: Learning and Local Innovation Systems

### 1. Project Objectives and Scope

More recent literature on economic governance suggests that elements of the main governance forms are coming together in experimental and frequently changing ways—not necessarily successfully, but usually innovatively. Not only do fragments of established institutions reappear in new guises, but such institutions as universities can be shown to play a major, often unconscious part in sustaining innovative clusters.

The phenomenon has to be studied by looking at very specific policy areas, different geographical localities, different economic sectors. It may well be that 'national' modes do not exist across these, so we have to check whether they are operative or not. Developments in Central and Eastern European countries are of particular importance for this research, since people here have had to innovate at all levels following the removal of many institutions familiar to them during the 1990s. The region therefore provides a rich laboratory for case studies.

The research strategy for this FP6 project took a very specific and much under-researched aspect of the general question: cases of 'successful' growth have often developed within shadow economies, and the study is concerned with the dynamics of the relationship between shadow economy and its possible contribution to the success, the limits it imposes on that success, and paths from the shadow economy to the formal one. The project identified two regions, one in central Poland, the other in

southern Italy, in both of which there were isolated points of success within regions generally marked by economic depression, *malgoverno* (poor quality government) and *malavita* (crime). It aims to explain why the points of success had managed to escape the general conditions of their regions. In both countries, the general contexts of the regions were the same. In both countries the industry concerned was clothing and textiles. The shadow economy is a phenomenon of central importance in both regions, since it is a challenge to governance, and also utilises 'alternative', 'shadow' forms of governance. This early finding shaped the entire development of the project, giving it a novel twist within governance studies, which is particularly important to the study of depressed regions. In the process, considerable differences emerged between the Italian and Polish cases, in particular the remoteness of firms in the latter from the advanced centres of design, production and marketing available in Western Europe.

### 2. Project Findings

#### 2.1 Governance and Shadow Economy

It has to be understood that shadow economies often possess a mode of governance with a high level of enforcement and extremely limited opportunities for exit, and a system of inspection and sanctions of their own that can be pervasive and efficient. We have also seen that this regulatory system constitutes an institutional infrastructure on

which market relations among enterprises can be based. It is in fact this system of governance that brings regularity, predictability, the presence of constraints, and which renders credible actors' obligations, issues basic to economic transactions and to effective governance in general. Different types of instruments—interventions designed to prevent the development of a shadow economy, policies aimed at removing incentives for having recourse to such forms of work through inspection and sanctions, and policies that promote emersion from shadow labour and that have a more proactive character—ignore for the most part this fact that the shadow economy is regulated by a well defined mode of governance that distributes resources, mediates conflicts and orients and addresses the action of economic actors, even allocating certain kinds of local collective competition goods.

For this reason it is of particular value to deepen knowledge of the shadow economy through case studies that enable us to study its own regulative characteristics. Further research is needed to analyse the relation between policies for *emersione* (an Italian term referring to the process of 'coming out', in the literal meaning coming out of water; Italian terms the shadow economy 'l'economia sommersa', or the 'submerged' economy) and the various levels of enforcement, its territorial extent, the role of informal rules, the effective possibility for exit available to different actors, and the level of endogeneity of the relations between firms and workers. Research can throw light on the specific connection between economy and local society that characterizes the

shadow economy, as well as demonstrate the critical components of policies for *emersione*.

## 2.2 The shadow economy of textile and clothing industries around Łódź and Naples

Both Polish and Italian cases demonstrated firms surviving and thriving in a difficult sector, within difficult economic, political, and social environments, at a time when textiles and clothing are subject to the pressures of globalization. But both demonstrate a disturbing continuity of dependence on the shadow economy and various forms of illegality for governance, a dependence that simultaneously helps the sector to survive and traps it into competitiveness based on low costs that is unlikely to be viable for much longer. It also contributes to reproducing the phenomenon of micro-firms in both countries, many of which are too small to be able to progress in design, production technology, or marketing: where there is illegality and criminality, trust relations cannot spread beyond the family and very close friends, so firms cannot grow beyond the reach of these circles. As Burroni and Crouch (2006) have argued elsewhere, dealing with the shadow economy just by suppressing it is unlikely to be successful, as it involves removing from firms, individuals, and whole territories, some of the only governance, alongside the family, that keeps economic activity going. This is especially the case when public authorities are at best inefficient and at worst corrupt, and therefore unable to help provide the public institutional infrastructure that is vital to the market success of individual firms.

At this point important differences in the Italian and Polish cases appear. Southern Italy is a region where problems of shadow economy are closely embedded in wider issues of criminality. Nevertheless, we found important instances where local governments, often initially individual mayors, had taken advantage of national policy instruments to take a new approach to the difficulties of their localities. There was a mobilization of participation and a clear commitment on the part of local governments and institutions,

(cont. on page 12)

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### Further Reading

Further information on this project and online publications can be found in the project section on the NEWGOV website.

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representative interest organizations, and a few larger firms, to prepare plans and projects to help small enterprises come out from the shadow economy and gradually legalise themselves. Recent OECD Territorial Reviews of Spain and the Czech Republic, as well as of Italy, further report examples of policies aimed at promoting trust relations among firms themselves and between them and local administrations, at assisting synergies between public and private investments, and at providing new local collective competition goods for firms through development plans achieved in collaboration with local actors.

National, regional and local authorities in Italy have therefore begun to recognize that this issue has to be grasped, and alternatives found to operating in the shadows; the problem of trust is openly discussed and confronted. Experiments are being made with new, participative forms of local governance that in principle rival those anywhere for innovation and enterprise. Polish authorities, with far less

experience of open government behind them, perhaps understandably remain in denial. There is also considerably more willingness in Italy to accept that the textile, clothing, and footwear sector has an important role in the economy, and that it is worth while attending to its infrastructural and public policy needs. Again, this is not surprising, given the global strength of northern and central Italian brands, though until the 1990s policy towards the Mezzogiorno concentrated on building large plants in heavy industry. What is yet unknown is how this sector will withstand Chinese and other far eastern competition in the coming years. The strategy has clearly been to move up market into quality, brand-name niches—a strategy that itself requires coming to terms with the shadow economy. Is it feasible for small Polish firms, which lack a national reputation and contacts with national brand leaders and their knowledge bases, to embark now on such an approach? Or, a *contrario*, are Polish policy-makers well ad-

vised to keep these industries marginalized, leaving the Italians to face a possibly inevitable failure in the face of global cost pressures that press on the textile and clothing sector more than any other?

Nevertheless, there is something general to be learned from the approach to the governance of local development that is being pursued in some parts of Italy. Governments at different levels are working with business and labour organizations to explore what public policy can achieve to assist firms in various sectors, ranging from (at a minimum) dealing with their own corruption, to establishing good physical infrastructure, to exercises in local branding and competence-raising. This is the new global agenda for public intervention in economies, replacing the static defensiveness of protectionism with actions that aim at helping firms improve quality at every stage.

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Warwick Business School

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