

Locally Drawn Economic Development and the Regional Integration

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During socialism local authorities in Central and Eastern European countries (CEEC) were executors of central policies (Bennet, 1997; Regulsky, 1999). In the early 1990's the regime change resulted in the enfranchisement of local authorities with power to coerce and to initiate local policies in given policy domains (Baldersheim & Illner, 1996, Kirchner & Christiansen, 1999; Sachs, 2000). In these new conditions, the forms in which state policy-making authority is shared among central and local policy agencies might prove relevant for the types of policy-making chosen by local governments. To evaluate this, I study about *the institutional effects of different forms of state authority allocations among territorial policy authorities on the local governments' policy instrument choices in local infrastructure provision*. Where local infrastructure provision policy is conceptualized as the local governments' systematic policy to provide local public goods. In order to tackle the provision capacity challenge, local governments have to deal with the problem of local budgetary constraints.

In the last couple of centuries territorial states have played an important role in influencing macroeconomic standings and in determining national development paths, manifested in adopting and implementing different national policies of industrialization, modernization, urbanization and the provision of public education, healthcare, pension systems and many others. The national regime change of the 90's has opened the opportunity for CEEC to develop new domestic relations and to redefine their international relations, observable most strikingly through the preparations to European accession.

In the last decade national policy environments have undergone a double process of redefinition, and thus the opportunity constraints within which local governments act have been reshaped as well. Radin (2000) considers that “the interrelationship between domestic and foreign issues become fairly obvious in economic issues” (Radin, 2000: 184) and the “devolution of politics to state and local levels has also created new opportunities” (Radin, 2000: 185). Addressing the role of local governments in the CEE transformation process, Kirchner & Christiansen (1999) argue that “they [local governments] can provide efficient and effective measures in terms of economic development, service provision, environmental problems, and ethnic and minority problems”. The case of local policy-makers assuming a role in international political economy can be based on the argument that they are “at the meeting-place of economic development and social stability, and local and regional governments can make a crucial contribution to the reform process” (Kirchner & Christiansen, 1999: 2).

At large the literature knows many arguments supporting high levels of decentralization (Rodinelli & Cheema, 1983; Osborne & Gaebler, 1993; Foster & Plowden, 1996) and there are also arguments in favor of centralized provision of governmental services. Moreover, counter-arguments for decentralization (Olsen, 1975; Ophuls, 1973; Ostrom, 1990; Bernier, 1992; Segal, 1997) and centralization have been developed. The fundamental problem with all these literatures are that the same arguments are used both for and against different forms of central local policy authority allocation and that policy system analysis remains the least studied aspect of the field (Gordon, Lewis and Young, 1977: 9).

To reconcile these contradictions the public choice literature conceptualizes the state as an institution with definite economic functions for which economic efficiency measures are appropriate instruments for evaluating levels of efficient provision. In this case, issues of economic development policies and the provision of public goods are central. The state differs from economic institutions in one fundamental way, namely that its decisions are compulsory (Nozick, 1973; North, 1990; Milgrom, North and Weingast, 1990). The sources of this coercitive power emerge from the allocation of legal authority to political power holders.

The core problem of the public choice literature concerning this topic is that it stops exactly at the level of constitutional economics, with restraining from the analysis of the effects of different state authority allocation structures among multi-tier state institutions in given international environments (Weck-Hannemann, 2001). Elements of this research agenda can be found in embryonic phase in several exploratory works. Still, the missing link in the literature is the lack of focus on the relations between international political economy and public choice theory.

Nevertheless, several useful applications can be identified in some works. One such work is North's about the impact of different institutional framework on the setting of available action profiles and choices of social actors. But, while for North (1990) "institutions are all important", Becker (1983) considers the option that "institutions may be irrelevant", and for Peltzman (1984) "institutions matter, but they are ultimately determined by

interests". Another key contribution is Buchanan and Tullock's (1962) cost categories in dealing with the social problem of delimiting individual and collective actions. The issue of domain specific policy choices in a political market of policy drawing institutions given defined international incentive systems and differentiated local conditions is prone to similar sort of analysis. The goal of this dissertation is precisely to follow this theoretical framework by empirically testing its validity.

Accordingly, this research project deals with local policy instrument choices as an outcome of the interaction between forms of national state authority allocation among state institutions, local susceptibilities and the specific conditions of international environment. My general question regards the extent to which the policy instruments used in fulfilling the economic role of the state changes given different structures of policy-making authority allocations among central and local governments for the domain of the provision of local public goods, in specific international conditions.

First, I will develop an econometric model to formulate the contextual relations of local governments in the framework of national constitutional subordination, local susceptibility, and international conditionally. This model comprises first and second orders constraints on local policy behavior. The first order constraints are institutional and comprise the subordination of local governments to the nationally determined institutional allocation of local policy making authority (supply side) and the susceptibility of local governments to local communities' policy demand for the provision of local public goods (the demand side). The second order constraints are

policy opportunities created by the local, national and international circumstances based on which local governments' policy outputs and policy outcomes concerning the provision of local public goods are drawn. Given these two sets of constraints, the feasibility of adopting different local policy making types (Lowi, 1972) will be formally evaluated, given the system-specific transaction costs levels. On the other hand, to answer these questions and to empirically support the provisions of the economizing of the transaction costs, I will use multivariate methods of statistical analysis to evaluate the property-disposition relationship between institutional incentive structures and local government policy behavior in local infrastructure provision.

Given the potential commensurability problems along time and the changing institutional property-distribution of local government policy-making authority in the larger institutional settings, I am proposing a cross-sectional design with the use of multivariate methods of statistical analysis. The advantages of this design (Nachmias, 1996) are that it avoids the need to experimentally manipulate the natural settings. Moreover, it allows the use of random probability samples, which makes it possible to deal with the large population of CEE local governments, while drawing statistical inferences to real-life local government public fund raising behavior, thus increasing the external validity of the analysis.

Applying cross-sectional design to comparative policy analysis is common. Nagel (1999: 4) defines "public policy analysis (...) as determining which of various alternatives public or government policies will most achieve a given set of goals in light of the

relations between the policies and the goals". The major advantage of using policy analysis for assessing local government policy behavior is its strength in being sensitive to the available alternatives to achieve a set of goals given the relation between policies and the goals for which they have been designed. Thus the analysis is sensitive to the normative constraints, the relative weight of policy goals, and it is able to encompass the different relations between policies and goals, such as institutions, authority, statistics, observation, deduction or other similar means.

The country cases of the analysis come from the pool of associated countries to the European Union. Up to date there are 13 countries with Associated status. These are Bulgaria, Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia and Turkey. These countries at the moment of the ratifying of the Association Agreement have had access to similar European constraints and opportunities. As state authority re-allocation has not occurred in Cyprus, Malta and Turkey, these countries will be excluded from the research. From the ten remaining countries two countries will be selected based on the most differences in local infrastructure policy instruments, the different policy authority power structure allocations, and the potential differentiated effects European integration in different stages of enlargement might have on their development. To assess these differences and to select the cases I will use the most different research design to be able to infer about the impact of the main independent variable. Thus, we have different countries, local susceptibilities, and international influences to see if different forms of authority

allocations lead to different local policy-making type choices and the application of different policy instruments.

The data necessary for testing the working hypothesis and its corollaries will be collected using both survey data collected by the authors and also available secondary data to be identified.

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