Local Governance in a Network Society

Some Open Questions for Economic Policy

Purpose of the present contribution

To point out some essential requirements that Institutions of Governance must satisfy in order to be:

a) efficient and
b) appropriate
for local development policy
1. What is local development policy about?

- NOT simply locating whatever economic activity in whatever territorial area,

- BUT acting for the development of local economic SYSTEMS as such

Economic systems are

- Complex
- Living
- Evolutionary

Sets of elements plus Their interactions
Therefore, local development policies must adopt a systemic approach:

- 1. Be directed towards the local system and not the individual agents (acting on economic processes)

- 2. Form a strategic system of interventions themselves

The main problem of local development policy is then a “coordination problem”:

1. how to coordinate choices and behaviours of a multiplicity of individual agents of the local system

2. how to coordinate the multiplicity of policy actions which impact on the local system

In order to achieve effective collective outcomes
The two main traditional mechanisms of coordination are:

- Hierarchy
- Market

Both are inadequate for many reasons, among which:
- imperfect, asymmetric and context specific information
- complexity and polycentric character of modern social and economic systems
- Fragmentation but networked interdependency among economic agents

Neither market or hierarchy: a network form of governance

- Achieving coordination through a dynamics of multilateral interaction among the agents
- Involving them:
  - a) in the process of setting the targets
  - b) in co-operation for achieving the targets
Operational fields of network governance

**MACROECONOMIC LEVEL:**
- NAIRU
- monetary, fiscal and employment policy integration
- public expenditure

**MICROECONOMIC LEVEL:**
- all range of development policies
- enhancement of competitiveness factors
Dimensions that network governance must cover:

a) vertical: implementing multilevel coordination beyond the hierarchic flavour of “subsidiarity”

All the levels must be involved in the design and in the implementation of policies whatever their scale and their territorial dimension

To this purpose, governance institutions must be designed so that:

1. General objectives at higher levels be defined through participation of lower levels
2. Specific objectives and instruments be defined locally within the shared frame of general objectives
3. Indicators for monitoring and evaluation be defined jointly
4. Possible sanctions in case of systematic failure be defined jointly
Dimensions that network governance must cover:

b) horizontal: involving all the actors that make up the local system in the process of decision making and of implementation

- Local public administration bodies
- Socio-economic agents and stakeholders

To this purpose, network governance institutions have to be designed so that:

- Develop interactive common actions

a) Local Public Administration bodies

- Promote coordination among different programs which intersect the same local system
- envisage criteria for selecting the actors to be involved in the process

b) Socio - economic partnership

- define each actors’s role and weight in the process

- solve the dilemma between standardized institutional structure and flexible pattern

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**Five problems**

Whose solution is absolutely necessary to avoid failure of network local governance in sustaining local development processes
Problem n. 1: overcoming the “impossibility theorem”

- The great number of partners and conflicting interests may have a paralysing effect on decision making processes.

Possible solutions:
- Negotiation, compensations, progressive convergence towards shared views;
- Strategic planning
- Extension of the time horizon (Foresight)

Problem n. 2: principal - agent

- When conflict of interests and information asymmetries exist, agents may be induced to pursue their own interests.

Possible solutions:
- Reducing the asymmetries of information
- Modifying each partner’s utility function
- Implementing shared rules and social norms
Problem n. 3: information asymmetries

- Inequality in the distribution of information among the partners may induce some partners to withdraw.

Possible solutions:
- Improve the circulation of information among the partners
- Increase the ability of all partners to understand the distributed information

Problem n. 4: accountability

- Lack of accountability would reduce trust of the partners and transform partnership into a merely bureaucratic activity.

Possible solutions:
- Institutional chains to control the fulfilment of mutual engagements
- Public account of the results achieved
- Public account of the use of resources
Problem n. 5: agreement about distributive variables

- A distribution of gains and costs of cooperation too much biased against some partners would undermine cooperation.

Possible solutions:
- Make the advantage gained by each partner from cooperation (and also its costs) clear
- At macrolevel, find a balance between wage and profit shares
- At micro/local level find a balance between interests of the partners

Final consideration: network governance needs maintenance

- The maintenance of the coordination network on which the interactive governance is based can be assigned to the leadership of the Public Authority.
  It could be specified in 3 functions:
  1. Acting as interface for trust relations
  2. Building initial blocs of cooperation
  3. Acting as an “independent observer”
Final (and operative questions)

1. Do institutions of governance in our local systems meet these requirements?
   • Perhaps an analytical check up is needed.

2. What steps can be taken to properly adjust these institutions?
   • Perhaps a proper “institutional policy” is needed.