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THE IMPLICATIONS OF ECONOMIC AND SOCIAL COHESION ON THE  
COMMUNITY'S INSTITUTIONAL ARCHITECTURE AFTER THE CREATION OF THE  
SINGLE MARKET: THE ROLE OF TRANSREGIONAL NETWORKS

by

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The issue of subsidiarity and economic and social cohesion in the Single European Act

During the last three decades, students of the European Community have become familiar with one of the axioms of the social sciences: the interrelationship between politics and economics. Social science has historically acknowledged that economic changes do have an impact on political institution, and economists do study the economic impacts of political institutions (Norton, 1991). However, Political Scientists have been reluctant to openly acknowledge that the current move toward the creation of a single market after December 31, 1992 might have a significant impact on the institutional architecture of the European Community as suggested by the topics being discussed in the two intergovernmental conferences (IGCs) of 1991: economic and monetary union and political reform. The theoretical assumption made by the organizers of the IGCs is that: attempts to change markets and the structures and rules of economic interaction will have an impact on institutions; or even more forcefully, it is argued by some in the European Parliament and Commission that for real changes to be made in the management of a larger market the Community needs to create new political institutions or significantly strengthen the existing ones that provide a democratic base to the legislative process (PE 148.864/fin). We are not suggesting that economics causes politics, but the two are intimately connected as was well illustrated by the repercussions of the Single European Act which in one stroke completely changed the dynamic of European integration.

Economic and political change also have an impact on the perception and definition of problems in a new light. A case in point is offered by the Community's commitment to economic and social cohesion -- i.e., to reduce the differences separating developed from underdeveloped areas. Prior to the Single European Act, economic and social cohesion was an implicit rather than explicit policy of the European Community (Nanetti, 1990). In the 1957 Rome Treaty the EEC had enunciated a basically "tickle down", laissez faire approach to the alleviation of regional disparities. The only policy instruments identified in the Treaty that were remotely concerned with national and local shortcomings in economic and social infrastructure were the European Investment Bank and the European Social Fund. The former concentrated on providing loans for the realization of infrastructure programs such as roads, dams, ports, airports, etc. while the latter intervened in the facilitation of worker mobility (i.e., getting the unemployed laborforce in southern Italy to migrate northward, especially in response to labor shortages in northern Europe). It wasn't until 1975 that a regional fund (ERDF) was created to finance in a more direct manner infrastructure projects and, to a lesser extent, the development of industry and other economic development projects. The ERDF, however, did not receive a specific definition in the European Community legal and institutional structure until the ratification of the Single European Act.<sup>1</sup>

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<sup>1</sup> The ERDF was considered at the time a form of "side payment" to the Community's weakest state--i.e., Italy--for the accession of the U.K., Denmark, and Ireland and then as the mechanism through which the weaker states (Italy and Ireland) were enticed into accepting the European Monetary System.

In effect, the acceptance of the Act by the twelve member-states constituted an example of the three fundamental elements that have characterized European integration from the very beginning. First, it illustrated the role played by economic crises (in this case, the declining competitiveness of European industry to the challenge being mounted in the early 1980s by the U.S. and Japan for the control of world markets) in establishing the base for qualitative policy changes. Secondly, it demonstrated the interrelationship between economic and political issues: the Single European Act posited as the main goal the further economic integration of Europe but it did so on the basis of a fundamental change in institutional structures. Finally, it showed how the focus on new approaches to policy making also served to broaden the agenda for the European Community. On the foundations of creating a new market for Europe the Community was able to graft on a new social charter and innovative approaches to social policy.<sup>2</sup>

The contents and focus of the Single European Act cannot be seen as left-overs from the 1969 ratification of the Customs Union or marginal changes in an economically integrated Europe. They are, instead, based on the perception that was prevalent at the end of the 1970s and beginning of the 1980s that the European economy lacked competitiveness in the world system in comparison to the United States and Japan. The single market was designed

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<sup>2</sup> It could also be argued that the Single European Act itself is the side-product of the original effort by the Genscher-Colombo initiative to consolidate European Political Cooperation and the dispute over the British-initiated budget controversy. The Dooge Committee proposal on institutional reform brought together into a common program the goals to expand economic integration through the creation of a single market with the strengthening of the European Parliament, restructuring the Commission, and reforming the European Court of Justice.

to provide a new impetus for European integration that corresponded with the desire of Community economic elites to use the economic challenge as a means for pushing forward economic integration and providing Europe a chance to respond to world competition. However, business elites as well as the Eurocrats and national political leaders understood that in order to achieve the goals spelled out by the single market program fundamental changes had to be made in the nature of the nation-state apparatus and in the principles guiding the building of a more integrated economy. Two of the changes made by the Single European Act to the orientation of European integration was the insertion of the principle of economic and social cohesion and subsidiarity in the formulation of general policies in the European Community and, more explicitly, in the development of regional policy. Taken together they have had a fundamental impact on the institutional relations between center and periphery in the European Community.

In the case of regional policy the identification of the problem/policy (e.g., regional disparities/ERDF) has led to the formulation of a new legal structure and institutional form (e.g., reform of the structural funds which, in turn, requires the creation of a new institutional framework). Article 130a of the Act states categorically that "In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favored regions". In order to pursue the goal in a more efficacious manner, the Act foresaw the

restructuring of the three existing funds (Agriculture-Guidance, Social, and Regional) and the recognition of a new principle that had long been championed by the European Parliament: subsidiarity (Adonis and Jones, 1991).

Starting with the Integrated Mediterranean Programs and then with the reform of the structural funds, the principle of subsidiarity has been translated into a partnership among the three institutional levels that have emerged as the predominant actors in a newly integrated Europe: the Community, the nation-state, and the region. The elaboration of a partnership among levels sharing responsibility for the policy making and implementation process and the desire to locate responsibility for implementation and control at the "level that is most appropriate" has led to a de facto empowerment of the regions and local authorities.<sup>3</sup> Based on the subsidiarity principle, the Commission has concluded that "the chances for development are best if the impetus comes from the regions themselves, based on their own potential" and that "those responsible at the local level are always best placed to define the needs of their regions and mobilize its strengths" (CEC, 1990, p. 9).

#### The new European Community architecture after 1992

In analyzing the impact of 1992 on the European Community institutional architecture, we can identify two types of pressures that are being applied to change the status quo. The first is the pressure to manage the new market, thus the discussion of monetary union and a European Federal Bank. Since the ratification of the Single European Act, a day does not pass

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<sup>3</sup> Numerous examples are being provided by the Community Support Frameworks that have already been or are being elaborated for Objectives 1, 2, 5b, and fisheries.

without the movement of some policy sector or decision on economic, social, and monetary policy up to the Community level for consideration and action. Secondly, there is the pressure to change the political institutions so that policy making remains grounded on the principles of representative government and ultimate accountability to the people. The goal is to reach an agreement before the end of 1991 for a reform of the Single European Act and the development of new institutional forms. Taken together, these two pressures have wide implications for the Community's institutional structure, the formulation of policies for social and economic cohesion, and the role played at the present time by sub-national governments at the European level.

The structural funds represent the one area in which local and regional authorities have been quite active, and the creation in 1988 of the Council on European Regions and Localities (plus the opening of offices in Brussels by a number of regions and local authorities) has changed the nature of the linkage system that brings into contact the Community with sub-national entities. That linkage is now more direct, and increasingly it is circumventing the attempts by national governments to prevent contacts from being established.

Nation-states have adopted various strategies for reducing the pressure for direct region-EC contacts. Italy and Spain have turned a blind eye to the problem. Greece and Portugal have stalled in creating regional political institutions. Ireland has insisted on treating the entire country as one region so that when the country is asked to respond as a region and as a member-

state it is always the national government that interacts with the Community.

With the preparation for the single market, the role of sub-national authorities has begun to change substantially, and the trend will most likely accelerate after the completion of the internal market and the termination of the five-year Community Support Frameworks in 1993. The institutional implications of the reform of the structural funds and the single market are now joined with a new reality: the pursuit of economic and social cohesion on the basis of an intra-EC rather than as an inter-state exercise. Cohesion as an explicit goal of the European Community changes considerably the role and function of regional and local governments. A model of the direction that the restructuring might (and will most likely) take is presented in Figure 1 which suggests the evolution of a new Community institutional architecture after 1992 in the nature and extent of horizontal and vertical linkages in bringing together sub-national governments with their counterparts in other countries and directly with the Community.

(Place Figure 1 about here)

Figure 1 predicts that with the elimination of national boundaries as barriers to the free flow of goods, services, individuals, and capital after 1992 national frontiers will decline as impediments to intergovernmental cooperation among Community member institutions. What is now considered by national governments "foreign policy" initiatives (i.e., contacts among sub-national units geographically located in different nation-states) may be transformed into "internal" policy because



national boundaries will be eliminated as impediments to economic interaction and policy making.

The implications of such a change will be to enable sub-national governmental units to cooperate not only along an expanded vertical linkage but also along the horizontal dimension. The opportunity of conducting operations on a more horizontal dimension are posited by the post-1992 model and are, in fact, actively being pursued by the Community in the experiments and pilot projects now underway trying out new ideas for the post-1992 institutional setting. This approach is particularly appropriate in the pursuit of the goal of economic and social cohesion because it would permit regions in contiguous geographic areas to formulate and administer policies together, to permit the forging of contacts between entrepreneurs and sectorial associations operating in the same sector but in different national and regional contexts, and to increase the capacity of local and regional authorities concerned with economic development to respond to the evolving nature of the economic challenge in Europe and the world.

An essential part in determining the success of sub-national institutions to the demands for new linkages and approaches to policy making will be the nature of the current linkage networks that bring together sub-national institutions with private groups and interests present in society. Based on a previous study of the links between regional institutions and economic development (Leonardi, 1991), we posit the present analysis on three assumptions.

The first is that regional forms of collective action (e.g., political institutions, administrative structures, trade

associations, and voluntary associations) do have a role to play in the promotion of positive economic outcomes.<sup>4</sup> Research on regional institutional performance in Italy has shown that the presence of sub-national governments, social organizations, and economic associations serve as an important component in the mobilization of autonomous and self-sustaining forces for local development.

The second assumption is that institutions can learn from their previous successes or failures in developing solutions to new problems--i.e., that there is an "institutional learning process" which allows the learning of lessons from pilot schemes and mistakes on how to correct the goals and structures of development policies. Evidence supporting this conclusion is provided by longitudinal case studies on how some regions -- e.g., Friuli-Venezia Giulia, Emilia-Romagna, Tuscany, and Sicily -- have responded to policy and institutional challenges originating from within and outside of the region and how these lessons have been transmitted to other regions facing similar problems.<sup>5</sup>

The final assumption is that regions have the capacity to react to problems and can seek solutions at appropriate institutional levels. In the case of the post-1992 Europe, the appropriate level for the resolution of problems will increasingly become the Community at large.<sup>6</sup> The area of cross-frontier and transregional cooperation constitutes a new prospect for Community activity, and a number of pilot projects focussing

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4 See the forthcoming volume by Putnam, Leonardi, Nanetti, 1992 and the earlier version of the manuscript published in 1985.

5 See Bartole and Agnelli, 1989; Leonardi and Nanetti, 1990; and Regione Siciliana, 1990.

6 See the results of the EUI conference (1989).

on the forging of cross-border links are now underway (CEC, 1989).

Working with these three assumptions, the hypothesis guiding our present research project is quite simple: the success in the creation of networks beyond the present system of regional institutions -- i.e., ability to sustain successful networking at the European level -- will be greater if regions currently have operating network systems at the sub-regional level. The link between, on the one hand, formal and voluntary institutions and, on the other, regional and sub-regional networks is part of an overall conceptualization of development that considers governmental institutions as a form of "institutional infrastructure" or as a fundamental component in the determination of economic and social outcomes.

The argument here is that just as basic forms of economic development are facilitated by the existence of economic infrastructure -- such as roads, electrical lines, aqueducts, etc. -- development based on diffused systems of small and medium sized entrepreneurship requires the existence of a well developed institutional infrastructure.<sup>7</sup> The concept of "institutional infrastructure" can be operationalized as a series of interlocking institutions, ad hoc structures, relationships, and agreements for collective action. One of the essential elements in the scheme is the existence of effective regional and local government authorities (in other words, in both their political class as well as administrative manifestations) with the capacity to stimulate the development of informal and formal structures for collective action for the pursuit of development goals. The

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<sup>7</sup> See the model developed by Nanetti, 1988.

concept of networks is used in order to differentiate the notion of "institutional infrastructure" from that of formal organizations. The latter constitutes one of the essential parts of the equation, but it does not satisfy all of the conditions. For adequate institutional infrastructures to exist, formal sub-national governmental organizations must be supplemented by a series of less formal arrangements -- ranging from ad hoc, temporary agreements to more structured alliances that continue over time -- for the purposes of organizing collective action. The concept of network allows us to discuss collective action conducted through various levels of formal and informal organizations.

Case studies of regional policy making have shown that networks have served the regions as the basis for interacting in policy-making and implementation with private social and economic groups and associations for the purpose of creating policy-making and implementation networks at the sub-regional level. We conceive of sub-regional networks as transitive in nature -- i.e., they can be used to sustain an intraregional as well as interregional and transregional network systems and argue that experience with sub-regional networks greatly facilitates the task of creating, participating, and sustaining over time transregional ones because both the political institutions as well as organized groups in society are familiar with and accept the need for policy networks.

Almost by definition the interaction between public institutions and the private sector needs to be conceived as a two-way relationship in which regions are not only seen as the recipients of governmental subsidies and transfer payments but

also the initiators of development policies in supplementing or filling in where national (and increasingly EC) initiatives are not forthcoming. The conception of the region as an institutional "entrepreneur" participating in a pro-active manner in development has yet to be fully taken into account by EC regional and sectorial policy makers even though the Community has constantly reiterated its support for mixed public-private initiatives.

The concept of the region as entrepreneur is based on the a priori existence of a private-public partnership and an ethic for the pursuit of development as a common good. According to the notion of regional development as a product of conscious public policy, the role of the private sector is to concentrate on the productive and distributive phases of the economic process while that of the public sector is to mobilize collective goods -- such as social services, investment projects, and policy planning. In addition, both sides of the institutional divide are interested in developing and maintaining the national and international competitive edge of local production units through public policies that aid in the continuous redefinition of products, markets, and productive structure.

Where public-private networks and common good orientation are missing, balanced and diffused forms of economic development have difficult materializing. There is, instead, the growth in the practical dependence on centralized sources of capital investment, large economic infrastructure, and public administration as the primary source of non-agricultural employment and the ethic of centralized transfer payments as the

primary source for maintaining standards of living and employment.<sup>8</sup>

The dependence on the central government for economic policy and transfer payments is one of the major differences which separates larger from smaller member-states in the Objective 1 areas. The latter still depend to a great extent on centralized administrative structures while the former have moved to more decentralized forms of decision-making and administration.

Institutional decentralization and policy making autonomy appear to be two of the necessary components in launching an intensive system of regional networking. First of all, it is much easier to mobilize a region's socioeconomic forces through decentralized political structures. In centralized systems that mobilization imperative is left to members of the public administration (e.g., Northern Ireland) or private political forces such as political parties and interest and voluntary groups (Greece, Ireland, and Portugal). In the latter cases, the public institutions are practically absent. Secondly, the cases of Italy, Spain, and France demonstrate that the role played by public officials operating within autonomous political institutions is quite important in forging links between

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<sup>8</sup> Another way of expressing this relationship is in terms of "distance" between policy making centers in the system. The existence of networks is based on the achievement of "institutional autonomy" of the policy making bodies that permits policy initiatives to surface from the sub-national level. Institutions that are not able to sustain the creation of networks must, by definition, seek to remain close or dependent on the source of vital resources such as finances, legal adjudication, and political power provided by central government elites, administration, and policy making structures. For a discussion of autonomy as a central concept in regional institutionalization, see Putnam, Leonardi, Nanetti, and Pavoncello, 1984 and Israel, 1988.

institutions and socioeconomic forces for the pursuit of collective interests in a planned and transparent manner.

The current system of networking that links regional institutions and social and economic groups in the Community's more developed regions is not based on the subordination of either the groups to the institutions or the public institutions to the groups. Rather, it is based on an autonomous and mutually reinforcing relationship where the needs of all the participants in the network are met. From its perspective, the regional government achieves a much greater penetration of the socioeconomic fabric of society and higher levels of political mobilization while the socioeconomic groups are given access on an organized and predictable basis to public decision making and allocation of resources. Thus, it is in the interest of all participants to consolidate and perpetuate the network.

#### The operationalization of networks in the European Community

Our consideration of networking within the European Community is based on an operative definition of a "network" that possess four characteristics.<sup>9</sup> Those that are of interest to us in the context of European integration are: 1) the content or interactive form of the linkage, 2) the subjects involved, 3) the policy area covered, and 4) the territory over which the network operates. Putting these four elements together, we can define a network as an agreement for collective action based on a common

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<sup>9</sup> The minimum elements for a network to exist as expressed in graph theory are "objects" or "nodes" in the system -- e.g., points on a graph -- and "relationships" -- e.g., lines joining the points. In our case, the objects are regional or other local government institutions and the relationships consist of formal agreements to cooperate in the pursuit of common policy objectives. For a preliminary discussion of networks, see Berkowitz (1982) and Knoke (1990) for a discussion of network theory in the study of social and political phenomenon.

set of objectives, resources, and instruments for the purpose of planning and managing a service, product, or sector within a defined territorial space.

From this perspective, transregional networks are an agreement operationalized through a series of interactions or relationships that permits the subjects (e.g., regional institutions) to take action and to be present in the determination of decisions and implement policies outside of their immediate territorial jurisdiction or location. Thus, if networks are to become operative at the European-wide basis it will be important to know: a. the level of institutionalization required by the network (is it just an agreement to act in unison or a contract and institution created to decide and implement action?); b. its territorial presence (how many regions are involved and how are they connected to other levels of government?); and c. its reach (is it a mono or multi-sectorial in nature?).

In the post-1992 context regional networks will be able to operate throughout the Community, but in practice the territorial presence of the network will be defined by its membership, scope, and capacity to undertake effective policy making and implementation. The first set of networks are being conceived by the Community as integral parts of the planning exercise -- European Community 2000 Plan -- focused on areas such as the Mediterranean, the Atlantic maritime regions, the Rhine regions, etc. which share common problems and which can be brought together for the search of common solutions.<sup>10</sup>

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<sup>10</sup> See the European Community 2000 Plan generated by the Commission at the end of 1990. It conceptualizes Europe as a



The second important element to be considered in discussing networks is the potential pool of members or actors that will be effectively involved in the operation of a particular network. If we look at existing ad hoc network systems that have sprung up spontaneously in the Community to deal with the coordination of law enforcement issues or the cooperation among national air pilots associations, businesses, and trade unions -- we see that networks can be created to involve a wide variety of subjects which range from individuals and firms to voluntary groups and governmental units. A number of existing Community programs such as Europartneriat, BC Net, Eurowindows, LEDA and others already constitute explicit network systems among certain individuals and entities throughout the Community. Nonetheless, the current level of networking is limited in both quantity -- the number and variety of subjects involved -- and in impact -- the effective capacity of reorienting individual/institutional decisions and plans. In fact, the present approach to networking relegates the Commission-initiated networks to the role of supplying information and creating communication links, but the dynamic generated by the preparation for the single market is forcing the Commission to assume a more active role.

The third element characterizing networks is the nature of the interaction. This interaction can be limited to the mere exchange of information or can extend all of the way up to the joint management of important policy sectors. Thus, a telephone communication system is a network system for the purpose of distributing information in the same way that the post office is

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union of distinct areas that can become integrated through a mixture of networking and active Community policies.

the territorial network for the distribution of written correspondence. Both service networks are organized so that they can penetrate all the way down to the local level: to individual families, houses, and even rooms. Governmental administrative systems are also networks and so are individual firms or, as in the U.S., inter-state authorities such as the Tennessee Valley Authority or the New York Port Authority. The purposes of these latter types of networks are not only to transmit information but also to implement decisions and manage societal resources.

The U.S. or Canadian examples of multi-regional agencies for the management of services and resources are involved in complex activities that cover both the private and public sector. The possibility of creating similar institutions in the Community is often enunciated in Community documents but has yet to be implemented in a concrete manner.

Networking is seen by a number of Community officials as a way to move from informal to more formal arrangements leading to the creation of European agencies or institutions that are capable of tackling problems from a Community perspective. Accordingly, networks organized on a transregional basis would be in a position to assume policy initiatives, formulate programs for intervention, mobilize resources, administer programs, and conduct program oversight and verification on a Community-wide basis and as an alternative to the nation-state system.

Finally, networks can be designed to resolve specific problems that are not manageable by existing institutions and structures. Once the initial assignment or problem is resolved, the network might, in fact, move on to cover other spheres of activity. This was the case of the TVA which went from its

initial task of land reclamation and flood control to the production of atomic energy. As a consequence, networks can be seen as flexible policy making and administration structures that evolve over time in response to shifting needs. In the changing institutional structure of the post-1992 Community, networks can be conceived of as "pre-institutions" or a stepping stone on the way to reassembling institutions above and beyond the present boundaries drawn by the nation-states. One of the rationales behind the Community's present experimentation with area-wide networks is that after 1992 regional networks will help fill the institutional vacuum that will develop once the nation-state loses its exclusionary rights over the activities of sub-national political, economic, and social institutions.<sup>12</sup>

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<sup>12</sup> One of the more interesting aspects of comparative work on sub-national institutions inside and outside of Europe is the extraordinary similarities in the pattern of responses to social welfare and economic growth formulated by local and regional governments. In a number of cases, what one observes taking place in Europe is also underway in other institutional and political settings in North America and Asia. Take, for example, the two most striking innovations experienced by sub-national government in Europe during the last two decades: "institution building" and "local government as a vital economic actor". Today, we see European sub-national governments facing a changing reality that closely parallels developments noted by scholars of Canadian federalism in the 1960s: the growth in the size, power, and scope of provincial governments in response to the exigencies associated with the evolution of the welfare state and growing concern of sub-national governments with issues of economic development. The concept was labeled by Canadian scholars as "province building". See Black and Cairns (1966) for the first discussion of the concept. In a recent survey of the literature Young, Faucher, and Blois (1984) discuss the process of province building in a manner that closely parallels what has been happening at the sub-national level in Europe in the 1970s and 1980s: "Provincial bureaucracies have grown enormously in size and competence; not only are they essential tools of provincial politicians, but their own interests also favor expanded, activist states. Increased revenues and new capabilities of policy-making and co-ordination have enabled surer management of socioeconomic change. Hence, provincial states have grown in capacity to serve provincial interests--or to shape them" (p. 784).

Caution must, of course, be exercised in integrating the regions and localities into the policy making process at the European level in order to guarantee that integration does not lead to a drop in policy making efficacy and administrative efficiency -- i.e., an adjustment downwards. At the present time across the Community, we find widely divergent levels of administrative efficiency in governmental organs at the sub-national levels, and Community policy has not been sensitive to the need of improving administrative as well as economic performance at the regional and local levels.

A case in point is offered by the differences in the expenditure rates in the IMP projects that have witnessed high levels of implementation in relative short periods of time in regions with strong administrative infrastructure and robust network systems with local governments and other socioeconomic actors (e.g., Emilia-Romagna) and almost no action in regions with bloated but administratively weak bureaucratic organizations and almost non-existing networking arrangements with civil society in regions such as Sicily and Molise. In Greece the administrative structure for the IMPs had to be created *de novo* because the Greek state does not have a viable regional administrative structure that can administer policies requiring an intense level of interaction with socioeconomic groups in society, and the IMP structure in France was grafted on to the existing national administrative structure rather than to a fully autonomous regional administrative system (Bianchi, 1991).

In order to break the cycle of dependence on national structures that are not fine tuned to the needs of regional economies and social demands or to the lack of sensitivity to the

principles of additionality, subsidiarity, and partnership on the part of national administrations, the Community must give greater attention to the need for upgrading the technical expertise of sub-national administrative personnel, administrative structures, and policy implementation procedures. Otherwise, it will not succeed in achieving the results foreseen by the expanded regional level funding made available through the Community Support Frameworks (CSF). Present practices are not at levels which can be considered adequate for the tasks delineated for the Objective 1 areas by the CSF.

The involvement of the regions in the administration of the Community's regional policy and the major program to aid less developed regions for the economic shock that will be delivered to regional economies by the creation of the single market cannot become part of a process through which the Community experiences a lowering of administrative standards, down to the level where the achievement of the lowest common denominator of administrative inefficiency, policy inefficiency, lack of expertise among administrators, and waste of public resources in the pursuit of short-term political gains rule the day. Such a course could be disastrous and spell an end to any long-term notion of developing a viable Community policy for the regions and vigorously pursue the goals connected with a new approach to regional planning at the Community level. The Community is orienting its post-1993 programmes on the basis of view of strengthening regional institutional infrastructures through targeted policies (e.g., a specific agency for the preparation and requalification of regional administrators in Objective 1 areas) and an approach to regional networking that brings

together regions with strong as well as weak networking potentials.

If the Community restricts itself to networking the weak regions, its programmes will fail because they will not be based on accumulated networking experiences at the sub-regional level but instead on an experience of failure in creating internal networks. The attempt to build transregional networks in institutional and socioeconomic contexts where regions have failed to generate even intraregional, internal networking systems will experience great difficulty. Regions with weak institutional and associational infrastructure cannot fulfill the minimum requirements for participating in the setting up of networks at the transregional level. For transregional networks to develop, the participating regions need to possess the following characteristics: 1. the existence of regional institutional autonomy, 2. a track record of effective regional policy making and administration, 3. continuity in regional institutional programmes, personnel, and commitments to cooperation, 4. regularized institutional contacts at the regional level with socioeconomic groups, 5. the ability to technically plan and administer programmes at the regional and local levels, and 6. the availability of autonomous resources that the regional is able to allocate to transregional ventures. A general lack of these characteristics among the participating regions significantly weakens the ability of the Community to pursue the objectives enunciated in the 1988 ERDF reform.

To avoid such a pitfall, the Community needs to distinguish potentially "strong" from "weak" candidates for participation in regional networking. This can be done by using structural

analysis to identify the strength and resilience of existing regional networking systems and to extrapolate a region's ability to interact with new partners in the formulation and implementation of transregional policies. In the remaining section, we will outline a model for the conceptualization of networking in the European Community given the increased possibilities generated by the realization of the single market.

#### Forms of linkage networks

(Place Figure 2 about here)

As defined above, networks are interactive systems that create relationships and potential for collective action across a variety of levels. One of the fundamental aspects of our discussion of the potential change in the post-1992 institutional structure is the role played by networks in putting together actors that find themselves in different geographic and institutional settings. The territorial scope of the network is of fundamental importance because, as was illustrated in Figure 1, the potential for networking on a Community-wide basis will be considerably enhanced with the creation of the single market. Figure 2 posits the existence of three systems of networking that are characterized by their territorial reach: 1) intraregional (within one region), 2) interregional (networking among regions within the same national setting), and transregional (networking among regions at the Community level and outside of nation-state boundaries).

At the present time, we find extensive networking systems at the intraregional and interregional levels but still do not have effective territorial networks at the transregional level.

The three systems of networking require different levels of commitment and sophistication. Experience shows that as networking moves from the regional to the national and Community levels it requires a solid grounding in a long-term, intraregional experience. We could realistically hypothesize that a fundamental prerequisite for successfully participating in functioning Community transregional network system is experience with intra and interregional networks.

Figure 2 attempts to describe the component parts of a regional structure that could be linked into the three network systems discussed above. The Figure is composed of columns and rows that define the essential parts of the regional structure. The three columns define the legal status, organizational level, and nature of activity. The rows, on the other hand, represent the different levels of complexity of the actor in the structure: from the individual to the semi-public/semi-private level and all the way up to the regional government level. Below the Figure there is a list of the three basic types of "horizontal" and "vertical" networks that can be established by linking the component parts presented in the Figure.

In Figure 2 the left-hand column distinguishes between the legal bases of the operating structure (i.e., between public and private law). In most cases, aside from those of the regional and local government institutions, the other subjects operate under the provisions of private law. In the second column the rows differentiate among the different types of organizations involved in the network structure. Where regional governments exist, they operate as the overall umbrella organization that assumes responsibility in accordance with constitutional and legal



provisions for the formulation and implementation of development policies.

From the perspective of networking, regional governments operate as both the initiators or subjects creating networks in the attempt to penetrate the surrounding socioeconomic fabric as well as the objects of networking by interest groups and individuals interested in accessing the public policy making process and gaining influence over the distribution of public resources. We have seen in the case of the three centralized member states of Ireland, Portugal, and Greece that where regional governments are absent the networking system has a weak intraregional character and is instead structured on a national basis characteristic of the classical centre-periphery relationship described by Tarrow (1977).

The lack of regional governments instills a greater focus on national systems in which the "distance" (expressed in territorial and institutional terms) between the actors was much greater, the density of networks at the sub-national level is lower, and there is a lot less of interaction among the sub-national actors. The emphasis is on vertical rather than horizontal linkages. Consequently, the dynamic of the centre-periphery model is more focused on a one-on-one (a local actor interacting with a central one) rather than all-on-one (a multiplicity of local actors interacting with one central actor) relationship.

The existence of regional development agencies is encouraged when regional governments are in a position to assume responsibilities for economic and social development, and they can have multiple or single functions. Development agencies with

multiple functions (e.g., Chambers of Commerce) usually tend to emphasize representation as their primary function while single functions agencies (e.g., tourism agency) develop a greater market orientation. It is the latter type of agency that is likely to establish ties with associations and firms operating in the sector and become the propulsive agent for the creation of new ventures, ideas, products, and services that are functional to the sector. The role of sectorial associations and local governments is important because they represent the intermediate level in the networking system that is capable of maintaining contact with the micro level -- i.e., the individual entrepreneur/citizen who operates as the "nucleus" or the grassroots operator of the regional linkage system. What does the entrepreneur gain by operating through a network system? The answer is provided by identifying what is transmitted through the linkage structure in the simplest kind of intraregional network.

First of all, the regional linkage system provides information on the regional economy by identifying where skills are located, where complementary productive capacity can be organized, where credit can be accessed and under what kinds of advantageous conditions, and the overall plans of the governmental organs on the development of infrastructure, investments, and productive capacity. Secondly, a network system provides services that are valuable not only for the management of an enterprise but also in keeping up with market and technological trends. Thirdly, a network system provides intermediation at the political level to enter new markets, widen one's horizons, and establish new ventures.

The row and column components of Figure 2 suggest that there are theoretically two basic forms of networking. The first is horizontal networking that links actors operating at the same level of the system while the second is the vertical variety that links actors at different institutional/political levels. The former network system operates to link geographically equivalent organizations, such as the chambers of commerce. The latter brings together organizations operating at different levels but outside of the same organization. It is, in fact, this variety of networking that is most important in the formulation of networking for development purposes.

We have listed in Figure 2 four different types of vertical networking systems that are found within regions: intergovernmental, intersectorial, interfunctional, interpersonal. Intergovernmental networks bring together various levels of the institutional structure such as the region, provinces, and communes for the purpose of coordinating their activities. A case in point was the level of coordination built into the IMP programs in Italy and France and, to a certain extent, even within Greece.

Intersectorial networking is a common phenomenon to be found among political parties and interest groups operating within one region. Farmers groups or associations representing industrialists conduct their activities at the regional level on the basis on periodic meetings to coordinate policies and plan mutual strategies in order to maximize their impact on regional and sub-regional governments with which they interact.

Interfunctional networking brings together actors from various levels in the system: for example, regional governments,

sectorial associations, and individual actors to tackle common problems. These are the networks that were institutionalized in the regional administrative committees that were created by the IMP programs and which are now an integral part of the Community Support Frameworks.

Interpersonal networks flourish where individuals are able to maximize their personal gains through joint action outside of the established hierarchical procedures but for the purpose of gaining access to resources controlled by the formal organization. Such is the nature of informal cliques, factions, and conspiracies within highly structured organizations.

While vertical networks bring together actors at different levels, horizontal networks represent the interaction of actors at the same level, whether it be in terms of institutional or sectorial equivalents. The networks at all three levels forge links between governments, sectors, and individuals who occupy the same organizational level but operate in different territorial space.

Having identified the general component parts of networks (and in particular those of intraregional networks), we can now turn to a consideration of the types of networks that can evolve at the inter and transregional levels through the interaction of vertical and horizontal networks. In the real world the two forms of networks do not live separate and distinct lives. They are, in fact, found to interconnect in a mutually reinforcing relationship. It can be argued that in order to qualify for vertical networking one must first have established oneself in a horizontal network. Interregional networks are quite common in states with extensive experiences in regional government. The

best examples of interregional networks are provided by federal states such as Canada, the U.S., and West Germany, but they have also become a growing phenomenon in Italy and Spain.

Based on the ad hoc networking that has taken place so far in federal and regionalist systems, we can identify three basic types of transregional networking that might evolve in the Community stimulated by the exigencies of the single market. The theoretical possibilities of meshing together vertical and horizontal networks is illustrated in Figure 3.

(Place Figure 3 about here)

The first form of transregional system can be called "macro" networking involving regional institutions in "formal" relationships with institutionalized bodies at the regional level in other areas (i.e., in other parts of the country or in other countries, such as regular consultative bodies bringing together regional officials.) The Assembly of European Regions has operated since 1988 as an institutionalized macro transregional network in the same manner as the Governors' Conference in the U.S. and the Conference of Regional Presidents in Italy bring together sub-national executives to discuss similar problems. Macro networks could also be envisioned if the Community were to encourage the development of transregional authorities on the model of the New York Port Authority or the TVA that would combine intergovernmental, interfunctional, and intersectorial networks and functions that would link up with horizontal governmental and sectorial networks.

The second type of transregional networking can be described as "meso" networking bringing together interest groups and associational organizations that share common goals and

strategies into formal, institutionalized commitments. Moves in this direction have become increasingly common at the European level with the establishment of European level groupings and associations in order to more effectively lobby the Commission and Council of Ministers that have only an indirect governmental component through interfunctional networks. The emphasis here is obviously at the interest group and sectorial association level.

The last type of transregional networking can be labelled "micro" networking. It is represented by interpersonal relationship where the bond among the participants is not their institutional or group affiliations but instead their personal ties. Individuals participating in the network operate predominately as isolated entities even if they have an institutional role in governments or sectorial associations. Once the individuals that compose the network are removed the network collapses or is subordinated to other individual interests. The relationship that connects the nodes in the system is predominantly personal rather than institutional in nature. Micro networks are, in fact, the easiest to create and may at times constitute the first nucleus of a process that moves the network formation dynamic onward to the creation of meso and macro networks.

The characteristics of transregional networks highlights the importance of the kind of mix or ethic that underpins the creation and operation of the network. Banfield and Wilson (?) writing on the dynamic of the public policy process in the U.S. distinguished between two forms of public policy approaches: "public regarding" and "private regarding". They described the

former as an approach oriented toward the achievement of broader, longer-term public goods and the latter as oriented toward more individualistic gains in the short-run.

Using this distinction to differentiate the dynamics of network systems, we have posited the association of the "governance" ethic with macro and meso networks. Macro/meso networks originate from the initiative of regional governments and the predominant characteristic of the networks is the importance of the relationship between governments and organized interests (development agencies, and sectorial associations). The goals of governance networks correspond to "collective objectives" such as regional development or the optimization of benefits for the regional society in the use of public resources. Thus, the governance motivation is expected to emerge as the predominant one in macro and meso networks that, according to the cells in Figure 3, correspond to six different mixes of networking systems.

The second ethical underpinning of networks emphasizes the "individualistic" component of the network, which also account for six cells in Figure 3. What drives the individualistic oriented networks is the calculation of individual benefit and personalized tie that is created between public officials operating at the macro level and private individuals (either entrepreneurs or common citizens) at the micro level. Micro networks represent the interaction between the interpersonal, vertical networks with the horizontal, individual networks. These types of networks tend to be quite common in societies and organizations where there is a great discrepancy between the elite at the top and the mass at the bottom of the hierarchical

relationship, where regional institutions are not well institutionalized, and where sub-national governments and sectorial associations are not autonomous from centralized sources of power and resources.<sup>12</sup>

In regions where the governance form of network persists, we have found an emphasis on the part of public officials of their ties with organized groups and associations (frequent and policy oriented meetings with group representatives) and a much lower concern in meeting with individual citizens to distribute individual favors. Members of the governance-oriented networks tend to judge their success based on the resulting policy outputs that meet stated organizational goals. In the individualistic-oriented network system success is judged by the extent to which the network assumes the outlines of a "clientelistic" apparatus founded on the dyad relationship between the central node--the patron--and the peripheral participants--the clients--in the system. Thus, in regions where individualistic networking predominates regional officials report a sustained level of individual citizen contacts and the need to constantly service individual requests to the detriment of being able to pay adequate attention to more group-oriented requests. In the latter context, it is the individualistic network rather than governance network that provides the greatest payoffs to the participant, and the network tends to favor individual gains rather than group, institutional, or collective goals.

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<sup>12</sup> This is the classical form of clientelistic structure described by students of politics in representative systems with low levels of economic and social cohesion (Schmidt, Scott, Landse', and Guasti, 1977). It also describes well the networking system sustaining such organizations as the Mafia (Bonanno, 1984; Hess, 1973).



Our studies have shown that regions with strong political and institutional infrastructures possess a robust and active governance networking system that link the regional level with interest groups operating at horizontal or even lower levels. Weak regions, instead, see the predominance of clientelistic networking linking the individual and institutional levels of the system. Evidence shows that there is a strong link between extensive, governance oriented internal networking and high levels of institutional performance and that the latter is, in turn, correlated with the traditional presence of strong mass organizations operating in the economic and social spheres. In fact, the data strongly support the thesis that the presence of extensive intraregional networks is one of the prerequisites for public institutions to perform at high levels of efficiency and effectiveness in the production and distribution of public goods and services. Piore and Sabel (1984) were among the first to understand that the industrial districts present in the northern and central part of Italy were, in effect, linkage networks bringing together not only different manufacturers based on a horizontal division of labor but also networks that grew out of a partnership of local entrepreneurs with local and regional governments. In this regional configuration of networking the local governments supplied the industrial parks, social infrastructure (all-day schools, nurseries, and day care centers) and public infrastructure (roads, electrical hook-ups, etc.) and the regional governments the economically targeted professional education programs, access to credit, and support services necessary for a diffused model of enterprise. In other words, diffused forms of enterprise based on small and medium sized

companies require the existence of (or a high potential for) macro and meso networking across a variety of institutions and groups--e.g., private as well as public institutions, groups, and actors. From this perspective, the existence of macro and meso networking must be seen as a precondition for the creation of a territorially diffused Community-wide system oriented toward the promotion of small and medium sized enterprises.

#### Conclusions: Network Engineering at the Community Level

In order to promote a maximum of success and effectiveness of transregional networks, the analysis presented above suggests that they should be initially constituted with the cooperation of regional institutions already actively engaged in governance forms of intraregional networking. These regions need to be included (or, in fact, may be conceived as the necessary building blocks) in the launching of transregional networks at the European level because they have developed the political infrastructure ("political linkages") in forming regionally-based policy communities around specific economic problems or goals among public and private operators and the administrative structure ("administrative linkages") to do the basic groundwork involved in the planning, coordination, and implementation of transregional schemes as pilot projects initiated and run at the regional level.

These considerations make it clear that the creation of transregional networks must avoid two pitfalls. The first is that transregional networks must be seen as macro regional networks that formally and actively involve the participation of regional bodies. They cannot be construed only as a top-down initiative on the part of the Community or the product of an

informal agreement among regional officials. Instead, they must be initiated and carried out by the regional authorities based on publically sanctioned agreements.

Secondly, transregional networks cannot be conducted exclusively as micro networks or as networks bringing together regional officials who share personal ties but the ties are not sanctioned in macro or meso arrangements. Such an alternative is be useful in supporting individual interests or goals but not the objective of institution building at the Community level. Macro and meso transregional networks are necessary for the post-1992 Community because they will help to rationalize development efforts undertaken by various components of the regional economy, and they will be a vital component in mobilizing collective action for the pursuit of economic growth. Regions active in the promotion of endogenous development have already undertaken a series of ad hoc initiatives to stimulate sectors fundamental to the health of the regional economy.<sup>14</sup> Regional officials not accustomed to interfunctional and intergovernmental networks in their own contexts are not the logical candidates for experimenting with the concept at the Community level. In our surveys of the areas with Objective 1 status, we have seen that not all of the member states have the institutional components of the regional linkage system described in Figure 2. In two of the countries (U.K. and Ireland) there is a lack of any type of regional political structure while in two others (Portugal and

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<sup>14</sup> Of particular interest here are the numerous initiatives in key sectors of the regional economy taken by the Emilia-Romagna region and the ability to interact with diverse sector associations and entrepreneurs through its semi-public sectorial development agencies (Bellini, Giordani, and Pasquini, 1990)

Greece) some semblance of a regional administrative or planning structure does exist, but in all four cases the potential for engaging in extensive macro transregional networking is difficult to imagine in the short-run.

There is also a lack of homogeneity with regard to the presence of regional development agencies and the potential to engage in meso networking at the transregional level. The U.K. has development agencies even if they are not the direct expression of regional governments but instead of local governments, and Ireland has the Shannon Development Agency which has been operating successfully in the area of regional development since 1955, though the example has not been generalized to the entire national territory. However, when we get to the level of the sectorial development agencies, we find that all of the countries have such entities present at the sub-national level, even if they derive from different levels of government. Thus, sectorial meso networking is possible at the associational level even if it might run into problems with regard to the involvement of public or semi-public agencies. In the countries with regional institutions, tourist development agencies, for example, are direct expressions of the regional government, but in more centralized systems they represent the territorial ramifications of the national ministry of tourism or national tourist development agencies. Nevertheless, in all cases these territorial expressions of sectorial policies operate in close contact with the representative associations grouping the entrepreneurs active in the sector. Thus, it would be possible to network at the meso level (i.e., at both the sectorial development agency and sectional association level) on a

transregional basis and find functional equivalents in the territorial expressions of national structures at the regional development agency and regional government levels where necessary. In any case, even where regional governments are present one would have to get the approval, or at least acquiescence, of the national government before launching a transregional network.

The above analysis highlights the need to distinguish among different types of networks and the dangers in mistaking one kind of network for another. Private micro networks may assume the formal trappings of macro networks but they are not sustained by institutional commitments that can be sustained on a continuous and creative basis. Micro networks are more interested in the distribution of individual rather than collective or institutional gains. Once the individuals involved or their autonomy to act are removed, the network collapses and a vacuum is created at the institutional level.

The formulation of transregional networks is so fundamentally important to the Community that it cannot permit the experiment to fail. But in order to avoid failure, it must understand the nature of networks and finance their creation and development in contexts where they will be successful and lead to a positive policy contribution in the post-1992 institutional architecture of the European Community. Networking at the regional level represents the link between the two forces that have characterized the last two decades: on one hand, the integration of the European economy and markets and, on the other, the growing demand for regional autonomy and the restructuring of the traditional nation-state system. The

creation of networks will help to develop the alternative policy and institutional arrangements that will be necessary after 1992 in order to respond to the challenges of the new economic and political order.

Figure 1

THE LINKAGE NETWORK MODEL FOR SUB-NATIONAL GOVERNMENTS AFTER THE CREATION OF THE SINGLE MARKET

The potential for horizontal, transregional linkages permitting the units of sub-national government to operate over the entire Community area

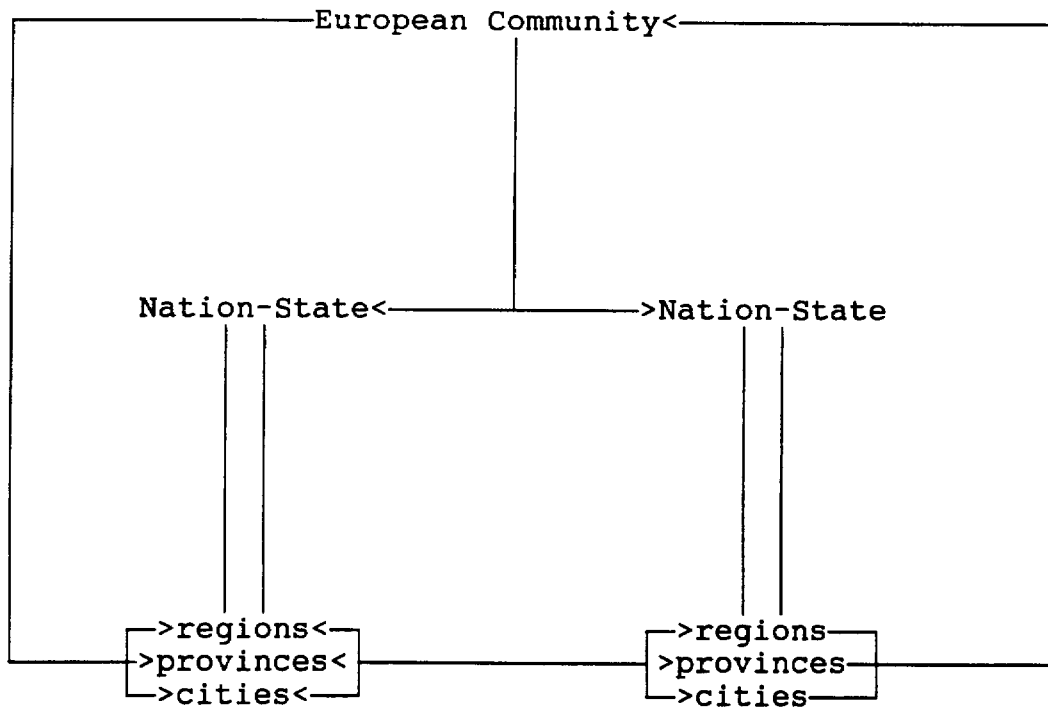
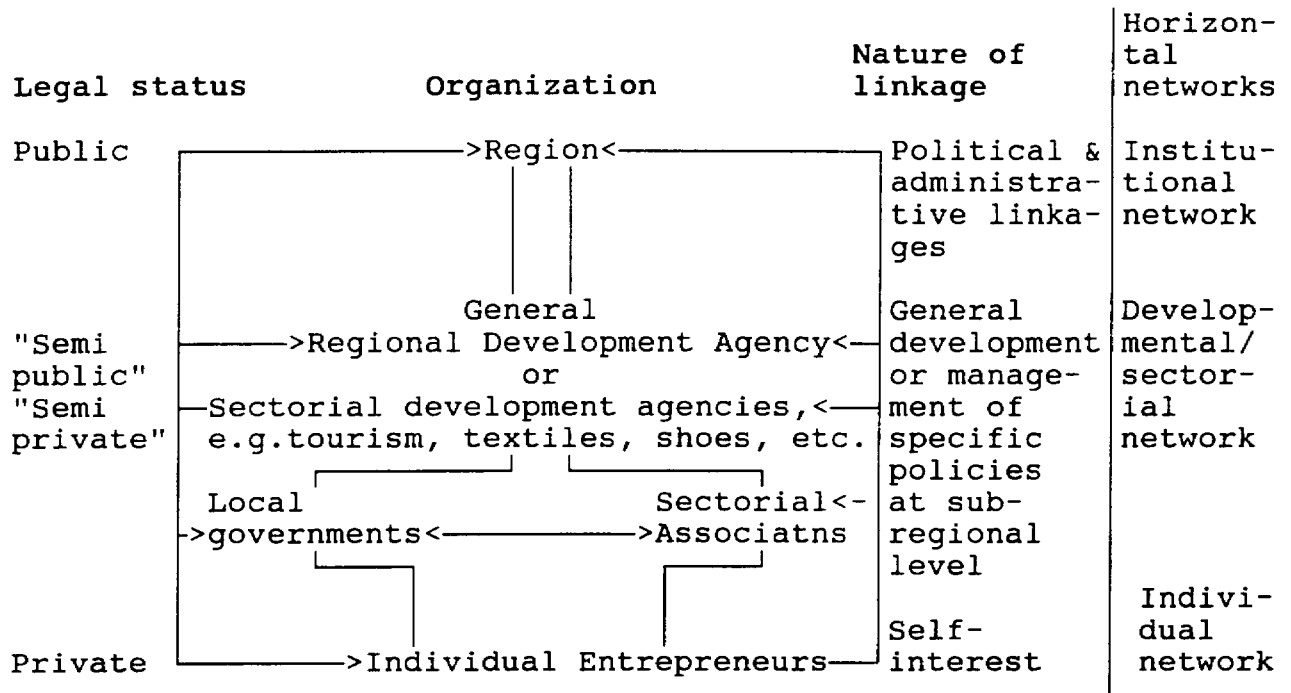


Figure 2  
COMPONENT PARTS OF THE INTRAREGIONAL NETWORK SYSTEMS



Vertical networks      Inter-governmental network      Inter-sectorial network      Inter-functional network      Inter-personal network

Definition of "vertical" networks:

- 1. intergovernmental networks, governmental institutions at various levels of the regional system;
- 2. intersectorial networks, interest groups and associations operating at various levels;
- 3. interfunctional networks, governments, sectors, development agencies, and individuals at all levels of the system.
- 4. interpersonal networks, individuals of diverse organizational, economic, and social status

Definition of "horizontal" networks:

- 1. governmental networks, governments at same institutional level but operating in different geographical space;
- 2. sectorial networks, interest groups and associations at the same organizational level but in different geographic space;
- 3. individual networks, individuals operating at the micro level on the basis of interpersonal relationships.

Definition of regional networks developing in the EC:

- 1. intraregional networks based on the existence of policy making structures at the regional level, demands to participate on the part of socioeconomic groups, and the conception of policy making as "governance" on the part of those participating.
- 2. interregional networks based on an intergovernmental policy making and implementation process bringing together national and regional governments.
- 3. transregional networks based on the existence of a single market and the underpinning of Community policies with the principles of subsidiarity, and social and economic cohesion.



Figure 3  
Types of Transregional Networks

<u>Horizontal Networks</u>	<u>Vertocal Networks</u>			
	Inter- governmental	Inter- functional	Inter- sectorial	Inter- personal
Governmental	Macro	Macro	Macro	Micro
Sectorial	Macro	Meso	Meso	Micro
Individual	Micro	Micro	Micro	Micro

Governance networks: 4 macro and 2 meso

Individualistic networks: 6 micro

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