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Conference Paper

Regional policy and the implementation of subsidiarity

52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia

Provided in Cooperation with:

European Regional Science Association (ERSA)

Suggested Citation: Lóránd, Balázs (2012) : Regional policy and the implementation of subsidiarity, 52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/120527>

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REGIONAL POLICY AND THE IMPLEMENTATION OF SUBSIDIARITY

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Theme: N. Regional strategies and policies

Keywords: regional policy, subsidiarity, Italy

JEL Classifications: H11, P25, R50

Abstract

The aim of this study is to examine the regional policy and the governance model of Lombardy, to highlight the most important factors of its success and to address the relevant risks. The main source of success of Lombardy was the implementation of the subsidiarity principle in the area of the provision of public services. Due to the recent opportunities (limited federalism) for regions in Italy to establish their own government system and philosophy, Lombardy has made the best of these opportunities by using the principle of subsidiarity.

Applying this principle to a governance model offers a real alternative to current state-market combinations. The effect of the model is to develop responsibility on both sides, and it may revitalise the actors of both state and market. Whilst the principle is implemented, the government should not respond to or satisfy every need of the people, but ought to create the necessary conditions for civil society to achieve them. This concept has been implemented in many sectors – evidently with varying outcomes.

The Lombardy model of governance is based on three basic foundations: the social and economic circumstances, the pioneering way of governance and the principle of subsidiarity. The importance of a strong civil society and highly developed economic structures foster the evolution of an appropriate mentality among the population and sustain the necessary means for the policies. The Lombardy model builds on the existence of distinct regional social capital, and so the implementation of the model in other countries heavily depends on a very active private sector, to which a combination of for-profit and non-profit organisations is fundamental.

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The model is a success in Lombardy, although there are internal and external risks which have to be answered. The problems of the “quasi-market”, the requirement for further evaluation, the act of networks in civil society, the collaboration among public actors, and the mentality of public administration are all significant internal elements of the model. From outside, fiscal insecurity, unbalanced federalism, the serious differences in the development level of Lombardy and the other Italian regions and new challenges all influence the operation of the Lombardy way of governance.

Introduction

The role of institutions which influence the operation of a society and an economy is vital. More and more research is dealing with the topic of institutions, especially with the linkage between the quality of governance and economic growth. During the analysis of decentralization we should also pay attention to the institutions, since the functioning of the economy is deeply affected by the various institutions (Rodríguez-Pose – Gill, 2005).

Thus the quality of governance and the relevant institutions have a profound effect on the development of a precise territorial unit, and for its wealth and welfare level. We can see that decentralization and devolution have come to the fore in more and more countries. This tendency has enlarged the possibilities of the different regions to establish an own governance structure with suitable regional policy. In this study the author highlights the most important and significant conclusions of the implementation of the Lombardy model of governance.

Regions with growing possibilities in Italy – the evolution of the decentralization process

In recent decades the process of decentralization was unquestionably complex and confused in Italy, and it is not finished yet. There is more and more concern that devolution could help the different regions to have a faster economic development rate. In addition, it can preserve and promote the regional identity and culture of a specific region. Today there is not enough empirical evidence to prove the exact connection between decentralization and economic effectiveness, and it is not an easy task to measure the different levels of issues and phenomena examined. Rodríguez-Pose and Bwire (2003) suggested that, if, due to

decentralization there could be more effective public services and public policies in a region, then these better services could result in higher economic growth.

The idea of regionalism emerged after the Second World War at the Constitutional Assembly (Horváth, 1993). The decision on the role of the regions was not an easy duty for the Assembly, since there was no shared vision about regional autonomy, and this resulted in limited legislative powers of the regions in a number of policy sectors.

Italy is among the countries which have a partially devolved governance system. In the last decades of the 20th century serious institutional changes have occurred – more and more regional resources and power were given to the regions. In the ‘70s a new regional system was established in Italy, and regional autonomy was expanded. Before this only five special status regions were enjoying certain features of devolution. The construction of the decentralized system was a lengthy and complicated process. The Bassanini Law (of 1997) consolidated the devolution and contributed to the strengthening of federalism. (Rodríguez-Pose – Bwire, 2003) However, the regions had extremely limited power, and a restricted policy space where regional laws were subject to pre-emptive scrutiny (Colombo, 2008) - which meant that the regions played a minor role compared to the state. Theirs was only a slightly higher position than the regional administration of the central government (Hopkins, 2002).

However, there were serious problems since the own regional resources concerning the expenditure independence and the enlargement of regional power and autonomy were not in line with each other. Regarding the extent of regional public expenditure from 1980 (16%) to 2000 (17%), a rise of only 1 percentage point was observed in GDP (Rodríguez-Pose – Bwire, 2003).

There are serious differences in the implementation and extent of devolution in Italy, which resulted in an asymmetric system. There are remarkable regional inequalities in power and resources on the level of regions in the country. The less developed southern regions’ public administration systems have obtained a higher proportion of public expenditure than the northern regions’, which was due to the equalization attitude of the central government. (Rodríguez-Pose – Bwire, 2003)

In the study of Rodríguez-Pose and Bwire (2003) the results of multi-variable regression-analysis highlighted the fact that a higher level of devolution is not in line with a higher level

of economic growth generally. In Italy the observed relations were not significant statistically. The level of devolution is irrelevant to regional economic performance.

To evaluate Italian regionalism we can also analyse the results from Torrisi et al. (2011). They concluded that devolution does not have a serious, positive effect on the level of inequalities among regions and on intra-regional differences. The only observable effect was the growth of regional income, which was not due to higher regional economic growth, but to transfers from the well-developed areas.

These results mean for us that devolution itself is not a solution for economic development. The higher level of regional autonomy is not enough to sustain a higher level of economic growth. There are other important factors to emphasize. We can see some of them in the case study of Lombardy. Further, the present extent of regionalism and decentralization is not suitable to foster the reduction of inner inequalities (among regions and inside regions). A solution could be to extend autonomy from the fiscal perspective since experiences from other countries show the decline of territorial differences and the better utilization of available capacity.

After analysing issues of regionalism, the question arises of how extensive the effective autonomy of the Italian regions has been. The answer strongly depends on the ambitions, ideals and capabilities of the specific region, and so the principal ideology of the regional government is crucial (Colombo, 2008). All in all, the Italian 'limited system of constitutional regionalism' (Hopkins, 2002) offers opportunity for the regions to find their own governmental solutions, strategic directions for the future and their own identity and idea guiding their way forward on the way to decentralization and federalism.

Experiences from Lombardy

In the last 15 years a serious amount of unique experience emerged in Lombardy concerning the government model, political, legal and administrative issues. The principle of subsidiarity formed the theoretical bases of the changes and of transformation. "In governance terms, subsidiarity implies that political structures, such as the nation-state or regional governments, should only intervene when this is necessary to protect the common good, and to perform those tasks that cannot be effectively carried out at a more immediate, or local, level"

(Colombo, 2012, 4). This formulated the distinctiveness of the model, which is based on the idea of trust, freedom and responsibility.

In the following part the results of decentralization in the region of Lombardy are more deeply analysed together with other innovations and solutions, which arose and which could have an effect on economic activity and growth also. For more thorough evaluation the most important risks, problems and the possible solutions will also be identified and explained.

The implemented solutions in Lombardy are a success from several points of view. One of the most important bases for this were social and economic circumstances. The region itself had a very dynamic role in Europe from the beginning, and today it is one of the most developed regions in the EU. Lombardy also has a serious role in the economic system of Italy (*Table 1*). It also connects the rest of Italy with Europe (Mussati, 1993). In Lombardy what is vital is the high concentration of business activities, which means that 20% of the Italian GDP is produced here and 15% of Italian companies are located in this region. Further, it is the financial centre of Italy. In addition there are several civic organizations (Colombo, 2008) (*Table 2*).

Further the innovation capacity of the region, thanks to the very high level of research activity, is also very significant. The economy could utilize these features (e.g. the R&D background) and produce various goods with high added value and high quality standards. In this region there are 12 universities, and 21% of the R&D investments are spent here (IReR, 2009a).

However, there are also problems: for example the ageing population, bottlenecks in the area of professional education, environmental problems and the challenges of post industrialization (Colombo, 2008).

Table 1. Development level of the Italian (NUTS2) regions

Region	Geographical position*	GDP per capita at market prices in Euro (2009)
Valle d'Aosta / Vallée d'Aoste	NW	34,099
Trentino Alto Adige	NE	32,663
Lombardia	NW	32,401
Emilia Romagna	NE	31,045
Lazio	C	29,255
Veneto	NE	28,937
Friuli Venezia Giulia	NE	28,001
Toscana	C	27,887
Piemonte	NW	27,188
Liguria	NW	26,905
Marche	C	25,609
Umbria	C	23,626
Abruzzo	S	21,242
Molise	S	20,377
Sardegna	S	19,609
Basilicata	S	18,058
Sicilia	S	16,835
Calabria	S	16,534
Puglia	S	17,139
Campania	S	16,686
Italy		25,365

* Categorized according to Torrìsi et al., 2011, 40, where: S = Southern, C = Central, NE = North Eastern, NW = North Western.

Source: Éupolis Lombardia RSY Lombardia and data from Eurostat

The next important element of the model is the idea of subsidiarity. There are two different forms of subsidiarity: vertical and horizontal. Vertical subsidiarity means that “local, regional, national and supranational authorities, higher levels must not replace the lower ones, but help them” (Colombo, 2012, 6). Horizontal subsidiarity “refers to the sharing of competences, functions, and services between the public and social subjects and recognizes the priority of society and intermediate bodies over the state” (Colombo, 2012, 6). In Lombardy the reforms apply to horizontal subsidiarity which transforms seriously the structure of the governmental levels.

Subsidiarity has an effect on the whole Lombard government structure. It forms the basis of development of different processes and services in the public sphere. Subsidiarity came to the fore due to the growing possibilities for regions provided by the decentralization process in Italy. The Lombard government had the chance to choose a driving principle which was suitable for the modernization of the public sector.

Besides the existing state and market structures and solutions, the idea of subsidiarity denotes a real alternative. It refers to the active involvement of different actors and the extension of responsibility in society. The state should meet the requirements of having a result-oriented approach, and let market forces play an important part in previously untouched areas (Brugnoli – Vittadini, 2009).

Table 2. Non-profit organizations in the Italian (NUTS2) regions in 2001

Regions	Number of organizations	Number of voluntary workers
Piemonte	20,655	323,874
Valle d'Aosta	1,120	12,112
Lombardia	33,493	518,594
Trentino-Alto Adige	9,894	113,294
Veneto	20,993	353,187
Friuli-Venezia Giulia	7,750	117,891
Liguria	7,325	115,258
Emilia-Romagna	19,654	308,123
Toscana	18,344	299,702
Umbria	4,722	73,561
Marche	7,878	111,777
Lazio	17,864	164,960
Abruzzo	5,478	65,327
Molise	1,338	15,223
Campania	13,020	155,370
Puglia	12,136	171,013
Basilicata	2,288	29,011
Calabria	6,481	64,054
Sicilia	16,630	167,563
Sardegna	8,169	135,433
Italy	235,232	3,315,327

Source: Eupolis Lombardia RSY Lombardia (Data from Istat)

The most important principle is that the government itself is not able to fulfil every need of society, but able to build up the necessary conditions for non-profit and for-profit organizations to take part in delivering the required services. Crucial elements are the freedom of initiative and of individual responsibility. Subsidiarity can help not only growth and development but also the “outcrop” of previously unknown demands of local communities. From this point of view, not only economic growth, but the quality of life is also of great importance (Kitson, 2009).

The third important element of the model is the functioning of the regional government of Lombardy. There are several competences shared between the state and the regions – as in other countries. The main features of the government structure are flexibility, well-prepared planning and the integration of responsibility (IReR, 2009a). There was a serious cut in the number of government employees: previously 4,500 people were employed, but today only 3000; in addition the number of managers was reduced from 600 to 250. Due to the Consolidation Acts of 2009 only 300 of the previous 2,000 laws were in force. The time necessary for handling processes has also decreased by utilizing electronic solutions (IReR, 2009b). There is a general expectation from government workers to be innovative and adapt to the changing needs of the citizens.

All of these elements formulate the model of governance in Lombardy, which produced successful solutions in the public sphere (Lóránd, 2012):

- ***The forceful and vigorous social and economic circumstances:*** Only these features can provide enough resources to implement innovative governance methods.
- ***The pioneering way of governance:*** This involves new solutions and methods to provide the various public goods and services. This means, at the same time, the organizational system, the practical implementations and solutions.
- ***The principle of subsidiarity:*** This is the driving principle or philosophy, and the idea of how to connect the different elements to each other.

In previous decades the principle of subsidiarity was implemented in various welfare sectors in an innovative way (IReR, 2009b). The recognition of the needs of the citizens is the responsibility of the government, but to fulfil the demands, the local communities should have their own workable solutions. Thus, in several cases, it is not the regional government which

provides public goods and services; it merely organizes the processes and actors and provides the necessary funding. This results in a situation where the citizens have the right to choose among the different providers in the social services and health sector – and it certainly means competition among providers also (Keating – Wilson, 2010).

There are several risks and problems when we analyse the practical implementation of the model in Lombardy. Firstly, there is a need for more thorough (and independent) public sector evaluation where transparency is vital (Colombo – Mazzoleni, 2007). Secondly, a fair representation of smaller establishments in the huge networks of civil organizations is not an easy task. Openness and low barriers to access the “market” could be a solution. Thirdly, the mentality (stressing results instead of the processes) and the essential cooperative attitude of public sector workers are not always obvious. Fourthly, the region, as an entity among the different territorial units, is not visible enough for the citizens. In Italy it is challenging for the regions to find their own identity in the political arena between the communes, provinces and the state (Horváth, 1993). Finally, the process of building up a new government structure does not develop automatically; there is a need for step-by-step consideration, and no reliable benchmarking possibilities are available within Italy to compare the different solutions (Lóránd, 2012).

From the financial point of view, there are other problems as well. Lombardy needs to finance the less developed regions of Italy, and, the timing of the funds from central government is sometimes not reliable, and the whole tax collecting and redistribution system is too complex. The previously mentioned fact, that federalism is asymmetric (the authority and power of the regional government is more significant than the available resources and funds concerning regional expenditure), is also very problematic for the region, and several decisions concerning expenditure are made centrally (Lóránd, 2012).

Solutions to these problems and risks could be the more active involvement of the civil sector and the conscious communication of common values. This may help to solve the problems between the society and the state. The social control is vital (Migdal, 2004).

Conclusions

The quality of governance and the operation of the various institutions have a serious effect on the possibilities of economic growth. In Italy the limited federalism and decentralization

fostered the regions to build up their own governmental structure and system, regarding the needs and expectations of their citizens, and this supported an appropriate public administration philosophy, structure and regional policy programmes.

This choice resulted in positive outcomes in the Lombardy region, where the precise driving principle is subsidiarity, and its practical implementation can be observed in several areas. The most important factor is that the state should not fulfil every need of society, but it should rather recognize the existing providers from the non-profit and for-profit sector and support their activities with government resources.

In the study the main features of the model of governance have been highlighted and its implementation analysed. Also identified are the risks which can derive from economic and social development and the specialities of the public sector. In addition, answers were provided for the problems mentioned. The implementation of the model in other regions is questionable, since it is deeply rooted in social and economic conditions. These, therefore, are mainly operable under local circumstances (Brugnoli – Vittadinin, 2009).

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