

Locally Drawn Economic Development and Regional Integration

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Abstract

This dissertation asks the question to what extent functional policy-making authority allocations determine the applying of successful policy instruments by local governments in optimising their ability to provide local public goods given system specific transaction costs. I will develop a model to formulate the contextual relations and the behavioral uncertainties related to the employment of specific co-ordination mechanism. This model comprises, first, the subordination of local governments to the national policy making authorities and the susceptibility of local governments to local communities' policy demand, second, the local, national and European institutional incentives. According to this model, central governments will both decentralise policy authority necessary for the provision of local public goods to local governments and will seek supra-national integration into a larger political-economic entity, such as the European Union.

Introduction

The last decade was of turns for the countries of Central and Eastern Europe (CEE). First and foremost these countries experienced a general systemic level of government failure¹, leading to a system change which moved these countries from state socialism to different forms of democracy. This transformation involved the putting in place of a new property right system, the adoption of market mechanism for regulating economic exchanges and the redefinition of the role of the state, just to name some of the most important changes. Although these have solved some of the problems these societies were facing *ex ante* change, such as the participatory deficit; still there are other issues which have proved to be more persistent, such as economic development and growth, not to mention the many new ones emerging due to these changes.

One effect of this regime change resulted in the enfranchisement of local authorities with functional policy-making state authority (Bennet, 1997; Baldersheim & Illner, 1996, Kirchner & Christiansen, 1999; Regulsky, 1999; Sachs, 2000). The

¹ There is a wealth of theories seeking to explain the causes of the early 90's CEE reforms. Still, most authors would agree that at least there was a systemic change and that that its source to be sought in the structure of the political regime.

issue whether political authority of economic activity co-ordination in the new policy authority allocation context is less, the same or more compared to the one once enjoyed by the central governments of territorial states remains a central issue for the effectiveness of the public sectors potential additive economic development through the process of public infrastructure provision.

To evaluate the effects of this change on these countries economic development perspectives and regional integration, I propose to study the institutional effects of different forms of functional state authority allocations among territorial policy authorities on the local governments' policy instrument choices in local public infrastructure provision. My research question is: how do specific functional allocations of policy-making authority affect the local public infrastructure policy optimality in the perspective of European Integration effectiveness in different countries?

This issue is relevant from several perspectives. Still, maybe the most important aspect of this problematic of the public sector's role is that in the last couple of centuries through policies of industrialization, modernization, urbanization and the provision of public education, healthcare, pension systems and many others territorial states have played an important role in influencing macroeconomic standings and in determining national development paths. Nevertheless, in the last decades a considerable number of scholars has hypothesized the decreasing relevance of the state as a social actor².

These pose that challenge of designing an institutional allocation of state policy-making authority so that information asymmetries kept as lower as possible, technological externalities internalized, state authority monopolies reduced and

² e.g. Grindle, 1996 ; McKenzie and Lee, 1991; Ohmae, 1991; O'Brien, 1992; Goodman and Pauly, 1993; Dombrowski and Nansbach, 1999.

system specific transaction costs distributed among agents. Inherent to the nature of non-regulated markets is the possibility of the rising of certain conditions leading to what is known as market failure (Inman, 1987: 650). A market failure is the situation in which a potentially higher social utility is missed due to conditions in the markets. The most common such conditions leading to this sub-optimality are the ones of information asymmetries, externalities or external economies market failure, monopolies or monopsonies. These are the conditions that are most commonly seen as legitimating the intervention of the state in economic development.

CEE countries need to learn how to design a policy process able to situate the economy of the country somewhere on a developmental path and being able to avoid the occurrence of market and government failure. The specific way and location within this possible region of system stability is what becomes crucial in the systems ability to adapt to domestic and foreign shocks.

Newly democratized CEE territorial states – beyond facing a special set of policy challenges in their efforts “to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial (economic) change“ (Weiss, 1998: 35) – face the need to consider domestic pressures for allocating policy making authority to lower levels.

The accommodating of these domestic pressures enhances lower level governments in pursuing local economic development policy-making, but faces them with the challenges of domestic horizontal competition for factors of production necessary for economic development. Beyond domestic horizontal competition, in the context of increased economic interdependence, decreasing transportation costs and trade liberalization, these new meso-level policy agents are faced with the challenge

of supra-national competition. This effect is even more accentuated by the competition in the region of CEE due to the accession process to the European Union.

After the changes of the early nineties CEE countries adopted European integration as their foreign policies' prime directive. The EU is attractive to these countries for both political reasons, such as security, and economic reasons, such as the welfare-enhancing common market. There is a more subtle third reason, which directs these CEE countries towards seeking European integration. Namely, the high economic cost exclusion would pose on excluded countries³.

When analyzing weak states the research on how multilateral institutions influence individual state strategies provides a common ground in international studies for the two main competing theories, institutionalists and realists. The special institutional rules of the larger unit "may create a presumption in favor of the norm that principles of conduct must be generalized to all members of the institution, imparting greater consistency of behavior and favoring weaker states" (Keohane, 1993: 296)⁴.

There are several different definitions of what economic integration would mean and European integration has several meanings, also. To be general enough I will use Balassa's definition of regional integration. For the present, where regional integration is seen as a supra national process, and due to space constraints, I will just introduce the one I adopt without further discussing the logic of this choice. This is the definition proposed by Balassa (1961), namely "economic integration is a process and a state of affairs. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of

discrimination between national economies” (Balassa, 1961: 1). Nevertheless, as you can see this definition does not fall away from the national level definition according to which “integration is seen as a process whereby ‘backward’ territories, peripheral both geographically and socially, acquire the values of the centre and enter into the national economic and political system” (Keating, 1988: 3).

All these meso-level public policy units face the challenge of putting to work effective economic development programs. Through these policies they would be able to provide adequate public services and/or to assist individual businesses with tax or financial subsidies to improve local business competitiveness, the quality of local jobs and the quality of local economy. When considering the potential additive beneficiaries of these policies, local governments have to consider factors such as factor rigidities, geographical conditions, different level political decisions, psychological factors and institutional effects. Among all these factors, I am interested in identifying and evaluating the policy relevance of local governments’ choices constrained by:

- Vertical national and international institutional effects emerging from the subordination of local governments to the national economic development policy and the ones of market competitions of local business in the global market.
- Horizontal effects of susceptibility of local governments to local business communities’ policy demand for the provision of local public goods available at a pool of different territorial administrative units.

3 Even if integrated into the EU CEE countries due to their marginality might incur specific costs. Keating considers that “free trade has differentiated effects on regions and sectors, penalizing peripheral areas furthest removed from the markets of the Golden Triangle” (Keating, 1988: 167).

4 For a similar argument please see Ruggie, 1992: 570-571.

Given these two sets of constraints, the feasibility of adopting different local policy choices will be formally evaluated from the perspective of local governments' ability to take advantage of local, national and European public incentives, such as public funds for formulating economic development policies. This institutional ability to take advantage of the opportunities available to meet the challenge of providing additive publicly induced economic development is hypothesized to be specific to the governance structures defining the transaction costs levels of the co-ordination mechanism in the public institutional system. The observable implication of institutional effects on the supra-national regional economic integration is hypothesized to manifest at sub-national, national, and supra-national/regional levels.

At a sub-national level, the territorial institutional allocation of political and/or bureaucratic authority sets the horizontal and vertical public economic policy making inter-governmental conditionalities. At national level, the institutional effect can be expressed as the constraints different type sovereignty principle poses on the territorial allocation of political and/or bureaucratic policy making authority. At supra-national/regional level, reciprocal institutional effects translate into comparative advantage enhancing or reducing factors.

The relevance of providing an empirically based explanation for the importance of local government economic development policy in the context of distributed authority structures at multiple levels could provide the missing link in explaining the role of decentralized policy authorities in the processes of supra-national regionalization within the context of European Integration.

The public Choice literature

The clearest case for the state as an economic institution has been made by the public choice literature. According to this, the state does have 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 coercive power emerge from the allocation of legal authority to political power holders. There is a relationship between political and economic power, constituting the field of political economy.

North's work speaks 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 first category is external costs, or the costs incurring to individuals as the result of the actions of others. The decision-making costs, are those that individuals are expecting to occur as a result of their own actions. The sum of these two costs constitutes into the third category – costs of social interdependence. Thus, similar to the economic market authors use the analogy of political markets to evaluate the situation of constitutional making, the case for a transaction cost analysis of the state authority allocation is possible. Given all these, the issue of domain specific policy choices in a political market in which states have

clear functions⁵, given similar international incentive systems and differentiated local conditions is prone to similar sort of analysis.

Functional decentralization

Distribution of state authority has been subject to debate in Western democracies for a long period of time (Page & Goldsmith, 1986; Cummings, S., 1995). There has been research about the forms of authority allocation among national state institutions (Epstein & O'Halloran, 1999), among different levels of state institutions, about advantages and disadvantages of different forms of state authority allocation. The relevance of providing an e based explanation for the importance of local government policy-making in the context of distributed authority structures at multiple levels could provide the missing link in explaining the role of decentralised policy authorities in the processes of supra-national regionalization.

There are many arguments supporting high levels of decentralisation (Rodinelli & Cheema, 1983; Osborne & Gaebler, 1993; Foster & Plowden, 1996) and there also arguments in favour of centralised provision of governmental services. Moreover, counter-arguments for decentralisation (Olsen, 1975; Ophuls, 1973; Ostrom, 1990; Bernier, 1992; Segal, 1997) and centralisation have been developed. The public choice literature tried to redefine this debate by drawing attention to the specifics of policy domains and on the analysis of the advantages and disadvantages of governmental service provision at different levels of centralisation for given policies. These studies focus mainly on the effects of decentralisation on state capacity and the

⁵ Regarding the understanding of state functions, Kingdon (1995) considers that – although important efforts have been devoted to explain the enactment of legislation – there is still little understanding about the ways in which political agents formulate policy issues. Multiple usage of the concept 'policy' instrumentally describes the process: objectives, setting priorities, describing a plan, and specifying decision rules (Gordon, Lewis and Young, 1977: 8). This peculiarity in approach severely alters our understanding of the larger policy-making process. Given all these, I will define public policy-making as the process of using legal authority by political agents with decision making power to set the institutional environment in which social actors will act and interact. This definition, although refined, falls in the perimeter of other widely shared definitions, such as "policy-

quality of governmental service provision. Nevertheless, not even this attempt of reconciliation has been fully successful in dealing with the most important problems of the field.

The core changes introduced in national states by the adoption of specific forms of decentralized regional policies concern the reconfiguring of political and economic space by the multiplication of policy-regulatory bodies with state authority in given domains at lower state authority levels. For example, such domains are the ones of public spending and taxation policy. Consequently, newly endowed local policy-makers' authority has been expanded from policy implementation to other phases of the policy process as well. By this national policy agency structure has changes and local policy-makers acquired the possibility to chose among different policy options regarding the policy fields or stages over which they have authority.

On the central governments' side the reallocation of policy-making authority to lower tier state institutions meant that it either totally or at least partially withdrew from actual policy-making in given policy domains. Although, the institutional possibility for local policy agency and the institutional constraints on national policy agency are given still the issue of agency within these new institutional frameworks are posing many fundamental problems and questions regarding the roles and functions of the public sector, which are answered in an equivocal way, if addressed at all. Consequently, many related issues remain under close scrutiny and heavy debates by the scientific community and not only.

The rationality is that by introducing a market of public services provided by functionally or territorially delimited authorities the existing national center-periphery relations are changed from the type of principal agent ones into two

making, like 'power', appears as a dynamic yet diffused element in the relations between public actors and the world on which they act" (Gordon, Lewis and Young, 1977: 9).

separate leagues, by adjusting. In these two leagues functionally delineated policy authority and responsibility functions are allocated among central and territorial states institutions. First, there is the “lower-tier government”, or local governments, which having similar authority and responsibility functions constitute into the decentralized governmental supply of services. These issue specific and territorially delineated public spheres constitute a separate/additional market of services among which individuals can select based on own preferences. Second, there is the central government, which retains well defined functions, among which important due to this change is the leveling the field of action among local governments. Thus, through the institutionalization of regions (Keating, 1988: 211) regional policy becomes key in implementing economic development policies.

Regional development theory

The incorporation of this relatively new element of non zero costs associated with spatial location in economic and political theories focuses attention of the analysis to the neglected sub-national regional problems in seeking to explain the success and failure of development policies.

Regional development models can be grouped based on the level of policy intervention they propose or based on the source of regional growth. In what concerns the level of intervention, three groups of approaches to local development policies can be distinguished. These are the “development-from-above” or the centrally initiated localized development policy; the “development-from-below” or the locally/ regionally initiated local development process and the private enterprise approach to local development.

Based on the types of policy proposed to tackle these issues of regional development disparities we can distinguish among five groups of regional growth models⁶. Most commonly they are grouped into neoclassical approach (Solow, 1987); the export led-models (Kaldor, 1978 a, b), including the export-base approach and the Kaldor-Dixon-Thirwall model (Dixon & Thirwall, 1975); theories based on the polarization hypothesis (Armstrong & Tylor, 2000); the social overhead capital approach (Vanhove & Klaassen, 1987) and the meso-structure approach (Vanhove & Klaassen, 1987).

Common to most of the neo-classical theories⁷ is that they assume free competition, full employment of factors of production and full mobility of labor capital. Out of this assumption emerges this theory's underlying thesis that in any given society regional disequilibrium is a temporary problem in the context of a general system of economic equilibrium. Conceptualizing regional disparities endogenously produced by systemic level inefficiencies undermines the rational for long term national or regional economic policy. Once the systemic level inefficiencies are dealt with, regional disparities vanish and economic policy loses its rational.

These academic findings are theoretically sound if considering the macroeconomic general equilibrium models. Still, once starting to allow for relaxing these assumptions - by tolerating certain levels of factor rigidities - it becomes challenging to sustain these conclusions. To handle the problems raised by factor of production rigidities various policy interventions to compensate or correct their full or at least partial effects are adopted. Kaldor (1978b: 1) formulated this in the following terms: "equilibrium economics is barren and irrelevant as an apparatus of thought to

6 Classification borrowed from Vanhove Norbert and Leo H. Klaassen (1987)

7 A nice collection of one-sector and two-sector neo-classical models of growth can be found in Solow, Rober M. (2001)

deal with the manner of operation of economic forces, or as an instrument for non-trivial predictions concerning the effects of economic changes, whether induced by political action or by other causes”.

Nonetheless, by allowing for the existence of factor rigidities, regional inequalities are becoming the fundamental state of nature, or the benchmark model. This is a different world from that of neo-classical economics, as the general system of economic equilibrium can be achieved only through means of policy intervention. Stated differently, if policy instruments not used to correct the effects of factor rigidities, the world would be characterized by serious regional developmental disparities.

In the social overhead capital approach, also known as the Hirschman-Rodenstein-Rodan concept, public infrastructure investment receives the central emphasis. According to Biehl (in Vanhove & Klaassen, 1987: p. 14-15) public sector induced regional development can be the result of two different policies. One such policy is to enhance the existing social overhead capital capacities, while the other option is by investing in unused resources while letting the market create sufficient demand for the existing social overhead capital.

As the core interest of this endeavor is to discuss the institutional effect of territorial allocation of state economic policy making authority, I will structure the analysis of these theories based on the level of policy coordination in regional development and the application of regional development theories are discussed under these headings.

The “development-from-above” school

Common to the theories of the “development-from-above” approach is the view according to which central governments in order to increase the mobility of different factors of production adopt central redistribution policies. The means by which such policies are executed are most commonly related to the spatial allocation of public infrastructure investment and by territorially differentiating the incentives for private or nationalised activities according to levels of development.

Based on the procedural description of the regional development process the models and the theories belonging to the “development-from-above” school can be further grouped into two categories. The first such grouping contains the price equilibrium models of regional development, while the second group supports the importance of dynamic disequilibrium.

According to the price equalisation model, emerging from international trade theory, developed by Heckscher (1991/1919), Ohlin (1991/1933), and Balassa (1961). Heckscher (1991: 47) initial interest was in “examining the influence of foreign trade on the prices of the factors of production”. Ohlin (1991: 86) turns to the analysis of factor price determination using a single market. In the provision of these authors, factors of production target locations able to provide the highest return (Heckscher, 1991: 62; Ohlin, 1991: 91-94; and Balassa, 1961: 268-271). The resulting flow of resources towards underdeveloped regions result in an increase in the competition for factor prices. In time, the returns to factor investment equalise in all regions leading to a general system of economic equilibrium.

Price equalisation driven policies with public subsidies had laid such a hard burden on the economic development budgets that in often cases it became unsustainable both economically and politically (this has been even stronger in the

less developed countries). Nevertheless, the problem of allowing the freedom of movement for factors of production leads to a context favouring leading regions.

According to Myrdal's cumulative causation model this advantage is not necessarily malefic (in Armstrong, & Taylor, 2000). The economically advanced regions relying on their strategic advantage, which can be of location, infrastructure and so on, led to the agglomeration of economic activity, reinforced by its ability to attract further investment due to its ability to provide higher rates of return than less developed regions. By the same token, backward regions are suffering the effects of their relative backwardness by brain drain and the loss of venture capital effects in favour of the advanced regions.

However developed regions will spread out into backward ones. This happens because backward regions' underdevelopment constitutes into their comparative advantage, expressed in lower factor prices, natural resources and so on, the result being that backward regions start to develop. This process has been labelled the backward effects are superseded by spread effects as cumulative causation. According to this theory, price equilibrium can be attained by the design of appropriate economic policy, like the ones targeting to discourage certain investments in developed regions, and by redirecting them to underdeveloped regions.

Hirschman (1958) introduces the notion of growth pole. According to this, growing and expanding urban areas are spreading the benefit of their growth out in their hinterlands. Related to the cumulative causation and growth pole models is autonomous growth centres model. Due to the spread effects of growth poles from the existing growth poles a national grid of autonomous centres emerges and finally all regions develop.

In contrast with the economic equilibrium seeking price equalisation models the dynamic disequilibrium perspective lies on Schumpeter's (1959: 61-64) observation⁸ that capitalist production is one of continuous systemic change and therefore the economy is in continuous disequilibrium. In this system production processes are often improved on or replaced by more efficient ones. Owing to this, if leading regions are not innovating at a sufficient degree, their products may become less competitive due to the high costs of factors of products they face. In the same time lagging but innovative regions may take the lead in the production of new or enhanced products so that they initiate a domestic development process.

From this thesis two collateral theories have emerged. First, is the business cycle theory (Schumpeter, 1939) according to which products by innovation and technological improvement get replaced by better and new products. If the development of new competitive products happens in lagging regions, this may lead to their development and catch up with the developed regions with proper support by different factors.

The policy effects of these theories are easy to identify. The case of the South Korea is illustrative, as in this case two set of "development-from-above" policies were put at work simultaneously. On the one hand, strategies of peripheral region development were pursued. On the other hand, policies of population were supported from growth centres to their hinterlands.

The private enterprise approach

In this perspective the stress falls on the values of market mechanism operation (Stöhr, 1990: 42). The main source of this approach has been the criticism of state

⁸ The author's observation has been made earlier in time. The 1959 book is the earliest edition I had access to, this is why this one is quoted.

intervention into the economic processes of the free market. At a micro-level the proponents of this model consider that private entrepreneurs are the best suited to identify new market opportunities, develop the products, technological innovations and services necessary for meeting the demand within these markets.

At a macro level the perspective is similar to that of the neo-classical economic theory. Namely, the price mechanism is the best co-ordination mechanism of economic market activities.

Meso-level analysis starts from the premise that there are developmental disparities among regions. The focus in the analysis falls on the importance of price and wage rigidities produced by the emergence of multi-regional and multinational enterprises across regions with different level of development. Local firms are pushed to adjust their prices to the ones of large firms, while labor unions lobby for the factor price equalization of labor. This approach predicts that less developed regions - because of these cross regional factors equalization - lose their comparative advantage. Still, by this process this approach only explains why potential developmental gaps are reinforced, rather than explaining their source of origin.

The “development-from-below”

The underlying epistemology of these developmental views is that development patterns need to be adjusted to fit regional characteristics. This school comprises three approaches: territorial development, functional development, and agropolitan development.

Authors of territorial development approaches agree that the growth benefits of one region need to be transposed into lagging regions. Differences among the authors’ perspectives within this theory emerge when discussing the proper local

policies leading to spread effects. According to Stohr (1981), territorial development theory seeks to integrate growth centers into their hinterlands. In contrast, Weaver (1984) considers that there is a need for regional planning in order to control and potentially to catalyze the spread of development from growth poles into their hinterlands.

The core provisions of functional development theories concern policy planning oriented toward improving less developed regions local conditions by enhancing their competitiveness with other more developed regions (Markusen, 1987). In this view, the policy of initial public investment into the local economic activity by local institutions, such as local governments, under the form of providing infrastructure, or operating differentiated tax levies and other such policies enhances the regions absorption capacity which in turn encourage private investment, by being able to attract into their regions venture capital.

One possible alternative explanation

The actor-centred institutional approach I am proposing for inquiring about the issue of policy optimality is concentrating on the policy instrument choices actors are making given the specific transaction costs they face in the institutional framework in which they are acting and not specifically the level at which policy is made. For this I will introduce a little used approach the, namely transaction cost framework to present the importance of institutional factors on agents' decision-making. The provision of this theory is that territorial states would redefine political property rights, or the rights to exercise public authority in certain policy domains, when doing so would optimise the existing political transaction costs given their specific objective function. And by this central authorities create a national institutional within which meso-level

policy agents are faced with the challenge to optimise the transaction costs when engaged in the policy-making process.

Research Design

I will develop an econometric model to formulate the contextual relations of local governments in the framework of national constitutional subordination, local susceptibility, and European public funds incentives. This model will comprise the previously mentioned two sets of constraints on local policy behavior. Therefore, the feasibility of adopting different local policy choices will be formally evaluated, given the system-specific transaction costs levels. I will use multivariate methods of statistical analysis to evaluate the property-disposition relationship between institutional incentive structures and local government policy behavior for a proposal call cycle for the country cases.

I will use the comparative method to compare the two country cases (Hungary and Romania) and to evaluate the similar effect using the "different research design".

Given the potential commensurability problems along time and the changing institutional property-distribution local government policy making authority in larger institutional settings, I am proposing a cross-sectional design with the use of multivariate methods of statistical analysis.

The necessary data for testing the working hypothesis and its corollaries will be collected using mainly archival data. The main reason for the use of these data is that they are accurate in presenting the actual public fund soliciting behaviour of local governments, at least the official one. Different data gathering methods will be applied. Assessing local government policy-making authority will help to evaluate the policy domains over which local governments have policy drawing authority,

local policy competencies. A main data gathering method will be the content analysis of national state authority allocating policies among central and local governments. In this phase governmental documents of state policy allocation among central and local governments will be collected and analysed.

Through the analysis of the national and European public funding available to local governments from the accession countries, answers will be sought to the following questions: What national and European funds are available for local governments for a given period? If possible, who applied for what? Who succeeded in securing funds and for what?

The other main data gathering method will be context analysis of official application archives to evaluate local policy makers' perceptions of their local governments' policy capacity and local priorities. The survey method of personal interviews will be applied to local officials.

Variables

According to Anderson (1993), the policy process operates in the following stages: problem recognition, definition and setting it on governmental agendas; then alternatives are developed and presented, followed by the adoption of an alternative as the official view; afterwards the policy is implemented; it is then evaluated and feedback is collected; legislative or administrative adjustments may be made and from here the whole cycle repeats (if the termination of the policy is not decided). To capture the abilities of local governments to perform at each stage of the policy process I will have to evaluate this capacity at each stage of the policy process (See Appendix 1.).

This suggests that the dependent variable, namely the local government policy-making capacity, is a composite measurement, which if considered useful can be divided into parts to contrast the strengths and weaknesses of the system in achieving its goals. This allows for analysis both in the different phases of the policy process and in the whole policy cycle as well.

These county level local governments vary among each other on two major accounts (Horvath, 2000). First, in terms of population size, surface and access to infrastructure. These differentials manifest themselves at different levels of economic development and lead to the need for different development strategies. These socio-economic and infrastructure differentials can be expressed in terms of the aggregate amount of per unit resource available per resident. This indicator – contrasted with the national aggregate of the same indicator – will provide us with a rank ordering of counties in terms of their own resource endowments and could be a determinant in the local policy cycle process. Second, there is a political correspondence between the county council and the central government. This variable is a dichotomous nominal level measurement where congruence between the ruling majority in the national government and the local government level is 1 and the mismatch is 0. These variances will be considered the intervening variables and are expected to play an important role in the grouping of the cases in categories.

Based on the performance of the socio-economic indicators of local governments since they were given local decision-making power, they will be grouped in three groups. The first will be the group of local governments that show improvement in their overall socio-economic condition. The second will represent the group of local governments which are at a similar level of socio-economic development as at the

moment of change. The third will include the local governments whose overall socio-economic performance worsened.

The independent variables are those political factors that set the system authority allocation in the specific way it is. Here I will include the European institutional effect by means of accession requirements such as the *aquis* and the policy instrument choices European aid and pre-accession assistance pose in the accession negotiations for individual countries. Also, I will include here the Accession Partnership, and the National Development Programs.

Expected results

The model will provide information about the theoretically possible and factually relevant aspects of local policy behavior and its importance for the regionalization patterns of the region. Based on it, I will evaluate the nature of relationships between central and local governments in the new institutional setting. I will also analyse the character and direction of links local governments are trying to establish, and whether these are more prominent among countries, within the borders of the same country or within the subregions of the same country.

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Appendix 1.

Policy process phases	Definition	Type of analysis	Measurements -Procedural and systemic
Problem recognition, definition and setting it on governmental agendas	Those problems, among many, that receive the extensive public attention	- policy advocacy analysis – how policy problems are identified	- Index of social and interest group impact on public issue identification - Level of policy network articulation - Levels of inclusion in the policy process
Alternatives are developed and presented	Development of pertinent and acceptable proposed courses of action for dealing with a public problem	- Information for policy – how are alternatives developed?	- openness of the process - levels of information systematisation
The adoption of an alternative as the official view	Development of support for a specific proposal so that a policy can be legitimised or authorised	- Analysis of policy content – how are they adopted or enacted?	- success of consensus creation over adopted policies
Policy implementation	Application of the policy by the government’s administrative machinery	- policy monitoring and evaluation	- administrative capacity to execute adopted policies - departmentalisation - administrative responsiveness
Evaluation and feedback	Efforts by the government to determine whether the policy was effective and why or way not	- analysis of policy determination	- mapping out the techniques used for policy evaluation - reliability of evaluation techniques in use to assess policies
Policy adjustment	Correcting the policy	- analysis of policy reversals	- costs of bureaucratic procedures for policy re-calibration
Policy termination	Terminating the implementation of the policy	- policy failure analysis	- capability to politically survive the political and social costs of policy termination